Case 17

Kulula.com: Now anyone can fly

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It was January 2003, 17 months since kulula.com had taken to the skies for the first time. This low-cost airline had survived almost two years in an extremely tough industry and, in addition, claimed to have been profitable since its inaugural flight on 1 August 2001.

Gidon Novick, Comair Limited's executive manager of marketing, was involved in kulula.com's somewhat unusual communication strategy from day one and maintained a close relationship with the advertising agency, morrisjones&co. The brand had been very effectively established and the airline had received two awards: the Marketing Federation of Southern Africa's prestigious 2002 Tusk 'Service Launch of the Year' award; and the Airports Company of South Africa's (ACSA) 'Domestic Airline of the Year' annual customer survey award for 2002.

But despite the hugely successful campaign, which had required only a few minor adjustments over the past 17 months, Novick did not feel comfortable. He realized that the business might soon face a problem – the possibility that the hype in the market had declined to a certain extent or could do so in the near future. He knew that in the fiercely competitive airline industry – an industry that had become even more competitive since the September 11 terrorist attacks – one could never sit back and relax.

It was time to rethink kulula.com's strategy. Novick could not afford to miss a single significant fact in establishing whether the current formula was sustainable or not. Other competitors entering the market – such as national carrier SAA with its own low-cost airline – was a lurking threat. Even the current relationship with kulula.com's advertising agency needed some reconsideration. With this in mind he started studying all the necessary supporting documentation that was lying on his desk.

Background to the low-cost airline industry[1]

Up until 1978 the global airline industry had been controlled mainly by national governments that owned or subsidized the so-called national flag-carriers, which carried the flag of their nation on the tail of the aircraft. Following the deregulation of the domestic airline industry in the US in 1978 and in the UK in 1979, the market was subsequently freed up for the entry of other competitors. The terrorist attacks on the World Trade Centre on 11 September 2001, however, left many of the world's already ailing airlines in a state of crisis, with Swissair, Belgium's Sabena, Australia's Ansett and US Airways going bankrupt. The healthier airlines – British Airways and Lufthansa – experienced a significant drop in passenger numbers.[2]

Excluding Ryanair, the European low-cost segment accumulated losses of almost $300 million between 1996 and 2001, and AB Airlines, ColorAir and Debonair went bankrupt. Compared to the flag carriers, however, the low-cost carriers did very well after the September 11 attacks. Despite the seemingly crowded market in Europe and a 7% market share of the intra-European air travel market, discount airlines such as easyJet, Ryanair, Buzz and Virgin Express had all grown stronger and had placed Europe's traditional flag carriers under severe threat.[3] Between the two of them, Ryanair and easyJet accounted for 88% of the scheduled low-cost market in Europe. A 2002 *McKinsey Quarterly* survey found a pattern that suggested that the first entrants to this market seemed to be the winners. Entrants that came on board later with the same costs and prices had a harder time generating the traffic needed to fill their planes. The survey further predicted that, given the saturated market, consolidation would surely follow.[4]

The operations strategy of the low-cost carriers was simple: secondary airports were used as their lower airport fees kept costs down, and aircraft were of a single type. There were no business class and higher-density class divisions, no free refreshments, no frequent-flyer programmes, no connecting flights, and no possibility of rebooking to other airlines. In addition, direct bookings were predominantly conducted through the internet.

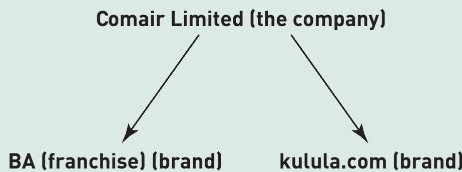
At the time of deregulation in the US, the major airlines had underestimated the potential of the low-cost airlines. Operators such as Southwest Airlines managed to capture domestic market share within a short time but, although many budget operators sprang up after the deregulation, over 80% of them eventually went out of business. Still, the low-cost airline industry in both the US and Europe had shown excellent growth, with Southwest Airlines being the market leader amongst the six largest low-fare carriers. The others included JetBlue Airways (a three-year-old that served 20 cities, claiming to be low-fare, but offering luxuries such as live satellite television), American Trans Air, Air Tran, and Spirit Airlines (privately owned). These airlines together accounted for some 30% of the US domestic air travel market.[5]

In South Africa the Domestic Aviation Policy (accepted in parliament on 1 July 1990), in line with international trends, started the process of deregulation in the South African aviation industry. By December 2002 domestic airline operations in South Africa were primarily divided among four competitors. These were national carrier SAA (60% market share on average across routes) with its partners SA Express (also owned by Transnet) and SA Airlink (10% owned by SAA); British Airways Comair (about 22% market share) with its local BA franchise and its no-frills arm, kulula.com (about 10% market share); and the independent operator, Nationwide Airlines (8% market share). Intensive Air, another low-cost airline, became operational in 2001 but liquidated in 2002. Sun Air was also relaunched in 2001. It offered only business class flights between Johannesburg and Cape Town from Lanseria airport.

Background to kulula.com

Commercial Air Services (Pty) Ltd (Comair) took to the sky for the first time on July 14, 1946, to operate as South Africa's first private airline. Before the 1991 South African deregulation, Comair competed on secondary destinations, such as Margate, a popular holiday resort on the Natal South Coast, and Skukuza in the Kruger National Park. In 1992, however, it entered the main domestic routes. On 27 October 1996 a British Airways franchise agreement came into effect and Comair became known as British Airways

Comair (BA). This turned Comair into a mainstream player in the corporate market. Comair remained a South African controlled company and in 1998 was listed on the Johannesburg Stock Exchange (JSE). In 1999 British Airways plc purchased 18% of Comair Ltd. The company was structured along the lines of the two brands indicated in the diagram below:



In 2002 BA had more than 380 departures per week to destinations around the country and across the border.[6]

Since 1999 the airline had realized that there was a growing need for affordable air travel due to the increasingly changing market, one that had become seriously price sensitive. The economy was generally weakened at the time and travelling expenses had been cut.[7] This realization led to the launch of kulula.com in July 2001 (see press release in Exhibit 2) as a separately branded Comair initiative: a South African low-cost, no-frills airline modelled on the successful European low-cost airline, easyJet. The new airline had its inaugural flight on August 1, 2001.

Kulula.com offered return flights between Johannesburg and Cape Town for as little as R800, three times a day (see Exhibit 2), and received 2 000 bookings on its first day of operation. In 2002 kulula.com's capacity measured about 750 000 seats per annum (162 seats on each aircraft) and its target load factor (occupancy) was above 80%.

The product offering was simple: easy online booking directly with the airline and consistently affordable fares. At the same time, frills were kept to a minimum:

- no changes could be made to tickets once these had been purchased (policy changed in January 2003);
- no pre-assigned seating was available[8];
- no frequent flyer programme was available;
- no business-class seats were offered; and
- food and drink were sold on board rather than distributed freely.[9]

Comair also stripped as many costs from kulula.com's business systems as it possibly could, including bypassing the expensive and proprietary electronic distribution networks, such as Amadeus and Galileo, used by travel agents around the world. These were replaced by a cost-saving internet reservation engine that was used by both travel agents and consumers with much success. Customers could, in return, expect to pay 40% less than they would for a conventional airline ticket, without having to compromise on safety or service.

Research had found strong evidence to suggest that independent players did better in the low-cost segment because they were not bogged down by the systems and culture of the full-service airline. So, if kulula.com were to succeed it would had to leverage the benefits of belonging to the Comair group but also transformed its business model.While Comair had always been very conservative in its culture (because decisions had to be taken involving enormous costs, such as spending R750 million on three aircraft) and its senior management were almost all older than 55, the culture in kulula.com was chosen to be more youthful. This new airline was launched with a staff count of 40 (now 250) – all young or young at heart and enthusiastic.

Several local and global factors prevented kulula.com from following a typical overseas model. The threat of competition was one of these factors: the price advantage that the new airline enjoyed could easily be matched by a subsidized parastatal competitor that would not experience the same profit imperative.

There were also structural difficulties, including the fact that load factors[10] needed to be consistently high for kulula.com to remain profitable.

Other constraining factors were:

- kulula.com's being in the same stable as Comair;
- the fact that secondary airports were not as available or as well equipped to deal with the volumes of low-cost passengers as their overseas counterparts;
- the fact that the weak currency and low internet and credit card penetration hampered cost-reduction efforts; and
- the reduced adspend (advertising budget) available to encourage direct sales so that costs could be kept to a minimum.

This last factor meant that the low-cost model's marketing and advertising had to deliver greater volumes of responses with fewer resources.[11]

To deal with these constraints, the marketing objectives were to establish the airline profitably, maintain passenger load factors of 80% (compared with the industry average of 60%), and achieve at least 30% bookings online to ensure low-cost distribution.

Marketing Strategy[12]

> *If you feel 100% comfortable about your communication strategy, it probably is a good one, but not a great one.*
>
> Colin Jowell, strategic planning director: morrisjones&co

Morrisjones&co, a small advertising agency (originally M&C Saatchi SA), had been looking for an account that would give it the break it so desperately needed. Consisting of only five young but highly skilled people, the company was bare-boned when it was short-listed for kulula.com's account. The brief for the proposal was just that – very brief. A few calls were made to subcontractors and to Novick on the golf course to get some more detailed information on the proposed new airline. A few frantic weeks and many sleepless nights followed.

During the brainstorming, creative director Angel Jones came up with the superhero idea based on the hidden desire of everybody that they could fly. Once this main idea was in place, the rest came fairly easily. Adamant that the corporate colours should be bold, the agency team considered colours like orange, until the bright green eventually emerged. At the time, Comair expressed its concern at the time that the green corporate colour could be confused with that of conservative financial services group, Old Mutual, but in the end the two could hardly have been more different.

Passion and enthusiasm became a trademark of the company. Jowell reckoned that the 'going beyond what was asked for' theme might certainly have helped morrisjones&co to win the account but that the very detailed turnkey solution, covering literally everything from uniforms to signage, also played a big part. This thoroughness equalled dependability and set the foundation for good relations. Both Comair and morrisjones&co held the view that the key to success was the relationship between the company and the agency. Mutual trust and transparency existed from day one of the relationship – so much so that Jowell described the relationship as a 'magic experience'.[13] A common love for basset hounds, amongst other things, eventually turned the professional relationship between Jowell and Novick into a lasting friendship.

The agency took the kulula.com's marketing campaign very seriously (Jowell jokingly remarked that they had to as it was their only one at the time) and kept a close watch on every development. It was a risky business with a relatively small budget of R3 million, but his viewpoint was always that 'if it feels safe, it may be that people won't notice it at

all, which is much more risky. If it is bold and in your face, it will stand out.'[14]

And stand out, it certainly did. So much so, that two complaints were lodged at the Advertising Standards Authority of South Africa (ASASA). A certain Mrs McNally claimed she found a sexual scene depicted on one of the billboard advertisements (see **Exhibit 3**) as suitable only for one of the pornographic magazines whose names she was able to list carefully. Jowell found the complaint somewhat amusing as the advertisement was clearly intended to amuse and not arouse. A letter to the ASA was drafted, defending the claim's 'complete lack of substantiation'. The excerpt that follows is taken from the letter.

'We must consider what the ASA guidelines refers to as a 'fair proportion' of the population. A single letter surely does not constitute this, and were the board overtly depicting sex, we should expect many more such complaints. The guidelines also refer to the care when depicting the human body. The fully clothed superhero with a passenger hanging on for dear life could hardly be considered disrespectful. In addition, we do not believe that children without any sexual experience will in their innocence recognize this as a sexual act. We mention this group specifically to demonstrate that we believe we have taken sufficient care to ensure that any reaction (other than a laugh) was accounted for and the creative concept modified accordingly,' it said.

The billboard remained until the time originally scheduled for its replacement.

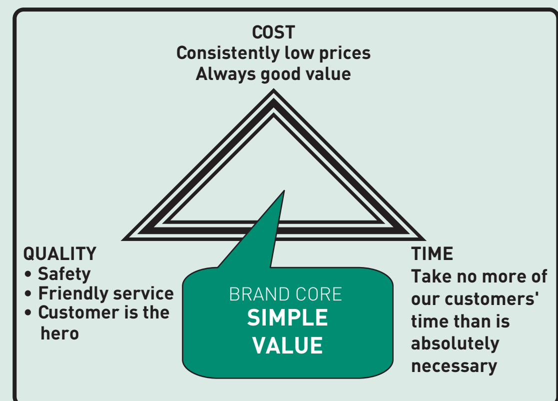
The dust had just settled when a second and completely different kind of complaint landed on Novick's desk. This time a Mr Mance believed that the company's positioning line – Now Anyone Can Fly – was misleading, as only credit card holders or people able to travel to the airport could purchase a ticket. Novick and Jowell responded by pointing out that the true meaning of the word 'anyone' was 'whatever individual is chosen' and should not be confused with the meaning of 'everyone' ('each or all'). The other word 'can' was equally clear in its description: 'to be able to'; 'to be permitted to'; 'to have the right to'.

Therefore, as stated in their response, 'when one totals owners of cars, people with access to public transport to the airport, and finally credit card holders, one surely reaches a significant sum of the population. While it certainly does not include everybody, it certainly is a significant enough portion to warrant a claim of anybody.' Mr Mance was also reminded of the fact that he could purchase tickets from travel agents.

Kulula.com was morrisjones&co's big break and the company received many calls from clients asking them to do a 'kulula' for them, but not every company was prepared to take the risks Comair had. The communication strategy that the agency prepared for Comair, which was ready for implementation within a matter of six weeks, is outlined below:

Positioning and branding

The overall aim of the strategy was to create strong consumer affinity that went beyond retail and price point. It was commonly accepted that price was not a source of sustainable competitive advantage. Instead, the following value triangle was developed for the brand:



The search for a name for the airline that could encapsulate value, simplicity and ease

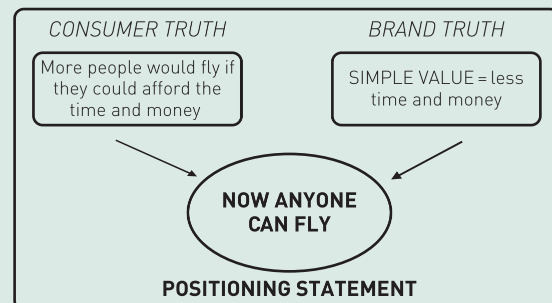
was not a simple matter. 'Comair Lite' was Comair's original suggestion, but the agency felt a different name was needed for six reasons.

- The new airline would appeal to a broader target market than that comprising traditional flyers. Breaking naming conventions such as 'air', 'airways', countries of origin, etc would reflect this broader appeal.
- The offering would be dramatically different from anything that had been available before. The act of flying would be the only common experience, as all the frills associated with flying would be removed. A different name would make this distinction clear.
- Internationally, the success of independent low-cost carriers over low-cost carriers attached to full-service carriers was evident. While brand association at this level was often intended to add a sense of importance, the direct association made the full-service airline appear to be 'unnecessarily pricey', while the low-cost sibling might appear to be 'cutting corners'. A separate identity would help combat customers' negative perceptions.
- The internet as the main channel of distribution was envisaged. Therefore, the name had to carry information about the distribution channels, namely online sales. The stature of the '.com' identity rather than a '.co.za' identity gave an indication of the stature and safety of the new brand and permitted stronger pronunciation.
- Bearing in mind the low penetration of the internet, a name that could be easily incorporated into an 0861 call centre number was imperative.
- A name that was too literal could limit the brand in the long term in terms of expansion.

It was Jowell who exhausted every English dictionary and thesaurus, but no suitable '.com' name was available. In desperation he went to a local bookshop and purchased a Zulu dictionary from which he short-listed a couple of names, checking possible negative connections with a professor in linguistics at a local university before the presentation to Comair. The end result was 'kulula' – which translates as 'easily' in Zulu. At first there were concerns that kulula would be difficult to pronounce and the short list was consulted again. The second choice was ipiku, which resembled a word meaning 'wing'. But in the end 'kulula' prevailed, with only one last hurdle to be removed: a small bus transport company had already registered the trade-name 'kulu'. Comair subsequently offered to buy the name, the company agreed, and kulula.com was born.

While the policy was never deliberately ethnic or empowering, the implications of the name were welcome. They appealed to new markets, promised a real difference to existing ones, and met all practical considerations.

In order to create the positioning line, it was decided to translate 'simple value' into a consumer benefit. The following positioning equation was used to explain this benefit statement:



The positioning was further fleshed out in a dual mission statement – a sign to customers as to what they could expect and an internal rallying call. (See **Exhibit 4**.)

Pricing strategy

As a low-cost airline, kulula.com adhered to a strong commitment to passing on cost advantages to its customers. In addition, at least 30% of any given flight would be available at the advertised lowest price, without restriction. This approach was brand new, as competitors, although able to match certain prices, made available only a very limited number of lowest-price fares. Competitors also stipulated booking restrictions, such as an advanced-purchase requirement, a return-booking requirement and a requirement for a Saturday-night stop-over.

The kulula.com pricing model was deliberately simpler, so that the customer would learn that the value offered was more consistent and lived up to the brand notion of 'simple value'. For this reason limited price promotions or discounting were never offered. In this way customers would not be given the impression that kulula.com could cut costs even more if it chose to.

Product innovation: Within low-cost constraints

Every area of the product offering was examined for strategies that could make the kulula.com experience easier, simpler and unique for customers, without costs being added to the business. One of these strategies was to offer special benefits to flyers rather than to award costly points or discounts. The first of these benefits was kulula.com/cars, where simple and extremely competitive rates on car rental were offered. This was achieved, without additional costs to the airline, through a partnership with Imperial, a leading South African car rental company.

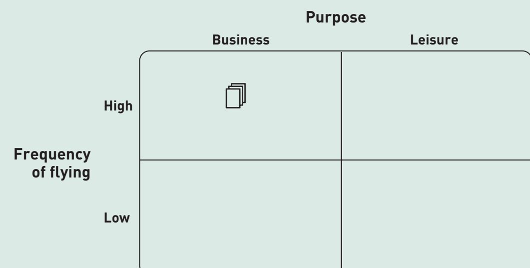
Branded service delivery was another important strategy. Kulula.com's staff uniforms were designed for greater comfort and improved functionality, and reflected more open and casual brand values. Staff were also trained on how to deliver service that was not just good, but also appropriate to the brand. Where appropriate, customers were addressed by first names and staff were encouraged to make the most of their natural personalities and their sense of humour. This more relaxed approach was never allowed to undermine the professionalism of staff or the safety of their passengers but, according to Jowell, the staff's in-flight antics were a great source of word-of-mouth references.

Other ways of making kulula.com easy to use for customers and of containing costs stemmed from:

- ticketless flying: all that was required was an identity document;
- the removal of complimentary food and the selling of snacks instead;
- a simple website design that downloaded quickly;
- call centre scripts that were designed so that information could be processed as swiftly as possible, and waiting times kept to a minimum; and
- additional benefits that were self-sustaining and that neither brought in profits nor incurred costs, such as kulula.comic (an in-flight magazine published at its own expense by an independent publishing house).

Alternative market segmentation

The traditional segmentation model was based on frequency of flying (high/low) and purpose of flying (business/leisure) as illustrated in the graph below:



Traditional segmentation model

While this model certainly went some way towards helping inform the marketing process at Comair, it did not adequately define the segment that kulula.com sought. Nor did it help define how kulula.com would differ from the BA service. For example, one could easily have assumed that a frequent business traveller might choose the service benefits of BA. But it was well known that privately-owned businesses might well choose the value benefits at kulula.com. New segmentation was clearly required if kulula.com was to target correctly and avoid cannibalization.[15] (A McKinsey survey revealed that most passengers who flew with low-cost airlines were not defectors from the incumbents, but that lower prices rather encouraged people to fly when they would otherwise have travelled by road or rail, or not at all.)[16]

Key marketing dimensions that kulula.com considered were:

- the person responsible for the flight costs (the passenger, his/her family or the employer);
- passengers' flexibility (high for holidaymakers or low for business people);
- the expectations of the passengers about comforts (high for CEOs, for example, or low for students, for example); and
- the purpose of the flight (business, personal, leisure).

From an analysis of these dimensions, it was easy to see that kulula.com suited individual/family payers better, as they had a minimal need for flexibility (although kulula.com later introduced a facility to exchange tickets). In terms of the purpose, it could be business or personal, but kulula.com's business people were more likely to be from small and medium enterprises (SMEs) than employees of large corporates.

BA still had its own path for people who required flexibility, were more likely to have their employer pay the bill and had a need for luxury benefits. Again, the purpose of travel showed variation, but these passengers were more likely to come from larger companies.

These dimensions were added to an income filter (LSM 6+).[17] At these income levels people start utilising bus transport for long distances and, given that the bus fares on the same routes were only 10% lower at kulula.com's launch, these customers were, for the first time, included in the airline target market.

This greater understanding by the agency of an additional target market influenced the messaging, media choices and product development over the first operational year. Morrisjones&co found that the key differentiator in the past (business or leisure) had little bearing on the choice of airline defined by the new segmentation.

Advertising and promotion

A number of key vehicles were leveraged to promote the airline: above the line media[18] to reach the mass audience required; below the line elements[19] to maximize visibility and optimize the budget in this way; and public relations and events.

This kind of direct promotion was vital because of the alternative distribution channels. Traditionally, agents had primarily been responsible for the distribution of tickets. While call centres and web sites had been available for some time on traditional airlines, these direct channels were not often used by customers.

Advertising and communication spending would therefore act as a substitute distribution cost and had a few key objectives. The first of these was to drive top-of-mind awareness. Research had found that people's need or desire to travel was related more to their external needs than to a specific limited-price special. Top-of-mind awareness was thus vital because one could never be sure when someone was entering the buying cycle. The key action was to check with kulula.com first.

The second objective was to build big brand security and trust. There was always a concern that the meaning of 'value' would be transposed into meaning 'cheap'. Sustainable spend (constant promotion) and high production values were always chosen in order to counter these impressions.

The third was to capitalize on critical times, driving a strong call to action at times when people would be more predisposed to fly, such as during school holidays and on Valentine's Day.

Implementation and tactics: Advertising and above-the-line media

Because of the large audience size, above-the-line media was chosen as the most cost-effective launch route. But within the constraints of the launch budget, a particularly unique campaign was required to cut through the clutter. Conventional airline advertising showed a selection of common images: comfortable seats, great food, smiling cabin attendants or exotic destinations. All of these would hardly have reflected the brand values implied in 'simple value'.

With the positioning 'Now Anyone can fly', Jones developed what she called a 'brutally simple' creative route: if anyone could fly, this meant that ordinary people could become superheroes (in ad-land at least). The idea, therefore, was to show as many types of ordinary South Africans as possible, dressed as the superheroes they could now become with kulula.com. It was a tongue-in-cheek dramatization of the philosophy that the customer was the hero. (See Exhibits 5, 6 and 7 for examples of advertisements.)

Media deployment

The base of the campaign was outdoor advertising. This medium was chosen for its ability to deliver a branded message over a sustainable period of time with a regional focus. Outdoors at the airport and in and around the destination centres (Johannesburg, Cape Town and later Durban) were the basis of awareness building. Burst strategies were used to coincide with specific activities and product development. (See Exhibit 8 for total adspend per month.)

The media campaign had three phases as outlined below.

Phase 1: Airline Launch (July 2001 – October 2001).

- The weekend press chosen included Sunday Times, Rapport, Saturday Star. These publications offered mass reach and communicated product details, such as routes and price points.
- Regional radio was used in Gauteng (Highveld Stereo, Radio 702, Jacaranda, Kaya FM) and the Western Cape (K FM, Cape Talk). Durban radio was not used as flights to Durban were not operational at the time of the launch. National broadcasting was also used in the form of Metro FM and together these gave a broad diversity of audience. Ad spots were designed to encourage immediate sales.
- Online coverage was used to great effect at the launch. A wide range of sites was chosen for banners[20], pop-ups and keywords. Online usage was later largely discontinued, not because of lack of effectiveness, but because kulula.com's own traffic swiftly became more extensive than most sites available for advertising.
- Cinema advertising was used in the Western Cape only, to compensate for a lack of available outdoor opportunities.

Phase 2: Durban Launch (November 2001 – January 2002). The same focus of Phase 1 was maintained in Phase 2 but with supplements for Durban residents.

- The weekend press chosen included Sunday Times, Saturday Star (Gauteng) and Sunday Tribune (Durban).
- Regional radio broadcasting was carried out by Highveld Stereo, Jacaranda, Kaya FM, and East Coast Radio (Durban-based).
- A small amount was spent on SABC 3 (a South African television station). With the Durban launch national television became a viable option and served to supplement the cinema commercial.
- Additional outdoor advertising was done in Durban.

Phase 3: Maintaining the media campaign (February 2002 – June 2002). Additional media elements such as sponsorship and street pole advertising were added to the campaign so that the consumer could be reached in new and surprising ways.

- Kulula.com acted as the official airline to MNet's (South African pay television) programme *Idols* and supporting advertising;
- Regional radio broadcasting was carried out by Highveld Stereo, Jacaranda, Kaya FM, K FM, Cape Talk, YFM (also Gauteng-based), and East Coast Radio; and
- Additional outdoor advertising took the form of street pole ads.

Implementation and tactics: Below the line elements

To maximise the budget, the theme for the above the line campaign was carried into all elements of service delivery and design. Every last detail, down to the call centre holding tune, was carefully crafted. The airplane design had the positioning line included to make it a flying billboard and the uniform design was functional and friendly. (See Exhibit 9.) Airport kiosks and interactive (internet) displays, brochures and timetables all carried the important message. (See Exhibit 10.)

Public relations and events

Press relations had always been key to the promotional strategy, always on the understanding that news is *made*; it does not always just *happen*. Kulula.com encouraged the media to experience its service by flying Cape Town journalists to Johannesburg, and Johannesburg journalists to Cape Town and later on to Durban. Other events that were used included:

- an in-flight engagement on Valentine's Day;
- a free Guinness on St Patrick's Day;
- guaranteed low-price fares to passengers stranded by Intensive Air's collapse;
- go-cart racing to launch kulula.com/cars on August 14, 2002; and
- offering a R100 return special to all passengers over 100.

The welfare organization, SOS Children's Villages, was also supported by kulula.com from its inception. The children from the villages had benefited in many ways. Probably the most memorable of these was the first flight to Durban, where 30 children were taken along for their first visit to the sea.

Communication Results[21]

> *The kulula.com campaign is like a breath of fresh air, being most amusing and relevant, it certainly helped prod SAA into reaction.*
>
> Heather Holt[22]

Comair stated in its 2002 Annual Report that domestic air travel had been characterized by over-capacity, aggressive pricing and flat passenger demand in traditional airline markets. It noted, however, that with kulula.com attracting a new travel market, Comair had nevertheless performed well and that the combined British Airways and kulula.com brands had achieved improved

domestic market share.[23] (See **Exhibit 11** for a five-year review of Comair's income statement and balance sheet.)

In the first year of operation, 500 000 tickets were sold. Load factors remained consistently above the industry average of 65%, while capacity (available seats) tripled. The sales range, in which with the minimum and maximum monthly load factors experienced (75% and 85%) were multiplied by available capacity (see **Exhibit 12**) illustrated that the marketing efforts had achieved their objective of creating excellent levels of demand for the capacity available.

Advertising spend was used strategically to increase sales to the next level (effectively making it a distribution cost). In the case of the third increase of capacity, less spending was needed since the capacity increase was smaller and the cumulative brand equity was stronger. (See **Exhibit 13**.)

Distribution costs had dropped dramatically. Comparing the average kulula.com case to the lowest case scenario for Cape Town (which accounted for the bulk of the volume), its distribution costs measured over 50% less than those of its competitors (see **Exhibit 14**).

Exposure to communication significantly improved perceptions of service among kulula.com's own passengers even if they were not topics covered directly by the advertising, such as leg room, reliability and safety (see **Exhibit 15**). Moreover, of all airline users, Kulula.com flyers had the highest recall of their airline's advertising (see **Exhibit 16**). Morrisjones&co argued that this demonstrated that the advertising itself that was a strong driver of choice. Kulula.com's advertising also scored well (see **Exhibits 17** and **18**) in increasing curiosity about the brand, providing information and improving perceptions of safety, although the bus market seemed to recall SAA advertising slightly better than kulula.com's advertising (see **Exhibit 19**).

Since the launch the local airline market had grown by 12%, which was roughly equal to the capacity that kulula.com added to the market. Web bookings accounted for 65% of sales (its 'look to book' ratio being 20%), exceeding the target by more than 100%. This was supported by the 1.5 million unique visits (excluding revisits from the same people) to the website in the first year of operation. Additional press coverage to the value of R3 million was received over the launch period as a result of the attempts to establish good press relations.

Conclusion

> *If we are forced to make an emergency landing on water, all superheroes who can swim please exit on the left-hand side of the plane. All passengers who can't, thank you for flying kulula.com.*
>
> kulula.com cabin attendant[24]

While humour was appreciated during times characterized by increased crime in South Africa, Novick still struggled with some issues, one of them being the sustainability of the airline's totally unconventional approach to marketing and customer service. Kulula.com and morrisjones&co were well aware of the fact that not everybody embraced its advertising campaign with open arms. There were complaints from the public from time to time, but the excellent historic booking rates spoke for themselves and the strategy remained very much in its original format.

Some questions, however, still remained. Would the marketing strategy still be appropriate or would certain aspects of it need to be modified as kulula.com became more established and the macro and competitive environment changed? Alternatively, even if the strategy was still appropriate, would the communication campaign need an overhaul, particularly in its creative execution? The possibility remained that the green image and irreverent humorous advertising campaign might become trite or, even worse,

obsolete. It might even be time to reconsider advertising agency morrisjones&co's involvement if the public had outgrown this approach to communication.

How could kulula.com ensure that it would keep flying high?

Exhibit 1: Background to the low-cost airline industry

Global airline history

Europe's national governments influenced the early post-World War I aviation industry. The privately owned commercial airlines that arose after World War I were soon amalgamated into small national 'flag carriers' – so called as they literally carried the flag of their nation on the tail of the aircraft. These predecessors of British Airways (BA), Air France, Lufthansa and others were owned and subsidized by their respective governments. Services focused on international routes and domestic flights were limited, serving only to connect provincial cities to the capital city. Fares on domestic routes were often kept high to subsidize international service.

The aftermath of World War II brought technological advances that made air travel economical for the first time. American dominance started to become a threat in air travel and for this reason the International Air Traffic Association (IATA) set international fares, thereby limiting free competition. Governments negotiated agreements that regulated all aspects of air travel between two countries. 'Pooling arrangements' became the norm in Europe, where routes between, say, France and Italy, would be given exclusively to Air France and Alitalia. The two flag carriers would then agree to pool their capacity and revenue, and share the proceeds. Carriers were banned from flights that did not begin or terminate on their national soil. Domestic services were also regulated and fares were set by government authorities.

In 1978, US Congress approved the deregulation of the domestic US airline industry. Pricing, route scheduling, entry and exit were freed up and this allowed for a dramatic drop in fares. The market became very competitive between 1978 and 1980, but many of the new airlines that were established failed.

Following the deregulation of the US aviation, there was similar pressure on Europe to deregulate. In 1984 the European Commission proposed the abolition of pooling arrangements, price fixing and government subsidies. Despite resistance from trade unions and flag carriers, 1986 saw the Single European Act, which called for the creation of a unified European market by the end of 1992 to ensure the free movement of goods, persons, services and capital in the market.[25]

The United Kingdom was one of the first countries to liberalize its domestic airline industry against the background of state-owned European carriers. The prime minister at the time, Margaret Thatcher, encouraged deregulation after her election in 1979, and for the first time a bill required that regulators gave the interests of consumers equal weight to the interests of operators when allocating licenses for new routes. Thatcher's government, which was in favour of the privatization of state-owned enterprises, promoted the privatisation and complete restructuring of BA. The airline was turned around from making a loss of UK£102 million on revenue of UK£750 million in 1981 to showing record profits in 1984. By 2002 BA's worldwide route network covered 263 destinations in 97 countries with 348 aircraft – one of the largest fleets in Europe.[26]

The terrorist attacks on the World Trade Centre on 11 September 2001, however, forced

many of the world's already ailing airlines into a serious crisis, leaving Swissair, Belgium's Sabena, Ansett in Australia and US Airways bankrupt, while British Airways and Lufthansa experienced a significant drop in passenger numbers.[27]

Europe's low-cost airlines

Excluding Ryanair, the European low-cost segment accumulated losses of almost $300 million from 1996 to 2001, and AB Airlines, ColorAir and Debonair went bankrupt. Compared to the flag carriers, however, the low-cost carriers did very well after the 11 September 2001. Despite the seemingly crowded market in Europe and a 7% market share of the intra-European air travel market, discount airlines such as easyJet, Ryanair, Buzz and Virgin Express had all grown stronger and had placed Europe's traditional flag carriers under severe threat.[28] Between the two of them, Ryanair and easyJet accounted for 88% of the scheduled low-cost market in Europe. A 2002 McKinsey Quarterly survey found a pattern that suggested that the first entrants to this market seemed to be the winners. Entrants that came on board later with the same costs and prices had a harder time generating the traffic needed to fill their planes. The survey further predicted that, given the saturated market, consolidation would surely follow.[29]

The operations strategy was simple: the use of secondary airports (low airport fees kept costs down), a single aircraft type, no business class and higher seat density, no free refreshments, no frequent-flyer programmes, no connecting flights and no possibility of rebooking to other airlines. In addition, direct bookings were predominantly conducted over the internet.

Ryanair.[30] Vathal and Declan Ryan, two brothers, initiated Ryanair, an Irish low-cost airline, in 1985. Ryanair competed indirectly with Aer Lingus, the official airline in Ireland but was only licensed to run a service between Waterford in the southeast of Ireland and Gatwick Airport, one of London's secondary airports. Later, in 1986, it operated between Dublin and Luton, another of London's secondary airports. Ryanair managers had their eye on the roughly three-quarters of a million round-trip travellers that opted to use rail and sea ferries rather than aircraft. The journey took nine hours by rail and ferry compared to one hour by air, and it was priced at I£55.[31] Ryanair announced its fare of I£98, offering first-rate customer service and a ticket with no restrictions. Aer Lingus and BA reacted by lowering their fares. A price war followed, leading to fares as low as I£70 in 1989. Expansion followed as customers responded enthusiastically to the simple fares. Traffic on the Irish Sea ferries fell substantially. Despite Ryanair's growth in terms of passenger volumes, some large losses occurred over the years until 1991, when the company faced a severe cash crisis.

In 1991 the company restructured as a true low-cost carrier, when CEO Michael O'Leary came on board and managed to turn it into a company with a €4.9 billion market capitalization, listed on the stock exchange by 2001.[32] The Ryan family owned 10.9%, O'Leary 7.2% and the rest was publicly traded. Ryanair had been Europe's biggest low-cost airline, with operating margins as high as 26%,[33] and the market leader for 10 years until August 2002, when the merger of easyJet and Go forced Ryanair into the number two market share position.[34]

easyJet.[35] EasyJet was founded in March 1995 by the heirs of Greek shipping tycoon, Stelios Haji-Ioannou. Despite its phenomenal growth, it remained in the number two position until it bought another rival, Go, for £374 million ($525 million) to create Europe's biggest low-cost airline. The deal was completed on August 1 2002. Go, founded by BA in May 1998, had previously been sold in June 2001 to 3i, Europe's largest

venture-capital firm, for $153 million. In 2002 the combined airline already carried approximately 14 million people. The phenomenal growth of easyJet turned it into Europe's number one low-cost airline, with an operating margin of 9.5%.

EasyJet kept its costs low by operating from secondary airports, flying carefully selected routes and providing the minimum of service, including no seat allocation or complimentary drinks or meals. The cabin crew cleaned the planes after flights and the company handled all its own marketing and advertising in-house.[36] All bookings were made directly with the company, either by telephone or via its website.

Virgin Express.[37] Virgin Express was originally established in 1992 by City Hotels Group as EuroBelgian Airlines (EBA) and was acquired by Richard Branson's Virgin Group Investments Limited in April 1996. Virgin Travel held a 59% share of the airline, while the rest was publicly owned. DAT, the remnant of the bankrupt Sabena, expressed an interest in merging with Virgin Express in 2002, but by the beginning of 2004, nothing has been finalized.

In 2002 Virgin Express carried more than 2.7 million passengers on its scheduled services. During the last nine months of 2002, Virgin Express carried more passengers than any other airline at Brussels Airport, thus making it the first major airport in Europe where the market leader was a low-cost carrier.

Buzz. Buzz launched its services in January 2000. The airline formed part of KLM UK Ltd, which was wholly owned by KLM Royal Dutch Airlines. According to the parent company's annual report for 2000/2001, the airline was not yet profitable, having experienced start-up losses in its first year of operation.[38]

The USA's low-cost airlines

At the time of deregulation in the USA the major airlines had underestimated the potential of the low-cost airlines. Operators such as Southwest Airlines managed to capture domestic market share within a short time but, although many budget operators sprang up after the deregulation, over 80% of them eventually went out of business. Still, the USA's low-cost airline industry had shown similar excellent growth as had its European counterpart, with Southwest Airlines being the market leader amongst the six largest low-fare carriers. The others included JetBlue Airways (a three-year-old that served 20 cities, claiming to be low-fare, but offering luxuries such as live satellite television), American Trans Air, Air Tran and Spirit Airlines (privately owned). These airlines together accounted for some 30% of the US domestic air travel market.[39]

Southwest Airlines, as the dominant player by far, holding 50% of the USA low-cost market, is discussed below.

Southwest Airlines. Air Southwest, founded in 1967 by Rollin King and Herb Kelleher, managed to keep a high-value position for more than 30 years through its reliability and convenience and, above all, its excellent customer-service record. The manner in which Southwest managed to restore a human dimension to the airlines industry was clearly communicated by its president and Chief Operational Officer (COO), Colleen Barrett, 'It was simple respect, decency and friendliness. Southwest does not purport to be all things to all people, and we're very upfront about it. We tell our customers why we don't do this, that and the other. And then we just kill them with kindness and caring and attention.'[40]

While Barrett gave customers a good deal, former CEO, the flamboyant Herb Kelleher, who stepped down in 2001, made it once clear that his employees always came first

and that customers were not always right. He was once quoted saying that the customer was frequently a drunk or a drug addict and abused his staff, and that his job as CEO was to make sure that this kind of customer never flew with them again.[41]

Southwest's emphasis on relationships was reflected in its heart-shaped logo and the names it gave to items on its menu: beverages were 'love potions' and snacks 'love bites'.

Operational costs were kept low (sometimes as much as 69% lower than those of competitors such as US Airways) by its policy of flying only one type of aircraft (Boeing 737), which lowered training costs for maintenance and flight crews. The airline also did not have pre-assigned seats on its planes, but relied on a first-come, first-served system. Costs were further kept down by not serving meals, using only secondary airports and keeping employee turnover low. Employees were trained to have fun, allowed to define what 'fun' meant, and given authority to do what it took to make flights light-hearted and enjoyable experiences. People were hired at Southwest for their attitudes, because the company felt that technical skills could always be acquired through training. They were the most productive work force in the US airline industry.[42]

By 2002 Southwest Airlines had become the fourth largest major airline in America, with an employee count of 35 000. The airline flew 64 million passengers a year to 58 cities all over the Southwest and beyond – more than 2 700 times a day. Internet bookings accounted for 40% of its business.

South African Airline history

The Domestic Aviation Policy of May 1990 was drawn up against the background of a highly regulated domestic aviation environment. The 1990 policy (accepted in parliament on July 1, 1990), in line with international trends, started the process of deregulation in the South African aviation industry. It facilitated the establishment of alternative airline options to the services provided almost exclusively by SAA.

At the time of the policy review it was found that the South African market was dominated by SAA, which generated 81% of the total revenue of the domestic air services industry and conveyed 94% of all passengers and 97% of all air freight on its services during 1987/88. It was found that competition in the South African domestic air transport market could possibly be economically beneficial to the consumer and the country as a whole, provided that sufficient steps were taken to ensure equitable competition and to protect the safety of the public. The policy also facilitated the creation of associated aviation infrastructure and service provision based on sound commercial principles.

The following principles formed the basis of the domestic aviation policy established in 1990:

- economic decisions should be left to market forces, subject to ordinary competition legislation and consideration of the interests of users;
- all airlines should be treated equally; and
- entry criteria for operators, as applied by the Air Licensing Council, should pertain to safety and reliability, the registration of aircraft and the ownership, control and management of airlines.

The Domestic Aviation Policy had been under review since May 2002, as part of a comprehensive aviation policy review, but by the beginning of 2003, the date for publication of the revised policy has still not been set.[43]

By December 2002 domestic airline operations in South Africa were primarily divided among four competitors. These were national carrier SAA (60% market share on average across routes) with its partners SA Express (also owned by Transnet) and SA Airlink (10% owned by SAA); British Airways Comair (about 22% market share) with its local BA franchise and its no-frills arm,

kulula.com (about 10% market share); and the independent operator, Nationwide Airlines (8% market share). Intensive Air, another low-cost airline, became operational in 2001 but liquidated in 2002. Sun Air was also relaunched in 2001. It offered only business class flights between Johannesburg and Cape Town from Lanseria airport.

The major South African domestic competitors

SAA. South African Airways (SAA), the airline that had dominated the South African aviation industry for 69 years, was one of the world's oldest airlines. On 1 February 1934 the former Union of South Africa acquired all assets and liabilities of a private airline, Union Airways, and absorbed it into a new national airline, SAA.[44] The airline fell under the control of the department of South African Railways and Harbours.

SAA started out with chartered and scheduled flights between Cape Town, Durban and Johannesburg. On 1 February 1935, a year after its establishment, SAA absorbed South West African Airways.[45] The years leading up to the 1980s saw SAA steadily expand its international and African routes. In 1984 SAA took the decision to divide the airline's routes into an international and a domestic leg to provide specific services geared to these markets. On 1 February 1985, the airline followed this up with the introduction of a business class section on SAA's domestic flights.

SAA's former parent company, South African Transport Services, later entered a new era as Transnet in 1990, a company in terms of the Companies Act, but still in effect government controlled. On 1 April 1999, SAA privatized and was renamed SAA (Pty) Ltd, but Transnet still retained a share in the company.

SAA had an established network, both globally and locally. This network made its loyalty scheme, Voyager, very powerful as the opportunities and the variety of routes on which points could be awarded were broad and appealed to the business person – the core domestic traveller at the time.[46]

SAA carried more than five million passengers to 32 international and domestic destinations annually.

Intensive Air. At the time of kulula.com's launch, another local low-cost airline had already been in operation for 15 months. Intensive Air offered domestic services to Cape Town, Durban and Margate as well as non-scheduled services (charters) to international points. Flights between Johannesburg and Cape Town (the route that kulula.com was targeting) were offered at return fares of between R850 and R999, including free wine, beer or fruit juice and a snack. The airline was headed by CEO and owner, Kobus Louw. The airline targeted the leisure market to avoid competing with BA and SAA, but when kulula.com invaded its market, it introduced an 07h00 flight from Johannesburg to Cape Town to accommodate the business sector (self-employed and professional people travelling on business) – a sector that eventually made up 25% of its business.[47] The airline flew average passenger loads of 90% on its route between Johannesburg and Cape Town.

Financial difficulties forced the airline to suspend its flights abruptly on 8 April 2002, leaving hundreds of passengers stranded. The other airlines came to their rescue by offering them substantially discounted fares. The claim of the banking group, Absa, to which Intensive Air was indebted to the tune of R33 million, was settled out of court, but Intensive Air was eventually placed into provisional liquidation by the oil company, Total, in May 2002.[48] Bad debt of R1 million plus interest eventually led to Louw's personal sequestration on 22 December 2002.

Dollar-related costs that had risen substantially and an insurance bill that had more than doubled to R12 million from R5 million since the World Trade Centre attacks were some of the reasons given to explain why the airline had landed in financial difficulties.[49]

Nationwide.[50] The Nationwide Air Group established itself in South Africa in 1995 by providing scheduled domestic airline services within South Africa. The airline initially operated under the trade name of Sabena Nationwide. Sabena's liquidation later did not affect Nationwide as it had other international commercial partners, including Virgin Atlantic and TAP Portuguese Airlines, while Sabena accounted for only 3% of its business. Sabena's logo was exchanged for that of Virgin Atlantic. According to CEO Vernon Bricknell, the policy was one of improving on the overall service provided by its competitors but in effect its positioning was based on providing a price discount in opposition to the main operating airlines.[51] Its high standard of service included, amongst other things, hot meals, a complimentary bar and bundled offers with hotel groups. Nationwide, a fully-fledged airline catering for both business-class passengers and holidaymakers, averaged 740 return flights per month in 2002 from Johannesburg to Cape Town, Durban, George, East London, Port Elizabeth, Mpumalanga, Livingstone (Victoria Falls, Zimbabwe) and Lusaka (Zambia).

At the time of kulula.com's inaugural flight, Nationwide made a limited number of cut-price fares available to meet the challenge.

Exhibit 2: Press report on kulula.com's launch

Three-month test flight for viability of cut-price airlines

Cape Town – The next three months would show whether cut-price, no-frills air travel would succeed in the South African market, travel industry executives said at the weekend.

Kulula.com was launched last week by Comair with heavy emphasis on its R400 one-way fare between Cape Town and Johannesburg, but some customers complained that they were asked to pay more. It emerged that there was a fare structure with five different prices, with R1 000 each way as the top price. However, Gidon Novick, Comair's sales manager, said on Friday that no one had yet been asked to pay R1 000 for a seat.

'That price is in the system only to have it available in the foreseeable future,' he said. 'The top price we actually expect to charge is R800 each way and no one has yet been asked to pay this. We expect to have a minimum of 30 per cent of seats available for R400, and 80 per cent of seats sold so far have been at this price. The British low-cost airlines, including easyJet, on which kulula is modelled, also have a range of different fares, and prices vary according to how many seats are available on a particular flight.'

Novick would not divulge how many seats had been sold, but expressed surprise at the strong response and number of people willing to forgo meals and other amenities provided on most flights.

The domestic airline market has fallen by about 4% in the past year as standard fares have risen. South African Airways, British Airways/Comair and Nationwide have all offered discounted fares to avoid empty seats.

There has been speculation on Comair's reason for launching a cut-price airline in competition with its established operation with a British Airways franchise, and also on whether it could be made to profit in the light of high fuel costs and a weakening rand. Most of the airline's costs are in US dollars.

Novick said kulula was following a business model that was successful overseas. It was aiming for people who did not normally fly and those who were not frequent flyers, and therefore not concerned with earning points on a loyalty programme.

'Piet van Hoven, our managing director, saw a gap in the market,' he explained.

He said there were considerable cost-savings in kulula:

'Meals for business class passengers cost between R30 and R50 each. Providing lounges and a frequent flyer programme are also very expensive and so are the usual ticket distribution costs. kulula bookings are made online either by the general public, travel agents or through our call centre, and no tickets are issued. We have been able to take a galley out of the Boeing 727–200 used for kulula, using the space for more seats.' said Novick.

Source A d'Angelo, *Business. Report*, 23 July 2001. Reprinted with the permission of Business Report.

Exhibit 3: Billboard advertisement

Source Reprinted with the permission of Comair Limited and morrisjones&co.

Exhibit 4: Mission Statement

To our superhero customers and staff we dream of being:

The Easiest Around

➔ *This means we must constantly provide the easiest way to book, the easiest way to pay, and above all, the easiest to afford.*

Simple

➔ *We don't complicate things. We don't use high-and-mighty language or overly wordy descriptions. We get to the point and that's that.*

Totally Honest

➔ *This means we tell it like it is. We're not shy of being straight and down-to-earth. There's no bullshit. There are no hidden costs. What you see is what you get.*

Great Fun

➔ *We help people lighten up. Smiles and jokes are free. We always want to be genuinely friendly and provide the right environment for our staff's natural talent to shine.*

Safe and Professional

➔ *At no time is our dedication compromised. Our most important principle is 'Safety First'.*

Inspirational

➔ *Wherever possible, we provide our staff with the best opportunities to develop their skills, and take their abilities to new heights in the service of our customers.*

We are already more than an airline . . . nothing is impossible.
Wherever our customers see the kulula.com brand, they can expect these values.

Source C Jowell, *kulula.case: How kulula.com Exercised Real Marketing Muscle*, Entry Document for the Annual Tusk Awards, sponsored by the Marketing Federation of Southern Africa, October 2002. Reprinted with the permission of Comair Limited and morrisjones&co.

Exhibit 5: Examples of launch: Outdoor advertising

Source Reprinted with the permission of Comair Limited and morrisjones&co.

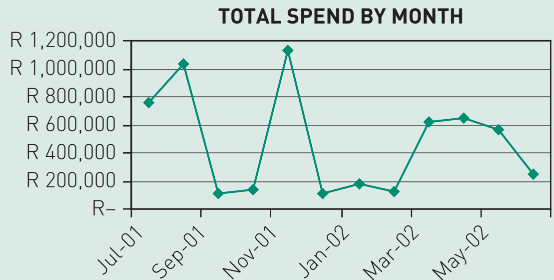
Exhibit 6: Example of launch: Press adverts

Source Reprinted with the permission of Comair Limited and morrisjones&co.

Exhibit 7: Example of launch: Press advert

Source Reprinted with the permission of Comair Limited and morrisjones&co.

Exhibit 8: Total advertising spend per month



Source Reprinted with the permission of Comair Limtied and morrisjones&co.

Exhibit 9: Examples of kulula.com's below-the-line advertising

Plane design included the positioning line

Uniform design

Airport kiosks

Source Reprinted with the permission of Comair Limited and morrisjones&co.

Exhibit 10: Examples of kulula.com's below-the-line advertising (continued)

Brochures and timetables

Interactive displays

Source Reprinted with the permission of Comair Limited and morrisjones&co.

Exhibit 11: Comair financial analysis (five-year review)

'The domestic air travel market has been characterised by over capacity, aggressive pricing and flat passenger demand in the traditional airline markets. With kulula.com attracting a new travel market, Comair has however performed well with the combined British Airways and kulula.com brands achieving improved domestic market share. Regional routes growth was however, constrained by the fall in international travel and the continued turmoil in Zimbabwe.'

Five-year Review for the year ended 30 June 2001

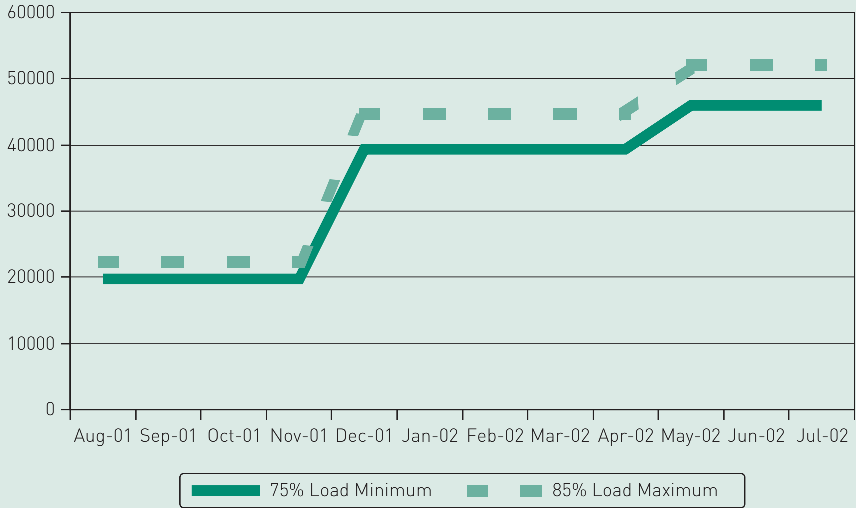
	2001 R'000	2000 R'000	1999 R'000	1998 R'000	1997 R'000
Group income statement					
Revenue	1 160 000	977 036	608 997	513 498	389 777
Operating profit before exceptional items	73 843	151 807	98 997	87 243	35 738
Profit on sale of aircraft	25 483	1 970	–	–	–
Operating profit	99 326	153 777	98 883	87 243	35 738
Net investment income	8 706	12 863	34 743	9 498	2 618
Net income before taxation	108 032	166 640	133 626	96 741	38 356
Taxation	(15 070)	(46 735)	(40 059)	(34 834)	(13 937)
Net income after taxation	92 962	119 905	93 567	61 907	24 419
Sun Air investment written off	–	–	(11 627)	–	–
Share of associate company income	–	–	–	5 377	–
Outside shareholders income	–	8	(8)	2	(1)
Earnings attributable to ordinary shareholders	92 962	119 913	81 932	67 286	24 418

Note: Previous year figures have been restated in accordance with the new aircraft depreciation policy.

	2001 R'000	2000 R'000	1999 R'000	1998 R'000	1997 R'000
Group balance sheet					
Assets					
Fixed assets	309 989	186 600	185 733	108 989	113 743
Loan to share incentive trust	14 000	15 120	15 120	15 120	–
Unlisted investments	80 493	67 331	56 823	17 877	835
Current assets	372 881	383 834	264 574	157 870	52 254
	777 363	652 885	522 250	299 856	166 832
Equity and liabilities					
Share capital and reserves	368 621	309 259	218 747	160 380	90 974
Outside shareholders' interest	–	–	507	39	265
Long-term liability	181 237	135 490	133 261	6 584	–
Deferred taxation	31 168	28 284	20 158	11 159	16 836
Current liabilities	196 337	179 852	149 577	121 694	58 757
	777 363	652 885	522 250	299 856	166 832
Salient features					
Operating margin	6,4%	15,5%	16,2%	17,0%	9,2%
Profit margin	8,0%	12,3%	15,4%	12,1%	6,3%
Earnings per share (cents)	22,1	28,6	19,5	16,9	6,1
Headline earnings per share (cents)	22,1	28,6	22,3	16,9	6,1
Dividends per share (cents)	8,0	7,0	5,0	3,3	1,1
Weighted ordinary shares issues ('000)	420 000	420 000	420 000	399 000	399 000
Current ration (times)	1,90	2,13	1,77	1,30	0,89
Gearing ratio	49%	44%	61%	–	–

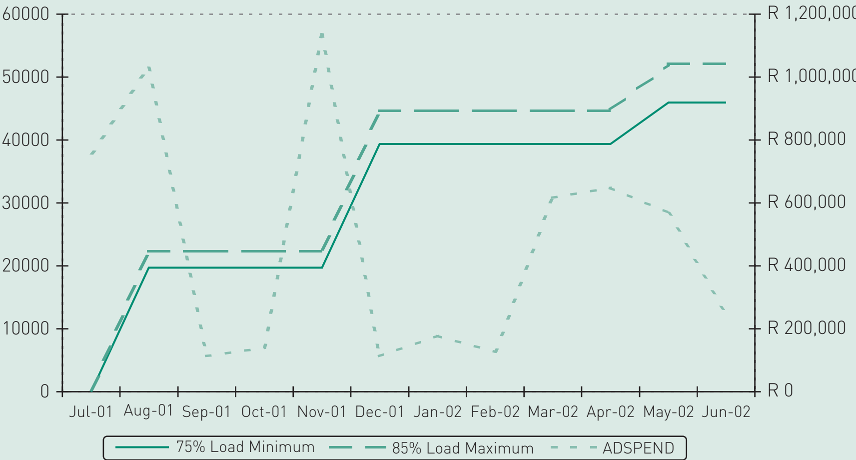
Source: Comair Limited Annual Report 2001/2002. Reprinted with the permission of Comair Limited, 2003.

Exhibit 12: Sales range (capacity × min/max monthly load factors experienced)



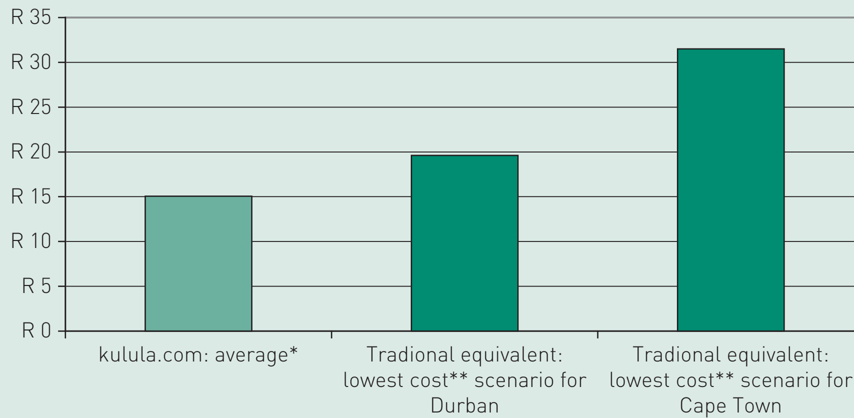
Source Reprinted with the permission of Comair Limited and morrisjones&co.

Exhibit 13: Advertising spend vs sales



Source Reprinted with the permission of Comair Limited and morrisjones&co.

Exhibit 14: Comparison of distribution costs

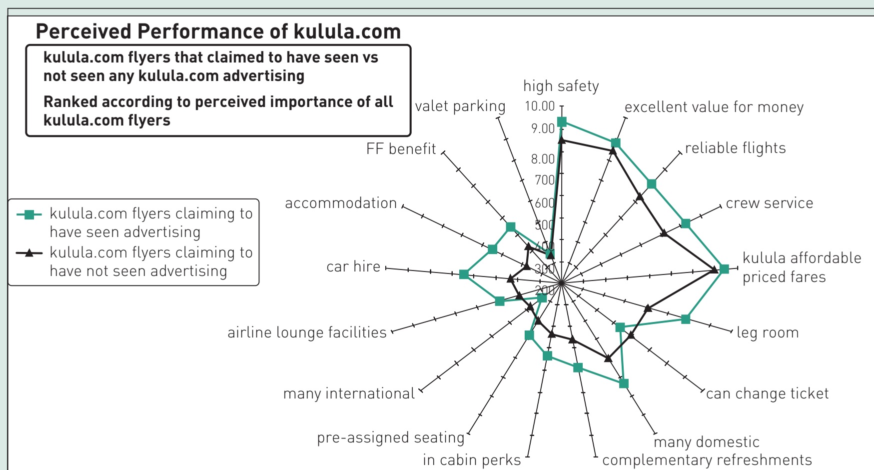


*kulula.com average: includes adspend per sector (regardless of Cape Town or Durban), and all sector commissions (R25 per sector) average across all tickets sold.
**lowest cost scenario =75% commission to agent on lowest fares available (R280 Durban, R450 Cape Town) and excludes adspend

Source Reprinted with the permission of Comair Limited and morrisjones&co.

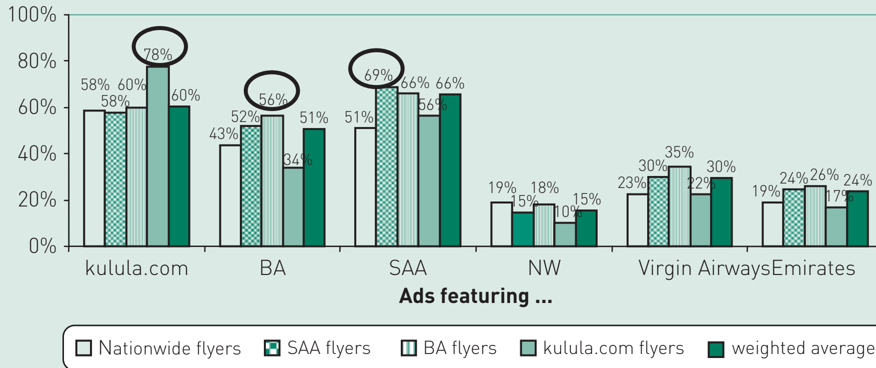
Exhibit 15: Perceived performance of kulula.com

Can our current communication campaign address this?



Source bi5 Resources. Reprinted with the permission of Comair Limited and morrisjones&co.

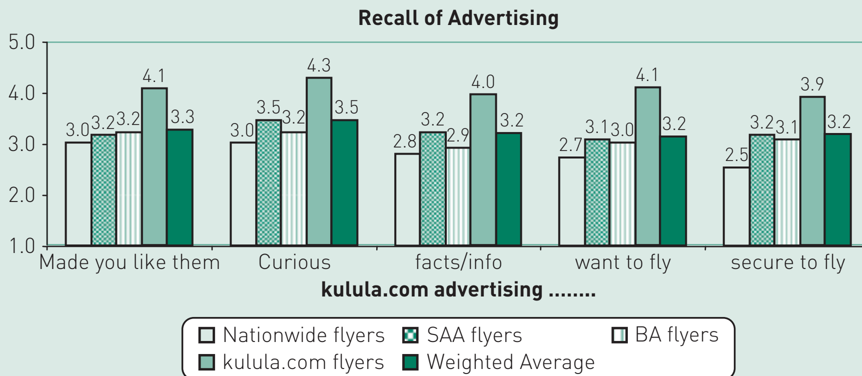
Exhibit 16: Recall of advertising – Was the advertising noticed?



Source bi5 Resources. Reprinted with the permission of Comair Limited and morrisjones&co.

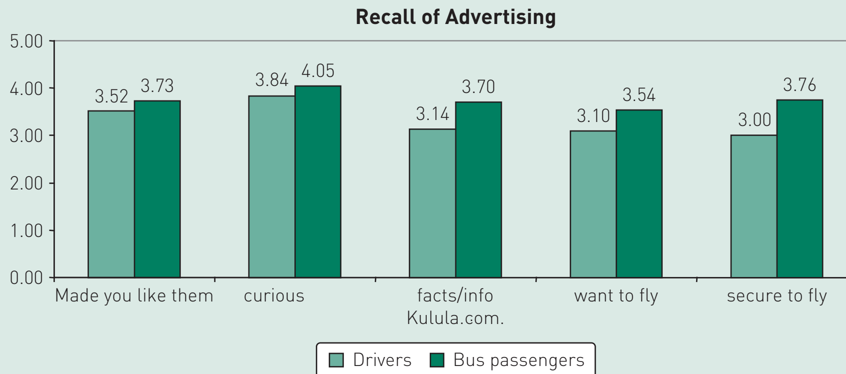
Exhibit 17: Recall of advertising

How did consumers react?



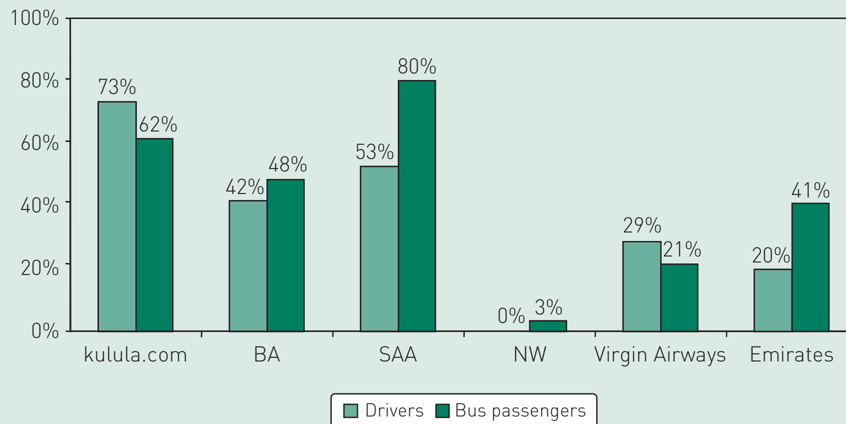
Source bi5 Resources. Reprinted with the permission of Comair Limited and morrisjones&co.

Exhibit 18: Responses to advertising – Non-flyers



Source bi5 Resources. Reprinted with the permission of Comair Limited and morrisjones&co.

Exhibit 19: Recall of advertising – Non-flyers



Source bi5 Resources. Reprinted with the permission of Comair Limited and morrisjones&co.

Notes

This case was prepared by Research Associate, Stephanie Townsend, with Senior Lecturer Geoff Bick. The case is not intended to demonstrate effective or ineffective handling of an administrative situation; it is intended for classroom discussion only.

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1 See Exhibit 1 for detailed background to the global and local airline industry.

2 JM Fletcher, 'Cheap Fares Forever?' *Time*, 3 February, 2002, p 62–63.

3 U Binggeli and L Pompeo, 'Hyped Hopes for Europe's Low-Cost Airlines', *The McKinsey Quarterly*, No. 4, 2002, available *www.mckinseyquarterly.com* (accessed 15 November 2002).

4 *Ibid.*

5 F Brassington and S Petitt, *Principles of Marketing* (2nd ed), Prentice Hall, London, p 881.

6 *www.britishairways.com/regional/sa/docs/comair/* (accessed 7 January 2003).

7 Interview with Gidon Novick, Comair: executive manager: marketing, 10 October 2002.

8 Changed in March 2003.

9 Taken (with minor adjustments) from: C Jowell, *kulula.case: How kulula.com Exercised Real Marketing Muscle*, Entry document for the annual Tusk awards, sponsored by the Marketing Federation of Southern Africa, 2002.

10 'Load factor' refers to the proportion of seats sold in relationto the total number available.

11 Taken from: Jowell, C. *kulula.case: How kulula.com Exercised Real Marketing Muscle, op cit*.

12 Taken from (with minor adjustments): C Jowell, *Kulula.case: How Kulula.com Exercised Real Marketing Muscle*, *op cit*.

13 Interview with Colin Jowell, 9 December 2002

14 *Ibid.*

15 'Cannibalism' in this context refers to the threat of stealing market share from the parent company.

16 U Binggeli and L Pompeo, 'Hyped Hopes for Europe's Low-Cost Airlines', *op cit*.

17 The South African Advertising Research Foundation (SAARF) Living Standards Measure (LSM)) had become the most widely used marketing research tool in Southern Africa. It divides the population into ten (formerly eight) LSM groups, 10 (highest) to 1 (lowest). The SAARF LSM segments the South African market according to its living standards, using criteria such as degree of urbanization and ownership of cars and major appliances.

18 Traditionally defined as advertising on radio, TV, printed media and outdoors. Banner advertising, although sometimes placed in a category of its own, was regarded as above the line advertising by morrisjones&co.

19 Traditionally defined as advertising by direct mail (post, e-mail, SMS, etc), point of sale advertising, events, etc.

20 Banners are online advertising space in a prominent place on popular websites. The success ratio is calculated by the number of click-throughs to obtain more information.

21 Taken from C Jowell, *kulula.case: How kulula.com Exercised Real Marketing Muscle*, *op cit*.

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26 Airlines: British Airways, available *www.cnn.com/2002/BUSINESS/11/14/bbair.ba/* (accessed 17 December 2002).

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28 U Binggeli and L Pompeo, 'Hyped Hopes for Europe's Low-Cost Airlines,' *op cit*.

29 *Ibid.*

30 JW Rivkin, Dogfight over Europe: Ryanair, *op cit*.

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