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GMG Airlines in Bangladesh Decided to Fold Wings: Is It the Solution?

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Abstract
The prime objective of this case study is to examine the recent crisis going on in the GMG airlines in Bangladesh. The study analyzes air-business related information particularly for the case of the GMG airlines. It includes SWOT analysis and also provides the possible solution for tackling the crisis. The findings of the study indicate that proper marketing strategies and identification of the voice of passengers through service quality dimensions can be possible to be revived in the market.
Keywords: GMG Airlines, SWOT, Marketing strategies

INTRODUCTION

GMG Airlines, the largest private commercial carrier in Bangladesh has been successfully operating since 1998 and now serving 8 international destinations and 5 domestic routes. It is the largest private airlines of Bangladesh. In their quest to be a major playing in the global market, GMG is going through a planned expansion scheme by establishing new flights to the Middle East, Far East and Europe. GMG Airlines currently operates a fleet of Boeing 767-300ER, MD 80 (82, 83) and Bombardier Dash8 aircraft. To accommodate an increasing demand of air transportation in Bangladesh, GMG is expanding its fleet and routes rapidly. Two Boeing 767-300ERs have with a seating capacity each around 260 passengers. The MD 82 and MD 83 have a seating capacity of around 150 seats in two class configuration. The Bombardier Dash8 turbo-prop, has a seating capacity between 37-50 passengers.

Milestones: GMG Airlines was established in 1997 and started operations on 6 April 1998. It is owned and managed by the industrial conglomerates, GMG Group and Beximco. It began with domestic operations on 8 September 2004, with service from Chittagong to Kolkata, India. It was the first private Bangladeshi airlines to launch international services. GMG Airlines is Bangladesh's largest and oldest private carriers operating domestic and international services upholding the image of Bangladesh to the world. Its main bass are Hazrat Shahjalal International Airport, Dhaka and Shah Amanat International Airport, Chittagong. It has total 8 aircrafts comprise of Boeing 767, McDonnell Douglas and Bombardier Dash. GMG began regular flights to Bangkok, Delhi, and Kathmandu on 20 October 2006. It started services to Kuala Lumpur on 24 January 2007. The airline started its operations to the Middle East with daily flights to Dubai on 1 February 2008. In April 2010 GMG acquired its first wide bodied aircraft 767-300ER and started operations to the Kingdom of Saudi Arabia.

Services: Poor condition of roads contributed to the rise in air travels in Bangladesh. Due to the road congestion and poor conditions of the roads, people prefer air services specially, from big city to big city. Thus, increasing demand creates private airlines to grow. GMG's domestic services mainly on four routes out of Dhaka: Chittagong, Cox's Bazar, Sylhet and Jessore. Dhaka-Chittagong is the top route in terms of traffic flow followed by Dhaka-Jessore. Passenger flow to Chittagong, Jessore and Cox's Bazar is increasing fast. GMG Airlines currently operates services to the following international routes.

- Dhaka- Jeddah – Dhaka   * Dhaka –Dubai-Dhaka
- Dhaka –Abu Dhabi –Dhaka   * Dhaka-Kolkata- Dhaka
- Dhaka-Kuala Lumpur –Dhaka   * Dhaka-Bangkok-Dhaka
- Dhaka-New Delhi –Dhaka * Dhaka-Kathamanda - Dhaka

Apart from domestic and international services, GMG Airlines is also proving mail and cargo handling services.

Market Growth: Market growth out of Bangladesh continues to be robust. The profile of the Bangladesh market is slightly different where the major share of the market consists of Bangladeshi workers working abroad with a smaller affluent percentage of leisure and business travelers. No real downturn in traffic volume is expected in the near future. From 2000 to 2009 overall growth of Bangladesh market is 63.4% which is contributed 2.29 million passengers to 3.81 million passengers. From 2000 to 2009 the overall cargo growth is 15.4%.
Bangladesh aviation business grosses around US $ 4.5 billion, nearly 80% of which is earned by foreign airlines. According to the graph below, the national flag carrier Biman Bangladesh Airlines has consistently failed to capture the advantage of the market growth allowing foreign airlines to take away the lion's share of the market.

In recent years, Biman has gradually declined to below 25% share. This situation represents great potential for private Bangladeshi airlines to shift the growth curve. According to the Civil Aviation authority, in 2009 more than 1 million passengers traveled with Biman Bangladesh Airlines which is 6% lower than previous year. On the other hand foreign airlines' carried 2.8 million passengers which is 16% higher than that of previous year (Information Memorandum, GMG). Visualizing the graph, we can predict that this is the ground for foreign airlines because recently GMG Airlines folded their wings and previously Aero Bengal, Air Parabat, and Royal Airways shut down their operations. Therefore, the obvious question is that why foreign airlines are successful and local are unsuccessful?

Figure 1: Market Share of Biman Bangladesh Airlines and Foreign Airlines

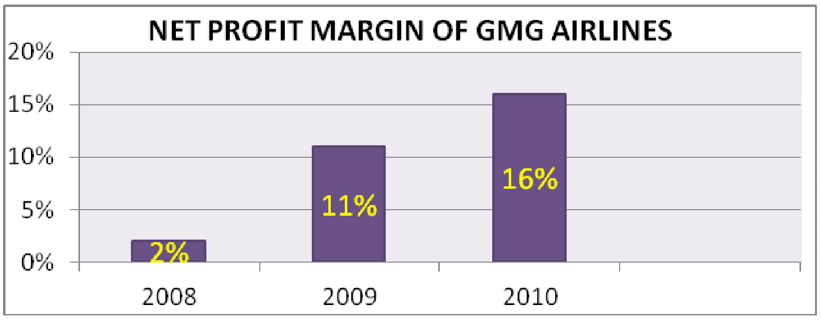
Market Risks: Market risk refers to the risk of adverse market conditions affecting the sales and profitability of the company. Mostly, the risk arises from falling demand for the service, which would harm the performance of the company. On the other hand, strong marketing and brand management would help the company increase their customer base. Biman Bangladesh Airlines, the largest airlines in Bangladesh, the travelling customer base is the migrant worker group from regional countries such as Malaysia, Singapore, and Gulf regions. GMG management must focus on this issue through customer analysis to capture the market and consistent growth.

Issue: GMG Airlines suspended its operations from March, 2012 for an indefinite period. Analyst said that inadequate and a lack of skilled manpower grounded the airlines. Before GMG, some other local ventures including Aero Bengal, Air Parabat, and Royal Bengal Airways, also shut downs their operations. GMG management blames that high fuel price is the reason of losses.

In Bangladesh, most of the private airlines lack adequate fund and operational efficiency to run an airline, said Kazi Wahidul Alam, editor of the Bangladesh Monitor, a fortnightly magazine on aviation and tourism. "These carriers also lack expertise in managerial and planning skills, making the situation volatile for the sector," he said. High fuel prices and wrong choice of aircraft are the other reasons why the companies quit businesses, he said. GMG blamed high fuel prices for its losses, while the company used some fuel-guzzling aircraft such as MD 80s and Boeing B747. In 2010 fuel cost of GMG Airlines was BD TAKA 804, 319,274 which equivalent to USD 10,053990 and net profit was BD TAKA 765340619 which is equivalent to USD 9,566758. Consider, fuel price rises 25% from the actual in 2010. Then the impact on net profit is 2391689 USD less that means still the net profit is USD 7,175068 in 2010. This figure indicates that there is no reason to fold the wings. May be some other vital reasons are there which are not exposed in public. Furthermore, two private airlines, United Airways and Regent Air are doing business in Bangladesh without blaming about fuel pricing. Visualizing figure 2, it is assumed that net profit increased from 2% to 16% due to the increased sales. The number of business, migration labor and leisure flights were increased to the Middle East and Malaysia in 2009 and 2010.

Therefore, airlines financial health is not only deteriorate by fuel price but also by sales growth. GMG is out of business means that their performance is not good at all. Clearly, we can say that *operating expenses* are more than *operating revenues* but just one year before closing the operations their *operating revenues* were approximately in US Dollar 48,707,999 and *operating expenses* were approximately in US Dollar 30,853,401 thus net profit is in US $ 17,854,598 (Information Memorandum, GMG Airlines, p 50). Suddenly, what has happened within short span of time? Several vital symptoms were existing in the process. First one is few airbuses to handle various international routes therefore frequent delays were occurring.

Consequently, customers' dissatisfaction arises. GMG is operating the flights through leasing aircrafts thus operations cost is higher than own aircrafts. Another vital point is that their leasing aircrafts are fuel guzzling aircrafts thus fuel cost is higher than those who are using fuel efficiency aircrafts. From its inception, no or negligible innovation of services thus they failed to developed brand image and there was no product differentiation. Product differentiation is the process of branding and branding provides an image to distinguish it from its competitors. The last symptom is lack of long-term strategic directions thus sudden shut down occurred.



Figure#2: Net profit margin of GMG: **Source:** Information Memorandum, GMG Airlines, p 22.

SWOT ANALYSIS:

STRENGTHS:	**WEAKNESSES:**
• **Experienced and skilled manpower** • **Excellent hospitality** • **Domestic ticket price is less than big competitor of Biman Bangladesh Airlines.** • **Huge operational investment.** • **It provides both passenger and cargo services.**	• **Few airbus to handle various international routes** • **Frequent delay occurs.** • **Less innovation for service development.** • **Fuel-guzzling aircrafts** • **Less brand image and less skilled marketing leaders.** • **Lack of long-term strategic directions** • **Leasing aircrafts thus operations cost is high.**
OPPORTUNITIES:	**THREATS:**
• **To build themselves as a domestic giant.** • **Motivated work-force** • **Politics free environment** • **First movers advantages**	• Local and foreign airlines with attractive services especially Middle East based airlines. • Rising fuel prices • Devaluation of local currency against USD.

Competitor Analysis:

Attributes	**United Airways**	**MAS Airways**	**Biman Bangladesh Airlines**	**Thai Airways**	**GMG Airlines**
Size of the Company	**Small**	**Big**	**Big**	**Very big**	**Very small**
Assets and Skills	**Negligible**	**High**	**Moderate skills**	**High skill**	**Less skill**
Scope of operation	**Narrow**	**Wide - International**	**Moderate – 29 international destinations**	**Very wide-75 int. destination**	**Very less- very few international destination**
Product Quality	**Satisfactory**	**Very good**	**Satisfactory**	**Very good**	**Not Satisfactory**
Brand Image	**Less visible – 2 star service**	**Highly Visible- 5 star service**	**Less visible- 2 star service**	**Highly visible- 5 star service**	**Not visible**

Source: www.biman-airlines.com www.malaysiaairlines.innosked.com www.prthaiairways.com www.unitedairways

Solution of the Crisis:
Airlines business is very sensitive and to stay in the business needs proper visionary decisions at right time. Once organization is out of business, it very difficult to renovate its image and bring back to track because each day huge operating cost is involved. Solution is not confined. In this case, solution is provided based on *marketing mix strategy* and analyzing the real situation of GMG airlines. Through the proper implementation of these below listed *marketing mix* approaches could help GMG to prosper again with never folding attitude.

1. **Product:** The word means more than a goods, services, or idea. Product is broad concept that also encompasses the satisfaction of all consumer needs in relation to goods or services. GMG should implement below listed several product strategy to sustain in the market.

Service Innovation**:** Product innovation brings new and novel ideas to the market place (Graeme *et al*., 2008). Airlines environment is highly competitive without service innovation difficult to sustain. Innovation requires idea generation, idea evaluation, concept development, business evaluation, product development and product launch. Investment in R & D is highly sought otherwise unique service innovation is impossible. Thus, GMG airlines should think about service innovation and management needs to encourage employees to suggest service innovation ideas and willing to provide resources and reward for such activity. Furthermore, customers themselves play a central part in service innovation. According to Kostama & Toivonen (2012) there are three ways to involve users in service design: listening to users, understanding users and having a dialogue between a service provider and a user.
Service Quality:

Johnson et al. (1995) suggest that service quality depends on quality of each three dimensions: quality of inputs, quality of processes and quality of outputs. Input quality refers to e.g. equipment that is up-to-date, waiting areas are clean and comfortable, service personnel has skills and knowledge and is appropriately attired. Next, process quality is a quality of interaction between provider and customer. Often, customers are directly affected by service production process; thus, accessibility, availability and service provider's willingness to help are parts of process quality. Output quality refers to the result of service provision and includes both tangible results and intangible benefits; it means changes in the customer's physical/mental state or a change in something that the customer possesses. By testing systems approach, Johnson et al. (1995) conclude that the consumers evaluate quality by considering various aspects of output, process and input, with output being most important and input almost insignificant. Process was important in e.g. transportation industry.

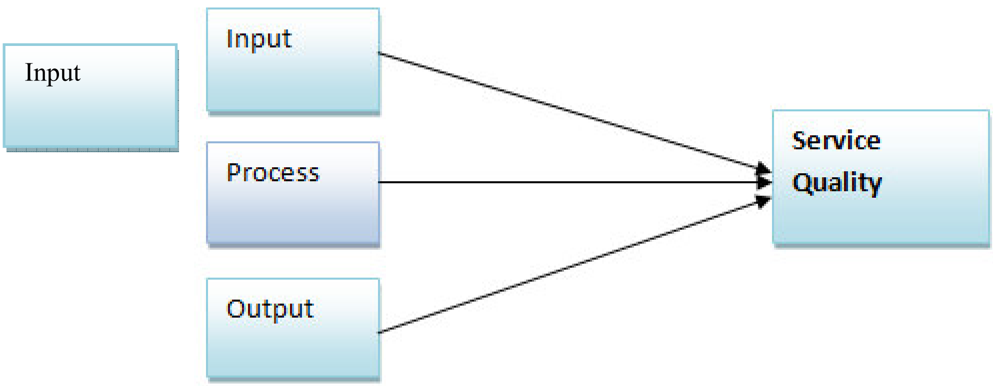


Figure: System approach to service quality (Johnson *et al.,* 1995).
Brand Image: Kotler (2000) mentioned branding as a major issue in product strategy. As the brand was only part of the product, the communication strategy worked towards exposing the brand and creating brand image. The brand serves to identify a product and to distinguish it from the competition. The challenge today is to create a strong and distinctive image (Kohli and Thakor, p-208, 1997). Kapferer (1997) mentioned that brands perform an economic function in the mind of the consumer. Therefore, branding and brand building should focus on developing brand value. Basically, brand value is the perceived value of customers and several distinguishable attributes are related with perceived value.

The image is the way in which consumers interpret all the signals coming from products, services and communication covered by the brand. It reflects the value that customers, possible customers and lost customers associated with the company. Customer values are advantages that the product gives a customer in order to satisfy his or her needs (Kapferer, 2004). GMG Airlines can build brand image through implementing these elements such as product/service attributes, reputation, advertisement, and customer's value. GMG should remember, "The brand is a management tool. When the competition is fierce, the brand separates the winner from the losers." (www.nordstan.se/om_nordstan, p-32).

Brand Repositioning: Brand repositioning is undertaken in order to increase a brand's competitive position and therefore increase sales volume by seizing market share from competitors (Graeme *et. al*, pp 206-207, 2008). GMG needs to change aspects of the product, change the brands target market or both during repositioning time. Specifically, they should concentrate on image repositioning, and product repositioning. Image repositioning takes place when both the product and the target market remain unchanged. The aim is to change the image of the product in its current target market. By creating a superior image for the product through a major promotional re-launch is needed. Under product repositioning, GMG should redesign the services according to the passengers' needs and expectations. Not only that unexpected needs should be revealed and must bring these in the service design process. Thus, market research is essential.

Customer Segmentation: With a competition coming from low cost carriers, it is important for the airlines to know their customer preferences and thus better target their marketing campaigns. Also, Jones and Sasser (1995) state that serving wrong customers may be very expensive, especially in a long run as they do not bring any profit to the company. The simplest way to segment the customers is by trip purpose or gender. The purpose of segmentation is to meet the consumer needs precisely. Therefore, understanding of customers need is required in a continuous strive to improve service quality.

Airlines most commonly divide their customers into business and leisure travelers. Thus, carriers are able to align their product strategy and provide flexibility that is needed by business travelers, as well as cheap economy tickets for other passengers, e.g. leisure travelers (Teichert *et al*., 2008). The authors also suggest that more business customer segments can be identified based on product and demographic data:

Efficiency / Punctuality – Mostly male, such customers fly very often (few times per week) and are travelling for business reasons. Ticket purchase decision is highly depend on airlines' efficiency.

Comfort – Elderly business customers in high-rank positions prefer comfort and can be segmented in this group. Usually, they fly several times per month.

Price – Lower management highly educated people, they fly few times a year, and decision making is done by travel agents in order to minimize costs. Also, students and leisure travelers are in this segment.

Price / Performance – entrepreneurs are largely represented in this segment, as they are concerned with price, but performance is more important than in *Price* –segment. This segment also includes most women compared to other segments and business trainees. It is youngest segment among all of them.

Catch all / Flexibility – this segment includes managers in important positions, flying few times per month and outsourcing their decision. This segment is the most complex due to its highly differentiated preferences.

Such detailed segmentation provides an opportunity to airlines to better understand their customers and identify their value and preferences. Marketing efforts then can become more efficient as targeted to adequately chosen group as well as distinct product packages can be created for different groups.

Managing Customer Satisfaction:

Quality is a driving force for improved competitiveness, customer satisfaction and profitability.

Therefore, measurement of service quality is essential for measuring customer satisfaction.

Parasumaran *et al.* (1991) categorized customer service expectations into five service dimensions: *reliability*, *tangibles*, *responsiveness*, *assurance* and *empathy.* Through these dimensions customer satisfaction can be measured and these dimensions are very popular in service quality judgment and customer satisfaction measurement. Chen and Chang (2005) suggested that service process is a descriptive service process from a customer's perspective, a process that coverts inputs to outputs through service steps that each customer takes when using air transportation. To measure customer satisfaction, GMG Airlines should use the each service process step to measure customer satisfaction. Before measuring, they need to develop or adopt appropriate items for each step with high reliability. Consequently, it will help them to measure customer satisfaction as well as service process improvement.

Figure: Service Process (Kelley, 2012).

Ticket Purchase:

- Easily available information on ticket prices, flight schedule etc.
- Ease, accuracy and speed of reservation and ticketing.

Pre-flight Services:

- Availability of pre-flight services (early baggage check-in, email reminder etc.).
- Airport is conveniently located / parking facilities are easily accessible and close to the airport.

Check-in Services:

- Ease, accuracy and speed of check-in.
- Availability of more than one check-in option
- Employees of the airline are courteous and helpful in case you use traditional check-in or have trouble with machine check-in.

Airport Services:

- Airline has comfortable waiting lounges.
- The airport has all necessary facilities and is clean and up-to-date.
- Airport staff is courteous and helpful.
- Employees of the airline are courteous and helpful during the flight.
- The aircraft has clean and comfortable facilities and seats

Departure:

- The flight departs and arrives at a time it promises.
- In case of delay, airline immediately makes an announcement and provides all necessary information (length of waiting, possibility to receive food vouchers, stay at the hotel or rebook a flight)

In-flight Service:

- The airline has in flight entertainment facilities/program
- The airline offers good quality food and beverages.
- The airline offers onboard shopping with wider selection of products.

Arrival:

- See departure.

Post-arrival:

- Promptness and accuracy of baggage delivery
- The airline has other travel related partners such as car rentals, hotels and travel insurance where you can get discounts or earn extra miles.

2. Price:

Pricing is a highly visible component of a firm's marketing mix and an easy and effective tool for obtaining a differential advantage over competitors. Therefore, a tool other firms can easily duplicate through price reductions of their own. Because price changes directly affect overall profitability in an industry, many firms attempt to promote stable prices by meeting competitors' prices and competing for market share by focusing on product strategies, promotional decisions, and distribution --- the non-price elements of the marketing mix (David, p-613,2012). Other technique is cost leadership. It is to outperform competitors in its market by producing goods and services at a lower cost. As a result, even when all competitors in the market charge the same price for their products, the cost leader makes higher profits because its costs are lower. But cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience etc. Cost leadership is appropriate when the firm's product is perceived by customers to be much the same from one product to another, when marketplace is dominated by cut-throat price competition, with highly price sensitive buyers, switching costs are very low etc. (Frynas and Mellahi, pp.224-225, 2011). GMG can take initiative to cost leadership by eliminating payments for travel agents by selling directly through a website; eliminating maintenance cost by relying on one type of aircrafts, establishing of self-check –in (boarding) procedures through computer, and replacing of fuel guzzling aircrafts.

3. Promotion:

Creating favorable images and perceptions: Company's ultimate goal is to create favorable image and perceptions among customers through promotion. Promotion is the communication link between sellers and buyers. Organizations use varied ways to send messages about their goods, services, and ideas. In developing a promotional strategy, GMG can blend various elements of promotion with their target market. Many organizations use an approach called integrated marketing communications (IMC) to coordinate all promotional activities so that the consumer receives a unified and consistent message. Consumers might receives newsletters, e-mail updates, discount coupons, catalogs, invitations to company –sponsored events, and any other types of marketing communications about a product(David, 2012).

4. Distribution:

Distribution of airlines means more readily services through the various steps of service processes. To ensuring this distribution decisions involve modes of transportation, order processing, check-in, inventory control, warehousing and selection of marketing channels. Technology continually opens new channels of distribution in many industries. The Internet has caused the biggest revolution in distributing since mail-order catalog. In airlines industries, ticket purchasing through Internet has gained the highest popularity. Proper distribution actually ensures proper product and services at the right times and right places. GMG should focus on critical points of distribution and according to these points further improvement should be done to make the system efficient.

Conclusion:

Airline industry has always been famous for its continuous struggle: cutting costs, managing fluctuating demand, keeping up with tight quality requirements while trying to maintain superior services and satisfy needs of various customer groups. In this struggling environment, airlines are forced to shift their focus towards customer oriented service quality. It is extremely important for carriers not only to understand the perception of passengers of their service offerings, but as well find out what customers expect from the services and what kind of services customers consider most important. Delivering superior service quality by understanding customer expectations is a key for success and survival in very hectic and competitive environment of airline industry. To provide superior quality services and enhancing sustainability in the market place requires marketing mix strategy. It covers all aspects of product innovation, satisfaction, promotion, pricing, and distribution.

In this study, solution has been provided based on marketing mix. Additionally, GMG must focus on core competencies. Without developing core competencies, it is difficult to implement marketing mix strategy in action. Core competencies are related with skills and resources needed in order to prosper within defined markets and how these resources are used to get optimum advantages. The ability to gain market share and to retain existing market share, sometimes organizations need offensive and defensive strategies. Few suitable strategies for GMG airlines could be bypass attack, encirclement attack, and position defense. Bypass attack moves into areas where competitors are not active. This may involves targeting geographic areas, applying new technologies or developing new distribution systems.

A position defense aims to strengthen the current position and shut out the competition. The aim is to use distinct competencies and assets of the organization to build an irrefutable (unbreakable) position in the market place. Defending firms can offer a differentiated, value-added product to customers to maintain the market position. Defending a market position is often dependent on brand management, service levels and distribution. Encirclement attack aims to offer a range of products that effectively encircle the competitors, each of these products will tend to stress a different attribute and leave the competitor's product facing a series of more focused rivals. Finally, we can conclude that make the process efficient and make the efficient use of each and every segment of supply chain. Efficient supply chain makes productive operations.

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