Strategic Management 5th edition Dyer Solutions Manual

SKU: 9781394161911-SOLUTIONS

Chapter 1 – What is Business Strategy?
Class Exercise – Marketing Strategy at Delta

Teaching Note

Source for this exercise is in the Chapter 1 PowerPoint deck and textbook. (Mini Case: Marketing Strategy at Delta. See slide notes for additional information.) Comments from the slide notes are adapted for small group discussion and large group debrief. The students are instructed to read the chapter before coming to class. An option is to give students advance notice of an upcoming in-class exercise. Students are given approximately 15 minutes to discuss the questions and document answers in small groups (Bloom Comprehension and Application). A debrief is then conducted with the entire class. The debrief takes approximately 20-25 minutes.

Strategies are more likely to be successful when the plan explicitly takes into account four factors:

1. The attractiveness of a market
2. How to offer unique value relative to the competition
3. What resources or capabilities are necessary
4. How to sustain a competitive advantage once it has been achieved (i.e. How to create barriers to imitation to prevent other companies from offering that same value.)

This exercise focuses on "barriers to imitation", but could also include a discussion of how Delta addressed the other three factors: market, value proposition, resources & capabilities.

Mini Case

In the mid-1980s, Delta's market researchers found out that customers (particularly business customers) were strongly influenced to choose a particular airline by the airline's frequent flyer program. Consequently, to motivate customers to choose Delta, they teamed up with American Express (an exclusive arrangement) to offer a special program: customers could receive triple miles if they would fly on Delta and purchase the tickets using the American Express card.

How would you evaluate Delta's strategy? (Good or Bad?) Consider the following questions:

1. **Average Load Factor (# passengers vs available seats) = 78%. Why is this relevant?**

Unless demand (passenger #s) decreases significantly, the plane is flying whether it's 70% or 100% full. The marginal additional cost for more passengers is near zero. Same # of people to fly plane, fuel, etc., don't have to hire more people to manage the additional business. 1 more passenger = all profit.

Strategic Management 5th edition Dyer Solutions Manual

2. **On what does this new strategy depend in order for it to succeed? AND….how does it help me get the additional 22% load factor?**

Have to consider:

- Will people use their Am Ex to fly w/ us?
- Will some people switch from another airline? (Don't have to fly more – just need to get them to switch).
- What if they don't switch? Are we just giving more perks to existing customers?
- How does this strategy help me get the additional 22% LF?

Other aspects of the program:

- Am Exp gives Delta lower card rate.
- They split promotional expenses for the marketing.
- Am Exp has large market share especially among business travelers (65-70%) but…… Delta doesn't have 65-70% of air travelers….this is a Big Opportunity for Delta to gain more customers.

3. **If you were running other airlines, how would you respond to Delta's strategy?**

Team with another credit card company:

- United Airlines – Visa
- Northwest Airlines – MasterCard
- Southwest Airlines – Visa.

Delta has AmEx – the dominant card used by business travelers – they typically pay higher fares, pay a yearly fee and fly during week. These are the target customers. What if you don't match the triple miles? Will you lose customers?

4. **Do you think this strategy led to more customers for Delta? Explain.**

Probably not once competition kicks in with their programs. Because you wouldn't necessarily attract more customers as business people are the ones paying – they or their company pays the yearly fee for Am Ex. The casual traveler probably isn't going to pay yearly fee to get triple miles.

So the program is attracting the same people who are already attracted to it:

1. Am Ex
2. Delta
3. Am Ex and fly other airlines.

Some people might go get the Am Ex and now they can get triple miles if they fly Delta.

Strategic Management 5th edition Dyer Solutions Manual

5. **In the end – as a result of Delta's strategy, who were the biggest winners?**

The Customers. See Class Debrief Notes below.

What actually happened? (Class debrief)

1. Within a week every other major carrier announced they would offer triple miles AND they didn't care how you paid.

2. Now all of a sudden the Am Ex requirement was a weakness. With that in mind, what is the big issue with Delta's approach? There was NO BARRIER TO IMITATION.

3. When you take a strategic action, you have to ask, what's the barrier to imitation?
    a. If there is none, it can be imitated the next day by dropping price and there goes any advantage you had.
    b. If it can be quickly imitated, then there is no Cost Advantage.
    c. That was the case with the "triple mileage" program.
    d. Since all airlines matched the triple miles strategy, who was the big winner? CUSTOMERS!

Conclusion:

- This continued for about 2 years.
- The federal government stepped in and said: "you know what – this looks like a pretty big liability you are building up. You need to estimate and calculate the liability and put it on your balance sheet"
- Airlines started to calculate the liability – it was big so they changed the frequent flyer programs:
    1. Grandfathered you on your old miles.
    2. Got rid of triple miles.
    3. Increased # of miles needed to earn free trips.

- In the end, none of those companies were better off.
- Airlines thought these were strategic moves they had to make but in the end it didn't help any of them.
- These partnerships / relationships led to the co-branded credit cards we see today.
- You probably could argue that Delta was even a little worse off because they teamed up with Am Ex…and their fliers had to use Am Ex to get the triple miles.
    - And….could say that Delta did get some benefit of Am Ex who helped to fund the program…..so they did get some visibility.

References:

1. Dyer, J., Godfrey, P., Jensen, R., & Bryce, D. (2016). *Strategic Management Concepts and Tools for Creating Real World Strategy.* Hoboken, NJ: John Wiley & Sons, Inc.

Strategic Management 5th edition Dyer Solutions Manual