

The current marketing environment of the airline

[Business](#), [Marketing](#)



This report will evaluate the current marketing environment of the airline industry in Europe. This will involve looking into different areas of the airline industry such as deregulation and open skies, current economic conditions, distribution channels, pricing and revenue management. It has been proved that the airline industry is probably one of the most competitive and complex industry in the world. According to Mintel report (2009) in the past decade, air travel has grown by 7% per year. Travel for both business and leisure purposes grew strongly worldwide. Scheduled airlines carried 1.5 billion passengers last year. In the leisure market, the availability of large aircraft such as the Boeing 747 made it convenient and affordable for people to travel further to new and exotic destinations.

Distribution channels

In all areas of marketing links must be made between the customer and the product. These links are known as distribution channels. Airlines use a variety of these channels. All of them are giving rise to particularly intense debate at the present time, because the different channels result in different costs, and because they vary in the extent to which they allow airline to exercise proper and necessary control of the channel. S, Shaw (Airline Marketing & Management, Fifth Edition, Page 194).

Global Distribution Systems (GDSs)

It's impossible to talk about distribution channel in the airline industry without mentioning GDSs. For nearly twenty years, the subject of Global Distribution Systems has been a controversial one in the airline industry, and

it remains so today. S, Shaw (Airline Marketing & Management, Fifth Edition, Page 204).

Until the early 1970s, contact between airlines and their distribution outlets was mainly by telephone, this was both time consuming and costly and became unsustainable as the industry grew. As the 1970s preceded, the first, pioneering carriers set out to automate airline/travel agency contact. In order to do so, direct links were provided from each agency location into the airline's reservations computer. Instead of phoning, agents could use the keyboard of Visual Display Unit to make bookings direct with the airline concerned. Besides saving a great deal of time, this also gave agent visual confirmation that required reservation had been made.

Airline today

In the old, regulated environment, European airlines relied on external channels (travel agents, consolidators, tour operators) to distribute up to 90 percent of tickets. Distribution via these channels typically cost an airline 17 to 20 percent of the ticket price, accounted for by travel agency commissions (including bonus "overrides"), computer reservation company booking fees, credit card fees, and the airline's own costs (such as its salesforce). Since then, CRStechnology and economics have changed a lot: thanks to the development of alternative distribution channels, such as the airlines' Internet websites or their call centres, consumers have nowadays access to a multiplicity of information and booking channels for air transport services. About 40% of all airline tickets in the EU are booked via alternative channels and about 60% via travel agents and CRSs.

Bookings made via the major global distribution systems (GDS) accounted for 64% of all airline passenger revenue in the U. S. in 2008 for U. S. point-of-sale transactions, but the figure has dropped below 50% in Europe, according to (Mintel report realised 2008) in the size, role and value of GDSs in travel distribution. The decline in Europe has been sharper, falling from 56% in 2006 and 51% in 2007 to 47% in 2008. The decline is attributable, in large part, to the rapid growth of low-cost carriers, such as Ryanair, that rely exclusively or primarily on direct bookings. 69% of the nearly €18 billion in air travel sold by European LCCs in 2008 was booked via their own Web sites.

Deregulation and open skies

Throughout its history, the airline industry has been constrained by decisions made by politicians and governments. Government have controlled where airlines can fly, and aspects of their product planning and pricing policies.' They have also had a major involvement in the industry through the ownership of airlines. They have always had a role in regulating airline safety standards, a role that remains important and, principle, relatively non-controversial. For many years, and in almost all aviation markets, government controlled airlines' route entry and capacity and frequency decisions.

In recent years, substantial regulatory reform has taken place, giving carries the challenge and the opportunity of responding to a free economic environment. In describing the system of economic regulation of the airline industry, a fundamental distinction has always been between the regulation

of domestic services which are solely under the control of one government, and international services, which require the agreement of at least two. Until relatively recently, almost all domestic travel market were highly regulated.

The Agreement replaced and superseded previous open skies agreements between the US and individual European countries. Deregulation is also stimulating competition, such as that from small, low cost carriers. The EU's final stage of deregulation took effect in April 1997, allowing an airline from one member state to fly passengers within another member's domestic market. Beyond Europe too, 'open skies' agreements are beginning to dismantle some of the regulations governing which carriers can fly on certain routes.

Low-Cost Airlines in Europe

Budget airlines' have been one of the main drivers of growth in intra-European travel, over the past decade. However, after a period of rapid expansion, it seems that the sector is now reaching maturity and that the growth is likely to slow down in the coming years. The low-cost business model is geared to short-haul routes, which allow for a quick turnaround of aircraft. As such, LCCs are increasingly in competition with other modes of travel, especially rail, which has undergone a substantial upgrading in recent years.

The European Air travel today has many more cheap air travel options than a decade ago. The partial deregulation of air travel in Europe in the 1990s allowed the rise of low-cost airlines, and flying even short distances in

Europe is often cheaper than taking the train. The days when national flagship carriers dominated air traffic and were regarded as national symbols are gone, and the fierce competition from low-cost airlines has led to bankruptcies and mergers of several large and reputable airlines. But with so many more airlines operating in Europe, comes the difficult choice for travellers to figure out how to get the best prices and the services they desire.

Low-cost airlines have exploded onto the European market in recent years, and routes that were traditionally covered by national airlines now face the stiff competition of low-cost carriers.

Current economic conditions The correct down fall of the economy has hit hard in all most every industry, but has hit even harder at the European airline industry. The air transport sector has been hit hard by the ongoing financial and economic crisis. Both demand and supply have been retreating at an almost unprecedented pace since early 2008.

According to the IATA, international passenger demand fell by 5.6% in January 2009 compared to the same month in 2008, which was a full percentage point worse than the 4.6% year-on The current economic conditions cause consumers to make cutbacks. France, however, remains on a growth curve after several years of declining popularity. City and short breaks are increasingly popular as holidaymakers head for France for a quick-fix getaway. Even with the current economic conditions people are still using the air transport for quick getaway, • European airlines affected

The hardest hit has been the 'flag carriers' who have suffered hugely due to the slump in premium and business travel, coupled with the sharp rise in fuel prices. British Airways Plc in November posted a larger than expected first-half loss and predicted revenue would slump by one billion pounds by the end of 2009. Germany's Deutsche Lufthansa AG in October provided a gloomy outlook for the airline industry and reported that its third quarter operating profit fell 21 percent. Air France-KLM posted a current operating loss of 543 million Euros for the six months ended in September, compared with a current operating profit of 592 million Euros for the same period a year earlier. Pricing and revenue management

Pricing is a crucial activity for the air transport industry as airplane seats a perishable commodity. Before deregulation of the major air travel market, pricing were a relatively a simple matter, as carries generally enjoyed a monopoly, duopoly or at least a cartel situation with other carries on most routes. (Mintel June 2009) Since deregulation, the focus has switched towards filling the aircraft, which has led to greatly increased pricediscrimination(charging different customer segments different prices).

The results has been rising load factors but decreasing real yield, as prices charged to marginal customers can be brought down to very low level (e. g. Ryanair) since the marginal cost of carrying one more passenger approaches zero.(Mintel 2009) Soaring fuel costs and impending EU Emissions measures spell danger for the industry. Load factors are also slipping, as a ' golden period' of fleet expansion threatens to cause a state of ' over-capacity'. To maintain the cheap ticket model, carriers are going to have to drastically

raise their ancillary revenues (in-flight sales, charges and add-ons) and increasingly expand into accommodation and transfer services, in order to cope with the economic and legislative storms they are flying towards.