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Competitive Advantage Through Innovative Pricing Strategies: The Case of the Airline Industry

Andreas Knorr und Silvia Žigová

Berichte aus dem Weltwirtschaftlichen Colloquium der Universität Bremen

Nr. 93

Hrsg. von
Andreas Knorr, Alfons Lemper, Axel Sell, Karl Wohlmuth

Universität Bremen

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Berichte aus dem Weltwirtschaftlichen Colloquium
der Universität Bremen, Nr. 93, November 2004,
ISSN 0948-3829

Bezug: **IWIM - Institut für Weltwirtschaft
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Abstract

Pricing – i.e. price discrimination – is still the most neglected among *Edmond Jerome McCarthy's* famous 4 p's by far.[1] This fact is even more astounding as pricing is the only tool in the marketing mix which generates revenues directly, whereas all others only cause costs initially.[2] Recent research by *Simon, Kucher & Partners*, a German consultancy, has even demonstrated that a price increase of a mere two (!) per cent would translate into double-digit profit growth for many companies, even those caught up on saturated markets or facing a price war.[3] Due to this ignorance, however, only in few companies has pricing strategy "grown from an afterthought … to a major strategic concern."[4] As a result, dedicated pricing divisions inside marketing departments are still as rare as white elephants.

An exemption is the airline industry. However, its example shows that complex pricing strategies alone are no guarantee for long-term success in a very competitive business environment. When the airline industry was deregulated – first, in the late 1970ies in the US, and followed by the EU in the 1990ies – most airlines introduced highly sophisticated yield management techniques to maximize profits. While revolutionary at that time, this ultra-complex pricing strategy has spectacularly failed the test of time. While many of the traditional airlines, on both sides of the Atlantic, are now on the brink of collapse, a new breed of airlines – the so-called low-cost carriers – is growing fast. What is more, the most successful among these low-cost carriers – Southwest Airlines (USA), Ryanair (Ireland), and easyJet (UK) – are much more, and more consistently, profitable than their traditional rivals have ever been. In this paper we will show that one of their crucial success factors is an innovative, and extremely simple, pricing strategy – embedded, however in a much more coherent overall corporate strategy than the traditional airlines have managed to implement.

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1 *McCarthy, Edmond Jerome* (1961): Basic Marketing: A Managerial Approach, 4th Edition, Homewood.

2 See *Doyle, Peter* (2001), Marketing Management and Strategy, 3rd Edition, New York.

3 See Simon, Kucher & Partners (2004), Power Pricing, Presentation at WHU Koblenz, February 24, 2004 (http://www.simon-kucher.com/deutsch/index.htm).

4 *McAfee, R. Preston* (2002), Competitive Solutions, Princeton, p. 260.

1. Introduction

Pricing – i.e. profit-maximizing price discrimination – is clearly the most neglected among Edmond Jerome McCarthy's[5] famous 4 P's. As a result, dedicated pricing divisions inside marketing departments are still as rare as white elephants. An exemption is the airline industry. However, its example shows that complex pricing strategies alone are not a guarantee for long-term success in a very competitive business environment. When the airline industry was deregulated – first, in the late 1970ies, in the US, and followed by the EU in the 1990ies – most airlines introduced highly sophisticated yield management techniques to optimize pricing. While revolutionary at that time, we argue that this ultra-complex pricing strategy has spectacularly failed the test of time. While many of the traditional airlines, on both sides of the Atlantic, are now on the brink of collapse, a new breed of airlines – the so-called low-cost carriers – is growing fast. What is more, the most successful among these low-cost carriers – Southwest Airlines (USA), Ryanair (Ireland), easyJet (UK) as well as GEXX, Germanwings, and Air Berlin (all based in Germany) – are much more, and more consistently, profitable than their traditional rivals have ever been. In this paper we will show that one of their crucial success factors is an innovative, and extremely simple, pricing strategy – embedded, however, in a much more coherent overall corporate strategy than the traditional airlines have managed to implement.

2. The Crucial, Yet Underrated Role of Pricing in the Marketing Mix

The term "marketing mix", originally coined by James Culliton in the late 1940ies, was firmly established by Neil H. Borden with his seminal 1964 article on "The Concept of the Marketing Mix".[6] Initially encompassing a wide range of marketing tools ranging from product planning, pricing, branding, personal selling, distribution, advertising, promotions, packaging, display, service to physical handling, it was later con-

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[5] See McCarthy, Edmond Jerome (1961): Basic Marketing: A Managerial Approach, 4th Edition, Homewood.

[6] Borden, Neil: The Concept of the Marketing Mix, in: Journal of Advertising Research, vol. 5 (1964), no. 4, pp. 2-7.

densed by Edmond Jerome McCarthy into his famous 4 P's: product, price, place and promotion.

While the pros and cons of alternative product, place and promotion strategies have been discussed at length in innumerable academic and trade journals – and clearly prevailed in the practice of marketing management –, most companies have so far ignored the crucial importance of innovative pricing strategies as a tool to create a sustainable competitive advantage over rivals. As a result, traditional approaches to pricing – such as cost plus-pricing or simply following the prices of the competition – prevail.[7] This finding is highly astounding, for two reasons: First of all, pricing is the only tool in the marketing mix which generates revenues directly, whereas, at least initially, all others only cause costs to rise.[8] Second, since profit = (price x volume) – cost, essentially there are only three profit drivers at management's disposal: price, volume, and cost. While cost reduction potentials have been largely exploited by most major companies (or are impossible to exhaust on a larger scale due to employee and trade union resistance), and an increase in volumes is hard to realize on saturated markets, the optimization of pricing processes remains as the most promising strategy by far.

Recent empirical research by Simon, Kucher & Partners, a German consultancy, seems to prove the validity of this view. They showed that a price increase of a mere two (!) per cent would translate into double-digit profit growth for many companies, even those which, like airlines, are caught up on saturated markets or facing a price war.[9] Examples from the airline industry include a (potential!) 107 per cent increase in profits for Air France, + 52 per cent for British Airways, + 42 per cent for Lufthansa, and + 92 per cent for TUI (a German-based package tour operator). Equally striking examples from other sectors include Metro (+ 124 per cent), DaimlerChrysler (+ 49 per cent), Siemens (+ 48 per cent) and Volkswagen (+ 44 per cent).

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7 McAfee, R. Preston (2002), Competitive Solutions, Princeton, p. 260.

8 See Doyle, Peter (2001), Marketing Management and Strategy, 3rd Edition, New York.

9 See Simon, Kucher & Partners (2004), Power Pricing, Presentation at WHU Koblenz, February 24, 2004 (http://www.simon-kucher.com/deutsch/index.htm); Simon, Hermann (2003), Pricing: It's the Process. The Call for a Profit Renaissance, Presentation at IATA Conferences and Exhibitions Revenue Management & Pricing, Bangkok, October 13, 2003 (http://www.simonkucher.com/deutsch/publikationen/praesentationen/praesentation.htm).

In the real world, however, the failure of most companies to treat pricing as much more than a mere afterthought in the conception and implementation of their overall marketing strategies rather than a major, overriding strategic concern has induced many of them to engage in senseless, wasteful price wars or to offer excessive discounts and rebates instead of finding strategies to help them better exploit their customers' willingness to pay. Nevertheless, even this observation should be taken with a grain of salt. This is because a highly complex pricing strategy per se is no guarantee for lasting commercial success either – for reasons which we will discuss now with respect to the airline industry in the US and the EU.

3. The Airline Industry – A Market in Transition

a. The Pre-Deregulation Area

Historically, the airline industry has been one of the most heavily regulated and protected sectors. Aside from the fact that – with the US being the notable exception to the rule – most carriers were state-owned and enjoyed a legal a monopoly over most domestic traffic,[10] governments strictly controlled entry to international routes by means of restrictive bilateral air service agreements (ASA).[11] Essentially, only carriers registered in either signatory state were allowed to operate commercial services between the two countries – but more often than not, each country would designate only its respective (state-owned) "flag carrier" for cross-border flights.[12] As a result, most international routes were served by only two airlines. Moreover, these ASAs specified which city-pairs the designated airlines were permitted to serve and preordained the capacity (in terms of number of seats as well as frequencies). Finally, under the so-

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[10] Only non-scheduled services – charter flights based on package tours – as well as some regional services with small turboprop aircraft were (largely) exempt from these rigid regulations.

[11] For details see *Henlon, Pat* (1999), Global Airlines. Competition in a Transnational Industry, Oxford; *Doganis, Rigas* (2003a), Flying Off Course. The Economics of International Airlines, London.

[12] Only occasionally are carriers from third countries granted local traffic rights in bilateral ASAs, too. For example, *Singapore Airlines* is allowed to operate a daily flight between Frankfurt and New York City in either direction. However, these flights must originate from Singapore (westbound services) or continue to Singapore (eastbound flights).

called “double approval”-principle, all cross-border fares had to be jointly approved by both governments – based upon recommendations by the International Air Transport Association (IATA), the cartel-like Montréal-based trade association of the airline industry.

b. Airline Deregulation in the USA and the EU – the New Institutional Framework

This rigid and highly anticompetitive regime came under intense pressure after 1977, when the US government under President Jimmy Carter opted to fully liberalize domestic air services. Eventually, all entry, exit and price controls had been abolished by 1984. In order to help US carriers to expand internationally, the US endeavoured to “export” this policy so as to liberalize cross-border air services to and from the USA. Crucial in this respect was the US government’s decision to withdraw the antitrust immunity it had previously granted US carriers to permit them to coordinate prices and capacities under IATA auspices with impunity.[13] Not only did this break the IATA’s cartel power for transatlantic flights, and a few years later also on most routes across the Pacific and towards Latin America. What is more, a new type of ASA has emerged as a result. While under these so-called “open skies agreements” traffic rights continue to be granted to carriers registered in either country only, many of the former restrictions have been substantially relaxed. Typically, all airlines registered in either country – as opposed to just the two “flag carriers” – are now allowed to operate revenue services between them. All fares must still be approved. However, because of the adoption to the “double disapproval-“principle, requests by airlines to offer lower fares can now only be rejected by both governments acting in unison.

In the EU, the deregulation of air services began in 1987, embedded in the much broader attempt to create the Single Market. After a long transition period, complete liberalization of intra-EU air services was achieved on April 1st, 1997. Ever since, any airline which is registered in any EU member-state is allowed to serve any city-pair

[13] See *Knorr, Andreas* (1998), Zwanzig Jahre Deregulierung im US-Luftverkehr: Eine Zwischenbilanz, in: ORDO, vol. 49, pp. 419-64.

inside the EU.[14] This includes full cabotage rights, i.e. the right to serve domestic city-pairs on the territory of any other member-state. This market segment had in the past been monopolized in favour of the respective national "flag carrier".[15] For example, German carrier Air Berlin has meanwhile opened a large base at Palma de Mallorca airport in Spain, offering more non-stop services to cities on the Spanish mainland from the island than its local competitors Spanair and Iberia combined.

4. The Impact of Airline Deregulation on Pricing Strategies

a. Price Regulation and Pricing Strategies under Regulation

Under regulation, airlines were not allowed to set their ticket prices at will. Rather, all fares had to be approved by government bodies. Normally, fares were set on a cost-plus basis in order to guarantee airlines a minimum return (or to minimize losses and, hence, the need for government subsidies to keep them flying). This form of price regulation produced two adverse consequences: On the one hand, airlines had no incentive to reduce costs by streamlining operations and increasing productivity. On the other hand fare levels in general were extremely high (and load factors rather low as a result); cheaper fares – which normally were not available for a large number of seats – were subject to a myriad of cumbersome restrictions such as the so-called "Sunday rule",[16] advance purchase requirements, substantial cancellation penalties or rebooking fees etc. Moreover, one-way tickets were not sold at a discount at all, while discounted return tickets hardly ever amounted to more than a fifty per cent rebate off the full

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[14] Cross-border air services to and from third countries are still regulated by the member-states based on bilateral ASA. The *European Commission*, however, has successfully challenged this regime before the *European Court of Justice*, arguing that the member-states' bilateral ASAs discriminate against airlines registered in the other member-states. As a result, over the next few years the European Commission, will take over the exclusive legal right to negotiate bilateral ASAs with all non-member-states.

[15] See *Grundmann, Silvia* (1999), Marktöffnung im Luftverkehr: Hoheitliche Eintrittsbarrieren in den USA und in der EG, Baden-Baden; *Doganis, Rigas* (2003b), The Airline Business in the 21st Century, London.

[16] The "Sunday rule" effectively is a minimum stay requirement. In order to qualify for the lower fare, passengers were not allowed to return home earlier than on the first Sunday after their date of departure.

fare. This self-restraint was meant to prevent consumers from substituting full fare tickets for a combination of discounted fares.[17]

Essentially, price discrimination under regulation was based on the assumption of two distinct and easily separable types of customers: price-insensitive, yet very time-sensitive business travellers – normally flying on expenses – on the one hand, and price-sensitive, yet time-insensitive leisure travellers, typically paying for their own trips, on the other.

b. The Traditional Carriers' Response to Deregulation: Yield Management

Deregulation permitted airlines for the first time ever to set their own prices. In the USA, *American Airlines* was the first carrier to react to that new-found freedom by introducing yield management. Also known as value pricing, this technique is an attempt to maximize overall profits (yields) by allocating a perishable commodity in limited supply – such as seats on a specific flight – among differentiated customers.[18] In order to achieve this objective, however, yield management must be embedded in a much broader, and above all coherent and consistent marketing strategy based upon the following interdependent elements:[19]

- Price discrimination (fare classes) based on product differentiation, especially by offering passengers a superior range of ground and onboard services ("frills" such as limousine service, lounge access, fast-lanes for check-in and at security checkpoints, free meals and beverages, frequent flyer bonus miles etc.) on top of the basic transportation service itself – in return for a much higher fare.

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[17] This works as follows: Imagine Lufthansa charge 400.- € for the full fare, unrestricted round trip ticket from Bremen to Munich while the cheapest discount fare (including a minimum stay requirement like the Sunday rule) would be priced at 100.- €.

[18] See *Daudel, Sylvain/Barry K. Humphreys/George Vialle* (1994), Yield Management: Applications to Airlines and Other Service Industries, Paris; *Ingold, Anthony/Ian Yeoman* (2003), Yield Management: Strategies for the Service Industries, 2nd Edition, London.

[19] See *Alderighi, Marco/Allesandro Cento/Peter Nijkamp/Piet Rietveld* (2004), The Entry of Low-Cost Airlines, Tinbergen Institute Discussion Paper TI 2004-074/3 (http://www.tinbergen.nl/ discussionpapers/04074.pdf).

- “Fences” must be built to prevent passengers from substituting higher fares for discounted tickets; in the airline industry they usually take the form of minimum stay requirements, date and/or route change penalties etc.
- As a result, while aircraft cabins are typically subdivided into 2-4 service classes only (First, Business, Economy Plus, Economy), the number of fare classes is significantly higher; more than twenty different booking classes for an intra-EU flight or domestic US flight are not uncommon at all.
- Inventory and availability control systems are necessary in order to forecast demand – and the structure of demand in particular – as exactly as possible. On this basis, cabin and fare classes must be allocated – usually at least two month ahead of the scheduled flight date – with the aim to maximize, eventually, the overall yield for this specific flight or, in the case of connections, for the itinerary as a whole.
- Finally, powerful distribution systems are required to communicate the number of available seats in every fare class to intermediaries (travel agencies) and consumers.

However, it is crucial to remember in this context that for traditional airlines – as opposed to LCCs (see below) – effective yield management is substantially complicated by one specific feature of their business model: the operation of a hub-and-spoke network. Essentially, this type of transport network allows airlines to serve a large number of city-pairs which – due to a low number of passengers – individually would not justify non-stop flights, but which can be served profitably by means of connecting flights via a major (hub) airport. In practice, hub airports are served by several waves of incoming and outgoing flights every day to ensure maximum connectivity in terms of available city-pairs plus short connecting times. While the advantages of hubbing are quite obvious – higher frequencies to more destinations –, its inherent disadvantages should not be overlooked:

- Congestion during peak hours, but idle facilities in off-peak periods;

- delays of only a few inbound flights – e.g. due to bad weather – will inevitably delay connecting flights and, as a result, spill over across large portions of the network;
- low average daily utilization of aircraft due to long waiting times for transfer passengers; this translates into higher costs per seat mile as aircraft and crew productivity are suboptimal;
- enormous transaction costs due to the extreme complexity of capacity planning, crew rostering, flight scheduling and ground handling; and finally
- a hugely complex fare structure with significant and often unfathomable cross-subsidization among passenger classes and itineraries.

Essentially, traditional hub-and-spoke-oriented carriers try to maximize profits for their network as a whole. Even if this implies accepting operating losses on some shorter feeder routes to and from the hubs, this can be a commercially viable strategy if a sufficient number of passengers are transferring to more profitable connecting routes.

c. The Emergence of a New Business (and Pricing) Model – the Low-Cost Carriers

On both sides of the Atlantic deregulation has given birth to a new type of airline – the so-called low-cost carrier (LCC). The role model – US-based *Southwest Airlines* – has grown from a fleet of just 3 (three!) Boeing 737 aircraft, 195 employees and 108,554 revenue passengers in 1971 into the fourth largest US airline in terms of revenue passenger numbers. In 2003, it carried 65.7 million passengers with a fleet of 388 Boeing 737 aircraft, employing 32,847 staff (full-time equivalents).[20] What is more, *Southwest Airlines* is unique in the airline industry in posting an operating profit for 31 years straight – including the crises year 2001 and 2002 when it did not lay off a single em-

[20] For further data see *Southwest Airlines* (2004), 2003 Annual Report (http://www.southwest.com/investor_ relations/swaar03.pdf).

ployee. Currently, LCCs are present on 441 of the 1,000 largest US city-pairs – up from only 78 in 1990.[21]

In the past few years, *Southwest Airlines* has spawned epigones in the US and many other parts of the world. In the EU, the most successful LCC to date is Ireland-based *Ryanair*, which, in its last fiscal year ending March 31st, 2004, transported 23.1 million passengers on 72 Boeing 737 aircraft with 2,302 staff (operating margin: 25 per cent) – outcarrying, in terms of passenger figures, *British Airways* on the UK and intra-EU-market.[22] Currently growing at an annual rate of 20 per cent, LCCs already control a market share of around 7 per cent in the EU in terms of passenger numbers, with an increase to around 14 per cent forecast for 2007. However, their market penetration still differs significantly among EU member-states (Table 1) with Ireland and the UK being the frontrunners.

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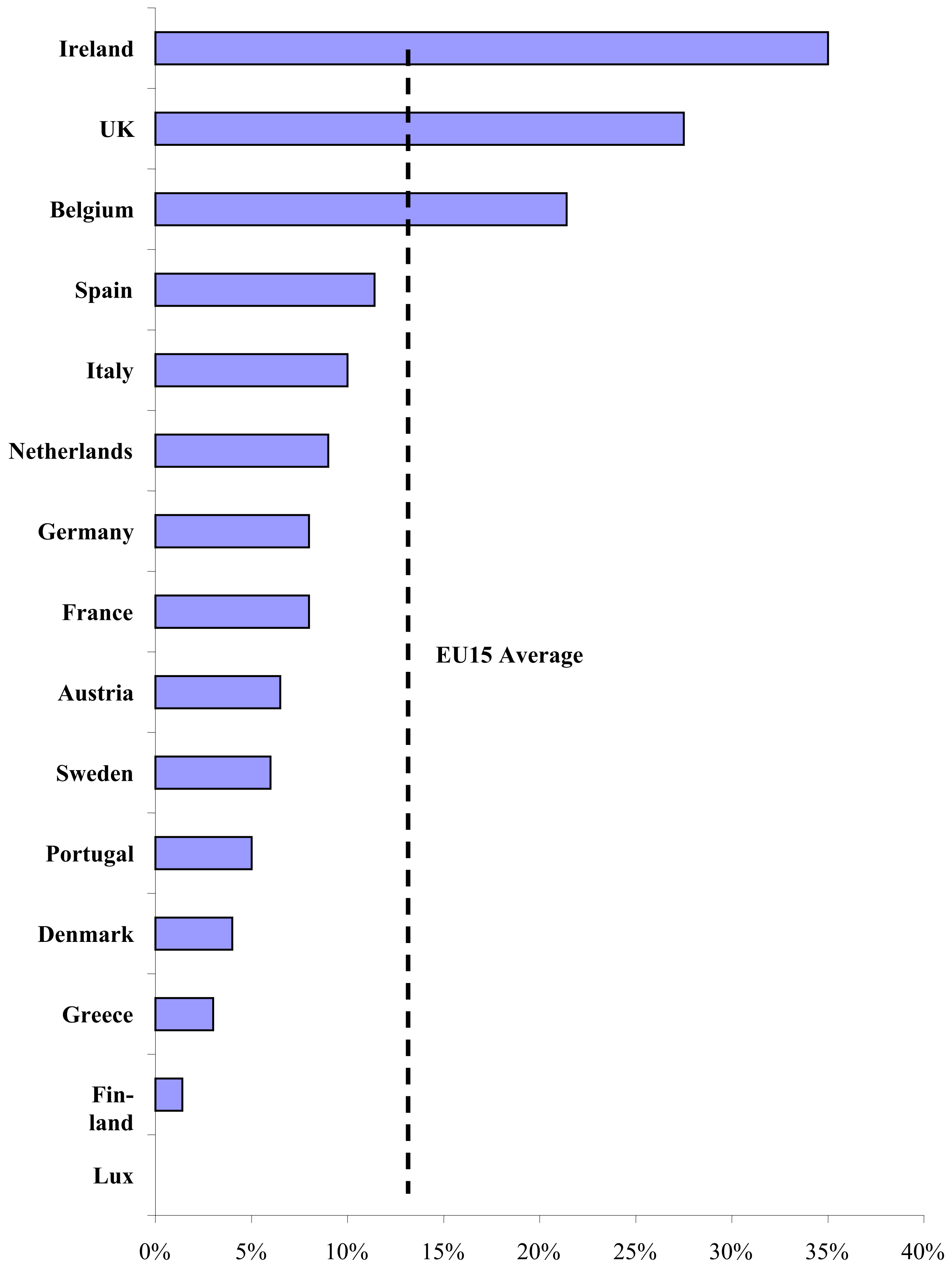
[21] See *Ito, Harumi/Darin Lee* (2003), Low Cost Carrier Growth in the U.S. Airline Industry: Past, Present, and Future, Brown University Department of Economics Working Paper No. 12/2003 (http://www.brown.edu/Departments/Economics/Papers/2003/2003-12_paper. pdf).

[22] See *Ryanair* (2004), Annual Report and Financial Statements 2004 (http://www.ryanair.com/ investor/ results/0304annualreport.pdf).

Table 1: LCC Market Share of Intra-EU15 Market



Source: Official Airline Guide (April 2004)

While the business models of LCCs differ to a certain degree, they all share some basic features which contrast markedly with the traditional "flag carriers'" network approach – and which as a whole translate into costs per seat mile that, in comparison with traditional airlines like Lufthansa or Delta Airlines, are 30 to 50 per cent lower:

- LCCs offer non-stop point-to-point services to and from uncongested airports instead of connecting flight via a hub airport. Passengers who wish to connect to another flight have to claim and check-in their baggage for the next leg of their itinerary separately. This results in shorter turnaround and ground times for the aircraft and eventually in a much higher daily aircraft and crew utilization.23

- LCCs specialize in short- to medium range flights of up to three hours, deploying a highly standardized fleet with a maximum of two different aircraft types.[24] Traditional carriers, by contrast, usually operate a much more heterogeneous fleet of dedicated long-, medium- and short-haul aircraft.

- Staff productivity at LCCs is substantially higher due to systematic outsourcing and longer daily, monthly and annual working hours (close to the legal maximums).

- With (most) LCCs, the fare only includes basic transportation in a single-class cabin. Passengers who wish to consume food or beverages have to purchase them on board at an extra charge or bring their own meals.

[23] While the traditional carriers have to schedule average turnaround times of 45 to 60 minutes in order to keep their hub operations viable by offering passengers a maximum of connections with short layovers – LCCs typically make do with 20 to 30 minutes. This translates in up to 2 additional revenue services per aircraft and crew member per day.

[24] The most successful LCCs to date, *Southwest Airlines* and *Ryanair*, only use one single type of aircraft (albeit in 2 to 3 different variants), the Boeing 737.

- Costly “frills” like advance seat reservation, frequent traveller lounges, or interlining agreements with other carriers are usually not offered; many LCCs, however, have introduced frequent flyer programs.[25]
- Distribution costs are minimized by bypassing computer reservation systems (CRS) and travel agents through direct selling via the internet and call-centers and by issuing no paper tickets.

Table 2 shows that the most successful LCCs’ – Ryanair, JetBlue and Southwest – operating margins are much higher than those of their traditional competitors. Only network carriers specialized in long-haul flights (e.g. Emirates, Singapore Airlines), which are not compatible with the LCCs’ business model, manage to perform comparably well.

While also trying to maximize yields per passenger, LCCs apply a substantially different pricing strategy. There is no cross-subsidization among routes – every single one of which must be profitable on a stand-alone basis or will be discontinued –, and segmentation occurs only based on two variables:

- the date of booking, with the lowest fares generally available a couple of weeks or even months ahead of the scheduled departure date, while passengers who book a few days before the flight are charged much higher fares. Fare dispersion, i.e. the difference between the highest and the lowest available price, is much less than with traditional carriers[26] and
- the effective demand for a specific flight; typically early morning, late night and mid-week departures are offered for substantially lower fares than fleets during peak-travel periods.

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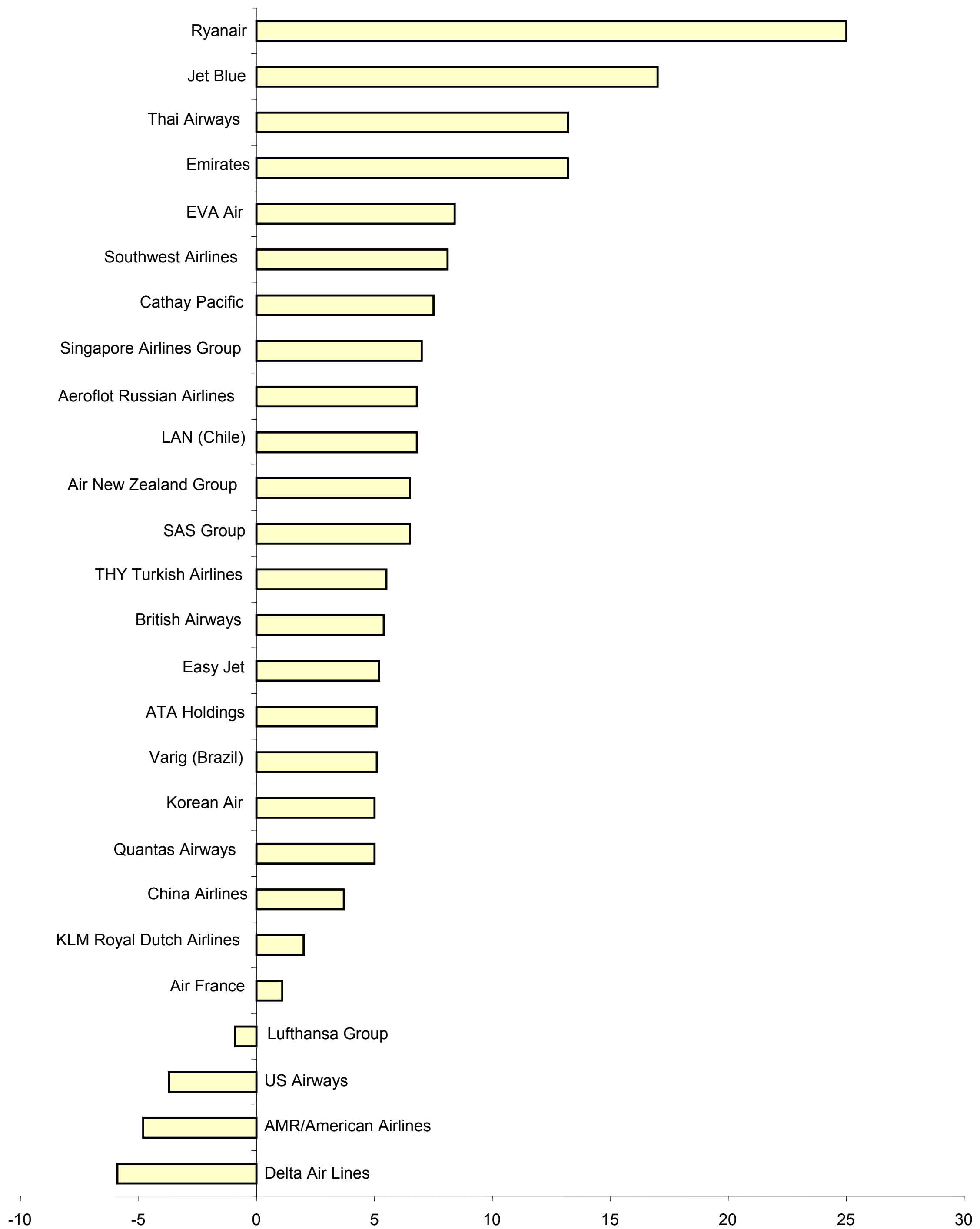
[25] While traditional airlines require their passengers to earn a minimum amount of frequent traveller miles to become eligible for an award, most LCCs grant their loyal passenger one free trip after a certain number of flights regardless of the distance flown (for example, *Southwest Airlines*’ requires 8 round trips per year to earn a free return ticket to any destination systemwide).

[26] On *Southwest Airlines*, the highest fare is less than twice the median fare charged while for the US-based traditional carriers the multiple typically exceeds the factor three. See *Transport Research Board. National Research Council* (1999), Entry and Competition in the U.S. Airline Industry: Issues and Opportunities, Washington DC, p. 1-10.

Table 2: Top 50 Airlines by Operating Margin (2003)



Source: Flight International, 19-25 October 2004, p. 38.

In addition, fares are usually sold on a one-way basis only, and very few, if any, of the restrictions normally imposed by the traditional carriers are attached. Moreover, to keep transaction costs at a minimum, LCCs offer just a small number of fare classes; the industry leader, *Southwest Airlines*, makes do with a maximum of 8 per flight.[27] Finally, most LCCs cap the highest fare categories – walk-up fares for latebookers; *Southwest Airlines* typically applies a US-$ 299.- limit one-way, while *Air Berlin*'s prices stop at around € 219.- – thereby undercutting their traditional competitors' unrestricted one-way fares by more than fifty per cent on average.

d. Why Innovative Pricing is Not Enough

Pricing is only one element of the marketing mix. For a specific pricing strategy to bear fruit, it must be complemented by and embedded in a coherent overall strategy. In order to compete with LCCs, many traditional carriers, both in the US and in the EU, have tried to imitate their business model. Most have reacted with a mix lower fares, a relaxation of booking and travelling restrictions and by either suspending on-board meals and beverage service in Economy Class or by forcing passengers to pay for these amenities separately. A few others have experimented with the so-called airline-within-an-airline concept, i.e. they decided to set up a LCC-subsidiary. Examples include *British Airways* (with *GO!*), *Delta Airlines* (first *Delta Express*, now *Song*) and *United Airlines* (first *Shuttle by United*, now *TED*). Both defence strategies failed to produce the desired results, however, for their lack of strategic coherence, for the following reasons:

- First of all, traditional carriers found it difficult to impossible to match, let alone undercut, the leading LCCs' low fares while at the same time operating at a profit. This is owing to their much higher cost base and, as a result, their much higher costs per seat mile. Despite substantial cost reductions, as a rule achieved by massive redundancies and/or substantial pay cuts and/or longer working hours, traditional carriers have not been able to close the gap in any

[27] A few LCCs, notably Germany-based *GEXX*, offer a single fare class for every flight.

significant way. By contrast, as indicated above (Table 2), they, as a cohort, continue to lose billions of dollars every year.

- Historically, the traditional airlines – advertising themselves as “quality” or “full service” carriers – have conditioned their customers to expect a minimum standard with respect to onboard service and other “frills”, even if travelling on a heavily discounted Economy Class tickets. As a result, traditional carriers have increasingly been rated less favorably by their (now disappointed) customers than many competing LCCs, thereby seriously damaging their brands. Why should customers pay higher average fares on traditional carriers while receiving substantially slimmed downed, LCC-style “no frills” product in return?
- On the short-haul flights typically operated by LCCs, most of the “frills” offered by their traditional competitors have proved to be of no true value to consumers, at least with respect to the extremely high fares they were charged in return. Even the traditional carriers’ most precious customers – time-sensitive business travellers travelling on corporate expenses – populate the LCCs’ aircraft in rapidly rising numbers.

5. Conclusions

The LCCs’ spectacular success – with an innovative approach to pricing as one crucial element of a thoroughly thought through and consistently implemented marketing mix – proves that even on very competitive markets extraordinary, and lasting, profit opportunities exist, and can be exploited if the adequate pricing strategy is applied. In the airline industry, the traditional network carriers are unlikely to regain their firm grasp over short- and medium haul markets. However, only a few of them seem to have drawn the right conclusions from the low cost revolution: to withdraw from these markets and focus on the much more profitable long-distance traffic – a segment where costly “frills” are a high priority for a substantial number of passengers simply because of the much longer flight times. In the dawning age of 15-18 hour flights halfway

around the globe, this specific, and fast growing, market segment is unlikely to unravel any time soon.

In Germany, LCC-like pricing strategies are spreading fast in sectors as heterogenous as retailing, the press, and pharmaceuticals. CEOs in many industries can learn important lessons from the pricing (and overall business) strategy of LCCs which are changing airline industry forever.

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