

# Key Success Factors in Airlines: Overcoming the Challenges

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## Abstract

The increased interconnectivity within the global airline markets has marked the airline with dynamism from both its external environment and internal operations. This paper reviews how the highly sensitive industry is faced by the challenge of product innovation by suppliers, fragile reputation powerful customers, intense competition from strategic alliances & bankruptcy protection and increased costs of labour, fuel and security measures. The review further identifies the Key Success Factors (KSFs) in the global airline industry in relation to the challenges that carriers face. These strategic factors include structure, culture, strategic alliances, planning and forecasting, technology, marketing and branding and outsourcing.

## 1. Introduction

The global airline industry operates in service industry complexities within a highly turbulent environment. Keynes (2009) states how the sector has gone through a drastic change on both the supply and the demand side. Unlike other industry airlines are subject to rapid change from customer expectations, competitor moves, supplier developments, government regulations and employee dynamics. Bissessur and Alamdari (1998) state that with increased liberalization in major airline transport markets, the intensity of competition has increased amongst air carriers. Bunz and Maes (1998) state this is an era in which adopting to change means survival. There is need for “zero latency” in response to the changes in the environment; be it opportunities or threats. According to Andrews (1971) and Child (1972), the most important task of top management is to align the opportunities and threats in the external environment with an organizational internal strengths and weakness (as cited in Goll, Johnson and Rasheed, 2007)

## 2. Challenges facing the Global Airline Industry Players

### 2.1 Product Innovation by the Supplier

Many forces have led to the turbulent nature of the airline industry (Naikuni, 2009, p.1). In aviation many forces affect operations and drive for change. Firms making up the industry are heavily dependant on systems which are subject to advancements from innovation. Airbus and Boeing manufacturers are dedicated to producing modern planes and engines through investment in R&D (Johnson et al 2008, p. 303). When such suppliers come up with more advanced products, airlines are faced with the challenging need to upgrade their systems meaning massive investment has to be made on the new product innovation. Other costs also come in including new communication systems, scheduling systems, training and maintenance costs, and insurance e.t.c.

### 2.2 ‘Fragility’ in Reputation

According to Grant (2010) businesses that aim at being market leaders for a long-time need to build reputation and brand name because customers easily attach their products to the good name. Firms like BMW, Sarova and Rolex have managed to build sustainable competitive advantage through strong brand names which is not subject to imitation by competitors. According to Daramaju et al (2007), bad reputation or negative publicity can immediately drive a carrier to a meltdown whereby no airline bore the brunt of bad weather as JetBlue did during Valentine’s Day 2007 as hundreds of passengers got stranded in the airports for more than ten and a half hours with 1600 flights cancelled and systems down with less customer service staff to cater for the enormous number of stranded passengers. Further compensation amounted to \$30 million (as cited in Dess, Lumpkin & Eisner, 2008). ‘Fragile reputation’ in this context is how a very good reputation can change overnight for

carriers as service providers. Management should always be prepared for emergency to protect customer interests and make sure shareholders maximize their wealth.

### *2.3 Powerful Customers*

Carriers have realized the need of market management and incorporating customer requirements into decision making. Shah (2007) states the internet is both a threat and an opportunity for the industry where internet has reduced costs of ticket sales but created a more powerful customer who can easily shop around for the best price. With internet use there is almost no switching cost for the customer. Customers will only remain loyal if they see a reason to. However the worst problem is the inability to plan ahead in an orderly way to take advantage of new market potentials and new profit opportunities (Golightly, 1967, p. 68).

### *2.4 Intense Competition: Strategic Alliances & Bankruptcy Protection*

Airlines have learnt the importance of strategic alliances which leads to stiff competition. In his study of Continental Airlines, Byles (2007) found “treaties like “EU-US Open Skies” bring in stiff competition to non-members where British Airways, Virgin Atlantic, American Airlines and United Airlines have the right to fly between United States and London’s Heathrow airport and vice versa” (as cited in David, 2011, p.197). Byles further realized that operating in an environment where competitors are under bankruptcy protection creates an uneven ground for competition (as cited in David, 2011, p. 192). Sky Team members pose threat to routes within which they fly. Such alliances which allow loyalty programmes and code sharing while delivering quality products pose intense rivalry among competitors. Strategic Alliances lead to formation of strategic groups in the industry which become competitors themselves. Airlines partner to build capabilities that they could not obtain standing alone. These capabilities become greater in each strategic group heightening rivalry.

### *2.5 Increased Costs: Labour, Fuel & Security Measures.*

In his study Golightly (1967) also found that during the development of the airline industry the major challenges faced were counting on short-term credit as a major source of fund with a recurring need for large sums of money. There was growing dependence on insurance due to fast technical advances of equipment and facilities and advent of jets which meant more seats to sell. Today these costs have taken a new modern form. In their study of Jet Blue Airlines, Daramaju et al (2007) conclude security measures and safety is an important variable to airlines (as cited in Dess et al, 2008). Terrorist attacks have brought a major setback on airlines where people opt for other modes of transport other than air. Yang (2007) states that most airlines had been at the height of their prosperity before the 9/11 terrorist attacks. The attacks brought a major setback where people opt for other modes of transport other than air. To increase security measures, costs have risen from investing in facilities and equipment for screening baggage and tracking. Escalating fuel prices result to high operating costs with high labour costs to cater for which adversely affect profits. Regani’s (2008) study “JetBlue Airways; Growing Pains?” reveals that fuel prices around the world experienced a sudden rise in 2004. In the aviation sector, fuel constituted 20% of operating expense up from 10-14%. In 2005 this rose to 30% and in 2006 to 35% (as cited in Barney & Hesterly, 2010). The rise has been continuous to date. Most airlines hedge their fuel costs whereby they make advance purchases of fuel at a fixed price for future delivery to protect against shock of anticipated rises in price (Keynes, 2009). The political instability that has recently prevailed in oil-producing countries like Libya has been played a big role in the rise in fuel price. This cost is reflected in revenue and even price of products. With all the challenges faced, the rapidly changing and unpredictable environment make the surrounding very turbulent. Managers should be able to forecast and plan for unforeseen changes that come by.

## **3. Factors building success of airlines**

Numerous strategies are implemented in by carriers to make sure they maintain their market positions and grow their market share. However there are specific KSFs that when present will ensure success in the airline industry. According to Branson, the other three main ways of adding value to an organization beside branding are public relations and marketing skills, associating with green-field start-ups and understanding the opportunities presented by institutionalized markets (as cited in Johnson et al, 2008, p.289). In his study, Shah (2007) notes that Southwest Airlines- a low cost/ low fare carrier- has for more than 30 years focused on team spirit approach, marketing and short versus long haul strategy (as cited in David, 2011). Regani (2008) found JetBlue invests heavily on fleet, employee attitude and energy (as cited in Barney & Hesterly, 2010). CEO to Kenya Airways Limited, Titus Naikuni states the company focuses on fleet, systems and people (Msafiri, 2009,

p.1). The general strategy of the company is to ever scan the environment, forecast and come up with strategies which may counter the negative effects from the environment to achieve specific targeted KSFs.

### *3.1 Structure*

Organization structures have become an effective tool of management unlike in the past where the management focused more on technical and governmental issues. Organization structures are patterns of relationship that define the way work is done by clearly structuring positions, responsibilities, authority, power and the bases, from which they originate, communication system placement of human resource in the organization. Golightly (1967) states, "If recent airline experience has proved anything new about organization, it is that structure is even more important to a service business than it is in a typical make-and-sell enterprise" (p.70). Byles (2007) found that the organizational chart for Continental Airlines is organized along functional lines i.e. marketing, finance and operations (as cited in David, 2011, p. 186) which allows the firm to operate on a clear chain of command and focus on its strategies building competitive advantage. With the different types of structures, a firm can pick on a type of organization structure and tailor-make it to fit in with its operations. The best structures are those that maximize effectiveness of communication and break down barriers between people and hierarchies (Harogopal, 2006). Firms can have structures that focus on strategies that help them build competitive advantage. According to Spector (2007) functional structures focus on functional excellence, divisional structures are for market place responsiveness and horizontal structures are for value chain processes. Structure is a KSF that unifies the organization's system and how it caters to the market it serves.

### *3.2 Culture*

With the airline industry having its focus on customers the one internal element that can unify all employees and their actions towards the goal of satisfying customer need is a common organization culture. Culture is a fundamental set of assumptions, values and ways of doing things that has been accepted by most of its members (Laudon & Laudon, 2007, p.87). The set of values and attitudes practiced are translated into business processes and these are reflected on the end product hence felt by the customers. Harigopal (2006) notes that, Citibank believes in risk taking while Boeing and IBM are driven by innovation. Policies and programs can be used to deeply root a culture. With an effective culture in place, employee commitment can translate to tangible results and even reflect on financial statements. Daramaju et al (2007) states that at Southwest Airlines, cost consciousness and employee commitment translated into operational excellence and increased profitability (as cited in Dess et al, 2008). Bunz and Maes (1998) conclude the Southwest perspective of an excellent corporate culture stems from CEO Herb Kelleher and Southwest's employee motivation and the cultivated attitude that steered towards teamwork. Further from a customer experience point of view, consumers often see the front-line staff as the firm itself and therefore the kind of culture displayed during customer service will earn the firm its image. According to Wirtz (2007) Singapore Airlines employs various forms of rewards and recognition including symbolic actions, performance-based shared options and pay components that have earned the airline "best airline" and "best cabin crew service over the years" which is evidence enough that culture can be a strong source of motivation.

The history and culture of an organization may contribute to its strategic capabilities, but may also give rise to strategic drift as its strategy develops incrementally on the basis of influence and failing to keep pace with a changing environment (Johnson, et al, 2008, p.201).

### *3.3 Strategic Alliances*

EU-US Open Skies and Sky Team have stifled competition in the routes within which they fly. Bissesur and Alamdari (1998) identify three sequential strategies of collaborating. Airlines are in search of size by first ensuring a dominant position within their own markets then gaining a foothold in other major regional markets and finally establishing a global presence. Strategic alliances make these possible by bringing in various advantages. However the members of a same strategic group will not get equal benefits due to various reasons including their resources, capabilities, customer base and potential their routes bring along. Bissesur and Alamdari (1998) state that alliance success can be rather tricky as success is a very subjective concept with different meanings at different times. Benefits of alliances range from code sharing, hub coordination, reciprocal sales agreements, joint ventures e.g. catering and maintenance, increased traffic levels from new market development, ease of baggage transfer, single check-in for multiple trips and combination of frequent flier programs. All these lead to cost savings with differentiation that is substantial to build competitive advantage.

### *3.4 Planning and Forecasting*

Being able to communicate one's products effectively to its target market is what every business focuses on as it not only informs but builds strong relationships between the product and the consumer. Robert E. Johnson of United Airlines pointed out the important activities in airline marketing includes research and planning (as cited in Golightly, 1967, p. 70). Planning is a vital management tool in airlines as it helps in forecasting and building scenarios for contingency planning due to their very dynamic unstable environments which subject them to both planned and emergent changes.

### *3.5 Technology*

Technology is used by airlines to increase convenience and reduce on cost as carriers incur high amounts of cost from labour, inefficiencies and fuel. Shah (2007) states that due to e-business at Southwest Airlines, "Passenger revenue generated by online bookings increased from 65% in 2005 to 70% in 2006" (as cited in David, 2011, p. 207) as booking via the internet costs about \$1 while that of a travel agent is \$10.

Rajagopalan and Finkelstein (1992) state how complex and dynamic environments lead to greater information processing requirements on the part of managers (as cited in Goll et al 2007). According to Laszlo (1999), technological process innovations have kept Southwest Airlines in the front line of the industry where process innovations involving people made them legendary including maintenance. Computer systems enhance decision making building both customer service activities and executive decision making. Customer Profiles can be used to design products and make decisions on the most profitable products, customer loyalty programs, the most cost effective routes and management of human resource. Clark (2006) on his article on "Airlines and e-learning" highlights the importance of technology in training, booking, sales and flight entertainment. All business strategies should be supported by information systems.

### *3.6 Marketing and Branding*

Yang (2007) argues that airlines should provide the right service and the right product ahead of the customer's request. He further states that this can be done through Customer-Centric Revenue Management which is a combination of Revenue Management and Customer Relations Management. This level of customer focus builds identity and therefore as strong brand name as a carrier differentiates its products by using the available information on the customer profile and buying history to tailor-make products for its market. With well differentiated products carriers can build advantage of their low-cost rivals and as Yang (2007) states, there are many customers who consider service and other merits more valuable than low pricing itself.

### *3.7 Outsourcing*

Airlines need to focus on their core activities to build excellence. Supportive activities that are not supported by in-house capabilities should be outsourced as the provider is in a better position to deliver his services of specialty. Quinn and Hilmer (1994) state that strategic outsourcing ensures the organization concentrates its resources on a set of core competencies; where it can achieve definable pre-eminence and provide unique values for customers (as cited in Jennings, 2002). This might include advertisement and catering. Golightly (1967) states how service industries like airlines need to be more strategic due to complex operations. Benefits of outsourcing are pegged on the fact that the airlines incur high costs of labour, fuel and capital investment. It is only logical to look for ways of cutting cost. Strategic outsourcing benefits include cost reduction because the service provider has access to superior cost drivers, economies of scale and learning. Outsourcing also increases focus due to reduction in the functional scope of the organization which increase market responsiveness (Jennings, 2009). Carriers also get the benefit of flexibility from outsourcing whereby there is less risk and uncertainty (transfer of risk to service provider) to deal with in the dynamic changing environment.

### **Conclusion**

The dynamism of the airline industry requires continual strategic competitiveness to build competitive advantage. This highly sensitive industry is faced by the challenge of product innovation by suppliers, fragile reputation that can be tarnished "overnight", powerful customers, aggressive competitors from strategic alliances & bankruptcy protection and increased costs of labour, fuel and security measures. Yang (2007) states that with all the efforts airlines make to overcome the numerous challenges they make, they have realized they have to change their way of business and start providing proactive services by stepping closer to customers and studying their needs. The success of a carrier will be determined by not only by how much they are able to strategically respond to these challenges but by how fast they respond to these constantly changing forces. Focusing on a single factor may not be the key issue to making more revenue (Yang, 2007). Wirtz et al (2012) states that the success of Singapore airlines is attributed to the effective alignment of functional strategies like HR, marketing

or operations with business level strategy like differentiation. The study concludes that for excellence in airlines they have to focus on seven KSFs: structure, culture, strategic alliances, planning and forecasting, technology, marketing and branding and outsourcing.

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