

A STUDY ON THE COMPETITION STRATEGIES IMPLEMENTED IN THE AIRLINE COMPANIES IN TURKEY

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Abstract

The aim of this study is to determine the competition strategies implemented in the airline companies in Turkey and to examine the effects of these strategies on the airline companies and the airline sector. The competition strategies will be examined by considering the profits and sales capacities of companies, the structure of the market, the market shares, and the quality of the service. The method of the study is based on the analysis of the secondary data. Academic articles related to the subject and reports published by the state institutions and airline unions in this sector form the basic data sources of the study. The study shows that competition strategies especially focus on gaining the cost leadership. In addition, as a result of competition strategies followed, it is seen that the market has grown bigger, there have been important changes in the shares of the companies in the market, the rate of company merging has increased and the factors affecting the competition advantage have changed.

Key words: *Competitive strategies, Airline companies, Turkey.*

Özet

Bu çalışmanın amacı Türkiye'deki havayolu yolcu taşıma şirketlerinde uygulanan rekabet stratejilerini belirleyerek, bu stratejilerin havacılık sektörü ve havayolu şirketleri üzerindeki etkilerini incelemektir. Rekabet stratejilerinin etkileri; şirketlerin karlılıkları ve satış hacimleri, pazarın yapısı ve şirketlerin pazar payları, hizmet kalitesi, müşteri memnuniyeti, vb. ölçütler dikkate alınarak incelenecektir. Araştırma yöntemi ikincil verilerin analizine dayanmaktadır. Bu kapsamda konuya ilişkin yayınlanmış akademik makaleler, havacılık sektöründe şirketlerin oluşturduğu birlikler ve resmi kurumların yayınladıkları raporlar araştırma için temel veri kaynaklarını oluşturmaktadır. Araştırma, uygulanan rekabet stratejileri-

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nin özellikle maliyet liderliği sağlama konusunda yoğunlaştığını ortaya koymaktadır. Ayrıca izlenen rekabet stratejileri sonucunda; pazarın büyüdüğü, pazar içerisindeki işletmelerin pazar paylarında ciddi değişiklikler olduğu, şirket birleşmelerinin arttığı, rekabet avantajına etki eden unsurların ve hizmet kalitesi boyutlarının değiştiği görülmektedir.

Anahtar kelimeler: *Rekabet stratejileri, havayolları, Türkiye.*

Introduction

The recent organizational and environmental changes have created customer-oriented and highly competitive market structure. The market structures having high uncertainty and low forecast make long range planning difficult for the organizations (Lee and Carter, 2005). According to Porter (1996), in the changing conditions of today, the firms require being flexible to adjust faster to changing competition and market structures, continuous benchmarking to carry out the best practice, outsourcing to gain efficiency in operations and improving their core competencies to be ahead of their competitors.

When the developments in the airline sector in Turkey are studied, it is seen that the organizations in the sector have had an increase in terms of both quality and quantity, that the number of the passengers preferring these organizations and, related to this, their income have increased, that the fast changes in technology have been reflected to the performance of these organizations and that the increasing customer awareness has affected their market structure. On being in a situation like this, the airline companies should accurately analyze themselves, their competitors and the structure and competition environment of the market they have been operating in so as to sustain their existence effectively, protect their market shares and attain their goals and targets.

This study aims at determining the competition strategies implemented in the airline companies in Turkey and evaluating the effects of these strategies on the airline sector and airline companies with a strategic point of view. In order to achieve this, the academic articles written and published on the airline sector, the reports published by unions and official institutions and theses written related to the field will be examined.

1. The Content and Characteristics of the Competitive Strategies

For Porter (1980), any firm which competes in a sector has a competitive strategy whether it has been determined or not. Competition strategy searches the answers of these questions: what are the elements leading the competition in the sector? Which actions are the competitor likely to do and what is the best reaction method for this? How will the sector develop? How can the firm be positioned best for a long-term competition? The answer of these questions can be a basis for competition strategies that will be improved by the companies. Working out a competitive strategy means working out a general formula which explains how a company will compete, what goals it should have, which policies it should follow to reach these goals.

Hitt and et al. (2005) describe the competitive strategy as a company's formulating and implementing a strategy which has more value perception and is difficult to imitate, whereas Prahalad and Hamel (1990) study the concept in terms of core competences and define it as strategies developed by taking the core competences that the companies have as a basis. Porter (1980,1985) states that competitive strategy is a concept which is shaped according to the strategic position the company has in the sector. There are three main strategic positions that the company may have: cost leadership, differentiation and focusing. Cost leadership strategy means the strategy of trying to present standard products to the consumers by producing goods and service with minimum price in the market. Differentiation strategy is the strategy of introducing a product accepted unique in the sector by differentiating the product or service that the company presents. Focusing strategy is the strategy developed for getting cost and product advantage by focusing on a narrower market section or regional area.

Competitive advantage can be defined as a factor or a combination of factors making an organization more successful than the other organizations in the competitive environment where the organization operates. Researchers divide the competitive advantage into two: Long-term competitive advantage and short-term competitive advantage. The sources of competitive advantage involve the sources and abilities of the organization, the perfection in the implementation of the strategy, quality, time and innovation. On the other hand, many researchers claim that the only source of obtaining sustainable competitive advantage is the learning ability of the organization (Feurer and Chaharbaghi, 1995).

The basic factor in choosing a competitive strategy is finding the way of forming the value equations of the firm to meet the needs and demands of the customers. Lawton (1999) thinks that it is necessary for a company to balance cost/price focus and to refine the competence and experiences that make it different from the other companies in order to continue growing bigger and to get a long term competitive advantage. The sources which are unique, valuable and impossible to imitate are the basis for most of successful business strategies. Eliminating obstacles of entering the market for the organization, calculating the cost of leaving market and effective control ability on the relationships of supplier are seen the proactive part of the competitive strategies in the organization (Parnell, 2006).

In order that a company can be competitive, the products it has should have the same price, quality and performance as the products of the other firms and it should provide the combination of product-service demanded by the customers (Lee and Carter, 2005). On the other hand, Porter (1985) points out that there are two main elements called as in-company and out-company factors affecting the determination of competitive strategy and success. In-company factors involve the strengths and weaknesses of the company and personal values/performance of the people who practice in the crucial points. The strengths of the company are the profile of competences and assets consisting of financial sources, technological position, having a well-known brand when it is compared with its competitors. The private assets of an organization are the motivation and needs of the key managers to apply the strategy and the other staff. Out-company factors are the opportunities and the threats in the sector and the social expectations. Opportunities and threats in the sector mean the competitive environment with risks and potential rewards. Social expectations are related to the socio-economic factors that are effective on the organization.

2. A View on the Airline Sector Literature

When the literature on the airline sector is reviewed, it is seen that there are newly conducted researches and developments on this subject in Turkey although it is a sector which draws attention and on which comprehensive researches have been done in the USA and Europe. Related to the subject, it has been determined that there are comprehensive sector and model based studies on the USA, Europe and Asia-Pasific. Driver (1999; 2001), Chan

(2000a; 2000b), Huettinger (2006) and Glisson and et al. (1996) can be given as examples of sector based studies. Alamdari and Fagan (2005), Anon (2005) and Franke (2004) are the examples of model based studies.

The airline sector is a particularly fragmented and competitive sector (Jones, 1995). There have been a lot of developments in this sector especially in recent times. It is possible to put these developments into order as legal regulations related to the sector, the changing competition form, structure and intensity, improvements in choosing the strategy, new competition models, long-term strategic decisions and investments, merging and alliances, increasing use of technology. These strategic developments reshape the airline sector and it is predicted that these developments will continue in the future. As a result of these developments, the players in the sector have started to look for different play grounds and different market sections and carrier models have been exposed for the air transportation. Regional transportation, the hub and spoke carrier model in the international area, point to point carriers in the domestic area can be given as examples (Chan, 2000). Airline companies determine three play grounds for themselves to continue their actions, to reach the goals and vision they have targeted. These are mainly scheduled and non-scheduled flights, network operations, low-cost operations and charter operations.

The strategy of the organizations which use the network system is to find out new markets in and outside the country to expand the flight network by differentiating their services with search and develop studies. They especially focus on differentiation and organizational image to have more passengers and form strong distribution channels. Traditional airline companies generally involve network carriers have the philosophy of gathering the customers at an airport and then transferring them to the other points. This operation requires an effective network strategy. Network strategy is realized through the hub and spoke system which enables the passengers to be transferred from a plane to the other fast and easily (Huettinger, 2006).

The companies using low-cost model have cheap and short distance flights and cause the airline sector to gain a different structure. They enable everybody to travel on the aero plane in the globe and force the companies which have obtained a place in the sector to make their plans and operations more flexible, careful and longer-termed. Southwest is known the first company to apply the low-cost model for competitiveness. The main characteristics of this model are low-price tickets, frequent flights, point to point servi-

ce, not having free food and drink in the cabin, not having assigned seating flights to short-distance and secondary airport flights (Alamdari and Fagan, 2005; Anon, 2005).

As the airline sector started to be globalized, merging and alliances – another alternative competitive strategy- has been on demand to struggle with this change. If the merging strategy is managed properly as in the British Airlines and American Airlines, it can be one of the most important strategic means in the international markets to keep and improve the competitive position.

It is understood that the integration has been fulfilled in the form of marketing, capital and frequent flyer programmes. It is seen that the airline companies applying this strategy have formed alliances, made mutual seat sales and fulfilled cooperations for promotion activities. Beside this, as it can be seen in the examples of Delta Air, Hilton and Hyatt hotels and Alomu car rental companies, they can have cooperations with hotels, travel agencies, car rental companies, too (Glisson and et al., 1996). In general, the forms of alliances are the combination of operations, common use of sources, and price design under an agreement, sharing the codes and schedule coordination design.

Since the airline companies have to be more competitive, they choose the way of lessening their costs. They put this into practice through making the number of the staff fewer and outsourcing the activities which are not the core competence of the company. According to Doğanış (2001), the implementations providing cost advantage for the airline companies can be classified into four groups: (1) operation advantages (2) differentiating product/service quality (3) differentiating the market (4) effective advertisement activities. When the airline companies make improvements in these fields, this will help them to bring their costs to a lower level, to use their scale economy more effective.

For Chan (2000), it is necessary to have effective policy and bargain abilities such as entering new markets, forming strategic alliances to be able to compete in the airline industry beyond the profitability. Driver (2001) considers the marketing mix components as cost, product, fixing the prices and network adjustments, and mentions that sustaining each of these components efficiently and productively may affect the success of the company in the competition strategy.

Lawton (1999) states that, for a developing company, the strategies related to low operation costs and low price implementations are not enough to get a long-term competitive advantage. The companies need to develop different competences and unique experiences. The relationship of the company with other companies and customers based on trust, service quality, and organization culture can be given examples of these competences and experiences. Although the companies operating with low-cost system are not seen as competitors by some leading and well-known companies, they are the companies entering European market after 1990 and affecting the market shares of well-known companies dramatically.

3. An Evaluation of the Airline Sector in Turkey

The airline sector in Turkey has been developing dramatically since the late 1980s with the article 2920 of the civil air transportation law passed on October 14, 1983 (DPT, 2005). When the developments in the civil air transportation in Turkey are taken into consideration, it is understood that there has been an important increase in the number of the airline companies and passengers and the percentage of using the capacity they have. When the developments in the last five years are studied, it can be seen that while the half of the passenger capacity was used in 2002 and 2003, this percentage went up to 67,1% in 2004 and 81,7% in 2005. Related to this, the number of the passengers flying with the domestic and international lines became 66.000.000 in 2007 with an increase of 8 million when it compared with the same period of the previous year (DHMI, 2008).

In Turkey, only THY (Turkish Airlines) arranged domestic flights by 2003. The number of the airline companies having scheduled flights has become five with Pegasus, Onur Air, Atlasjet and Sun Express in the last three years. The number of the airplanes changed from 152 to 263. 110 of these airplanes belong to THY and the rest belong to the other companies. The increasing competition which started with the appearance of these private companies in the sector resulted in the decrease of prices. The companies arranged sales advertising that they would sell the plane ticket to the same price as the coach ticket. Thus, the customers had the opportunity of flying more cheaply with the campaigns held in the second half of 2007 (SHGM, 2008).

That the plane rents have increased unbelievably due to the excessive demand in China and India, the lack of qualified personnel (pilot, technician and cabin attendant) are the main reasons why the airline companies are in difficulty (TÖSHİD, 2008). The increase and uncertainty in the oil prices has caused question marks in the preparation of seat sales and cost in the future and a continuous difficulty in accurate costing. The companies which are newly established or want to extend their fleets have difficulty in hiring airplanes because of the rapid growth in air transportation (UBAK, 2008). Moreover, the fierce price competition among the Turkish companies which operate with limited cash and capital is getting bigger and bigger and this endangers Turkish Market. For some authorities, the size of the fleet of THY, the scarcity of the places to fly limit the movements of the other players. Especially, having no difference between the ticket fares of THY and the private companies makes the competition difficult.

However, it is foreseen that the sector will carry on growing, the direction and intensity of the competition will change and there will be merging and withdrawals in the sector through determining new domestic and international flight points, starting regional and crossing flights and making inactive airports active (UTİKAD, 2008).

4. The Competitive Strategies Applied in Turkish Airline Companies

In Turkish air sector, there are 19 airline companies having Turkish capital and operating today (2008). These companies can be classified into three groups as scheduled/non-scheduled airline companies, charter companies, and cargo companies. Due to the subject of this study, only scheduled/non-scheduled airline companies and their competitive strategies will be discussed. In Turkey, there is a traditional airline company which affect the development of the airline sector and five airline companies operating with low-cost transport system: THY, Pegasus, Onur Air, Atlasjet and Sun Express.

THY, the largest airline company in Turkey, has a traditional system. It uses network transportation system operationally. It aims at serving in all kinds of strategically important civil air transportation fields including handling and flight training by preserving the identity of global airline company

and extending the long-distance flight network. In addition, it aims to preserve its leadership in the domestic flights and continue providing comfortable and quality travel service. These have been determined as the mission of the THY (THY, 2008). It can be said that the competitive strategies that the company follows are differentiating product/service based on presenting unique product, being innovative towards technological investments and strategic alliances.

Pegasus Airlines is known to be one of the companies operating low-cost system best in Turkish air transportation sector. Pegasus is a low-cost carrier which realizes low-fare flights by minimizing its operational cost, follows the policy of renovation well-adjusted to technological developments and has a strong capital structure. The company has adopted the policy of implementing the standard conditions of ISO 9001: 2000, having safe flights. It has the mission of enabling its guests an economic and punctual flight by increasing the operational productivity continuously through team work (Pegasus, 2008). The competitive strategies of the company are obtaining the cost leadership with an effective cost control system and forming strategic alliances as it did with Iz Air.

The other carrier which operates with low-cost system is Onur Air and its mission is to give priority to the quality service and customer satisfaction, to provide safe, reliable, punctual and economical flights for the customers. (Onur Air, 2008). It is predicted that the strategy that the company follows is to provide cost leadership by limiting workforce and operation costs.

Atlas Jet has the understanding of the total quality. It has the mission of being known with quality services, being a reliable brand and developing through following the technological changes in the sector. According to some surveys, it comes first especially in customer satisfaction (Atlas Jet, 2008). Atlas Jet, a low-cost carrier, follows a defensive competitive strategy of focusing on cost and differentiation.

Sun Express, which operates with low-cost system and has a strong capital structure, has the mission of providing cost advantages, customer satisfaction and quality service (Sun Express, 2008). It carries out regional transportation operatively and has the competitive strategy of cost and focusing.

Conclusion

There have been important developments in the civil air transportation sector in Turkey especially in the last decade despite all difficulties. The rate of using airport capacity has increased 30% in the last five years, the number of the passengers has reached 66 million according to the data of 2007 and the number of the airline companies having domestic scheduled flights has gone up from 1 to 5 in the same period. By taking the information given above into consideration, it can be said that the market of air transportation in Turkey has grown. Related with the growth, the competition in the sector has speeded up. This situation has been reflected as an advantage of price for potential customers and caused the companies to struggle for developing competitive strategies.

Airline companies operate in a dynamic environment which is open to sudden changes and where the uncertainty is high. Affected by this environment, it is difficult for the airline companies to be service companies and to obtain and sustain the advantage of competition because of the features resulting from the product they serve such as flight, safety, security. Therefore, the concepts like institutional image, customer satisfaction, security, quality service and value presented have different meanings for the airline companies and play an important role in forming competitive strategies. In addition, the state policies have a major role in the domestic air transportation sector's reaching global standards and opening to global markets. The future plans of the government, its policy towards the sector and the relationships with the other countries are closely related with the development of the air transportation sector and affect the competitive strategies that the airline companies follow.

When the competitive strategies of the airline companies examined in this research are studied, three conclusions can be drawn: The first one is the use of cost and differentiation strategy and this has been implemented by the Turkish Airlines. The second one is the use of cost and focusing strategy and this has been implemented by Atlas Jet and Sun Express. The third one is the use of strategy focusing on the cost and it has been followed by Pegasus and Onur Air.

When the implementations in Turkey are compared with the ones in Europe and the USA, it is understood that there are some similarities on the

basis of sectoral development and the system and strategies followed by the airline companies. Especially, the success in the examples of Southwest, Ryanair and Easyjet has been repeated by the Turkish low-cost companies on a regional scale.

On the other hand, it is known that the low-fare strategy alone is not enough for long-term market success. Even if the tactics for low-fare are necessary, they should be used for short terms since cost-cutting and low-fare applications can be imitated by the competitors and well-known market leaders can do the better. Because of this, the companies should develop their experiences and abilities which will make them different from the others. Low-fare system can increase the number of the passengers for a company. However, if the company can not continue this, it may lose the customer loyalty. Market instability, price wars, questionable service standards, the structural weaknesses of the company may affect the competition advantage negatively (Lawton, 1999).

Airline companies with Turkish capital, should give more importance to research and development studies primarily in order to preserve and develop the competition advantages, develop process for decreasing the costs and differentiating the product rather than making price wars, increase the number of the flight points by finding new markets and make flexible plans based on the use of the common sources and the analysis of effective markets.

As a result, when the developments in the air transportation sector in Turkey are examined, it is seen that new companies have started to appear in the sector with the help of new regulations; these companies have changed the fragment of the sector and affected the way and intensity of the competition. It can be said that competitive strategies are formed according to the prices and the flight points and low-fare system is used as a strategic weapon. This situation is positive in terms of the customers, whereas it has resulted in the bankruptcy of some companies and caused some companies to lose their strategic positions. As a result of the fierce competition, it has been determined that these companies prefer especially financial strategies and the market is changing into a structure having highly flexible prices.

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