

Strategies Applied to the International Freight Transport Market Case Study: Lufthansa

Neacșu Nicoleta Andreea
Madăr Anca
Transilvania University from Brașov
deea_neacsu@yahoo.com
ancamadar@unitbv.ro

Abstract

In a relatively short period of time, aviation has experienced a spectacular evolution. Aircraft capacity has increased rapidly both for freight and passengers, the number of flights has exploded and the territory served has practically covered the whole land. However, companies in the air transport market face difficulties and challenges. Lufthansa Cargo, Germany's largest freight operator, has maintained its aircraft capacities at a stable level so it follows a successful route. This paper analyzes the market strategies used by Lufthansa in the air transport market in order to remain on the market and to be effective.

Key words: firm strategy, freight transport, firm market, competition

J.E.L. classification: L19, R49

1. Introduction

Mobility is a basic and indispensable human need in today's society, and with the passage of time and human evolution, different means of transport emerged: road, rail, sea and air.

Today, air transport is no longer found as a luxury and prohibitive means of transport, being used for its ease and speed, but also for the transport of perishable goods or of great value, with the use of both mixed-duty aircraft for passengers and freight and special airplanes for the transport of certain types of cargo.

The Lufthansa Aviation Group is a global operations group with a total of more than 400 subsidiaries and associated companies. It is divided into five business segments covering passenger transport, air freight and related airline services, such as logistics services, aircraft fleet maintenance, catering and IT services.

All of these business segments occupy a leading position in their respective sectors, and in some cases they are world market leaders, the Lufthansa Group's portfolio of products, offering a full range of services to both airlines within the group and to customers external.

Airline companies are the core business segment of Lufthansa, Lufthansa Airlines, Swiss, Austrian Airlines enjoying a remarkable reputation in the airline market. At the same time, capital investments in Brussels Airlines and SunExpress round off the airline's portfolio.

2. Literature review

Air freight and passenger transport has developed especially since the Second World War. The plane was forced into the military by its great maneuverability that made it harder to catch in the target, but especially following the synchronization of the propeller spin with the rally of the machine gun. The massive investments made in this weapon have made the technological leap that imposed the airplane in civilian transport through its specific advantages: rapidity, convertibility (from freight to passenger and mail), opportunity and efficiency (transport at and during time required), convenience, flight safety (Rotariu I., 2007).

Aviation has experienced a spectacular evolution in a short time: ship's capacity has grown rapidly both for goods and passengers, the number of flights has exploded, the territory served has virtually covered the earth. Its diversity is impressive: from the classic plane to the supersonic, from the small aircraft to the transport giants, passenger planes, goods, utilities, helicopters, seaplanes, etc.

It has been observed that there is a link between industrial location and the quality of international air transportation (Button K., Taylor S., 2000).

Over the past 15 years, low-cost airlines have been targeted on the air transport market. The entry of low-cost carriers has supported local and regional economic development in different ways: spreading the traffic demand during the year, increasing the rate of international tourism, generating new jobs and improving the income of the area (Donzelli M., 2010). These low costs enable to offer to the customers lower prices at the same time as higher profits increase (Chang, D.S., Chen, S.H., Hsu, C.W., Hu, A.H., 2015).

3. Presentation to the Lufthansa Group

Founded in 1994, Lufthansa Cargo AG is a German company operating global freight transport and logistics services on behalf of Lufthansa, the Lufthansa Cargo subsidiary being wholly owned by Deutsche Lufthansa AG. Headquartered in Frankfurt, the company is among the world's largest freight carriers. It provides customers with well defined transport services along with superior quality and high security standards.

The Group defends its leading role in Europe, registering again the largest number of passengers and the highest income in relation to any European airline. The logistics segment is also a market leader in international air transport as well as freight transport, the product portfolio of which includes both regular goods and special cargoes.

Lufthansa Cargo's activities include all three product segments: general cargo air transport with its td.Pro service, the express td.Flash segment and the special segment through four competence centers handling temperature sensitive cargo transports, live animals , airmail and high value merchandise (www.lufthansa-cargo.com).

These ancillary logistics services contribute significantly to the company's business center, Lufthansa Cargo operating globally in "airport-to-airport" business.

The company flies in about 300 destinations around the world, operating in 100 countries with its own fleet of cargoes, as well as the belly abilities of lower freight decks, passenger aircraft operated by Lufthansa, Austrian Airlines, Brussels Airlines and SunExpress, as well as a vast network of related services.

Most of the freight transport activity is routed via Frankfurt's air freight hub. The company's other hubs are in Munich, Leipzig-Halle and Vienna.

Lufthansa Cargo is also allied with various freight operators and their companies, which increases Lufthansa Cargo's products, services and network assets.

4. Method of research

This paper is based on air transportation market strategies applied by Lufthansa. The objectives of this paper are:

- Conceptual clarification of air transport concepts;
- Analysis of Lufthansa's business environment;
- Identify the strategies applied by Lufthansa on the air transport market, strategies that helped the company to succeed on this market.

The research method used in this paper is exploratory research by analyzing secondary data.

The achievement of the objectives was done by analyzing and consulting the bibliographic sources and the data on the studied topic.

5. Analysis of Lufthansa's business environment

The rivalry is very high, as the airline is among the markets with many competitors, so the market is saturated.

Concerned about rivalry in this market, large companies such as Lufthansa are compelled to compete with low-cost companies, which operate at lower rates than reputable companies.

Political environment

The political environment has always been a significant influence on the performance of airlines and implicitly on Lufthansa.

Geopolitical events such as wars, terrorist attacks or environmental disasters continue to have a considerable influence on the airline, but political decisions, especially at national and European level, also have wide-ranging effects.

This is particularly true when they affect competition when certain market participants are supported by state subsidies or have various unilateral obligations to it.

Economic environment

In the past, the economic recession has helped reduce seat occupancy, so it can be anticipated that another economic downturn in any of the countries where Lufthansa has business could have the same effect.

Looking at Lufthansa worldwide, it benefits from the possibility of economic growth along with the development of trade relations, international investment and global tourism, all of which take place in the current context of globalization that creates the opportunity to approach and collaborate in countless aviation-related industries, thus increasing the number of alliances in the aviation industry as a result of globalization.

The economic forces that may affect Lufthansa's day-to-day operations are included in the company's risk index, developed by risk management, addressing risks such as the volatility of financial and banking activities, the rise in unemployment, which implicitly leads to a decrease in the number of transport customers passengers or the risk of fuel price fluctuations.

Oil prices are an important factor affecting Lufthansa and the rest of the air transport sectors, especially freight and passenger transport.

Extreme economic hazards include those resulting from wars in areas where Lufthansa has business flights, the risk of terrorist attacks, the risk of aviation crashes or outbreaks located in transit areas of the company.

To survive both short-term and long-term on global market, where there is fierce competition between airlines, also other companies, like British Airways had to focus on a variety of goals and objectives (Madar A. 2015, pg.127)

Social environment

Deutsche Lufthansa addresses several demographic segments, each of which has an expected service level and, implicitly, the resulting profitability.

Thus, Lufthansa services are adapted differently from each segment, customer differentiation according to demographic factors, being a business strategy adopted along the profitable evolution of the company.

The demographic segments and their adaptation are reflected in the company's flight offer, the customers being distributed as follows (www.lufthansagroup.com):

- Platinum customers. These are the most profitable customers, who are usually very frequent consumers of the company, without much sensitivity to tariff fluctuations and, of course, a high degree of loyalty.
- Gold Clients. The level of profitability and loyalty is lower than platinum, but they are also part of the frequent customers of Lufthansa's services.
- Iron customers. These are the customers who provide the volume needed to reach the company's shipping capacity threshold, but their loyalty and profitability are non-substantial.
- Lead customers. There are clients behind which the company loses money. Thus, it is necessary to minimize this demographic segment, either by upgrading the class to a higher one or by renouncing it.

Lufthansa also addresses multiple socio-cultural strategies by engaging in a wide range of social activities and humanitarian projects, including helping children through the "Help Alliance" program.

Technological environment

Lufthansa has developed IT systems that integrate numerous business activities. Generally speaking, these activities are closely related to the technology available in industry, including aircraft, navigation equipment, aircraft engines and onboard computers, creating the opportunity to offer products and services to airlines, the transport industry, tourism and IT industry.

The company's involvement in providing IT services related to airlines' activities, along with the successful implementation of the business-leading performance management system and service utilization interface, has helped Lufthansa to achieve more flexible and fluid delivery processes, namely booking of travel tickets, while contributing to the implementation of a customer-friendly performance management. Lufthansa's involvement in the technology environment has also led to reduced maintenance costs and increased interactivity of the company's website.

Among other results, it is also worth mentioning the implementation of a "lift" system made by an electronic ticket to the mobile phone, the application also informing customers about possible changes, such as canceling flights, running races, etc.

The benefits of this application are obvious when we look at the beneficial information provided in real time, for example, to a family waiting at the airport for a race that for various reasons has changed.

Ecological environment

Lufthansa believes it is in the process of meeting its commitment to reduce CO₂ emissions per tonne per kilometer by 25% by 2020, compared to 2005 levels (www.lufthansagroup.com).

In terms of sustainability, Lufthansa Cargo also offers an award each year to the company departments that have made significant progress in terms of mitigation measures.

Other initiatives included waste recycling or fuel efficiency policy-making initiatives such as the successful use of liquefied petroleum gas on the fleet of used vehicle fleets.

6. Strategies applied by Lufthansa to the international air freight transport market

Lufthansa uses an integrated cost differentiation to sell its products and services. While they focus on reducing costs and streamlining operations, they also seek to maintain and enhance their brand image, leading to the best possible service at the lowest cost.

Also, by creating the strategic alliance, Lufthansa sought to obtain profits from the opportunity to become an aviation group, not a single company, which led to the expansion of the service area offered by the company, so that the company currently offers passenger transport services, logistics, tourism, technical services, catering, IT and services related to ground operations.

Lufthansa's core competencies are the growing financial performance of individual segments, the cost-effective structure with the reorganization of the company, its innovative services, the strategic alliance "Star Alliance" of which the company is part, the Lufthansa training program, its business, entrepreneurial leadership and problem identification and resolution. At this moment, Lufthansa's strongest competitive resource is the strategic alliance it has formed with Star Alliance.

The first move that Lufthansa should do is to consolidate new alliances. If parts of Lufthansa merged with parts of other companies as Star Alliance, the costs would be significantly reduced and the company would not only be more profitable but also more competitive.

Merging similar tasks between companies such as R & D in terms of consumers so that all companies contribute a small share of the costs would be preferable. Currently, each company pays for research, which means money and time lost. But if the Star Alliance companies could eliminate all the repetitive tasks, their alliance would become much stronger than the alliances of other companies.

Given that the Lufthansa group's businesses have a wide variety of goods and services in every field in which they operate, businesses that themselves have different service delivery models, when looking at the competitive advantages of the Lufthansa group, they have to be taken consider separately.

In all of these areas, Lufthansa could approach a combination of resources from different departments to achieve the same goals. As previously mentioned with Star Alliance, Lufthansa could merge internally with its subsidiaries in certain areas that are often replicated, such as market research and development.

Also, the advertising of all Lufthansa subsidiaries could also be united in a single promotion department with a central budget controlling the image of the Lufthansa brand so that there is no contradictory advertising.

If all the money in these areas were combined in one department, the increase in promotion would be directly linked to an increase in brand awareness and consumer recognition.

In recent years, Lufthansa has developed a smart strategy based on the application of the ECO concept (Neacșu, N.A. and Bălășescu, S., 2017), to be more environmentally friendly. Thus, Lufthansa is working on a number of measures in flight operations, with more than 50 measures to combat and reduce the combustion of aircraft fuels.

Other objectives also mentioned in the Sustainability Report include setting up the new Frankfurt-based Lufthansa Cargo Center as an "EcoHub" and supporting Lufthansa Group's target of using up to 10% of alternative fuels mixed by 2020 if technically, operationally and sustainably considered (www.lufthansa-cargo.com).

7. Conclusions and discussions

For over a century, Deutsche Lufthansa has been providing excellence in delivering air services for both freight and passenger transport. Collaborates with numerous companies offering a wide range of services related to the industry in which they operate.

Lufthansa makes no compromise on the quality of these services, the basic principles of the company, the always to offer quality services, together with increased safety and comfort in doing business, make Lufthansa stand out among its competitors .

The presence in Star Alliance, the world's first and largest airline alliance, strengthens Lufthansa's position against fierce competition in the industry together with the airlines within the alliance, significantly reducing the impact of external market forces on their business , by agreeing collaborative operating policies

Even in times of crisis in the airline industry, the Lufthansa aviation group remains in place, focusing on innovation and quality.

By implementing a wide range of measures, Lufthansa and its group of companies are continually working to increase their environmental efficiency in long-haul operations.

In terms of eco-efficiency, Lufthansa currently carries out the largest fleet renewal program in the company's history.

In addition to billions of euros invested to reduce fleet emissions, Lufthansa wants to deploy the latest aircraft maintenance technology and, in addition, all processes that have an environmental impact are being carefully considered.

8. References

- Button K., Taylor S., 2000. „International air transportation and economic development”, *Journal of Air Transport Management*, no.6 , pp. 209-222.
- Chang, D. S., Chen, S. H., Hsu, C. W., Hu, A. H., 2015. “Identifying Strategic Factors of the Implantation CSR in the Airline Industry: The Case of Asia-Pacific Airlines”, *Sustainability*, no.7, pp. 7763-7766.
- Donzelli, M., 2010. ”The effect of low-cost air transportation on the local economy: Evidence from Southern Italy”, *Journal of Air Transport Management*, no.16, pp.121-126.
- Madar, A. 2015. “Implementation of total quality management Case study: British Airways”. *Bulletin of the Transilvania University of Brașov*, no. 8 (57), pp.125
- Neacșu, N.A., Bălășescu, S., 2017. „Using the ECO concept for smart hotel promotion. Case Study: Hotel VEGA”, *Annals of the „Constantin Brâncuși” University of Târgu Jiu, Economy Series, Special Issue, volume I*, pp. 27-35.
- Rotariu, I. 2007. *Transporturi, expediții și asigurări de mărfuri și călători*. Sibiu: Alma Mater Publishing House

- Sustainability and Social Responsibility Report of Lufhansa Cargo [online] Available at: <<https://www.lufthansagroup.com/en/responsibility/sustainability-reports.html>> [Accessed 15.04.2018].
- Corporate Responsibility [online] Available at: <<https://www.lufthansagroup.com/en/responsibility.html>> [Accessed 14.03.2018].
- Sustainably positioned. Responsibility at Lufthansa Cargo. [online] Available at: <https://lufthansacargo.com/documents/20184/29890/lhc13015_nachhaltigkeitsbericht_englisch_Ansicht_20130314.pdf/1d406f91-d86e-4b4f-a25d-f50cb5168392?version=1.0> [Accessed 14.04.2018].