

1 The Fundamentals

1:1 What is Marketing?

1:1:1 Definition

There is a popular misconception when the term “marketing” is defined – that it is not a very edifying activity. According to its critics, the marketing concept is about producing things that people don’t really need and then tricking customers into buying them through deceitful advertising. Such views will be totally rejected in this book. Marketing describes a complete philosophy for running a business, based on the meeting of well-researched, well-understood and genuine customer requirements.¹

We will use the following definition of the subject:

Marketing is the management process responsible for identifying, anticipating and satisfying customer requirements profitably.

This definition, used by the UK Chartered Institute of Marketing, provides a valuable initial framework for the study of the subject. In particular, its use of the word “anticipating” emphasises the fact that marketing is a dynamic discipline, where customer requirements are in a constant state of evolution and change. This is especially the case in the airline industry, where successful airlines are likely to be those which anticipate change and are ready for it when it occurs. Unsuccessful carriers tend to be those which wait for change to happen and then try to catch up with it. This is a theme which will recur frequently in the book, and one which is well-illustrated by the difficulties which many so-called ‘Legacy’ airlines have had in recent years in responding to the challenges which the rapid growth of Low Cost Carriers have brought to them.

Though the definition is useful, it is not sufficient to fully describe all

¹ A selection of recommended recently published textbooks on marketing is as follows: R.Brenna, P. Baines, P.Garneau: ‘Contemporary Strategic Marketing’ McMillan 2003 K.Moore, N.Pareek: ‘Marketing – the Basics’ Routledge 2006. I.Doole, R.Lowe: ‘International Marketing Strategy’ Thomson 2004 P. Kotler, G Armstrong: ‘Principles of Marketing’ Pearson 10th Edition 2002. D Jobber, ‘Principles and Practice of Marketing’: McGraw-Hill 2001. J.Growcutt, P.Forsyth, P Leadley: ‘Marketing’ Kogan Page 2004.

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the facets of marketing, nor to give a framework for this book. We need to break it down further.

A common initial way of doing so is to distinguish between “Consumer” and “Industrial” marketing. Consumer Marketing is marketing activity targeted at the individual or the family. Industrial Marketing is the term used to describe business-to-business or firm-to-firm marketing.

There are many differences between the two. One of the most important is that in Consumer Marketing, identifying the “Customer” for a particular product is usually quite straightforward. Market research studies could, for example, easily identify the demographic characteristics of the individuals who bought chocolate bars or ice-creams. With admittedly more difficulty, it would also be possible to carry out the attitude studies which would highlight the factors taken into account by these people in choosing between the different products on offer.

Industrial Marketing gives no such straightforward opportunities. When firms need to make purchasing decisions for major capital items, they will normally do so using a complex decision-making process. As we shall see in section 2:2:3, this process will often involve large numbers of people, each of whom will be working, at least partly, to their own agenda. Understanding of this process is one of the central skills required in Industrial Marketing and considerable space will be given to it in this book.

Airline marketing provides a particularly fascinating illustration of the application of marketing principles because it includes examples of both Industrial and Consumer Marketing. Marketing to the business air traveller, and of air freight services, both illustrate well the concept of Industrial Marketing. Leisure air travel marketing, on the other hand, if carried out correctly, increasingly exhibits the principles of Consumer Marketing.

1:1:2 The “Marketing Mix”

Though the distinction between “Industrial” and “Consumer” marketing is a useful one, it does not describe any of the activities which must be undertaken in order to apply marketing principles to business. The concept which does do so is known as the “Marketing Mix”.

It is useful to describe marketing activity as encompassing the following “4Ps”:

- Product
- Price
- Promotion
- Place

The word “Place” is somewhat confusing. In our study of airline marketing we shall take this word to describe the distribution channels employed by airlines.

The “4Ps” model tells us that the application of marketing principles will require decisions to be made about the Products which will be offered and the Prices which will be charged for them. Firms must also decide on the methods of marketing communication they will employ in order to persuade people to buy, and the distribution channels which will be used to provide the link between the customer and the product.

The concept is also valuable for another reason. It emphasises that marketing decisions cannot be made in isolation. Instead, all decisions are linked, with the ability to make tradeoffs between them in order to optimise the overall result for the firm an absolutely crucial skill.

Such tradeoffs are at their most obvious in the relationship between Product and Price. Clearly, no firm should invest money in product enhancement unless it expects to obtain a return in the form of a higher selling price or an improved share of better yielding markets. They are though, equally significant in other areas. For example, in making decisions about their distribution channels, firms must often decide whether or not they are to be a wholesaler or a retailer. As we shall see in the airline industry, so-called charter carriers have traditionally sold mostly in a wholesale basis (indeed, in some cases, notably so in Europe, they were restricted to such a role by government regulation). They produced plane-loads of capacity in response to orders placed with them by Tour Operators. The Tour Operators in turn combined the aircraft seats with hotel or other accommodation to make up packaged holidays. In such a situation, the airline was merely the supplier of capacity. The Tour Operator took responsibility for reservations and retail selling. The airline’s promotional spending needed only to encompass the costs of a field sales force which carried out sales negotiations.

In strong contrast, airlines focussing on the business travel market have tended to adopt a retailing philosophy. This has required them to keep in contact with travel agents, and to maintain a high promotional profile through such activities as media advertising, database marketing and the maintenance of an attractive Frequent Flyer Programme (see Section 9:3). All these tasks are costly ones, and need to be traded off against the undoubted advantages in terms of market control which retailing can bring.

1:1:3 Stages in the Application of Marketing Principles to Airline Management

The “4Ps” model is a powerful one, and describes much of what an airline

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must do if it is to apply the principles of marketing in order to achieve business success. It does not, though, give a complete description. In this book, it will be suggested that the application of marketing should consist of seven interlinked stages:

1. *The Customer*

The cornerstone of successful marketing activity is that firms should obtain full knowledge of their current and potential customers. This knowledge needs to encompass information about market size, demographics, customer requirements and attitudes. There also needs to be an ability to forecast the future size of the market, and any possible future changes in customer needs. The processes whereby airlines seek this information will be those of market research and market analysis

2. *The Marketing Environment*

The nature of sound marketing policies will clearly vary according to the constraints and opportunities provided by the external environment.

In analysing a firm's marketing environment it is usual to use the model known as PESTE analysis. This model categorises the factors in the marketing environment under the five headings of Political, Economic, Social, Technological and Environmental. The analyst's task is to isolate those factors in the external environment which will have a significant impact on the formulation of sound marketing policies and to assess their implications. In this book, such an exercise will be carried out for the airline industry in Chapter Three.

3. *Strategy Formulation*

Clearly, it will not be possible to define marketing policies without the marketing input being a crucial one in the definition of a firm's overall strategic direction. This strategic direction must identify the firm's goals and objectives, the markets in which it will participate and the methods it will employ to ensure successful exploitation of market potential.

4. *Product Design and Development*

5. *Pricing and Revenue Management*

6. *Distribution Channel Selection and Control*

Once an overall strategy has been selected, the next three stages should follow on logically. As we shall discuss in Chapter Four, today's aviation industry offers airlines many possible routes to success (and, interestingly, many different ways in which they can fail). What matters is that a clear

strategy is selected and pursued steadily over the long-term. Each possible strategic option will result in a requirement for a linked set of Product, Pricing and Distribution decisions. These subjects will be examined in Chapters Five, Six and Seven.

7. Selling, Advertising and Promotional Policies

A common mistake is to assume that the words “Marketing” and “Selling” are synonymous. They are not. The term “Marketing”, as we have seen, describes a total philosophy for running an entire business. “Selling” is the concluding stage of a correctly-applied Marketing process, whereby customers are persuaded to buy the firm’s products.

“Marketing” ought to make “Selling” easier. It is likely to be a great deal easier to sell something to someone which is available in response to a well-researched and well-understood customer need. Indeed, one of the traditional faults of industry in the past has been a so-called Production Orientation whereby firms made what they liked making, or found it easiest to make, and then tried to persuade reluctant customers through high-pressure selling to buy these less-than-ideal products. It should not be thought, though, that “Marketing” will make the skills of Selling obsolete. In today’s competitive markets, customers will usually have plenty of choice open to them. Persuading them to exercise this choice in a particular way will require the use of professional skills of a high order. We will be discussing these skills in the context of the airline industry in Chapters Eight, Nine and Ten.

This chapter should give the reader a feel for the power and the complexity of the discipline of Marketing and its importance to airlines today. We will now begin our detailed study with the question of the Market for Air Transport Services.

SUCCESSFUL AIRLINES

- ➔ Are those that accept that the principles of Marketing provide a framework for all they do, and set out to apply these principles as widely and as rigorously as possible.