Airline Survival

It was bound to happen. As of the early part of May 2009, WestJet, a domineering, and successful, discount airline in the Canadian market decided to enter the Edmonton, Alberta (YEG) to Yellowknife, Northwest Territories (YZF) market, a distance of 625 air miles. This seasonal service will run from May until the end of October.

WestJet is modeled after Southwest Airline, the very successful U.S. discount airline. Entering a new market is nothing new to WestJet; it has entered many markets in the past, encroaching on the operating areas of the competition. While all competitors of WestJet in this market, of which there are three, need to be concerned with the new player on the block, Canadian North Airlines, an aboriginal-owned airline, which has serviced this market for many years, seems to be showing the most concern. Air Canada (Jazz division) and First Air are the other two airlines that service this market.

As indicated, four airlines service the YEG-YZF-YEG route. ***Canadian North (5T)*** provides six- or 7-day, twice-a-day, non-stop service between Edmonton and Yellowknife, and return, with additional non-stop/one-stop service less frequently. The two primary flights involve early morning and early evening departures. ***WestJet (WS)*** has only one daily flight, which is a non-stop flight, to and from this market. ***Air Canada (AC)*** also has only one daily non-stop flight to and from this market, but Air Canada also has many other connecting flights to and from this market, flights which take much longer because of the nature of the required connections through Calgary and/or Vancouver. ***First Air (7F)*** has two inbound and three outbound non-stop flights on this route during each week day. On Saturday, there are two non-stop flights each way and on Sunday there is one non-stop flight each way. The airline also has longer, connecting flights through Ranklin Inlet.

The non-stop flight times for the four airlines in June 2009 are presented in Table 1. The Canadian North flights involve separate aircraft for the respective time-of-day flights (i.e., the same inbound aircraft is not used for the corresponding outbound flight). The WestJet and Air Canada flights involve the *same* inbound aircraft that originates from YEG for the return flight from YZF back to YEG. First Air also uses the same aircraft for the return flight for the two corresponding flights, but in this case, the aircraft begins in Yellowknife. The Canadian North, WestJet, and First Air flights use Boeing 737 jet aircraft. The Air Canada flights use a Canadair Regional Jet.

Canadian North views the entry of WestJet into the YEG-YZF-YEG market as a threat; Canadian North is concerned for its survival (Jang, 2009). Prices in this market have fallen drastically, to about one-half of the previous levels (Jang, 2009). Current one-way base fares are down to $159, across all four airlines that service the market. With all taxes, fees, and surcharges included, a return ticket is about $397. Even before the market entry of WestJet, Canadian North

Table 1
Weekday Non-stop Flights Between Edmonton and Yellowknife

Airline and IATA Airline Code	YEG– YZF Departure/ Arrival Time	YZF - YEG Departure/ Arrival time	Time-of-Day Inbound/Outbound Aircraft	Aircraft
Canadian North (5T)	08:00 - 09:40	07:15 - 08:50	Different	B737
Canadian North (5T)	18:45 - 20:24	17:00 - 18:35	Different	B737
WestJet (WS)	11:00 - 12:42	01:20 - 02:57	Same	B737
Air Canada (AC)	11:05 - 12:42	01:15 - 02:57	Same	CRJ
First Air (7F)	09:55 - 11:42	07:15 - 08:56	Same	B737
First Air (7F)	20:10 - 21:57	17:15 - 18:56	Same	B737
First Air(7F)		19:55 - 21:36	--	B737

Note. Times and equipment information based on June 13, 2009 airline website data. YEG = Edmonton, Alberta. YZF = Yellowknife, Northwest Territories.

was also contending with the impact of the recession on business, as was the case for all airlines. Specifically, for Canadian North, the recession had led to a decline in business related to the energy sector and the diamond mines (Jang, 2009).

Another concern of Canadian North is the fact that WestJet is “cherry-picking” (Jang, 2009, p. B3). Cherry-picking refers to the process of selecting markets with good profit/sales potential; thereby avoiding those markets that have less potential. Grocery shoppers who only go to stores to buy the advertised specials (i.e., sale items) are called cherry-pickers. The complaint of Canadian North is that it services many small and remote locations, using the traditionally profitable YEG-YZF run to subsidize the smaller markets the company serves (e.g., Iqaluit) (Jang, 2009). WestJet, on the other hand, only selects major markets to service, markets that have the potential of being profitable. Prior to deregulation of the airline industry in North America, airlines were required to service less-profitable markets in order to gain access to the more profitable routes. Such a requirement no longer exists.

Of the four airlines identified, Canadian North and First Air have the most limited market coverage. Canadian North and First Air are classified as regional airlines, with each airline servicing a very limited area of Canada. Both WestJet and Air Canada have greater market coverage. Even though

Canadian North has been in existence for seventy-five years (Jang, 2009), its limited market covered is somewhat unique among airlines in that it has stayed close to its roots. One reason for this “staying-within-the-box” focus may be related to its aboriginal linkage; in fact, about one-third of the 400 employees of this Yellowknife-based company are aboriginal (Jang, 2009). This may also be the same reason why First Air, an Inuit-owned company based in northern Quebec, tends to limit its market coverage to the northern area of its primary region. Even though Canadian North services a limited number of markets, like all of its competitors, it does service both the passenger and cargo needs of the areas so selected.

Air Canada and WestJet are not myopic in the selected market coverage. Air Canada is clearly a global airline, servicing many countries around the world. WestJet, having started out as a regional airline in western Canada, has grown not only to national status, by covering markets coast to coast, but it continues to show a desire to become at least a somewhat limited international carrier by entering the U.S. market. This latter market foray is interesting, since not too long ago the airline originally believed that going into the latter market was more trouble than it was worth.

Whatever market WestJet enters, the focus of its marketing strategy is to follow a low-price strategy. The implementation of the low-price strategy is accomplished by using a single type of aircraft, by limiting the level of services, and by turning an aircraft around in about twenty minutes. The low-price strategy has been successful for the company, but it has disrupted, in some way, every market it has entered, particularly if the entered market was only being serviced by one company. When there is only one airline serving a market, high prices tend to exist, since there is no direct competitor. Discount airlines definitely reflect what is referred to as a destructive innovation. This type of market innovation also reflects an alternative application of what is referred to as the Wheel of Retailing in the area of retail institutional change.

To differentiate itself from the competition, Canadian North relies on certain aspects of the product component of the marketing mix: Canadian North provides onboard meal service by serving hot meals on china which passengers can enjoy using real metal cutlery (Jang, 2009), something that has gone the way of the dodo bird on discount airlines and on most flights offered by many other airlines.

In its defense, WestJet argues that, when it enters a market, it benefits the market (Jang, 2009). Even though the lower prices set by WestJet have the tendency to attract business away from competitors, unless the price is matched, there is a tendency for the market overall to expand (Jang, 2009).

Website links to airlines:

- Canadian North: http://www.canadiannorth.com
- WestJet: http://www.westjet.com
- Air Canada: http://www.aircanada.com
- First Air: http://www.firstair.ca

Focus: Service industry: tangible and intangible attributes; target market - geographic; seasonal supply; monopolistic competition; product/service attributes; evaluative criteria; determinant criteria; target market: B2C, B2B; intra-type conflict; inter-type conflict; economic environment; CERTS [Aspects of the external environmental: competition, economic, regulatory, technology, social (e.g., culture, political)]; marketing myopia; core vs. fringe product/service or market; monopoly; price-level policy: below, at, above; destructive innovation; constructive innovation; elasticity; theory of natural selection; wheel of retailing; product differentiation; marketing mix; marketing strategy.

Questions:

1. Using the facts in the case, explain how each of the concepts identified above applies to this case. Include a definition and a direct quote from the case to support your explanation.

2. Explain the nature of the Wheel of Retailing in the context of the airline industry.

3 Explain the nature of Darwin's Theory of Natural Selection (i.e., survival of the fittest) as it applies to the current situation.

4. Identify what Canadian North considers to be the core product-service/market of the company. What would be the fringe market of the company? How would the core- and fringe-market concepts be applied to the each of the other airlines that service the YEG-YZF market?

5. Explain how the concept of marketing myopia applies to the operations of Canadian North and First Air. What are the implications of being of this nature when the competition takes just the opposite position? Explain your answers based on the content of the case.

6. Of what relevance to the decision-making process of Canadian North is the fact that the WestJet market offering is only seasonal in nature?

7. Based on the facts in the case, what are the product/price characteristics that a consumer could use in deciding which airline to fly?

8. Explain how a consumer would arrive at a decision with respect to which airline to select using each of the following attitude models: unweighted expectancy-value model, weighted expectancy-value model, conjunctive model, disjunctive model, dominance model, and lexicographic model.

9. Define the marketing problem facing Canadian North? Support your problem definition using the facts in the case and the relevant marketing theories and concepts.

10. Based on the marketing problem facing Canadian North, how should the airline respond to the market entry of WestJet? Explain. Make sure you can support your recommendation based on the facts in the case and the relevant marketing theories and concepts.

Source: Jang, Brent. (2009, June 13). WestJet fares threaten aboriginal-owned airline. *The Toronto Star*, p. B3.