AIRLINES MARKETING

" A CASE STUDY OF THE MIDDLE EAST AIRLINES "

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" TO MY PARENTS "

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ABSTRACT

The research was carried out, to examine the marketing practices of the Middle East Airlines and if need be to reccommend effective marketing techniques to improve their performance.

The thesis is comprised of two main parts, namely the literature review and the field work. The literature review encompasses chapters two, three, four, five and six where defaults of previous works were reviewed.

The field work in chapter seven consists of case studies of three Middle East Airlines, namely, Royal Jordanian, Gulf Air and Emirates Airlines. In the fieldwork, unstructured in-depth interviews were conducted to examine the hypotheses.

The results indicated that the marketing strategies of these airlines are ineffective due to lack of market orientation and market research. The results also demonstrated that these airlines tend to be rather limited in attracting tourists and business travellers.

The concluding chapter puts into perspective the general "scenario" and the interacting forces with the airlines in the Middle East. The researcher has recommended the adoption of proper marketing techniques to gain competitive advantage. This has been presented with the four Is:-

Information gathering, Identification of target markets

and objective setting, Integration of strategies to achieve objectives and the obsession of 'Intent" to motivate and attain long term success.

CHAPTER FIVE: "INTERNATIONAL BUSINESS TRAVELLE ("

CHAPTER SIX: "AIRLINES IN THE MIDDLE EAST"

CHAPTER SEVEN: "CASE STUDIES OF THREE MIDDLE EAST

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INTRODUCTION

" IT IS BUT TO BE ABLE TO SAY THAT THEY HAVE ʒEEN TO SUCH
A PLACE,OR HAVE SEEN SUCH A THING, THAT, M)RE THAN ANY
REAL TASTE FOR IT, INDUCES THE MAJORITY OF ʒHE WORLD TO
INCUR THE TROUBLE AND FATIGUE OF TRAVELLING ..."

MARRYAT ʒ

'1.1 RESEARCH BACKGROUND

During the past few years the Middle East airlines have achieved only a low rating in terms of success. The researcher's interest was aroused concerning possible reasons for this situation. Being a Jordanian who had an interest in marketing, he wished to investigate any problems affecting the performance of Middle East airlines, especially since there has been such a decline in their sales that a state of stagnation or no growth had resulted.

The researcher wanted to examine these problems to discover whether a lack of marketing orientation adversely affected these airlines and, if so, to assess the extent to which the adoption of a marketing philosphy could assist in effectively improving their performance.

1.2 THE OBJECTIVES OF THE STUDY

The aim of this study is to examine the means by which the concept of marketing could be applied to the air transport industry. It also aims to consider the effects of regulation and deregulation on air transport marketing. Accordingly, it attempts to explore the various marketing functions of the airline industry, including strategic marketing planning within the complex background of a variety of environmental factors. It sets out to study the business traveller and leisure traveller

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markets as two important segments within the airlines industry. The marketing strategy planned and adopted by three Middle East Airlines is examined and an attempt is made to show the degree of success or failure achieved by employing their current marketing strategies and to indicate how, by adopting a wider view of their markets and their product, these airlines could improve their competitve standing vis-a-vis other major world airlines and enable them to maintain future growth. Specifically, the objectives of the research are as follows:

- To study the effects of the regulatory and deregulatory framework of the international airlines on the marketing policies of the airlines.

- To explain what is involved in the marketing of services.

- To examine how the concept of marketing can be applied in the air transport industry.

- To highlight the interrelationship between air transport and tourism and to stress the importance of the leisure travel market to the airlines business.

- To study the airline and tourism marketing planning concept.

- To examine the importance of the business travel market to the airlines.

- To examine the development of the Middle East airlines and study in detail how they develop and plan their

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marketing strategy and their involvement in tourism.

- To study the external environment of the Middle East
airlines in order to determine the extent to which the
airlines are aware of the changing external environment
and its potential impact on their business. The internal
organisations of these airlines are also to be examined in
order to make a considered assessment of their marketing
programs, their organisation, and information and control
systems.

- To examine how marketing-oriented the Middle East air-
lines are - particularly by analysing the amount and scale
of market research of various kinds carried out by these
airlines in order to discover the needs and wants of the
market and further, to find out how these airlines segment
their passenger market and the kind of target marketing
strategy they implement.

- To discover if the airlines, by pursuing such a
segmentation and market targeting strategy, have en-
countered any problems or difficulties in serving these
segments.

- To find out how the Middle East airlines make use of
each of the marketing-mix elements - product, price,
distribution, and promotion - in attempting to serve the
different market segments they have chosen.

- To assess how far the Middle East airlines have
contributed to the promotion of tourism in their

- To offer some recommendations concerning the application of future marketing strategies by the Middle East airlines.

1.3 HYPOTHESES OF THE STUDY

Two main hypotheses are submitted by the researcher:

(1)   that the current marketing practises of the Middle East airlines are ineffective due to lack of marketing orientation.

(2)   that the performance of these airlines could be improved by evaluating and thereafter modifying their current marketing practices to meet modern requirements.

1.4 RESEARCH METHODOLOGY

The study undertaken was conducted through primary and secondary research.

The secondary research provides the necessary background information on the world airline industry, dealing for example with such matters as the regulatory and deregulatory framework of the international airlines. Some aspects of airline marketing are looked at in particular depth, and the various functions of marketing and marketing planning in the industry are described in detail.

The secondary data was gained through intensive research of the available appropriate material including text books, published and unpublished research studies and surveys, annual reports, periodicals, market intelligence

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and the records of the Middle East airlines and tourism organisations. Background information regarding the development of the airlines under study was also obtained from secondary sources.

In order to gain in-depth knowledge concerning the external and internal environment and the marketing strategies adopted by the Middle East Airlines and their involvement in tourism aspects, primary data was obtained through field study.

The primary research was carried out by means of a case study of the three Middle East airlines, Emirates Airlines, Gulf Air and the Royal Jordanian Airline. The reasons for choosing these airlines as the basis a case study are explained in chapter 6. The information required was collected using a qualitative personal interviewing method so that in-depth knowledge of these airlines could be acquired.

Based on both the secondary and primary research data, recommendations concerning the future marketing strategy to be adopted by the Middle East airlines is provided at the end of the thesis.

1.5 ORGANISATION OF STUDY

The thesis is divided into eight chapters. It is organised in such a way that the various chapters follow a logical pattern and an orderly flow of appropriate analysis and comments, so that the reader will be be given

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a general background view into more specific areas.

To this end, chapter two begins by the definition of regulation, its nature, the causes of the imposition of regulation and examining the regulation of scheduled and non-scheduled air transport. It also discusses the arguments against and with regulations. Further, the chapter discusses issues of government regulation constraints on marketing activity of the airlines and highlights the reasons why this is so. In addition, chapter two also describes regulation as being an area where significant changes have come about in recent years; here the deregulation aspects of air transport in the US and the impact of deregulation on the airlines, business and tourist travellers, competition, and marketing aspect of the airlines are reviewed.

It also highlights the impact of deregulation on Europe, Middle East and the rest of the world. Then the chapter goes on to examine what the consumer want from the air transport market and the changes in the marketing strategies under deregulation with emphasis on the importance of Computer Reservation System.

In chapter three, the principles of marketing of services, its features, the difference between goods and services, marketing programmes and system for service industries, marketing segmentation of services and the marketing mix are appraised. Subsequent to this, the chapter underlines the difference between marketing of

travel and tourism from other services and examines the marketing segmentation of the travel and tourism industries with particular emphasis on the airlines market segments. Thereafter the role of marketing in air transport and the role of air transport in tourism are considered.

Chapter four deals with the marketing planning concept in the airlines industry. It investigates the formations of the airlines marketing strategy and marketing mix strategies. The integration of the marketing strategy between airlines and tourism is also discussed.

Due to the importance of the business traveller market to the airlines business, chapter five is devoted to scrutinize the business traveller market, its requirements and needs, sub-segments and the general marketing approach and strategies to win over this vital airlines target market.

In order to provide the reader with a background knowledge of the marketing practices of the Middle East airlines the next chapter, chapter six, examines the devolopment of the Middle East airlines in general and more specifically highlights the development, performance and marketing problems of the selected airlines (Gulf Air, Royal Jordanian, Emirates Airlines).

Chapter seven begins with a description of the primary research methodolgy, and develops into a discussion of the findings, analysis and results collected

from the personal interviews in the primary research. Whereas all the materials from the preceding chapters are based on secondary research, all the information in chapter seven is obtained through primary research, by personally interviewing the management staff of the airlines understudy. This chapter aims hopes to find out the marketing practices and strategies adopted by these airlines and the extent to which those strategies and practices are effective.

Finally, Chapter eight, the concluding chapter discusses a number of problems, perspectives and formulates recommendations for the Middle East airlines, especially regarding their competitive position, based upon the knowledge obtained from both secondary and primary research.

1.6 LIMITATION OF STUDY

In the course of conducting this research, a number of obstacles were encountered which constituted constraints affecting the researcher's work.

Some of these constraints were imposed by the fact that some of the material was outdated. As a very limited amount of work has been carried out on the Middle East airlines, there was a dearth of information and much of the material collected did not apply to the current situation. This was aggravated by the fact that some of the current materials are written in Arabic. Although the

researcher is an Arab and therefore capable of interpreting such material, it is possible that an element of bias was introduced when the material was translated into English.

Further the very little research which has been carried out has little or no bearing on the marketing aspects of the operations of the Middle East airlines.

Another major problem was gaining access to the Middle East countries. The availablility of permits to allow conducting research in these countries and collecting information constituted a major constraint for the researcher. This was primarily due to the prevailing political instability.

With reference to the limitations of the primary research, the following should be noted. Since the interviews were tape-recorded, the obvious pitfalls of such a procedure naturally followed. These included:

1. The respondents' inclination to modify their behaviour, when they feared they were being tested;

2. The use of native speech in many cases, with the consequent possiblity of errors in translating responses exactly into English.

3. The interviewer's overanxiousness to succeed in being objective, resulting in over involvement and perhaps introducing a degree of personal bais.

4. The limited time for interviewing allowed the respondents perhaps produce "accommodating answers".

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Finally, there was the constraint derived from the
limited amount of funds available for conducting this
research.

1.7 CONTRIBUTION OF RESEARCH TO THE INDUSTRY

The researcher concludes that there is a need for
the Middle East airlines to be marketing-oriented.

It is further shown that the primary reason for the
decline of the airlines is the lack of strategic
orientation, which is due to the lack of marketing
research and segmentation and targeting of the market. All
this a reflection of a lack of realization of the
importance of market appreciation.

One of the ways to improve an organisation's
performance is to be aware of its strengths and
weaknesses. This research has identified the weaknesses
existing within the Middle East airlines, in the light of
which knowledge they can improve their performance.

In addition, the researcher has made recommendations
which the airlines can adopt so that they can become more
marketing oriented. It is envisaged that the application
of the recommended marketing approach can provide
effective improvements in the overall functioning of the
Middle East airlines.

CHAPTER TWO

INTERNATIONAL AIRLINES - THE REGULATORY AND DEREGULATORY FRAMEWORK

" HOWEVER THE LAW, TO MAKE IT A MYSTERY AND A :RADE, MAYBE

WRAPPED UP IN TERMS OF ART, YET IT IS FOUNDE) ON REASON,

AND OBVIOUS TO COMMON SENSE "

BUCK :NGHAM

2.1 INTRODUCTION

The airline industry in all parts of the world is
subject to a high degree of governmental control in both
its international and domestic operations. Given its
unique character, and considerations such as reliability,
safety, and international reciprocity, commercial aviation
has traditionally been the object of extensive regulation.
So a thorough description of the role of government
regulation and its implications for marketing is essential
in order to understand the application of marketing to
the airline business.

It is the aim of this chapter to deal with
regulation as it affects marketing; to explain the
importance of regulation in aviation in order to give
insight into what some of the consequences of regulation
have been for airline marketing. Also, this chapter will
describe the regulatory environment in general.

The second part of the chapter will examine recent
changes in the industry moving towards an environment of
deregulation, and consider deregulation from the view
point of airlines ,governments and consumers in both the
developed and developing world.

2.2 THE DEFINITION OF REGULATION AND ITS NATURE

According to Shaw (1982), regulation in air transport
can be defined as the attempt by governments or their
agents to ensure that certain objectives are met which

might not be met under the operation of free market forces. In other words, regulation is government intervention in the working of the industry.

O'Connor (1971,1978) argued that the term regulation in air transport may include regulating one or more of the following: The right of entry and exit,i.e. the right to establish service at a point; the type of service provided, "scheduled or charter", the route to be followed, the frequency of service, the size of the aircraft and the fares to be charged. These factors have impinged on pricing as "marketing decision". Regulation has frequently been imposed with the aim of eliminating all price competition. As a result, the effects of regulation in air transport in providing a constraint on marketing are not in doubt.

2.3 THE CAUSES OF THE IMPOSITION OF REGULATION

With the growth of the air transport industry, regulation whether of national or international routes, has become necessary for a number of reasons. First, and the easiest to deal with, is safety, Keith-Lucas(1973) pointed out that by all the rules, flying has no right to be safe, due to the nature of the vehicle.

According to Wheatcroft(1964), safety is one important aspect. Government has laid down rigorous standards of airworthiness, maintenance, aircrew qualifications, flying hour limitations and other

operational requirements, all of which are designed to ensure the highest practicable level of safety in airline operations. Regulation for this purpose are not unique to air transport. But the potentially disastrous consequences of the smallest relaxation of standards in the operation of aeroplanes has, quite rightly, led to a higher degree of safety regulation of air transport compared with other forms of transport. Due to the fact that safety in relation to the air transport cannot be absolute. Ramsden(1976) argued that regulation of markets to ensure that entry is restricted to those firms which can demonstrate their ability to operate safely has been and remains non controversial.

Edwards(1969) asserts that a high degree of competition is in itself dangerous, due to tendencies to cut corners with respect to safety in strongly competitive conditions, for example Pan Am in 1987 was fined for not adhering to maintenance schedules. Also more recently, in 1989 Pan Am was fined for not adhering to safety and security standards.

The second fundamental reason for regulating air transport is that the natural economic characteristics of the industry are such that, if left unregulated, the airlines would almost certainly fail to meet the broad objectives of public policy. According to Wheatcroft(1964), the most important economic characteristics of the airline industry are:

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1. The natural conditions of supply are inevitably oligopolistic; it is impossible to envisage air routes being served by more than a small number of airlines (apart from on the North Atlantic routes).

2. Economies of scale do not act as a natural barrier to new entry.

3. The possibilities of effective product differentiation are relatively limited.

In the same spirit, Shaw(1982) pointed out that the economic characteristic of the industry are such that barriers to new entrants are quite low in aviation,given that second hand aircraft are easily available. In addition, unlike other forms of business, airline can begin service without large investment in trunk and terminal facilities. This, plus the fact that product differentiation on the part of competing carriers is held to be difficult in any way other than in terms of price encourages price-cutting within the airlines, with the likelihood of price- wars occurring. This likelihood will be strengthened by the fact that airlines costs are largely fixed in the short run. Thus, there is a strong incentive for airline management to reduce prices and remain competitive, in order to obtain all the revenue they can, to help cover costs which will be incurred anyway. An industry with such characteristics, if not regulated, will result in an explosion of market entries

and then successive rounds of price-cutting will occur in a freely competitive market. This may work in the consumer's interest in the short run due to the low price available. In the long run, however, airline bankruptcies will occur which will in turn affect the customer due to service disruption.

Another primary reason why air transport is a highly regulated industry is that it is a quasi-public utility as it promotes regional accessibility within a country, provides the communications essential for international trade and commerce, and, through air freight, the physical means by which an increasing amount of trade is accomplished. Because of the public utility aspect of the airline services competition is controlled.

Another major reason for regulation is that it must be exercised to protect scheduled services. Shaw(1982) pointed out that it has been a traditional argument in favour of regulation to say that scheduled services are essential to any air transport system which adequately meets consumer needs, and that free competition will result in such services being undermined. In the absence of control, it is likely that all markets will be well served at peak times when many carriers will be able to see opportunities for worthwhile participation. However at off-peak times, service may be discontinued, which causes inconvenience to all those wishing to travel outwith these times.

Where regulations are in force, however, a number of the carriers can be designated to provide scheduled services. These can then be protected from competition during the peak periods, on the understanding that they will in turn offer regular, reliable, year-round services.

Another argument follows the line that a wide route network has often been subject to regulation by governments as an important aspect of airline operations, bringing as it does advantages of convenience to travellers and maintenance of regional accessibility. There are certain routes which are commercially nonviable, but nevertheless socially desirable. In this respect, government support is required to maintain the unprofitable services. If free entry and exit is granted to carriers, they will ignore the less dense routes which are unprofitable, and concentrate on the popular routes.

Competition in serving the high- density routes will result in increased costs, with traffic spreading thinly between all the operators on a route resulting in revenue deterioration and possibly carriers' bankruptcy.

The arguments regarding safety, the economic characteristics of the industry, public utility, the protection of scheduled services, route networks, and maintenance of social services can be applied to all air transport networks both domestic and international. However, according to Shaw(1982) there is a final group of

arguments which relate solely to international regulations.

The result of the Paris Agreement of 1919 has been that international air service take place under a policy of tight protectionism and the effects of this policy have emerged in the form of regulations which apply only to international services.

Given the wide social and economic impact of air transport, a country with a relatively weak national airline has a powerful list of factors which are likely to lead it to a view that regulation is very necessary to protect its national interests. Free competition against mature carriers with lower costs and a more marketable product may result in heavy losses to the infant carrier. It may produce a fall in market share to very low levels with a consequent balance-of-payments impact. Another undesirable effect will be that foreign carriers that operate in the market will act in their own interests rather than in the wider economic interests of the country concerned. An example of this would be a failure by such carriers to mount sufficient capacity for peak-season tourism traffic, or the suspension of services at the first hint of political instability.

Hence, nations with weak and inefficient airlines tend to support the notion of protectionist regulation, and they often subsidise their airlines' operations. The more powerful airlines, in turn have begun to argue that

they face unfair competition as a result of both subsidization and edicts by means of which governments exert pressure on their citizens to use the national airlines.

2.4 THE REGULATION OF SCHEDULED SERVICES

2.4.1 The Growth of Regulation:

As a result of the Paris Convention signed in 1919, the free-trade, laissez-faire approach towards air transport of the early years of aviation was gradually replaced by an incomplete pattern of bilateral agreements between countries developing their own airlines, and the countries to or through which these airlines wished to fly, but the restrictive character of bilateralism was soon apparent. In 1944, the representatives of 52 nations met in Chicago to consider some form of multinational agreement on three critical aspects of scheduled air transport:

(a) the exchange of air traffic rights, or "freedoms of air", as they came to be called.

(b) the establishment of air fares and freight tariffs

(c) the control of international frequencies and capacities

Doganis(1973) argued that the Chicago Conference failed to reach an agreement on any of these questions. Some countries favoured maximum freedom of the air and minimum control of fares or capacities, but other countries took a more protectionist attitude. A further

attempt at the Geneva Conference of 1947 also failed. Consequently the exchange of air traffic rights became a matter for bilateral state agreements, while the control of capacities and frequencies became a matter for inter-airline agreements, and some times, for bilateral state agreements Tariffs come to be regulated by the International Air Transport Association(IATA), an association of international airlines.

2.4.2 Bilateral Agreements

Bilateral Air Services agreements between states have been of two kinds. The first type reflects protectionist attitudes and not only specifies routes which are to be operated by the airlines of the two states , but also specifies the capacity which should be provided on each route and states that capacity should be shared equally by the designated carriers of the two states. The second type of bilateral agreement is frequently referred to as the Bermuda type, after the agreement signed in 1946 between the UK and the USA in Bermuda. Due to the significance of the Bermuda agreement, this type has become widespread. Basically the terms of the agreement are as follows:

(i) There is some control of entry , as the routes to be operated by each country's airlines are listed in an Annexe which also requires that each state should designate its airline for those routes. This is similar to the pattern which prevails in the protectionist agreements.

(ii) There is no control of frequency or capacity on the routes between the two countries concerned. At the same time, fifth freedom rights are granted to each airline, provided that the total capacity offered by the airline on fifth freedom sectors is related to the end-to-end potential of the routes. In those two respects, there is a basic difference between the Bermuda type agreements and the more protectionist agreements. However, there is one safeguard on capacity, if one airline feels that its interests are being too adversely affected by the frequencies offered by the other, there may be an ex post facto of review of capacity.

(iii) While there is no control of fares within Bermuda type agreements, signatory governments normally agree to approve fares agreed by the airlines within IATA.

Doganis(1985) argued that the effect of this agreement is not as liberal as its terms might suggest. This is because they do not preclude international airline agreements which effectively restrict capacity restrictions imposed arbitrarily by governments to prevent foreign carriers from introducing a new aircraft type or to limit their freedom of scheduling.

2.4.3 Agreements Between Airlines

On the vast majority of international sectors there are two major carriers, the designated airlines of the two countries involved. There may in addition be one or more fifth freedom carriers. In most cases, the latter supply

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only a relatively small part of the total capacity available. In this way in effect most international routes are operated by duopolies, as there is a strong incentive for formal or informal agreements between the duopolists to share out the market.

Where the traffic is not adequate for two-airline operation; there may be a revenue/cost pool. This means that one airline alone operates the service on its own account and on behalf of the other airlines in the pool, but costs and revenues are shared between them on a prearranged basis. Normally the airlines share the revenue in proportion to the capacity they offer on the route.

In addition to the above, there is a variety of joint operating agreements between airlines which may involve rationalising schedules, centralising reservations, joint sales offices, interchange of equipment, and so on.

Doganis(1973)further argues that the effect of all such agreements is to reduce the freedom of action of the airline involved and to blunt any competitive tendencies. Moreover the effect of the bilateral air services agreements and of inter-airline agreements is to fix the markets or routes in which airlines operate and to determine the capacity shares of the two (or sometimes three) designated carriers in these markets.

2.5 NON-SCHEDULED AIR TRANSPORT

Unlike scheduled air services, non-scheduled services have not been regulated by bilateral agreements, but most countries have insisted on giving prior authorisation to incoming non-scheduled flights, but attitudes towards authorisation vary significantly. Some countries, such as India before 1988, were restrictionist in their approach and refused to authorise charter flights unless they are operated by their own carriers or unless it can be shown that no scheduled traffic will be diverted. Many countries (Morocco, Spain and Tunisia among them) have followed a more liberal "open skies" policy and have readily authorised non scheduled services.

Among many of the more "liberal" countries there is a growing tendency towards more restrictionist policies, especially where inclusive tour charter or affinity group charters are making serious inroads into the scheduled airlines. As a result, selective and often quite arbitrary restrictions are applied even by these countries.

The conditions within which non-scheduled carriers or services can operate vary from country to country. Austria, Switzerland and Germany for example, place virtually no restrictions on charter operations, while several other countries have formulas for setting minimum charges for inclusive tour charters and prohibit certain types of charters or set minimum time limits for round trip charters.

Some countries, notably the USA and the UK brought

non-scheduled operations within the supervision of some form of regulatory authority. This regulation was aimed at clearly delineating the area and the scope of non-scheduled operations in order to protect scheduled operations, while giving non-scheduled operations considerable freedom of action within their defined area.

IATA has tried to regulate the non-scheduled activities of its own members, particularly by trying to fix minimum charter rates as a function of the scheduled fare.

The Type and Effects of Non-Scheduled Air Services

There are a few types of charter operations which can be identified but it is known that the following two have existed for many years.

(i) Affinity Group charters, any society which has been in existence for more than two years, which has less than 50,000 members(the British government stipulates 20,000) and whose prime purpose is other than travel can charter aircraft for its own members who share the cost equally. Such charters are well developed on the North Atlantic and are also developed on long-haul routes to Africa and the Far East. One regulation is that such charters should not be advertised and another is that passengers should be genuine members of the societies of at least six months standing. Yet in Britain, as elsewhere, various "clubs" advertise openly for charter flights for example to

Nairobi, Toronto, Tokyo, Hongkong, New York or Sydney, at short notice. In such charters travellers can save 45 percent to 70 percent of the scheduled return fare, for this reason such charters are growing rapidly on the long haul market .

(ii) Inclusive Tour charters are the most significant form of charter operation. On such charters the passenger pays the tour operator a price which includes not only the cost of air travel but also accommodation and food, transfer to and from the airport and other items. It is the tour operator who charters the aircraft from the airline .

The success of this type of charter is due to the fact that they provide people with the opportunity to take holidays which cost in total less than the normal scheduled fare.

The penetration of non-scheduled air traffic in particular markets is very substantial. Its most successful penetration in Europe has been on air routes to and from Spain.

Throughout Europe, non-scheduled holiday traffic-largely charter inclusive tours has been growing at a much higher rate than scheduled holiday traffic. On the North Atlantic charter penetration has been by means of both inclusive tours and affinity groups.

2.5.1 The Nature of the Non-Scheduled Airline Industry

2.5.1.1 Low Cost Operation

Doganis(1973) asserts that non-scheduled operations are inherently less costly than scheduled operations, for the following reasons:

(i) Non-scheduled aircrafts are normally operated with a higher seating density.

(ii) By careful programming and scheduling of aircraft flights and, where necessary, other components such as hotel beds, it is possible to achieve very high load factors on the aircraft and high occupancy factors in the hotels.

(iii) The charter airlines have lower costs because of the nature of their services. This is particularly true of ticketing, sales and marketing costs, since these functions are carried out not by the airlines but by the tour organiser. Passenger handling and station costs are lower, since services are concentrated on a relatively small number of airports.

2.5.1.2 Market Instability

The non-scheduled airline industry is characterised by structural instability. Every year one or two international non-scheduled carriers run into difficulties and collapse, and just as frequently new companies are set up. For example, in the ten years 1977 - 1987, thirty-three privately owned British airlines closed down, many

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of them actual or prospective charter operators.

The causes of this instability can be summarised as follows:

(i) The charter market is highly competitive:

Excessive competition from other charter operators of the same country and of foreign countries pushes profit margins of individual charter airlines to very low levels.

(ii) The non-scheduled market has much more marked seasonal variations than the scheduled market, largely because it is more exclusively concerned with holiday travel. Another source of instability is the cash flow problem which such a marked seasonal variation must create during the winter months.

(iii) The holiday charter market is very volatile and is quickly affected by changes in the economic climate, by foreign exchange restrictions or by political events. This is because the bulk of non-scheduled inclusive tours provide relatively low-cost holiday for middle and low income groups which are more seriously affected by income fluctuations. For example, many British tour operators have cancelled many of it because of the above reasons.

2.6 ADVANTAGES AND DISADVANTAGES OF REGULATION

The most concise analysis of arguments for and against regulation is contained in the British Civil Aviation Authority's book Domestic Air Service (1978). The CAA's main argument in favour of intervention may be

summarised as follows:

a. Without regulation, the network benefits may be lost; competition may not produce a reasonable balance between concentration and dispersal.

b. Free competition may not produce a regular scheduled service available for off-peak as well as peak periods.

c. Given the absence of price competition, the scarcity of traffic on UK routes and conditions favouring the larger operators, it may be difficult for new carriers to enter markets. Lack of regulation might therefore produce at best imperfect competition, at worst, monopoly.

d. There is some evidence, particularly on North Atlantic scheduled services, that where competition does exist it tends to be wasteful or destructive. There is a tendency for over- provision of capacity at peak periods. The scope for predatory pricing or over-stressing of shortrun revenue maximisation is considerable.

e. Experience suggests serious grounds for expecting excess capacity in a competitive environment.

The principal arguments against regulation were given as:

a. Civil aviation is a naturally competitive industry. Minimal economies of scale are possible and airlines cannot derive significant advantages over competitors by virtue of size; aviation technology is freely available; entry into the industry is easy; there is flexibility in operating aircraft capacity; neither the broad network operator nor the specialist has a preponderant advantage

over the other.

b.   Free   competition   is   preferable   to   regulation:
competition   would   produce regular services in   order   to
attract   traffic;   off-peak   traffic would be   generated;
networking would be in the interest of carrier.

c.   Regulation   is inherently undesirable: it purchases
stability   at the cost of inefficiency;   a   quasi-judicial
system favours the easily-justified status quo;   it blunts
innovation   and responsiveness to   consumer   needs;   price
regulation   limits competition,   innovation and new entry;
it blunts incentive to efficiency and cost-consciousness.

Concerning   the USA   response to regulation,   it   has
become   clear   in the last decade that the   political   and
academic   tides have been running againt the agencies   and
in   favour   of the deregulation which took place in   1978.
The   arguments againt regulation which were given   by   the
British   Civil   Aviation Authority can be applied   to   the
situation in the USA.

In developing countries, regulations are vital due to
the   profits gained through the airlines as well as   their
inability to compete with bigger airlines. This point will
be examined in detail in the deregulation sections.

2.7   THE ROLE OF IATA

For   many years,   effective control over air fares on
international   scheduled routes has been exercised by   the
International   Air   Transport   Association,   a   trade

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association comprising some 80 percent of the world's airlines which operate on international routes. The international scheduled flight fares are established through mutual agreement by the airlines, through the mediation of traffic conferences held by IATA. These agreements are subject to ratification by the appropriate governments.

However, it is not all plain sailing. Disputes and disagreements occur, especially if a major country refuses ratification; then the proposed fares cannot be introduced. The dissenters either have to be talked out of their dissension or some compromise has to be found.

IATA and its fare control policies have been subjected to increasing criticism. It is claimed that international fares are being kept artificially high and are often the result of political considerations; for example, inefficient national carriers can achieve higher fares than normal competitive considerations would permit. Without these higher fares, many airlines would be bankrupt if their governments were not prepared to subsidise their operations. IATA also establishes agreements on the types of meals and other services that can be supplied, the pitch of the seat and the leg room allowed to each passenger.

A general criticism is that IATA has injected inertia into the management and running of airlines, through its desire to avoid damaging controversy between its members.

Its cartel approach has not led however to sustained profitability for its members since they face fierce competition from non-IATA airlines.

Holloway(1984) claimed that because of this and because of governmental commitment to the concept of free competition, IATA restructured its organisation in 1979 to provide a two-tier structure: a tariff section to deal with fare-fixing , membership of which is voluntary for member airlines, and a trade section to which all members must belong and in whose activities they must participate.

Trade activities occupy most of IATA's time. Among the achievements of IATA is the provision of a central clearing house system which makes possible quick financial settlements between members, standardised tickets and other documents which are interchangeable, and the general standardisation of operating procedures (such as the licensing of travel agents).

2.8 THE EFFECTS OF REGULATION FROM A MARKETING VIEW POINT

To begin with, in a marketing sense, it can be quite right for management to support the imposition of regulatory control over an industry if it feels that such regulation will be to its advantage in meeting its corporate objectives. Therefore, in many cases, support for regulation may have been entirely justified. In supporting it, Shaw (1982) argued that marketing management has brought upon itself two important

consequences.

Firstly, competitive opportunities against rival airlines have been sharply reduced. Secondly, managements have lost their freedom to respond quickly to changing market conditions as regulation has been based on the twin processes of inter airline and inter-governmental negotiation and compromise.

An important consequence of regulation may be that it has allowed airlines to meet the needs of the segment of their market which consists of business travellers and those flying on urgent personal matters. This segment requires frequent services and a high standard of comfort and convenience, the question of ticket price being of relatively less importance. Regulation has ensured consistency such of services.

For this market segment, reduced regulation may mean an increase in tariff complexity, more difficulties in interlining, a worsening of airport services and a reduction in levels of seat accessibility. These consequences will flow naturally from a situation where airlines compete more and co-operate less.

On the other hand regulation has negative effects on the marketing of air transport for many reasons. First, regulation has meant that a large amount of airline marketing resources has been spent in co-operation discussions with other airlines, while, as one might argue, that it should have been used in planning,

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developing and selling the products to allow an improved competitive position.

Second, it is a very commonly-held view that regulation has led to wasteful competition. This is because it may not have had the effect of significantly reducing the extent to which airlines compete. Most airlines are working toward corporate objectives which can only be achieved through success against their rivals. Therefore, all that has happened under regulation has been that competitive effort has been concentrated in such areas as cabin service, promotional expenditure and especially frequency and capacity provision where competition has remained possible. The revenue, which regulated price has in part produced has been used to pay for ever more costly non-price competition. In some markets the effect has been to force up revenue seat-kilometre costs through a combination of quality competition and very low average seat factors.

Shaw(1982) pointed out that the question of wasteful competition led to a broader view that regulation has caused an under-supply of low-cost/low-price services. In so far as the dominating market segment now consists of price- and income elastic leisure travellers, there have been many criticisms that scheduled carriers have failed to respond as far as they should have done to this change in the structure of the air travel market. They have tried to continue to supply a high-cost, high-priced product,

relying on the protection affored by regulation to guard them against the activities of competitors aiming to alter the product mix in the direction of fewer frills but lower prices.

2.9 EUROPEAN LIBERALISATION

The pressures for change concerning liberalisation in Europe have come from three main areas namely, institution pressures, new liberal bilateral air agreements and pressures from consumerism. Liberalisation has proposed relaxation within the following areas: fares and rates charged, the capacity provided on each route operated and the right to operate any route. This is in order to provide a more competitive air transport market. But the implementation of liberalisation has been limited by a mixed reaction from the European states and bodies concerned.

2.9.1 Fares and Rates Charged

The pricing of European air transport has developed through IATA machinery supported by government approval. This situation is under considerable pressure to change. This change, it is proposed, should incorporate relating fares to the costs of the most efficient carrier, not to the costs of the least efficient one. But as European fares reflect national social conditions and the effect of currency relationships, many states have opposed this

change.

Currently, regulation allows conservative states to vote any price which they feel would be too high, with the resultant effect that higher prices always prevail. According to McLure (1988), the machinery to approve new innovative fares takes an excessive length of time between implementation and realisation (6 months). Fares for Europe are unlikely to be proposed, approved and implemented instantaneously. The proposed solution has been to find some "middle ground" where liberalisation can take place, without regulation being totally abolished.

2.9.2 Tariff Zones

The European states has been considering the use of a tariff zones since the 1970s. These present ranges at which fares could be priced without intervention. In this system reference fares are established bilaterally for each route. Zones are then related to the reference fares, through bilateral agreements.

Fare zones have been proposed by a number of bodies such as the Report on Competition in Air Services (ECAC), the Association of European Airlines (AEA), the International Air Transport Association (IATA) and the European Civil Aviation Conference (ECAC).

The most promising style of zone tariff, proposed jointly by the AEA and IATA allows more flexibility. This means zones would be set up for all levels of fares, with

conditions of purchase applied to each, e.g. for discount fares mandatory conditions would apply, e.g. round trip, minimum stay, maximum stay, etc. These tariff zones would be formed by the countries involved in co-ordination with IATA, allowing for greater flexibility, with fares inside zones being approved instantaneously.

The general view of the airlines has been hostile towards zone fares. Most , however, see that a change towards flexibility is inevitable and the concept of zones is preferred where an element of control still remains with the airlines and their governments. The more liberal airlines see the zone concept as too small a change that does not allow sufficient flexibility.

Mclure (1988) stated that the type of traffic zone proposed by AEA and IATA was further refined by ECAC in June 1986, establishing a zone scheme for discount and deep discount   fares, with greater flexibility than that proposed by AEA and IATA. The ECAC proposal (Figure 2.1) looks likely to be implemented at least by 1990.

Zones proposed so far have little flexibility for normal and business fares, the area from which most criticism has arisen and restrictions on discount fares make these tickets unavailable to the majority of business travellers.

```
        Flexible   Deep       Discount   Economy
        Zone       Discount   Zone       Zone




    0   10   20   30   40   50   60   70   80   90   100  110  120  130  140

                                                            Prices
                                                            in US$
```

Existing Below Zone Fare
E.G. X= 40

Additional Flexibility X-10% =36
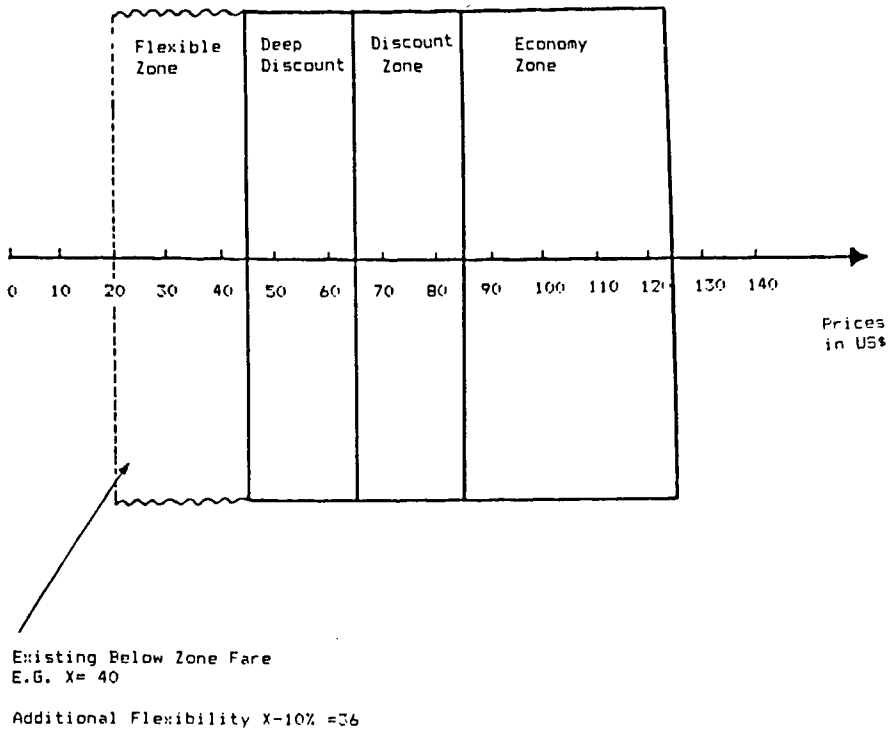
Figure 2.1 ECAC 1986 proposal

2.9.3 Capacity Controls

Capacity controls in Europe are decided upon bilaterally and serve two purposes; (A) they ensure that each nation's airlines get an equal share of the market and (B) they set a capacity whereby the "optimum" commercial level is attained. Each of these objectives needs to be reconsidered if the European regulatory system is to be liberalised.

Memorandum No. 2 was published proposing that each member country should agree to liberalise its control of capacity for air service within the community so that each country would retain only a safety net control of 25 per cent if the share of traffic carried by its own airlines dropped below 25 per cent of the total passengers carried.

Debates upon this proposal have been numerous.

Very libral bilaterals have been introduced between the U.K and the Netherlands and Luxembourg where no specific nets for capacity control exist.

In 1986, an agreement was reached by ECAC that there should be a safety net provision of 45 per cent and that this figure should then be reduced by a further one per cent per annum, after a two year trial period. A 45 per cent saftey net is set to operate in the ECAC countries. It is hoped that a more liberal view will be apparent after the trial period.

2.9.4 Market Entry

It was reported in 1980 by ECAC and COMPAS that 67 per cent of all bilaterals had no limitations on airline entry. But a liberal bilateral with free grant to all routes, with a 45 per cent safety net means that it is unlikely for significant new opportunities to arise allowing new market entrants.

Only the U.K and Netherlands agreement which has no direct capacity control has overcome the market entry problem. The result of this bilateral agreement has been limited, although a number of new operations have started to fly between the U.K and Netherlands:- Air U.K., Dan Air, British Midland Airways, Virgin Atlantic Airways and Transavia Airways. France and Germany are affording limited freedom of entry.

2.9.5 Charter Airlines

Some of the European non-scheduled airlines operating inclusive tour charter services are important due to their size and have the resources to compete effectively with scheduled airlines and may have the advantage of a more competitive cost structure. New entry is not likely to be inhibited by an absence of capable competition. Both Britannia Airways and Dan Air have fleets of more than thirty modern jet aircraft.

The Charter airlines have started entering the scheduled market by providing seat only service to holiday destinations throughout Europe. It is believed that this seat only percentage is as high as 25 per cent of total operations, which are legally part of an inclusive tour.

2.9.6 European Regional Air Sevice and Liberalisation

The European states have been unanimously willing to liberalise the regional services operated with small aircraft with less than 70 seats. But the regional services were limited to routes between cities where there was a lesser traffic potential. According to the EC Directive of Inter Regional Air Service (1983) this included any routes relating to major cities such as Brussels, Copenhagen, Frankfurt, Dusseldorf, Munich, Athens, Tessalonika, Paris, Dublin, Rome, Milan, Amsterdam and London.

There were also further limitations, and only fourteen new services have been started.

The above section shows that there has been little or limited initiative directed European liberalisation of market entry. The view of many is that increased freedom of entry is a necessity in a liberalised Europe. Airlines should always have to face the threat of competition from entrants in order to reduce complacency.

The re-designation of unused routes is another area where freedom of entry could be increased. A policy of, if you do not service the route, you lose the route, would provide significant opportunities for new entrant airlines.

Some non-scheduled operators have the potential to be new market entrants and are ready to provide a new competitive stimulus for the industry.

After discussing international regulations, its nature, the reasons for imposing regulation and the difference between regulation for scheduled and non scheduled airlines, the arguments against regulations have been stated. The regulatory role of IATA, the European liberalisations and the effects of regulation on airline marketing (airlines, competition, customers) have also been stressed.

In order to understand the implications of the change

in airlines regulations (deregulation for airline marketing worldwide, the USA, Europe, the Middle East) and airlines customers, especially tourist and business travellers, the following sections present a discussion of the changes in international regulations (deregulation), examining the US deregulation, the performance of the US airlines industry after deregulation, the effects of deregulation on the airline industry (effects on competition, customers, airlines, management and labour and travel agents). The following sections also examine the effects of deregulation on the world airlines (e.g. Europe and the Middle East) and what the consumer wants from the air transport industry.

Finally, the chapter examines the effects of deregulation on the marketing services of the airlines, including the effects on the competitive marketing system, computer reservation system (CRS), travel agents, the distribution system, consumer loyalty and yield maintenance programmes, the business class and business travellers and the effects on airlines' promotions.

2.10 INTRODUCTION TO DEREGULATION

In the past ten years or so, the air travel business has been facing a profound change in both the nature and extent of government intervention in its economic decision -making. It must be emphasised that the move towards deregulation around the world is limited

essentially to commercial matters(i.e. fares, capacity, market entry and frequency). There is no question of government relaxing their control over things like safety, air worthiness requirements, licensing of flying, and similar matters. Instead of very tight regulation of market entry and exit, capacity and pricing, there has been a movement towards a greater degree of liberation in a number of aviation's major markets, such as the US domestic market and the North Atlantic market.

The increase of fuel prices and the depressed traffic level, which were caused by the 1970's crises, resulted in unprecedented losses by many airlines. The US carriers did not escape from such loss-making, with at least one airline , Pan Am, coming near the edge of bankruptcy. Such poor performance has led to a rise in the volume of criticism regarding the inefficiencies which were supposed to exist in the regulated US air transport industry. This, plus the developing force of consumerism in the country at the same time, argued for a reduction in government intervention in the airline business.

The move towards deregulation in the US domestic market was fast moving indeed. The revolutionary Airline Deregulation Act was passed in 1978, resulting in a lower level of control over market entry, more flexibility to vary price levels independent of regulatory interventions, a total deregulation of air cargo services and the promise that within five years' time the CAB (Civil

Aeronautical Board) which regulates prices and market entry to domestic air transport would be eliminated.

The changes in the international airline industry are more fragmented and less consistent, compared with those in the US. But very real policy developments have occurred in parallel with the US domestic situation. Many of these can be traced back to the decision made in June 1976 by the UK government to insist on a re-negotiation of the 1946 Bermuda Agreement, the bilateral agreement covering air service between the USA and the UK.

In that year, the British claimed that the old Bermuda Agreement had given rise to an inefficient system working against the interest of the UK, in that two US carriers had often competed with one British, resulting in low profit and market share for the British carrier. It thus pushed for a tighter regulation to reduce the competitive opportunities of the USA. The new Bermuda Agreement was signed in June, 1977.

Nevertheless, far from providing a new regulatory framework, in the aftermath of Bermuda 2 has come a series of events which have completely altered the old regulatory system for international services.

Following the agreement, the next major development was the introduction of the Laker Airways "skytrain" in September 1977 , after a court victory achieved by Laker in December 1976. The US position in the Bermuda 2 re-negotiation provided outright support for Laker . Indeed

it was Laker's entry that provided the initial impetus for even lower fares on the North Atlantic routes.

While "skytrain" was allowed to operate, the US also pushed for the right of its airlines on the London-New York route to make a competitive low-fare response. "Stand by" and "Budget" fares were introduced by Pan Am and TWA (and BA of the UK). However, by that time the USA had embarked on a major programme to extend its domestic air transport deregulation to the international market place. Consequently, an agreement was signed between the US and UK government in 1978 that extended low "Stand by" and "Budget" fares on to all UK - US routes in addition to the London-New York route. After this, the US began signing a series of bilateral agreements with the Netherlands, Belgium, and West Germany. All these agreements were of quite revolutionary liberality. They all included the low-fare/ flexible- pricing principle and they are permitted much freer market entry in terms of additional gateway points and permission being given for new carriers to serve existing routes.

The result of such developments has been to ensure that air service over a large part of the North Atlantic are now operating under conditions of considerable economic freedom. Low fare innovations have become wide spread and there has also been an explosion in terms of market entry. In other international service else where. Similar trends have occurred, although in a less extreme

and fragmented way.

With such developments in the market internal and external pressures built up to change the original role of IATA.

2.11 The US Deregulation:

Before the movement towards liberalisation and deregulation began to gather momentum, the regulation of US domestic airline operations had remained virtually constant in structure for almost forty years . Formal airline regulation in the U.S.A. had been instituted by the 1938 Civil Aeronautics Act, and interstate air transport was administered by the Civil Aeronautics Board (CAB).

The framework of the industry was established by allowing all carriers operating on a route continuously during summer 1938 to keep operating rights for those routes. Thereafter an airline, seeking to start a service whether new or competing with an existing operation, had to prove that the proposal would be profitable and would not jeopardise any existing operation's profitability. Airlines seeking entry into, or enhanced status within this framework, had to apply to the CAB for appropriate certification. The CAB also regulated fares: it prescribed the level to which carriers where obliged to adhere. Thus even where a route was served by a number of operators, the only scope for competition lay in the

provision of frequency, capacity and on-board service.

The CAB began to liberalise regulation in 1977, when multiple permissive route entry began to be sanctioned. The Airline Deregulation Act of 1978 made a number of fundamental changes to the pre-existing structure. It sought actively to encourage competition, entry of new and existing carriers into new markets, and the use of secondary airports in the major conurbations. The Act also includes the legal framework for the winding- down and eventual dissolution of the CAB.

From the passage of the Act until the end of 1981, a degree of control over market entry was retained. In 1982, any certificated carrier has been allowed to enter any route, and in practice certificates are now granted to any carrier able to demonstrate that it is "fit , willing and able" to operate; the previous obligation to demonstrate a public need for a new service has been dropped. Market exit (heavily constrained before deregulation) is now generally approved automatically on the expiry of a 90- day period of notice .

The regulation of fares was also increasingly made more liberal following the passage of the Act. The CAB continued to assess a standard level of fare for each route but carriers were allowed freedom to set actual fares freely within a zone around the standard level. The zone widened over time and, at the end of 1982, all official controls on US domestic fares were lifted.

The methods of distribution have also been liberalised following the CAB's Competitive Marketing Investigation in 1981. The exclusive rights of airlines and travel agents to sell air tickets are to be removed in stages . At first other organisations were allowed to sell only point to point tickets, but now interline tickets can be sold as well. There is also scope for such organisations to deal in bartered tickets, further increasing the strong new competition being experienced by traditional travel agents.

2.11.1 The Performance of the US Industry

The British Civil Aviation Authority (1984) argued that the US deregulation took place during a period which was poor for aviation generally. Fuel prices more than doubled in the 1979/80 period and since then the economies of most countries have been in recession. In the USA there was a dispute in 1981 between the government and the organisation of air traffic controllers, PATCO, which has had a continuing effect on the capacity of the system. All these factors have affected the performance of the US industry and deregulation has influenced some aspects of this performance; for example, the changes in traffic mix and the relative shares of different categories of airline. It is argued that it would be difficult to identify the extent to which deregulation has affected other aspects, such as the financial performance of the

industry.

Air traffic grew strongly in the period between 1976 and 1979. Total capacity also increased but at a slower rate than traffic and the industry seat factor rose to very high levels by the US standards. Theɛe high seat factors, combined with relatively stable yieldns and costs between 1976 and 1978, enabled the industry to record a level of profitability which, although reasonɑble, is by no means exceptional when compared to other industries. Given the scale of US air transport, the absolute levels of operating profit were huge. The trunk caɪriers, for example, had operating profits of $840 millionɛ in 1978 on their domestic service.

In 1979, fuel prices and, consequently, unit costs began to increase. Although yields rose foɪ the trunk carriers they did not keep pace with costs. Dɛspite high seat factors and strong traffic growth, these carriers as a group did not quite manage to break even. ʌlthough the industry as a whole were profitable due to the performance of the non-trunk airlines, the over- all ɪesults were relatively poor compared to the previous three years.

In 1980 and 1981, fuel prices and costs ɕontinued to rise. Yields increased at a faster rate and, resulting from this increase and the depressed economy, traffic levels were reduced.

Capacity continued to increase , howeveɪ, and seat factor fell. The trunk carriers recorded substantial

operating losses in both years.

After 1981, fuel prices have decreased and the trunk carriers have also taken cost- cutting measures. Unit cost levels have remained reasonably steady in current terms but intense price competition has reduced the yields of the trunk carriers. Although traffic growth resumed, capacity also increased and seat factors did not greatly improve. The large carriers were unprofitable in 1982. Table 2.1 illustrates the loss of market share of these carriers between 1978 and 1982.

The large airlines reported substantial losses for the first half of 1983 mainly because of further yield decline but the second half of the year offered some relief. The continuing traffic growth and attempts to stabilise pricing have allowed these airlines to increase yields significantly.

Table 2.1

Carrier type	1978		1982	
	Out put in billion RPM	Percentage of total	Out put in billion RPM	Percentage of total
Trunk	164.2	87.7%	163.7	78.6%
Local	16.5	8.8%	26.8	12.9%
Intra-state	4.6	2.5%	7.9	3.8%
New-entrant	---	---	3.5	1.7%
Others	1.9	1.0%	6.3	3.0%
	187.2	100%	208.2	100%

Source: the changing airline industry. A status Report Through 1982:US General Accounting Office June 1983, and available in the British Civil Aviation Authority Paper 84009, 1984.

According to Mclure (1988), the results since 1984
have been marked by rapid growth in passenger traffic (11%
per annum). The revenues with regard to expenditure were
well below the adequate margin for maintenance of the
industry. The competitive stimulus of new entrants has,
however, helped to control unit costs within the airlines,
operating costs per passenger mile have been reduced by
20% together with a 50% reduction in fares (both figures
take inflation into account). The main financial problem
with the airlines has been the low yield per passenger
mile, over capacity and depressed load factors.

2.11.2 THE EFFECTS OF US DEREGULATION

The British Civil Aviation Authority(1984) undertook
a study of the US experience of deregulation and observed
the following points:

2.11.2.1 The effect on competition

Before deregulation, the ability of airlines to
compete was severely restricted. Deregulation has
certainly increased both the scope and the intensity of
competition. However, competition does not exist between
each and every airline and on every route in the USA. Many
airlines operate on a relatively small number of routes in
limited geographical areas and even the very large
airlines concentrate their services on particular hub
airports. Many airline managers believe that to be

successful in a deregulated environment, an airline must develop a well-defined strategy aimed at achieving competitive advantage. Given the size and diversity of nature of the US industry and this objective of management, the level of competition varies greatly.

Competition can be very fierce where the basic strategies of two or more airlines come into conflict. An obvious example is head- to- head competition between airlines on a major route.

However, not all air journeys can be made on direct service. Even where services are available, competing airlines may offer attractive routings over connecting points. The concept of an integrated network is a key element in many airline strategies in the USA, so the inter-network rivalry can lead to intense competition. However, there are many markets where passenger choice is restricted and where the generally competitive environment does not appear to be imposing any great constraint as yet.

Although the need for continuing co-operation between the airlines could be regarded as a constraint on full-blooded competition, more obvious limitations have occurred in the USA where there is a scarcity of physical resources such as airport slots. Airport congestion with regard to runway, terminal or access capacity could affect the development of new entrants and of hubbing systems. Other possible problem areas are in the development and

marketing of automated reservation systems and deciding where airlines can achieve market dominance due to a strong local network of services, or on thin routes.

2.11.2.2 The Effect on Customers

The range of price/quality options generally available to users has widened greatly since deregulation. This is most spectacularly so on routes served by some of the new entrant carriers which have cost levels approximately half those of established carriers. They offer a "no frills" service at startlingly low prices. Passengers able to take advantage of these services have clearly benefited. Other new entrants have used their relatively low costs to provide a high quality service aimed primarily at business travellers rather than to offer significantly lower fares.

These low cost new entrants operate on relatively few routes and account for only a small proportion of total US domestic travel but they are growing rapidly. The vast majority of passengers are carried by a small number of very large airlines. These carriers have taken advantage of the pricing freedom allowed by deregulation to expand the range of fares. This is particularly evident on highly competitive routes. On less competitive routes, normal fares have risen quite sharply and the range of promotional fares is much more restricted (promotional fares now account for the most travel on US domestic

airlines).

Finally, the effect on users both in terms of price
and service quality has varied from city to city and route
to route. The diversity of fares and the rapidity of fare
level changes has meant a greater use of travel agents and
more industry emphasis on automation. There has been
adverse user reaction to apparent dicrepancies in fare
level and attempts have been made by particular airlines
to introduce a more standardised system.

2.11.2.3 The Effect on Airlines.

The structure of the industry has changed significantly
with the emergence of new airlines and the rapid expansion
of carriers which were constrained by regulation. The
group of very large carriers has lost market share and has
suffered poor financial results. These carriers have far
higher labour costs than the entrants, who can also avoid
many potential diseconomies of scale by contracting out.
The poor results of the major carriers have forced
reductions in costs- particularly wage rates and staffing
levels. These carriers ,however, have faced a more
difficult transition into the deregulated environment than
their smaller competitors.

Some airlines have significantly reshaped their route
structures in attempting to produce a coherent network
based around one or more hubs. The major airlines have
dropped many of the thin routes which they were obliged to

serve under CAB regulation. This has given smaller
carriers with more suitable aircraft the opportunity to
expand rapidly. The smaller carriers have generally
performed well financially although their future prospects
are less clear.

Provided the cost cutting measures of the major
carriers and the low cost of the new entrants are
sustained, the cost efficiency of the industry should
improve. So far, no great gains appear to have been
identified. It is impossible, of course, to measure
satisfactorily any increased efficiency in the service of
user needs.

Air transport is highly seasonal and widespread price
wars have frequently broken out between the major
carriers. These price wars seem to be the result of the
need for cash flow by financially weak carriers and of the
interaction between the networks of the major carriers.
They have clearly been a factor in the recently poor
financial results of the major carriers and thus of the
industry as a whole. It is believed that the financial
position of the industry will turn around as soon as a
strong traffic growth resumes. It is argued that, in
economic terms, the marginal costing of the price wars is
justifiable during periods of excess capacity and will
serve to reduce capacity to appropriate levels. Others are
not so optimistic, pointing out that one special
characteristic of air transport is flexibility of

capacity. Excess capacity forced out of one area is not lost and may quickly be redeployed elsewhere. Some have noted that the traffic upsurge will need to be very strong indeed to compensate for the potential for increased utilisation both of aircraft currently in service but not fully used and of equipment presently grounded.

The network nature of air transport makes some degree of airline co- operation inevitable. It is the subject of debate as to the extent to which co-operation between larger carriers is desirable but it seems likely that competition will place increasing strains or such co-operation.

Moreover, one of the major growth areas since deregulation has been the short-haul commuter markets services which have become particularly attractive for the new entrants due to their continued growth (average 19.8% between 1978 to 1985).

2.11.2.4 The Effect on Management and Labour

Few people predicted that deregulation's major impact would be on wages and salary levels and on the respective collective agreements. Increased competition, by eroding yields, has forced all airlines to cut costs. At first, the large established carriers were the most vulnerable to deregulated competition given their relatively high wage scales, combined with cumber some work rules. The large airlines have therefore concentrated their efforts on

cutting labour costs, through a variety of methods.

- by creating non- unionised subsidiaries.

- by using chapter 11 of the Bankruptcy Code to bypass onerous union agreements; and

- by extracting concessions from unions during the collective bargaining process.

The largest airlines have benefited most from the wage concessions, particularly those arising from so called "two tier" agreements. However, the long-term outcome of current wage trends is doubtful.

Another major management development has been the emergence of entrepreneurial leadership in the airline industry. New-generation leaders are emphasising marketing as well as rewarding successful risk-taking within their ranks.

2.11.2.5 The Effect on Travel Agents

IATA (1985) asserted that one very important development since deregulation has been the increased percentage of airline traffic booked and ticketed through travel agencies.

In the past few years travel agents have boosted their ticket sales on average from 40 per cent to 65 per cent of the total. Since deregulation it is a fact that airline fares have become more complex. As a result, passengers seeking the "best buy" have been attracted to agents skilled in offering comparisons of alternative

fares available. Within the agency distribution system American and United have emerged as the dominant forces in computer reservations systems (CRS). Smaller airlines fear the marketing advantages conferred upon giant competitors through control of CRS and, although initial complaints about " biased " displays appear to have been resolved, pressure continues to limit this power and to control charges. It is somewhat ironical that deregulation should have unleashed calls for regulation of any activity which previously was not controlled. Clearly, airline-agent relationships are in a state of flux and deserve particular attention. The main features of the increased importance of travel agents will be discussed later in the section, Marketing Strategies Under Deregulation.

2.12 DEREGULATION AND THE WORLD

The US deregulators were determined from the start to extend the new competitiveness round the world, wherever American airlines were flying. But their campaign, which looked relatively straightforward inside the United States, became far more confused in other countries where airlines were owned by the government and deeply interlocked with national policy, and where the appearance of free competition was never quite what it looked.

Sampson (1984) asserts that the first suggestions of

deregulation outside the United States met with rapid resistance from foreign airlines, and in 1977 ICAO summoned a special conference in Montreal- the most important gathering since Chicago- where a hundred governments supported the IATA system and the US was almost isolated. But Fred Kahn at the CAB had anticipated heavy opposition from protectionist countries, and he pressed ahead, issuing an order which required foreign airlines and IATA to "show cause" why they should remain immune from American anti-trust laws. There was fierce lobbying on a global scale.

The deregulators first concentrated on the North Atlantic route with its forty different airlines, which became the chief battleground of deregulation, and in 1980 the US government for- bade their airlines to take part in any IATA conferences to fix rates between Europe and United States. The deregulators' chief opponent was Britain; for almost two-thirds of North Atlantic passengers passed through London airports, and any agreements with Britain sets a pattern for others. So the American and British had signed a new " Bermuda 2 " agreement, to supersede the first Bermuda Agreement signed thirty years earlier, which tried to liberalise fares across the Atlantic, but still maintained strict controls and was angrily attacked by the deregulators.

The American intervention in Europe continued to

expasperate the European airlines, particularly the Italians and French. Sampson (1984), for example, quoted Nordio of Alitalia's complaint that "If reality did not fit their theories, it had to be stretched or chopped up like procrustes' visitors were until they fitted procrustes' bed". " The national interest of any country," said Pierre Giraudet of Air France in 1981, 'prevents it from entrusting the responsibility for its foreign trade to foreign carriers motivated solely by profit". Jan Carlzon of SAS said "we tend to get confused , when American policy is urging for transport by air". " The plain fact of the matter," Patrick Shorelton, the British air negotiator, told the Americans "is that both of us believe in mercantilism - that is to say in promoting and developing our own commercial interests".

According to Sampson (1984), the Europeans were highly suspicious of the Americans' real motives. "The rest of the world, now as in 1944, tends to distrust the motives behind American's open skies policy". The export of deregulation did little to help the American airlines and as foreign governments and airlines mobilised themselves to meet the competition, Washington faced the question, "How far could they combine an aggressive policy of competition and trust busting inside their country while they confronted highly organised foreign states which put all the force of their government behind their favoured airline?"

2.13 EUROPEAN AIR TRANSPORT AND DEREGULATION

In discussing the issues of deregulation and liberalisation of the European Air transport system, it is realistic to take account of US domestic deregulation. Practices introduced in the US today are experimented with abroad tomorrow and also it is realistic to consider these lessons against the particular circumstances of Europe.

Unlike the US, Europe has many sovereign authorities to consider when contemplating "decontrol". Each state has its own language, laws, business code and employment practice. There are sovereign controls on establishment of enterprises and on capital and labour movement. There are bilateral Air Transport arrangements covering entry, supply, and are price-negotiated to meet national interest objectives.

Change is occurring everyday in Europe, sometimes by market initiative, sometimes by modified regulatory procedure and with more sovereign effect ECAC are formulating a European Air Transport policy. There have been bilateral break- throughs. IATA has liberalised its European conference procedure and airlines are experimenting with different products and prices in the market place.

Although some aspects of US deregulation have been discussed in the previous sections, this part is going to deal with the following question: How can US domestic

deregulation help the process of liberalisation of the European airlines? Lipman (1985), Head of Government and Industry Affairs IATA, expressed his views, which are shared by many European airlines in respect to the European prospects by looking at certain trends emerging in the US in the areas of entry, price and cost, airports and airways and antitrusts, as follows:

2.13.1 MARKET ENTRY :

In the USA, dozens of new airlines and dozens of bankruptcies or mergers tell their own story. There are winners and losers in all sectors. Airlines generally like the freedom to determine their own operational and marketing destiny. The large carriers are taking advantage finally of their size, their dominance of large "hubs" and their marketing and distribution networks. But for all carriers, the key seems to be the ability to establish hubs and to switch operations to meet competition.

For Europe, this type of free-wheeling operating pattern is not a likely short-term possibility due to state controls and infrastructure constraints. Airlines cannot just set up shop and operate as they wish as American airlines did when it shifted from New York to Dallas- it is like Alitalia suddenly deciding to move its head office and its operations base to London. Also there are no international mergers or subsidy provisions.

However, a more flexible approach to markets access can be envisaged with such features as mutually agreed additional designations. With more states considering new carrier designation and a loosening of capacity constraints, interregional air services are likely to play an increasingly important role.

2.13.2 PRICE AND COST :-

There has been a continuous spate of new fare development in the US markets, with fare wars and bargain prices on the domestics routes. For Europe, the question is how to handle tariff volatility, taking into account differing currencies, different languages and less sophisticated automation equipment. At policy level, bilateral liberalisation of approval regimes may be expected to continue. But it is clear that this has its limitations, with some states anxious for price freedom - which they see to be in their national interest and others anxious to maintain controls for exactly the same national interest reasons. In the market place the airlines themselves will continue to develop new product and price approaches tailored to specific market needs. Diversity rather than standardisation will be the name of the game. Electronic tariff information will be instrumental in this development and in time the distribution system

itself will have to adapt to videotext, automatic ticketing machines and interactive credit cards. Airlines and agents will simply have to move fast to keep up with and influence market trends. On the cost front impressive gains have been made in the US. The established airlines were becoming vulnerable to new low labour cost competition. Three devices were used in order to compete successfully: the creation of non-unionised subsidiaries; the use of chapter 11 of the Bankruptcy code to rewrite labour terms; and two-tier wage agreements. For Europe, this kind of cost reduction raises serious questions of labour principle and law which in many states could have political as well as economic consequences. One of the key areas for cost reduction in the future is automation, and close collaboration between the European Airlines.

2.13.3 AIRPORTS and AIRWAYS :-

Congestion seems to be a factor at certain major airports in the US, probably influenced by concentration on key hubs, increased use of small aircraft and growth of commuter industry.

As we have seen before, this puts pressure on the air traffic control system which in the US is very sophisticated. Gates and landing slots become competitive tools.

The European airways system is not integrated, as in the US: there is a delicate military/civil interface and a

seasonal charter peaking factor. There are also already some dense airports looking at movement limitations. And there is the European Curfew factor.

2.13.4 ANTITRUST :-

The potential for new forms of antitrust regulation in such fields as computer reservations, interline and airport slot allocation has become evident in the US. Recently Alfred Kahn (1989) suggested increased application of antitrust laws to deal with predatory pricing and control of bottle neck facilities.

For Europe, the question of antitrust law application is a very new factor for Air Transport on a community level. Lipman (1985) asserts that as a community Air Transport policy emerges, there will be less inclination to use the antitrust card as a political stick and that a straight forward approach will be taken to application of competition - not hampering airline co-operation where it is in the public interest and not claiming extra territorial reach. This is not an extreme expectation. The co-operation built into the Air transport system by the airlines produces indentifiable advantages for passengers and shippers- most notably the interline system which gives increased choice of carriers and routes, simplification of reservations, ticketing and payment processes flexibility in order to adjust travel plans on many carriers.

A group of experts brought together by IATA (1985) argued that the US domestic consumers have undoubtedly benefited from many aspects of increased competition since deregulation, but wars and the continued threat of uneconomic price competition leave open the question of whether long term financial stability of the airline system can be achieved. It is clear that the airline system is heading towards domination by a few large carriers. Such an industry structure could produce financial stability but it is questionable whether this outcome is desirable or was intended by the architects of deregulation. Alfred Kahn (1985) - one of the fathers of deregulation - has expressed fears that current developments could end up producing a radically transformed, highly concentrated industry, far less competitive in its pricing behaviour. An industry structure of this kind may have little advantage compared with a liberalised regulatory system in which competition is encouraged. It is this uncertainty about the consequences of US deregulation which when the special characteristics of international air transport and considerations of national sovereignty are taken into account, explains the reluctance of many other countries to follow the US example. In the US a "whole hog" approach to deregulation was deemed politically necessary in order to make it acceptable.

In Europe, the political background favours an

evolutionary approach to liberalisation. The EEC's memorandum no.2- "Progress Towards the Development of a Community Air Transport Policy" recognises the need for an evolutionary approach and questions the applicability of US. deregulatory policy in Europe.

Nevertheless, a systematic evaluation of continuing changes in the US airline industry is of great value to the implementation of a step- by -step approach to liberalisation in Europe. In other parts of the world particularly Africa, Latin America and parts of Asia, the political pressures towards liberalisation of regulations are less strong, but even there an understanding of the arguments for and against deregulation remains crucial for the industry future.

2.14 REGULATION AND DEREGULATION IN THE MIDDLE EAST

As in other regions of the world, air transportation services in the Middle East are provided through bilateral agreements. In the past, the bilateral agreements involving Middle East carriers have tended to be quite conservative. Therefore, like Africa and Latin America, the region as a whole is cautious about increasing liberalization in interregional markets. However, as in Europe, there is a wide variation in attitudes toward liberalization. Gulf states - particularly the United Arab Emirates and Bahrain, which favor liberalization - are at one extreme; Syria's conservatism is at the other extreme.

Saudi Arabia seems to sit in the middle, while Jordan tends to lean toward the liberal attitude of the Gulf states. With respect to intraregional routes, at least in theory, the attitude toward liberalization has been positive for a number of years. ICAO (1982) stated that the Arab Civil Aviation Council (ACAC) adopted the Marrakech Declaration of 1974, liberalizing traffic rights between Arab countries. Greater liberalization, however, does not mean deregulation or even anything close to it. The policy statement agreed to by the ACAC at its sixteenth session, held in Cairo in 1978, reflects this sentiment very clearly. In accordance with this policy statement, capacity, load factor, and services standards are to be monitored to ensure equity and mutual benefit between bilateral partners. Consequently, most of the scheduled airlines in the Middle East, which are government-owned, are protected by their respective governments with respect to their traffic rights and routes. Moreover, these national airlines have been receiving regular subsidies from their governments. However, recent economic developments and the resultant strains on government budgets have put continuation of such subsidies in jeopardy.

According to Taneja (1988) the Middle East countries favor a fairly regulated regime, but the policies of individual nations vary significantly, depending on such factors as geography, the potential for foreign trade, and

tourism. These policies have been subject to change, depending on such factors as the state of the economy and international relations.

2.15 WHAT CONSUMERS WANT FROM THE AIR TRANSPORT MARKET

In order to look at how responsive a sector of the economy to consumer needs, we should use a number of criteria. They are:

* access * safety * choice * information * redress * representation * value for money .

The British National Consumer Council(1986) considered how the above criteria apply in the current state of air transport regulation in western Europe stating that:

2.15.1 ACCESS

Regulations limit what is on offer to consumers. Agreements between governments prevent service being offered at some airports, prevent airlines from choosing the airports they wish to serve, ration the capacity that is available in the scheduled sector and keep prices up. It believed that airlines should be able to supply any service, where the price consumers are willing to pay for that service exceeds the cost of providing it.

2.15.2 SAFETY

Safety is crucial for air travellers. It is vitally

important that whatever type of service passengers are offered they are offered a safe journey. Because the expectation will always be that the journey will be safe, it is important that safety standards are as high as possible for all airlines. Safety standards need to be enforced by a regulatory agency so that the passengers know that the airline they use is reasonably safe.

2.15.3 CHOICE

Airlines, between them, should be able to provide different packages of service so that consumers can, by choosing between the competing packages, indicate which particular mix of comfort convenience and price satisfies most demand. In air transport this will mean choice between different airlines, between ticket types, between different routes, between different times of departure and possibly different airports and between different levels of comfort, service and convenience. At the moment, regulation either through agreement between governments or between airlines affects all of these choices.

2.15.4 INFORMATION

The consumer cannot make use of the choices offered if he or she dose not know that the service exists. The industry should provide that information in ways that the consumer can use, and in ways which help the consumer to

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make rational choices between the products on offer.

2.15.5 REDRESS

If the airline product does not conform to the description it was sold under, consumers have a right to compensation. In addition, the industry should minimise, as far as possible, the effects of mistakes on consumers. At the moment, redress for the travellers depends in part on international treaties and agreements.

2.15.6 REPRESENTATION

Where choice is limited through regulation, commercial agreements or monopoly, consumers need to have a powerful input into the decisions which determine what products actually get produced, and at what price. Air service agreements, inter-airline agreements and national legislation all restrict what suppliers can supply, and who can supply it.

2.15.7 VALUE FOR MONEY

If the consumers are going to be reasonably happy with what they do get, they need to know that the product represents value for money. "Could the same product be produced more cheaply? " and " Could a cheaper product give the same overall level of satisfaction?" are questions which should both be answered "No". Regulation intimately affects the answers that airlines can give to

these questions.

Moreover, the air transport industry is extremely complex. Parts of it have some of the economic characteristics of monopolies (such as airports), parts of it are run as monopoly and parts of it are more or less competitive within tightly drawn boundaries. In addition, all international flights require the approval of at least two governments. Even in parts of the industry that do not have monopoly characteristics, the economics of the operation are complicated. To operate at all, co-operation is needed between groups who are often under the control of different companies, countries and government departments or agencies. All this makes the application of the consumer criteria to the industry a far from straightforward operation.

2.16 MARKETING STRATEGIES UNDER DEREGULATION

Deregulation has brought marketing freedom to the US airline industry and this new freedom has helped to create a situation where the travel agent has become the airline's primary means of selling air transportation. Increased competition among carriers has enabled these agents to demand and receive much higher commission and other incentives than was possible under a regulated environment.

Brenner, Leet and Schott(1985) pointed out that the number of US travel agents and outlets, as well as

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commission rates, were strictly controlled for many years by the US Air Traffic Conference. Agent numbers and outlets were originally limited on the basis of need, but the CAB eliminated this ATC control in 1960 and relaxed others. The number of travel agents increased from 9,202 in 1973 to 14,804 in 1978 and to 23,059 in 1983. In 1984 the number increased to approximately 25,000. At the same time, the average commission paid to travel agents had also risen substantially from 8.3 percent in 1978 to 9.9 percent in 1983. Some individual carriers paid as much as 20 percent in overrides or incentives. Concurrent with deregulation, several carriers accelerated the establishment of sophisticated computer reservations and ticketing systems for travel agents . Carriers extended their own computer systems into the offices of travel agents, improving the agents's ability to serve the public. Recently the US government has began to contract with travel agents to handle government travel. These developments helped to boost the US travel agents share of total domestic and international air travel sales from 47 percent in 1973 to 57 percent in 1978 and to 74 percent in 1983. As would be expected, the total commission paid in absolute dollars has increased enormously from $732 million in 1977 to $2.4 billion in 1983.

2.16.1 Deregulation of the Competitive Marketing System

Shortly after the passage of the Deregulation Act,

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the CAB began considering necessary regulatory changes in the marketing of air transportation to conform with the pro-competitive nature of the Act. The CAB was particularly concerned about the antitrust immunity covering the travel agency accreditation system, the area settlement plan for settling accounts between agents and air carriers, and certain IATA agreements.

In the latter part of 1984, Air Transport Association (ATA) agreed on a new liberalised system that did not change the basic foundation of the airline / travel agency relationship. The new system establishes a non- profit Delaware Corporation that absorbs the Air Traffic Conference staff and assumes responsibility for the travel agency accreditation program and ticket settlement system.

Two types of retail outlets can be designated/ approved by the Delaware Corporation: industry agents and "other persons". Existing agents who sign new contracts with the corporation and newly accredited agencies will be called industry agents. They operate under rules similar to those previously in effect under the Air Traffic Conference Scheme, though somewhat more liberal. The new standards allow individual carriers to establish more stringent requirement for travel agents who represent them.

"Other Persons" is a new category of non-accredited sales outlet that requires at least one airline's appointment. These outlets must use the individual

carriers ticket stock; it can also sell interline tickets, if all carriers involved have agreed. Tickets can be reported and sales remitted through the area settlement plan. This new outlet category could include business travel departments or other types of retail outlets such as department stores. The new plan has received mixed reactions from various agency groups and from IATA.

2.16.2 The Computer Reservations Systems (CRS)

Computer reservation capability has become by far the most important tool available for airlines and travel agents to handle bookings, airline fares and schedules made vastly more complex by deregulation. The CRS system removes the need for travel agents to telephone carriers, thereby saving resources for both the travel agency and the carriers. After completing a booking, the agent can automatically print a ticket and a boarding pass for the passenger. Brenner, Leet and Schoot(1985) assert that as of the latter part of 1984, it was estimated that 90 percent of the travel agents used one of the computer reservation system to book and ticket airline passengers. As this group included most large travel agents, they accounted for well over 90 percent of all airline booking made through travel agents. It is widely believed that the use of CRSs will continue to grow. This development has dramatically changed the method of distributing and handling airline travel sales.

Much controversy surrounds the concentration of the airline CRSs and while CRS marketing power concentration, by itself, might well have triggered distrust and complaints, there were also widespread accusations of bias in the manner in which the larger airlines displayed their competitors' services and prices. Busy agents are influenced by what appears on the screen quickest and clearest and the airline owners of the CRS controlled what went on the screen and how it was displayed. Consequently, the CAB decided to investigate the CRS controversy. The issues were sharply drawn. On the one hand, American and United argued that they had invested very large sums of money in their systems, and that they were doing nothing illegal or improper under the new competitive environment. On the other hand, the Department of Justice and a number of airlines contended that the CRS concentration of marketing power permitted rival carriers to be penalised through. display bias and selective manipulation and suppression of schedule, pricing and carrier information. It was also argued that important marketing information concerning their competitors' business was collected from the CRS records for the exclusive benefit of the CRS operator. The smaller CRS owners (Delta, Eastern, and TWA) generally supported the adoption of anti- discrimination rules. As a result of its investigation, in mid-1984 the CAB adopted rules intended to limit bias without impairing the usefulness of the CRS system. It is most unlikely,

however, that the controversy is over.

2.16.3 Competition and Computer Reservation System

After the Airline Deregulation Act, the computer
reservation systems have become the primary means of
disseminating air travel information to the airline-sales
distribution system. These systems have had a major impact
on competition within the airline industry.

The primary source of schedule and fare information
available to the distribution network is via a Computer
Reservation System (CRS) which contains the offerings of
most major domestic and international carriers. Although
used by travel agents in serving their clientele, CRS were
developed and are currently maintained by air carriers
themselves. The most successful CRS airline vendors or
host carriers are United and American Airlines which lease
their Apollo and Sabre systems to retail travel agents.
Apollo and Sabre have been administered in such a fashion
as to undermine competition in favour of United and
American airlines vis-a-vis their competition.

2.17 Airline Distribution System

2.17.1 Travel agents

Since deregulation, the basic role of the travel
agent has remained relatively stable. Gee, Choy and
Makens (1984) stated that although agents derive revenue

from all the providers of travel services, they rely primarily on commissions paid by the airline industry, which accounts for approximately two third of the revenue received by retail agents. Any circumstances affecting a change in the marketing of airline services, such as the use of CRS, has implications for the travel agent.

Nothing is more critical in establishing a clientele and revenue base than continued access to accurate and timely information on carrier schedules, fares, and seat availability. Prior to the widespread use of CRS, this information was obtained manually. However, the number of agents, their importance in the distribution system and their reliance on CRS have all changed significantly since deregulation.

2.17.2 Deregulation and the distribution system

Deregulation presented airline management with the opportunity to adjust service and fare offering in responce to market conditions. This had two immediate implications for the travel agent distribution system:
* the distribution system would have to expand; and
* the amount of information to be handled by the channel would greatly increase.

When an existing carrier expands into new markets, or when a new airline first begins service, it may sell services directly to travellers through its own retail outlets or it may choose to market services through retail

travel agents. According to Durbin (1984), the choice
between an owned outlet and an appointed agent would not
seem to be a particularly difficult one to make. In 1978
there were 14804 appointed agent locations in the USA. By
the end of 1984 there were an estimated 25000 appointed
agent locations there, an increase of 68% since
deregulation. Appointed agents accounted for 38% of
domestic ticket sales in 1977, expanding to 60% to 65% in
1982, with a predicted share of 85% by the close of the
decade.

Accompanying the growing size and importance of the
agency distribution system has been its automation,
required to cope with the explosion of information and as
advocated by airline management. Boberg and Collison
(1985) claimed that it has been suggested that the
following advantages of automation accrue to travel agency
and airline management.

* ability to display worldwide schedules and fares, make
   reservations and price itineraries;

* ability to produce tickets, itineraries, and invoice
   documentation mechanically;

* advanced seat selection and issuance of boarding passes;

* ability to make hotel, resort, car rental, train, and
   train reservations;

* ability to conduct market research based on ticket
   sales.

For travel agents, the above advantages resulted in

an average productivity gain of 42%. This may explain why 85% of agency locations had installed CRS by the end of 1983, accounting for approximately 90% of the airlines revenue produced by travel agents. This suggests that approximately three quarters of all airlines sales will soon be made through CRS.

Airlines have benefited from travel agency automation. All carriers listed or participating in a CRS may be in a position to compete more effectively and efficiently in the sale of their services. The host carriers and vendors of CRS, however, may enjoy benefits not available to other carriers. It has been suggested that anomalies in the CRS have generated incremental passenger revenue for the carrier-owners at the expense of non-owning carriers.

The non-CRS-owning airlines have been complaining that they have been unfairly discriminated against by CRS that are owned by competing airlines. These complaints have been particularly strong from those airlines that are direct competitors of the airlines that own such systems. The primary complaints concern the amount of bias present in the CRS displays and the varying levels of fees charged for these displays.

2.17.3 Yield Managements and Loyalty

With intensified competition and recurring fare wars,

US airlines are attempting to maintain yield, despite an ever increasing percentage of discount fares, and to build and maintain brand loyalty. By 1983, 82 percent of the domestic revenue passenger miles of the major airlines were flown at average discounts of 48 percent. As a result yields were drastically depressed. In the second quarter, spearheaded by American Airlines, carriers began to place tighter restrictions on discount fares, such as "Super Savers," and a correction course began. As a result in the last quarter of 1983, normal fare traffic had increased to approximately 25 percent of the revenue passengers miles flown by the major carriers.

Business travellers have become a prime marketing target, since they normally travel on first or business class fares that are less restrictive. In keeping with this objective, and led by American Airlines, the industry developed a series of "frequent flyer" programs. Other US carriers quickly followed with their own plans that differed in some respects, but had as their basis the accumulation of points towards free or reduced price transportation . This particular means of keeping frequent traveller loyalty has proved to be popular with the public. Its success with major carriers has spawned interline arrangements whereby travel on more than one carrier counts for bonus awards. In addition, tie-ins with hotels, car rental firms, and cruise lines have become an integral part of every one's program.

2.17.4 Business Class Service

In 1979 Pan American initiated Business Class Service aimed primarily at the international business traveller to overcome the regulatory restraints on increasing normal economy (coach) fares in long-haul international markets. Initially the service consisted of not much more than a few on board amenities, free drinks, movies, etc. It has since become a major element of most airline marketing on international routes, where corporations frequently prohibit, or severely limit, employees travelling at first class fares. Most international carriers have now progressed to eight abreast seating in business class on a 747, compared to the normal ten in the economy, and several carriers have extended the concept to six abreast seating. Most of these seats are as comfortable and with as much legroom as travellers were used to in previous first class domestic flight arrangements. At the same time, first has often been improved by providing "sleeperettes" with legrest. The price level of business class on international routes has generally been in the range of 10 to 25 percent above economy fares.

2.18 The Important Role of Promotion

Before the Airline Deregulation Act, the principal

difference between carriers was the level and standard of service on the ground and in the air. Pricing was a secondary feature under the relatively tight rein of regulation. At the present time, most US advertising has changed considerably. The emphasis has shifted from service to a combination of price, destination, and frequency.

Brenner, Leet and Schott(1985) pointed out that despite the more competitive situation after the Act, there has not been a significant change in advertising's share of corporate cash operating expense: 2.6 percent in 1972; 1.7 percent in 1978; 2.1 in 1982; and 2.2 percent in 1983. This relatively stable pattern of expenditure is in marked contrast to the commission expense trend, which increased year after year from 3.5 percent in 1972 to 6.9 percent in 1983.

Moreover, after the Act, some airline marketing strategies involve operational changes. Expansion of hub and spoke operations, for example, represents a prime marketing strategy which has been expanded and employed effectively since deregulation. The freedom to expand or create new hubs without regulation is of substantial benefit to established carriers as a means of countering the lower overall cost structure of new entrants.

Route strategies of domestic/international carriers involve a reduction of point to point domestic service, unless the flight provides a connection at a hub to a bank

of international flights and, conversely, inauguration of service to new points not previously served, to provide desired hub connection. This strategy provides: single carrier service to a large number of international and domestic locations; an opportunity to eliminate expensive divisions of revenue with other carriers; low frequency access to new markets, both domestic and foreign; and a means of strengthening most spokes of domestic / international hubs. By such means these carriers seek to attract new customers and retain the loyalty of old ones. Implicit in this strategy is a high degree of "trial and error" mobility. In the last few years, for example, Pan American inaugurated passenger service to about 50 new cities (in the USA and abroad) and discontinued service to about 25. This would not have been possible within the regulated environment.

2.19 SUMMARY OF REGULATORY AND DEREGULATORY FRAMEWORK

This chapter described in detail the nature and effects of government regulation and the extent to which it affects the airline industry.

The reasons for imposing regulations were explained and the attitudes of the airlines to regulation in general were reported. A distinction was made between scheduled and unscheduled services, with references to both the type of regulations attempted and the respective reactions to such controls.

The principal arguments for and against the introduction of regulation were outlined before proceeding to discuss deregulation and various attempts to introduce liberalisation policies.

The effects of deregulation on competition, airline customers, the airlines, management and labour, and travel agents were discussed, followed by an account of attitudes and reactions to deregulation, with special reference to the USA, Europe, and the Middle East. Marketing strategies under deregulation and its effects on, airlines services, travel agents activities and distribution were also dealt with.

Perhaps the most important point to be stressed is that with or without regulation, the most important aspect of airline services must be the safety of travellers.

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CHAPTER THREE

"MARKETING OF SERVICES: ITS ROLE IN THE AIRLINES INDUSTRY"

"SMALL SERVICES IS TRUE SERVICE WHILE IT LASTS; OF FRIENDS, HOWEVER HUMBLE, SCORN NOT ONE: THE DAISY, BY THE SHADOW THAT IT CASTS PROTECTS THE LINGERING DEW DROP FROM THE SUN"

WORDSWORTH

3.1 INTRODUCTION

This chapter focuses on marketing of services and how segmentation of the service market is accomplished. There are specific sections in this chapter which relates market segmentation to the travel and tourism industry. Further, a detailed review is done on the marketing mix variable for the service industry. The final aspect of this chapter relates the role of marketing in air transport and its impact on tourism.

3.2 MARKETING DEFINITIONS

An examination of relevant literature providing marketing definitions reveals that there is no single and universally accepted definition, although a common theme can be found in almost all the definitions that have been suggested. This is due to the fact that marketing terms have been borrowed from other study areas such as sociology, psychology, management techniques and so on.

The marketing concept is consumer and profit orientated. Consumer orientation does not mean giving customers what they want , but understanding consumers' needs and wants in order to respond more efficiently in ways which make business sense for organisations, in both the short and long term.

Kotler (1988) defines the marketing concept as follows:

" The marketing concept holds that the key to achieving organizational goals consists in determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors ".

According to Thomas (1986), the British Institute of Marketing defines marketing as:

"The management process responsible for identifying, anticipating and satisfying customer requirements profitably ". It is noted in Jefferson and Lickorish (1988) that the Committee of Marketing Organisations in Britain provides the same definition and goes on to suggest that marketing consists of two essential and interrelated elements:

(a) A concept which focuses the company at all levels upon meeting the identified and anticipated requirements of customers as indicated in the definition above, and

(b) A range of techniques which assist the company in determining customer requirements, and meeting these.

The above definitions hold good for any form of consumer or industrial product marketing, whether of goods, such as soap powders and pianos; or services, such as airline travel, hotel rooms or theme parks. The Kotler definition is equally relevant to the marketing of people, ideas and places, and to any exchange process where target markets and organizational goals exist. It also covers the products of non-profit organizations such as trusts

responsible for museums, or charities established to
provide particular products on a subsidized basis, such as
holidays for the disabled or elderly.

3.3   DEFINITIONS OF SERVICES

Just as there is no single definition of marketing,
the same is true of services which marketers have defined
in a number of ways so that there is a multiplicity of
definitions concerning what service is.

In general there are two types of definitional
approaches to services. The first might be called an
illustrated definition in which a list of examples
accompanies the definition. This is the approach used by
White and Hayward (1924), George Stigler (1956) and Robert
Ferber (1960).

The second type of definitional approach might be
called definition by listing. John Pyle (1936), Paul D.
Converse (1958), and the definitions committee of the
American Marketing Association (1960) use this method. The
emphasis on listing in each of these definitional attempts
may explain the imprecision noted at the outset. Consider
this entry: "Services - Activities, benefits or
satisfactions which are offered for sale, or are provided
in connection with the sale of goods. Examples are amuse-
ments, hotel services, electric service, transportation,
the services of barber shops and beauty shops, repair and
maintenance service, the work of credit rating bureaux.

The term also applies to the various activities such as credit extension, advice and help of sales people, delivery, by which the seller serves the convenience of his customers".

According to Judd (1964), the emphasis on listing in each of these definitional attempts may explain the imprecision he noted in the definitions of what constitutes a service. When listing is incomplete, he argues, and where the definition depends on listing for its meaning, imprecision is the outcome. Progress can be made, Judd suggests, by returning to the principles of definition by exclusion. Such a definition applied to marketed services: is marketed services - a marketed transition by an enterprise or entrepreneur where the object of the transaction is other than the transfer of ownership (and title, if any) of a tangible commodity. The consequences of such a definition are these ; first, this definition refers only to "economic goods"; second, it limits consideration to services that are countable because they have enterprise or entrepreneur status; finally, this definition permits recognising three broad, yet mutually exclusive areas of services within each of which a more complete list might be compiled.

These areas arise from :

1. The right to possess and use a product (rented goods, services); or

2. The creation of repair or improvement of a product

(owned goods, services) ; or

3. No product elements but rather an experience or what might be termed experimental possession (non-goods, services).

This definition has the defect of any definition based on exclusion in that from the definition itself, nothing can be learned about what the essential characteristics of a service are, yet, at the same time using this approach, it is possible to be quite definite about what services are not. This definition has the further advantage of not becoming outdated through the introduction of new services, since it is not tied to a list of services.

Stanton (1981) anticipated that the definitional problem will continue and he offered the following definition : services are those separately identifiable, essentially intangible activities that provide satis-faction and that are not necessarily tied to the sale of a product or another service. To produce a service may or may not require the use of tangible goods. However, when such use is required, there is no transfer of the title (permanent ownership) to these tangible goods. Stanton elaborated on this definition to a certain extent to reduce any possibility of confusion.

1. He includes such activities as medical care entertain-ments and repairs services.

2. He excludes credit, delivery and other services that

exist only when there is the sale of a product or another service.

3. The consumer of a service can take only temporary possession or make only temporary use of any goods required in the production of service-a hotel room or rented car, for example.

4. He thinks of service organisations as being those which do not have as their principal aim the production of tangible products which buyers will possess permanently.

Kotler (1988) defines a service as follows :

" A service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product. Thus renting a hotel room, depositing money in a bank, travelling on an aeroplane, visiting a psychiatrist, having a haircut, having a car repaired, watching a professional sport, seeing a movie, getting advice from a lawyer, all involve buying a service."

3.4 GOODS VERSUS SERVICES

Goods are defined as "articles of trade, merchandise or wares", while services may be defined as the organised system of apparatus, appliances and/or employees for supplying some accommodation and activities required by the public or the performance of any duties or work for another.

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It seems clear that goods are things such as food, clothing, books, television sets and any other tangible, physical objects that maybe purchased in a store and carried home. Services are things such as hotel accommodation, theatre activities or someone who is hired to perform auto repairs, cleaning, nursing or other duties.

According to Sasser (1970), a precise definition of goods and services should distinguish them or the basis of the following attributes. A good is a tangible physical object or product that can be created and transferred; it has an existence over time and thus can be created at a given time and used later.

A service is intangible and perishable. It is an occurrence or process that is created and used simultaneously. While the consumer cannot retain the actual service after it is produced, the effect of the service can be retained.

3.5 THE MARKETING CONCEPT AND SERVICE MARKETING

Stanton (1981) argues that the growth in services has generally not been due to marketing developments in service industries, but rather to the maturation of the economy and the rising standards of living.

Traditionally, executives in the service companies have not been marketing-oriented. They have lagged behind sellers of products in accepting the marketing concept and have generally been slow to adopt promotional methods,

"product" strategies and other marketing techniques. Marketing management in service firms has not been especially creative.

Innovations in service marketing have come typically from product - associated companies.

Baker (1977) argues that in many respects, the situation currently prevailing in many service organisations is directly comparable to the situation which was found in organisations manufacturing industrial goods fifteen to twenty years ago. Companies producing industrial goods claimed to have adopted a marketing orientation, when in reality they had done nothing more significant than re-label their sales function "marketing". In other words, these companies had begun to realise that they were experiencing a decline in the demand for their output in the face of growing competition from new substitute goods, and so felt the need to change their competitive strategy. However, what they failed to appreciate was that marketing is not just selling; it is a practice founded on the firm conviction that customer requirements are constantly changing, and in order to meet and satisfy these requirements, one must monitor the nature and direction of change, and consciously adjust one's product, pricing, promotional and distribution policies in order to meet these changes. (In the case of the airlines the International Air Transport Association (IATA) have a vital role in the pricing policies and this

pricing adjustment must be done by IATA agreement). Without this recognition, more tinkering with selling and promotional techniques is unlikely to do more than stave off the inevitable decline.

According to Baker (1977), a number of reasons can be deduced for this lack of marketing orientation in service organisations. It is argued that because of the four characteristics that differentiate services from physical products, require management of services industries to apply the marketing concept with certain modifications and a degree of care. It is anticipated that each characteristic brings its own particular problems to management and each therefore requires special attention. The objective has been to find some way by means of which "a mutually satisfying exchange relationship is achieved".

3.6 SALIENT FEATURES OF SERVICE MARKETING

3.6.1. Intangibility

As noted by Kotler (1988) "services are intangible. Unlike physical products, they cannot be seen, tested, felt, heard, or smelt before they are bought.". Thus a person requiring a haircut cannot see the result or the effect of the service before the purchase.

The absence of tangible characteristics means that it is difficult for the seller to demonstrate or display services and for buyers to sample, test or make a reasonable evaluation of the product (Goodfellow,1983).

According to Sasser (1976), the design of the service package and control of the design require a greater understanding of consumer psychology than in the case of a manufactured good because of the intangible and often non-explicit nature of the product.

Because of the complex combination of intangible perceptions that are inherent in the product, service organisations may not be particularly successful, from a marketing point of view, unless management can effectively attract customers with suitable marketing efforts. Such marketing efforts must be able to identify and solve a particular need of customers, as the philosophy of the marketing concept requires.

The intangibility of services also presents another problem, namely that a customer requires a degree of confidence in the service provider or producer. To solve this problem the service provider must be able to ensure that customer's confidence is greatly improved. A hair dresser can use a drawing or a film showing the customer's expected appearance after the service is consumed. Another approach to this problem is for the service provider to place more emphasis on the benefit of the service rather than just describing its features.

Goodfellow (1983) summarises the complex implication of the intangibility characteristic thus; "........ the absence of tangible features means that it is difficult for the seller to demonstrate or display services, and for

the buyers to sample, test or make a thorough evaluation".
It can be argued that the presence of tangibility in the
product does help the buyer to evaluate the product, that
is, in terms of its utility, economy, prestige, dimensions
and so forth. Also, it can be argued that airlines ser-
vices can be evaluated in terms of the quality,
perceptions and immediate availability (serving all the
routes).

Nevertheless, Gronroos (1978) asserts that
"tangibility" creates an essential difference as consumers
will always attempt an evaluation, and in the case of
services, will evaluate what they can. "Therefore,
frequently they will not be evaluating the core services
but the surrogate, normally the tangible manifestation of
the service and the tangible satellite support systems
e.g. for the accommodation services of hotel, customers
may evaluate the appearance and manner of the receptionist
and information officer at the site of the hotel, its
location, ancillary services that they provide ...etc. In
reality both goods and services are selected on the basis
of a complex network of criteria, including advice from
friends,repeat business, professional advice, company
reputation, past experience, rather than by physical
examination alone".

3.6.2. Inseparability

It is argued that in the production of a service the process not only creates the product but also simultaneously delivers it to the consumer. In other words, a service is consumed in the process of its production. A spectator of a football match, for instance, consumes the product (i.e. the game) simultaneously as the production takes place or as the match is being played. The relationship between production and consumption therefore dictates that production and marketing are highly integrated processes.

The inseparability of production and consumption affects the service organisations in such a way that they are not able to store and transport services so that only direct distribution is possible. Sasser (1976) recognises this and suggests that "services do not move through distribution channels. Customers must come to the service facility or the service provider must be brought to the customers. Thus, each service facility has a limited geographic area from which to attract customers".

3.6.3. Heterogeneity

While it is possible to offer physical goods with high degrees of uniformity, a service company, finds it difficult or almost impossible to assure consistency and uniformity in the services it provides. Thus, a similar

lecture topic delivered by one lecturer may not be regarded to have the same quality as that delivered by his associate. The heterogeneity characteristic means that it is difficult to establish standards for the output of a service company and even harder to ensure that standards are met each time the service is delivered.

This characteristic presents great problems to managers engaged in the marketing of services. The implication is that a service provider must put great emphasis on the quality control of the product on offer. Sasser (1976) points out that "because the provider of the service usually comes in direct contact with the consumer, the education and training of service employees (the company sales personnel) are extremely important. In effect, such training is a key lever for quality control, since it is usually impractical to monitor the output of each service provider".

It is essential therefore, for service companies to make an effort to deliver high and consistent service quality in their service offers. Such an effort may manifest itself in the form of a good personnel selection system and training programme. Service organisations such as airlines, hotels, and banks allocate substantial amounts of their resources to training their personnel in order to be able to provide uniform and friendly services. Another widely adopted method to combat heterogeneity characteristics is employed by management who develop

adequate customer satisfaction monitoring systems. Suggestions boxes, complaints systems, and customer surveys are among methods which can be used as tools for monitoring satisfaction levels.

3.6.4 Perishability

Another important characteristic of services is that service products are extremely perishable. "An unfilled seat in an air-plane, an unoccupied hospital bed, an unsold thirty seconds of television time - these potential services can never be rendered again once the single opportunity has passed". The above quotation is typical of writers who believe that services can be distinguished from physical products or goods on the basis of perishability. The service products cannot be stored until another time when demand is greater. A service therefore is perishable in the extreme. The implication of this is that services cannot be mass produced and stored in advance to meet future demand. Consequently, it is extremely difficult to meet wide fluctuations in demand without a highly flexible production system or idle production capacity for considerable periods of time.

The perishability of a service is not a problem when demand is steady, because it is easy to staff the service in advance. When demand fluctuates heavily, service companies have difficult problems.

The absence of inventory in the service industry constitutes constraints for service managers in the handling of fluctuations in demand. Faced with these problems, a marketing oriented company would develop and implement plans to alter the demand schedule so that it fits more closely to the company's physical capacity, or to alter the capacity of the company so that it matches the fluctuating demand. The latter method may require the company to employ some part-time workers. If the marketing efforts fail, the company either has periods of idle capacity or periods of insufficient capacity or possibly both. In either case, the company has lost an opportunity of offering good services.

From the above argument one would be able to see that the management tasks of the service executives are rather different from those of their counterparts in the consumer goods sector. The difference is not fundamental, however, in the sense that a good understanding of goods marketing can effectively contribute to the marketing of services.

In general, problems facing marketers in service organisations could be grouped into problems facing the organisation and problems facing the customers, as illustrated in table (3.1), taken from John Bateson's " Do we need service marketing?" 1977.

It is interesting to note that the problems faced by service managers stem from the distinctive characteristics which are inherent in the service products.

Table (3.1)

Common problems perceived by managers for themselves and for their clients.

Problems for the organisation :

1. Service firms cannot use inventories.(only in the case of the airlines they can use time tables as inventories)

2. There is no patent protection for services (expect no names).

3. The employee/client interface is complex because :

   a. the employee in contact with the client is torn between the firm's objectives and those of the client.

   b. many employees may be in contact with the client, hence a problem of consistency of behaviour arises.

4. Physical setting and environment are important to the quality of service, yet this is difficult to control.

5. If the service firm wants to grow, it has to develop its own distribution network.

6. Innovation is difficult because it may imply the need for client education to change behaviour.

Problems for the client :-

1. The client must have confidence in the firm from which he buys his service. He needs more confidence for service than for a physical good

2. The "mental image" of a service is "fuzzy" .

3. Word of mouth has a great influence on services.

4. While consuming the service, the client has a tendency to be very emotionally involved with the service firms.

3.7 A MARKETING PROGRAMME AND MARKETING SYSTEM FOR SERVICES

Because of the characteristics of services (intangibility, etc.), the task of developing a total marketing programme in a service industry is often uniquely challenging. The unique aspect of services which give direction to service marketing programme development and implementation are noted above.

The nature of these characteristics often results in marketing programmes that are to say the least different in degree, from those found in the marketing of goods. It was also noted earlier in the chapter that services dominant firms often are less marketing oriented, and that services firms generally, according to Markin (1982), are less likely:

1. To have marketing mix activities carried out in the marketing department.

2. To perform analysis of their market opportunity

3. To handle their advertising internally rather than use an outside agency.

4. To have an overall sales or marketing programme.

5. To develop a sales training programme.

6. To use marketing research firms and marketing consultants.

7. To spend much on marketing expressed as a percentage of gross sales.

(It is believed that the above points are applicable to small services firms but the airlines are so big that

they make use of all these points).

Hence, service firms need to think more consistently in marketing terms. The marketing concept, with all that it entails is perhaps even more applicable to service marketers than it is for product marketers. The service must be customer oriented and must develop a competitive marketing programme.

This consists of two steps :

a) Identifying target market and their needs, and

b) Developing a marketing mix that satisfies the unique needs of these target markets.

Market analysis usually precedes a marketing plan. Before proceeding to develop a marketing plan for a service business, according to Markin (1982), managers should ask themselves, at least six questions, the answers to which will have a solid impact on the overall marketing performance of service firms.

1. What specific type of service business are we in ?

2. Who are our customers, how can we identify them, and what benefits are they seeking?

3. How can we penetrate the market and how can we defend our business against competitors?

4. How can we acquire a competitive advantage and achieve more efficient operations?

5. What efforts will be used to develop and test new product service offerings?

6. What role should we assign to planning and research?

3.8   MARKETING SYSTEM FOR SERVICES

Middleton (1988) produced the following diagram to show the main elements of the marketing system and to introduce all the main stages or processes involved in any form of marketing.
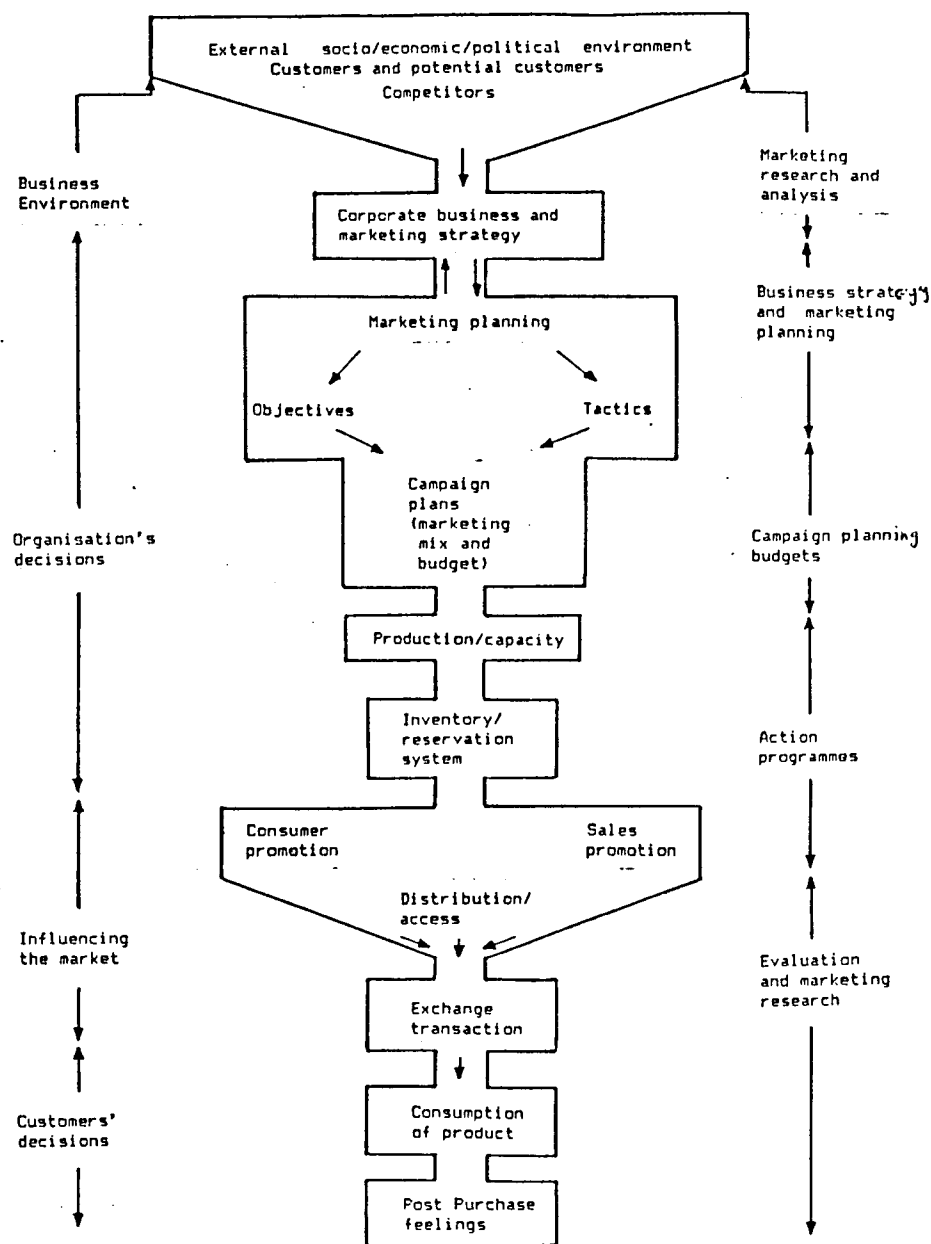
Figure 3.1 The Marketing System for Service Products

In the above diagram, the logical flow and linkages between the main processes are shown within an integrated system relevent to all forms of service products. The process begins with a detailed analysis of the external business environment and works through marketing and campaign planning to produce business strategies and operational plans, which identify the marketing activities to be undertaken. The research and the planning stages of the process incorporate all that an organisation knows about its customers and potential customers, their attitudes and their buying behaviour. Business strategies express an organisation's attiudes and decisions over a specified time period. As the stages proceed, plans are turned into costed action programmes, which express how an organisation will communicate with its potential customers. The marketing process ends with further research into customers' feelings about the satisfaction and value for money they received from the purchases they made.

3.9   SEGMENTING THE SERVICE MARKETS

Because service needs in the market place are heterogeneous and because different consumers may perceive the same service quite differently, the marketer may wish to segment the total market into smaller target markets that are characterised by more homogeneous needs.

Marketers in service-oriented businesses are still working to identify key underlying variables, which are good discriminators between classes of people having different response characteristics to either products or services.

Markin (1982) warned that no firm can expect to appeal to all customers. The process of attracting one segment, he argues, may not work with another. A service marketer who aims simultaneously at more than one segment will not often be able to maximise his appeal to any single segment. Such efforts run the risk of creating an image that is not recognisable by any of the segments. If heavy users, because of their important potential, from the most attractive and promising market segment, then management must create and implement its offering for the heavy user segment and not dilute its efforts by trying to satisfy lighter user segments.

3.10   A MARKETING MIX OF SERVICES

Kotler (1988) defined the marketing mix as " the set of marketing tools that the firm uses to pursue its marketing objectives in the target market".

The marketing mix is the essence of any marketing programme, and in service marketing the marketing mix, like that for tangible products, consists of product planning and development, channels of distribution policies, pricing and promotional activities, also known

as the four Ps, product, price, promotion, and place.

Because each of the four Ps includes within it so many important sub-elements, Cowell (1984) proposed a " revised marketing mix" for services which consists of

1. Product

2. Price

3. Promotion

4. Place

5. People (numbers, training, attitudes)

6. Physical evidence (furnishings, colour,lighting,noise)

7. Process (customer involvement, procedures in service delivery)

The researcher supports Middleton's (1986) view that the additional three Ps are integral elements of travel and tourism products. The researcher will discuss these three elements within the product mix context in this research. It can also be noted that sub-division is of greater importance for service products than for physical goods.

The following pages deal with some issues regarding the formulation of the marketing mix which might have relevance to a wide range of service industries.

This is not an easy task since service establishments are established for many different purposes and serve different sets of customers.

3.10.1 Product

Kotler (1980) pointed that product planning is a very challenging area for a service organisation to deal with since the intangibility of services seems to be incompatible with the idea of a product offering. However, this illusion can be put aside because services are products too. In offering their services the service organisations must identify their products in exactly the same way that physical product offerings are identified. A manufacturing organisation can easily define its products in terms of specific costs, quality, performance characteristics and dimensions which are embodied and observable in the physical goods. For a service organisation the situation is almost reversed; that is, the intangibles are an integral part of the total product package. One of the first steps the manager of a service organisation must take is to define the service offering in terms of the bundle of goods and services sold to the customers and the relative importance of each component to the consumers. Thus, through advertising, many airlines offer their products by emphasising the delicious food offered on board rather than the journey itself.

According to Kotler (1980), careful analysis will enable the service managers:

1. to understand some of the elusive implicit intangibles that affect the consumer decision, and

2. to design and operate his or her organisation in such a

way as to enable it to deliver a total service package that emphasises the important elements of that package. However, any decision taken must be customer oriented, that is, it must respond to customers' needs and wants. Indeed, as the competition becomes intense, in the consumer goods field, most producers, in trying to sell their goods, provide customers with various types of services such as installation, guarantees, servicing arrangements, etc. This has led to the idea of system selling whereby the producers are selling a total system or bundle of benefits to satisfy the buyers' cluster of value expectations.

Bell (1966) recognises this and states that services are not completely divorced from products, just as products cannot be separated from the services that are offered in connection with their sale.

3.10.2 Service Channels of Distribution

It is argued that because services are intangibles inseparable and perishable, the concept of marketing intermediaries or middle-men and physical distribution activities are not relevant to services. Most services are sold directly to the consumers, and this is particularly true in the case of most personal services. However companies such as airlines, tour operators and insurance companies utilise marketing intermediaries in their operations. Nowadays, most service organisations utilise

marketing intermediaries to make their service offerings readily available to consumers.

An important example is found in the growing use by service organisations of sophisticated, customer-oriented machines to provide certain repetitive services. Such self-service equipment includes vending machines, ticket dispensers, self-service gasoline pumps, and automatic bank tellers.

3.10.3 Pricing of Services

Many of the service industries set their prices as a straightforward mark up over cost. The cost may include rent, labour, facilitating goods, etc. In a field such as fast food restaurants and hairdressers, the one price system is adopted. Each customer pays the same price for the identical product consumed. Other establishments charge their customers according to the customer's ability to pay as well as the value of the service rendered. This method of pricing is widely adopted by most professional service industries such as physicians and attorneys. Another pricing strategy that the service industries can adopt is what is called discrimination pricing. This method is often used by managers of service industries to shift demand from peak periods to non-peak periods. Another point worth mentioning is that prices of services can be negotiated. Among the adopters of this pricing practice are art designers, models..., etc. Due to the

critical importance of the pricing policies in the airline industry, these will be discussed in the following sections.

3.10.4 Promotion of Services

The use of promotion for services organisation can be extensive, and one may argue that promotion is in fact the most important variable of the marketing mix that is available to the service industries. Promotion can be used to build interest in the service, differentiate the company's offer from competitors' offers, and build up the organisation's overall image.

Service organisations can make extensive use of publicity, personal selling, advertising and even sales promotion. George and Berry (1976) present six guide lines for service advertising. These are advertising to employees, capitalising on word-of-mouth, providing tangible clues, making the service understood, advertising continuity and promising only what is possible.

3.11 DIFFERENCE BETWEEN TRAVEL AND TOURISM MARKETING TO OTHER FORMS OF MARKETING

It appears from the definitions of the marketing concept stated in the beginning of this chapter that the principles of the body of knowledge about marketing, and its main theoretical elements, can be applied in all industries and in commercial and non-profit sectors of an

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economy. Differences occur in the application of the theory. As there is an internationally recognized theory of marketing, the basic or core principles of marketing must be relevent to all products, whether they are based on services or manufactured goods. However Middleton (1988) claimed that there are some characteristics of the travel and tourism services, which are dominant in their implications, standard marketing principles must be considerably adapted to ensure success in an operational context. Middleton (1988) believes that the marketing in travel and tourism must be based firmly on five aspects of demand and supply in the industry, each of which has important common characteristics that combine to give marketing practice its particular approach and style. These are:

1. Nature of demand

2. Nature of supply

3. Products and Prices which respond to 1 and 2

4. Characteristics of promotion used to influence demand

5. Characteristics of distribution used to facilitate demand.

On the basis of the characteristics of the above five aspects of demand and supply, Middleton (1988) stated that it is possible to make three propositions about marketing in travel and tourism, which are relevent to all forms which it takes:

1. In the context of opportunities and constraints arising from the business environment of a major national and international market, products in tourism are designed, adapted and promoted, to meet the long run needs and expectations of prospective customers. This is the common ground with all forms of consumer marketing, and the cornerstone of all marketing theory.

2. Service products have particular characteristics of inseparability and perishability, which involves a different application of the marketing mix variables. This is the common ground with those who advocate, properly, that marketing of services is different in practice from physical goods.

3. The marketing of travel and tourism services is shaped and determined by the nature of the demand, and the operating characteristics of supplying industries. The forms of promotion and distribution used for travel and tourism products also have their own particular characteristics, which distinguish their use in comparison with other industries. These characteristics form the common ground on which marketing for travel and tourism is based.

It can be argued that it is the combined effect of the above propositions, which distinguishes marketing in travel and tourism from marketing in other industries.

3.12 MARKET SEGMENTATION

Market segmentation is based on the concept of sub-dividing a market into distinct subsets of customers, where any subset may conceivably be selected as a target market to be reached by means of a distinct marketing mix. The power of this concept is that in an age of intense competition for the mass market, individual sellers may prosper through special development for specific market segments whose needs are not perfectly satisfied by the mass market offering. However, this may achieve only a short-term advantage which can not be protected in airlines, for example, where competitive response is very quick.

According to Smith (1956), segmentation is based upon developments on the demand side of the market and represents a rational and more precise adjustment of product and marketing effort to consumer or user requirements.

Howard and Sheth (1970) noted that the concept of market segmentation seemed to rest on the idea that a company should segment or divide the market in such a way as to achieve sets of buyers which would lie in segments of the market and would be targets for the company's marketing plans. Management has to face the problem of devising marketing mixes which are likely to be effective in these identified sub - markets.

3.12.1 Criteria For Market Segmentation

Four criteria are necessary in the selection of a target market for either a product or service. The target market must be (a) measurable, (b) accessible, (c) substantial and (d) responsive.

a) **Measurability :** this is the degree to which the market characteristics of the segment selected can be measured, e.g. youth and student market.

b) **Accessibility :** this is the degree to which the segments can be effectively reached and served. Because some markets are less accessible than others in terms of promotion and distribution, it is considered important that access to the target market selected by the company should be possible; if not, it will not be worthwhile designing a marketing mix programme e.g. I.T.X. groups.

c) **Substantiability :** the degree to which the segments are large and/or profitable enough. This criterion requires the target market to be large enough to enable the company's effort to be financially worthwhile.

d) **Responsiveness :** the degree to which effective programs can be formulated for attracting and serving the segment. This deals with the extent to which a clearly defined segment reacts to a change in the marketing mix adopted. If there is no change when the marketing mix is varied, the company will need to redefine this particular segment.

Apart from the criteria outlined above, there are two general approaches that can be used by either the service or consumer industries to identify the most viable and profitable segment(s) for a service or product. The first involves identifying the "consumer characteristics", whereby a full demographic breakdown of the consumer market is carried out. This approach also uses the geographical location and the psychographic characteristic of the consumer.

The second approach involves identifying the benefits derived by consumers when they use the product, the frequency of usage, loyalty to the brand and occasional responses.

3.13 SEGMENTING THE TRAVEL AND TOURISM MARKETS

Middleton (1988) stated that there are six main ways of dividing up markets for segmentation purposes in the travel and tourism industries. These ways are usually based on some form of marketing research. The following are the main methods :

3.13.1 Segmentation by Purpose

The practical marketing segmentation in travel and tourism begins with a careful analysis of the purposes for which customers travel, and use their (and their competitors') products. For example, if the purpose of travel is mainly for business, this obviously requires a

range of business-oriented travel products. The business travellers have many different purposes, which determine the nature of the products offered and the promotional approach to be used. The consumer segments for an airline, for example, consist of business class, first class , club class, tourist class,etc. This range of segments reflect some of the more obvious purposes. A little thought will indicate a broad range of possibilities, and provided the customer groups associated with any purposes meet the criterion for effective segmentation, a detailed under-standing of each purpose of visit is likely to be useful in practice.

3.13.2 Segmenting by Buyer Needs and Benefits Sought

Within the purpose of travel, the obvious element for segmentation is to understand the needs, wants and motivations of particular customers of particular customer groups. It is generally accepted in marketing that customers are typically seeking particular benefits when they make their product choices. For example, some business travellers may identify luxury and high levels of personal service, as the principal benefits they seek when travelling away from home. Others may identify speed of service and convenience of particular locations as their principal benefits. In most sectors of travel and tourism, the range and perceived importance of the benefits sought by customer segments may be discovered only through con-

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ducting market research among identified target groups.

3.13.3 Segmentation by Buyer or User Characteristics

In terms of purpose and benefits sought, there is scope for refining the segmentation process according to the types of behaviour or user characteristics which customers exhibit; for example, the frequency of usage of products. Business travellers may be very frequent users of airlines, with perhaps twenty or more trips with an airline in a year, and more users of hotels and car rental companies. Frequent users may represent only 10 per cent of individual customers each year, but up to 60 percent of revenue for producers such as airlines and hotel groups. That is why they constitute a key segment for marketing attention and represent an obvious focus for marketing research (such as user surveys). The following table provides a wide range of user characteristics which could be relevent for identifying particular segments.

Pre-booking	Booking process	In use	After use
media habits	via travel agent	length of stay	customer sstisfaction
awareness/use of brochures	via centreal reservation office	party size and compostion	and perceived value for
sources of travel information used	booking direct with producer	transport mode	money
previous usage/ experience	package/independent arrangement	expenditure per head	
frequency of usage	credit terms required		

Table 3.2 Buyer behaviour usage characteristics by sequence of purchase and usage, Marketing in travel and tourism. Middleton (1988)

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3.13.4 Segemention by Demographic, Economic, Geographic and Life-Cycle Characteristics

Producers should have a clear understanding of the type of products their chosen customers want. If that understanding is backed up by information obtained through market research, their knowledge of target groups will already be considerable. For the purposes of efficient promotion and distribution of products, especially to prospective new customers, they will also need detailed knowledge of the demographic and other physical characteristics of their selected target groups.

Customer segments may be defined in terms of basic characteristics like their age, sex, occupation, income grouping and place of residence. Such facts are obtained in respect of existing customers of travel and tourism as a byproduct of product booking records, registration procedures and regular customer surveys such as in-flight studies undertaken by airlines and also from studies undertaken by government and commercial bodies.

Without prior analysis of purpose, benefits and user characteristics, demographic profiles will seldom be an adequate basis for organizing effective marketing campaigns.

At a more complex level of analysis of consumer profiles, it is possible to group together a number of physical characteristics of people to form what is usually

termed "lifecycle analysis", based on the stages through which all people progress in life, from infancy to old age.

3.13.5 Segmentation by Psychographic Characteristics and Life Style

"Psychographics" is a term used to denote measurement of an individual's attitudes and psychological make-up, a process which always involves the use of sophisticated marketing research techniques. Psychographics aims at placing consumers in terms of psychological rather than physical dimensions. This practice reason is based on the belief that common values can be found among groups of consumers which tend to determine their purchasing patterns.

The methods of measurement, typically involving consumers in making complex ratings of items included in multiple choice questions, have been enhanced by the availablity of computer programmes which can measure the extent and strength of any correlation which exist between people's attitudes and values, and their behaviour patterns as buyers of travel and other products.

Related to their demographic characteristics and life cycle, the links which exist between attitudes, perceptions and actual buyer behaviour, combine to determine the life style which individuals adopt. An understanding of the life style of target customers has

obvious advantages when organisations are formulating new products or creating messages designed to motivate such people.

3.14 SEGMENTING THE AIR PASSENGER MARKET

There is no single method for segmenting the air passenger market. Each airline segments its market with reference to the types and characteristics of the customers it serves and the routes it flies. In figure 2.1 Taneja (1982) shows a typical segmentation of airline passengers, derived from surveys conducted by British Airways, which it seems, has found it most appropriate to base the segmentation of its passenger market on the reason for travelling, using three distinct segments; the leisure travellers' market, the business travellers' market and the VFR (Visiting Friends And Relatives) market. For another airline, the size of the VFR market may be so insignificant that it does not justify being treated as a separate segment. Each major market segment may further be broken down into smaller groupings or subsegments.

Nevertheless, only by knowing in detail the characteristics of each selected segment can the airline develop an appropriate strategic plan to attract all these segments. In the following section an attempt will be made to examine and discuss the characteristics of the major air passenger markets.

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3.14.1 The Business Travel Market

As noted by Shaw (1982), business travel can be defined as any journey undertaken for reasons directly related to a person's employment, and for which the employee is not paying the fare out of his personal income. As a result, it can be argued that, if a business traveller is not responsible for the payment of his fare, he may be willing to pay a higher price than if he is paying personally for the ticket. So within this segment, it is possible to distinguish a sub-segment of independent business travellers, i.e. those who run their own firms and who therefore regard expenditure on airfares as a reduction in their income. Another important issue is that there are some occasions when executives will have to travel to attend to some urgent business problems, or when a sale representative has to fly immediately to meet an overseas client : under such conditions, the businessmen do not greatly care about the price paid for that particular journey. For the above reasons, the business travel market can be considered as price inelastic.

The segmentation criteria of the business travel market are based on the following features :

a) **The demographic variables** :   concerning this aspect two factors have been used.

Age :   the general age range of the business travel market segment is from early 30's to early 50's. These age

limits are selected because it is assumed that it is unlikely that an individual under 30 would be an executive while the early 50's age are close to the retirement age for executives.

Sex : as noted by Gumbridge (1969) and Shaw (1982) the business travel market is overwhelmingly dominated by men in most countries, being upwards of 97 percent male in many countries.

However, there are now some signs that, with women gaining positions of responsibility and changes in family structures, the importance of women in business travel is increasing. A survey in the US (1978), for example, indicated that nearly 20 percent of business travelling in domestics routes consists of women.

b) Size structure : Shaw (1982) argues that the relative size of the sub-segment of the business travel market has been a matter of great interest. A valuable evidence from one airline suggests that whilest "plannable" business travel to trade fairs, conferences and incentive holidays, makes up only a quarter of the total business journeys at the present time, the size of this subgrouping is increasing rapidly, its overall significance being likely to grow during the next few years. This can be seen to be true in many airlines such as SIA, KLM and others which have concentrated their marketing efforts in order to improve their business travel market. Hence the marketing orientated airlines should study and monitor the increase

in this market carefully and adopt appropriate strategies to cater for this growing group. With reference to the features of the business travel market, this market consists of a relatively small number of people who regularly travel on many routes as individual commuters. In terms of revenue, this market is very important to any airline that can gain the loyalty of its commuters.

In his article " An analysis of the frequent business flyer..." (1978) Navodick points out that the frequent business flyer accounts for :

1 Only 5% of all individuals who have taken an airtrip in the past 2 years.

2 85% of all business air trips.

3 48% of all air trips.

From the above, it becomes obvious that a general characteristic of this segment is that it is highly concentrated. Another of its characteristics is that it consists basically of up-market travellers with very high socio-economic attributes. These travellers have high personal incomes and often travel for leisure purposes as well. So an airline that can sell its services success-fully to such business travellers has nothing to lose and tends to gain through additional revenue derived from its leisure market. It must also be noted that in addition to the services airlines offer, lower prices play an important role in the success of an airline.

Concerning the problems associated with this market,

Shaw (1982) argues that any business recession will affect the demand for air tickets. It was noted that at least in the UK market, the business recession of the mid 1970s witnessed a decline in business travel. This was accounted for not only by a slump in world trade leading to a lower level of business interaction, but also perhaps by firms which were subject to acute cash constraints beginning to regard travel expenditure as an area where cut-backs might be made. The effects of this have been both a reduction, in some cases, in the amount of business travel undertaken and, much more serious, a growing willingness on the part of firms to insist that cheaper special economy fares should be used where possible. Another important point to note is that this segment of the market suffers from a daily and weekly variation in demand, especially on domestic and short-haul routes. Demand for seats peaks on early morning, evening and weekday flights.

Demand is relatively quiet at other times. Most domestic and regional airlines therefore face an optimal scheduling problem.

Service Requirements of Business Travellers :-

Ashton hill (1978) has outlined the service expectations and needs of the business traveller, emphasising that air travel, in the mind of the business traveller, extends from the time he leaves home or his office until he is back home again after making his

business trip. There is a variety of overlapping services the responsibility for which varies in different locations and in different countries. It is the duty of the providers of such services to ensure that there are no slip-ups. Nothing can be more irritating to a business traveller than to be informed that the fault for the slip-up rests with another organisation. The airlines and the airport operators too frequently blame each other for a mistake. The fact that this may be strictly true does nothing to satisfy the victim. Accordingly Ashton hill(1978), recommended that airlines and airports review the scope of their responsibilities at different locations and co-operate to avoid mistakes. When a mistake occurs, the staff should be instructed to assist the traveller, irrespective of where the actual responsibility lies.

The provision of another important service must be considered by the airlines, namely at the airport of departure. The full fare paying passenger (the business traveller) should be distinguished from the promotional fare traveller. They should be separated into two streams with the object of providing the full fare paying passenger with a better service, such as a separate check-in process, using desks to expedite procedures, late check-ins, hand-luggage only arrangements and so on. Further the business traveller should be given boarding priority on intercontinental flights in the absence of

seat allocation. Moreover the business traveller should be provided with an adequate waiting area prior to boarding. Not every business traveller will be a member of an airline's VIP club.

In flight, the business travellers require a separate section of the aircraft to be reserved for them, and they should be given information on boarding concerning the in-flight services that are available. On arrival, disembarking priority should be given to full fare paying passengers when they are accommodated separately in the aircraft. They should also be given priority in respect of baggage unloading and collection, as well as for passage through passport and customs controls. Where flights are cancelled or delayed, the full fare paying passenger should be re-routed on the first available flight of any airline. If the business traveller has missed his flight, he should be advised by the airline through which he booked his flight of all possible alternatives, not just the flights provided by that airline.

Moreover Walles (1978) points out what he believes an airline must provide in order to meet most of the business traveller's expectations and needs. He believes that the airlines must be consistent in delivering :

1. Convenient and on-time schedules.

2. Prompt and accurate reservations service.

3. Prompt and efficient airport processing.

4. Comfortable in-flight accommodation where the business

traveller can work and rest.

The whole of chapter five is devoted to international business travellers due to the importance of this segment to the airlines industry.

3.14.2 The Leisure Travel Market

Shaw (1982) defined leisure travel by air as : Any journey undertaken by a person during time outside his working time, for purposes associated with planned decisions as to how such time should be used. It does, however, exclude journey to and from work. It exhibits a number of features which distinguish it totally from business travel.

In terms of passenger numbers, leisure travel constitutes the largest segment for the airlines. It has been shown that about 70 percent of air journeys made for leisure purposes. The leisure segment, therefore, is very large and the number of leisure travellers is growing.

The segmentation criteria of leisure travel :-

The criteria for segmentation of the leisure travel market is based mainly on age and sex features.

Age:
Within the age structure, the trip generation rate amongst children is quite low ; thereafter there is a pronounced rise in the rate as people reach a stage in

life where salaries and wages begin to be earned. For an age group of between, say, 19 and 27, trip generation is high, both for holiday travel and for 'visiting friends (V.F) trips. According to Shaw (1982), the trip generation rates fall sharply for families with young children, for reasons related both to the well-known problems of air travel with the very young, and to lower disposable incomes. Once families have grown up, trip generation rises once again with, in particular, a peaking of travel in the rapidly – growing sub-segment of (V.F') visiting relations travel. This to a large extent consists of grand parents visiting grand children.

Sex:

The sex composition of the leisure travel market is shared approximately equally between males and females. Shaw (1982) argues that there is a slight tendency for a balance in favour of women in older age groups because of their longer life-expectancy.

Features of The Leisure Travel Market

An important feature is that the leisure traveller is almost always paying his own fare and doing so reluctantly. The effects of this reluctance are reinforced by the fact that many leisure air trips are undertaken in the context of the annual family holiday. Hence any fare increases will have an extra significance in monetary terms because they will be multiplied by the

number of people in the family group. Finally, unlike
business travel where large financial losses will be
incurred if a trip is not made, leisure travel does not
have to be undertaken. In addition, leisure trips are not
absolutely necessary, since the consumer can always spend
his disposable income on other things besides a holiday
abroad. These two factors make the demand for leisure air
travel very price and income elastic. The airline which is
interested in capturing this huge market has to be very
skilled in developing its pricing strategy.

According to Wheatcroft (1977), another feature of
the leisure air travel market is the link between air
travel demand and the costs of other components of a trip.
For anyone travelling on a holiday, it has been estimated
by Wheatcroft (1977) that travel expenditure accounts for
an average of only 37 percent of total trip costs. The
remaining costs are made up of payments for accommodation,
meals and entertainment. A relationship is therefore
likely to exist between changes in the prices for these
commodities and the demand for air travel.

Another factor related to the above components is the
currency exchange rate of the countries involved; a de-
pressed exchange rate in the receiving country will
attract more travellers to it.

One of the problems faced by most airlines in their
leisure markets is that some unique operational problems
arise. For example, the leisure travel market is often

heavily concentrated in the early parts of the weekend and in the summer-periods which constitute the holiday season.

Shaw (1982) points out that if pricing policies and creative marketing are used to cream off the peaks and fill in the troughs in demand, there are several reasons why airlines should be able to meet the needs of leisure travellers efficiently at lower costs than they can achieve in meeting the requirements of the business segment. Less expensive in-flight servicing, higher average seat factors and, with flight frequency being unimportant, the ability to use large aeroplanes with low seat-kilometre costs are all helpful in this respect.

Leisure Travel Service Requirements

Lapigio (1978) points out that to serve the leisure traveller in the long term by meeting his demand for flexible and cheap air transportation, the following concepts should be adopted by the air transport industry.
1. Pricing differentials for the air transportation product should as much as possible reflect value differentials.
2. Still more important than "pricing" is "costing". The industry should find adequate means to analyse each product in terms its own cost values, avoiding as much as possible cross subsidization.

There is no doubt that the feasibility of any further

step aimed at providing services capable of meeting the pleasure travel needs - mainly pricewise - lies fundamentally in the research of costs savings obtainable with a simplified product ; that is reducing substantially service benefits and features which the pleasure traveller is not prepared to pay for.

3. Wholesaling of air transportation and ground arrangements in co-ordination is an essential part of the pricing process. The distribution network should ensure that this responsibility remains with the airline producer, not letting the suppliers of individual services run away with it.

4. The other essential ingredient is adequate long term planning, and to make the planning really effective, a new concept of service must generate a low fare transportation "system" tightly knitted in all its "dedicated" aspects, harmonising the needs of the passengers with the economic needs of the airlines.

3.14.3 Personal Travel

The third way of segmenting the air market is known as the personal travel market (for those passengers who are travelling for personal reasons). According to Shaw (1982) it can be described as a market consisting of people who travel in their own time and pay their fares with their own money, but who have tighter timing and routing constraints than those applicable to true leisure

journeys. The chief form of such travel is the journey to work, where the air fare is paid from the passenger's own pocket. Another form of personal travel by air are journeys brought about by urgent and unpredictable family matters such as illness or bereavement. Travel requirements are unlike those for leisure journeys in that they can not be foreseen or booked in advance. With reference to the personal travel market segmentation criteria, it can be argued that the criteria used in the other two segments will also apply to the personal travel market.

Personal Travel Service Requirements

It can be argued that the service needs are very similar to those of the business market, with flight frequency and seat availability being very important.

We can conclude from the above that the personal travel segment is a difficult one for the airlines and the product it requires can only be supplied at high cost.

3.15   THE ROLE OF MARKETING IN THE AIR TRANSPORT INDUSTRY

In a firm that is truly marketing-oriented, all functions revolve around the customer. After all, without customers, there would be no firm. Such organisations view marketing's function not only as indispensable but also as integrative. The marketing enthusiasts claim that identification and satisfaction of customer needs is the key to success and the task of marketing is to attract

customers through promises and to hold them by delivering satisfaction. Taneja (1981)asserts that for an airline the role of marketing is to understand the needs of passengers and shippers in order to help management to adapt to the continuously changing needs of passengers in a competitive viable manner. Moreover, marketing must identify the airline's weaknesses and strengths, as well as potential competitive challenges and opportunities and then pinpoint strategies that will allow the airline to evolve from a passive to an adaptive, and ultimately, a creative organisation.

According to Taneja, marketing can fulfil this role through strategic planning, which can do far more than predict trends and prepare an airline for the future; it can in some ways, make the future happen. There are two types of variables: uncontrollable and controllable. Uncontrollable variables are those such as the state of the economy, the price of fuel, and the level and type of competition. Controllable variables are those such as the elements of marketing mix (service, price, promotion, and distribution). An airline's task here is to establish creative strategically controllable variables to adapt to an environment containing uncontrollable variables in a manner that harmonises the airline's objectives and resources with the market-place opportunities.

The first phase in the strategic planning process is to conduct a situation analysis that essentially describes

the current situation with respect to customers, competitors, market characteristics and general trends.

Customer analysis is normally carried out by means of surveys. Airlines have been conducting their own in-flight surveys to collect information on trip purpose and frequency, fare type and demographic and socio-economic characteristics. Cross tabulations of passenger composition, behaviour, and attitude data can provide significant input into service planning, advertising campaigns, media and channel selection and market share analysis. In addition to the use of surveys, useful information can also be obtained from sales, reservations and travel agents. Such information would come under categories such as advertising recall, reservations data, passenger compliments and complaints, innovative and competitive fares, sales outlets and points of ticket sale. Feedback from travel agents on how they and the passengers perceive different airlines and different service features can prove to be invaluable.

The analysis of competitors will help an airline to understand its own weaknesses and strengths relative to its existing and potential competitors. The object of the analysis of competitors is to evaluate their strengths, their performance, and their weaknesses and strengths-past, current and potential. A competitor's strategy can be evaluated by examining its traffic growth, revenue growth, change in yield, etc. The analysis of strengths

and weaknesses involves an examination of the quality offered by a competitor, channels of distribution and fleet characteristics. This analysis will ultimately be used to project possible competitive reactions and changing scenarios.

Analysis of the characteristics of the market is the next step, including all routes, segment by segment. Market analysis relates to demand as well as supply characteristics. On the demand side, the important characteristics are the size of the market and its rate of growth, the nature and degree of concentration, customer composition, seasonality and directionality. On the supply side, information should be analysed with respect to structure, performance and conduct. In this respect cost structure and cost behaviour are of particular interest.

The next step in the situation analysis is to examine general environmental trends. With regard to this aspect an attempt should be made to assess changes in the social, economic, political, regulatory and technological environment. The assessment of the general environment trends will provide valuable insight concerning the form that market planning should assume in the future.

According to Abell and Hammond (1979), the final step in situation analysis is for an airline to make an assessment of itself. The analysis thus far would provide an airline with an assessment of the available opportunities. An assessment of itself and its competitors will determine

whether it is in fact in a position to take advantage of the opportunities identified. The criteria for self-assessment should be the same as those used in analyzing competition.

The second phase of marketing planning is to formulate and study alternative strategies and select an optimal strategy that will achieve the stated corporate and marketing objectives. The formulation of an overall marketing strategy requires a thorough examination of each of the marketing mix elements.

The third phase in marketing planning is the development and implementation of monitoring, evaluation, and control systems to assess, on an ongoing basis, the progress of the marketing plan.

3.16 The Role of Transport in Tourism

One of the important components of tourism is the provision of transport facilities. Developments in transportation have had major effects on the growth of demand for tourism and the nature of that demand.

The evolution of tourism and its different parts has been greatly affected by the development of the means of transport. There are two distinct trends emerging in the types of transport used by tourists. For the longer distances inter-regional tourism, the increasing importance of air transport is evident. For short haul intra-regional tourism, road transport is increasing while

the importance of rail transport seems to be diminishing.

The traffic development and the application of modern technical achievements in transportation have greatly affected the expansion of tourism. This is particularly the case with regard to the development of road traffic, automobile and air-transportation and to a lesser degree railway, maritime and inland waterway. A review of various countries will indicate that air transport is accounting for larger proportion of a country's tourism trade.

3.17 Air Transport and Tourism

The technological progress which has characterised air transport since the end of the second world war has resulted in more safety, higher speed and much greater aircraft capacity than before. This has, made remote destination areas much more accessible, and the traffic frequency to various countries has increased multi-fold. The cost element was also affected by such qualitative changes although only to a rather limited extent until other factors emerged.

According to IATA 1988 figures, the world's airlines carried over 1,072 million passengers on scheduled services in 1988-international passengers (232 million, an increase of 5 percent over 1987) represented nearly 22 percent of the total. Domestic traffic also rose by 5 percent.

The progress of air transport over the last three decades was both the cause and the effect of tourism

expansion, because tourism is inseparable from and dependent upon travel. The choice of the mode of travel depends on several factors among which distance, time available and cost firgure most. By and large, air travel dominates travel of over 300 miles, particularly in countries outside Europe an North America and especially for over water routes.

3.18 Impact of air Transport on Tourism

Faster and cheaper air transportation has mde foreign travel a real possibility for those who could not previously afford it. Airlines must be given credit for striving constantly to widen the social basis of the market by minimising air travel and through the provision of low cost facilities and promotional fares.

In World Travel (1978), it is pointed out that tourist travel accounts for the overwhelming share of the total air transport market with recreational tourism, the most sensitive to price factors, taking a two thirds share of the total international tourist travel. This shows that tourist traffic is playing an increasingly important role in both scheduled and charter flights.

The contribution of the airlines to the promotion of tourism is remarkable. Throughout the years they have been able to hold their own while offering unbelievably reduced rates. In fact, air fares have virtually halved in real terms over the past three decades.

In addition, one of the major income elements, for

airlines is toursit revenue; without it, the airlines could not subsist economically. As a result, the airlines are increasingly directing their efforts to the development of this part of their business.

La Vega (1978), President of the Mexican Airline, mentioned four areas in which airlines contribute significantly to the development of tourism. They are :-

1. Vast communication systems network for reservations to be made in seconds.

2. Buying and paying for an airline ticket covering an entire trip in one currency anywhere in the world.

3. Increase in travel agency commission to promote sales.

4. Promote tourism through publicity in newspapers, magazines and leaflets and other promotional schemes.

Thus, it is believed that the air transportation industry has tremendous impact on optimum utilization of tourist resources.

3.18.1 Long Haul Tourism

Air transport is vital t long haul tourist development. Long haul tourist destinations tend to be located in developing countries.

The introduction of promotional fares such as APEX fares to many long haul destinations has resulted in a surge in the demand for travel to various destinations.

The success of modern toursim is shown by the fact that many popular destination areas have become saturated.

The fastest expanding sector of tourism in recent years has been long-haul tourism and in view of the saturation at popular destinations, this trend can be expected to continue. International tourism will therefore in future be calling more and more on the air transport industry to provide an essential element of its product.

3.18.2 Non-Scheduled Air Transport Tourism

Basically, there are two types of international transport services, namely scheduled and chartered (non-scheduled). In scheduled services, the air transport service is fixed and is useful for travellers who want to travel on short notices especially business or government travellers where price is a secondary consideration. On the other hand, charter services is primarily provided for the recreational tourists for whom price is the most important determinant but for whom departure time and flexibility of services is of less weight. Such tourists are usually prepared to accept advance purchase requirements and non-refundable tickets as well as adjusting their time of travel to fit the requirements of the carrier who can then plan operations to achieve maximum utilization and efficiency.

According to IATA 1988 figures the growth in passenger charter operations in 1988 has been in line with that of scheduled passengers, 6 percent for international and domestic combined. Charter operators carried 50

percent of total passenger-kilometres and 57 percent of tonne-kilometres performed; scheduled airlines carried the remaining 50 and 43 percent respectively.

It has to be recognized that there is substantial public demand and need for non-scheduled air transport services in international operations and that extensions of these services to other areas of the world to stimulate tourism to the developing countries should be encouraged.

The following are the positive impact of charter services to the tourist industry :-

1. Expansion of tourism market.

2. Growth of tour operating business with "birth" to larger business concentrations (conglomerations).

On the other hand, Wahab (1975) pin-pointed some draw-backs in operating charter services. These include:-

1. Danger of economic squeeze

2. Possible ruining of country's tourist industry

3.19 International Air Transport Association (IATA) and Tourism

As the trade association and "parliment"of the world's scheduled international airlines, IATA clearly has a stake in the continuing evolution of the tourism industry.

IATA currently numbers some 144 members from more than 100 different countries, and provides a forum for those airlines to discuss matters of mutual interest regarding the provision of safe, regular and economical

air transport for the benefit of people world wide. IATA's member airlines account for 80% of the international traffic.

IATA operates on integrated world wide system for the ultimate benefit of both the general public and the airlines, whether they are members of IATA or not. Some of the major activities of IATA include :-

1. Traffic services

2. Users Charge

3. Facilitation

4. Security

In addition, IATA is building and designing programmes for airlines from developing countries to become self sufficient and to play a full part in the overall pattern of international air transport.

In addition, IATA acts as clearing house which facilitates financial settlement transactions between member airlines and also plays an important role in technical matters, with particular emphasis on safety related issues. Further, it undertakes statistical analysis, consumer research, and various economic studies concerned with international air transport.

The following figure illustrates the strong relationship between air transport and tourism and it depicts the relative positions of consumers, travel agents, carriers and receiving infra structures. The graph also shows two of many additional lines which lead to

other interested sectors: air carriers are related to aircraft manufacturers and infrastructure forms part of the national economy of receiving countries.

Figure 3.2

The Overall System of Tourism

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  │ Consumers│ ←────→ │Hotel, etc.│  ╲
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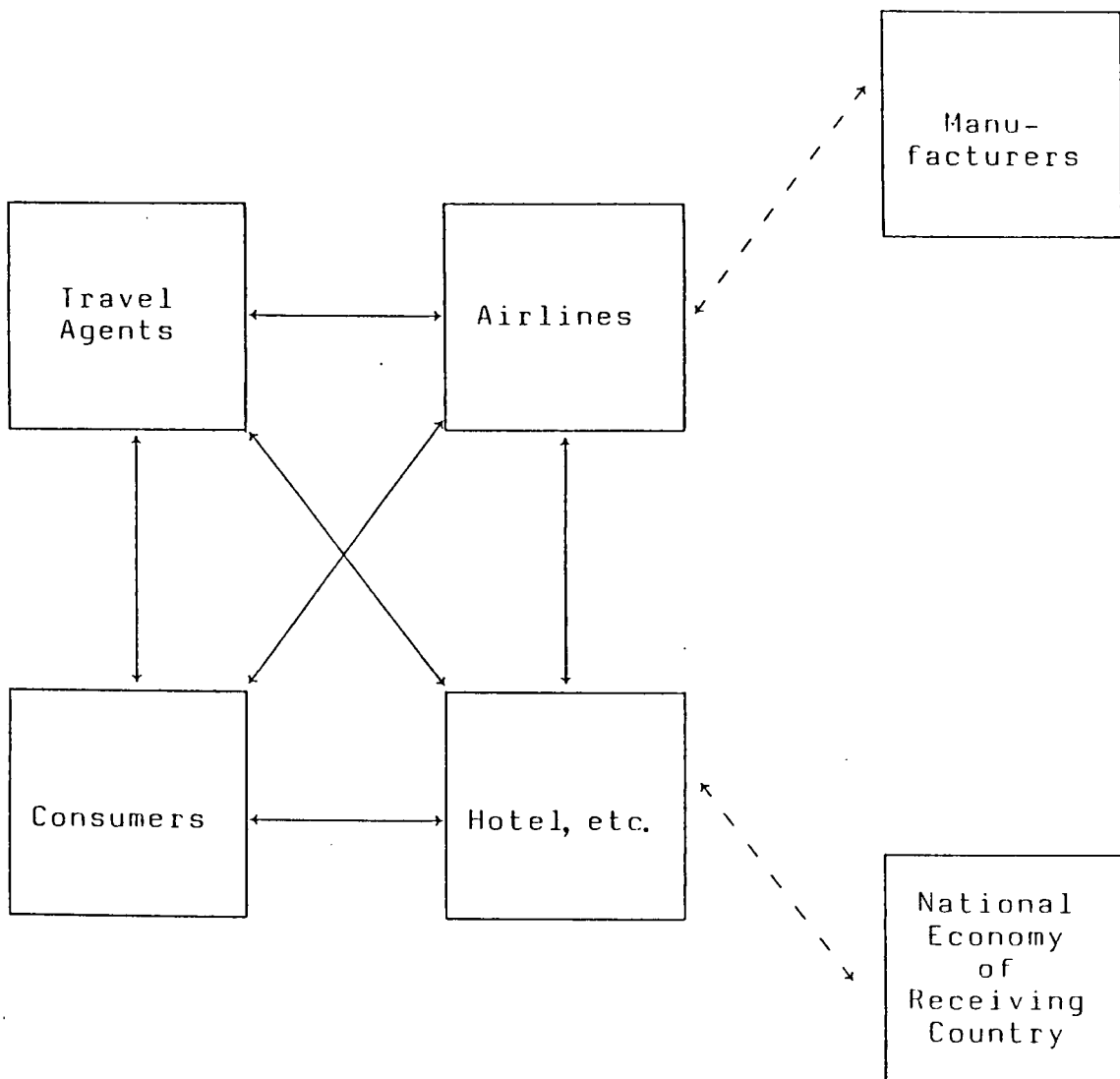
Source: WTO and IATA, 1978

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CHAPTER FOUR

"MARKETING PLANNING: ITS ADOPTION IN THE AIRLINE INDUSTRY"

"IF A MAN TAKE NO THOUGHT ABOUT WHAT IS DISTANT, HE WILL FIND SORROW NEAR AT HAND"

CONFUCIUS

4.1 INTRODUCTION

This chapter outlines the adoption of marketing planning by the airlines. An examination of the definition of planning and marketing planning is carried out with reference to the application of this concept to the airlines .

Marketing planning is reviewed through the stages of market analysis, which looks at the threats and opportunities, the control system and the decision support system.

This is preceded by a review of the development of marketing strategy. Here the formulation of a marketing mix strategy for airlines is discussed in detail.

4.2 DEFINITION OF PLANNING:

Kotler(1988) defines strategic planning as the managerial process of developing and maintaining a viable fit between the organisation's objectives and resources and its changing market opportunities. The aim of strategic planning is to shape and reshape the company's business and products so that they combine to produce satisfactory profits and continuous growth.

Baker(1985) asserts that, "planning is a pervasive human activity by which we seek to exercise some degree of control over the future. As a process, it will vary enormously depending upon a number of variables, foremost among which will be the complexity of the activity and the

degree of uncertainty concerning the future situation in which the activity will take place. Fundamentally, however, all planning seeks to arrive at a present decision concerning future action - the more complex the activity and the more uncertain the future, the greater the need for formal systematic planning procedures.

Koontz and O'Dennell (1972) claimed that 'planning is deciding in advance what to do, how to do it, when to do it, and who is to do it".

Steiner(1969) stated that "planning is not forecasting. A forecast is a prediction, projection or estimate of some future event or condition. Forecasts are essential in planning but they are not planning nor plans....... The forecast is a basic premise upon which planning proceeds, but it is not the whole of planning nor is a forecast plan".

4.3 MARKETING PLANNING

According to Kotler(1988) the marketing management process consists of analyzing marketing opportunities, searching and selecting target markets, designing marketing strategies, planning marketing programs, and organising, implementing and controlling the marketing effort. He identifies the specific steps in the strategic marketing management process as shown in Figure 4.1.

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Analyzing              Researching            Designing
Marketing -------►     and Selecting ------►  Marketing ------┐
Opportunities          Target Market          Strategies      │
    ┌──────────────────────────────────────────────────────────┘
    │          Planning            Organising
    └──────► Marketing ------►Implementing
               Programs            and Controlling
                                   Marketing Effort
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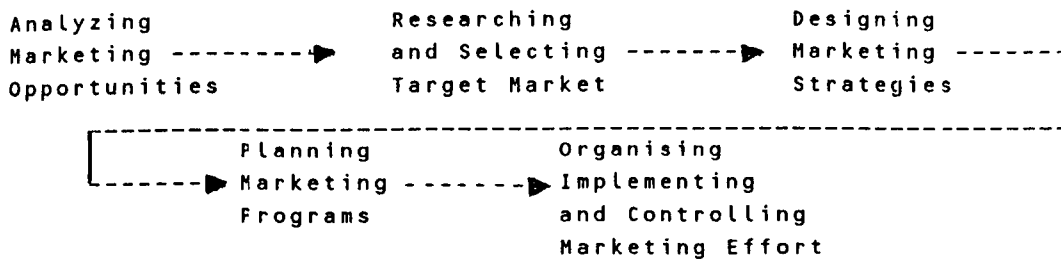
Figure 4.1 The Strategic Marketing Management Process

Source, Kotler, Philip, "Marketing Management: Analysis,

Planning Implementation and control", 6th ed. (1988)

Bell (1979) argues that there are no hard and fast
rules regarding the exact steps to follow in developing a
marketing strategy or the sequence in which the steps
should be taken. He has developed a general approach to
marketing which is similar to Kotler's process. His
approach includes: analysing the marketing situation,
assessing opportunities and problems, identifying market
targets, determining the scale of efforts required
considering alternative approaches and choosing a grand
strategy, developing the marketing mix, finalising the
plan, obtaining approval, and designing marketing tactics,
to be communicated, implemented, monitored and revised.

Finally, McCarthy (1978) maintains that a marketing
strategy consists of two distinct and yet interrelated
parts:

1. A target market: a fairly homogeneous group of
customers to whom a company wishes to appeal.

2. A marketing mix: the controller variables which the
company combines to satisfy this target group.

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In other words, from its potential opportunities, the firm selects a target market and tries to offer it an attractive marketing mix.

4.4 CONCEPT OF MARKETING PLANNING FOR AIRLINES

4.4.1 Airline Marketing Planning

In this dynamic environment, the need to evaluate and improve, if necessary, the effectiveness of airline-service marketing is receiving increasing recognition by the industry as a means of enabling it to survive and prosper. This need to modify and improve the marketing process employed by some airlines is the result of changing consumer demands, a slowdown in traffic growth, and increasing competition as a result of diminishing government regulations;, At other airlines it may be the result of ineffective marketing organisation or weakness of individual functions.

As mentioned in chapter two, the fundamental task of marketing is continuously to monitor the changing needs and preferences of passengers and shippers and to use the information obtained to influence the other functional organisations in the airline to help to create the appropiate mix of services to ensure that prices that are competitive, in order to produce value for various target segments of the market and to earn profit for the airline.

4.5 IDENTIFYING THE THREATS

The first step of an effective marketing process is to conduct a comprehensive and systematic marketing analysis to identify problems and opportunities. Conclusions from the information gathered can then be used to develop a plan for improving the airlines earnings.

According to Taneja(1982), the areas on which marketing should focus are external environment, internal organisation and marketing strategy.

An analysis of the external environment calls for an examination of (1) economic, demographic, social and regulatory trends (2) the airline markets, its customers, its competitors and the external distribution of its services; and (3) infrastructure-industry components, such as aircraft manufacturers, airports, and ground services. This aims at determining the extent to which the airline is aware of the changing external environment and its significance to the airline business. Such analysis of the environment will also help the marketing planner in the development of realistic scenarios and identification of those external forces that will affect the airline's performance and the ways in which such forces can be taken into account in the development of effective policies and strategies.

The marketing audit of the internal environment focuses on an assessment of the marketing program, its organisation, information system and control methods. The

emphasis in this part is on determining the effectiveness of the ways in which an airline organises and controls its marketing activities. There are three key questions. First, does the airline have an effective marketing organisation, that is, one that integrates the other functional responsibilities such as finance and scheduling? Second, does the airline have an effective marketing information system that not only provides market intelligence and reports containing internal information but also provides access to market-research methods and models to explain and improve marketing processes? Third, does the airline have a control system to monitor the effectiveness of the marketing staff so that necessary corrective measures can be taken on a timely basis?

The third part of the market audit is the assessment of the marketing strategy in order to determine if it will lead to the fulfilment of marketing and corporate objectives. The emphasis in this part is on the evaluation of the strategy rather than on the organisational structure.

An essential object of this audit is the evaluation of the various elements of the marketing mix. The marketing audit should examine the types of service offered and the place of each in the traditional five-cycle diagram. Similarly, the audit should evaluate all fare types to determine if any of the available fares have outlived their usefulness. The cost-effectiveness of

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promotion and distribution must be determined, and distribution should be examined carefully from the point of view of control and competition. After examining each element of the marketing mix individually, careful consideration must be given to the interactions between the elements to facilitate overall evaluation of the mix used.

4.6 ANALYSING OPPORTUNITIES

The first step in analysing the opportunities is careful scanning of the environment.

Leontiades(1982) asserts that at various times and in various degrees, all companies will be exposed to one or more of these four external environmental elements: government, consumers, economic conditions and market conditions.

4.6.1 Government

With respect to the government element, the clear factors to examine are the extent and type of regulation in force. This examination includes scrutiny of safety and environmental standards as well as economic regulations.

4.6.2 Consumer

This involves examination of various cultural forces, consumer values and demographic factors. Interaction between these forces may reinforce each other and present

even greater opportunities for the airline market. Leontiades (1982) argues that the overall population of the world will expand around 10 percent, but the 25 - 44 year old segment will grow 2.5 times as fast. It is conceivable that this group could become a substantial purchasing-power block in relationship to air-transportation services, and should therefore be examined in greater detail.

4.6.3 Economic Conditions

With reference to this element, the focus is consumer-expenditure patterns. These patterns can be altered dramatically by severe inflation, with its accompanying changes in saving and borrowing behaviour. Consequently, it is important that the planners monitor the impact of the changing purchasing power trend on the demand for air transportation.

4.6.4 Market Conditions

This element requires an examination of the fast-changing technological developments in such fields as computers, electronics, and telecommunications. These could have a significant impact on the marketing of services offered. Also attention should be directed towards any increase in the level of competition. In this area deregulation (specially in the US) has fostered a greater emphasis on scheduling and pricing and less on

service. An airline must continuously upgrade its scheduling and pricing in order to find a new niche or remain competitive.

Taneja (1982) claims that the major issue facing the marketing planner is long term growth in passenger traffic "Once long-term growth has been assumed, a common practice is to increase the individual origin-destination flows by some percentage of the overall growth'. Next an airline hypothetically can route these traffic flow over existing flights without any regard for load factors. Finally certain given assumptions about desirable load factors will lead to the required number of seats and, ultimately, the number of aircraft. The process is complicated, not only because of numerous assumptions throughout the analysis but also because of alternatives available at a number of points in the process. The primary assumption is the forecast of the growth in long term traffic: even a small error, when compounded, can produce serious problems in harmonising capacity and demand. Lack of a reasonable relationship between these two elements, combined with the industry's characteristically low profit margins, can lead to high losses.

4.6.5 CUSTOMER NEEDS

On any flight there would be a variety of people on business, on vacation, on personal travel. The passengers

would also represent a wide spectrum of income groups and age groups, and they would not be evenly distributed by sex. As a result, it is impossible to single out a typical set of needs. At the same time it would be impractical to try to identify the needs of every passenger, useful information can be obtained by segmenting the passengers into groups and examining the general needs of each group.

As has been mentioned before in the segmentation section in chapter 3, airline passengers can be segmented into three groups, namely business travellers, holiday travellers, and visiting - friends - and - relatives travellers. These three distinct groups of travellers would hardly have the same needs. For example, business travellers demand immediate access to a seat from any point and to any point in the world, regardless of cost. They would also like to have a separate and faster check in, greater roominess, quiet on board,..., etc. Holiday travellers demand a flexible and cheap air transportation facility. Visiting - friends - and relatives travellers are interested in basic point to point transportation, and are willing to make and pay for reservations months in advance. This group is willing to harmonise its needs with that of the airline, so long as the fare is reasonably low.

Taneja(1982) asserts that information about passenger needs and the degree to which these needs are being

fulfilled is derived most effectively through surveys and market research. Surveys provide information on trip purpose and frequency, fare types, and demographic and socio-economic characteristics such as age, sex, occupation, income, education, residence, and marital status. Cross tabulations of passenger composition, behaviour, and attitude data can provide significant input into service planning, advertising campaigns, media and channel selection, and market share analysis. In addition, the marketing implications of the variables are common to all countries with developed economies. It will be noted that the variables are part of the external business environment within which all firms operate, they are not under the control of any commercial organisation and only partly influenced by government decisions. Some of the determinents like income per capita, geographic factors and population changes have long-run implications for marketing such factors tend to produce fairly stable releationships with demand, for example income elasticity ratios, and they are the basis of most of the forecasting models used to project tourism flows.

Marketing led organisations will always base their strategic decisions on a carefully researched analysis of the determinants of demand and their associated market patterns, and will adjust those decisions tactically in the light of short-run trends. The importance of understanding the determinents underlies the commitment of

marketing organisations to marketing research.

Marketing research is continuous, it illuminates what is involved in marketing decisions, and reduces the level of risk and uncertainty associated with them. But it cannot be expected to provide simple answers or remove the need for the essential qualities of judgement required by managers. The use of marketing research data is most obviously seen in practice to lie in the process of marketing planning.

4.7 MARKETING CONTROL SYSTEMS

Marketing control should be developed to operate at two levels, the macro level and the micro level. The two most important elements of the macro level control system are the sales analysis and the marketing profitability analysis. The sales analysis can be performed by conducting a sales-variance analysis; that is, by separately examining each component of sales-traffic, revenue, and market share. Each element of the variance should then be explained by any change in the assumptions. These analyses can be performed only if an effective control system for tracking the pertinent variables has been developed and implemented. Each airline marketer must decide on the relevant variables to be tracked and the method of analysis to be employed.

Marketing-profit analysis requires revenue and cost information segregated by services, by customers, and by

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territories. In performing marketing profitability analysis, the greatest difficulty is encountered in the tracking and measurement of costs, particularly the allocation of costs to marketing activities. Direct costs should be tracked accurately, and joint costs should be allocated in some reasonable manner so that a meaningful attempt can be made to provide a quantitative basis for marketing profit planning.

The most important aspects of the micro level control system are the analysis of the contribution of each element of the marketing mix and of the mix itself. The control system must therefore track information not only relating to service, price, promotion and distribution but also to alternative service-price options. Each element of the marketing mix should be further subdivided into smaller elements.

Finally, a large portion of the information required to develop the control system should be readily available within the airline, such as through the existing accounting system. There is a need to collect and track additional marketing information such as customer attitudes, competition and marketing efficiency. These tasks are accomplished through surveys, as discussed earlier in this section. Information on marketing efficiency can be obtained by collecting data on such measures as the number of call per sales person per week, the amount of time per telephone call to the reservation

department, the advertising costs per thousand exposures
by type of exposure, and the number of enquiries about a
particular service on offer.

4.8 THE IMPLEMENTATION OF FORMAL DECISION-SUPPORT SYSTEMS

The key to airline marketing planning is through the
use of decision-support systems (DSS). Such a system can
be used by an airline to examine market opportunities and
to evaluate the airline itself in order to determine if it
is able to take advantage of the opportunity identified.
The essential element needed in the implementation of a
DSS is willingness on the part of management to adopt the
use of available technology for the purpose of decision
making.

Flight Transportation Association Inc. (1980)
developed one model of a DSS which is the Competitive
Airline Strategy Simulation, in order to address complex
planning problems facing an airline. It is a package of
computer programs that can assist management in the
evaluation of the operational and financial consequences
of various scenarios and alternative decisions in a
convenient and timely manner. The system is capable of
analysing alternatives at any level of the three-cycle
planning process: the corporate level at which top
management and decision makers develop overall strategy
and set goals; the functional level at which each
department expresses its resource requirements and

objectives while complying with the overall strategy; and the budgeting or implementation level at which detailed plans of operation and finance are decided. Both long-and short-term questions can be addressed by running the simulation package for any desired period. For example such a system can be applied to examine the following issues at each of the three-cycle planning levels of an airline:

What are the long-term consequences of a shifting towards "hub-and-spoke" pattern?

What are the significant short-and long-term financial consequences of a decision to enter a highly competitive market?

How can unexpected fuel shortages be dealt with promptly and cost effectively?

Figure 4.2 shows how the airline management can participate in the simulation at any level of the three-cycle planning process.

The system can be used to improve the structure and consistency of the planning process throughout various departments and different levels of the airline. As a result, understanding and communication between organisational units can be enhanced by using a common reference point for evaluating each department's plans. Resolution of conflicts at any stage of the planning process can be expedited through a rapid evaluation of proposed compromises.
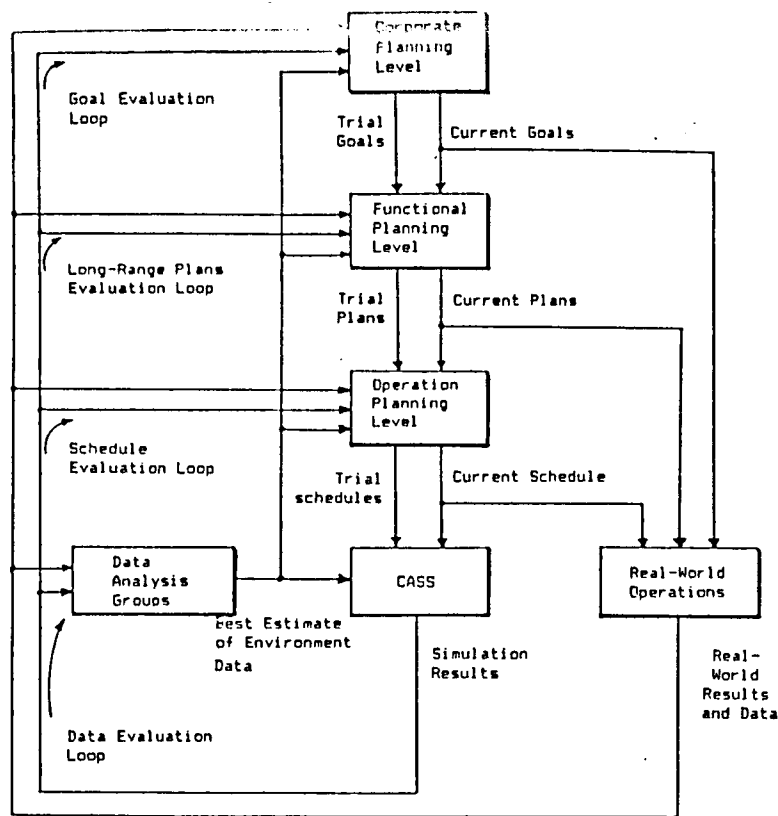
Figure 4.2 Integration of Simulation Activity with Airline Planning Activities

Source: Flight International Associates, Inc, 'Competitive Airline Strategy Simulation: A Decision Support System for Airline Planning" (Cambridge, Mass.July 1980)

CASS is just one example of an advanced DSS that can be used in corporate and market planning. It is the development and implementation of such systems that will improve the planning process to take advantage of market opportunities.

4.9 FORMULATION OF THE MARKETING MIX STRATEGY IN THE AIRLINES

4.9.1 Developing the Marketing Strategy

The most difficult step is providing service to satisfy all customers needs and to do this at the least possible cost to the customers. Costs can be reduced if

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productivity can be increased. Productivity of a given fleet can be increased by increasing either the utilisation factor or the load factor, or both. However, an increase in either of these two areas changes the level and type of service offered. The load factor achieved will be a function of how well an airline is fulfilling the needs of the various segments of travellers. Since there is a relationship between load factor and fares, and between fares and costs, there is a relationship between costs and the level of service offered to fulfil the needs of different types of travellers. The object of every strategy is to harmonise the needs of the customers with the needs of the carrier in order to increase productivity.

Taneja(1982) points out that because different groups of travellers have varying needs and varying abilities to pay, price-condition incentives can be combined to increase productivity and to offer more value to each segment of the market. Since airline passenger traffic varies so extensively, for example, one reasonable coping strategy is to use a combination yield-capacity management system- that is, capacity - controlled discount fares.

An effective pricing strategy controls not only revenue (traffic plus yield) but also costs, not just through an increase in productivity but also through the absolute costs. Given that air-travel demand varies with time a successful pricing policy can lead to higher

utilisation of the fleet. Similarly per-passenger cost can be lowered by increasing the load factor as well as the number of seats per airline. The absolute costs can be reduced by changing, for example, such rules and conditions as the number of free stops allowed to the passenger. Costs are incurred every time a passenger emplanes or deplanes. Among these cost-related elements, to increase the average load factor is by far the most effective way to reduce per-passenger costs and, ultimately, fares. In return, the stimulated growth will lead to an increase in profits.

It is argued that once a flight has been scheduled, a large percentage of the cost is fixed. Only between 15 and 25 percent of the costs are related directly to the number of passengers carried, and this percentage includes commissions paid to travel agents and food services. Hence the cost per passenger is heavily dependent on the number of passengers on the aircraft. A strategy's objective of achieving a higher load factor can therefore be satisfied by accommodating all three kinds of passengers in the same aircraft. As a result, the airline is able to offer different levels of service at appropriate prices to meet the varying needs of the passengers while returning a reasonable profit to the airline.

Besides the needs of an airline and its customers, an additional factor, the needs of a government, must also be

considered. From the point of view of governments, there is a need to balance the desire for low fares to develop tourism and the desire for high fares to keep the level of subsidy at a minimum. Thus, one can see how fares became complex and sometimes irrational; the airline industry went too far in its efforts to harmonise the needs of all parties. As a result, IATA attempted in 1982 to restructure itself for the purpose of stream lining the fare-coordination process. A number of effective steps have been taken, including the emphasis placed on third- and fourth-freedom carriers co-ordinating their fares without any significant interference from the fifth-freedom carriers and the decision to decontrol the service aspects of the fare- co-ordination process.

Moreover another strategy that has improved productivity is the development of connecting complexes. Each airline should keep the passenger on its system for as long as possible in order to gain all the benefits from this activity.

Another important strategy is to improve service on the ground while increasing the productivity of the work force.

Taneja(1982) gave two examples drawn from the research and development conducted by Honeywell Information Systems Inc.

Honeywell's Self-service Terminal (SST) offers the airline industry an opportunity to give passengers

improved service and convenience while increasing productivity. Using SST, airlines can reduce their transactions costs, expand ticket locations, increase availability to twenty-four hours a day, require less space, and provide rapid return on investment.

Honeywell has used its experience in automated bank - teller machines to develop the SST product with excellent human interface characteristics. SST enables passengers to do their own ticketing, book their own flight reservations, select seats, and obtain boarding passes. Consequently, passengers can now perform tasks previously performed by an agent simply by inserting a valid credit card, such as American Express, into the SST. The SST allows the airline to implement a number of loss-reduction controls over the automated ticketing procedures.

The second example is for an airline to automate its customer-relations system. Again Honeywell has developed a system to process customer compliments and complaints using OPS6 minicomputer correspondence as processed, maintain history and reference dates, and prepare the airline's correspondence and claim payments.

Both of these examples illustrate the use of current computer technology to improve, simultaneously, airline productivity and the service provided to the customer.

4.9.2 Marketing - Mix Variables and Marketing Strategy for Airlines

The marketing mix is a set of controllable variables whose level an airline can set in such a way as to influence individual target market segments. As disscused before in this chapter these marketing-decision variables have been classified into four groups : product or service, price, promotion and distribution. The level of these variables can be changed in order to develop and evaluate alternative marketing-mix strategies.

The term marketing strategy is used to describe the process by which the marketing mix depends on the objective of the airline at any given time. The elements of the marketing mix are discussed in detail in the following sections.

Product

Kotler (1988) defined the product mix as follows :" A product mix (also called product assortment) is the set of all product lines and items that a particular seller offers for sale to buyers". He added that the product mix of a firm can be described as having a certain width, length, depth and consistency. The width of the product-mix concerns the number of different product lines within an airline. These would include passenger, charter, and freight operations. The depth of the product mix is derived from the number of items offered by an airline within each product line. In scheduled passenger

transportation, it could include either the number of routes served or, for any given route, the number of services (first class, economy, standby, budget, etc.) offered.

The consistency of the product mix is based on the relationship among the various product lines in their end use, production requirements, or distribution channels. In the case of an airline, consistency would refer to the relationship between passenger and freight transportation or part-charter flights. Given that the market requirements and preferences, competition, environment and individual airline strengths and weaknesses are changing continuously, it is the responsibility of marketing management to continuously evaluate the current product mix in the light of existing and future opportunities and constraints.

The marketing of air transportation services is in some ways quite unique and the process for marketing services is quite different from that used in marketing products, as discussed before in the product versus service section.

The characteristics of the air transportation industry that make the marketing of air transportation services different from the marketing of other services may be described as follows:

First, the demand for air services is known as derived demand. Second, the industry is under considerable

government control. Third, the delivery aspect cannot be guaranteed due to the unpredictability of bad weather conditions. Fourth, the service can only be produced in batches as opposed to individual units.

With reference to the marketing issue, Taneja (1976) argues that the output of an airline does not consist of available seat miles or ton mile, but in the form of a service offered to the public by a specified timetable. The timetables published by airline describes the characteristics of the service by listing the various fares, frequency of service, departure and arrival times, the type of aircraft, the kind of service (non-stop, multi-stop or connecting), and cabin service with respect to liquor, food and in-flight entertainment. The service offered can be described as a reservation for a seat departure between two airports on a given day at a given time.

To the airline marketer, the distinction between differentiated and undifferentiated services is of great importance. Since the price charged by all carriers in a given market is almost identical, a marketer can increase his carrier's share of the market by showing that his service is different, so that, from marketing point of view, such service can be regarded as differentiated. For example, on a given route the service offered at different times of the day are quite different services from a passengers viewpoint, and first class service is different

from coach or economy service. Even flights that depart at exactly the same time with the same equipment are different services due to differences in cabin service, distribution channels, on - time performance, and services on the ground- so that the passenger's image of carrier services is affected.

Within the concept of marketing, it is the responsibility of the marketing department to determine the needs and wants of the carrier's existing and potential passengers. This responsibility is usually carried out through segmentation, the process which has been discussed earlier in chapter 3.

The information received through segmentation plays an important role in the identification of potential markets and the strategies required to serve the different needs of different passengers. However as noted by Taneja(1981), there are some areas in which improvements can be made in customer analysis and segmentation. He points that there is usually too much emphasis on data collection and not enough emphasis on analysis, and ultimately on actionable recommendations.

Magary(1978) also argues that there is a lack of balance between demographic data and psychographic /life style research and analysis, since the large amount of demographic information is not enough to answer questions such as why certain people travel while others do not. Magary suggests that what is needed is psychographic

analysis which goes beyond demographic analysis. He also suggests that fare innovation investigations should be related to psychographic and demographic information.

Life-style segmentation is one example of psychographic or attitudinal market research Garrett(1978), the manager of Air Canada Consumer/Product Research, shows that the life-style groups for non business travellers are:

Life style Group	Per cent of Total Adult Population
1. Extravagant Consumers	18%
2. Nature People	20%
3. Playsters	23%
4. Cautious Homebodies	39%
	100%

The carrier then divides the vacation destinations into six groups:

Ideal Vacation Type	Per cent of Total Adult population
1. Peace and Quiet	20%
2. Aesthetic Appreciation	22%
3. Hot Winter	19%
4. Grand Hotel	18%
5. Inexpensively Active	9%
6. Relatives and Friends	12%
	100%

The object is to cross tabulate general life-style groups and ideal vacation types to estimate leisure-travel potential.

Much more attention needs to be paid to non travellers. Analysing existing passengers is simply not enough and there is also a great need to study the

airline's potential passengers. For example it is necessary to discover the points at which various segments of the non travellers finally approach air travel.

It is necessary for market researches to establish a theory about the way a given segment of the population behaves before the statistical data are analysed.

Market research can provide valuable information to improve service planning. Walles(1978) believes that an airline must provide the following services in order to meet most of the business traveller's needs and expectations by being consistent in delivering:

1. Convenient and on time schedules

2. Prompt and accurate reservations service

3. Prompt and efficient airport processing

4. Comfortable in-flight accommodation where he can work and rest.

These points may have to be tested in order to be appraised, yet , combined with other attributes such as lower sensitivity to price and trip duration, more flexible schedules, and less advance notice of the decision to travel, they can help a marketer to determine his marketing mix strategy.

Market research can also improve the understanding of potential passengers; for example, it has played an important role in the establishment of British Airways Family Reunion Clubs to generate and expand visiting - friends - relatives traffic. Brooks (1978), the British

Airways consumer research manager, points out that by means of research, the airline learned about the existence of a significant market to the United States, Canada, Australia, South Africa and New Zealand, consisting of visits to relatives in these countries. Extensive market research was conducted to analyse these potential customers with respect to the size of market, the type of relatives in destination countries, age group and level of concern about making a trip. Based on the results, clubs were established to provide a sense of belonging, to distribute promotional literature and information on travel savings plans and to encourage the desire to travel.

In planning for the future, it is clear that there will be dramatic changes in the attitudes and the demographic profiles of the various populations using airline facilities. These changes will undoubtedly have a significant influence on the marketing of air transportation services.

According to Narodick (1979) the travel variables of the 80s will be (1) deterioration of the work ethic (2) demand for leisure time (3) young multi-earner families (3) wealthier population (4) time restrictions (5) blue collar wealth.

Narodick (1979) continues to argue that another significant characteristic of the airline market of the 1980s is the growing number of female executives. This is

a phenomenon with far- reaching implications for the travel industry. As she continues to rise in the business hierarchy, the working woman will become a more frequent traveller. Her needs as a traveller are different than those of her male counterpart, not only with regard to in-flight services but with regard to all aspects of travelling . The airline industry therefore will have to become sensitive to the needs of the different types of travellers.

It is evident from recent developments that in the future, marketing management will have an even more significant role to play in product planning. For example, the proportion of travel for pleasure purposes has been increasing at a rapid rate and the needs and wants of the pleasure traveller are to a large extent different from others so that airline marketing would have to reflect this trend. On the other hand, the airlines cannot afford to overlook the real profit base : the full-fare economy passenger on business travel.

To improve the product side in the future, automatic check-in and boarding systems could be developed that would substantially change the operation inside the airline terminal. At the same time, computer technology has an important role to play in either reducing the cost or improving the level of existing services.

The real job of product planning in the future will be to develop a true product-price combination so that

passengers pay only for the services they receive and, conversely, receive only the services they pay for.

Price

In the marketing of air-transportation services, price is probably the most important element in the marketing mix. In setting a price for one of its products (services), an airline must pay attention to a number of factors:

1. company objectives   2. cost of production   3. market demand 4. competition and 5. external parties.

Successful pricing decisions involve taking account not only of these five factors but also of the other three elements of the marketing mix. The importance of pricing policies should be evident from the fact that it is the only element in the marketing mix that generates sales revenue. The other three elements generate costs.

In establishing prices for its services, the objectives of a firm's top management must first be clearly stated, understood and accepted. The objectives can assume many forms: maximisation of profit, sales or market share, or some times promotion. For profit maximisation, economists have developed models where price is established by the interaction between demand and the cost of functions. These models have severe limitations in that they do not take into account competition, government regulations, or other marketing mix variables. The other

common objective is to set prices in order to maximise market share. In this case, the theoretical chain of events would be as follows: an airline buys excess capacity and sets a price below that of competitors and thereby gains market share; initially there may be a loss but hypothetically unit costs will decrease as traffic builds up.

An important point relates to those airlines which like to establish prices based on the cost of production, including adequate return on investment. The only problem with this approach is that the airline is required to estimate the level of traffic to establish a price, but the price level itself is an important determinant of passenger traffic. Furthermore, certain cost allocation criteria are established in an arbitrary fashion.

Another factor concerns airlines which in the past have pursued demand- oriented pricing practices. These airlines maintain that price should be related to the passengers perception of the value of the services offered. Then, if this level of demand is not sufficient to recover the cost involved and to provide an adequate return, such services should not be offered. Difficulties in accurately estimating the market perception of alternative forms of services offered and the value attached to each service constitute the main problem encountered in pursuing this type of policy.

Differential pricing is a closely related aspect of

demand-oriented pricing. The idea here is to sell virtually the same service to two different passengers at two different prices where the prices may not necessarily reflect a proportional difference in marginal costs. In the airline industry differential pricing practices have been used on the basis of services provided, place and time. Unfortunately, these pricing policies have not always been effective.

Another factor to bear in mind when establishing pricing policies is competition. A number of airlines maintain a policy of competition- oriented pricing. They will match prices charged by competitors even though their costs or demand have not changed. In a highly competitive market environment with virtual product homogeneity, or in an oligopoly situation there is no choice but to establish competition- oriented pricing policies. In such situations, the only way out is to differentiate the product. But in the airline industry, passengers are either not informed of differences in services or they do not regard these differences as being of great importance.

The final factor that has to be considered in formulating pricing policies is the input from other parties. This will include input from infrastructure industries such as hotels and tourist boards, from travel agents and tour operators, and, perhaps most important of all, from government agencies.

In formulating appropriate pricing policies, it is

important to consider not only the above factors, but also the other three elements of the marketing mix. It is necessary to take account of all the interactions among these factors.

In the future, one can anticipate an increase in the number of fares offered. Even now the industry is using its new freedom in relation to pricing, introducing peak and off- peak pricing, traditional discount fares, and individual market sales. But the proliferation of fares requires effective seat management. Consider the different types of fares that can be offered: non-refundable non-transferable tickets; ticket exchanges; ticket sold on consignment and by auction. With this level of sophistication, capacity control of the different fares is absolutely necessary to maximise the profit from any given flight. In other words, space will have to be controlled.

In the future, the impact of alternative pricing policies on revenue, cost, demand, and supply of seats will become more important as the public is given more service options. Only those airlines that implement carefully analysed pricing policies will survive and expand.

Distribution

The third element of the marketing mix is distribution. According to Bucklin(1966), a channel of distribution will be considered to comprise a set of

institutions which performs all the activities (functions) utilised to move a product and its title from production to consumption. According to Taneja(1981), the traditional airline distribution systems have five elements: the carrier's sales outlets, other carrier's sales outlets, travel agents and tour operators, corporate travel departments, and the government. The airline sales outlets include ticket counters at airports and reservations by phone followed by tickets by mail and city ticket offices that can be on line or off-line.

For the industry as a whole, the city ticket office (CTO) outlet has been stable in recent years, although for individual carriers activity through this channel has fluctuated. The use of CTOs provides the greatest degree of control and reduces dependence on other channels such as travel agents.

However, the decision on the number of ticket offices in any given city must be evaluated very carefully. The factors to be included in the decision are: the cost of the CTO; the firm's overall corporate policy; total service offered to and from the city; market share; the size, composition and characteristics of the population; and relationship with the travel agents. The cost and benefits of each channel of distribution vary significantly from carrier to carrier. As noted by Taneja (1981), approximately half of the domestic passenger tickets and three-quarters of the international tickets

are sold by travel agents, due to the many facilities they offer to the customer.

It is noted that on routes served by competitive carriers, there is no guarantee that a given travel agent will select a particular carrier and the loss of control is a very important aspect of the decision whether or not to use travel agents.

Moreover, the total commission earned by the agents will undoubtedly be large. In addition, the travel agent may promise services not offered on the flight in question, placing the airline in the position of either having to honour the agent's promise or explain the discrepancy. Further the airline is at the mercy of the travel agents for passing on fast and accurate cancellation information. An airline's own sales outlets are not subject to any of these disadvantages, but they are expensive to run and are limited in respect of the size of the market they can reach.

Due to the relationship with the travel agents, a number of new ideas have been proposed to increase the channels of distribution. These include self- ticketing machines, ticketron, banks, etc. An optimal distribution system will vary from airline to airline and depend on passenger characteristics and composition, the services offered, competitors and the number of intermediaries.

Finally, Taneja(1981) points out that in the future every airline must evaluate the cost effectiveness of each

alternative channel of distribution, using the following criteria: economics, control, adaptability, co-operation, conflict and competition. Such an evaluation should be made in the light of the airline's marketing resources and corporate policies on the one hand and market opportunities and constraints on the other.

Promotion

Modern marketing calls for more than developing a good product, pricing it attractively, and making it accessible to target customers. Firms must communicate with their customers and promote their product effectively. According to Kotler (1984), the appropiate promotion mix consists of four major tools:

Advertising: Any paid form of non personal and promotion of ideas, goods, or services by an identified sponsor.

Sales promotion: Short-term incentives to encourage purchase or sale of a product or service.

Publicity : Nonpersonal stimulation of demand for a product, service or business unit by placing commercially significant news about it in a published medium or obtaining a favourable presentation of it on radio, television, or stage that is not paid for by the sponsor.

Personal selling: Oral presentation in a conversation with one or more prospective purchasers for the purpose of making sales.

However, once management has allocated a certain

amount for promotion and sales, it is the function of the marketing manager to distribute this total amount among various categories. The advertising budget is usually fixed as a percentage of the total operating revenue. It is a discretionary cost incurred to increase or maintain revenue for an airline and is subject to competitive conditions and managerial policy.

Using a fixed percentage of revenue on advertising has a certain appeal. It can provide an idea of what the airline can offer and encourage marketing executives to think about the cost in terms of revenue and profit. It can also be a means of keeping level with competition. However, in the future, it may be more appropriate to set advertising budgets that are based on the desired fulfilment of particular objectives. This method would first require the establishment of an advertising objective, followed by the determination of tasks to be performed to fulfil the stated objective, and ultimately, the computation of the expenditure required to perform these tasks.

The measurement of advertising effectiveness, particularly the relationship between advertising and sales is a complex task. Nevertheless, Dhalla (1978) views advertising as a capital investment with sales revenue generated in the form of a stream over time. Businesses including airlines, continue to advertise their products and services, hoping to increase sales or profit but never

being certain of the precise returns on investment.

4.9.3 Integration of Marketing Strategy between Airlines and Tourism

The marketing strategy of airlines and tourism can be generally classified in the marketing strategy adopted by service industry. The elements of intangibility, inseparability, heterogenity and perishability all appear in the marketing of airlines and tourism.

In the marketing planning process, the market analysis of threats and opportunities by airlines and tourism is of a similar nature. Both are operating in the same external environment .

There is a need for the airlines market segment to be compatible with the tourist industry. In other words the target market of the airlines also becomes the target market for the tourist destination.

In devising the marketing mix strategy, the product policy, the promotional strategy, the distribution element and the price strategy must all be compatible with each other and also exhibit compatibility between the airlines and the tourist sector.

The airlines become a "vital link" between the tourist and the destination. The value derived from for the travel and the satisfaction gained from the destination can provide the required increase in market share and lead to repeat purchases.

Each element of the strategy and m.x can be integrated so that each one complements the other.

As a result, these two sectors cannot be viewed independently and the situation is critical when the airline concerned is the national carrier. This is the reason why top management of the airlines and the national tourist organisation require to have close links.

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CHAPTER FIVE

"INTERNATIONAL BUSINESS TRAVELLER"

"TO BUSINESS THAT WE LOVE, WE RISE BE TIME, A ND GO TO IT
WITH DELIGHT"

SH\KESPEARE

5.1 INTRODUCTION

It took the airlines a long time to recognise the need to accord special attention to the business traveller and to provide him with a superior travel product than that available to the less frequent and more price-conscious discretionary traveller.

Only by the mid-1970s did the carriers begin identifying the need to differentiate their product in order to encourage and protect this segment, by offering a package of ground and inflight services at a price between those for first and economy classes. The carriers set aside special sections of the aircrafts where they could offer the higher fare business travellers a superior product to that offered to passengers on economy, promotional and discounted fares. Thus was born the three-class concept of first, business and tourist for most long haul, and some short haul routes. Separate cabins also facilitate the practicalities of providing different grades of in-flight service.

In just four years, the three class configuration has been adopted by almost all operators on long haul routes and two class (i.e. business and tourist) or an all tourist lay out on short haul sectors in Europe. The downgrading of first to business class on European routes constitutes, in part, a psychological move by the airlines.

The Dutch airline, KLM, was the first to provide a

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separate cabin for full- fare economy class passengers
(with its full fare facilities cabin in 1975). British
Airways, however, claims to be the pioneer of the business
class. It introduced the Executive - now Super Executive -
class on its prime business routes. Now even those who
resisted the concept longest have recently introduced (e.g
Swissair) or will shortly introduce (e.g Gulf Air) a
business class cabin on aircrafts used on long haul
routes.

The US airlines do not feature a business class on
internal routes but this does not imply that they are any
less aware than airlines from other parts of the world of
the business traveller and the need to attract him. The
development of the "frequent flyer" programmes which have
recently swept the US marketplace reveals, among other
things, this awareness.

5.2 DEFINITION

The business travel industry is part of an interna-
tional business, and the industry's customers reflect this
fact. Business travel is part of the tourism industry -
where tourism is defined as the movement of people for all
reasons - not just for leisure purposes.

Business travel, as defined for this chapter,
includes both domestic and international travel. The
domestic market comprises business trips within a country
by both the locals and foreign business travellers. The

international market consists of business trips made outside a country by its residents. In both cases, a business trip (or, if abroad, a visit) is defined as a trip on business which involves the traveller in staying away from home for at least one night.

5.3   THE CHARACTERISATION OF THE BUSINESS TRAVELLER SEGMENT:

Business travel is characterised by:

i)   Frequency and duration of journeys: Business people undertake short but frequent trips.

ii) Periodicity: The demand for business flights during morning and evening hours seems to be higher because these flights give flexibility to the travellers to enable them to utilize their time effectively at their destination.

iii) Price inelasticity in the sense that the low air fares do not significantly affect the travellers.

An important change in the business travel market is the growth of women business travellers. According to Cleverdon (1985), it seems that:

- 15 per cent of international business air travellers to the USA are women.

- 15 per cent of UK business air travellers are women. Within the USA, women are of much greater prominence in business travel, and travel suppliers see the growth in the number of women business travellers outstripping by a ratio of 3:1 that of men travelling for business. Women's

penetration of business trips by air appears to be increasing. A survey carried out by Air Transport Association in the summer of 1983 of business travellers in the USA found that women's share of business air trips had risen from 13 per cent in 1977 to 27 per cent six years later. From the 1983 figures that would mean that women made about 30 million North American business trips, of which more than half of which were by air.

In Europe, during the last decade, only 4% of business travellers were women. By 1984, the percentage reached 30 per cent. Cleverdon(1985) asserts that The New York Times predicts that by the year 2000 women will be responsible for nearly a half of all business trips. As a result of the growth of the above market, special attention is directed to the varying need of this segment by the airline industry and the interrelated industries. The most unusual business traveller segment consists of the stars of the entertainment industry. Film and television personalities, rock stars and sportsmen all attract extensive media coverage on their international trips. While in most cases, such publicity is out of line with their importance in the business travel market, there are exceptions, notably film crews on location, concert tours and sports clubs participations at "on the road" fixtures. Each of these poses its own problems and has spawned specialist travel organisations to plan and co-ordinate their travel needs.

The above examples show that business travellers have different objectives to meet and resources to use for their journeys. For those reasons this market needs to be segmented according to the following variables:

1. frequency of travel

2. size of the organisation / employer.

In Table 5.1 Pederson (1987) summarized categories, characteristics and needs of the business travellers:

Type of busines Size of Employer	Notice of trip given well in advan:ed- can be planned
Large company Employees	Characteristics:

Characteristics:

1. Service important,ground,in-flight
2. Reliability/punctuality important
3. Safety important
4. Price important within constrain of company policy/ status framework
5. Likely to have airline choice laid down by company.
6. Some travel agents' influence on travel.

Relatively little notice given before the trip-cannot be planned (Frequent Travellers)

Characteristics:

1. Frequency / timings important
2. Seat availability important.
3. Reliability / punctuality important
4. Safety becomes more important with hours spent in air.
5. Price will become less important than getting there.
6. Less likely to have airline choice laid down due to possible schedule constraints.
7. Some travel agents' influence on travel.

```
Small Company_____Notice of trip given well in advanced
Employer              - can be planned

                      Characterstics:

                      1  Ground,in-flight service important
                      2  Reliability /punctuality important
                      3  Less liklly to have constraint  of
                         travel  policy on price/ even less
                         if high status.
                      4  Safety important
                      5  Less likely to have airline choice
                         laid down by employer
                      6  Relatively   strong   travel   agent
                         influence on airline choice.

                      Relatively little notice given before
                      the  trip-cannot be planned (Frequent
                     _Travellers)
                      _____ __

                      Characteristics:

                      1 Frequency / timing important
                      2 Seat availability important
                      3 Reliability / Punctuality important
                      4 Safety  quite important due to time spent
                        in air.
                      5 Less   likely  to   travel first class or
                        business class
                      6 Relatively   strong travel agent's
                        influence on travel.
                      7 Not  likely to have constraint of employer
                        travel policy on price.
                      8 Relatively    strong travel agent's
                        influence on airline choice.
```

From the above table we can see four major categories of

business travellers:

1) Large company infrequent traveller

2) Large company frequent traveller

3) Small company infrequent traveller

4) Small compay frequent traveller

    In his article " An Analysis of the Frequent Business

Flyer....." Narodick (1978) shows the importance of this segment by pointing out that the frequent business flyer accounts for:

1) Only 5% of all individuals who have taken an air trip in the past 2 years.
2) 85% of all business air trips.
3) 45% of all air trips.

The importance of air travel to the business traveller:

With reference to the business sector, the need for travel is greater than that for the tourist traveller. Multinational companies have grown larger while small companies, because of the domestic competitive environment move to foreign markets . These activities have encouraged an increase in travel by the travelling of commercial persons from one place to another.

According to Key Note reports(1986) for international journeys into and out of the U.K., the majority of business travellers prefer to fly rather than to use any combination of rail, channel ferry and car. One can gather from this that the transport element in business travel is dominated by the airlines.

British Airways is naturally the market leader in the U.K. market and for most airlines business travellers account for at least 40% of all passengers.

5.4 THE IMPORTANCE OF THE BUSINESS TRAVELLER TO THE AIRLINE INDUSTRY.

Cleverdon(1988) argues that business travel spending is predominantly on transport and lodgings. More than 40 per cent of scheduled air transport revenue come from the business traveller and the total business traveller expenditure on aviation was $60-70bn in 1986. In general, globally the business to leisure ratio is estimated at 40:60 in respect to trips, though business travel is at least as, if not more important than, discretionary travel when revenue contribution is considered. There are extremely wide variances in the relative importance of business travel, according to the route and/or airline in question and time of year. Nearly every other air trip made by Americans is for business (52 per cent leisure, 48 per cent business in 1983-84).

In 1986 half of all air trips taken by US citizens were for business purposes. Ten million, or 34 per cent of the 29 million passengers who fly in and out of London's Heathrow airport each year are travelling on business. British Airways, which generated 37 per cent of its total passengers traffic from business travellers in 1983, operated on routes which recorded the following broad variations in respect to business travel share

North Atlantic 30 per cent

Gulf   60 per cent

Japan   45 per cent

Australia   16 per cent

South Africa   20 per cent

Europe   45 per cent

In 1987 KLM earned 60 per cent of revenue from business travellers. Pan American World Airways finds that, though only one in five of its passengers travelling from the U.K to the USA are travelling on business, they generate 60 per cent of the airline's revenue. To cite another example Lufthansa German Airlines derives 40 per cent of its revenue from the 11 per cent business passengers.

According to Cleverdon (1985) the importance to the commercial airlines of the business traveller is even greater than the proportion of revenue he contributes. He represents the carriers' most reliable source of income since he is conditioned by his need to travel rather than the price of the ticket; the reverse is true for discretionary travellers who have become conditioned to travel only when fares are low, or when they perceive such a situation exists. Business travellers are thus vital to the carriers in staving off the perpetual price war which results from an over-reliance on the discretionary travel market.

5.5 AIRLINES' SERVICE SPECIFICATION

From the marketing point of view the business travellers receive recognition of their status through identifiers such as baggage and executive case tags, gate calls for boarding and on board calls for disembarkation and the valued facility of separate areas in which they are segregated from the leisure traveller.

Shostack(1977) points out that an airline is a service with two tangible and four intangible characteristics.

1) Tangible elements are the vehicles, food and drink.

2) Intangible elements are, service frequency, inflight services, pre-post flight services and transport.

The airlines realise the importance of all the elements of their services, and try to harmonise the needs of their customers with those of the industry.

The introduction of the business class can be regarded as a success because it satisfies not only the business traveller but also the airline and even the budget business traveller. SAS Scandinavian Airlines, for example, has recorded European traffic growth of between five and 10 per cent a year since 1981 when its First Business Class was introduced- well above the industry average. The Business Class has enabled SAS to hold the price line on promotional fares by defraying the costs

through higher per-passenger yields. The SAS's chief executive, Mr Jan Carlzon(1984) said that "we make all our planning on the business travel market, that leaves us with the tourists as a marginal resource. The more empty seats we can sell to tourists, the more we can do for business travellers".

In the four years since the SAS adoption of the business traveller priority policy, SAS has rebounded from a two-year deficit of $30 mn to an operating profit of over $90 mn in the year ended September 1984."

Various surveys of the business travellers' needs identify his demand for exclusivity, quality of service and comfort; but, when all is said and done, his principal need is to travel as rapidly as possible on schedules which permit the maximum flexibility (i.e to change travel decisions, or to make them late). SAS's emphasis on providing as many direct (i.e non-stop) flights as possible on prime business routes recognises this requirement.

5.5.1 Frequency of Service

Business travellers have attached considerable importance to frequency of service due to the time pressure of their business trips.

The North Atlantic route has been one of the most successful for the business class concept. Data provided by Brittish Airways relating to all scheduled airlines

operating between the USA and the UK on the North Atlantic route show that approximately 30 per cent of the near 6 million one-way travelers each year on the route are on a business mission and that, of these, well over half travel business or first class or on Concorde.

In the USA, prior to deregulation, little attention was paid to the interlinking of an airline's route network. The entry of unlimited low cost competition obliged the major airlines to concentrate their networks on a central point – the hub –and feed into them from outlying points – the spokes. The main disadvantage of the hub and spoke network for the business traveller, namely the loss of direct, non-stop flights on certain routes, is balanced out by the advantage of more frequent flights to more points.

The commuter airlines are linking as well with major airlines feeding traffic to their hubs and in some cases adopting the major carrier's livery. In 1984, six major carriers launched joint marketing agreements with one or more commuter airlines and inaugurated commuter connecting services. Republic Airline has gone so far as to buy 9 per cent of its commuter affiliate, Simmons Airlines.

One of the first ways in which the airlines sought to cater for the traveller was through the shuttle service concept on the most travelled business routes. The main features of shuttle services are that they – are non-reservable; and guarantee a seat to all comers, even if it

means operating an extra aircraft for a single passenger.

The first shuttle service (between Rio de Janeiro and Sao Paulo in Brazil) has been in operation for about a quarter of a century and carries about 1 1/2 million passengers a year. The pioneer in the USA was Eastern Airlines which intoduced shuttle services on the New York-Washington and New York-Boston routes in 1961; now these routes provide Eastern with 3 million passengers a year. British Airways launched its shuttle service in 1975 and now operates on four routes out of London (to Glasgow, Edinburgh, Manchester and Belfast). Iberia operates a shuttle between Madrid and Barcelona. Other examples include BWIA's air bridge between Trinidad and Tobago and the joint Singapore Airlines and Malaysian Airline System shuttle between Singapore and Kuala Lumpur.

According to Cleverdon(1985) the following rank order criteria applies when a business traveller selects an airline:

1) Convenience (ie time of departure and arrival, direct compared to multi-stage service);

2) Past personal experience (in respect of factors like punctuality and efficiency of ground and in-flight services);

3) Price and

4) Frequent flyer scheme.

The above criteria can be affected by direct deals between airlines and business corporations.

5.5.2 Business Travel Services

The business traveller has two princip&.1 needs -
transport and accommodation - and these, acco7ding to Key
Note report(1987) account for 66% of the out:.ay of the
typical 'internal' traveller and 70%-75% of 1.he foreign
traveller. It is clear that the business tr&.vel market
differs from the holiday market inview of the absence of
any 'package' concept.

There is a distinct trend toward the prov:.sion by the
various travel services of overlapping &.nd all-in
facilities; for example airlines have linked 1.p with car-
hire companies to produce travel tickets co'.ering both
external and internal travel. Hotels have als(. done deals
with car-hire companies and airlines to produ(:e business
packages. Credit card companies like American I:xpress have
also broadened their appeal by linking up witl. airlines,
other transport providers and accommodation.

Table 4.2 shows estimates of how tl.e typical
traveller's spending is divided, based on 1.he 1984/85
American Express Survey of business travel (:osts among
1,000 UK companies:

Table 5.2 Estimated breakdown of Business travel Spending, 1986 (% total spending)

	Internal*	Foreign+
Transport	50	50
- air/rail	10	40
- motoring	40	10
Accommodation/food	20	20
Entertaining	15	15
Other spending	15	5

* - UK business travellers on domestic trips
+ - UK and foreign travellers going a broad

Source: Key Note report (1987) based on American Express Survey

From the above spending breakdown it can be seen that 50% of the business travel market consists of payments to carriers (air, rail) and oil companies for petrol, in this most competitive sector of the market. This competition is of growing ferocity, with airlines, rail and car-hire companies finding it necessary to undertake more advertising every year.

In order to win the business customers, airlines over the last five years have increased their total advertising expenditure by 73% to £37.4m in 1985. This is nearly four times the amount spent by travel agents and six times the amount spent by hotels.

According to MEAL (1986), of the £37.4m spent by airlines in 1985, 5.5m (15%) was described as advertising for either specifically 'business' or first-class services

- (the latter overwhelmingly aimed today at the business traveller) - up from an 8% share in 1981. Major spenders were TWA, Pan Am, Qantas and Lufthansa. However, airlines of almost all nationalities devoted anything from 10% to 50% of their budgets to business class travel. Even this understates the real situation, since general budgets like British Airways' £ 7.9m and formerly British Caledonian's £3.1m were also weighted toward the lucrative business traveller.

The smaller airlines (in terms of ex-UK flights) are if anything placing even more emphasis on their business and first-class seats. Notable in this category are Cathay Pacific, Singapore Airlines, Swissair, Gulf Air, Air Canada, Lufthansa and Alitalia.

5.5.3 Specification of Business Traveller's Needs

Business travellers are regarded as a very demanding group of passengers. Their needs vary and cover areas like security, comfort, reliability, punctuality, frequency, baggage handling, price and seat availability.

5.5.4 Security and Safety

Business travellers look for security. The fact that many accidents occur because of technical and technological problems and uncontrollable reasons (adverse weather, terrorism) has increased the need for greater safety measures.

Business travellers are very conscious about safety and they are ready to accept delays in flights for security reasons.

Scares among the business travellers are caused by the possibility of hijacking, which became a frequent phenomenon, especially immediately right after the T.W.A. hijacking in 1985 and after the recent hijacking of the Kuwaiti airline which took place in April 1988.

On the other hand, poorly maintained equipment is not so much related to aesthetics as to safety. Specifically dirty toilets, loose fitting seats and exposed cabinets are regarded by travellers as poorly maintained equipment. Thus "poor housekeeping" has taken on the unfortunate connotation of "dangerous equipment".

Although all aircraft are regarded as equally safe from the point of view of government regulations, to travellers, "bigger" means more "powerful" and consequently, capable of withstanding rougher weather and other flight contingencies.

5.5.5 Comfort

To the frequent business traveller, airline travel is a boring necessity. Journies take them away from their offices, families and friends.

Boredom and fatigue can be overcome by allocating of more personal space to travellers in the cabin. In addition facilities such as the provision of greater

legroom, films, comfortable seats and a high quality food and drink make journies more enjoyable.

5.5.6 Baggage Handling

Rapid and dependable baggage handling is required by all business travellers; nothing worse than arriving at an airport to find that one's luggage is missing.

5.5.7 Reliability, Punctuality and Frequency

Business travellers place great importance on punctuality, reliability and frequency. Delays may cause heavy losses in terms of both money and business to travellers' companies. Infrequent flights create additional problems for business travellers when valuable time is wasted in arranging transport, accommodation and travel within the city at either departure or arrival points.

5.5.8 Price

For employees, the appeal of travelling at someone else's expense seems exciting. From the company's point of view, however, business travelling costs greatly reduce profit.

For large companies' employees who are not frequent travellers, price is not considered as a major factor when selecting an airline. For frequent travellers however, the main consideration is actually reaching their

destinations.

Looking at the price factor from the small companies' point of view, infrequent business travellers's fares are not particularly important.

However, for frequent business travellers from small companies, price is an important consideration.

5.5.9 Seat Availability:

The frequent traveller from either a large or small company requires comprehensive information concerning seat availability, since the traveller has litle notice before his/her departure.

Non-frequent travellers usually make their booking arrangements a long time before their departure and therefore seat availability is not a significant element to be considered.

5.6 THE INTERNATIONAL MARKET : SIZE AND STRUCTURE

World Tourism Organisation data for 1986 show that there were about 4bn tourist movements worldwide of which 340.4mn were between different countries producing international tourist receipts of($120bn). Preliminary WTO estimates for 1987 internationl tourism are 355mn and $150 bn receipts. The WTO finds that 30 per cent of international tourist arrivals are non-discretionary (ie business, congresses/ conferences, family, health, study) and two thirds of these arrivals can be attributed to

business travel .

According to Cleverdon (1988), domestic business travel is somewhat lower (17 percent in the case of the USA and the U.K.in 1986). Applying these proportions globally, it is estimated that 600 million domestic business trips were made in 1986 (involving up to 120 mn persons) and that international business tourist arrivals amounted to 68 million (involving between 33 million and 35 million travellers).

Table 5.3 reports worldwide business travel during 1986

	Total tourist trips/arrivals	Business travel trips/arrivals	Business travel as % of total	Eusiness traveller
Domestic	3,500 a	600 a	17	90-120 c
International	340 b	68 b	20	34 c

a mn trips. b mn arrivals. c mn travellers.

Sources WTO (1987) and Cleverdon 1988.

Business travellers account for 10 per cent to about a quarter of individual countries' tourist arrivals. Table 5.4 illustrates the relative importance of businesss travel in 20 tourist receiving countries during 1986:

Table 5.4

Tourist receiving country	% business traveller	Tourist receiving country	% business traveller
Australia	12	Morocco	7
Barbados	9	New Zealand	10
Canada	17	Pakistan	27
Greece	9	Philippines	12
Hong kong	23	Portugal	4
Indonesia	13	Singapore	13
Irish Republic	16	South Africa	22
Japan	27	Thailand	7
Kenya	11	UK	23
South Korea	17	USA	20

Sources WTO and Cleverdon 1988.

Cleverdon (1988) asserts that the business travellers spent $666 bn out of global tourism spending o: $2,000 bn. Table 5.5 shows business travel expenditure :or 1986 ($ bn)

Table 5.5

Originating area/country	Direct business travel expenditure	Structured business travel expenditure
USA	80-87	33-37
W. Europe	130-140	50-55
Rest of world	65-78	20-22
	275-305	103-114

Source: Cleverdon 1988

As in all international tourism, i: is the industrialised countries of North America, We:tern Europe and Australia - Japan (ie the member of the organisation for Economic Cooperation and Development) whi(:h dominate business travel both as generators and hosts a!, has been shown above.

5.6.1 Market Growth

According to Key Note report(1987), tle business travel market is a substantial one, valued at £4,146m in 1985. the largest part of this market is paid for by British business travellers in the U.K (£1,775m), but expenditure on foreign business trips is an essential element in the equation, with inward and outward business being valued at over £1,000m each.

In 1986, the value of all business travel connected with the U.K is estimated to have risen once again, from £4,146m (1985) to £4,690m, a value increase of 13%. This increase represents a higher outlay per trip, especially on internal trips, but the underlying trend for more business trips to be taken, continued as it has done for many years.

The World Tourism Organisation has found that international 'arrivals' at frontiers have doubled since 1970, reaching 325m in 1985. Although this figure includes holiday and other tourism types as well as business travel, the commercial side has kept pace with the general expansion. Foreign travel obviously slowed down during the depths of the early-Eighties recession, with inward visits not regaining their 1980 level until 1983 and outward visits stagnating during 1981 to 1983. However, recovery has been immediate and impressive.

On the international front, the USA is well

represented in terms of both inward and outward tourism. More business visits are paid to the UK by American residents than by residents of any other country. In the opposite direction, although short-haul visits (to France, Germany and Ireland) are more numerous than visits across the Atlantic, British business travellers spend much longer, and much more money, on trips to the USA, making the USA the top destination in value terms.

The crucial long term development in business travel has been the steady growth of the mutinational corporation at the expense of the domestic company. This largely accounts for the importance of the USA market, both as an origin of and a destination for travellers. A growing proportion of business trips are corporately "internal" in that they involve visits from one subsidiary to another, or from a foreign branch to head office. The trend of 'mega-mergers' in the Eighties, especially in the UK and the USA, will further fuel the demand for this 'internal travel'. Meanwhile, even smaller national companies learned during the recession that their future survival could only be achieved in many sectors of industry by seeking out (and travelling to) new foreign market-places.

The long -term rise in demand for business travel has been more than matched by the supply of travel services. The number of airlines and planes increased during the Sixties and Seventies as national airlines were born in developing countries to compete with the European and

American airlines. Travel agents turned to the business traveller for a better quality of trade (higher margins) as margins fell in the ferociously price-competitive package-holiday market. Hotel groups have paid more attention to the business sector because so many holiday travellers have become content with self-catering accommodation.

In recent years, the main development in business travel has been towards sophistication. By the start of the decade, travel services had to cater not only for millions of new travellers but for thousands of highly-paid and very experienced executives. The latter group, having travelled the world by air for up to twenty years, has come to expect(and is willing to pay for) luxurious travel conditions, and the Executive and club classes have become a lucrative source of revenue for airlines and agents.

Worldwide competition for the attention of business travellers is growing more intense year by year. For example, any regular viewer of British TV will have noticed this simply from the proliferation of advertising by airlines, British Rail, and car-hire companies, aimed at business traveller. To add to this expansion of promotion, all major hotel groups have introduced special services for the business traveller in the last ten years, and the battle between the major charge and credit card companies for this market also intensifies year by year.

5.6.2 Recent Development

With the growth in the overall market for business travel has come a succession of improvements in the services offered by travel companies. Airlines are competing ever more earnestly for business travellers. For example, British Airways has begun to advertise in a lighter vein with its 'supergirl' flying hostesses and the Qantas campaign features a cuddly koala bear and a humourous line in copywriting. However, the main purpose is to attract the 'serious' traveller.

At a more concrete level, a guarantee was introduced by British Airways for purchasers of Super Club (i.e. business) flights, whereby if the business cabin seats are full, then the traveller is transferred to the first-class cabin. If the first-class seats themselves are all taken, then the ticket-holder even has the optionm of flying on Concorde (where appropriate) at no extra cost. Failing even this, the traveller is put into the economy class, but receives a free Super Club ticket for another flight.

5.7 THE MIDDLE EAST BUSINESS TRAVEL MARKET

Oil earnings in the 1970s produced an economic boom and accelerated traffic growth within the Middle East.

The largest movement of traffic was in the business travellers sector. This was one of the cases of the rapid growth of the Middle East Airlines. With price falls,

there was a decline in the number of business travellers and most of the Middle East airlines were not in a position to sustain their growth or compete effectively to attract business travellers.

The In-flight Survey of International Air travellers (1986) indicated that only 4% of US air travellers visit the Middle East for business purposes while 52.4% of European and 24.8% of Far Eastern travellers do so.

To attend conventions, a mere 0.8% of US air travellers visit the Middle East, while 64.8% of European and 20.0% of Far Eastern travellers do so.

According to Cleverdon (1988)in 1983, British Airways generated 37% of its total passenger traffic from business travellers. From operating on routes to the Gulf region, it captured a 60% business traveller market share. This shows that business travel from Europe to the Middle East is a large market but it is captured mainly by European airlines (chiefly British Airways), and not by the Middle East airlines.

Some Middle East airlines like Gulf Air, Royal Jordanian and Emirates Airlines have introduced business class in their flights and they probably generate 60% of their revenue from the business travel market to Europe and the Far East.

It is noted from the Business Traveller magazine surveys for 1984, 85, 86, 87 and 1988 that none of the Middle East airlines were ranked the ten best airlines

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for business travel. The same also applies wizh reference to the best business class (short haul), best class (long haul), customs clearance, passport contrzl, luggage retrieval, best business city, best city for business conference, and best for car rental.

In the 1987 and 1988 surveys, and for the first time, Dubai Airport was ranked number 10 in the lizt of best international airports and Bustan Palace was ranked number 8 in the list of the best new hotels for business personnel.

This illustrates two main points. Firstly, the Middle East countries are not in a position to attract business travellers. The "pull" strategy required can only be achieved if efforts are made by host countries to organise conventions, business conferences and seminars. A collaborative strategy arrangement need to be developed before this target market can be attracted. This inability to attract business travellers reflects the prevailing lack of marketing skill and planning ability . Secondly, the external environment also aggravated the situation. This problem is related to acts of terrorism and political instability which business travellers shun.

5.8 GENERAL MARKETING APPROACH FOR BUSINESS TRAVELLERS

Business travel is an important segment . When one is designing structured marketing programmes to attract the business traveller, the right product at the right price

is just as important to him as it is to the leisure traveller.

The four cornerstones of service that are essential for the international business traveller are transportation, accommodation, entertainment, and communication. Product analysis is the begining of evaluation. The offerings of the destination in terms of air service must be sufficient to suit his needs in terms of frequency, efficiency and convenience, plus speedy processing through immigration and customs and good onward transport facilities at the airport -such as trains, buses, taxis and hire cars.

In addition, availability of restaurants and night spots for entertainment are also requirements for business travellers.

Jefferson and Lickorish (1988) stated that product analysis will lead to the identification of gaps in the product range when the second stage of analysis has been completed, namely market analysis.

Business travel is a segment of the market with many sub-segments. It can broadly be segmented as follows:

1. Incentive traveller - invariably with spouse

2. Convention delegate - association or corporate meetings

3. Visitor to trade fair or exhibition

4. Vocational training - business or management course

5. Independent business traveller with or without spouse

6. Study tours of an educational or vocational nature

Analysis of these sub-segments in term of size and needs will undoubtedly reveal product gaps.

5.8.1 Incentive Travel

International travel would be an equally good description of incentive travel. The distinguishing characteristic of incentive travel is the "award" - the recognition of merit. Instead of medals or mention in dispatches, a journey to exotic or famous places in luxurious conditions is the prize. Usually the objective of offering this kind of "star" trip is to increase sales. For example, a major prize is offered to the sales force or the dealer network or perhaps the work force in order to motivate them to achieve exceptional sales goals or production targets.

5.8.2 Conferences, Meetings and Conventions

There are broadly two types of meetings: the corporate meeting to evolve a strategy or a sales message and a major get-together of a company's sales force, dealers and distributors to launch a new product.

For the airlines and tourism marketers the need to promote venues to conference organisers become significant. Further segmentation of the conference market can broadly fall into three main groups which these can be subdivided as follows:

1. Association meetings (a) national

(b) international

2. Corporate meetings   (a) national

(b) international

3. Sponsored meetings, usually by government departments or agencies, newspapers, professional bodies.

One of the most effective tools in the field of marketing available to conference organiser is personal selling, though public relations, direct mail and facility visits are also important.

High Standard printing facilities are essential for providing information such as plans, details of facilities available, including equipment, prices, location maps as well as attractive pictures of the venue. The effectiveness of advertising in this field is questionable.

5.8.3 Trade Fairs and Exhibitions

This is a long established type of activity generating mass travel movement and a high spending type of business tourism with profound effects on both air transport and the destination.

Mass promotion through TV or the consumer press can motivate and arouse intraset and thus create a demand, but the final act of purchase more commonly needs direct, personal contact. The airlines and tourism bodies marketing techniques will vary.

5.8.4 Vocational Training

There are opportunities for a great variety of courses from business to hairdressing to which persons may travel; all of them are capable of filling troughs in seat occupancy. Business studies courses can use the accommodation and teaching facilities available at universities and polytechnics. Advertising in the trade press, direct mail and public relations channels are effective media in this field as well also are sales missions to the market place organised by the national airlines and notional tourist organisations.

5.8.5 Independent Business Travellers

In term of size, this sub-segment is the most important. In terms of being influenced, it is perhaps the least susceptible to promotion efforts. Nevertheless, there are opportunities to influence the pattern and style of visit; for example, the business traveller can be persuaded to bring a spouse if there is an attractive fare or accommodation deal. Alternatively, the business visitor can be encouraged to extend the length of stay to include a leisure weekend playing golf, shopping or visiting the theatre.

5.8.6 Study Tours

Travel for learning purposes, or to witness and experience other countries' activities and to make personal contacts in occupational groups, grows in importance and value. In the travel industry, the practice of familiarisation trips is widespread. It is now extending to cover many fields and is likely to develop rapidly. Examples are to be found in study tours to farms to see the practices pursued in other countries, to museums to study presentational and marketing techniques, or even to study policing or fire fighting methods.

It will be realised that each of the sub-segments of business travellers has different wants and needs. Each should be addressed by the tourism bodies and the airlines using a specific marketing mix.

5.9 MARKETING STRATEGIES FOR BUSINESS TRAVELLER

5.9.1 Promotion

Advertising is one of the major weapons in the competitive battle for a share of business travel expenditure. TV advertising for the business travel market is carried out to a great extent by airlines, hotels, car hire companies and rail companies, although in the case of the airlines, there is also a substantial amount of press advertising. The following table shows business travel

advertising expenditure by the airlines in the UK (year

to March 1988).

Company	Expenditure (£000)	% of total spent on		
		TV	Radio	Press
Air UK	243	0	0	100
American Airlines	295	0	0	100
British Airways	4,458	71	0	29
British Midland	888	21	0	79
Lufthansa	466	0	0	100
Pan Am	623	100	0	0
Qantas	726	0	0	100
Swissair	673	63	2	35
TAP	204	0	0	100
TWA	2,102	53	0	47
Virgin Atlantic	466	0	64	36

Sources: MEAL and Key Note report 1988.

5.9.2 Market Development

Market development is a major strand in the strategy

of many airlines. The larger airlines, which seek to make

their appeal to major markets and market segments

(defined to include those travelling for all journey

purposes in many geographical markets) refer to the

concept of ' mega carrier'. This concept stresses the

importance of size. For example British Airways, the

largest UK airline, considers that it needs to be even

larger in order to attain the 'critical mass' necessary

to compete with the major US airlines. This was in part

the reason for its takeover of British Caledonian. Many

countries, in the wake of increasing liberalisation of air

services, are seeking to move from their original

charter (mainly leisure) specialisation into scheduled (mainly business) markets.

Smaller carriers, such as Brymon Airways or Virgin Atlantic, for whom becoming a 'mega carrier' would be an unrealistic ambition, seek to occupy particular specialist 'niches' in the market. Thus the small Brymon Airways seeks to exploit the opportunities for London City centres' operations to near by European captial cities opened up by the new London City Airport. Similarly, several UK regional airlines are looking to serve UK provincial centers needs for direct services to Europe, by-passing London. For such 'niche ' carriers, therefore, market development means exploiting these particular specialist markets rather than trying to be all things to all men like the 'mega-carriers'.

5.9.3 Product Development

Despite the importance of other strategies it is the strategy of product development that attracts the most public attention, and takes up a significant amount of the market effort of those companies which compete for business travellers' custom.

Competition is particulaly fierce and the advertising focus reflects this situation.

The dimensions of the airline product are defined broadly to include the whole 'travel experience'. This includes the airlines services specifications, which were

detailed earlier in this chapter.

These services are offered together with a host of other 'product' features, from the attractiveness of the airline 'livery' to the quality of 'value added' services such as car parking, etc. For example, British Airways has introduced its 'Club Europe' and 'Club World' (long haul) business class products, both of which offer such features to business travellers. In 'Club Europe' the priority is time saving and trouble free travel. On the long haul 'Club World', comfort assumes greater priority. Virgin Atlantic has its Upper Class image to appeal to business travellers. Other business class products include Air Europe's Premier Class, SAS's Euroclass, Pan American's Clipper Class and British Midland's Diamond Service.

Another somewhat artificial stratagem by which airlines seek to improve their product is that of 'code sharing'. This is a device by which one airline presents a complementary service operated by another airline as if it were its own. For instance, British Airways has a worldwide route network, but it does not include trans-Pacific or US domestic services. The airline has therefore entered into a code sharing agreement with United Airlines which serves both areas. Thus BA's London-Chicago service plus United's Chicago-Seattle service are presented as if they were one service.

5.9.4 Distribution

Airline distribution strategy is an area of marketing strategy that has been receiving more and more attention in recent times, largely because of the broadening of the horizons of what is possible resulting from developments in information technology.

In the airline business travel context, distribution strategy means the strategy by which the airline product is distributed, whether via direct ticket sales to the purchaser or via a travel agent.

Certainly, for business travellers, the service which they get from the business agent and/or the airline reservation system may be as important a part of the whole travel transaction as any other.

Increasingly, the battle between airlines competing for the business traveller is being fought using the weapon of the Computer Reservation System (CRS). Airlines are competing vigorously to ensure that their 'in-house' systems are installed as widely as possible in travel agents' offices. Because of the scale of the investment involved, this frequently means co-operative ventures between several airlines.

Worldwide, the main CRS contenders are APOLLO (United Airlines), SABRE (American Airlines), and PARS (TWA & Northwest) but the Europeans are now attempting to establish their own rival systems in order to fight off

the potential threat from across the Atlantic, particularly from SABRE, which is aggressively seeking to establish a stronger presence in Europe.

At present, two major competing European systems are being developed. These are: AMADEUS whose main partners are Air France, Iberia, Texas Air, Lufthansa, Finnair and SAS; and GALILEO under the control of airline shareholders: British Airways, Swissair, KLM, Aer Lingus, Alitalia, Austrian Airlines, TAP/Air Portugal plus COVIA, the CRS subsidiary of United Airlines.

The latter system will not only provide travel agents with information on airline routes, schedules, and fares, enabling reservations to be made 'on-line', but other information will be provided, covering ancillary services such as car hire, hotels, rail services, theatre bookings, etc.

It is thereby intended to provide a flexible service to agents, with the precise details of the information to be conveyed and the form of presentation being left to each individual agent to decide.

5.9.5 Other Strategies

In the case of airlines, the portfolio of strategies often includes "frequent flyer" programmes. Although these are more common in the USA than elsewhere, UK residents business travellers are able to benefit from them. Outwith traditional marketing strategies, they effectively

amount to incentives to continue to fly with a particular airline. Mileage flown with an airline produces rewards in the form of free air tickets, upgrades to a higher class of travel, free car hire, use of executive lounges, etc. The competitive climate in the USA is such that these 'perks' are offered to an increasing extent. UK airlines are, however, somewhat wary of these schemes, since the UK tax authorities are thought to be likely to consider them to be offering taxable benefits to passengers.

5.10 FUTURE PROSPECTS

The demand for business travel is linked to overall buoyancy in world economies. However, even in the depths of the early Eighties recession, underlying growth was experienced as business became more international in scope. The trend toward larger companies, created through mega-mergers, continues to fuel the demand for more travel between subsidiaries, and this will be a major characteristic of business travel in the future.

If the quantity of business travel is set to increase further, then the quality of travel will also continue to improve rapidly. The business traveller on a large budget has "never had it so good", with all branches of the trade competing for his or her attention. A survey sponsored by companies like Thomas Cook in the UK and American Express in the USA, aimed at finding out what business travellers (and their employers travel departments) find most

frustrating and most rewarding about travel facilities.

In an increasingly competitive environment, travellers will continue to be offered even more luxurious conditions and more efficient arrangements. Efficiency is being improved through the availability of computer booking and invoicing equipment. There has been a trend for travel departments of some major companies to question the need for travel agents at all, given the ease of direct booking of journeys and accommodation. The proliferating services offered by charge card and credit card companies, including access to transport, accommodation, insurance, and instant cash, have also begun to erode the central position of travel agents to some extent. However, this proliferation of services, especially in terms of the complicated discounts offered to regular travellers, probably means that the agents will be even more indispensable in future.

It seems certain that the overall volume of business travel will continue to increase at a satisfactory rate. The only possible cloud on the horizon is the arrival of the age of video-conferencing, together with a host of other improved telecommunications facilities, which could potentially cut down the volume of inter-company travel by a substantial amount. However, just as computers have failed to produce the paperless office, but instead have increased the output of documentation, so it can be forecast that better telecommunications will simply

increase the appetite for physical travel and face-to-face meetings.

Business travellers will become increasingly sophisticated in their demands as new generations of jetsetting representatives emerge. Their demand for travel facilities will increase in quantity, but in an industry so burdened with over-capacity, the emphasis will continue to shift toward greater quality and efficiency.

The overall business travel market is expanding every year in volume (number of trips) and particulary in value, with travellers increasing their spending per trip well ahead of inflation. This is partly a result of travel companies offering much more luxurious services for the business traveller who hopes thereby to avoid the hurly burly of the low-margin, high volume holiday tourist market. Airlines, hotels, railways, and most large travel agents are paying more attention to the lucrative business travel sector.

Continued growth is forecast in international business travel, and competition between rival providers of travel services will intensify accordingly.

Computerization, according to IATA REVIEW (1987), makes flying easier, safer and smoother. The new warning systems help to reduce accident risks. The introduction of aeronautical satellite communications through bodies like the International Marine Satelline Organisation (INMARSAT), will shortly enable air-to-ground telephone

calls to be made. British and Japanese airlines are to conduct experiments in the use of telephones in Boeing 747's. Early in 1988, British Airways started by making the system operational in three aircrafts.

Due to the importance of accurate information, airlines have made major investments in automated systems, in order to access substantial volume of information concerning every area of their operations. Accurate information is especially important in ticketing. The person issuing tickets relies mainly upon easy access to the very latest data concerning the schedules available to European airlines. Such information will incorporate not only flight reservations but also details of related facilities such as hotels, car rental, rail travel and tour bookings.

Due to the highly competitive environment, airlines in order to attract more customers, offer stopover programs like "Stopover holidays" programs by SIA.," round the world" with B.A and KLM offering the "stay-on-the way" in Amsterdam.

British Airways travellers can quickly secure the flight they need around the U.K fast, even if it is after business hours. Once you open a timesaver account you receive a cheque book of ten blank flight tickets. When you want to fly, you simply , telephone British Airways or contact your travel agent to make a reservation, quoting

your account number. According to B.A.(1987), Timesaver tickets is the fastest way to travel round Britain.

Through the provision of such facilities, airlines try to create a differential advantage through their service and gain a higher market share. However, technology has a lot more to offer to provide better air transport facilties and also to satisfy the needs of air travellers.

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CHAPTER SIX

"AIRLINES IN THE MIDDLE EAST"

"THE GOAL OF YESTERDAY WOULD BE THE STARTIN; POINT OF TOMORROW"

C ARLYLE

6.1 INTRODUCTION

In order to study the marketing strategies of the Middle East airlines, this chapter attempts, in the first instance, to give a brief account of the history and the development over the years of the Middle East air transport industry and the recent state of this industry. The structure of Royal Jordanian airlines, Emirates airlines and Gulf air and their mode of operation are also outlined. It is hoped that this chapter will provide a clear picture of the marketing problems of the airline industry in the Middle East in general and specifically in Jordan and the Gulf.

6.2 CHOICE OF AIRLINES AS CASE STUDIES

For obvious reasons limited with politics and international instability, the air carriers of Iran, Iraq, and Israel were eleminated. In addition, the airlines of Libya, Syria and Lebanon were excluded due to high political tension and instability in these countries. Yemen (Aden) and Yemen (Sanaa) were also excluded due to political instability and their small size.

Sudan's airlines could not be taken into account because of the political problems and its flood disaster and the officials of the airlines were not in any "frame of mind" to grant interviews.

Kuwait and Saudi Arabia were excluded due to the

difficulty of collecting information and obtaining a visa
to undertake field work. Also, due to the heavy subsidies
these governments provide to the airlines , there were
problems relating to any information, which might have
been gained since " unreliability" would have affected
the research findings.

The remaining airlines were ideally representative
for the researcher's purpose. Gulf Air, one of three
airlines selected caries a very large passenger load, like
Saudia and Israel. In addition, Gulf Air is representative
of four countries in the Middle East (Oman, Bahrain,
Qatar and United Arab Emirates).

The second choice of airlines presented a major
difficulty for the researcher. It was a choice between
Royal Jordanian and Egypt Air. Both were in the medium
category of the passengers carried list. The other
airlines in this category, Iran, Libya and Kuwait were
discarded for reasons given above.

The researcher chose Royal Jordanian for reasons of
convenience.

Firstly, it is the researchers' national airline,
hence there was easier access to data and to its
historical perspective. Royal Jordanian had experienced a
slow growth followed by a period of rapid growth and then
the current state of stagnation and a period of slow
decline. It was considered that including this airline in
the sample would provide an example of "management

planning " and modern outlook.

The final choice of airlines was Emirates Airlines. It is included in the list of small carriers in the Middle East. The intriguing aspect of Emirates Airlines is that it is relatively very new in the market, but it is rapidly gaining a good market share and posing a threat to the larger airlines like Gulf Air. This phenomenon reflects the "modern" management attitude of Emirates airlines and it would be an obvious choice for someone who is conducting research into the Middle East airlines.

6.3 DEVELOPMENT OF MIDDLE EAST AIR TRANSPORT INDUSTRY

The geographical location of the Middle East places the region at the crossroads of three continents. This has always given the region special strategic importance, with unique possibilities for developing commercial air services.

The importance of Cairo as a gateway to other regions may be the main reason why the first Middle East airline, Misr Airworks, was established in Egypt in 1932. For the same reason another airline was established in Palestine in 1934. Four years later, a third airline was established in Iran. These airlines were operating between their home countries and major traffic centres in the region, including Cairo, Beirut, Baghdad, Jeddah, Haifa and Medina. New destinations were added from time to time while some services ceased operations after a short

period because of insufficient traffic volumes and inadequacy of flight equipment.

Shortly after the Second World War, the airlines of Egypt and Iran started operating inter-regional services. Both of them started sheduled services to Greece, Turkey, Switzerland, France, Italy, India and Pakistan. At the same time, new airlines were established in Lebanon, Iraq, Syria, Jordan, Saudia Arabia, Yemen, Sudan, Tunisia, Morocco, Ethiopia and Cyprus. The following table shows the year of establishment and the ownership of the International Scheduled Airlines of the Middle East. The service of the infant airlines remained, for some years, confined to short and medium-haul regional routes before attempting to expand to long-haul inter-continental routes.

In the early fifties three airlines were based in Lebanon operating a complex set of routes covering the Middle East and extending to Paris, Brussels and West Africa. During that time, the network routes of some other Middle East airlines were rapidly expanding to open inter-continental routes to the major Western European cities.

Table 6.1

The Establishment and Ownership of the Middle East Airlines

STATE(s)	AIRLINE NAME	YEAR OF ESTABLISHMENT	% OF GOVERNMENT OWNERSHIP
Cyprus	Cyprus Airways	1947	53.2
Egypt	Egypt Air	1932	100
Gulf States	Gulf Air	1950/73	100
Iran	Iran National Airways(Iran Air)	1945/62	100
Iraq	Iraq Airways	1945	100
Israel	El-Al (Israel Airlines)	1948	99
Jordan	Alia/Royal Jordanian Airlines	1963	100
Kuwait	Kuwait Airways	1953	100
Lebanon	Middle East Airlines Airliban (MEA)	1945	---
	Trans Mediterranean Airlines (TMA)	1953	---
Libya	Libyan Arab Airlines	1964	100
Saudi Arabia	Saudi Arabian Airlines	1945	100
Sudan	Sudan Airways	1946	10,0
Syria	Syrian Arab Airlines	1946	100
Yemen	Yemen Airways	1962	51
South Yemen	Alyemda/Democratic Yemen Airlines	1971	100
UAE	Emirates airlines	1985	100

Sources:
1- Sabri M.,Alternative development strategies for small international airlines, Unpubished Ph.d. Dissertation 1980
2- World Airline Record, 7th Edition, 1972
3-World Airline Directory, Flight International, 9 April 1977.

The discovery of oil added to the strategic importance of the region and changed the concentration of economic activities in the Middle East. Therefore, new traffic centres rose quickly on the scene as thousands of foreign technicians came to the region, not only to work on oil production but also to participate in vast economic

development programmes financed by oil revenues. Economic prosperity brought about by oil growth revenue helped to accelerate traffic growth and enhanced major new traffic centres in regions such as Bahrain, Kuwait, Dubai and Abu Dhabi. As a result, the route systems of most Middle East airlines were rapidly developed in order to satisfy the growing demand and to take care of the region's fast developing relations with the rest of the world.

Though oil revenue was the prime reason for the quick development of the airlines in the Middle East, most of the airlines are now facing their toughest challenges, the reason being the rapid drop in oil prices.

With oil revenue high in the 70s, the economic boom speeded traffic growth with a large revenue being derived from the business travel market. A situation developed where demand exceeded supply. Despite the evolution of marketing orientation, the emphasis was only directed towards meeting demand. As a result many Middle East airlines did not introduce the marketing concept into their organisation. In the 80s when oil prices plummeted , many of the Middle East airlines were not in a position to compete effectively for their market share, in this instance, because of inability to segment, target their market and apply the correct marketing mix variables.

In addition, the problems of terrorism and political indentation had a detrimental effect on the development of the airlines in the Middle East. Terrorism has deterred

many travellers from going to the Middle East. and has had a critical effect on business travellers to the region who would rather use an airline which is less likely to be "hijacked!". Political relationships create conflicts of interest in airline agreements or treaties and this has resulted in "unnatural grouping". Further, Middle East airlines to some extent or other are carriers of national prestige and for reasons of subsidy or otherwise, are closely linked with government policy. Many of the airlines have near monopolies on the routes they operate.

In the 70s when economic growth was fast in the oil producing regions, no airlines were interested in capturing their tourist market. With the fall in oil prices and the downturn in business activities in the region, all the airlines were affected. With the increased competition for passengers it is expected that the Middle East airlines will be forced to adopt new, marketing-oriented, operating strategies.

To recapitulate, the booming market in 19'0 and early 1980s came about due to oil revenue and the strategic location of the region. This inflow of capital accelerated economic growth. The Middle East airlines were earning high revenue, especially from the business travel market and travellers from Europe to Middle East. This growth facilitated the development of airports and the creation of new airlines and additional routes

With the fall in oil prices and the war between Iraq

(the Gulf region) and Iran, the economy came almost to a "standstill" and many Middle East airlines were burdened with high operating costs, low profits losses and low load factors. Intense competition began and, due to the lack of marketing orientation, most of the Middle East airlines operated on an "intuitive" basis to capture their market. The situation was aggravated by acts of terrorism, political unrest and disagreements. One might have expected that the cycle of development from boom to crisis would teach the Middle East airlines to adopt a new creative marketing orientation approach, but unfortunately, the research findings indicated that the Middle East airlines had not learned from their experience.

6.4 THE RECENT SITUATION OF THE MIDDLE EAST AIRLINES

The Middle East region has been geographically defined in different ways. For the purpose of this study the Middle East will be considered as the area which extends from Libya in the West to Iran and the Gulf in the East, and from the northern boundaries of Syria in the North to Sudan and Ethiopia in the South.

The Middle East covers about 4 percent of the world's surface area and the population of the region constitutes less than 3 percent of world's population but in 1985 the Middle East accounted for nearly 6 percent of IATA's recorded passengers kilometres flown. In 1975 the region

accounted for just under 4 percent of the total.

Sabri(1980) asserts that during the period 1970-1976, the total output produced (in terms of total tonne-kilometres available on all services) by the Middle East carriers grew at an annual rate of 18%, which is well above the world's 6% rate. In 1976 the region's airlines achieved a remarkable growth rate of 30% which exceeded that recorded in any other region. The rapid growth of Middle East air travel was to a considerable extent related to the development of international scheduled services.

In the meantime, the airlines of the Middle East seem to have concentrated their efforts on scheduled services. In fact, despite the region's tourist potentialities, the percentage share of output produced on non-scheduled service declined from 11% in 1961 to only 5% in 1976.

According to ICAO (1986), in 1975 the airlines of the Middle East accounted for an estimated 10,666 mn passenger kilometres out of a world total of 270,259 mn passenger kilometres, about 3.9 percent of the total. As shown in the following table, by 1985 the region's carriers performed an estimated 35,000 mn passenger kilometres out of a world total of 593,700 mn passenger kilometres. From 1975 to 1985, the average annual growth rate in pax-km was 12.6 percent, compared to the world average of 8.2 percent for the same period.

Table 6.2

Growth of Middle East airline traffic compared with the world
average,1975-1985

	Middle East			World		
	1975	1985	average annual growth(%)	1975	1985	average annual growth(%)
International passenger km (mn)	10,666	35,000	12.6	270,259	593,700	8.2
Freight tone =	1.725	5,060	11.4	37,343	85,540	8.6
of which freight	743	1,820	9.4	11,636	28,930	9.5
of which mail	16	50	12.1	1,211	1,840	4.3

Source: The economic situation of air transport, review and out

look 1986, ICAO.

According to ICAO (1986) estimates, in the same
period the region's carriers have increased their
operating revenues nearly fourfold from an estimated
$1,304 mn in 1975 to about $5,100 mn in 1984. These
revenues represented 4.9 percent of the world total in
1984 and 3.4 percent in 1975. The massive growth in
revenues has, however, been matched by a larger growth in
costs reflecting the rapid development of the region's
carriers.

According to IATA(1985) the Europe-Middle East sector
is the region's largest in terms of the number of
passengers carried -6.67 mn in 1985- representing an
annual average increase of 2.7 percent since 1980 as shown
in the following table. On the Far East sector the growth
rate was far more spectacular with an annual average
increase in passenger traffic of 10.1 percent, giving a

total 5.28 mn in 1985. Of the other major sectors, passengers carried on the Africa-Middle East sector grew by an annual average of 4.8% in the five years to 1985 with a total of 4.4mn on that sector in 1985. Traffic to the USA is relatively small in comparison with those other sectors.

Table 6.3

IATA   International   on- Flight- Origin- Destination   Traffic
Statistics 1981-1985:

Middle East Passengers	1981	1982	1983	1984	1985	Passengers carried 1985
All Service	(%)	(%)	(%)	(%)	(%)	('000)
USA-Middle East	18.4	4.3	33.2	7.1	-2.7	852
Middle East-Europe	-4.1	1.4	7.0	5.6	4.0	6,672
Middle East-Africa	5.6	16.0	0.7	-0.7	2.1	4,366
Middle East-Far East	16.0	14.8	13.1	5.2	2.3	5,288
Middle East-SW Pacific	0.3	0.3	25.0	18.5	10.8	23
Within Middle East	8.5	0.2	6.4	2.1	4.0	5,058
Total IATA	1.8	-0.5	1.6	7.0	4.4	162,418

Source:World Air Transport Statistics, IATA,1985

ICAO (1986) pointed out that despite the huge growth in passenger traffic on most Middle East routes, the region's carriers suffered high costs and low load factors on many sectors.

Odone (1986) asserts that the main reasons for this relatively higher cost structure of airlines registered in the Middle East are the slightly shorter average length of the flight stages of the regions' carriers. At an average of 1,490 km, these are some way below the average of all carriers world-wide, i.e. 1,530 km. Other factors

contributing to lower productivity and hence higher costs include aircraft size and average block speed, both of which are below the world average. Carriers operated by Middle East airlines had an average of 206 seats, and a lower average block speed of 640 kph as against 658 kph globally.

Another contributory factor is the relatively low passenger load factors. These were 56% for airlines registered in the Middle East compared with a world-wide average of 63%. The Middle East carriers also showed particularly high administrative costs compared with other carriers and relatively high costs for ticketing, sales, promotion and passenger services.

As for the infrastructure and general facilities, according to IATA (1986), in the last five years the average rate growth for international passengers to the region has varied between 2.7% annually on the Europe-Middle East sector and 11.4% annually on the USA-Middle East sector. To cope with this growth in traffic, the Middle East countries have had to develop airports and other facilities with far greater speed than in any other region. Massive new airports such as the New Abu Dhabi International airport (Nadia), the King Khaled International Airport in Jeddah, and Queen Alia International Airport in Amman are just three examples. In addition, the Middle East countries are expected to spend about $6,000 mn on airport construction alone in the next

fifteen years.

Table 6.4 shows the number of passengers handled at Middle
East airports in 1984 and 1985:

Airports in	Total Passengers			Passengers on national carrier		
	1984 (mn)	1985 (mn)	% change 1985/84	1984 (mn)	1985 (mn)	% change 1985/84
Bahrain*	1.78	1.88	5.6	--	--	--
Egypt	5.56	5.14	-7.6	2.78	2.77	-0.4
Jordan	1.73	....	....	1.33	1.29	-3.0
Kuwait	2.59	2.57	-0.8	1.50	1.45	-3.3
Libya	1.34	1.33	-0.7	1.58	1.58	0.0
Oman*	0.77	0.85	10.4	--	--	--
Qatar*	0.84	0.88	4.8	--	--	--
Saudi Arabia	7.23	6.94	-4.0	11.37	10.79	-5.1
Syria	1.40	1.36	-2.9	0.46	0.48	4.3
UAE*	3.36	3.56	6.0	--	--	--
Yemen(Aden)	0.18	0.20	11.1	--	--	--
Yemen(Sanaa)	0.46	0.44	-4.3	--	--	--

Source:Arab Air Carriers Organisation 1986
*Bahrain, Oman, Qatar and Abu Dhabi share Gulf Air and do not
have their own flag carrier.
Within the UAE,Dubai recently formed its own carrier.

Table 6.4 Number of passengers handled at Middle East
airports in 1984 and 1985:

In recent years Middle East airlines have been some
of the most consistently profitable in the world. Despite
high operating costs, a large captive market paying high
fares has enabled healthy growth to develop. Nevertheless,
all the airlines still face a tough short term future.
Table 6.5 is a statistical review of the Middle East
carriers operations for 1984/85:

Carrier	RTK (mn)	%change 1985/84	Passengers ('000)	%change 1985/84	Freight tones ('000)	%change 1985/84	Net result ($mn)	Size of fleet
Saudia	1,873	-0.5	10,795	-5.0	166	1.2	-64.5a	85
ElAl	1,182	9.0	1,409	8.9	118	8.3	12.9b	21
Gulf Air	599	8.1	2,870	6.4	52	4.0	33.6c	20
Kuwait Airways	523	-0.9	1,449	-3.3	44	-10.2	0.6d	18
Egyptair	510	2.6	2,766	-0.7	41	5.1	....	27
Alia	473	1.5	1,290	-2.9	41	13.9	....	16
Iran Air	471	5.4	3,281	-15.5	47	0.0	....	27
Libyan Arab A.	148	6.5	1,579	-0.3	5	0.0	....	31
MEA	122	24.5	501	21.9	16	77.8	....	14
Syrian Arab A.	100	6.4	476	2.6	4	0.0	7.3e	14
Yemen A.	63	0.0	426	-6.6	5	25.0	1.6c	7
Emirates(f)	..	...	24	...	1	...	...	3

Source: World Air transport Statistics, IATA, 1985
Notes: (a) operating result (b) operating result year ending March 1985 (c) annual report 1985/86 (d) annual report 1984/85 (e)IATA estimate (f) began operations October 1985. Iraqi Airways and Alyemda did not report.

Table 6.5 Statistical review of the Middle East carriers operations 1984/85.

6.5 LEISURE AND BUSINESS TRAFFIC IN THE MIDDLE EAST

The rapid growth in passenger traffic in the Middle East in the last 15 years, second only to that of the Asia and Pacific region, has been sustained largely by traffic in the business travel and short term employment travel sectors. Odone (1986) asserts that the leisure travel constitutes only a small part of overall passenger traffic and there has been no accompanying pressure, as experienced in other regions, to encourage or even

accommodate any form of discretionary travel. Apart from Egypt, Jordan, North African states and Turkey, incoming tourism plays a minor role in the finances of most of the Middle East economies. Other potential areas for tourism are Iran, Iraq, Lebanon and Syria, but these have all been impeded in recent years by political factors.

Within the Arab League, there has been a concerted effort since the 1974 Marrakesh Declaration to liberalise regulations governing scheduled traffic services. The commitment to the 1974 declaration has been reconfirmed at subsequent Arab Civil Aviation Council meetings but some governments have still failed to comply with its terms. In the international scheduled service sector a general commitment was made by Arab carriers in 1978 to co-ordinate their policies and regulations about capacity and route control in bilateral negotiations designed to " ensure equity and mutual benefit".

At the same time Arab carriers, particularly in the Gulf area, have been among the most vociferous opponents of discounting. But the call for voluntary yield improvement programmes by the Arab Air Carriers Organisation has rung hollow when some of its own members have provided some of the biggest discounts, particularly on the Europe-Middle East sector. In the last year, the Gulf carriers have realised the financial advantage of providing concessionary fares to people in the region; these have mainly been reserved for youth groups, older

travellers and other types of group travel.

Of all the world's regional pairings, fares on the Europe-Middle East sector are the highest in the world per passenger kilometre. In September 1985, IATA estimated that on a distance of 1000 km, fares were 16 percent above the world average of $0.23 per kilometre on this sector, and on journeys of over 6,000 km they were 24 percent above the world average of $0.15 per kilometre.

The main reason for the maintenance of such high fares is the tolerance of the travellers, largely business people on company expense accounts. Apart from Jordan, Egypt and Turkey, none of the Middle East destinations mentioned attract charter flights and other traditional sources of discount fares. The three tourist destinations are obvious exceptions where various types of excursion fares and seasonal variations on the normal IATA quoted tariff are more readily available.

Discount fares to the Middle East have always been available through "bucket shop" outlets. In London in September 1986, for example, it was possible to obtain flights to the Middle East at up to 60 percent below the IATA quoted official fare. But, because most of the largest discounts are offered by Aeroflot, Balkan Airlines, Egypt Air and JAT and go via each airline's country of registration, they are rarely attractive to, business travellers. Few of these flights are on a daily basis and many have restrictions on changeability and

refundability.

There is a distinct lack of special fares available on flights within the Middle East. On most routes the only concessionary fare available is the excursion fare which normally carries a time limit of ten to 35 days. These are about 30 percent lower than the normal return economy fare. For example, between Sanaa and Damascus, the normal economy fare in mid-1985 was $584 and the excursion fare was 65 percent of this. The first class fare for the 2,200 km journey was 140 percent of the economy fare. According to ICAO(1986), on the Cairo- Riyadh route, a distance of 1,625 km, the economy fare varied between $5.9 and $593 and the excursion fare was between 60 and 66 percent of the economy return fare. On the shortest flight covered by the ICAO survey, between Amman and Beirut, a 210 km distance, the normal economy fare was $ 128; there was no quoted excursion fare.

Just as the nature of the Europe- Middle East sector has lent itself to a high fares structure so the opposite has been true within the Middle East itself. Traffic movements within the region have tended to be dominated by movements of labour forces from countries such as Egypt and Turkey to the low population Gulf countries. This has ensured that fares on intra- Middle East flights have tended to fall in line with world averages. The exceptions are short haul flights. For distances of up to 250 Km, the normal economy fare in 1985 averaged $0.32 per

passenger kilometre, about 11 percent above the world average. For distances of up to 3,000 km the average of $0.14 per passenger kilometre was much clo:.er to the world-wide level.

6.6 MIDDLE EAST AIRLINES MARKETING PROBLEMS

The airlines of the Middle East are curr(:ntly facing their toughest financial challenge for m(.ny years. Following the rapid drop in oil prices, tl.e region's airlines almost without exception are facing tl.e prospect of competing in a smaller market place for pas:.engers with less to spend on air travel. Their internati(.nal routes have also been hit by the escalation of terror:.st activity in the region so that many of the carriers, aft.er years of uninterrupted growth, are projecting a sever(: decline in load factors and large operating deficits in the coming years.

The majority of the carriers in the re(|ion derive their major revenues from the business tra\·el market, traditionally price insensitive. The fall in oil prices had a direct impact on all the oil producing (:conomies of the Middle East. Financial uncertainty has]·esulted in cancelled or unfulfilled contracts, affectii.g business traffic to and from the region and a decline :.n migrant worker traffic within the region.

One important factor that business tra\·ellers and other frequent travellers to the region (.re finding

increasingly hard to ignore is the terrorist incidents which have occurred on the Arab-owned airplanes including those belonging to Kuwait Airways Corporation(KAC), Egyptair, Royal Jordanian and Middle East Airlines (MEA).

In many respects the airlines of the Middle East hardly form a natural grouping for study given the political problems affecting the region. Saudi Arabia, and its airline, represents a key power in the region, surrounded by many smaller Gulf states. El Al the Israeli airline is in conflict with its neighbours, and the war between Iran and Iraq was a major cause of disruption. The oil-producing nations have generally seen a faster economic growth than the non oil-producing nations in the region although, with the fall in the oil price, this difference will soon become less apparent. Airline agreements, as with political agreements, are subject to intense conflicts of interest.

The Middle East airlines are carriers of their national prestige and, for reasons of subsidy or otherwise, are closely linked with government policy. Many have near monopolies on the routes they operate. The downturn in economic activity in the region will affect nearly all of them. Increased competition for passengers will force the Middle East airlines to adopt new, marketing oriented operating strategies which few so far have introduced.

Airlines in the Middle East (excluding El Al) and North Africa appear to be producing their services at considerable cost disadvantages. The airlines operate relatively small aircraft over low density routes which are of short and medium lengths. The relatively small fleet size per aircraft type reflects considerable variations in sector lengths and densities and the small size of operation on various route types.

Sabri (1980) pointed out that the rapid development of the Middle East airlines route system was inconsistent with the limited requirements of the total demand of the region as a whole. With more airlines operating parallel routes serving the same points, traffic shares of individual carriers tended to be adversely affected.

The restrictive policies of the Middle East governments may limit the airline's freedom of action on routes where rapid growth requires immediate improvement of the offered capacity and frequency of service, which could only be authorised through time-consuming bilateral negotiations. The restrictive attitude of most governments towards granting fifth-freedom traffic rights does not enable the airlines to consolidate traffic on thin routes, use larger aircraft, schedule for higher frequency and improve their load factor performance. This restrictive attitude is believed to be one important reason for the airlines tendency to operate most of their services on a third and fourth freedom basis.

The present fare-fixing methods have resulted in a tendency towards cross-subsidization which the airlines accept as a fact of life in order to maintain their profitability or minimise their losses. The practise of cross-subsidization is not only socially unacceptable, because some passengers pay more than they should in order to subsidise passengers travelling on some other routes, but it is also commercially harmful. The operation of some unremunerative routes, on which the cost of the service exceeds the revenue earned, is masked by the excessive profits earned on high-fare routes. In the long run, this practice may lead to a suppression of demand on high-fare routes and the continued operation of unremunerative services, which effectively means incorrect allocation of the airline's resources.

The present operating conditions of Middle East airlines are mainly influenced by the level and pattern of demand, the corporate objectives and strategies, and the regulatory environment in which these airlines operate. One would ideally expect small airlines to pursue a development strategy which would control operating costs to help to alleviate the problems of small size. One would also expect that governments, the guardians of the public interest, would set up a regulatory framework for international air services which would provide good services that are in the public's interest. The roles of airline's development strategies

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and government policies are complementary to each other in the sense that they should all aim at supplying air services to the public at the lowest possible cost, thereby enabling the airline to achieve their profit objectives and provide financially viable services in the long run.

As business traffic in the region declines some estimates put it at a 30 per cent reduction so far in 1986 - Middle East airlines are being forced to adjust to doing business in a new competitive environment. Many are facing severe budget problems and are under increasing pressure to achieve realistic financial returns. Inevitably, this will involve lowering their high operational costs, cutting the overstaffing that many airlines endure and reducing some customer services. The high levels of in-flight service on which many Middle East carriers have prided themselves may be compromised by some of these cost saving exercises.

The airlines will also be forced to reappraise their marketing strategies. Operating in a buoyant market for so many years has meant that Middle East airlines marketing has not been particularly innovative. Capturing a new market share in a newly competitive environment will now take high priority, and may force a number of airlines to rethink their attitudes towards liberalising airfares. To date, the obstacles to more widespread fare discounting and a larger range of concessionary fares in the region

have been great. In 1985, the Saudi Arabian government closed down several travel agents because they sold discounted tickets. Other Gulf governments have tended to be vociferous but less active in their support of IATA and locally imposed fares.

The Gulf carriers have long faced problems in trying to maintain high air fares. A 1985 joint programme aimed at eradicating fare discounting from Gulf Air, Kuwait Airways and Saudia ended swiftly in failure when the three carriers were unable to obtain the support of other carriers operating in the region. Saudia itself began offering internal concessionary fares in mid-1985, on flights to cities such as Abha and Taif to try to encourage locals and expatriates alike to spend their holidays in Saudia Arabia rather than going abroad. In April, 1986, the three Gulf carriers agreed to introduce concessionary fares for disabled people, and both elderly and young passengers on flights within the Gulf.

The pressure on other Middle East carriers to provide concessionary fares is growing . The increased competition on some routes provided by Dubai's new airline Emirates, particularly from the Gulf to the Indian subcontinent, is already pulling down fares. A month after Emirates started up in 1985, fares on the Dubai-Karachi route were being quoted at nearly a third of the official level of Dh 1.533 ($417) return. Emirates has plans to expand to several European destinations as well as

destinations within the region, which could provide the impetus to lower airfares within and to and from the region on other carriers.

In a slow growth (or possibly no growth) market the introduction of concessionary fares and the cutting of operational costs are essential for buoying up the airlines over this current difficult period. Last year deficits were shown by most of the airlines, even the most consistently profitable and this will herald the start of the period of consolidation and belt-tightening. In the near future, the only growth is likely to be achieved on the shorter internal flights and one response to the stagnant international traffic is likely to be the use of smaller aeroplanes and the development of "feeder stations" or transitional hubs and spokes to bring down operating costs, and develop the tourism industry in the Middle East.

6.7 ROYAL JORDANIAN

6.7.1 Background and Current Status.

The development of civil aviation and the formation of commercial airlines in Jordan started as soon as the country gained independence in 1946, when Arab Airways Jerusalem Ltd was formed by British and Jordanian interests. It operated from Jerusalem to Beirut and Cairo, using de Havilland Rapides.

With severe competition from other airlines, Arab

Airways and Air Jordan joined to form Air Jordan of the Holyland, the former receiving 25% of the stock and the latter 75%.

In 1961, a new Jordan Airways was formed as a result of the cancellation of Air Jordan's licence together with those of three other inactive airlines. The Rome-Jeddah services were discontinued and the fleet consisted of three Viscounts, crews being leased from M.E.A. The capital of Jordan Airways was obtained by subscription, 25% of the shares being held by the Jordanian Government, 35% by the M.E.A., and 40% by a number of Jordanian stockholders.

Finally, the Royal Jordanian airline took over and started operations in December 15, 1963, with a fleet of one DC-7 and two Handley-Page Heralds provided by the Royal Jordanian Air Force.

6.7.2 Royal Jordanian Problems

It is worth mentioning here that until the formation of Royal Jordanian , all the attempts to establish viable air links with the outside world were subject to severe financial deficits, due to reluctance to supply local capital and the lack of management know-how.

There were many at home and abroad who doubted the ability of Alia to overcome these problems. Here, the Jordanian government came to the rescue when it bought all the company's stocks in 1968, and the airline started

operations to Dhahran, Doha, Nicosia and Libya. In 1969 Munich, Istanbul and Tehran were added to the route network. Unfortunately, the situation was frequently aggravated by the continual uneasy political climate in the area and the closures of air space in 19'1-1972 and again in October 1973. The hard work and enthusiasm of Alia staff and the changing of Alia from a public-cum-private venture to an entirely public corporation helped the airline to progress and overcome the inability of the private sector to invest the capital required by a modern and efficient airline.

After twenty years or so of expansion, the 1983 results, when passenger numbers fell by 12.6' to 1.46M, and the airline made a net loss of JD 727,353 (US$2.01M), came as a shock. The high level of interest payments more than wiped out a modest operating profit o: JD 3.45M (US$9.52M). This poor result, after more than a decade of profits, can be explained by the political uncertainty in the Middle East in general, the continuing Iran-Iraq war, the slow-down in the neighbouring OPEC economies and the closure of Beirut airport.

In 1984 results were significantly worse than those recorded in 1983- revealing an operating loss of JD 3.5 M (US$ 9.1 M) and a net loss of JD 9.7M (US$ 25.:M).

Long term loans for flight equipment and related spares are guaranteed by the Government of Jordan and are further secured by mortgages. Alia admits that its equity

base is small and its borrowing, predominantly in US dollars at interest rates of between 8.5 and 8.625% per annum, relatively large. It has to make significant operating surpluses to pay the regular interest payments.

The strong dollar has made life more difficult with only a proportion of revenue being in the form of US currency - even though around 80% of the revenue is in hard currency of one kind or another.

Securing traffic rights is seen as one of the most difficult problems facing the Jordanian carrier. In its early years, rights were less of an issue because at that time Alia was not perceived as a threat by other airlines. Now it finds its progress being blocked or at least impeded. It says that it is feeling the effects of protectionism both in Europe and within the Arab Community. Apart from the obvious problems of Alia's Middle East location, many of the states in the region have complex rules covering visas and travel permits. These restrict not only business travel but also VFR (visiting friends and relatives) traffic which might in other circumstances have been expected to be significant in volume.

The closure of the old airport which was nearer the city centre and the move to QAIA new airport, some 32km south of the capital, have caused a number of domestic passengers to give up air travel in favour of driving.

6.7.3 Other Considerations

In spite of the fact that this rapid expansion of Alia was achieved with the continuous support of the Government, the Alia management has made every effort to make the airline financially self-sufficient by means of greater efficiency, increased modernisation and improved customer service.

Alia contributed to a large extent to the promotion of air transport in the Arab world. It was the first Arab Middle East airline to operate non-stop to the United States and the second Arab airline to introduce a Far East route.

The airline has extended its activities to cover various aspects of air transportation and it is becoming the main centre of aviation development in the Middle East. It established the Air Academy, acquired two proficiency flight simulators and introduced an engineering workshop. Moreover, Alia was the airline which co-hosted the first and the second meetings of the Middle East Civil Aviation Conference (MECACon) in 1977 and 1979. These were the first of their kind and Alia hopes to host similar conferences in the future.

Realising the importance of a sound economy for both the airline and the country, Alia made every possible effort to accelerate economic activity through its various subsidiaries dealing in transportation, travel and

tourism, hotel construction, Duty Free shops and training and consultancy services.

The airline Chairman and CEO Ali Ghandour (1987) chose the 23rd anniversary of this event to announce a number of sweeping changes to mark what he described as " a new era....a new beginning " for the airline. Henceforth, he said, the airline would be known as Royal Jordanian to identify it more closely with its country of origin and to back up the new image which the airline was presenting.

Ghandour(1987) revealed that the Government of Jordan had approved the plans for privatising the airline and preliminary studies had been completed. It was hoped to finalise the financial side in the first six months of 1987. As currently foreseen, the airline would initially offer 30% of its holding in the airline, 10% of which would be earmarked (at favourable rates) for airline employees. A date had not yet been fixed for the implementaion of these plans.

6.8 GULF AIR

6.8.1 Background and Current Status

Gulf Air was established by treaty in 1974 as a joint stock company with limited liability by and between the governments of Emirate of Abu Dhabi, The State of Bahrain, The Sultanate of Oman and the State of Qatar.

It was founded in 1950 and in that year started

operating regular flights between Bahrain - Dhahran -Doha
- Sharjah. In 1952, BOAC became a major shareholder; in
1970, the airline extended its network to Karachi operated
regular services between the Gulf and London with leased
VC 10s and in 1974 it purchased four VC 10 aircraft. In
1979, the Far East destinations were added to the route
network and the operation of Boeing 707 Cargo flights
between Gulf/ India and Europe were introduced. In 1980,
regular services were extended to Delhi and Colombo, and
the airline stopped its operations with B 707 Cargo.

6.8.2 Gulf Air Problems

Several factors, particularly the establishment of a
close rival in Dubai, combined with a downturn in the
growth of passenger demand to and from the region,
persuaded the carrier's owner states to call off their
plan to sell shares earlier in 1986. Its plans to sell 49
percent of its shares to citizens of its four owner states
followed a complete reorganisation of its management
structure in an effort to modernise and streamline the
carrier.

Dubai's launch of its own carrier, Emirates, in
October 1985 is threatening to take a share of some of
Gulf Air's most lucrative routes between the Gulf and the
Indian subcontinent. Emirates are also flying to Amman,
Cairo and several European destinations including London.
The new airline had an easy task obtaining rights to most

destinations because Dubai operates an open sk:.es policy.

Gulf Air,like Saudia, is also hampei'ed by its
commitment to flying short -haul transfers around its
owner states. It is committed to a minimun of three
flights a day between each but generally flies many more.
In 1984, the carrier estimated that it lost about $8mn on
intra-Gulf flights. In total, it makes about. 16,000 of
these flights a year and maintains an average passenger
load factor of about 30 percent. It has been accused by
other carriers to the region of trying to ii.crease its
passenger loads on several sectors by delayinc| the onward
passage within the Gulf of the passengers ei.tering the
Gulf on other carriers. Early in 1986, it was struck off
the Travicom computer booking system as a resu:.t.

6.8.3 Other Considerations

Gulf Air is one of the Middle East's most. successful
carriers. In recent years, it has consistent.ly returned
profits and in 1985 it was privatised. Accor(ling to IATA
(1986), in that year the airline recorded a profit of
BD 12.7 man($33.6mn). It carried 2.9 mn passei.gers on its
20 aircraft with a load factor of 57.1 per-cent.. However,
even with a strict austerity programme to try to reduce
its costs, the carrier is facing a reduction ii. profits to
an anticipated BD11 mn ($29mn).

1985 saw a complete reorganisation of the Marketing
Division to strengthen the world wide commitment to sell

Gulf Air. The change of name from "Commercial" to "Marketing" emphasises this new thrust. The division now includes all facets of the marketing effort, with new direct line administration to Gulf Air world wide sales offices and general sales agents around the world.

6.9 EMIRATES AIRLINES

6.9.1 Background and Current Status

The decision to set up Dubai's own airline was prompted by Dubai's dissatisfaction with the service provided by Gulf Air. In 1983 summer schedule, Gulf Air served Dubai 108 flights. By the 1985 summer schedule, this had fallen to 41 flights.

Dubai's Head of Civil Aviation (1986) said " the people of the United Arab Emirates should have an airline of their own, providing them with a service o: which they can be proud ". The implication was that gulf Air was not providing Dubai and other Emirates with that type of service.

Another factor that irritated Dubai was Gulf Air's attempt to extract royalty payments from KLM, Singapore Airlines, and Cathay Pacific for the sixth freedom rights they enjoy at Dubai.

Dubai's policy is to promote its airport by allowing airlines to pick up passengers there, hoping to attract foreign airlines to Dubai rather than any other point in

the Gulf. In 1985, Dubai Airport served 44 carriers and handled about two million passengers, and there are plans to expand to 5.25 m/year. In some ways the exclusion of Gulf Air from Dubai may rebound on the Dubai government's policy of promoting the airport, because this action reduces the appeal of the facility as a hub and so its attractiveness to international carriers.

The Dubai authorities perceived an erosion of their air services, with Gulf Air choosing to serve other Gulf citites in preference to Dubai.

Since Dubai owned no aircraft, the decision was taken to seek a wet lease arrangement to enable Emirates to start flight operations. New Zealand and Britannia Airways were among the tenderers. Pakistan International airlines was eventually selected and Emirates took to the air in October, 1985, with two aircraft wet leased from PIA, an Airbus A300B4 and a Boeing 737-300. The contract for the two PIA aircrafts was originally for a year and included maintenance as well as flight deck crews. This contract has been renewed and according to Emirates is "open-ended".

According to Airtransport World (1987), in 1986 Emirates flow 287,762 passengers, 511 million RPKs and 17.3 million FTKs, and it earned an operating profit of $ 3.26 million on revenues of $ 63.1 million.

Besides passengers, Emirates carried around 10 million kilos of cargo, accounting for over 18% of the total

estimated cargo movement through Dubai airport.

According to Flanagan (1987), Emirate's load factors during the first year of operations system-wide was 59%, although in summer it reached 75%. It is argued that the airlines have succeeded in getting relatively high productivity from the small fleet of three airlines, as the airline have doubled the number of flights it operates from 34 a week to 68 in the three months from March to June 1986.

According to Flanagan(1987), Emirate's five-year plan is developing a mixed fleet of long-haul, low-density and short- haul, high-density widebodied aircraft, plus a number of smaller aircraft for regional operations. Those are likely to be 120-seaters.

The mid- to long-haul routes Emirates is keen to obtain are to the Far East and East Africa. Flanagan added that future expansion will be determined by economic conditions.

6.9.2 Emirates Airlines Problems

Although Emirates Airlines has been successful in picking up traffic rights to European and south-western Asian destinations, it has been blocked by its arch-competitor, Gulf Air, within the Gulf. Initially the creation of Emirates put Dubai into direct competition with Abu Dhabi, which owns 25% of Gulf Air. Previously, Bahrain-based Gulf Air had been the officially designated

national carrier of the United Arab Emirates(UAE). However, in October 1985, in an attempt to normalise the situation, the UAE's Federal Civil Aviation Authority granted both Gulf Air and Emirates national airlines status after the latter had filed for such designation with Dubai's own CAA. To complicate matters further, Sharjah's CAA appointed Emirates as its sole national airline. Currently, the situation is as follows: Gulf Air and Emirates are the national carriers of UAE. Emirates, on the other hand is the official airline of Dubai and Sharjah, but not of Abu Dhabi. Despite this "legislation", Emirates has encountered problems expanding in the Gulf. Since Bahrain, Oman and Qatar are also shareholders in Gulf Air, they have refused to allow Emirates to fly to their respective airports.

Moreover, Bahrain turned down Emirates application on the grounds that the Dubai-Bahrain route was adequately covered by Gulf Air. Dubai retaliated by demanding that Gulf cut its frequencies, which Gulf Air did by diverting many of its services to Abu Dhabi and Sharjah. The same difficulties arose with Oman and Qatar, and the possibility of flying between Dubai and Abu Dhabi has never been mooted, as it was assumed approval would not be granted.

Services to the Jordanian capital were started on June 1 but were promptly suspended because of a dispute with Royal Jordanian Airlines which did not approve of

Emirates choice of general sales agent, insisting that it should represent Dubai's airline. Royal Jordanian eventually got its way, and twice weekly 737 services were resumed on September 1.

The Kuwait Route is still under discussion; it is envisaged that Kuwait Airways and Emirates will each operate a daily flight.

6.9.3 Other Considerations

The management of Emirates is in the hand of the Dubai National Air Travel Agency (DNATA). It is a government owned organisation which for some 30 foreign airlines is a travel agent, Cargo agent and tour operator and also handles many airlines- related functions such as taking care of aircraft, passengers, and freight handling at the airport, running a reservations system and a flight kitchen serving all 30 carriers.

Emirates has its own cabin attendant including British, French, Indian, and Pakistan nationals.

Emirates maiden flights, on October 1985, were to Karachi, Delhi and Bombay, with passenger capacity pegged at 1,550 a week to Pakistan and 2,250 a week on flights to India. With the large number of Indians and Pakistanis working in the United Arab Emirates, it seemed inevitable that these would be Emirate's most rewarding sectors - especially the Bombay route. By March 1987, it was running nine flights a week.

Flanagan (1987) asserts that the "Bombay route has proved to be a success", especially during the 1986 holiday season. For example, so many Indian expatriates booked return flights on Emirates that the airline had to lay on seven extra flights in a month. Moreover, in 1986 there was a significant preference among the Arabs for taking holidays in India.

As a result of the above pattern, Emirates renegotiated its traffic agreement with Air India in Autumn, 1986 to uplift 2,500 passengers a week, a figure the airline feels still falls short of the market potential.

After the introduction of the European services, Emirates' route network spaned two continents and served 10 destinations from its Dubai base: Amman, Bombay, Cairo, Colombo, Delhi, Dhaka, Frankfurt, Istanbul, Karachi and London.

Emirates has also obtained traffic rights to Belgium, Holland and Switzerland, but has no plans to fly to any of these countries yet.

Meanwhile, Emirates is negotiating to operate to Male in the Maldives. If Emirates gets the go-ahead, it plans to reroute its present Dubai- Colombo service via the Maldivian capital. Emirates is the only airline to offer a direct, non-stop service between London and Dubai.

Emirates is aiming through its London route to gain the high yield market by matching the highest

international standards in air transport. In order to appeal to business travellers, Emirates new Airbus is having a spacious First Class with only 18 sleeperettes and a generous 60 in. pitch. Business Class will have 32 seats at 38 in. pitch; the Economy Class will have only 139 seats. Thus the total capacity of the Airbus is 189 instead of the standard A310 configuration of 218.

On April 1, 1986, Emirates introduced non-stop flights to Cairo and in the following month, it signed a new accord with Egypt Air which allows each to operate three service a week between Cairo and Dubai.

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CHAPTER SEVEN

"CASE STUDIES OF THE MIDDLE EAST AIRLINES"

"RIGHT PRINCIPLES WILL BY NO MEANS SUIT WRONG PRACTICES"

S'INCKES

7.1 THE PRIMARY RESEARCH METHODOLOGY

7.1.1 INTRODUCTION

The primary research was carried out in the form of a case study of the three Middle East airlines, Emirates Airlines, Gulf Air and the Royal Jordanian Airline. The reasons for choosing these airlines for a case study was discussed in chapter 6. The information required was collected using a qualitative personal interviewing method so that in-depth knowledge of these airlines could be acquired.

7.1.2 OBJECTIVES

The primary research had several objectives, namely:

1. to examine how the marketing of air transportation and tourism is different from that used in the marketing of products.

2. to examine how airlines develop their marketing strategy. Since the best example of a new airline facing established competition is Emirates, the researcher examined how Emirates developed its marketing strategy.

3. to study the external environment in order to determine the extent to which the airlines are aware of the changing nature of that environment and its significance for their business; also to study the internal organisation of these airlines, focusing on an assessment of their marketing programs, and their overall

organisation, information systems and controls.

4. to assess how marketing-oriented Gulf Air, Emirates and Royal Jordanian are - particularly by analysing the amount and scale of the various kinds of market research carried out by these airlines to discover the needs and wants of the market.

5. to find out how the three airlines segment their passenger market and the kind of target marketing strategy they follow.

6. to discover if the airlines, by following such a segmentation and market targeting strategy, have encountered any conflicts or problems in serving these market segments.

7. to find out how the three airlines make use of each of the marketing-mix elements - product, price, distribution, and promotion - to serve the different market segments they have chosen to pursue.

8. to find out information on passenger needs and the degree to which these needs were being fulfilled.

9. to obtain the views of the airlines in the Middle East / Gulf area concerning "deregulation", and to find out to what extent the governments of the Middle East might relax their restrictions and regulations.

10. to assess the extent to which and means by which the three airlines have contributed to the promotion of tourism in their countries.

7.1.3 HYPOTHESES OF THE PRIMARY RESEARCH

The two main hypotheses are proposed relating to the airlines are:

First, that the airlines do not adopt to a sufficient extent the theory and concepts of marketing in devising their marketing strategy.

Second, that appropriate changes in marketing practices could improve the airlines' competitiveness and profitability.

7.1.4 DATA COLLECTION METHOD

Since the primary research study focuses on the marketing strategies of the three airlines and their tourism related activities, this called for a case study approach through which a detailed analysis of the three airlines could be carried out.

Due to the nature of the information required, data was collected by means of in- depth interviews, which in general are commonly referred to as qualitative research, rather than through quantitative methods. In-depth interviews can involve one respondent and one interviewer or they may involve a small group of four to fifteen respondents. The latter are called focus group interviews, and the former are termed individual in-depth interviews or one-to-one. Groups of four or five are often referred to as mini-group interviews. In this case, the information was collected using individual in-depth interviews.

Individual in-depth interviews typically require 30-45 minutes. The interviewer is not tied to a set of prespecified questions that must be asked according to the order imposed by a questionnaire. Instead there is freedom to create questions, to probe further any responses that appear relevant, and generally to try to develop the best set of data in any way that is practical. However, the interviewer must adhere to one rule. He must not consciously try to affect the content of the answers given by the respondent. The respondent must feel free to reply to the various questions, follow-up probes, and other more subtle ways of encouraging responses in the manner deemed most appropriate.

Individual in-depth interviews have been found to generate more and higher quality ideas per respondent than either focus or mini groups. They are particularly appropriate when:

1. detailed probing of an individual's behaviour, attitudes, or need is required;

2. the subject matter under discussion is likely to be of a highly confidential nature;

3. the subject matter is of an emotionally charged or embarrassing nature;

4. certain strong, socially acceptable norms exist and the need to conform in a group discussion may influence responses;

5. highly detailed (step-by-step) understanding of

complicated behaviour or decision-making patterns are required;

6. the interviewees are professional people.

Moreover qualitative interviewing is able to reach into more sensitive areas, such as motivations and attitudes, to uncover responses in a more meaningful way. As a result, it serves to acquire a deeper understanding of factors which influence decisions and policies. One of the major advantages is that the interviewer has the chance to explore areas in more depth compared with employing other research techniques such as postal interviewing. It allows the interviewer to follow up any chance remarks made by the respondents and in doing so, he may discover certain unexpected and interesting information that would be valuable to the research. It enables the interviewer to change ground quickly and approach a subject which the respondent is finding difficulty dealing with by using a different approach.

The use of telephone interviewing or a postal survey was felt to be inappropiate in primary research of this nature when qualitative, in-depth information from the respondents was required.

The primary research aims to obtain opinions and information about underlying motives for certain policy decisions and actions with regard to the Middle East airlines marketing strategies; so the researcher felt it necessary to adopt an informal approach to the interview

where freedom to think was required by the respondents. For this reason, mainly open-ended questions were asked as opposed to close ended structured questions where rigid replies would be given. The short and rigid answers that would be obtained from a structured interview would not be relevant to the aim of the primary research. The unstructured in-depth types of interview with open-ended questions was believed to be more appropriate in this research.

Moreover in-depth interviews are basically non-directive, the respondents being encouraged to talk about the subjects raised rather than to answer "yes' or "no" to specific questions. In this type of interview, the respondent,reacting to the stimulus of the interviewer, frequently produces ideas, comments and suggestions which might never have occurred to him in a structured interview.

The interviewer attempts to encourage the kind of conversation which is related to areas which are of interest to the researcher. In such interviews the flow of information is largely determined by the respondents, rather than by the format of a prestructured questionnaire.

Qualitative research normally follows a 'funnelling" technique whereby the discussion at first will explore the broadest issues, gradually narrowing down to progressively more specific areas. Open-ended questions (checklist)

concerning the issues to be raised are prepared before-
hand and are used as a guide to ensure that by the end of
the interviewing session all the required aspects have
been covered.

7.1.5 Sampling

As planned the researcher interviewed as many
individuals from each airline and NTO under study as
possible, so that a wider point of view could be obtained
from people from different backgrounds. The use of more
than one respondent from each airline enabled the inter-
viewer to cross-check statements made by different
respondents. In addition, the points made by one
individual could provide ideas for the interviewer about
additional questions that might be asked of later
respondents so that more valuable results could be
obtained.

The positions held by the respondents from the air-
lines and National Tourist Organisations interviewed were
as follows;

Emirates Airlines:

* Emirates Airlines Manager for the U.K

* Deputy Planning Manager

* Assistant Commercial Manager

* Sales Manager for United Arab Emirates

* Distribution Manager

* Accounts Manager

* Emirates Holidays Manager

Gulf Air:

* Gulf Air Assistant Manager for the U.K

* Public Relation Manager

* Vice President Marketing

* Vice President Corporate Planning

* Automation and Reservation Manager

* Accounts Manager

* Assistant Accounts Manager

* Head of Tourism Section

Royal Jordanian:

* Royal Jordanian Assistant Manager for the U.K

* Executive Assistant to the Chairman and Chief Executive
  Officer

* The Planning Manager

* Assistant Marketing Manager

* Assistant Accounts Manager

* Tourism Marketing Manager

United Arab Emirates Tourism Organisation:

* Emirates holidays is the only body which deals with
tourism aspects in the United Arab Emirates. The person
interviewed was:

* Emirates Holidays Manager

Bahrain Tourism Directorate:

* Head of the Tourism Directorate

* Consultant to the Head of Tourism Directorate

* Manager of Bahrain Explore "Tour Operator"

* Gulf Air Tourism Manager

Jordan Ministry of Tourism:

* The Marketing Director

* Acting Planning Director

* Assistant Planning Director

* Consultant to the Minister

* Royal Jordanian Assistant Marketing Manager

7.1.6 INTERVIEW CONTENT

A list of open-ended questions was designed for the interviews. The questions were prepared beforehand and used as a guide during the interviews to ensure that all areas were adequately covered by the end of the interview. The list of questions which are enclosed in the appendix included the various aspects involved in the application of marketing strategies by the airlines, tourism organisations and the airlines' tourism related strategies.

The points which were raised in the airlines interviews covered the various aspects of External Environment, Internal Environment, Marketing Research, Developing the Marketing Strategy, Marketing Segmentation, Marketing Mix and the airlines' Tourism Involvement.

The points which were raised in the interviews with the National Tourist Organisations covered the aspects of Transportation, Accommodation, Service and Manpower Development and Training in the Hotel Sector, the Component Parts of the Tourism Product Strategies and the various aspects of Marketing their Tourist Destinations.

7.1.7 PROCEDURE

The primary research was undertaken in two stages:

The first stage comprised interviews held in London while the second stage was the field work done in the Middle East. In the first stage, four trips were made to London to carry out the planned interviews and record the information collected. In the second stage the researcher travelled to the Middle East to interview representatives of the airlines and the National Tourist Organisations Headquarters in Amman, Dubai, and Manama. A number of visits were made to each of the Headquarters and a month was spent interviewing the respondents.

7.1.8 ANALYSIS

The method of data collection employed in the in-depth personal interviews was by tape recording and taking notes. Only four respondents' views were hand written, all the others being tape recorded.

The tape-recorded conversations and the hand-written notes were all transcribed into standard script form. As

the questionnaire had a fixed sequence of flow, the headings of each part fall into place easily and the information collected was grouped into these subject headings.

The ethnographic approach was relevant and instead of using the " cut and strip " method for the transcript, only codes were used to identify each subject heading and sub- heading.

Each sub-heading was examined for consistency within each airline and National Tourist Organisation and then a further comparison was drawn among the three airlines and the three National Tourist Organisations. These were recorded in the findings. Further, the findings were compared with the objectives of the research and with the information derived from the literature review, in order to provide a basis for analysing the data. The result of this analysis were used by the researcher to formulate his views and propose recommendations concerning the Middle East airlines and tourism industry.

7.1.9 POTENTIAL SOURCE OF ERRORS

There is, unavoidably a certain amount of bias involved in the primary research. This section will list the potential errors that may have occurred during the face-to-face interviews so that the reader will be aware of them and take them into consideration when reading the research findings and analysis in the next sections.

As mentioned before, primary research was carried out using a personal interviewing method and most of the conversations were tape-recorded. Here, the respondents may have thought they were being tested and consequently may have acted more conservatively and modified their behaviour so that the information they provided was less accurate than it might otherwise have been. Where the interviews were not tape-recorded the interviewer had the difficult task of carrying out the interviewing while writing down the replies. It is possible that he may have misinterpreted the information given under these circumstances.

Two of the interviews were conducted in Arabic and though 90% of the respondents were British or good English language speakers, the Arab respondents sometimes used some Arabic phrases. Since it is very difficult to translate exactly from Arabic into English, it is possible that the information given was misterpreted to a certain extent.

Further, the limited time allocated for some of the interviewing sessions may have caused errors to arise and accordingly an element of bias may have intruded during the analysis stage of the research. Although the researcher tried to be as objective as possible, a certain amount of subjective bias is believed to have occurred.

7.2 THE FINDINGS OF THE FIELD WORK

The findings were examined to allow comparisons to be drawn between the three different airlines. The extracts of the interviews were condensed under a number of a headings.

The comparisons will highlight the practises of the airlines and the extent to which the marketing of their airlines corresponds to or differs from the academic view of marketing . In addition, the various factors and criteria used by the airlines as well as their usefulness in the implementation of their marketing strategies are discussed.

The qualitative analysis was carried out on an ethnographic basis, the various airline interview extracts were reviewed so as to allow comparisons to be made.

7.2.2 EXTERNAL ENVIRONMENT

7.2.2.1 Economic Constraints

Disposable Income

Consideration of disposable income into planning their marketing strategy was accepted as an important factor by Gulf Air in deciding on any route. Royal Jordanian also took into account disposable income as an important criterion in respect of travellers, whether tourists or businessmen. On the other hand, Emirates Airlines do not consider disposable income as an important

variable in devising their marketing strategy because they
feel that Middle East traffic movements (within and to
Middle East) are not affected by this factor. In the
researcher's opinion, disposable income is a useful means
of segmenting the market.

Inflation

As inflation is part of the cost of living, its
effect on disposable income will have a direct impact on
pricing strategies and costing policies. Gulf Air and the
Royal Jordanian Airline both considered inflation to be an
important factor in planning their marketing strategy.
Emirates Airlines have discounted inflation as an
important criterion because it is not governed by the cost
of imports or other issues which affects the western
world. Emirates re-emphasize that consideration of
traditional variables such as disposable income and
inflation is not required to assist them in planning their
marketing strategy.

7.2.2.2. Socio - Cultural Factors

Age Distribution

Gulf Air and Royal Jordanian do not consider age
distribution as playing a major role in their marketing
strategy plan; they prefer to consider the type of
traffic according to purpose of travel. Emirates Airlines,

on the other hand, declared that they have not needed to consider age distribution as a factor that affects their marketing strategy as their passengers are predominantly between 20 and 40 years and belong to the labour (unskilled workforce) and business traffic group. However, they agree that they might be taking this factor into account in the future.

Educational level

All three airlines regard educational level as an important factor to be considered in their planning. It seems the general consensus is that more highly educated people tend to travel more for leisure and business purposes, while illiterate passengers in the Middle East travel purely for work as unskilled labour.

Life Style Patterns

All three airlines agree that life style is an important factor to take account of when planning their strategy. Consideration works on two levels. Firstly, there are expatriates who work in the Midlle East and need holidays. This is affected by seasonal changes. The second level consists of local people. The need for holidays occurs during the summer months and thus the creation of attractive package to suit customers' deals specific life style is also an important issue considered by all three airlines.

Customer Service

All three airlines accept that the perception of the quality of customer service is a critical element in devising their marketing mix strategy.

However, Royal Jordanian and Emirates Airlines went even further, emphasising that besides inflight service , ground services also play an important role in consolidating the type of service provided by an airline. In addition, both Royal Jordanian and Emirates regarded as important the question of whether equal level of treatment should be accorded to all the different classes of passengers. Gulf Air did not specify the need for improved ground service and indicated that service on different routes would be different, especially in the case of illiterate passengers travelling to undertake contract work.

From the marketing perspective, customer service is an important promotional tool for attracting customers. If the largest segment of market share consists of illiterates, a drop in service might cause a drop in market share. On the whole, all three airlines emphasise that customer services play an important role in formulating their strategic marketing plan.

In identifying and meeting the needs of the customers, all three airlines base their views on the experience of their managers and also on their intuition. All of them use a non-scientific method of identifying and

analysing their customers' needs. Emirates intend to carry out a market research; in this instance, by means of an in-flight survey to obtain more quantifiable information for their decison making, while Gulf Air and Royal Jordanian have not indicated any intentions to do so. This indicates the considerable lack of interest in marketing research displayed by the airlines.

7.2.2.4. Government and Legal factors

Safety and Environmental Regulation

All three airlines consider that safety requires strict control regulations. All of them adhere to IATA regulations as well as other regulations laid done by the USA . Royal Jordanian and Emirates Airlines are no doubt genuinely safety-conscious, alhough the researcher was given the impression that safety matters are regarded a constituting a constraint. As for Gulf Air, they clearly stated that safety requirements represented for them an advanatge by means of which they could gain the competitive edge. Gulf Air regarded the implementation of safety requirements as a marketing tool which enabled them to promote their airlines more effectively.

International Airlines Regulations

International airlines regulation consists of two elements. First, there are technical regulations which,

all three airlines stated emphatically, they have to follow strictly. This represent a definite constraint for all three airlines, but primarily for Emirates Airlines because of their small size. When an aircraft is grounded for maintenance purposes their schedules are affected and they cannot provide a back-up service for particular flights. Inevitably, delays are caused, which affects their service and image . Gulf Air and Royal Jordanian did not refer to the above regulations as constituting a constraint.

Second, there are air transport regulations which affect the traffic rights and pricing. These regulations are sometimes followed and at other times they are ignored or "side -stepped" by all three airlines. This reveals that all of them feel that a definite measure of constraint is involved here.

7.2.2.5 Market conditions ·

Perception of competitive advantage

Gulf Air considers that level of customer services in terms of the quality of food and inflight service constitutes a competitive tool . In addition, ground services back - ups like making reservations through sophisticated computerised systems provide the advantage needed to compete effectively. Another competitive advantage raised by Gulf Air is the extensive network of agents and ticketing offices around the globe and the good

business relation which they provide. Emirates Airlines referred to customer service as their main competitive advantage, and this is highlighted by their 57% market share for the London route. Royal Jordanian, on the other hand, stressed various advantages their airline possesses primarily from an external perspective. They consider they have a country-specific advantage, in that the national airline of Jordan attracts travellers (both business and tourist) to this part of the world because of the prevailing political stability.

From the internal perspective, Royal Jordanian claimed that their competitive advantage lies in having the best aircraft (technical configuration), top customer service (both in-flight and ground) and their national representation image. The researcher believes that there are two factors which are relevant in terms of gaining a competitive edge for Royal Jordanian. First it represents a means of tourist promotion, being a national carrier, and secondly a large network of offices, agents and subsidiares are at their disposal so that they can devise strategies to take advantage of the various opportunities. But all the airlines in the survey are national carriers and, having the above competitive advantages, the main difference is concerned with how each of them differentiates its offerings to its customers.

7.2.2.6   Distribution channels

Travel agents

All three airlines emphasise the importance of travel agents for promoting their airlines. Gulf Air specifically commented that they play a strong supportive role and that also close interaction with the travel agents was crucial to their plans. A buyer-seller relationship (dyadic relationship) is emphasized by Gulf Air which, they believe, will enhance the airline promotion of their airline by the travel agents. Royal Jordanian also stressed that travel agents are important promotional tools for the airlines and, furthermore, their familiarity with the market affords the airlines a definite advantage. Emirates Airlines only observed that a great deal participation with travel agents is needed and that they play an important role in the formulation of Emirates' marketing strategy.

Hotels

The importance of collaborative agreements with hotels was emphasised by all three airlines. They believe that mutual benefits can be gained if hotels and airlines make suitable arrangements for the convenience of the travellers.

Car rentals

Package deals offered by airlines include the provisions of accommodation, hotel and car rental. Gulf Air believe mutual promotion benefits can be gained when collaborating with car rental companies. This view is shared by Royal Jordanian and Emirates Airlines, but Royal Jordanian specified that these arrangements will be favourable or effective in respect of some market segments, primarily the business travel passengers.

The Impact of Alternative Means of Transport

The availability of alternative means of travel like rail, road and ship seems to have a measure of impact on Gulf Air and Royal Jordanian. These two airlines indicate that different marketing segments and route sectors can be influenced by alternative means of transportation. Factors like sea areas between destination and availability of visa facilities, tend to favour air as the means of transportation but at times, for price-sensitive passengers like low- paid unskilled workers, sea travel costs do influence their choice of mode of transport. Emirates Airline on the other hand indicated that alternative means of travelling have little or no effect on their business, the main reason being that they do not have internal air services so that availability of road transport does not affect their business. In addition, since it is a small airline, emphasis is placed on a

"niche" market where the marketing strategy is geared towards attracting a certain type of customer.

7.2.2.7 Technological Development

Royal Jordanian and Emirates Airlines agreed that technological development is essential to the success of their marketing strategy. Emphasis was laid on customer market size which was agreed to be an important element.

Technological developments such as computerization of ticketing facilities, reservations, departure control systems and check-in systems, all assist in improving customer service; hence, promoting their image and also allowing better control of their activities.

Technological breakthrough is classified as an important advantage by all the airlines. All agree that tremendous contributions have been made to ground services and follow - ups by recent technical breakthroughs. Emirates Airlines indicated that their special "computerized" system will provide a distinct advantage to them in the near future once it is fully installed and operated.

Both Gulf Air and Royal Jordanian stressed that the technical research undertaken in their companies is directed particularly towards internal evaluation and auditing to improve their efficiency and effectiveness. Cost reduction and betterment of services are also areas for future improvement. Emirates Airlines did not mention

that any form of technical research was being undertaken.

7.2.2.8 Summary of External Environment

From the findings on the impact of the external environment, the researcher was able to note that economic considerations like disposable income and inflation are of greater concern to the airlines which who have been in the business for a considerable time. On the other hand, new airlines like Emirates perceive other aspects of the environment as being advantageous to them. This might reflect the "old versus new school" of thought.

Social-cultural issues, especially education and life style, have a profound effect on all the airlines when their marketing implications are considered. This psychographic classification is also rather new to the academic literature and its impact for the airline industry is obvious.

Without doubt, perception of service has a direct bearing on marketing activities, especially for the airlines industry.

The government and legal factors with regards to safety, environment and international airline regulations lay extra constraints on the airlines, but from the responded to comments and the literature review, the researcher is able to observe that "management attitude" can significantly convert an "obstacle \ threat" into an opportunity. In the literature, it is regarded as

essential for perceiving competitive advantage.

With references to other external issues like market conditions where competitive positions and distribution are taken into account, each airline devises its own strategy to enhance its existing strengths. In addition, depending on the market segments, alternative mode of transportation will have an effect. This is particularly the case with the larger airlines like Gulf Air and Royal Jordanian who cater for a larger segment of the market while Emirates Airlines devise more of a "focus" strategy where alternative modes of transportation have no impact.

Technological development without doubt sets the pace for improvement and provides an essential ingredient for the airlines' success. So they must continuously monitor and evaluate the situation to keep up with changes in technology so that they are not left behind by the competition.

7.2.3 INTERNAL ENVIROMENT

7.2.3.1 Derivation of short and long term marketing objectives

Royal Jordanian and Emirates Airlines mentioned the following as the method by which they derive their short and long term marketing objectives. First, they identify and define their target markets, differentiating them by segmentation, thereafter setting objectives. Secondly,

long-term plans are devised and short-term objectives are stated clearly as means of achieving their long-term goals. The ability of an airline to identify who their customers are (target market selection) and set objectives to satisfy their needs reflects the airline's marketing philosophy. The researcher can state that Royal Jordanian and Emirates Airlines are marketing -oriented and have marketing philosophies for their airlines, operations. A countinuous assessment of themselves and their market has influenced the strategic thinking of these airlines. Paradoxically, the marketing objectives of Gulf Air are derived from what business they can obtain and then what business or market they intend to capture. This sort of concept runs against the normal approach to marketing philosophy.

Objectives Quantifiable

All three airline agree that their objectives are quantified by means of profitability analysis in terms of sales growth, passengers carried and yield achieved, among other factors and this constitutes a clear method of measuring their level of success.

Compatibility of marketing objectives with overall corporate objectives.

Corporate objectives encompass the marketing objectives but greater reliance on marketing objectives

is admitted by all the three airlines in attempts to achieve corporate success. In this instance, the importance of compatibility is recognised and at the same time the "iterative" nature of marketing objectives is indicated. This means that marketing objectives can change the focus of corporate objectives.

7.2.3.2 Marketing Organisation Structure

Centralized control with a regional structure is indicated by all three airlines as being ideal for achieving their marketing strategy. Royal Jordanian went even further, stating that, at head office, control is further split into various sections, e.g. for pricing, agreements and regions.

7.2.3.3 Marketing Information System

The establishment of MIS is without doubt a common practice among the three airlines. All three state that both internal and external information are exchanged and stored at headquarters. Included are field reports and internal evaluation reports. The flow and exchange of information is considered to be vital by all three airlines.

Effectiveness of Marketing Information System.

Gulf Air recognises that the effectiveness of MIS depends on accurate evaluation of their competitors while

Royal Jordanian and Emirates Airlines believe their MIS is effective for evaluation and follow-up actions to be taken by headquarters.

Control methods to monitor and evaluate marketing plan

Royal Jordanian have a planning department which sets targets for the various regions, taking into account the different sectors such as routes, passengers, mail, cargo and baggage. Emirates control also comes from the planning department where the methods used include scheduling and pricing. Integration and co-ordination are considered to be important means of control by Emirates Airlines, and they achieve this by meetings and an exchange of information through MIS reports or verbally on a twice weekly basis. Emirates airlines is able successfully to employ these methods because of its small size. Gulf Air, on the other hand, exercises control by means of categorising the various segments of the market, setting specific objectives and monitoring the extent to which those objectives are achieved.

7.2.3.4 Marketing's Integrative Approach

Integration of marketing with other departments

All three airlines believe it is essential for the marketing department to integrate well with all other departments. A high degree of co-ordination and communication is considered vital by the three airlines.

Type of back-up service required

Gulf Air states that a sound back- up service is critical to optimise sales revenue, but their emphasis was on back-up from head office while Royal Jordanian believes that though back-up service is important, proper evaluation of the back-up service by yield management is required. Emirates stated that " back-up service is essentially a feedback and exchange of information to achieve objectives". This communication and exchange of information will assist in attaining their firm's goals.

7.2.3.5 Marketing Research

Outside agent for collecting external information

Both Royal Jordanian and Emirates Airlines indicate that no outside research company was used to collect external information, though Emirates believes it will be using one soon for advertising theme development and inflight surveys. Gulf Air do hire professionals to conduct specific market research on occasions. They added that it is done for specific information collection and it is dependent on the availability of appropriate resources, which are rather limited.

Evaluation of internal strengths and weaknesses

Gulf Air carry out their own evaluation of the different sectors, whereas for Royal Jordanian, the

planning department undertakes the evaluation. For Emirates Airlines, the planning department initially did the evaluation, and later a government financial advisor took over this work. At the present time, Emirates Airlines have brought in management consultants to examine and evaluate their strengths and weaknesses.

Frequency of conducting research

All three airlines stated that they conducted research regularly . The need to be aware of the changes taking place in the market is the prime reason for this offered by all three. However, it is interesting to hear Emirates Airlines confess that at the present moment they do not have any ongoing regular research but they claim that the inflight survey soon to be conducted will be carried out on a regular basis and other informations will also be collected regularly. Gulf Air and Royal Jordanian did not detail their current and future practices.

Budget allocation for marketing research

All three airlines claim there is no specific budget allocation, as it varies according to the departments concerned and the type of research to be conducted, since two departments may share some of the information arising from a particular form of survey.

Budget allocated for continuous market research

For Gulf Air, the budget for market research is included in the department budget and there is no separate allocation for continuous market research section. For Emirates Airlines, there is also no budget allocated for that purpose. Both Emirates Airlines and Gulf Air are proposing strongly to the top managment that there should be a specific budget for continuous market research. Royal Jordanian have a separate section devoted purely to conducting marketing research and a specific budget is allocated to this function.

Is a budget believed necessary for continuous market research?

Unanimously, all three airlines believe a budget is definitely required for continuous market research.

Particular areas where continuous market research should be conducted

Gulf Air reiterated the earlier comment that marketing research is conducted for specific needs while Royal Jordanian have a specialised section to monitor market changes. Emirates Airlines do intend to conduct research in particular areas like inflight surveys and advertising on a continuous market research basis.

Implementing marketing reseach as a continuou; process

Royal Jordanian at the moment has accepted marketing research as a continuous process which is significant for their business plan, and hence they are implementing it accordingly; while Gulf Air indicated its belief in the need for it but still have not fully implemented marketing research as a continuous process. Emirates Airlines believe in it strongly, and expect to implement it slowly but surely in the future.

7.2.3.6 Developing the Marketing Strategy

Involvement in the marketing planning process

Gulf Air indicated that the planning department is involved in the marketing planning process. With reference to Royal Jordanian, four departments were said to be involved in marketing planning process: planning, passenger marketing, sales and cargo departments. In Emirates Airlines, the departments involved are planning, sales, operations, commercial and reservation.

Stages in the planning process

Gulf Air states that the stages involved in planning are market study and evaluation, identification of target markets and devising strategy to satisfy the needs of target markets. Royal Jordanian set objectives, then conducted an enviroment evaluation, target market

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identification, stratetgy formulation, and regional strategy formulation, followed by implementation. Emirates Airlines indicated that they have twice a year to prepare marketing plan. Emirates Airlines stages involve market evaluation, both external and internal, identifying target markets, setting forecasts and stating the means of achieving budgeted forecasts by various departments. Head Quarters will consolidate the target plan for each region, and will ask each region to implement their plans. Further monitoring and performance evaluation will also be conducted by head office.

Significance of marketing service to overall strategy

All three airlines believe that marketing service i.e. services provided to customers, is a significant contributor to their overall strategy.

Role of promotional mix in strategy implementation

Both Royal Jordanian and Emirates state that promotional mix is too important a tool for airlines to ignore. In their strategy formulation and implementation, and the creation of awareness of their airline, the promotional mix strategy is considered to be significant by Gulf Air. For example, the use of advertising, public relations and sponsorship are used by all three airlines.

Evaluation of effectiveness of strategy

For Royal Jordanian, an evaluation is based on the airline's performance in the market; this is measured in terms of an increase in sales and overall growth. Similarly for Emirates Airline, evaluating the effectiveness of the strategy is related to performance measured in terms of profitability, market share and sales revenue.

Gulf Air also agreed that evaluation of the effectiveness of their strategy is based on their returns and measured in terms of profitability.

7.2.3.7 Market Segmentation Strategies

Segmentation of the market

The method of segmentation varies to some extent within the three airlines. Royal Jordanian segments its market on the basis of demography, job classification (labour,business, leisure) and time scale. Emirates Airlines on the other hand, segments its market according to destination (routes involved), passenger profile (including education and life style pattern), job classification and time scale(seasonality). Gulf Air segments its market by means of seat classification (first ,business, economy, excursion).

Identification of target customers

Both Royal Jordanian and Emirates indicated that they
identify their target customers through their needs, which
primarily include the customer's satisfaction in terms of
price and service. Categorising and approaching customers
who are conscious of being "on time" is the method of
identification used by for Gulf Air.

Criteria for segmenting target customers

The following criteria are considered by Royal
Jordanian in segmenting their target customers:
availablity of information in the market, response of the
various type of customers and notable differences among
the type of passengers. The emphasis varies according to
the needs of the market. Emirates Airlines bases its
segmentation criteria on seasonality, price, schedules and
quality of service (in flight and ground). Gulf Air
criteria are based on value for money to the target
customers taking into account frequency, in-flight
service, timing and safety.

Reasons for the importance of these criteria

Royal Jordanian and Emirates Airlines take the view
that the criteria used to segment the target market have
important bearings on their sales revenue and hence
profitablity. In satisfying the price and service need of
the customer, both Royal Jordanian and Emirates strongly

believe that the need to satisfy their different segments of customers by adjusting both price and services. This can influence the market share they hold because some segments are price sensitive while others are highly conscious of the service they receive. Gulf Air considers segmentation criteria to be important because they attract and keep customers.

Problems faced in identifying target customers

Royal Jordanian were unable to indicate the type of problems they face in identifying their target customers. Emirates Airlines indicated that their main problem was lack of information, primarily as a result of undertaking minimal or no market research. Gulf Air highlighted competition as a main problem since every airline is trying to reach more or less the same customers.

How to Overcome these problems

Royal Jordanian were unable to answer this question. Gulf Air suggested the use of a correct approach through being aware of one's competitive advantage. Emirates Airlines planned to conduct market research to overcome this problem.

7.2.3.8 Summary for Internal Environment

The internal environment of the airlines has been categorized into objectives, structure, information

systems, control methods, integration, market research, development of marketing strategies and market segmentation strategies.

Quantifiable marketing objectives are classified as an important factor which all the airlines believe can lead to corporate success. But the derivation of marketing objectives vary within the different airlines, being a reflection of the airlines' orientation and corporate philosophy.

The way the marketing organisation is structured indicates the degree of flexibility involved in implementing the marketing objectives. The research reveals that a more centralised type of control predominates in the sample.

The collection of internal and external intelligence, the flow and exchange of information at the earliest possible time is a pivotal factor in effective decision making. The airlines in the sample are also aware of this vital need for availability of information within their organisation.

Effective monitoring and evaluation of marketing are considered essential by all the airlines and one of the ways to achieve this was emphasised as stemming from departmental integration and co-ordination.

One of the critical aspects of the internal environment was the attitude towards marketing research displayed by the airlines. Responses from the sample show

that though the airlines are keenly aware of the need for
marketing research, little continuous marketing research
is being carried out.

This can affect their ability to develop and segment
their market. As the market is dynamic, it is
continuously changing and continuous marketing research
can be used to monitor and evaluate the "dynamism" of the
market so that the airlines can develop their marketing
strategy to meet the current situation.

7.2.4 MARKETING MIX STRATEGY

7.2.4.1 PRODUCT

Ground Service

It is accepted by all three airlines that round
service is a strategic tool in their product mix policy.
As Gulf Air pointed out, good ground service provides
excellent promotion opportunities and can be used to
convince passengers of the airlines, attention to care
aspects and high standards. Emirates Airlines went
further, pointing out the type of technical orientation
which provides an excellent word- of- mouth promotion, in
relation to quick baggage clearance, fast delivery and
convenience of location.

Cabin Service

Gulf Air points out that regular monitoring of the "happenings on board" and quality of food are significant projections of the service offered by their airlines to the target customers. Royal Jordanian, besides making the same point, also mentioned that changing the food menu every month and improving their seating arrangement have a bearing of improvement in their revenue performance. Emirates Airlines identified an additional input, namely that the airlines try to provide crew nationality compatible with that of the target customers. This is to maintain their level of service through better human interaction. In order to achieve required standards the staff are sent on a rigorous training course.

Strategic advantage cabin service provides

Gulf Air indicates that the strategic advantage of the cabin service is linked with to their crews' abillity to speak different languages and to be courteous and attentive. This produces a number of "repeat customers". On the other hand, Royal Jordanian stressed that the cabin service is a strategic point in satisfying their customers' needs and hence a continuous use of the airlines is achieved, which will result in increased market share. Emirates Airlines also emphasized that cabin service provides a strategic advantage by ensuring a continued use of an airline if the customers are

satisfied and appreciate the value for money obtained by travelling with that airlines.

Scheduling as a strategic tool to attract target customers

All three airlines agreed that schedules are formulated in line with the need of the target market. Emirates Airlines went a little further explaining why schedules can act as an important strategic tool. The Provision of special needs like non-stop flight, non - night flights for particular routes, convenient time with easy and good connections are all issues for the resolution of which scheduling is the most important strategic tool in the view of Emirates Airlines. In fact, Emirates Airlines have claimed that improved schedules have increased their revenue. In the researchers' opinion reasonable prices with more frequent schedules are important factors in attracting more customers.

7.2.4.2   PRICE

Considerations relating to price structure

There are many similarities among the three airlines concerning what they take into account in devising their current price structure. Gulf Air listed the market, passenger profiles, cost of living, competition market and strategies formulated as factors determining their price structure. Royal Jordanian referred to the market, service, competition, and schedules. Emirates Airlines

cited the market "open guide" policies, schedules, "stop
overs", regions (government control), cartel agreements,
seasonality and competition as factors which affect the
structure of their price levels.

Type of fares available

All three airlines mentioned four main types of
fares: first class, business, economy, and promotional
fares. The last includes excursion fares, student and
youth fares, tourist fares, two-in-one and others.

Derivation and evaluation of fare types

Gulf Air claimed their fares derive from market
requirements and its destinations, while Royal Jordanian
stated their fares are fixed through IATA. Emirates
Airlines, on the other hand, claimed that their fares are
derived from a cost calculation which is based on
operating costs, competition and services rendered.

Important issue in price strategy to increase the traffic

Gulf Air believed that increases in traffic vary
according to the different market segments, as well as
issues like load factors (reduce price to increase seat
utilization) and seasonality. Royal Jordanian regarded
as important the ability to provide the right price for
the different segments of the market who have different
needs, so their pricing is fixed according to the customers'

profile (tourist, businessmen, students, etc), time and traffic availablity. Emirates reiterated tha: cost basis and other factors like competition, market sc edules and agreements are issues for the airline to re member when devising their pricing strategy which, in tu:n, affects the volume of traffic.

Price structure affecting category of passenge:s

All three airlines agreed that the ta:get market affects (and or) decides the price structure a d not vice - versa. However, the researcher realises th t the price structure can categorize passengers accordin j to their ability to pay.

Division of fare affecting sales revenue

Gulf Air called it the "traffic mix" (a location of different classes of paying passengers e.j. business class, first class, economy class), which th y take into account in deciding fares to find out whether the revenue per kilometer is profitable. Royal Jordanian maintained that it depends on the different marke: segments identified, which is in line with thei: marketing strategy. Similiarly Emirates Airlines indica:ed, that it depends on the different market segments identified.

Government regulations and economic conditions affecting price decision

Gulf Air claimed that some government control is excercised and that the welfare of the public is thereby taken into account, so that exploitation is prevented, while all Royal Jordanian prices are subject to government approval. Emirates Airlines stated that in Dubai they are free from government control in fixing their price levels while in some other countries there is a measure of government control.

7.2.4.3 PROMOTION

Type of promotional mix used

Gulf Air indicated that they use advertising, public relations and other promotional activities like sponsorship, social activities and sales letters. Royal Jordanian state that they use public relations, advertising and personal selling, but that printed advertising and sales tools like posters, letters and displays are the major tools used in their promotional mix. Emirates Airlines listed advertising, public relations and other promotional activities like sponsorship (games etc.), point of sale material, mailing and personal selling.

Most effective promotional tool

According to Gulf Air, it varies from market to market and especially from country to country. Royal Jordanian believed both "print advertising" and personal selling to be very effective promotional tools. Emirates Airlines claimed that it varies from country to country but that advertising in visual and print media are effective though these have to be backed -up by public relation efforts.

Budget allocated for promotional tools

Gulf Air are allocated a fixed budget and there are bilateral agreements with intermediaries. In Royal Jordanian, on the other hand, their budget is based on a percentage of forecast sales. This amounts to from one to two percent of projected gross sales. Emirates Airlines are financed by the government and their promotions are also related to general promotion of the Countries concerned.

Promotional tool which receives largest allocation

Gulf Air indicated that display material receives the largest amount while Royal Jordanian claimed that print advertising is allocated the largest share and Emirates Airlines asserted that visual and print advertising is given the largest allocation of available resources.

Medias used in promotional strategy

Gulf Air stated that the usual types of media were used in their promotional strategy: TV, radio, the distribution of display materials in different areas and the sponsorship of social activities. Royal Jordanian employs different media for different countries. Commonly used in Jordan itself are newspapers, magazines and other publications while the media used outwith Jordan with reference to Arab countries include radio (Monte Carlo) and pan-Arab publications. In some countries, Royal Jordanian uses trade publications as the media for their promotional strategy. Emirates Airlines affirmed that the most effective media for them is television, followed by print advertising, which they believe "reaches a very high audience".

Type of message to appeal to target customers.

Gulf Air stated that the sales letter is a common method conveying the general information they want to pass on to their target customers. Royal Jordanian indicated that different messages are used to reach different target customers. They pointed out that for first class passengers, a more colourful form of message was required while for the business class, messages in trade publication are more likely to appeal to them. In addition, different messages are used in connection with tourism travel to Jordan. Emirates Airlines, on the other

hand, place their emphasis on a particular theme to convey their message to target customers - namely "time". In their opinion "time" is a captivating idea which appeals to their target customers.

Evaluation of effectiveness of promotional mix

Gulf Air evaluated their promotional mix effectiveness chiefly through comments from passengers, and categorisation of their travel agents in terms of productiveness. Another main measure of evaluation is based on their official returns. Royal Jordanian have difficulties in evaluating efectiveness accurately as the only method they use is based on the number of passengers the airlines carry. Emirates Airlines indicated that the main means of evaluation is through noting increase in sales and traffic they carry. The major problem with all three airlines was the lack of effective measurement of customer satisfaction.

Whether the Cost of Promotional Strategy is Adequately Covered.

Gulf Air declared that the return from promotion cannot be seen immediately. It takes time to build in the market place, but it also pays back in the course of time. Gulf Air believed that cost must not be a constraint when devising promotional strategy because promotion has to be on a regular basis in order to have a subliminal effect on

their customers. Royal Jordanian claimed that since their budget is not sufficient for their promotional strategy, they are asking for more. Emirates Airlines state that the cost of their promotional strategy is not sufficiently covered.

7.2.4.4. DISTRIBUTION

Types of channels used

Being a member of worldwide distribution agencies, Gulf Air's channels include ticket distribution by means of computerised reservation facilities. In addition, Gulf Air uses their own distribution channels. Royal Jordanian basically uses two types of channels: travel agents and sales offices. Emirates Airlines uses travel trade intermediaries, small agents, both IATA and non IATA travel agents and their own offices.

Importance of each channel in the marketing mix strategy

Gulf Air asserted that ticketing distribution is a measurement tool which enables evaluation to be made of the support provided by travel agents. A computerised reservation system is an important means of creating revenue even where Gulf Air planes do not land. Royal Jordanian maintained that travel agents are the most important channel in their marketing mix strategy. Emirates Airlines believes that travel agents add value to

the airlines and hence are important in their marketing
mix strategy. In addition, the computer reservation system
is also a significant element in their marketing strategy.

Criteria for selection of channel members

Royal Jordanian said that travel agents whose sales are over 70% of their target are automatically selected as Royal Jordanian channel members. Emirates Airlines, on the other hand, uses the following criteria to select their channel members: financial capability, adequacy in pricing and securing travel documents and their productivity (sales of tickets).

Blending of promotional mix strategy with the distribution strategy

According to Gulf Air you cannot separate one strategy from the other, because they are complementary. Gulf Air believes that the most important aspect of the blend is that the airlines have to be satisfied that they are well represented and that "proper" marketing coverage is achieved in their target market areas. Royal Jordanian also claimed that promotional and distribution strategies must successfully work hand- in -hand because they need to complement each other. Emirates Airlines blend their promotional mix and distribution strategies by means of displays at agents' windows, conducting seminars and then inviting travel agents to visit their new destinations. Besides blending their promotional strategy with that of their travel agents, Emirates Airlines also promote their airlines through their intermediaries.

Degree of cost coverage and control in selection of intermediaries

Gulf Air believes in providing a supportive role to their intermediaries making contractual agreements to ensure that the intermediaries hold their end of the bargain. Royal Jordanian stated that the cost effectiveness and degree of exposure created by the intermediaries are important in their selection. Emirates Airlines also stated that in selecting intermediaries, they considered logistic issues affecting their salesmen, the geographic area concerned and their ability to maximise sales calls.

Degree to which competitors affect channel strategy

According to Gulf Air competitors are active and they offer similar services to their intermediaries. Thus Gulf Air believes that product differentiation offerings will ensure the support of the intermediaries. But to Royal Jordanian, competitors do not affect their channel strategy much as Royal Jordanian are also competing for the same passengers and travel agents. On the other hand, Emirates Airlines believe that the competitors' price affect their channel strategy, especially when there is a price cut. In order to avoid a price war, there is a movement towards making agreements with the other carriers.

Advantage of using intermediaries

Cost reduction is the main advantage recognised by Gulf Air. It would be an expensive operation to have their own offices throughout the globe. To Gulf Air travel agents, sub-agents and even general sales agents are important means of extending their contact with customers. Royal Jordanian considers intermediaries to be the people most closely in touch with customers, so that they are in effect important tools. Emirates Airlines commented that using only their own offices would be a costly operation and using intermediaries saves costs and allows easy access to the market. In addition there are economies of sales to be considered when making a choice between using intermediaries and setting up their own sales offices.

Ideas of vertical integration

Both Gulf Air and Royal Jordanian emphatically affirmed that they have no plans of vertical integration, while Emirates Airlines claimed that they have this in mind and are at present discussing them with the Dubai National Air Travel Agency (DANTA).

Do channel members consider vertical integration as a threat or opportunity

Both Gulf Air and Royal Jordanian did not comment on this as they have no plans concerning vertical

integration. It is rather ironical that Emirates Airlines
is considering introducing vertical integration even
though their intermediaries consider this will be a threat
to them.

7.2.4.5 Marketing Mix in General

Degree of each element of strategy blended

Gulf Air maintained that each element of the
strategy needs to blend well with the others and
communication is what helps to bring about a good
strategy blend. Paradoxically, Royal Jordanian claimed
that their strategies are not blended as they advertise
in different ways for different market segments. A
similar response is also provided by Emirates Airlines,
which stated that blending varies according to different
markets, including recent ones.

**Achievement of overall short and long term marketing
objectives through marketing mix strategy**

Gulf Air pointed out that their overall short and
long-term marketing objectives are achieved through their
marketing mix strategy. In addition, government support is
another element which needs to be taken into account in
the achievement of their marketing objectives. Royal
Jordanian on the other hand stated that the marketing mix
strategy is not the only means by which they achieve their
marketing objectives, since other factors have to be

considered, as the market is continuously changing.

According to Emirates Airlines, it is true that their short and long-term marketing objectives are achieved through their marketing mix strategy. Their long-term marketing objective is to ensure continued profitability while providing good services. With a proper marketing mix strategy, Emirates Airlines claimed they have been fortunate in being able to provide a service which is profitable.

Achievement of corporate objectives

Gulf Air commented that because they are a government airlines, the government also provides assistance to enable them to achieve their corporate objectives. Royal Jordanian clearly stated their corporate objectives have been achieved. Emirates Airlines stated that, on the whole, their corporate objectives have been achieved, though there have been constraints. These was primarily concerned with the provision of services to places like Bahrain, Kuwait and Mascat which have political influence and hence can affect the airline's corporate objective. Emirates Airlines are also working on a diversification strategy like expanding into hotel and tourism development as a long-term corporate objective.

Airline strategy in harmony with target customer's needs and satisfaction.

Gulf Air argued strongly that they are moving towards a marketing orientation and they are increasing the number of repeat customers by satisfying target customers' needs. Royal Jordanian believed that the airline strategy has to be in harmony with the customers' wants if the airlines are to capture the market. Emirates Airlines strongly maintained that harmonising its strategy with the needs of target customers is an important way of achieving fulfilment of their marketing philosophy but there is no feedback available at the moment to demonstrate that they are achieving that end. Hence Emirates Airlines expect that the in-flight survey will provide them with information required to settle this issue.

Level of resource given to implement the marketing mix strategy

Resources available to Gulf Air cover various facilities, qualified personnel, good equipment, offices, a good reservation system and support provided by other functions for the implementation of the marketing mix strategy. Emirates Airlines, on the other hand, claimed that besides their own resources, the government also supports the airline in promotional activity and other activities. Royal Jordanian declined to answer this

question

Availability of contingency plan if current marketing plan strategy fails.

Gulf Air informed the researcher that they are "reactive" in their approach. No formal alternative marketing plan is made; rather it depends on the market information and the ability to make quick decisions on the spot. Royal Jordanian have no contingency plan available. Emirates Airlines, on the other hand, have preplan preparations in the process of being implemented. Alternative strategies are listed and they choose one of these alternatives when their original plan fails. Emirates Airlines do not have a reactive approach similar to Gulf Air's.

Contingency plan or alternative strategy devised from multiple scenario planning

As there are no contigency plans, both Gulf Air and Royal Jordanian do not plan alternative strategies in anyway. For Emirates Airlines, an alternative strategy is based on multiple scenario planning.

Devising the overall monitoring and control of marketing mix strategy

In Gulf Air, each market segment is monitored separately and performance within it is based on sales and

profit. This is followed by evaluation and investigation of any problem in that segment of the market. In Royal Jordanian, the monitoring and control of the marketing mix strategy is devised on information collected from target customers and the bottom line is the revenue generated. Though the result of this measurement, in the opinion of Royal Jordanian, comes a bit too late, it can still be used.

Emirates Airlines stated that monitoring and control are achieved through weekly meetings, scrutiny of sales performance and regular contact with the market through information collected in order to asses the degree of success achieved their marketing mix strategy.

Forecast Concerning the future of the airlines

Gulf Air forsees expanded growth for its operations, with increased flight frequencies and larger fleets travelling to additional destination. Royal Jordanian proved to be rather pessimistic however. Economic and political constraints are issues not far from Royal Jordanian's thinking. As the present situation is improving, they believe they will grow along with this improvement. On the whole, it was felt that Royal Jordanian were taking a rather conservative view in their forecast of the future. Emirates Airlines anticipated high growth and expanding business and they expect to be very commercially oriented so that they might achieve the

status of more developed airlines in other countries like Singapore Airlines and British Airways . In addition, Emirates Airlines expect that through diversification into hotels and tourism they will achieve increased growth and greater emphasis will be given to quality of services to ensure that competitive advantage is achieved and maintained.

Continuous assessment in defining what business you are in included in corporate strategy outlook

Gulf Air claimed that they have a special team which continuously assesses what business they are in and provides guidelines which direct their corporate strategy. Royal Jordanian agreed that continuous assessment of the type of business they are in is important in order to satisfy their passengers' needs. Emirates Airlines strongly affirmed that they always review "where are we going", "what are we going to do"; a continuous assessment of the type of business they consider themselves to be in. In addition, they hold regular sessions with the entire management of the company to re-assess their performance and then re-evaluate how well they will perform in future. According to Emirates Airlines, it is an element essential to the conduct of their continued business.

7.2.4.6 Summary of Marketing Mix

The Marketing mix strategy of an airline also consists of the 4 Ps as reviewed in the literature. From the survey, with reference to in the product mix, ground and cabin service are considered to be strategic tools for the purpose product differentiation, though one response in the sample considered schedules and timing to be useful in differentiating the product.

The price structures for airlines have interacting forces similar to those affecting other service industries. These include market the competitive forces, service, cost bases and various agreements. For national carriers, there is a certain degree of government control.

The main tools of a promotional mix are advertising, public relation, sponsorship and print advertising. As different regions are involved, the effective promotional tool and medias selected vary from region to region. In addition, the theme of the message also reflects the different market segment to which it relates.

Without doubt, travel agents are classified as a critical element in the distribution strategy since they help to achieve the success of the overall marketing mix strategy.

It was further revealed that travel agents help to reduce costs and provide easy access to markets. Various criteria were used to select channel members but all the

respondents emphasised the importance of having promotion and distribution blending well together. On the whole making contractual agreements is one way to monitor and control the activities of intermediaries and appraisal of competitors in order to ensure that they do not affect the performance channel members which is considered to be important.

With reference to the marketing mix in general, it was considered important that it should blend well with the requirements of various market segments to achieve the marketing objectives which in turn influence and guide the airlines and enable them to achieve their corporate strategy.

Market orientation is being recognised as means of satisfying customers' needs but the problem of collecting intelligence so that the airlines can monitor and evaluate themselves still remains.

7.2.5 GENERAL FINDINGS FROM THE FINANCIAL MANAGEMENT PERSPECTIVE

Key control methods for monitoring and evaluating the marketing plan's implementation

Gulf Air monitors implementation of the plan by recording traffic and revenue statistics. For Royal Jordanian the control method used is, a review of the budget against actual performance, employing a variance calculation. Management sets a specific target which is

evaluated each year. The respective station managers are asked to give reasons if there is variation between budgeted and actual amounts. Emirates Airlines declared that the control methods employed originate from market forces which determine the operating plan, revenues and yield calculation; then, a budget is prepared. Based on this budget and forecast, the various departments set out to achieve their targets. At the end of each month, a comparison between "budget" and "actual" is made. The variance is calculated and if its only 3% - 5% it is not questioned, while anything more than 5% leads to an investigation into the reason for the discrepancy. In order to remedy the problem as soon as possible, a weekly variance system analysis is also carried out. Upon receipt of the weekly report, various heads of departments go through it during the weekend, so that necessary remedial action can be taken on the first day of the following week.

Responsibility for evaluating internal strength and weaknesses of the airlines

Gulf Air enlisted the services of outside consultants to perform their internal evaluation, whereas Royal Jordanian used both their own staff and outside organisations. Within Royal Jordanian, they have a unit called "Internal Administrative Audit" which does the internal evaluation. For marketing strategies, the cabinet

and Chairman undertakes this task. Royal Jordanian also
have external evaluation which is carried out by the
"Kingdom of Jordan Audit Bureau" who appraise them as an
outside party. In Emirates Airlines internal evaluation
is conducted by planning consultants. At times, other
departments may join the planning department to carry out
the evaluation.

Budget allocated for the marketing research process

Gulf Air indicated that a budget is allocated as a
whole for marketing activities and there is no specific
budget for marketing research as such. Royal Jordanian
have a total budget for the marketing department, and
within this budget there is an allocation for marketing
research. This allocation varies from year to year.
Emirates Airlines do not have any marketing research
process, as such, research is conducted either by sales
people or planning staff. Thus , there is no specific
allocation. A budget is allocated to the marketing
department as a whole, no specific amount being made
available for research purposes.

Budget allocation for continuous marketing research

Gulf Air do not have a specific budget allocated for
continuous marketing research while Royal Jordanian
claimed that about 5% of the marketing department's budget
is specifically allocated towards this purpose. Emirates

Airlines believe that marketing research is one of the marketing department's many functions hence the department's overall budget is intended to cover its various activities. Therefore, no specific budget is allocated for continuous marketing research.

Opinion concerning a budget requirement for continuous marketing research process

Gulf Air think they need such a budget, while both Royal Jordanian and Emirates Airlines emphatically stated they regard it is a "must" for the collection of information; to be used for making decisions and using in order to increase sales and profit. This is the main reason for their desire to have a budget allocated for continuous marketing research process.

Evaluation of effectiveness of marketing strategy

Both Gulf Air and Royal Jordanian measure the effectiveness of their marketing strategy in terms of sales revenue. If their total revenue is increased, this means that their marketing strategy is effective; otherwise an audit or re-estimation is required. For Emirates Airlines evaluation is based on the percentage of the market share it has achieved and the cost per seat of passengers. This is yield management and it is calculated and checked against the budget. If the yield is improving, then the strategy is regarded as effective.

Considerations taken into account in designing the current price structure.

For Gulf Air and Royal Jordanian, the prices are mainly fixed by IATA, though Gulf Air claimed that at times discounts are given and in certain cases fares are to match the international price structure. Royal Jordanian also stated that IATA takes inflation, market value, expenses of the airlines, revenues, oil prices and the value of the dollar into account in determining the price structure. Emirates Airlines, on the other hand, referred to product quality as being an important factor within the general economic and competitive conditions which determine the price structure.

Evaluation of each fare types

Emirates Airlines indicated that a number of factors are taken into account in deriving fare types. These include destinations, other land arrangements (like excursions, hotels etc.), percentage of traffic competition and market forces. Emirates Airlines pointed out that IATA exerts a measure of central control and that competition and other market factors also affect the fare structure.

Important issues in pricing strategy to increase traffic

According to Gulf Air, price is the most important issue. If a fare is discounted, this will increase the

traffic. For Royal Jordanian, an increase in discounts to travel agents locally and abroad during the various seasons tend to increase the traffic. Royal Jordanian stated that at times agreements are signed between airlines in order to increase traffic. In Emirates Airlines, the quality of the product offered is an important factor in increasing traffic.

Significance of the role played by government regulation and economic conditions in pricing decisions.

Gulf Air maintained that government regulation and economic condition play a very limited role in their pricing decisions.

Royal Jordanian claimed that the government does not interfere with the pricing decision but at times new regulations may affect expense area and hence the price structure. Emirates Airlines believe the price structure has to be approved by the central government and as far as regulations and economic conditions are concerned Dubai has an "open sky" policy. However, there is a need for the airlines to maintain consolidated prices, as a means of controlling prices.

Level of budget allocated for promotional mix tools

Gulf Air indicated that quite a significant amount is allocated for promotional mix tools. Royal Jordanian stated that the public relations department receives 10%

of the annual budget. The public relations department is very active in respect of Royal Jordanian advertising, print displays and other promotional mix tools. As for Emirates Airlines, they indicated that about 4%-5% of the sales revenue is allocated to promotional mix tools.

Promotional mix tool receiving the largest share of budget allocation

Gulf Air stated that display tools received the largest share, Royal Jordanian cited public relations and Emirates Airlines claimed that television and radio advertising are given the largest amount.

Evaluation of effectiveness of promotional mix tool

Gulf Air thought they had no facilities for evaluating the effectiveness of promotional mix tools. Royal Jordanian stated that evaluation of promotional tools is based on the number of passengers every year and the revenue generated. Emirates Airlines believe the level of effectiveness can be evaluated by surveys, but they also believe that such evaluation is rather difficult to implement.

Estimated cost of promotional mix evaluation

The financial staff of all three airlines were unable to estimate the cost of promotional mix evaluation.

Level of cost, coverage and control taken into account in selection of intermediaries

Gulf Air claimed that cost and control is linked with budget level. Once this is decided it is used as a control guide. Royal Jordanian indicated that the regulatory aspect of the intermediaries should take place before the agents are selected. These include cash deposits by intermediaries, monthly account payment, and a review of discounts offered to agents. In addition, computer terminals are used not only to facilitate the agents' tasks but also to control them by using such terminal. The final control is in effect the value of sales generated by the intermediaries. For Emirates Airlines the intermediaries are selected on the basis of delivery, remuneration (percentage of commission) and the special service they offer. An evaluation is carried out and if no benefit is perceived as being gained from intermediaries then the agents are dropped and Emirates Airlines set up their own offices.

Level of monitoring and control of the marketing mix strategy

The financial staff of both Royal Jordanian and Emirates Airlines did not answer this question. Instead they referred to their marketing personnel, while Gulf Air's financial staff commented that targets (budgets) are set for areas on monthly basis. Hence a close follow -up

of actual target performance is implemented. The variance, if any, is calculated and follow-ups are introduced. This is the degree of monitoring and control provided in relation to the marketing mix strategy by Gulf air.

7.2.5.1 Summary of Financial Management View

The researcher put some similar questions (finance related to marketing activities) to the finance staff to obtain their views.

For control and evaluation, variance analysis is most favoured and for evaluating the airline's strengths and weaknesses both internal and external staff are used.

For marketing research, the finance management staff agree with a proposed budget for continuous market research, though it should be noted that the finance staff are ignorant of the procedures involved in price structure formulation.

With reference to promotional matters, the finance staff's main interest lies only on revenue generation and profit. Their main means of control are budget versus actual performance.

7.2.6 GENERAL FINDINGS OF TOURISM

View of airlines on their country's tourism potential in their country

For Gulf Air, there is good potential for airlines to promote tourism in their country. Even through acting

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as a transit point, their airlines create awareness of the country to the passengers. In addition, the government and particular ministries would need to act hand-in-hand to attract tourists. As the airlines promote their destinations, the tourist potential for the country concerned increases; hence Gulf Air believe they play a significant role in boosting the tourism potential of their country.

Royal Jordanian believe that Jordan has tremendous tourist potential but even if the the airlines do promote the country, the lack of appropriate infrastructure like hotels and restaurants discourages potential visitors to Jordan. Therefore, improvements and an increase in tourist facilities in Jordan is required in conjunction with the promotion Royal Jordanian provides.

Emirates Airlines considered that they play an important role in attracting tourist to the country. These are mainly European visitors. The main constraint against attracting European customers is the "cultural shock" experienced by both the tourist and local population.

Range and scale of packaged holidays offered by the airlines

Gulf Air claimed that they have a variety of package deals within and outside Bahrain, offering packages catering for the needs of different segments of

the market. At times, the packages include land transport, hotel accommodation and sightseeing as well as the air fares. Royal Jordanian, on the other hand, do not become involved in land arrangements. Instead, the tour operators are given a free hand here. Royal Jordanian is only concerned with the air travel section of the package. Emirates Airlines have set up divisions to look after the organisation and marketing of holiday packages for customers. This involves a wide range of different package deals.

Both Jordan and United Arab Emirates believe in offering competitive air fares for their destinations, while Bahrain was not very positive in this area. Bahrain claimed that there is a movement towards attracting tourists; as a result, there is currently an agreement with their national airlines to introduce competitive air fares.

Both Bahrain and Jordan claimed that to them, regular air service is a very important criterion. Bahrain stated that being an island, regular air service is the most important means of transport and communication with the rest of the world. Jordan mentioned that since they do not have a good land transportation system, regular air service is clearly an important means of transportation.

United Arab Emirates, on the other hand, stated that they have good ground and air transportation facilities but regular air schedules in particular offer excellent

services, which has placed the United Arab Emirates in the forefront in attracting tourists.

With reference to regular consultation between airlines and tourist organisations , Bahrain asserted that their Tourist Directorate have regular meetings and discussions and have established good relations with Gulf Air to the extent that Gulf Air management has membership of the High Council for Tourism. In addition to tourism conferences which are held annually, Gulf Air being the national carrier, undertake international work and consultations are held with other international airlines like British Airways, Cathay Pacific and Quantas to promote Bahrain as a tourist destination.

As for United Arab Emirates the airlines (Emirates) and tourism council form one management group. Hence overall objectives and planning are carried out with complete compatibility. Consultation takes place between the Jordanian Ministry of Tourism and Royal Jordanian airlines concerning various problems and programs in order to promote the country and to a lesser extent. marketing strategy is discussed. In the latter case, discussion is restricted to certain areas where there are large traffic movements, like Germany, the UK and the USA. It was also pointed out that Royal Jordanian has been a major driving force regarding improving accommodation facilities in Jordan for tourists and visitors.

7.2.7 RELATIONS BETWEEN MARKETING OF AIRLINES AND TOURISM.

The airlines industry have a great potential for creating awareness of a country. Intermediaries like travel agents and tour operators are "pivotal" in pushing the image of the country to potential visitors.

The airlines, together with the tour operators who arrange a wide range of package deals can attract large numbers group of tourists.

One can not ignore the fact that, even if the airlines provide excellent services and regular schedules, and the tour operators promoting the right image for the destination concerned, final satisfaction is only ensured when the tourists have selected their destinations. As a result, the country must co-ordinate its tourist strategy with the airlines' strategy. As most of the airlines are national carriers, it should be possible to do this.

This is one of the reasons why the airlines management must co-operate closely with their country's tourism organisation. In the sample under study, all the airlines are closely involved with their country s tourism organisation, and the objectives of both organisations are compatible with each other. Regular air services with good ground transportation facilitates movements of tourists. It was suggested in the survey that the airlines become a "driving force" in improving the infrastructure of the country in order to attract potential tourists.

Competitive prices and quality accommodation are promotional tools both for the country and the airlines. Quality accommodation and the type of service provided by the country in terms of hotels, general facilities and guides reflect the image of the airlines. The images presented by the airlines and the country image must be compatible in order to achieve the overall objectives. It is believed that the tour operators act as excellent feedback channels by means of which the country's and the airline's performance can be evaluated.

The visitor profile for an airline can also be predetermined by the destination to which the airline is flying. For example United Arab Emirates is interested in attracting professionals and affluent visitor during exhibitions etc. These are primarily business class travellers. Another example is found in Bahrain where there is co-ordination with tour operators to offer tourists package group tours. These include middle aged groups and high income "quality" visitors.

At certain times of the year, the VFR market is common. During the winter months, Bahrain's centres are fully booked for exhibitions, conferences and seminars so that these are likely to attract business visitors and hence business class travellers.

One can not consider the tourist and airlines market as separate entities; they are integrated and close co-ordination is required between both to achieve their over-

all objectives.

7.3 ANALYSIS OF FINDINGS

7.3.1 IMPACT OF EXTERNAL ENVIRONMENT

7.3.1.1 Economic Environment

Disposable Income and Inflation

In the literature review, it was argued that the focus on consumer expenditure patterns can have an impact on the planner in the airline industry. These patterns are affected by inflation, which, in turn, affects purchasing power and hence the demand for air transportation. From the survey, it is revealed that both Gulf Air and Royal Jordanian consider disposable income and inflation to have an impact on their pricing strategies and cost policies. Though there is an element of contradiction concerning earlier comments to the effect that prices are fixed by IATA, there are instances where both Gulf Air and Royal Jordanian have used their own price structure. These include e.g. discount to travel agents and discount allowed in order to increase the amount of traffic. Hence, these airlines consider disposable income and inflation in deciding their price structure. It is worth mentioning that since Emirates Airlines regard these two factors as traditional variables, they do not assist Emirates Airlines in planning their marketing strategy.

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7.3.1.2 Social-Cultural Factors

Age Distribution, Educational level and Life Style Patterns

Leontiades (1982) argues that while the overall population of the world will expand by about 10%, and the 25-44 year old segment will grow 2.5 times as fast and it is conceivable that this age group will have substantial purchasing power. Yet, ironically, all three airlines do not consider that age distribution plays a major role in their marketing strategy.

Emirates Airlines told the researcher that the age distribution factor on all the routes they serve is being examined. From the survey, it can be seen that the majority of its passengers are in the 20 to 40 year old age bracket.

Educational level and life-style patterns are elements which all three airlines believe to be important criteria in considering their marketing strategy. The literature (chapters 3 and 4) has highlighted the significance of these criteria and airlines are fully aware of them and consider these variables in devising their marketing strategy.

7.3.1.3   Customers Services

Customers' needs affected by economic, social and cultural factors

The cost of living, educational level and life-style patterns influence customers' needs which can be identified through marketing research. In order to satisfy these needs, the airlines strive to achieve high standards of customer service. The satisfaction of target customers' needs is a critical element in devising a marketing mix strategy.

All three airlines emphasize the need to provide good customer service. This has been identified in greater detail by the fact that airlines recognise that both acceptable in-flight and ground service are required to satisfy customers' needs.

From the information provided in the literature review, the researcher is able to assert that customer service is an important promotional tool for attracting and retaining customers. The field research suggests that the three Middle East Airlines are aware of this ; indeed they claim that they are providing good customer service.

7.3.1.4   Government and Legal Factors

Safety, Environmental and International Airline Regulation

Chapter two discussed the governmental and legal issues in depth, stressing the fact that the safety aspect of the airlines industry is considered to be highly significant by the regulatory bodies as well as by the airlines.

Strict control and mandatory regulations are observed by all airlines. It is how these regulations are perceived that distinguishes between the airlines. For example, from the findings the researcher observed that Gulf Air uses safety requirements as a tool to gain competitive advantage over other airlines. This is achieved via promotion of the capability to fly safely and on time. This is a very positive approach by Gulf Air. On the other hand, Royal Jordanian and Emirates Airlines consider the safety regulations more in the nature of a constraint which cannot be avoided, especially the international airline regulations which consist of two elements: technical regulations and air transport regulations. The constraint element occurs when the airlines are delayed due to technical faults which result in time schedules not being met.

In the literature review (see chapter two), it was argued that technical regulations are a prerequisite for the safety of passengers; and all airlines, being safety

conscious, follow them strictly. These regulations are regarded as constituting a definite constraint for all three airlines, especially for the smaller airlines like Emirates Airlines. Due to their smallness, Emirates Airlines do not have a back-up service for particular flights when the aircrafts are grounded for mandatory maintenance purposes. This inevitably causes delays and affects Emirates Airlines services and detracts from its image.

The air transport regulations formulated by IATA affect traffic rights and pricing (see chapter two), but criticism of a general type is directed towards this regulation. Consequently, as the researcher discovered, these regulations are followed only occasionally, and at times they are "ignored" or "side-stepped" by the airlines. This indicates that non safety air transport regulations are considered by the airlines to represent a definite limitation.

7.3.1.5 Market Conditions with Distribution and Technology Development

Competitive advantages can be gained through distribution channels, up-to-date technologies and the absence of alternative means of transportation.

In chapter four, the external market conditions which affect the airlines industry were discussed in detail. The discussion included technological development, level

of competition and the degree of deregulation. The initial competitive advantage recognised by the airlines was of a country- specific nature. Being the national carriers for the country gives such airlines specific competitive advantages which include signing treaties for air space and landing rights.

The infrastructure developments of distribution channels and the percentage of participation associated with channel members provide the competitive edge needed for the airlines. In the survey, the three airlines indicated that travel agents are an important means of promoting their airlines. In addition, they believe the supportive role of agents and close interaction between them and the airlines are a prerequisite for implementaion of a successful channel strategy. The same concept is extended by the airlines to hotels, restaurants and car rental agencies. Here collaborative agreements ensuring active participation have provided the airlines with their competitive advantage.

As Taneja (1982) has shown, the level of technology break- through has improved the airline industry, and she gave the example of Honeywell Information Systems Incorporation introducing self-service terminals. From the field research it was observed that all three airlines agree that technological development is essential for the success of their marketing strategy. All of them find that technological development like

computerisation of ticketing facilities, reservations, departure control and check-in systems have been of great assistance in improving and customer service, thereby enhancing their image and also allowing better control of their activities to be exercised. They also add that distinctive competitive advantages are gained from technological breakthroughs andsubsequent development.

When discussing research which is conducted by the airlines themselves, Gulf Air and Royal Jordanian stated that technical research is being carried out in order to introduce internal improvements, relating to aircraft maintenance and airport handling. What can be deduced from their comments is that as the cost of conducting technical research is high, only Gulf Air and Royal Jordanian which have larger financial resources are able to embark on such research programs while Emirates Airlines is not in a position to do so.

On the whole the findings of the field research correspond to those reported in the literature review in chapter four. The scanning of the environment by the marketing planner is crucial for the development of realistic scenarios within which the planner can develop policies and strategies to enable the airlines to "stay ahead" of competition.

7.3.2. IMPACT OF INTERNAL ENVIRONMENT

7.3.2.1 Organisation Structure, Information System and Degree of Integration

Internal environment focuses on the marketing audit of the airlines' strengths and weaknesses to maximise the benefits of their marketing strategy. This is related to chapters 3 and 4 of the literature review.

The marketing program consists of setting and pursuing short and long-term marketing objectives which are compatible with the short and long-term corporate objectives. Short-term marketing objectives form a set of goals to be attained with a given period of time. These can include quantifiable targets such as achieving monthly sales forcasts or ensuring that target number of passengers using the airlines within a given period are met. Hence, they are "milestones " in the journey towards achieving the long-term objectives. A long term marketing objective relates to goals which the airlines hope to achieve within a certain period of time. This can include objectives like increasing market share to 80 percent or establishing a reputation as the "best served" airlines in the Middle East.

A marketing oriented company will identify and define its target market, differentiate it through segmentation and derive its short- and long-term objectives in order to satisfy its customers and thereby also achieve its

goals. This marketing philosophy is pursued by the Royal Jordanian and Emirates Airlines. Gulf Air, on the other hand, bases its marketing objectives on the availability of its resources and then decides "what market they intend to capture". This philosophy is against the normal principles of market orientation. But Ansoff and Leontiades (1976) and Benders (1983) argue that a company needs to look at its " resource capalility" before it can focus on the market issues. These are revolutionary thoughts, but recent world events have demanded that corporations should revise their outlook on planning. If a company does not have the resources, even if it can expand its market, it is unable to do so.

The ability to quantify objectives provides an accurate means of measuring an airline's success. The survey reveals that all three airlines show an ability to quantify their objectives.

Corporate objectives encompass the marketing objectives. In the literature review, it was found that the direction of corporate objectives can be affected by the marketing objectives. This is acknowledged by the three airlines in the survey. The research indicates that the marketing objectives are compatible with the overall corporate objective, but at the same time, they are "iterative", that is, marketing objectives can change the focus of the corporate objectives.

The second aspect of assessment is the formulation of

an organisation structure which best suits the marketing strategy. The field research indicated that centralised control within a regional structure is practised by all three airlines.

A sound marketing information system is an important feature of effective marketing strategy. In the survey, all three airlines state that both internal and external information are exchanged and stored at headquarters. It also seems that each airline believes that their marketing information system is effective; that is, the airlines are able to make decisions based on availability of appropriate information. On the whole, all three airlines indicated that a continuous flow and exchange of information is critical for effective decision making.

In the literature review in chapter four, it was noted that marketing control is developed to operate at two levels, the macro and micro levels. The macro level of control includes sales analysis and marketing profitability analysis while the micro level of control is the analysis of the contribution of each element of the marketing mix and of the mix itself. From the survey, a common denominator for control purposes is the monitoring and achievement of the objectives set. This is done primarily by using quantifiable objectives.

The integration of marketing with other departments has the essential elements of information exchange and a degree of co-ordination and control. In the field

interviews, all three airlines agreed on the need for effective integration of marketing with other departments. General back-up from the head office and from other departments is considered to be the basis of good integration. The airlines under study agree about this matter and implement the required level of integration.

7.3.2.2 Marketing Research

Following Taneja (1981), it was argued in chapter 2 that marketing can fulfil its role through strategic planning. The method involved in carrying out the strategic planning process is to conduct a situation analysis that essentially describes the current situation with respect to customers, competitors, market characteristics and general trends. Undertaking a situational analysis is facilitated by marketing research.

The degree of emphasis on using marketing research will reflect the strategic orientation of the airlines. A number of questions in the survey were directed to the airlines in an attempt to identify their strategic orientation . Emirates Airlines say they intend to use outside agents to collect information for their advertising theme developments and in-flight surveys. Gulf Air hire professionals for specific research projects while Royal Jordanian do not employ outside agents.

The regularity with which market research is conducted highlights the strategic orientation of the

firm, and enables it to update its files on changes taking place in the market place. From the primary survey, it can be observed that all three airlines seem to believe it is important to conduct market research regularly; however, they do not put this belief into practice, though Emirates Airlines expect that an in-flight survey will be conducted on a regular basis in the future. It is claimed by the three airlines that no specific budget is allocated for marketing research;instead the allocation varies according to the departments concerned and the type of research to be conducted. It is demonstrated in the field survey that all three airlines are aware of the valuable information that can be provided by marketing research to improve their service planning and help them to understand their potential passenger's requirements. That is why they believe a specific budget is needed for continuous market research, and the marketing departments of these airlines are strongly proposing for consideration by their top management that such a budget should be made available. This attitude suggests that they are aware of the continuous need for current information and this reflects their strategic orientation. The surprising aspect is that this proposal has not yet been implemented .

7.3.2.3 Developing the Marketing Strategy

Authors like Taneja (1981) and Abell and Hammand (1979) state that situational analysis of the environment,

both external and internal has to be carried out in developing a marketing strategy. This is followed by formulating and studying alternative strategies, then selecting an optimal strategy to achieve the corporate and marketing objectives. The formulation of marketing strategy requires proper blending of the marketing mix elements. The final phase of market strategy development is introducing an effective monitoring system, together with evaluation and control systems to make assessments on an ongoing basis (The relevant literature is reviewed in chapter four). Based on the findings reported in this literature, an assessment was made during the period of primary data collection.

For the market planning process, Gulf Air indicated that planning department was involved in this function. Royal Jordanian referred to four departments: the planning, passenger marketing, sales and cargo departments. As for Emirates Airlines, marketing planning involves the planning, sales, operational and reservation departments. The number of departments involved indicates the integrative contribution of various departments in the formulation of marketing strategy.

With reference to the stages in the planning process, all three airlines are to some extent following the suggestions made in the literature review (see chapter 4); that is, a market and environment study is conducted; target identification and strategy formulation are then

performed   followed   by   implementation,   monitoring,

feedback   and   performance   evaluation   concerning   the

achievement   of   the   stated   objectives.   Marketing   of

services   and   promotional   strategy   are   considered   to   be

crucial   elements   in   marketing   success.   This   is   discussed

in   detail   in   chapter   two   and   its   importance   has   been

emphasised   by   George   and   Berry   (1976).   The   field   survey

indicates   that   the   airlines   are   aware   of   the   importance   of

these   factors   and   act   accordingly.   Evaluation   of   the

effectiveness   of   the   strategy   is   covered   in   chapter   four

where   control   systems   are   dealt   with.   The   field   findings

tend   to   corroborate   those   reported   in   the   literature

review,   since   the   airlines   undertake   sales   and

profitability   analysis.

7.3.2.4   Market Segmentation Strategies

Chapter   two   presented   an   in-depth   discussion   of

market   segmentation.   The   ability   to   identify   and   segment

the   target   customers   provides   direction   for   marketing

planning.   It   is   a   general   finding   of   the   survey   that   the

airlines   under   study   segment   their   market   according   to   the

needs   of   each   segment.   From   the   literature   review   three

distinct   segments   emerge,   the   leisure   travellers   market,

the   business   travellers   market   and   the   VFR   market

(especially   for   the   Middle   East)   and   each   of   these   major

segments   is   further   broken   down   into   smaller   groups   or

sub-segments.   The   business   travel   market   can   be   broadly

segmented into incentive travellers, convention delegates, visitors to tradefairs or exhibtions, vocational training travellers, independent business travel and study tours of an educational or vocational nature. The business travel market is a high-yield traffic and today any recognised airline must offer a Business Class of some sort. Yet surprisingly, some carriers in the Middle East still remain aloof with reference to this concept.

The airlines in the sample no doubt have a business class of some sort, but they have not segmented this market to exploit its full potential. Important considerations need to be borne in mind to attract the business travellers and these include convenience (time of departure and arrival), punctuality, efficiency, price and frequent flyer schemes.

With contracts ending in the Middle East due to a decline in the economy, it can be expected the VFR market is diminishing, but identifying and segmenting the VFR market into small groups can provide the niche marketing strategy which might enable airlines to gain a competitive advantage.

The airlines studied here have adopted this type of procedure. Identification of target customers must be followed by satisfaction of their needs in terms of price and service. In the choice of criteria, each airlines in the survey uses different factors to segment their target customers. There is an interrelationship with the

literature, findings though certain criteria are singled out by each airlines. These include availability of information, seasonality, schedules, price, service, timing and safety, to mention only a few.

All three airlines referred to the importance of appropiate criteria for segmenting and targeting the market because of the bearing they can have on sales revenue and hence profitability. Unavailability of information, resulting from the absence of marketing research, has been cited by all three airlines as being the main prime problem encountered in attempting accurately to identify their target customers. This comment reinforces the need for continuous marketing research which is prescribed in the literature. The airlines are aware of this need and are striving to overcome this handicap.

7.3.3 MARKETING MIX STRATEGY

7.3.3.1 Product Mix

From the literature review in chapters three and four, it was noted that it is important to differentiate the product/service offered to the customers. The marketing of air transportation services is unique in some ways and the process for marketing services is different from that used in marketing products. The air service, being derived demand, is affected by other factors like government, weather and operational problems. In order to

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devise the product mix, the extent of available ground and cabin services and flight schedules must be taken into account.

The survey results indicate that the three airlines consider ground service to be a strategic tool in their product mix strategy. In addition, it was also pointed out that ground service provided excellent promotion opportunities by way of word-of-mouth, as well as convincing first time customers of their care and attention to standards. This is also likely to generate repeat customers.

Another follow-up element of the product mix strategy is the provision of good cabin service. All three airlines stress that cabin service is an important aspect of product strategy. This service includes quality of food, seating arrangements , and human interactions during flights. Emirates Airlines further emphasised that appropriate choice of crew in terms of nationality to ensure compatibility with target customer is being undertaken and staff are sent on training courses to enhance the interaction between customers and staff.

The strategic advantage of cabin service is to attract "repeat" customers who realise the value for money they receive when travelling with these airlines. In addition to cabin service, scheduling has been mentioned as another element which enhances the product mix. Emirates Airlines stated that their schedules meet

target customers needs and this has in fact increased their revenue.

The airlines do seem to take product mix strategy - as outlined in the literature - into consideration.

7.3.3.2 Price Mix

In chapter four, a detailed account of price formulation policies and the means of devising price structure was presented. The airlines in the survey expressed opinions similar to the views reported in the literature review. According to the survey, the airlines consider the market, cost of living, competition, demand, regional needs, cartel agreements, seasonality and government regulations in devising their price structure.

With reference to fares the airlines stated that they have four: first class, business class, economy and promotional fares. These types of fares are in keeping with the literature dealing with market segmentation and price mix strategy. Concerning the basis for fare types used by the airlines , the survey showed that factors like market demand, cost of production, competition, an international body (IATA) and company policy contributed towards shaping the fare structure. This is also reflected in the findings revealed in literature review.

To increase traffic, Gulf Air indicated that seasonality and the load factor for the different segments of the market can be affected by price changes, which in

turn affects the volume of traffic. Royal Jordanian claim that the price must reflect the passenger's perception of the value of the services offered. Though it is difficult to identify exactly what is the "perception of value" is in relation to services and price, Royal Jordanian claim that "yield management" can be used to calculate the number of customers for discount fares, or the number of customers for whom price linked with time or scheduling is the criterion of a value offering.

It was revealed both in the literature and the survey that the target market affects the price structure. In addition, the overall sales revenue for the airlines is a reflection of the "traffic mix", that is, different fares are set for different market segments.

With reference to the input by external parties which affect price structures, the survey indicated that governments and the IATA play a crucial role.

It was interesting to observe that none of the airlines cited the infrastructure industries such as hotels and tourist boards, travel agents or tour operators as factors affecting their pricing policies, but joint promotions to provide discount fares or to revise price structures are undertaken. General references to the influence of governments on prices was also made.

On the whole, the airlines in the survey appear to be well aware of the influences bearing on price structures

and their method of devising price strategies are in line
with current academic hypotheses.

7.3.3.3   Promotion Mix

Firms   need   to communicate with their customers to
effectively promote their product.   The major tools of the
promotional   mix   are   advertising,   sales   promotion,
publicity and personal selling.

In   the   study,   various   degrees   of   emphasis   on
promotional mix are displayed.   Gulf Air use advertising,
public   relations   and other promotional activities   like
sponsorship for social activities and sports.   The Royal
Jordanian   give   priority   to public   relation,   print
advertising and personal selling while Emirates Airlines
prefer   advertising,   public   relation   and   promotional
activities   like sponsorship and point of sale   materials.
The   sponsorship type of promotional activity is   gaining
rapid acceptance within the airline industry.

In terms of the most effective promotional tool, the
response   from the survey suggests that this   varies   for
the   different   market segments   and   regions. Generally,
advertising   in print,   visual presentations   and   public
relations   were favoured by the three respondents.   In the
literature   review (see chapter two),   the   allocation   of
"fixed   percentages   of   revenue"   for   advertising   was
discussed.   This form of budget allocation is practised by
Royal   Jordanian   whereas   in   the   Emirates   Airlines,

promotion is financed by the government because the airlines promotion is linked closely with promotion of tourism and the country as a whole. However, the newer form of advertising appropriation by means of fulfilment of advertising objective is relatively new and not undertaken by the respondents in the sample.

The airlines interviewed agreed that the allocation of large financial resources is arranged according to the effectiveness of the promotional tool and they also claim that a promotional tool is effective if there is an increase in sales or profitability.

Just as the media employed depends on the choice of promotional tools, the response varies according to the promotion mix adopted by the airlines. This mix can include television, radio, various publications and posters.

The kind of messages used to appeal to target customers drew a variety of responses from the sample. Royal Jordanian, for example, states that different messages are used for different target customers, whereas Emirates Airlines emphasizes a specific theme to convey messages to their target customers. This reflects the inability of Royal Jordanian to create a common theme for use in their airline.

Measurement of advertising effectiveness is a complex task. Dhalla(1978), for instance, views advertising as a capital investment which generates sales

revenue in the form of "stream" over a period of time (see chapter four).

According to the survey Gulf Air measures advertising effectiveness by means of comments from passengers and categorises travel agents in terms of productivity. Generally, the return on sales is also another means of measuring effectiveness.

On the whole, two main issues are brought out through the survey. Firstly, the pay-back from promotion can be seen immediately; and secondly, all the respondents claim that there is a lack of budget allocation as far as their promotional mix strategy is concerned.

7.3.3.4 Distribution Mix

Another important element of the marketing mix strategy is distribution. According to Taneja(1981), the traditional airline distribution system has five elements: the carrier's sales outlets, other carriers' sales outlets, travel agents and tour operators, corporate travel departments and the government (see chapter 2.) The research findings describe channels similar to those cited in the literature. Gulf Air implements ticket distribution through computerised reservations and their own distribution channels. Royal Jordanian uses travel agents and their own sales offices while Emirates Airlines use travel trade intermediaries, small agents, and both

IATA and non IATA travel agents as well as their own offices. Computerised reservation systems, and travel agents add value to the airlines and are significant factors in the marketing mix strategy.

The criteria used to select channel members have an important bearing on the revenue generated by the airlines. In the survey, these criteria include anything from financial capability, adequacy in pricing, and securing travel documents, to productivity of sales.

It was noted in chapter three and four that the correct blending of the marketing mix elements is crucial for the achievement of marketing objectives. In the airlines industry, there is greater emphasis on the blending of the promotional mix with the distribution strategy; and all the respondents claim that promotional and distribution efforts must complement one another. Blending strategies involves using displays in agents' windows, conducting seminars and arranging visits to new destinations. The airlines exert a supportive role and make contractual agreements with intermediaries to ensure that they adhere to the terms of their agreements.

As competitors have a significant influence on the intermediaries, the channel strategy should be adapted to suit the nature of the competitive environment. When interviwed Gulf Air claimed that competitors affect their choice of channels members, and they introduce product differentiation offerings to maintain the support of the

intermediaries. Emirates Airlines follow the same line, particularly in respect of "price cuts"; thus, in some instances, an agreement is signed with other carriers to avoid a "price war". Royal Jordanian was the only airline which claimed that competitors do not affect their channel strategy.

There was general consensus among the sample selected that cost reduction or some form of savings could be anticipated when intermediaries were employed. As an airline expands as a means of ensuring continued support, it can either go in for vertical integration or make collaborative agreements.

In the survey, vertical integration is not favoured by Gulf Air and Royal Jordanian whereas Emirates Airlines are considering the possibility of such integration. All three airlines, however, agree on the need for collaborative agreement. By Emirates Airlines, vertical integration is considered as a threat to channel members. On the whole, the researcher concludes that the sample of the Middle East airlines selected is in touch with the theoretical aspects of distribution strategy and they are able to select those strategies which suit the environment in which they operate.

7.3.3.5   Marketing Mix in General

The controllable variables of the marketing mix strategy influence the individual target market segments.

The blending of these marketing variables can be changed in order to develop and evaluate alternative marketing mix strategies. The elements of the marketing mix described in the preceding sections provide an insight into how various marketing strategies can be developed to achieve the objectives previously set.

In the study only Gulf Air indicated that each of their marketing mix elements blends with the others and effective communication is what helped to produce a successful strategic blend. Royal Jordanian and Emirates Airlines claimed that success in blending the marketing tools varies for different segments of the market.

Gulf Air and Emirates Airlines stated that their short and long-term marketing objectives had been achieved by means of an effective marketing mix strategy. Royal Jordanian claimed that their marketing mix strategy is not the only means by which they achieve their marketing objectives.

Being national carriers, Gulf Air and Royal Jordanian have their governments' positive support in trying to achieve their corporate objective. However, "government and political" constraints had posed problems for Emirates Airlines' in their efforts to achieve their corporate objectives. This had been primarily due to their attempts to provide services to certain places like Bahrain, Kuwait and Mascat which were denied landing rights due to political problems.

The philosophy of a truly marketing oriented firm is rooted in concern for its customers. Such organisations view marketing as a function which is not only indispensable but also integrative. Identification and satisfaction of customers' needs is the key to success and the chief task facing marketing. With reference to this orientation, all three airlines agree that their strategy is geared towards harmonising their activities with their target customers' needs and wants. The primary problem facing these airlines is the need for feedback issuing from continuous marketing research to enable them to assess whether their strategy had satisfied the needs and wants of their target market.

Resources are allocated to the various functions of the airlines. The level of resource allocated to marketing can indicate the significance of that function to the board. But the research findings do not reveal the level of resources allocated to the marketing departments.

From the literature review the preparation of alternative marketing strategies suggests that a pro-active view is held of the marketing function. Devising of contingency plans or multiple scenarios prepares the airlines for an emergency when the current marketing plan fails. The research findings reflect the fact that contingency plans or alternative marketing strategies are not fully adopted by the airlines. It appears that the airlines adopt a "reactive" approach instead of pre-

planning in advance for future use. The exception was the Emirates Airlines which claimed that they prepare various options for implementation if their original plan fails. No plan is perfect and if firms preplan alternative strategies with multiple scenario inputs, this can provide the airlines with a competitive edge when uncontrollable elements affect the industry "unawares".

Marketing control was developed to operate at macro and micro level. Sales and marketing profitability analysis is an important element of measure and control for the macro level system. The control system for the micro level includes on going tracking of information on service, price, promotion, distribution and alternative service-price options. Other elements of control like sales calls, and the amount of time spent per telephone call for reservations may indicate marketing efficiency.

The research findings suggest that within the three airlines various means of employing monitoring control of the marketing mix strategy are used. The "bottom line", as suggested by the responses given by the sample, goes back to profitability and returns which are regarded as being significant.

7.3.3.6 Airlines Role in Marketing Tourism.

Wahab (1975) asserted that the tourist market is a market where the fundamental laws of a market economy play a dominant role. This is due to the fact that tourism

involves the movement of people in pursuit of the tourist "product". The policy for the tourist market. should be "market oriented" and a careful study is required to collect detailed information about the actual and potential market.

Tourism is a product that corresponds to a need and this need for travel may be met by different. kinds of tourist supply. Market segmentation will help to determine the behaviour groups within that market in terms of income, social class, age, sex and geographical localities. Quantitative and qualitative study is required to identify market segments. Competition analysis and distribution channels analysis are required in any market analysis relating to tourism.

As pointed out in chapter 4 , tourists are motivated to travel in various ways. With respect to airlines, a study by Schuch (1967) (see chapter four) revealed that there are various elements which satisfy the travellers during flight. Hence, the most important feature of tourism is transport, primarily air transportation. Chapter five reviewed the impact of transportation on the tourist industry. With technological advancement, air transportation has made remote destination an 'accessible" attractions. The interdependence of tourism and air transport is affected by similar external factors. These include political, economical, sociological, technological, legal and even weather factors. In the

study, all the three respondents claim that the airlines provide a tremendous boost to the tourist industry. Even if the airline has only transit points, Gulf Air believes it creates awareness of the country among passengers who could then become potential tourists to that country. This is achieved by offering transit passengers 24 hour or 48 hour visas to allow them to visit the country.

There is a variety of factors which influence the demand for air travel, and a significant factor is finance particularly for holiday makers. The research findings indicate that airlines are involved in a wide range of package deals to attract tourists. The packages range from inclusive land transport to hotel accommodation and sightseeing, in addition to the air fares.

A major element in sustaining the economic viability of airlines for is tourist revenue. Hence, there are mutual benefits and a symbiotic relationship is established between the airlines and their country. Long haul and international non-scheduled air transport have boosted tourism, thus making an impact on revenue generation for the country concerned. In addition to the above, charter services have greatly enhanced the tourist flow from the tourist generating centres to various destination areas. This has been made possible through greater effectiveness in the travel industry. IATA, the International Air Transport Association, has a clear stake in the continuing evolution of the tourism

industry.

From the research findings, it is possible to generalise to the effect that airlines have played a very important role in shaping the tourist industry of their respective countries and as a result it can be deduced that the marketing of tourism has produced great benefits actual and potential for the countries involved.

7.3.4 ANALYSIS FROM FINANCIAL MANAGEMENT PERSPECTIVE

The researcher interviewed financial personnel to obtain an outside opinion relating to the functioning of the marketing department since the control aspect does not relate only to marketing department, but also involves the finance department.

In the survey, Gulf Air admits that it recognises the key control methods for monitoring and evaluating the marketing plan as collecting and analysing traffic and revenue statistics. Royal Jordanian reviews its budget against actual performance, while Emirates Airlines control methods originate from market forces which determine the operating plan. They base assessment of the marketing plan on yield calculation.

On the whole, the financial staff are interested in the actual revenue generated and their methods of control and monitoring are based on profitability.

With respect to evaluating the internal strengths and weaknesses of the their airlines, the responses were as

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follows: Gulf Air uses outside consultants while Royal Jordanian also uses them, both within and outside their organisation. At Emirates Airlines, it is usually their planning department, together with some other departments which conducts the internal evaluation. This comment is closely related to statements by respondents in the marketing department and it is also in accord with the findings reported in the relevant literature.

As marketing research is an important tool for devising marketing strategy, the researcher asked the financial staff about their opinion concerning budget allocation for marketing research, in order to ascertain whether this department has a strategic orientation.

Gulf Air stated that a budget is allocated as a whole for marketing activities but no specific budget is allocated for continuous marketing research. Royal Jordanian asserted that they allocate a total budget for the marketing department and, within this budget 5 percent is specifically allocated to continuous marketing research. Emirates Airlines affirmed that they do not have any specific marketing research process - if they do it, it is conducted either by sales staff or by the planning department. In addition, the finance staff of Emirates Airlines believe that as marketing research is a function of the marketing department, they expect it to be included in the marketing budget.

The present research revealed that the finance

department are also aware of the need for continuous market research and therefore a suitable budget should be allocated to the marketing department. Both Royal Jordanian and Emirates regard this as a "must" while Gulf Air "think" it is necessary.

One point which was made clear by the survey is that the three airlines agreed on the need for continuous marketing research as a means of increasing sales and profits.

On the question of evaluating the effectiveness of the marketing strategy, both Gulf Air and Royal Jordanian undertake such evaluation using sales revenue for this purpose. Emirates Airlines' evaluation is based on a percentage of market share and cost per seat passenger (yield management). The percentage of market share is reflected in Emirates airline's marketing objectives. The finance staff evaluate the effectiveness of the marketing strategy in that way. The cost per seat passenger is ascertained by a simple accounting procedure which provides the best "yield" per seat per route.

A common measure of effectiveness devised by the various departmental functions assists in finding the correct method of evaluation. This is especially the case when the finance and marketing departments join forces for this purpose.

Devising price structure is clearly not the function only of marketing. According to the finance staff, Gulf

Air and Royal Jordanian believe in prices fixed by IATA. Emirates Airlines, on the other hand, takes into account the 'product' quality offered and general economic and competitive conditions to determine the price structure. Paradoxically, though all three airlines are members of IATA, they do not adopt the prices fixed by the Association. This is reflected in both the marketing and finance functions.

The above claims indicate that the finance department are not particularly aware of the considerations which affect price structures. This is further reinforced by the claim from Gulf Air and Royal Jordanian that 'as fares are fixed by IATA', evaluation for the fares need not be taken into account. Emirates Airlines, on the other hand highlighted a number of issues to be taken into account in deriving fare types. Ironically, Gulf Air And Royal Jordanian finance staff claim that 'discounts' can increase the volume of traffic. They seem to contradict themselves, in that if prices are fixed by IATA, the airlines do not have any say in this area. Emirates Airlines believes that it is the quality of product (service) offered and not the prices which can influence the traffic level.

In the earlier part of the findings, the researcher found that governments and economic conditions play a role in pricing decisions. There is general agreement on this point by the finance staff of the three airlines.

The promotion element is an important tool for the airlines industry. Awareness creation is accepted as crucial for "making the airlines known". This view is shared by the finance departments, all of which indicated that a significant amount is allocated to the promotional mix. This is further emphasised by their comment that specific promotional mix tools are given a larger part of the allocation. Although the finance departments believe in the promotional strategy they admitted that "they believe it is difficult" to evaluate the effectiveness of promotion. Royal Jordanian however did mention that revenue generation and the number of passengers can be used as a basis for this purpose. None of the respondents had any idea concerning how to estimate the cost of evaluating the effectiveness of the promotional mix.

With respect to intermediaries and the means of controlling them, Gulf Air favoured comparing the budget versus actual performance. Royal Jordanian stated that other issues like cash deposits, monthly account payments, and discounts are considered in their control and selection of intermediaries. The finance staff of Emirates Airlines claimed that their selection of intermediaries was based on delivery, remuneration (percentage of commission) and special services offered.

It is possible to generalise by saying that the finance departments of the airlines in the sample are to some degree aware of the activities of the marketing

department. Although the research findings indicated that there is some "lack of insight" concerning specific marketing activities, on the whole, the finance departments co-ordinate with the marketing departments to secure sales revenue and profitability for their organisation.

7.3.5 ANALYSIS OF AIRLINES AND TOURISM FROM FINDINGS

In the marketing of airlines services, it is necessary to consider both the impact of external and internal environments, which are monitored by marketing research and the targeting of customers. Thereafter a marketing strategy has to be developed to satisfy the target customers' needs. Similarly, for the marketing of tourism the above approach is applied but in addition the integration of and co-ordination between the tourist organisations and the airlines is of paramount importance. A close relationship between airlines and tourism organisations brings mutual benefits to the two groups.

When one discusses tourism, airlines must be included. The strategies adopted by tourist organisations must blend with and complement the marketing strategies of the airlines.

The success of airline marketing may attract tourist visitors to a country. On the other hand, the demand to visit a country resulting from the marketing activities of tourist organisations will increase the number of passengers using airlines.

If either the airlines or a country's tourist organisation fails to satisfy the customers, the "chain" will be broken, thus leading to a decline in demand affecting both airlines and the tourist - receiving country.

This relationship becomes especially significant when the airlines are also the national carriers.

To summarize, the airlines and tourist organisations need to adopt an integrated approach in order to attract potential visitors. This is achieved by having objectives which are compatible and devising complementary strategies which blend together to provide support for one other.

7.3.6 SUMMARY OF MAIN RESULTS

7.3.6.1 External Environment

Economic variables like disposable income and inflation are considered to be important in planning the marketing strategy of long established airlines.

Psychographic considerations, embracing social-cultural factors like education and life style have been found to influence demand for airline services.

Other factors such as governments, legal and international bodies, and regulatory restrictions place strong constraints on the marketing of airlines in the Middle East.

With advancement in societies the need for improved services creates increased demand and airlines have to offer improved services in order to retain or increase their customer numbers. This applies to European visitors to the Middle East who expect demand and better services from the airlines. Technological breakthrough in terms of computerized reservation systems and airport handling

facilities have provided the essential ingredients for providing customers with better services. With greater demand from customers and an increase in the number of airline operations , the need for each airline to gain a " competitive advantage " becomes a significant factor bearing on their overall success.

7.3.6.2 Internal Environment

To combat the external forces and to gain the competitive advantage, they require airlines must strengthen their internal structures.

Methods of doing so include setting objectives, establishing an efficient organisational structure, installing reliable information systems, introducing effective control and evaluation methods, collecting relevant collection and providing a degree of integration.

It was found in the survey that the collection of intelligence, and the provision of control and evaluation methods are lacking within the airlines.

The market is dynamic and there are variable forces which interact and affect the airline industry. Airlines must identify the external variables in terms of their opportunities and threats and relate these to their internal strengths and weaknesses in order to gain the necessary competitve advantage.

7.3.6.3 Marketing Mix Strategy

As the airlines constitute a market focus for growth and expansion, devising an effective marketing strategy becomes essential for their success.

The 4 Ps of marketing mix variables can be applied to ensure the success of the airlines. This is achieved by the appropiate blending of the variables in the mix.

Ground and cabin service can be used as a strategic tool as part of a product differentiation strategy. Other important factors such as scheduling can be used to differentiate the airlines' offerings. These points emerge from the survey.

Price strategy is the only revenue generator in the marketing mix strategy. Price structures will have repercussion on the sales growth of the airlines. This is clearly understood in the sample selected. Though IATA fixes prices, all the airlines in the sample devise their own prices to compete effectively in the market place. Market influences, competitive forces, service rendered, cost, various agreements and government regulations, all affect the decisions on price structures in the Middle East airlines.

The promotional mix covers a variety of activities including advertising, public relation, sponsorship and print advertising. The promotional tools, the media and the themes used are selected in relation to different market segments.

Within the distribution strategy, intermediaries such as travel agents and tour operators are categorised as important requirements in formulating the overall marketing mix strategy.

The marketing mix in general was regarded as being effective when all the mix variables blend well together. This is indicated by the sales turnover and profit levels. Marketing objectives can be accomplished by means of an effective marketing strategy which in turns helps the airlines to achieve the results aimed at through their corporate strategy.

The absence of information collection facilities by means of marketing research is the greatest handicap faced by the airlines in the survey; up to the present this has been due to financial and infrastrcutre constraints.

Airtransport regulations, relating to price are formulated by IATA . These regulations have been altered over the years to suit changing market conditions. It was noted in the survey that all three airlines only follow the regulations "occasionally" or that some times they are "ignored" or "side-stepped". This is the reason why, in some of the responses, there are contradictions on issues like price structures and the factors influencing price. One cannot be "naive" enough to accept that airlines will follow airtransport regulations to the last "dot", especially in price issues, when sales revenue is

affected. This is especially so in the Middle East where competition is keener as traffic movements accelerate the growth of many segments of the market.

7.3.7 MARKETING OF SERVICES: ROLE IN AIRLINES AND TOURISM

Marketing of airlines and tourism can be grouped around the marketing of services. The elements of intangibility, inseparability, heterogeneity and perishability also appear in the marketing of airlines. Hence the task of developing a marketing programme is uniquely challenging for both the airlines and the tourism industry.

Even when the situation is unique and challenging, a total marketing strategy can be employed. This involves scanning the environment, conducting market research, segmenting and targeting the customers to devise a marketing mix strategy to satisfy the target market, developing effective monitoring controls and introducing evaluation procedures and a feedback system.

The internal variables in an airline's organisation structure, information system, control and evaluation methods, intelligence collection methods and the degree of integration achieved, all help to determine the effectiveness with which the marketing strategy is implemented.

In the survey, the greatest "set back" for the airlines was the lack of intelligence collection

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facilities. Very little or no marketing research was carried out. This reflected the lack of strategic orientation in their outlook, but what was surprising was that all three airlines were aware of this need and in fact wished to have continuous marketing research programme operating in their airlines!

As noted in Chapter Three (review on marketing of services), the role of personal interaction in creating a diferentiated service was prominent in the sampled airlines. In their product mix strategy, the airlines include ground and cabin service as strategic element of their product differentiation strategy. This corresponds with Cawell's (1984) additional Ps, namely people, physical evidence and process. Other intangible criteria like scheduling and timing are also taken into account by the airlines in the survey in formulating their differentiation strategy.

The approach relating to the tourist industry can also involve employing a product differentiation strategy. Though it is a complex method of portraying a country, variables like accommodation, good sightseeing spots, cultural attraction, good beaches, and general facilities, and weather are all considerations to be taken into account in devising a product differentiation strategy for tourism.

It will be realised that the marketing of services applies to both the airlines and the tourism industry.

The airlines and tourism industry are interrelated and each of their strategies affects the other. Thus, compatible objectives and goals must be established by the two organisations. In the survey, all the airlines are national carriers and a senior manager from the airlines or the tourist organisation sits on the other one's board.

Promotional mix strategy is the approach required to create awareness to attract potential customers and ensure repeat customers. This is especially so in the case of service marketing where the elements of integrity, inseparability, heterogeneity and perishability exist. The marketing of the promotional message must be compatible with the realities of the 'situation', to avoid any negative impact. In fact, the promotional strategy must blend well with the airline's marketing mix variables and also with tourism's marketing strategy. The complexity of a promotional strategy increases when two industries variables have to blend together. As a result, good co-ordination and integration between and within the airlines and tourist organisations are required.

Channel intermediaries like travel agents, tour operators, and hotels add complexity to the marketing tasks of the airlines and tourist organisations. Hodgson (1988) points out that people want to do things which involve the least amount of "hassle". Accordingly, he states that travel agents will usually recommend the most

accessable tour operator, whose ease of response is known to be straight forward and efficient. Tour operators who complicate life or create problems will be avoided. The airlines, tour operators and hotels have to remember that it is their distributors who deal with customers in the first place and wield tremendous power over client choice. Thus, when creating a strategy, the entire concept of service to the customer must be marketed not just to one's own employees, but also to staff employed by distributors. Hence, the channel intermediaries play a key role in the marketing strategy of the airlines and the tourist organisations.

The pricing strategy is a controversial element in the airlines marketing strategy. As all the samples in the survey are members of IATA , there is a tendency for IATA to fix the prices, and all three airlines in the survey seem superficially to follow this regulation strictly. As the price of fares are the only sales generator for the airlines, inability to make decisions concerning their sales revenue, affects all the airlines in the survey. No doubt IATA fixes the price which the airlines sometimes 'side stepped' when deciding their price strategy. This contravenes IATA regulations but it happens in the reality of the Middle East market and factors like the market and competitors fares, the services offered, costs and agreements with other airlines, all exert influence in deciding the airline's

price structure. In the airlines marketing strategy must generally reflect their corporate strategy which must also be compatible with the tourist organisation's strategy.

7.3.8 GENERAL SUMMARY

The first objective of this research was to identify the difference between the marketing of services in airlines and marketing a product.

In chapter 3 of the literature review, the marketing characteristics of services were identified, and the uniqueness associated with marketing in airlines was underlined. Information drawn from the literature was similar to the research findings in the Middle East where the airlines are aware of the intangible, perishable, heterogeneous and inseparable qualities involved in marketing airlines services. As a result the marketing strategy of the airlines tried to quantify intangible values for different segments of the market who perceive values differently.

Secondly, the researcher wished to determine how airlines develop marketing strategies. This included the study of the external and internal factors which influence the business, the way the airlines monitor variables and changes in them and how the airlines segment the market and devise their marketing mix strategy.

In the literature review, chapter 3 and 4 dealt with the marketing of services and its role in the airlines

industry. These two chapters covered the theoretical aspects of developing marketing strategy in the general service industry and specifically to the airlines industry.

The primary research conducted was to link the theory to the practical aspects involved in the development of marketing strategy by the Middle-Eastern airlines. Some interesting findings emerged from the survey.

With reference to the external environment, economic considerations like disposable income and inflation were considered important by long established airlines like Gulf Air and Royal Jordanian, while a newer airline like Emirates airline did not consider that these variables made any impact. Psychographic classification based on education and life style was greatly emphasised by Emirates airlines, even though Royal Jordanian and Gulf Air did consider it. The researcher notes that this suggests that the 'management attitude" of Emirates airlines is innovative/creative in its desire to market itself in its own special way. There is evidence from the survey that though Emirates airline is a small airline, it is currently posing threats to Gulf air and Royal Jordanian.

Government and legal factors affect the airlines marketing and growth plans, especially when there are political problems, e.g. if when landing rights are refused by a country. From the survey, it appears that Air Emirates is facing such a problem in Kuwait and Saudi Arabia.

As in any strategic evaluation, the external environment must be scanned continuously for opportunities and threats. Other factors like , market conditions, competitive forces, the bargaining power of suppliers, new entrants and the perception of customers must be included in the market researchers considerations.

Conversely, internal assessment of the airlines' strengths and weaknesses must be considered. This point has been reviewed in terms of objective setting, organisation structure, information systems , monitoring, control and evaluation methods, the level of integration and continuous intelligence collection procedures.

Chapter 4 in the literature review covered the theoretical aspects of internal strengths and weaknesses as factors in devising corporate marketing strategy.

In the survey, responses quantifiable objectives are emphasised for both short and long term planning. Further, marketing objectives are classified by the airlines as important and necessary for achieving corporate success. In fact marketing objectives are considered to be 'iterative' that is they have the ability to change or reform corporate objective.

The organisational structure and reflect the importance of the marketing role in the airlines. From the survey, it is clear that there is considerable centralised control, which indicate the need for a co-ordinated effort in their marketing activities in various regions.

Monitoring control and evaluation are important activites in an airline. Success in these areas is achieved by continuous marketing research ; the flow and exchange of information at the earliest possible time is pivotal to effective decision making.

A lack of strategic orientation in the airlines in the sample is demonstrated. According to Hodgson (1988) this is a common failing in service industries , particularly in the travel field. Airlines fall victim to malaise and no move is made to rethink strategies as market opportunities change dramatically. As Peter and Drucker pointed out in turbulent times, such as we are now facing, no manager can assume that 'tomorrow will be be the extension of today'. We must plan, and in order to plan, be aware of current happenings in the environment. Marketing research is the means of obtaining the information required.

Given the necessary market information, the airlines can segment their market and target their customers. The whole of the marketing strategy fails if the market is incorrectly identified and hence wrongly segmented and targeted. By examining the external variables, the airlines are able to identify the segment of the market they intend to capture. This also affects their marketing mix strategy. In devising this strategy , the airlines consider the 4 P's referred to in the literature review.

Further with regard to distribution, the strategy here is tied very closely to channel intermediaries such as travel agents and hotels. As mentioned by Hodgson (1988) the services provided to travel agents are of critical importance to the success of a marketing strategy. This is reflected in the survey, where all the airlines indicate that travel agents play a prominent role in their marketing strategy.

On the whole, the survey indicates that the marketing mix variables must be well blended for various market segments in order to achieve the airlines' marketing objectives. Again, the literature review in chapters 3 and 4 stresses the relationship between airlines and tourism.

The airlines industry has great potential with regard to promoting a country's tourism industry. This has been facilitated by the activities of travel agents and tour operators. In the survey, all three airlines indicate that tourist organisation and airlines have a representative on each other's boards. This demonstrates the significance of airlines' role to tourism. In addition, all the airlines in the survey are national carriers and accordingly represent the country's image throughout the world. It has been claimed in the survey that the airlines are a 'driving force' in relation to improving a country's infrastructure in order to attract potential tourists. Compatibility of the airlines and

tourist organisations strategies is an important consideration. The survey shows that competitive prices and good quality accommodation are useful promotional tools by means of which both tourist countries and airlines can increase the volume of customers they attract. The image of a country and of the airline carrying the potential tourists must satisfy the customers in terms of perceived value. In the findings and the analysis, detailed discussion was offered about the degree of compatibility between the strategies of airlines and tourist organisations. It must be realised that the issue of compatibility mainly concerns the tourist or leisure market, since business travellers and the VFR market have little influence on the strategies devised.

CHAPTER EIGHT

"CONCLUSIONS AND RECOMMENDATIONS"

"THE   ONLY FENCE AGAINST THE WORLD IS A THROUGI   KNOWLEDGE

OF IT"

J)HN LOCK

8.1 RETROSPECTIVE VIEW

The Middle East has been for many years a mercantile centre for East-West trade.   Its location makes it a national link between East and West but its long history of political tension, unsettling events and the cyclical rise and fall of petroleum revenues have been prime determinants of airline and tourism policies.

The region's economy has been in recession as a result of at least four factors:-

1. the decline in the price of oil

2. the war between Iran and Iraq

3. the end of the construction boom

4. the collapse of an unofficial Kuwaiti stock exchange in
   1982

These unsettling conditions have led to the present situation in the Middle East.

8.2 THE CURRENT SITUATION

Most of the traffic flow in the Middle East is either regional or international.   Domectic traffic accounts for only a very small proportion of the total traffic - 1 percent, compared to 58 percent in North America, 27.6 percent in Europe, 8.3 percent in the Asian-Pacific region, and 4.1 percent in the Latin America/Carribean region.

Another constraint prevailing at present is the conservative   view held on bilateral agreements   due

primarily to political tension.

During the 1970s and early 1980s, the growth in passenger traffic came mostly from the business segment of the market and from the migrant workers of the Asian-Pacific region. Currently, the downturn in the economy has a nagative impact on both the volume of business travel and the flow of migrant workers. In addition, the decline in business travel has been aggravated by the inability of the airlines to apply the skill required to retain their target market by offering the necessary incentives and services. As a result, the drop in business travel which is normally high-yield traffic has had a compounding effect on overall yields. Further, the downturn in the local oil-based economies is having a negative inmpact on the volume tourist travel undertaken by nationals of the affected countries.

Another current phenomenon is the level of competition among airlines which are anxious to direct sixth-freedom traffic over their own countries. This has increased to such an extent that there is now competition even among the countries that own their own multinational airlines, with Gulf Air taking the lead. Initially, Bahrain began to compete for transit traffic with the UAE States (for example, Dubai and Sharjah). Subsequently, the desires of some individual Gulf States to attract sixth-freedom traffic became so intense that Dubai established its own airlines (Emirates) to compete with

its multinational airline, Gulf Air.

It should be noted that another current feature of the status of the Middle East airlines is their financial performance. In the past, the enormous expansion of their operations led to very heavy investment thereby increasing their financial leverage. Unfortunately, significant financial investments will still be required in order to replace the older airplanes. And unless financial performance improves significantly, the burden will have to be borne by the governments, either directly or indirectly through guarantees. Governments on the other hand, having experienced downturns in their economies, extent greater pressure on their airlines to improve their financial performance. The airlines cannot boost revenues by raising their fares, because, comparatively speaking, within the Middle East, passenger fares are already high relative to normal economy world averages and the proportion of discount will not change because of existing overcapacity and fierce international rivalry. As a result, airlines have to change their outlook. and become more marketing – orientated.

8.3 FUTURE PROSPECTS

As in the past, the fortunes of the carrier based in the Middle East will largely be determined by the price of oil and regional events taking place in the political arena.

Unfortunately, there is no reasonable method of predicting the future in respects of either of these variables.

Diversification into ancillary industries is one way that oil producing countries can offset the effects of the volatility of oil revenues, but, although the severity of the recession has been the same in every country due to the various stages reached in economic development, the need to adjust to new conditions varies from country to country. This leads to problems associated with importing labour and material and commercial migration from western nations.

Investment in the international market is another option which may provide a hedge against uncertainities in the oil market, but it does not produce employment opportunities for the national workforce or create any significant demand for air travel.

The structure and growth of the Middle East airlines will continue to be closely tied to petroleum revenues for at least three reasons:

1. The regional economy, hence air transport demands, will depend heavily on the oil industry.

2. Government subsidies to airlines will rise and fall in concert with petroleum receipts.

3. If the price of oil does not increase significantly in the near future, the inevitable reduction in government supported projects and subsidies may lead to a higher cost

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of living, higher unemployment, and in some cases structural changes in the economy such as the introduction of income tax. The reverse scenario would unfold with an upturn in Middle East oil production.

An ongoing problem that will plague the airlines, even if competition remains controlled, is excess capacity as a result of flights between Europe and the Asian-Pacific region passing through the Middle East. This overcapacity, coupled with the desire of various countries to direct the through flights via their countries has prompted them to expand frequencies and has continued to exert pressure on yields.

New generation airplanes are now capable of flying non stop between Europe and the Far East. Their capacity, range and economic performance could eliminate the need for intermediate stops in the Middle East.

In the final analysis, the outlook of the airlines must change to that of a strategic-orientation with emphasis on integrated marketing and cost effective yield management.

8.4 OBSERVATION

The researcher is able to observe from the findings that the Middle East airlines display a lack of market orientation.

It is noted by the researcher that no marketing research is undertaken by the airlines. Conducting

marketing research would provide the information required to gain competitive advantage. With the appropriate market intelligence, the airlines can segment the market and focus all their resources towards the target market in order to gain profit and increase competitiveness.

Marketing research is instrumental in leading to a marketing-oriented approach and it is observed by the researcher that there is significant lack of intelligence gathering being conducted by the Middle East airlines.

It is also the opinion of the researcher that by adopting marketing practices, the airlines would be able to overcome their market research deficiencies, their lack of integration and their lack of appreciation of their target market and hence they would be able to devise a more effective marketing strategy to maintain a competitive edge over their rivals and gain in terms of profitability. Detailed recommendations will be submitted in the the next section.

8.5 GENERAL SCENARIO AND THE MANOEUVRING FOR COMPETITIVE POSITION BY THE AIRLINES IN THE MIDDLE EAST

Figure 8.1 summarizes the inputs scenario affecting the Middle East airlines industry and the "manoeuvring" status of the airlines attempting to gain competitive position.

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External Environment

Economic Environment
I Disposable income
I Inflation

Social and Cultural
I Age distribution
I Education level
I Life style

Government and legal
I safety
I Environment regulation
I Airlines regulation

Political Environment

Market condition

Technology

Competitors

Intermediaries

I Bargaining Power
of channel members

Customers

I Satisfaction
I Needs
I Bargaining powers,
due to competitive
offering

Product

I Complexity
I Airlines
I Destination
country

Internal Environment

I Marketing program
I Organisation structure
I Information system
I Control system
I Capital
I Objectives/Strategies
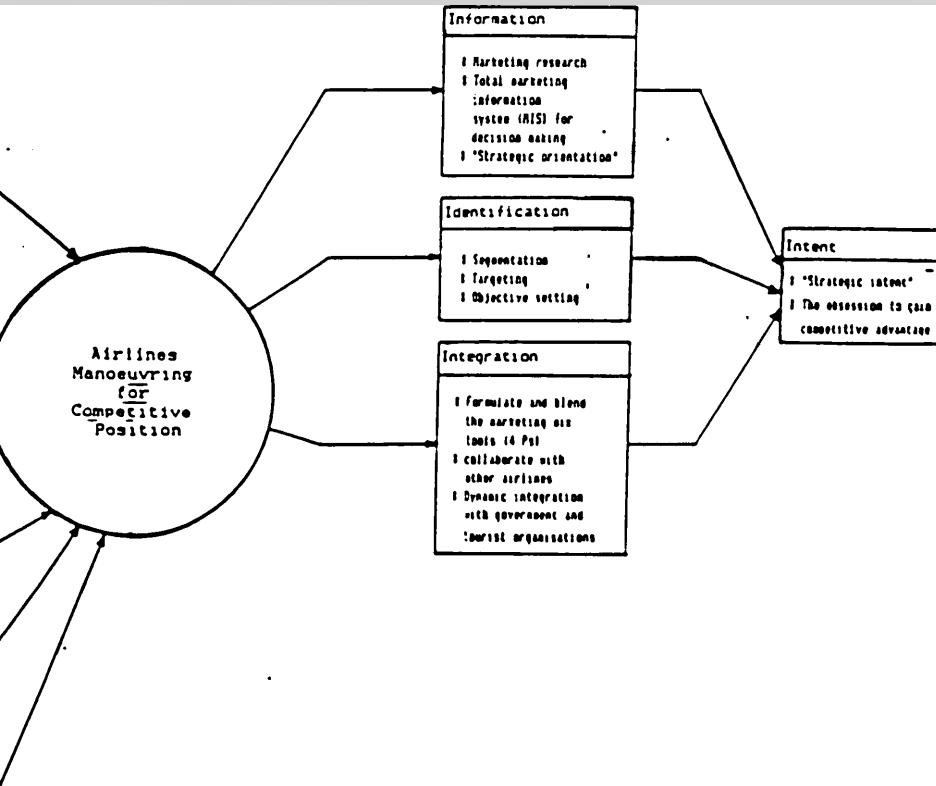I Intermediaries
I Skilled staff
I Infrastructure
I Integration

Fig 8.1
Inputs Scenario Affecting Airlines industry in the Middle East
and the outputs recommended to gain competitive advantage.

8.5.1 External Environment

The forces of the external environment have been discussed in detail in the analysis sections.

8.5.2 Customers

Customers demands are everchanging and there is greater need to satisfy customers. As travellers' level of sophistication increases, there is demand for improved service and better offerings are expected from the airlines.

This bargaining by customers was created through the introduction of competitive offerings and travellers' increasing awareness of what might be on offer.

8.5.3 Intermediaries

The level of co-operation by channel members affects the promotion capability of the airlines; in addition, the availability of services to customers is also affected. Accordingly, the outcome of negotiations between the airlines and the channel members affects the competitive status of the airlines.

It is important to realise that the travel agent will usually recommend the most accessible tour operator, who will provide a rapid and efficient response. Those tour operators who complicate life or create problems will be avoided. Thus the airlines, tour operators and even hotels

have to remember that it is their distribitors/inter-
mediaries who deal with customers in the firit instance
and hence wield tremendous power over cliint choice.
Therefore, when devising a strategy, the entir? concept of
service to the customer must be marketed not jist to one's
own employees, but also to those of the distrijutors.

Another aspect of marketing strategy tha: should be
paid greater attention by the Middle-East iirlines is
distribution. It is necessary to build a wide dis-
tribution network, making use of both direct selling and
indirect distribution outlets such as travel agents and
tour operators, so that air tickets are widely available
for the general public, rather than being pur:hased only
in a number of exclusive outlets.

8.5.4 Internal Environment

The airlines' general organisation structure,
marketing initiatives, development of info:mation and
control systems and the close integration o: functions
provide the airlines with the ability to mano?uvre out of
"tight spots". Understanding their internal s:rengths and
weaknesses constitutes a key consideration in enabling
firms to seize available opportunities.

The analysis of airlines' overall st:engths and
weaknesses, together, if possible, with es:ablishing a
multicapability relationship with their e<ternal and
internal environment should preferably be car:ied out by

an outsider. Amongst the areas the airlines should consider carefully would be:-

1. Past and present performance.

2. Competitive position.

3. Life cycle balance in terms of products/services.

4. Market trends.

5. Staff - in terms of synergy, resources, hiring, training, evaluating and rewards.

6. Long-term objectives / short-term objectives assigning priorities.

7. Capital requirements.

8. Strategic planning.

9. Timing

This provides opportunity to question much which has gone before and re-examine values and corporate goals. The analysis process is dynamic rather than destructive and, through full management participation, the need for change can be institutionalised and a strategic mentality evolved. It also provides an opportunity to establish a review group which will help to keep the strategy flexible, so that corrective action can be taken where necessary and resources swiftly reallocated.

8.5.5 Product Offering

Product has a complex definition in the airlines industry. The offerings of a country or destination by the airlines is influenced by many criteria, as has been discussed in detail in chapters 3 and 4.

The management of the airlines must face the fact that satisfying the needs and wants of customers is the main task of its business, both at present and in the future.

Heterogeneity is one of the characteristics of airline services which presents airlines marketing management with greater problems. The airline marketer must put great emphasis on product quality control and that can be done by making sure that airline employees are well - trained to deal with customers and to attract more. Donaldson (1986) has mentioned other requirements such as wearing the same uniform, periodic checks being made by management, and employee morale "boosting" help to ensure that quality product offerings match the perceived value of the customer. The dynamic and increasingly competitive marketing strategies of the developed airlines in the Middle East in general affect, most of the Middle East airlines because of their inability to compete. It is recommended that continuous joint market research should be conducted by the major Middle East airlines. As the environment is changing rapidly, efficient joint research could rapidly supply data to enable action to be taken to meet any changes within a reasonable time.

Another consideration is that the airlines must not be "myopic" in their outlook. They must regard their potential market as being the "whole transport" business, both on the surface and in the air and develop their

strategies with due regard to both the activities of their competitors and economic developments in the transport sector.

Figure 8.1 also indicates the areas through which airline can gain competitive advantage. These are consolidated into the four I's: Information gathering, identification of target markets and objective setting, integration of strategies to achieve objectives and the requisite "intent" to motivate and attain long-term success. These 4 I's will be used by the researcher to expand on his recommendations to the airlines.

8.6 AIRLINE INDUSTRIAL TREND IN MIDDLE EAST

Over a period, the airlines industry in the Middle East has proved to be volatile. Between the early 70's and the early 80's, there was a boom in the travel industry. Demand exceeded supply; and most of the airlines in the Middle East had a thriving business. From 1984 onwards, however, the general market started to decline. This problem manifested itself in many airline organisations, as the "way of thinking" of management was very "production-oriented" and marketing was not fully integrated into the organisations.

Many of the airlines began to realise this when their sales started to decline and unexpected constraints were imposed by external environment forces. Restrictions within their internal environment did not provide the

flexibility required to cope with the problem. A great number of competitors in the market place, offering a better airline service, new destinations and generally better market offerings resulted in the creation of increased demand by customers whose needs had to be satisfied. In addition, the growing bargaining status of intermediaries also played a significant role in the airlines industry.

All these developments had occurred at a time when some airlines were not even aware of them, so that they were left "stranded" without even a fighting chance. The primary reason for this situation was that such airlines lacked strategic orientation. This is concerned with the collection of information and monitoring of market conditions. The absence of continuous marketing research was the reason for airlines not being aware of ongoing changes. This is further reflected in the quality and the type of management which tends to assume "tomorrow will be an extension of today". Hence they relied on out-dated information. Hodgson (1988) stated that many airlines in the travel field have fallen victims to this "malaise", ignoring the need to re-think strategies to meet changing market opportunities.

8.7 MARKETING OF TOURISM

For market appreciation, the collection of information is considered to be vital, yet the survey

shows that this is completely lacking. This raises some doubts about the reliability of setting objectives, segmenting the market and targeting the market in such circumstances.

It can be recommended that a continuous form of marketing research should be undertaken by the tourism organisations. The problem encountered here is similar to that in the airlines industry where lack of information gathering was the main hindrance to sound planning.

The adoption of some of the marketing mix strategies suggest a degree of acumen in selecting the correct mix tools; however the focus or direction of this achievement is misguided if the information gathered leads to the wrong target market.

In addition, there is lack of integration between the tourist organisations and the airlines and there is no co-ordination in selecting the marketing mix variables within the two organisation. The researcher recommends that tourist organizations and the airlines should devise joint marketing activities. These could include the preparation of brochures and promotional material; co-operation and co-ordination with international travel and tourist promoters; joint production of videos, films, posters, slides, tourist maps and paintings (reflecting the historical and humanitarian aspects of the country concerned).

Other promotional activities which the tourist

organisations could pursue would be to ensure that a number of planned events started on time, with the co-operation of the government and local bodies, e.g. horse and camel racing, visits to stables, army music performances, hang gliding competitions, diving competitions and rail and sea trips.

They could also promote tourist villages, to provide tourist with some idea of local life and customs, including elements of folklore with interesting details, thereby encouraging tourists to visit the country or stay longer once they are there.

They could introduce tourist to local crafts and traditional industries, organise festivals or re-enaction of historical battles and arrange festivals and tourist activities in historical cities or castles. Small shopping centres at tourist sites, selling in traditional style can attract tourists.

As Middle-East is popular area for fruit, tourist organizations could introduce festivals of fruit picking, eg. olives or grapes or even organise swimming in the "Dead Sea"or skiing in the "Red Sea".

A joint publication effort could be carried out under the supervision of the national tourist organisation. This could include, with the help of tourist bodies, the production of directories listing tourist restaurants, travel agents, car rental companies, orginal crafts and traditional crafts.

They could co-operate with the national airlines to produce publications and promotional material relating to attendance at international and regional conferences and seminars. Finally, such publications could be distributed through overseas tourist information offices. In using promotion and publicity media, the national tourist organization must consider the following:-

1. Updating, checking validity, ensuring comprehensiveness, using several languages, providing the correct quantity of such publications to achieve maximum influence.

2. Devising a chain of activities with the airlines, travel agents, hotels, car rentals firms, conference facilities arrangers and land and sea transportation companies.

The national tourist organizations should identify their target and attempt to promote their "brand name" individually. Another marketing approach is "internal tourism" for visitors within the Gulf area.

Here brochures of the country could be produced in good marketing style, with tourist sites indicated in them. They could produce a tourist film to suit the Arab market and a documentary tourist film to educate the locals and students. They could also introduce tourism educational competitions and hold "moving tourism exihibitions".

Other complementary programmes could also be

organized at the individual tourist level. These could
include day trips and special programmes for visits to
sites by individual tourists, business travellers or
expatriate families. It would be necessary to ensure all
the tourism sectors are aware of the importance of these
trips and that the services required by the various
segments are made available. Promotional campaigns to
attract these market segments should be undertaken and
steps taken to ensure that scheduled times for such trips
are met and that they are held on a regular basis.

Further, Middle East tourism marketing as a whole
lacks sufficient service initiative in terms of training.
Governments and airlines must take a serious view of this
situation and become market-oriented to overcome the
handicap which presently acts as a restraint. One of the
ways to overcome this "handicap" is to organize an annual
national tourism conference. Here critical arguments
concerning education, marketing, planning, development and
training can be thrashed out. In addition, to overcome the
problems facing the development of national tourism, a
tourist office should be set up locally in every large
city and to ensure that tourism is actively promoted, such
offices they must be provided with all the support they
need.

A tentative generalisation the researcher can submit
at this point is that there is a great need for airlines,
tourist organisations and governments to integrate and

play a significant role in helping one another to achieve their respective overall objectives.

8.8 INFORMATION

The ability to be aware of what is happening in the market place can provide the airlines with distinct advantages. Information can be collected through marketing research. This information should be incorporated into the organisation's total management information system. This can provide the tool required to "foresee and predict" the changes taking place in the market. Also management can design strategies to meet those changes in order to satisfy customers From the research findings, there is evidence that the airlines in the survey to a considerable extent lack the ability to collect market intelligence information. This inability has been a distinct disadvantage to the airlines and has caused many errors in judgments which were intended to gain competitive advantage. Emirates Airlines have not carried out any inflight surveys and accordingly they are unable to judge their performance. All three airlines lacked marketing research, due to constraints affecting budgets and facilities or lack of management support.

The strategic orientation, the need to be aware of what is happening around them, is so compelling that the airlines must adopt this orientation. Those who are prepared for change through accurate intelligence

collection can exploit the situation and win through. Some aspects of information collection can be highlighted as follows:-

* Know what you are - leader or fast follower

* Competitors' position

* Speed of response

* Assurance of continuity

* Positioning

Airlines can no longer think in terms of "the usual" for rapid and abrupt change prevents that. Strategies for management must be "to take advantage of new realities, and to convert turbulence into opportunity".

8.9   IDENTIFICATION

With the available information, airlines would be able to identify their segments and target their markets.

This is another problem that is emcountered by the airlines in the survey. As a result of a lack of market intelligence, the customers are not properly segmented to reflect the best target markets, and this has resulted in the adoption of unsuitable marketing strategies. This problem was indicated when an important group of travellers in the convention travel market was not identified. To make matters worse, the business traveller market was also not identified.

As the literature review revealed, there has been an increase in the importance of the business traveller

market to and from the Middle East. The potential profitability of this segment is enormous, yet it was neglected. The ability of the people in this group to book air tickets in advance and pay full fares makes the planning function easy and huge revenues can be generated from this segment.

Identification of this target market in terms of when and where meetings, exhibitions and conferences will be held, and what type of people and activities are involved provides a competitive advantage which enables an organisation to stay ahead of its rivals. With such information, the leisure and accomodation requirements can be worked out with the help of the tourist organization. Facilities can be arranged beforehand with attractive prices which will attract these target customers thereby successfully defeating rival airlines and the group of tour operators and travel agents they use as intermediaries.

In addition, the leisure travel market is gaining in importance and airlines should view this segment more seriously and put more effort into ensuring that the needs of this part of the market are met. Indeed, most airline seats are in the economy class and leisure travellers are the principal purchasers of such seats. To achieve economies of scale, it is virtually essential for the airlines to fill as many empty aircraft seats as possible in order to achieve a low unit cost the benefits of

which can be passed on to passengers.

A strategy based on the right price strategy is not sufficient on its own to improve the load factor. However, the right price has to be used along with the other three marketing elements in order to help increase traffic volume.

In order to increase passenger load factor, the airlines should sub-divide the leisure market into two or more sub-segments, based on the sensitivity to price associated with the potential passengers. Identification of further target market becomes crucial, because different sets of marketing strategies, consisting of different combinations of marketing mix elements, can then be applied to these sub-segments. For example, the broad category of leisure travellers can be grouped into VFR travellers who are less price sensitive than young people and student travellers. New lower creative fares can then be introduced for those extremely sensitive to price. Such promotional fares would probably increase the number of leisure travellers and as a result fill aircraft empty seats which would otherwise be empty. People who were previously denied the opportunity to travel to a long-haul destination because of the high cost involved would then be able to afford such a trip.

The sub-segmenting of the leisure travel market would enable the airlines to broaden their leisure market and serve a wider range of leisure travellers with differing

degrees of sensitivity to price.

With the ability to identify correct target markets, the airlines can confidently become involved in vertical integration and provide a total holiday product instead of just selling the airline seat. This could be implemented through undertaking large scale tour operations by offering package tours to be sold direct to the public via retailers or through the establishment or purchase of the airlines own tour-promoting organization.

Such package tours would enable airlines to attract more customers to make use of their services instead of those offered by their rivals. Clear identification of target markets can also ensure that the airlines become actively engaged in charter operations. This would enable the airline to create extensive CIT (Charter Inclusive Tours) operations, mainly to serve holiday tourists from the long-haul generating countries, such as those in Europe and North America.

There is also the possibility of the airlines moving into the hotel business, if they are able to identify the target market which require the convenience of dealing with one organization rather than with several different organizations. Emirates Airlines highlighted this intention as part of their future expansion plan. Further the ownership of hotels also enable airlines to put up passengers during delays caused by engine failure or other circumstances.

8.10 INTEGRATION

Successful integration reflects the abi.ity of an organisation to formulate strategies, such at. marketing strategies, in order to achieve their objectives. The results of the survey suggest that in developing their marketing strategies, the airlines are to a reasonable extent following the stages recommended in the literature.

The essence of success is not derived from the planning process, but rather from the informal.ion used to devise the plan and to formulate the strategy. With reference to the adoption of various marketing tools, the survey indicated that all the airlines are aware of the strategic importance of each of the marketing mix tools and the need to blend them effectively in order to achieve marketing success.

The need for a suitable distribution is without doubt accepted by the airlines which realise that it plays a crucial role in their marketing strategy.

Another form of integration includes a macro perspective. Here, the researcher is of the opinion that to overcome deregulation and competition from 'outside' the Middle East, collaborative agreements could be struck among the various Middle East Airlines. Co-operative activities undertaken by these airlines in the Middle East and also including other sectors of the tourism industry, are essential in order to improve the product image of all the airlines concerned, and would be of

benefit to all. Far from this having any adverse effect on the tourism industry, such co-operative activities can lead to a product that is more accessible to large groups of potential consumers, and act as a guarantee of the security of travellers who leave their own countries to visit any particular environment.

Through co-operation and integration, all unnecessary duplication of effort can be avoided. There can also be even closer co-ordination of certain activities (such as flight timings, frequencies and schedules),and more efficient utilization of information and resources concerning such matters as facilities, forecasting, statistics and so on. This can be achieved through introducing a regional computer reservation system (CRS).

To compete outwith their own region the airlines within the Middle East could consolidate and form regional airlines, with their own routes and traffic regulation. They could also make use of sixth freedom rights to achieve their success.

As all three airlines are national carriers, government involvement will become increasingly extensive. This was not reflected in the survey.

Yet nother form of integration is collaboration with the intermediaries. This can provide a competitive advantage rather than acting as a constraining variable afecting competitive position. Collaborative agreements with intermediaries can include taking care of travel

agents in terms of supplying them with equipment such as computers, increasing the percentage of commission they receive and generally providing them with first-class service. To reiterate, since the travel agents have the first contact with customers, they would great power over the client's choice. A travel agent. generally prefers to recommend airlines which provide good service and high commission, in order to avoid any future problems or hassle which might affect customers and themselves.

To what extent are the airlines aware that their marketing strategy directed towards the target. customers has been fulfilled? If this question is not answered that illustrates the primary problem encountered out by the researcher. That is, there is a lack of market intelligence collection to evaluate whether an airline's strategy has achieved its objective. Another need for integration is derived from the involvement of government with the airlines. The researcher believes that a dynamic form of integration needs to be established between governments, tourist organisations and the airlines in order to gain a competitive advantage. The survey, indicates that there is an obvious lack of integration with the tourist organisations. This again points to "unawareness" of conditions in the market place and hence of information required to identify market segments.

Who would take the initiative or asssume leadership

in relation to integration ? The obvious choice would be the national tourist organization whose staff are members of a government body, but in the Middle East, no adequate budget or appropiate funds are available to tourist organizations. Further, they do not have representation abroad, whereas the airlines are stronger in every respect and in the opinion of the researcher the airlines need to play the lead role in implementing any integration policy. Such integration could be achieved through joint marketing activities in terms of producing brochures and promotional material, co-operating and co-ordinating with the international travel agents and tour operators, using films, participating in exhibitions, providing souvenirs, undertaking marketing campaigns, producing special marketing programmes, engaging in promotional activities, issuing joint publication and organising internal tourism promotion.

The researcher believes that joint tourist publications within the Middle East could attract larger numbers of tourists, e.g. Syria, Jordan, Iraq and Egypt could promote jointly, due to regional proximity. The same applies to Bahrain, Oman, UAE and Qatar. This obviously has political implications, but the potential benefits are immeasurable. Besides integrating with national carriers tourist organizations should also consider linking with international airlines who operate to and from the Middle East and international hotel chains which have hotels in

the Middle East.

Making further recommendations, the researcher is of the opinion that close co-operation and co-ordination is required with international travel and tourist promoters; departments of archeology (for heritage and archeological site promotions), and Ministries of Information. Publications could be produced to show the development of a country, its heritage, religious sites, tourism sites, and historical and modern cities.

Using films is another marketing option for both tourist organizations and the airlines. Short videos to provide information in local and foreign offices could be produced jointly. Posters slides, tourists map and paintings are all promotional tools that could be used in integrated promotional campaigns.

Participation in exhibitions can be undertaken as a co-ordinated effort between national carriers and tourist organizations such as World Travel Market, Berlin Annual Tourism Exchange, Arab States Annual Tourism Exhibitions, Milano and Paris Exhibition, and Madrid Exhibition among others.

Another option available for integrated marketing, purposes is to invite travel agents and journalists to annual meetings so that they are aware of the airline's services and the country's offerings, so that they will promote or write about what they experience.

Major marketing campaigns can be organized on a co-

operative basis by the tourist organizations and the airlines when they target potentials market e g., Europe can be considered as a major tourism exporting area, hence it would be a priority to promote in the EEC, especially Germany, as Germans comprise the largest percentage of travellers. This can be achieved with a heavy promotional budget and co-ordination with airline offices abroad and foreign tour operators.

Other special marketing programmes can include organizing tours during off seasons in a competitive way in order to increase airline sales and fill hotels. This helps to overcome the seasonality problem which characterises tourist move=ment. Having charter flights, establishing " workshops" abroad (regional offices to formulate strategy), arranging sales promotion trips and agreements with agents are all examples of marketing programmes calculated to increase revenue for both airlines and tourist organization.

8.11 INTENT

This concept is derived from Hamel and Prahalad (1989) who identified the approach relating to " obsession with winning at all levels of the organisation" and sustaining this approach over a long period of time to achieve global leadership. This obsession was termed "strategic intent". It also envisages a desired leadership position and establishes the criterion the organisation

uses to chart its progress. The concept also encompasses an active management process that includes: focusing the organisation's attention on the essence of winning, motivating people by communicating the value of the target, leaving room for individual and team contributions, sustaining enthusiasm by providing new operational definitions as circumstances change and using intent consistently to guide resource allocation. For the airlines to achieve the required competitive advantage, they need to have a "driving force of intent' to guide their long term achievement.

Her the airlines need to move forward in a controlled and planned fashion. Unfortunately the high degree of capital investment required increasingly makes flexibility and speed of response difficult. This automatically gives the newcomers a competitive advantage, particularly when dealing with the latest "travel fad" or technology. This was apparent in the survey, when we consider that Emirates Airlines is a relatively a new entrant but is rapidly capturing a "niche" market for itself and gaining a competitive advantage over the other two airlines which are more established and have long standing reputations in the industry.

Hodgson (1988) states that airlines need to review the challenges of the future in terms of:-

1. Changing growth patterns

2. Unpredictability

3. Demand life cycles

4. Technology and delivery systems

5. Accountability to shareholders, customers

6. Core business

7. Capital requirements

This strategic information must be matched with the corporate capability to create and operate strategies. The followings are constituents of a winning strategy which an airline must consider to achieve the "strategic intent" of the corporation.

1. Low cost distribution - understanding the business, its development and trends.

2. Concentration on customer group and sales channel - matching them up;

3. Opportunistic use of technology; eg. computer services for ticketing.

4. Differentiating the services/products offered: which is done in relation to perceived value to customers and the cost differentiation in relation to competitors:

   a) Specialized services - eg. business travel account managmenet, free travel to airports, frequent flyer programmes.

   b) Ego products - Golden cards, Concorde flights, Orient Express, etc.

   c) Standard product - package holidays, car-hire, hotels;

   d) Standard services - luggage labels, in flight

meals, terminal facilities;

5. Understanding the need for both competitor focus amd market focus;

6. Avoiding competition on price alone; constantly looking for competitive differentiation and value added;

7. Consistent management objectives;

8. Measuring performance in wealth creation and cost effective overheads;

9. Constant review of market attractiveness in relation to competitive position;

10. Ongoing search for new products/markets, understanding the importance of fringe activities;

11. Strong flexible organization, vision and leadership;

12. Integrative or collaborative arrangements for stronger competitive position.

Basically, the airlines must maintain an ongoing review of the possible directions their strategies can take . This is achieved by undertaking continuous marketing research to identify improvements in their competitive performance, changes in the methods of competing and establishing new product offerings and markets.

On the other hand, those airlines who do not have the strategic orientation (strategic management) tend to lag behind. Some of the obvious pitfalls of such organizations (losers) can include:-

* Lack of strategic problem solving - inflexibility

* Limited awareness or interest in business trends

* Too inward - looking

* Too much emphasis on budgeting planning

* Lack of strategic focus

* Unclear cost and service balance

* No real market position

* Poor use of marketing techniques

* Poor use of technology - lack of flexibility in systems

* Poor leadership

* Short term management - crisis management

* Contradictory goals

* Failure to monitor or evaluate changes

The following are recommendations or options which a potentially losing airline can adopt:-

*   Improve market position by evaluating profitability of each activity.

*   Exploit synergies, refer to the integration techniques indicated in this chapter.

*   Move into related businesses, refer to identification and integration options given in this chapter.

*   Diversify into new markets, consider possibility of vertical integration, collaboration and mergers.

*   Leave industry, as the last option.

Each of the above options requires some form of activity and each activity must be viewed against four basic accepted projections about the future. These projections of the future include:-

*   The travel environment is changing;

*   The momentum of change will be rapid;

*   New concepts are needed in relation to products and their life cycles, distribution, cash innovation, timing;

*   The age of information and customization.

Today, with the help of computers and relevant data, a suitable strategy can be formulated. However, danger arises when the strategy needs to be converted to plans and activities. Management are too often, too thinly stretched, preventing radical and pertinent ideas from being carried out.

The strategic plan developed by an airline must be ready to cope with any contigencies, should the basic assumptions on which the strategy was built change or if the strategy fails. Hence, a contingency plan or multiscenario planning is required. After the contingency element has been developed, a mechanism must be built into the company's monitoring and control system which will bring the contingency plan into action at the appropriate moment.

There are immense challenges facing the airlines, for it is a new surprising world, of which nobody is the master. As the travel industry continues to develop and newcomers bring in new dimensions, one thing will remain constant - the need for information, identification, and integration which must be driven by the intent of the

management.   Really   there is nothing else you   can   rely

on!!.

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APPENDIX

QUESTIONNAIRE

Questions to ascertain the strategy used, considering the external constraint :

Under the following categories of constraint, what have you taken into account to devise your marketing strategy?

Economic Constraints:

*   Have you taken disposable income(related to Business and tourist traveller) into account in devising your marketing strategy?

*   Was inflation an important factor?

*   How was age distribution to affect your marketing strategy plan?

Socio-Cultural Factors:

*   How does the educational level and professions involved affect your planning?

*   In the consideration of the marketing mix strategy, have you taken into account life style patterns and how did you target whether the customers are going for vacation or business?

*   In the marketing mix strategy what is the perception of customer service plays, How far does this perception plays a roll in the marketing mix strategy?

* How do you identify and apply the needs of the customers in the marketing mix strategy?

Government and Legal Factors:

* What are the safety and environment standards that influenced your strategy?

* How has the international airline regulations affected your planning process?

Market Condition:

* How do you perceive your competitive advantage over your competitors?

* How far does the distribution channel participate in your marketing strategy with reference to:

- travel agents

- hotels

- restaurants

- car rental companies?

* How do other travel alternattives like rail, ship, road affect the number of customer and the allowance given in your marketing strategy?

Technological Development:

* What level of technological development is essential for the success of your marketing strategy?

* How has recent technological breakthrough facilitated an advantage position to you?

* What is the emphasis of technical research being done in your company?

Internal Environment:

Based on the above external constraints how have you evaluated the internal strength and weakness to maximise your marketing strategy?

Can you review this based on the following format?

* How are the short and long term marketing objectives derived?

* Are the objectives quantifiable or are they quantified?

* How compatible are the marketing objectives to the overall corporate objectives?

* How is the marketing organisation formulated, to best fit your marketing strategy?

* To what extent is the Marketing information system set up to facilitate the marketing strategy?

* How effective is the MIS ?

* What are the key control methods used to monitor and evaluate the marketing plan implementation?

* To what extent is the marketing department need to be integrated with other departments to successfully implement the marketing strategy.

* What kind of back up services is required in the marketing mix strategy to optimise or maximise the sales revenue?

Marketing Research

*   Was an outside agent hired to collect the information concerning the external constraints?

*   Who evaluated the internal strengths and weaknesses of the airline?

*   How often do you think the research should be conducted? Please highlight the current practises and your future intentions.

*   What is the budget allocated for the marketing research process?

*   Is there a budget allocated for continuous marketing research.

*   Do you believe a budget is required for continuous marketing research process.

*   Was what we covered in the earlier discussion sufficient for reviewing the marketing mix strategy?

*   Are there any particular areas in which your airline is conducting continuous marketing research, can you please specify?

*   How far does your airline wish to implement marketing research as a continues process?

Developing the Marketing Strategy

*   Who is involved in the marketing planning process?

*   What are the stages involved in the planning process?

*   How significant are the marketing services to the overall strategy?

*   What role does the promotional mix play in the
strategy?

* How do you evaluate the effectiveness of your strategy?

Marketing Segmentation Strategies:

* How does your airline segment the market?

* How do you identify your target customers?

*   What   are the criteria you have taken into account   to
segment your target customers?

* Can you please clarify why these criteria are important
in your segmentation and targeting strategy?

*   What are the problems faced in identifying your target
customers?

*   How   did you manage to overcome   these   problems   and
difficulties?

Marketing Mix Strategy:

Based   on   the above,   can we know how the   marketing   mix
strategy was devised?

* **Product:**
-    To what extent is the ground service (sales offices,
baggage   handling,   airport   countries,   etc.) used   as   a
strategy tool?
- how was the cabin service (food,   drinks,   cabin staff,
leg   room) projected to your target customers to win   them
over to your airline?

- what strategic advantage the cabin service has to your airline?

- was schedule (time table, frequencies, intermediate stops, etc.) used as a strategic tool to attract your target customers?

* Price

- what are the consideration that your airline has taken into account to drive the current price structure?

- what type of fares are available?

- how were each of the fare types derived and evaluated?

- what does your airline consider as an important issue in the pricing strategy to increase the traffic?

- How has the price structure affected the category of passengers?

- how does the division of the fare types affect the overall sales revenue or sale performance of your airline?

- how far has government regulation and the economic condition played a significant role in your pricing decision?

Promotion

- what type of promotional mix tool is your airline applying? (public relation, advertising. personal selling,)

- in your opinion which of the promotional tools is most effective?

- what level of budget is allocated for the promotional mix tools?

- which promotional mix tool is given the largest sum of allocation?

- what are the medias used in your promotional strategy?

- what type of message is used to appeal to your target customers?

- how far are the other marketing mix tools incorporated into the message design?

- how is the effectiveness of the promotional mix evaluated?

- what is the estimated cost of this measurement?

- was the cost spent in your opinion sufficiently covered?

Distribution:

- what are the types of channels used?

- how important are each of these channels in your marketing mix strategy?

- what are the criteria you take into account in your selection of the channel members?

- how do you blend your promotional mix strategy with the distribution strategy?

- how well have cost, coverage and control been taken into account in your selection of intermediaries?

- to what extent do your competitors affect your channel strategy?

- what advantage do you foresee in using intermediaries?

- Is there any idea of vertical integration?

- do your channel members consider the vertical integration possibility a threat or opportunity?

- to what degree can you maximise your marketing mix strategy with the above view?

The Marketing Mix in General:

* how well is each element of strategy blended?

* is the overall short and long term marketing objectives achieved as a result of applying this marketing mix strategy?

* based on the above, how well is the corporate objective achieved?

* has your airline strategy harmonised with the target customers' needs and satisfactions? (are you gearing towards a marketing orientation philosophy of concept?)

* what is the level of resource given to implement the marketing mix strategy?

* is there a contingency plan available if the current marketing plan strategy failed?

* was the contingency plan or the alternative strategy devised based on a multiple scenario planning?

* how well has the overall monitoring and control of the marketing mix strategy devised?

Tourism:

*   how does your airline view tourism potential in your country?
*   how significantly do you consider your airline to contribute towards the growth of the tourist related industries in your country?
*   what is the extent of vertical integration into tourism related business by your airline?
*   what are the range and scale of packaged holidays offered by your airline?
*   what is the degree of co-operative activities carried out by your airline with other airlines and tourism organisations in the region?

Last Questions:

*   how does the airline foresee the future to be?
*   does a continuous assessment of defining what business you are in included in your corporate strategy outlook.

Emirates:

*   what instigate the airlines to enter the market ?
*   how was the market assessed for its potentiality before investment into this industry?
*   is the airline geared towards a niche market or mass market?
*   how does the airline consider its position, relative to the other competitors, who are already established in the market?

National Tourism Organisation Primary research

In order to evaluate, modify and improve the marketing strategies of your National Tourist Organisation the following aspects are going to be investigated:

Transportation Strategy:

* Are there competitive air fare available for your destination

* To what extent is regular air services of importance to your organisation.

* Are Reliability and quality of ground transportation services significant critera for your marketing strategy.

* How does the price of ground transportation services affect your marketing strategy.

* Are regular Consultation been done with the airlines to assist in determining your strategy for tourism attraction.

Accommodation Strategy:

* To what degree does the quality of accommodation affect your organisation marketing strategy

* How does the type of accommodation affect choice of strategy. eg High priced hotel, Moderately priced hotel or self- catering
Accommodation

* How best can the ownership of accommodation facelitate your organisation's objective and strategy e.g

        (a)   foreign ownership
        (b)   local ownership
        (c)   Joint- venture

Strategy Relating to Service and Manpower Development and Training in the Hotel Sector:

* Ho well can the application of good training programe for the hotel sector afect your organisation's promotional strategy . e.g Management level training ,Supervisory level training , Craft- skill level training

* Does appointment of local nationals to senior positions in the hotel industry in any way influence the tourism, hence affecting your organisation's strategy .

   Strategy Towards the Component Parts of the Tourist Product:

* How does the image of destination country portrayed to potential tourist.

* Are existing tour operator's acceptance of country's portrayed image

* How can climate portray influence any tourist movement towerds your destination

* To what extent, deose sightseeing opportunities available affect the choice of potential tourist.

* Are good beaches and facilities, common image given by the destnation country ? if so to what extent it is effective?

* How does recreational and sport opportunities available in a package tour, affect the choice of selection by tourist?

* Are cleanliness and hygiene, another criteria that influence tourist choice of destination?

* How do you rate the influnce of good food, shopping avilability, Entertainment, Cultural attractions to attract tourist to your destination country? How does this movement in choice affect your organisation s strategy?

Miscellaneous Considerations:

* Who are your main competitors.

* The type of tourists deos your organisation encouraging to attract

* In your promotional package,to what extent income and age groups affect the choice of your tourist to this destination

* Which deos your organisation consider as potential contribution to the growth of tourist , the package tours or individual travel.

* Are Attracting business visitors for conventions apotential area not invistgated yet

* Does your organisation believe, that the atraction of tourism will affect the local population? if so, in what ways do you expect the influence to be ?

* Are there sufficent training programes and schemes availability to meet the increase in demand of tourist, if the strategy applied becomes successful?