

# Transport

## Key concepts

The main concepts covered in the chapter are:

- The different modes of transport
- Commercial versus subsidised transport operations
- State intervention in the transport market
- The complex distribution system in transport
- The nature of competition within transport.

## Introduction

The transport sector is very broad in scope and approaches to marketing will vary greatly between different modes and countries. Some of the main factors that influence the nature of marketing within the sector are discussed in this chapter.

There is diversity in the *modes of transport* which all have different strengths and weaknesses as far as consumers are concerned. These include:

- air – scheduled and charter services
- rail – modern trains and historic steam railways
- sea – cruise liners, ferries, narrow boats and canal barges
- road – private cars, car rentals, taxis, long-distance coaches, local buses, bicycles, motorbikes, horse-drawn carriages
- off-road – horses, walking, cable cars, téléphériques.

Transport involves *private-, public- and voluntary-sector organisations* with their different *marketing objectives*. While private companies seek to maximise profit, state-owned operators often have broader aims including providing a service for the community. The limited number of voluntary-sector bodies in transport tend to use leisure as a means to an end rather than an end in itself. For example, most of Europe's steam railways are run by voluntary bodies who use the income from passengers to conserve the railways and maintain them.

Even within individual modes of transport, there can be distinct differences in ownership and marketing objectives. Perhaps the best current example of this is the airline business in the European context.

Many scheduled airlines in Europe are state owned or controlled, so that they are allowed to make losses. British Airways, on the other hand, is a wholly private company which has to generate profits and is thus very marketing – and market – orientated.

From a marketing point of view, an interesting point is that many charter airlines are owned by tour operators as part of their vertical integration strategies. Thus, often, they do not set their own marketing strategies, but rather play their part in the implementation of the strategies of that parent company.

This point is linked to the fact that while sometimes it is sold as a self-contained product in its own right, *transport may also be sold as part of a larger composite product*. For example, it may be combined with accommodation to form an inclusive tour. In this case, the price the consumer pays is a single price for the complete package, so that they are unaware of the amount they have actually paid for the transport element of the package.

*Some transport markets are not free markets*, but are state controlled in some way, so that normal concepts of competition and pricing are of little relevance. Such markets include intra-European air travel and the private-car sector due to state taxes on petrol and road use.

The *transnational nature of many transport operations* such as airlines, ferries, car hire and international rail services. This means that marketing policies have to take account of national differences in consumer behaviour, economic factors, legal regulations and operating practices.

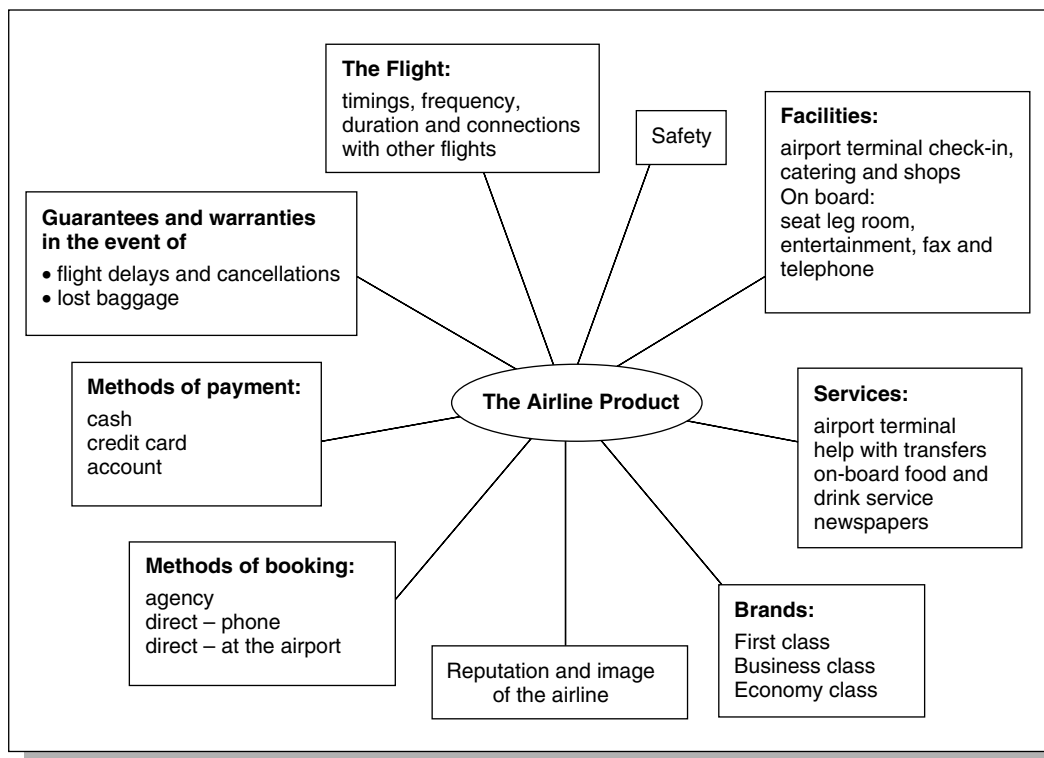
*Technological innovations* can change the nature of existing transport products or create new ones. An excellent recent example of this is the Channel Tunnel which has given consumers a totally new mode of transport for crossing the English Channel/Le Manche, and given the ferries a new competitor.

The *product* offered by most modes of transport is the opportunity to be transported from one place to another at a time chosen by the consumer. But to achieve this, the product represents a sophisticated bundle of elements and characteristics. These can be illustrated, if we take the example of a scheduled airline. Its product is shown in Figure 18.1.

Increasingly, transport operators are seeking to augment their basic product with *add-on-services* that generate more income but also satisfy more of the consumers needs. For example, the French state railway, SNCF, offers a range of extra services to its passengers, including car hire, bicycle hire and accommodation inclusive packages. It also operates a range of coach excursions across France.

However, the *transport product is susceptible to changing factors outside its control which affect the quality of the product*, before it can be offered to customers. For example, airport congestion across Europe is a problem at peak times and causes delays to flights. Strikes and civil disorder can also be a problem for transport operators.

While most modes of transport are simply ways of travelling from place to place, some forms of transport can be attractions or even tourist destinations in their own right. These include the Orient Express, major cruise liners, and, until recently, Concorde.



**Figure 18.1** The scheduled airline product

Pricing policies in the transport sector are often influenced by *state intervention* in the market, either through statutory price-fixing and subsidies or through taxes on particular modes of transport. In sectors such as the scheduled airlines, there has been a tradition of price-fixing in relation to the state flag carriers in each country covered by a route.

However, both private and state transport operators also make use of commercial tactical approaches to pricing, such as *discounts*. If we take the airline business as an example, discounts are given to the following customers:

- franchises;
- regular customers;
- group bookings including conference delegates and people on inclusive tours;
- people taking flights at less popular times such as midday flights on popular business travel routes;
- passengers who purchase promotion and offer tickets that have strict conditions such as no cancellation refunds.

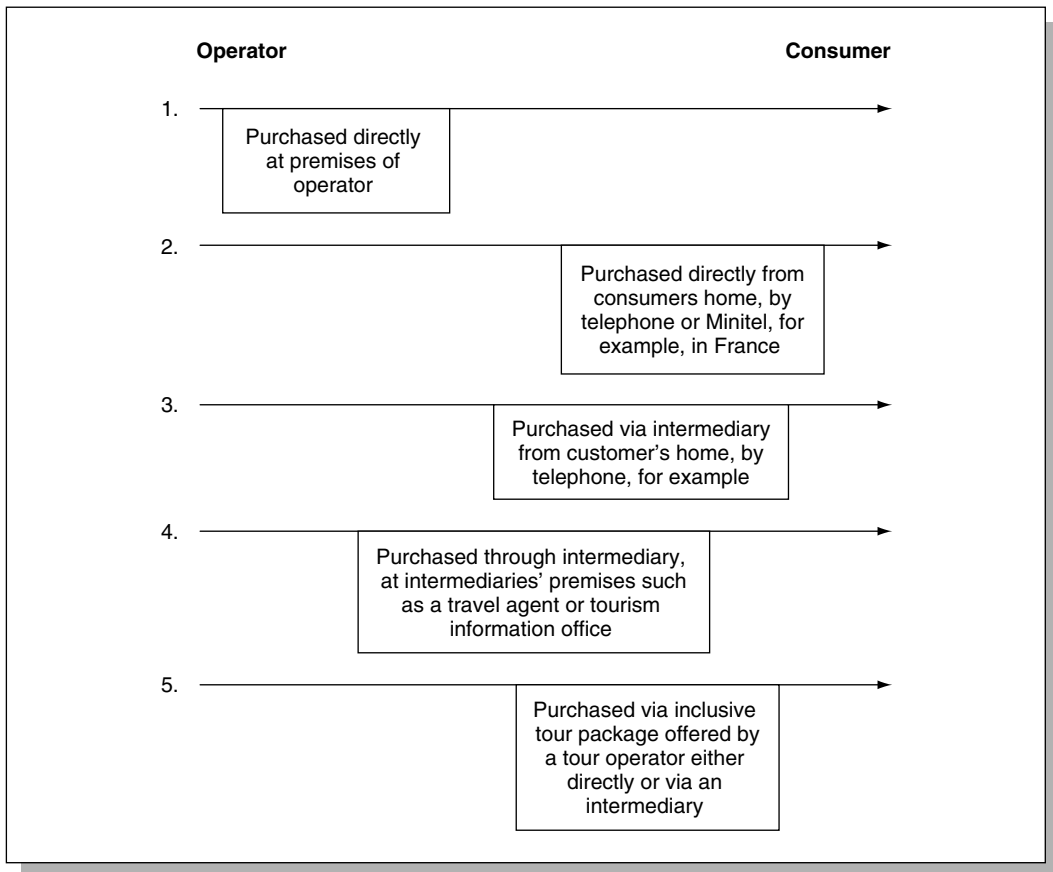
*Last-minute discounting* is common, as airline seats are a perishable product that has no value once the aircraft has taken off. Therefore, given this and the high fixed costs involved in operating a flight, airlines often heavily discount tickets at the last minute so that they can at least gain some revenue from the seat.

Many transport operators, particularly those in the public sector, also offer *concessions* for social reasons, to groups of customers who are thought to be disadvantaged in some way. These groups usually include the elderly and students, for example.

Most modes of transport appear to have *complex pricing structures*, particularly based on who the customer is and when they are travelling. This is particularly true of rail services and airlines. This can make it very difficult for customers to decide which ticket they should buy. It also often leads to a situation where people who are ostensibly receiving the same product or service can be paying very different prices. On a flight from London to Paris, for example, two people, sitting next to each other in Economy Class, could have paid prices for their tickets that vary by a factor of up to 700 per cent.

*Distribution networks* in the transport sector can be very simple or very complex.

The main distribution channels, however, are shown in Figure 18.2.



**Figure 18.2** Distribution channels in the transport sector

Some airlines, for example, are now seeking to *sell directly* to their customers to save the commission they have to pay to the intermediaries. This is being made more practical by technological developments which are taking place.

The growth of the budget airlines across Europe, for example, has allowed companies such as Easyjet and Ryanair to develop large profitable businesses with the use of Internet selling.

In general, *technological innovations* are changing the nature of distribution in transport in general and airlines in particular in a number of ways, including Global Distribution Systems (GDS) and Smart Cards.

The major *promotional techniques* used by transport operators include the following:

- (i) The most important piece of promotional print is the timetable, which can be difficult for the ordinary traveller to read, and is often only available to marketing intermediaries rather than customers in the case of airlines. The use of promotional brochures rather than informational publications is generally found most often in the transport sector in relation to ferry services.
- (ii) In terms of advertising, television is used by major operators, particularly where new services are being launched. At the same time, considerable use is made of the printed media.
- (iii) Great use is made of sales promotions, four examples will suffice to illustrate the point as follows:
  - Promotional fares which are used to introduce new routes or to fill seats at quiet times. These may simply be low fares or added-value fares where one adult pays a normal fare while their partner travels free of charge.
  - Frequent flyer programmes which offer a range of benefits for regular customers to encourage brand loyalty. Examples of these include American Airlines' 'Advantages' programme and the 'Frequence Plus' scheme operated by the Air France group. These frequent flyer programmes have helped the airlines to develop ongoing relationships with their regular customers.
  - So-called 'piggy-back' promotions where purchasing one type of product gives consumers an opportunity to enjoy a special deal in relation to another type of product. For instance, in the early 1990s, the UK food retailer, Sainsbury's, ran a promotion with British Airways where customers who spent a certain amount of money at Sainsbury's were eligible for reduced price tickets on British Airways.
  - Schemes whereby certain groups of customers such as retired people and students can buy cards which allow them to special prices. These are particularly common amongst state railways. In France, for example, SNCF has a range of cards with titles such as 'Carte Vermeil' and 'Carte Kiwi'.
- (iv) Direct selling is largely restricted to relations between operators and marketing intermediaries such as travel agents, operators and major corporate clients.

The *transport market* can be segmented in a number of ways which also has an impact on the marketing function as follows:

- Geographical factors, in other words, where people live and work, as this determines the potential demand for transport on particular routes.
- Demographic factors such as age, sex and even religion. The latter is particularly relevant in relation to the type of catering offered by airlines, for instance.
- The reasons why people travel, particularly the split between business and leisure. For rail operators, the former are more likely to use first-class services while for airlines they represent the main market for 'business class' brands.
- Differences in purchasing behaviour such as how often in advance people purchase their tickets, where they buy them from and which payment method they use.
- Some people are regular users of particular transport services, while others use them rarely, maybe only once in their lives. While both sets of customers will demand safety and reliability, they will differ in terms of their main requirements of the product. Regular users will want an easy hassle-free low-key experience while the occasional user may want a more memorable experience.

*Competition* within the transport sector tends to be of two types, namely:

1. between different modes of transport;
2. within the same mode of transport between different operators;

Throughout the transport sector, operators seek to use the following tactics to achieve competitive advantage:

- speed, namely how quickly they can move the customer from where they are to where they want to be;
- convenience, so that the customer can travel when they want to, with the least effort possible;
- price, including the use of tactical pricing such as discounts and concessions.

However, as we saw earlier, the transport market does not allow free and fair competition in a number of ways including the following two main ways:

1. where a state operator has a virtual monopoly within one mode of transport, for example rail services in almost all countries;
2. where the state subsidises one or more operator within a market where nonsubsidised operators are trying to compete. This is the situation in the domestic airline market in France, for example, where the private airline TAT seems to compete with the state-subsidised Air France Group.

Perhaps the two most interesting examples of *competition between modes of transport* in Europe at the moment are as follows:

- (i) In the business travel market, the competition between high speed trains and aircraft in relation to short-haul routes in countries like France. Competition is intense, for example, on the Paris–Lyon route between SNCF and its high speed TGV trains and domestic airlines. It appears that the train is beginning to win this battle with its ability to transport people at high speed from city centre to city centre, without the need of airline passengers to travel to and from out-of-town airports and check-in for their flight. Competition for the airlines is set to grow with the introduction of trains in France, for example, which will be capable of travelling at some 500 kilometres per hour. The only way airlines may be able to compete with this is through the airports like London City, which are based within cities and use small aircraft that need little time or runway distance to take off. However, as yet, these do not appear to be very popular with business travellers.
- (ii) In the leisure travel field, the competition between Eurotunnel and the ferry companies on the routes across the English Channel/Le Manche. Eurotunnel offers speed, with a 35-minute crossing time. However, the ferries have fought back with new ships that offer shopping opportunities, sophisticated catering and are selling the time spent on board as part of the holiday, rather than merely as a mode of transport. The term ‘mini-cruise’ is being used to emphasise this point.

Good examples of *competition between different operators within the same mode of transport* include the following:

- car-hire companies at European airports and in city centres;
- scheduled airlines on well-used intra-European routes such as London to Paris;
- ferry companies in the Baltic and North Sea.

While competition is often beneficial for the consumer, the breaking up of state monopolies and the encouragement of private operators and competition can have a downside for the consumer.

*Transport operators who wish to expand and grow, follow a variety of strategies, some of which we will now briefly discuss.*

1. *Marketing consortia*, which carry out cooperative marketing activities.
2. *Strategic alliances*, particularly in the airline sector, such as the Star and One World Alliances whereby countries cooperate and share routes to optimise profitability and increase the size of their potential markets.
3. *Acquisition* or the purchase of equity in other operations, which is how the Scandinavian-based Stena group has grown to become a major player in the ferry industry in Northern Europe.
4. *Joint ventures* with other operators to create new carriers such as the abortive project to create Air Russia by British Airways and Aeroflot in the early 1990s. Joint ventures can also involve governments like the partnership behind the renowned Hong Kong Disneyland park involving Disney and the Chinese government.
5. *Franchising*, which British Airways has used within Europe to increase its influence in the marketplace. Under its franchise agreement, the franchisees operate routes in British Airways livery and fly under British Airways flight codes. Such agreements exist between British Airways and Maersk Air UK, and Manx Airlines (Europe) and Loganair.
6. Developing *ancillary activities* which either add value to or increase business for the organisation's core business. This point is illustrated by the following examples:
  - Ferry companies, like Brittany Ferries (France) and the Color Line (Norway), for example, which operate inclusive tour operations which combine ferry travel with accommodation, usually based on car travel. This clearly generates business for the ferry service.
  - Likewise, airlines which develop tour operation products based on their schedule.
7. Offering *facilities* so that modes of transport can become conference venues in their own right, rather than simply being the way in which people travel to a conference.

One interesting development of transport marketing is the increasing tendency of different modes of transport to work together. In Germany, for example, there is cooperation between airports and state rail services, while there are well-established, mutually beneficial relationships between car-hire companies and airlines.

## Conclusion

We have seen in this chapter that while the various modes of transport differ greatly in their nature, there are also similarities in the ways in which they are marketed. This is particularly true of the modes which are most relevant to tourism, notably air, rail and ferry. However, we are aware that the most popular form of transport in Europe, namely the private car, has largely been excluded from this discussion. This is somewhat ironic given that the car has been at the heart of the history of leisure and tourism. In the early days, it stimulated the development of both by making new places accessible and creating new types of activity such as caravanning. Now, however, the mass use of cars is making it more difficult to maintain the quality of leisure and tourism experiences because of pollution and congestion. It could be argued therefore that there is a need to concentrate on the *de-marketing* of this particular mode of transport.

## Discussion points and essay questions

1. Compare and contrast the approaches to marketing taken by railway operators, ferry companies and airlines.
2. Identify and discuss the core, actual and augmented products within the airline sector.
3. Critically evaluate the range of promotional techniques which are used in the transport sector.
4. Discuss the nature of competition within the transport sector.

## Exercise

Prepare a list of all the transport operators – air, rail, sea – who are currently competing for business travellers and leisure travellers on the London–Paris route. You should then undertake the following tasks:

- (a) Describe the product each one offers and identify the key differences between them.
- (b) Examine the prices they are charging, including the discounts that are on offer.
- (c) Evaluate their brochures and advertisements in terms of their likely effectiveness.

Finally, you should attempt to decide which of the organisations appear to have a competitive edge and explain the reasons behind your choice.