Does the Customer Really Matter?

The Achievement of Sustainable Competitive Advantage

Through

Relationship Marketing

A Case Study of European Low Cost Airlines

Master’s Thesis in International Marketing, 15 credits

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Halmstad, 2009
Stefanie Kupka and Thierry Jamart
ABSTRACT

Nowadays, the European airline market is characterized by two major different airline business models; the full service airlines and the low cost airlines. Secondary, appeared for the first time in 1985 in form of the Irish low cost carrier Ryanair. In recent days, the European low cost market stands out through its growth potential and high competitiveness. Therefore, startup companies aiming to join the wave of success as well as insolvency of newly established airlines are part of the daily occurrence. The challenge, that established low cost airlines are faced with, is to create competitive advantages against new entrants and direct competitors under the circumstances of environmental changes. In addition to the described problem a model was developed in order to picture the situation. This paper aims to provide an answer to the specific question: How do low cost airlines use relationship marketing in order to enhance, maintain and attract new customers? The second step is to figure out how those tools affect the airlines generic strategy.

The purpose of this study is to find out how low cost airlines in Europe deal with tools of relationship marketing and what are the effects those tools have on generic strategies.

This thesis is based on a case study within the European low cost airlines market, with a special focus on three airlines: Ryanair, EasyJet and Air Berlin. These questions are addressed using information obtained in interviews with respondents from the airlines that were recently conducted in Brussels and Bremen by personal interviews and additionally by telephone interviews and email contact.

The results show that relationship marketing tools are used in a different extent by the airlines. The authors could not find evidence that using relationship marketing tools is the single solution to compete more successfully than without. It is further argued by the authors that RM is just one aspect strengthening the generic strategy in order to gain sustainable competitive advantage.

Keywords: Low Cost Airlines, Relationship Marketing, Sustainable Competitive Advantage
**ABBREVIATIONS**

<table>
<thead>
<tr>
<th>Abbreviation</th>
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<tr>
<td>CA</td>
<td>Competitive Advantage</td>
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<td>LCA</td>
<td>Low Cost Airline</td>
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<td>RM</td>
<td>Relationship Marketing</td>
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<td>SCA</td>
<td>Sustainable Competitive Advantage</td>
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<td>VFR</td>
<td>Visiting Friends and Relatives</td>
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1. INTRODUCTION
The introduction chapter consists of a background of the subject that will be researched followed by a problem discussion, which in turned is followed by the purpose of this study along with definitions, delimitations and a general disposition.

1.1 Background and problem discussion

Nowadays, the economic world and its borders are changing faster and faster in terms of size and speed. Move through the world is no longer a luxury but an obligation for many people. A few years ago, people with significant financial resources or business could afford to travel. Now, students as well as people with average incomes are moving much more for professional or private reasons such as programs to study in a foreign country, new business areas for little companies, city-trips or short vacation.

It is for this reason that in recent decades the number of airlines worldwide has been increasing. Within all airlines, a new type emerged in the U.S. early’70s: the low cost airlines. The first low cost airline was Southwest Airlines which began operations in 1971 and was profitable only in 1973 (Oliveira and Huse, 2008). According to Beigbeder (2007), a low-cost airline (LCA) is standing out from others by the following characteristics:

1. Connections with airports and not always focused mainly due to lower taxes and a rotation higher flights.

2. A standardized offer with a single class for travellers, a single model of aircraft for the same company as well as the absence of call organized by the company directly.

3. Simplified services as free placement within the aircraft, having a meal but only by paying and a lack of loyalty program to reduce the costs of most loyal customers (Always apply in companies’ traditional air).

4. Maximum capacity utilization on the Internet for various services.

5. A process of production through optimized to obtain more seats (reduction of individual space in the unit), the largest rotation of aircraft, reducing the time to stop using secondary airports, maintenance and maintenance improved since the fleet is quite young and staff training very precise for it to be as productive as possible.
With the deregulation of European skies early 1990s, the phenomenon emerged in Europe with twenty years behind the Americans (Beigbeder, 2007). Some airlines to low-cost as Ryanair (Ireland) and Easy Jet (UK) have emerged and are still now among the most active on the market. In addition, many companies such as Ciao Fly, Goodjet, AirLib or Aeris Express could not be profitable enough to continue their activities on the market in the nineties. In the last recent years the low cost airline sector in Europe has grown immense and has experienced a large number of failures or take-overs (Mason and Alamdari, 2007).

The development of low cost airlines is strongly linked to the establishment of a law to deregulate the sky. This bill calls for a liberalization of flights on a territory and therefore the abolition of private agreements between companies. It means that airlines are only bound by the following a departure airport and an airport. Of course that nuance has fundamentally changed the development of the market because the market has been made more accessible. It has led to attract a larger number of companies but also to strengthen and increase competition on a specific market. The low cost airlines have thus precipitated on whether to invest in Europe (Balcombe, Fraser and Harris, 2009).

The competition between low cost airlines is becoming increasingly fierce, but competition with the traditional airlines (Full service airlines) is also very present. Since the early 2000s, the traditional airlines are facing with a danger due to the significant expansion of low cost airlines. Indeed, events such as the fear of terrorism with the policy of George W. Bush or fever epidemics in Asia have plunged the aviation industry into a crisis. But this crisis has not affected everyone. While the airlines had financial problems every day, the low cost airlines became more profitable. Because of low operating costs for airlines to lower prices, the latter becoming increasingly important as the price of a ticket is a determining factor in choosing a ticket for consumers.

Although deregulated areas support the expansion of low-cost, last 5 years a wave of creation of this type of business emerged in Southeast Asia and Oceania. Those geographical areas are still undergoing regulation in the sharing of the sky. The law can influence but not the only criterion for a new location. Plans are underway to develop such enterprises in Saudi Arabia and Mexico (Beigbeder, 2007).

The authors of this thesis aim to illustrate the situation of the low cost airlines industry following a marketing point of view by a model. This model is based on different theories and
combines two different approaches. The first one is the competitive advantage (Porter, 1985) and the second one is the relationship marketing approach (Day and Wensley, 1988).

First, a competitive advantage is a position that a company occupies against its competitors (Porter, 1980). The three methods for creating a sustainable competitive advantage are through:

1. **Cost leadership**: cost advantage occurs when a firm delivers the same services as its competitors but at a lower cost.

2. **Differentiation**: differentiation advantage occurs when a firm delivers greater services for the same price of its competitors. They are collectively known as positional advantages because they denote the firm's position in its industry as a leader in either superior services or cost.

3. **Focus (economics)**: A focused approach requires the firm to concentrate on a narrow, exclusive competitive segment (market niche), hoping to achieve a local rather than industry wide competitive advantage. There are cost focus seekers, who aim to obtain a local cost advantage over competition and differentiation focuser, who are looking for a local difference.

A firm possesses a sustainable competitive advantage when its value-creating processes and position have not been able to be duplicated or imitated by other firms. Sustainable competitive advantage results, according to the resource-based view theory in the creation of above-normal rents in the long run (Porter, 1998). The primary factors of sustainable competitive advantage are innovation, reputation and relationships (Peteraf, 1993).

Porter’s approaches of competitive advantage and sustainable competitive advantage build the base of the model by explaining how sustainable competitive advantage can be achieved through a generic strategy. Following the model, each low cost airline is based on a generic strategy. According to Porter (1980), a generic strategy is a strategy followed by a company that give a choice between cost leadership, differentiation and focus as explained above. All those choices could give a leadership depending on objectives of every company. A perfect generic strategy could generate a competitive advantage and by this gives sustainability to a firm (ibid).
In order to assess sustainability as a low cost airline company market success factors as the management’s ability, the response of the customers, the relationship to segments of the aviation value chain and many more factors has to be treated as important factors (Barrett, 1999). To have the focus just on one strategy, for instance price leadership, will be unsustainable in the future. Especially when the company is willing to grow it is inevitable to sustain its competitive advantage by setting the focus secondary on the development of for the company unique capabilities and experiences (Lawton, 1999).

Second, the approach by Day and Wensley (1988) complete the model by adding the concept of relationship marketing in order to visualise the connection towards the strategy. Relationship marketing is a method of targeting, attracting and retaining good customers of a company (ibid). The purpose of this method is to better understand and identify the needs of these customers in order to offer their best products and services in return (Liou, 2009).

Finally in order to make this model dynamic, factors such as environmental changes or competitors that have an effect on the implementation of a strategy are included. Different factors will influence the company’s generic strategy and more specifically industry competitors. This part below will explain how factors affect the generic strategies and the low cost airlines sector. Factors are environmental changes, competitors, customers and relationship marketing as a tool.

First, environmental changes could not be ignored. The business environment is changing with the globalization and is causing the increasing global competition. Due to the dynamic business environment, manager’s effort can just bear fruit if they are able to stay competitive and particularly be prepared for continuous and unexpected changes (Gursoy and Swanger, 2007). These changes presents referring to Kangis and O’Reilly (2003) an opportunity to improve the strategies which were adopted by competitors in the low cost airline sector in order to response to these external driving forces.

Second, competitors influenced the market. New entrants with aggressive competitive ideas entered the market with the strict goal to gain competitive advantage (Kangis and O’Reilly, 2003). Significant changes on the global as well on domestic markets drive managers to react. Through the development of skills, attitudes and knowledge managers of companies and organizations try to compete on the high competitive markets. But by marketing services internationally specific problems might appear. Competition has not automatically been something terrifying it is rather important for the market because it keeps the market dynamic.
and due to competition customers are provided more choices. The more competitive global competition is the more choices of products and services are provided for the customers (Gursoy and Swanger, 2007). These choices are affected by the prices, product range and customer service provided by the competing companies (Internet reference: “Business studies: a competitive market”).

Third, it is also really interesting the fact that customers have a relation with low cost airlines. Those customers are controlled by the company thanks to tools of relationship marketing. There is a relation between customers and companies that could influence generic strategies and all the superior part of the model (Liou, 2009).

According to Barrett (1999) one requirement to develop a successful low cost airline is among other things a large support by customers. European low cost airline such as Ryanair has been very successful in attracting customers with its low fares over the last years but implementations from the past does not protect against the growing competitive environment and furthermore not against the changes in customers perception towards the low cost model. Passengers might have accepted that the low service provided by the airlines is related to their low fares but in the future passengers expect the low cost airlines to provide additional service (ibid).

The customers perceive through the great choice the capable of providing new experiences and furthermore the satisfaction of their needs. Under these circumstances companies need to take into consideration that customers tend to feel less risk of dissatisfaction when they switch to alternative services or products which leads to the assumption that customers are becoming less loyal to one particular supplier (Doole and Lowe, 2008). Consumer loyalty is the totality of feelings or attitudes that would incline customers to consider the re-purchase of a product, service or brand or re-visit a particular company, shop or website. It is a key point for business success (Dick and Basu, 1994). In the case of Ryan Air and Easy Jet which are basically known as low cost airlines pressure was put on national flag carriers due some changes in every element of the marketing mix (Doole and Lowe, 2008).

As a result increasing cost in marketing communication need to be taken into account. Additionally, companies are more aware of the costs that arise by acquiring new customers but they do not consider that retaining customers might be relatively less costly for the companies (Doole and Lowe, 2008). On the one hand the lifetime value of a customer might be considerable but on the other hand if a customer switches to another supplier might be
considerable too. According to Doole and Lowe (2008) both, customer and supplier, profit from the existence of relationship marketing.

Low price may increase the number of the low cost airlines customer base but it cannot according to Lawton (1999) guarantee customer loyalty even not if it has the lowest price upon all low cost airlines on the market. The lowest price cannot protect the company to lose market share as long as the LCA fails to recognise changing customer demands and needs (ibid).

Fourth, relationship marketing is a tool that could affect the generic strategy. Relationship marketing enables companies to communicate in a more affective and effective way by using more qualitative messages to reach existing and potential customers and to get a better understanding what they might expect from the company (Doole and Lowe, 2008).

Relationship marketing differs from the general marketing in the way that its focus is more on the company and the customer instead of, for instance, price and product (Gordon, 1998).

Figure 1: Synthesis of Porters competitive advantage and relationship marketing approach by Day and Wensley (1988).
During the last decades low cost airlines formed the competitive environment within the liberalized markets which further had enormous impact in the domestic passengers market all over the world. As a matter of fact the growth of low cost airlines is three time higher than growth of full service airlines (O’Connell and Williams, 2005).

Low cost airlines differ primarily from the full service airlines in term of service and above all through price standards (Barrett, 2004). Due to the increasing competition within low cost airlines on the European market branding is becoming more important. Product and service differentiation can be seen as a strategy to stand out from the crowd meaning the direct competitors. Furthermore, building brand recognition in such a competitive environment enables low cost airlines to compete (O’Connell and Williams, 2005).

At present Ryan Air and Easy Jet, for instance, are the two biggest players of the low cost airlines on the European market with 50% of the seat capacity in Europe. It is prognosticated that many of the current low cost airlines will have left the hard-fought market in the short to medium term (Pate and Beaumont, 2006).

Previous surveys like those of O’Connelly and Williams (2005) have shown that a significant proposition of passengers would not switch to another low cost carrier. For instance, 28% of Ryanair’s passengers would not change to another airline, which means that they are loyal towards one airline. In addition, the study of O’Connelly and Williams (2005) support the assumption that passengers’ choice of low cost airlines have very different reasons. Furthermore, the main reason for passengers to select low cost airline is caused by their low fares.

1.2 Problem formulation and purpose

Following those environmental factors, low cost companies try to keep and maintain their customers with loyalty factors and/or relationship marketing tools. This study will focus on how low cost companies use relationship marketing in order to enhance, maintain and attract new customers. The second step is to identify how those tools should affect their generic strategies.

Based upon the problem discussion and background above, the purpose of this study is to find out how low cost airlines in Europe deal with tools of relationship marketing and what are the
effects those tools have on generic strategies. Our research question is: Can Relationship marketing be seen as a tool affecting the generic strategy in order to achieve sustainable competitive advantage in the European low cost airline sector?

1.3 Delimitations and disposition

The authors will focus on Porter’s competitive advantage and the relationship marketing defined by Day and Wensley in a marketing context regarding to the company’s face. By this, authors exclude the consumer’s point of view.

The thesis follows also a process in which every chapter lies as a foundation for the next chapter. After introducing and discussing the subject, the theoretical framework functions as the base when gathering the empirical findings. By analyzing the empirical findings and using the theoretical framework, a conclusion could be drawn to answer to the author’s purpose.
2. THEORITICAL FRAMEWORK

A literature framework will be presented in this part of the paper by using earlier research and literature about competitive advantage and relationship marketing.

2.1 Competitive Advantage

In this first part a review about competitive advantage will briefly be given. In the last decades many researchers attend to focus on the competitive advantage (hereafter CA). Among these researchers Porters’ assumption toward CA were referred by many followers and need to be highlighted in this paper. Indeed, Porter was not the first researcher who described CA. According to Hoffman (2000), Alderson (1965) maintains in his work “Dynamic Marketing Behavior: A Functionalist Theory of Marketing” as one of the first that firms should make an effort to create unique characteristics for their consumer in order to distinguish themselves from their competitors. Alderson`s assumptions were treated with respect by other researchers and seen as ahead in his time. Later, Hall (1980) and Henderson (1983) consolidated the assumption that firms must find or create unique advantages if they want to survive in a competitive environment. First interpretations, about how firms can learn to create new advantage, that silhouettes the firm from the competitors, were for instance made by Hamel and Prahalad (1989). At the same time, Day and Wensley focused in their work “Assessing Advantage: A Framework for Diagnosing Competitive Superiority” from 1988 on two sources which are involved in the creating process of CA. These categorical sources are superior resources and superior skills. These ideas were used in further research by Barney (1991) who states that just firm resources that possess four specific attributes hold the potential of sustainable competitive advantages (hereafter SCA). These attributes are value, rareness, inability to imitate and to be substituted. According to Hoffman (2000) who points out the working paper “The comparative advantage theory of competition” of Hunt and Morgan (1995) that dispose potential resources being most usefully categorized as following: physical, legal, financial, organizational, human, informational and relational. Referring to Prahalad and Hamel (1990) a firm should combine its skills and resources in order to achieve core competencies which are characterized as doing exceedingly well in relation to direct competitors.
As mentioned before, competitive advantage became an important and well discussed issue in many studies during the last decades. It becomes apparent that there is no common meaning for competitive advantage neither in marketing strategy literature nor in practice (Day and Wensley, 1988). According to, for instance, Porter (1985) a firm must choose and implement a so called generic strategy to achieve competitive advantage. By generic strategies approaches are meant to outperform competitors in the industry.

**Competitive strategy**

To be able to compete in an industry it is vital for every firm to have a competitive strategy by taking offensive and defensive actions to create a defendable position (Hall, 1980). These strategies can be on the one hand implicit which means that they arose through activities of the different departments of the firm or on the other hand explicit through the development of a planning process (Porter 1980). One important question that arises is “How can the firm defend its competitive position to compete in the long run?”

The development of a strategy implies to develop a wide formula concerning the way how the business is going to compete, which goals should be reached and what kind of tools can be used and are needed to realize the goals (Barney, 1991). It is further argued by Barney (1991) that a firm can reach a sustained competitive advantage by the implementation of a unique and value creating strategy which has not been or will not be implemented by competitors. It is furthermore value creating when competitors are unable to duplicate the benefits of the strategy. Rostro and Grudzewski (2008) fundamentally highlight Porters assumptions toward CA which is resulting from the value a firm is able to create for its customers. In order to create CA these three strategies can be chosen: cost leader, differentiation and focus strategy.

A sustainable competitive advantage can be reached according to Porter (1985) through the following three strategies which are cost leadership, differentiation and focus which will be discussed further above.

**Cost advantage**

In general by cost advantage is meant that the firm offers the same service like another firm but just for a lower price. This first strategy is to achieve cost leadership in an industry operated through a range of functional policies (Hall, 1980) but to do so cost leadership requires an aggressive construction of profitable facilities, cost reducing methods, tight cost
and overhead control as well as avoidance of low costumer accounts and the minimization of costs in different areas like service, R&D, advertisement and so on. Being a low cost producer requires to find and exploit all possible sources of cost advantage (Porter 1985).

In spite of strong competitive forces, above-average returns for a firm in its industry can be brought through a low cost position. As Porter (1985) argues the individual cost position can defend against rivalry from the competitors. While competitors compete away the profits of the firm through rivalry, the low cost firms still have the advantage of earning returns because of their lower costs. Anyway, low cost cannot be constant as long as company maximizes the efficiency of its operations (Lawton, 1999). Summarized it means that a low cost position protects the firm against all five competitive forces:

**Figure 2: Five forces driving the industry competition.**

**Differentiation advantage**

A firm which is able to create something that is unique (Hall, 1980; Henderson, 1983) and offer greater service for the same price like its competitors achieves the differentiation advantage. The approaches of differentiation can have many forms for instance, design and a well known brand image, a strong reputation, technology, customer service and so on. In addition to, gains in image, reputation and quality will be not just beneficial for the firm as well as a cost to the consumers (Lumpkin, Droge and Dess, 2002). However, it is mentioned by Porter (1980) that the differentiation strategy does not allow a firm to ignore the cost factor but rather the costs are not the primary target in this strategy. As far as differentiation is
achieved, it is a suitable strategy for obtaining above-average returns in an industry. Furthermore, by following this strategy a defensible position for dealing with the five competitive forces is created. In addition to, differentiation provides prevention for rivalry by competitors (Alderson, 1965; Hall, 1980; Henderson, 1983) since brand loyalty by customers and a less sensitivity to price. Due to the resulting customer loyalty and the need for competitors to overcome the uniqueness emerged by differentiation turn out to be entry barriers. Achieving differentiation may in some cases exclude to attain a high market share and will apply a trade off with cost position. The required activities to reach this position in differentiation are accordingly more costly. It has to be considered while some consumers appreciate a firm’s predominance, in turn not every consumer might be willing to pay the higher prices (Porter, 1980).

These two advantages are better known as advantages of position because it denotes the firm’s position in a segment as a leader either in price or in service.

**Focus advantage**

The third strategy to achieve competitive advantage is the focus strategy which is used by companies that want to position themselves into market niche. This strategy is focusing on a specific buyer group, geographic market or segment of particular product line. Similar to the differentiation strategy, the focus strategy may take many forms. The whole strategy is built around serving a special target very well. The strategy draws on the assumption that the firm is able to serve its particular target as effective and efficient than no other competitor in the industry (Porter, 1980).

**Stuck in the middle**

All these three generic strategies may help the firm to deal with the competitive forces but a firm is never protected in failing to develop a strong strategy in at least one of these three directions (Porter, 1985) or core competencies even if the firms have the potential (Hamel and Prahalad, 1990). As mentioned before a CA can just result on the one hand from implementing a value creating strategy or on the other hand through the improved implementation of the same strategy like the competitors (Bharadwaj, Varadarajan and Fahy, 1993). If a company fails to use its resources and skills successfully, it is stuck in the middle which describes a very poor strategic situation. This can also result in lacks in market share and capital investments by insisting to follow the low cost track as well as the differentiation
strategy or focus but just with low success in each strategy. Once stuck in the middle, it needs great effort and time to successfully and sustainable reposition the firm (Porter, 1980).

**Sustainability of competitive advantage**

A competitive advantage can just be sustained when competitors are unable to imitate the strategies benefits (Barney, 1991). Day and Wensley were named by Hoffman (2000) as the first that surfaced the idea of sustaining the competitive advantage through the help of different types of strategies. The term sustainable competitive advantage, how it is actual used by the authors, emerged in Porters discussion about how firms can possess differentiation and low cost through basic types of CA in order to achieve SCA.

It should not be neglected that the forms of competitive advantage cannot be suitable over a long term because competitors might duplicate them. The achievement and maintenance of a SCA is seen as a fundamental basis for a firm’s long-run success. Furthermore, CAs will only be realized when the firm manages to combine assortments of resources in order to achieve unique competency that is from special value for the market place (Morgan and Hunt, 1996). Therefore, it is vital to understand which behaviour und furthermore resources lead to SCA (Varadarajan and Jayachandran, 1999).

Above all, sustainability of competitive advantage can just be reached when the value creating processes and the position cannot be imitated or duplicated by competitors and competitive advantage can just be sustainable over a long term when the firm creates above-normal rents in the long run (Morgan and Hunt, 1996; Porter, 1985).

**Value chain**

By looking at the firm at the whole, competitive advantage cannot be identified. Furthermore, it emerges through many different non conspicuous activities in a firm like producing, marketing, distributing and so on. The firms individual cost position can be contributed by these activities and additionally build a foundation for differentiation. In order to understand the behaviour of costs and get to know were sources of differentiation coming from, it is vital to have a look at the value chain which disaggregates a firm into its relevant and strategically used activities (Porter, 1980). Firms that perform these important activities strategically cheaper and better than its competitors might gain competitive advantage (Porter, 1980; Prahalad and Hamel, 1990; Peteraf 1993)
The value chain of a firm is seen as a tool to diagnose the firm’s competitive advantage. By following Porters statements, every firm is characterized as a collection of activities (Hoffman, 2000). These activities are conducted to plan, to produce, to market, to deliver and to support the firms’ product (Porter, 1985). The way a firm’s value chain performs its individual activities.

The way the individual activities of a firm’s value chain are performed is a result of its past, its chosen strategy, the approach of implementing strategies and the activities themselves. Although firms in the same sector may have almost similar chains, but competitors value chains might differ. Competitive advantage can become advantaged through differences among competitors’ value chains (Henderson, 1983; Hall, 1993). Porter (1985) describes five generic categories of primary activities which are involved in competing in an industry: Inbound Logistics, Operations, Outbound Logistics, Marketing and Sales and Service.

One potential source for gaining SCA is the relationship marketing because of its rareness and difficultness for competitors to duplicate (Morgan and Hunt, 1996).

### 2.2 Relationship Marketing

Relationship building, in the meaning of obtaining resources, is from great importance when it comes to creating sustainable competitive advantage. It is proposed that resources should be transformed in higher-order resources or in other words competencies which are from special interest for the firm to achieve a CA. In addition, it is therefore difficult for competitors to duplicate the whole process of long-term relationship building due to immobile resources like trust, reputation and loyalty (Morgan and Hunt, 1996).

Day and Wensley’s (1988) framework pictures the firm’s competitive environment as the first phase in the achievement of SCA. In contrast to other studies measuring performance outcome by market share or profitability, as pioneers Day and Wensley (1988) combined the customer’s with the competitor’s perspective to assess the performance of the firm.
2.2.1 Relationship in marketing services perspective

Today, most active companies in services perspectives are developing processes to maintain and retain their customers. These processes aim to create a strong consumer base before thinking to expand and contact potential customers (Payne, Christopher, Clark and Peck, 1995).

Keeping customers already involved in an enterprise is a concept that has several advantages (Berry, 1983):

1. It allows a company to maintain and build a better image.
2. Such a procedure increases the number of customers because it is easier for a company to have a fixed number of clients and some prospects to convince rather than to lose a large number of customers in each sales campaign and having to bring many new ones to compensate for this loss.
3. A company can save money. Indeed, retain and attract a number customers costs less money than if a company need to start whenever a new advertising and/or promotion campaign to attract a large number of potential customers.

This principle has become a golden rule in many sectors, particularly in the aviation sector since the deregulation of the sky. Indeed, this decision led to an increase competition and it is very important for low cost airlines to retain as much as possible their customers. For all of these reasons, the concept of relationship marketing is therefore based on the fact of attracting, maintaining and enhancing customers’ relationships. To achieve this, a company must have a reliable product and a flawless sales process (Berry, 1983).

Finally, this process can apply to a company producing services only when the following three conditions are met (ibid):

1. There is an ongoing or periodic desire for the service on the part of the service customer.
2. The service customer controls selection of the service supplier.
3. There are alternative service suppliers and a customer switching from one to another is common.
There are different kind of marketing relationships between marketing strategies and customers (Berry, 1983). Not all of them could be applied in the low-cost airlines sector. Only solutions that can be used are presented above.

First, the design and marketing of core services are key points to develop relationship marketing for a competitive advantage.

“A customer relationship must be built around those core services. The ideal core service is one that attracts new customers through its need – meeting character, cements the business through its quality, multiple parts, and long-term nature, and provides a base for the selling of additional services over time” (Berry and Thompson, 1982, pp.68).

Core services are in fact more directed toward central services rather than peripheral services.

Second, customizing the relationship may have an impact on the client. The nature of service in the low-cost airline industry can apply this principle. Due to the various features of the service and the specific needs of consumers, it is possible for a company to combine the two and provide additional services or improve the existing service in order to maintain and retain customers over competitors (Berry, 1983).

Third, helping to build additional services around core services will tend to increase the number of customers and retaining customers are already within the company. Through this principle, the client has the feeling of being taken seriously and will more readily want to give his confidence and continue to trust a company (Levitt, 1974).

In conclusion, relationship marketing concerns attracting, maintaining and building customers relationship. It is vital for a company to follow this process because attracting new customers is an intermediate step and not an end in the development of a service business. Relationship marketing is always possible in services sectors when there is an ongoing or periodic desire from customers (Berry, 1983). Relation with marketing strategies should be made in order to have a common and logical global strategy to follow.

2.2.2 Relationship retailing

As described in the previous point, attracting new customers is not an end. What is more interesting for a company is to build relationship, and transform indifferent client into loyal clients. This process is called relationship retailing and is a part of marketing strategies in a
company. This practice could be applied in different situations but more specifically when (Berry and Gresham, 1986):

1. The consumer periodically rebuys in the product classifications sold by the retailer.
2. The consumer has alternative from which to choose.
3. The consumer is ego-involved.
4. The consumer requires personal services and/or selling.

Relationship retailing could influence strategies. Two strategies that meet potentially meet these criteria are relationship customization and offer augmentation. If a company is combining two strategies then it has a huge competitive advantage over its competitors (Ryans and Wittink, 1977).

Relationship customization involves good learning about customers (Behavioural aspect and individual preferences). The purpose for the company is then to integrate its information and services to adapt in order to obtain an advantage over its competitors by offering a service that meets the needs of a particular type of consumer. This sort of strategy is more easily applied when there is a combination between the services and the use of new technologies like Internet or electronic machines (Berry and Gresham, 1986).

Offer augmentation is the fact to add extra services in order to provide a better service in the overall. Those extras could be something new or something existing in competitors’ services but not with a core service. If a company is the only one to provide such a combination, this will provide a sustainable competitive advantage (Berry and Gresham, 1986). This is a flexible concept. The possibility includes blanket augmentation for every customer, selective augmentation for a market segment or reward augmentation for core clients. The aim is obviously to create more loyalty for customers or clients.

### 2.3 Synthesis of Relationship marketing and competitive advantage

There is no universally agreed definition of relationship marketing (RM) but referring to Gilbert

> "Marketing is evolved from a focus on the single transaction to becoming increasingly concerned with the development and maintenance of mutually satisfying long-term relationships with customers” (Gilbert, 1996, p. 576).
In relation to the long term relationship, creating successful RM campaigns can lead a company to a competitive advantage which includes a strong commitment to the customer and is hard to imitate for the competitors. Gilbert (1996) mentions further that nowadays companies should move away from the traditional marketing which is defined as “the management process of identifying, anticipating and satisfying customer requirements profitably” (Gilbert, 1996, p. 576) more toward the relationship marketing perspective. Besides Gilbert (1996) refers to Gronroos (1991) who assumes that marketing strategies have different characteristic which range from transactional to relational marketing. The strength of relationship marketing can be measured by customer’s retention instead of market share. The new trends in marketing service, for instance in the airline sector, tend to communication and loyalty-building strategies. It is further argued by O’Connelly and Williams (2005) that low cost airlines offer a strong alternative to full service airlines and therefore it is important for those airlines to build a strong brand around the company, as well as customer loyalty and satisfaction. The reason to focus on a long term relationship is that attracting and recruiting a new customer is five to ten times more expensive than to retain an existing customer (Gilbert, 1996; Gursoy and Swanger 2007). In the following table the stages how long-term retention of customers can be achieved is shown:

<table>
<thead>
<tr>
<th>Stage</th>
<th>Object/strategy</th>
<th>Typical mechanism</th>
</tr>
</thead>
</table>
| (1) Identification | • Gather information about the individuals needs  
• Create customer profile | • Document different reactions to offers  
• Hand out questionnaires to customers |
| (2) Improve | • Improve service that is not in customers expectation | • Check attitude towards service/loyalty programs; contact customers; total quality management |
| (3) Inform | • Inform customers about airline and its loyalty scheme | newsletters |
| (4) Tempt | • Convince customers for new service or product | • Special offers; vouchers; extension of benefits |
| (5) Retain | • Investigate in loyalty building programs in order to retain and reinforce the relationship with customers | • Members magazine; membership cards; enhanced payment schemes |

Table 1: The 5 stages of long-term customer retention based on Gursoy and Swanger (2007).

According to Chi and Gursoy (2009) who are referring to Gursoy and Swanger (2007) strongly highlight that tourism companies cannot survive without investing into the
customers’ satisfaction. Anyway, having satisfied customers do not automatically guarantees a successful business moreover it is inevitable to successfully complete a better work in generating satisfactory experiences for customers than its direct competitors. Therefore, customer satisfaction was becoming one of the most frequently discussed subjects in tourism literature (Chi and Gursoy, 2009). Loveman (1998) describes the cycle of customer loyalty which is defined by him through the customer satisfaction and its effect on the customer loyalty and how these two influence the financial outcome for the company. Chi and Gursoy (2009) mention that this field is a well discussed subject upon researchers, for instance some researchers have received empirical support that there is a positive relationship between customers’ satisfaction and the companies’ performance based on measures of stock prices, customer loyalty and market orientation (Reichheld and Teal, 1996), but others argue that customers’ satisfaction is not automatically affecting profits positively. Chi et al. (2009, p. 247) define satisfaction as strongly “influenced by the value of services provided to customers” which can be caused by satisfied and loyal employees. Customers’ loyalty can be seen as a direct result of satisfied customers (Heskett, Jones, Loveman, Sasser and Schlesinger, 1994). It is crucial for a company to take into account that increasing customers satisfaction may end up spending a lot of money for its implementation (Chi and Gursoy, 2009) but anyway it plays an important role for a company to achieve financial success.

Nowadays, companies have pointed out that putting effort into customer relationship marketing is one possible way to succeed in a competitive environment (Coltman, 2007). The first studies concerning the impact of customer relationship programs on the firms’ performance were undertaken by Day and Wensley and published in the Journal of Marketing under the title “Assessing advantage: a framework for diagnosing competitive superiority” in the late eighties. According to Coltman (2007) the model developed by those researchers became an important precursor for the Resource based view in strategy and was well accepted for further research. The following figure conceptualizes competitive advantage as a causal chain that runs from sources of advantage through positional advantages to performance outcomes:

![Source of advantage](image1.png)

\[\text{Source of advantage} \rightarrow \text{Position of advantage} \rightarrow \text{Performance outcome} \]

\[\text{Reinvestments of profits to sustain advantage}\]

*Figure 3: The elements of competitive advantage according to Day and Wensley (1988).*
3. METHODOLOGY

In the following part of the thesis the methodology will be presented. A qualitative multiple case studies with semi-structured interviews as data collection technique have been chosen by authors in order to answer to the purpose of this study.

The aim of this thesis is to figure out which tools of relationship marketing are used to gain competitive advantage and if sustainable competitive advantage can be gained through relationship marketing in the context of the low cost airline model by focusing on the company’s perspective.

Therefore, information will be examined deductive. The deductive theory is known as the most common view about the relationship between a suggested theory and the research. Due to research a hypothesis can be deduced on the basis of knowledge about a particular field and its theoretical consideration. The next step must be to base this on the empirical findings. Empirical findings and its quality may differ according to the applied methodology and therefore it is crucial to pick the most appropriate choice of method with the aim to achieve a reliable and valid research outcome (Bryman and Bell, 2007).

In the following parts the selected method will be described and a deeper overview will be given why and how this is the most appropriate method to deal with the purpose of this thesis.

3.1 Overall design and research methods

In this chapter different approaches that were used to gather relevant information will be described in order to provide a qualitative good research study. First of all, a multi case study research design was chosen. A case study in general is characterised by its detailed and intensive examination and analysis of a single or more cases (Bryman and Bell, 2007). By following the definition case studies are defined as a:

“strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real-life context, using multiple sources of evidence” (Saunders, Lewis and Thornhill, 2003, p. 93).
An advantage of case study is according to Knights and McCabe (1997) that for the data collection different methods like observation and semi-structured interviews can be used combined to fulfil a great outcome.

3.2 Type of research

In order to get into contact with the chosen subject and explore the field of study it is evitable to collect and read relevant literature to understand the research problem. Therefore, an exploratory research design was chosen to develop the background and theoretical framework. Through this kind of design the researcher are able to gain new information that leads to a more clear view of the subject which is from very special importance to find an answer towards the research question. However, exploratory research is supposed to require key skills like the researchers ability to search for and get adequate information as well as use this information to construct explanations on a theoretical level (Ghauri, Grönhaug and Kristianslund, 1995). For this study, exploratory research was useful for the first stages of research on that topic (Graziano and Raulin, 2004) but when it is coming to the description of the empirical findings and the analysis the authors skip to a descriptive research design. For descriptive studies it is normal to have a theoretical base and furthermore clear statements in order to achieve the studies aim and basically answer the research question. In this kind of studies, statistical test are not required to establish a pattern. Moreover, there are no strict ways of testing or setting criteria in order to interpret the empirical findings (Ghauri, Grönhaug and Kristianslund, 1995).

All elements of this thesis, starting with the introducing model constructed by the authors, going over to the theoretical framework, the empirical findings and analysis, were structured and incorporated to follow and evaluate the research question in the most adequate way. Compared to the theoretical part of the thesis, the empirical part deals with a multiple case study to examine the different perspectives of individual point of views by responsible from the LCAs in order to question the researched field. The consulted method to collect data is through primary data by semi-structured interviews and also through secondary data which will be explained more detailed below.

The choice of data collection is vital in a thesis process. They are two alternatives: quantitative and qualitative data collection. On the one hand, a qualitative process is more based on figures, facts to identify causal effects and consequences through statistics (Bryman
and Bell, 2007). On the other hand, is more to understand a phenomenon with the help of words (Bryman and Bell, 2007).

This research study is made on a qualitative process. This choice was made to be effective in collecting the data needed to answer to the purpose. Qualitative research represents descriptions of things made with a deep description using words in order to understand the research object (Bryman and Bell, 2007). This thesis will use primary and secondary data as described in the previous section to collect information.

Interviews were made and data collected. Actually it was planned that one of the authors is asking questions and during that time the second is writing quick notes about behaviours and answers of the respondents. The idea was to have a clearer opinion about how respondents work to avoid the misunderstanding or a communication problem during the interview which could cause a bias in the analysis of the thesis (Hair, 2007).

3.3 Population

The authors will just focus on the European market. The population are European low cost airlines because this growing sector is seen as mostly active in Europe. In addition, the European market is very dense in terms of competition and activities.

Reasons to choose this special sector are versatile. Due to the fast growing European market driven through the growing number of new market entrants’, competition with low prices alone will not guarantee a long-lasting competitive advantage (Klophaus, 2005). Since the LCA market is characterised by its high level of competitiveness on the basis of low prices and no frill service it is the more interesting to figure out if this affects the airlines willingness to develop some relationship marketing strategies. Furthermore, European LCA’s have particular backgrounds and they differ in their size as well as in numbers of passengers (Klophaus, 2005) which makes it more suitable to analyse the different relationship marketing tools/ strategies LCA’s use to stay competitive. From special interest for the authors is the fact that the European low cost airline sector is actually seen as being in its growing phase (Pate and Beaumont, 2006) that vindicates more the investigation to research the companies’ effort to gain competitive through relationship marketing. Finally, the authors will only focus on the companies’ view of the situation and will not face with customers’ point of view on this specific market. It was decided to conduct the research with a sample size of four European low cost airlines. Those four LCA were chosen for different reasons. On the one hand,
Ryanair and EasyJet are leaders of LCA on the European market. Each one carries more than 50 million people each year. On the other hand, Air Berlin represented a new trend of low cost companies in Europe based on more services but still with a cheap price. Finally, Wizz Air was not included in the thesis because information was not relevant and the authors never received a complete answer from the respondents.

The authors decided to conduct their research with a convenient sample. This way of analysis is a sample that is selected because of its availability to the authors (Bryman and Bell, 2007). Due to that reason, convenience sampling is a type of non-probability sampling. It will be not possible to generalize findings because people do not know if findings are representative or not (Bryman and Bell, 2007). It cannot be guaranteed that the results might be the same in other companies but it is still intended to provide an as much as possible significant result for the research even if the authors cannot generalize their thesis’ conclusions. It is also important to know that many researches in business are made with a convenient sampling (Ferber, 1977). Probability sampling is frequently avoided because it involves lots of preparations, difficulties and costs (Bryman and Bell, 2007). For those reasons, sample size is not important because it is not statistical. It is just important in order to find deep and relevant information (Bryman and Bell, 2007; Salkind, 2005).

3.4 Instruments of data collection

The authors made a data collection based on primary and secondary data. This section will explain how to combine both and also which data could be found in every category.

Primary data

Primary data were collected through interviews with marketing responsible of the companies represented and analysed in the multiple study case. Those primary data were collected specifically for the research project being undertaken (Saunders et al, 2003). The fact to use interviews through interview guides helps the authors to collect valid and reliable data relevant to the purpose of this study. The biggest advantage to apply this technique is to improved fit generally between necessary and collected data (Hair, 2007). The fact to ask directly questions in order to collect data is great because it decrease the lack of learning (Ghauri and Grønhaug, 2005). But research quality also becomes dependent on the availability and willingness of respondents (Bryman and Bell, 2007). All the literature review
in this study is based and serves as a complement that is confronted with primary data in order to analyse and answer the purpose (Bryman and Bell, 2007).

Primary data is needed in a Master thesis to thoroughly answer to the research question (Bendant and Piersol, 2000). For that reason, the authors decided to make interviews with an interviewer and an observant. The role of the observant is to take care about respondent’s behaviours and fill notes of the interview (Casement, 1985).

The authors decided to go for respondents involved in the marketing process of each company. All respondents were able to describe and discuss marketing skills of the company.

Primary data was collected through the following four respondents: Mister O’Brien and Miss Meier (Ryanair), François Bacchetta (EasyJet) and Miss Schlüpmann (Air Berlin). The authors found those people by their own networks because those respondents are based in Germany and Belgium but not in Sweden. They took this decision because they did not receive relevant answers from the board and from the general Internet customer service. Due the fact that some interviews were made in Germany and Belgium, the authors had to lead the interview and take notes at one time. Nevertheless, the interviewers were able to ask question, respond to the interviewee and take notes at one time.

Secondary data

This present study is based on a model and its theoretical framework. Secondary literature was intensively reviewed to achieve the knowledge about the discussed field. In order to get a deep insight into the field secondary data was of considerable use. Fundamentally, secondary data embraces different sorts of literature which usually comprehend textbooks, journals, reviews and online sources (Bryman and Bell, 2007). Therefore, data was on the one hand collected through scientific books, articles basically from databases and on the other hand through the internet which was from special meaning when it came to gathering some information about the low cost airlines.

Hence, the first method consisted in searching and reading textbooks dealing with ‘competitive advantage strategy’, basically the ones by Porter, and articles implying actual research effort on that field. The databases frequently used by the authors were Science direct and Google Scholar.
There were three factors, first the access to databases provided by the Halmstad university intranet and second the recommendation by teachers and at least personal good experience in the past, that lead to the decision to use these databases. Electronic databases are seen as “an invaluable source of journal references” (Bryman and Bell, 2007, p. 107). In order to find relevant articles according to the field of research keywords like “relationship marketing”, “competitive advantage”, “sustainability”, “low cost airlines” were entered. Due to the first findings further articles could be found by using their reference lists whereby a great share of secondary data was collected.

Secondary data is therefore so advantageous because it is quite easy and inexpensive to access and verification is simple and quick. There might appear some differences between definitions and measurements in the case of literature review which might have an effect on the validity of comparisons (Hair, Money, Page and Samouel, 2006).

For this multi case study it was decided to develop and use a semi-structured interview where the interviewer follows a script to a certain extent. Semi-structured interviews usually include a series of questions which are formulated in a general form in an interview guide which enables the interviewer to change questions or vary the order. Another positive aspect is that the interviewee can ask further questions to ensure the best result. Furthermore, this method makes it possible for the interviewer to catch the interviewee’s reactions and respond to him/her (Cavaye, 1996).

For this study this method is seen as most suitable for the primary data collection because it provides the researchers to be flexible in the process. Especially by undertaking multiple case studies the semi-structured interview is more advantageous compared to the unstructured interview because multiple case studies desire some structure in order to ensure cross-case comparability (Bryman and Bell, 2007).

The interview guide was designed with open questions. This type of questions allows the interviewees to define and describe a situation or context with his/her words. Furthermore, it is mainly designed to encourage the interviewees to provide an extensive and developmental answer. This process will help to expose attitudes, obtain facts and put involve more interviewees in their task (Saunders et al., 2003).

Open questions presented more advantages than disadvantages for the authors compared to close questions (Bryman and Bell, 2007). First, respondents answered in their own words and
chose words and expressions that were the most suitable for us. Second, if a question was not clear enough, it was possible to rephrase and repeat again for the interviewer but also for the interviewee. Third, the respondent is free to answer in his/her own way. Therefore, respondent’s levels of knowledge and understanding can be tapped. Fourth, it was useful for the authors to push their limits away and went deeper in the different subjects covered and uncovered by the thesis. Fifth, open-questions are useful for generating fixed-choice format of answers. One big disadvantage could be seen such as the fact that it takes times but the authors tried to turn this disadvantage in an advantage. Indeed, spending more times in interviews is also going deeper in the subject and has more relevant information. This point is vital to reach a good level in a Master thesis.

The authors also developed this semi-structure interview guide with different type of questions in order to cover all the subjects (See Appendix 1). During interviews they were questions like introducing questions, follow-up questions, probing questions, specifying questions, direct questions, indirect questions, structuring questions, silence and interpreting questions. Those kinds of questions were done in order to give trust and validity to the interviewer (Kvale, 1996).

<table>
<thead>
<tr>
<th>Collected information</th>
<th>Type of information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive advantage</td>
<td>Business model</td>
</tr>
<tr>
<td></td>
<td>Routes and networks of LCA</td>
</tr>
<tr>
<td></td>
<td>Brand recognition</td>
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<tr>
<td></td>
<td>Forecast growth on a strategic view</td>
</tr>
<tr>
<td></td>
<td>Reaction to environmental changes</td>
</tr>
<tr>
<td>Relationship marketing</td>
<td>Distribution channels</td>
</tr>
<tr>
<td></td>
<td>Target groups</td>
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<tr>
<td></td>
<td>Frequent flyer programs</td>
</tr>
<tr>
<td></td>
<td>Type of services</td>
</tr>
<tr>
<td></td>
<td>Place of the customer inside the business model</td>
</tr>
<tr>
<td></td>
<td>Extra services</td>
</tr>
<tr>
<td></td>
<td>Feedback of customers for LCA</td>
</tr>
</tbody>
</table>

*Table 2: Guide for collected information*

### 3.5 Research criteria- validity and reliability

In order to evaluate the goodness of measures it is vital to establish accurate and trustworthy findings, therefore the study can just be qualitative and valuable through its measures.
Special attention should be paid to the two research criteria reliability and validity to ensure a scientific value for the research. Bryman and Bell (2007) mention that validity presumes reliability but on contrary way it does not mandatory hold true.

Reliability

Reliability is a specific measure for the formal fidelity or dependability in scientific research. Highly reliable results are seen as nearly free from random sampling errors which means that with any repeating the experiment would attain the same results. In other words reliability is a presumption for replicability. Generally, reliability constitutes one of the most important quality criterions for empirical research besides validity and objectivity (Wirtz and Caspar, 2002). Furthermore, the term reliability is used in the context of whether or not the measures devised for the study are consistent which is fundamentally concerned with the question if results are infinitely repeatable. The term reliability has according to Bryman and Bell (2007) and Diekmann (2007) three different meanings which are namely stability, internal consistency and inter observer consistency. The first meaning of reliability, the stability, deals with the question if measures are stable over the time in order to be confident with the results. The condition for a measure being internal consistence is that a correlation is given between different items included in the same test (Wirtz and Caspar, 2002). The third characteristic of reliability is the inter-observer consistency. The inter-observer consistency is addressed to subjective judgement which can appear in research activities, especially due to translation or recording of data. Hence, in qualitative research it is necessary to pay regard to inter-observer consistency when it comes to the categorization of data, collected through semi-structured interviews, into items or classification of subjects (Bryman and Bell, 2007). Even though interviews were done in German, English and French the authors are confident to ensure reliability. Furthermore, having interviews in the interviewees mother tongue makes it easier for him/her to express him/herself in the way they intend to. During each interview exactly notes were taken, translated by each interviewer and afterwards discussed by the two authors with regard to the key factors for the analysis. In order to compare the results a table was created by following the 16 developed key factors.

As described in the part before, reliability determines the stability of findings which presumes that identical results are produced upon repeating measurements. The ambition in conducting the literature review lies in the attempt to identify the established literature base. Additional to the explanations in the methodology before, adequate data sources were adducted as well as
proper research methods. The process of data collection through literature has been thorough and as a result relevant literature, references and sources have been audited appropriate. The reliability may have been affected negatively due to the fact that some relevant literature was failed to identify but anyway it is considered by the authors that the literature reviewed tend to be relatively good. In order to provide further reliability a list of references is visible at the end of this study. The author’s decision to consult primary as well as secondary data for the empirical findings is intended to assure reliability, as information that was not collected by primary source could be filled with secondary data.

Validity

As already mentioned validity is one of the research criteria and is concerned with the integrity of the conclusions which was generated through the findings made in the research. It further determines how trustful findings are and how these findings can reflect the reality (Bryman and Bell, 2007). A specific kind of validity is the internal validity which in turn is “concerned with the question of whether a conclusion that incorporates a causal relationship between two or more variables holds water” (Bryman and Bell, 2007, p. 41). Due to internal validity researcher can be sure that a relationship is definitely caused by the variables instead through the impact of independent variables. The generalization or transferability of findings is a constituent of the external validity which concerns the question whether empirical findings can be hold true across actual settings and time Diekmann (2007). In the case of the literature review external validity is quite complex to evaluate.

Validity is further classified in five different types that are face, concurrent, predictive, constructive and convergent validity (Bryman and Bell, 2007).

For instance, construct validity states to the extent to which the types of operationalization measure the concept that it aims to measure. This can be seen as an important element for the research quality due to it is a condition for interpretable and meaningful findings. Referring to Bryman and Bell (2007) neither internal nor external validity can be given without construct validity.

In order to compare the three airlines it was decided to conduct the passenger numbers by each airline and build the growth rates. According to assure reliability and validity this method seems the most suitable for the authors because the simple comparison of passenger numbers would make no sense due the fact that all the three airlines started their business at
different times, are in different stages and therefore may present the wrong picture of the airlines growth which would not fulfil the validity.

Thereby, these study intents to picture the present state of art of the subject. The literature review of the present study includes findings and opinions of researches till the present days but future research on this field may bear findings that have a negative effect on the external validity of the literature review. In order to picture that there is a match between what this study aims to measure and the finally measured, a qualitative presentation of the theory and consulted methods was created.

The main hinder to ensure good construct validity is the lack of general excepted and clear understanding of low cost airlines. In fact, there might be a different perception between the low cost definition by the current literature and the airlines perception of low cost which could also have a negative effect on the study’s construct validity. Nevertheless all definition will be treated equally upon the whole study like they were set from the beginning.
4. EMPIRICAL FINDINGS

In this section the empirical findings from the research will be presented. The background of every company is collected through primary and secondary data. Other data has been collected through interview with people from each company. The companies will be presented one by one.

4.1 Ryanair

Ryanair is a pioneer among LCA companies in Europe. They were the first and they are still today the most active LCA on the continent. This company is developing rapidly and has gone through very important stages.

Ryanair was founded in 1985 by the Ryan family in Ireland. In 1988 and during only one year due to financial losses, the company launches a business class service and a frequent flyer club for customers, neither of which prove particularly successful. This change has meant that Ryanair has changed its generic strategy. Indeed, the company since the early 90’s pursuing a cost strategy. Ryanair now offers the lowest fares in every market, high frequency flights, moving to a single aircraft fleet type, scrapping free drinks and expensive meals on board. These decisions have significantly reduced ticket prices for customers. In order to reduce again costs, Ryanair decided also to narrow down traveling lines from 19 to 6 routes between 1990 and 1992. With this new policy the Irish firm carry over 1 million passengers in one year for the first time in 1993. On 29th May 1997 Ryanair becomes a public company for the first time with a successful flotation on the Dublin and NASDAQ (New York) Stock Exchanges. In March 1999, Ryanair accepts the delivery of five new Boeing 737-800 series aircraft. Those new aircrafts began operations from the main base at London Stansted, and their impact allowed Ryanair to operate with significantly lower seat costs and to offer much lower airfares, but with better reliability and a fantastic new customer product (www.ryanair.com).

Communication between customers and the company is always a priority. In 2000, Ryanair’s website (www.ryanair.com) became the largest booking website in Europe with more than 50,000 bookings each week. This source of information allows also customers to avail of the
lowest car hire, hotel accommodation, travel insurance and rail services. At that time, Ryanair was the only LCA which developed interactive useful internet services for customers. Ryanair was in 2003 in the category “most popular brand” the fifth most searched website in the world (http://www.google.com/intl/en/press/zeitgeist2003.html). The Irish airline became also the first LCA to sponsor a program on television in order to gained more customers. The company decided to sponsor Skynews Weather reports. Following this effort in communication, 1 million people traveled for the first time in during a month with Ryanair in August 2001. According to R. O’Brian (mail communication, 15 April 2009) in order to be closer to customers, they build also the first continental base at Brussels Charleroi Airport in Belgium between 2001 and the end of 2002.

In 2002, the company selected Frankfurt Hahn as the second Continental European base and launched in April with 10 routes. German customers flock in their millions to avail of the lowest air fares to and from Frankfurt according to J. Meier (personal communication, 15 April 2009). To accommodate this growth, Ryanair announced the largest ever aircraft order by an Irish airline by increasing their aircraft order with Boeing from 45 to 125 firm aircraft, with a further 125 options. The value of this order exceeds € 6 billion and signals Ryanair’s ambition to continue to be the largest LCA in Europe. Ryanair became also the number one in Europe of customer services beating all other European airlines for punctuality, fewer cancellations and least lost bags (www.ryanair.com).

Meanwhile according to the company respondent “communications to customers have not stopped”. In 2004, Ryanair is named the most popular airline on the web by Google, as the website continues to be the most searched travel one in Europe. These performances continued and now more than 98% of all Ryanair bookings are made through the website and Internet customer services.

During 2005 and 2006, Ryanair used communication tools in order to try to be different from other airlines for customers. First, they made a big communication called “no fuel surcharge guarantee”. Following the statements by the respondents, this was a new communication for customers because many “full service” airlines such as British airways, Air France or Lufthansa continue even today to supplement already high fares fuel with surcharges in case of extra costs. Second, Ryanair became “The World’s Favorite Airline” because they carried more customers than British Airways and all other airline and LCA firms. Third, Ryanair was and is still the most punctual company in Europe with more than 90% of flights who arrived
on time and respect schedules. Many radio advertising were made with this information. Finally, in order to attract new customers, they offered 100,000 seats for 1€ for the 20th birthday of the Irish brand.

From 2006 until now, a new customer service was launched. According to the respondent “This is a web check-in service giving passengers the opportunity to check-in online across Ryanair’s entire route network”. The company is also the first airline worldwide to carried more than 5 million travelers in a month and created plan for a new customer service: onboard mobile.

For the moment, Ryanair has 830 low fare routes all around Europe and across 26 different European countries. They produced customer services from their 31 European bases. Ryanair employs 6,000 people and ordered in March 2009 a fleet of 181 new Boeing 737-800NG which will be delivered over the next three years. For the following business year 2009 an amount of 67 million travelers is forecasted (www.ryanair.com).

Their strategy is still the same from the beginning of the 90’s. It is to firmly establish itself as the European LCA leader and continued improvement in order to attract more customers. Ryanair aims to offer low fares that generates increased passengers traffic while maintaining a continuous focus on cost-containment and operating efficiencies (Ryanair’s annual report from 2008). The key elements of their strategy are low fares, customer services, frequent point-to-point flights on short-haul routes, low operating costs, high maintaining productivity, high personnel productivity, low customers costs, airport access fees, taking again a better advantage of Internet in order to serve the customer, commitment to safety and quality maintenance, enhancement of operating results and ancillary services and focused criteria or objectives for growth (Ryanair’s annual report from 2008).

Finally, the table in the appendix 02 is the progress of the whole number of customers related to the Irish company since the set up in 1985. The column about growth shows the growing percentage in year X compared to a year X-1. Data for 2009 were not yet available so forecasts for the whole year only after the first trimester were included. The growth is really high between 1985 (5000 travelers) and now (More than 60 millions).
4.2 EasyJet

EasyJet is an English LCA based in Luton airport, England. They are the second largest LCA in Europe just behind Ryanair and the fourth largest among all European airlines. The statement of the firm is to provide safe services, good values and point-to-point air services for customers (www.easyjet.com). EasyJet offers a consistent and reliable product/service and fares appealing to leisure and business markets on a range of European routes. To achieve this statement, the company develops his employees and establishes trustful relationships with their suppliers and customers (www.easyjet.com). “The company wants to provide tickets for flights as easiest that a customer could buy a jean!” (EasyJet: Europe’s no-frills airlines) This English LCA developed a complex networking with 400 different routes between 103 airports among 26 countries with a fleet of 150 aircrafts (EasyJet Analyst and investor day 2008 report). 51 million people travelled with the company in 2008 (Annual report 2008). This is a growth of 17% compared to 2007 (See all figures in the Appendix 02). Basically focus on networking, revenue and costs for customers have driven improved performance. The key-point of their business model is high airplanes utilisation, quick turnaround times, charging for extras (Such as priority boarding and food) and keeping operating low costs (www.easyjet.com). EasyJet was founded in 1995 with only two airplanes from Luton (England, United Kingdom) to Glasgow and Edinburgh (Scotland, United Kingdom) (Key events in EasyJet history). Since the beginning the airline is always moving and trying to reach new goals. First, the company was floated on the London stock exchange in 2000 (Key events in EasyJet history). Second, Easyjet constructed a new base in Luton (England, United Kingdom) in 2001. Third, between 2003 and 2007 they did the same in Germany, France, Spain and Italy in order to establish a sizeable presence on the European market (Key events in EasyJet history). Fourth and finally, EasyJet purchased also charter airlines and rival airlines such as TEA Basle and Go between 1998 and 2002 (Key events in EasyJet history).

Customers are involved in a process that influences the generic strategy of the company (EasyJet Analyst and investor day 2008 report). Indeed, shareholders made investments in LCA for the growth of the company. The firm developed with those investments their services and the level of competence for employees. This will influence customers’ relationships on low cost services, on the quality schedule and on reliable services (EasyJet Analyst and investor day 2008 report). “Relationship marketing is build up in order to maximize product
attractiveness” according to the respondent F. Bacchetta. In one hand, they used distinctive customer proposition through broad customer appeal, focusing on key purchase drivers and listening in order to acting on customer needs. On the other hand, Bachetta mentioned that “EasyJet developed marketing solutions to have a high impact on customers such as driving footfall website, networking and quality services and innovations”. In 2003, EasyJet was in the category “most popular brand” the eighth most searched website in the world just two places behind Ryanair (http://www.google.com/intl/en/press/zeitgeist2003.html). The company has four target groups: business people, short breakers, long breakers and VFR (Visiting Friends and Relatives)/commuters. It is extremely important for the LCA to have different but well defined targets in order to continue their pricing strategy by reducing their costs. Perception from customers is really good and coherent with the generic strategy based on cost. EasyJet is the best LCA for the value of money, friendly services and efficiency (GfK Brand Tracker survey APUD EasyJet Analyst and investor day 2008 report). The respondent further describes that each target group is involved in different relationship marketing tools in order to maintain and attract new customers. First, business people travel in main city airports with a special attention on the schedule. Customers could use the online-service check-in during 60 days. The company provide high ticket flexibility and opportunities from trading down. Second, VFR/second homers and commuters received additional season capacity and the firm identify their trends and respond to changing patterns. Third, EasyJet developed an attractive and ever fresh mix of destinations in order to maintain short breakers. Best-in-class services and baggage allowance are specially built up for this target group. Schedule and quick city access with buses are also in projects. Fourth, long breakers faced with a broad range of destinations. A priority is made for new young families always in order to attract and maintain them as customers. EasyJet provides several services. First the ticket booking service is available only on Internet except during 3 months immediately before the flight (www.easyjet.com). Second EasyJet also developed contracts with subcontractors to rent a car (Europcar) or to book a hotel (Bacchetta). The firm developed launched the co-branded EasyJet hotels with First Choice Hotel (www.easyjet). Third, cabin and onboard services are restricted in an all-inclusive ticket. But customers could buy extra services such as food and/or beverage onboard (Sandwiches, toasted sandwiches, hot meals, chocolate, snacks, hot drinks, soft drinks and alcoholic drinks) (www.easyjet.com). Fourth and finally EasyJet provides an in-flight magazine, published monthly, containing articles of interest to its customers and destination guides (EasyJet in-flight magazine).
4.3 Air Berlin

Air Berlin is a German airline located in Berlin and succeeded in consolidation its position as the second largest airline on the German market after Lufthansa and the fifth largest airline on the European market. In the last year Air Berlin handled 28.5 million passengers. Air Berlin, which has a strong fleet of 125 aircrafts today, operates mainly domestic and European, but also launches intercontinental routes. This year is going to be important for the company that is celebrating its thirties anniversary (Air Berlin Magazine for the 30th anniversary).

The history of the airline goes back to the year 1978 and in the up-coming thirty years the airline made a great development and few changes in its strategy. In July 1978, the founder Kim Lundgren and his compatriot John McDonald have entered the Air Berlin Inc. in the commercial register in Oregon, due to the regulation that German Airlines were not allowed to land in the divided city of Berlin. On April 28th 1979, the first Jet of the Air Berlin Inc. took off with 178 passengers from Berlin Tegel to Palma de Mallorca, Spain. With the fall of the Berlin Wall and the ensuing reunification of Germany unexpected problems were brought to the airline. Due the companies registration as an American airline the founder Lundgren was forced to find German majority shareholders. Finally in 1991, Air Berlin became German and could continue to operate in Europe (Air Berlin Magazine for the 30th anniversary). An important milestone in Air Berlin’s history is the launch of single-seat ticket sales in 1997 which means that tickets were sold directly to the passenger. Air Berlin who started as a shuttle airline between Berlin-Tegel and Mallorca enlarged his departures in Germany. Later the airline also enlarged its destinations in Europe. Major European cities were served with the City Shuttle since 2002. The strategy of exploiting as many possible sales channels is now according to the respondent Marina Schlüpmann (Air Berlin customer desk manager at the Airport Bremen) “bearing fruits for the airline that had grown immensely in recent years”. For instance, in summer 1992 the airlines timetable contained just 15 flights per day and nowadays there are more than 700. The main business segment builds the destinations to the sunny resorts in the Mediterranean, North Africa and Canary Islands but through successful takeovers of LTU and dba and through holdings in NIKI and Belair, Air Berlin managed to grow rapidly and to build a global route network (Air Berlin Magazine for the 30th anniversary) to compete on the market and to attract more customers. Air Berlin’s respondent justifies this proceeding with the statement that “cost-effective operations are vital for the
long-term survival in the international airline business” Officially, Air Berlin is still listed in
the segment of LCA in the market, even though its special position as a “Hybrid Carrier”. The company’s strategy focuses on the increase of the firm’s value. Therefore, over average and profitable growth are the cornerstone of Air Berlin’s appreciation strategy. Starting point is its unique positioning as a Hybrid Carrier which consolidates the advantages from a LCA and a tradition full service airline: high product quality mixed with over average service at low prices. This business model, also seen as a competitive advantage, procures, referring to the respondent, Air Berlin “a unique position in the high competitive market”. Air Berlin markets its position as an unmistakable brand with high recognition value and community character. Therefore, long term customer bond and maintaining new attractive target groups build the central point of the 2008 newly designed brand image. The new message by Air Berlin is: “Air Berlin provides best possible cost effectiveness” (Annual Report 2008). In the year 2008, Air Berlin sold 60% of its tickets as single tickets and 40% through charter companies and tour operators (bulk tickets). The high amount of bulk tickets bestows Air Berlin a unique position upon European LCA. Just as the bulk ticket sale, the single ticket sale possesses advantages as well, because over average amount of tickets are still sold through travel agencies. Therefore, it is said by the respondent that Air Berlin makes use of a distribution channel mix.

The main target groups of the airline are tourists, business and shopping travelers, families and single persons. In order to maintain customers, Air Berlin provides various services. The airline profits from widely spread service points, abroad like on spots in Mallorca or in Luxemburg and many other places. The respondent emphasizes furthermore that for the company service is written in capital letters and is likewise given for the flights managed through tour operators which “is strongly reflected in customer’s satisfaction” and is for instance “not done by Tuifly”, one of Air Berlins direct competitors. According to Skytrax, a privately owned and in 1989 established UK company, known as a specialist Research Advisors to the air transport industry, customer’s satisfaction with Air Berlin is ranked at four out of five stars. (http://www.airlinequality.com/Forum/berlin-1.htm). On this webpage customers get the chance to rate their experience with Air Berlin and give some comments about their flight. Air Berlin knows about this page and uses it to get a feedback about passenger’s perception. The following example given is a positive statement made by one passenger published on Skytrax (reviewed 18-04-2009):
“The AB (Air Berlin) signature chocolate on disembarking is a very nice touch, and shows that AB is serious about placing itself ahead of its competitors in the mind of the consumer. An excellent experience throughout, and will fly AB again without question, even above other carriers who may offer a lesser fare on the same route.”

The strategy for intercontinental routes stays flexible, due to strong environmental influences like the present financial crisis. In 2008, the company reacted when the first changes in economic markets appeared. A decreased demand for business travel, on destinations like China, was noticed. Due to some destinations became uninteresting for business travelers the airline decided to close the destination or further not to include this in the route. For this reason it seems to be advantageous to have a flexible strategy for Air Berlin to be able to react fast on changing environmental conditions. On the other hand business travel is still seen as an important base for the company. Noticeable for the airline was the increased conclusions of contract with firms, leading to an increased income in this special segment (Joachim Hunold, CEO, www.airberlin.com). The respondent underlines in addition the service of Air Berlin which differs from the general low cost model that, for instance, Ryanair is following. It was especially expressed that “in order to cut cost Air Berlin did not set service aside, furthermore uses service as a tool to maintain and satisfy its customers”. Air Berlin’s great effort into service was even recognized by international awards and so Air Berlin has received a lot of international awards for its service in the past years. For example, Air Berlin won for the second time in a row an award in the category “World’s Leading Budget Airline”. Additionally, the airline won the Telegraph Travel Award voted by 25.000 readers from the British Daily Telegraph and Sunday Telegraph. In 2008 Air Berlin received the Danish Travel Award in the category “Best Low Fare Airline”. The airline achieved many more awards in categories like “Best Airline”, “Europe’s best low-cost airline”, “Europe newest fleet” and many more.

The airlines best accolade ever received is the passenger’s satisfaction, which is written in capital letters. For check-in and reservation of seats passengers can use the internet as well as newly their mobiles. Another service that is provided by the airline is a notification note by e-mail the day the flight is open for online check-in. Basically a luggage weight of 20 kg is allowed. As a special service to business travelers and top bonus card owners is the 30kg baggage allowance. Extra baggage like bikes, kayaks, diving equipment, surf board with a weight until 30kg is charged extra by 25€ per flight but gulf or fishing equipment is free of charge. For business travelers all extra baggage until 30 kg is free of charge as it is as well for
members of the topbonus program. Pets are allowed in the airplane but the price is depending on the size and weight. The service continues on board were snacks, hot and cold beverages and newspapers are handed out to the passengers for free of extra charge.

In the past until today, Air Berlin has experienced very loyal customers. Air Berlin is one of the less LCA that uses Frequent Flyer Program to commit its passengers. This program is called top bonus and includes three categories, Gold, Silver and Red. Passengers who are registered for top bonus can collect air miles when they are booking a flight, rent a car or even book hotels. The first step to attract customers for this program is to offer them 500 free miles when they register online. Each customer that registers for top bonus is receiving the Red card. In order to be upgraded to the next level, silver, the customer must have 24 flights within 12 month or 20.000 status miles (www.airberlin.com/topbonus). Another advantage of the top bonus membership is the possibility to redeem award flights, book an award flight for a companion for just fifty percent of the mile value or just upgrade them to Business Class through cashing in award miles. Collected miles can also be transferred by the customers to other members of the top bonus program. The newest implementation by Air Berlin is the Air Berlin Visa card which covers the same features like the top bonus card and beyond those award miles can be collected by each usage of the credit card. The credit card is offered in two options, with or without business package (Flyer Air Berlin Visa card). In this context, the respondent states that “with the different options the airline tries to fulfill the individual need of its customers”.

The goal of Air Berlin is to maintain and attract as much target groups as possible. Through strategic takeovers and initial public offering during the last five years, customers who prefer a holiday resort or a city break, travelling on business or pleasure can profit from the well developed route network offers. Due to the 24 percent takeover of the Austrian NIKI airline in 2004, Air Berlin aims to promote common synergies and expansion. Furthermore, Europe`s first low-fare alliance was born. According to the respondent,

“Air Berlin`s direct competitors are Condor, Tuifly and XL airways in the segment charter flights and all other LCA and Full service airlines that uses the same routes like Air Berlin”.

Due to its unique business model and positioning in the European market Air Berlin faces a lot more competitors than for instance Ryan Air and Easy Jet.
5. ANALYSIS

In this part, the empirical findings will be confronted with the theoretical framework through a table in order to compare the three different LCA. After this table, some comments will be made to explain the link between theory and data but also to develop the comparison of LCA presented at the beginning of this section.

<table>
<thead>
<tr>
<th></th>
<th>Ryanair</th>
<th>EasyJet</th>
<th>Air Berlin</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Position in the European market</strong></td>
<td>Market leader as LCA</td>
<td>Second biggest LCA (Follower)</td>
<td>Fifth biggest airline in Europe</td>
</tr>
<tr>
<td><strong>Established on the market since</strong></td>
<td>1986</td>
<td>1995</td>
<td>Founded in 1978 but LCA since 1997 (single ticket sale)</td>
</tr>
<tr>
<td><strong>Headquarter and bases in Europe</strong></td>
<td>Dublin, Ireland (Headquarter), Belgium (2001) and Germany (2002)</td>
<td>London, England (Headquarter) and bases Germany, France, Spain and Italy</td>
<td>Berlin, Germany (Headquarter) and bases in Spain, Italy, Switzerland and so on</td>
</tr>
<tr>
<td><strong>Generic strategy</strong></td>
<td>Cost leadership</td>
<td>Cost leadership</td>
<td>Differentiation strategy</td>
</tr>
<tr>
<td><strong>Passengers in 2008</strong></td>
<td>More than 60 million</td>
<td>51 million</td>
<td>28,5 million</td>
</tr>
<tr>
<td><strong>Target groups</strong></td>
<td>No specific target group</td>
<td>1. Business travellers</td>
<td>1. Charter tourists</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Short breakers</td>
<td>2. Business travellers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Long breakers</td>
<td>3. Shopping travellers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. VFR /commuters</td>
<td>4. Families</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>5. Single persons</td>
</tr>
<tr>
<td><strong>Key elements of the strategy</strong></td>
<td>1. Low fares</td>
<td>1. Consistent and reliable product/service</td>
<td>1. Consolidates the advantages from a LCA and a tradition full service airline: high product quality mixed with over average service at low prices</td>
</tr>
<tr>
<td></td>
<td>2. Customer services</td>
<td>2. Fares appealing to leisure and business markets on a range of European routes</td>
<td>2. Exploiting as many possible sales channels</td>
</tr>
<tr>
<td></td>
<td>3. Frequent point-to-point flights on short-haul routes</td>
<td>3. Establishment of trustful relationships with supplier and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Low operating costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. High maintaining productivity</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6. High personnel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes in business strategy</td>
<td>No changes since the 90’s</td>
<td>Always moving and trying to reach new goals</td>
<td>Started as a shuttle airline between Germany and Spain, later on further holiday destinations around Mediterranean (contracts with travel operators) and since 1997 single ticket sale</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>--------------------------</td>
<td>-------------------------------------------</td>
<td>----------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Booking system</td>
<td>Mainly due webpage (98% nowadays) rest through travel agencies</td>
<td>Through exclusively webpage except three month before departure</td>
<td>Through charter companies (about 40% in 2008), travel agencies and webpage</td>
</tr>
<tr>
<td>Character of the webpage</td>
<td>Mainly for booking the flight and online check-in, but also available for hotel accommodation,</td>
<td>For booking the flight, online check-in, rent a car (Europcar) or to book a hotel</td>
<td>1. For booking single tickets, car rentals (Sixt and Hertz) and hotel booking 2. Flight information</td>
</tr>
</tbody>
</table>
| **Pioneer / Follower / Differentiation** | Pioneer: as a LCA in the European market, developed interactive useful internet services for customers  
Follower: imitated the Southwest business model | Pioneer: Wants to offer the cheapest flight as possible  
Follower: Imitated the Southwest business model | Pioneer: Business model as a "Hybrid Carrier" and establishment of first low cost alliance  
Follower: Using Frequent Flyer Program “topbonus” as a relationship marketing tool |
| **Sponsorship** | Program on TV - gain more customers Skynews weather reports - effect on customers who booked more flights than before | No information | 1. Sponsoring for Sports clubs  
2. Donations for foundations |
| **Communication from the customers** | In general through webpage - indirect contact per phone or email | In general through webpage - indirect contact per phone or email | 1. 24h service hotline centre  
2. Through webpage  
3. Air Berlin desk in each departure airport |
| **Effort in growth** | 1. Enlarge aircraft fleet  
2. Further options and routes | 1. Constructed a new base in Luton Germany, France, Spain and Italy  
2. London stock exchange since 2000  
3. Purchased charter airlines and rival airlines such as TEA Basle and Go between 1998 and 2002 | Grow rapidly and build a global route network due to takeovers and acquisitions of other airlines |
The purpose of this paper was to figure out how Low Cost Airlines, operating on the European market, use Relationship Marketing in order to enhance, maintain and attract new customers. From special interest thereby was how these tools may affect the company’s generic strategy.
In the following part the generic strategies of the three low cost airlines Ryanair, EasyJet and Air Berlin, will be defined, compared and discussed but still having regard to the ability of creating sustainability.

Ryanair, as the leader in the European low cost airline market, is strictly following the cost leadership strategy and this successfully over years. So far, no other LCA could take over Ryanair`s position in the market. However there are reasons for the assumption that the airline achieved its sustainable competitive advantage not through the special focus on its customers and customer relationship tools, rather through its lowest fares and brand recognition. The airlines low cost base is a function of a simple product/service, high productivity and a strict cost control policy over airports, suppliers and distribution. On the basis of the empirical findings it is becoming evident that Ryanair is aimed to stimulate its customers by low fares. Due to the fact that Ryanair numbers leisure travelers as its main target group, may have an impact on its sustainability.

According to the model (see page 6) LCA`s have to take into consideration that the market they act on is highly competitive and influenced by economical and environmental changes. Using the example of Ryanair, happenings like the terror attacks in the United States in 2001 which rocked the aviation market heavily and economic changes like the financial crisis these days, hardly affect Ryanair`s passenger numbers while other airlines denote decreasing passenger numbers or went bankruptcy and left the market. Ryanair`s cost reducing corporate culture also appears to have a positive future even in the predicted short term difficulties facing European aviation.

Nevertheless, leisure travel regarding target groups is usually one off the first areas to be hit during economic uncertainties. In such a situation Ryanair may have few of any allies to support, whereby competitors drive a different strategy and have support mechanism like cooperation with travel agencies, wider target group or alliances with others. Ryanair cannot count on those mechanisms. The challenge of market unsteadiness may be increasingly less a problem as Ryanair diversifies its customer base. Over the last years the airline became more independent from its leisure group and could attract a few more business traveler through business friendly practices, but still this group is not listed as one of the company`s main target groups.

As it was assumed before, the strategy of low prices is not sufficient to establish a sustainable competitive advantage for a growing firm, but the Ryanair business model shows that, since
years, the company is still growing and could build a strong brand recognition over time, which had influence on the success as well, even though it seems that Ryanair neglects to focus more on RM. In the case of Ryanair it might be an indicator that the cost leadership strategy can be sustainable without special consideration to the tools of RM. Furthermore, the authors embrace that the airline may have difficulties in the long run to keep its leading position. Assumed that customer’s preferences change over time and low price is becoming less important for passengers to choose a specific airline, LCA’s who just focus on a strict low cost strategy may not have a second foothold to retain, attract and maintain customers like for instance by RM. In spite of Ryanair’s effort in looking for new opportunities to grow (in 2005 the airline has set itself the target of becoming the largest airline in Europe with over 40 million passengers per year), the airline will remain with its cost strategy and probably seek for new places to cut costs. Thereby the company should never abstract away from the customers and should be aware of acting at the expense of passenger’s satisfaction. Some passengers may return to full service airlines after an unhappy experience with Ryanair but the airline continues to attract additional passengers instead of capitalizing in the creation of loyalty programs.

As noted above, different factors and more precisely in this particular case competitors and customers can influence the company’s strategy. Passengers may trade-off price savings against service reductions but anyway Ryanair’s market success shows that the product/price trade-off is broadly in line with customer’s requirements so far.

Ryanair did an important step when it decided to build strong brand recognition. In 2003, for instance, Ryanair was as presented in the empirical findings the fifth most searched website in the world which demonstrates the strength of the low cost carrier brand. This confirms Gilbert’s (1996) assumptions that branding is becoming increasingly important when it comes to product differentiation. In the case of LCA’s building brand recognition can be seen as another effective tool to be prepared for the competitive environment. These assumptions will be tightened through the argumentation by O’Connelley and Williams (2005) that for LCA’s who are offering a strong alternative to full service airlines it is from special relevance to build a strong brand around the company, but with the addition of customer loyalty and satisfaction. A problem that can arise is that Ryanair might lose its focus and engage in prestige projects such as a new corporate headquarter or new company logo or otherwise lose the plot. However, the airline has defined a very definite product and sticks rigidly to that model with over 180 routes and 17 bases.
The decision to sell tickets per internet have also reduced cost by eliminating the amount of travel agents and marketing costs have been reduced because the low fares sell themselves. This change in the company’s marketing strategy had a positive effect on companies growth because customers can check for cheap flights and special offers and directly compare it with other airlines without any extra effort in consulting a travel agency. Indeed, changes had the highest impact on passenger’s numbers. Since the implementation of internet booking in 2000, passenger numbers has grown rapidly. The growth rate increased from 15,7% (in 1999) to 30,7% (in 2000) and to over 40 % in the following years.

Ryanair encouraged passenger growth on its routes by competing on price and not on service. On the other hand this can evoke problems when another airline enters the market, competing on price or a more effective form of differentiation. In the future, this may adversely affect Ryanair’s market share and profitability. This assumption is mainly based on statement by Lawton (1999) where it is said that just having the focus on one strategy, for instance price leadership, will be unsustainable in the future. Especially when Ryanair is willing to grow further it is inevitable to sustain its competitive advantage by setting the focus secondary.

While the rate of price reduction in air fares charged by low cost airlines is likely to moderate the passenger demand for the Ryanair product is likely to remain high. Ryanair obviously meets the markets demand by attracting passengers who use the airline in rapidly growing numbers. This shows the strong influence of price reducing strategy and customer ‘s highly attraction to the lowest price. It can be assumed that customers may continue to resort to the Ryanair product because of the lowest fares within the European LCA, as long as they just intent traveling from A to B and do not expect further service. This is strongly related to the airlines strategy which mainly focuses on low cost and can be supported by the theory where it is argued that the main reason for passengers to select low cost airline is caused by their low fares (O’Connell and Williams, 2005). Otherwise Ryanair could even though face the problem of cost cutting itself out of the market.

Targeting the needs of price sensitive customers, thrives on groups of customers who are overpriced by more broadly targeted competitors, is therefore one part of the strategy. The issue of free ticket offer can be understand as market stimulation aiming to attract more customers as direct competitors. For example, Ryanair’s direct competitor EasyJet suffered losses at the same time.
The carriers could experience some problems due to its outsourcing of important customer service activities at the airports. As a matter fact, in most airports customer service personnel is delimited to activities like check-in or ticket sale, which can mean that passengers are faced with no direct point of contact in cases of delays, cancellations or other complaints. Such steps may be damaging Ryanair’s competitive foundations. According to Lawton (1999) customer service belongs to the key determinates of distinctive competencies in service companies. Like it was assumed as a basis of this paper, relationship that was built with customers over time represents a part of the airlines strategic architecture. As long customers receive good services which determines good reputation unique competitive advantage can be created. If Ryanair is continuing to ignore the importance of relationship building it may risk losing its position.

In order to complete his discussion it can be summarized that competitive advantage can be confirmed only if the airline is able to combine low fares and unique network with increasing passenger loyalty achieved through effort in high customer satisfaction.

The focus in the next part will mainly be on the LCA EasyJet. The English carrier EasyJet, as the direct follower of Ryanair in the European low cost airline market, is following likewise a cost leadership strategy.

![Graphic 1: comparison of the growth rates](image-url)
Since the last years now they hold the same position behind Ryanair. It can be assumed that since EasyJet's market entry the passengers growth rate of Ryanair decreased (See graphic 1 above) for the following next 4 years, which took Ryanair a while to increase its passenger growth rate again. It becomes obvious that EasyJet simply imitated Ryanair's business model and enriched it by a few own ideas and adjustments. The airline's successful development over the last years show that the company did not fail to use its resources and skills successfully and therefore it can be supposed that the company is not “stuck in the middle”.

In relation to the theoretical framework it was figured out that the market leaders competitive advantage did not disclose sustainability at that time. As described above, Ryanair reacted to the changes (competitor’s market entry) by finding solutions to cut further costs in order to continue offering the lowest prices. It cannot surely be said that the passengers of Ryanair went over to EasyJet but there is evidence to do so because EasyJet offered low prices but with a little different aspects in the strategy like further customer service.

While since the 2000’s a high amount of LCA’s just appeared in the relatively new market and attacked each other, already established LCA’s had to be prepared for such a high competition. As mentioned by Porter (1985) that while competitors compete away the profits of the firm through rivalry, the low cost firms still have the advantage of earning returns because of their lower costs. Ryanair (due its low costs) could control the situation and managed to have an increasing or still positive growth rate since that time. Just like the market leader, EasyJet who entered the market ten years later than its competitor, found an adequate strategy to compete successfully and to continue growing as well by low costs. It can be act on the assumption that EasyJet may take over the leading position in the future years because it was able to grow faster due its consideration of customers and their needs in the past than its rival Ryanair. Different factors will influence the company’s generic strategy and more specifically industry competitors. Therefore, EasyJet was able to create a basis for their competitive advantage based on a few actions. For instance, in 2000 when they floated on the London stock exchange, constructed a new base in London or took over smaller competitors. This assumption is build on the theoretical statements made in chapter 2 which are that competitive advantage is difficult to identify, furthermore it emerges through many different activities in a firm like marketing, producing and so on. EasyJet’s individual cost position is contributed by internal and external activities and built a foundation for some differentiations. This can be seen as EasyJet’s effort into creation of competitive advantage.
In comparison to Ryanair, EasyJet clearly defines its target groups which it tries to approach to the individual needs. According to Berry (1983) it is possible for a company to combine various features of service with the different needs of customers to create an additional service in order to retain and maintain customers over competitors. Due to this statement the authors assume that through the carrier’s special focus on its target groups it reached the position that it nowadays have. EasyJet varies from the Ryanair product that it aims to offer a combination of a consistent and reliable low cost service/product. Through its wide route network EasyJet is able to appeal a higher amount of business travelers on specific routes which is a way of competing direct with the full service carrier and the LCA market leader.

As the market changes it is important to attempt to assess the nature of the short business travel market in the coming years. EasyJet recognized that business and leisure traveler market represents a major market upon low cost airlines. EasyJet has been successful in attracting a significant element this sector by competing on price. Additionally, the airline meets the needs of business travelers instead of holding a single focus on low prices.

While EasyJet has a simple price per sector policy, other LCA’s like Ryanair have all introduced a number of different fare classes and ticket restrictions. EasyJet sell their lowest fares first and then increase fares as the departure dates draws closer. Business traveler that plan ahead can book cheap, which is a unique attraction for this group which coincide with Porter’s statement that in order to achieve sustainable competitive advantage it is vital to create a unique strategy.

While most promotional budgets of low cost airlines go on adverts for mass market, some airlines like EasyJet and Air Berlin have been aiming marketing expenditure in the corporate market, which is a tool to silhouette against competitors. All three low cost airlines take advance of internet to communicate to the customers but just EasyJet and Air Berlin aim to serve the specific customer needs. This shows the different strategies between the market leader and its followers who try to create uniqueness.

Air Berlin, as the fifth biggest airline in Europe and direct competitor of Ryanair and EasyJet within the European LCA market, stands out of the LCA mass market by a different strategy. The establishment of the specific strategy goes back to Air Berlin’s history (See empirical findings). Air Berlin that started as a charter airline turned to become a so called “Hybrid airline” in 1997 when it made a huge change by building up a second stand foot in offering single tickets. As the authors define LCA in this paper, it can be said that Air Berlin stepped
into the LCA market in 1997 and is nowadays officially established and known as a LCA in the market. This unique business model bestowed Air Berlin a unique position in the European market by competing with LCA’s as well as full service airlines like Lufthansa and Air France. In comparison to Ryanair and EasyJet and according to Hall (1980) and Henderson (1983) who define differentiation strategy as a company’s ability to create a unique strategy by offering greater service for the similar price like its competitors, Air Berlin can therefore be categorized to follow the differentiation strategy. Furthermore, Air Berlin was able to build and communicate a strong brand and reputation to its customers, which account the many awards. Nevertheless, even with a strong differentiation strategy the airline must be aware of not ignoring the cost factor (Porter, 1980) which is not the case for Air Berlin.

Moreover, Air Berlin was able to compete in an industry which is characterized by high competition by having a competitive strategy and taking offensive and defensive actions to create its defendable position. For instance, the airlines take over of Belair and merger in NIKI Air show that the company reacted and found a strategy to deal with competitors and strengthen the company.

Above all, sustainability of competitive advantage can just be reached when the value creating processes and the position cannot be imitated or duplicated by competitors and competitive advantage can just be sustainable over a long term when the firm creates above-normal rents in the long run (Morgan and Hunt, 1996; Porter, 1985). Even, the recent financial crisis could not bring Air Berlin on his knees so far. These environmental changes forced the airline to cancel a few long haul routes but in the same time it could enlarge other routes for business travellers. The authors assume that the chosen strategy is quiet flexible and hence the airline is able to react with dispatch on changes. Besides all that, Air Berlin can still revert to its other stand foot.

Even the growth of the passenger number is still positive (2008: 1,2%) but not that high like it was the year before (2007: 43,2%). This can be seen as an indicator that the investments in relationship marketing is bearing fruits and the chosen strategy is one alternative to stay alive beyond strong environmental influences. Indeed, Ryanair’s strategy focusing on the lowest price could keep the passenger numbers high as well. As it seems and reflecting the assumptions by (Gursoy and Swanger, 2007) all three airlines were able to stay competitive and be particularly prepared for unexpected changes because they found opportunities to
improve the strategy which was adopted by competitors or made changes to strengthen the strategy in order to respond to external driving forces.

Air Berlin even though managed to be prepared for the increased oil prices back in 2007 and 2008 due its changes in the aircraft fleet to more environment-friendly aircrafts with less CO2 emission. Through these implementations the airline could on the one hand reduce the costs for kerosene and on the other hand communicate to the customers a new, save and environmental-friendly aircraft.

On the basis of the passenger growth rate, it becomes obvious that Air Berlin must have found a way to continue growing. It is assumed that the airline achieved its position through its takeover of competitors, strong brand recognition and its great effort into relationship marketing.

As mentioned before by the authors customers are an important aspect of LCA’s strategy. For that reason and in order to enhance, maintain and attract new customers companies need to know who their own customers are. The authors decided to compare target groups. All target groups are quite similar and heterogeneous whatever the LCA is. This observation make sense because low cost companies could attract various and broad type of customers from single teenagers to grand-parents through business travellers and holiday breakers. LCA do not forget that they need to be aware about the needs of those people. For that reason, each year they contact companies like Skytrax for their survey’s in order to establish their own customers’ needs and to meet the expectations of those people. The only difference in terms of target groups between LCA that were studied is the fact that Ryanair have a broad range of customers because they are looking everywhere and after every kind of customers which is not the case for Air Berlin or EasyJet.

In a global way LCA provide a pricing strategy to attract more customers than companies with a different strategy in Europe. Ryanair and EasyJet are the two first LCA in the number of passengers with more than 60 million and more than 50 million travellers each year. Air Berlin is further with only 28,5 million of people using their services each year. Strategies based on pricing are more attractive in term of number of passengers but less attractive in terms of profitability.

Numbers of travellers could have an impact on generic strategies. First at the beginning of Ryanair’s history the company was not especially successful and after a switch into a hard
discount pricing strategy the firm became really prosperous and attractive for customers. Second EasyJet has a mission. They want to become the first LCA in the world regarding the number of travellers per year. For that reason, they adapt their strategy in order to maintain and attract new customers.

Communication is an important factor to maintain and/or attract customers. LCAs build up an online check-in in order to give an advantage of time to their clients. Companies communicated their advantages following the needs of customers. Ryanair provide an online check-in, message on a specific radio and inside the plane about punctuality, try to have the fewer rate of cancellations flight and least lost luggage. EasyJet have also an online check-in but on top of that, the English company gives opportunities from trading down, additional season capacity (More planes during the summer for city trips and long term breakers) and high ticket flexibility. Air Berlin is a little bit different because they do not provide as a first advantage an online check-in due to their generic strategy. The German LCA cultivates the brand recognition and the image of differentiation. They post their international awards for services on Internet and in the company magazine in order to awareness customers about their efforts and quality services. Furthermore, they market their position as an unmistakable brand with high recognition value and community character.

Communication is also important in the other side from the customer to the company in order to receive comments and feedbacks on what to change, improve and think for the next years. EasyJet and Ryanair provide the same thing: indirect contact through the webpage or a call-centre with a high cost for customers. Air Berlin used a different strategy to improve those contacts with 24 hours hotline centre but also indirect contact through the webpage and direct contact with desks in each airport where they make business to help customers. It is vital that customers feel safe and carried because the company go after their own needs. Ryanair can experience some problems due to its outsourcing of ground level customer service activities. In most of the airport, like it was experienced on the Airport Bremen and Hamburg by the authors, the airline has no dedicated customer service personnel, which can mean that passengers have no direct point of contact with the airline if and when problems occur.

Relationship marketing is a subject to attract and maintain customers or in other words to change customers into loyal customers. For that reason, many companies are providing services to join this goal. Ryanair offered during some periods a limited amount of seats for 1€ (More or less 10SEK) to attract new customers and implement the online check-in to avoid
wasting time for loyal clients and customers of the brand. EasyJet maximize the product attractiveness with many promotions, used distinctive customers’ propositions through customer appeal in order to act on customers’ needs and to keep them, developed marketing solutions in order to always contact customers (Such as footfall website, networking, innovations and quality services) and write an in-flight magazine to inform passengers about their actions and solutions. For Air Berlin a good service is the best way to maintain customers. For that reason, they manage the best quality for all travellers. They developed also an Air Berlin credit card, an onboard magazine, a sponsoring program for Sports clubs and donations for foundations. But what makes the difference with Ryanair and EasyJet? For the authors of this paper it is the fact that they have a frequent flyer program “topbonus”. This program could give many advantages such as discount or more flexibility for customers. Of course those advantages are different depending in which target group a customer is.
6. CONCLUSION AND DISCUSSION

In this part of the paper the conclusion of this research will be drawn and there will be a discussion about further research and implications that could be improved regarding further studies in the area of relationship marketing and airlines companies.

Referring to the problem discussion and formulation (see chapter 1) the purpose of this study was how low cost airlines in Europe deal with tools of relationship marketing and what are the effects those tools have on generic strategies.

It cannot definitely be suggested that sustainable competitive advantage can be achieved purely through RM tools but it can be assumed that LCA make using them in a different way regarding to their own generic strategy. On the one hand, the market leader Ryanair based on a pricing strategy makes less use of RM tools than the strongest follower EasyJet. On the other hand, Air Berlin due its differentiation strategy which is a quite rare phenomenon in the LCA sector in Europe uses it as a part of its generic strategy. The influence of RM in generic strategies is for those reasons stronger in Air Berlin and EasyJet than Ryanair but it could be more generally stronger in companies based on differentiation strategies than in companies based on pricing strategies.

According to this case study, it can be said that in the high competitive low cost market in Europe mix strategies are consulted to compete and differentiate from each other. Indeed, this study show that companies like EasyJet or Air Berlin are mainly focused on a style of generic strategies but they could take some characteristics and ideas in order to complete and differentiate their own generic strategy from other LCAs’ generic strategies implemented in the European market. For that reason and from the author’s point of view, creating and developing a sustainable competitive advantage requires a good synthesis between different generic strategies (with many focuses).

But it could be shown in this paper that LCA identify RM tools as being useful in attracting and retaining customers, which are surely the base for the airline business. Indeed, LCA are using the number of customers as an important factor to define if they are growing or not. This factor to measure is even more important that European LCA have all a mass strategy and not an image strategy.
It is important to continue to study different areas of the subject in order to improve and develop the results, observations, analyses and conclusions in this study. Indeed, due to the fact that not every company was cooperative as expected by the authors but also to a lack of financial resources it was not always possible to collect the best information. If authors removed those constraints in the future more relevant case studies will be made among European low cost airlines. On the one hand, further research could be based on relationship marketing and could cover subject such as influence in relationship marketing in all airlines, differences of relationship tools between airlines and LCAs, understand the customer point of view about RM tools or analyzing influence of RM through LCA study cases worldwide. In addition to, based on generic strategies further research could be made such as analyzing the impact of other factors on generic strategies in the European LCA or defining the different perspective of generic strategies between LCAs and airlines. All those projects are important to give a broader point of view about this typical economic area and could also help to develop a clearer and a better understanding about problems and solutions to find in years to come.
7. LIST OF REFERENCES

7.1 Literature


http://versita.metapress.com/content/q5g18j36376l6747/fulltext.pdf (viewed 20-04-2009)


7.2 Brochures

- “30 Jahre Air Berlin- Das Magazin zum Jubiläum / 30 years of Air Berlin- the anniversary magazine” (edited by Air Berlin PLC& Co. Luftverkehrs KG), Berlin 2009.

7.3 Flyer

- Air Berlin VISA Card
- Air Berlin topbonus

7.4 Web Pages

7.5 Interviews

Interview (2009-04-17) with the customer manager for the German market Ronan O’Brian from Ryanair, via e-mail

Interview (2009-04-15) with the customer desk manager Jacqueline Meier from Ryanair at the Airport Bremen, via personal communication

Interview (2009-04-15) with the customer desk manager Marina Schlüpmann from Air Berlin at the Airport Bremen, via personal communication

Interview (2009-03-19) with the director of Benelux and France François Bacchetta from EasyJet, via personal communication
APPENDIX 01

INTERVIEW GUIDE

“Relationship Marketing in European Low cost airlines”

Low Cost Airline

1.) What is the name of your company?

2.) What is the size of the Airline?

3.) Please describe your position in the European market.

   Do you try to reach the leading position? If so, how?

4.) How many customers does this airline have? And does it growth?

5.) What could be the reason for the growth?

6.) How do you use RM in your company?

7.) How would you describe your current investments in customer relationship?

8.) What does your company undertake to commit customers?

   If so, is this to strengthen the company’s strategy?

9.) Do you use Frequent Flyer Programs (FFQ)?

   If so, do you see any success?

   Did it strengthen the company’s strategy?

10.) Since when and how does it help the company?
**Strategy (including environmental changes)**

11.) How do environmental changes affect the company`s actions?

12.) What is your Strategy?

13.) What is the influence of the customers on this strategy?

14.) What impact has the environmental changes?

   Did it force the airline to develop new strategies to attract new and old customers?

   Do you see changes in the profit?

15.) How do you maintain competitive advantage?

**Competitors**

16.) What are your competitors?

17.) What is your most direct and strongest competitor and why?

18.) What qualities and advantages do your direct competitors have?

19.) Do you undertake effort to analyse direct competitors?

20.) How does the management of your company protect itself against the imitation of competitors?

21.) How could their strategies influence yours?

**Customers**

22.) How many customers do you have for the moment?

23.) How would you describe your customer group?

24.) What group of customers didn’t you pay much attention yet?

   Will you attract these groups in the future?
25.) What service did you purpose to maintain customers?

26.) What service did you purpose to attract new customers?

27.) What are your marketing relationship tools?

28.) How do you manage and analyse the result of RM?

29.) How do customers react on new implementations in RM?

   Any experience?

30.) Do you organise special events to attract more customers?
APPENDIX 02

1. Ryanair

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Table 4: Ryanair’s Customers since 1985 (www.ryanair.com)
2. EasyJet

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*Table 5: EasyJet’s Customers since 1995 (www.easyjet.com)*

3. Air Berlin

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*Table 6: Air Berlin’s Customers since 2005 (www.airberlin.com)*
4. Comparison of the growth rates according to the passenger numbers

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*Table 7: Growth rates Ryanair, EasyJet and Air Berlin*