Competitive Intelligence Final Report
Complied by Cameron Horn

Competitive Intelligence Report for
Virgin Blue/ Virgin Australia Airline
Key Intelligence Question(s):

1. How should Virgin Australia position itself to take advantage of the current difficulties being experienced by rivals Qantas and Tiger?

2. How should Virgin position itself to hedge against the impact of the imminent arrival of a new carrier in the domestic airline market?¹

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Executive Summary

Two key intelligence questions loom large over the Australian Domestic Airline Industry at present:

**How should Virgin Australia position itself to take advantage of the current difficulties being experienced by rivals Qantas and Tiger?**

**How should Virgin position itself to hedge against the imminent arrival of a new carrier in the domestic airline market?**

Qantas is experiencing difficulties in terms of cost structure. CEO Alan Joyce has sought to overcome these difficulties by way of a move to off-shore many of Qantas’s key activities, as well as moving the airline into domestic operations in other countries, particularly in South East Asia.

This has in turn created two problems for Qantas – firstly, a public backlash in Australia as the market reacts to the ‘Flying Kangaroo’ ostensibly deserting Australia as its home. Secondly, there is negative reaction and retaliation from airlines based throughout Asia.

Tiger Airlines has concentrated on cost leadership, but this has seen it fall foul of he domestic air regulator and tarnished its reputation on the key air travel hygiene factor, safety.

The key issues for Virgin Australia from these occurrences is: how best to take advantage of these situations in the tight domestic air travel market in Australia?

Market Situation Analysis leads to the conclusion that opportunity exists for Virgin Australia to position itself in differentiated psychographic space as a truly Australian brand with a truly Australian personality.

This was Virgin Blue’s original brand personality – that of the larrikin Aussie maverick. This personality can be recreated without alienating Virgin Australia’s target market of budget conscious business travellers and upper-end leisure travellers.

Such branding is entirely appropriate for Virgin Australia as it harks back to its original brand persona as Virgin Blue. This personality successfully positioned the Virgin brand in Australia such that Virgin Blue was consistently in the top 5 recognised and trusted brands in Australia, as well as being recognised as a preferred employer in the Australian business community.

Strategic alliances with (most notably) Singapore Airlines can be brought into the Australian domestic market to put pressure on Qantas.

Forward integration into retail travel will also position Virgin Australia as a brand that can deliver a seamless travel experience to Australian passengers.

Strategic upgrade of Virgin Australia’s freight capacity will also help to assist recent profit difficulties, since freight has high margins.
Industry Overview

Aircraft performing regular public transport services and whose fleet contains exclusively high capacity aircraft, defined as aircraft with more than 38 seats, or with a payload of more than 4,200 kg.

Composed predominantly, but not exclusively, of inter-capital routes.

Traditionally been defined as an airline performing regular public transport services and whose fleet contains exclusively low capacity aircraft (38 seats or less, or with a payload of 4,200 kg or less.

However, in recent years there has been a trend towards regional airlines operating much larger aircraft. The Bureau of Transport and Regional Economics therefore defines a regional airline as:

An airline performing regular public transport services, primarily servicing regional centres.

All non-scheduled flying activity in Australian-registered aircraft, other than that performed by the major domestic and international airlines.

Private, business, training, aerial agriculture, charter and aerial work.

Fig. 1

The Australian domestic airline industry is split into numerous sections:

1. The passenger air travel sector – capital city. This consists of the major portion of the industry and provides both the greatest revenue and the greatest costs for the airlines.
2. The passenger air travel sector – regional. This is defined as regular public transport services to regional centres.
3. Air Freight carriage. This represents only 5% of airline industry revenue, but a significant proportion of its profit stream, as marginal costs for freight are much lower than marginal profits.

Industry Lifecycle Issues

The Australian domestic airline industry is a mature industry that has experienced a number of ‘rebirths’ since Qantas first flew in 1922. In the early 70s the coming to Australia of the new ‘jumbo jet’ revitalised the industry. The privatisation of Government owned carriers again changed the industry in the early 1990s, leading to deregulation and the introduction of new carrier, Compass. Since then, a number of airlines, including Compass, have been unable to survive. Ansett, Australian (TAA) and Impulse airlines have all failed to cope with the intensity of rivalry in the industry, although Impulse was bought by Qantas and rebadged as JetStar.

The Australian domestic airline industry displays many of the characteristics of what would be termed on the BCG Matrix as a ‘dog’ industry.

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3 Discussions with airline management consultant Graham Millet.
There is huge capital required to enter the industry, high barriers to exit, a reasonable likelihood of entry by cashed-up international players, very high fixed costs, high variable costs, only average margins in the core business (passenger carriage), uncertain industry growth – tending towards low - and relatively low switching costs for consumers. There is also only a small market share available to new entrants due to the dominance of Qantas/JetStar – 65% to 73.5% of market share.\(^5\)

Virgin Blue entered the market in 2000 on the back of Ansett’s demise. Virgin Blue brought with it the promise of low-priced domestic air travel. JetStar entered as Qantas’s fighting brand in 2003 and Virgin vacated the budget air travel segment, intent on targeting mid-priced business travel. Tiger Air came into Australia backed by Singapore Airlines in 2007, as a truly budget offering.

**Domestic air travel in the 21st century**

The Australian domestic airline market experienced a re-birthing with the entry of Virgin Blue. Virgin founder, Richard Branson built his empire on being an innovative disruptor. Virgin’s entry into Australian domestic air travel was no different. Virgin Blue

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\(^5\) www.netmba.com/strategy/matrix/bcg

\(^5\) www.qantas.com.au/infodetail/about/investors/Citi_GSJB_Presentation.pdf page 2. Appendix 3 tables list Qantas Group market share at 73.5%. This is based on an average yearly market share up to 2009. Reported market share for 2010 was 65% and represents Qantas’s own performance benchmark.
singlehandedly revitalised a tiring industry dangerous to newcomers. Virgin Blue had a definitive personality. It was brash, loud, brightly coloured, daring and injected ‘fun’ into flying. While it was low-cost, its promotions were vibrant. Virgin’s recruiting policy was such that it actively sought energetic brand promoters into every tier of the organisation:

“Most people we hired, especially in front line customer services, were from hotels, teachers, aspiring actors. They’re all people like that. They’re people who want to help other people. We can sit here and train them all how to do the safety demo, but we can’t train people to smile… We don’t have a marketing department per se. … At Virgin Blue, everyone is told on day one that marketing is part of their job. Recently the head of a major travel agency was flying on one of our planes and asked ‘how many people in the marketing department’? The flight attendant responded immediately, without blinking, said, “Hundreds”.”

Virgin was first in Australia to phase out printed tickets and first to test bio-fuels. It was first with automated online customer interface. All these things captured the Australian public imagination, positioning Virgin Blue as the innovative challenger to the staid icon, Qantas.

This positioning resonated with the Australian public. In just three years, Virgin captured 30% of the market, much of it by new industry growth, not just transfer growth from Qantas.

“Before Virgin Blue’s first aircraft ever took off, Highfield says there was a 94 per cent recognition of the brand. This was further reinforced by a survey that listed Virgin Blue as one of the top 10 brands in the Asia-Pacific region, and one of the top five trusted brands in Australia.”

Qantas retaliated by launching budget carrier, JetStar. Since then, Virgin has tried to reposition both its target segment and its brand personality.

It is in this business environment, that the three existing incumbents joust for survival. Qantas/JetStar, Virgin and Tiger have all experienced difficult times recently in a difficult industry. The key intelligence questions for the recently rebranded Virgin Australia are:

1: How should Virgin Australia position itself to take advantage of the current difficulties being experienced by rivals Qantas and Tiger?

2: How should Virgin position itself to hedge against the impact of the imminent arrival of a new carrier in the domestic airline market?

Virgin Blue – strategic management & marketing

Virgin Blue launched in Australia in August 2000 with a promise of cut-priced domestic airfares. To achieve market segment cut-through, Virgin Blue embarked on a two-pronged strategy. Firstly –

“a back-to-basics business model … cutting costs to the bone by charging separately for … food, drink and some entertainment.”

This was coupled with a cheeky brand persona that resonated with Australian culture mirroring the public perception of the global Virgin brand and its founder, Richard Branson.

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6 David Huttner, head of commercial, Virgin Blue addressing the AFR BOSS Club 13 May 2002. Transcript at: www.afrboss.com/events/transcript/asp?eventid=256
11 Money Magazine March 14, 2008: Virgin Blue v JetStar: which is better value? by Paul Clitheroe.
Unlike other somewhat cash-strapped contenders (eg: Ansett, Impulse and Compass Airlines), Virgin Blue arrived with rather ‘deep pockets’ which enabled it to weather the storm of any price war that Qantas may impose. In fact, Virgin Blue, in many ways, invited a war on price from Qantas, by promising peak time inter-capital city tickets below $40 and consistent one-way tickets for around $60, in many cases under half the price of standard Qantas tickets at the time. The long term promise was flights between east coast cities for under $100.\(^\text{13}\)

The success of Virgin Blue in the initial stages was in large part, predicated on the brand image. The Australian public warmed to the cheeky upstart taking the fight to the respected but somewhat inflexible market leader, Qantas. While Qantas is an Australian icon with enormous heritage, Australians like to back the underdog. Virgin Blue positioned itself in that psychographic space, at the same time spruiking the advantages it brought: cheap air travel, which very much caught the imagination of Australia’s domestic travelling public.

Even the name Virgin Blue gave the impression that even though the airline was backed by a maverick British entrepreneur, it was still ‘true blue’. Virgin Blue permeated this culture right through its organisation. For example, it had no marketing department as such. Virgin Blue regarded every employee as part of its marketing department.\(^\text{14}\)

Virgin was fun, irreverent, low-price and ‘of-the-people’. It was a strategy that saw then CEO Brett Godfrey boasting of a 30% market share and staff growth from 300 to 2800 in under three years.\(^\text{15}\) In fact, Branson himself would quip, “Virgin Blue is more Virgin than Virgin.” It was this combination strategy of price leader and cheeky maverick that created Virgin Blue’s initial success. This would inevitably attract retaliation from Qantas. As Virgin Blue started to expand into international flights with Pacific Blue, Polynesian Blue and eventually V Australia, Qantas devised an ‘encirclement’ marketing strategy which seemed to catch Virgin Blue under-prepared.

In 2003, just as Virgin Blue was gaining traction in the Australian low-price domestic flight market, Qantas launched JetStar – a fighting brand targeted directly at the ‘mums-n-dads’ segment that had become the staple consumer in Virgin Blue’s niche. Qantas, through JetStar, attacked this niche aggressively, with cut price fares as low as $5 for seats on various city-to-city domestic routes. JetStar’s marketing targeted ‘family’ consumers, through sponsorship of programs like Deal or No Deal, Neighbours and Sunrise.\(^\text{17}\) The JetStar persona was represented by ‘Julie from JetStar’ played by much loved actress, Magda Szubanski. Everything about JetStar was designed to undermine Virgin Blue’s pricing, positioning and persona.

In response, Virgin Blue moved from proactive to reactive. From 2004, Virgin Blue virtually demolished the two pillars – price leadership and disruptor personality - upon which its success had been built. Far from this being creative destruction, it left Virgin Blue/ Virgin Australia floundering for market position.

Virgin noted that its cut-price image had only attracted 10% of the business travel market, so the airline turned its attentions to this middle ground, in the hope of reducing its reliance on leisure travellers.\(^\text{18}\) By doing so, it adopted a new pricing strategy which alienated its previous core segment, leaving the lower end of the market entirely to JetStar. These and other changes signalled to its competitors that Virgin Blue was deserting the cut-price airfares market, and allowing Qantas/JetStar to dictate the rules of the game. This eroded Virgin’s maverick-interruptor market persona.

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Over the last six years, Virgin in Australia has executed a number of strategies in an attempt to find some ‘clean air’ in the marketplace. However, as Virgin moved away from JetStar’s cut-price segment it started to hit marketing turbulence from Qantas in the business and premium segments. As Virgin inched out of the cut-price airfare segment now occupied by JetStar, Qantas and JetStar narrowed the middle niche now being targeted by Virgin. JetStar introduced Star Class to compete with Virgin’s business-oriented offering, while Qantas improved its economy class amenities to create pressure at the upper-end of Virgin’s pricing.

Consequently, Virgin Blue found itself in a marketing ‘no-man’s land’ where it was extremely difficult to create a defined position or personality. Exacerbating this, were the cosmetic changes Virgin Blue has made to its brand which came with such frequency that Virgin’s corporate personality started to look somewhat schizophrenic. Firstly, Virgin dropped the ‘Blue’ from its name – signalling an end to the cheeky tie-in with ‘true-blue’. It became Virgin Australia, a considerably more corporate sounding name, but for the public consumer of media promotions, quite unadventurous.

Virgin spent around 12 months developing a new logo, but when it was revealed, it attracted little more than disappointment from industry watchers. The new logo carries the same font, and the same shape, but less colour than the original. Again – uninspiring, unadventurous and it left the marketplace wondering what all the fanfare was about.  

Virgin introduced new uniforms, revamped its frequent flyer scheme and continued to upgrade its in-flight business class services, while creating new names for its offerings like ‘super economy class’. Virgin created an alliance with regional airline SkyWest, strengthening its ties with the burgeoning Perth-West Australia regional market and shadowing Qantas’s regional moves with Qantas Link.

All these changes resulted in:
- declining profits from 2005 to 2009, with only a slight improvement in 2010.
- operating losses of $226m in 2009 and $68m in 2011.
- the worst ‘seat utilisation’ figures in the industry.

Virgin Blue’s original ethos contained the rule: “Don’t get too serious.” But now Virgin Australia Corporate has created the marketing department it never had, much of whose output has been decidedly ‘serious.’ Virgin’s marketing-written website talks in heavy-handed management-speak, of “implementing strategies to maximise revenue” with “alliances, networks and yield management”.

While Virgin Blue once prided itself on its people and recruitment policy, the airline now has a mere 4 lines dedicated to ‘People’ on its website – and those four lines contain 7 proofing mistakes. This hardly inspires confidence. In fact, this entire portion of the Virgin Australia website, created to promote their corporate image, is littered with typing errors, poorly constructed sentences, numerous tautologies and basic grammatical errors. This is part of the image Virgin now portrays to its interested publics.

These website woes strike at the heart of what has gone wrong at Virgin. Attention to the detail of customer focus is lacking. Virgin now looks like an accountant, speaks like an accountant, and is trying to attract accountants. Unfortunately for Virgin Australia, Qantas does that so much better. This is not the Virgin that Australia grew to love.

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23 See Appendix 6.
25 See Appendix 3.
While Virgin Blue only entered the market in 2000, its heritage persona was quickly established. The company has now walked away from that heritage persona. The history of marketing tells us that a company walks away from its heritage persona at its peril. Virgin Blue’s desertion of the knock-about ‘airline for the people’ market position has been described as “The Virgin Blue Blunder.”

Financial strategies at Virgin Blue may project a sound future on the balance sheet by targeting business class customers. But management strategies to corporatize the culture and marketing strategies to remove the maverick in preference for the dour and serious, in an effort to attract business travellers, has proved less than successful.

Virgin bequested the low-fare market position to JetStar and Tiger, but was subsequently limited in its capacity to penetrate the upper airspace of business class occupied by Qantas. So Virgin’s main marketing problem is one of brand positioning: it has thus far failed to establish a viable middle ground in the face of squeeze pressure from JetStar below and Qantas above.

**Basis for Competitive Success**

The positioning wars that have raged in the Australian domestic airline industry during the first decade of the 21st century have been a classic example of strategic manoeuvring in a high-rivalry market. Virgin Blue entered and took an aggressive niche position, challenging the incumbent to match them. The industry heavyweight Qantas responded with an encirclement ‘pincer’ strategy. Virgin shifted ground, Qantas and JetStar tightened the squeeze. As these three entities tussled, Tiger moved into newly opened space at the bottom end of the market.

All four entities are seeking clean air in which to trade, while at the same time seeking to use market forces to create disquiet in the positioning space of rivals. The current niche operated by each entity, along with each rival’s signalled future direction, is represented here:

<table>
<thead>
<tr>
<th>Service</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>High</td>
<td>Low</td>
</tr>
</tbody>
</table>

**Fig. 4**

**Qantas:** Premium offering. Business travel and upper-end consumers targeted.

**Virgin:** Business travel and high-end tourist targeted. High-quality offering. Moderate price.

**JetStar:** Low-price offering. Premium parent brand (Qantas) increases perceived value.

**Tiger:** Cost-leader ‘no-frills’ position. High revenue stream from ‘user-pay’ policy.

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27 Imfamous examples of the heritage lesson include (i) New Coke vs old Coke, (ii) NRL vs South Sydney, (iii) MIX106.5 Sydney, (iv) Pepsi Clear, (v) NRL vs Northern Eagle (vi) Apple in the 1990s.

Each position carries its own advantages and disadvantages. Tiger, in its cost-leadership position keeps outgoings at a minimum, increases ancillary charges and can therefore offer cheaper upfront price. Tiger’s obsession with cost-cutting saw it fall foul of the regulator, and also earned the ire of consumers, who see Tiger’s poor cancellation and ‘on-time’ record as reason to rank it least preferred carrier. At the other end of the market, Qantas has the weakest cost structure as it tries to maintain customer service advantage. Virgin is vulnerable to squeeze from JetStar and Qantas acting in concert, but similarly, JetStar is vulnerable to squeeze from Virgin and Tiger, should they form an alliance.

**Assessment of Company**

From high success in its initial five years, Virgin Blue/Virgin Australia’s market positioning woes from 2006 to 2010 have resulted in negative trends on the balance sheet. It seems no coincidence that the years of soft financial results coincide or are directly subsequent to the company’s loss of marketing direction.

The company’s business position can be represented by Osterwalder and Pigneaux’s Generic Business Model:

![Generic Business Model applied to Virgin Airlines (Australia)](image)

**Fig. 5:** Generic Business Model – Osterwalder & Pigneaux *Business Model Generation 2010.*

The profit and loss figures speak for themselves. Excellent profit growth up until 2005 is followed by fluctuating fortunes from 2006 to 2011. JetStar’s cannibalisation of Virgin

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30 Information gained from Graham Millet. See Appendix 1.

31 For 2011, Virgin Australia posted a $68m loss on a 29% increase in revenue. CEO John Borghetti put a reasonable spin on the negative result. See: [www.theaustralian.com/business/profit-loss/virgin-blues-borghini-sees-less-turbulence-ahead-after-68m-loss/story-fn91vch7-1226121915097](http://www.theaustralian.com/business/profit-loss/virgin-blues-borghini-sees-less-turbulence-ahead-after-68m-loss/story-fn91vch7-1226121915097)

32 ibid
Blue’s low-price market position clearly had the effect that Qantas intended. Virgin’s “blunder” so-called, was to depart the budget position as quickly as they did. Tiger Airways took the base position in the market, forcing JetStar to some extent, to follow Virgin Blue upwards in price and service offering. This in turn forced Virgin closer to Qantas’s market position and so the squeeze continued.

Tiger has shown that their may well have been sufficient room in the market for two budget airlines. Now with Virgin’s previous budget-space filled, Virgin is embarking on their current strategy of mid-priced business travel coupled with higher-service leisure travel. Virgin is literally trying to create a niche that has not really existed before. Because this new niche is psychologically ‘in-between’ – neither budget or premium – it is proving difficult for Virgin to gain traction in the public mind. Virgin’s original position as simply low-price with a jocular corporate personality was easy to sell because it was easy to understand.

The in-between position now being taken up by Virgin is a much more subtle proposition for the public to assimilate. Creating a new niche, or revitalising a forgotten niche, is maverick behaviour, which could be turned into an innovative disruptor position through appropriate integrated marketing. Such a position would sit well with Virgin’s heritage persona.

**Virgin – personality profile**

Virgin Blue created a clearly defined profile based on its corporation’s mission, vision, strategic principle and strategic intent at the time. With the distraction of JetStar’s entry into the market, Virgin lost brand focus. Now with the rebranding having taken place, and a new strategic direction established, Virgin needs to set about incorporating its core brand personality into the new vision. This process can be represented by the following graphic:

![Vision - The Overlaps](image)

**Comparison of Virgin Blue/Virgin Australia:**

**Original Mission:** To take the ‘fight’ to Qantas on price in the leisure segment.

**New Mission:** To take the ‘fight’ to Qantas on price and service in business class.

**Original Vision:** Australian ‘mums n dads’ are paying too much for air travel.

**New Vision:** A great flying experience can meet the corporate budget.

**Original Strategic Intent:** To grow the domestic travel market through an excellent value-for-money proposition that competed on price with car and train travel.

**New Strategic Intent:** To target business travellers without alienating leisure travellers.

**Original Strategic Principle:** To distract from the feeling of cut-price service by creating a fun, vibrant experience for the traveller.

**New Strategic Principle:** To move the airline from the crowded budget niche to an ‘affordable business’ niche.
A definite disconnect is occurring between Virgin’s new Mission and Principle on the one hand, which are all about serious business travel, and its new Vision and Intent on the other hand, which is an attempt to simultaneously market to both the business and the leisure travel market. A further disconnect is occurring in the public mind, between the personality of the original Virgin Blue and the personality of Virgin Australia.

The above Strategy Alignment model shows the importance of having Vision and Values synchronised with Strategy. In the above model, Vision and Value provide the direction. The alignment of Strategy as laid down by Leadership provides the steering. Capacity, Culture, Customer focus and Alliances provide the engine and fuel that propel the corporation forward. If there is any lack of synchronisation, the vehicle misfires and underperforms.

The relationship between Leadership, Strategy, Vision and Values with Culture, is a complex one. Vision, Values and Leadership particularly, will determine Culture. The strength or weakness of Culture will determine the strength or weakness of Capacity. On the other side of the model, Vision, Values, Leadership and Strategy determine choice of Alliances and targeting of customers. These principles can be used to analyse Virgin Blue’s metamorphosis into Virgin Australia highlighting points of de-synchronisation, and possible solutions.

**Vision and values**

Virgin Blue’s vision and values were always based around a preached creed of innovative disruption to the airline industry. Virgin Australia espouses the same ethos. Yet some aspects of its public face do not reflect this. For example, Virgin Australia’s grey corporate logo looks very “business” but rather uninviting to the leisure traveller. Herein is an important de-synchronisation between Virgin’s preaching and Virgin’s visuals. Consumers will assimilate much more of what they see than what they hear. Virgin’s words – even their written words on their website – are processed via hearing; consumers actually ‘hear’ what is read. Virgin’s visuals – logos, aircraft decals, uniforms etc – are processed via the much more powerful eye-gate. If the visuals are drab, then in the mind of the potential consumer, that image will override all of Virgin’s words.

Even more powerful is the consumer’s experience with Virgin. The consumer will likely not approach the experience (ie: purchase the product) if the visuals are not sufficiently inviting and differentiating.

Virgin has always relied on differentiation to attract clientele.
Strategy
Porter makes the point that there are two compelling ways to ensure competitive advantage: either an organisation can be a cost leader or a differentiator, as per the model below:

Fig 8: [Link to Provenmodels.com]

The point for Virgin Australia is that it has lost its cost leadership position to Tiger and JetStar. So Virgin must absolutely rely on its capacity to differentiate. And that differentiation, as shown in Porter’s model above, absolutely relies on “uniqueness as perceived by the customer.” Virgin can have much uniqueness in its own eyes reflected as it is in floral description on its website. But it counts for little if the public see an airline that can easily be substituted for any other.

Unfortunately, the drab nature of much of Virgin Australia’s current public face, lacks differentiation. There are grey logos and the dulled down aircraft decals. Virgin Australia’s video offerings are also highly generic. The Virgin Australia ‘Now You’re Flying’ video[^33] could really be any domestic airline.

[^33]: [YouTube Link](https://www.youtube.com/watch?v=F1CuemkrzFQ&feature=related) See further images in Appendix 15a.
It is brilliantly produced and executed – it is just that the underpinning idea: a stewardess and pilot going to work, followed by standard shots of aircraft in the sky – does not synchronise with John Borghetti’s words, to be “fun and cheeky”.  

Virgin Australia’s 2010 ‘Hamish and Andy’ spot is much more in keeping with the original Virgin Blue ethos. It exactly reflects John Borghetti’s words quoted above. The problem at Virgin is that these spots might be perceived as too irreverent and lacking sufficient gravitas for the business traveller.

With these two vastly different corporate personalities being portrayed to the public, Virgin Australia’s corporate schizophrenia continues. The ‘Now You’re Flying’ marketing strategy is quite undifferentiated. The ‘Hamish and Andy’ strategy is nicely differentiated and synchronises well with John Borghetti’s preached corporate creed. These two competing public faces of Virgin are creating a major disconnect for potential customers.

**Capabilities and Culture**

Virgin Australia’s capability to deliver a great product seems secure. Its on-time and cancellation figures are excellent. Virgin Australia does well in customer satisfaction surveys of the industry. The airline is also a regular customer service award winner. Equally, Virgin Australia has always surveyed well in preferred employer surveys, winning 2011 Australian Employer of the Year. This has been a consistent goal for Virgin in Australia since its inception.

“The culture of the Virgin group is a worldwide phenomenon ... The brand itself has a very strong culture and people recognise it for quality, value for money, challenging the establishment and a fun work environment ... Culture is about how you go about doing business with your staff ... so you’ve just got to get the recruitment right. We probably spend more money on recruitment than any other company I’ve been associated with ... our staff have got to be absolute perfectionists in terms of their customer service ability ... the airline looks for people who are optimistic, enthusiastic and humble.” Brett Highfield – former Virgin Blue CEO circa 2003.

Capacity and culture are real strengths for Virgin Australia but still the airline delivers uncertain results in profit and loss. This again indicates a loss of synchronisation across the

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34 Message from CEO John Borghetti [www.virginaustralia.com/AboutUs/Careers/Welcome/index.htm](http://www.virginaustralia.com/AboutUs/Careers/Welcome/index.htm)
35 [www.youtube.com/watch?v=93cIToGeV8](http://www.youtube.com/watch?v=93cIToGeV8) Note: even an informal font to match the ad-lib execution.
37 [www.virginaustralia.com/AboutUs/OurAwards/](http://www.virginaustralia.com/AboutUs/OurAwards/)
business entity. Virgin Australia has superior brand personality, superior cost structure and superior work relations than rival Qantas/JetStar. Virgin also has superior service offering, flight standards and public relations than JetStar and Tiger. Yet, Virgin has posted two losses and a very marginal profit, across the last three years. Virgin seems to have most of the ‘hard’ managerial issues well under control. So could it be the ‘soft’ issue of confusion over public brand persona, which is having such a huge detrimental effect on the company’s performance?

**Customers**

Virgin Australia has a very compelling, attractive product to offer customers, as seen in the comparative tables in Appendix 13. It has two significant target segments – the business traveller and the leisure traveller. Since the appearance of JetStar, Virgin in Australia has been trying to move its appeal towards business. However, it has traditionally only ever had a small portion of this market. In regards to leisure travellers, Virgin boasted 30% of this segment when its offering was low-cost. In reaction to JetStar, Virgin has tried to create a product that appeals to the high-end leisure traveller, without alienating the low-end. This is probably an impossible task, or at least very difficult. However, Virgin Blue used to pride itself on achieving the impossible.\(^{40}\) The only way to achieve the goal of reaching high, middle and low-end leisure travellers, as well as budget conscious business travellers, is through a vastly differentiated product offering.

By creating an emotional bond between the target segments and the product, Virgin can achieve this goal. The current media offerings however, do not achieve the required differentiation. One of the barriers is that Virgin is sending out two separate messages, with two separate personalities to two different target segments. Unfortunately, both targets are seeing both messages. The result is that the staid business traveller does not like the Hamish and Andy personality for Virgin, while the mid and low-end leisure customer feels uncomfortable with the ‘expensive’ look of the ‘Stewardess and Pilot’ promotional execution.

The solution is to create a new segment – one that includes the target leisure traveller as well as a good proportion of business travellers or those who book business travel. Personal assistants to business people are generally less staid than their boss. Many business travellers appreciate a more ‘fun and cheeky’ approach to travel. Granted – the business traveller is stereotypically bland. But this is only a psychographic stereotype and there are sufficient business travellers not of that mindset for Virgin Australia to attract, without alienating the mid to high end leisure traveller.

The exact execution of such a promotional strategy will be discussed in the section entitled Recommendations. The end strategy would be that the ‘fun and cheeky’ persona would align with the espoused corporate culture, making the airline a very attractive product offering to business and leisure travellers of a particular psychographic segment. Once attracted, everything else in the service experience must reinforce the promoted personality of Virgin Australia. This is further reinforced by exemplary service:

“To get it right and have people come back again and again, our staff members have got to be absolute perfectionists in terms of their customer service ability.”

*Brett Highfield – former Virgin Blue CEO circa 2003.*\(^{41}\)

**Alliances**

Virgin Australia’s main strategic alliance is the one it has formed with Western Australian regional carrier, SkyWest. This alliance creates good synergies with Virgin’s strength in Perth, and enables Virgin to take advantage of the West Australian mining boom. However, SkyWest is little known on the east coast, rarely showing up on surveys of preferred airlines in Australia, due to a lack of profile in the region’s more populated centres.


Virgin Australia is yet to form alliances as significant or powerful as the Qantas-JetStar alliance. However, with Tiger Airways current woes and with only ten aircraft to purchase, there has been some discussion of Virgin forming an alliance, merger or takeover of the budget carrier. This would enable Virgin Australia to undercut JetStar. Virgin could take a significant role in improving the Tiger Air offering. The Tiger Air brand could benefit significantly from association with the Virgin brand.

Equally, should an international carrier like Singapore Airlines enter to Australian domestic market, it would make good sense for Virgin to form an alliance there to unsettle Qantas’s position in the upper end of the business market.

Further, Virgin could form alliances with travel retailers in order to funnel purchases. These scenarios will be examined in more depth in the section entitled War Gaming.

**Leadership - its role in realigning culture, strategy and persona with vision**

![The Leadership Shift](image)

**Fig 9**

Leadership is one of the main drivers of vision-strategy-action alignment because leadership:
- Creates, communicates, refines and co-ordinates the vision and strategy
- Garners support for the vision
- Dictates action
- Dictates timing
- Dictates culture and morale
- Acts as conduit between the staff and the board

As shown in fig 9 Virgin Blue was originally founded on leadership that was proactive and opportunity-seeking. It *pro-actively* created the new *opportunity* to deliver affordable air domestic travel - $100 east-coast airfares for example – to the Australian ‘mums-n-dads segment:

“We have a top leadership team of 12 that’s been here since the start, and when we started we slept on rubber mattresses in shared accommodation. We’re a very tight-knit group with a lot of respect for each other’s talents. Having a top team that really works effectively together is really half the battle. Culture starts at the top, and the leadership style of the boss is what filters down.”

**Brett Highfield – former Virgin Blue CEO circa 2003.**

However, with the introduction of Jetstar into the market, Virgin Blue’s leadership switched focus to concentrate on how to react to the problem of a crowded target segment. Despite Virgin continuing to preach proactive opportunity-seeking, it’s leadership’s fall-back to reactive problem-solving created a de-synchronisation of culture throughout the entire company. Branson remained a proactive visionary figure-head, the website blurb continued to ‘talk the talk’ but the original opportunistic leadership turned to reactive mode, which created confusion in the Virgin workforce, its publics and other stakeholders.

“Branson has always seen the airline sector as one ripe for his take-on-the-big-boys style. But the long list of external forces buffeting Virgin right now shows just how hard it can be to execute strategies of any kind.”

The comparison between Virgin Australia CEO John Borghetti and Qantas CEO Alan Joyce, bears scrutiny. According to an industry insider, John Borghetti is a charismatic leader who came to Virgin after 36 years at Qantas (1972 – 09) meaning he comes to Virgin with a huge amount of inside knowledge of Virgin’s main rival. (MILLET 2011)

“While Mr Borghetti’s experience is with full-service product, one former airline executive noted this could fit in well with Virgin’s move upmarket, as it tries to attract more business and government passengers. ‘If that’s the way they’re thinking and they want to attack more of the Australian corporate market, Borghetti would be a good choice,’ the executive said, adding that his international long-haul experience would also be valuable.”

The same industry insider describes Alan Joyce as very much a corporate man. He is ‘profit and loss’ driven. Some call him uncharismatic. He tends to be a reactive leader motivated by cost reduction. Joyce comes from a military background with no HR or airline industry experience. He and the Qantas board have little time for union demands. (MILLET 2011)

This could spell troubled times ahead with the high proportion of Qantas staff being unionised, especially with Joyce’s eye on the balance sheet leading the push to off-shore much of Qantas and JetStar operations.

Joyce’s indefinable accent and awkward delivery in video are unconvincing to an Australian audience but in some ways Joyce’s dour image suits the Qantas style. Joyce is a hard-nosed businessman at a time when Qantas is trying to shore up the business an government travel market. But it might also create an opportunity for Virgin. Amazingly, Joyce has publicly described Qantas as “a failing business”.

This signals that cracks are appearing in the confidence of the Qantas corporation. There has been market disquiet about Qantas’s ostensible desertion of Australia as a base of all operations. It seems that it is now Qantas feeling the pressure of a possible squeeze from Virgin and the threat of entry from Singapore Air.

Two tier SWOT analysis
A two tiered SWOT analysis (Appendix 16) reveals the following points:

- Virgin weakness: price sensitive target audience.
- General threat to the industry from the GFC affecting business travel.
- The two different profit streams for Qantas and Virgin Australia. Internationally, Qantas is not profitable, but Virgin is. Australian domestic operation is propping up Qantas profit, but dampening Virgin profit.
- Freight represents a massive opportunity for Virgin Australia, if it can overcome its problems with 737 aircraft which are not efficient for freight loading and

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46 http://www.youtube.com/user/Qantas?blend=22&ob=5
carriage. Freight is high margin business: much more high-margin than passenger carriage. Virgin really needs to find a solution here.

- Virgin Australia has good competitive advantage in cost structure. According to industry insiders, Qantas has real problems with its cumbersome cost structure. (MILLET 2011)

### Environmental Analysis

Three levels of environmental analysis must be done to assess Virgin’s market viability in Australia: 1. General. 2. Operating. 3. Internal.

#### General Environment (PEST)

Virgin Australia’s general environmental operating space can be assessed through a PEST analysis, as indicated in the diagram above:

**Political:** The political influences have allowed greater foreign ownership of domestic air carriers. This has allowed Richard Branson to re-capitalise Virgin Blue by increasing his stake in the company.\(^48\) It also allows Singapore Air to enter the market putting pressure on Qantas, and allows Tiger Air to operate in Australia, putting pressure on JetStar.

**Economic:** Unprecedented economic and natural disasters have had a massive impact on the entire airline industry in the last 12 to 24 months.\(^49\) The Japanese earthquake, tsunami and nuclear emergency; the double-dip global financial crisis; the Queensland floods and Victorian fires; the Christchurch earthquakes – all have undercut growth in the Australasian economic region, with unavoidable knock-on effects to the entire domestic airline industry, especially the business and government travel segments.

**Social:** The public is in a price sensitive mode. There is also some public negativity in Australia towards Qantas’s apparent desertion of its Australian heritage in favour of cost-cutting by sourcing services and routes in overseas markets. There is a heightened safety awareness among flying publics in the wake of Tiger Air grounding. Qantas’s safety reputation has also been tarnished by in-flight engine failures being widely reported in the last two years. There is also some social concern regarding the burning of carbon-heavy fossil fuels, so there is some first mover advantage to be had for any airline looking to mitigate its carbon output through the use of bio-fuels and other measures.

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\(^{49}\) ibid
**Technological:** Currently, no airline holds any significant technological advantage. At different times in the last decade, Virgin Blue has had small technological advantages through electronic booking and other measures to lower costs, but these advantages have been eroded over time. All airlines are looking for incremental improvements to fuel consumption. Any exclusive technological breakthrough in this area would afford short-term competitive advantage to the airline that was best able to maximise the fuel savings. Fuel burn per passenger is one practical area of savings. Virgin currently lags the industry in this area.

**Operating Environment (Porters)**

The PEST analysis can be superimposed on Porter’s Five Forces to give a good overview of Virgin’s operating environment:

- **Government**
  - Political/Legal
    - Cost designating & steering: greater design ownership of domestic airlines
- **Potential Entrants**
  - Entry barriers to new entrants are high due to existing market players.
- **Technological Shifts**
  - No airline holds any significant technological advantage. At the present, there is a high exit barrier to new entrants. Virgin Blue has had small technological advantages through electronic booking and other measures to lower costs, but these advantages have been eroded over time.
- **Buyers**
  - Some increased migration by airlines into package holidays
- **International/Economic Shifts**
  - High supplier power due to scarcity of supplier choice
- **Substitutes**
  - Many alternative travel modes but disadvantages in the current economic climate compared to teleconferencing.
- **Social/Consumer Attitudes**
  - High exit barriers
  - High entry barriers for new operators but low entry barriers for existing international carriers
  - High pressure from aircraft suppliers due to long lead-in time for purchase
  - High supplier power due to scarcity of supplier choice
  - Some competitive advantage over alternate travel modes but disadvantages in the current economic climate compared to teleconferencing.
- **Competitors**
  - High competitive rivalry in the industry. All airlines have new players who have been entering the industry.
  - Some competitive advantage over alternate travel modes but disadvantages in the current economic climate compared to teleconferencing.

**Fig 11**

The result of analysing the domestic airline operating environment using Porter’s Industry Forces Model above, shows that the industry is a highly competitive one with:

- high exit barriers
- high entry barriers for new operators but low entry barriers for existing international carriers
- high pressure from aircraft suppliers due to long lead-in time for purchase
- high supplier power due to scarcity of supplier choice
- some competitive advantage over alternate travel modes but disadvantages in the current economic climate compared to teleconferencing.
- low margins in core business (passenger carriage)
- high margins in auxiliary business (freight)
- the need to mitigate against consumers’ ease of brand switching.
Virgin Internal Environment

Above is a generic internal operations map laid out according to Porter’s Value Chain, listing business units where each airline might be able to gain competitive advantage. Virgin Blue/Virgin Australia has a self-perception that it has competitive advantage in Human Resources Management, particularly recruitment and training of customer interface staff.

The sheer force of the Branson persona which spreads itself across the Virgin brand, gives Virgin Australia an untapped advantage in the area of brand promotion. This area of promotion and advertising is an area where, given the Branson persona, could be exploited as a strength by Virgin Australia in the future.

Competitive disadvantage for Virgin Australia is most significant in yield management, with the worst seat utilisation figures in the industry.

Regarding other airlines, the most significant areas of competitive advantage and disadvantage, are listed below:

**Qantas:**
- **Advantage:** Yield management (best seat utilisation), onboard service. Until recently it could be argued that Qantas held competitive advantage in the area of B2C advertising and promotions, with the “Australian Children’s Choir/Still Call Australia Home” advertising campaign. However, Qantas has now moved away from this advertising execution. Qantas still holds advantage in promotions to Government with the Chairman’s Club. Qantas’s Frequent Flyers is also an area of promotional strength.
- **Disadvantage:** Cost structure.

**JetStar:**
- **Advantage:** Promotional advantage – combining low prices with halo effect from parent company.
- **Disadvantage:** Ticketing, booking, gate operation.

**Tiger:**
- **Advantage:** Price.
- **Disadvantage:** Public and professional image. Industry KPIs.
**War Gaming (Game theory)**

**Introduction to War Gaming**

At various times in the last decade, five different airlines have targeted the cost leadership market position: Virgin Blue, JetStar, Ansett, Impulse and Tiger. Each has had varying degrees of success. There are salient lessons to be learnt from those that did not survive.

This recent history gives some insight into the mindset of each organisation, which assists in predicting how that organisation may react in the future given differing market environment scenarios and different strategic moves by rivals.

Thus a grasp of industry history gives an analyst great insights when conducting scenario planning, war gaming or other ‘game theory’ relevant to this industry.

Recent history also gives insights into core competencies, actual and perceived. This distinction is important for the future longevity of each entity. For example, Impulse Airlines had a self-perception that it could provide low cost air fares with only moderate reductions in its in-flight services. This misperception turned out to be fatal to the airline. Ansett had a perception that its heritage brand would be sufficient to weather all storms. Unfortunately, spiralling costs overtook its heritage equity.

Tiger Air had a perception that its reduction in core costs would not impinge on its main hygiene factor, safety. However, this perception has been challenged recently by the grounding of its fleet over safety concerns. Tiger must now redesign its cost-leadership strategy to incorporate due adherence to safety standards.

Qantas too, may well be heading for a challenge to its self-perception. Qantas’s forays into Japan and JetStar’s entry into other Asian markets have the Australian domestic marketplace questioning whether Australia’s own Flying Kangaroo can still call Australia home. Qantas’s core offering was an emotional appeal to being “the Spirit of Australia”. It is now spruiking “a new Spirit”.

The scenarios in the following ‘war gaming’ are designed to ask questions of each entity: are the self-perceptions of each rival accurate and if so, are they sustainable, and what is likely to be the reaction of the other players, should their position be challenged or another airline overtake its core competency?

More basic questions are also asked regarding the nature of each entity’s core competency: is it unique, rare or difficult to replicate? Is it sustainable? Is it profitable? Is it relevant to the target market? Does it marry appropriately with the entity’s resources and capabilities? Is it central to the product offering or is it peripheral? How is success to be measured?

A variety of key indicators are used to measure the effectiveness of each airline’s concentration on a particular area of core competence. Such things as profit, revenue, growth, sales and cash flow may give some indication of success, but industry indicators such as seat utilisation, cost per kilometre per passenger, yield per passenger/kilometre, on-time arrivals departures and cancellations all give a picture of whether a core competency is creating sustainable advantage for the company through superior value creation for the consumer.
Models for war gaming

The following two models are used to predict a probably decision for each entity at each turn in each scenario based on (a) maintaining a sustainable strategic advantage:

![Sustainable Competitive Advantage Diagram](www.1000ventures.com)

**Fig 13:** Source: [www.1000ventures.com](http://www.1000ventures.com)

The following model is used as a set of working assumptions behind the scenarios played out in the war gaming:

![Competitor Behaviour Analytical Tool](image)

**Fig 14:** Competitor Behaviour analytical tool – Strategic Management MGSM 2011 Graham Millet
Scenario Planning

Scenario 1: Should Virgin form an alliance with Tiger Air and use it as a fighter-brand in JetStar’s market space?

**Scenario 1: Virgin alliance with Tiger**

**Alliance resources:**
- would give Virgin a strong foothold in JetStar’s market space
- Virgin’s service quality would improve
- Virgin’s management positions

**Alliance core competencies:**
- cooperative strategy in Qantas-Jetstar
- Cost-leadership achieved by publicising domestic international operations

**Vulnerabilities in Alliance resources:**
- Alliances can be developed with Tiger
- Virgin’s recent financials may not be attractive

**Sustainable competitive advantage of alliance:**
- Create synergetic effects on price and service
- business class strategy
- For low-cost response transfers
- Achieve the impossible market

**Possible outcomes: Qantas has five forces:**
- Virgin and Qantas still need to win
- Qantas-Jetstar can act on price war
- Virgin and Qantas need to improve their cost structure
- Virgin and Qantas need to improve their cost structure
- Virgin and Qantas need to improve their cost structure

**Fig 14 – see Appendix 17a for enlarged view**

Legend:
Dark arrows – proposed strong positive forces resulting from alliance.
White dotted arrows – weak negative forces that may result from alliance.

Discussion of Scenario 1:
The objective of the alliance would be to create a squeeze on JetStar as both a defensive and attacking manoeuvre on main rival Qantas. It would be vital that Virgin had sufficient influence on the operations of Tiger to ensure Tiger’s customer services shifted in public perception from its current ranking as the worst in the market, to a ‘good-value-for-money’ proposition. This could be achieved through some expertise transfer in customer service ability from Virgin to Tiger, and proficiency in marketing this proposition.

In return, some of Tiger’s cost-leadership strategies could be transferred to Virgin, without hurting Virgin’s core competency of customer service. Through cost-saving and improved economies of scale the Virgin and Tiger alliance could attack JetStar on price – Tiger could undercut JetStar’s prices yet provide superior Virgin-style service that is publicly promoted heavily. Meanwhile Virgin can reduce its price on genuine business-class service flying to be within reach of JetStar’s core publics. This would create a similar price/service squeeze for JetStar to that experienced by Virgin Blue. Qantas would be unlikely to follow Virgin in business class price since Qantas needs as much margin as possible due to its poor cost structure and difficulties gaining profitable margin on its international offering. This would give Virgin Australia a clear price advantage in the business market. Virgin Australia’s international service is already outperforming Qantas on international profitability, and so would need to put in place defensive strategies in those markets.

Critical issues for this strategy include:
- The amount of marketing needed to overcome Tiger’s current poor public perceptions may work against this strategy.
- Does Virgin have the fiscal room to play out strategies based on price-warring on the back of poor profit results 2009—2011?
- Can Virgin combine its superior cost structure with Tiger’s cost-leadership to leverage against Qantas/JetStar to maintain a price-service advantage in the marketplace and continually offer a better value-for-money proposition to attract both business and leisure passengers?

Further questions and relevant unknowns:

- Does Tiger have the aircraft/reputation to go into full-frontal battle with JetStar? Are Tiger’s 10 aircraft and limited routes enough to challenge JetStar?
- What if Qantas/JetStar refuse to engage on price? Will Tiger starve itself at the margins?
- What if Tiger cannot sustain itself and goes out of business?
- Is the marketing input required to overcome Tiger’s current poor perceptions worth the risk of alliance for Virgin?
- Can the alliance be informal such that Virgin can provide Tiger with assistance in their areas of weakness so that it can compete more readily with JetStar without Virgin entering into a formal alliance that may hurt Virgin should Tiger quit the domestic Australian market?
- What is the best way for Virgin and Tiger to combine their superiority in cost-structure to best attack Qantas/JetStar?

Scenario 2: How might the various incumbents react should Singapore Airlines enter Australian domestic air travel market?

**Scenario 2: Singapore enters market**

**What drives Singapore into the market?**

**What Singapore is doing and can do?**

**PROBABLE COMPETITOR RESPONSES**

- Virgin likely to seek capacity-laying alliance on freight and lower-end business class to squeeze Qantas in business travel flows.
- Qantas to compete for a time on business fares but eventually to move to completely dominate in the Government sector, where it has a clear advantage.

**ASSUMPTIONS**

1. about Singapore:
   - Will take the Australian domestic market.
   - Will convert support of Tiger Air.
   - Less hostile to Virgin than to Qantas/Tiger.
   - There is no such thing as the market for another carrier. Transport is available. The market wants what Singapore is offering.

**CAPABILITIES**

1. about Singapore:
   - Has the infrastructure in place to enter this market.
   - Has the resources to leverage this advantage.
   - Has the ability to attract international business travelers.

**Fig 15** – see Appendix 17b for enlarged view
Discussion of Scenario 2:
Should Singapore Airlines enter the Australian domestic airline market, as seems likely, it would create a very crowded industry. Incumbent players are searching for a niche even without a new player. It is likely that Singapore Air’s entry into the market will signal the probable forced exit of at least one existing airline, most likely Tiger, which is the weakest of the incumbents. Tiger has been supported by Singapore Air in its foray into the Australian market. However, Singapore Air has recently signalled an end to this support.

The move by Singapore Air into Australian domestic travel does seem to have an element of retaliation towards Qantas/JetStar, for the latter’s concerted push into Asian domestic markets over the last decade. This would mean an alliance with Virgin in the Australian market is quite likely, even if just on an informal basis. Virgin Australia has already formed a co-operation alliance with Singapore Air in regards to flight scheduling, airport lounge access, pricing and frequent flyer programs in the Asia Pacific region.\(^50\)

It would work in both Singapore’s and Virgin’s interest to act informally to squeeze Qantas on price. Qantas has shown a recent preoccupation with fiscal matters. A squeeze on Qantas’s niche could well see the Australian carrier waiver in its current position. Qantas is perceived to be vulnerable on cost structure and the move into Asia is a strategy by Alan Joyce to address this. With a price war on in Australia and various travails in Asian markets, Qantas may find itself fighting on too many fronts and this may increase its vulnerability.

It is predicted that should Singapore Airlines enter the Australian market, then the mid-term result could be as follows:

Singapore – to take up the business travel segment
Qantas – to solidify its position in the Government segment
Virgin – to take up a budget-conscious business niche and some high-end leisure travel
JetStar – to solidify in the cost-conscious leisure segment
Tiger – to improve offering (in alliance with Virgin) to challenge JetStar, or exit the market.

Should Tiger exit the market, then all players may shuffle down a segment. Virgin would find more room to pick up market share from JetStar in the leisure segment, but would lose a lever to pressure JetStar margins. As things stand, through the pricing of Tiger tickets and the affordable higher service offering of Virgin, JetStar could be forced to lose margin through dropping prices to compete with Tiger, or increasing service to compete with Virgin. This would increase cost structure difficulties at Qantas, despite Qantas’s off-shoring.

Another important factor in Singapore Air’s entry into Australia is the question of freight. Singapore’s freight capacity outstrips Virgin and is directly comparable to Qantas, depending on how many aircraft Singapore dedicates to the Australian market. Singapore is also able to bring in further capacity should it be needed, or to redeploy capacity should it prove redundant in the Australian market. This is a significant strategic advantage for Singapore.

So it would be wise for Virgin to form a freight alliance with Singapore should Singapore come into the Australian market. Virgin could increase its freight bookings, add an agreed mark-up and use Singapore capacity for the freighting that is currently unviable for Virgin.

Further questions and relevant unknowns:

Unlikely but possible scenario if Singapore Airlines reignites its alliance with Tiger, and targets low-price business travel segment, thus squeezing both Virgin and JetStar while leaving Qantas in clean air?

- In this eventuality, what would happen to the newly-formed Asia-Pacific alliance between Virgin Australia and Singapore Airlines?

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Scenario 3: How might Virgin take advantage of any public backlash that make occur in reaction to Qantas/JetStar off-shoring?

**What drives Qantas’s move to go off-shore?**
- Qantas future goals — what is it trying to achieve by moving to off-shore Asian?
  - Attempting to increase use of infrastructure, particularly in the Inland.
  - Get around problems with Australian unbalanced workforce.
  - Improve cost standards, improve costsisation of scale.

**What is Qantas doing and can do?**
- Qantas decisions — how do they desire to compete?
  - Lower cost will convince workload.
  - Attempt to widen per unit profit margin.
  - Increase revenue with increased Asian routes, leading to increased profits.

**PROBABLE COMPETITOR RESPONSES**
- Virgin Aust has already formed a strategic alliance with Singapore Air.
- Virgin Aust should promote its brand as a truly Australian airline with typical Aussie larrikin personality.
- Attack Qantas in Asia, forcing it to fight in hostile air.
- Attack Qantas at home, forcing it to fight on second front.
- Encourage PR coverage regarding Qantas desertion of Aust workforce and the much touted ‘spirit of Australia.’

**ASSUMPTIONS**
1. about Qantas:
   - Perhaps predictable, not as a surprise to any other airline, but as a surprise to the company depending on the company’s decisions and actions.
   - Boeing’s decision to use the rollercoaster.
   - Qantas’s decision to use the rollercoaster.
   - That prospide, the future of Qantas, is in doubt.
2. about Industry:
   - Qantas’s decision to use the rollercoaster.
   - That Qantas’s decision to use the rollercoaster.
   - That Qantas’s decision to use the rollercoaster.

**CAPABILITIES**
1. about Qantas:
   - Perhaps predictable, not as a surprise to any other airline, but as a surprise to the company depending on the company’s decisions and actions.
   - Boeing’s decision to use the rollercoaster.
   - Qantas’s decision to use the rollercoaster.
   - That pr...
Clearly, the full ramifications of Qantas’s Asian focus have not yet been played out in the Australian domestic marketplace. For example, Qantas faces the prospect of a public vote of ‘no confidence’ in CEO Alan Joyce and Chairman Leigh Clifford, from shareholders at its upcoming October 2011 AGM. Ongoing public backlash against Qantas is a real issue and Virgin Australia is well-placed to take advantage, if it moves stealthily.

Qantas is seeking to minimise Australian domestic backlash by introducing itself into Asian domestic markets under another brand name. However, this puts that new brand at a considerable disadvantage in those new markets. Consumers are more likely to gravitate towards brands they already know. This is another vulnerability that Virgin can exploit in those other markets, as well as being aware that Qantas is hedging against backlash in Australia. This strongly hints at the certainty of this domestic backlash occurring.

Further questions and relevant unknowns:
- How will Australian public react to Qantas off-shoring?
- Has recent publicity hurt Qantas?
- What effect has Qantas engine troubles had on its image?
- Is Alan Joyce the right man? Cost-focus to the detriment of brand equity does he understand Qantas’s brand equity?
- Are Australians sick of Americans and European CEOs running Australian brand companies?
- What will Qantas do to try and pare back the adverse publicity? If anything?
- Does Qantas feel it is untouchable?
- Is Qantas over-confidence a vulnerability that Virgin can exploit?

**Scenario 4:** How might Virgin take advantage of forward integration into travel retail?

**Scenario 4: Virgin forward integration into travel retail**

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**Integration resources:**
- Virgin is already fairly well-integrated in HK with Virgin Holidays.
- Brand awareness & offerings: "One-stop-shop" convenience + value proposition.

**Integration capabilities:**
- Virgin Holidays has international alliance/associations with Hong Kong World Travel, Travelzone, and Continuum Travel. Seamless customer experience is one strength, though relatively high accommodation, engineering etc. Excellent cross-promotional opportunities.

**Integration vulnerabilities:**
- Partner collapse or hostile takeover.
- Partner brand personality and PR out of Virgin’s control.
- New alliances can become irrelevant.
- Competition may end,关掉合作方.
- Collapse in partnerships.

**Smart Value Creation:**
- "One-stop-shop" convenience.
- Seamless customer experience.
- New alliances can become irrelevant.

**Sustainable Competitive Advantage of Integration:**
- Virgin Airlines, allied suppliers & subsidiaries are preferred suppliers.
- Seamless travel plan for consumer.
- Promotional opportunities.
- Economies of scale in marketing.

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**Integration resources:**
- Virgin in Australia runs Virgin Australia Airlines.
- Virgin Holidays offers "One-stop-shop" convenience + value proposition.

**Integration capabilities:**
- Virgin Holidays has international alliances/associations with Hong Kong World Travel, Travelzone, and Continuum Travel. Seamless customer experience is one strength, though relatively high accommodation, engineering etc. Excellent cross-promotional opportunities.

**Integration vulnerabilities:**
- Partner collapse or hostile takeover.
- Partner brand personality and PR out of Virgin’s control.
- New alliances can become irrelevant.
- Competition my end, 关掉合作方.
- Collapse in partnerships.

**Flexible initiatives:**
- Competition may end,关掉合作方.
- New alliances can become irrelevant.
- Promotional opportunities.

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Fig 17– see Appendix 17d for enlarged view

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Discussion of Scenario 4:
Forward integration into the retail travel sector creates numerous synergies for both Virgin Australia and the travelling customer. Forward integration enables economies of scale in marketing particularly. Cross-promotion of all core businesses is made much easier through retail integration. Face-to-face customer interaction and feedback is streamlined making the entire entity more sensitive to consumer trending.

For the customer, the integration creates a seamless purchase and travelling experience, as all aspects of the travel can be purchased at the one outlet, and any issues that arise during the consumption of the travel can be administered at any of the integrated entity outlets. Forward integration into travel retail enables a multiplying of customer-interface opportunities which benefit both the parent company and the consumer, and makes the creation of packages much easier.

Working in alliance, forward integration makes streaming of customers more efficient. So, for example, should Virgin Australia have airline alliances with both Singapore and Tiger, a retail travel outlet enables easier streaming of appropriate customers to each of the allied entities. This makes for more efficient attacks on competitors Qantas and JetStar. Forward integration into retail travel should also make scenario planning and war gaming more accurate as a larger portion of the travel sector is under direct control.

**Further questions and relevant unknowns:**
- Qantas has recently sold its shares in Harvey World to Jetset Travelworld. Is this just Qantas divesting for other reasons or are there basic operational vulnerabilities here? See: http://blog.traderdealer.com.au/tag/qantas
- Superimpose this question onto Singapore entry and Tiger alliance or exit. What new variables does this throw into the analysis? "Second play" scenario planning needed here.
- Is forward integration negatively impacted by increased segmentation of the industry? Can this be offset by other alliances? For example, if Virgin Travel is funneling retail customers towards Virgin Airlines, does this work against attracting business travellers, and if so, can this be compensated for, by alliance with Singapore Air, which has greater appeal to businesses?
Future strategies

Virgin Australia’s recent poor profit numbers are cause for concern but not panic. Among airlines worldwide, South-West Airline is the only company to have never made a loss.  

The current Australian domestic airlines industry affords Virgin Australia numerous opportunities to differentiate itself. However, the chances to create a completely clear market space in which to operate, are hampered by a crowded market that is likely to become even more crowded in the near future.

This is why alliances in the industry will become more important in the near future. Alliances lower the competitive nature of the crowd. With other airlines in alliance, each entity is no longer competing with 4 other entities but perhaps with only two. This makes strategy and targeting of competitors and consumer segments much more manageable.

Porter states there are only two ways to compete – to aim for cost leadership or to differentiate the product. Porter recognises that in a crowded marketplace, there can (by definition) only be one cost leader and in any industry there is a finite number of ways in which to differentiate. Therefore, different players in the market tend to fall on a continuum from outright cost and price leadership to complete differentiation and outright quality leadership. These ‘in-between’ entities are considered either ‘cost-focussed’ or ‘differentiation-focussed’ depending on where they are placed on the continuum. Porter represents this in a four player industry as follows:

![Porter's Cost leader-differentiator matrix](http://tutor2u.net/business/strategy/competitive_advantage.htm)

**Fig 15: Porter's Cost leader-differentiator matrix**

Currently, the Australian domestic airlines industry has four players – three if Qantas and JetStar are counted as a single entity. So, while the industry seems crowded with competitors, there is a position for all.

In terms of the above Porters model, Virgin Australia is firmly stuck on the left hand side of the diagram. Virgin Australia has seemingly been forced to take a ‘narrow scope’ view of its business opportunities due to the price and service squeeze that has come from Qantas and JetStar. Virgin Blue came into the market intent on differentiation focus through and equation that might have looked like ‘price x service = customer value.’ This equation has been eroded by the price attack from JetStar and the service attack from Qantas. Virgin Blue/Virgin Australia has been searching for a differentiation opportunity ever since the attack began.

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With the price/service value niche narrowing, this has become increasingly difficult. However, there may well be opportunity to differentiate along brand personality lines to create the marketing niche Virgin Australia is looking for.

Latterly, empirical evidence has strongly suggested that a company can pursue both cost leadership and differentiation to greatest reward.\(^{56}\) While this dual-focus strategy has been recognised since the 1990s, it has gained popularity in the most recent decade, through pursuit of what has been termed ‘Blue Ocean’ Strategy.\(^{57}\)

Blue Ocean Strategy requires a company to find an unoccupied niche in the market and to fill it. This creates ‘open water’ or ‘blue ocean’ in the marketing space that competitors actually avoid. In this case, perhaps it can be termed ‘Blue Sky’ strategy. By creating a unique niche for itself a company can go a long way to making competitors irrelevant.

Virgin as a worldwide brand, has always been masterful at ‘interruptor’ and ‘Blue Ocean’ strategies. Virgin Australia has an opportunity to take up the psychographic niche that Qantas appears to be vacating, albeit with a uniquely ‘Virginian/Bransonesque’ personality – a personality which Virgin Blue demonstrated, resonates with the Australian public.

At the core of Virgin Australia’s ‘Blue Ocean’ Recovery Strategy should be:

**COST LEADERSHIP FOR A PREMIUM OFFERING COUPLED WITH A RETURN OF THE MAVERICK.**

In a sense, this is nothing new – it is in reality, a return to the soul of Virgin Blue.

Virgin has clear advantage in culture. Qantas has union problems. Virgin Australia’s workforce tends not to be unionised much at all. Virgin is repeatedly listed as one of Australia’s ‘preferred employers’.

Qantas has clear advantage with ‘Chairman’s Club’ – with many businesses locked in for business travel. This may become a tax threat down the track, as legislators look to target the Chairman’s Club for fringe benefits tax. Qantas has mitigated against this by involving much of the Government sector in the Chairman’s Club.

While Qantas is off-shoring, Virgin is signalling commitment to Australian staff. Qantas is very poor in social media and online feedback. Virgin can ramp up this PR opportunity, where it is already quite strong.

There is strong price sensitivity in the business travel market due to the threat of the GFC – Virgin’s ability to move more quickly than Qantas on Business class airfares gives it a clear advantage in a tight business travel market.

Qantas had forward integrated into Travelworld enabling direct feeding of clientele from the franchise to the airline. However, it has recently sold its share of Travelworld. Virgin needs to cement closer relations with Australian travel booking chains or introduce Virgin Holidays to Australia.

Qantas’s Frequent Flyer program is extremely profitable. Virgin needs to shadow Qantas’s strategies here and look for more profitability from its own program ‘Velocity’.

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\(^{57}\) CHAN KIM. W, MAUBORGNE. R, 2005: *Blue Ocean Strategy: How to create uncontested market space and make competition irrelevant*. 
Virgin is very strong in Australia’s fastest growing route, Perth. This route offers a good margin if the right aircraft are used to maximise return per passenger. This signals perhaps upgrading to A380s for this route, with greater seating capacity and lower fuel consumption per passenger.

The alliance with SkyWest is critical while the WA mining boom continues. Virgin is well positioned to take advantage of the two-speed economy, with Perth a major destination for mining companies and seamless transfer to WA regional centres also critical to maximise profit from this cash-cow route. Using SkyWest to tie up the WA business travel market through ease of transfer, will make Virgin a more attractive prospect for mining industry travellers.

With the recent reversal of fortune on the share market, Virgin may be able to press home a public relations advantage here, promoting Virgin shares as a better option for Australians than the traditional Australian airline option, Qantas.

**Recommendations**

To return to the key intelligence questions:

1. **How should Virgin Australia position itself to take advantage of the current difficulties being experienced by rivals Qantas and Tiger?**

2. **How should Virgin position itself to hedge against the impact of the imminent arrival of a new carrier in the domestic airline market?**

The top 3 issues in answering these questions are as follows:

1. **Market the Maverick:**
   - Give Virgin (Blue) Australia a more ‘Aussie’ personality than Qantas or JetStar. Make business travel more ‘fun’.
   - Give leisure travellers that “special feeling.”

2. **Form Australian-based alliance:**
   - With either Singapore, should they come into the market, or Tiger. If Singapore, create squeeze pressure on Qantas, attacking Qantas’s difficult cost structure situation.
   - If with Tiger, use Virgin’s customer service leadership and cultural superiority to improve Tiger’s offering to consumers.
   - Heavily market this new customer benefit to the public. This will turn Tiger into a fighting brand for Virgin.
   - Create sampling opportunities for consumers to trial Tiger.
   - Create price and service squeeze on JetStar.
   - Use either alliance to expand freight capacity where margins are more profitable.

3. **Forward integrate into Australian retail travel:**
   - to funnel both business and leisure travel towards preferred carriers. Wherever possible, maintain the maverick personality in the retail travel sector.

**CONCLUSION**

Virgin Blue needs to moved towards business class or ‘super-economy leisure class’ and simultaneously resonate the maverick Branson spirit to its publics. In fact, Virgin can quite easily stay consistent with its original stated aims to grow the industry by bringing domestic air travel to those who may not have previously considered it.58

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58 David Huttner, Virgin Blue Head of Commercial Strategy in May 2002, quoted at http://www.afrboss.com/events/transcript.asp?eventid=256
Virgin’s problem is a marketing problem. It can maintain its intended positioning for business travellers, but still with a maverick style that reflects the Virgin brand – “fun, value and innovative.” While this marketing needs to be fun it also needs to be sensitive to both male and female business and leisure travellers. Some of the slightly sexist promotions of days gone by need to be avoided so as not to alienate the predominantly female ‘gate-keepers’ – the personal assistants in business and the female partners in couple and family travel.

The time for such marketing is ripe for Virgin. Recent announcements by Qantas have encouraged criticism of the Flying Kangaroo, that it too, has deserted its heritage and can no longer call Australia home. Qantas commercials are promising “a New Spirit” – but Australian have always been quite comfortable with the old spirit of Qantas and reject the new spirit that appears, at least in public relations terms, to be deserting its Australian roots.

That will be a disaster for Qantas. These moves are definitely austerity moves, but the public respond to a company’s soul, not its finance department. This looming public relations difficulty for Qantas, spells an opportunity for Virgin, to position itself as the ‘true-blue’ airline of choice for both the frugal business traveller and the family leisure traveller wanting better service than that offered by JetStar.

When Virgin Blue entered the Australian domestic airline market, Richard Branson claimed that his new venture would bring prices down to below $100 for flights between the east coast’s major centres. Industry experts said it could not be done.

“It was headline news - impossible. We’d end up being Compass Mk 3. If you think about it, the success is that you now see fares under $100 and no one even blinks.”*  

In the current climate, to unseat Qantas/JetStar as the domestic airline that most reflects the Australian character, might also seem to be impossible. But Virgin Australia has a history of this sort of achievement:

“The last rule of all, the thing we have heard a hundred times, is it’s impossible…. But we went out and did it. … The reality is that people will forget quickly what it was like before Virgin Blue. … If we had listened to everyone, we would never have started … Numerous industry experts said we were out of our minds but we went out there and built an airline. ”*  

*David Huttner, head of Virgin Blue commercial, to the AFR BOSS CLUB seminar, Sydney, Monday May 13, 2002.

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Bibliography


Appendix 1: Notes from Humint research 1:

MGSM class discussion with Graham Millet – airline industry management/strategy consultant. Discussion occurred in Strategic Management class, week 10, semester 3, 29th August, 2011.

Qantas weak in:
  Cost structure
  International operations
  Industrial relations – Qantas has perpetual problems with unionised workforce. Alan Joyce and the board not sensitive or sympathetic to unionised workforce.
  Poor use of social media and online feedback as a marketing tool.

Qantas strong in:
  Freight – acquires good margins here.
  Fighter brand – JetStar is making up for QANTAS International losses
  Chairman’s Club – very strong link with corporate travel sector.
  Frequent Flyer program – extremely profitable.

Virgin weak in:
  Freight – wrong planes for efficient cargo loading and unloading.

Virgin strong in:
  Preferred employer status – will attract the best people.
  Well placed to take advantage of the mining boom due to WA connections with SkyWest and strength on the Perth route.
  Leadership – CEO has almost 40 years experience in the Australian domestic airline industry. Has much competitive intelligence on main rival.

Opportunities for Virgin:
  Ramp up Velocity loyalty program.
  Solidify dominance in the West Australian (mining boom) routes.
  Social media and online feedback as marketing tool.
  Alliance with Singapore Airlines who will most likely be targeting Qantas routes and scheduling.
  Virgin better placed to take advantage of technological opportunities with management that is more willing to look forward. Virgin has a history of being proactive with technology: eg: online booking facility upgrades, bio-fuel testing. Virgin better placed to leverage off carbon tax introduction. Needs to either forward integrate or strengthen ties with retail travel industry.
  Opportunity to cut into Qantas's image as Australia’s airline. Virgin can return to being “true blue”.

Appendix 2:
Humint research 2: David Huttner

AFR BOSS The Club: Seminar - Monday, 13 May 2002

Speaker: David Huttner, Virgin Blue
This is an edited transcript of the speech given to the AFR BOSS CLUB seminar in Sydney on Monday May 13, 2002 by David Huttner, head of commercial at Virgin Blue.

Transcript

I am going to talk to you about breaking the rules – or at least breaking some of the assumptions about what an airline should be, and what we should be doing to serve the Australian travelling public.

The first assumption I can tell you is everyone here is wearing ties. We don't really wear ties and you're welcome to take them off. The reason is this: we want people to realise that we're in the hospitality business, we're not in the transportation business. The thing in the hospitality business, you've got to make people feel relaxed. People want to feel relaxed.

That's the first rule. I've got nine other rules I will go through. Some of them are little things and others are tenets we've had since the day we started this airline.

Advertising

The second rule we broke was about advertising. This talk will focus a lot on advertising and marketing, on such things as customer interface, product development, product delivery and target market. I'm going to show you the TV ads we ran recently. We had made some ads before this, but the ones I am going to show are our first real full scale TV campaign. You'll find them a little different. (Ads are shown to audience.)

Two of the basic rules of airline advertising are: always show an airplane, and always show destination. How many airplanes were in those ads? Zero. How many destinations in those adds? None. Now how many singing children were in those ads? None. How many people did you see in those ads who worked for Virgin Blue? Almost every person you saw was a Virgin Blue employer. We used almost no professional actors, although the dog belonged to the security guard at our head office.

We approached these ads by asking ourselves, what have we got? We've got low fares, but have we got what people want, which is service? This is a big leap for us. We knew that we had it but we had to convince the rest of the world that we had it because everyone thinks that low fares means cheap. So we had to go out there and try and do something. So we used context: people in everyday, normal experiences.
It immediately struck when they presented it to us. It immediately struck a chord because basically if you thought about what you get on an airline, you get someone at 6am smiling at you and helping you and being friendly and cheerful. That’s the thing, service is not about what other people define it to be, it’s what you define it to be.

**Hiring**

We had about 20,000 people apply for our first 300 jobs so we had the ability to be picky. And I can tell you most of the people we hired, especially in customer services at the front line level, were from hotels, teachers, aspiring actors. They’re all people like that. They’re people who want to help other people. We can sit here and train them all how to do the safety demo, but we can’t train people to smile. You just can’t do that.

This is a good thing to think about for whatever industry you’re in, especially the service industry. Most industries still have customers. And that’s something we focused on from day one: any amount of money we spend on advertising is probably a waste of money if we don’t deliver. Airlines are a repeat purchase. Most of you in this room are business people and you have flown more than once. You probably fly regularly. So you can make a great fantastic ad, we can even spend $6 million on singing children. But at the end of the day if we don’t deliver what we promise then we are wasting our time advertising. At the end of the day we have to deliver a product that people are happy with – and that won’t change.

So we don’t promise the world to people, we promise simple transport from A to B and friendly, on-time service. Because we deliver that, people are happy and loyal to our products. That loyalty is actually far greater than that which comes from giving people frequent-flyer points. The other point about frequent-flyer points is, be careful about what you give, because you may have to take it away later. If customers who used to be able to go into the club lounge suddenly find they can’t, resentment builds up.

**Disband the marketing department**

We don’t have a marketing department per se. But the basic idea when you have a marketing department is that marketing is that department’s job. Whereas at Virgin Blue, everyone is told on day one that marketing is part of their job. Recently the head of a major travel agency was flying on one of our planes and asked, how many people in the marketing department? And the flight attendant responded immediately, without blinking, said, “Hundreds”.

Marketing is about the baggage handler who get the bags off the plane quickly, the check-in agent who gets you your favourite seat with a smile and the pilot who decides to fly a bit faster to catch up if there is a delay.

We’re serious... sometimes
Another rule: don’t get too serious. You have to be serious about safety but not about how you get people to watch the safety demonstration. If we can make it fun and memorable and enjoyable, tell a joke or something like that, customers will actually look up from their newspapers and watch. We take our jobs seriously, but we don’t take ourselves seriously.

Competition

Another rule we try to break is about competition. We never try to be better than our competitors, we never try to even look at our competitors too much. Otherwise we would be saying, our lounges are better, our whisky is better, our food is more swish, our celery sticks are crispier and we give you more frequent-flyer points, and all of a sudden the company is paying the bill. It is important that you actually sit there and think, what is it that we want our flights to be? We didn’t sit there and say, how can we be better than Qantas or Ansett? This has really helped us.

For example, airline meals were developed to help stop people getting bored. We have a magazine called Voyeur, which is entertaining and helps keep people entertained. But we are not going to try to convince you that the meal is there for the culinary experience. We would rather save you a few hundred bucks and get you to Melbourne – where there are some swish restaurants. You need to think – what are you there for? Do you take an airline flight to have a good meal? You have to look at everything that way. We are always trying to make it better, not just trying to look like the other guys. If we end up like the other guys, someone else will come in just like we did, and start another airline, and we’d be losing our customers.

When to Change

Don’t change things the moment things go wrong. Stick to your business plan. Some of you may remember Impulse – in the less than a year, it changed strategies about four times. You can’t do it. Better stick with it for a fair amount of time and change strategy once, perhaps. That said, Virgin Blue pulled off a route – we pulled off Mt Isa. When something works, be careful about changing it for something you think is better. You can occasionally bring in new ideas but we have stuck with the same core strategy for over two years. The product has evolved but it is important to stick to your knitting.

Customers

One of the first things to recognise is – who is not your customer? Don’t try to have everyone, don’t try to have the whole market. Qantas’s worst enemy right now, with 85 per cent market share, is Qantas. Simply speaking, you can’t be all things to all people. Don’t pretend to be what you are not. During the week, it is fair to say that there are people out there with the Gold Qantas cards but at the end of the week, even those people are on Virgin - because they know that we suit their personal needs, even if they think their boss should fly them in business class from Monday to Friday. Market share is irrelevant. The moment
your market share drives your decisions, you stop doing that one thing that you want to do, which is to make money.

National cultures

People always said Australia is different. We disagree - not just the few foreigners on the team like me, but all of our Australian staff as well. Australians still want value and service, especially value. So we had to listen to a lot of people telling us that Australia was different. We stick to the core thing: good, friendly, on-time service. It is really important to realise that, yes, Australia is different, but not that different. If we had listened to everyone who told us how different it was, we would never have started the airline.

Do the impossible

And the last rule of all, the thing we have heard a hundred times, is it's impossible. But we went out and did it. Richard Branson announced just over two years ago that we were going to make flying between east coast cities possible for less than $100. It was headline news - impossible. We'd end up being Compass Mk 3. If you think about it, the success is that you now see fares under $100 and no one even blinks. The reality is that I think that people will forget quickly what it was like before Virgin Blue. Numerous industry experts said we were out of our minds but we went out there and built an airline.

Thank you for coming this evening.

**Venue**

Fairfax Boardroom, John Fairfax Publications, 201 Sussex Street, Sydney

Appendix 3: Virgin Australia Online Corporate Communications.

The following is cut and paste from: http://www.virginaustralia.com/AboutUs/Careers/Departmentprofiles/
All proofreading mistakes and poor sentence structure are highlighted in yellow.

Virgin Department descriptions

It is helpful for you to understand our general business operations so that you can get a feel for who we are, what we do and make a self-assessment about whether or not your knowledge, skills, abilities and interests could be a good match for our company. Here's a snapshot of parts of our business and some typical job roles that form a part of each team.

Commercial

The Commercial division is focused on generating revenues through promotion, sales, marketing and loyalty initiatives; driving our brand and our product in the marketplace to maximise our commercial positioning.

Departments Include:

- Marketing
- Commercial Sponsorship
- Sales (Corporate & Industry)
- Velocity and CRM
- eCommerce
- Ancillary Revenues
- Blue Holidays

Typical roles in the Commercial team include: Account Managers, Marketing & Brand Specialists and Advisors.

Alliances, Network & Yield Mgmt

The Alliances, Network and Yield Management division is focused on planning, monitoring and implementing strategies to maximise revenue and Alliances, Network and Yield Management enhance Virgin Australia's market position through its own and partner networks.

Departments Include:

- Revenue & Yield Management
- Network Planning
- Scheduling
- Strategic Alliances
• Alliance Management/ Implementation

Typical Roles in the Alliance, Network & Yield Management team include: Revenue Management Analysts, Network Planning Analysts, Pricing Analysts and Route Managers.

Product and Guest Services

The Product and Guest Services team is responsible for creating and delivering our polished and professional service to our guests. The Group includes International and Domestic Cabin Crew, Cabin Crew systems, Service experience, Premium Guest Services, the Lounges and of course in-flight and ground product.

Departments include:

• Product
• Group Service Training
• Cabin Crew
• Premium Guest Services
• Lounges
• Guest Contact Centres

Typical roles in the product and guest services team include Learning and Development Specialist, Trainers, Uniform Coordinators, Cabin Crew, Cabin Supervisors, Leaders Cabin Crew, Product Specialists and Contact Centre Agents.

Operations

Our Operations Group is responsible for ensuring that the work completed within our Commercial and Product Groups comes alive whilst keeping our schedule operating safely and on time. The Operations Group is the largest in the Business.

Departments include:

• Engineering Operations
• Ground Operations
• Flight Operations
• Group Flight Standards
• Operations Planning
• Safety Systems
• Pacific Blue
• V Australia Operations

Typical roles in the Operations team include: Pilots, Pit Crew, Guest Service Agents, Engineers, Safety Systems Specialists and Operations and Network Planning Advisors.
Finance

Our Finance team is responsible for the financial analysis, reporting and forecasting for the Business. This critical function supports the Business and the board in meeting our objectives and the provision of prudent advice on business opportunities.

Departments include:

- Investor Communication
- Finance
- IT
- Business Systems Design & Delivery
- Property
- Forecasting
- Internal Audit
- Risk Office
- Fleet
- Economist
- Strategic Initiatives Office

Typical roles in the finance team include: Accounts Payable, Accounts Receivable, Auditors, Business Analysts, Qualified Accountants and IT Specialists.

People

Our People Team is primarily focused with providing the systems, tools and guidance to assist the Business in delivering its business model. The people team provide support to ensure make sure we have the right structure for the business, the right people in the right roles doing the right work in an environment where people can work productively to their full potential.

Departments include:

- Leadership advisors
- Workplace relations
- Remuneration and Services
- Recruitment
- Leadership Development
- Staff Travel

Typical roles in the People team include HR Specialists and Advisors, Learning & Development Specialists, Payroll Agents, Recruitment Advisors and Workers Compensation Specialists.
Corporate Communications

Corporate Communications are communications professionals who deliver all elements of Corporate and Financial Communications, Public Relations, Media Relations, General Publicity, Corporate Sponsorship and Promotions and Internal Employee Communication. As such the team are guardians of Virgin Australia’s public image in news media, initiators of media and stakeholder communications and play a key role in maintaining the company's unique culture and providing organisation-wide understanding of the company's commercial and strategic aims.

Departments include:

- Corporate Communications
- Public & Media Relations
- In-flight Media
- Community Sponsorships

Typical roles in the Corporate Communications team include Public Affairs Specialists, Media Relations Advisors and Communication Specialists.

Government Relations

The Government Relations group support the business to influence and understand government decision making. International air services cannot operate without meeting widespread regulatory approvals, with each country comprising their own specific requirements. Government Relations is responsible for developing relationships with domestic and international governments; influencing treaty negotiations; and researching and developing Virgin Australia's position on key government policies and other related topics within the market.

Departments Include:

- Government Affairs
- Industry Representation

Typical roles in the Government Relations team are Government Relation Specialists.

http://www.virginaustralia.com/AboutUs/Careers/Departmentprofiles/
Appendix 4: Nine Forces of Australian Airline Industry

Case Study: The Australian Airline Industry

<table>
<thead>
<tr>
<th>Barriers to entry - 9</th>
<th>Government - 8</th>
<th>Competitors - 9</th>
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<tbody>
<tr>
<td>• Deregulation but small market</td>
<td>• Protection policies impact new entrants</td>
<td>• Duopoly</td>
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<tr>
<td>• Ability to lease aircraft</td>
<td>• ACCC</td>
<td>• Costs are fixed</td>
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<tr>
<td>• Contract ground crews</td>
<td>• Privatization of airport services</td>
<td>• Overcapacity and lower margins</td>
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<tr>
<td>• Limited terminal slots</td>
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<td>• Qantas as major airline</td>
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<thead>
<tr>
<th>Power of buyers - 6</th>
<th>Power of suppliers - 7</th>
<th>Social — weighting 3</th>
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<tbody>
<tr>
<td>• Emergence of internet</td>
<td>• Unions have eroded economic rent</td>
<td>• Growth is limited to the size of market / tourism</td>
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<tr>
<td>• Price sensitivity not been offset by loyalty programs</td>
<td>• Construction companies compete for new sales</td>
<td>• Growth is price-sensitive</td>
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<tr>
<td>• Market share warfare</td>
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<td>• Impact of terrorism</td>
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<tr>
<th>Technology - 6</th>
<th>Substitutes - 3</th>
<th>International — 6</th>
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<tr>
<td>• Business travel slowing</td>
<td>• Ships, trains, buses and cars inadequate across great distances.</td>
<td>• Impact of terrorism</td>
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<td>• Technology allows greater loads, better fuel usage</td>
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<td>• Safe holiday destination</td>
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<td></td>
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<td>• Cost of airline fuel</td>
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Appendix 5 – airline ‘vital statistics summaries.

<table>
<thead>
<tr>
<th>Qantas Australia#</th>
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<td>Total Revenue ($ millions)</td>
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<td>Total Profit (EBITDA $ millions)</td>
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<td>Revenue Growth (%)</td>
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<td>Available Seat Kilometres</td>
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<td>Revenue Passenger Kilometre</td>
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<td>Passenger Load Factor (%)</td>
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<td></td>
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<td></td>
<td></td>
<td>Market Share (%)</td>
<td>73.5</td>
<td>Skytrax Ranking*</td>
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<td>Core Competence</td>
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<td>Product leadership (brand)</td>
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<tr>
<td>Total Revenue ($ millions)</td>
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<td>Available Seat Kilometres</td>
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<td>Revenue Passenger Kilometre</td>
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<td>Market Share (%)</td>
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<td></td>
<td>Core Competence</td>
<td></td>
<td>Operational efficiency (low cost)</td>
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*Based on Financial Position as at 30 June 2010
*Qantas Group (total Qantas and Jetstar)
*Skytrax is the world’s largest airline review site

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<thead>
<tr>
<th>Virgin Australia#</th>
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<td>472.1</td>
<td>Revenue Growth (%)</td>
<td>14.46</td>
<td>Available Seat Kilometres</td>
<td>34.0b</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Revenue Passenger Kilometre</td>
<td>26.9b</td>
<td>Passenger Load Factor (%)</td>
<td>79.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Market Share (%)</td>
<td>20.2</td>
<td>Skytrax Ranking*</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Core Competence</td>
<td></td>
<td>Product leadership (brand)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tiger Airlines#</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue ($ millions)</td>
<td>208.0</td>
<td>Total Profit (EBITDA $ millions)</td>
<td>-0.6</td>
<td>Revenue Growth (%)</td>
<td>89.1</td>
<td>Available Seat Kilometres</td>
<td>7.84m*</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Revenue Passenger Kilometre</td>
<td>6.76m*</td>
<td>Passenger Load Factor (%)</td>
<td>85.1*</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Market Share (%)</td>
<td>1.5</td>
<td>Skytrax Ranking*</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Core Competence</td>
<td></td>
<td>Operational efficiency (low cost)</td>
<td></td>
</tr>
</tbody>
</table>

*Virgin Financial Position as at 30 June 2010
*Tiger Financial Position as at 31 March 2010
*Based on Tiger Airways Group (not just Australia)
*Skytrax is the world’s largest airline review site
Appendix 6 – airline seat utilisation graphs

Graphs derived from excel spreadsheet of figures held at: www.bitre.gov.au/publications/18/Files/Flights_Seats.xls
**Appendix 7 – airline KPI graphs: on-time running & cancellations**

* Preliminary 2011 figure show Tiger Airways on-time running figures have drastically reduced and their cancellations have dramatically increased. Exacerbating Tiger’s figures for 2011 is the ruling by CASA to ground the airline for around 2 months mid-year. This resulted in blanket cancellations and the quiet retiring of some routes by Tiger, while the grounding was in force. See: [www.news.com.au/tiger-airways-worst-on-time-airline/story-e6frfq80-1226007527254](http://www.news.com.au/tiger-airways-worst-on-time-airline/story-e6frfq80-1226007527254)
Appendix 8 – airline industry key indicators graphed.
Appendix 9 – Virgin Blue recent stock price

Source: IRESS and MPW Research, 24 March 2011


www.thebull.com.au
Appendix 10: Virgin v/s Qantas stock price over the last two years.

Appendix 11:

**Virgin Blue — 2 level SWOT analysis**

**Strengths:**
- The Branson style — brash, cheeky: resonates with Australian cultural psyche.
- Very marketable positioning — fun, affordable.
- Supported by highly diverse international conglomerate.
- New CEO comes with much inside knowledge from competitor.
- Social conscience — bio-fuel tests.
- Innovative: Disruptor. Often first to market with new ideas (eg: fully online, ticketless booking. First with bio-fuel testing. First to attempt business-leisure coupling).

**Weaknesses:**
- Recent years of low profit and huge loss.
- Aircraft not suited to all types of freight.
- Generally weak stock price — at times around 1/7th of Qantas. Makes capitalisation difficult.

**Opportunities:**
- Recent good recovery in stock price.
- Alliance with Singapore Airlines.
- Perceived marketing blunder by Qantas.
- Austerity measures at Qantas. Recent plummet of Qantas share price. A weaker rival could spell opportunity.
- Tiger grounding — can Virgin attract some of that very low-budget sector?

**Threats:**
- Singapore airlines entry into the domestic air travel market.
- Continued difficulties with GFC hurting the airline industry generally.

<table>
<thead>
<tr>
<th>Strength/Opportunity Combinational Analysis</th>
<th>Weakness/Opportunity Combinational Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blue Ocean opportunity to reintroduce the fun, marketing-driven, 'show-biz' service that Virgin Blue was originally renowned for—targeted towards business travellers and upper-end leisure market.</td>
<td>Can Virgin attract previously unserviceable freight clients, by using Singapore Air with an agency fee mark-up to create a new revenue stream?</td>
</tr>
<tr>
<td>Communicate the benefits of business class at leisure travellers who are tired of Jetstar's corrall mortality, and Tiger's hidden costs, poor record.</td>
<td>Reversal of fortunes in stock price may signal disquiet among Ausp public to Qantas's recent forays off-shore. Should Virgin market their shares more aggressively?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Strength/Threat Combinational Analysis</th>
<th>Weakness/Threat Combinational Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overcome threat of Singapore Airline's entry into market by ensuring the alliance with SA is strategically targeting Qantas's upper-end business travellers. SA's entry also signals the end of their support for Tiger, which could enable Virgin to attract some of Tiger's clientele if Virgin market to them.</td>
<td>Use Singapore entry to increase increase pressure on Qantas business travellers, freight opportunities.</td>
</tr>
<tr>
<td>GFC may force one airline (probably Tiger) out of Aust domestic service. Virgin need to market to Tiger clientele in preparation for this.</td>
<td>Introduce new loyalty scheme linking Virgin and Singapore.</td>
</tr>
<tr>
<td></td>
<td>Short-term price/service war on Tiger routes providing markedly better service for same price, using Virgin flights. Use similar strategy on Qantas routes using Singapore Air, with added assurance for passengers with Virgin &amp; Singapore covering each others schedules in case of mishap.</td>
</tr>
</tbody>
</table>
### Appendix 12: Various tables/graphs of domestic airline industry KPIs

<table>
<thead>
<tr>
<th>KPI</th>
<th>Purpose</th>
<th>Calculation</th>
<th>YE May 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of aircraft trips</td>
<td></td>
<td></td>
<td>602.3 (000s)</td>
</tr>
<tr>
<td>Total passenger movements</td>
<td></td>
<td></td>
<td>54.81 million</td>
</tr>
<tr>
<td>Revenue passenger kilometres (RPKs)</td>
<td>Measures sales volume of passenger traffic.</td>
<td>The number of revenue-paying passengers aboard the vehicle x the distance travelled.</td>
<td>63.10 billion</td>
</tr>
<tr>
<td>Available seat kilometres (ASKs)</td>
<td>Airline’s capacity for transporting passengers.</td>
<td>The number of seats available x the number of kilometres flown.</td>
<td>80.31 billion</td>
</tr>
<tr>
<td>Load factor</td>
<td>A measure of how much of an airline's passenger carrying capacity is used</td>
<td>RPKs/ASKs</td>
<td>78.6 %</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost descriptor</th>
<th>% Total</th>
<th>Cost drivers</th>
<th>Cost reduction strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Landing &amp; Associated Airport Charges</td>
<td>~4%</td>
<td>o use if major airports</td>
<td>o eliminate inefficient routes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o size of player</td>
<td>o ancillary airport usage</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o contracts</td>
<td>o economies of scale</td>
</tr>
<tr>
<td>Depreciation &amp; Amortization</td>
<td>~7%</td>
<td>o cost of planes</td>
<td>o lease planes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o hub locations and size</td>
<td>o relocate to cheaper/smaller hub</td>
</tr>
<tr>
<td>Flight Crew</td>
<td>~7%</td>
<td>o Structure of labour contracts</td>
<td>o Individual labour contracts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Status of union</td>
<td>o Reduce service level</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Level of service</td>
<td>o Eliminate inefficient routes</td>
</tr>
<tr>
<td>Maintenance &amp; Overhaul</td>
<td>~10%</td>
<td>o Fleet diversity</td>
<td>o Fleet rationalisation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o In-house maintenance</td>
<td>o Outsource maintenance</td>
</tr>
<tr>
<td>Passenger Services</td>
<td>~10%</td>
<td>o Frequent flyer lounges, check-in, in-flight services</td>
<td>o Technology to improve check-in/lounges</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>o Convert check-in/lounges to self-serve</td>
</tr>
<tr>
<td>Station Expenses</td>
<td>~10%</td>
<td>o Number of planes in fleet</td>
<td>o Fleet reduction</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Location of stations</td>
<td>o Planned routes for efficiency</td>
</tr>
<tr>
<td>Fuel &amp; Oil</td>
<td>~12%</td>
<td>o Price variations</td>
<td>o Fuel price hedging</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Fuel efficiency of fleet</td>
<td>o Fuel efficient fleet</td>
</tr>
<tr>
<td>General Administrative &amp; Other</td>
<td>~12%</td>
<td>o People issues – staffing levels, HR and OH&amp;S issues that create costs</td>
<td>o Staff reductions</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>o Staff rationalisation and redeployments</td>
</tr>
<tr>
<td>Ticketing, Sales &amp; Promotion</td>
<td>~16%</td>
<td>o Paper ticketing, printing etc</td>
<td>o Online automated check-in</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Discounting</td>
<td>o PR campaign rather than advertising</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Various marketing initiatives (eg: advertising, sponsorships etc)</td>
<td>o Encourage word-of-mouth promotion and social media promotion.</td>
</tr>
</tbody>
</table>
Industry sector size (total hours flown) (BITRE 2011)

Jet fuel prices (IATA, 2011)
Inbound visitor arrivals (ABS, 2010)

Airline operating expenses (IATA 2011)
### Appendix 13: Tables of buyer value

<table>
<thead>
<tr>
<th>Value</th>
<th>Corporate Buyer</th>
<th>Holiday Buyer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Travel Co-ordinator</td>
<td>Corporate Agent</td>
</tr>
<tr>
<td>Price</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Competitiveness &amp; value</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Booking Engine</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Usability</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Booking ticket flexibility</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Customer Service Availability &amp; Quality</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Commissions</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Flight schedule frequency</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Online/Mobile/Quick-check</td>
<td>Maybe</td>
<td>Maybe</td>
</tr>
<tr>
<td>In-Flight Service</td>
<td>Maybe</td>
<td>Maybe</td>
</tr>
<tr>
<td>Seating pitch</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>In-flight Entertainment</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Flight Class options</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Airport terminal locations</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>On-time efficiency</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Safety record</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Brand/Reputation</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Rewards programme</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Partner offers – car hire accom etc</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Premium Services First/Business</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Source: Qualitative Survey, Travel.com.au, Harvey World Travel Macquarie Centre, Corporate Travel co-ordinator McDonalds Australia.

**Buyer value – buyer perspective**
<table>
<thead>
<tr>
<th>Buyer Value</th>
<th>Qantas</th>
<th>Jetstar</th>
<th>Virgin Blue</th>
<th>Tiger</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ticket price</td>
<td>$$$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Service</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Speed of Check-in</td>
<td>High</td>
<td>Med</td>
<td>High</td>
<td>Med</td>
</tr>
<tr>
<td>Seating space</td>
<td>High</td>
<td>Med</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>In-flight entertainment</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>In-flight meals</td>
<td>High</td>
<td>Low</td>
<td>Med</td>
<td>Low</td>
</tr>
<tr>
<td>In-flight service</td>
<td>High</td>
<td>Med</td>
<td>Med</td>
<td>Med</td>
</tr>
<tr>
<td>Frequency of flights</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Med</td>
</tr>
<tr>
<td>Reliability of flights</td>
<td>High</td>
<td>Med</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>On-time efficiency</td>
<td>High</td>
<td>Med</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Flexibility of fares</td>
<td>High</td>
<td>Med</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Rewards</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Safety</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Med</td>
</tr>
</tbody>
</table>

**Buyer value – competitor evaluation**
Porter makes the point that there are two compelling ways to ensure competitive advantage: either an organisation can be a cost leader or a differentiator, as per the model below:

When an organisation aims for cost leadership, this provides three strategies in which to operate. In the first strategy, the company can use its cost-of-production advantage to create low-price leadership in the marketplace, providing its product or service to the consumer at the most affordable price. Theoretically, this should lead to greater volume of units sold.

The second strategy is to utilise its cost advantage to create greater marginal profit on each unit sold, by selling the product or service somewhere near a parity price to competitor offerings. Volume will not be as great but higher marginal return creates higher profit.

The third strategy is to drive costs down if possible without affecting quality, possibly through a unique technological breakthrough in production. This enables the company to continue to seek a premium price for superior goods with highest margin for each unit sold. Volume of sales may decrease (although not necessarily if quality is maintained), but marginal profits are at their peak.

The choice of strategy relies on the organisation’s production capabilities and its goals in the marketplace. If the goal is to maximise penetration, then strategy one may be employed. If the goal is to maximise profit, then volume might be sacrificed in favour of higher yield per unit, and so strategy two may be employed. If the company has the capacity to produce highest quality at lowest cost, through production breakthrough, then that capacity may dictate that strategy three would be put into place.

If a producer decides to forgo cost leadership and rely on differentiator strategies, then the company must find a unique selling proposition (USP) to offer prospective consumers. This USP might take the form of a particular unique product feature, a
unique product capacity, a differentiated point of desire for the product, usually precipitated by marketing of that point of desire.

Porter recognises that in a crowded marketplace, there can (by definition) only be one cost leader and in any industry there is a finite number of ways in which to differentiate. Therefore, different players in the market tend to fall on a continuum from outright cost and price leadership to complete differentiation and outright quality leadership. These ‘in-between’ entities are considered either ‘cost-focussed’ or ‘differentiation-focussed’ depending on where they are placed on the continuum. Porter represents this in a four player industry as follows:60

![Diagram of Porter's Strategy Continuum]

Latterly, empirical evidence has strongly suggested that a company can pursue both cost leadership and differentiation to greatest reward.61

While this dual-focus strategy had been recognised in the 1990s, it has gained popularity in the most recent decade, through pursuit of what has been termed ‘Blue Ocean’ strategy.62

Blue Ocean Strategy requires a company to find an unoccupied niche in the market and to fill it. This creates ‘open water’ or ‘blue ocean’ in the marketing space that competitors actually avoid.

---

60 [http://tutor2u.net/business/strategy/competitive_advantage.htm](http://tutor2u.net/business/strategy/competitive_advantage.htm)
Appendix 15a – Still from recent Virgin Australia TVC – ‘Now You’re Flying’

Above images in sequence from Virgin TVC, ‘Now You’re Flying’. Plenty of grey, white and light blue – all indicators of ‘safe’ promotional execution to the corporate market. Standard ‘safe’ shots of aircraft in hangars and in flight (above) indicate unadventurous ‘play-it-safe’ promotional mindset. This is at odds with the image Virgin seeks to portray of itself. Compare these images with the Flying Branson image on the title page, the striking Elle Macpherson and the flashy red-clad stewardesses in Appendix 15b, or the cheeky delivery of Hamish and Andy at www.youtube.com/watch?v=93cIToGe7c8
Appendix 15b – example of revitalised advertising execution

TVC Treatment:
ONLY VIRGIN CAN MIX BUSINESS WITH PLEASURE …

Care must be taken that all this is done in good taste and good humour. No sexism. Non-offensive to female travel ‘gatekeepers’ ie: professional PAs and female decision-makers in leisure travel.

CREATE TVC BASED ON SKYHOOKS SONG “WOMEN IN UNIFORM”

FAST CUTTING OF CATWALK UNIFORM LAUNCH AS ABOVE.

CUT TO IN-FLIGHT SERVICE FEATURING MEMBERS OF SKYHOOKS ENJOYING THE FLIGHT.

GIRLS SERVING BUSINESS PEOPLE IN FLIGHT – ALL TO SKYHOOKS TUNE.

BUSINESS PERSON: “I LIKE THE RED.”
They serve him a red wine. Cheers.

“Fly the Virgin skies – you’ll be hooked.” RED SYMONS.
Appendix 16: Domestic Airline industry summary

### Domestic Airline Sector

#### Political
- Deregulation 1990
- Foreign Ownership
- High safety std CASA

#### Economic
- High AUD
- 5.4% drop inbound tourists
- AFC 1997, GFC 2008, GFC2?

#### Social
- September 11, 2001
- SARS 2003
- Sydney Olympics 2000

### Industry Analysis

#### New Entrant Threat
- High infrastructure cost
- High economies of scale
- High brand equity - safety
- Finite access to airports

#### Supplier Power
- Limited suppliers
- High switching costs
- Long lead times

#### Competitive Intensity
- High fixed costs
- Slow market growth 6.8%
- High established alliances
- Small no. of competitors

### Service Segmentation

- Passenger 51%
- Freight 5%
- Other 5%
- New Entrant Threat 20%

### Market Segmentation

- International Tourists 13%
- Domestic Tourists 58%
- Business Travel 31%

### Profitability

<table>
<thead>
<tr>
<th>Year</th>
<th>Virgin Australia</th>
<th>Jetstar</th>
<th>Air New Zealand</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>+400</td>
<td></td>
<td>-100</td>
</tr>
<tr>
<td>2004</td>
<td>+200</td>
<td></td>
<td>-200</td>
</tr>
<tr>
<td>2005</td>
<td>+150</td>
<td></td>
<td>-250</td>
</tr>
<tr>
<td>2006</td>
<td>+100</td>
<td></td>
<td>-300</td>
</tr>
<tr>
<td>2007</td>
<td>+50</td>
<td></td>
<td>-350</td>
</tr>
<tr>
<td>2008</td>
<td>+0</td>
<td></td>
<td>-400</td>
</tr>
<tr>
<td>2009</td>
<td>-100</td>
<td></td>
<td>-350</td>
</tr>
<tr>
<td>2010</td>
<td>-150</td>
<td></td>
<td>-300</td>
</tr>
</tbody>
</table>

### Market Share

- Virgin Australia 43%
- Jetstar 21%
- Tiger 7%
- Other 7%

### Competitors Analysis

#### Differentiator
- +2004-2007 Blue Ocean Company
  - First to introduce mobile check-in
  - Minimal aircraft types for maintenance efficiency
  - 226m losses in 2009 have led to a repositioning strategy
  - Strong alliances with international airlines

#### Cost Leader
- +Modern fuel efficient fleet
- +Ancillary Airways
- +Airfare + $90 avg Ancillary
- -Low flexibility & consumer appeal 1.5%
- -Worst on-time & cancellation rates
- -First airline ever grounded by CASA
Appendix 17a: War Gaming diagrams enlarged – scenario 1

Scenario 1: Virgin alliance with Tiger
Appendix 17b: War Gaming diagrams enlarged - scenario 2
Appendix 17d: War Gaming diagrams enlarged – scenario 4

Scenario 4: Virgin Forward Integration into Travel Retail