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## Competition between Full Service Network Carriers and Low Cost Carriers in Turkish Airline Market

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### Abstract

Today competitiveness among airline market companies getting increased. Companies pursue different strategies in order to cope with this intensive competition. Many of them adapt well-known business strategies: cost leadership, differentiation focused low-cost and differentiation into their business strategies. In airline market, especially Low-Cost Carriers (LCC) getting a strong challenge for traditional Full Service Network Carriers (FSNC) in competition.

This paper provides a competition assessment of the Turkey domestic airline industry. According to this purpose we analyzed competition in Turkish air transport market between FSNC and LCC. In it we reach conclusions about the sector's performance and the level of competition, identify impediments to competition that policymakers can address and remove, and make specific competition policy recommendations to improve competition in the sector.

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### 1. Introduction

Aviation provides the only transportation network across the globe and it is crucial for global business development and tourism enrichment. Air transportation is one of the most important services to offer both significant social and economic benefits. By serving tourism and trade, it contributes to economic growth. It also provides jobs and increases tax revenues. Aviation is essential for the fast movement of people and cargo shipments around the world (ATAG, 2008). The airline industry is a unique and fascinating industry. It captures the interest of a wide audience because of its glamour, reach and impact on the large and growing numbers of consumers worldwide (Chan, 2000). Aviation provides the only rapid worldwide transportation network, which makes it essential for global business and tourism. It plays a vital role in facilitating economic growth, particularly in developing countries. Economic impact can be divided into three categories: direct, indirect, and induced. Direct economic impacts are the consequences of what might be termed first-tier economic activities carried out by an industry in the local area. Indirect impacts derive from off-site economic activities that are attributable to aviation activities. Induced impact is the multiplier effects that are caused by the increases in employment and income generated from direct and indirect economic impacts of aviation

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(Vasigh et al., 2004). In the last years the airline industry has changed tremendously. Since the middle of the -90s, new kinds of airline, e.g. LCCs, have emerged on different markets. Additionally, we have seen an increasing number of mergers, take-overs, and different types of alliances, also across business models. While it used to be rather clear which business model provided what kind of service, hybrid carriers have appeared lately, again increasing the number of choices for the customer. Thus, the distinction between the different business models has changed and is no longer as clear. These aspects are reason enough to analyse the specificities of different business models and what might be influencing factors for change in these models (Reichmuth, 2008). The global Civil aviation network has doubled in size every 15 years since 1977 and, between now and 2030, it is poised to double again. The three billion airline passengers carried in 2012 are expected to grow to over six billion by 2030, and the numbers of departures are forecast to grow from 31 million in 2012 to some 60 million in 2030 (ICAO, 2013).

How firms achieve and sustain competitive advantage is the fundamental question in the field of strategic management (Teece et al., 1997), when companies are subjected to equal operational conditions. Operational effectiveness and strategy are both essential to superior performance, which, after all, is the primary goal of any enterprise (Porter, 1996). Strategy is about choice of a firm's scope of product-market activities (Porter, 1980), as well as the combination of its resources and capabilities (Prahalad and Hamel, 1990; Barney, 1991). In general, a corporate strategy can be offensive or defensive with respect to competitive forces. There are, of course, many specific strategies of each type, and identifying which is best depends on the circumstances. But Porter suggests three generic strategies for creating a defendable position in the long-run and outperforming competitors: (1) cost leadership, (2) differentiation and (3) focus strategy (Porter, 1980).

The aim of this study is to reveal the strategic responses given by the existing and new airline companies in the domestic market which resulted following deregulation. The research findings shows that to some extent competition have been brought into airline market in Turkey. So, Turkish airline companies have created different strategies in this competitive environment.

In this paper we focused at competition between LCC and FSNC in Turkish civil aviation market by using two companies SWOT analysis, that is an important support tool for decision-making, and is commonly used to systematically analyze organizations internal and external environments. We also look at what market's characteristics affect an airlines entry decisions and how this differs between LCC and FSNC. It is conventional wisdom among informed observers of the Turkish airline industry that the passengers who FSNC like Turkish Airlines are significantly different from those who fly LCC like Pegasus airlines. A number of papers have looked at competition LCC and FSNC. We also look at fare competition with questions like (1) Did the entry of LCC significantly lower air fares? (2) Did FSNC predatorily responded to LCC entry to expel them of market? So, that price competition is not only certain in aviation market, but that is also their competitive struggle. 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, and there have been important changes in the shares of the companies in the market.

## **2. An Overlook to Civil Aviation Market in Turkey**

Until the liberalization in 1983, the flag carrier of Turkey, THY, acted as the only airline company for both domestic and international flights. THY entered the privatization process, private airline companies were confronted with bureaucratic obstacles in their entry to domestic flights market. This new liberalization in 2003 has another significant particularity as well. The aviation not only liberalized the market but also lifted some additional taxes on domestic air transport and reduced airport service charges in airports run by General Directorate of State Airports. Thus, the costs of airlines reduced, and this reduction was noticeable on ticket prices. The most important result of the liberalization in domestic flights has been the considerable increase in the number of passengers carried by domestic flights. The increase in the frequency of existing flights was an important factor as well. In addition, the new entrant airlines operated flights to new routes to which THY had never fled. Another indicator of the strengthening competition was that the number of airlines flying in some markets increased to two or three (Gerde, 2010).

One of the economic and social development factors in nations, civil aviation business has been increasing at annual rates of 4%-5% since 1980s, despite some negative factors like wars and economic crises. In Turkey, aviation is developing faster than others, and thanks to the policies implemented by the Ministry of Transportation, Maritime and Communications, total number of passengers has risen 14,3%, and total air traffic (including overflights) has gone up 10% on average in the last decade. In the same period, the increase in the number of planes in airline fleets was 128%, in seat capacity 136%, and in cargo capacity 318%, while the total number of domestic and international destinations reached 241. Turkey's civil aviation had a record breaking year as the passenger number jumped to over

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