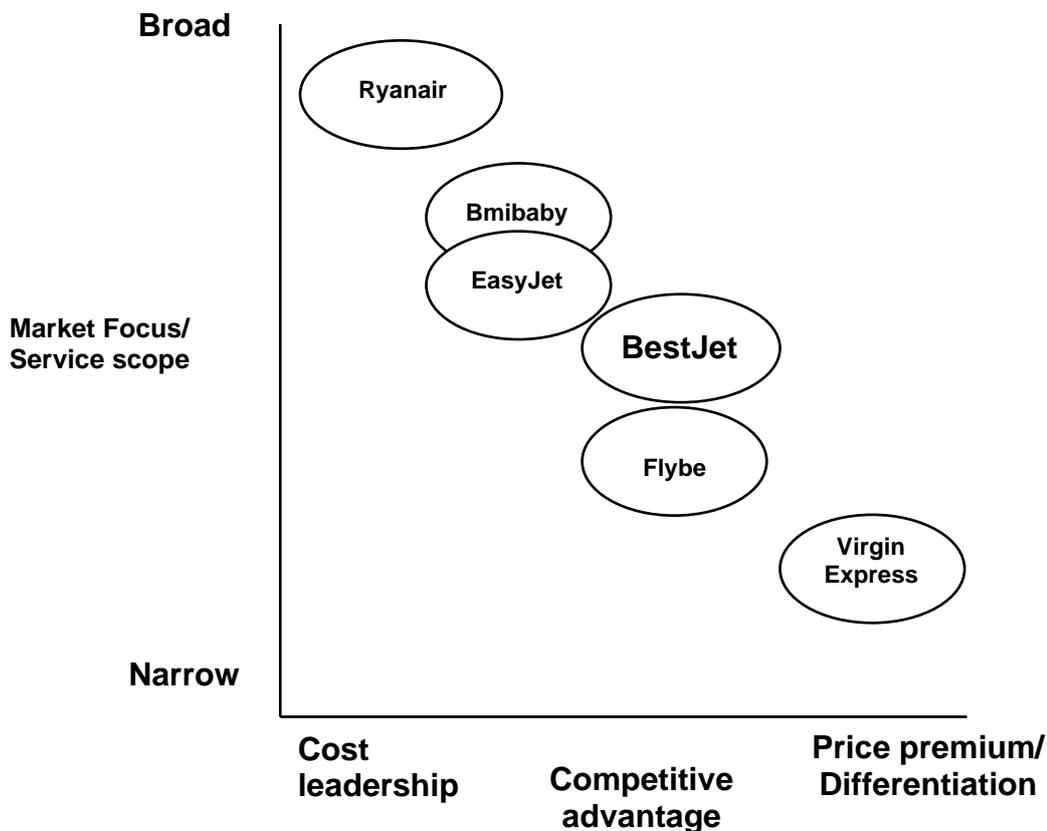


Exercise 1 Competitive positioning

- Who are BestJet's main competitors?
- How is BestJet positioned relative to its competitors? What are the implications? Use Porter's (1985) strategic positioning matrix to identify BestJet's position and that of its rivals.
- What's the message to the boss about the potential opportunities or threats BestJet need to be aware of based on your analysis?



Exercise 2 - Lifecycle and 5 Forces Analysis

- At what stage of the lifecycle is the European budget airline for the date of the case and what are the implications of this for the industry?
- What do you think about the overall attractiveness of the European budget airline industry in 2006? Assess the strength of each force as high, medium or low.
- Which of these forces are likely to change in the next few years and what impact will this have?

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4. Lifecycle

Distinctions can be made between geographical segments and sectors of the airline industry:

	Traditional airlines	Budget airlines
UK domestic and outbound	Decline	Shakeout
Rest of Western Europe	Maturity	Growth
EU new entrants	Growth	Development/Growth

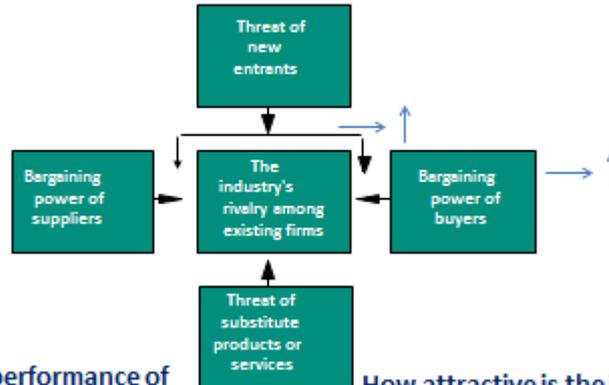
For traditional airlines, the **UK** market is in the **decline** stage as they have progressively lost market share to the budget airlines. For the budget airlines there appear to be few new routes available apart from marginal ones such as London Stansted to Blackpool which Ryanair started in spring 2003. The market could be considered to be in the **shakeout** stage with the **maturity** stage and the fight for market share and the possibility of price competition not far away.

In the rest of **Western Europe** the market for traditional airlines is in the **maturity** stage, the market for low cost travel is in the **growth** stage with the large French and German markets still underdeveloped.

The opening up of markets in, to and from the **10 new countries** set to join the European Community is likely to represent the only growth opportunity for traditional carriers. It will potentially represent a **significant growth** opportunity for budget airlines, particularly for those who open bases there and set up a route network to their existing destinations. This obviously raises the issue that getting in first or early in the 'land grab' will be very important.

UK (within 4 hours)

Which one or two forces are key drivers?



Future financial performance of the industry?

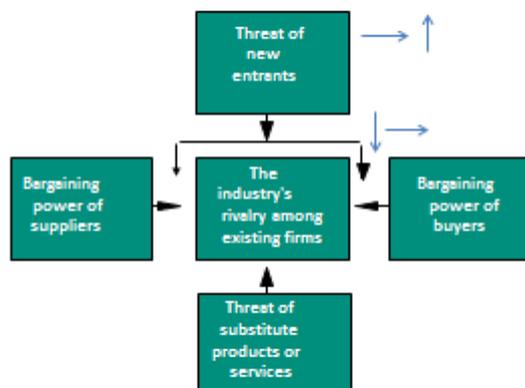
Good on uncontested routes, though saturation will increase buyer power

How attractive is the industry as a whole?

Medium for established players

Western Europe

Which one or two forces are key drivers?



Future financial performance of the industry?

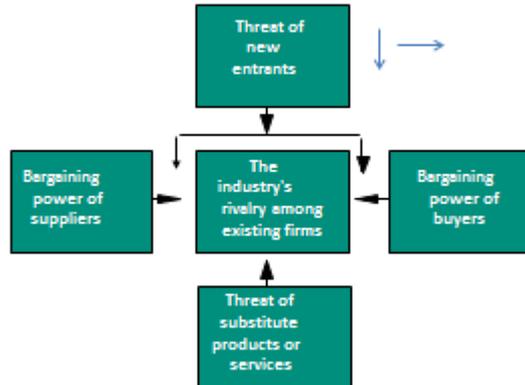
Good on attractive routes, better at secondary airports

How attractive is the industry as a whole?

Good

EU entrants

Which one or two forces are key drivers?



Future financial performance of the industry?

Very good providing the 800 lbs. gorilla doesn't spark a price war

How attractive is the industry as a whole?

Very high

Overall the budget airline sector is a relatively attractive, profitable, growing sector with currently not too intense head-to-head competition. However, it could be argued that all the trends, particularly in terms of the 5 forces, are moving negatively though at different rates. There are still considerable growth prospects, some unfilled potential routes in and to the countries set to join the EU, a diminishing threat of entry as established players continue to fill the gaps and a likely shakeout of the poorly performing players. It is likely that competition will intensify as these empty routes are filled and the budget airlines start to compete against each other on the more attractive routes. (In the last 2 years low cost airlines have managed to side-step this threat by setting up new hubs in mainland Europe and new hubs at regional airports in the UK.) Buyer power will continue to constrain profit margins in the industry, given the strong price elasticity of demand. Prices will continue to come under pressure. Established full-service airlines will continue to try to fight back, but their financial difficulties or constraints may limit this challenge. Charter airlines will continue to replicate the low cost, scheduled model and powerful players like TUI will fight back strongly. Nowhere will this fightback be felt more strongly than in Germany. On the positive side, profitability for existing players may stabilise as marketing costs drop substantially as a proportion of revenue, due to word-of-mouth effects and increased sales are made on the internet.

Exercise 3 - Customers

- Identify the main market segments in the airline industry, along with their customer expectations
- How successful is BestJet in winning and retaining customers?
- What is key challenge regarding customer focus in the future?



Customers

The market breaks down into a number of broad categories, which can then be further sub-divided.

Leisure market

- Discretionary travellers: people who are only tempted to take a flight because of the low price. Their decision is based on price not on the need to make a particular journey.
- Holiday makers: sunshine breaks, city & culture breaks. Customer buying decisions are related to the duration of stay and the attractiveness of the location.
- Day trippers: buying decision is based on price and convenience

Students:

- travelling to and from universities

Expatriate

- People with second homes or living/working in different locations. Visiting friends and families.
- Business market
- Cost conscious business travellers: buying needs may be slanted more to reliability, frequency of service and location of airport than simply low price.

Behavioural: benefits sought, purchase occasion, usage rate, loyalty status

Purchase occasions typical of low cost trips are birthday celebrations, and 'stag' and 'hen' nights.

Weekend and longer breaks compete with traditional airlines.

Demographic: age, gender, social class, family size, income, occupation, race

Age: many older people were not as familiar or confident in using the internet to make travel bookings. This may now be changing. Despite the low fares, income is very important. Since most low cost leisure airline seats are discretionary purchases, people need to be able to afford to travel in the first place.

Psychographic: Lifestyle and personality

Important for budget airlines are the people with a partying travelling life style who love visiting new places, seeing different cities, experiencing different parts of the world (and have the money to do so). They don't need to travel, but do it for the enjoyment and experience. They are worldly, confident with the internet, and can overcome some of the drawbacks of the budget airline model.