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LOW COST AIRLINES' MARKETING CHOICES.

SOME EMPIRICAL CASES¹.

Summary.

This paper analyzes how Low Cost Airlines (LCA) choose marketing strategies and how they decide where to compete in the air transportation market.

Liberalization has brought about numerous advantages to European travellers, both in terms of higher quality offered by airlines and drastic price reductions. However, one of the main and most interesting aspects of the free market has been the entry in the industry of LCA. Our main research hypothesis is to verify if some strategic resources for LCAs lie in their different marketing policies (product, price, promotion and placement) and in the way they are mixed.

Therefore, this study is focused to analyze whether there is a significant difference in LCAs' strategies, with particular reference to product differentiation, price level and the choice of innovative channels in promoting places and products.

A double level analysis is applied, through the case study method, to compare marketing strategies of the main LCAs in European airlines industry: 1) marketing choices and connected resources; 2) deep interviewing process to CEO/general managers/marketing managers, aimed at pointing out more hidden sources of competitive advantage, under completion.

1. Research method and theoretical framework.

This paper shows some early results concerning a wider research on low cost companies' sustainable competitiveness, in order to point out any eventual significant difference in their strategic choices and in the bundles of resources adopted for their own success.

In order to better understand low cost business and firms' competitiveness and performance, we tried to single out air transport industry's main features and then tried to analyze, in particular, low cost companies strategic and marketing choices.

¹ Paragraphs 1,2,4 and 5 and 7 were written by Valentina Della Corte; paragraphs 3 and 6 by Roberto Micera.

The empirical side of the research is conducted through a case-study analysis, involving ten of the most relevant European low cost companies. The main variables adopted in case selection were, as furtherly explained:

- the average load factor (companies whose aircrafts show, on average, at least more than a 70% average load factor were selected);
- the relevant presence of Italian routes.

This choice assured to consider more relevant firms, in a scenario where start-ups are springing up like mushrooms and often with a very short lifecycle.

The first research step regarded an analysis of marketing strategies, in order to understand and delineate the competitive strategies developed behind and to find out the eventual roots of competitive advantage.

The main research hypothesis we posed was:

“Can LCAs’ marketing choices be source of sustainable competitive advantage?”

To test our research hypothesis, marketing analysis was conducted at two main levels:

- one first level of information, based on a direct analysis of firms’ main marketing choices and of their contractual relationships with other companies in tourism industry, with which they cooperate;
- one further level of analysis, based on a deep interviewing process, actually under completion.

The research was conducted in these two phases because the first one is precious to address the face-to-face analysis conducted on companies’ CEOs/general managers, rather than marketing managers².

In this paper, therefore, we are presenting the results of the first research phase.

As regards the theoretical framework used in the analysis, we adopted the VRIO framework developed within resource-based theory (Barney, 1997; 2002; Della Corte Sciarelli, 1999; Della Corte, 2004; Barney, Della Corte, Sciarelli, 2006). As known (fig. 1), through this framework it’s possible to point out the strategic resources a firm can control, that are:

- valuable, in the sense that they help catching opportunities or avoiding/reducing threats, lowering managerial costs and/or increasing firms’ revenues;
- rare, because they have to be possessed/controlled by a small number of firms;
- inimitable, that is difficult or costly to imitate;

² This variety of roles of the people under interview is due to the fact that research hypothesis requires to listen to those leader that can assume certain decision in marketing and strategic terms. According to companies’ organizational structures, roles and responsibilities, decisional power pertains either to marketing managers or to general managers or to CEOs.

- used in organizational terms.

Resources that are just valuable can only generate competitive parity; if they are also rare, they can favour temporary competitive advantage and above normal performance; resources that are difficult or costly to imitate can generate sustainable competitive advantage and above normal results³. Of course, firms' overall profitability depends on different aspects, that interact with each other. In our research we aimed at studying the contribution of marketing itself to firm's performance. The most significant result is the load factor, that is the percentage of seats concretely sold by the company.

We applied this methodology in analysing marketing strategies and policies of low cost companies. As it will be explained, *the first level of analysis showed no significant difference in marketing choices and policies.*

In this paper, we mostly concentrated on verifying the role of marketing resources in low cost companies. Therefore, after focusing on the main critical factors in the industry (both in structural terms and in its trends), we tried to examine the low cost business and the specificities of a sample of companies operating within Europe. As underlined, no significant difference came out in terms of marketing resources: probably the main roots of firms' competitiveness lie on their strategic choices and on the inter-firm relationships they are developing with other actors in the industry. This, however, is the successive ongoing phase of analysis.

2. The air transport industry: main characteristics.

Air transport industry is really complex: it shows specific factors, both structural and linked to its evolution, that can affect the strategic behaviour of all players in tourism industry (Pellicelli, 1996.)

Following the deregulation's processes, started in USA (in the '80s) and then in Europe (in the '90s), players have witnessed the lowering of enter barriers and the rise in competition, the development of the so-called *low-cost* airlines, with a main transformation both in competitive and corporate operations.

³ About firm's performance two main aspects have to be underlined: 1) "above normal" results refer to investor expectations, compared with alternative investments (see Jensen, Meckling, 1976, Alchian, Demsetz, 1972); 2) firms' performances can be measured in different ways (see Barney, 2002); the most used is the wasted average cost of capital (see Copeland, Loller, Murrin, 1995). To evaluate some specific activities' contribution to firm's performance, it is necessary to find out more appropriate and specific terms of performance, as in this paper.

Trying to sum up the actual industry competitive setting we will find (Valdani, Jarach, 1997):

- an high and still rising competition;
- globalization and internationalization;
- a non perishable product-service;
- a few differentiation elements (the airline product is a *commodity*);
- an anaelastic offer curve (high assets, low profits).

The first element is a direct consequence of deregulation. The continuous lowering of legal entry barriers, combined with new competition strategies, have endangered the operations of the national airlines, mainly in domestic market. Meanwhile there has been a trend in firms' mergers and the creation of relationships and alliances for long distance routes (almost inter-continental) between international airlines that have almost taken to a market structure rather close to an oligopoly (Maskin, Tirale, 1988).

As for all the tourism products, air transport is an intangible product and therefore imperishable and unstockable. So selling seats is a complex process because unsold seats represent a defeat for the firm. Moreover, this product is considered as a commodity, as it is only marginally differentiated among players, even if price/quality ratio is always determinant in demand's choices. In air transport industry, demand presents a high grade of elasticity compared with price. Small price fluctuations easily make demand move to another air carrier. Airlines are trying to gain customer loyalty through specific policies (ex.. frequent flyer cards), sometimes linked to specific credit cards, helping in hotel room's reservation, letting the customer gain *points* for each product bought by credit card and for each mile flown each year. These policies are fairly common in the industry and so travellers remain mostly price sensitive.

As time passed by, however, some factors have been judged as growingly important by demand: companies' security and reliability policies are considered as fundamental. This is true especially for long distance travels or for those towards the more "dangerous" destinations (for climatic events, terrorism).

Today airline companies find more and more difficult to manage the demand that, in an industry characterized by hypercompetition, has risen differentiated requests (Della Corte V., 2004.). Air transportation demand, in fact, is not easily previewed, above all, in leisure' s segment, but the same stands even for the business' segment: for instance, when events or conventions that are not widely promoted and can make the load factor change in a few days

with a strong effect on the tariffs. It's really difficult to value, beforehand, the load factor. With this point of view, airline industry is an *empty core business* (Barney, 2002.) The main characteristic of this kind of industries is that there is a constant demand-offer negotiation, which does not always lead to a sold product. Numerous bookings are developed but seller or buyers do not complete the transaction. Airlines have tried going around these issues through direct selling, by recurring to a unified system of booking and selling (in a period of 24 hours), and with discounts for *advanced bookings*. This system has the advantage to reach higher load factors, helping to recover operation costs and, once *break-even-point*⁴ is reached, returns can be high. A rise in capacity cannot but being high and sudden (a new plane, with predefined dimensions linked to local, short, medium, or long distances), with a steep increase of operating costs. In this industry there is a discontinuous rise in capacity (as it is linked to buying new planes); so airlines cannot have a slow, gradual growth of their assets (as can happen for restaurants or hotels.) Moreover, these require a strong financial investment, making financial management still more complex. This factor is more critical if we consider that these firms' costs' structures are already strongly geared towards fixed assets and a high operations lever degree. On some routes, the main issue is to cover operating costs (Parker, 1962). Not going over the break even point accentuates the financial situation, sometimes even endangering the same firm's survival.

High fixed and sunk costs⁵ that become a net loss in case of a low load factor for each plane, lead the whole industry towards a *cutthroat competition* (McWilliams, Barney, 1994) *considering the high pressure from fixed costs and the high fee to gain slots for their planes, airlines sometimes prefer to sell seats at prices that result even lower than their average cost.* This means, obviously, that the firm cannot strategically preview, plan and manage sales. With these premises, firms prefer to let the plane take off and fly instead of keeping it parked, in order to reduce their losses.

To face this situation, airlines can use several strategic paths.

A first course is that of **collusion**: detailed agreements between firms, geared towards the definition of routes and tariffs. Sometimes this agreements make a given airline get a monopoly on some routes, limiting the competition effect of deregulation on lowering tariffs. This option, so, takes often place damaging final customers (Bergantino, Ponti, 2006).

⁴ As known, break even point is given by the difference between total revenues and total costs. It represents the quantity of products to sell in order to have neither profits nor losses; after reaching this level in sales the firm passes from the losses' area to the profit's one (Sciarelli S., 2004.)

⁵ On this topic see Brealey, Myers, 2003.

Another important strategy, put forward by airline companies, is that of creating and/or taking part to networks and develop alliances, both horizontally and vertically. More precisely, full cost carriers generally belong to global networks (such as Star Alliance rather than Skyteam or Oneworld), through which they connect their hubs and are able to cover very complex long distance flights. On the other hand, low cost companies usually carry out alliances vertically, in terms of commercial agreements with other companies of the industry (hotels, rent-a-car, entertainment parks, etc.).

In some contexts, after deregulation, some **regulation acts** (Barney, 2002) have been successively developed, in order to better establish a discipline among players in the industry. Besides, in companies' strategic management, three main paths are usually followed by airline companies:

- 1) a *hub and spoke model*, often linked to collusive agreements, aimed to reach monopolistic positions in a complex set of routes;
- 2) a modern system to preview demand fluctuations, such as *yield management systems*;
- 3) using marketing policies and reservation systems to reach a planned *load factor*, such as *advance booking*. Following this model, airlines offers some promotional discounts to enhance sales of tickets way beforehand.

It is correct to highlight that collusive agreements, hub and spoke systems and yield management are generally used by the *full cost* airlines, while both full and low cost companies normally use *advance booking* tariffs planning.

3. European low cost's market.

It is known that low cost airlines' business was first launched in USA in the early '70s and developed in Europe only in the '90s, after routes' deregulation.

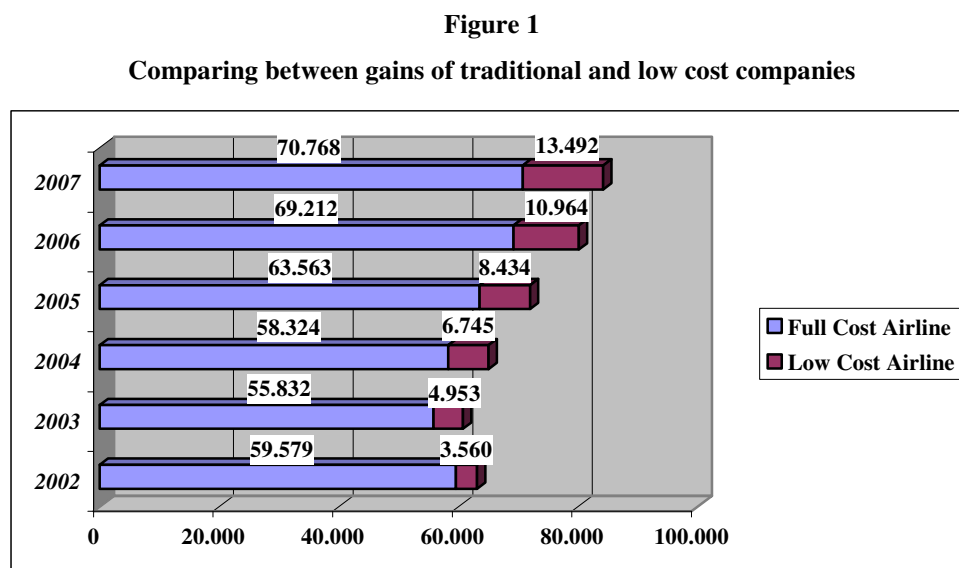
In EU environment, the late 1980s' airline deregulation process pushed towards dozens of start-up entries and, consequently, fierce price competition on many route legs. This condition progressively brought many former flag carriers to deep competitive and financial crises, as their cost structures were based on the previous oligopolistic regime and, thus, not consistent with new hypercompetitive patterns of action (Jarach, 2004).

Since that time, deregulation has given them alternatives which, in the perception of many, provides more value. In many instances, entry has been successful because low-cost carriers

bring low prices to the market thus replacing the traditional boom-time model with a recession proof one. For consumers, they bring more choice options (Gillen, Lall, 2004).

According to ELFA (*European low fares airline association*) low cost passengers reached 106.7 million in the year from July 2006 and June 2007, rising from the previous year 96 millions (from July 2005 to June 2006). Moreover, the ten airlines associated to ELFA (EasyJet, Flybe, Mayair.com, Norwegian, Ryanair, SkyEurope, Sterling, Sverigeflyg, Transavia.com e Wizzair) scored, in the same period, an average load factor equal to 82%, and in the month of June they flew 2.902 flights with a total fleet of 467 airplanes (each with an average life of 3,9 years.)

Data in fig.1 show how the low cost airlines are gaining a wider market share than traditional carriers (a rise of 8% from the 2002.)



Source: European Online Travel Market Report, 2007.

These data are remarked by the growth of flights' reservations in airlines' industry, that reached an average of 6% from 2002 to 2006. This rate, after the fall following September the 11th, 2001, has been rising since 2003, growing more than 10% in 2005. In 2006-2008 the growth of sales figures in the airline industry should stabilize on a yearly 4% (European Online Travel Market Report, 2007).

This increase is mainly due to low-cost airlines (+32,4% each year from 2002 to 2006). As said, in spite of this in the next few years, this segment will still rise, but with a smaller rate (+4,24% in 2008): there is a continuous stabilization of the market growth which requires to define new settings and new competitive scenarios (§ par. 3 e 4).

Another determining factor, in European low cost airlines' evolution, is a non homogeneous growth in different UE nations.(table 1).

Table 1
Growth of low cost companies' market shares in Europe
(Flights generated by low cost companies in % of total done flights)

	2002	2003	2003	2004	2004	2005	2005	2006
	(b)	I sem	II sem	I sem	II sem	I sem	II sem	I sem
Ireland	23	26	29	37,6	37,5	39,4	38,8	42
Slovakia	13	22	27	33,4	34,3	37	38,8	41,4
Uk	14	22	23	25	25,1	28,3	27,4	31,6
Spain	5	9	10	12,8	13,3	20,1	20	21,4
Poland	-	-	-	2	9,2	13,2	16,5	21,4
Finland	<	0	1	1,3	1,8	1,9	2,1	19,1
Sweden	2	9	11	13,1	13,9	14,5	16,6	18,8
Germany	3	7	9	9,9	11,4	15,8	16,9	18,5
Latvia	-	-	-	-	2,8	13	11	18,3
Hungary	<	1	2	4,7	14,5	18,2	16,8	15,7
Holland	5	8	8	8,9	9,2	14,1	15,7	15,7
Italy	3	7	10	12,2	12,8	13	14,9	15,5
Denmark	2	5	7	6,6	7,4	6	6,7	14,6
Portugal	2	4	6	8,5	8,4	10,3	12,2	13,9
Turkey	0	0	1	0,7	1	9,9	10,8	12,9
Czech republic	3	5	8	10,4	11,7	12,2	10,1	12,7
Switzerland	4	7	8	10,5	10,2	10,8	11	12,5
Norway	1	6	8	7,3	7,7	8,3	9,1	11,6
Austria	1	3	5	7,1	6,5	9,3	8,8	9,7
Belgium and Luxembourg	9	10	11	9,4	8,6	8,7	9	9,3
France	3	5	7	6,9	7,6	7,5	8,6	9,2
Croatia	-	1	1	1,8	3,8	4,8	7,9	8
Romania	<	0	0	1	1	1,4	4,8	6,2
Estonia	-	-	-	-	2,3	6	6,7	5,8
Greece	1	2	3	4,2	4,5	6,2	7,1	5,1
Lithuania	-	-	-	-	0	0	1,2	4,1
Slovenia	<	<	0	1,2	3,2	4,7	4	3,8
Malta	<	0	0	2,1	2,8	3,6	4,5	3,1
Cyprus	<	<	<	<	0,3	0,3	1,2	1,8

Source: Eurocontrol, 2006.

The growth has interested above all Spain and Italy in the Mediterranean countries, and Ireland in Northern Europe. At the same time, meaningful growth rates have been scored in France, Switzerland, Austria, Sweden and Denmark.

Penetration degree of low cost carriers is still higher in Ireland (40%) and Great Britain (30%) and, in the last few years, in Slovakia, where, without a national airlines, SkyEurope has easily reached a good market share (37%.) In other European countries, UE routes of low cost carriers do not go over 20% (Spain), reaching an average of 14% (Eurocontrol, 2005). Moreover, if we look at penetration degree of low cost carriers in local market we will find

that skies on Slovakia, Great Britain, and Germany are open to low cost competition (100%-23%) but in Belgium, Austria, Spain, France, and Italy, the market share of low cost carriers does not go over 6% (Furlong, Hannon, 2005).

The strong growth in the low cost market is evident by the rise in links between European countries that, in the second semester of 2005, were almost 2.500 (table 2).

Table 2
Low cost market in Europe (first 20 connections II Sem. 2005)

Bidirectional Flows	Movements Low Cost in every day	Market Share <i>Low Cost Airline</i> in ESRA
UK - UK	443	13
Spain - UK	308	9
Germany - Germany	218	6,4
Ireland - UK	195	5,7
Germany - Spain	145	4,2
France - UK	133	3,9
Italy - UK	116	3,4
Germany - UK	107	3,1
Germany - Italy	106	3,1
Sweden - Sweden	86	2,5
Italy - Italy	78	2,3
Holland - UK	59	1,7
Austria - Germany	50	1,5
Norway - Norway	50	1,5
Turkey - Turkey	49	1,4
Spain - Spain	48	1,4
Italy - Spain	44	1,3
Ireland - Ireland	39	1,1
Holland - Spain	37	1,1
Portugal - UK	34	1
Poland - UK	34	1
France - Germany	31	0,9
France - Italy	31	0,9
Belgium/Luxembourg - Spain	30	0,9
Germany - Turkey	29	0,8

Source: Low Cost Carrier Market Update, maggio 2006.

4. The “*Low cost*” business model

As already highlighted, low-cost airlines segment was first developed in US and some years later in Europe⁶, determining a deep change in overall airline industry. *Low cost* airlines,

⁶ This process is usually traced back to 1971 in US and to the first '90s in Europe. In the States, so, this scenario, thanks to the deregulation, is 20 years older than in Europe.

sometimes called "*no frills*", were built around the idea to let customers have a great discount on flights' prices, compared with traditional full cost airlines' flights (Nicholson, 1946).

Low Cost Carrier (LCC) business model mantra is simplicity. This helped to get costs down to 40–50% of incumbent airline costs (Doganis, 2001). With higher load factors and a marked labour cost advantage, the resulting drop in fares of 60% resulted in the creation of new markets and traffic growing to between 3 and 4 times previous levels on some routes.

In other words, low cost business idea was to supply a service essentially to price sensitive passengers. Orientation to costs' containment is the first aim of enterprises. Personnel cost and unionizing are lower than traditional carriers.

Moreover numerous free services offered on board by traditional carriers became an optional for low cost ones. In fact, services like drinks, food, newspapers etc. represent an additional revenue source for the enterprise.

Considering this point of view, management orientation, as known, is to focus just on air transportation, the essential part of the service, not providing extras and comforts, that sometimes are not considered needed on short distances. Different has always been low cost companies' position in terms of security, as international laws require every airline to meet some specific given standards, that they absolutely cannot disregard (Gomez-Ibanez, Clinton, Oster, Pickrell, 1983). As already underlined, the first company in this business was Southwest Airlines, 1971 in US, while the first business to be started in Europe was Ryanair, coherently with the local deregulation process. After those first investments, there have been others, either as new airlines or as new businesses carried out by full cost airlines, undertaking a process of horizontal growth (British Airways, for example, has created Go Fly, KLM has created Buzz, etc.)⁷. EasyJet and Ryanair are two of the cheapest more successful airlines all over Europe. In order to better understand marketing role in low cost airlines, it is appropriate to start with an analysis of their main managerial factors, so to point to their main marketing policies and the connected consequences (Gilbert, Child, Bennet, 2001). We propose a framework of the essential characteristics of a low cost airline, outlined in respect to the main management functions (table 3).

⁷ Low cost businesses promoted by full cost carriers have not been successful in most of cases, since they require a managerial scheme that differs too much from that typical of full cost companies (see Graf, 2003).

Table 3
Principal features of a low cost company's management

<i>Routes and logistics System</i>
Choosing minor airports. Adopting a <i>point – point</i> system.
<i>Operations</i>
Mainly choosing just one specific airplane's model, with more than 100 seats ⁸ . Daily more intense and efficient utilization of crew. Adopting fuel hedging strategies. Outsourcing of some specific services.
<i>Human Resource Management</i>
Flexibility of employees' roles. Incentives in compensations systems, in percentage of “additional” services' revenues. Administration lean management.
<i>Marketing</i>
Deleting of free meals during the flight. Overprice for hand baggages in over wedge. Exemplification of fare system. Advance booking. Prices fares linked to date of leaving. Promotions via web and through other promotional channels. Disintermediation in distribution. Chain's agreements. Quality in delivered services.

From logistics and geographical mapping of the routes' point of view, low cost airlines, above all in their starting phases, have focused on peripheral airports, out of the cities, without slot's restrictions (spaces the various airlines can use to park the planes), with low traffic, and lower fees.

More specifically, for newcomers it has been possible to overcome the obstacle of slots' fewness linked to “grandfather's rights” (that is full cost carriers' acquired rights) that prevail in main airports. Minor airports, on the contrary, generally have an excess of slots. Another advantage is represented by lower taxes cost for airport's services which influence final ticket price paid by final clients, raising the price gap with traditional carriers. Moreover, reduced overcrowding of minor airports implies fewer delays and a higher aircrafts productivity, since parking time is shorter (Schnell, 2004). Moreover, low cost carriers themselves represent a great development opportunity for little airports.

In fact, the arrival of a low-cost carrier leads to a permanent increase in traffic, so even if there are no differences in attributes of passengers that prefer low-cost carriers, there is an increase in revenues from concessions and parking just due to numbers. Some argue that low cost

⁸ For example, the Boeing 737 of Easyjet shows 148 seats and the Airbus 320 ones.

carrier passengers are different and spend more money at airport concessions. While this is very likely, since low-cost carriers do not provide meals, we have no evidence to support this view. If indeed this is true then it is just an added bonus for the airport, and this could provide a net benefit to the airport even if landing charges have to be reduced to make the airport more attractive than low-cost carriers. Low-cost carriers increase the catchment area for airports and may also reduce the cost of capital for airports (Barrett, 2000; Gillen, Lann, 2004).

Although all low-cost airlines include some secondary airports in their routes' network, it is Ryanair in particular that has made a virtue out of flying to places previously unheard of. In addition, Ryanair flies to a number of small regional airports that are not realistically substitutes for major airports but perhaps have an underserved local catchments area or inbound tourism potential (Dennis, 2005).

In some cases, this choice has revealed to be strategic: for example, Southwest Airline succeeded to attract those customers that, with traditional carriers' hub systems, were obliged to reach the nearest airports with some other transportation means. This has led, over time, to a significant market growth, in terms of number of passengers, and has eased the link between isolated areas in the States.

The choice of planes, too, is focused on a single model (usually Airbus A320 or Boeing 737⁹), focusing on airplanes with more than 100 seats¹⁰. Moreover, low pricing strategies usually imply quite limited single margins, requiring higher volumes, in order to get scale economies' advantages. About aircraft, there are various advantages of direct or indirect cost comparing to traditional enterprises. The fact that the model of aircraft used by low cost carriers is the same (Gillen, Morrison, 2005) allows various advantages, such as: the greatest contracting clout in purchasing; cost saving for staff training; maintenance saving. In add, the seat's size is sacrificed in order to carry a larger number of passengers.

Another important factor is the point-to-point system, a direct link between two airports, without luggage transfer between planes (separated check-out and check-in), no need for coordinating the flight plan with other carriers and more comfortable opportunities for travellers to reach a destination directly. This has led to an easier management of routes and links with meaningful cost advantages¹¹.

⁹ For example Ryanair has been more focused on Boeing Serie-737; Easyjet on Boeing 737 and, on Airbus A319.

¹⁰ For example the EasyJet's Boeing 737 has 148 seats, and its Airbus reaches 320.

¹¹ This factor makes a relevant difference between low cost and full cost companies. The latter use the hub and spoke system which consists of a high investment on a main node, from where all destinations in the country, served by the airline company, are reached. This lets the full cost airlines to reach a greater load factor.

As a consequence of the point-to-point system, the daily use of the fleet is more intensive and efficient¹², with a short *turnaround* between flights (usually it not goes over 25 minutes), that are mainly short flights (within domestic markets)¹³. In operations, these firms use a *fuel hedging strategy*, buying a great stock of fuel in order to avoid to buy it when prices are too high.

More, low cost carriers widely recur to outsourcing for numerous services like ground handling, maintenance and catering (Gillen, Lann, 2004). In this way, structure remains flexible and in the meantime costs are cut off also through specific contracting clout for those services.

Human Resource Management is geared towards broader roles of the crews (hostesses and stewards have a broader job, devoting, for example, to greet the travellers at the gate, and sometimes they must clean the plane, too).

Flight staff (except of pilots) generally has a lower fixed retribution and a higher turnover (Piga, Polo, 2003). Low cost firms tend to use incentives plans for their human resources linking a part of the compensation to the sales of on-board "added" services (as the sale of food and drink, of gadgets, etc.). This system has the advantage to make human resources costs more flexible, compared with the fixed part of costs, and to reach higher levels of customer satisfaction through service delivery¹⁴. In this way, the firm earns more profits through added services than through their *core product* (transport).

Administrative function, instead, is mostly automated, with a lean organizational structure and with fewer costs for personnel (for example German Wings in Colonia, has only 50 workers).

In many low cost carriers the prevailing culture, in internal marketing actions (that is marketing aimed to favour motivation to job by employees) is that of "doing with people": in this way staff and customers' value is considered to be alike. All employees are casually dressed, never wear ties, and they share an open plan office. Their paperless environment means that all information is shared via computer memory banks, and this also encourages communication between all staff levels. Finally, the emphasis is on good will and creating an atmosphere in where employees are happy and productive¹⁵.

Marketing will be dealt within the following section.

¹² Easyjet flights a daily average of 10,7 hours, while British Airways is at 7,1 hours.

¹³ You should not underestimate the development of "low fare" airlines in the intercontinental routes (for example Eurofly and its route between Naples and New York.).

¹⁴ In Southwest, for example, the crew stage a real kind of on-board entertainment.

¹⁵ The application of this cultural approach contributed significantly to Southwest Airline's success.

5. Low cost airlines' marketing.

Low cost airline business has changed, in the last few years, its competitive structure, leading to a redefinition even of the traditional role of national airlines. Competitive environment has radically changed with three main consequences:

- 1) customer base broadening, if compared to traditional targets: as underlined previously, the development of low cost market has made air routes more accessible, reaching new market segments that were traditionally geared towards other transport means (mainly railways);
- 2) transportation services result to be closer to the new requests and needs of demand: short-breaks require more frequent flights and ask for direct routes between destinations (Della Corte, Sciarelli S., 2005);
- 3) new competition dynamics, that involved a revision even of full cost companies' strategies and marketing policies: even if low cost businesses have widened potential market, acquiring new demand, for a small but growing demand the risk of overlapping offers has increased. Full cost carriers have in fact had to change their tariffs' and their traditional marketing approaches; in some cases, they even tried to operate in low cost segment, often failing at it since that business requires specific strategies and different operational systems (Graf, 2005, 2003).

In spite of this, while in the '90s and in the first years of the new century, low-cost market has been marked by high rates of growth following the investments on planes and routes of new airlines (Jarach, 2004,) along to the served market of the full cost airlines, in competitive environment more complex configurations have been designed, marked by the concurrent presence of several business carriers, that have even in part brought to cross competition (Charitou, Markides, 2003)¹⁶.

After some years, the structural element of low cost airlines' segment has been flashed out, highlighting a greater number of airlines and a stronger competition (Soreson, 1991).

This has led to a greater marketing role, beyond the first entrepreneurial intuition, linked to the concept of *"no frills, low costs"*. In a long term strategy, price is regularly used as a short term tactical weapon. Airlines must react quickly in the marketplace to keep track of

¹⁶ On this topic, from a research on a sample of European airlines, the main causes the came out were: the growth of organizational complexity, the issue of product cannibalization between low cost and full cost carriers, the confusion in customers' and human resources' perception, a loss of trust by suppliers and distributor (particularly, travel agents and tour operators; Graf, 2005).

competitors, and fare levels are frequently adjusted either to maintain competitive advantage or simply to match rival carriers' price (Lawton 1999; Gilbert, Child, Bennet, 2001). Firms have witnessed a greater articulation of the demand side of the market that, even if still price sensitive¹⁷, results to be keen also on other marketing factors (web reservation system speediness, call centre for direct contacts, flight's timetable punctuality, served airports, etc).

Today low cost airlines complex marketing policies focus on some keystones:

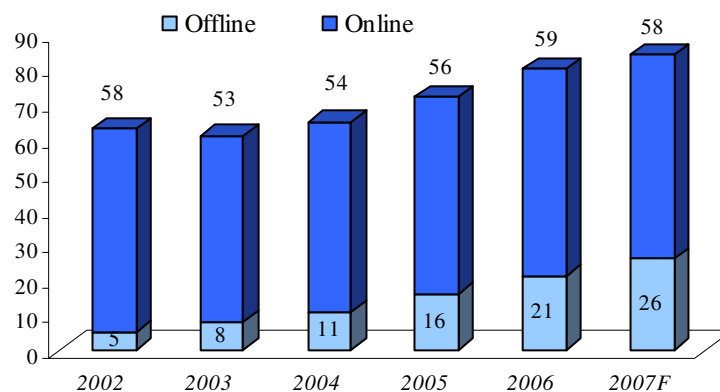
- 1) focusing on *core service* (transport) in price definition, with tariffs exemplification: they adopt one type tariff, that varies, however, according to the reached load factor; separate but connected to the core service there are those of the “facilitating services”, necessary to carry out the core service (for example, the check-in) and the “support services”, or “added” ones, not necessary but appropriate to create ad hoc profits (Kotler, Bowen, Makens, 2003);
- 2) food, drinks and luggage above prefixed standard weigh are all conceived as specific serviced to be paid apart;
- 3) price definition follows the *advance booking system*: those who buy the first tickets have a greater discount; the nearer the flight date the higher the prices, with a price spread that can reach even € 300; eye-catcher promotion (for example € 1,99) for the first few seats sold (for example, the first 3). Usually, low cost carriers have just one kind of ticket, which increases its price according to the increasing load factor as the flight's date comes closer. In addition, there aren't more convenient prices to purchase round trip ticket than one way ticket. Ticket's refund is not generally previewed but there is the possibility of booking change, also if with penalties;
- 4) a complex, multichannel promotional campaign through web-banners or more traditional instruments (attachments, specialized press advertising, newspaper, etc);
- 5) direct channel of distribution, aiming to a direct contact with customers, through internet, call centres, check-in with automatic machines, sometimes applying even *service-fees*. Several advantages have been created both for carriers and for passengers. Clients have started to pay tickets less. The low cost carrier, availing itself of direct selling, doesn't use intermediaries, so avoiding ticket price increase either for commissions to travel agencies or for the use of Computer Reservation Systems. Moreover, internet channel lets to cross some entrance barriers which characterized sale channel through agents, like discounts applied by carriers according to the

¹⁷ This factor is felt by numerous targets, even by those with greater spending capacity that today are more price sensitive than some years ago.

number of sold tickets, and which let totally impossible no-competitive behaviours happen in the past, as for the problem of screen bias (Domanico, 2007). It is also developing the attention towards direct investments in airports, with corners or even stands for each company, where tickets are sold.

This process has changed the role of the distribution channel in the industry dramatically. In fact, even if the offline channel is still the main one (59 bln € in 2006), online reservation are in a good fast growth (21 bln € in 2006), as they are the preferred channel, even if not the exclusive one, for low cost airlines (Ryanair and EasyJet, with a 50% market share of LC in Europe, in 2006 sold 96% of their seats online). From 2002 to 2006 online flight reservations grew of the 43,1%, offline ones of the 0,34% (figure 2).

Figure 2
Airlines market Sales Trend – offline against on line (in billion of Euro)

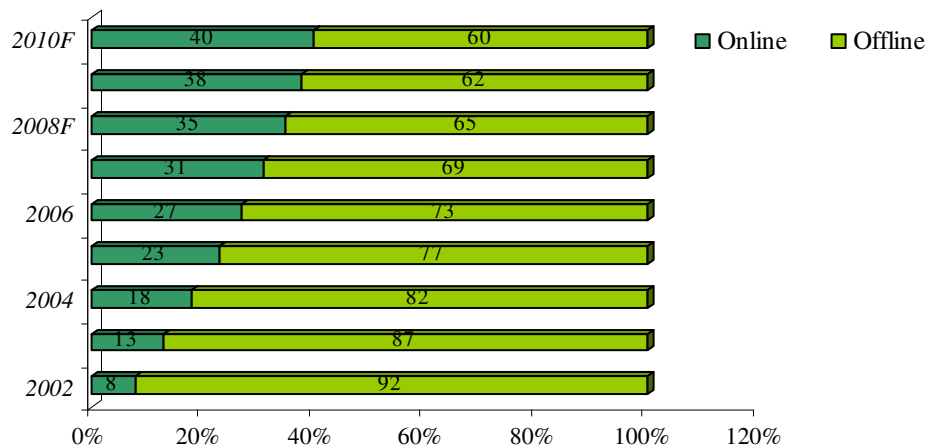


Source: European Online Travel Market Report, 2007.

Profits from online sales are continuously growing (21 bln € in 2006, 26 bln € in 2007) while those of the offline channel will show a fall at the end 2007 (58 bln € in 2006 after 59 bln € in 2007.)

In the next years the airlines market share negotiated trough the online channel will rise from 27% of 2006 to 31% of 2007, and will reach 40% in the 2010 (figure 3).

Figure 3
European airlines market trend: offline vs online



Source: European Online Travel Market Report, 2007.

However, according to some authors (Piga, Filippi, 2002), one of the most relevant distinguishing features of low cost airlines consists of their ability to combine an innovative distribution system, such as internet, with more traditional ones, i.e. telephone and travel agency;

- 6) distribution agreement with local transports companies that serve to and from airports, rent a car, hotels, etc.: usually companies sign agreements with other local players and get royalties linked to the reservations. This kind of activities yields interesting and high revenues for low cost airlines. The most active among these firms activate proposals that, even if different, somehow result similar to “dynamic packaging” configurations, as the customer starting from the airline homepage can choose and reserve the various services that are part of his tourism product¹⁸.

The perceived quality of the services provided is another fundamental marketing tool, whose specificity is that it refers to the phase when services are provided. This is extremely important in terms of customer satisfaction and retention, requiring ad hoc further analysis.

6. Our empirical research: a case study analysis.

As said, in the last few years low cost airlines’ evolution has changed the market in two ways. Besides the rising number of low cost airlines, there’s a steep rise in routes and in flight

¹⁸ About tourist product’s configurations and their evolving process in dynamic terms, see Rispoli, Tamma, 1995; Della Corte 2000, 2004, 2007.

frequency (Jarach, 2004). These effects have changed the point to point system in a real complex network however very different from that of full cost operators.

At the same time, with the rising of competition in this industry, some low cost carriers have decided to work in main airports and with a timetable nearer to the needs of businessman, effectively broadening their market serving new segments, different from the “leisure” traveller (Mason, K. J., 2000.)

Using these factors as the foundation of our research, we aim to comprehend the low cost airlines’ industry dynamics and their marketing strategies.

The research is carried on through a case-study analysis. We chose our sample according to two main characteristics:

- *average load factor* (companies whose aircrafts show, on average, at least more than a 70% average load factor);
- the relevant presence of Italian routes.

Using the data from *European Low Fare Airline Association*, and more precisely the information with reference to 2006 data and their update to 2007 (table 4), there are 11 main low cost airlines that are competing in Europe.

Table 4
Average Load Factor

Airline	Average load factor (Gen-Dic 2006)	Average load factor (Lug –Giu 2007)
1. Easy Jet	84,6%	84%
2. Flybe	-	-
3. Hapag-Lloyd Express (TUIfly)	79.3%	-
4. Myair	73%	-
5. Norwegian	79%	77,3%
6. Ryanair	83%	82%
7. Sky europe	77%	81,3%
8. Sterling	82%	79,6%
9. Sverigeflyg	80%	80%
10. Transavia.com	84%	75%
11. Wizzar	80%	81%

Source: European Low Fare Airline Association, 2007.

Matching that result with the presence of flights to or from Italian destinations, we found out the following players to analyze:

1. Easy Jet;
2. Hapag-Lloyd Express (TUIfly);
3. Myair,
4. Norwegian;

5. Ryanair;
6. Sky Europe,
7. Sterling;
8. Transavia.com;
9. Wizzar.

As specified in par. 1, our research hypothesis was:

“Can LCAs’ marketing choices be source of sustainable competitive advantage?”

To test our research hypothesis, marketing analysis has been conducted at two main levels:

- a direct analysis of firms’ main marketing choices and of their contractual relationships with other companies in tourism industry, with which they cooperate;
- a deep interviewing process, actually under completion.

Therefore, after selecting the relevant sample, in the first phase we searched for trends in their marketing strategies, focusing on competitive dynamics that have greater impact on marketing mix: product, price, promotion, placement.

In order to apply our theoretical framework, we tried to point out any significant difference among the low cost carriers which operate in Europe. First of all, it is important to notice that those resources used for implementing and/or developing price policies are no more able to generate a sustainable competitive advantage. Resources for getting a low price strategy could be considered as valuable, rare and fully exploited in organization only during the first steps of deregulation’s process. Before the end of that process, these resources had already lost their rarity, so they were just able to generate temporary competitive advantage.

As we will highlight analyzing firms in the selected sample, low cost airlines always create their price policies on valuable resources, that can be a source of competitive advantage if they are used in a first mover strategy or are exploited with a right timing. These policies are imitable in the long run so they cannot be used to reach a sustainable competitive advantage.

For this reason, low cost carriers have had to add some services to improve their competitive position with the aim of sustainability of advantage in a long period. They are trying to complete their offer’s system, creating a complex product which is not only the flight but a sort “network of services”, that somehow recalls the package concept¹⁹.

¹⁹ Airline companies, however, are not tour operators. They just allow to reserve other services by their website. There is no responsibility for the all package and clients chose and reserve each service by their owns.

So we focused our analysis on what seem to be the most critical success factors referred to the marketing mix of low cost carriers in the sample, using the VRIO framework to point out the strategic resources that enable the implementation of these strategies (table 5).

Looking at product policies, the core of low cost airlines is related to the idea of “*give to the client only the transportation, and sell it at the lowest price!*” This has lead to purge the product from al those services that is not needed, but can generate operating costs.

Specifically, the product policies for low cost airlines are focused on point to point routes, with a flight under 1.550 km, helping a greater rate of utilization of the planes, as every given flight is an independent entity, and can be flown without having to consider the occasional coincidences with planes from other routes. This organization let the company save some costs (from the airport fees) and let it reduce waiting for lift-off and landing (Quintano, 2006).










Another element of low cost offer is on-board service; this is based on the concept of not providing for free usual drinks and snacks that the customer can instead buy. In this way the airline gets two benefits: another source of revenues and cutting crew number.

Through these policies, thanks to a high density of seats as well as the cut of included services for the customer, airlines reach a significant lower cost level. Moreover, the separation of transport from other services is a good source of revenues for low cost airlines (Buhalis, 2004). And the price of extra-services is absolutely not low!

In spite of this, in the last few years we have seen a trend in low cost carriers’ management in adding differentiation element, without changing the core product in “easing” and support products”²⁰. This trend is confirmed by an analysis of the products offered by firms in the research sample of European low cost airlines.

²⁰ The “easing products” are those good or services that must be delivered to let the customer use the “core product”. For low cost airlines an example is the check-in. The “support products” are those additional products offered for adding value to the “core products” (Kotler, Bowen, Makens, 2003.)

Table 5
VRIO framework applied to strategic resources of
“Easening” and “Support” product of European low cost airlines ()**

Airlines	Characteristics of resources in the following supplied services	V	R	I	O
Easy Jet 	<ul style="list-style-type: none"> ▪ On line check-in (EasyJet desk top gadget) ▪ Commercial agreements with hotels (Easy hotels) ▪ Partnerships with a car rental enterprises (Europcar) ▪ Transfer service (Easybus and Europcar Connections Terravision) ▪ Offers flight + hotel + car rental ▪ Offer close to dynamic packaging ▪ Booking service of a parking spot 	V	V	V	V
TUI Fly 	<ul style="list-style-type: none"> ▪ On line check-in ▪ Commercial agreements with hotels (TUIhotel) ▪ Partnerships with a car rental enterprises (Europcars and TUICar) ▪ Offer of Fly and Rail ▪ Offer of dynamic packaging 	V	V	-	V
My Air 	<ul style="list-style-type: none"> ▪ Commercial agreements with hotels and room renters (Travelante) ▪ Partnerships with a car rental enterprises (Avis) ▪ Transfer service (Europcar Connections Terravision) ▪ Offer of leisure tourist packages (www.activitybreaks.com) ▪ Offer close to dynamic packaging 	V	V	-	V
Norwegian 	<ul style="list-style-type: none"> ▪ Commercial agreements with hotels and room renters ▪ Partnerships with a car rental enterprises ▪ Possibility to book also through a GDS (Amadeus) 	V	V	-	V
Ryan Air 	<ul style="list-style-type: none"> ▪ On line check-in ▪ Commercial agreements with hotels and room renters ▪ Partnerships with a car rental enterprises (Hertz) ▪ Bus or train transfer service (Europcar Connections Terravision) ▪ Offer of leisure tourist packages (www.activitybreaks.com) ▪ Sport tourist packages (golf in Ireland) ▪ Internet download of tourist guides ▪ Offer close to dynamic packaging 	V	V	-	V
Sterling 	<ul style="list-style-type: none"> ▪ Seat selection and airplanes' structure ▪ Commercial agreements with hotels and youth hostels (hotelconnect) ▪ Partnerships with a car rental enterprises (Holiday Autos and Budget) ▪ Offer close to dynamic packaging 	V	V	-	V
Sky Europe 	<ul style="list-style-type: none"> ▪ On line check-in ▪ Seat selection and airplanes' structure ▪ Commercial agreements with hotels and youth hostels ▪ Partnerships with a car rental enterprises ▪ Transfer service (with bus or train) ▪ Offer close to dynamic packaging 	V	V	-	V
Transavia.com 	<ul style="list-style-type: none"> ▪ On line check-in ▪ Seat selection and airplanes' structure ▪ Commercial agreements with hotels and youth hostels ▪ Partnerships with a car rental enterprises ▪ Transfer service ▪ Offer of leisure tourist packages which include also guided visits and excursions (Things2do) ▪ Offer close to dynamic packaging 	V	V	-	V
Wizzar 	<ul style="list-style-type: none"> ▪ Seat selection and airplanes' structure ▪ Commercial agreements with hotels and youth hostels ▪ Offer of leisure tourist packages (www.activitybreaks.com) 	V	V	-	V

(**) V = Yes; - = No

Looking at the “support products”, the vast majority of air carriers (EasyJet, TUIfly, RyanAir, Sky Europe, Transavia.com,) offers the option to check-in through an id-code of reservation (so the customer does not have to print the ticket) and let check-in directly through internet. EasyJet has signed an agreement with Microsoft for creating "*easyJet desk top gadget*", a line of desktop applications with added online services, that will let customer create its travel package directly from its desktop with Microsoft Vista installed.

This kind of services surely can be used to implement strategies for reaching a competitive advantage. Obviously this advantage will be a temporary one; it is not so difficult to imitate as every low cost airlines has a website so all of them will be able to offer this service to their costumers. In spite of this Easy Jet can use this same service for reaching a sustainable competitive advantage as the inimitability is due to product innovation (easyJet desk top gadget), costly and based on the competences and the knowledge of an information technology leader as Microsoft. Until this relationship will be an exclusive one it will be a source of sustainable competitive advantage for Easy Jet in the low cost industry.

Another innovation introduced by the low cost carriers to their offer system is the choice of the seat. In this companies, usually, the seat is assigned at the check-in or there a free seating policy.

Sky Europe, Sterling, Norwegian, Transavia.com and WizzAir have been first mover in this differentiation element. Tough it is to factor in that this service can lead to higher fees.

This service has been considered a potential source of temporary competitive advantage. It's still a service only a few of the low cost carriers are giving to their clients, so it is “rare”, but it's not difficult to imitate. At the same time, we have to notice has some firms (see Ryan Air) can implement a free seating policy in a cheaper and simpler way.

The main change in today's low cost carriers is the trend to create network with other tourism' chain's players. As shown in the table 5, all of the studied carriers have reservation system for hotel room or other kind of accommodation, they let the customer rent a car or organizing transfers, up to creating complex packages made of flight, transfer and room.

So some operators have created an offer system similar to the *dynamic packaging* provided through their homepage (EasyJet, TUIfly, MyAir, Ryan Air, Sterling, Transavia.com) or, alternatively, through specialized tour operators (as Sky Europe and Octopus Travel).

As regards agreements and alliances between low cost airlines and other tourism system's players, their strategic potential depends on partners' strategic relevance as well as on the features of the relationship itself. Some can only be a source of competitive parity. Only in some occasions, this relationships are “rare”, as they are related to specific services, for

example the bus or train transfers by notorious companies, such as Europcar or Avis and Hertz. For even rarer agreements conditions the resources can be strategic for reaching sustainable competitive advantage; this happens when they are built upon casual ambiguous relationships and path dependence factors (Barney, 2002; Barney, Della Corte Sciarelli, 2006), due to the connection to outstanding, famous tour operators' competences behind (as in the case of TUI group).

Moreover, some low cost airlines have specific skills to manage relationships with other tourism system's players to design and create an offer system similar to a dynamic packaging one that can be a differentiation's ground for temporary advantages (f.e. My Air, Transavia.com). When the advantage lies in the capability to deal with social complexity and to manage the high grade of innovation of these advanced offer systems, the low cost carriers can sustain the related competitive advantage (f.e TUI Fly). In this case, moreover, we found a real dynamic packaging, that is practiced together with the "network configurations": the connection with the tour operator allows the company to propose even packages. This makes the offer wider than other companies, that just allow to book other services by their website but do not propose real packages.

In one further case, we found that a system only close to dynamic packaging was able to be a source of competitive advantage (Ryan Air), when it was augmented by first mover advantage.

In the offer it's relevant to notice a greater number of routes to main destination. So, there are airlines that prefer to fly routes between a main and a peripheral destination, using the same plane for only 1 or 2 flights a day, while other carriers have broadened the product line adding in the routes through main destination with a more frequent link; up to 2, 3 or even 4 flights any given day (Quintano, 2006).

Served routes can help in designing a highly differentiated product; this product will be valuable, rare and difficult to imitate only when it will be linked to specific services and resources tightly related to the given area. For example Ryan Air sells tourists packages for golfing in Ireland.

Price determination, as it is now common knowledge, is a function of the value the customer gives to the product (Desiraju, Shugan, 1999). This strategy, called usually *value pricing* (Kotler, Bowen, Makens, 2003) consists in selling out the product, at a lower price of the competitors.

This is due to cost economies of low cost airlines deriving from: general and administrative costs, airport fees, handling fee, costs for customer services, distribution costs, seats density

and crew dimension. In this way, these airlines can operate with lower fares, differentiate their offer, and let their market share grow.

Another main factor in price determination is using cross selling, the skill to increase revenues selling products related to the core one as meals, snacks, gadgets, souvenirs, etc. (EasyJet, for example, have the *EasyKiosk* on-board, these are little area dedicated to selling food, drinks and gadgets).

Another factor of price determination is how much beforehand the reservation is done. Often as the discounts of low cost airlines are for the leisure segment, that is made of price sensitive tourists, there's a price discrimination on the reservation date, following the general rule of "*reserve early to save more*".

Moreover, partnership with other players in the industry end up in the practice of product bundle pricing, where the price of the package is lower than the sum of the prices of the various services.

Today various players are enhancing their offer broadening the price list.

EasyJet, beside standard fares, proposes a flexible fare that lets customer change time and date of flight up to 9 days before the flight. Moreover, EasyJet applies a system, called *price promise*, according to which if a passenger that reserved a flight at a given price later finds it at a lower price gets the right to ask for a credit for future reservations equal to the difference between the two prices.

Sterling, instead, has two kinds of fares: Sterling Low Fare e Sterling Flex. The first one, let the passengers modify the travel characteristics up to 2 hours from the take-off, paying a fee. The last one let him freely cancel or change the date and time of the flight.

MyAir uses a price differentiation quite similar to Sterling but with some differences. Mylow fare lets customer change time and destination, if there's the possibility to do it, up to 2 hours before take-off, paying a surplus, but does not let change the flight. Myflex fare lets client change date, route, name up to 3 hours before the take-off. Cancelling the reservation does not give the right to a reimbursement, but with this last fare the customer can have the ticket price as a credit for future tickets.

As we said before, even if price policies are differentiated, they are really similar among low cost airlines. This seem to confirm how a competitive advantage based on the price policy can easily turn into competitive parity, with competitors' skills to imitate or innovate fares systems.

Promotional policies are usually keyed around advertising and promotions even if, when there are events (public relations) to promote a new route, a new plane or to have a bonus. This has

happened with SkyEurope that has won the premium for *low-cost low-fare Airline* Central Eastern Europe.

Obviously, in the field of public relationships' activities, attending events and sector's fairs (b2b and b2c), where often these carriers have a dedicated exposition space, is part of this policy. In public relationships, there are also the cases of specific television – shows influenced by low cost airlines, such as the “Airline” television series dedicated to customer and crew of EasyJet.

Investments in promotional actions are also high. These are mostly made through the internet site with using specific banners and links in some portals and which carry net surfers to the airlines homepage. Sometimes they are also done through aimed newsletters instituted by the airline itself.

The cases of advertisement on industry magazine or on magazine published directly by the airline are numerous. In this direction, for example, the on-line Magazine of WizzAir (Wizzit), the Magazin of Transavia.com (Transavia.com e-mail Magazine) and MyMagazine from MyAir.

At last, relevant and greatly differentiated are the promotional actions in a specific sense. In this case, low cost airlines continuously offer promotional fares. Ryan Air, only for promotional aims, is used to sell a given number of seat at really competitive prices (“You pay only airport fee for 2 million seats,” “ticket price is € 1.00 for two million seats”).

Sterling, instead, has written a discount calendar, in which are pointed out the daily lowest fares, month after month, through which it is possible easily select the special offers by the airline.

Flyer clubs are also much diffused. Il *clubsterling* proposes prize competitions, special offers for members, fast reservation systems, drawing prizes, special flights to Scandinavia (Flymehome). WizzAir has introduced the option to opening a personal account (WizzPlus) for subscribers, where there is a 15-20% discount for any ticket which can be used for possible future reservations. TUIfly realizes a collection of miles, distinguishing between Premium Miles, to be collected for all flights bought from TUIfly.com or other partner operators, and Nation Miles, instead, which indicate the position of the TUIfly's *frequent flyer* and allow to have a service card which transfers several benefits to the owners (GoldCard bluemiles).

In promotional policies, an important factor for reaching a sustainable competitive advantage is the reputation of some low cost airlines (i.e. Ryan Air, Easy Jet). This is a socially complex resources between the firm and its customers that's due to several years of experiences,

commitment and trustworthiness. The effect on reputation and on brand image obtained by these factors can be augmented through strong advertising (Della Corte, Sciarelli M., 2006; Barney 2002).

Place policies of analyzed low cost airlines privilege the use of the direct channels, without intermediaries, but they are mostly internet- or call-center with fee - based. However there are some cases of low cost airlines which are associated to a HGDS, such as Norwegian with Amadeus.

Through this evolution of sale's channels, which avoids the payment of agency fees and others burdens to CRS and GDS, it is possible to realize a cutting cost from the 2-3% to the 15-20% of ticket price: the effects of which could be transferred totally or partly to customers (Quintano, 2006). This aspect makes the distributive policy one of the main ways to total saving costs. While, in fact, the booking service through a GDS has a using cost linked to every reservation, internet is practically free.

So low cost airlines's placement policies will be a source of competitive parity. Advantage positions, albeit temporary ones, can be reached when the firm succeeds in creating a differentiated placement policy (f.e. see Ryan Air that lets the customer download a tourist guide of the destinations he will travel to).

As regards the perceived quality of services to test customer satisfaction and retention, aspect that refers to the phase when services are provided, as said a further analysis will be conducted successively.

7. Conclusions

Summarizing, this analysis highlights that even if a good deal of success of low cost carriers comparing to traditional airlines is due to a source of cost's advantage (a cost leadership), the constant growth of competition even among low cost companies has led and pushed these enterprises, in the last few years, to adopt strategic choices aimed to differentiate offered product.

The evolution of strategies grown out by low cost airlines shows how they are going towards a position "stuck in the middle" (Porter, 1980, 1985; Dostaler, Triant, 2007). This strategy, in fact, allows to differentiate the offered product and to reach higher sales' volumes, so to reach, in the meantime, a higher use of cost economies.

Naturally, the reaching of sustainable competitive advantage, in this sense, can only be valued over time and it will be function of the capability of low cost airlines to manage the contrasts

deriving from the cost leadership strategy and the differentiation one (Barney, 2002, Della Corte, Sciarelli M., 2006).

It is to be added that, from the cases' analysis, we found that there are not strong differentiation factors in the marketing strategies applied by these companies. However, some of them seem to be investing in very important and significant competences, that could open up to further innovations in the future. For example, EasyJet tends to adopt an innovation-seeking approach, aimed to constant improvement of the qualitative level of the offer to tourist, regarding both the "facilitate" services (such as the via web on-line check-in before leaving) and the "support" ones (such as the initiatives "*easyJet desk top gadget*" and "*easykiosk*").

An aspect which results relevant, considering the *resource-based view* (Barney, 2002; Della Corte, Sciarelli M., 1999; Collis, 1991; Mahoney, Pandian, 1992; Miller, Shamsie, 1996; Wernerfelt, 1984; Penrose, 1958) is, in fact, the characteristic, of some companies (Easyjet and Ryanair), to be *first mover* in development of new marketing policies: in fact, even if these choices are after applied also by competitors, these companies succeed in starting up, as the first, initiatives with a good time to market and with a highly caring to satisfy customer needs.

The disintermediation process has sensibly increased the number of users which bought necessary services via web, with implications even referring to the other rings of tourist chain. About entrepreneurial relationships, a secure strategic factor is the liability to networking. This process, however, more than at a horizontal level (alliances between airlines), such as for full-cost companies, mainly refers to vertical relationships within tourism chain, with enterprises located "on top" and "down" of that (for example the "self – building" of voyage made by final customer through the airline's internet site). The more successful are the firms involved in the relationships and the stronger the relationships are the more sustainable the competitive advantage can be.

However, generally, the adopted policies seem to be able to conduct to a competitive parity system among the enterprises.

Differentiation between firms must be regarded, more than the marketing choices in a strictly sense, the innovation capability linked with them and the relationships between these and other management functions (operations, logistics and geographical location).

In this direction it seems strategic the relationship which different airlines succeeded to establish with the same airport structures which, in today's scenario of sector, represent one of

player able to create the most value in the tourist industry. This factor will be an object of future deepening, in searching process of the source of competitive advantage.

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