

MARKETING AT WORK

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Nicher Allegiant Air: “Going Where They Ain’t”

In July 2001, Maurice Gallagher wanted to start a new airline. Conventional wisdom suggested that, to be successful, a new airline needed to follow the JetBlue model: Invest a lot of cash and fly from a large urban hub with lots of brand-new planes. It needed to meet competitors head-on, wresting frequent flyers from rival airlines in the hypercompetitive commercial airspace. Unfortunately, Gallagher didn’t have much cash, and he had only one aging, gas-guzzling, 150-seat MD-80 airplane. So he needed to find a different model—one that let him find his own special uncontested niche in the chronically overcrowded skies.

The result is Allegiant Air, arguably today’s most successful American airline. Over the past six years, as other airlines struggled through the worst recession in recent history, Allegiant has seen six straight years of profits—something no other airline can claim. Last year alone, Allegiant’s revenue soared 19 percent, with operating margins of 16 percent, more than double the industry average. As other airlines have cut back, the budding Allegiant Air launched 23 new routes and ended the year with 52 planes.

So, what makes Allegiant different? In an industry littered with failing low-cost initiatives, “we needed a strategy that was low-cost and could make money from day one,” says Gallagher. “Slowly, we figured it out: Go where they ain’t.” By “go where they ain’t,” Gallagher means a new kind of airline—one that finds a whole new way to serve a customer niche now neglected by major competitors. According to one analyst, unlike other airlines, Allegiant “eschews business travelers, daily flights, even service between major cities.” Allegiant is the “un-airline.”

First, Allegiant looks for uncontested turf—routes neglected by larger, more established competitors. In their efforts to cut costs, the major airlines have abandoned many smaller markets, and Allegiant has moved in to fill the gap. It began by connecting its home city, Las Vegas—and later other popular tourist destinations such as Los Angeles, Orlando, and Phoenix—with dozens of otherwise empty airports in smaller cities such as Fresno, California; Bozeman, Montana; Peoria, Illinois; and Toledo, Ohio. These smaller markets around cities not served by any other scheduled airline welcome Allegiant with open arms and runways. “These small cities have been neglected over the years,” Gallagher notes. “We’re the circus coming to town, but we don’t ever leave.” As a result of flying where other airlines don’t, Allegiant has direct competition on only 7 of its 136 routes.

Second, Allegiant doesn’t just target the usual frequent business and leisure flyers coveted by rival airlines. Instead, rather than trying to steal competitors’ passengers, Allegiant also targets customers who might not otherwise fly—those who are used to driving an hour or two to some vacation spot but now want to go on a real vacation. Allegiant’s idea is to entice that person in Peoria, who doesn’t fly all that much, to get off the

couch and take a weekend vacation at a more distant destination, such as Las Vegas or Orlando. Allegiant also offers charter flights, so the local Kiwanis Club can charter a plane and take its members and their families on a group vacation.

To entice these more-reluctant travelers, Allegiant offers rock-bottom fares and direct flights. It “provides a complete travel experience with great value and without all the hassle,” says the airline. Allegiant lures passengers on board with really low teaser fares—as low as \$9. Of course, you have to pay extra to book online or phone a call center. You also have to pay to check your bags, for priority boarding, or for a reserved seat. But add it all up, and you’ll still pay less than you would for a ticket on a competing airline. And Allegiant’s à la carte pricing structure provides psychological advantages. “If I tried to charge you \$110 up front, you wouldn’t pay it,” observes

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▲ **Nichers:** Profitable low-cost airline Allegiant Air avoids direct competition with major airline rivals by targeting smaller, neglected markets and new flyers. Allegiant “goes where they ain’t.”

Brockton Creative Group and Allegiant Travel Company; (beach photo) Devon Stephens/iStockphoto.com

Gallagher. “But if I sell you a \$75 ticket and you self-select the rest, you will.”

What’s more, Allegiant doesn’t just sell airline tickets. It also encourages customers to buy an entire vacation package at its Web site. Last year, it sold 400,000 hotel rooms, along with extras such as rental cars, show tickets, and even beach towels and suntan oil. These extra revenues per passenger comprise nearly one-third of the company’s business.

To support its lower fares, Allegiant prides itself on being one of the industry’s lowest-cost, most-efficient operators. Even though its old MD-80 airplanes slurp gas, Allegiant buys used ones for as little as \$4 million, a tenth of what it costs Southwest to buy a new 737. And rather than running three-times-a-day service to its smaller markets, Allegiant offers about three flights a week. Passengers don’t seem to mind the less-frequent service, especially since they can fly nonstop. Whereas flying Allegiant nonstop from Peoria to Las Vegas takes a little less than seven hours, the same trip using other airlines with connecting flights might take 19 hours—and you pay more for the ticket.

Less frequent flights make for more efficient use of Allegiant’s fleet. For example, the low-cost airline serves 40 destinations from Las Vegas with only 14 planes, with an average occupancy of 90 percent. Greater efficiency results in higher margins, despite lower fares.

Under its “go where they ain’t” strategy, nicher Allegiant is thriving in an otherwise supercompetitive airline environment. Whereas the major airlines are battling it out with one another for the same passengers in major markets, Allegiant has found its own uncluttered space. In a mature industry that’s struggling just to stay in the air, Allegiant has found a profitable place to land. According to Gallagher, Allegiant Air has identified 300 more potential routes in the United States, Canada, Mexico, and the Caribbean. And it recently agreed to acquire 18 more MD-80s from another airline.

“They’re very much one of a kind,” says an airline analyst. Forget talk about milking secondary markets, cutting costs, or flying all-but-vintage airplanes. “The truth is, [Allegiant Air] is a totally new business model.”

Sources: Quotes and other information from Jerome Greer Chandler, “Pledging Allegiant Ascendance of the Un-Airline,” *Air Transport World*, February 2010, p. 60; Greg Lindsay, “Flying for Fun and Profit,” *Fast Company*, September 2009, p. 48; Charisse Jones, “Airline Caters to Passengers in Small Communities Rather than Business Travelers,” *USA Today*, October 19, 2009; “Allegiant Air’s Success Comes with No Frills,” Morning Edition, National Public Radio, April 17, 2009; “Allegiant Air Named Top-Performing Low-Cost Airline by Aviation Week,” *PR Newswire*, July 21, 2010; Andrew Compart, “Double Vision,” *Aviation Week*, February 14, 2011, p. 41; and www.allegiantair.com, November 2011.

company has chosen a desired position, it must take strong steps to deliver and communicate that position to target consumers. The company’s entire marketing program should support the chosen positioning strategy.

Developing an Integrated Marketing Mix

After determining its overall marketing strategy, the company is ready to begin planning the details of the **marketing mix**, one of the major concepts in modern marketing. The marketing mix is the set of tactical marketing tools that the firm blends to produce the response it wants in the target market. The marketing mix consists of everything the firm can do to influence the demand for its product. The many possibilities can be collected into four groups of variables—the four Ps. ➤ **Figure 2.5** shows the marketing tools under each P.

Marketing mix

The set of tactical marketing tools—product, price, place, and promotion—that the firm blends to produce the response it wants in the target market.

- **Product** means the goods-and-services combination the company offers to the target market. Thus, a Ford Escape consists of nuts and bolts, spark plugs, pistons, headlights, and thousands of other parts. Ford offers several Escape models and dozens of optional features. The car comes fully serviced and with a comprehensive warranty that is as much a part of the product as the tailpipe.
- **Price** is the amount of money customers must pay to obtain the product. For example, Ford calculates suggested retail prices that its dealers might charge for each Escape. But Ford dealers rarely charge the full sticker price. Instead, they negotiate the price with each customer, offering discounts, trade-in allowances, and credit terms. These actions adjust prices for the current competitive and economic situations and bring them into line with the buyer’s perception of the car’s value.