

## Team Sign-off

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# **e-Business Strategies For Tiger Airways**

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## **Introduction**

With the recent growth of the internet age and expansion of the digital economy, it has lead to an era where most businesses cannot perform without the internet. Online auctions represent an economic model which proves that traditional auctions which were in this world for a long period of time cannot sustain without the technological conversion.

The following report contemplates how Porters competitive forces impacts on auctioning air tickets on eBay and how the SWOT analysis evaluates the proposed marketing approach to promote Tiger Airways using YouTube.

## **Strategy one**

### **Bargaining power of customer**

In market conditions where there are many suppliers and few buyers, the buyers have the ability to set the price, however in reality only few such firms exist. Porter (2001),

Online auctions are becoming more popular because of the variety and diversity of products they offer; Halstead and Becherer (cited in Sheehan & Doherty 2001). Consumers benefit from online auctions due to the ability of 24- hours, seven days service and quick interaction, allowing customers to control the price., Halstead and Becherer (cited in Hoffman & Novak, 1996; Van den Poel & Leunis, 1999).

Consumer bargaining power is high, when there are few buyers/consumer and a considerable market share and standardization of the product. Consumer bargaining power is low when products are not standardized and customers cannot easily switch products, many buyers and fewer suppliers, buyers cannot influence the pricing of the product. (Porter 2001)

One of the top three controlled expenses of large businesses is travel and leisure costs, which indicates that a high proportion of air ticket sales are generated through business and leisure travelers (Chircu & Kauffmann 1999). Research based evidence shown in appendix 1 indicates that there has been a 66% in domestic air travels in Australia for the past decade ([www.tourisimvictoria.com.au](http://www.tourisimvictoria.com.au) ).

We have analyzed the consumer demographics, to better understand the type of consumers who would be attracted to air ticket sales on online auctions. Even if consumers are technologically savvy, it does not imply that they are willing to buy products online. However people are mostly influenced by recommendation made by family and friend who purchase using online methods. The age play a significant part as well, and research shows that older people are less likely to purchase online while young

adults prefer to use online purchasing because they use technology in their day to day operations (Smith & Rupp 2003). Approximately 1.3 million of Australian households had used the internet for purchasing online (Australian Bureau of statistics 2001a), and this figure says that there is a huge growth for online shopping.

At the moment other domestic carriers are not auctioning air tickets via eBay, however research conduct by our consultants show that most air tickets advertised are for around the world trips rather than domestic travel.

### **Bargaining power of supplier**

A suppliers bargaining power is high, if the customers have a high bargaining power, less suppliers in the market and less standardization of a product, on the other hand a supplier becomes weak if there are many suppliers for the same product, less customer bargaining power and standardization of the product (Porter, 2001).

In term of product standardization Virgin Blue and Jetstar provide low air fares, but they do not fly to all domestic destinations, and since tiger airways is concentrating on not only low fares, but flying to much more domestic destinations there is a difference from the other domestic carriers and customers would have less bargaining power.

However there are many online auctions such as skyauction, yahooauction and Bidville, but eBay is more powerful in terms of diversity, stability and sales eBay showed a sales growth of 730% for three years starting from 2002 to 2004. (Ferro & Dadayan 2006, p.4). According to Massad and Tucker (2000, p.325) eBay reported a market capitalization of 20.8 billion which is 253 times the sales and 2522 times the earning, making a prediction that these figures produced in 1998 will continue to the future, and this makes eBay a powerful supplier. By 2003, eBay owned a market share of 76% of auction marketing, while its growth factor is reported to be 100% per year (Phillips, Somok & Zheng 2003, p.1). Another factor that increases eBay's supplier power is that, eBay has a massive network structure with a credible reputation, and this brand loyalty helps eBay to

dominate the market while other online auctions have to prove themselves worthy over eBay to customers in order to attract them (Phillips, Somok & Zheng, 2003).

Research had shown that customers will not defect just because they can search more widely on the internet, compare prices and reduce transaction costs, and about 4% of companies see this as a threat, while 10% of companies see it as an opportunity. In terms of the customer influence of proposing prices which happens in online auctions, about 14% of companies see this as a threat while there were 0% organizations that saw it as an opportunity; (Day & Bens 2005, p.162).

### **Threat of new entrants**

Whenever industry profit increase other firm's enter into the market in order to take advantage of rising profit levels, on the other hand if the profits run down firms are likely to exit the market. A firm finds it easy to enter a market if there is a common technology, less monopoly, on the other hand if there is monopoly and difficulty in switching brands then firms find it difficult to enter a market (Porter, 2001).

Since there are no significant barriers for establishing airlines since the 1978 airline deregulation, and there are no regulatory barriers for air line companies to sell their tickets in online auctions, hence it is not surprising that Virgin Blue, Ansett, and Qantas have created online air ticket to customers based on every source of online auctions firms such as yahooauction, skyauction and Amazon, to gain access for consumers' choices of purchasing air tickets which makes competition very intense. However if customers avoid or reduce purchasing air tickets via eBay, then the profits would run down and many air lines would exit eBay.

Online auctioning has become a common approach due to the wide spread evolution of information technology. Online auctions provide a common technology for suppliers to perform their transactions and it seems that the Internet holds the key to lowering costs in

business operations. If virgin blue or Jetstar wants to sell their air tickets on eBay all they require is an account in eBay.

However, research indicates that most air tickets advertised on the above auctions were for round trips in Australia and was targeted at international travelers and not domestic passengers. There were no domestic air tickets advertised on eBay by other domestic carriers

### **Threat of substitution**

In Porter (2001)'s view a substitute of a product is a product of another industry, in Tiger airways context these would be cruises, train, coach and ferry travel .The more closely the substitute is, the more difficult it makes for firms to increase the price. (Porter, 2001)

For operators of long distant coach travel, automobiles, train or ferry, provided that they have low prices than domestic airfares, they would be able to attract customers via online auctions. However, ferries, coaches and trains will not be a potential threat to Tiger Airways because they do not operate for most local destinations, which Tiger Airways intends to do.

Research based evidence shows us that there were few train tickets ,no ferry or coach tickets auctioned online therefore this may even encourage travelers to leverage dynamic air fares and opt for air travel, leaving land based travels aside. However, Bender and Stephenson (1998, p.107) states that research done in the United States in 1995, indicated that about 63% of business trips over 100 miles in both directions, were done using automobiles since the domestic air fares were expensive.

In terms of substitutes for auctioning, air ticket are still viable in the market via travel agents. By looking at the porter's (2001) view of substitute products, this threat will exist when a product's demand is affected more by the price change of the substitute products.

Ideally, the online auction for air ticket can be overcome by threat of traditional products. Furthermore, the idea of eBay is that 'the switching cost from online auction to travel agents because sellers have to travel agents a commission.

However, using travel agents on the other hand could be convenient when it comes to credibility and shipping difficulties and if reliability is compromised customers may switch to travel agents (Phillips, Somok & Zheng 2002, p. 5).

### **Rivalry**

According to Porter (2001), rivalry depends on industry concentration, the growth of the industry, product switching costs, diversity of rivals and product differences. The concentration ratio is used to evaluate the market share, the higher the concentration ratio the higher the market share because few firms holds a large market share. When the concentration ratio is less it means more rivalry, less market share and high competition Porter (2001).

However at the moment, there is not much competition for online air ticket auctioning on eBay and this makes the concentration high and less competition among rivals, but because eBay is a powerful supplier and there are no significant barriers for other airlines to enter the online auctioning market this may cause other airlines to enter eBay making the market less concentrated and more competitive among rivals.

The growth of the industry will tend to increase for online auctioning, with 60% of household access to internet and approximately 1.3 million sales accumulated via online purchasing in 2001 in Australia (Australian Bureau of statistics, 2001a).

In terms of product differentiation, all online auctions are similar in modes of web transactions processing and shipping efficiencies, however eBay stands out to be the best because they have long term market expertise, trust worthy integrated payment system, lower transaction fees and a vast amount of buyers.

**Recommendations – strategy one**

At the moment other domestic carriers are auctioning few air tickets and most air tickets advertised are for around the world trips rather than domestic travel. eBay is a very powerful supplier dominating the online auctioning market at the moment and research based evidence shows that this will continue to the future. The customers have less bargaining power because there are not much online auctions that offer air tickets; therefore this increases Tiger Airways bargaining power as the supplier. In conclusion this is an effective strategy for Tiger Airways.

## **Strategy two – SWOT Analysis**

### **Strengths**

Tiger Airways being a well establish Airline in Singapore, has already attracted a certain number of travelers to trust their name. Being a new Airline in Australia many customers will be curious to try flying Tiger Airways and the competitive cheap tickets will help them make that choice. The “Net” provides a low cost “gateway” to global markets for small and medium-sized enterprises (Hamill, 1997). Being innovative has to include the internet and YouTube being a free video database there are no costs attached to publishing videos on their website therefore it would be a cost effective approach to be used by Tiger Airways. The use of YouTube as a promotional tool will allow a wider reach of the market enabling anyone anywhere in the world to view the advertisements. The commercials being available 24/7 the audience could view them in their own leisure time. Unlike a TV or a Radio commercial there are no limits to the advertisement length, a maximum file size of 100MB’s can be uploaded which is approximately about 10minutes. YouTube is using static links for each video, therefore every video has its own link and it never changes, adding this web link on the tiger airways main website can draw attention from many other users who do not usually use YouTube and features like “sharing videos with friends” can help the circle get bigger.

### **Weaknesses**

The main issue when advertising on the internet is that there is great risk of people avoiding the advertisement. According to research three reasons has been identified for the avoidance of advertising they are perceived goal impediment, perceived ad clutter, and prior negative experience. According to Cho (2004, p. 95), ‘It has been that these constructs successfully explain why people cognitively, affectively, and behaviorally avoid advertising messages on the Internet’.

Another weakness of internet advertising is even though Advertising on the World Wide Web is growing at a fast pace, it is difficult to compare advertising effectiveness on the Internet relative to standard media, such as broadcast and print, because current measures of advertising effectiveness on the Web are Not standardized and incorporate significant measurement errors. (Xavier & Fred, 1997). YouTube has a wide variety of videos available ranging from Music Videos, Home videos to sports highlights. This causes clutter of videos on YouTube and it would be hard to locate Tiger Airways commercials unless a user searches for it. Another weakness of using an online web database for promoting a company would be the lack of credibility about that medium. People might not take the advertisements very seriously and might think of it as a fake or a prank. Tiger Airways being a new airline to Australia users may think it is not real. The ability to give replies and post comments on YouTube about the videos might lead the serious users in a wrong path and give the company a bad name. Viewing videos online uses up a lot of bandwidth, therefore the internet users without a broadband connection will face issues viewing these commercials. Travelers who are flying domestically would not search on YouTube for airline advertisements and many businessmen/women who fly will use their usual airline.

### **Opportunities**

Will the platform for future of advertising be the internet? Statistics shows that 53.5% of the population in Australia uses internet that is over 18million users and it's a growth of 142% from 2000-2007, refer appendix 2. Advertising on YouTube is different from other forms of media and so will be a unique method. It has not been implemented by any of the competitors and so Tiger airways could take maximum opportunity of this. As mentioned earlier advertising on YouTube gives an international exposure and reach of a wider community by spending a very small amount of money. The majority of the users of YouTube being the younger generation it will open the door to a totally different market to fly with Tiger Airways. if the advertisement is very appealing to the target

market they are likely to talk about it and recommend to friends, colleagues and families. There by the company receives free publicity. Word-of-Mouth referrals via face-to-face, telephone, email, blogs, and websites is how YouTube, MySpace and others became successful as measured by traffic to their sites. In Buczynski 's (2007) view, Word-of-mouth (WOM) or viral marketing approaches on blogs such as Slashdot is the key to increasing traffic to licensed digital video databases. YouTube also has the facility for people to post comments of their opinions on the video presented and this could help Tiger airways measure how the company is perceived in the eye of the consumer.

### **Threats**

YouTube is currently facing issues with copyright and incase of sudden shutdown it will affect the advertising campaign. As the popularity to advertise on YouTube grows, it is likely, that many companies will start using the device as it is very cost effective. This will create strong competition and viewing numbers will reduce. Users of YouTube may get frustrated with the website turning into an advertising media and stop viewing it all together. This will be a negative response to the advertisement and company. Some people perceive the internet negatively because of the viruses it brings on to their systems and they fear to view videos over the internet. Another feature of YouTube is that viewers could post comments on the videos, if these comments are negative it will affect the image of the company.

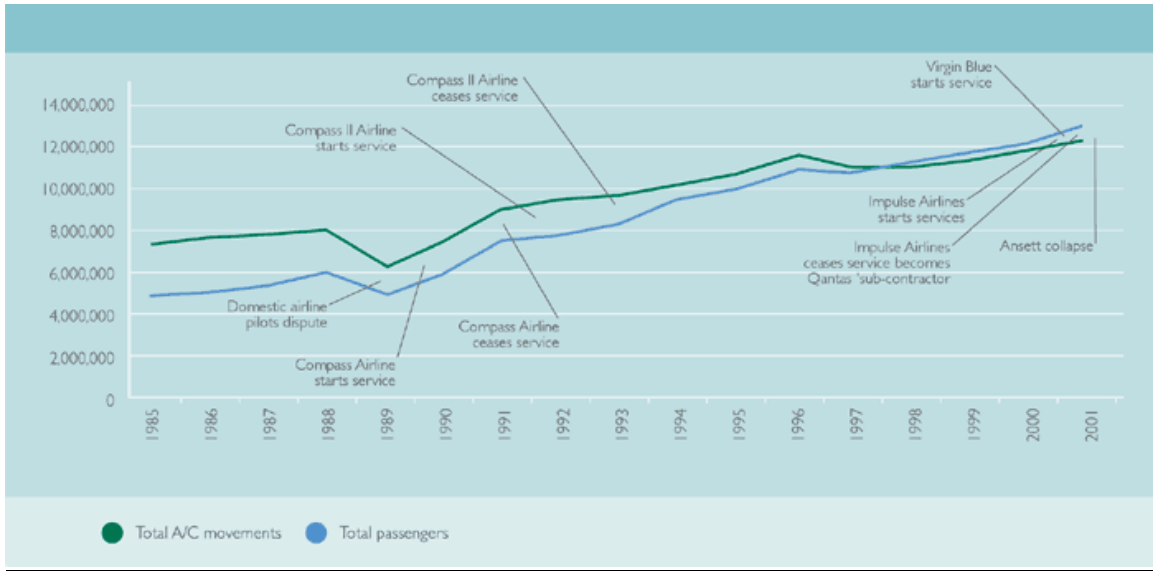
YouTube contains a large variety of videos and some of them containing Adult themes, violence and abusing which are not suitable for teenagers, therefore starting an advertising campaign on YouTube will lower the reputation of the company.

### **Recommendations –Strategy two**

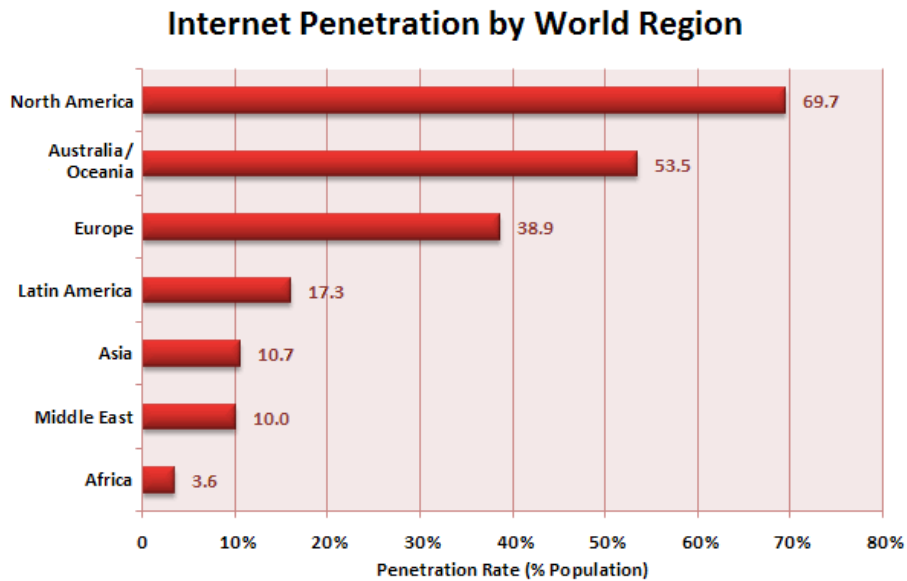
The strategy to advertise Tiger Airways services on YouTube to reach out to the Australian public, travel agents and the tourism board will not be the ideal marketing approach. The main reason being only a portion of the target market will be using YouTube and many of them use it for other purposes such as entertainment. Using YouTube to reach travel agents and the tourism board will be a poor decision because by any means YouTube is not a professional way to advertise products or services. Due to the reason YouTube is a free video database other users or rival airlines can edit Tiger Airways commercials and upload them with false information.

But using many platforms to promote a new business is a very good approach especially for a new company planning to establish in a foreign land. Even though the target market would not be the same it's a good free source for commercials. Advertising on YouTube will help reach a different type of the targeted market mainly being users aged between 15 and 25 who has a lot of free time than users to surf the internet and dig deep on YouTube. Since Tiger Airways is also running the advertising campaign on the mainstream media experimenting with YouTube can be recommended. Few things Tiger Airways should keep in mind when going ahead with this approach are the weaknesses and threats it can bring to the company's reputation. These can be solved up to a certain level by making creative and entertaining advertisement which will get a higher rating and positive comments from the users and thereby making the advertisements stand out on the website and possibly make it the number one viewed video on YouTube.

Appendix -1



Appendix -2



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 (Miniwatts Marketing Group, 2007)

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