MARKETING IN THE GROWING LOW-COST AIRLINE INDUSTRY

ANalytic View of Marketing Strategies and Consumer Behavior in the Actual Context of the European and South American Markets

By

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A Memoire Submitted in Partial Fulfillment of the Requirements for the Degree of

Majeure in Marketing French Excellence

Rouen, France. June 2011
“First, we have to lower our costs to levels that are more competitive. This will prevent the lower-cost airlines from pushing us out of the markets we want to serve. We've made great progress on this front, but we need to keep pushing.” – Gerard Arpey, CEO- AMR Corporation
Table of Contents

1. Introduction ........................................................................................................................................... 4
   1.1 Topic motivation .......................................................................................................................... 4
1.2 Project purpose ............................................................................................................................. 4
2. Conceptual Frame ............................................................................................................................ 5
   2.1 Services marketing ...................................................................................................................... 7
   2.2 Consumer behavior ..................................................................................................................... 9
   2.3 Consumer decision making model ............................................................................................. 11
3. Context .................................................................................................................................................. 13
   3.1 Transportation, aviation and airlines ......................................................................................... 13
      3.1.1 Transportation ....................................................................................................................... 13
      3.1.2 Aviation ............................................................................................................................... 16
      3.1.3 Airlines ............................................................................................................................... 16
   3.2 Low cost Business ....................................................................................................................... 21
   3.3 Low-cost airlines ....................................................................................................................... 23
   3.4 Low-cost airlines in France and Europe .................................................................................... 29
   3.5 Low-cost airlines in South America (Colombia) ......................................................................... 33
4. Marketing Research .......................................................................................................................... 35
   4.1 Methodology ............................................................................................................................... 35
   4.2 Data analysis ............................................................................................................................... 36
5. Conclusions ........................................................................................................................................... 41
   5.1 Airlines industry trends ................................................................................................................. 41
   5.2 Recommendations ....................................................................................................................... 42
   5.3 Limitations .................................................................................................................................... 43
6. Bibliography .......................................................................................................................................... 45
Appendix 1- Interview Guide ............................................................................................................... 48
1. Introduction

1.1 Topic motivation

When I was told to choose a topic for my memoire, I knew that I wanted something important, creative and useful for people, but overall I wanted something innovative and with a promising future, so I began to think in a business model that had these conditions that I was looking for.

Living in Europe had showed me that traveling in this continent is fast and easy, and one of the biggest reasons of this event, are low cost airlines. When I realized this, I knew that it was a perfect topic for my project. It is important and useful for people because it gives the possibility to move from one place to another in a cheap, safety and fast way, giving an excellent alternative for people to go on business trips or tourism. It is also a very innovative business model because is changing some aspects of standard airlines in order to reduce cost and offer very competitive prices. This has made low cost carriers, organizations that are increasing their market share, turning them into a promising business for the future.

1.2 Project purpose

There are two main reasons for making this project:

The first reason is that with this assignment I have the opportunity to apply all the knowledge in business administration and marketing that I have gained during five years studying at Colombia and France. It is the final examination that gives me the possibility to end my life as a student and begin my professional one.

The second reason for doing this project is that I would have the possibility to research about transportation and its importance for development, as we know world
population is increasing and each time there is more people that need to move from one place to another, this type of business give a cheap solution to those citizens that use traveling as part of their life’s.

Then I would centralize on air transportation which is different and better than others because is very fast and safety but in many cases is more expensive than the rest, that is the competitive advantage that low cost airlines have in comparison with car, bus, train, ship, and other modes of transportation. Taking into account that one of the problems that airlines have is their price, I would look for information related to low cost business models and afterwards I would focus especially on low cost carriers to understand how they work, how they reduce costs and I would have to look deeply on their marketing strategies in order to see how they attract customers to compete with the huge companies that this industry has. Taking a look to the French market would be relevant because they are one of the countries that have more destinations among these airlines, making the French customer a very representative one.

After looking the French and European market I would also take a look to South America, especially Colombia because this is a region were air traveling is very expensive and that have been a problem for tourism and business people. The next step would be to do some surveys in order to understand the idea and the concept that French people have about these companies, this would be crucial for my project because a good analysis of this results would give me the opportunity to see what customers are looking for, what they like and what they don’t, why France has been a country were this model have worked so well and with this information I would have the possibility to make suggestions for companies that work on this sector.

Before doing this investigation the low-cost airlines seem to be a growing and successful industry that is increasing market share because people appreciate the idea of buying very low prices. For this reason standard airlines would have to react implementing some strategies that could be to create a low-cost division for some flights or offer much better services that could make people spend more money in
order to receive more comforts. In addition to this they would have to work a lot in reducing costs to be more competitive. For the South American market it is possible to say that customer mentality in this region is very different from European, so these airlines would have to work a lot on this and reducing costs would be more difficult than in Europe do to the characteristics of the market.
2. Conceptual Frame

2.1 Services marketing

The services sector is a huge economical area in this moment. It includes: Selling services, public services and non profit organizations. The services sector represents 90% of new jobs in the world. In France it represents the 80% of the total economic activity, and in most developed countries, services generate more value than agriculture, raw materials and manufactured products together. – World Bank

Services marketing is an important topic to cover before entering into the airlines world because it is a crucial part of this industry. Services are not the same as products so their marketing is also different; to understand this concept it is better to comprehend first what are a services and its difference with a products.

“A service is an economic activity that creates value and provides benefits for customers at specific times and places by bringing about a desired change in, or on behalf of, the recipient of the service.” -Lovelock. The following are five characteristic found in all services:

The first and more notable characteristic that services have is intangibility; they cannot be seen, tasted, felt or smelled before they are consumed. As a result of this, the services are not known to the consumer before they take them.

The second element is inseparability; services are typically produced and consumed simultaneously. This means that the service provider would become a part of the service. This characteristic increases the importance of quality in the service sector. This is also one of the reasons why marketing is so important in this sector, they require a big input of skilled personnel to improve it.

The third aspect that services have is perish ability, it is the inability of the service to be stored and this is the reason why services can’t be inventoried. This is one of the
main problems of marketers in this sector; it is more difficult to find the point of equilibrium between the demand and the offer.

The fourth characteristic that a service has is variability, this means that they are highly variable because they vary on when and where they are provided, as a result of this, marketers have to work particularly on the quality of the service offered.

The last element that makes a big difference between goods and services is the ownership. In the services industry customers purchase the right to use the service not to own it. (SiteMan Network, 2006)

Taking this information into account we can say that marketing for services can be more complex and tricky than for goods because companies are trying to sell an intangible idea so the customer can’t see in a real way what they are purchasing. At the other side when they are purchasing a product, they can see the element that they are going to buy and in some cases they can also try it before they pay to see if they are really convinced that the product is what they are looking for. This means that ownership and intangibility are two factors that marketers need to see and take care when they want to sell the idea of a service. This is the reason why quality is a determinant issue for different companies especially airlines. In the next chapters we would see how are the marketing strategies in low cost airlines but also how they manage and show the service in these airlines that do not have the same budget to spend in service quality as standard airlines, which offer more benefits that improve the perceived value by the customer.

These characteristics are also the reason why services have three more elements than goods on the marketing mix. In addition to the famous four P’s that exist in goods, there is also people, process and physical evidence in services.

People as an element of the marketing mix include all human actors, the firm employees, the buyers and other customers, these actors play a role in the service delivery and influence buyers. In the case of an airline employees are very important
because they are on direct contact during all the flight and also before in some cases
with the customer and they represent a big portion on the quality that the user is going
to perceive, so it is very important that the human resources and the marketing area
work together, this topic would be analyzed deeply on next chapters.

The process refers to the actual activities, procedures and mechanisms by which
services are delivered, this process is more complicated in services than in products
do to the inseparability characteristic of them. The main components of the service
processes are the people that participate on it, making the personnel quality more
determinant for the company success.

Physical evidence is the environment in which the service provider delivers the
service and where the customer and company interact, it also facilitates the
communication. In the airlines industry it is an important factor because some of the
tickets are bough on the establishments that the organization have. In the low cost
airlines industry it is an important aspect because they want to reduce personal buying
and assistance moving toward internet service, in this case the customer would only
have contact with the personnel and physical environment in the aircraft. (University
of Johannesburg)

2.2 Consumer behavior

“Consumer behavior is the study of the processes involved when individuals or
groups select, purchase, use or dispose of products, services, ideas or experiences to
satisfy needs and desires.” -Michael Solomon

The definition above represents the importance of consumer behavior and shows it as
an essential component of the marketing area and especially the airlines sector. The
reason for its importance on the airline industry is that if you see this business in
general it consists on taking one person from one place to another. But what makes a
consumer to choose one airline or another? Probably a determinant factor for choosing one is the price, and that is the idea of low cost airlines. But how big have to be the difference between the prices that two or more airlines offer to sacrifice some services and benefits they would receive for paying more? This is the discussion that low cost airlines have to face everyday and is the main point to fight against “normal airlines”, and that’s the reason why marketers have to analyze what people are looking for.

This is the reason for the existence of consumer and marketer perspective. In the pre-purchase issues, consumer might think on what are the best sources of information to learn more about alternatives and choices they have, while marketers might be thinking how are consumer attitudes toward products or services formed or changed. They would also think on what cues customers use to infer which products are superior to others. During the purchase issues, consumer would figure if acquiring a product is a pleasant or stressful thing and this might be determinant for future purchases. In this step marketers would put attention to how situational factors, such as time pressure or store displays, affect the purchase decision. After this is the post-purchase issue, a very important step for customers and marketers because a customer would consider if the product or service meet their needs and purchase it again. For marketers it is crucial because it is the possibility to evaluate themselves and see the positive and negative things that they are doing to improve their marketing strategies. (Solomon, Bamossy, Askegaard, & Hogg, 2010, p. 7)

For this reasons, consumer behavior is one of the main topics that low-cost airlines would have to focus for entering a new market like the South American. The way people behave in this continent is very different from Europe, basically because tourism there much lower, it doesn’t have weather seasons, and people see air traveling as an expensive mode of transportation.
2.3 Consumer decision making model

In order to understand the consumer decision model is important to know that a consumer purchase is a response to a problem, a need for something that finish with the acquisition of a product or a service.

Illustration 1- Consumer decision making model

Michael Solomon

The importance of this model is that consumers always have to do an information research when they need to go to anywhere because ticket prices depend on many factors, but what companies and especially marketers pretend is that their organization is the one that people have on their mind and they look at that one first, but if they do not, price is an important advantage when they get to the decision making.

If we start from the idea that most of people are beginning to buy tickets on the internet we can say that, the importance of having all kinds of advertisements on the web is very important, but in some cases regular airlines have more money to spend in these campaigns. With this problem a very important factor is that people are researching a lot on the web before they make the decision, and this type of behavior is an advantage of low cost carriers because spending more time on internet increases the possibility of finding an airline that offers low prices. “The traditional decision-making perspective incorporates the economics of information approach to the search process: it assumes that consumers will gather as much data as needed to
make an informed decision. Consumers form expectations of the value of additional information and continue to search to extend that the rewards of doing so (what economist cost utility) exceed the cost.” (Solomon, Bamosy, Askegaard, & Hogg, 2010, p. 323) This supports the advantage that low cost airlines have over standard airlines because what these companies want is that potential customers find the lowest prices on the market that belongs to them.
3. Context

3.1 Transportation, aviation and airlines

3.1.1 Transportation

Transportation is the movement of people or products from one place to another. It exists in different ways including rail, road, water, pipeline, cable, air, and space. Transport has three main divisions: Infrastructure, vehicles and operations. The first one refers to the physical structure needed to run a society. The second one is the non living device that moves people from a place to another and is the main actor in this activity. The last one is the operation which can be done by the owner of the vehicle, usual in private transportation or it can also be a third person or company like it is done in public transportation.

Archaeologists think that the first step toward transportation began with the invention of the wheel in Mesopotamia or Asia around 4000-3500 BC. This creation was achieved because they felt the need of moving things from one place to another and that still being the main objective of transportation 6000 years after.

Around 3500BC they put together two wheels giving birth to the chariot, the first form of wheeled transportation. This invention gave the possibility to increase the speed of land transportation. But even before this man had developed ways of water transport. During this days speed is one of the most important elements of transport because is one of the factors to choose one modality of traveling over another. A good example is the speed superiority that air transportation for medium and long distances has over road transportation, for this reason it is also more expensive to travel in an airplane than a bus, understanding that speed can be seen as time and time has a huge value for most of the people.
After these inventions there were a lot of developments on transportation, from vessels to locomotives in 1804. In 1960 there was a big step with the invention of a Frenchman named Jeanne Joseph Etienne, he invented an internal combustion engine which ran on illuminating gas and was the first automobile. This was the single most important development in the history of transportation since the invention of the wheel, the reason was that automobiles increased personal mobility and permitted people to live at greater distances from their work, leading to the formation of suburbs.

The inventions named before were important and a first step to what today we know as transportation, but the next stride was not looking at water or land. In 1903 the brothers Orville and Wilbur Wright, two bicycle makers, gave birth to the first controlled flight. Their invention would eventually grow from a bicycle-propelled contraption to, after World War II, jet-propelled aircraft capable of world-wide mass transit. The airplane allowed people to cover great distances in less time, cutting transatlantic travel time in half. (Essortment, 2010)

After these inventions there were many others that developed vehicles and facilitate the different forms of transportation. Beginning from a simple wheel to super sonic jets. But everything we saw before is the history of different kind of vehicles that helped with the development of transportation and is important because they are the basic element of this activity. They are parallel because is true that the first mode of transportation was walking and swimming but after that every invention in the vehicles area has an impact in transportation because new roads, airports, rails have to be invented as a result of it, also new mechanisms to control these vehicles like traffic lights and an airspace traffic system.

More important than the history of transportation is the economic, environmental, and social and other impacts that it has on society. Transport is a key necessity of a civilization in order to specialize, because it allows products to be consumed in different places and also people to travel all around the world. When transport is good
it allows more trade and people expansion. This is a very important concept because this project focuses on low cost airlines which are people moving airlines that impact directly in economy because commerce requires people to go to other places in order to conduit business, it is also important because some organizations need to send experts to other places in order to contribute with their knowledge. Tourism is increasing and there are some countries that have this as the major economical activity, contributing at the same time with the world’s economy. For achieving this economical contribution using transportation it is also very important to plan before acting. It is important because planning allows for high utilization and less impact working on new infrastructure. For making this possible there are different transportation models that help determining which and how is the best solution taking into account the different modalities of transportation explained before.

Economical contribution is reached with transportation but it also has big problems for society. These activities have resulted in growing levels of motorization and congestion damaging the environment. As a result of this the transportation sector is becoming the cause of several impacts including: climate change because it release millions of tons of gases that damage the ozone layer and earth surface. The water quality is also affected because these vehicles deliver liquids that in many cases end in the sea or in lakes contaminating huge portions of healthy water. The land take is another problem because big ports, airports, roads are on places that were forests on the past affecting also the bio diversity do to the contamination particles that it releases. Finally there is also a noise and air quality deterioration that affects humans healthy and way of living. For these reasons companies working on this sector need to look for the best ways of creating good alternatives for transporting people and goods but taking care of the environment do to the damage they cause and also for legislations that demand this type of behavior.

One of the biggest problems that transportation has is the difficulty of doing new roads and streets, the reason for this is that there are some places were there the terrain is inappropriate so the costs are very high. Other problem is that some roads
and cities have buildings, houses and all type of establishments that should be demolished if they wanted to construct these traffic solutions. Time is also a problem, new roads network take a lot of time and while there are doing it, transportation problems increase do to the lack of solutions for mobility.

3.1.2 Aviation

For reasons including the desire of faster ways of moving and the dream of flying, today we have aviation as a main mean of transportation. Aviation refers to the development, design, production, operation and use of aircraft. The history of aviation is full of interrogations because some historians talked about cultures that built devices, like the history of the flying automaton of Architas of Tarentum that took place on 428-347BC. But do to all of this myths and le lack of relevant information we are going to talk only about the modern age of aviation which began with the hot air balloon in 1783. This was a first step on the new era of aviation, but a very limited one because this invention could only travel downwind. After this invention there were many others but no one with the importance of the Wright brothers in 1903. They were the first ones to flight in a powered and controlled aircraft and after that they began to improve their invention and it was the beginning of an amazing transportation system. (Century of Flight, 2011). Then when some important and influent people saw that it was possible to control an aircraft, they began to create similar but more advanced airplanes that after some years were fabricated in production plants forming some airline companies, but they also played an important role in World War I and World War II.

3.1.3 Airlines
An airline is a company which offers air transport for passengers and freight. Airlines vary widely in size, from small companies with only one or two planes to huge multinational companies. While the industry initially grew slowly, airlines began to take off in a major way after the Second World War, thanks in part to large numbers of returning aviators. (Smith, 2011)

Nine years after the Wright brothers invention, it was created DELAG, the worlds first airline which was assisted by the German government and operated aircrafts manufactured by The Zeppelin Company. (Grossman, 2010). Since this time we see a very interesting fact in the airline industry, many of these companies have been assisted in different ways by governments do to the economical problems that they face. But one of the most important changes that this industry had was the deregulation act in 1978. Before this date, airlines resembled a public utility, with a government agency, determining the routes that each airline flew and deciding the prices they charged. After this date, this industry is a market driven one, were the demand and supply determine the prices, this decision gave more power to the airlines segment and as a result it was a more competitive sector. This is an industry that needs a lot of capital to get started; they need enormous and expensive equipments and facilities like airplanes and flying simulators. It also needs lots of investment for maintenance to operate effectively do to the need of security as one of the most important element in this sector. This high technology and continued maintenance need also high qualified pilots, mechanics, lawyers and many other employees, for this reason more than one third of the profits generated each day goes to pay this expensive and intensive labor. In contrast to what many people might think, the airlines industry has very thin profitability margins, even in the best times. Trough years airlines have earned around one or two percent profits, there are studies that show that the whole airlines business since the beginning have incurred in more losses than profits. In this industry around 75% of the revenue comes from passenger transportation, about 15 percent from cargo shippers. The remaining 10 percent comes from other transport-related services. For the all-cargo carriers, of course,
cargo is the sole source of transportation revenue. For the major passenger airlines which also carry cargo in the bellies of their planes, less than 10 percent of revenue comes from cargo. One of the main problems with passenger transportation and something in which airlines have to focus every year is that it is very seasonal. The summer months are extremely busy because people want to travel and because most of them have vacations during this period, but the winter months are big valleys where the operation goes down representing big losses in comparison to the other. For this reason one of the most important and crucial topic in airlines is pricing, airlines have had the same pricing freedom as companies in other industries. They set fares and freight rates in response to both customer demand and the prices of competitors. As a result, fares change much more rapidly than they used to, and passengers sitting in the same section on the same flight often are paying different prices for their seats. So if we compare the price of the same flight, by the same company but one in summer and other in winter, the summer price can be much more expensive than the one on winter. For the airlines, the chief objective in setting fares is to maximize the revenue from each flight, by offering the right mix of full-fare tickets and various discounted tickets. Too little discounting in the face of weak demand for the flight, and the plane will leave the ground with a large number of empty seats, and revenue-generating opportunities will be lost forever. On the other hand, too much discounting can sell out a flight far in advance and preclude the airline from booking last-minute passengers that might be willing to pay higher fares (another lost-revenue opportunity). The process of finding the right mix of fares for each flight is called yield, inventory or revenue management. It is a complex process, requiring sophisticated computer software that helps an airline estimate the demand for seats on a particular flight, so it can price the seats accordingly. And, it is an ongoing process, requiring continual adjustments as market conditions change. For this reasons the sales and marketing department are so important on a airline as they can make or break it. These divisions cover activities as pricing, scheduling, advertising, ticket and cargo sales, reservation and customer service, but as it was told before scheduling and pricing are more relevant in the success of a company in this sector. The
difference on this departments is very big between a standard airline and a low-cost airline and it would be explained when we on the low cost carriers section. (Avjobs, 2011)

For the purpose of this project it is important to understand not only were the companies revenues come from as we saw before, but also the costs they have. Cost management is probably what best describes the difference between a regular airline and a low-cost carrier, because the business model objective is to offer low fares but it would be impossible if this airlines don’t do everything they can to take down costs. In standard airlines wages and fuel are the biggest costs in which they incur as shown in graphic 1.

Graphic 1- Airlines cost structure

RAJCO AVIATION

This graph shows that fuel is very expensive. It is also something that companies can control in a small dimension, but depends more on the market price and on the companies creating aircrafts. But wages does, they are high in these companies because they need qualified employees in some jobs like pilots and mechanics, but
also because they need a lot of them in order to provide a good service so this is one reason for having more costs than low cost carriers.

For having so high operational costs and big competitors, mergers, acquisitions, and alliances are frequently used on this sector. “Strategic airline alliances are an increasingly common strategy for enhancing airline competitiveness and satisfying customer needs, especially in an era characterized by blurring industry boundaries, fast-changing technologies, and global integration. Airlines have been very active in utilizing this form of strategic development. However, the selection of a suitable partner for a strategic alliance is not an easy decision, involving a host of complex considerations by different departments.” (Liou & Gwo-Tzeng, 2011). Two good examples of this strategy are the companies that resulted with the mergers of Delta Airlines and Northwest Airlines, and the one of United Airlines and Continental Airlines which are the two biggest airlines on the world at this moment. Now they have enormous float and they would try to be more competitive, but joining this companies together is a big effort and is also risky do to the amount of employees, clients, and operations that they have.

Flight security and environmental care are also two important topics in this business, and are also related to costs. The first one is very important to a company because one fatal accident have repercussions of million of euros, not only for the aircraft lost but for the reaction of customers who prefer to fly in other airline. For this reason airlines try to be careful with the aircraft maintenance but the government also influence this aspect because they review the design, maintenance and manufacture of the aircraft, setting minimum standards for crew training, establishing operational requirements for airlines and airports, and conducting safety research and development work. So even if an airline wanted to decrease costs by reducing aircraft maintenance they couldn’t do it do to the minimum requisites that government and regulation companies have impose to this business and this is something that low cost carriers must understand so that they do not have accidents. The environment is also an important issue for airline industry, during this age; environmental care is something
that companies must consider because of the pollution and earth warming happening now. For this cause they are working on aircrafts that are more fuel efficient and this is not only good for the environment but it is also good to lower costs considering that fuel is one of the biggest that a company in this industry has. But to work on this airlines have to work on cleanliness they have to find a proper way to manage wastes and this make them incur in more costs.

Looking at all these facts the challenge that low cost carriers have to decrease costs is not something easy to do. They have to take care of the environment, they cant forget flight security and they have to accomplish the minimum security standard that governments have impose to this industry.

3.2 Low cost Business

After analyzing the airlines industry in general it is also pertinent for the project to take a view to the low cost business (that more than a business is a strategy) before exploring the low cost airlines sector.

Low- cost airlines business model is a result of the low cost strategy. In Illustration 2 we can see Porter Generic Strategies which are three types plans that companies commonly used to achieve and maintain a competitive advantage.

Table 1- Porter’s generic strategies

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<th>Porter’s Generic Strategies</th>
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<td>Product Uniqueness</td>
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<td>Broad (Industry Wide)</td>
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<td>Differentiation Strategy</td>
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<td>Narrow (Market Segmented)</td>
<td>Focus Strategy [low cost]</td>
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<td></td>
<td>Focus Strategy [differentiation]</td>
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Michael Porter
The first strategy that he mentioned was the focus scope, the second one is the differentiation strategy but the one that matters for this project is the low cost leadership strategy. This strategy consists on winning market share by appealing to cost-conscious customers. This can be achieved by having the lowest prices or at least the lowest price compared to what customers receive. To succeed in a business like the one that was described before, companies need to be able to operate at lower cost than it rivals. There are three main ways to accomplish this: A first approach is to have a high asset turnover, this would mean for example in an airline to turn around flights very fast. As a result of this, fixed costs are spread over a larger number of units of the product or service, resulting as a lower unitary cost. The second dimension is achieving low direct and indirect costs. This is achieved by offering high volumes of standardized products, and limiting customization and personalization of service. By this way production costs are kept low because they are used less components and the number of models would be reduced. To implement this strategy it could be useful the use of outsourcing, controlling production costs, increasing asset capacity utilization, and minimizing distribution and advertising costs. The third possibility is to control over the supply chain to guarantee low costs. (A to Z of Management Concepts & Models; 2005)

To compare and contrast with low cost carriers, it is interesting to see similar models in other industries. One good example of a business, different from airlines, which uses this strategy, is Dell, Inc. This multinational company implements several elements that porter mentioned on the cost leadership strategy. Dell’s direct-distribution model is generally acknowledged to be the primary driver of the company’s profitability advantage. Dell’s model has two basic cost advantages: First, by transacting directly with customers, Dell can reduce costs associated with a traditional, tiered distribution system, which involves markups to channel partners. Second, as almost all of Dell’s products are made to order, the company operates with very low levels of both finished-goods and work-in-process inventories. Lean inventories help Dell benefit from falling component prices faster than companies
with significant inventory levels. (Black Book- Dell, 2005). These are good low cost strategies that have turned Dell, Inc into a huge company in the computer industry, with a revenue over 61.49 billion dollars on 2011 and 103,000 employees.

Other interesting company, this time on the retail industry is Wal-Mart Stores Inc. This huge company also applies one cost strategy mentioned by Porter, but in this case it has been very discussed because of its unethical characteristics. Michael Porter mentioned that in order to decrease costs it was important to control the supply chain. We can be applied in several ways but Wal-Mart Inc. is famous for squeezing its supplier’s to ensure low prices for its goods. This might be unprincipled for many people but the truth is that it is a low cost strategy that has worked for them because they can offer very low and competitive prices that attract customers.

Based on the previous information we can say that many companies in different sectors should not be demired as low cost business because their core strategy is other, but many firms complement their strategy with elements sawn on Porters Generic Strategies, which could involve low cost policies similar to the ones that we are going to analyze on the low-cost airlines section.

### 3.3 Low-cost airlines

Low-cost airlines also known as low-cost carriers are airlines that offer lower price tickets and fewer comforts. To be able to have tickets at this prices these companies need to decrease costs and also offer what they call ancillary revenue- airline revenue from non-ticket sources. This kind of revenue is also found in other industries in order to earn extra profits but it is particularly important on this business because it allowed the company to reduce prices which is the main objective.

Many people think this industry is new in the market but the truth is that it began with Southwest Airlines on March 16, 1967 in United States. This company was the first
to be considered a low cost carrier because it has some typical elements of this type of business like operating on secondary airports and having one kind of aircraft in order to reduce costs.

Cost reduction is the principal objective of this kind of airlines and something crucial for understanding how they work. To achieve this general cost reduction that aloud them to offer the lowest fares in the market they have to incur in several strategies:

1) A single passenger class: It is important because superior class needs food, and comforts that the aircraft and aircrew are not aloud to offer.

2) Single type of aircraft: This aloud the company to standardize procedures so costs go down. For maintenance is also important because companies would need the same pieces for reparations. This aircraft should also be medium size and efficient fuel. The most used are Boeing 737 and Airbus A320, also reducing the training and servicing costs.

3) Minimum set of optional equipment in the aircraft: It reduces acquisition costs and maintenance but also help with the fuel efficiency because lower weight represents lower fuel burning. An example of this equipment is entertainment, but also seat recliners, seat pockets and window blinds.

4) Secondary airports: They are cheaper because they have lower landing fees. They are also less congested.

5) Flying in morning or night: This is to avoid air traffic.

6) Fast turn around times: They are very difficult to manage because a flight needs a lot of time to organize everything and there are procedures that can’t be taken do to the security of the flight. But managing well this aspect represents lower fix unitary costs because more flights take off during less time.

7) Unreserved seating: The reason for this is that if the company wants to accelerate procedures they also need people to come on time in order to approach the aircraft faster.
8) Simplified routes: Emphasizing point-to-point transit instead of transfers at hubs (again enhancing aircraft use and eliminating disruption due to delayed passengers or luggage missing connecting flights).

9) Encourage direct flights: Because luggage is not automatically transferred from aircraft. It takes a lot of time and need more employees.

10) Direct sales of tickets: They want to sell directly because agencies cost take money. They want also to do it by internet because by this method they would need fewer employees.

11) Employees working in multiple roles: This limit personnel costs as they can work for example as flight attendants and also as cleaners or gate agents.

12) Aggressive fuel heading programs: this aloud companies that consume a lot, to fix a price for fuel and this way they avoid potential fuel rising.

13) Avoid using jet bridges: the stairway is a cheaper alternative and in some secondary airports is easier and faster to use.

14) Not refunds: In the case that a passenger miss a flight there are no going to be free transfers. He would have to buy a new ticket. (Wikipedia, 2011)

These are some of the strategies that low cost airlines use to decrease costs and create the possibility to offer low prices. Although airlines can choose which elements they are going to apply because if they use some characteristics of standard airlines they would differentiate from other low cost airlines. A good example would be to offer seating allocation because some people like to fly in the window and others in the corridor. There are also some big low cost airlines that use more than one aircraft to cover their routes, but not as much as standard airlines.

Low-cost airlines are also implementing ancillary revenue to finance low prices. Ancillary revenue is revenue from non ticket sources. In other words are all earning derived from something else than the core business. It has become a basic financial element of low-cost carriers and is also used in other industries. Many attribute this invention to Ryanair but the truth is that all companies in this sector
are doing very well with the “extra revenue strategy”. “Among the 47 airlines reporting, ancillary revenues – basically anything that’s not a ticket - totaled $21.46 billion in 2010. That’s nearly double the figure from 2008.” (Bender, 2011). This shows that ancillary revenues are something that airlines already realized that is very important for them so they are trying to do would look for all strategies as possible to increase it and they are being successful doing it.

There are three types of ancillary revenue:

1) The first one is called “a la carte features”: It consists of amenities that the customer can order before and during the travel. It includes beverages and food, this is the reason why Low-cost airlines don’t supply meals during the flight, they expect people to be hungry and buy food from them at a normal-high price. Other element of this strategy is only admitting small baggage, for the rest customers have to pay an extra amount an some airlines are very rigorous with this and for this reason in some airlines they also sell the appropriate suitcase. There is also the possibility in these airlines to choose the seat while doing the ticket purchase, but off course by paying an extra amount of money. Customers can also buy early boarding benefits, which is very similar to a regular airline service when you are on premium class. Finally they always charge for paying the ticket with credit card.

2) The second is called “commission-based products”: This are commissions that airlines earn for hotel accommodations, car rentals or travel insurance. This are mainly offered and purchased by the web but they can also be seen on board.

3) Frequent flyer programs: This refers to the opportunity that customers accumulate miles and can use them for other flights.

Understanding the previous information is very important for the project purpose because it is the reason why these companies are successful and exist. When we compare a typical airline and a low-cost airline there is a big price difference but
there is also a huge comfort difference. This is the same that customers are doing every day and the reason why they choose one or another. They have to sacrifice comforts in order to pay less, but how much would they give up? For how much money? These are some questions that marketers on these companies have to ask every day in order to implement strategies that give satisfaction to passengers so that they repeat the experience. When you offer a low cost service you have also be very careful because customers might try it for first time because of the low price that it provides but the problem is that if they would repeat it. Taking this into account we can say that there is also a risk for airlines when they offer things like a secondary airport. Secondary airports are far from the center of the city you which to fly, this mean that passengers of this airlines are scarifying time but also money because moving from the airport to the city costs a lot of money in some cases. To resolve this, marketers of some airlines as Easyjet have implemented strategies like the Easybus. This is a way to transport people from the airport to the city center so that they do not have to pay a very expensive modality, it provides comfort to the customer, but at the same time is an other way to work on ancillary revenue, that as it was mentioned before, it is one important form of financing this low prices. Offering this kind of services is a good way to fight against regular airlines competition, because this airlines strategy in many cases is to create customer loyalty by offering excellent services and working a lot on its image so that customers have an excellent pre-flying, in-flying and post-flying experience. If this Low-cost carriers don’t do this they would be very far in prices which is good and the main objective but they would be very far from the services that this airlines give to customers and this could make the different so that they decide to pay more to receive additional comforts. Another important topic that this companies need to work on is safety policies. As it was explained before governments have some minimum requirements that airlines have to follow in order to offer a secure service, but if people think on reducing costs they might relate it with reducing the maintenance to the airplanes, employing low qualified pilots and engineers, and buying low quality spare parts. For this reason the marketing department in most of this companies work in different aspects to manage
this situation. A good example is that many organizations operate only with Boeing
and Airbus aircrafts which are the best on the industry since the experience that they
have on the market is very long and the technology used in their products its
outstanding. They also try to use slogans like “fly cheap and safety” so that people fill
more comfortable and secure when making a decision to fly on a low cost aircraft. A
good statistic that endorse this behavior and policies that some of this companies
have is that Ryanair and Easyjet, the biggest low-cost airlines in Europe have not fatal
accidents on their history. This shows that their maintenance standards and their
pilots are good taking into account that they have thousands of flights each year and
they have been working on this market for more than a decade.

The last decade had showed that marketers and other departments in low-cost
companies are doing a good balance between what they offer to customers and what
they have to pay for it. The best way to know this is the evolution of the regular
companies and the evolution of low cost airlines because this shows that people are
doing fine with the services that these companies are offering and with the prices.
This can be measure with the market share evolution of this type of companies.

“Passengers travelling within the country prefer low cost carriers or budget airlines
over regular airlines and Air India. This was evident in the gradual increase in
market share of low cost airlines to 41.1 per cent during January 2011 against 34.3
per cent in the corresponding period two years ago and 39.1 per cent a year ago.
According to a research on “Indian Aerospace Industry Analysis” by Market
Publishers of Cyprus, India’s low cost carriers have registered the most impressive
market developments during the past few years and are further expected to
orchestrate 34.3 per cent CAGR growth by 2013, which is one of the highest in the
world.” (Simhan, 2011). This information is very relevant because it shows how this
companies are increasing their market share in India which is a country with a
enormous market because it has the second biggest population in the world and is
located near to China which has the largest population in the world. These two
countries represent about 38% of world’s population and China for example is trying
to create more tourism and make it one of the biggest industries of this country. If we consider this we could say that low-cost carriers tend to have an excellent future in a region of the world where the potential market is huge and where standard airlines are decreasing their market.

With the information exposed before we can conclude that low-cost airlines is an amazing business model because they entered a very difficult market that requires high amount of capital do to the price and high operational costs of aircrafts but also to the employees needed. It was a risky and nice challenge to enter an industry with this conditions and pretend to overthrow companies of million of euro’s and with a large history only by offering low prices. At the beginning this might sound crazy but it was the reality that began many years before, but that recover more force during this decade. This dream that began with Southwest airlines in the US 35 years ago is being successful and took an important place in the airline industry but is also important to say that its boom has been bigger in some regions on the world, do to different reasons that would be presented in the next chapter were Europe, and specially France market are going to be studied deeply.

3.4 Low-cost airlines in France and Europe

As it was told before low-cost airline history began with Southwest Airlines on 1967, for this reason US was the first country that had this type of business. Eighteen years after there were some companies in Europe that wanted to implement this business model and in 1985 Ryanair opened their business. Ryanair is Europe first an bigger low cost airline, it operates more than 1,400 flights per day from 44 bases and 1100+ low fare routes across 27 countries, connecting 160 destinations. Ryanair operates a fleet of 250 new Boeing 737-800 aircraft with firm orders for a further 64 new aircraft (before taking account of planned disposals), which will be delivered over the next 2 years. Ryanair currently has a team of more than 8,000 people and expects to
This graphic shows the excellent evolution of the biggest low-cost airline in Europe, beginning with less than 3 million passengers on 1995 and having over 40 million passengers on 2007. “In 2009 our traffic grew by 14% to 66.5m passengers as our average fare was reduced to just €35. We took delivery of a further 51 new aircraft as our fleet rose to 232 Boeing 737-800. We opened 8 new bases in Bari, Brindisi, Faro, Leeds Bradford, Oslo Rygge, Pescara, Porto and Trapani as we grew to 41 bases and over 940 routes. Our profits rose 200% to over €318m” (Ryanair, 2011). These numbers are amazing and reflect how the industry of low-cost airlines can increase their passenger traffic even in years of economic problems.

This last three years of economic crisis have been a problem to the airline industry because it has grown but in a small rate compared to the years before, but this increase was attributed in a big portion to LCC. “Eurocontrol said the number of flights in Europe rose just 0.8% year-over-year in 2010 to 9.49 million. It noted in a statement that growth was driven mainly by low-cost carriers, which saw an increase of 6.9% compared to 2009, though this slowed markedly at the end of the year.”
(Eurocontrol, 2011). This is another good example that shows that low-cost carriers are doing very well on the airlines industry. This crisis was a perfect opportunity for these companies to show their service because during this bad economical year many people choose to fly on a cheap way and low-cost carriers were the perfect solution.

As it was told before, this decade has been very successful for low-fare airlines and one of the reasons of this was the boom of this kind of airlines in Europe. This boom was the reason for creating an organization called the “European Low Fares Airline Association”. This society was created in 2003, representing some European low-cost carriers like Vueling, Easyjet, Ryanair, Transavia, Flybe, Jet2, Wizzair, Air Berlin, etc. Its objective is to identify politics that affect the sector and promote the common interests.

On graphic 3 we can see a market share evaluation made by York Aviation which is a very serious British consultant company. It was done by Using an assumed load factor of 80% for LFAs, based on statistics from the European Low Fares Airline association (ELFAA) website, and 70% for other airlines, in line with data on load factors from the Association of European Airlines, we have estimated LFAs’ market share in terms of passengers. (Brass, 2011)

Graphic 3- Low-fares airlines annualized passenger market share. 2005-2010

Source: York Aviation analysis of OAG data
The results shown on this graphic represent the amazing evolution of the passenger market share between low-fare and full-service airlines in Europe. It clearly show that on 2005 the airline industry was dominated in a 76% by regular airlines and low-cost carriers had 24%, which is an important number considering that at the beginning of this decade they had probably 10%. On 2010 low fare airlines had the 38% of the market share and other airlines had the 62%. This means that if the evolution continues at this rate on 2015 low-cost carriers would be leaders in the European market.

In the European market there are relevant countries that represent a lot to this market. It is the case of United Kingdom which is probably the most influential region on this industry. It is place of birth of Easyjet (second biggest low-cost carrier in Europe) and being the European country with more low-fare carriers.

Another country that has huge influence in the low-cost airline industry and the one that is going to be more relevant for this project is France. The reason is that this is country the country that has more cities being attended by this kind of airlines. (Euroflight.info, 2011), in a market that transports 150 million passengers a year in Europe. “As in many other domains, the French approach to low-cost carriers (LCCs) is enigmatic. Travelers, although increasingly familiar with the low-fares/no-frills formula, do not openly admit they are ready to make concessions in order to slip away from legacy carriers. Perhaps for reasons of status or self-esteem, they remain uneasy confessing to friends or colleagues that the rock-bottom prices of LCCs are difficult to resist. But traffic numbers unveil the LCCs' true story. They keep growing-they even did so in the past 2-3 years while eluding the airline industry's downturn and despite Air France's mighty market presence.” (Sparaco, 2011). This shows that France is a growing market and one of the reasons is the location and tourism sector. It is bordered by Belgium, Luxemburg, Germany, Switzerland, Italy, Spain, Andorra and very near on the north with England, which are important touristic destinies. The other important fact is that France is ranked as the first tourist destination in the world, with 81.9 million foreign tourists in 2008. (Tourism infos stat, 2008). This is
due to the beaches, seaside resorts, ski resorts, and rural regions were people can enjoy tranquility, for this reason the French government have invested a lot in the transport infrastructure specially in the main cities like Paris an Toulouse.

France is also the country with Spain that has more low cost airlines operating on it. (Euro.org, 2011). This is a very relevant statistic because it shows that the low-fare carriers from all places of the world are reaching this gorgeous market. For the attractiveness of this market the marketing research of this project would focus on France and its customers, taking into account that people in this country appreciate low-fare carriers. Looking at the point of view of these companies would be helpful to understand why this industry is so successful. It would be also good to see what strategies that companies are using in this country can be used in other countries that are not so developed in this sector like South America.

3.5 Low-cost airlines in South America (Colombia)

If we compare South America and Europe we would see that the first one is less developed than the second and one of the reasons is that the infrastructure in the new continent is many years behind. The infrastructure problems that we found there have all types of repercussions but they mostly affect transportation. Transportation among most South American countries is critical. One of the reasons for this is that there are countries, like Colombia, that have a very aggressive geography with lots of mountains where it is very difficult to create a good road system. This is also the reason for the lack of a train system which is one of the main modes of transportation in Europe. If we take into account the difficulty of creating rail systems in most of these countries do to the mountainous land, we could say that one of the logic solutions for transportation among this countries would be a good air transportation system. In South America there are big airports and there is access to many cities, but the problem with the air transportation in this big continent is that it is too expensive. One of the problems for the high prices that airlines offer in this continent is the long
distances between countries, but if we look a normal regional short distance flight it is also very expensive compare to one in Europe.

The airline industry in South America is mature and old, a good example is AVIANCA, the biggest Colombian airline, which was the first one in America, and the second oldest in the world, created in 1919 after the Dutch airline KLM. This shows that this is an experienced industry in this region but they haven’t reached the prices that people expect.

For the reasons exposed before, we can say that the South American market is looking for cheapest airlines that can offer the prices that people are expecting. As a result of this there are some low-cost carriers that have entered this market. At this moment Europe has about 45 low-fare airlines and Asia have about 43, but South America has only 13 airlines that are considered low-fare, even though some of them are not “complete” low-cost carriers. A good example would be to compare AVIANCA and Aires in Colombia, this are the two main airlines in this country, the fist one is considered a full service airline and the second one is considered a low-cost carrier. In practice Aires gives beverage and food during the flight, this is not a characteristic of low-cost airlines because it is one of the main strategies to reduce costs but also to have the possibility of creating ancillary revenue. For this and other reasons if prices are compared it is true that it is cheaper but the difference is very short so we can say that some of these airlines are also expensive for customer expectations.

With the information exposed before, it is very visible that the European and the South American market are extremely different in the airline industry. One the first market the low-fare carriers are taking market share to the full-service airlines and seem to be the future of this industry at least in short-medium distances. But in South America it is a new mode of traveling with an uncertain future because the companies that have reached this market are not complete low cost airlines and are not so big as some in Europe like Ryanair and Easyjet.
4. Marketing Research

4.1 Methodology

Marketing research is the function that links the customer and the marketer thought information to identify and define marketing opportunities and problems. “Managers need information in order to introduce products and services that create value in the mind of the customer. But the perception of value is a subjective one, and what customer’s value this year might be different to what they value next year. As such, the attributes that create value cannot simply be deduced from common knowledge. Rather, data must be collected and analyzed. The goal of marketing research is to provide the facts and direction that managers need to make their more important marketing decisions.” (Quick MBA, 2010). This is a perfect definition that explains why this project needs a marketing research. Doing this study is ideal to understand what consumers like and don’t like about low-fare carriers, and why they are so successful on France. After this it would be more appropriate to make suggestions and find limitations about these companies in South America and also find what could be the future of regular airlines.

Marketing research has different methods depending if they are going to be based on questioning or observation. For the purpose of this project it was considered that it was better to base the research on questioning. The reason is that by observation it is possible to understand processes, how people interact with an environment and their behavior toward something. But for the project objectives it is more important to understand what the consumer thinks about the service that they are receiving, what do they perceive. After deciding that the method is going to be based on questioning, it is also important to decide if it is going to be a quantitative or qualitative market research. The first one is interesting because has a bigger sample and is easier to analyze with statistic and general results, but for this project it is going to be applied the second method because using this one, customers could be interviewed deeply
and it would be possible to hear their opinion. With this technique they answer questions but they are also aloud to say what they like, what they do not like and also make suggestions so is an extended way to understand customer pretensions. Appendix 1 shows the format that is going to be use for the interview.

4.2 Data analysis

After doing the interviews, each question was analyzed separately looking at the differences and similarities found in the answers of the interviewed people. The results and analysis done are going to be exposed on this section and in the next segment there would be some recommendations and limitations based on the outcome of the interviews.

After interviewing 12 persons there were many interesting facts that support the hypothesis exposed at the beginning of the project. The first segment of the interview was very interesting and important because it was a general overview to see what type of customer it was, in this segment it was also possible to found if the person has a relation or know the low-cost business. In this section it was also possible to found their favorite modality of traveling. As the people interviewed are students between 22 and 28 years old, most of them mentioned that their main reason for traveling is tourism and also visiting their home cities. When they were asked what was their favorite mean of transportation most of them answer that it depends. For a long distance they prefer to do it in aircraft but if the distance is not so long they prefer to do it in train. “When I am going to travel a medium distance I prefer to do it in train, but when I am going to travel long distances I prefer to do it in airplane” then this person was asked why this preference and what was a short distance for him. “For me a short distance is 4 hours or less and I don’t like going to airports because they take a lot of time, its boring and airports are far but trains travel to the center of the cities so it is easier to get home” This shows that train traveling has some advantages that
many people consider very important and that are difficult to compete with, like the distance from airports to the city center. But as it was explained at the beginning some low-fare carriers are offering some vehicles to take travelers to the city center, this way they are offering more comfort but it works also as ancillary revenue.

This first segment was also important because when people were asked if they always travel in the same modality when going to a specific destination, they showed a loyal behavior or preference. “When I am going to some places in Europe I already know how I must travel and I never change because if I change I might have some problems.” This can be seen as a problem for companies like low-cost airlines that are growing so fast because they are creating new destinies with new offers but if people are not looking at other possibilities they are not going to be taken into account. For this problem what these airlines should do is not only offer good prices and new services but do a good marketing campaign with advertisements that make potential customers open their mind and take a look to alternatives.

The next questions of this first segment were about the relation and the knowledge that the interviewed people had with the low-fare carriers business. They are very important questions because if the a person have experienced this kind of transportation mean the interviewer would know if he can go more in depth with the questioning. But even if they didn’t know these companies, they could continue the interview because they can mention important facts that they like of other modes of transport but they could also say what they like and do not like about standard airlines and what would they changed. In this case all the interviewed people knew the industry and most of them have travel in this kind of airlines. One reason for this was that they are students and this is a segment that these kinds of companies are looking for. “Yes. They are airlines that offer tickets with prices much lower than other airlines.” When they where asked how was the experience with low-fare carriers most of the comments were positive. One of them answered “The first time I traveled in one low-cost airline I thought it was not going to be a nice experience because I thought that this airlines had old aircrafts but after that I was surprised because it
seem to be new.” With this answer it is possible to see that the experience of people that travel in this airline is good in most of the cases but it is probable that some people haven’t try this kind of airlines because they link the prices with an old and unsafe aircraft. When they were asked if they use to travel more in full service or low-fare carriers, there were all kind of answers but it was relevant the fact that some of them told that on the last years they have traveled more in low-cost airlines than years before but they are also related with Air France. The following was the answer of two interviewed persons to the same question. “This year I have traveled more in Easyjet than I did years before, and I think I am going to continue traveling on it when I do it by air. The other answer was “I have traveled more in Air France because it covers the flights that I need, but since I traveled for first time in Ryanair I have used it more and more” The main reason that some of the interviewed people also mentioned Air France as one of the main airlines that they use is because most of the interviews were done to French students which know this airline since they were born.

The second section of the interview was very important for the project because people were asked about the importance and their perception of the basic elements that make the difference between standard airlines and low-cost carriers. On this segment it was possible to confirm that these customers attribute their decision of flying in a low cost airline to the price, even if they do not receive so many comforts as in other airlines. In most cases they mentioned that for them not receiving food and beverage and not having the possibility of choosing the seat freely was not a big deal. “For me it doesn’t matter that they do not serve food and beverage because, I either like other airlines food. When I flight it is not for long distances so I can do it fine like that.” But on the other hand, some of them, especially one, mentioned that landing on secondary airports was the main problem of these airlines because it takes time and money, and he was also mad because he told they deceived him. “One day I was going to Barcelona and when I was going to buy the ticket it said it was to Barcelona. When I was on the flight everything was okay, but when it landed I wasn’t in
Barcelona, it landed in Gerona, I didn’t understand what was happening and then I had to pay like 16 euro’s to go to Barcelona in a bus.” This person seems to be very mad with the airline for logic reasons, what happened to him is that some low-cost airlines are changing the name of the airport. For example they say Beauvais-Paris and people that do not know buy the ticket but to go from that airport to the center of Paris there is more than one hour. This is a very big problem for these companies because not all of them use this strategy so their reputation can be seriously affected. This section was very useful because regular airlines tickets are more expensive and one of the reasons is because they deliver food during the flight, but for short distances many people prefer a low price instead of food, and this gives also the opportunity to create ancillary revenue.

The third segment of the interview was a section where people were asked about the future of the low-cost airline industry and also how would they make them better. This is basic and crucial information for a marketer among these companies because they need to know what the customer is looking for. To the first question most of them see a positive future to the low cost airlines. “I think low-cost airlines are an innovative idea that would succeed on the future because people are always thinking on their economy and this is the cheapest way to travel. If you compare a train ticket with a low-cost airline ticket you can see that for traveling from on country to another it is faster and cheaper so I don’t see why they could fail.” In this answer it is possible to find once more the importance of the price, in most of the interviews it was possible to found that people are thinking in the price as the first condition to travel.

When people were asked what could low-cost carriers do to be better and improve their image, some of them told that they could land on secondary airports but not when they are too far from the city because that means large extra costs. They also mentioned other operational things that we saw before, but what was more interesting is that some of them mentioned that these airlines had to change their image in some cases. “I think many people that haven’t tried low-cost airlines have a very bad
image. When somebody talk to you about something that is low cost you are going to relate it with very low quality and I think on this industry, companies have to be very careful with that because no body wants to fly in an old and unsafe airplane. When I have seen advertisements about low-cost airlines I have always sawn that they talk about low prices and more low prices but for me they should also show that the airplanes are very new and relate everything with the flight security.” This kind of comments are very important because they show that people are not receiving all they expect from low-cost advertisements and this could be one reason why some people keep flying in standard airlines. After looking at the interviewed people answers, it is possible to say that when a customer try a low-cost airline their image change and its experience is much better to what they were waiting. For this reason, one of the main challenges this airlines has, is to make as much people they can, to try their service.
5. Conclusions

5.1 Airlines industry trends

After doing a lot of research and interviewing people it was possible to found a lot of relevant information useful to make conclusions about the possible future of low-cost and regular airlines in Europe and South America.

The information gathered during these months shows that low-cost carriers numbers are very positive. These companies are increasing their market share while regular airlines are decreasing it. The main reason for this is that the biggest determinant for choosing an airline for French and other European people is the ticket price. If they found a very competitive price for the date that they need to travel they would purchased immediately, in some cases they would even change their initial date if the price is really good. Comforts have become a secondary condition especially for short-medium flights because during this ones people can wait with out food, in a economy seat and without choosing it.

If we consider the information mentioned before, we can say that this cost leadership strategy is working very good and as a result of this, the future of short-medium flights could be only attended by low cost airlines. In this case, what standard airlines could do in the future is to create another company that attends the low-cost carrier demand. This way they could compete in this kind of flights market but conserving their leader position in other segment. One good example of this is occurring with Singapore and other airlines. “Singapore Airlines has announced its intention to establish a no-frills, low-cost subsidiary airline for medium and long-haul routes, to begin operations within a year. According to SIA, the new airline, yet to be named, will enable the carrier to serve a largely untapped new market and cater to the growing demand among consumers for low-fare travel. Another Asian full-service carrier planning to launch a low-cost carrier is Thai Airways, which announced last year a joint venture partnership with Tiger Airways to establish Thai and has now
decided to establish their own low-cost subsidiary as well.” (Haridasani, 2011). This news is very recent and validates the hypothesis exposed at the beginning of the project.

Looking toward the South American market, which is less developed than the European; airlines in general have a lot of possibilities to grow due to the lack of important train systems and bad conditions of roads in many of this countries. One of the biggest challenges that airlines have in this sector is to try to increase the traveling customs of the South American people that is much lower than the European. One of the main reasons for being so low is that people among these countries always relate traveling with high prices because they have always been very expensive. This is an important element that shows that low-cost airlines may have a high potential in this difficult market. In a market like Colombia it could be very risky to create a complete low-fare carrier because it would implement drastic changes that people may not like. For the good conditions that this market seems to have, the biggest European low-cost airline is going to enter this market. “Low cost European carrier RyanAir will be entering the Colombian market in 2012 if regulatory approval goes according to plan. RyanAir, famous for incredibly low base fares — such as, for example the £ 7 UK fare from Liverpool to Oslo currently advertised on its website – has an interest in the recently formed VivaColombia airline. VivaColombia will be modeled on the RyanAir and Spirit Air template, with low base fares but moderate fees for services normally provided free of charge on full fare airlines.” (Case, 2011). This recent news is very important for this project because in few years it would be possible to prove if a successful firm in France and Europe would make it in a market like Colombia, and one of the project hypotheses would then be tested.

5.2 Recommendations

With the information gathered for this project, it is possible to see that customers are doing well with many decisions taken by low-cost airlines in order to reduce costs.
But there are also some decisions were these airlines have to be careful especially in new markets like Colombia. For example some people consider landing in secondary airports to be a problem because in some cases it is very difficult to reach the city were they want to go. This might be a problem for the new airline were Ryanair is going to be the principal investor because people in Colombia have always landed in the principal airport of the city they want to go. If this company is considering entering this market with this strategy they should develop also a plan to also offer a service so that people reach the main city, because if they don’t, they would fail.

In countries like France many people know that low-fare airline prices are very low, that it is real, but in Colombia and other South American countries, they think very different because some “low-fare airlines” offer very similar prices to full service ones. For this reason it would be very important to do advertisements focusing a lot on showing the ticket price to change people idea of these airlines.

In Europe this is a time were low-cost carriers have to try to get the largest market share they can. This is an optimum moment because these companies are having an important growth rate, but in future years other huge standard airlines would make better strategies to compete against them because they are realizing that there are some sectors were price is the only element that matters, as it was shown before, leaders of the airline market as Singapore Airlines are creating companies focused only on competing in this segment.

5.3 Limitations

When entering a market like the Colombian, companies must understand that people in this country think very different from European countries like France. In this nation’s people are accustomed to land far from the city centers even if it is a principal airport, the reason for this is that most airports in Europe are far from the
city, but in South America airports are much closer. Countries like Colombia only have one airport per city, so if low-cost airlines want to reduce costs by landing on secondary airports they would have to do it in close cities. This is a huge risk because people in most South American countries know that going from one city to another is not easy do to the lack of metro and other transportation systems. As a result of this people may refuse to accept this condition so these companies should do studies to see if they could reduce costs by implementing this strategy or if they would have to land on principal airports.

As we saw before the way of thinking, do to the transportation conditions, is very different between Europeans and South Americans, but other problem is also the tourism rate. People in Europe travel more than in South America and one of the strategies in all airlines, especially in low-cost carriers, is to have all seats occupied. If there is not so much demand to satisfy the low-cost market, companies would have to offer lower prices than in Europe and as a result of this they can fail in this market.
6. Bibliography


Appendix 1- Interview Guide

Interview Guide

Introduction:

First I want to say thanks for coming and taking the necessary time to do this interview. My name is Simon Villegas. I am a Master Grand Ecole student at Rouen Business School and I am doing a research project on low-cost airlines. For this reason I would like to talk to you about the experience that you have with the transportation business, especially with low-cost airlines.

This meeting should take less than 25 minutes. The purpose of this interview is to try to get all the details from you that are related to the project purpose, which is finding the preferences of customers, in order to understand why France is a successful country in this business and have an idea on its future and viability in the South American market. I assure you that your name would not be linked to the project. This means that that any information included in the report, does not identify you as the respondent.

Is there are any questions before we begin with the interview?

Questions:

1) General Overview
   a. Why do you travel?
   b. How often do you travel? Do you always travel the in the same modality to a specific destination?
   c. With whom do you travel?
   d. What are the different modalities you travel in? Which one do you prefer? Why?
   e. Do you know what a low-cost airline is? What do you know about them?
f. Have you travel in low-cost airlines? How was your experience? Do you buy supplementary products or services during or before this flight (food and beverage, choosing seat, early boarding benefits, etc.)?

g. Do you travel more in regular airlines or low-cost airlines? Why?

2) Perceptions

a. How important is for you to receive food during a flight? Why?
b. How important is for you to select your seat for a flight? Why?
c. How important is for you to land in a principal airport? Why?
d. Is your baggage a problem when you travel? Why?
e. Of the following elements which one is the most and least important for your decision making when choosing a flight: Flight schedule, price, baggage availability, food and beverage during flight, landing on a principal airport?

3) Trends and thoughts

a. How do you think is going to be the future of low-cost carriers?
b. How could low-cost airlines be better?

Closing:

4) Is there any comment that do you want to add to the interview?

Thanks for your time. Your information it’s going to be analyzed and would be very useful for this project.