Obtaining a Sustainable Competitive Advantage through Innovative Marketing Strategies

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Abstract
Over the past decade, the thrust of obtaining a sustainable competitive advantage has become fierce all over the world. The companies adopt different strategies to achieve competitive edge over their rivals within the industry. The same is the case with the low cost airlines in Europe. In this context, the primary aim of this paper is to explore how low cost airlines can achieve sustainable competitive advantage by adopting innovating marketing strategies. This literature based study intends to address above aim by investigating and integrating various marketing strategies such as Porter’s generic strategy model, Porter’s five forces framework, relationship marketing, and marketing mix of airline industry.

Keywords: Low cost airlines, competitive advantage, innovating marketing strategies

1. Introduction
The competition between low cost airlines (or no-frills) and full service airlines within the airline industry is becoming fierce. Since 2000, traditional airlines have gained low profits due to the expansion of no-frills. In addition, a number of incidents such as 9/11 have also influenced several businesses including the aviation sector but in fact, some European low cost airlines such as Ryanair and EasyJet did not become the victim of economic downturn because of their economical operating costs.

Over the past decade, extensive discussion on obtaining a competitive advantage using innovative marketing strategies is a matter of thorough examination (Obermiller and Burke, 2008). In this regard, Barrett (1999) asserts that customer service and support are prerequisites for any airline to obtain competitive advantage. In the beginning, customers may be consistent with low customer service standard against low ticket fares but in the future they may anticipate enhancement in services within the same cost particularly because of more economical offers from the other airlines (ibid). Likewise, cheap ticket prices may raise the number of customers temporarily; but this does not mean that low cost airlines can obtain competitive advantage or achieve customer constancy on the grounds of cheap fares against low level of customer quality standard. In this regard, Lawton (1999) states that no-frills must consider varying needs and expectations of the customers on routine basis. From the past three decades, Ryanair has been recognised as a successful low budget airline that provides services to over 50 million customers each year. But unfortunately, on a number of occasions, the airline faced substantial criticism on the grounds of customer service and quality matters (The Economist, 2007). Moreover, it is also identified that no-frills do not usually take actions for the improvement of customer service quality standard to achieve customer loyalty (Lawton, 1999).

The organisations in the entire world are adopting several market-driven innovative strategies and approaches to persuade the needs and demands of the customers. These modern approaches are mainly adopted for developing, communing and delivering customer satisfaction and value (Aksoy et al., 2003). In contrast to full service airlines such as British Airways, the low budget airlines offer economical and easily affordable ticket prices for low income customers against low quality of customer service. In fact, these airlines are extremely successful in the world especially in the Europe. But on the other hand, these no-frills faced substantial criticism on the grounds of customer service and quality matters (The Economist, 2007) such as slow checking-in or booking services, improper seating arrangements, and obnoxious atmosphere. Additionally, a majority of customers does not use the services of no-frills because of safety and risk issues particularly after 9/11 incident (Air Transport Association, 2003). The above factors are contributing to a rapid decline in the market share, credibility, and profitability of the low budget airlines. Thus, no-frills are required to take immediate actions to improve their relationships with customers by using effective marketing strategies because if they carry on with customer dissatisfaction, they may face enormous losses in the future. A few numbers of airlines, for instance, Ryanair has just improved its customer service quality standard (Milmo, 2010) because of terrible experiences by the customers in the past and feedback for improving services. In this perspective, the key research issue here is to investigate which marketing strategies and approaches no-frills should adopt to achieve sustainable competitive advantage.

2. Aim
The rivalry amongst low budget airlines has been increased radically over the past decade. In this context, the primary aim of this paper is “to inform how low cost airlines can achieve sustainable competitive advantage by adopting innovating marketing strategies”. This literature based study intends to address above aim by
investigating and integrating various marketing strategies such as Porter’s generic strategy model, Porter’s five forces framework, relationship marketing, and marketing mix of airline industry.

3. Methodology
This literature-based study follows a qualitative approach for addressing its key aim. The paper considers several books and journal articles from different relevant libraries and databases. Some key resources include: Science Direct, Taylor and Francis online, EBSCO, Google Books, and Google Scholar. These resources are accessed through Glasgow Caledonian University database and library. In addition, some useful secondary data are acquired from magazines, newspapers, and online news websites related to the aviation sector. The keywords used to obtain relevant information include: Low cost airlines, competitive advantage, innovating marketing strategies, Porter’s five forces analyses, marketing mix of aviation sector, relationship marketing, generic strategy and sustainable competitive advantage. The ‘snowball’ sampling approach is employed to consider relevant and most recent books and articles in the aviation sector (Bryman and Bell, 2007).

4. Marketing strategies to achieve competitive advantage
The marketing strategy is defined by Baker (2008) as “a process that can allow an organisation to concentrate its limited resources on the greatest opportunities to increase sales and achieve a sustainable competitive advantage” (p. 27). Several other experts supported the above definition by highlighting the importance of marketing theories and models as the major tools that organisations can use for the objective of developing optimal strategic plans. These marketing strategies and plans are designed to target the segment as well as the whole markets to offer them a valuable customer service which ultimately leads productivity and success of the organisation (Kotler and Keller, 2006; McDonald, 2008).

Achieving sustainable competitive advantage concerns upon the basis an organisation can compete with rivals within a marketplace. According to Brooksbank (1994), a competitive advantage can be achieved on the basis of the firm’s strengths or core competencies. The low cost airlines in Europe commonly compete with traditional airlines on the basis of low price but their competition with each other is based on their core competencies. For example, Ryanair has advantage over its rivals due to multiple factors such as aggressive leadership, mature brand name, revenue growth, fuel and risk hedging, low airport charges and secondary airports (Datamonitor, 2011a). Similarly, EasyJet’s core competencies are: few-frills, quick turnaround, sustainable e-business, environmental leadership, carbon offsetting and demand-based differentiation pricing (Datamonitor, 2011b). Both airlines have faced considerable criticism in terms of customer service issues (The Economist, 2007) and in this aspect Air Berlin has edged over these airlines. Air Berlin recently won best low cost airline award because of its customer care (Air Berlin, 2012). Furthermore, Air Berlin has a unique positioning strategy which is difficult to copy (Euro News, 2011). Additional core competencies of Air Berlin include: OneWorld procurement, modernise container fleet, web checking in and own staff training and development programs (Datamonitor, 2011c).

The development of an unbeaten marketing strategy is based on a number of factors. Day and Wensley (1988) proposed a framework that contains a combination of innovative marketing approaches to achieve sustainable competitive advantage. Figure 2.1 illustrates how low budget airlines can get competitive advantage using different marketing approaches.

**Figure 2.1 - Mixture of innovative marketing approaches**
5. Models of Competitive Advantage

5.1 Porter’s Generic Strategy Framework

Porter (1985) asserts that an organisation can obtain competitive advantage by securing a long-term leadership position over its rivalries. In this regard, Porter’s generic strategy model is suitable for a business to analyse its competitive position by choosing a generic strategy that should be composed of at least one of the following strategies: cost leadership, differentiation or focus. Here, cost leadership indicates similar services that an organisation offers against its rivalries but at lower price while differentiation refers to greater services for same price as of its rivalries. On the other hand, a focus is an economic-based strategy that an organisation adopts to target a specific market unit instead of a sector wide competitive advantage.

Each low cost airline in the European aviation industry chooses one or the combination of different generic strategies. The ultimate goal of the low cost airlines is to provide no-frills service to customers against low prices in order to encourage demand as well as to gain a sustainable competitive advantage over its rivals within the industry (Hill and Jones, 2007). In case of Ryanair and EasyJet, the generic strategy is primarily based on cost-leadership as they seek to stimulate profitability and demand by mainly lowering their cost structures. On this basis, these airlines achieve competitive advantage over their rivals especially once their average profitability is more than the average profitability of other airlines within the industry (ibid). This means that the competitive advantage of low cost airlines is largely based on the profitability of the firm. The greater the degree to which an airline’s profitability goes beyond the average profitability of the industry, the greater will be its competitive advantage. Both Ryanair and EasyJet were successful in achieving an appropriate level of profitability in the past. The operating profits of Ryanair and EasyJet in 2011 were €516.2m and €340.5 respectively whereas Air Berlin’s operating loss was nearly €271.8 m.

According to Hill and Jones (2012), cost leadership strategy is beneficial for the firms in two ways. First, by lowering costs of the products/services the firm will achieve greater profitability against its competitors if a uniform price is charged by each firm in the industry. Secondly, on the basis of low cost an airline can also compete with rivals by offering low ticket prices to the customers. But on the other hand, Hill and Jones (2011) mentioned that competitors may also copy the cost leader’s method and beat the firm by lowering their cost structures. The cost leadership strategy can also be beaten by adopting advanced low-cost technology such as internet or social media.

Few low cost airlines such as Ryanair recently expanded its operations to other parts of Europe with the aim to focus on niche markets (World Aviation News, 2012). This shows an adoption of a mixture of two generic strategies: cost leadership as well as focus. Ryanair adopted the same strategy in the past but due to the failure of this combination O’Leary decided to purely concentrate on cost-leadership strategy and this strategy was very successful and the company floated on Dublin’s Stock Exchange in 2009 (Havel, 2009).

5.2 Porter’s Five Forces Framework

Fifield (1998) states that no firm apart from of its market share and size can achieve competitive advantage by ignoring the organisational environment where it operates. The study of business environment allows anyone to get the idea regarding the nature of the rivalry between different firms that wish to attain a sustainable competitive advantage. Porter’s five forces framework provides an opportunity to assess low cost airline’s external environment on the basis of bargaining of suppliers and customers, new entrants, competitive rivalry, and the threat of substitutes.

The market of low cost airlines is highly competitive and the majority of the competitive advantages can be copied instantly (Shaw, 2011). In this sector, price is the major competitive force which is purely based on the cost of the service. The firm with low costs ultimately gains more profitability. Porter (2008) declared that if the competition is tough in any market then the best practice for the firms is to concentrate on the other four competitive forces for instance, new market entrants, customers, suppliers and substitute products. He further asserts that the basic reasons of competitive forces will expose the current level of profitability of the industry. In addition, they will also provide a system to predict the profitability level in the future.

In the past, there were several barriers for new entrants to gain access to the airline industry because it required huge investments and resources. Additionally, it was also very difficult for a low cost carrier to find suitable routes and airports. Today, the support of banks and increased number of airports across the world has increased the possibilities for new firms to enter in this marketplace (Uwagwuna, 2011). On the other hand, there is no ideal substitute of airline to speedily cover international distances (Ahlstrom and Bruton, 2009) but multiple alternatives are available for domestic travelling such as trains, buses, ferries, and car. However, the cost of domestic tickets even in case of low cost airlines let people think about substitute services.

The bargaining power of suppliers in the airline sector is high because there are only two existing major suppliers including Boeing and Airbus. It is not easy for an airline to switch between suppliers as it requires huge costs such as pilots and staff retraining (Shaw, 2011). Regional airports have low bargaining power because they rely only on one airline. The bargaining power of large airports is high and this is the reason that low cost
airlines avoid using these airports (ibid). Customers are price cautious and moving from one airline to another is comparatively straightforward and not requires high cost. They often get an opportunity to bargain with low cost airlines at domestic level as they are familiar with the cost of services (Uwagwuna, 2011). However, they get little or no opportunities to bargain for international routes.

6. Relationship Marketing

The organisations can employ relationship marketing strategy as a technique to persuade the generic strategy of the firm. In the point of view of Day and Wensley (1998), relationship marketing is a tool that can be used to target, attract, and retain customers. In reality, this technique contrasts with other marketing approaches such as transaction marketing which is primarily based on amplifying the number of individual sales. The objective of relationship marketing is to recognise the demands and expectations of the customers to encourage customer constancy, interaction, and engagement (Liou, 2009). The organisations worldwide normally exert a pull on customers with the quality of services/products, pricing policies, and brand value whereas they used a number of techniques to uphold customers. Some of the techniques are: customer feedback, customer satisfaction surveys, product’s quality, customer services and loyalty cards. Nowadays, social media platforms are widely used for relationship marketing. Several software programs are also available in the market for maintaining customer relationships where Customer Relationship Management (CRM) is a popular amongst the service providers. CRM software emphasizes on the concept of retaining customers rather than acquiring new customers. The relationship marketing using CRM provides an opportunity to firms for centralising their systems that brings innovation in customer services (Stone and Foss, 2001).

Berry (1983) described three major advantages of engaging customers through CRM in any organisation. These advantages include: building and maintaining better product/service image, saving new advertisement costs, retaining existing customers and opportunity to attract potential customers. These benefits are very important for low cost airlines because the competition has been extensively increased since the deregulation of the sky. In this regard, the relationship marketing is very relevant and inherent to low cost organisations. Furthermore, CRM based systems required ongoing maintenance that increases operational costs. Some experts reveal that 30% to 50% CRM systems failed to produce desired results for many organisations (Petzer et al., 2006).

In this regard, Berry (1983) argued that different types of marketing relationships exist between customers and marketing strategies, but not all of them can be applied to the aviation sector. There are three solutions found in the literature in terms to attain competitive advantage. Barrett (1999) pointed out that customer support is another salient requirement for developing successful and long-term relationships with customers for a low cost airline. Berry (1983) proposed that planning and developing key marketing services is the mainstay of developing and retaining associations with customers. Similarly, Levitt (1974) explained that it is an important practice for a service-based organisation to introduce additional services in conjunction with core services because this will help to enlarge the customer base as well as to attract potential customers.

The relationship marketing has been forever achievable in service industries when there is a periodic or ongoing requirement for service improvement from customers (Berry, 1983). Few no-frills in Europe employ relationship marketing approach to establish and preserve long-term relationships with customers to persuade a generic strategy as well as to achieve sustainable competitive advantage (Barrett, 1999). EasyJet is one of the airlines that are using software from RightNow which follows Customer Relationship Management approach to amplify its internet services and minimise operational costs up to a great extent (eiMagazine, 2005). According to an estimate, the airline reduces its operational cost nearly £750,000 per year using relationship marketing (ibid). The CRM software enables 1.5 million individuals visiting the website of the company each week. In addition, RightNow’s marketing automation tool helps EasyJet to effectively improve its customer service support.

Air Berlin also uses Microsoft Dynamic CRM to maintain relationship with internal and external customers (CIO, 2005). By applying this powerful marketing tool, the airline characterises its marketing strategy focused to anticipate the needs and expectations of the customers and employees. On the other hand, Ryanair grabs new customers using transactional marketing approach to boost up the number of individual sales (Julien et al., 2005). The transaction marketing strategy is beneficial when quick sale, low cost transactions, and no customer relationships are required. On the contrary, the major disadvantages of using transactional marketing approach include: no foster relationships, no customer loyalty, no brand recognition, and lack of the company’s reputation (Uhlein and Claussen, 2006).
7. Marketing Mix

Kotler and Armstrong (2010) defined marketing mix as a set of controllable tactical marketing tools – product, price, place, and promotion – that the firm blends to produce the response it wants in the target market” (p. 52). In fact, the marketing mix of any firm refers to developing a combination of: the right price, for the right product, in the right place using a proper strategy of promoting products/services. In this regard, product-oriented organisations formulate their marketing mix strategy with a blend of 4Ps including price, place, product, and promotion. In contrast, the strategies of service-based companies are based on 4Ps as well as the 3 additional Ps which include people, process, and physical existence.

The proper deployment of marketing mix strategy is vital for low budget airlines for the purpose to achieve competitive advantage. The aviation sector mainly consists of two kinds of services: in-flight services and on-ground services. Barrett (1999) highlighted the importance of employing more than one marketing mix strategy for dissimilar types of services offered by the low cost airlines. Ryanair and EasyJet are the famous low budget airlines in Europe. These airlines always try to pressurize each other on the basis of making rapid changes in their marketing mix elements (Doole and Lowe, 2008).

In terms of product/service, all low cost airlines provide facility to their customers to travel to short haul destinations. Unlike, full service-based airlines, they do not offer snacks on the board. However, Ryanair and Air Berlin offer additional services to customers such as car rental and hotels. Low cost airlines provide these fundamental services in low price but with hidden costs. In order to improve the quality of the customer service as well as to know the basic needs and expectations of the customers against low prices, low cost airlines conduct different types of customer surveys (Forsyth, 2005; Stebner, 2012). In addition, electronic feedback forms on the websites also help low cost carriers to improve quality customer service delivery in terms of obtaining competitive advantage. However, the low cost airlines normally do not quickly respond complaints on immediate basis when they receive call in their customer centres (Smith, 2007).

In fact, the main profitability secret of such airlines is their cost effective pricing strategies. For example, Ryanair pricing strategy is based on 70 per cent lowest price and 30 per cent higher price (Kah, 2012); EasyJet adopts a differential pricing strategy by following dynamic demand pricing model (Li, 2001) and Air Berlin follows crew-based pricing structures. No-frills are also similar in terms of placement and they prefer to use internet technology to reserve and sell tickets rather than relying on intermediaries such as travel agents and travel search engines. They utilise regional and secondary airports that are not busy and also cost less. As a result, the turnaround time is reduced. Customer expectations are largely influenced by the price of the tickets. The low cost airlines offer lower ticket prices to their customers and put more focus on lowering their cost structures to achieve a significant level of competitive advantage (Button and Ison, 2008).

In reality, low cost airlines use different techniques to promote their products/services. For example, Ryanair uses slogan ‘fly cheaper’ in doing in-house advertisement; EasyJet promotes their image by comparing their services with other no-frills and Air Berlin utilises social media for promotional purposes. Other methods used by these airlines to promote ordinary and special offers include: websites, email marketing, personal relations and mouth referrals (Forsyth, 2005). The low cost airlines do not often use print or audiovisual media to minimise advertisement expenses. Managing internal and external communication is also inherent to fulfil customer’s expectations as well as to meet service promises and standards. In this regard, low cost airlines adopt effective and transparent communication strategies to communicate with external customers. But in fact, no training and development programs are constantly conducted to train frontline employees who directly communicate with customers (Harvey, 2007). Presently, the main focus of these airlines is the social media sites i.e. Twitter, MySpace, FaceBook, and YouTube to communicate with customers as a promotional strategy (Kirby, 2010).

Low cost airlines have many competitive advantages over each other on the basis of their processes. For example, Ryanair offers no checking-in service and passengers just need to show their passports and website ticket reference before travelling. Similarly, seats are available on first come first serve basis in Ryanair. EasyJet has cost effective and sustainable electronic processes to facilitate customers whereas Air Berlin provides modernise container fleet and enhanced checking-in facility. Some common processes that ease the airline operations include: quick baggage, no air bridges, web checking in, carbon offsetting and paperless operations. However, the service quality needs to be improved to restructure or reform the entire customer service delivery process. The low cost airlines in Europe can reform the customer service delivery process to grab the attention of potential customers in terms of obtaining competitive advantage. For this purpose, these airlines can ‘focus on quality’ rather than ‘level of quality’ by employing particular quality-based models such as Total Quality Management (TQM) or European Foundation of Quality Management (EFQM) Framework of Excellence (Pries and Quigley, 2012).

8. Conclusion

The ultimate goal of each low cost carrier is to attain a competitive advantage and for this purpose the airline
may employ one or more generic strategies. The low cost airlines usually follow cost leadership generic strategy to attain sustainable competitive advantage. The cost leadership strategy in aviation sector can be followed in two ways: offering lower ticket prices or lowering the cost structures. In normal practice, it is observed that the cost leadership strategy of low cost airlines is primarily based on offering low ticket prices to customers to encourage demand and also to gain competitive advantage over rivals. But on the other hand, firms also seek to lower their cost structures which in due course results an increase in profitability. This means that competitive advantage can be obtained by stimulating profitability of the firm. The greater the degree to which an airline’s profitability goes beyond the average profitability of the industry, the greater will be its competitive advantage. Nearly €516.2 million operating profit of Ryanair in 2011 as compared to other low cost carriers demonstrates its position as a market leader in low cost airline industry.

Carefully adopting more than one generic strategy can also amplify the profitability of the firm. It is also proved from the recent expansion of operations of Ryanair to other parts of the Europe with the aim to focus on niche markets. This means that Ryanair has adopted a combination of two generic strategies: cost leadership and focus. An increase of 25 per cent in the operating profit of Ryanair for the third quarter of 2012 is the evidence for the success of a mixture of two generic strategies.

The relationship marketing strategy is used to influence a generic strategy. The main objective of relationship marketing is to identify and understand the needs and expectations of existing and potential customers to encourage customer loyalty, customer engagement, and external communication but unfortunately low cost airlines in Europe use transactional marketing approach to boost the number of individual sales. It was found from the primary research that lack of using relationship marketing approach has influenced the search and buy decisions of the people and most of the people today buy tickets from either travel search engines or through travel agencies. The relationship marketing can help low cost airlines to identify the needs and expectations of the customers by establishing long-term relationships with them. For this purpose, Customer Relationship Management (CRM) is a popular technique used to focus more on customer retention rather than customer acquisition. CRM helps low cost airlines to reduce their cost structures by saving advertising costs. In addition, its ability to build and maintain better service quality image helps airlines to attract, maintain and increase relationship with customers to achieve competitive advantage over rivals (ibid). However, the ongoing maintenance and increasing operational costs can add additional costs to the expense structure of airlines and if an airline failed to produce desired results using CRM, then it may lead to lessen the ultimate profitability and consequently firm may lose its leadership position in the aviation sector.

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