

Article 14 – Doing the right thing

If you are not “doing the right thing”, how well you do it is immaterial. Business strategies are “doing the right thing” and are developed on the basis of a certain set of assumptions in a particular context.

If the context changes or the assumptions are no longer valid, the business strategy has to be reviewed. Every business strategy has a use-by date but it's not one that can be calculated in advance.

For students of business strategy, there can be no more fascinating case study than the Australian airline industry.

Ever since the advent of Compass broke the two-airline duopoly of Ansett and Qantas, Australia's domestic airline industry has been flying into turbulence. Compass 1 and Compass 2 hardly made it beyond take-off, Ansett crashed and a fledgling Virgin Blue was the main beneficiary. After four years of taking it to Qantas, Virgin Blue has been out-maneuvred by Qantas with its cut-price subsidiary Jetstar. Virgin Blue is hurting and its major shareholder, Chris Corrigan, is calling for a truce in the price war that most would claim Virgin Blue started

How the worm has turned – but what does it all mean in strategic business terms?

First – some basics.

A business strategy has three components:

- Ψ The markets to be served
- Ψ The products to be supplied
- Ψ The way in which the business will compete with its competitors – what makes it different and better?

So the first thing that makes the Australian domestic airline market such a tough one is demographic and geographic. Our population is both small and highly concentrated along the eastern seaboard in five major population centres. What this means is that any airline with national – as opposed to regional - aspirations has to target every segment of the flier market and has to fly essentially the same routes. Moreover, market expansion is focused on new travellers who are highly influenced by ticket prices. An added complication is that the regular Australian air-traveller has very high expectations and demands a high frequency of flights between the major destinations. The higher the frequency demanded the greater the number of planes, the greater the number of crew, the higher the seat costs per kilometre etc, etc.

Differentiating the product is also difficult. With an average flight time of something less than two hours, cabin service – in economy at least – is rudimentary. The in-flight entertainment is basic and the food even more so.

The terminals, check-in counters and baggage collection operations vary little although this was not always the case when Ansett was still in business and Virgin Blue was banished to the back blocks at the major airports. This would have suited Virgin Blue. It differentiated the airline from its two competitors, reinforced the image of the little (Aussie?) battler and comforted the traveller that the cut price fares had been made possible through economies such as these and not at the expense of safety.

Virgin Blue's business strategy was clearly evident in this early period. Target first time travellers, families – “Good morning, ladies and gentlemen, boys and girls” – the young and pick up some of the disaffected Ansett and Qantas regulars as a bonus.

The seeds of the current strategic problems now facing Virgin Blue were sown following Ansett's collapse.

The bigger Virgin Blue grew, the more like Qantas they became.

The more like Qantas they became the more important for them to extend their market reach to the corporate sector, the frequent fliers who regard convenience and the racking up of frequent flier points as much more important than the cost of the ticket.

It is one of the ironies of the airline industry that the capacity to offer cheap fares actually increases with the number of full fare passengers carried.

However, despite the resistance put up by Qantas, Virgin Blue continued to make inroads into its market share but it became difficult for the airline to remain faithful to its original market positioning. It becomes hard to project that image of the little Aussie battler “keeping the bastards honest” when its CEO was talking of a 50% market share and becoming one of the bastards themselves.

And then came Jetstar.

This is Qantas' masterstroke. It's a classic example of a business strategy counter punch that has checkmated Virgin Blue.

Looked at from the Qantas perspective, it has enabled the airline to attack Virgin Blue in its heartland market. It's a classic pincer movement. Qantas itself is well able to compete with Virgin Blue in the business sector and its creation of Jetstar as a separate entity has enabled it to do what neither Qantas nor Virgin Blue can do and that is to target a specific market sector – the domestic leisure traveller.

It has cleverly limited the ability of Jetstar to cannibalise its own market. One can only fly to Adelaide, Sydney and Brisbane from Avalon so no business traveller is going to drive three quarters of the way to Geelong to get a cheap airfare to one of these destinations.

From Virgin Blue's perspective, how does it respond? It cannot compete with Jetstar price wise over the long term because its cost base is higher. The domestic leisure traveller has no brand loyalty – decisions are based on price – safety is assumed. If Virgin Blue goes more up-market, it faces the very difficult task of prising more business travellers from Qantas. If it does a "Jetstar", there would be major over-capacity and unlike Qantas and the real Jetstar, a permanently low fare Virgin Jetstar *would* eat into Virgin Blue's own market.

If one summarises the three components of Jetstar's business strategy, it is easy to see why the Jetstar experiment has been such a success.

Market – highly focused – geographically the eastern seaboard – target market – the domestic leisure traveller

Product – meets the primary need of the domestic leisure traveller for low fares. Does not have to compromise the delivery of low fares by catering for travellers who have very different needs.

How does it compete? – Jetstar is positioned to reflex the mood of its clientele. It's professional but it's bright and not too serious – using Magda Szubanski to promote it was a stroke of genius.

In short – it's different and better.

It's also a helluva strategic conundrum for Virgin Blue to solve!

Business strategies follow a life cycle very similar to the ones that products experience. Assuming that it's "right" initially, the most testing time for the strategists is when the strategy starts to mature and competitive turbulence sets in.

Dealing with success is much more difficult than dealing with failure.

Ask Virgin Blue – and ask Jetstar in two years time.