

11th International Strategic Management Conference 2015

## Competition between Full Service Network Carriers and Low Cost Carriers in Turkish Airline Market

A.Zafer Acar<sup>a,\*</sup>, Selçuk Karabulak<sup>b</sup>

<sup>a</sup>*Piri Reis University, Istanbul, 34940, Turkey*

<sup>b</sup>*Okan University, Istanbul, 34959, Turkey*

---

### Abstract

Today competitiveness among airline market companies getting increased. Companies pursue different strategies in order to cope with this intensive competition. Many of them adapt well-known business strategies: cost leadership, differentiation focused low-cost and differentiation into their business strategies. In airline market, especially Low-Cost Carriers (LCC) getting a strong challenge for traditional Full Service Network Carriers (FSNC) in competition.

This paper provides a competition assessment of the Turkey domestic airline industry. According to this purpose we analyzed competition in Turkish air transport market between FSNC and LCC. In it we reach conclusions about the sector's performance and the level of competition, identify impediments to competition that policymakers can address and remove, and make specific competition policy recommendations to improve competition in the sector.

© 2015 The Authors. Published by Elsevier Ltd. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

Peer-review under responsibility of the International Strategic Management Conference

*Keywords:* Competitiveness, Aviation, Full Service Network Carriers (FSNC), Low Cost Carriers (LCC)

---

### 1. Introduction

Aviation provides the only transportation network across the globe and it is crucial for global business development and tourism enrichment. Air transportation is one of the most important services to offer both significant social and economic benefits. By serving tourism and trade, it contributes to economic growth. It also provides jobs and increases tax revenues. Aviation is essential for the fast movement of people and cargo shipments around the world (ATAG, 2008). The airline industry is a unique and fascinating industry. It captures the interest of a wide audience because of its glamour, reach and impact on the large and growing numbers of consumers worldwide (Chan, 2000). Aviation provides the only rapid worldwide transportation network, which makes it essential for global business and tourism. It plays a vital role in facilitating economic growth, particularly in developing countries. Economic impact can be divided into three categories: direct, indirect, and induced. Direct economic impacts are the consequences of what might be termed first-tier economic activities carried out by an industry in the local area. Indirect impacts derive from off-site economic activities that are attributable to aviation activities. Induced impact is the multiplier effects that are caused by the increases in employment and income generated from direct and indirect economic impacts of aviation

---

\* Corresponding author, Email address: [a.zaferacar@gmail.com](mailto:a.zaferacar@gmail.com)

(Vasigh et al., 2004). In the last years the airline industry has changed tremendously. Since the middle of the -90s, new kinds of airline, e.g. LCCs, have emerged on different markets. Additionally, we have seen an increasing number of mergers, take-overs, and different types of alliances, also across business models. While it used to be rather clear which business model provided what kind of service, hybrid carriers have appeared lately, again increasing the number of choices for the customer. Thus, the distinction between the different business models has changed and is no longer as clear. These aspects are reason enough to analyse the specificities of different business models and what might be influencing factors for change in these models (Reichmuth, 2008). The global Civil aviation network has doubled in size every 15 years since 1977 and, between now and 2030, it is poised to double again. The three billion airline passengers carried in 2012 are expected to grow to over six billion by 2030, and the numbers of departures are forecast to grow from 31 million in 2012 to some 60 million in 2030 (ICAO, 2013).

How firms achieve and sustain competitive advantage is the fundamental question in the field of strategic management (Teece et al., 1997), when companies are subjected to equal operational conditions. Operational effectiveness and strategy are both essential to superior performance, which, after all, is the primary goal of any enterprise (Porter, 1996). Strategy is about choice of a firm's scope of product-market activities (Porter, 1980), as well as the combination of its resources and capabilities (Prahalad and Hamel, 1990; Barney, 1991). In general, a corporate strategy can be offensive or defensive with respect to competitive forces. There are, of course, many specific strategies of each type, and identifying which is best depends on the circumstances. But Porter suggests three generic strategies for creating a defensible position in the long-run and outperforming competitors: (1) cost leadership, (2) differentiation and (3) focus strategy (Porter, 1980).

The aim of this study is to reveal the strategic responses given by the existing and new airline companies in the domestic market which resulted following deregulation. The research findings shows that to some extent competition have been brought into airline market in Turkey. So, Turkish airline companies have created different strategies in this competitive environment.

In this paper we focused at competition between LCC and FSNC in Turkish civil aviation market by using two companies SWOT analysis, that is an important support tool for decision-making, and is commonly used to systematically analyze organizations internal and external environments. We also look at what market's characteristics affect an airlines entry decisions and how this differs between LCC and FSNC. It is conventional wisdom among informed observers of the Turkish airline industry that the passengers who FSNC like Turkish Airlines are significantly different from those who fly LCC like Pegasus airlines. A number of papers have looked at competition LCC and FSNC. We also look at fare competition with questions like (1) Did the entry of LCC significantly lower air fares? (2) Did FSNC predatorily responded to LCC entry to expel them of market? So, that price competition is not only certain in aviation market, but that is also their competitive struggle. The study shows that competition strategies especially focus on gaining the cost leadership. In addition, as a result of competition strategies followed, it is seen that the market has grown bigger, and there have been important changes in the shares of the companies in the market.

## **2. An Overlook to Civil Aviation Market in Turkey**

Until the liberalization in 1983, the flag carrier of Turkey, THY, acted as the only airline company for both domestic and international flights. THY entered the privatization process, private airline companies were confronted with bureaucratic obstacles in their entry to domestic flights market. This new liberalization in 2003 has another significant particularity as well. The aviation not only liberalized the market but also lifted some additional taxes on domestic air transport and reduced airport service charges in airports run by General Directorate of State Airports. Thus, the costs of airlines reduced, and this reduction was noticeable on ticket prices. The most important result of the liberalization in domestic flights has been the considerable increase in the number of passengers carried by domestic flights. The increase in the frequency of existing flights was an important factor as well. In addition, the new entrant airlines operated flights to new routes to which THY had never flid. Another indicator of the strengthening competition was that the number of airlines flying in some markets increased to two or three (Gerede, 2010).

One of the economic and social development factors in nations, civil aviation business has been increasing at annual rates of 4%-5% since 1980s, despite some negative factors like wars and economic crises. In Turkey, aviation is developing faster than others, and thanks to the policies implemented by the Ministry of Transportation, Maritime and Communications, total number of passengers has risen 14,3%, and total air traffic (including overflights) has gone up 10% on average in the last decade. In the same period, the increase in the number of planes in airline fleets was 128%, in seat capacity 136%, and in cargo capacity 318%, while the total number of domestic and international destinations reached 241. Turkey's civil aviation had a record breaking year as the passenger number jumped to over

150 million in 2013, the number of passengers has been posting remarkable rises steadily since the liberalization of the sector in 2003 but the numbers climbed to a record high in 2013 with a 14.6 percent rise from the previous year, most of the growth was driven by the domestic passenger traffic across the country that has jumped 17.6 percent to 76.1 million, also the number of international flight passengers approached 73.4 million last year, surging by 11.8 percent from 2012. In addition Istanbul Atatürk Airport, which is located on the European side of the city, also kept its top place as the busiest airport with 17.2 million domestic and 34 million international flight passengers, marking 12 and 14 percent increases, respectively. Istanbul's second airport located on the Asian side, Sabiha Gökçen ranked second with a 23 percent rise to 11.9 million, while Ankara Esenboğa Airport followed them with 9 million passengers, despite a 22 percent jump on an annual basis (DHMI, 2014)

There are 15 airline companies operating in the Turkish civil aviation sector, 3 of which are cargo companies. The number of airline aircraft rose from 349 in 2011 to 370 in 2012, with a 6,1% increase. Of those 346 are passenger aircraft and 24 are cargo aircraft. The total seat capacity of the airline fleet is 65.208, and the load capacity for the cargo aircraft is 1.152.013 kgs. The total seat capacity of the airline fleet is 65.208, and the load capacity for the cargo aircraft is 1.152.013 kgs. Airline companies and the fleet structure are presented in Table 1.

**Table 1. Civil Aviation Companies and the Fleet Structure, 2012 (DHMI, 2014)**

Turkish Airline Companies	Foundation Year	Passenger A/C	Seat Capacity	Cargo A/C	Load Cap. (kg)	Total A/C
Turkish Airlines (THY)	1933	186	34.708	5	252.000	
Onur Air	1992	32	7.583	-	-	32
Pegasus	1990	40	7.522	-	-	40
Sun Exspress	1989	32	5.814	-	-	32
Atlas Jet	2001	15	2.994	-	-	15
Sik-Ay HT (bankruptcy)	2001-	8	1.491	-	-	8
Corendon	2004	8	1.429	-	-	8
Free Bird	2001	7	1.340	-	-	7
Izair	2005	3	558	-	-	3
Tailwind	2009	5	840	-	-	5
Saga	2004	3	585	-	-	3
Bora Jet	2008	6	344	-	-	6
MNG (CARGO)	1996	-	-	7	315.902	7
ACT (CARGO)	2004/2011	-	-	6	330.536	7
ULS (CARGO)	2004/2009	-	-	6	253.575	6
<b>TOTAL</b>		<b>346</b>	<b>65.208</b>	<b>24</b>	<b>1.152.013</b>	<b>370</b>

In 2012 2 new domestic and 21 new international destination points were launched. This way, the total flight destinations rose from 7 to 49 for the domestic flights, and from 15 to 192 for the international flights provided by 6 companies. In 2012, for the domestic flights, this way, the total flight destinations rose from 7 to 49 for the domestic flights, and from 15 to 192 for the international flights provided by 6 companies. In 2012, for the domestic flights, Turkish Airlines (THY) served 49,5% of the market. Pegasus (PGT) 25,5%, SunExpress (SXS) 9,7%, Onur Air (OHY) 8,2%, AtlasJet (KKK) 5,9% ve Borajet (BRJ) 1,1 % share of the market. Low-cost carriers have 20% of domestic seats and 53% of international seats in Turkey (Jan-2013 to Oct-2013). These LCC shares have been fairly stable over the past four years. Pegasus is by far the biggest LCC in Turkey, but Atlasjet and SunExpress are also in this segment. The biggest foreign LCCs operating to Turkey is TUIfly, with only around 6% of the capacity of Pegasus, followed by Monarch and EasyJet.

There are six airlines serving the domestic market and 99 serving the international markets from Turkey. National flag carrier Turkish Airlines (THY), which is listed on the Istanbul Stock Exchange and 49% government-owned, is the country's largest airline, with almost 50% of seats, LCC Pegasus Airlines, which completed an IPO earlier this year, is number two with 19% of seats. Turkish carriers account for around 80% of seat capacity, with the biggest foreign carrier, Condor Flugdienst, taking a share of less than 2%.

Addition to the airline companies there are many types of companies in aviation market. 5 air taxi companies ended their operations in 2012. 2 general aviation and 1 balloon companies were licensed and started business. Currently 55 air taxi (197), 43 general aviation (231), 17 balloon (187) and 39 aerial agriculture (60) companies have a total of 675 aircraft. Of the air taxi companies, only 8 have 7 or more aircraft and 37 have only 1 or 2 aircraft. Companies with a high number of aircraft (Turkish Air Association, Tarkim, AyJet) are usually for training. 1 company (Skyline) provides health services with 25 helicopters. Those having 1 or 2 aircraft use them essentially not for commercial but personal/corporate purposes. In the airports of Turkey, 3 A Class [Çelebi Air Service Ltd., Havaş (Airport Ground Handling Services Ltd.), TGS Ground Handling Services Ltd.], a total of 47 companies provide ground handling

services (catering included) with more than 15.000 staff. 15 companies (B Class), provide their own ground handling services for their aircraft. 29 companies (C Class) provide representation, screening, management, flight operation, catering and flight security services for airline companies. 25 companies provide representation, surveillance and management. Of these, 3 also provide flight operation service. In addition to these, there are 5 companies licensed for catering service (TOBB, 2013).

### 3. Competition Between FSNC and LCC in Turkish Civil Aviation Market

According to the literature and the practical examples analyzed, airline operators have mainly ten effective competitive tools to shape the competitive strategies that they develop in deregulated markets (price, frequency and departure time, network structure, mergers & acquisitions and alliances, travel agency commissions, frequent flyer programs, computerized reservation systems, human resources, innovation and technology, and service quality). Use of these above mentioned tools as a competitive advantage varies according to the competitive strategy each airline operator implements and different competitive tools emerge in each different strategy. However, after all, all of these function as an important strategy component enabling airline operators to create a competitive advantage (Orhan & Gerede, 2013). Many strategic approaches to its operations distinguish the LCC strategic model from the FSNC traditional strategic model have summarize that below in Table 2;

Table 2. Comparing strategic of FSNC and LCC (Sorensen, 2005)

FSNC	LCC
Generally higher service levels, pre-flight, in flight and post-flight	Generally lower service levels, pre-flight, in-flight and post-flight
Slower turnaround times	Faster turnaround times
Heterogeneous fleet	Homogenous fleet
Hub-and-spoke system	Point-to-point system
Lower seat density	Higher seat density
Primary airports	Secondary and regional airports
More emphasis on intermediaries such as travel agents	Online and direct booking and distribution of tickets

In Turkey, there is one dominant FSNC company which affect the development of the aviation and another companies operating as LCC. The importance of the aviation sector that have a great growth potential has been increasing rapidly in Turkey. In the next parts we analyzed business strategies of Turkish Airlines as a FSNC, Pegasus as a LCC, and compared these firms by using SWOT analysis.

#### 3.1. Turkish Airlines as a Major FSNC Airline

Turkish Airlines was founded in 1933 in Turkey. Its main fields of activity are the performing of all types of domestic and international passenger and cargo air transportation. Turkish Airlines implements effective network and marketing strategies to increase profitability in parallel to growth, and to meet capacity increase objectives. The Company is expanding its network by adding new destinations, having become acknowledged worldwide for its expansion strategy. Turkish Airlines is positioned as the largest carrier worldwide and the 2nd largest by international destination number. Indeed, in the June of the 2013 Turkish airline's passenger is the third company of the Association of European Airlines (AEA) with %12.4 (THY, 2013)

Turkish Airlines, seeking to grow further at the İstanbul hub, plans to reallocate certain of domestic and international flights from Sabiha Gökçen Airport to Atatürk Airport in 2013. Indeed, the Company is advancing confidently towards its goal of making Istanbul one of the largest transfer points. In 2012, nine million international passengers arrived from one point via Turkish Airlines and transferred over Istanbul to fly to another international destination. Notably, this number is 44% higher when compared to 2011. The company made a great progress thanks to its geographical position advantage, measures taken against crisis and cost cutting policies, high service quality against low operational costs, emphasis put on customer satisfaction, successful subsidiaries, strong flight network and organic growth strategies.

In addition to all the changes mentioned above, the most important reaction of Turkish Airlines to deregulation was the establishment of AnadoluJet as a low cost sub-brand, since the AnadoluJet brand has an impact on both the competitiveness of Turkish Airlines in the domestic market and competition in the market in general. Although it has all these cost reduction strategies, it is not easy for Turkish Airlines to compete in the domestic market and ensure productivity with its differentiation strategy because generally carriers entered the market after deregulation with a strategy to lower costs and offering lower prices. This led to a reduction of average prices in the market and the

emergence of price competition. Turkish Airlines' strategic changes were insufficient in tackling this competition, so the airline was obliged to establish a sub-airline close to the strategy of other private airlines in the market. With its AnadoluJet brand, that was originally established to provide transportation-focused services only, Turkish Airlines is able to reach a wider group of people that are price-sensitive and, since AnadoluJet is centered in Ankara, it has thus increased the number of hubs in the domestic market. With such structuring, Turkish Airlines will gain market power and challenge market competition (Orhan and Gerede, 2013).

The Company updates fleet plans at the end of each year, within the scope of the following strategies: Exploiting opportunities, risk management, sustainability, dynamic capacity planning, a broadening of the flight network and increased frequency. During the year, aircraft numbers are revised according to deliveries and demand and fleet rejuvenation needs. Interim solutions are also implemented, such as using leased aircraft in light of market conditions, which does not increase fleet age or damage the integrity of aircraft. Turkish Cargo introduced many innovations during 2012. These projects beginning with products and services and extending to new cargo terminal station construction confirm the vision of the company. Warehouse Project, the construction of the new cargo terminal station started in April 2013. This project will carry the Company to new forefronts of international cargo transportation. The terminal will be constructed on an area of 45,000 m<sup>2</sup>, and will have an annual cargo capacity of 1.2 million tons.

The Company current expansion process is being governed by its 2008-2023 Fleet Projection program. Following the announcement in October 2008, regarding the purchasing of a total of 105 aircraft (75 confirmed with options on a further 30), the Company ordered 65 narrow-body and 22 wide-body passenger, plus five cargo aircraft. In consequence of the 2012-2020 fleet planning decision, 20 B777-300ER and 20 A330-300 aircraft have been ordered, which will meet the demand for long haul aircraft in the coming period. Aircraft ordered in 2012 will be delivered between 2013 and 2017. The Company updates fleet plans at the end of each year, within the scope of the following strategies: Exploiting opportunities, risk management, sustainability, dynamic capacity planning, a broadening of the flight network and increased frequency. During the year, aircraft numbers are revised according to deliveries and demand and fleet rejuvenation needs. Interim solutions are also implemented, such as using leased aircraft in light of market conditions, which does not increase fleet age or damage the integrity of aircraft. In consequence of the 2012-2020 fleet planning decision, 20 B777-300ER and 20 A330-300 aircraft have been ordered, which will meet the demand for long haul aircraft in the coming period. Aircraft ordered in 2012 will be delivered between 2013 and 2017.

**Table 3. Turkish Airlines Operating Performance in 3rd Quarter of 2013 (THY, 2014)**

	3Q2012	3Q2013	Change
Revenue TRY million	4,437	5,688	26.0%
Operating profit TRY million	1,01	864	12.3%
Operating margin %	-1,1	15,2	-1,1
Net profit TRY million	705	705	-5.7%
ASK million	26,461	31,98	21.1%
RPK million	21,75	26,01	24.0%
Load factor	82,2	81,3	1,8
RASK kuruş	16,77	17,78	4.0%
CASK kuruş	12,96	15,05	5.2%
CASK ex fuel kuruş	7,86	9,36	7.0%
Employees	17,507	20,67	18.1%

(TRY million except where stated)

The Turkish Airlines Aviation Academy continues to supply training given by approximately 60 highly experienced instructors, who are experts in their respective fields. The company has offered professional aviation training since 1982 under the Turkish Airlines roof, and is the most important aviation training center in Turkey. The Academy is located on an 8,600 m<sup>2</sup> enclosed space, containing 28 classrooms, a conference room with 125 seat capacity, two simulation classes and an examination room. At the Academy simultaneous training can be given to 800 people. The Turkish Airlines Aviation Academy took an important step at the international level by being selected as a Regional Training Partner and IATA Certified Training Center in 2011. Thus, the Academy became the first and only strategic partner of IATA in Turkey. It provides training opportunities in Istanbul to aviation industry personnel in Turkey and other regional countries (THY, 2013).

Turkish Airlines has been named the CAPA Airline of the Year at the 11th annual CAPA Aviation Awards for Excellence in Amsterdam. Turkish Airlines has successfully exploited its geographic position with an innovative fleet deployment strategy and it has successfully leveraged membership in Star Alliance and a wide range of bilateral codeshare relationships to further extend its global reach. The SWOT analysis provided below will demonstrate the numerous strengths weaknesses, opportunities, and threats that Turkish Airlines currently recognize;

**Table 4. SWOT Analysis of Turkish Airlines (Orcan and Moorthy, 2013)**

<b>Strengths</b>	<b>Weaknesses</b>
1. Expanding home market economy and favourable demographic.	1. Higher risk organic growth strategy
2. Strategic geographic position	2. Massive fleet growth to fund
3. Revenues and profits on the rise	3. Fleet flexibility premium
4. Substantial cost advantage over rivals	4. Decreasing fleet utilization
5. A beneficial revenue-expense profile	5. Under-utilising the potential of a strong alliance
6. Rising market share:	
7. Strong domestic presence	
8. Subsidiaries to spread risk, generate income and raise entry barriers	
9. Star Alliance membership and close relationship with Lufthansa	
<b>Opportunities</b>	<b>Threats</b>
1. A growing market, despite the economic crisis	1. LCCs increasing their presence
2. Cargo growth upside potential is large	2. Currency shifts may inhibit profitability:
3. A popular tourism destination:	
4. Benefiting from liberalisation policies	
5. EU membership continues to be elusive	
6. Government to invest in transportation infrastructure	

### 3.2. Pegasus Airlines as a LCC

As Pegasus Airlines operated in charter transportation, it was acquired by ESAS Holding in 2005, and then built itself a new mission, 'being a low cost airline company operating scheduled flights in domestic and international routes'. Thus, it started operating scheduled flights in the domestic airline market the very same year. It realized that the most effective and easy way to move from charter transportation to scheduled transportation was primarily through having a presence in the domestic market. The company adapted LCC system to Turkish culture and currently has the second biggest market share with 25.5 per cent in domestic market after THY. Pegasus Airlines, the second largest airline in Turkey, has signed for up to 100 A320neo Family aircraft (57 A320neo and 18 A321neo models), of which 75 are firm orders. Pegasus becomes a new Airbus customer and the first Turkish airline to order the A320neo. This is the largest single commercial aircraft order ever placed by an airline in Turkey.

Pegasus has been growing by providing the needed service to its guests by offering the best prices and without installing unnecessary costs on them. In this regard Pegasus Airlines' mission is declared as to improve air transport service in Turkey and provide many people to fly. It has been added that Pegasus' target customers are people who spend their money carefully, make smart choices, and think rationally in this context. The company generally appeals to middle income passengers but it has also high-income passengers. Pegasus Airlines reduces its costs and lower its' ticket prices as much as it can. The company is not offering in-flight catering service since it pollutes the aircraft and deep cleaning is required in every take-off and landing which results in longer grounding time. Therefore by not offering in-flight catering, the ground time gets shorter and costs are reduced. Pegasus uses a revenue management system called "Airmax" on which all prices are installed. This system makes an optimization, forecasting and suggestions on the number of seats that should be sold from each price level. Then these reports are studied, analyzed and then adapted to market conditions and special dates (Peksatici, 2010).

In addition to its low fares, enabled by its low cost base, Pegasus is keen to stress the efficiency of its operations. Its on-time performance improved from 76.8% in 2009 to 92.3% in 2012 and has stayed over 90% in the first half of 2013. Its 2012 level was a little higher than those of both Ryanair and EasyJet. Pegasus' CASK level puts it in the ultra-LCC bracket among European airlines, but its business model includes some features not typically associated with the purist LCC approach. For example, although it has a point to point focus, its Sabiha Gökçen hub also offers network feed to increase volume for international routes and reduce seasonality for domestic routes. In addition, it embraces features that are now becoming more common among LCCs, but are more traditionally associated with FNSA, such as seat selection, the use of GDS and code sharing. For 2013, Pegasus continues to target passenger growth of around 15% and to grow ASK capacity at a rate of 12% to 16% per annum over the next three years. It sees utilization rates for 2013 at a similar level to 2012, although the first nine months saw a 7.6% increase in block hours per day. It expects daily utilization to increase in the future as more night flights are introduced and the network grows. Pegasus says that forward bookings are in line with its budget into 4Q2013. It will continue to focus on enhancing its network in the north, south and east of Turkey and to maintain cost control and improved cost efficiencies. It warns of continued pressure on yields in European markets, although it expects these partially to be offset by increased load factors. Pegasus continues to aim for a load factor of more than 80% in the short to mid-term (it was 78.2% in FY2012). In terms of costs, it anticipates stable CASK in the near term, but its Continuous

Improvement Team (CIT) is pursuing further cost reduction initiatives and it plans to reduce CASK beyond the near term. One area with potential to deliver lower costs is Pegasus' distribution channels. It currently makes 46% of its sales on the internet (first nine months of 2013, up from 41% for the same period last year) and aims to grow this channel, which is the most cost effective means of distribution (Pegasus, 2013).

**Table 5. Pegasus Airlines Operating Performance in 3rd Quarter of 2012 and 2013 (Pegasus, 2014)**

	3Q2012	3Q2013	Change
Total revenue	670,1	836,7	24.9%
Operating costs	(474.0)	(615.5)	29.8%
Operating profit*	196,1	221,2	12.8%
Operating margin %	29.3%	26.4%	-2.8 %
Net profit	157,9	114,7	-27.4%
Pegasus operation revenue	644,8	836,7	29.8%
Pegasus operation costs	(457.4)	(615.5)	34.6%
Operating profit Pegasus operation*	187,4	221,2	18.1%
Operating margin Pegasus operation %	29.1%	26.4%	-2.6 %
Total passengers million	4,1	5	22.1%
Passenger Load Factor %	81.9%	82.8%	+0.9 %
ASK million	5,097	6,119	20.1%
RASK kurus	12,65	13,67	8.1%
CASK kurus	8,97	10,06	12.1%
EX-fuel CASK kurus	4,77	5,64	18.2%

(TRY million except where stated )

The Pegasus Airlines is an ideal example of a hybrid model between the LCC and the carrier which transports passengers and goods. The Pegasus Airlines carries the attribute of hybrid carrier for the following reasons (Stimac et al., 2012):

- Operates as a low-cost airline with transit flights (35% of passengers on international flights are a transit),
- The main sales channel is the ticket website “flypgs.com”, but use other forms of ticket sales,
- Transporting the goods as low-cost airlines,
- In offer they have developed a loyalty program,
- Flights has “Code share” markings
- Offer a program with a range of additional services such as: travel insurance, choosing seats in aircraft, space vehicles at low prices, Pegasus HSBC credit card, booking hotel accommodations, on-line registration extra baggage, online car booking, ordering meals on board the aircraft before flight.

The SWOT analysis provided below will demonstrate the numerous strengths weaknesses, opportunities, and threats that Pegasus Airlines currently recognize;

**Table 6. SWOT Analysis of Pegasus Airlines (Orcan and Moorthy, 2013)**

Strengths	Weaknesses
1. Fastest growing airline in EU (geographical advantage with access to low-penetrated regions)	1.High dependency on fuel prices (with lower hedging ratio used compared to major European LCCs)
2. Simplified product offering with attractive pricing (advanced revenue management)	2. Requirement for bilateral agreements to obtain new routes (in the protected aviation markets surrounding Turkey) more restrictive for private airlines compared to flag carrier THY
3. Cost advantages (vs. legacy carriers) -lower airport costs, labour (non-unionised) and distribution costs	
4. Youngest fleet among major peers (3.4 years) providing high fuel efficiency	
5. Strong operational parameters (High on-time departure performance, & asset utilization)	
Opportunities	Threats
1. Underpenetrated aviation market in Turkey and the geography surrounding Turkey (Russia, CIS, MENA)	1. Increased competition from European LCCs in Turkey (especially with the possibility of EU Turkey "open sky" policy)
2. New initiatives in disaggregation of product / or launch of new bundled products (to bolster ancillary revenue growth)	2. Transition from Boeing to Airbus adding complexity/risk while creating the challenge of sourcing sufficient pilots
3. Room for improvement in load factor and aircraft utilization rates with launch of night flights	3. Opening the new Istanbul airport (industry yield pressures because of ample capacity to fill at the new airport)
4. Opening the new Istanbul airport (likely shift of competition - notably THY - to the new airport and preference by travelers for a more central and compact SAW)	2. Flag-carrier THY's increasing presence at SAW (owing to capacity constraints at Istanbul Ataturk) creating pressure for Pegasus in domestic routes

### 3.3. Competition between Turkish Airlines and Pegasus Airlines

In order to be able to offer such low fares and be profitable, Pegasus Airlines must be able to operate at substantially lower unit costs than the Turkish Airlines. Their cost advantages stem from their simple product features and their simplified operations. It is by taking complexities out of airline operations that Pegasus Airlines can operate at very much lower costs and fares. A good way of assessing how large their potential cost advantage might be is through a cascade study. FSNC when both are operating the same or similar aircraft on the same route.

Pegasus Airlines start with two initial cost advantages arising from the very nature of their operations, namely higher seating density and higher daily aircraft utilization. By doing away with business class, by reducing or removing galleys and by reducing the seat pitch, that is the distance between seats, Pegasus Airlines can significantly increase the number of seats available for sale in their aircraft. Pegasus Airlines may use 28- or 29-inch (71–74 cm) seat pitch compared to the 31–33 inches (79–81 cm) used by Turkish Airlines. On its Boeing 737-300 aircraft, Pegasus Airlines packs in 149 seats and seat inch 29-32 at Boeing 737-800 and 29-30 at Boeing 737-400. But Turkish Airlines seat inch 34-39 and seat capacity 151-189 at Boeing 737-800. Turkish Airlines is more comfortable than Pegasus Airlines, so Turkish Airlines's load factor is better than Pegasus Airlines.

A number of factors enable Pegasus Airlines to push up their daily aircraft utilization. The use of secondary or less congested airports, where possible, means less taxiing time and fewer air traffic control delays. Aircraft can also be turned round faster because of the reduced cleaning time required, since there is no free catering or hot food and the cabin crew will clean the interior, because of the more rapid passenger embarkation – as a result of free seating and, where possible, the use of both forward and aft doors and finally, because of the absence of freight to load or off-load.

As one might expect, there is a significant saving in airport charges, that is, aircraft landing fees and passenger-related charges is different. Pegasus airport charge lower than Turkish Airlines airport charge. Because Pegasus had negotiated very low rates as a new start-up carrier at its Kurtköy- Sabiha Gökçen base and had done the same at some of its foreign destinations, especially the smaller airports. So Pegasus Airlines by focusing all its network on small secondary airports, even greater savings in this area. Secondary airports, especially those with minimal scheduled services, have been used. It should be possible to renew airport charges agreements on very favorable terms. Certainly Pegasus Airlines should continue to benefit from flying to cheaper airports.

Another direct operating cost which appears to offer some cost saving is maintenance cost, where again the saving may be significant. There are probably two factors leading to lower maintenance costs. First, Pegasus Airlines have usually decided to get the lowest possible costs by outsourcing much of their maintenance requirements, in some cases even their line maintenance.

The cost advantages discussed so far all relate to areas of direct operating costs. But it is clear that there are three areas of direct costs in which low-cost operators are unlikely to enjoy any marked advantages, namely in fuel costs, en-route charges and insurance. Airlines pay very similar prices for aviation fuel. Though larger airlines may be able to negotiate marginally lower rates because of the larger volumes uplifted, the price differences are small. En-route charges for using air navigation facilities are non-negotiable. All airlines on a route flying the same aircraft will pay similar charges. As with fuel, the only cost advantage arises from Pegasus Airlines higher seating density. Another area of major cost savings for Pegasus Airlines is that of passenger services, which include the cost of meals, drinks and other services furnished to passengers as part of the fare, as well as meals or accommodation for transit or delayed passengers. Since airlines Pegasus Airlines do not offer any free meals or drinks on board, but only a trolley from which passengers can buy drinks or light snacks, their passenger service costs are negligible and are in any case more than fully covered by the revenue generated. In fact, on-board food sales generate surpluses. Also, since they offer only point-to-point services they do not have to cater for transfer or transit passengers or their baggage. For Turkish Airlines short-haul airlines, passenger service costs represent 6–7 per cent of total operating costs. Low-cost operators can escape most of these costs. If they offer ticketless travel, then they save money on printing tickets and on collecting and checking them. Since low-cost carriers only sell point-to-point on their own services and do not issue for, or receive tickets from, other airlines for interline transfers, passenger revenue accounting is greatly simplified and can be almost totally computerized (Doganis, 1994; Doganis, 2006: 147-180).

On routes between Germany and Turkey, THY is a much bigger player than Lufthansa, with 43% of seat capacity to Lufthansa's 12%. SunExpress, which is 50% owned by each of the two airlines, splits the two with a share of 20% of seats, while independent LCC Pegasus. Finally Pegasus main strategy is who produce at significant lower unit cost than incumbent carriers, do have and keep a strategy of price leadership in their markets.



#### 4. Results and Discussion

As a result of rapid developments in the country's civil aviation activities (flight, passenger and cargo traffic growth; increases in manufacturing, and maintenance-repair-overhaul activities; new airports and business developments, etc.), the sector needs qualified personnel therefore, the number of institutions in higher education within the framework of civil aviation sector has increased quotas. Due to new airports domestic flight will increase in the future.

Turkey's geographical location is such that short/medium-haul destinations overall account for 88% of international seats. This has also been a significant driver of THY's successful strategy to position its Istanbul hub to compete on the international transfer markets. The country is attractively geographically positioned, located only three hours flight time from 50 different countries and its unique position. Turkish Airlines benefits significantly from the combination of its strategically valuable geographic position and its Istanbul hubbing capability. Straddling Asia and Europe, while relatively close to the Equator, Turkey offers its national airlines.

Turkish Airlines is largest airlines company in Turkey has a FSNC strategic system, It uses network transportation system operationally. It aims at serving in all kinds of strategically important civil air transportation fields including hand ling and flight training by preserving the identity of global airline company and extending the long-distance flight network, it main aim leadership in the domestic flights and continue providing comfortable and quality travel service. Pegasus Airlines is second largest company in Turkey, its main strategic LCC which realizes low-fare flights by minimizing its operational coast, follows the policy of renovation well-adjusted to technological developments and has a strong capital structure. The main competitive strategies of the company are obtaining the cost leadership with an effective cost control system and forming strategic alliances.

Both THY and Pegasus are seeing stronger growth in international passenger numbers compared with domestic. Although their strategies are very different – one a network carrier, the other a point-to-point ultra-LCC – both have been financially successful with operating margins among the highest in Europe. This success is partly due to a relatively low wage economy, although Turkey's number three carrier, SunExpress, recorded a loss in 2012. Turkish Airlines has an ownership presence in two of the three entrants, namely SunExpress and Anadolujet (Anadolujet is 100% owned by the carrier, while Sun Express is a 50:50 JV with Lufthansa), significantly reducing the threat of LCC competition. They enable the carrier to focus on its core business operations, while boosting group traffic, both domestically and internationally, through these fast growing subsidiaries. Turkey's largest LCC and fastest growing airline, Pegasus is the second largest domestic airline and the third largest international carrier from Turkey.

#### References

- ATAG (2008), The economic and social benefits of air transport 2008. Air Transport Action Group Brochure, available at <http://www.atag.org/component/downloads/downloads/61.html>
- Barney, J. B. (1991), Firm resources and sustained competitive advantage. *Journal of Management*, V.17(1), pp.99-120.
- Chan D. (2000), The development of the airline industry from 1978 to 1998 – A strategic global overview. *Journal of Management Development*, V.19(6), pp.489-514.
- DHMI (2014), Havayolu İşletmeleri (airline businesses). Devlet Hava Meydanları Müdürlüğü, available at [http://www.dhmi.gov.tr/DHMIPage.aspx?mnuID=61#.UvC2Yv1\\_tJc](http://www.dhmi.gov.tr/DHMIPage.aspx?mnuID=61#.UvC2Yv1_tJc)
- Doganis, R. (1994), The impact of liberalization on European airline strategies and operations. *Journal of Air Transport Management*, V.1(1), pp.15-25.
- Doganis, R. (2006), *The Airline Business*, Routledge, NY, USA.
- ICAO (2013), *Global air transport outlook to 2030 and trends to 2040*. International Civil Aviation Organization, Montréal, Quebec, Canada
- Innovata (2014), [www.innovata.com](http://www.innovata.com)
- Gerede, E. (2010), The Evolution of Turkish Air Transport Industry: Significant Developments and the Impacts of 1983 Liberalization, *Yönetim ve Ekonomi*, V.17(2), 01/12/2010
- Orcan, C and Moorthy, D. (2013), Company Report: Pegasus Airlines, HSBC Yatirim Menkul Degerler A.S, Istanbul, Turkey, 26 June 2013
- Orhan, G. and Gerede, E. (2013), A study of the strategic responses of Turkish airline companies to the deregulation in Turkey. *Journal of Management Research*, V.5(4), pp.34-63.
- Pegasus Airlines (2013), Annual Report (1January-30 June 2012), Pegasus Publication, Istanbul, Turkey
- Pegasus Airlines (2014), Corporate Information, available at [www.flypgs.com](http://www.flypgs.com)
- Peksatici, Ö. (2010), Competitive strategies of airline companies operating in Turkish airline market, Master's Thesis, Bahçeşehir University, Istanbul, Turkey
- Prahalad, C. K. and Hamel Gary (1990), The core competence of corporation. *Harvard Business Review*, V.68 (May-June), pp.79-91.
- Porter, M. E. (1980), *Competitive strategy: Techniques for Analyzing Industries and Competitors*, Free Press, New York.
- Porter, M. E. (1990), Competitive advantage of nations. *Harvard Business Review*, V.(March-April), pp. 73-91.
- Porter, M. E. (1996), What is strategy. *Harvard Business Review*, V.(November-December), pp. 61-78.

- Reichmuth, J. (2008), Analyses of the European air transport market: Airline business models, Air Transport and Airport Research, DLR, Germany.
- Sorensen T.C. (2005), An analysis of the European low fare airline industry with focus on Ryanair, Master's thesis, Aarhus School of Business, Denmark
- Stimac I., Vince D., and Vidovic, A. (2012), Effect of economic crisis on the changes of low-cost carriers business model, International Conference on Transport Science (ICTS), Zagreb, Croatia, available at [http://biblio.irb.hr/datoteka/585730.Stimac\\_Vince\\_Vidovic.pdf](http://biblio.irb.hr/datoteka/585730.Stimac_Vince_Vidovic.pdf)
- Teece, D. J., Pisano, G. and Shuen, A. (1997), Dynamic capabilities and strategic management. *Strategic Management Journal*, V.18(7), pp.509-533.
- TOBB (2013), Turkish Civil Aviation Assembly Sector Report 2012, The Union of Chambers and Commodity Exchanges of Turkey, available at [http://www.tobb.org.tr/Documents/yayinlar/TOBB\\_havacilik\\_meclis\\_sektor\\_2012.pdf](http://www.tobb.org.tr/Documents/yayinlar/TOBB_havacilik_meclis_sektor_2012.pdf)
- THY (2013), Turkish Airlines Annual Report 2012, THY Publication, Istanbul, Turkey, available at [http://www.turkishairlines.com/download/investor\\_relations/annual\\_reports/2012\\_Faaliyet\\_Raporu\\_en.pdf](http://www.turkishairlines.com/download/investor_relations/annual_reports/2012_Faaliyet_Raporu_en.pdf)
- THY (2014), Corporate Information of Turkish Airlines, available at [www.thy.com.tr](http://www.thy.com.tr),
- Vasigh B., Fleming, K., and Tacker T. (2004), *Introduction to Air Transport Economics: From Theory to Applications*, Ashgate, England.
- Zahra, S.A. (1993), Environment, corporate entrepreneurship, and financial performance: A taxonomic approach. *Journal of Business Venturing* V.8, pp.319–340.