Prepared by Achinto Roy
School of Marketing & Management, Deakin University, Australia

Jet Star: Qantas's Business Level Strategy

Jetstar is the world's largest value-based long-haul carrier and the fastest-growing airline flying to and from Australia. Jetstar's express mission is to enable more people to fly more often and also to extend air travel to those who have previously never been able to afford to fly by offering customers low fares, all day, every day[1]. This mission statement has translated into the airline returning a profit every year since its inception[2], even under very challenging industry conditions. The brand name 'Jetstar' was launched by Qantas during 2004 to compete in the budget air travel segment of the market which is also known as the 'value based market'. Under the Jetstar umbrella, Qantas has created wholly owned subsidiaries operating both in Australia and New Zealand. These operate under the names of Jetstar and Express Ground Handling (which provides ground services at the airports). Qantas' Jetstar umbrella also includes three partner carriers, namely: Jetstar Asia and Valuair in Singapore and Jetstar Pacific in Vietnam. Qantas holds 45% stake in Jetstar Asia / Valuair and 27% stake in Jetstar Pacific, Vietnam (the remaining 73% in the hands of other shareholders including three large shareholders State Capital Investment Corporation, Saigon Tourist Holding Company and Mr Luong Hoai Nam, CEO of Jetstar Pacific).[3] Qantas also holds a 46% share in Air Pacific, Fiji's national carrier.[4]

Jetstar was created by Qantas in May 2004[5] to enable the company to enter the budget travel market segment within Australia to compete on the basis of price differentiation against rival Virgin Blue. The rival airline had launched itself in the Australian market on the basis of offering lower air fares than Qantas. It was also meant to take advantage of the vacuum created in the budget air travel market segment by the demise of a few other budget airlines operating within Australia such as Compass. The creation of Jetstar served two purposes: it avoided diluting Qantas' brand image of a premium full service airline and pre-empted the risk of a direct price war with Virgin that could lead to operational losses for Qantas. Jetstar took over price-sensitive routes within Australia and later launched Trans-Tasman flights to compete aggressively on the basis of price differentiation with Virgin Blue and other competitors such as Air New Zealand and its budget carrier, Freedom Air. Jetstar's foray into the budget air travel segment of the market was solidly backed by the sound business experience, management expertise and investment strengths of Qantas, and a subtle brand association with Qantas.

The Growth of Jetstar

Jetstar commenced operations initially within Australia catering to 14 domestic destinations in May 2004, mainly on the Eastern coast of Australia. Other destinations were quickly introduced during 2004 and 2005 under the Jetstar banner. Jetstar Asia based in Singapore, launched low fares on 15 November 2004 with the inaugural flight taking off on 13 December 2004 to Hong Kong, one of the first three launch destinations from Singapore. The creation of the Jetstar Asia brand came six months after Jetstar first commenced its domestic operations in Australia.[6] Encouraged by the customer response to low airfares, Jetstar introduced services flying to and from New Zealand in December

2005. The airline now operates 42 weekly return services from New Zealand. This includes services from Christchurch to Sydney, Melbourne, Brisbane and the Gold Coast and from Auckland to Sydney and the Gold Coast.[7]

Jetstar's swift expansion of services proved to be a success as it kept its costs lower than Virgin by using secondary airports as much as possible, at times choosing routes that had never been served before or had inadequate service, and by adopting a user-pays approach for all inflight services and meals. Its main competitors, Virgin Blue and Air New Zealand, could not effectively respond to Jetstar's quick expansion between May 2004 and December 2005, and conceded parts of the Australian and Trans-Tasman market to Jetstar. Riding on its success in these two markets, Jetstar introduced new low airfare services to popular tourist destinations such as Bali and some other sectors in Asia from Australia during 2006.

Qantas then used the Jetstar umbrella, in May 2008, to convert Pacific Airlines in Vietnam to Jetstar Pacific under a 'Business Services agreement' and 'Branding Agreement'.[8] The choice of timing to enter the skies in Vietnam was very opportune and well executed because the Vietnamese and other Asian economies in the region had started growing consistently. The operations in Vietnam served seven destinations with six aircraft very effectively while keeping operating costs down to enable Jetstar Pacific to offer low airfares to its Vietnamese customers. Jetstar Pacific's Vietnamese domestic network includes Ho Chi Minh City, Hanoi, Da Nang, Hue, Vinh, Hai Phong and Nha Trang. Initially Qantas took an 18% stake in Jetstar Pacific and later raised it to 27%.[9] Jetstar established a hub in Darwin in September 2008 and another in Perth with dedicated aircraft to provide better access to Jetstar's growing networks in Singapore and Vietnam. Thus, Jetstar became a pan-Asian brand with new operations based on low airfare offers evolving in high growth Asian markets.

Within Asia, using Singapore as the main hub, Jetstar and Valuair fly to 17 destinations in ten countries including Bangkok, Ho Chi Minh City, Hong Kong, Macau, Kuala Lumpur, Kota Kinabalu, Kuching, Penang, Siem Reap, Phnom Penh, Manila, Taipei, Yangon, Bali, Jakarta, Medan and Surabaya with a fleet of seven A320 aircraft. Jetstar's presence in Singapore (one of the largest transit hubs in the world of air travel) has been further strengthened by the introduction of three daily flights from Singapore to Bangkok (another significant air transit hub) under the banner of Jetstar Asia in October 2009. This is in keeping with Jetstar's growth strategy of using large long-haul aircraft to fly into Europe using Singapore and Bangkok as hubs in the near future. Initially Jetstar was going to use 15 Boeing 787 Dreamliners of the 65 Boeing 787s ordered by Qantas for these long-haul destinations.[10] However, the delay in procuring the Dreamliners from Boeing has deferred Jetstar's intended entry into southern Europe (Rome, Athens and possibly Munich) to 2010 and may end up benefiting another rival in that region, Air AsiaX, who intends to fly into Europe from Asia as a low cost carrier. Jetstar is currently considering buying Airbus 380s instead of waiting for the Dreamliners which are now scheduled for delivery in mid 2013.[11]

In June 2009, Jetstar launched domestic services within New Zealand with a very popular $1 fare for a limited period and within a short span of time has started flying 84 weekly return flights between various domestic destinations. An existing fleet of six Airbus A320s support Jetstar's expanding New Zealand flying business. Using New Zealand airports of Auckland and Christchurch as operating hubs, Jetstar intends to commence direct non-stop flights from New Zealand to USA and Canada. This augurs well for further growth of Jetstar and the tourism industries of New Zealand and Australia.

Jetstar's low fare pricing and every day low fare marketing communication has helped the airline achieve remarkable growth within a period of five to six years, contributing significantly to the Qantas Group's market share. Jetstar's percentage of total Qantas Group passenger traffic increased in both domestic and international markets. In August 2008, Jetstar represented 26.2% of total Qantas Group traffic (Jetstar domestic comprising 21.3% of total traffic and Jetstar International 4.9% of the total) as compared to 19.0% and 3.5% respectively, in the previous corresponding period.[12]

From Australia Jetstar flies 1100 weekly flights using 44 aircraft to fly to over 40 destinations, including 20 domestic destinations. Collectively, the airlines flying under the Jetstar brand operate over 1900 weekly flights to over 50 destinations across 15 countries in Asia and the Asia Pacific region.[13] During May 2009 alone, Jetstar flew 158,702 passengers which amounted to 48 percent incremental growth over the number of passengers flown for the same month in the previous year[14] During the same month, transport department statistics confirmed that Jetstar has captured 9% percent of the international passenger market and is ahead of international market shares of rivals such as Singapore Airlines (8.8%), Air New Zealand (8.7%) and Emirates (8%).[15] However, these statistics do not reveal profitability of the routes served by each airline. Jetstar has also proved to be consistently profitable since it was started in May 2004.[16]

Qantas' Dual Brand Strategy

Qantas's Annual report states that the airline aims to 'create two flying brands that deliver unrivalled flexibility' and 'unlock the potential of our portfolio businesses'.[17] These statements spell out the overall business level strategy that Qantas has worked towards by using the Jetstar brand. In course of the past few years, the Jetstar brand and Qantas have convincingly defined the Australian airline market into two distinct segments namely, a low price travel segment operating in the region based on 'low fares every day, all day'[18] catered to by Jetstar and a full service premium air travel segment serviced by Qantas. The brand Jetstar has more than matched the competition from Virgin. Jetstar's half yearly results for 2008 confirm that the airline has grown four fold in size since its inception in 2004.[19] The success of Qantas' dual branding strategy has left Virgin Blue straddling in the middle between two customer segments but without being able to create a distinct image and a dominant presence in either the premium full service segment or the low airfare budget travel segment of the market.

As per market share data released in May 2009 for all major airlines operating in Australia, Qantas and its brand Jetstar have retained the lion's share of the Australian market at 35.3% with a net growth of 1.5% during one of the most challenging global economic environments. Rivals, Singapore Airlines fell by 2.4 percentage points, while Air New Zealand dropped 1.3 percentage points and Emirates 0.7 percentage points.[20] Virgin Blue incurred a series of losses attributed to its Australian operations. In view of the losses, the company's shares dropped to an all time low of 30.5 cents on the ASX during July 2009. The company decided to recapitalise itself by issuing $400 million of shares and had to bring a halt on trading in Virgin shares to enable it to issue shares at 20 cents to an institutional investor.[21] If one analyses Qantas's market share performance more closely, removing Jetstar from the final market share data, it is found that even Qantas lost ground by 3.7% during the period. However, it is the growth in Jetstar's market share that not only made up for Qantas's market share loss but helped Qantas retain the market leader position in the Australian and trans-Tasman skies.

Pursuing dual branding as a business level strategy is a very difficult proposition for any company. It becomes even more difficult for a company to execute, especially if one brand is already established with certain brand associations and the proposed second brand intends to promote a diametrically opposite service concept in the industry. The Qantas brand was already an established brand with strong associations with Australia's national pride, a patriotic slogan 'The Spirit of Australia' that strikes a chord in the Australian consumers' hearts, and a reputation as a premium full service airline serving long haul destinations. The other brand, Jetstar, on the other hand was created to compete as a low cost carrier and promoted on the basis of price as the key point of differentiation from the competition. Nevertheless, the dual branding business level strategy worked with Jetstar becoming the cost leader (on the basis of low airfares) while Qantas further strengthened its position through differentiation as a premium full service airline.

The dual branding strategy has helped Qantas along with brand Jetstar retain a dominant market share in the Australian skies. Additionally, both brands in their own way successfully pursue focus strategies in choosing to serve certain niche markets. Jetstar flies into destinations such as Bali from Australia at low prices which practically no other rival is in a position to do so, while Qantas is the preferred airline of Australian government officials and executives of major Australian companies. Qantas has become one of the few airlines in the world to have successfully run a full service premium carrier and a low cost carrier in parallel.

However, all this would not have been possible without achieving certain functional efficiencies in operational areas at Jetstar. The key strategy to ensure costs reduction and secure higher profitability for any airline is to ensure that their planes are usually kept flying between destinations (as much as is possible within technical limits) and when they are on ground and not flying, the aircraft are parked at airports that charge relatively lower parking costs and maintenance charges as compared to major airports. Jetstar's operations have been designed on this basic premise of optimum aircraft utilisation and lower parking and maintenance costs. Thus, one finds that Jetstar enjoys one of the highest aircraft utilisation rates in the airline industry and a large number of Jetstar aircraft are parked at secondary airports.

Added to these operational costs efficiencies, Jetstar has employee service agreements that provide flexibility to the employer (Jetstar) as compared to the employment agreements and other workplace arrangements at Qantas and other competing airlines. Jetstar also levies a number of service charges for most customer services, including inflight meals and entertainment, thus keeping operational costs lower than most rivals. Jetstar has constantly strived to achieve cost efficiencies along with innovative product offerings. Recently, it introduced a new fare called Jetsaver Light, that gives passengers the option to fly with 10 kg carry-on baggage only at a slightly lower air fare as compared to the usual air fare that gives the passenger the right to check in baggage. This is an industry first in the region.

Jetstar's commitment to operational efficiency is backed by capital expenditure and growth objectives. The airline intends to maintain a young and cost efficient fleet of aircraft. It has future fleet orders of up to 108 A320 and A321 placed with Airbus Industrie and B787 Dreamliners with Boeing.[22]

Price Leadership Versus Customer Service

In order to maintain its price leadership status in the market, the airline consistently communicates the low price offer to the market in all its advertising messages. The airline also supplements advertising with a number of extraordinary price offers to the market. Every Friday, Jetstar holds a 'Friday Frenzy sale' offering special air fares to various destinations at exceptionally low prices. The airline usually offers unrealistically cheap fares on inaugural routes and very low fares on some popular tourist destinations such as Bali. However, these offers are for a limited number of seats on a first-come first-served basis and many are for available for a limited number of days or even hours. Needless to say, these low price offers generate huge customer traffic for Jetstar's Australian and Asian web sites and in turn offers Jetstar regular communication opportunities for sending out marketing messages to a target audience through JetMail (the company's customer newsletter). Jetstar intends to continue offering low fares on all the expanded routes and on new routes in the offing.

In addition to low price offers, Jetstar constantly strives to achieve functional efficiencies coupled with route expansion plans. The airline's consistent expansion in the trans-Tasman market is in accordance with plans to create hubs in Auckland and Christchurch to fly directly into USA and Canada with an express intention of competing aggressively on price (backed by functional efficiency) on these routes. In early 2009 in the same trans-Tasman market, Jetstar openly acknowledged that it was going to compete aggressively on price with rival Air New Zealand when it launched its $1 domestic services within New Zealand. According to the airline's spokesperson Simon Westaway, Jetstar has:

> *thought long and hard about this and from a Trans-Tasman perspective we are quietly confident we are going to do well and if people say that is a bloodbath, well, we are happy to swim in it ... It is incremental growth. It is our two-brand strategy in play and this is how we are going roll this out.*[23]

The airline management is confident of their expansion plans as expressed by Jetstar spokesperson, Simon Westaway. He stated that Jetstar is 'quietly confident' its expanded operations will be successful, despite the competitive pressures in the market.[24]

Jetstar's position as the price leader is evident from its confident expansion of routes based on low air fare offers. This is also recognised from the wide range of awards that the airline has received in the low cost airline sector between 2006 and 2009. The airline has been ranked amongst the world's top three low cost carriers by Skytrax in August 2008, while Jetstar Asia was named 'Best Low Cost Carrier in Asia and South East Asia.'[25] During 2007, the airline was recognised as 'Best Low Cost Carrier' in the Asia Pacific region along with the 'Best Cabin Crew – Australia and New Zealand'. The Centre for Asia Pacific Aviation named Jetstar the Low Cost Airline of the Year in the Asia Pacific region for the second time in November 2007. Jetstar received an Operational Excellence Award from *Airline Business Magazine* in July 2007.[26] Jetstar Asia received the 'Top 10 Carriers for Passenger Carriage 2009 award' given by Changi Airline Awards, Singapore. It also received the 'Best Brand Experience Low Cost Airline in 2008' from *Ad Asia Magazine*, the 'Best Low Cost Airline in 2006' by Skytrax and the 'Best Budget Airline of the Year 2006' from TTG Travel Awards. Even Jetstar's web site has received an award: it was given the 2008 'Most popular e-commerce website' award in Vietnam.

At the same time, the much decorated price leader is not without its share of customer complaints. Thirty-nine per cent of all customer complaints in Australia about airlines were related to Jetstar between 2004 and 2006 and the airline has 'shown reluctance to resolve complaints when contacted'.[27] In one instance at Sydney airport, customers had complained that flight cancellation left passengers stranded at the airport for many hours without any Jetstar personnel available for assistance. Later, in response to this incident, Jetstar spokesman Simon Westaway said: 'If people want low fares it requires Jetstar to provide conditions of carriage that don't load up unnecessary costs'.[28] The challenge ahead for Jetstar is to not only remain a price leader and expand, and compete on the basis of costs efficiencies but to ensure that it does not lose out to rivals by treating basic
...er services as something to be axed in order to retain price leadership.

End notes

1. Jetstar, www.jetstar.com, accessed 29 July 2009.
2. Qantas 2008, Qantas Annual Report 2008, p. 22.
3. Jetstar, www.jetstar.com accessed 29 July 2009.
4. Air Pacific 2009, About Air Pacific: Affiliations, www.airpacific.com, accessed 12 August 2009.
5. Jetstar, www.jetstar.com, accessed 29 July 2009.
6. Ibid.
7. Ibid.
8. Ibid.
9. Jetstar, www.jetstar.com, accessed 29 July 2009.
10. O' Sullivan, M. 2009, 'Dreamliner order cancellation delays Jetstar expansion', *Herald Sun*, 27 June, www.news.com.au/heraldsun.
11. Ibid.
12. Centre for Asia Pacific Aviation 2008, Jetstar — Performance "meeting expectations"; "holding up well", CAPA, www.centreforaviation.com.
13. Jetstar, www.jetstar.com, accessed 31 July 2009.
14. Easdown, G. 2009, Jetstar on course for the long haul, *Herald Sun* 31 July, www.news.com.au/heraldsun.
15. Ibid.
16. Qantas 2008, Qantas Annual Report 2008, pp. 21–22
17. Qantas 2008, Qantas Annual Report 2008, Qantas, p 3.
18. Jetstar 2009, Our company, www.jetstar.com, accessed 18 Aug. 2009.
19. Newswire 2008, 'Jetstar records fourfold increase in half-year profits to AUD$ 113 million', newswit, 20 Mar., www.newswit.com.
20. Creedy, S. 2009, Jetstar surges but expects virus to cause a lull, *The Australian*, 31 July, www.theaustralian.news.com.au.
21. Washington S. 2009, Virgin shares halted over cash refuel, *The Age*, 13 July, http://business.theage.com.au.
22. Qantas 2008, Qantas Annual Report 2008.
23. Centre for Asia Pacific Aviation 2008, Jetstar — Performance "meeting expectations"; "holding up well", CAPA, www.centreforaviation.com.
24. Ibid.
25. Qantas 2008, Qantas Annual Report 2008, Qantas, p. 23.
26. ibid.
27. Masanauskas, J. & Gardiner, A. 2008, 'Jetstar faces probe', *Herald Sun*, 4 Feb., www.news.com.au/heraldsun.
28. ibid.