

VIDEO Case

Stew Leonard's

Stew Leonard's is a little-known grocery store chain based in Connecticut. It has only four stores. But its small number of locations doesn't begin to illustrate what customers experience when they visit what has been called the "Disneyland of dairy stores." Since opening its first dairy store in 1969, the company has been known for its customer-centric way of doing business. In fact, founder Stew Leonard's obsession with the concept of customer lifetime value made him determined to keep every customer who entered his store.

The video featuring Stew Leonard's shows how the retailer has delighted customers for more than 40 years. With singing anima-

tronics farm animals, associates in costume, petting zoos, and free food and drink samples, this chain serves as many as 300,000 customers per store every week and has achieved the highest sales per square foot of any single store in the United States. After viewing the video, answer the following questions about the company.

1. What is Stew Leonard's value proposition?
2. How does Stew Leonard's build long-term customer relationships?
3. How has Stew Leonard's applied the concepts of customer equity and customer lifetime value?

COMPANY Case /

Pegasus Airlines: Delighting a New Type of Traveling Customer

Until 1982, Turkish Airlines was the only airline company operating in Turkey, and it had no domestic competitors. Following deregulation and reduction of government controls across the airline industry, 29 airlines were established, with 22 finding themselves bankrupted a few years later, demonstrating the strong level of both internal and external competition and how the airline industry is affected by economic instability. Over the past 20 years, Turkey has experienced a number of financial crises, as well as political turmoil culminating in a military coup in 1980. Pegasus was created in 1989 as a charter airline partnered with Aer Lingus to create all-inclusive holidays. In 1994, the company was sold to a Turkish investment fund and in 2005 was re-sold to Ali Sabanci (of Sabanci Holding, an influential family-owned business in Turkey), who changed the airline from a charter airline to a low-cost airline.

In 2008, Pegasus carried a total 4.4 million passengers in Turkey, more than any other private airline. As of 2010, Pegasus has a fleet of 27 Boeing planes with a further 24 on order. Its major competitors—other than the national carrier, Turkish Airlines—are Onur Air, Fly Air, Sun Express, and Atlasjet.

Instead of operating from Istanbul's main airport, which is overcrowded, Pegasus Airlines flies from Istanbul's second main hub, Sabiha Gökçen International Airport. Its on-time departure rate is 93 percent, which is well above the European average of 81 percent, demonstrating the importance the company attaches to customer service.

TRULY CUSTOMER FOCUSED

What is the secret to the airline's success? Quite simply, it involves making sure Pegasus is continually developing to meet passenger expectations and priorities. Pegasus has put in place a yield management strategy for ticket pricing, using the strategy of Southwest Airlines of North America as an example. Supply and demand, as well as time, are taken into account in the ticket pricing strategy; for example, if customers book early (60+ days) they receive further savings while those who book later pay the maximum current fare offered by competitors. The system is complemented by an electronic ticket policy whereby passengers receive their information via e-mail and SMS. Pegasus has also developed a credit/loyalty card,

which offers customers a range of benefits including insurance rate reductions. Although airlines can't often control flight delays, Pegasus has developed a specific customer satisfaction guarantee policy that provides customers with (i) in the case of a delay greater than 3 hours, a refund of the ticket and (ii) in the case of a delay greater than 5 hours, a refund and a free ticket.

Pegasus also offers a customer service experience at the airport. It provides exclusive allotments for the first 72 hours of parking with a valet parking option, VIP and Business Class lounges, car rental and many hotel partners where customers can get some discount.

Unlike many airlines, a one-class interior configuration is operated, but passengers can pay a small extra premium to choose their seats. This is complemented by the Pegasus Flying Café, which offers a range of refreshments and catering options for a small additional charge.

Pegasus offers further customer service options, including a 10 percent discount to passengers on international flights who order their in-flight meals 48 hours in advance. An in-plane bulletin is also available, with a mix of offers and features on certain destinations. This bulletin is free for customers but generates income via advertising.

These services are supported by Pegasus' own flight crew training center and maintenance organization, Pegasus Technic. Both are fully licensed and are used to train new staff members. Pegasus also provides these training and technical services for other local airlines.

Pegasus' innovative customer service won the company an award for "Best Airline Business Price" in 2006. Indeed, the company regularly receives awards and recognition for, among other things, its management strategy; initiatives in Web site development; and its marketing strategy, which employs a new approach to advertising that includes viral marketing, flash campaigns, and mobile campaigns. This strategy has succeeded in making Pegasus the most searched airline in Turkey on Google. While the industry grew at a rate of 20 percent between 2005 and 2008, Pegasus grew at the rate of 57 percent, which certainly indicates the success of Pegasus as a low-cost carrier. The growth rate was sustained during the most recent global recession.

MORE THAN AMENITIES

Although the tangible amenities that Pegasus offers are likely to delight most travelers, general manager Sertaç Haybat, recognizes

that these practices are not nearly enough to provide a sustainable competitive advantage and that Pegasus must always present its customers with the most economical flight opportunities. Here the importance of the crew training center remains crucial. Haybat emphasizes that a culture that breeds trust is the most crucial factor.

It's this personal culture that gives Pegasus' customer service an edge. Indeed, taking care of customers starts as early as a customer's first encounter with the Pegasus brand and Web site. In 2007, Pegasus was recognized as one of Turkey's top brands, chosen from a range of 137 national and international brands operating in the country. Of the 137, only 26 were awarded the title of "Superbrand Turkey" including Pegasus.

Pegasus' employees work as a team with their goal being a common understanding of the airline's long-term objective to provide a democratic environment in which everyone shares their ideas freely. Training, as well as continuous development is provided to ensure regular career progression and high levels of motivation through a solid performance system and regular personal feedback. Early in the process, Pegasus selects the people who best exhibit these values while directing the right person to the right department at the right time.

The last tenet of Pegasus' customer-service strategy lies in the regularly scheduled and innovative destinations it offers. Not only does Pegasus share planes with Air Berlin and Izair, but it also has charter and scheduled services to 70 airports in Europe and Asia. Pegasus operates regular flights to Georgia and Lebanon, providing additional destinations outside of Europe, thus maximizing Turkey's short flights opportunities. These flights have prompted a strong reaction from the competition. The regular service to Tbilisi (Georgia) has been met by an announcement from Austrian Airlines of the withdrawal of its own regular flight to the same destination. This prompted speculation in the media about the changing preference of air travelers where low-cost companies are seen as a sustainable substitute to middle- and high-cost traditional carriers. Pegasus has also successfully developed its internal market with over 19 destinations within Turkey.

LOVE YOUR CUSTOMERS

Customers are the most important aspect of any service industry. Since the global recession of 2008–2010, many airlines have seen a drop in passenger numbers, and it is a challenge to achieve and sustain profitability. In the case of Turkey, other factors provide further opportunities for the airline industry. On the one hand, the economy is growing at a faster rate than the rest of Europe, and on the other hand, as is the case in many emerging countries and in traditional industrial areas of developed economies, a substantial expatriate population exists. New migrants or integrated second- or third-generation migrants usually provide opportunities for travel due to cultural affinities and understanding. Regular holidays or business-related trips "home" can create a good foundation in terms of overall capacity planning.

In terms of weekly seat capacity, Pegasus currently ranks in the top 30 among European airlines. While most airline customers are loyal because of frequent flyer programs, in the case of Pegasus and Turkey in general, further affinities can be developed and sustained, including a certain sense of nationalist pride or nostalgia.

History can also provide potential future markets. Countries such as Azerbaijan, Turkmenistan, Uzbekistan, and others around the Black Sea region are long-term trading partners of Turkey and have been growing rapidly since the breakup of the USSR in 1991. This potential is also opening up opportunities with countries such as Iran, Iraq, and Syria, which have large, young markets both in terms of tourism and business.

However, Pegasus customers want more in terms of social network relationships with the brand and, therefore, Pegasus aims to keep up with its customers even when they are not flying. For example, Pegasus has a Facebook page complete with a game entitling customers to win free tickets. The company also has a Twitter account, through which it offers customers special competitions. Furthermore, in association with Vodafone, a special campaign was developed called "mobile phone fly," whereby consumers accumulated for each SMS an award of 5 percent toward a Pegasus ticket discount, emulating the "shop and miles" strategy of traditional airlines. Over time, Pegasus hopes to create a sustainable relationship with its customers while leveraging the possibilities of social networks and other digital technologies.

Pegasus' strong word of mouth has also been important in the airline's success and is reflected in the words of customers on a special Web site titled "Pegasus Listens to You." Sections of the Web site encourage customers to generate ideas for service improvement, to debate generic questions and topics relating to the airline's management and services, and to encourage customers to report problems they have encountered.

Since 2005, Pegasus has shown that a low-cost airline can deliver low fares, excellent service, and steady profits. It has demonstrated that even in the airline business, entry barriers can be lowered and a powerful brand can be created. Pegasus embodies success in four marketing cornerstones: (i) it ensures successful service through safety, training, and its devoted employees, (ii) it employs creative communication with its customers, (iii) it offers great destinations and easy access to international hubs, and (iv) it uses efficient management techniques, delivering low prices with a high-quality service experience. To be successful in the low-cost airline industry, great attention needs to be paid to customers' changing travel patterns and needs. Booking flights, post-purchase evaluation through regular customer relationship management, and intangible value created by a variety of details make Pegasus a formidable brand in the low-cost airline industry.

Questions for Discussion

1. Give examples of needs, wants, and demands that Pegasus customers demonstrate, differentiating these three concepts. What are the implications of each for Pegasus' practices?
2. Describe in detail all the facets of Pegasus' product. What is being exchanged in a Pegasus transaction?
3. Which of the five marketing management concepts best applies to Pegasus?
4. What value does Pegasus create for its customers?
5. Is Pegasus likely to continue being successful in building customer relationships? Why or why not?

Sources: Atalık Ö., Arslan, M., "Wisdom of Domestic Customers: An Empirical Analysis of the Turkish Private Airline Sector" *International Journal of Business and Management*, Vol. 4 (7), pp. 61–67; Torlak, N. G., Şanal, M., "David's Strategy Formulation Framework In Action: The Example Of Turkish Airlines On Domestic Air Transportation" *İstanbul Ticaret Üniversitesi Fen Bilimleri Dergisi*, Vol. 6 (12), pp. 81–114; Ralph Anker, "Airline capacity at European Airports Down just 2% in Early Winter" Airport Business Web site www.airport-business.com, accessed December 2010; "Road Block Receives more than 140,000 Clicks in 18 Hours," *Microsoft Advertising*, accessed at <http://advertising.microsoft.com/home>, November 2006; "Headquarters," Pegasus Airlines Web site, <http://www.flypgs.com>, accessed September 6, 2009.