



Marketing Messages

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Westjet soars on its price-leading strategy

All businesses strive to be powerful and profitable. To achieve this from a marketing perspective, you must own something your competitors do not. There are really only three things that can set you apart:

1. Delivering the lowest price and lowest cost structure.
2. Having an excellent product, location or service.
3. Owning the relationship by delivering a superior experience.

Let's look at one of these, having the lowest price and cost structure, and see how this strategy can be used to achieve maximum differentiation over competitors in meeting customer needs.

The key to successfully implementing a price leadership strategy is to ensure you have an efficient and distinct cost structure. Since your profits are what are left over once your costs are subtracted, being the price leader without the lowest costs is a one way ticket to bankruptcy. The uniqueness, strength and number of distinct competencies that lower your cost structure are what make this strategy competitive. Since costs can be controlled at many levels such as materials, manufacturing, maintenance, research and design, distribution and human resources, there are many opportunities to structure a unique cost structure that is unlikely to be easily imitated. It has been demonstrated time and again that higher market share and experience lead to lower costs. If a business has a solid price leadership strategy that gains acceptance and momentum, it can be pretty hard to beat as it grows.

The airline industry is a tough competitive environment, yet **Westjet**, a low-cost carrier is one of the most successful airlines in Canadian history. Founded in 1996 by four Calgary entrepreneurs, it is now the second most profitable airline in North America, just after Southwest Airlines, a successful US based low cost carrier. How has Westjet maintained a low cost model?

1. **Lower staff costs.** Pilot salaries are 75% of the industry average. Other staff salaries are 95% of the industry median. They offer generous stock options to compensate for this. In 2002 they paid out \$15 million in profit sharing to employees. Westjet uses 75 employees to support each plane, whereas Air Canada uses 180. Westjet employees are also not unionized.
2. **Lower maintenance and training costs.** Westjet uses Boeing 737 airplanes exclusively. They stock parts and train staff based on one model of plane.
3. **Lower food costs.** They pioneered the snack and bag lunch option. Nuff said.
4. **Lower ticketing costs and distribution overhead.** Westjet was among the first to use direct consumer phone bookings and electronic ticketing. They were also leaders in on-line bookings.
5. **More efficient flight schedule and service model.** They use an A to B model rather than a web and spokes model, which is common with airlines such as **Air Canada**. Air Canada accumulates people in hub cities to get them to the spokes, which are smaller centers. There is a higher cost structure to support the 1-2 hours between flights for the hub and spokes model. Westjet, by efficiently providing a city to city service only, keeps non-flying time to a minimum, and costs down. **Clive Beddoe, President and CEO** estimates that Westjet's costs are half of Air Canada's. Air Canada may lower their fares, paint the planes a different colour and brand them as Zip and Tango, but if the business model is not based on a low cost structure, it can not remain competitive as a low cost carrier.

Every sector has a price leader. Price leaders can be challenged by new entrants who artificially lower their prices to gain market share. Since this practice is only sustainable over the long term by businesses with deep pockets, the truly successful businesses are those with a superior low price strategy secured by a unique and controlled cost structure.

HMY Airways, an upstart Vancouver based international airline is positioned as a hybrid of the low price/low cost structure model. Launched in winter 2002 as a vacation travel destination airline, their business model emphasizes operational efficiency, a customer service orientation and competitive pricing. While still in the early stages of introducing who they are, their initial success demonstrates that the competitive environment of business is not static.

Customer needs, regulations, competitors and trends all effect change. To compete on price and remain competitive over the long term, you must control your internal cost structure and then monitor external influences.

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