GriffJet Airline Case Study

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Overview GriffJet Airline

GriffJet Airline is a low-cost carrier that operates in the Middle East region. According to the International Air Transport Association, the Middle East aviation market has had tremendous growth and anticipates an extra 258 million passengers to, from and within the region (Arabian Business, 2017). In March of the year 2018, Middle East carriers saw a 10.7% growth in passenger traffic and this contributed by the upcoming airlines GriffJet included (The National, 2018). For the two years, GriffJet has operated as a low-cost carrier so that it can attract as many travellers as possible. GriffJet has made unknown airports visible. The airline has achieved a significant market share in all its routes. Also, it has targeted major airports and is now considered a big threat to major airlines. The following report discusses three key management approaches that will help GriffJet Airlines deliver a sustainable and competitive product into the future. The three approaches include industry level approach, yield management approach, and market segmentation approach.

Industry Level Approach

Industry level approach is a management approach that significantly depends on Porter's Five Forces. The five forces as suggested by Porter include the threat of new entrants, the threat of substitutes, customer's bargaining power, supplier's bargaining power and rivalry among competitors. The Porter's five forces model offers a straightforward and concise angle for assessing and analyzing how competitive and strong a corporation or industry where the corporation operates. Despite it being simple, it is an effective tool where the strengths of a business lie.

Middle East Low-Cost Carriers Porter's Five Forces Model

- ✓ The threat of New Entrants

Typically, the Middle East airline industry has for years been considered to be a capital intensive. There has to be a sufficient fleet as well as maintenance facilities. However, the commencement of leasing schemes has made it possible for a new entrant with limited capital to gain access to the airline market. For low-cost carriers to remain competitive there is the need to achieve a high level of efficiency and this has to be achieved when there is sufficient fleet. Further, the Middle East airline industry is underserved when it comes to low-cost carrier services. However, the current penetration of low-cost carriers has paved way for new market players. Finally, after the arrival of low-cost carrier in the industry, the major and existing traditional carriers have as well introduced their low-cost brands to compete with the low-cost carriers (Aljazira Capital, 2013).

The threat of new entrants is medium.

- ✓ Threat of substitutes

The biggest threat to low-cost carriers is a well connected and maintained train network. One advantage that a train network has is the elimination of overhead times including reservations, check-in, and security check. However, the train network in the Middle East is not yet advanced as in Europe. It is still at infancy stage (Aljazira Capital, 2013).

The threat of substitutes is low

- ✓ Customer’s bargaining power

Customers will consider low-cost carriers are due to their cheap prices. There being no other service to attract customers, the biggest selling proposition is reduced prices. Typically, when there is a deviation in prices customers will without hesitations seek services from other carriers. For instance, in the Middle East, the limited number of low-cost carrier operators, customers have no choice to shift from one low-cost carrier to the other (Aljazira Capital, 2013).

The bargaining power of customers is high

- ✓ Supplier’s Bargaining Power

The supply of aircraft has been monopolised for long with only to suppliers Boeing and Airbus. In spite of this, the competition between these two suppliers has been intense. As a result, airlines have managed to obtain competitive pricing as well as good services when purchasing aircraft. Since low-cost carriers have a homogenous fleet size, they have managed to obtain quality services from the supplier. Also, due to their commitment to a single model, they have managed to build a long-lasting relationship with the supplier. All in all, when an airline decided to switch from one model to the other, the cost involved will be high. When the switch is between suppliers it will cost even higher. Changing model calls for a complete change of the supply chain for spare parts and maintenance as well retraining of pilots and support staffs (Aljazira Capital, 2013). Low-cost carrier prefers regional under-utilised airports where they can have bargaining power compared to huge airports with limited space, extensive infrastructure but high fees.

The bargaining power of suppliers is medium

- ✓ Rivalry among competitors

The selling proposition for the low-cost carriers is low prices and this has led to high competition in the industry since other existing airlines have as well come up with new steps to protect themselves from the cannibalisation of their market share. However, since the number of low-cost carriers in the Middle East is limited, cannibalisation of the market share is still low (Aljazira Capital, 2013).

The rivalry between the competitors is medium

The overall attractiveness of this industry is medium-to-low. The Porter's five forces show that the industry is attractive considering the low bargaining power of suppliers due to the intense bargaining power between Airbus and Boeing. Also, there have been barriers to entry due to the high financing cost involved but this has been changed by the arrival of leasing schemes. For the Middle East airline industry, low-cost carriers have little threat considering that the railway's network is not well established. Based on the analysis of the model and the information obtained, a low-cost carrier in the Middle East is slowly gaining ground and the potential for growth is promising. Based on the growth report given by International Air Transport Association regarding the rate of growth in the Middle East, low-cost carriers are the ones expected to cater for the increasing demand for air travel at reasonable prices. The business model of low-cost carriers makes the airline sector in the Middle East an attractive industry and its growth potential is huge.

Yield Management Approach

The yield management approach is being adopted in almost every sphere especially the airline industry. In fact, it started as a concept in the airline industry only but was adopted by other industries thereafter. One definition of yield management that stands out for the airline industry is the maximisation of revenue with the help of effective management of three crucial domains including inventory management, control of availability, and pricing strategy (Donovan, 2005). Typically, inventory control is dependent on the availability of resources such as aircraft, employees and gasoline. Yield management is a technique that allocates scarce resources among different customers towards optimising revenue (Ingold & Huyton, 2000). Taking the airline as an example, the limited resources are the seats on a future flight. The different customers, in this case, are leisure and business travellers. Scholars have argued that airline seats are perishable in that once an aircraft departs, they all become worthless. With yield management, the airlines aim to sell the right seat to the right customer, at the right time and price. The tradeoffs between selling discount tickets aiming to fill the entire aircraft and selling full air ticket and fill a part of the aircraft. There tend to be common features to all those industries that have implemented yield management successfully. First, their products are perishable, demand varies with time, their supply is limited, their products or services can be sold in advance, their market can be segmented and have a low marginal cost (Donovan, 2005). Relating these features to the airline industry, aircraft seats are perishable since there reaches a time when they cannot be sold. There is limited supply considering that capacity cannot be increased. They are costly as well. The airline can manage demand by fluctuating prices. Typically, cheap prices tend to increase demand and increased prices will lower demand. This means that yield management approach can manage varying demand and supply through dynamic control of inventory and price and in the process capture as much revenue as possible (Biermann, 2007).

Airlines increase their revenues through ancillary revenues (incremental revenues that airlines earn after the fare is paid and come from travel experiences or website (O'Connell & Williams, 2016). Unbundled flight product is one category of ancillary revenue. Revenue from unbundled products comes from selling products or services separately. These products were traditionally part of the airline ticket. The products include baggage fees, ticket exchange fees, and seat reservation fees. Baggage fees generate the most revenue among the unbundled products and came into the picture after checked-baggage fees were implemented (O'Connell & Williams, 2016). These fees have been implemented by many airlines around the world.

There are two strategies that are associated with yield management and these include discount allocation and overbooking. Typically, overbooking is a situation whereby the airline sells more seats than what the aircraft have in an attempt to take care of now-shows or passenger cancellations. It is estimated that about 15% of seats remain empty despite there being a full sell out of the tickets. Therefore, overbooking gives airlines a chance to fly at full capacity and at the same time maximise revenue by filling up the seats that are left empty as a result of passenger cancellation or no-shows (Donovan, 2005). The second strategy is the discount-allocation. The number of discounted airfares is limited so that a few seats can remain and be sold out towards the final days prior to flight at a premium. Typically, the discount-allocation is mostly targeted to the urgent travellers. These travellers are those whose need to travel is immediate especially due to an emergency. The emergencies might include funeral, sickness, and urgent business operation that need immediate attention. Despite the challenges as well as complications that influences yield management practices, the airline industry has features that support it including the common features of limited supply, perishable seats, market segmentation, market demand, low marginal cost and advance sale of products (Donovan, 2005).

Market Segmentation Approach

Typically, the aviation market behaves differently based on price changes. The traditional airline market was segmented into leisure and business passengers. Also, segmentation in this industry has been on the bases of seating, such as economy class, business class, and first class. However, for a better insight, the following are some of the other distinct market segments for airlines.

- ✓ Business travellers

These comprise the biggest percentage of travellers. They form a large portion of the domestic flights considering that most businesses have operations in different parts of the country. They move from city to city and have sale opportunities all over hence the need to travel from time to time (Market Segmentation Study Guide, 2018).

- ✓ Budget Conscious

These are infrequent travellers and holidaymakers. They are not familiar with any specific airline and since they are price sensitive they may use pricing to make choice of the airline to use. Very few of these travellers will opt for a high pricing airline and will easily choose the cheapest of all since it will give them the most value. All in all, most of these travellers are low-income earners (Market Segmentation Study Guide, 2018).

- ✓ Urgent travellers

These are travellers that rarely travel and therefore they represent a minute segment in relation to size. Their travel is urgent for example for emergency reasons. Some of these emergencies include funeral, sickness, wedding or business that needs immediate attention. Considering that their travel is immediate, they are more concerned with flight availability rather than airline brand or price. Airlines normally hold a few seats just a few days before the flight which will be sold at a premium price (Market Segmentation Study Guide, 2018).

- ✓ Loyal Travellers

These are regular travellers who travel for business with others travelling for personal reasons such as visiting families or holidays. They are loyal to a particular airline and in return, they acquire loyalty points which they can redeem for free flight in future. Airlines target these customers as they are long-term customers. Attracting them is difficult considering that they do not switch airlines that easily (Market Segmentation Study Guide, 2018).

Recommendations

Basing from the discussion of the three approaches, the following are some of the recommendations that GriffJet Airline should consider towards making positive progress in the Middle East's airline industry. First, it should review the region's connectivity needs aiming to integrate network schedules using all the assets available especially the underutilised airports to open up new markets. Secondly, GriffJet should consider adopting the Yield Management approach as it will assist in maximising revenue. Finally, GriffJet should segment the market based on their profitability. From the segments discussed, Business travellers and Loyal Travellers are the segments that generate the most revenue and GriffJet airline should consider such segments.

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