Spirit airlines strategic choice and evaluation

Business, Industries

The next phase associated with strategy formulation is the strategic analysis and choice phase of the process. According to Pearce & Robinson (2013), " Business managers examine and choose a business strategy that allows their business to maintain or create a sustainable competitive advantage" (p. 238). Therefore, a business such as Spirit Airlines should evaluate their current strategy and determine areas of improvement in order to grow the business in a way that aligns with their company mission.

The airline industry hosts a number of significant external factors that influence business strategies and alternatives. The purpose of this paper is to evaluation and present alternative strategies for Spirit Airline's future growth as a company. Furthermore, the following paper will seek to identify the best value discipline for Spirit Airlines and in turn suggest a generic strategy and grand strategic for the organization.

Evaluation of Alternatives

Spirit Airlines is universally known for its ultra-low-cost, low-fare airline services that provide affordable travel opportunities throughout the United States, the Caribbean and Latin America (Spirit Airlines, 2012). Maintaining a strategically low-cost structure directly aligns with Spirit Airline's target market, which allows the company to offer low priced basic services combined with a range of optional services for additional fees (Spirit Airline, 2012).

The airline has earned a reputation for delivering cost effective fares and reliable on-time service with a no frills. In order to realize maximum growth, enhancements to the existing low cost strategy must be implemented to create a greater advantage in the market. Spirit Airlines has identified opportunities for growth with the release of the latest 10k Annual report. By the airlines own admission, the company is suffering with a failing reputation and insufficient customer service interactions (Spirit Annual Report, 2012).

In addition, Spirit Airlines recognizes that its current conditions, if not corrected, will have a significant impact their competitive stance in the industry. The airline industry is highly competitive withrespectto routes, fees and services and although Spirit is well known for lower fares, the fares alone will not protect the company from the risk of futurefailure. The implementation of long term strategicgoalswill not only correct inefficiencies with the existing strategy, it will also focus on necessary improvements to help Spirit achieve its growth potential.

Pearce & Robinson (2013) identifies the implementation of long term objectives as tools used to correct significant issues for the long run. Therefore, the solution will not only impact the present, but the future as well. According to Pearce & Robinson (2013), “ Strategic managers recognize that short-run profit maximization is rarely the best approach to achieving sustained corporate growth and profitability” (pg. 191). An evaluation of Spirit Airline’s current issues with customer service and competition warrants the use of value disciplines and new strategies.

Value Discipline

Best value disciplines are similar to generic strategies; however value disciplines place significant emphasis on superior customer value, using a selected discipline. The value discipline is comprised of three values:

operational excellence, customer intimacy or productleadership(Pearce & Robinson, 2013). Previously it was established that Spirit Airlines would need to improve customer service interaction to experience growth in the future and gain sustainability among competitors in the market. Of the three value discipline identified, customer intimacy is the strategy that would provide the most benefit for the organization. Spirit Airlines currently uses the operational excellence strategy, as the company focuses on providing its best value products at all times.

Spirit Airline’s product base consists of low fares, easy online booking, on-time service, deluxe leather seating and an expanding route selection. Spirit is able to offer these amenities at a low cost due to their reduced unit operating cost and other cost cutting strategies. For example, Spirit Airlines reduces overhead expenses in the area of marketing as it utilizes its website and direct-to-consumer marketing to drive ticket sales (Spirit Airlines, 2013).

The main focus of the airlines strategy is to deliver on its product base at competitively low prices by reducing overhead. While Spirit Airlines has perfected their operational excellence discipline, there is room for improvement in the customer intimacy strategy. According to Pearce & Robinson (2013), “ Customer Intimacy strategy continually tailors and shapes products and services to fit the increasingly redefined definition of customer service” (p. 205). This strategy is precisely what Spirit Airlines is lacking in their current business model strategy. Spirit Airlines contends that customerloyaltyand intimacy are a huge risk for the organizations future success and their reputation (Spirit Airlines Annual Report, 2012).

Customer intimacy strategy as it pertains to Spirit Airline will seek to better the company’s reputation by aligning customer service activities with the business model, thereby responding quickly and professionally to customer needs. Additionally, the implementation of this strategy will drive the airline to place emphasis on the profitability of a loyal customer relationship as opposed to the revenue of a ticket sale.

Generic Strategy

Generic strategies enable the implementation of long term objectives and provide a foundation for how the organization will best influence the market. Pearce & Robinson (2013) defines generic strategies as, “ A core idea about how a firm can best compete in the marketplace”. (pg. 195). The generic strategy includes striving for low-cost leadership within the industry, the promotion of differentiation methods to bring a unique image to the market, and lastly, it impresses upon the importance of focus strategy in order to accommodate the needs of the market segment (Pearce & Robinson, 2013). Currently, Spirit Airlines utilizes the generic strategy of low-cost leadership to achieve and sustain their low-cost position.

According to the Spirit Airlines Annual Report (2012), “ Our operating costs per available seat mile is 10. 09 cents, which is significantly lower than that of major network carriers, American Airlines, Delta, United, and US Airways”, (p. 7). Spirit has successful achieved this with a low-cost leadership strategy that ensures high aircraft utilization, operation of a modern single fleet type of Airbus, which is associated with lower maintenance costs and efficient flight scheduling (Spirit, 2012). The company is consistently seeking innovative cost savings ideas to improve processes and customer satisfaction.

Continuous improvement of Grand Strategy

A grand strategy is a long term plan that provides an organization with basic direction for implementing its long term goals. Additionally, grand strategies are imperative as they provide a basic timeframe for achieving long term business objectives. The grand strategy is comprised of 15 strategic principles: concentrated growth, market development, product development, innovation, horizontal acquisition, vertical acquisition, concentric diversification, conglomerate diversification, turnaround, divestiture, liquidation, bankruptcy, joint venture, strategic alliances, and consortia (Pearce & Robinson, 2013).

Spirit Airlines uses the innovation strategy to allow customers the freedom to choose buy-up options that appeal to them. Thereby unbundling packages and making it more affordable to travelers. “ This innovative approach is utilized to grow the travel market and stimulate new economic activity while creating new jobs”, (Spirit Airlines, 2013 p. 1). According to the Spirit Airlines Annual Report, the organization lacks marketing alliances that may harm them in the future (Spirit Airlines Annual Report, 2012). Many airlines including American, Delta, United, and US Airways have marketing alliances with other airlines under which they market and advertise their status as a marketing alliance (Spirit Airlines Annual Report, 2012).

The Annual Report state, “ These alliances, such as One World, Sky Team and Star Alliance, generally provide for code-sharing, frequent flier reciprocity, coordinated scheduling of flights to permit convenient connections and other joint marketing activities. Such arrangements permit an airline to market flights operated by other alliance members as its own. This increases destinations, connections and frequencies offered by the airline. Our lack of marketing alliances puts us at a competitive disadvantage” (Spirit Airlines Annual Report, 2012 p 18). Since one of Spirits long term objective is to gain a better competitive position in the market, the addition of a strategic alliance grand strategy would be best suited for the organization.

Strategic alliances as described by Pearce & Robinson (2013) are, “ Partnerships that exist for a defined period during which partners contribute their skills and expertise to a cooperative project (p. 231). In the case of Spirit Airlines, the use of alliances between other organizations related to the airline industry would work together to gain a mutual benefit. For example, Sky Team provides comprehensive access to an extensive global network with over 1, 000 destinations for travelers to explore.

SkyTeam partners with 19 airlines to provide travelers with a more flexible, convenient, and beneficial traveling experience (SkyTeam. com, 2013). As part of Spirit Airline’s long-term objective, a strategic alliance would expose the organization to a greater customer base, more routes and destinations. On the other hand, an organization like SkyTeam also benefits as travelers utilize their services to book travel reservations.

Recommendation

Spirit Airlines currently has the lowest per-seat operating cost of any other domestic airline company; however, they are still confronted with strong competition in the industry (Spirit Airlines Annual Report, 2012). Therefore, additional strategy enhancements are needed to grow the company. After careful consideration of all strategies and value disciplines, it is recommended that Spirit Airlines utilizes the customer intimacy strategy to build brand and customer loyalty. As previously mentioned, an overhaul of customer service would be necessary to aid in relationship building technique between Spirit and its customer base.

Another strategy recommendation previously mentioned is the implementation of a grand strategy used to determine the course of action for many of Spirits' long-term goals. Specifically, a strategic alliance strategy is the most critical strategy, as it will allow the company to expand the product selection with the help of a strong mutual alliance in the industry. This strategy is a more cost-effective approach than spending millions of dollars on marketing campaigns.

Thereby keeping operation costs low and pass-through the benefit onto the travelers. Spirit Airlines has been successful over the years with their current strategy, but the competitive position will always be a risk. Therefore, the implementation of this strategy will add competitive leverage.