

## A STUDY ON THE COMPETITION STRATEGIES OF THE AIRLINE COMPANIES IN TURKEY

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*This study aims to determine how the airline companies perceive the competition environment they are in, which competitive strategies they implement and to find out how and by which factors they are affected while forming these strategies. Qualitative research method was used in the study. The population of the study consists of the airline companies which have mainly local capital, the management centres of which are in Turkey and which have the licence of scheduled and non-scheduled domestic and international flights. A descriptive analysis was made for the data. The result of the study reveals that the competitive strategies implemented especially focus on obtaining the cost leadership. In addition, costs, customer satisfaction and service quality, employees, innovation and technological changes appear to be the most important elements among the factors which affect the competitive strategies.*

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**Keywords:** *Competitive strategies, Airlines, Turkey.*

JEL Classification: *L83, M1, O1*

### INTRODUCTION

Competition, known as a mutual struggle with its most common definition, is described as mutual tactical struggles of the companies in a sector which they make to get a competition advantage and to fulfil their aims (Grant, 2005; Coutler, 2005: 206-207). Strategy which is a multi dimensional concept that consists of the dynamics such as planning,



manoeuvres, behavioural styles, point of views, determining a position against the competitor (Mintzberg, 1996) and which is defined as a rational decision-making period related with adjusting the opportunities to the supplies of the organizations by appearing in a competitive environment (Andrews, 1971), carries the concept of competition beyond the tactical dimension. In this context, Harrison and John (2004) define the competition strategy as the formulas which the company develops about gaining a position different from its competitors in order to form a value for the customers, whereas Morschetta and et al. (2006) explain it as strategic decisions on the actions that a company do so as to obtain a sustainable competitive advantage in the industry where it is.

When the developments in the airline sector in Turkey are examined, it is seen that there are a lot of factors which make it necessary to develop effective competition strategies and implement them. These developments can be explained as increases in the quantity and quality of the organizations in the sector, the number of the passengers who prefer the airways, the income of the organizations, rapid changes in technology and their reflection to the organisations, increasing customer conscience and changing market structures (Kılınç and et al. 2009). In this case, the airline companies should make a good analysis of themselves, their competitors, the structure of the market they operate in and the competition environment so that they can operate effectively, preserve their market shares and achieve their aims and targets. Because of this, it is important what the airline companies in Turkey do and will do in the future.

## **LITERATURE**

In the business world, competition strategies have gained importance depending on the intensity of the competition and some studies that can be taken as a basis such as Miles and Snow (1978), Porter (1980; 1985) have been included in the literature.

While defining the competition strategy, Porter (1980; 1985) puts an emphasis on the strategic position that the organization will be able to obtain an income which is above the sector average. Later he connects the concept of competition strategy with five competition strengths – the introduction to the market, the risk of substitute product, the bargaining power of the purchasers, the bargaining power of suppliers and the level of the competition between present competitors- that affect the competition structure of the sectors which organizations are in. The author states that, at this stage, there are three general competition

strategies which will bring the success in coping with the five competition strengths and getting a long-term, sustainable strategic position. These are the total cost leadership strategy, the differentiation strategy and the focusing strategy. The total cost leadership strategy is to be able to present a standard product to the consumers by producing goods and service with the lowest cost in the market. The differentiation strategy means to present a product which is accepted unique in the sector by differentiating the product and the service the company has. The focusing strategy is the strategy which is developed to have a cost advantage and a product/service advantage by focusing on a narrower part of the market or geographic region.

Apart from the approaches mentioned above, there are other approaches trying to explain the concept of competition strategy and to enrich its content. For instance, while Pralahad and Hamel (1990) connect the concept of competition strategy with the construction of a basic core perspective addressing to the future, Barney (1991) connects it with mental and financial supplies of the organization which are difficult to copy. Day (1995) explains the concept as getting a market-centred competitive position based on environmental analysis. Similarly, Mintzberg (1996) makes a multi dimensional evaluation by connecting it with variables such as price, image, product design, quality and differentiation and focuses it on the market. The explanations made in the 2000s about the concept also include the concepts related to the business world today. For example, Evans and et al. (2003) evaluate the competition strategies with an integrated approach in the content of organization, sector, product and supply markets and relationships with the other sectors. Value setting approaches belonging to Hitt and et al. (2005) and based on basic cores which are focused on customer and shareholder seem to support the views of Evans and et al (2003). Fitzroy and Hulbert (2005) give importance to the innovation and growth, too.

As a service sector, the airline sector is seen as a sector which is open to changes, which has a high flexibility of demand, dense uncertainty and competition (Taşgıt, 2008). When the changes happening in the recent years and their effects on the structural and functional positions of the sector and organizations are examined, it is seen that the airline sector is in a restructuring period and there have been serious changes based on globalization and markets. Entering new international markets and strategic alliances are accepted as the most important ones of the changes (Glisson and et al. 1996). On the other hand, the developments affecting the structural characteristics of the organizations are affective in this change, too. These can be put into order as legal regulations,

developments related with the density and form of the competition, increasing usage of the technology and the introduction of the new transporting models such as regional transportation, the hub and spoke transportation model in the international arena, and point to point carriers in the domestic arena (Chan, 2000). In addition, because of the structural characteristics of the sector, the elements such as trust, customer-satisfaction and loyalty, service quality, adjustment to technological changes and price gain importance and appear to be performance determiners (Driver, 2001).

The secondary resources show that airline companies have determined three different playgrounds to continue their operations. These are basically scheduled and non-scheduled flights, network operations, low cost and charter operations. The strategy that companies which have a network system usually implement is to find new markets through differentiating products with intensive search and development studies in order to expand their flight networks (in domestic or international areas). These firms especially focus on differentiation and industrial trademark so that they can get more customers and form strong means of distribution (Kılınç and et al. 2009; 179). Basic characteristics of the firms which use the low-cost model are cheap and short-distance flights. Charter operations are considered as the operations of the firms which do not have a big fleet, generally prefer chartering in tourism seasons and whose competitive positions in the sector are not affected much (Taşgit, 2008).

When the literature of airline sector is reviewed, it is seen that this sector holds a lot of interest in the U.S.A. and Europe and comprehensive studies based on sector-models are done, whereas the studies in this field have newly started in Turkey (Kılınç and et al., 2009). For instance, Chan (2000), in his sector-based study, evaluates the developments from 1978 to 1998 with a strategic point of view. The author states that the sector witnessed important players' going in and out, different legal regulations were fulfilled, the structure and intensity of the competition became different, trade making/differentiation became the most important element of the competition in that period. In his study on European airline sector, Huettinger (2006) discusses the changes and future trends in the sector with the appearance of low-cost carriers in the European market. According to him, the sector is changing into a more competitive structure. Glisson and et al. (1996), parallel to the changes in the American airline sector, note that the merging and strategic alliances changed the structures of the markets and the form of the competition.

In their model-based studies, Alamdari and Fagon (2005) discuss the basic characteristics of the low-cost model and aim to determine the

elements that affect the profitability of the low-cost carriers. Anon (2005), in his model based study, discusses how low-cost carriers have changed the structure of the sector and the success conditions of low-cost carriers against the sector leaders. In another model-based study, Franke (2004) evaluates the factors of each model that affect the success in the competition between network carriers and low-cost carriers.

## **METHOD**

The qualitative searching method was used in this study. The population of the study consists of Turkish Airlines Company, Pegasus Airline Company, Onur Air, Atlasjet Airlines and Sun Express Airlines. The population being determined, three main criteria were taken into consideration: The companies with mainly local capital, the companies being Turkey centred and the companies having a license for scheduled and non-scheduled flights in the domestic and international lines. Since few companies were included in the study and the population was reachable, no extra sampling was needed.

In order to collect data, the interview method was used. As it was thought that it would be better to attain the goal of the study, the survey questions were prepared with the interview approach. In the preparation of the questions, the studies taking place in the related literature were taken as a basis. The questions in the survey were scrutinized and evaluated by an academician who specialized in strategic management. The questions involve the expectations of the sector now and in the future, the competition strategies implemented by the companies and finding out the factors affecting the competition strategies of the companies respectively.

Interviews were made in the times and dates which the interviewees asked for and in the offices of the participants. Interviews were recorded. Because of the answers given by the participants, some of the questions were asked in different ways again for confirmation. According to the answers the order of some questions was changed. Interviews took about an hour and took place on 01-25 February 2008. For the data obtained, a descriptive analysis was made. Determining the competition strategies of the companies, the descriptive basis was based on Porter's (1980, 1985) generic competition strategies.

## FINDINGS

Although it was said that the population of the study consisted of five companies, one of the companies, Atlasjet Airlines, was not involved in the study because of the changes in the top management team. The opinion of the ex-management was positive for the study; however, the new management did not accept the demand of interview. Due to this, the data was collected through interview from the other companies-from a person working in the top management in each four companies. Since it was thought that it would not be ethical, the names of the companies were coded as company A, company B, company C and company D.

The information belonging to the people participating in the study has been summarized in Table 1.

**Table 1** The Demographic Characteristics of the Participants

Company	Gender	Specialization	Title	Experience in the top management
Company A	Male	Strategic planning	The manager of strategic planning and investments	5 years
Company B	Female	Sales-marketing	The sales and marketing manager	3 years
Company C	Male	Strategy-sales-marketing	The domestic lines manager	5 years
Company D	Male	Income management-marketing	The manager of income management	3 years

***The competitive position of the companies in the sector depending on the general view of the sector:*** The manager of Company A stated that the development in the civil airline sector in Turkey had become above the world average and the number of the companies in the market had increased in the last five years. The manager of Company B said that there were developments especially in the domestic lines. Company C and D managers noted that the main focus in the sector was the low cost strategies which were being implemented although some structural changes made contributions to the development of the sector.

The manager of Company A said that they were the market leader in the country, while the manager of Company B explained that they aimed at having a low cost position in the sector and they were working on that. Similarly, the manager of Company C made an emphasis on having a low cost position and stated that they were trying to preserve their position by making technological investments such as plane maintenance and repair and spare parts stocks. The manager from Company D said that they were trying to have a more specific position by focusing on being a trademark and customer satisfaction in the certain markets where their rivals had fewer flights. In their statements, the managers from Company B and C emphasized that Turkish Airlines was a market leader and there was a competition about the prices and Turkish Airlines was not included in that competition.

***The future view of the sector:*** The manager of Company A noted that the big airline companies would take over the small airline companies by merging and buying in three important aviation centres, the U.S.A., Europe and Asia-Pacific, in the 2010s. The manager of Company B said that the market would be larger and there would be bigger airline companies, while the number of the players in the market decreased through merging. The manager of Company C stated that the organizations would be open to merging in the extending market and added that the market would be more competitive and the strategies for extending would gain importance. The manager from Company D said that he thought that the market would get bigger and there would be new players.

***Core Competence:*** The manager of Company A said that although they were superior to the other companies in every aspect, their most distinctive feature was the quality of the service they had. The manager of Company B put their core competences into order as the cost control, the flexible and dynamic organization structure with quick decisions about commercial issues and their reputation in the market. The manager of Company C stated that their core competences were having flights in time, economical service and being able to make the human resources planning more efficiently. The manager of Company D explained that their core competences were customer satisfaction and applications in income and cost control.

***Competition strategies implemented by the companies:*** The manager from Company A defined their competition strategy as being an airline company which has the understanding of making difference in the period which starts when the customers buy their tickets and finishes when the flight or travel ends and which presents services that will make the

passengers prefer Company A again. Making bonus services perfect, renewing the configurations in the cabins (rearranging the seats, forming economy and business class cabins) and entertainment. The manager of Company B explained that their strategy was to increase the operational productivity through team work without making a concession and to get an advantage of competition by reducing the cost. The manager of Company C said that their strategy focused on the cost and carrying the passengers from a place to another safely and economically by cancelling all the extras. The manager of Company D mentioned that their competition strategy was based on determining the most reasonable price by analyzing the rivals and implementing it by taking the customer satisfaction into consideration.

***The factors which affect the competition in the sector:*** The subjects on which the participants of the study reached a consensus were customer satisfaction and service quality, employees, cost, innovation and technological changes. It was emphasized by all the participants that customer satisfaction and service quality were given importance by all the organizations, while determining the level of the satisfaction was effective depending on the customer profile. The participants explained that they carried out surveys regularly in their organizations. In addition to this, they stated that they thought the customer satisfaction and service quality among their basic cores.

According to the explanations of the participants, the employees appear to be another factor effective in the competition. The manager of Company A noted that the record growth and profits in the last five years had realized thanks to the synergy created by the employees. The manager from Company B explained that the employees were one of the elements in gaining the power of the competition. The manager of Company C said that the qualifications and abilities of the employees affected the success directly since they were in the service sector. The manager of Company D said that the employees were seen as the most fundamental source in their organization in the period of forming strategies and added that they played the most important role in the success of the organization.

The costs were emphasized by especially the managers of Company B, C and D about the competition strategy. While the manager of Company B saw the control of cost policy as one of the basic factors affecting the competition, the manager of Company D put an emphasis on forming a cost control system. In addition to this, the manager of Company C said that one of the basic success factors affecting the competition was having an advantage of cost among the competitors. The manager of Company A Airlines added that the costs were important for



them, too and they had to give importance to costs so as to provide a reasonable price and promotion in economy class flights.

In addition, all participants agreed that successful products and services were copied immediately and the companies must have the ability of innovation to be different and the innovation had an important role in being successful. They added that following technological changes and implementing them in their organizations was another factor which was as important as the innovation and the organizations which did not follow the technological changes might not compete with the others. Finally, the participants agreed that the safety of flights and the punctuality were among the factors which affected the competition.

## **DISCUSSION**

There has been a serious development numerically and qualitatively in the airline market especially in the last ten years. Now, the sector has a much more dynamic structure and it has not obtained a stable view yet. The expectations about the future suggest that the companies will meet fiercer competition conditions, international companies will take place in the market, the market will expand unexpectedly depending on the duration of membership to the European Community and the merging and takeovers will be inevitable.

While the study is being planned, it has been assumed that these companies are operating in the same market in the sector. However, the results of the study have shown that the sector involves two basic markets. These markets are the ones where network and low-cost operations are fulfilled. In the markets where there are network operations, the companies are generally traditional airline companies and they gather their customers at an airport and then transfer to the other points. The companies which fulfil low-cost operations aim cheap and short-distance flights. As a result, it can be said that Company A is a network operation company. Contrary to this, Company B, C, and D are low cost operation companies.

Company A describes itself in a position which it improves different products/services based on the customers and which has an effective cost control system. Their basic competition strategy is the strategy of differentiation. By increasing the in-cabin services and improving the quality level, it gives importance to finding new markets in order to expand its flight network and being a trademark so as to get more customers. On the other hand, Company B and C have focused on low cost and cheap ticket sales, and they have had competition strategies

based on the cost. They have been following all developments on reducing the cost closely and trying to apply in their organizations within the range of their abilities. The other company which implements strategies focused on costs is Company D. Beside this, Company D has been implying focusing on strategies successfully, too. Especially by focusing on regional markets, they have been reaching the points where the other companies do not have any flights.

The managers participating in the survey all agree that customer satisfaction and service quality, employees, costs, innovation and technological changes are the factors that affect the competition. Although the companies have and implement different competition strategies, they mention the same factors, and this shows the intensity of the competition. However, these factors appear differently while the companies form their competition strategies. For instance, Company A follows and uses the factor of technological changes to make differences in their product, whereas the others give it importance because they think that it may be a solution to reduce the cost. Innovation is important for Company A to create new products but this factor is used by the other organizations to make short-term changes and to attract attention to the prices of the products and return to their strategies focused on the costs. There have been differences among these companies in perceiving and using the service quality as an element of competition. For example, while Company A puts emphasis on both physical and non-physical sides of the product in service quality, the others put emphasis on the non-physical side of the product and especially the customer satisfaction through their employees. All companies see their employees as an effective element in competition, and they give importance to them. Behind this lies the truth that an airline company exists in the service sector as well as the feeling that the trust of the customers to their companies may be provided with the help of employees. For instance, they think that take-offs in time and punctual flights increase the trust to the company and foresee that these can be done only with qualified employees.

The results of the survey suggest that competitive strategies focused on the cost are the most preferred ones by the companies. All managers working for the companies involved in the survey say that it is impossible to fulfil their aims without having cost advantages. It is seen that especially the companies focusing on the low cost operations have been trying to improve their qualities in this way. Nevertheless, it is understood that while the companies improve this strategy, they have ignored Porter's, the owner of this strategy, (1980; 1985) proposal suggesting to

develop scale economies to be able to implement it and have concentrated on the reduction in the costs. For example, the companies prefer cancelling the food they offer in the cabins, limiting the baggage weights instead of expanding their airplane fleets and increasing the number of the flights or the points they fly to. It has been understood that these implementations provide a decrease in the cost in a short term. However, it has been foreseen that these implementations will not be able to enable the companies to sustain their power to compete in the long term due to changing market conditions. In fact, the companies that are aware of this situation try to increase the number of their flight points; however, their finances are not enough to develop fast on this subject.

On the other hand, it is understood that the companies have to be more competitive in the future. In order to this, they must go on developing their effective cost control systems and focus on improving basic cores based on the customers. In this case, especially companies which implement competition strategies focused on the costs and have low cost operations should primarily consider the merging or takeovers so as to be permanent in the sector. The samples of America and Europe show that the companies with low-cost operations cannot be permanent if they do not expand although they can snatch a share at a certain rate from the market of big companies. The immediate future should be a period when these companies give priority to the growing strategies. Thus, the growth should be added to the factors affecting competition strategies mentioned above.

## **CONCLUSION**

When it is considered in general, the airline market is a big market and it is related to the tourism sector which has vital importance for the country economies directly (Nanthakumar and et al., 2008; Ige and Odularu, 2008; Akal, 2010). This subject which has been discussed in the international literature in the last ten years and the competition dimension of which appears to be important should be discussed in terms of Turkey. With this survey, an analysis of the competitive ability of the airline sector in Turkey, the factors which affect or will affect the competition has been done and it has been tried to determine both the case the discussion of which has just started in Turkey and the theatrical fragment which will contribute to the latter studies. It is thought that it will make a contribution to the literature. Furthermore, explaining the contributions that the implementation methods of the competition strategies make to the companies will also contribute to the professionals in that it shows the

possible problems that the companies may face with in the near future because of the methods implemented.

The later surveys should focus on two subjects. The former is to find out the contributions of the factors which are effective in determining competition strategies to the performance of the organizations. At this level, it has been suggested that it should be determined to what extent these factors affect the performance. The latter is that a comparative analysis of the subject should be done in terms of the European Union and Turkey.

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*SUBMITTED: MAY 2011*

*1st REVISION SUBMITTED: SEP 2011*

*2nd REVISION SUBMITTED: DEC 2011*

*ACCEPTED: JAN 2012*

*REFEREED ANONYMOUSLY*

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