

BUSINESS STUDIES

Business Report – Structure

*FF= Frequent Flyer

VA= Virgin Australia

Executive Summary

This report will critically examine Qantas's marketing strategies including their product, promotion, price and place strategies in order to achieve the several marketing objectives they have set in the past few years.

Background Info

In recent years Qantas has struggled to achieve profits and growth due to increasing competition and economic conditions bringing their overall market share of Australia's aviation industry from 35% to 20% in a decade. Therefore Qantas must revise and/or create new marketing strategies in order to respond to the increasing competition, and must follow certain procedures that will inform them on how to respond to the changing business environment.

Situational Analysis (How Qantas determines their position)

SWOT Analysis

Strengths: 65% domestic, 90% corporate market share. FF is the largest loyalty scheme in Australia largely due to Oneworld and other alliances e.g. Emirates and Woolworths. Successful launch of Jetstar. BRAND IMAGE.

Weaknesses: Brand image is strong but fragile: Poor management of Industrial Disputes and the exploding Boeing A380's exposed both Qantas's nationalist and safety reputation. Jetstar's poor customer service reputation.

Opportunities: Expansion into Asia through new premium airline and Jetstar Japan, technological advancements through E-Commerce and aviation technology, other partnership negotiations e.g. MasterCard

Threats: Increasing competitiveness of rival airlines e.g. VA and Tiger Airways, Govt. regulations, Ending partnership and \$44 million joint marketing campaign with Tourism Australia.

Market Research

1. Identifying Information needs e.g. customer's buying preferences, brand preferences, needs and attitudes.
2. Identify and Select Data Source: Must be accurate, up to date and relevant to Qantas's marketing strategies.

Primary: By Qantas e.g. customer surveys, complaint monitoring, monitoring FF customer transactions

Secondary: Other Sources e.g. govt. stats, media articles and Roy Morgan Research

3. Analyze and Interpret Data (put into strategies) e.g. Primary: Due to customer surveys, Qantas has replaced cold food with hot food boxes, as well as hired Chef Neil Perry to redesign their menu.

Marketing Objectives

Will be based on Market Research info

2013 Objectives include expansion into Asia, Emirates and AirAsia alliance (refocusing on international strategy), grow FF network, improve social media relations, take greater advantage of mobile technology, maintain 90% corporate market share.

Target Market (segmentation)

If Qantas segments their marketing mix, they can adjust their strategies to better meet the needs of different customers and focus on that particular segment e.g. Economy, Business and First Class targets different target market.

Qantas uses Psychographic/behavioral segmentation, based on customer's lifestyle and motivations e.g. leisure and business travelers, and Jetstar to target cost sensitive travelers.

Marketing Strategies

Product

Strategy: Frequent Flyers (FF)

Reasons: Relationship marketing is one of Qantas's greatest assets, with over 9 million FF members. One of the main reasons Qantas has maintained their 90% corporate market share. Provides Qantas with market research database, 3rd party sponsorships provide another stream of revenue for Qantas.

Positives: By allowing customers to earn and redeem FF points on 3rd party sponsors e.g. Woolworths as well as giving them access to other benefits such as Qantas Lounge, it provides further comfort and flexibility to FF customers (especially in the corporate segment), giving customers an incentive to fly with Qantas, thus increasing their market share. This also puts pressure on Virgin Australia to improve its loyalty schemes in order to compete with FF.

Negatives: Some routes cannot earn FF bonus points, could take away FF's incentive to fly with Qantas. Also benefits such as Qantas lounge would require high costs due to staff, maintenance and other costs, and these costs are in turn passed on to plane tickets, which may drive away non FF members.

Results and Modifications: Constantly looking to expand e.g. recent alliance with Emirates allows both FF and Skywards members to redeem points on any Qantas-Emirates flight, largest loyalty program=advantage over rival airlines, more alliances mean Qantas customers can buy other products from 3rd party sponsors e.g. iPad minis. Developing new FF card with MasterCard called "MasterPass", gives FF cards the same abilities as a MasterCard e.g. increased security and allows access to over 35 million locations.

Strategy: Brand Image

Example: 'Spirit of Australia', Reputation as a quality airline, introduction of A380's

Reasons: Allows Qantas to be clearly identified from their competitors

Positives: Helps justify their high margin prices because of their reputation of having the best service and airplanes i.e. A380s in Australia. Excellent safety record further enhancing brand image, thus giving customers looking for a quality service incentive to fly with Qantas

Negatives: Brand image is extremely high maintenance. For example, the recent A380 engine failure has created uncertainty about their quality of service, and poor handling of the 2011 Industrial Dispute after grounding their fleet has damaged their reputation as the 'Spirit of Australia', therefore damaging its brand. Furthermore, the ending of the Tourism Australia sponsorship further damaged brand image and has given rival airlines such as VA to take the lucrative spot.

Modifications: Qantas has used media releases in response to the negative publicity e.g. ensuring customers that the engines have been checked and fixed by the manufacturer and try and resolve the Unions Dispute ASAP.

Strategy: Scheduling

Examples: Expansion into Asia through Jetstar and new premium airline, including new Qantas lounges in Hong Kong and setting up more alliances to expand Network in Asia

Reasons: The Asian middle class is on the rise due to the increasing incomes of emerging economies, and Asia is currently experiencing an annual 4.8% in annual world traffic growth, and is also the largest aviation market with 26% of global passenger traffic. China has also recently announced a \$232b investment into the aviation industry to build new airports.

Positives: Growing market and the appeal of Jetstar to a price conscious market in an emerging economy such as China allows Qantas access to a very large and still growing market. Expansion into Asia before rival Australian airlines could become a huge competitive advantage in the future.

Negatives: Some Asian economies such as China are still highly protected to e.g. domestic routes could limit Qantas's growth opportunities, while the new premium airline they announced may not be able to capture the price sensitive leisure traveler, which is still the majority segment of the Asian market.

Promotion

Strategy: Blanket Advertising

Example: You're the Reason We Fly, Qantasyou.com (E-Marketing),

Reasons: YTRWF was aimed to create a 'modern, contemporary' look to the Qantas brand.

Positives: Many of the people receiving the message from YTRWF i.e. blanket advertising are not the target market, and the most the ad can create is brand recognition.

Results and Modifications: While the YTRWF campaign has been criticized by a recent SMH poll as being the 'Most boring airline ad ever', their qantasyou campaign has generated some buzz, with Qantas promoting the opportunity that people who submit their names and photos onto their website will have the chance of appearing on a Qantas aircraft, and this was further developed after Qantas set up photo kiosks at Westfield shopping centers to geographically expand their promotion. So far, it has generated over 2000 Facebook 'likes' which is decent. However, this is still not as effective a promotional campaign as VA, who has focused on 'upheaving customer experience' by introducing new airplanes and focusing on being a budget airline that also offers service. The upbeat mood of this ad has generated a much more positive reaction among critics and audiences.

Strategy: Direct Advertising

Examples: FF e-mails and newsletters

Reasons: Reaches target market most likely to repeatedly travel with Qantas i.e. Business Travelers

Positives: Much more cost efficient than blank advertising.

Negatives: Does not bring in any more market share, only maintains a current customer base.

Strategy: Publicity

Examples: Sponsorship of Ellen DeGeneres and sports such as the Olympics

Reasons: To promote the Qantas brand, or enhance their image

Positives: The ED campaign would have been exposed to many potential customers geographically because her show is broadcasted among several countries including the US and NZ.

Negatives: Could potentially in turn lessen Qantas' brand image, as many articles covering such events also have a comments section, where many criticize Qantas on how notoriously bad their services have become.

Results: Olympics sponsorship was a high potential, yet high risk venture that hasn't paid off for Qantas. The poor performance of the Australian Olympics Team and the swimming scandals may have consequently damaged Qantas's brand image. Meanwhile, VA, who sponsors the AFL is able to take advantage of the fact that this is the most consistently watched sport in Australia, and are also able to promote package deals e.g. AFL grand final package which has a potential market of about 100,000 customers in a small period of time

Price – Only variable that can be changed quickly and as often as needed

Strategy: Full Fares

Examples: Qantas

Reasons: Used during peak demand times e.g. holiday periods, special events e.g. Olympics.

Positives: Provides flexibility as full fares can be refunded and changed, which is crucial to business travelers, who may have meeting delayed or cancelled etc. at any given time. Highest margin for profit pricing strategy.

Negatives: Other airlines offering fares at lower prices during these times may capture a greater market share than Qantas

Strategy: Promotional Fare

Examples: Current LA to Sydney discounted 30% off, or holiday packages such as Dubai Connect which also offers complementary meals, hotel and Visa costs.

Reasons: Non-Peak demand times, Marketing is trying to boost sales, or participating in an alliance based strategy e.g. Dubai Connect is a result of the Emirates Alliance.

Positives: Higher sales help to ensure smooth operation in times of fluctuations in demand.

Negatives: May cause long term drop in Full Fares demand i.e. highest profit, as there are many customers who wait exclusively for promotional fares, which will also lead to loss in profit margin

Results: Short term increase in sales, Long term decrease in profit

Strategy: Price Penetration – lowest price possible

Examples: Jetstar, Qantas's lowest price guarantee

Reasons: Jetstar – to capture the low cost market created by competitors such as VA and Tiger. Qantas used a 'lowest price guarantee' on Australian Retail Websites to promote traffic into Qantas.com

Positives: Lowest price is assumed to capture the highest market share

Negatives: Lowest margin for profit, also lower prices could diminish how the consumers see the quality of the product

Strategy: Loss Leading

Examples: Jetstar when it was introduced

Reasons: To capture market share, generate customer awareness

Positives: Drives up demand for the product and brand awareness

Negatives: Qantas will be operating at a loss, and if the demand becomes overloaded, customers unable to purchase tickets may become unsatisfied with the service. Similarly, if demand is too low, then Qantas made a loss in exchange for practically nothing

Results: For Jetstar, it was extremely successful, and has now captured some of the low cost domestic market share which Virgin had a monopoly on, by offering even lower prices.

Place

Strategy: Direct – By Qantas

Examples: Qantas.com

Reasons: Saves up to \$30/seat from agent fees

Positives: Represents 90% of Jetstar's ticket sales, and 67% of Qantas's domestic bookings

Negatives: Resources will be required to maintain and update the website.

Results: Expanded website to be accessible to over 34 countries and 7 languages to expand geographically, receives up to 9 million visits/month

Strategy: Indirect

Examples: Travel agents e.g. Flight Centre

Reasons: Accounts for the majority of bookings and ticket sales for Qantas

Positives: Reputable intermediaries with expertise could increase sales for Qantas

Negatives: Commissions paid to agents on every sale reduces Qantas's profitability

Monitoring and Controlling

Monitoring

Financial Forecast Revenue: Stats, past sales and surveys of consumer buying intention. Qantas then estimates the costs of research, promotion, distribution etc.

Sales Analysis: Breaking down sales by different products e.g. Jetstar and Qantas, segments and territories.

Market Share analysis: Comparing business sales with performance of competitors e.g. VA and Tiger Airways.

Market Profitability Analysis: Profitability of products measured as a % of sales e.g. in 2012 Jetstar's profits rose once again by 20% while Qantas recorded a net loss of over \$200m.

Controlling

Expansion of Frequent Flyer alliances through MasterCard and Emirates

Introduction of Jetstar Japan and Jetstar Hong Kong to meet the rising middle class in Asia's developed and emerging economies.

Increasing route frequency in Asia to meet rising demand

Introducing a new domestic fare structure which was simpler and more flexible

Legal and Ethical: Qantas may also have to change their marketing strategies should they be ethically incorrect e.g. Qantas was put on warning by ACCC after failing to publish true costs of fares with hidden extra charges on Qantas.com, and Jetstar has had to improve customer service after being put on notice by Fair Trading Act due to a number of complaints by customers.

Conclusion