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Abstract: This report evaluates Alaska Air Group's strategic plans as it relates to using customer service as a means to differentiate it from other airlines.

Alaska Air Group, Inc. – Preparing for the future.

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EMP-9731

Team Project

Alaska Air Group, Inc.- Preparing for the Future

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Structure

I. Introduction

Strategies prepare for the future. They let the manager anticipate the link between the past, the present and the things that will be. Strategies are necessary to plan from them in detail the activities to reach the (strategic) goals. Without such a thing a company has no initial direction and every action would be undirected, without asking for the impact on their goals.

Competing in the airline market is not an easy task. The competition is very strong and the profit margins are razor sharp, if any. The competition reduces often in pure price competition, which delivers not many opportunities to survive in this market and grow.

The paper concentrates mainly on the passenger service of the Alaska Air Group Inc. This is due to the fact that acording to the revenues this field plays an major role.

II. The Company: Alaska Air Group INC

Alaska Air Group, Inc. (Air Group or the Company) is a holding company incorporated in Delaware in 1985. Its two principal subsidiaries are Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon). Both subsidiaries operate as airlines. However, each subsidiary's business plan, competition and economic risks differ substantially. Alaska is a major airline, operates an all jet fleet, and its average passenger trip length is 850 miles. Horizon is a regional airline, operates jet and turboprop aircraft, and its average passenger trip is 210 miles. Business segment information is reported in the Notes to Consolidated Financial Statements.

The Company's executive offices are located at 19300 Pacific Highway South, Seattle, Washington 98188. The business of the Company is somewhat seasonal. Quarterly operating income tends to peak during the third quarter.

Alaska Airlines is an Alaska corporation, organized in 1937. Alaska serves 36 airports in six states (Alaska, Washington, Oregon, California, Nevada and Arizona), three cities in Mexico and three cities in Russia. In each year since 1973, Alaska has carried more passengers between Alaska and the U.S. mainland than any other airline. Alaska Airlines also serves four smaller cities in California, four in Washington, and many small communities in Alaska through subcontracts with local carriers. In 1994, Alaska carried 9.0 million passengers. Passenger traffic within Alaska and between Alaska and the U.S. mainland accounted for 25% of Alaska's total revenue passenger miles, while West Coast traffic accounted for 65% and the Mexico markets 10%. Based on passenger enplanements, Alaska's leading airports are Seattle, Portland, Anchorage and Los Angeles. Based on revenues, its leading nonstop routes were Seattle-Anchorage, Seattle-Los Angeles and Seattle-San Francisco. Alaska's operating fleet at December 31, 1994 consisted of 72 jet aircraft.

Horizon Air, a Washington corporation, began service in 1981 and was acquired by Alaska Air Group in 1986. It is the largest regional airline in the Pacific Northwest, and serves 36 airports in six states (Washington, Oregon, Montana, Idaho, Utah and California) and two cities in Canada. In 1994, Horizon carried 3.5 million passengers. Based on passenger enplanements, Horizon's leading airports are Seattle, Portland, Spokane and Boise. Based on revenues, its leading nonstop routes were Seattle-Spokane, Seattle-Portland, Seattle-Boise, Seattle-Vancouver, B.C. and Portland-Boise. At December 31, 1994, Horizon's operating fleet consisted of ten jet and 55 turboprop aircraft. Horizon flights are listed under the Alaska Airlines designator code in airline computer reservation systems. Certain Horizon flights are dual-designated in these reservation systems as Northwest Airlines and Alaska Airlines. Currently, 32% of Horizon's passengers connect to either Alaska or Northwest.

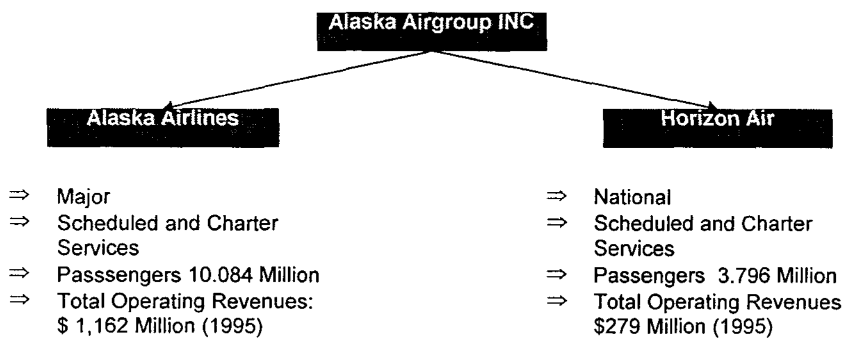


Figure 1: The Airline and its Groups

III. Analysis of the Present Situation

A. *External Environment*

1. Economy

Deregulation of the airline industry opened the gates; more than a hundred new carriers emerged and many operating carriers restructured their route systems dramatically. The carriers are mainly divided into three groups as shown in Exhibit I.

The airline industry is a service industry, because all of the facilities are involved with air transportation.

The airline industry is very capital intensive. Unlike many other service businesses airlines need a lot more capital to start and pursue their business. They need an enormous range of expensive equipment and facilities, from airplanes to flight simulators to maintenance hangars. Most equipment is financed through loans or the issuance of stock, rather than purchased outright. Increasingly airlines are leasing equipment, including equipment they own previously but sold to someone else and lease back.

Whatever arrangements an airline chooses to pursue, its capital needs require consistent profitability over the long-term.

Because airlines owns large fleets of expensive aircraft which depreciate in value over time, they typically generate a substantial positive cash flow. (net income+depreciation)

Airlines operations are very labor intensive. This is due to the fact that the airline business is a service and depends strongly on interaction between people.

The airlines are highly unionized. This unionization is a result from the time before deregulation of the U.S. airline market. The unions in transportation were always unionized. So, management has to work together with the unions and anticipate the problems of the employees. With a working climate that empowers people and motivates them main differences with the Unions should not occur.

Thin profit margins are the rule in an airline. The cost control is a critical issue. Flying above the break-even load factor is crucial. One to two seats less over a longer period deciding about success or failure of an airline.

The revenues of an airline are seasonal. This makes the planning for a high loadfactor more difficult.

About 90% of the U.S. airline industry's revenues comes from passengers and 10% from cargo shippers, the biggest of which is the U.S. postal service. For the major passenger airlines which also carry cargo in the bellies of their planes, less than 10% revenue comes from cargo (in many cases far less).

Airline costs can be broken down as shown in Exhibit 9.

2. *Politic and Law*

The United States Department of Transportation (DOT) - The DOT has the authority to regulate certain airline economic functions including financial and statistical reporting, consumer protection, computerized reservations systems and essential air transportation. The DOT is also charged with determining which U.S. carriers will receive the authority to provide service to international destinations. International operating authority is subject to bilateral agreements between the United States and the respective countries. The countries establish the number of carriers to provide service, approve the carriers selected to provide such service and the size of aircraft to be used. The DOT reviews the carriers authorized under bilateral agreements every five years. Horizon's authority to operate the Seattle-Vancouver, Seattle-Victoria and the Portland-Vancouver routes is to be reviewed in August 1997, March 1999 and July 1995, respectively. Alaska's authority to serve its various Mexico destinations are to be reviewed during 1995 and 1996. The bilateral agreement with Russia was reviewed in December 1995. The Company expects to be granted authority to continue to operate its international routes. During January 1995, Alaska applied to the DOT to serve Oakland and San Diego from Vancouver. The FAA, the Federal Aviation Administration, an agency within the DOT, has jurisdiction to regulate aviation safety generally, including: the licensing of pilots and maintenance personnel; the establishment of minimum standards for training and maintenance; and technical standards of flight, communications and ground equipment. All aircraft must have and maintain certificates of airworthiness issued by the FAA. Alaska and Horizon aircraft, maintenance facilities and procedures are subject to inspection by the FAA. The FAA has the authority to suspend temporarily or revoke permanently the authority of an air carrier or its licensed personnel for failure to comply with Federal Aviation Regulations and to levy civil penalties for such failure.

3. *Technology and Operating Characteristics of Airline*

a) Aircraft - Fleet

Since the beginning of the commercial use of the aircraft to nowadays big efforts are done to improve the aircraft technology, but not only the aircraft was successfully improved. The whole infrastructure that is necessary for the transportation developed due to the technical evolution.

Now we are faced a complex system. The airport, the air-control system, the infrastructure around the airport, the airplane technology. All work together in a system for providing the service (safe) transportation through the skies.

b) Ground Support

Alaska Air Group has to determine what ground support will be required at various stations to provide adequate service. Ground-support equipment includes miscellaneous vehicles such as baggage carts, mobile ramps, commissionary vehicles, and fueling trucks. This function is far complex as it appears. The Alaska Air Group goes with a mixed strategy: means that the use of ground support companies is considered at low-frequency airports and for high-frequency airports is owned by the company, but under consideration of sharing the service with other airlines.

c) Airports

Based on passenger enplanements, Alaska's leading airports are Seattle, Portland, Anchorage and Los Angeles. Based on revenues, its leading nonstop routes were Seattle-Anchorage, Seattle-Los Angeles and Seattle-San Francisco.

d) Information System

Airlines using computer reservation system to provide the possibility for ticket sales around the globe. Several system are in use. The most known one is SABRE from American Airlines. Actually the deregulation was the advent of computer reservation systems (CRSs). These systems help airlines and travel agents keep track of fare and service changes, which occur much more rapidly today than they did when the government controlled such things. The systems also enable airlines and travel agents to efficiently process the millions of passengers who fly each day.

Several major airlines developed their own systems and later sold partnerships in their systems to other airlines. The systems list not only the schedules and fares of their airline owners, but those of any other airline willing to pay a fee to have their flights listed. Travel agents using the systems to check schedules and fares for clients, as well as to print tickets, also pay various fees for those conveniences.

4. Competition Analysis and Porter's Model

Airline business is a very competitive business. The profit is depending on very small margins. Each company manage its operations to control its cost and continuous searching for the new market. Defining direct competitors requires that we have to understand its specific business competitive strategy. The criteria that we have used are market geography, Route (Short-haul, Long-haul), Route Structure (Hub-and-spoke, Point-to-point), Fare Strategy, Company structure (Independence, Alliance), and Information System (Major role, Minor Role). The direct rival for Alaska are carriers that are very similar to its operation such as Southwest Airline, Continental Airline, Reno Airline, and some of small airline business. Those competitors are focus on West Coast region.

Alaska and Horizon compete in the West Coast, Arizona and Nevada markets with American, America West, Delta, MarkAir, Reno Air, Shuttle by United, Southwest Airlines, United and United Express. Alaska also competes primarily with United, Northwest, Delta and MarkAir in the Lower 48-to-Alaska market.

Some of these competitors are substantially larger than Alaska and Horizon, have greater financial resources and have more extensive route systems. Due to its shorthaul markets, Horizon is subject to competition from surface transportation, particularly the private automobile.

- ***Customer***

Customer for Alaska Airline could be categorized as leisure travel, business travel, charter flight, flight connection, frequent flier, and cargo. These individual customers have a power over the airline by picking a competitor. But they are sources of capital. The satisfaction of customer is a main goal of an operation. Companies provide a lot of effort to access this information and respond it through the new service process. In general leisure travelers are looking for a low fare ticket while business travelers are little care about cost. An exceptional customer is the government agency which is always been given large discounts on ticket prices.

- ***Suppliers***

Suppliers are a significant competitive force in the Airline industry. Three deliverables from suppliers-aircraft, fuel, and all labor (from union)- are the most significant determinants in the operating cost of the carriers. The power implications of suppliers is mixed in this industry. Labor unions continue to have a significant amount of power. A strike can have a devastating impact on a carrier. Since aircraft suppliers are solely dependent upon the Airline industry for their livelihood, the Airline enjoy some leverage as long as the two major suppliers, Boeing and Airbus maintain their "fight to death" competitive attitude and strategies. Aircraft fuel is more of a commodity, so the power rests with the customer until the next oil shortage. Government that control airport gates sand landing right and fees have definite power. Supplies like food tend to be commodity with an ample number of options for the airlines.

- ***New Entrants***

New Entrants are companies that have not to compete in the market in the past. In this case they are either existing airlines that enter to the West Coast or existing company like cargo transport companies that decide to add passengers services. The likelihood's that UPS or Federal Express will decide to add passengers in addition to cargo seems remote, but they do represent a potential new entry into the passenger business.

Despite the financial woes and large capital requirement, there continue to be a new entrants into the industry in the form of new start-ups. A major barrier to entry is the capital-intensive aspects of the industry. Expensive aircraft, high labor cost, landing rights and fees, gates, ground equipment and facilities add up to a great deal of money. But if time is right, they can buy used airplanes and pick routes, landing right that in some cases are being left by other carriers.

Agreement to true open skies throughout the world would mean more international carriers competing on routes flown by Alaska. this would, however, create similar opportunity for Alaska as well.

- ***Substitutes: Products or Services***

In general, people choose to travel by air for two primary reasons; first because they desire more personal contact than is afford by telephone and second, the distance to travel is far enough that a significant time saving justifies the additional expense over alternative mode of travel. In West Coast, the region is quite big, fast trains do not exist and car and buses are relatively slow. If the travelers has limited time and must be in the destination city, there really is no substitute for air travel.

However, there is evolving a technology-base alternative that airlines concerned. Videoconferencing is frequently cited by business travelers as a viable alternative that they would gladly accept over a large number of their trips. Trips that require personal interaction will still be made, but ongoing collaborative and status gathering trips could quickly become a thing of the past.

On the other side where time is not a crucial aspect. The alternatives for the air travel could be Rental Car, Individual Vehicle, Amtrak, Bus, Taxi, Furry etc. But in general, these alternatives are limited to a short distance due to time requirement and comfort.

B. *Internal Environment*

a) Working System and Procedure

Labor Relations - The air transportation industry is regulated under the Railway Labor Act, which vests in the National Mediation Board certain regulatory powers with respect to disputes between airlines and labor unions arising under collective bargaining agreements.

b) Employees of Alaska

Alaska had 6,901 active full-time and part-time employees at December 31, 1994, of which approximately 87% are represented by labor unions. The unions and the number of Alaska employees represented by each as of December 31, 1994 and the amendable dates of existing contracts are outlined below:

Horizon had 2,951 active full-time and part-time employees at December 31, 1994, of which approximately 20% are represented by labor unions.

2. Operational Characteristics of Alaska Air Group INC

Alaska Air Group operates a Hub and Spoke route system. This kind of system secures efficient operations of an airline.

Airlines developed hub and spoke systems because they enable them to serve far more markets than they could with the same size fleet if they offered only direct, point-to-point service. At a hub, travelers can connect to dozens, sometime hundreds, of flights to different cities, and often can do so several times of day. An airline with a hub and spoke system thus has a better chance of keeping its passengers all the way to their final destination rather than hand them off to other carriers, and travelers enjoy the advantage of staying with a single airline.

The general structure of a hub-and-spoke route system is shown in Exhibit 16.

3. *Financial Analysis*

Alaska Air Group Inc. (ALK) is the holding company for Alaska Airlines (80% of revenues) and Horizon Air industries (20%). In 1995, Alaska Airlines contributed 94% of profits and Horizon Air 6%.

ALK is doing well financially, The financial ratio analysis in term of liquidity, leverage, activity, and profitability ratios involves two comparisons : the comparison of the present ratios to the past and the comparison of that ratios to those of other airline firms.

First, liquidity ratios, ALK's current ratio and quick ratio are near the industry norm and equal those of Southwest Airlines, the major competitor. The current ratio indicates the ability to pay current obligations. This ratio looks at current assets to current liabilities. The quick ratio indicates the protection afforded short term creditors in cash or near-cash asset. A higher ratio is considered better. Normally, the current ratio and quick ratio of airlines industry seem excessively low in comparison to those of other industries since airlines have small inventories.

Second, leverage ratios are used to measure and compare the levels of funds supplied by creditors and owners. Ratios used in this paper are debt to owner's equity ratio. The ALK' s debt to equity ratio is higher than that of industry norm and Southwest Airlines. It mean that ALK's financial management stresses in using debt financing; therefore ALK have to expense more interest.

Third, Activity ratios measure how well a firm uses its resources as shown in term of total asset turnover. This ratio looks at operating revenue to total assets. ALK is better than the industry norm and Southwest Airlines. It mean that ALK can manage its resources better than other airlines. Normally, Activity ratios of airline industry are lower than those of other industries due to its large asset base.

Forth, profitability ratios show the net result of the interaction of management policies and decisions, and they reflect the firm's earning power. The commonly used ratios are %profit margin, return on asset (ROA), and return on equity (ROE). All ALK's ratios are near the industry norm whereas lower than Southwest Airlines. Although, ALK can manage its resource better than Southwest, ALK's get lower net income since Southwest Airlines has a larger economic of scale.

Overall, ALK is in a very solid financial position. ALK's financial situation can support any future strategy.

	1995			1994	
	Alaska	Norm	Southwest	Alaska	Norm
Current Ratio	0.8	0.7	0.8	0.7	0.7
Quick Ratio	0.3	0.6	0.3	0.3	0.6
% LT debt of Equity	2.5	1.9	0.5	3.1	2.4
Tot Asset Turnover	1.1	0.9	0.9	1.0	0.9
%ROA	1.3	1.47	6.0	1.8	-1.84
%ROE	8.6	N.A.	13.7	12.6	N.A.
%Return on Rev.	1.4	N.A.	6.4	1.7	N.A.

Table 1: Financial Ratios (Source: S&P)

IV. SWOT Analysis

Resulting from the Environmental Analysis there can be issues derived regarding the strength, weaknesses, opportunities, and threats of Alaska Air Group INC.

Strength

- Broad customer base: strong customer base in Alaska (dominance)
- Aircraft fleet: for local airline good mix
- Human Resources: long-term contract, job guarantee, fix cost control
- Frequency Control
- Pricing
- Owner of the Horizon airline
- Owner gate and terminal of some airports in Alaska
- Has excellent labor relations and the strong team of production
  - ⇒ Employee management (job guarantee & fix cost)
- Strategic Alliance with Northwest
- General perception (world survey)
- Flexible schedule

Weaknesses

- Time consuming flights due to hub-system
- Small major airline:
  - ⇒ Routing
  - ⇒ Hub and Spoke system too small
- No experience in international markets
- Advertising for a major insufficient, Low Marketing Activities
- Poor Image of Service Perception compare to the direct competitor (Safety , On time performance, Fare, Baggage handle, Frequent Flier Award
- Can not fulfill all the customer needs due to small service area

- Cost Control compared to other majors
- Low economies of scale
- Customer satisfaction (Overall Service)

Opportunities

- Service (not good for US standard: see Exhibit
- Demography:
  - ⇒ greater income of the population,
  - ⇒ Flying habits
- Economy:
  - ⇒ Prices for equipment, fuel, labor costs
  - ⇒ better hub and spoke system
  - ⇒ short overhauling
- Implement Marketing Information system
- The growth of airline passenger traffic
- The development of airplane technology (reduce the maintenance cost, increase fuel efficiency, and boost aircraft utilization ; hrs/day) (5% of revenue are maintenance)
- Diversification
- Service Improvement
- Cost Control
- Enhance more team management
- Expand to the bigger service area
- Alliance
- Marketing activities advertisement
- Electronic reservation
- Increase Charter Flight
- Charter flight
- Number of hours in the air per day
- New destinations
- Increase operation performance
- Economies of scale

Threats

- Regulations of the FAA, IATA, ICAO (political constraints)
- Changing economic variables: fuel price, labor costs , spare-parts
- Aggressive price competitions
- Fare cut Competition
- Superior Competitor such as South West Airlines, America Airlines, United Airlines, Northwest Airlines etc.
- Penetration from the competitor to the base area (Alaska)
- Business Recession

- Airport Congestion
- Bad weather
- Accidents

A. Analyzed KSF's (Industrial Analysis)

The key success factors were taken from the industrial analysis, that means these factors are main issues in the airline industry, that determine the performance of an airline. Exhibit 7 shows the KSF's.

Performance that customer can perceive:

- On time Performance
- Ticket Price
- Baggage Handle
- Frequent Flier Award Program
- In-flight service
- Ticket service

Performance that customer cannot perceive

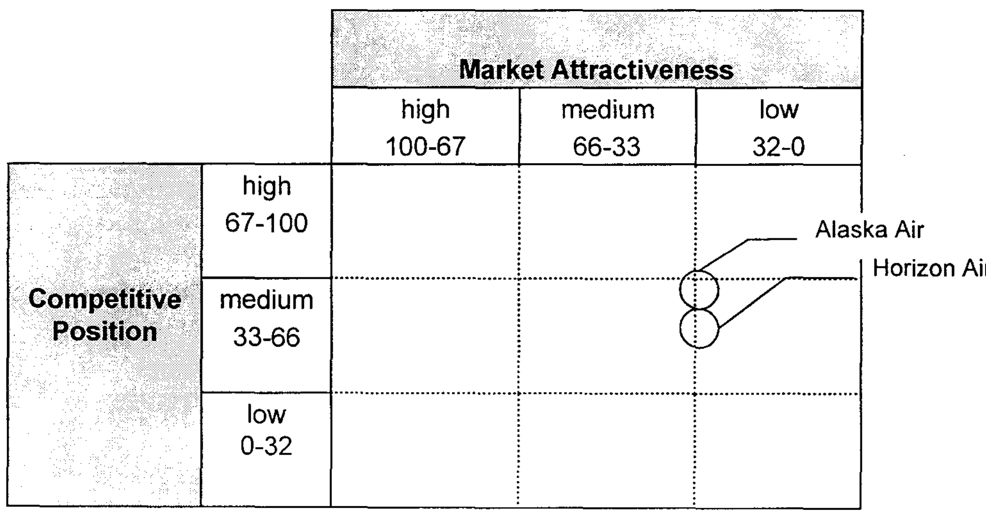
- Employee Participation: front-line people, pilot, ramp agent, steward and stewardess: It is very important for service business to be able to acquire the information from the customer and be able to motivate people.
- Team Management: Customer perceive the value from the overall evaluation. It is very important that every employee work to gather to convey the superior quality to its customer.
- Leadership: Good leadership is a requirement for every business especially high competitive business. Leader should be able to create vision and transfer to the practical plan for achieving the goal.
- Cost Control: Airline business is a capital intensive business. It requires close and carefully management to control cost.
- Learning Organization: learning is essential to keep the company competitive
- Communication: Everyday valuable pass through the employees up and down in an organization. It is very important for the company to establish a communication system that enhance the efficient communication.
- Flexibility: flexibility is another factor that organization need to have due to the rapid change of customer needs and government policy. The company which is flexible will have an advantage over its competitors.

V. GAP Analysis

The GAP-Analysis in Exhibit 5 and 6 shows that Alaska Airlines has to concentrate on Service and Operations mainly. Those issues are addressed in the strategy for Alaska Air Group.

VI. Market Attractiveness Business Strength- Matrix

The attractiveness of the airline market is not high. This is due to the fact that the competition is very high and the razor edged profit margins. One or two seats more sold on a profitable route of an airline over a longer period determines failure or success of this airline. The customer is very price sensitive in this market. Furthermore has the customer a high level of information about the market price due to the electronic booking. Service in the Internet offer a price comparison between airlines. Price competition is almost the worst thing that can happen. Aggressive pricing of competitors is a real danger for Alaska Airlines.



The recommended strategy addresses such issues, that Alaska has to improve the operational efficiency, while increasing the customer base. With the growth strategy of Alaska of movement in the matrix upward is the goal.

The matrix stands for the West coast market and is not representative for the whole US, because overall developments of the US market can of course decrease the performance, respectively competitive position of the Alaska Air Group, even if the market share in the West Coast was increased. This is due to the possible different developments of the market segments in the US, where certain airlines can profit from and increase their market share US wide.

VII. Future Threats in the Environment

The main threats for Alaska Air are mainly the competitors. As a matter of fact, the whole airline industry is in a price competition and an airline has to react in nanoseconds. Price has a strong emphasize, so the cost structure of the company is a great issue for profitability, because possibilities for decreasing costs have to tackled immediately and new ideas have to evolve for streamlining processes for cost-reducing.

VIII. Business Strategy

A new business strategy is necessary to manage Alaska Air Group to the goals. The business strategy is derived from the market possibilities, the SWOT-Analysis, the perceived customer -value. The following strategy is suited for Alaska to pursue growth and maintain profitable:

National Growth

Done with mergers and acquisitions, market penetration

Strategic alliances: maintain alliance with major carrier Northwest

Differentiation

High customer satisfaction, differentiated service

Strategic Goals

- Increase market share from 2.1% to 6% (based on RPM)
- Increase customer satisfaction index from 0.375 to 1.0

In Exhibit 15 the two points are shown as the strategic goal in a map, with the two axis market share and customer satisfaction index.

The customer satisfaction index is here defined as the ratio of the number complaints of the airline with the lowest complaints, and the number of complaints of the own airline.

Mission:

Be a company that delivers air transport services for the commercial sector focused on scheduled service and charter. We want toe be a good neighbor with the communities

A. Corporate Strategy

Stay a major and double the market share and be profitable whereby the main operations lie in the West Coast of the United States.

1. Growth

Due to the fact that our goal is to grow and to maintain proficient a certain growth strategy has to be applied that is suitable for this goal. In fact profitable growth has to be supported by the functional strategy as well.

Recommendations: Most airlines grow through internal expansion, which comes as a result of a carrier increasing market share, fleet size, total capacity, or entering new markets.

Our primary motif:

Increase the economic of our airline and grow internally.

Mergers only with small airlines called commuters and only concentrated on the West Coast market.

Mergers can occur in four generic types:

I. Horizontal

II. Vertical: airline with non-airline firm, e.g. merger with ground-servicing company, or an airport fueling concessionaire.

III. Congeneric: merger related, but not vertical or horizontal: hotel chains, etc.

IV. Conglomerate: unrelated companies combined

Alaska Air concentrates more on horizontal mergers with commuters and congeneric mergers.

Advantages: mergers synergism:

I. Economies of scale (operations and marketing)

II. Financial strength (ability to survive business cycles, competition and lower cost of debt)

III. Market strength

Why is a larger market share for an airline often a strategic goal? The reasons pro are:

I. Economies of Scale are a cost-effective method for achieving a higher rate of return

II. A large market share allows improvements on the experience curve

III. Market share dominance permits carriers to control pricing more effectively

IV. It is more economical to maintain a large market share than to try to improve one's position

It has been proved that market share is in smaller markets more important than in larger ones.[2]

2. *Differentiation*

Differentiation is important to distinguish Alaska Airlines from the other competitors. Our goal is to deliver a customer high value. That is easy said than done. Friendliness, prompt reaction to customers are a matter of course. The real service at a higher stage begins to offer the customer a package for his or her needs.

3. *Strategic Alliances*

Alaska Air Group wants to pursue the alliance with Northwest to use the benefits from the customers segments using connecting flights with Alaska Air routes in the west coast. International customers can be gathered through Northwest Airlines.

Both schedule systems are linked and updated.

B. *Functional Strategy*

1. *Marketing Strategy*

Airline marketing is the process of matching the demands of the present, potential, and future passengers with the supply offerings of an air carrier.

Marketing includes all activities related to the demand side of the coin.

Our marketing objective:

Create high customer value and increase the number of long-time passengers with our airline including the raise of numbers of new flyers.

- Increase market share passenger
- Maintain cargo
- Increase charter

Uses advantages: identify growth segments, Extend hub-and spoke, Forecast demand while usage of the market information system.

Customer- Value Statement of Alaska Airlines

We deliver the highest quality of service to our customers to a comfortable price.

"How do you want to fly today?"

a) Scheduling

Time of departure is a vital consideration for passengers. An airline that maintains frequency, rather than capacity, is more apt to capture a large market share.

Trade-off: utilization vs. excess capacity.

Selected Scheduling: highest-order integration of:

- Selling
- Advertising
- Market research
- Pricing
- Service
- Origin and destination
- Traffic peaking
- Utilization

Aggressive marketing strategy and defending its strong base: the defending program is the result of the efforts to continuously access the needs from the customer, and be able to convey it back to the customer by the superior service. By continuously improve its process and try to embed the customer needs in to its service, Alaska could be able to defend its strong base and have and advantage edge over its competitors.

The purpose of aggressive marketing strategy is expand its service base area and increase its market share. The growth strategy is a result of the effort to build a passenger and financial base. It is crucial for company to continuously search for the opportunity and be able to work with the local needs. It is very important for Alaska to find and be able to catch the opportunity. To do that the company need to have a flexible and lean organization. The advertising is another area that need to be focus. It is very important for the company to have enough expenditure to promote the company.

b) Route decision

Carefully monitor every route as a market pair. Treat every pair as a profit center. Hub and spoke system should be broadened, if the opportunity for a new market gets visible.

c) Pricing

Involves a variety of classes, discounts, group charters, and time of the day. These changes make it difficult to maintain a price that is differential between airlines, what does not mean that the price is inelastic.

In general, elasticity increases with the flight segment length. Pricing is more apt to be inelastic on shorter routes owing to aircraft being of smaller size, higher cost per mile, because of frequent landings, and lower load factors.

Market Share

In most cases carriers attaining a high market share are more profitable that their smaller competitive rivals. Airlines maintaining a high market share over a longer period tend to be highly profitable. [2]

Low price cost control

The implementation of a marketing information system, that is linked to the data base of the ticket sales let's gather data about customers behavior daily. In combination with an installed cost control system actual cost can be traced and be examined.

The combination of the cost control system and the marketing information system brings the competitive advantage for Alaska Airlines. Management uses the data to make decision on a strategic and operational basis for improving the Airline performance.

Service: Product Positioning

For the positioning of the service the customer expectation in the market segments have to be examined. following identification was made:

Perception	Flexibility	Price	Comfort	On-time	Safety
Business					
Traveler/Leisure					
Charter					
Cargo					

After this we defined our position in he market against our main rival Southwest.

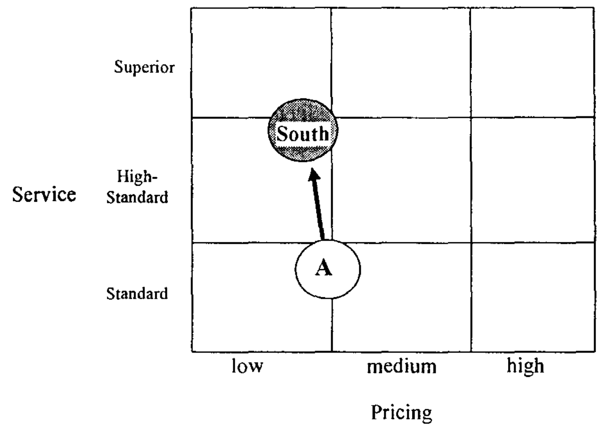


Figure 2: Positioning

A distinction between the two units of the Alaska Air Group is not made.

d) Promotion

Promotion refers to the acceptance of the company to the people. What is the perception the customer have and how is Alaska Airline going to improve this?

e) Advertising

The advertising has to be more oriented on the majors. Word-of-mouth is probably the best advertising ever. So, Alaska airline has to become the first choice in the West coast market.

f) Marketing Information System

The implementation of a marketing information system delivers the data about daily transactions. Information gathering includes The data base is linked with our ticket sales.

Management has to recognize the data and make the decisions based upon.

C. Operations Strategy

Maintenance operations are supposed to be outsourced to a contractor. The remaining maintenance have to be highly efficient. Keeping all equipment operating is the main issue.

Continuous Improvement of the processes is a goal to achieve shorter times in overhauling and ground support.

Growth strategy requires a long-term finance plan for equipment. The development in the demand through penetration and the extension of our hub and spoke system require new aircraft of the size of 130 seater. By assuming steadily growth Alaska Airline has to invest in 3 to 4 new aircraft each year. In addition to the acquisition Alaska pursues a leasing strategy, which means that 5-7 aircraft more are leased each year.

Category	A-319	A-320	Boeing 737	MD-88
Buying (new)	◆	◆		
Buying (used)			◆	◆
Leasing			◆	

Depending on market growth and development of the market share over time, investments have to be made in new aircraft for serving the market. Due to the fact that Alaska Airlines is a Major, but not an international airline the type of the airplane is accordingly.

Acquired will be mainly 120-130 seater in average for our operations in the United States.

Break-even load factor

The break-even load factor is the percentage of that must be sold at a given price or yield, to cover the cost. A Break-even load factor of 65% is industry standard. While looking at the loadfactor of the Alaska Airline in Exhibit 8 reveals that Alaska has a very low factor. The airline has to concentrate on decreasing the operation costs.

A better planning of the demand can increase the load factor, but take not to decrease the frequency to secure a sufficient load factor. Frequency is very important to keep customers.

Seat configurations

Adding seats to an aircraft increases the earning power without adding additional proportional costs. These decisions depending on the routes. Business people: large section airplanes vs. Traveler routes: push the number of seats

Overbooking

Use the history of particular flights to examine the no-shows. Overbook the flight with this number of no-shows.

Turnaround time

The turnaround time at the airport has to be decreased to secure a fast reuse of the airplane. An airline with low turnarounds needs less aircraft than other lines. Low turnaround times require a highly coordinated effort from the employees who practice teamwork and open communication daily.

D. Financial

Short-term financing, defined as credit that is scheduled to be repaid within one year.

Types of short-term financing:

- Trade credit
- Accural accounts
- Commercial banks

Secure cash basis

Long-term financing:

Equipment purchase

- Equity financing
- Long-term loans
- Bonds
- Leases
- Lease purchases
- Equipment trust certificates
- Conditional sales contracts

E. HRM

Focus on Human Resource management : Airline business is a service business which require a lot of interactions between employee and customer. The employee become very crucial for the company success. The company need to have a formal recruiting and training plan to ensure that the employee will have enough knowledge and the same attitude as company's desires. Regularly train is very important, employees should have a regular train to increase their knowledge to enhance a better service to customer.

F. TQM

The principles of TQM are being implemented in our airline. The first main point for the TQM will be a cultural change.

Implemented TQM concepts through out an organization: The program should be initiated by top management to show the support. Employee participation and empowerment program will be an effort of the management to access the information and suggestion from every levels of an organization. By creating two way communication channel, the participation program could be done through the suggestion system, open door discussion, and ownership program. Team management is another area that need to be implemented to create the employee participation

Customer Focus: The organization need to provide to access the feed back from the customer and be able to cooperate their needs to the operation activities. By gathering the information from the stakeholders and the participation from the employees. Alaska should create sense of continuously improvement and create a learning organization environment.

G. Organization

Decentralized the Organization: Airline business is a capital intensive business. It is very important for the company to have a lean and flat organization. Flat organization is more flexible to change, better communication, and less administration cost. Cost control management is a necessary program that company in Airline business need to concern. From the fact that profit in the Airline business is very marginal, even small cut of cost could result in the profit of an organization.

Teamwork is a goal for the organization of Alaska And Horizon Air.

H. Information Technology Strategy

The local CRS of Alaska Air Group will be updated with more powerful client/server technology. Contracts with other CRS are extended.

The information age requires effort to intensify the use of the Internet for information providing to the customer and ticket sales. The role of information technology is expanding in many industries, including airlines. Where it was traditionally applied in administrative areas to support the bulk processing of data, IT is now seen as an enabler of dramatic performance improvements in all business areas and critical to achieving competitive advantage for airlines. Information technology is one of the largest capital expenditure items after aircraft acquisition and receives most attention from CFOs surveyed.

IT development has generally been carried out in-house, according to most airlines, although some reported the use of third party consultants for the implementation of revenue accounting and other large systems. In the last five years, eight of the 24 carriers had partnerships with another airline and developed IT within that partnership. [3]

IX. Cultural Change

The management culture will be characterized by certain values as:

- Creating a lean organization
- Reduce out bureaucracy
- Start action, and act with a sense of urgency
- Focus on individuals as capabilities, not titles
- Deal with people
- Decision making

Decisions were made decentralized due to employees participation. This goes in line with TQM. The recommended strategy efforts a different culture.

The working culture is characterized by hard work, sense of fun, and employees' commitment.

Some core values of the future culture of the Alaska Air Group company are:

- Communication, communication, and communication
- Promote action and flexibility
- Let every employee make a difference
- Engage employees hearts and minds
- Commit sense of improvement
- Managers at Southwest have to work in the line once a year
- Proactive thinking

X. Advantages and Disadvantages of the Strategy

The main advantage is the usage of the learning effect of the employees in the organization, while changing the culture. The, hopefully, positive change can reduce operating costs of the airline, which is a crucial issue.

Disadvantages go in line with the growth of the company. The steady growth, just look at the strategic goal of tripling the market share almost, requires a great deal of investments in the aircraft. Buying and/or leasing decisions re to make, which increase the long-term debts of the company.

XI. Implementation and Strategic Control

The strategic control uses the variables customer satisfaction index and market share to control the development of the airline in the market.

The tool for the control is the proposed MS/CSI-Grid in Exhibit 15. The Cultural change requires more time to implemenmt the new values according to them the emploees.

XII. Alaska Air Group INC in 2005

The Alaska Air Group INC achieved all the goals set. Exhibit 15 shows the direction and the achieved goals. The market share was almost tripled from 2.2% to 5.9% (only passenger). Regarding the ticket price Alaska is cheapest in the Industry with superior service. Our direct competitors are airlines that service in the West Coast and new technology (ex. Videoconferencing). The cultural change was successful too.

The next strategy is to go from the West Coast Market international and seek there opportunities to growth mainly with the Routes to Russia and Mexico, respectively Middle- and South America.

References

[1]	Hall, Jessica	YEAREND - U.S. airlines to maintain 1996's success	Reuters, Friday December 20, 1997
[2]	Banfe, Charles F.	Airline Management	Prentice Hall, 1992
[3]	KPMG	Strategic trends in the Airline Industry	7 March 1996
[4]	N.N.	Airline Handbook: Chapter 4 - Airline Economics	Air Transport Organization of America, 1995
[5]	N.N.	Facts and figures	Air Transport World, 5/97, p. 92

Exhibit 1.: The Groups of Airlines

Major	Annual revenues over $1 Billion

- ⇒ American
- ⇒ United
- ⇒ Delta
- ⇒ Federal Express
- ⇒ Northwest
- ⇒ USAir
- ⇒ Continental
- ⇒ Trans World
- ⇒ Southwest
- ⇒ United Parcel Service
- ⇒ America West
- ⇒ Alaska

Nationals	Annual revenues $100 Million to $1 Billion

- ⇒ DHL Airways
- ⇒ Continental Micronesia
- ⇒ American Trans Air
- ⇒ Tower
- ⇒ Valujet*
- ⇒ Simmons
- ⇒ American Int'l
- ⇒ Hawaiian
- ⇒ Atlantic Southeast
- ⇒ Continental Express
- ⇒ Emery
- ⇒ Horizon Air
- ⇒ World

Regionals/Commuters	Annual revenues under $100 Million

- ⇒ Sky West
- ⇒ American Eagle

Exhibit 2.: Airline Business Ecosystem

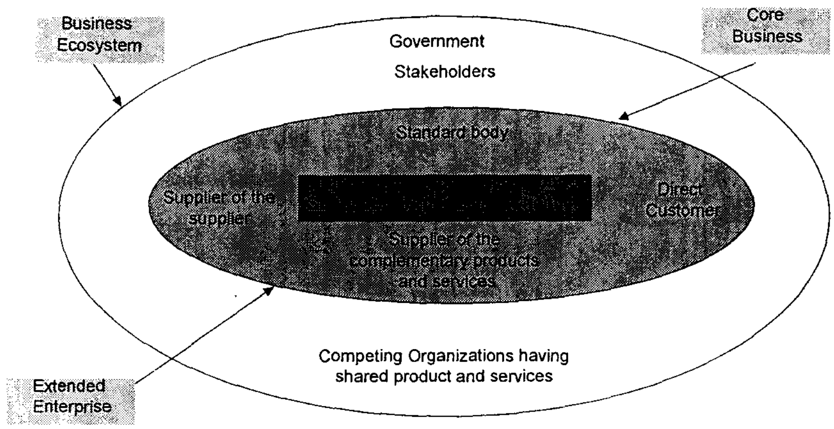


Exhibit 3.: Porter's Five Factor Model

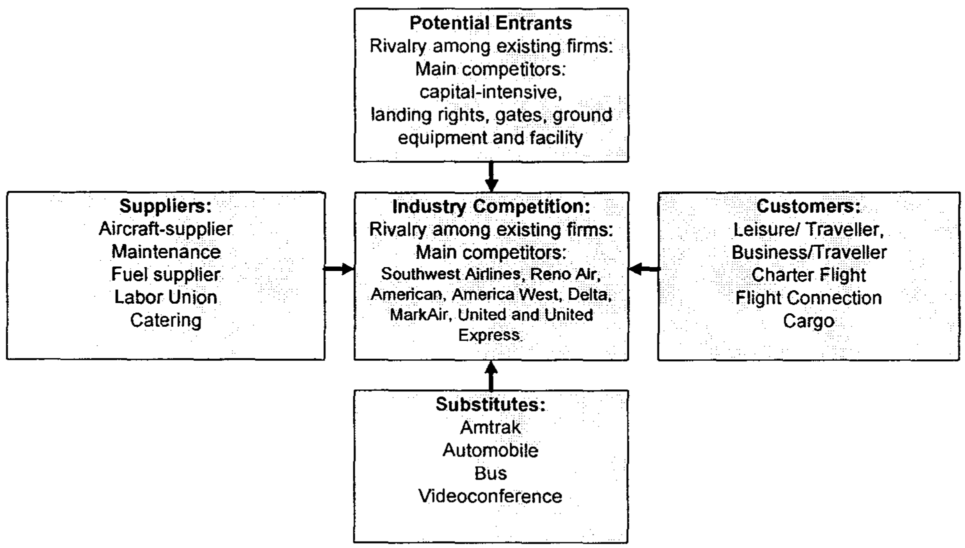


Exhibit 4.: Strategy According To Market Segments

	MARKETS		
	Passenger		Non-Passenger
SERVICES	Business Sector	Leisure sector	
Passenger Transportation	MF LC ↑ D	MF LC ↑ D	
Cargo Transportation			MF LC ↑ D
Facility Service	MF LC ↑ D	HF MC ↑ D	
Charter Flight			MF LC ↑ D
Ad. in alaska Magazine			MF MC ← M

Exhibit 5.: GAP-Analysis

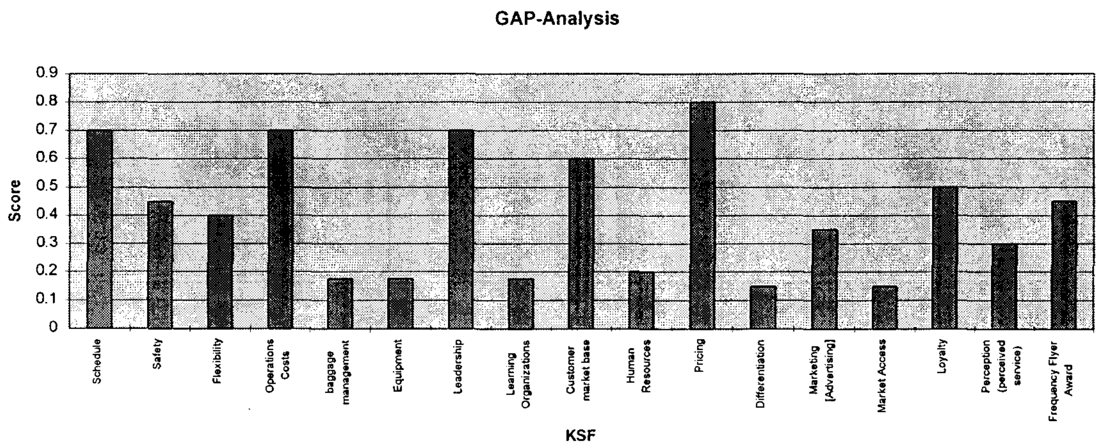


Exhibit 6.: GAP-Analysis (Table)

Category	Weight	Score	Total	
Operation	0.3			
Schedule	0.1	7	0.7	
Safety	0.05	9	0.45	
Flexibility	0.05	8	0.4	
Operations Costs	0.1	7	0.7	
baggage management	0.025	7	0.175	
Equipment	0.025	7	0.175	8.666667
Management	0.3		0	
Leadership	0.1	7	0.7	
Learning Organizations	0.025	7	0.175	
Customer market base	0.1	6	0.6	
Human Resources	0.025	8	0.2	5.583333
Marketing	0.2		0	
Pricing	0.1	8	0.8	
Differentiation	0.025	6	0.15	
Marketing [Advertising]	0.05	7	0.35	
Market Access	0.025	6	0.15	7.25
Customer market base	0.2		0	
Loyalty	0.1	5	0.5	
Perception (perceived service)	0.05	6	0.3	
Frequency Flyer Award	0.05	9	0.45	6.25
			6.975	
		Goal:	*7.5*	

Exhibit 7.: Key Success Factors

Routes

Customer market base: (Market Share)

Human Resources: Team Management, Training , Education, Vacation, etc.

Differentiation

Image of the Company

Market Access

Equipment

Marketing [Advertising]

Service

Safety

Frequency Flyer Award

Operations Costs

Learning Organizations

Flexibility

Schedule

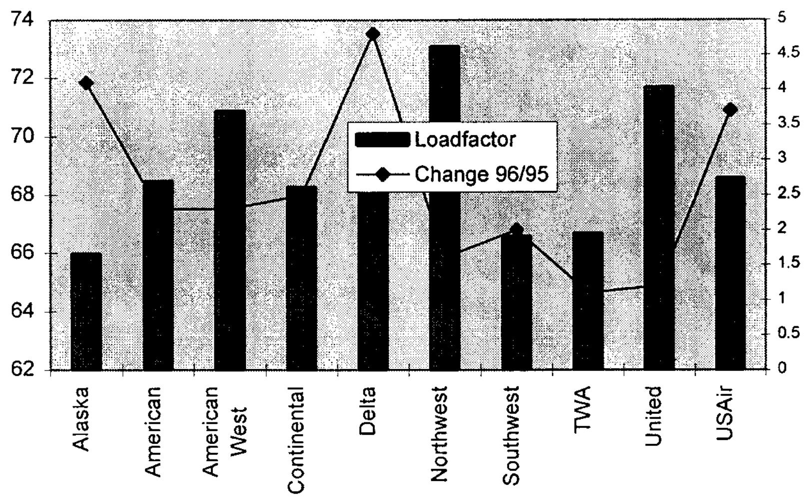
Pricing

Frequency (Departure)

Loyalty

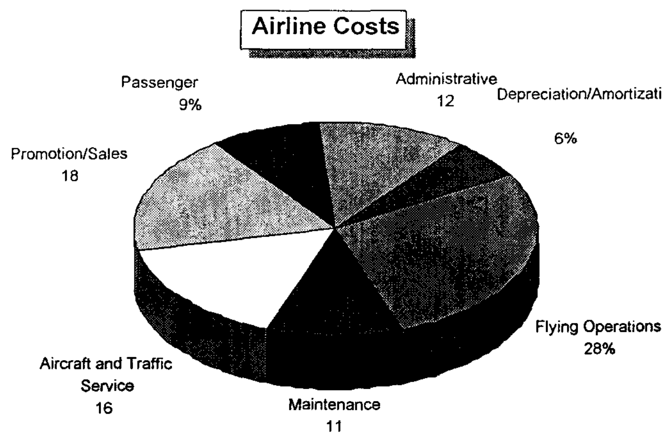
Perception

Exhibit 8.: Loadfactor and Changes 1995/96



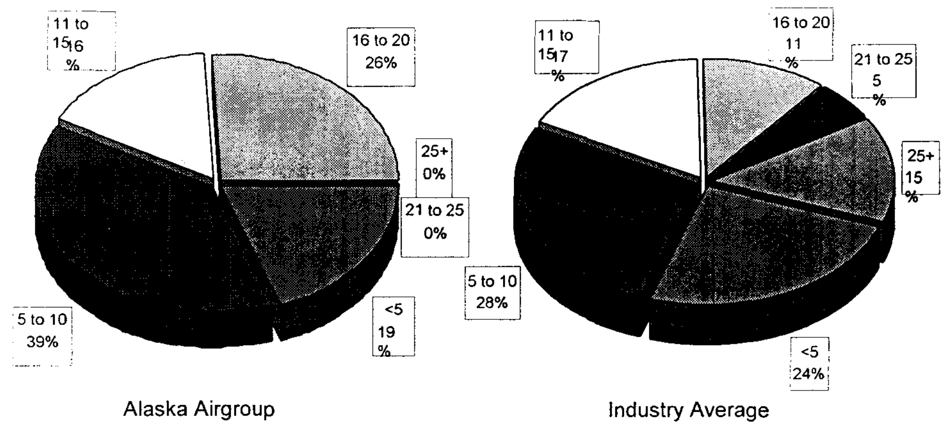
Source: [5]

Exhibit 9.: Airline Costs



Source: [4]

Exhibit 10.: Age of the Owned Fleet



Source: [5], [6]

Exhibit 11.: U.S. Customer Complaints

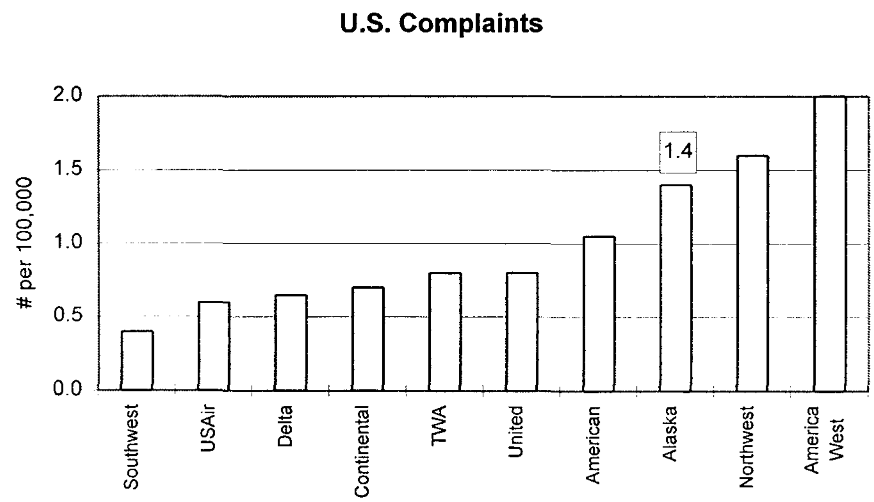


Exhibit 12.: U.S. On-Time Performance

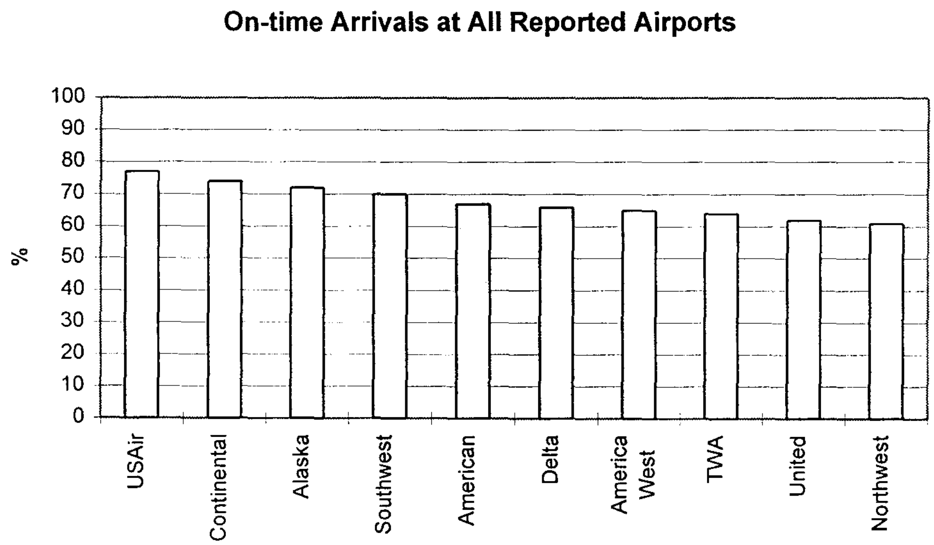


Exhibit 13.: U.S. Market Share of Alaska Air and Horizon Air

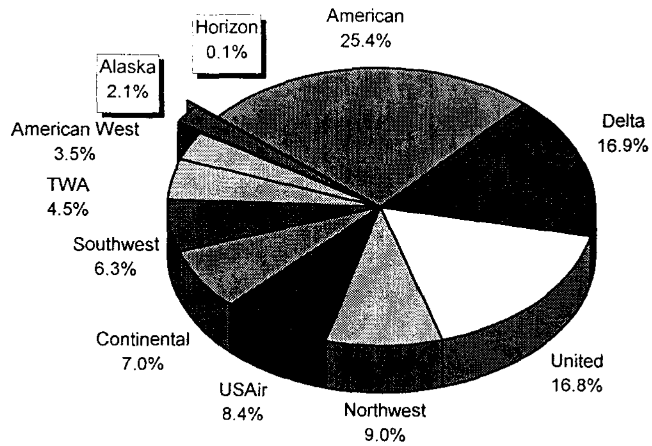


Exhibit 14.: Customer Satisfaction Index and RPK

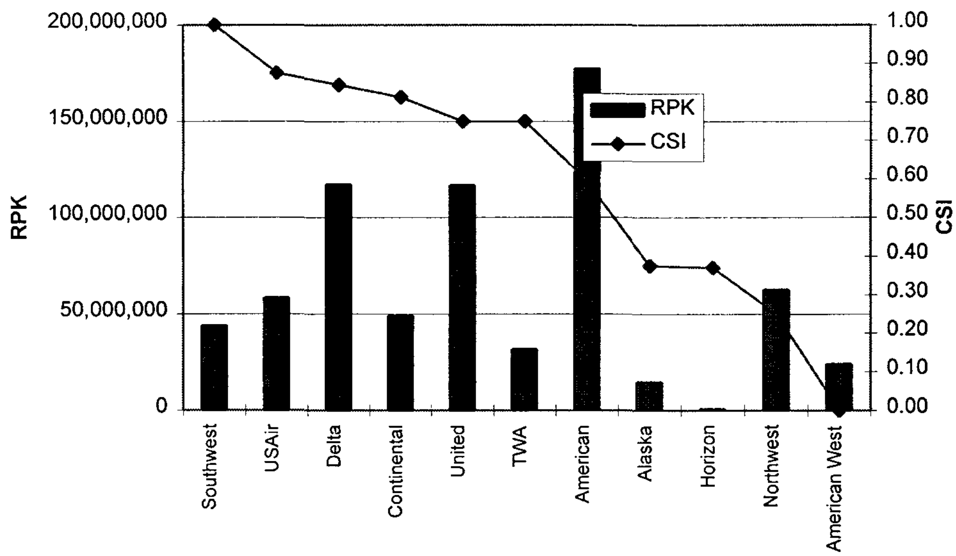


Exhibit 14.: Customer Satisfaction Index and RPK

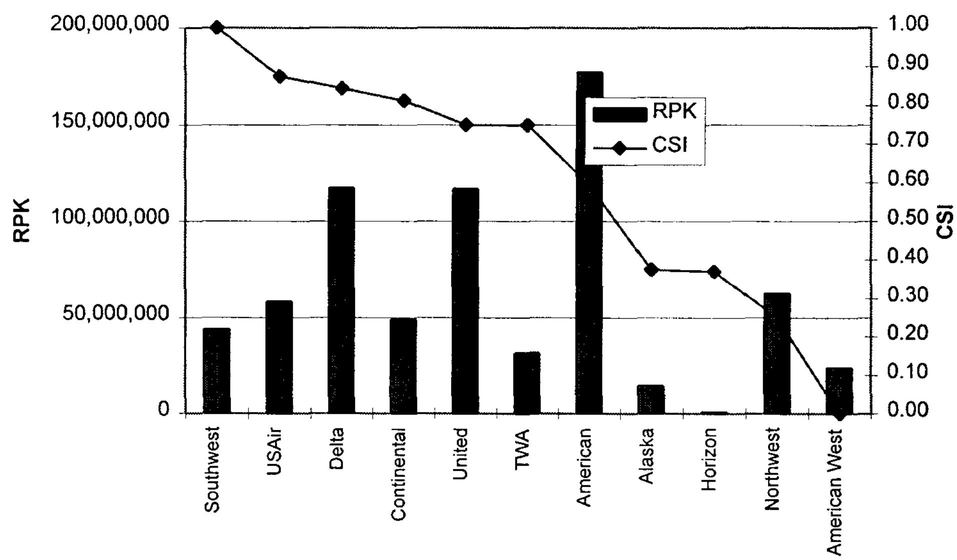


Exhibit 15.: Strategic Goals

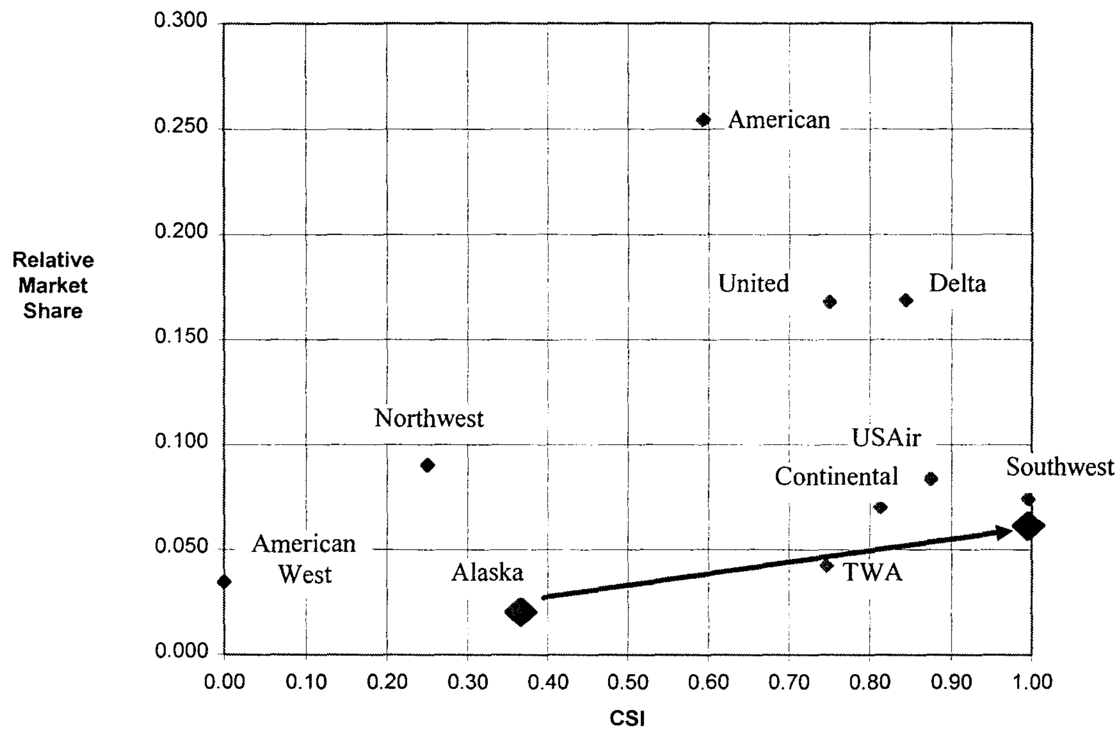


Exhibit 15.: Strategic Goals

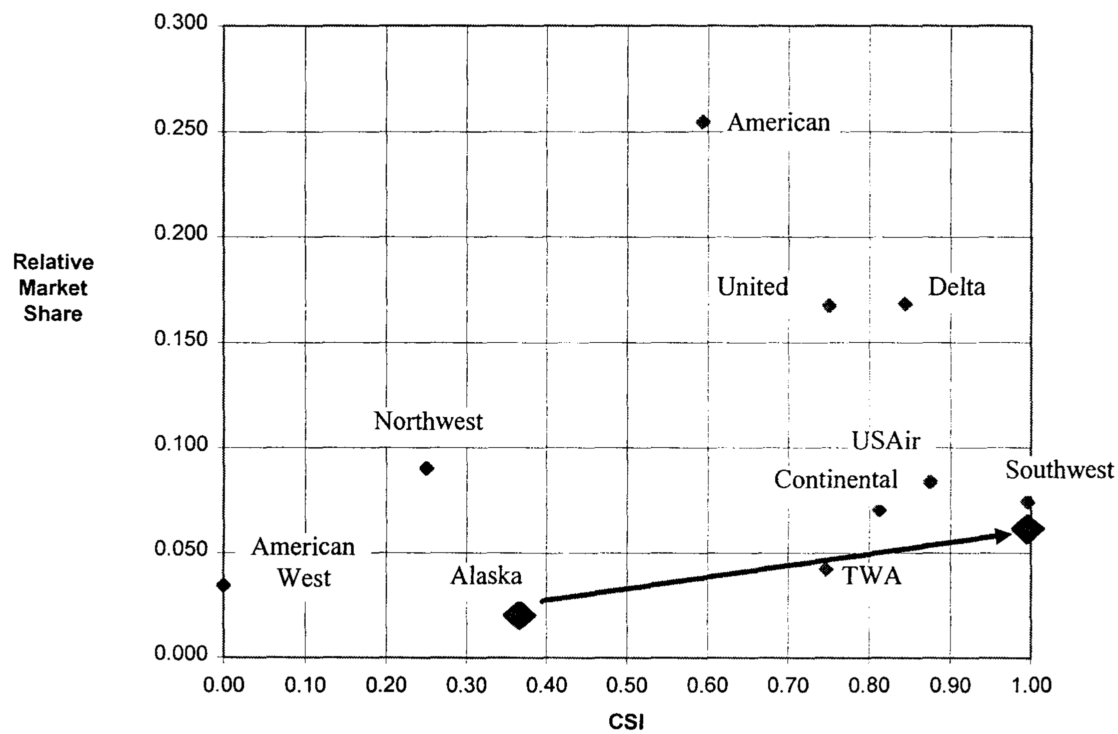


Exhibit 16.: Route System

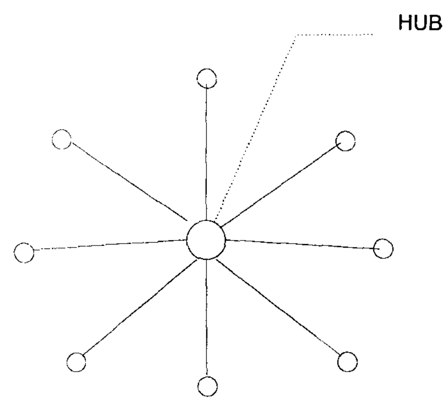


Figure 3: Hub-and-Spoke System

Exhibit 16.: Route System

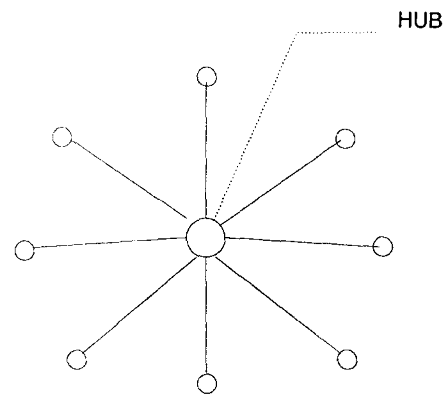


Figure 3: Hub-and-Spoke System