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CONSUMER MARKETING AND THE AIRLINE INDUSTRY

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Abstract

A brief discussion on the fundamentals of consumer marketing as applied to the airline industry. An attempt will be made to boil down the mystique and jargon which frequently surround the subject of marketing. Topics to be covered include: (1) What is "the marketing concept"? (2) How do we find out what consumers want from an airline? (3) Once we know their wants, how do we plan "marketing strategy"? (4) What are the roles of advertising, sales, and middlemen in the process?

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Consumer Marketing In The Airline Industry

I am going to try to give you some perspective into key elements of consumer marketing. What it means, how it works, the consumer value it creates.

Third point, frequently one of controversy, today it's popular as part of surge of consumer advocacy to knock marketing's role in the economy, to accuse marketing of creating waste and foisting unwanted goods on to an unsuspecting public.

Sometimes I wish that marketing techniques had the powers that the Nader's Raiders sooth sayers of gloom and doom attribute to it. Unfortunately or fortunately, depending on your perspective, it does not.

Defining marketing is a little like defining sex. It's intuitively understood by the participants but damn hard to put into words. The best definition I came up with trying to synthesize a number of various veiwpoints is to say: "The business process by which goods and services move from the producer to the user."

As the economists say, "marketing creates place, time and possession utility." In English, that means the marketing processing enables a customer to find the kind of goods he wants when he wants them and ideally at the price he is willing to pay.

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In the airline industry this concept of time utility becomes very important because of the perishable nature of our product. The skill with which we pursue the consumer marketing process in our industry makes the difference between seats going out empty or full. When that plane is sitting on the apron, if we can't fill it, those seats are going out empty and as a result we have lost our opportunity to sell that particular component of our product.

Once we define what marketing is - moving goods from the producer - we realize there are two ways of looking at the process - from the producer's side or the consumer's side.

If we go at it from the producer's side, in other words, how we are going to convince people to buy the product we have available, we don't really have a complete marketing process. We end up trying to get the customer to want the goods or service we are selling.

The real marketing approach takes the consumer's viewpoint and tries to figure what his wants and needs are. Then determine how our product can fill those needs.

This is called the marketing concept - try to understand what the consumer wants. This is a concept which is easy to pay lip service to and hard to put into actual practice.

In my opinion, airline industry has not done a very good job in this respect.

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Because of airline scheduling, crew and equipment logistics, it's often easier to fit the customer to our products than fit our products to the customer. It's a little like Henry Ford's well-remembered statement that the customers could have any color car they wanted so long as it was black. We have had a bit too much tendency to do that in the airline industry.

A good example of an enlightened marketing concept approach, whether it was intentional or not, was the introduction of the coach lounge. It gave the consumer a chance to get up out of his seat, a rather confined space, walk to another area of the plane, sit down, relax and move around the plane. So as I say, whether it was intentional or not, this was a good example of the marketing concept in action. There was knowledge on the part of various airlines that the consumer wanted more options on the plane and the idea of developing the coach lounge gave more of these options.

Here are the ways I'd describe what it takes to get the marketing concept juices flowing. I see it as a five-part process. There's nothing sacred about five. I am sure other marketing practitioners could combine or subdivide the components differently and make it a four-step or ten-step processing depending on their bent. These are the five steps.

Beginning with marketing research and analysis, we must find out what the customers' real needs and wants are. Most people don't buy a garbage can for the aesthetic impact but so they have someplace to put the garbage.

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Neither do most customers get on an airplane for the sheer ecstasy of flying through the air. As Carl Ally, Chairman of Pan Am's Ad Agency once put it: How many people would pay 250 bucks just to get in a 747 for seven hours to have dinner and watch a movie while circling over beautiful downtown Newark? You get in a plane to go someplace. Getting from point A to point B has value as far as the consumer's concerned. It's that destination impact that is imperative if you use a marketing concept in the airline industry.

Next, we've got to find out how well our product fills those needs and how we stack up against the competition and their ability to fill the same customers' needs.

Finally, a market analysis is needed to determine what our chances of success are. There very likely may be cases in certain product areas, and I keep referring to product areas because I think of the aeronautical business as a product. It is generally referred to as a service but I think you can justify calling it a product. It competes for discretionary income just as other products compete for discretionary income.

If certain customer needs are being filled infinitely better by the competition, it's best to look around for some other needs which our product can fill or to consider making some changes in the product.

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One caveat on research - as a former airline research director, I can take certain liberties in knocking research - the best research is often that which confirms intuitive convictions. People close to their industry generally have some idea of what customers think. Beware of startling research results. All you might really have is a piece of poorly executed or badly interpreted research.

I would put limited stock in Freudian-type research where an airline would go out and administer a series of Rohrscharch tests to customers and, based on that, determine what really makes people fly. When the 747 first came out there was a tendency in this direction. People said they were afraid of the 747. Some Freudian-type researchers came up with the idea that people thought of the airplane as womb. That people were afraid of the 747 because it was unlike the intimacy of the 707 womb is a lot of bull. They were afraid it couldn't stay up in the air and said so. If you ask people directly and with some depth probes, most people will tell you what they are thinking. Don't let anyone ever let you believe that there isn't a fear of flying which some surprisingly frequent travellers will tell you. We have had large numbers of travellers who make up to 15 international and 40-50 domestic trips per year who will tell you that they still have a fairly fearful approach to flying. Many people feel that if man were meant to fly the Lord would have given them wings and they are a little uneasy about it.

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So, in establishing marketing objectives, once we know the customer needs, our own product strengths and weaknesses and competitive potential, we begin the formal marketing planning process.

First we establish marketing objectives - these are the basis on which we build our action plan. Some examples would be: in the case of Pan Am or TWA, to increase the share of the New York to London Market by 15%. This is a competitive strategy. It is trying to get a bigger chunk of the market at the expense of the competition. Another kind of objective is one that stimulates primary demand. For example, to get 10% more wives to travel with husbands on NYC-LAX Transcon. The sort of thing United has been promoting. This is trying to get people who are hardly in the market into the market. So we have two kinds of marketing objectives.

Objectives need to be realistic. One of the problems that airline industry and all industries face is this whole question of making the objective realistic. If we were to say that Pan Am should get a 35% increase in the share of the NY/London market, that would not be realistic. If an objective is unmeetable we should not come up with it.

They also need to be reasonably specific. An objective that is too vague, for example wanting to increase our share by 10%, that's too vague to have much meaning.

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It is expedient that marketing objectives are consistent with corporate objectives. That may sound silly but frequently a semantic problem exists and all top management are not committed to the same objectives.

In the airline industry, as with other industries where regulation plays an important role, it is important that regulatory policy is clear or serious conflicts will develop which ultimately impact the company's ability to meet the customer's needs.

What's a strategy? It's a plan for meeting the marketing objective. There are four basic types of strategy. Let's take an example of getting more wives to fly Transcon and follow that through the strategy building process. First we use research to determine what needs are present and what kind of product will best fill those needs. Realistically, the airline seat is not the product. Trying to sell the trip to California on the basis of the great airplane ride is like trying to sell a new car on the basis of its great tires.

Price is, of course, a factor and we need to understand it.

Distribution means getting the product into the hands of the user.

Promotion covers all those things we do to tell people about the product.

The basic idea behind developing a product strategy is to figure out how to make your product stand out from the competition. This in trade jargon, is called product differentiation.

There are two components to product differentiation:

The first is the ease or complexity with which we can develop unique product features.

The second is the importance the customer places on that feature in his decision-making process.

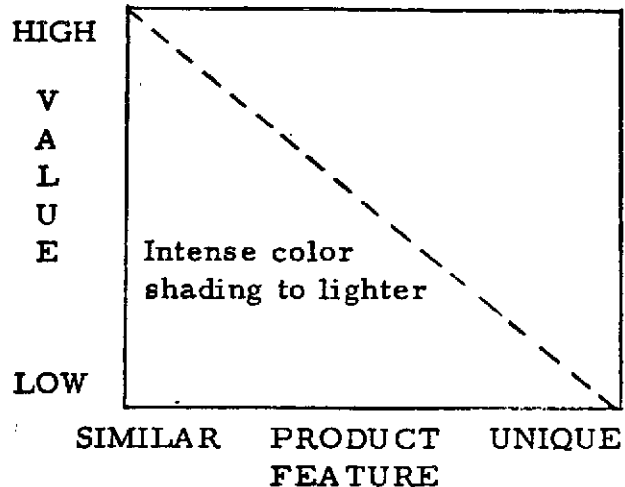
The chart shows the consumer value on vertical axis and ease of developing unique product features on the horizontal. Note the color shading -- assume this represents all the product features available to consumers.

It's relatively easy to come up with the low-value unique features like the kinds of costumes the stewardesses wear.

It's also easy to come up with the high-value items like a 747 -- but if one or two competitors also offer 747's, you hardly have a unique feature.

What to strive for is that nugget of a product feature that has a high-value in the consumer's mind and is also clearly unique to our product.

DIFFERENTIATING THE PRODUCT



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As a general rule the life cycle for new ideas is fairly short. Particularly in the case of many of the things we will come up with which are not patentable so the competition will emulate it very quickly. The idea is to try to come up with unique features that the competition will not be able to emulate.

For example, at Pan Am we stress the experience concept. We know that it has one of the highest values in the consumer's decision-making process. We also know that Pan Am enjoys a unique position in this respect since no competitor can offer a product based on as much international experience as Pan Am. This is one example of the sort of things that are hard for anybody else to take away from you. If the consumer begins to feel everyone is experienced and no one stands out we have lost the edge that we had. This is one of the reasons in the last couple of years for the basis of the world's most experienced airline theme.

If we return to the example of getting wives to travel Transcom, maybe not in-flight at all but at destination can be used as part of a unique ground package featuring items of high value to wives like a free visit to Elizabeth Arden's in LA. Something they won't get from anyone else. It is enough to make the difference in their decision making process. What I am leading up to here is, maybe the decision-making process is not based exclusively on the in-flight or airline experience. It is basic to the total travel experience.

It is tied into this idea of the person's going to a destination. He thinks about destination and is concerned in that respect more than being concerned about what is going to happen in-flight.

Looking into your agenda, you have already had a lot on the subject of pricing so what I would like to do is position it as a marketing concept rather than going into details.

Under marketing concept, price is a function of what the user will pay and whether the producer can recover his costs, including a reasonable return on investment.

At the same time the consumer-oriented seller will be sufficiently sensitive to market elasticity to determine what impact a change in price will have on customer demand and this goes back to the idea of the whole travel experience.

In the travel industry price in the consumer's mind is different from price in an airline's mind.

The consumer is concerned about what the total trip will cost - only to the extent that changes in air fares affect the total cost is the customer going to be influenced. From the time he leaves his door until he gets back - parking, meals, etc., pricing strategy has to take the whole picture into account.

If the consumer perceives that there is a major cut such as the winter 8-day GIT'S we had this past year in the Atlantic which result in much lower total cost to him then price can impact his decision-making process.

QUESTION: Why do you think the airline consumer is smarter than the automobile consumer who historically doesn't perceive the cost of operating an automobile?

ANSWER: He isn't.

QUESTION: Why do you always talk about total costs in the airline markets but not in the automobile?

ANSWER: I am not really talking about total costs in that respect. I am talking in terms of a guy envisioning he is going to get something, he is going to get a travel experience just like he is buying a new car. He is willing to invest \$X in that new car. He is also willing to invest \$X in that travel experience. The costs of operating that car are not perceived because it is at smaller amounts over a long period of time. If a guy is going to take an international trip and has to lay out, let's say, \$1500 that becomes very real to him. If it is \$1500 or \$2000 he can discern the difference between them. Again I am talking about differences in total expense - not 40 or 50 dollars, but 20% or more change in the product he is buying. One of the things we should light on here is to determine the level of visibility. This is part of the pricing strategy. Where does a company want to be in terms of pricing visibility. Do we want to be one of the pricing leaders, taking the role of giving some impetus to the industry in the way pricing should go. Do we want to be part of the pack or do we want to drag our heels. This is very important in terms of the role a company is willing to play within its industry and really needs a basic strategy to position that effectively.

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When we talk about distribution strategy or how we move the product from the producer to the user, we first need an understanding of the various steps that are involved in the process. While airlines perform a service, for all intents and purposes, we can think of the airline ticket as a salable product moving through a distribution channel just as color TV sets, refrigerators, or fashion clothing would move through a distribution network.

In the airline industry the channels of distribution are fairly complex. We can sell an airplane ticket direct in our own sales offices. Have it sold by another airline in one of their ticket offices, have it incorporated as part of a wholesaler's package tour, sell it through a travel agent or via commercial account.

As we can see from the following chart, frequently two or three steps are involved in the distribution of the product. In the case of a commercial account sale it might be either direct to the airline or through a travel agent or it might even be to a travel agent who then goes to another airline, who actually writes the ticket selling our product.

One problem fairly unique to the airline business is the vast number of outlets through which a relatively high priced product is sold. For example, in Pan Am's case, worldwide there are roughly 17,000 travel agencies and 12,000 ticket offices belonging to other carriers, all of which can write a ticket on Pan Am.

These numbers make this distribution system fairly unique to the airline industry. I was trying to think the other night of what other large big ticket items like automobiles, color TVs, etc., the traditional sorts of things have distribution systems where as many different outlets are involved in selling a product and it is very hard to come up with anything. In most cases the big ticket producers have franchised operation where only their product is sold. In the case of GM cars - only GM cars will be sold through a dealership. In the case of major appliances a dealer may carry 2 or 3 other competing brands but there really aren't any situations where, as there are in the airline industry, the retailer carries a multitude of competing brands. For instance, in International air travel, the travel agent will carry over twenty different transatlantic carriers' tickets available. In other words, he can write a consumer's ticket on any of those 23 some odd carriers. He also has the ability to write on any of the domestic carriers. So he is handling a multitude of different products.

I think Pan Am is fairly representative. We may be on the low side. Someone like United who has more domestic offices than we do might very well have more outlets for the sale of their product.

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In the United States alone, there are probably an excess of 15,000 travel agent and airline ticket offices where you can buy an airline ticket.

As a result, it's extremely difficult to control the sale of the product the way producers of other big ticket items like TV's, home appliances, or automobiles are able to operate through, in many cases, franchised dealerships who feature either no competing products or only one or two competing products.

In the airline's case, almost every travel agent can sell not only all the competing domestic carriers' tickets, but also all the competing international carriers' tickets. This makes it extremely rough to develop any form of exclusivity with the middlemen who sell your product to the ultimate user.

Back to the example of the wives to L.A. Assume we develop a tour package with unique features -- How do we get the work to possibly 60,000 sales people in 15,000 retail points, especially when our product is one of maybe 250 others we offer and maybe 2,000 offered all together by us and our competitors?

Our distribution strategy must be able to cope with the kind of situation which results when Mrs. Smith goes into her friendly travel agent and asks about our special wives package.

This takes us to the fourth strategy which is promotion.

Because of the limits in the air travel distribution system, promotion becomes a key ingredient in the attempt to make potential customers aware of your product and its features.

Essentially, there are four kinds of promotions:

Advertising, which includes radio, TV, newspapers, magazines and trade publications.

Sales promotion, which includes everything from direct mail to letters to folder racks, to motion pictures of travel destinations, to window displays.

Sales development is a form of missionary sales activity in which we use our headquarters and local sales people to work with key travel agents, travel agency associations, commercial accounts and the like to keep them aware of our product's capabilities.

Finally, word of mouth is an important form of promotion. A satisfied customer is one of the best forms of advertising or promotion an airline could have. From research we found that first-time travelers frequently depend on recommendations from friends, relatives, doctors, or dentists in making a decision on where to go, where to stay, and what airline to use.

Let me spend a few minutes on what promotion can or cannot do. Promotion vehicles, like advertising, sales promotion, etc., can be used for either a push or pull effect. What does this mean? Pull type advertising and promotion means developing awareness, interest or preference for our product in the mind of the consumer so that he in fact goes into a retailer and asks for our product. In effect, we are using promotion to pull our product through the distribution channel.

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Push promotion, on the other hand, is the kind of promotion aimed at getting the middleman to promote the virtues of our product to the end user.

Trade advertising, direct mail to middlemen, and the missionary sales development activity are three of key ways in which we build enthusiasm for the product among middlemen. A fourth method which is frequently used in other industries and is known as push money, or special incentives to sell a certain product, is illegal insofar as air transportation is concerned. Many tour wholesalers selling package tours do, however, give retailers a special override commission on the land package for selling large quantities of their tours.

One word on advertising -- advertising has been one of the most maligned of the promotional vehicles available for use. No question that advertising has in the past occasionally been used to mislead the consumer. However, when one reviews the various theories on consumer buying behavior, he finds that a key to the consumer's ability to make a buying decision is the information which he can obtain on the product and its features. Advertising is, in the final analysis, one of the least expensive ways of providing product information to the consumer.

The idea that advertising can, through subliminal means, force the consumer into buying products he doesn't want or need is pure garbage. The most advertising can do is make a customer more aware of the ability of a given product or service to fill the customer's needs. Now, in all fairness, let's admit that these needs may be somewhat latent and advertising a product feature may help to bring them to the surface. But advertising per se cannot create the basic need.

Maybe this wife who is going out to the West Coast really wasn't chafing at the bit until she saw the ad that said now you can go and experience this glorious time with Elizabeth Arden and your husband will now accept you, and you can do it at a low cost. That's basically appealing to her latent desire to get out someplace - to make herself look different so her husband will think of her as newly married. It is not building a need within her, it's simply bringing that need a little more to the surface.

Once we have developed our four strategies -- product, price, distribution, and promotion -- we're ready to bring them together into the overall marketing mix.

By marketing mix, I mean the way we combine the various marketing tools to move the product or service. For example, in some cases, we might use more advertising and less missionary or developmental sales effort.

We might depend more on low price to sell the product or we might concentrate on unique product features.

Frequently, if the product doesn't move very well, we make adjustments in the mix like a little more advertising or other forms of promotion.

Since departure time, in the airline industry, is a product feature, we might decide to make minor changes in this area. However, whenever, major changes in the mix appear to be needed, it is appropriate to pause and review the marketing objectives and strategies to determine whether a more fundamental rethink is necessary.

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Measuring the Results:

This is the area most frequently overlooked. It is important as part of the planning process to establish measurement criteria. How are we going to measure success? What level of success means we have a hit? How bad do we let things get before we declare a miss?

After the fact decisions on what constitutes success are also dangerous since they frequently result in lowering our standards for success or failure. Once we are three months down the road and we see some of the problems that exist we are not quite so apt to say we need \$X million before declaring this a success. This is unfortunate because the thinking that went into the process originally is the thing that should be used to measure that.

Without-pre-established measurement criteria it's also hard to determine whether minor modifications in the marketing mix can have the proper effect.

That sums it up. I congratulate you on wading through this exercise with me. As I recall, one of the fundamentals of learning theory says if an individual can remember 10% of what he hears, he is doing quite well.

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The 10% of our visit together here today that I hope you remember is:

marketing begins with the customer:

consistent success depends on finding a product or service that fills his needs:

start with research and analysis to determine what the consumer wants, how the product is positioned in the market place and how we have to modify our product, if necessary to meet those consumer wants:

establish realistic marketing objectives, things we are striving for in that process:

develop strategies on: products, price, distribution and promotion:

Based on these strategies create a mix of marketing elements, activate the marketing process, hopefully to achieve success but also to establish, ahead of the game, the measurement criteria that we are going to use in measuring the success. It seems to me that the airline industry has a long way to go compared to other big ticket item products which implemented the marketing concept in a big way a number of years ago. That sounds a little pessimistic. On the optimistic side in the last few years I have seen what I consider to be quite an increase of marketing interest in the airline industry. I predict that we will see in the next decade a real growth in the marketing concept in the airline industry as it becomes more consumer oriented. In my next talk later on this morning with Dan Colussy, I will explore that in more depth.