3 The Marketing Environment

Chapter Two has established that an airline's marketing policies must clearly reflect the structure of its market. This Chapter deals with the other, crucial foundation: the Marketing Environment, or the background against which marketing strategies are developed.

The Chapter has three aims. Firstly, to look at the theoretical basis for the study of the Marketing Environment, applicable to any industry. Secondly, to analyse those factors from this environment which need to be considered by airlines. Thirdly, to discuss the specific impact which each of these issues should have on properly thought-out marketing policies.

3:1 The Theoretical Basis – PESTE Analysis

The literature on marketing provides one, particularly useful, model for the study of a firm's Marketing Environment. This model proposes that the relevant factors should be divided into the categories of *P*olitical, *E*conomic, *S*ocial, *T*echnological and *E*nvironmental.[8]

It should, of course, be born in mind that the categories are not mutually exclusive, and that it might be appropriate to discuss a particular issue under more than one heading. However, the model is still a powerful one, especially in the airline industry. Airlines cannot develop sound marketing policies independently of a range of political decisions. The industry has always been, and remains, intensely political. The fortunes of the world economy will also have a substantial impact, with marketing policies needing to ensure that favourable economic circumstances are exploited, and unfavourable ones countered. Social issues such as those relating to demographic trends will also be significant, especially at the present time. Technology provides both exciting opportunities and difficult challenges today, whilst problems associated with the environment may threaten the whole future of the industry.

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[8] Sometimes, legal issues are added, to make the acronym PESTEL. In the aviation industry, most quasi-legal issues are better dealt with under the Political heading.

We will now explore in turn each component of the PESTE model in an airline context.

3:2 PESTE Analysis – Political Factors

3:2:1 Terrorism Fears/Political Instability

The years at the beginning of the new millennium have turned out to be some of the most difficult that the aviation industry has ever faced

As we will see in Section 3:3, the industry was undoubtedly heading for challenging times in any case, but there can be no doubt that the events of September 11 2001 caused an unprecedented crisis. Armed hijackers seized four aircraft in the USA, and used these to attack the World Trade Centre in New York and the Pentagon in Washington. Many thousands of people lost their lives.

The effects on the airline industry were catastrophic. For four days, the airspace over the eastern USA was closed, resulting in direct losses to airlines (for which, admittedly, they were mostly compensated). More seriously still, the fear of further terrorism attacks caused a steep decline in demand, both in the USA, on international routes to and from the US, and to a lesser extent elsewhere.

The time since the September 11 attacks has seen little improvement. The American government, aided and abetted by several others, notably Britain, has mounted a so-called ‘War on Terror’. This has resulted in seemingly disastrous interventions in Afghanistan and Iraq, and in strong support for Israel in that country’s response to what have been seen there as terrorist attacks. This support was at its strongest in the summer of 2006 when many thousands of civilians were killed as war flared up again in the Middle East.

Assessing the longer-term impact of the fear of terrorist attack on the size of the aviation market is very difficult. It is, of course, important to keep personal political opinions out of any analysis as far as possible, but it is this writer’s opinion that little was learnt as a result of the September 11 attack, or from those which have followed it. A terrorism threat can only be addressed by seeking to understand and address the underlying grievances which caused the terrorist movement to arise in the first place. The “War on Terror” has simply increased resentment, and has provided the best imaginable recruitment propaganda for those seeking to foment extremism. It has certainly worsened and not solved the problem.

This leads to a thoroughly depressing conclusion. We may have to accept that periodic attacks by the Al-Quaeda organisation, and others that will grow up around it will be a long-term feature. Worse still, the aviation industry will probably be peculiarly vulnerable to these attacks because many airlines are strongly identified with a particular nation. It is also a very high profile activity, meeting the terrorist group's desire for widespread publicity for their cause.

Perhaps the best that can be hoped for is that September 11 2001 will turn out to be an extreme case. New security measures may make the task of terrorist groups a harder one, so they may target aircraft less frequently. However, the summer of 2006 provided a stark reminder of the problem with the apparent uncovering of a plot to blow up a large number of transatlantic aircraft. Weeks of chaos then ensued as new security measures were applied.

We can now reach an overall, difficult conclusion for Airline Marketing. In a very real sense, airlines do not have control over the size of the markets they have available to them because wars and terrorist attacks – or the threat of them – can have a sudden, strong and negative impact. Given the growing instabilities in the world political scene, it is unlikely that this fact will change significantly in the industry's favour. The industry will therefore have to accept a growing burden of security costs. It will also have to understand that demand to travel from those who do not have to do so will be held back as a result of some people at least feeling that the airport hassles associated with air journeys just render the whole exercise too difficult and time-consuming to be worthwhile.

3:2:2 Deregulation and "Open Skies"

Throughout its history, the airline industry has been constrained by decisions made by politicians and governments. Governments have controlled where airlines can fly, and aspects of their product planning and pricing policies.[9] They have also had a major involvement in the industry through the ownership of airlines. Finally, political decisions have often affected the extent, nature and geographical distribution of demand. We will consider each of these aspects in turn.

Almost from the inception of the commercial aviation industry, governments regulated airlines. They have always had a role in regulating airline safety standards, a role that remains important and, in principle, relatively non-controversial. Government regulation, though, traditionally went very much further than this. For many years, and in almost all aviation markets, governments controlled airlines' route entry and capacity

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[9] For a history of government involvement in the industry, see A P Dobson, "Flying in the Face of Competition", Ashgate Books 1995.

and frequency decisions. Very commonly too, and astonishingly by today's standards, governments intervened to stop airlines engaging in price competition.

In recent years, substantial regulatory reform has taken place, giving carriers the challenge and the opportunity of responding to a freer economic environment.[10] We need to look now at exactly what has happened, and the issues which change poses for marketing policies.

In describing the system of economic regulation of the airline industry, a fundamental distinction has always been between the regulation of domestic services, which are solely under the control of one government, and international services, which require the agreement of at least two.

Until relatively recently, almost all domestic travel markets were highly regulated. An extreme case was the USA. Despite the United States supposedly being the home of free market thinking, airlines' commercial freedom was constrained by what now seems a very burdensome system of economic regulation. Between the passing of the Federal Aviation Act in 1938 and the Airline Deregulation Act in 1978, carriers could only enter new routes by going through a cumbersome and extremely slow bureaucratic procedure. A similar process was needed before service could be withdrawn from an unprofitable route. At the same time, regulatory approval was needed before fares could be raised or lowered. The actions of the regulatory body concerned – the Civil Aeronautics Board – ensured that where two airlines competed on a particular route, their fares were generally identical.

Another extreme case of a highly regulated domestic market was that of Australia. For many years prior to 1990, Australia pursued a so-called "Two Airline" policy. Under this, only two airlines were granted access to Australian domestic trunk routes, Ansett Airlines and Trans-Australia Airlines (later renamed Australian Airlines). Even though these carriers were supposed to compete with each other, in practice almost all the areas where competition might have occurred were regulated, including the question of price levels.

The situation with regard to domestic aviation markets today has undergone substantial change, though in one very important sense we are still (with one exception) very far from true "Deregulation".

In terms of regulatory change, the USA led the way with the passing of the Airline Deregulation Act in 1978. This allowed for much greater freedom for airlines to enter new markets and to exploit them free of

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[10] See: G Williams, "The Airline Industry and the Impact of Deregulation", Ashgate Books 1994 and the same authors', "Airline Competition – Deregulation's Mixed Legacy", Ashgate Books 2002. The subject is also well-covered in R Doganis "The Airline Business" 2nd Edition. Routledge 2006.

constraints on capacity or pricing policies. However, one important regulatory limitation remained – that of ownership. Still today, it is necessary for 75% of the voting shares of an airline to be owned by United States citizens before that airline is allowed to fly domestic routes in the USA. This means that foreign-owned carriers are still denied the much-prized "Cabotage" rights to fly internal routes in the US.

Regulatory reform in the United States has been followed by a similar pattern in many other countries. Today, many countries would claim to have "deregulated" their domestic aviation industries. Still, though, rules on ownership provide a highly significant constraint on the extent of airlines' true commercial freedom-of-action. At the time of writing, Australia and New Zealand provide rare exceptions to the general rule that foreign-owned airlines are not allowed domestic rights. One of the major players in the Australian domestic market, Virgin Blue, was set up by a non-Australian – the British businessman Sir Richard Branson.

With domestic aviation, the European Union now provides an interesting case study. By a progressive process of liberalisation (completed in 1997), the countries of the European Union effectively set up a Single Aviation Market which freed airlines to make their own decisions regarding market access, capacity and fares. In turn, this has led to airlines such as Easyjet and Ryanair establishing a true pan-European presence, which includes many 'Cabotage' domestic operations in other countries.

The situation regarding regulatory change in international markets has inevitably been more fragmented and diffuse, but even here, the state-of-play is significantly different from the one which prevailed only a few years ago. On the horizon, we can now see the possibility for radical regulatory reform, which could transform the structure of the entire international airline industry.

For more than fifty years, international aviation has generally been very tightly regulated indeed. Early attempts were made by the USA to establish a liberal environment at the so-called Chicago Convention of 1944. These were decisively rejected and in the ensuing compromise, the world fell back on a system of controls through intergovernmental Air Services Agreements. Working on a bilateral basis between pairs of governments, these Agreements limited market entry, controlled capacity and interfered (though now, to a much reduced extent) with airlines' freedom-of-action over pricing policy. As a particularly severe constraint, the Air Services Agreement system limited the exercising of traffic rights to airlines that were owned and controlled by nationals of the two countries which signed a particular agreement. This made nationality of ownership as important a constraint in international aviation as it was in domestic services.

Given the all-embracing nature of the Air Services Agreement system, it is almost impossible to exaggerate its significance as a constraint on airlines' marketing and commercial policies. In almost every other industry, it is possible for firms to trade on a global basis. They widely do so, by entering foreign markets and by engaging in cross-border merger and take-over activity. Airlines are denied such freedom. Their route networks (the cornerstone, of course, of the product they offer) largely begin and end in the countries in which they are based. Any wider global presence can only be secured by the unsatisfactory and second-best solution of signing alliance agreements with other airlines (See Section 4:2:3).

Few would disagree with the general proposition that the regulatory system facing airlines today is many years out-of-date and in need of root-and-branch reform. So far, though, efforts at reform have produced results which are fragmented, piecemeal and unsatisfactory.

As we have seen, the "deregulation" of many domestic markets has left the constraint that foreign-owned airlines are prevented from competing in almost all domestic markets. We will not have true free trade in aviation services until these constraints are removed.

In international aviation, the United States began a process, which it presumably regarded as a reforming one, during the 1990s. Beginning with the government of the Netherlands in 1993, the US has signed with foreign governments what it has described as "Open Skies" agreements. At the time of writing, more than seventy of these agreements are in place. They do change the regulatory landscape significantly in the markets where they apply, in that they allow each side to designate as many airlines as they choose. These airlines are then able to fly to any number of gateway points with no limitations on their capacity and pricing decisions. They do not, however, break free of the question of ownership and control. Entry is still confined to airlines which are substantially owned and effectively controlled by nationals of the two countries. Nor do they concede access to internal routes by foreign airlines. Therefore, to describe these agreements as representing "Open Skies" is nonsense.

At the time of the preparation of this new edition (the autumn of 2006), we may have seen the development that, by a long tortuous process, may finally bring about the long overdue process of true regulatory reform. In November 2002, the European Court published a complex, but historic, judgement. In it, the Court ruled that individual member governments of the European Union offended against EU law if they signed Air Services Agreements with other countries which limited the use of traffic rights purely to airlines which are owned and controlled by their citizens. Such rights had potentially to be available to all EU airlines. If they were not, such discrimination was an infringement of the competition articles in the Treaty of Rome.

Following this judgement, it is just possible to conceive of the present system continuing, with individual EU governments removing the now-illegal discrimination in favour of their own airlines. This would almost certainly prove to be impractical. A more likely outcome is a completely new system, whereby the European Commission will take over the negotiation of external aviation relationships with other countries, on behalf of all EU member states.

In a first move in this direction, in 2003, the Commission asked for, and was granted, authority by the EU Council of Ministers for authority to begin the negotiation of a new Air Services Agreement with the United States, an agreement to cover all air routes between the EU and the USA. From the outset, it was clear that this was a highly significant development. Not only is the market between the EU and the USA a very large one in itself, but any agreement there will be watched closely by other significant aviation nations. It is very likely that the principles established by it will be widely followed in other markets too.

Exactly as one would expect, negotiations regarding such an agreement were long and tortuous. From their beginnings in 2003, it was not until November 2005 that a tentative agreement was reached.

The new agreement (if it is endorsed by the EU council of Ministers, which at the time of writing is by no means certain), is a significant, but not complete, step in the direction of true regulatory reform. It does not provide any significant access for EU airlines into the US domestic market, where the attitude of the United States remains stubbornly protectionist. It does, though, provide complete freedom in terms of international Beyond and Fifth Freedom rights, something which is likely to be especially valuable to US cargo operators such as Federal Express and UPS as it will allow them to set up networks inside the European Union. In addition, all restrictions on international designations will disappear, with each side free to nominate as many airlines as they wish to serve each international city pair. There will also be no restrictions at all on the number of gateways points on which service can be provided. Perhaps the most significant reform of all, though, will be in the changes which the new agreement brings to the question of airline ownership and control. The American side have accepted that there will in future be only a rule which says that airlines exercising traffic rights from the European side need only be controlled by European Union citizens. This will mean that for the first time, so-called ‘Seventh Freedom’ services will be possible, with, for example, an airline owned in Germany being able to fly a route from, say, Manchester to New York. The ‘European Union’ ownership clause, if, as seems likely, it is adopted more widely, will also allow cross-border merger and takeover activity amongst EU airlines to become a reality. This will then see Air France and KLM cement their already close relationship and may lead to other mergers – one between British Airways and Iberia looks as if it may be the first of these.

The question of the future regulatory scene which will face airlines, is still an uncertain one. It is clear, though, that the trend will be towards an increasingly liberally-regulated or deregulated marketplace. This will in turn require a response in terms of the business and marketing strategies that carriers pursue.

3:2:3 Marketing Policies for a Deregulated Environment

In many aviation markets today, airline managers are facing the challenge of change and adaptation. They were formerly able to enjoy the reassurance of regulated conditions, with limited competition and only a very slow pace of change. Today, economic liberalisation is giving new opportunities which must be exploited if success is to be achieved. It also brings new threats which must be countered effectively.

Given the nature of the challenges facing airlines, it would be naïve in the extreme to assume that these do not impinge on the marketing area of their activities. They most certainly do, with sound marketing policies for a liberal market being quite different for those which might be appropriate for a regulated one.

Above all other considerations, a deregulated situation requires that systems should be in place to enable decisions to be made quickly. New opportunities to enter routes will arise at short notice, and may disappear equally rapidly if another airline is able to react faster and take advantage of the potential first. Equally, it may be necessary to change the specification of the product quickly, if a competitor offers customers better value-for-money. Also, pricing policies will have to be adjusted frequently, with changes often being required on a daily basis or sometimes even more frequently than this. As we will discuss further in Section 6:1:2, a feature of regulated markets used to be that all airlines charged the same fares, and fares only changed infrequently, following an often tortuous set of procedures which needed to be undertaken in order to gain regulatory approval.

The situation in today's liberal markets is in strong contrast. The combination of the ending of regulatory controls on pricing and the advent of the ability to disseminate fares information instantaneously, through the spread of so-called Global Distribution Systems and over the Internet, (see Section 7:3) has meant that millions of fares now often change overnight at times of active price competition. No airline can now afford the luxury of a slow response at such a time.

If airlines are to make decisions quickly, certain conditions must be met. Decision-making processes must be streamlined, with flat organisational structures and, often, a degree of autocracy prevailing in the most successful carriers. Where possible, too, decision-making must be decentralised to the managers of small profit centres, where people will have a better understanding of the detail of local market conditions.

Up-to-date and accurate commercial information will also be needed. In a regulated market, little damage will result from a situation where details of financial performance do not emerge for months, or where such information is of dubious accuracy. In a deregulated market, it almost certainly will. Inaccurate or late information will cause opportunities to be lost and problems to go undetected until it is too late. Not only must information be accurate and timely, it must also incorporate a forecasting capability which allows the state of forward bookings to be monitored and corrective action to be taken where appropriate.

Besides having the flexibility to ensure that opportunities are exploited as they become available, marketing policies for a deregulated environment need to have a defensive component, to enable airlines to fend off potential competitors. Many carriers, particularly in the U.S.A., based their strategies for success under deregulation on the so-called 'hub-and-spoke' principle, whereby airlines set out to dominate as high a percentage as possible of the destinations served and the frequencies provided at a particular airport. High frequencies in themselves gave a protection against the attacks of competitors because they minimised the gaps available for rivals to mount an attractive schedule.

The question of the control of distribution channels is of prime importance in defining marketing policies for deregulated markets. The methods whereby control of wholesalers and retailers can be established are considered in Section 7:2. The firms which are successful in establishing and maintaining control will be those that achieve 'Superprofits', over and above the minimum levels necessary to keep them in business. The instability characteristic of a deregulated market will give many opportunities for the control of distribution channels to be contested and to change. Any airline seeking to be successful must maintain control of distribution.

In a liberal market, carriers also often have to change the basis of their advertising and promotional policies. Regulation means a slow pace of change. Promotional activities can therefore be focussed on long-term aims through corporate and brand-building advertising. In deregulated markets, however, a greater proportion of promotional spending must deal with tactical messages such as those announcing entry into new markets, changes to the product specification or fare reductions. It follows, therefore, that a different set of skills may be needed by the advertising agencies that airlines employ.

A final, but crucial, requirement for marketing success in a deregulated environment is a low cost base. As we have seen, competition under deregulation focuses to a large degree on the question of price. Low cost airlines can base their marketing strategy on the offer of attractive lower fares, and still be profitable. A high cost airline which matches or undercuts these fares will lose money as a result.

The need for low costs poses a special problem for mature, long-established airlines. These carriers had the luxury of developing their operations under regulated conditions, where price competition was either muted or absent. They therefore did not have a great deal of incentive to control their costs effectively. The result has often been that such airlines have carried an inappropriately high cost structure into the era of deregulation. Some have then successfully carried out the necessary changes. Others have taken on the appearance of dinosaurs, earning for themselves the unflattering title of “Legacy” airlines.

3:2:4 Privatisation

Historically, state ownership has always been important in the airline industry. Many governments regarded the existence of a national airline as an essential requirement for nationhood. Besides questions of prestige, an airline might bring benefits as a back-up for national defence capability, in employment, and in balance-of-payments and tourism income.

During the early years of the industry’s development, it was often felt that public, rather than private ownership was appropriate. Public ownership allowed governments to insist that their airlines sometimes worked to a wider set of objectives than those associated with the attempt to achieve profits. These wider objectives were designed to ensure that the airline maximised the contribution it made to the advancement of the national interest. It also gave governments the reassurance that their airline would survive, despite the threat of competition from better-established rivals.

Until the mid-1980s, almost all the world’s major airlines, with the exception of those from the USA, were state-owned. The Brazilian carrier VARIG and the Korean-based Korean Air were at the time rare exceptions to this general rule.

Since then, the situation has been transformed. The fashion in political and economic thinking has turned full circle, with the emphasis now on the benefits in efficiency likely to result from private rather than public ownership. At the same time, the airline industry has matured. It has become impossible to argue that a global industry such as aviation, now operating on a massive scale, is an infant one in need of the protection of widespread state ownership.

Many formerly state-owned airlines have now been fully privatised. British Airways, Lufthansa, Qantas, and Air Canada are examples. Many others have seen the proportion of their ownership which is state-controlled substantially reduced, to the point where only a minority of the shareholding is government-owned. Air France illustrates this latter change.

For marketing managers, airline privatisation brought both problems and opportunities. For those who worked for a carrier that had undergone privatisation, their task in many senses became an easier one. They needed to have only one objective, to assist their airline in achieving satisfactory profits for shareholders. Often, under government ownership, objectives to cover costs had in practice to be combined with such requirements as ensuring that domestic air fares remained low or that services were maintained on socially-necessary but financially unprofitable routes. Also, beyond argument, privatisation was often accompanied by substantial improvements in efficiency and the elimination of the bureaucracy stemming from political interference in decision-making.

For other airlines, privatisation has changed the competitive scene substantially. Competition with a state-owned airline has always been a different proposition from that with a privately-owned carrier. State ownership has always been a virtual guarantee that an airline would not be allowed to go out of business, with state subsidy being used to cover operating losses. State-owned airlines may, therefore, have been able to take greater risks in defining their business and marketing strategies, a factor which made it more difficult for privately-owned firms to compete effectively. At the same time, though, state ownership brought real problems. Government airlines often suffered from a poor image associated with subsidy and bureaucracy. They also sometimes had poorly-motivated staff, making it very difficult for them to implement changes designed to improve service to customers.

It should be noted that in the crisis that faced the industry after the terrorist attacks of September 2001, we saw the first reversal of the trend towards airline privatisation. Two airlines, Air New Zealand and Malaysia Airlines, were effectively taken back into public ownership. In both cases, it is highly likely that the airlines would have collapsed if they had not been renationalised.

This illustrates a very important feature of the relationship between governments and airlines – that many governments seem committed to maintaining an airline as a "national carrier", and that they will use taxpayers' money where necessary to ensure its survival.

3:2:5 "State Aid"

The question of political support given by governments to airlines in the form of subsidies has been a controversial one in recent years.

Following on from the events of September 11 2001, many governments paid compensation to airlines for the losses incurred during the four days after the attacks when United States airspace was closed to all commercial airliners. However, the US government's attitude regarding aid to the American airline industry went very much further than this. Large direct subsidies were paid to all the US major carriers. These were intended to cover not only the immediate losses due to the airspace closure, but also to compensate airlines for the effect of the severe and long-lasting traffic downturn which followed. As a further piece of state aid, US carriers were offered government loan guarantees of significant value. These allowed struggling US carriers to borrow money at much lower interest rates than they would otherwise have had to pay.

Given the nature of these arrangements, there have been accusations made in Europe that they have given US carriers a freedom to behave in a cavalier commercial manner. These accusations have become much stronger as successive US carriers - notably United, Northwest and Delta - have used the protection afforded to them under the Chapter 11 provisions of the US bankruptcy code to substantially restructure their operations.

In Europe, State Aid questions have a much longer history. When agreement was reached to set up the Single Aviation Market of the European Union in 1993, it was argued – entirely correctly – that government subsidies were incompatible with the concept. It was impossible for competition to take place on a level playing field when some government-owned airlines were receiving subsidies whilst privately-owned carriers were not.

Since then, the European Commission has attempted to police State Aid. In doing so, it has followed two principles. Firstly, that when State Aid is given to an airline, it should be possible to argue that the government that pays it is conforming to the so-called Economic Market Investor Principle. This means that a credible argument must be made that the government is offering additional equity capital, which a rational private investor would also have been willing to provide. In practice, the interpretation of this Principle has been that any fresh government investment in an airline must be matched by private sector investors on a 50/50 basis.

The other requirement in State Aid cases has been that additional state funding must not just be there to fund continuing operating losses. It must provide a breathing space for an airline so carry out much needed reforms so that it will be able to survive in the future without additional government support. The history of Air France illustrates this idea. The airline received very large injections of new equity from the French government during the middle 1990s on a "one last time" basis. Within a few years, the airline had emerged much stronger, and in recent times has been one of the more successful of the older-established European carriers.

The market downturn in 2000 and 2001 and especially the after-effects of September 11 2001 brought the question of state aid for European Union carriers into sharp focus once again. In the aftermath of September 11, one European Union airline – Sabena of Belgium – collapsed because it was not possible under the rules for the Belgian government bail it out to the extent that would have been necessary to ensure its survival. Several others – notably Alitalia and Olympic – may find such survival difficult or impossible given the combination of economic circumstances and increasing competition which confronts them, and the likely non-availability of further support from taxpayers. (Though up to the time of writing the Italian government has shown itself to adept at finding methods which seem to circumvent the strict interpretation of the rules regarding State Aid).

3:2:6 Airport Slot Allocation

The schedule of an airline will clearly be one of the cornerstones of the product that it offers. In turn, it will be the question – clearly a political one – of the ways in which airport slots are allocated which will decide on the schedule which can be planned, both in terms of the frequency of flights and their timings. Not surprisingly, slot allocation is a complex and controversial question.

The difficulties begin with the apparently straightforward question of agreeing what a 'Slot' actually is. It can be defined as "a pre-agreed time for a takeoff or landing to take place at a particular airport". This hides, though, a number of complexities. For a landing slot to have meaning, four different capacity constraints must be satisfied. Firstly, there must be capacity in the air traffic control system, to allow the aircraft to approach the destination airport. Runway space must be available, to permit the aircraft to land. There must be parking and apron space, so that turnaround procedures can be completed. Finally, terminal-processing capacity must be sufficient to enable passengers to pass through immigration and collect their bags in reasonable time.

Of course, for a departure, these capacity requirements must be satisfied in reverse. Also, for a departure slot to have meaning, the relevant arrival slot at the destination airport must be obtained, as must a further departure slot for the return journey once turnaround procedures have been completed.

All this brings us to the question of the methods by which slots at airports should be awarded. It might be assumed that because airport operators are responsible for the provision of the terminal, apron and runway capacity which allow slots to exist, they will also be able to decide which airlines use these slots. This is not the case. The only role of the airport operator is to define (in liaison, of course, with the relevant air traffic control authority), the maximum capacity of a given airport. In this way, the number of slots available for distribution is decided.

Once it has been, the actual distribution of slots is carried out by a "Slot Co-ordinator". In the past, it has been traditional for the largest airline operator at a particular airport to carry out the Slot Co-ordination function. This is still the situation that prevails at many airports today. It is, though, a totally unsatisfactory one. It reflects a past time when slot allocation was essentially an administrative function, where there were generally plenty of slots available in relation to the demand for them. Today, the situation could not be more different, with many airports suffering from a shortage of peak-time slots and some, such as London's Heathrow and Orly Airport at Paris virtually full throughout the day. The pressure is on for slot co-ordination to be carried out by more neutral and transparent bodies, and at many European airports in particular, multi-owned airline consortia have been set up to co-ordinate airport slot allocation. In the UK, the company that does this is called Airport Co-ordination Ltd. It is a consortium jointly owned by 13 airlines.

Whatever system is adopted to allocate slots, the fundamental principle which is followed is not in doubt. Slot Co-ordinators are required to award slots under what is known as the "Grandfather Rights" concept. The year is divided into two traffic seasons, "Summer" (in the Northern Hemisphere) from 1 April to 31 October, and "Winter" from 1 November to 31 March. Slots are awarded separately for each season, reflecting different demand patterns.

Once an airline has been awarded a slot, the requirement is that it should be used on a minimum of 80% of the occasions when it is available during the season in question (omitting such times as when it was not available due to weather-related disruption etc) Provided that they do, they will automatically receive the same slot for the next equivalent season. As reputable airlines normally have no difficulty in meeting the 'Eighty Per Cent Rule', it effectively means that slots are awarded to them on an "in perpetuity" basis. It should also be noted that no payment is made following an initial award of a slot. When they are awarded by the Co-ordinator, they are given away free of charge.

The Grandfather Rights principle has many defenders, particularly, as one would expect, from the long-established airlines who benefit most from it. These carriers argue that airlines have a particularly long planning cycle. Once an order for new aircraft has been placed with a manufacturer, two or three years may elapse before the aircraft are actually delivered (at least at times of buoyant demand). Once they have been, modern aircraft may stay in an airline's fleet for a period of 25 – 28 years. It would be impossible, (so the argument goes), to justify risking shareholders' funds on such costly assets, if it was feared that the most crucial requirement of all needed to allow the asset to produce profits for shareholders – the airport slot – could be taken away before the completion of the full operating life of the aircraft.

Though such arguments are powerful ones, they do not, of course, represent the only point-of-view. It is possible to say that Grandfather Rights represent a major distortion of competition in the industry. This is because they give opportunity to long-established (and perhaps undeserving) airlines, and deny such opportunity for fresh, innovative carriers, who might be able to deliver substantially better value-for-money to consumers.

Because of these criticisms, a great deal of thought has been given to the question of alternatives to Grandfather Rights in recent years, particularly by the European Commission. There is, however, little progress to report. An initial Directive on Slot Allocation was adopted by the European Union as long ago as 1993. This was intended to cover a three-year period, to allow time for a final Directive to be agreed. At the time of writing in the summer of 2006, no new agreement is in place and attempts continue to secure a consensus on what it should contain.

There has, however, been one major recent development in slot allocation principles. In 1999, the High Court in the UK gave what has turned out to be a historic judgement about the question of the buying and selling of slots. It has always been possible for airlines to exchange slots on which they hold Grandfather Rights. The 1999 judgement confirmed the legality of taking this one step further, by an airline with a less attractive slot time being able to pay money to another carrier with a more attractive time, to encourage the second airline to undertake a slot exchange.

This judgement has been taken by airlines, within the European Union at least, as a green light to openly buy and sell slots (there can be little doubt that such activity had been taking place on an under-the-counter basis for several years beforehand).

The open buying and selling of slots is being accompanied by yet more controversy. It amounts to the shareholders of airlines benefiting from the sale of assets which they certainly do not own, and which were originally given to them for nothing. It could be argued that airport operators should gain from the sale of the slots that they have created. More convincingly, it could be said that airport slots should be regarded as a national asset. If they are, the proceeds of any sales could go to the government and through this, hopefully, benefit everyone. This is exactly the policy that many governments have adopted in selling off third generation mobile phone licenses.

The other risk with the buying and selling of slots is that a greater and greater proportion of the available slots will come into the hands of a small number of large airlines. We already have a situation today where at many hub airports, a high proportion of the slots are held by just one airline. This is the case, for example, with Lufthansa at Frankfurt, Air France at Paris, KLM at Schiphol and (admittedly, to a lesser degree) British Airways at London Heathrow. It is highly likely that, in the future, these airlines will be able to outbid smaller, new entrant carriers for any attractive slots that do become available. If they can, they will be able to further cement their dominance of these major airports, to the detriment of competition and the consumer interest.

Despite these concerns, the movement towards a Slot Allocation system based on the buying and selling of slots, and with airlines pocketing the money from the slots whose Grandfather Rights they sell, now appears unstoppable. In marketing terms, this will undoubtedly give opportunities for airlines to grow their route networks and increase frequencies which would not have been possible had the old, purely administrative system for Slot Allocation continued. However, these possibilities will be bought at a high price.

3:3 PESTE Analysis – Economic Factors

If there is a clear and important interplay between the world of politics and airline marketing, there is a relationship of equal or even greater importance with economic change and development.

3:3:1 Economic Growth and the Trade Cycle

The demand for air travel is characterised by a very high income elasticity.

Therefore, as the world economy grows, so the demand for air travel can be expected to increase too.

This continuing growth gives both enormous opportunities and great challenges to the airline industry. The opportunities come with the chance to exploit a growing market, something which would be the envy of managers in many other industries. The challenges are to accommodate the growth through suitable infrastructure development and without unacceptable environmental consequences, (we return to this question in Section 3:6), and to exploit the demand whilst achieving the stable profits which the industry has so often found elusive.

Besides a clear pattern of growth, growth rates are uneven through time. Just as one would expect, air transport industry growth rates are tied closely to those in the world economy. If growth in the economy is rapid in a particular year, so is the increase in air travel demand. Periods of economic stagnation see a significant slowing of the rate of increase in demand.

This pattern has immense strategic and marketing implications. It is not sufficient for carriers to implement policies which allow for profits during prosperous periods if these same policies result in heavy losses or bankruptcy during the downturns in the trade cycle.

Unfortunately, the industry's past record is not encouraging. Too often, periods of buoyant demand have seen airlines over-invest in additional capacity. They have also commonly given too much emphasis to the First and Business Class market, a market which tends to be very strong when times are good, but which suffers particularly severely during a downturn when firms require their executives to travel in Economy or Coach Class to save money. A final problem often is that in upswing periods, insufficient attention may be given to the control of costs, particularly labour costs. Pay increases that can easily be financed in good times may turn out to be a crippling burden when, in a downturn, yields are forced lower because of an overcapacity situation, to levels which do not allow costs to be covered.

The upswing of the middle and late 1990s illustrated all these shortcomings. Large orders for new aircraft were placed with the aircraft manufacturers, with many of these planes actually delivered in 2000 and 2001 when market conditions were much less favourable. Labour costs were allowed to rise, with some airlines – notably so United Airlines – leading the industry by granting unprecedented increases in wages and salaries to a number of their work groups. Finally, some airlines changed their entire business strategy during 1997 and 1998, to focus very heavily on the booming market of so-called "Premium" travellers in First and Business Class. The flaws in this strategy became very obvious in 2000 and 2001, when recession ended the growth in this market and made its exceptional growth rates in the late 1990s look very much an aberration, far above any sustainable long-term level. British Airways is an example of an airline that appeared to make this serious strategic mistake.

After September 11 2001, there was a tendency to blame the severe financial problems experienced by many airlines on the New York and Washington terrorist attacks and their aftermath. The impact of these was undoubtedly severe but they merely substantially increased the extent of serious problems which already existed. These problems could be traced to the fundamental error of failure to take adequate account of the trade cycle in setting business and marketing strategies. One could perhaps feel easier about them if there was any sign that difficult lessons had really been learnt. However, the resumption of strong growth in the world economy in 2004 was followed by both Boeing and Airbus having runaway record years in 2005 in terms of the numbers of orders for new aircraft that they received. To some degree, these orders were explicable by the fact that both firms had launched new aircraft projects (the B787 and Airbus A350). Nonetheless, one was left with an awkward feeling that history may be repeating itself. This feeling was reinforced by announcements from several airlines that they were intending to increase the number of 'Premium' (First Class and Business Class) seats in their aircraft, and by the launch of a number of 'All Business Class' start-up airlines targeting exactly this segment of the market.

3:4 PESTE Analysis – Social Factors

Trends in social factors will have widespread consequences for airline marketing – indeed, in some senses, this is the most significant component of the PESTE analysis model as far as marketing policies are concerned**.**

3:4:1 The Ageing Population

In Europe and North America in particular, the average age of the population is now increasing steadily. Fewer babies are being born, and improving medical provision is allowing more people to live longer. (It should be born in mind, of course, that an ageing population is not yet at all characteristic of many countries in the Third World).

The ageing of the population has some obvious, and some more subtle, implications for Airline Marketing. Clearly, the product that airlines offer will have to evolve, with more provision being made for disabled passengers and those needing help at airports, and medical care services will have to be improved. There may also be opportunities for more specialist brands to be launched, reflecting the needs and aspirations of older people. In the UK, the SAGA brand is already a good example of this.

In terms of subtler changes, the travel industry may have to adjust its promotional policies. In advertising to promote leisure air travel, the industry still overwhelmingly focuses on images of fun-loving younger people. The very fact that such advertising implies that a resort area is likely to be popular with such people is likely to discourage many older people from visiting it.

3:4:2 Changing Family Structures

Just as the population is ageing, so in many Western societies, the traditional structure of the family is also changing. The rise in divorce and an increase in the number of one-parent families are well-established trends, which the travel industry has so far done little to accommodate. Still, holiday brochures overwhelmingly feature on their front cover a “traditional” family of a man, woman and two children. (Without exception, the children are always a girl and a boy). The truth is that there are very important sub-segments to the market, such as those consisting of singles, gays or one-parent families, whose particular requirements from a holiday should be reflected in promotional and product-planning policies.

3:4:3 Changing Tastes and Fashions in Holidays

Partly, but not exclusively, reflecting trends in age and family structures, the modern travel industry is having to adjust to a marked broadening in the range of requirements of vacationers. When holidays by air first began to become popular in the 1960s, most people wanted little more than a relaxing opportunity to sunbathe by a hotel swimming pool. This is not so today. Better education, growing experience of air travel and fears about the health risks of excessive exposure to the sun are all meaning that to a greater and greater degree, holidays must reflect a lifestyle based on individual choice. People expect to be able to pursue their hobbies while they are on holiday, with winter sports, golf, history and trekking holidays all now well-established sub-segments of the market. They expect to be able to take holidays of different lengths in order to fit in with their available vacation time. They also require opportunities to visit new and interesting, often long-haul, destinations.

Overall, the trend in the holiday market is often, and appropriately, described as “de-packaging the package”. People increasingly want a holiday experience which reflects their own individual requirements. They do not expect to be treated as part of a herd of cattle, to suit the convenience of the travel provider. We shall return to this theme in Chapter 9, dealing with the subject of Relationship Marketing.

3:4:4 The Uncertain, Deregulated Labour Market

Of all the social trends occurring in the 1990s and into the new century, none was of greater significance than the transformation which took place in the world of work. Before this, in many societies most jobs were seen as being secure for a lifetime. Today, the situation could not be more different. Redundancy and job seeking occurs – perhaps several times – in many people's careers. At the same time, pressures at work are far greater as people battle to keep their jobs, often with far less administrative support than they once had.

The changes in the job market have consequences for Airline Marketing policies, in both the business travel and leisure travel segments of demand. In business travel, the fact that people are under greater and greater time pressure means that issues such as the ability to make a day-return trip, rather than take two days, is becoming more important still in short-haul markets. On long-haul routes, for many executives, it is now a thing of the past to expect to take a day off on arrival to recover from tiredness and jet lag. They are now expected to arrive at a destination in the morning and step off the plane into a busy day of meetings. This places a premium on their ability to sleep on board the aircraft, and on facilities for them to shower and freshen up on arrival.

More subtly, greater work pressures are changing business travellers' perception of the role of air travel. Many now see a flight as a haven of peace in an otherwise over-demanding schedule. Issues such as in-flight entertainment are thus assuming greater importance.

For those who lose their jobs, or who perhaps voluntarily decide to take a greater control of their lives, self-employment or working for a small, independent firm are often options to be considered. In the UK, the proportion of the working population which is self-employed has more than doubled since 1980.

As was discussed in Section 2:3:2, self-employment has lead to the emergence of the so-called "Independent" sub-segment of business travel demand, where customer requirements are different from those of the corporate traveller.

The deregulated labour market also has implications for the leisure air travel market. In the 1970s some extravagant, and, with the benefit of hindsight, absurd promises were made that by the 1990s a utopia would have arrived. This was expected to result from the growing automation of industrial processes through the micro-chip, cheap computing power and developments in robotics. The outcome was supposed to be a dream world of increases in leisure time through a shorter day, a shorter working week, longer holidays and earlier, more prosperous retirement.

Now that the 1990s have passed, we can certainly see that the micro-chip has had a dramatic impact, but not in the way these forecasters had predicted. There has certainly been a growth in the aggregate amount of so-called leisure, but this has been unevenly and unsatisfactorily distributed.

For people who have a job, their working lives are now busier than ever before. Working hours are often longer rather than shorter, with working at home commonplace in the evenings and at weekends. Also, whilst holiday entitlements have often risen in principle, many people are reluctant to take their full allowances because of a "presenteeism" philosophy of trying to seem indispensable to the firms that employ them.

At the opposite end of the spectrum, we see people who have large amounts of leisure, but who lack the financial resources to be able to enjoy it to the full. The young unemployed are a clear example of this, as are those who, often despite their qualifications and experience can only find poorly-paid, often part-time, work. Particular issues surround those who have retired from work. In the past it has been fashionable to regard the trend towards earlier and earlier retirement as a very positive one from the point-of-view of the airline industry. It would, we were told, result in a larger and larger group of people with the time, money and inclination to travel by air a great deal. Present trends are sometimes leading to people retiring earlier (often reluctantly, because they cannot find work), and living longer. The result is that a bigger and bigger retired population is relying on a smaller and smaller working one to maintain the value of their post-retirement incomes. Sooner, it seems inevitable that the trends will reverse, with living standards for the retired population starting to fall and people having to retire later rather than earlier. If they do, this will be disappointing rather than encouraging news for air travel demand.

3:4:5 The Female Business Traveller

Until now, the business travel market has been overwhelmingly dominated by men. In the USA, still more than 70% of business travellers are men, whilst in many European countries the percentage is near to 80%.

Today, the role of women in the workplace is changing dramatically in many cultures. It is now usual for women to return to work after childbirth, and to expect to build a career alongside their male colleagues. Because of this, it is certain that the proportion of business travellers who are female will steadily increase. It is expected that a third of the North American business travel market will consist of women by the year 2010.

This is a change which is forcing airlines to re-think a number of components of their marketing. The most obvious areas are in aspects of product detail. For example, most airlines give toilet bags to their First Class and Business Class travellers. Only recently has it become common for separate bags made up for female as well as male travellers to be offered. Also, it has been shown that women are more likely than their male colleagues to check in hold baggage, and less likely to carry large amounts of baggage on board on aircraft. Increasingly numbers of female travellers suggest changes in the demands made on baggage handling systems.

More fundamental are issues associated with airline advertising. In the past, much airline advertising has had sexist undertones, with pictures of beautiful young girls ministering to the needs of men. In many cultures, such approaches will be less and less acceptable in the future.

3:5 PESTE Analysis – Technological Factors

3:5:1 Video-conferencing

Section 2:1 looked at the possible effect of video-conferencing on the demand for air transport. The conclusion reached was that it posed a significant long-term threat. It is unlikely to lead to a decline in the demand for air travel. It will, though, result in future growth rates for business air travel growth which are disappointing by historic standards. Business travel growth will tend to be below the growth rates for GDP rather then above them as has commonly been the case in the past. It will also increase the airline industry's already very substantial vulnerability to downturns caused by trade cycle fluctuations or wars and terrorist activity.

Given the nature of the threat, a progressively greater response will be required from airlines in their marketing policies. In terms of the product which is offered to the customer, greater and greater emphasis will be required on convenience to enable business travellers to fly with the minimum impact on their working time, allowing the benefits of a face-to-face meeting to outweigh the time required to travel to such a meeting. Issues such as a high frequency of direct flights with the right timings to allow for day return trips will become still more important.

Airline advertising approaches will also have to change. In the past, most airlines have simply concentrated on promoting the merits of their services against those of rival airlines. In the future, they will have to accept telecommunications companies as being amongst their most formidable competitors. Advertising will be needed which promotes the benefits of face-to-face meetings as opposed to conducting these meetings via video-conferencing or conference calls.

3:5:2 The Internet

The mid-1990s saw the beginnings of airline interest in the marketing possibilities opened up by the Internet. Since then, the growth in its use has been astonishing. At the time of writing almost all major airlines have websites which they use for promotional purposes, with these sites supplying timetable and product information and also often having an interactive component which allows people make bookings. Sites are also being used as a way of increasing the attractiveness of an airline's Frequent Flyer Programme by permitting programme members to check on their mileage accounts and also by giving the availability of flights with the surplus seats available for redemption. In the field of air freight, firms such as UPS and Federal Express allow customers to track their consignments as they move through the system using the Internet.

The greatest debates about the future role of the Internet in airline marketing concern its use as a distribution channel. Full attention will be given to the many controversies which currently affect the subject of distribution in the airline industry in Chapter Seven. For the moment though, it is worthwhile to note two issues in particular. Firstly, in recent years airlines have become more and more concerned about the amount of commission they have been paying to travel agents and other marketing intermediaries. Secondly, they have had to face the escalating costs associated with the booking fees charged to them by Global Distribution Systems (GDS) companies. Anger at these fees has been especially marked amongst airlines which do not have a shareholding in a GDS (or which have sold the shareholdings that they once had), and which do not therefore have the prospect of dividends on their investment compensating them for the booking fees they pay.

The Internet is now alleviating both these problems. If individuals or firms make bookings direct with the airlines through a personal computer, substantial reductions in both commissions and booking fees are now possible.

3:5:3 Surface Transport Investment

Today, many countries have seen a resurgence of interest in surface – especially railway – transport investment. Railway operators have largely won the battle to be viewed as the most environmentally acceptable form of transport. Investment is taking place in both new railways to provide fast city-centre to city-centre links, and in the tunnels to enable railway operators to extend their networks. This investment was especially notable in Europe, where during the 1990s as a whole, investment in railway infrastructure was more than three times as great as that in infrastructure for the aviation industry. This is now a trend which is spreading to other countries, notably so to China, with plans now in place for the construction of a high speed rail link between Beijing and Shanghai.

Surface transport investment provides both problems and opportunities in Airline Marketing. The problems come from the fact that, beyond question, railway investment can have a significant negative impact on the demand for air transport. The evidence from countries such as France, where new railway developments compete alongside formerly busy air routes, is that once rail can offer a city-centre to city-centre journey time of less than three hours, the effect on the air market is a substantial one. Worse still, the traffic that is lost tends to be the so-called point-to-point demand. Those who have been using air services to connect onto a long-haul flight at a hub continue to do so. As discussed in Chapter 6, the pricing practices adopted by airlines almost always mean that point-to-point traffic gives a much higher yield in terms of revenue per kilometre than connecting traffic does. The effect on the profitability of an airline's short-haul routes can therefore be even greater than the decline in demand would suggest.

The opportunities provided by surface transport come with the options which it opens up for airlines to co-operate rather than compete, with railway operators. As will be discussed in the next section, the future growth of the airline industry is now being jeopardised by growing shortages of runway and passenger handling capacity. Also, for most airlines, short-haul services tend only to be marginally profitable. The high incidence of fixed costs such as landing fees has always made it difficult to achieve satisfactory profits on these routes. On the other hand, many long-haul routes tend to be more profitable.

The opportunity of surface transport developments is for airlines to lobby for improved public transport links to major airports. If these come about, they will enable train operators to deliver long-haul passengers to airline hubs, thus freeing valuable airport slots for further long-haul services.

3:6 PESTE Analysis – Environmental Factors

It might be thought that environmental factors would pose broadly strategic questions for airlines, rather than ones with a specific marketing component to them. However, in a number of areas, environmental issues will affect both the nature and characteristics of airline demand. They will therefore have an impact on marketing activities. Also, environmental issues pose an increasingly important issue in terms of airline promotional policies.

3:6:1 Climate Change and Global Warming

Concerns about global warming are very controversial, with arguments continuing about the likely future extent of the current warming trend and its consequences. It does, though, now seem to be certain that in the future, average temperatures will continue to rise, with warmer climatic zones being progressively displaced towards the Poles.

If this happens, the effect on both the extent and patterns of air transport demand could be a substantial one. For example, in the UK, the summer of 2003 was exceptionally hot and settled. The months of May through to September were characterised by almost unbroken hot, sunny weather. Though welcome no doubt to many British people, this turned out to be unhelpful to the air transport industry. In 2003, demand for air-based packaged holidays to Mediterranean resorts fell by nearly 10% It was widely assumed that this was because many people who had left booking their holiday to the last minute (a trend increasingly characteristic of the market generally) decided to take a holiday at home instead of enduring the sometimes doubtful pleasures of a long flight by air.

Global warming may affect other, well-established markets. It now seems clear that one of the effects of rising sea surface temperatures is that tropical storms and hurricanes are becoming more frequent, especially in the Caribbean and the southern United States. This is already making people reluctant to visit these areas during the August to November period, when the hurricane risk is at its peak.

In the longer term, of course, climate change will begin to adversely affect rates of economic growth, with a marked effect in turn on the airline industry’s growth and profitability.

Important though such issues are, they do not represent the greatest challenge posed to the airline industry by climate change. The battle for hearts and minds will be a far more important and challenging one. There can be no doubt that air transport is significant in terms of the quantities of emissions of carbon dioxide and the other Greenhouse Gases increasingly being blamed for the warming of the world’s climate, and that it is becoming more so. Worse still, the industry is being accused of depositing these emissions high in the atmosphere, where normal meteorological process do not affect them. Their effect on the warming trend may therefore be even greater than the absolute quantity of emissions would suggest.

Not surprisingly, the industry is coming under more and more pressure from environmental groups. These groups point to the frivolous nature of much leisure air travel, and are arguing that people with a genuine concern for the future of the planet should curtail or, better still stop, the amount of air travel which they undertake. With air freight, they advocate that more food should be produced and consumed locally, to avoid the waste inherent in moving foodstuffs around world by air freight.

Winning this battle will not be easy for the world's airlines, nor should it be. At the time of writing, some airlines seem to think that it can be won by a public relations initiative, whereby airlines' role in the problem of climate change can be covered up or denied. Such policies are fundamentally in error, and will come back to haunt those attempting to implement them as the problems associated with climate change worsen.

Instead, the industry will have to demonstrate that it is investing as heavily as it can in the technological developments which will increase the fuel efficiency of aircraft. Every effort will have to be made to improve operating procedures, so that present wasteful burning of fuel because of indirect flight paths is eliminated. Research must being undertaken - and paid for - into alternative and cleaner fuels. Carbon Trading initiatives will also have to be enthusiastically embraced, even if they raise costs significantly.

When, and only when, such initiatives are in place does it become a legitimate role of Airline Marketing to put across a positive message on behalf of the industry. It will also then be sensible to place emphasis on the role that air transport can play in allowing poor countries to develop though tourism and through the export opportunities which air freight can provide.

3:6:2 Shortages of Infrastructure Capacity

Over the last three decades, the airline industry has made important progress in one area in ensuring that its activities become more acceptable, in that aircraft have become very much quieter during this time. Unfortunately, the result has not been an easing of the environmental pressures opposing aviation infrastructure investment. The lobby groups responsible for them have become still more vociferous and better organised.

The result of these pressures is that it is not possible, and probably never will be possible, for the aviation industry's infrastructure to be expanded at the pace, and in the locations, that airlines would ideally like. This may mean that some of the industry's growth plans cannot be brought to fruition. In many other cases, compromise and adaptation will be necessary in the face of growing shortages of infrastructure capacity.

3:6:3 "Tourism Saturation"

All tourism-receiving areas have a finite capacity. This may be due to factors such as the limited amount of accommodation that can be provided. More importantly, though, over-exploitation of a tourism area can mean that the reasons for people going there are often destroyed. These reasons may include prestige and status through the exclusivity of a resort, natural resources such as wildlife, or un-crowded access to sites of historic importance.

The so-called "Tourism Saturation" effects of over-exploitation may not affect the total amount of air travel undertaken for leisure purposes. They will, though, have a substantial effect on its geographical distribution, and provide a challenge for all managers of resort areas.

Overall, the marketing environment of the airline industry provides a crucial background against which airline managers must develop their marketing policies. These policies clearly cannot be formulated in isolation. Instead, they must reflect the background factors illustrated by the PESTE analysis model.

SUCCESSFUL AIRLINES ……

✈ Are those which conduct a thorough and on-going review of their marketing environment, and take full account of this in preparing their marketing policies.