

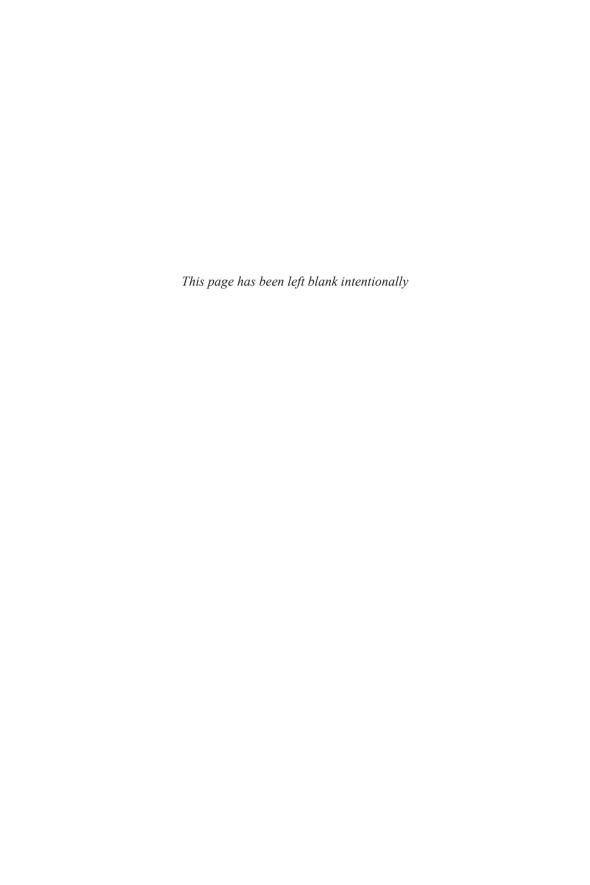
Airline Marketing and Management

SEVENTH EDITION



STEPHEN SHAW

AIRLINE MARKETING AND MANAGEMENT



Airline Marketing and Management

Seventh Edition

STEPHEN SHAW SSA Ltd, Oxfordshire, UK



First published 2011 by Ashgate Publishing

Published 2016 by Routledge 2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN 711 Third Avenue, New York, NY 10017, USA

Routledge is an imprint of the Taylor & Francis Group, an informa business

Copyright © 2011 Stephen Shaw.

Stephen Shaw has asserted his right under the Copyright, designs and patents Act, 1988, to be identified as the author of this work

All rights reserved. No part of this book may be reprinted or reproduced or utilised in any form or by any electronic, mechanical, or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system, without permission in writing from the publishers.

Notice:

Product or corporate names may be trademarks or registered trademarks, and are used only for identification and explanation without intent to infringe.

British Library Cataloguing in Publication Data

Shaw, Stephen, 1950-

Airline marketing and management. -- 7th ed.

- 1. Airlines--Management. 2. Airlines--Marketing.
- I. Title

387.7'4'0688-dc22

Library of Congress Cataloging-in-Publication Data

Shaw, Stephen, 1950-

Airline marketing and management / by Stephen Shaw. -- 7th ed.

p. cm.

Includes index.

ISBN 978-1-4094-0147-6 (hardback) -- ISBN 978-1-4094-0149-0 (pbk.) -- ISBN 978-1-4094-0148-3 (ebook) 1. Aeronautics, Commercial--Marketing. 2. Airlines--Marketing. I. Title.

HE9781.S35 2011 387.7'40688--dc22

2010053666

ISBN 978-1-409-40147-6 (hardback) ISBN 978-1-409-40149-0 (paperback) ISBN 978-1-315-56643-6 (ebook)

Contents

List o	ist of Figures and Tables		
	Introd	luction	1
1	The F	undamentals	3
1.1	What i	is Marketing?	3
	1.1.1	Definition	3
	1.1.2	The 'Marketing Mix'	4
	1.1.3	Stages in the Application of Marketing Principles	
		to Airline Management	6
1.2	Benefi	ts of a Marketing-Based Approach	8
Suc	cessful A	Airlines	8
2	The M	Iarket for Air Transport Services	9
2.1	What I	Business Are We In?	9
	2.1.1	Transportation	10
	2.1.2	Communication	10
	2.1.3	Leisure	10
	2.1.4	Logistics	11
	2.1.5	Information	11
	2.1.6	Selling Services	11
2.2	Who is	s the 'Customer'?	12
	2.2.1	Definitions	12
	2.2.2	'Apparent' and 'True' Needs	14
	2.2.3	Industrial Buying Behaviour	15
	2.2.4	The 'Customer' in the Business Air Travel Market	18
		The 'Customer' in the Leisure Air Travel Market	22
	2.2.6	The 'Customer' in the Air Freight Market	24

	Airline .	Marketing and Management	
2.3	Market <i>2.3.1</i>	Segmentation: Air Passenger Market The Concept	26 26
	2.3.2	Segmentation Variables in the Air Passenger Market	27
	2.3.3 2.3.4	Customer Requirements: Business Travel Market The Business Travel Market: Demographics	30
		and Psychographics	38
	2.3.5	The Leisure Segment of Demand	40
2.4	Segmen 2.4.1	ntation of the Air Freight Market Differences between the Air Passenger and Air	43
		Freight Markets	44
	2.4.2	Segmentation Variables: Air Freight Market	45
Succ	essful A	Airlines	52
3	The M	arketing Environment	53
3.1	The Th	eoretical Basis: PESTE Analysis	53
3.2	PESTE	Analysis: Political Factors	54
		_ `	
	3.2.1	Terrorism Fears/Political Instability	54
		Terrorism Fears/Political Instability Deregulation and 'Open Skies'	54 56
	3.2.1 3.2.2 3.2.3	· · · · · · · · · · · · · · · · · · ·	
	3.2.2	Deregulation and 'Open Skies' Marketing Policies for a Deregulated Environment	56
	3.2.2 3.2.3 3.2.4	Deregulation and 'Open Skies' Marketing Policies for a Deregulated Environment	56 60
	3.2.2 3.2.3 3.2.4	Deregulation and 'Open Skies' Marketing Policies for a Deregulated Environment Privatisation	56 60 63
3.3	3.2.2 3.2.3 3.2.4 3.2.5 3.2.6	Deregulation and 'Open Skies' Marketing Policies for a Deregulated Environment Privatisation 'State Aid'	56 60 63 65
3.3	3.2.2 3.2.3 3.2.4 3.2.5 3.2.6	Deregulation and 'Open Skies' Marketing Policies for a Deregulated Environment Privatisation 'State Aid' Airport Slot Allocation Analysis: Economic Factors	56 60 63 65 66
	3.2.2 3.2.3 3.2.4 3.2.5 3.2.6 PESTE 3.3.1	Deregulation and 'Open Skies' Marketing Policies for a Deregulated Environment Privatisation 'State Aid' Airport Slot Allocation Analysis: Economic Factors Economic Growth and the Trade Cycle Analysis: Social Factors	56 60 63 65 66 70 70
	3.2.2 3.2.3 3.2.4 3.2.5 3.2.6 PESTE 3.3.1 PESTE 3.4.1	Deregulation and 'Open Skies' Marketing Policies for a Deregulated Environment Privatisation 'State Aid' Airport Slot Allocation Analysis: Economic Factors Economic Growth and the Trade Cycle Analysis: Social Factors The Ageing Population	56 60 63 65 66 70 70 72 73
	3.2.2 3.2.3 3.2.4 3.2.5 3.2.6 PESTE 3.3.1 PESTE 3.4.1 3.4.2	Deregulation and 'Open Skies' Marketing Policies for a Deregulated Environment Privatisation 'State Aid' Airport Slot Allocation Analysis: Economic Factors Economic Growth and the Trade Cycle Analysis: Social Factors The Ageing Population Changing Family Structures	56 60 63 65 66 70 70 72 73 73
	3.2.2 3.2.3 3.2.4 3.2.5 3.2.6 PESTE 3.3.1 PESTE 3.4.1 3.4.2 3.4.3	Deregulation and 'Open Skies' Marketing Policies for a Deregulated Environment Privatisation 'State Aid' Airport Slot Allocation Analysis: Economic Factors Economic Growth and the Trade Cycle Analysis: Social Factors The Ageing Population Changing Family Structures Changing Tastes and Fashions in Holidays	56 60 63 65 66 70 72 73 73 73
	3.2.2 3.2.3 3.2.4 3.2.5 3.2.6 PESTE 3.3.1 PESTE 3.4.1 3.4.2	Deregulation and 'Open Skies' Marketing Policies for a Deregulated Environment Privatisation 'State Aid' Airport Slot Allocation Analysis: Economic Factors Economic Growth and the Trade Cycle Analysis: Social Factors The Ageing Population Changing Family Structures Changing Tastes and Fashions in Holidays The Uncertain, Deregulated Labour Market	56 60 63 65 66 70 70 72 73 73

3.5 PESTE Analysis: Technological Factors
3.5.1 Video-Conferencing
3.5.2 The Internet

		Contents	vii
	3.5.3	Surface Transport Investment	78
	3.5.4	New Aircraft Developments	79
3.6	PESTI	E Analysis: Environmental Factors	80
	3.6.1	Climate Change and Global Warming	80
	3.6.2	Shortages of Infrastructure Capacity	83
	3.6.3	'Tourism Saturation'	84
Suc	cessful A	Airlines	84
1	Airlin	e Business and Marketing Strategies	85
4.1	Porter	's 'Five Forces' and their Application to the Airline	
	Industr	ry	85
	4.1.1	Rivalry amongst Existing Firms	85
	4.1.2	Substitution	86
	4.1.3	New Entry	87
	4.1.4	Power of Customers	90
	4.1.5	Power of Suppliers	93
	4.1.6	'Disintermediation'	95
4.2	Strateg	gic Families	96
	4.2.1	Cost Leadership, Differentiation and Focus:	
		The Principles	96
	<i>4.2.2 4.2.3</i>	7	100
	4.2.3	'True Low Cost': Fundamentals of the Business Model	102
	424	'Hybrid' Low-Cost Carrier Models	111
	4.2.5		115
	4.2.6	Cost Leader Airlines: The Future	119
	4.2.7	'Differentiation' in the Airline Industry	121
	4.2.8	Airline Alliances	125
	4.2.9	Airline Industry Consolidation: The Latest	123
	1.2.7	Developments	132
4.3	'Diffeı	rentiation' Airlines: The Future	137
	4.3.1	The Concept of the 'Legacy Airline'	137
	4.3.2	'Legacy Airlines': Strategic Options	141

viii	Airline N	Marketing and Management		
4.4	'Focus'	Strategies	149	
	4.4.1	Types of Focusing in the Airline Industry	149	
	4.4.2	7.2	149	
	4.4.3	'Value Added' Focusing: 'All Business-Class' Airlines	150	
	4.4.4		153	
	4.4.5		155	
4.5	Airline	Business and Marketing Strategies: Common Mistakes	155	
	4.5.1	Objectives	156	
	4.5.2	Diversification vs Specialisation	158	
	4.5.3	Pace of Expansion	159	
	4.5.4	Competitive Response	160	
	4.5.5	'Control'	161	
	4.5.6	Over-Optimism/Fall-Back Position	161	
Suc	cessful A	irlines	162	
5	Produc	et Analysis in Airline Marketing	163	
5.1	What is	the 'Product'?	163	
5.2	The Theory of Product Analysis and its Application to the			
	Airline	Industry	163	
	5.2.1	The Product Life Cycle	163	
	5.2.2	Product Life Cycles in the Aviation Industry	169	
	5.2.3	Managing a Product Portfolio: The 'Boston Box'	173	
	5.2.4	Balancing Risk and Opportunity: The 'Ansoff Matrix'	177	
5.3	Fleet ar	nd Schedules-Related Product Features	179	
	5.3.1	Cabin Configuration and Classes of Service	180	
	5.3.2	Network, Frequencies and Timing	183	
	5.3.3	Punctuality	188	
5.4	Custom	er Service-Related Product Features	190	
	5.4.1	Point-of-Sale Service	190	
	5.4.2	Reservations and Overbooking	191	
	5.4.3	Airport Service	194	
	5.4.4	In-Flight Service	195	

197

5.5 Controlling Product Quality

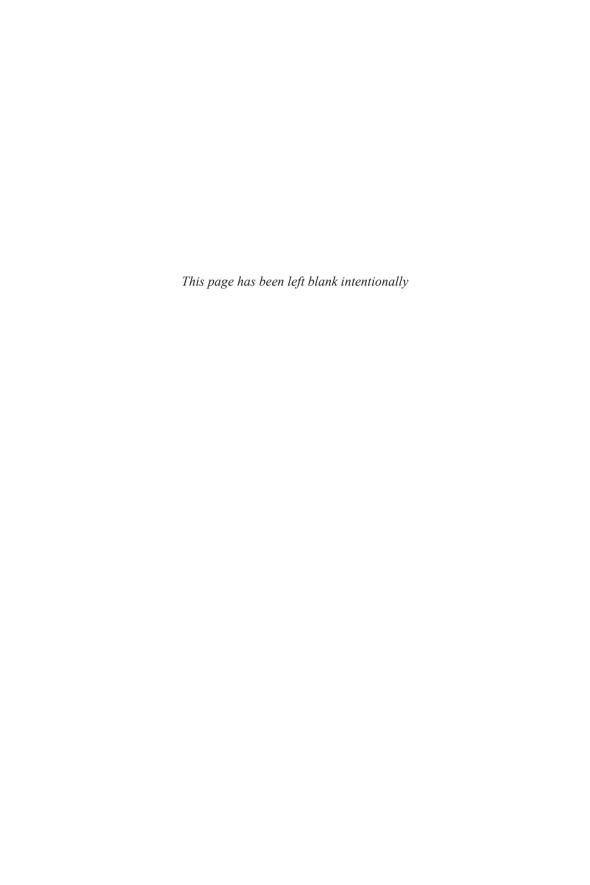
			Contents	ix
5.6		r Freight Product		198
	5.6.1	Air Freight Capacity		199
	Success	sful Airlines		203
6	Pricing	g and Revenue Management		205
6.1	Buildin	ng Blocks in Airline Pricing Policy		205
0.1	6.1.1	• • • • • • • • • • • • • • • • • • • •		205
	6.1.2			206
		Revenue Management Systems		207
		'Willingness-to-Pay' and 'Capturing the Valu	ie'	210
		'A La Carte' Pricing		211
6.2	'Unifor	rm' and 'Differential' Pricing		212
	6.2.1			212
		Differential Pricing: Arguments in Favour		214
	6.2.3	Differential Pricing: The Case Against		218
	6.2.4	The Management of Discount Fares		222
	6.2.5	Pricing Response and Pricing Initiatives		226
6.3	The Str	ructure of Air Freight Pricing		230
	Success	sful Airlines		233
7	Distrib	outing the Product		235
7.1	Distrib	ution Channel Strategies		235
7.1	7.1.1			235
	7.1.2	* *		237
7.2	The Tra	avel Agency Distribution System		240
	7.2.1	Advantages and Disadvantages		240
	7.2.2	Today's Distribution Channels		242
	7.2.3	The Future of Distribution		244
7.3	Global	Distribution Systems (GDSs)		246
	7.3.1	History and Background		246
	7.3.2	•		249

Airline Marketing and Mar

X

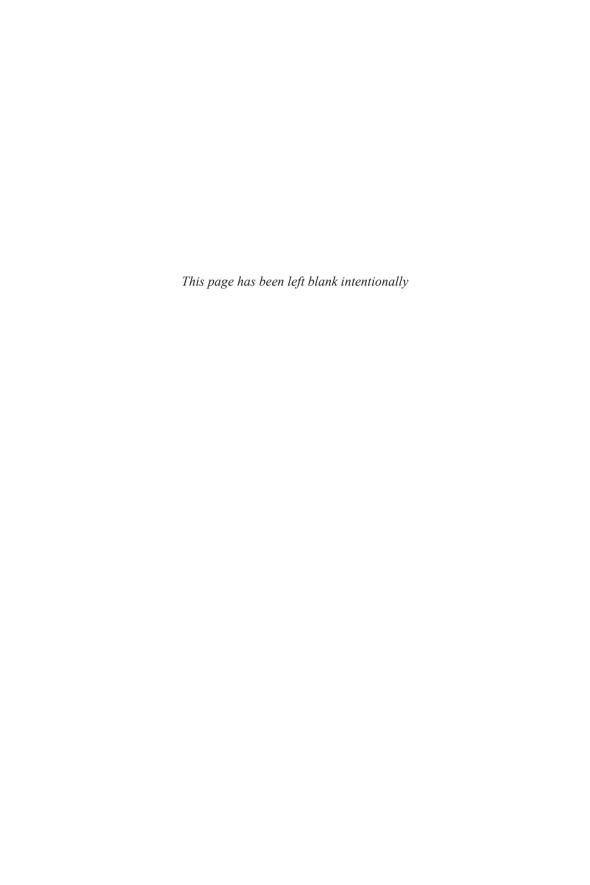
7.4	Distrib	oution Channels in the Air Freight Market	253
	Succes	esful Airlines	256
8	Brand	s Management in Airline Marketing	257
8.1	8.1.1	s' and 'Commodities' What is a 'Brand'? Why Brands?	257 257 261
8.2	8.2.1 8.2.2	Building in the Airline Industry Foundations for Brand-Building Positioning Brands The Brand-Building Process	263 263 264 267
8.3	Brand	Strategies	268
Suc	cessful A	Airlines	272
9	Relatio	onship Marketing	273
9.1	Fundar 9.1.1 9.1.2	v v	273 273 275
9.2	9.2.1	Customer Relations Marketing Communication	276 277 278 280 280
9.3	9.3.1 9.3.2 9.3.3 9.3.4	FFPs: Programme Member Requirements FFPs: Airline Requirements The Future	281 281 282 283 285
	Succes	sful Airlines	288

10	Airline	Selling, Advertising and Promotional Policies	289
10.1	The An	atomy of a Sale	289
		The AIDA Model and the SPIN Cycle	289
10.2	Sales P	lanning	291
	10.2.1	The Sales Budget	291
	10.2.2	The 'Communications Mix'	295
10.3	Market	ing Communication Techniques	295
	10.3.1	Sponsorship Policy	295
	10.3.2	Database Marketing	298
	10.3.3	Media Relations	305
	10.3.4	The Field Sales Team	306
10.4	Airline	Advertising	311
		The Functions of Advertising	311
		Advertising Decisions	312
	10.4.3	What are the Features of 'Good' Airline Advertising?	319
10.5	Selling	in the Air Freight Market	319
		The Sales Task in the Air Freight Market	320
		Marketing Communication Methods	322
	Success	sful Airlines	322
11	The Fu	ture of Airline Marketing	323
Glass	arv of 1	viation Terms	327
		larketing Terms	343
Index	ury Oj W	carneing terms	357
писл			55/



List of Figures and Tables

Figu	ires	
4.1	Sources of Competitive Advantage	97
5.1	The Product Life Cycle	164
5.2	Product Portfolio: The Boston Box	173
5.3	The Ansoff Matrix	178
Tabl	les	
4.1	British Midland Group: Cost Structure – Financial Year	
	2003/04	105
4.2	Staff Costs 2008 (Average Annual Remuneration, USD)	139
6.1	British Airways Pricing Policy, London–Toronto Route,	
	Spring 2010	212
7 1	British Airways: Commission Costs 1994_2008	2/11



Introduction

It is now more than 25 years ago that the first edition of *Airline Marketing and Management* appeared. During that long time, I have been fortunate indeed to earn my living from working in the aviation industry, and to make a large number of good friends. Along the way, the industry's only constant characteristic has been a continuing – and accelerating – pace of change. As I sit down to write the introduction to another edition, there is no sign of that situation changing. Issues such as moves towards a more consolidated airline sector and the progressive hybridisation of Low Cost Carrier business models have all demanded attention during the rewriting process and, I hope, have been properly covered in the pages that follow. As always, I welcome comments, suggestions and questions – please feel free to email me at the address given below.

Thanks are due to my good friends at Ashgate Publishing, Adrian Shanks, Guy Loft and Luigi Fort, for our continuing pleasant professional association and to our many students and friends in the aviation industry on whose ideas the book continues to be based. My wife Gill has – as always – read the proofs and masterminded the production of the text for the book and I continue to be greatly in her debt for all the love and encouragement she has provided.

Chinnor, Oxon, England October 2010 Email: ssassoc@dsl.pipex.com

