

11 The Future of Airline Marketing

This Sixth Edition of “Airline Marketing and Management” has been prepared against a backdrop of what is still an industry facing rapid change and continuing financial problems. Two years of terrorism and war fears which began on September 11 2001 had a very serious and continuing effect on demand, an effect which, in an unstable world, may recur at any time. We have also seen that in aviation it is a dangerous statement to say that, “Things can’t possibly get any worse”. People were indeed saying this in 2003, when things did get worse with a rapid increase in the price of aviation fuel which has continued up to the present time.

Given the extent of the gloom which still prevails, it is difficult, but very important, to keep a sense of perspective. The industry has endured turbulent times before – admittedly at a reduced scale compared with today – and has come through them. Travel still has a great hold on many members of the world’s population, and rapid economic growth in China and India is seeing the emergence of very large new markets. Also, despite all the problems, some airlines are continuing to be very successful, as new business models emerge which seem capable of dealing with today’s situation. More widely, a healthier and better industry may be the result of today’s difficulties. In many ways, traffic growth has acted as a drug providing a fix which has allowed the industry to survive despite poor standards of management.

So what does the future hold over, say, the next ten years? Airlines will certainly have a substantial demand for their product, though in this writer’s opinion at least, it will be a long time before we see a return to the inflated levels of demand growth seen in the boom years of the late 1990s. A substantial, though declining, proportion of this demand will be in the business travel sector. This sector will be very different from the one to which airlines have become accustomed, in that it will be much more price-sensitive and volatile. Leisure traffic will make up an even greater proportion of demand than at present, and it will be even lower-yielding than it is today. Only airlines with the keenest levels of operating costs will be able to carry it profitably. One bright spot will be continuing growth of

the air freight market, the one market which airlines have which is not vulnerable to wars and the threat of terrorist attack. The problem for traditional airlines will be that most of this traffic will be carried by the small number of giant global Integrators rather than by them.

The marketing environment of the airline industry will certainly remain volatile and difficult. The established trends towards deregulation and liberalisation will continue, and, at least towards the end of a ten-year timescale, may encompass the long-overdue changes in ownership and control rules which will allow aviation to finally take its place amongst other global industries. Airport slot allocation will almost certainly come to be based on market principles, though the question of who should keep the proceeds from slot sales will always be a difficult one. Environmental issues will become even more important, and carriers will face justified limits on their growth and freedom of action unless they can demonstrate that they are taking all possible steps to minimise the environmental impact of their activities, even if these steps involve substantial costs.

As we have seen, only a supreme optimist would now suggest that airlines won't have to deal with the consequences of an unstable world political scene, and the ups and downs of a volatile world economy. They will have to address social change, with the ageing of the population and the changing nature of the world of work likely to have a particularly significant impact.

Technology will also affect airlines. In particular, ways of using electronic forms of communication to reduce the amount of business travel an executive has to undertake will continue to develop, and will significantly worsen airline's vulnerability to downswing periods. Also, new aircraft technology will give important opportunities which must be embraced.

Environmental questions will result in continuing – probably worsening – problems in expanding infrastructure capacity alongside demand. Taxation on airlines will also increase as governments follow a “polluter pays” policy.

In response to this difficult industry environment, the question of airline strategies will see revolutionary change. Around the world, we will see short-haul and medium-haul routes transformed by the principles currently being employed by the so-called “Cost Leader” airlines. The successful carriers will be well-managed “Cost Leader” players, and those threatened Differentiation airlines which are able to re-model their ways of working to get within striking distance of the cost levels of the Cost Leaders. Those that fail to do so will disappear as significant competitors in these markets. On long-haul routes, there will be less radical change,

and the better-managed of today's Differentiation airlines have a good chance of survival and prosperity.

Given these strategic changes, the airline product scene will also see a considerable transformation. First Class service will have disappeared on all but a small number of routes, even in long-haul markets. Its replacement will be enhanced Business Class products, and perhaps, to a small degree, dedicated Business-Class-only products using 737BBJ and A319CJ aircraft. On short-haul routes, in contrast, there seems to be little hope that Business Class will survive at all. Instead, the emphasis will be on value-for-money offerings on single class aircraft. Everywhere, there will be an increase in point-to-point services and a decreased emphasis on hubbing, though A380 and 747-8 aircraft will find employment on the densest routes.

With pricing policy, the future is unlikely to see greater stability in airline pricing structures. The continuation of the well-established deregulation process and growing airline skills in storing, manipulating and communicating fares data, are likely to lead to instability, as airlines battle to match prices to the price elasticities of the different sub-segments of the market and to fill in the trough and even out the peaks in demand. Again this will place an absolute premium on speedy decision-making. Pressures will also increase for a simplification of airline pricing policies, to reduced overheads costs and to ease the selling task.

The area of distribution policy will see some of the greatest changes in the future. Over the next ten years, there will be a further fall in the proportion of tickets sold by travel agents, from the present industry average of around 70% to 50% or even less. This change will be brought about by an emphasis on electronic means for airlines to deal directly with their customers, and will bring about both a valuable further reduction in commission costs and a necessary increase in airlines' ability to control their distribution channels effectively. It will not, though, be an easy change to manage, because of the adverse reaction of traditional travel agents to it and because of the setting up of increasingly powerful on-line travels agencies. The entry of very powerful search engines into travel retailing may turn out to be a particularly worrying development.

In terms of those Differentiation airlines that are successful, one of the most important characteristics will be that they are successful in identifying their most important customers, and establishing a warm, deep and long-term relationship with them. In doing so, they will still make use of Frequent Flyer Programmes, though, in a saturated marketplace, the role of FFPs will be more to provide a source of data for airlines so that they can target individuals with attractive offers, rather than them being the broad-brush incentive programmes they have tended to be in the past.

With the question of marketing communication, brand building and brand maintenance will become crucial. The airline business has been slower to adopt these concepts than many Fast-Moving Consumer Goods firms. The reason is probably that up until now there has had to be a great focus on operational questions such as those associated with safety and punctuality. In the future, though the ability to build and maintain strong brands will be a necessary requirement for success. If it is, it will require marketing communication spending which is substantial, well-thought out and seen in a strategic, long-term way rather than as a tactical exercise which can be reduced or ditched as soon as times become difficult.

All in all, the future will be an exciting and challenging one. Working in the airline industry will be stressful – dealing with an accelerating pace of change always is – but it will provide tremendous opportunities for those privileged to make their living from this still dynamic and fascinating industry.