THE ROLE OF CORPORATE INTANGIBLES FOR THE
CREATION OF COMPETITIVE ADVANTAGE IN OLIGOPOLIES
AT LOW CONCENTRATION RATIO

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Foreword

In a globalised market saturated with products and where consumers are increasingly sophisticated and exigent in their choices, companies are continuously searching for new ways of differentiating and establishing their competitive advantage. Any additional piece of information, rationally and emotionally appealing, may crucially influence customers’ purchasing decisions and, therefore, any mechanism and instrument that may help convey such information is highly valuable.

The commercial aviation sector, an oligopoly at low concentration ratio for excellence dominated by few groups of companies mainly operating in form of alliances, is strongly influenced by this dynamics having been, in these recent years, harshly affected in the sustainability of its operations by the general economic crisis. Many examples of failures, downsizing and reduction of the offer and quality of the services proposed to the public together with many major scandals that have struck this business community, brought to a substantial and relevant redefinition of ethical and strategic directions for all alliances operating in the sector.

This new forced business vision exercises an enormous pressure on them to implement, from one side, more legally correct commercial practises and, from the other, to put more emphasis and attention on the attribution in the business context to intangible aspects. Corporate brand and reputation became, in the light of the previous considerations, fundamental elements in the strategy of any airline company and, in particular, of any alliance.

Exploiting the value added brought by a rationale and innovative use of the intangible assets like brands and trademarks in this market with a clear oligopolistic at low concentration ratio essence, it has definitely reshaped the strategic directions in the marketing strategies in the aviation business.

Research problem, aims and objectives

Even if traditionally one of the main features of oligopolies is the tendency for their few players to engage themselves exclusively in price battles,¹ this research work aims at exploring the theoretical and practical importance of intangibles in the creation of competitive

¹ For example, to a reduction of price unilaterally decided from one operator, the canonical response from the others is a similar, if not more evident, decrease. The reason at the base of this operational behaviour is the attempt to gain larger market shares eroding part of the quotas owned by competitors.
advantage for companies operating in an oligopolistic at low concentration ratio economic environment while assessing the legal framework of reference.

To perform this analysis, the choice of market which intrinsically could have had all necessary characteristic needed for the fulfilment of the hypothesis (few dominant players, oligopolistic essence, global importance) fell on the aviation industry. In this market, in fact, the influence of intangibles, and marketing policies in particular, is often seen as controversial and relatively significant.

A specific and original field research, carried out to statistically assess the level of attention of customers in recognising airline sector brands and to complete the methodological approach including a quantitative assessment, made possible to analyse the main marketing strategies of some aviation companies to determine how their concept of brand is reflected in their internal strategies and, consequently, how appreciable is its impact on their policies.

A formulation of a series of general recommendations for companies operating in oligopolies with low concentration ratio to improve their management of intangibles and the brand level of awareness and the added value a successful marketing can determine for them, completes the essay.

Key aspects of this work include:

- to consider how oligopolies at low concentration ratio can be dependent on prices;
- to prove that part of the competitive advantage for oligopolies at low concentration ratio is dependent on the management of the corporate intangibles;
- to analyse the oligopolistic with low concentration ratio structure of the aviation market and to reflect on the possible economic and legal differences and analogies with monopolies and perfect competition regimes;
- to understand in legal and economic terms why intangibles are vital for companies in the aviation sector;
- to outline the process that has led to the materialisation of the concept of corporate brand and reputation;
- to examine the perception of customers and to investigate on the identification of the key elements at the base of their preferences;
to elaborate a series of critical recommendations for improving strategies related to intangibles and, consequently, the added value of a company.

More specifically, main questions this research work answers are:

- how, and to which extent, the assumption that there is little dependence on prices in oligopolies with low concentration ratio is valid;
- how, and to which extent, the hypothesis that the competitive advantage in this market situation is dependent on how intangibles are managed and not on pricing policies is valid;
- how, and to which extent, the perception of the brand influences the practical marketing strategies of companies;
- how, and to which extent, the perception of the brand influences the selling of products and services;
- how, and to which extent, the brand influences the cashflows of the market operators (and, specifically for this research work, the financial dynamics of the main airline companies).

An overview of the main themes include:

- Pricing strategies in oligopolies with low concentration ratio;
- Analysis of aviation market when considering its economic essence of oligopoly;
- Practical impact of branding and marketing on the aviation sector;
- Financial added value theoretically produced by a good branding strategy for the sector;
- Real impact of legislative sets of rules on the industrial policies of main players in the sector;
- Theoretical general analysis of the air transport business;
- Theoretical general analysis of the main branding policies

Choice of the case study: the aviation sector

In the fast more and more oligopolistic evolving world of one of the main industry globally, the civil aviation, main players need to be extremely sensitive to marketing trends in order to
react quickly and evolve focused practices that, taking full advantage of tangible and intangible assets (like brands and trademarks), allow retention of competitive edge and effective management of all stakeholders.

A good reputation based on a strong product or on a trusted corporate brand, represents the biggest marketing trends of the last decades and it is possible, without doubt, to affirm that it can be used effectively to manipulate public image and perception. A strong corporate brand has the potential to become the embodiment of the company’s reputation and of all the values that fortify it, whilst at the same time providing an element of strategic focus and continuity in situation where product extension may confuse customers.

In short, a brand nowadays identifies the identity of the company or corporation and has an overwhelming impact on all stakeholders.

The aviation sector at present provides significant benefits to users and economies of the most industrialised countries charging, at the same time, significant financial and environmental costs on a global scale.2

So far most of the researchers interested in the aviation sector have concentrated their attention on passenger segments, on strategic issues connected with its financial growth, on normative and legal aspects influencing the sector and even on all most important management policies for airport and ground services.3

Passengers air transport economic, financial and ecologic sustainability4 and relative policies5 have been also object of deep study.

But, where many of the future aspects of civil air transport have been deeply analysed, surprisingly a significant minor interest for the research and the forecast on the impact of intangibles (better branding management and policies) rather than an action on prices has to be recorded.

This is particularly unexpected as airline companies are basically operating in a oligopolistic low ratio environment (where mergers and alliances 6 and the success of the Low Cost model created a macroeconomic milieu dominated by few major players) in which intangibles like

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2 Davidson, Wit and Dings (2003); Somerville (2003); Whitelegg and Cambridge (2004); Bows and Anderson (2007)
3 Airport Policies (DfT, 2003 and 2006)
4 May, (2006); May and Hill, (2006)
5 Grimley (2006)
6 especially after the deregulation of the sector, in 1978 in the USA and over the period 1993-1997 in Europe
advertisement practises and marketing policies are of paramount importance to delineate a substantial increase in market share and demand and to differentiate the product where a pricing policy could have a relative effect on it.

Considering, in fact, that a strong demand for an higher level of offer is creating numerous organisational challenges for the aviation operators in the near future and that, however, the volume growth is expected to remain on a steady strong expansion path, it seemed interesting to deepen the analysis of the marketing strategies, with a particular focus on branding management, as a potential source of concentration of activities and revenue improvement of this important industrial segment.

**Thesis**

All previous consideration lead to the formulation of the thesis at the base of this research work which, from a purely economic point of view, states that in oligopolies at low concentration ratio, where product or service differentiation is not applicable\(^7\), it appears evident also a little dependence on prices.

In other words, the competitive advantage for this kind of oligopolies is not directly dependent on pricing policies. Modification of prices are, in fact, less frequent due to difficulties in defining a successful pricing strategy created by an increase in the number of possible responses by competitors.

Normally in oligopolies, in presence of a stable economic situation, the modifications in prices are less frequent than other market models. But when a modification of prices ignited by whatsoever political, economic or social reason happens, companies tend to homogenise their answers\(^8\) with a similar increase or decrease in the level of prices.

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\(^7\) Product or service differentiations in some industries (such as the aviation market) can be achieved only at higher costs (for instance, improved free of charge services on board, more space for passengers on aircraft, etc.) and, in this way, they can strongly affect the sustainability of this actions.

\(^8\) here the Game Theory, intended as interactive decision model can help to identify an equilibrium (Nash) or a non-equilibrium strategy, depending on the rationality of the interactions by all players. As a matter of fact, the modeling of reaction to modifications on the markets, based on real situation rather than on abstract cases, is strongly dependent on the rationality of competing behaviors and interacting agents.

On the other hand, the wide use of the Game Theory in studies concentrating on industrial politics or economics created the condition for moving the studies towards other branches of macro- and microeconomics, such as behavioral economics, corporate finance, voting systems, industrial organization, etc. and producing a meaningful practical influence on antitrust law and competition policy.
When this case happens, the need for an action by policy makers in form of antitrust measures becomes strongly necessary in order to avoid possible market collusions.

Hypothesis

The correlated hypothesis theorises that the competitive advantage in low concentration ratio oligopolies is connected with psychological aspects mainly dependent from the management of intangibles. Differently said, oligopolistic companies can greatly profit from intangibles rather than from pricing policies.

When a differentiation of prices is not influent for reaching a corporate benefit in terms of an increase in profit or in market shares and when a differentiation in product and/or services is similarly not effective due to the similarities among them, marketing and advertising practises operating at a psychological level can increase, on one side, market shares and, on the other, the general level of demand for products and services in their markets of reference.

In other terms, pricing is not so important for companies operating in a low concentration ratio oligopoly than service and/or product differentiation based, in particular, on the correct and effective management of intangibles, such as, for instance, brands.

This research work wants to demonstrate that oligopolistic companies can greatly profit from a better and more effective management of their intangibles and that the importance of them is superior in oligopolies as the real key to erode market shares from competitors is to operate more from a psychological point of view.

Methodological assumptions

The philosophy at the base of the elaboration of this research essay, driving all experimental aspects of it, it is based on a mix of both interpretivist and positivist paradigms. Where, in fact, the qualitative aspects are examined through the analysis of a case study, the quantitative testing is supported by mean of a statistical examination of the results of a specific survey performed in European airports. The combined results of them brings to the confirmation of the prominent value of intangibles in oligopolies with low concentration ratio.

Concerning the methodological fit, this research essay falls into an intermediary range, midway from nascent and mature theories being related to a reinvestigation of a theory where the initial test of hypothesis is based on prior assumptions.
The particular methodological structure of this essay in form of a mix of qualitative and quantitative data collection and analysis helps the prevention from a methodological low fit. In fact, if from one side the lack of reliability and external validity proper of a merely quantitative analysis is avoided, from the other an un-sufficient provisional support, typical of no more than qualitative investigations, is similarly eluded. The avoidance of less convincing results was, in this way, easier achievable.

**Structure of the work**

This research work is basically structured in four main parts

1. a first introductory part in which all methodological, theoretical and hypothetical features are described together with an overview of the current situation in relation to the economic and legal aspects of the industrial sector which has been chosen as example;

2. an analysis of pertinent legal, financial and theoretical literature on the subject is presented in order to formalise thesis and hypothesis;

3. a critical comment of the results of the survey leading to a definition of the most efficient branding strategy adding the highest value to the reputation and, indirectly, to the revenues of the company;

4. a detailed summary of the theoretical and practical conclusions and results together with the identification of possible additional themes of research closes the essay.

More in particular and concerning the practical verification of the hypothesis, this is fundamentally following a logical step-by-step analysis. After having presented the background, the scope and the academic relevance of this research study, the work analyses the economic and financial motivations for considering the aviation industry as an oligopoly and consequently, as core of the hypothesis, why intangibles cover such an important role for their corporate strategies, and how they implement them complying with all international legal requirements and antitrust regulations.

This first part of the work is followed by a comment on a field research which aimed at confirming the hypothesis while assessing, from one side, the present situation in a quickly changing industrial environment and, from the other, a pertinent and updated opinion of customers and stakeholders on the image and related services of operators in the aviation
sector. Special attention has been given to economic and legal aspects directly dealing with the value that marketing and branding activities can add to corporate financial indexes.

A formulation of a series of recommendations together with some suggestions on how to refine and tune the strategies for managing intangibles (and in particular branding) in the sector, particularly taking into consideration the impact on the economic and financial indexes closes the essay.

All additional considerations and themes useful to deepen and complete the thread of the research are presented in Annex. In particular:

- the organisation and the implementation of a specific field survey in the main European continental airport facilities aimed at collecting a representative sample of opinions and impressions useful to create the base for a subsequent statistical examination of all data collected;

- the highlighting of the main intrinsic and extrinsic characteristics of modern airline sector, and from the other, the most important studies and theories about brand evaluation and management.

Statistical treatment of all data collected via the interviews and a subsequent significant analysis, which are presented in the Annex, integrate the research work. In Annex is furthermore presented a relevant summary of the history of aviation and its branding practices for adding value to the companies carried out considering all major recent text, articles and essays available on the subject.

Conclusions

This research work has the objective of filling a gap in the theory while demonstrating that an effective management of corporate intangibles are very important in the creation of a competitive advantage for companies operating in oligopolies at low concentration ratio. As an example on one of these business environments where pricing may not be so relevant and product/service differentiation not so performing, it has been decided to focus the analysis on the aviation sector which presents exactly these characteristics.

So far, the academic research focusing on low concentration ratio oligopolies has been paying attention exclusively to strategic issues connected to financial growth, normative and legal aspects, management practices and policies and a clear minor interest has been shown for the
potential impact of an improved management of intangibles. This is particularly surprising as pricing policies may have a relative importance due to the difficulty in determining best pricing strategies but a undoubted competitive advantage can be reached through the exploitation of the intangibles and all related marketing practises.

Intangibles are, in fact, among the most important assets for all companies influencing their financial soundness but corporate strategies are not enough focusing on them. Therefore companies, and not only in the aviation sector, have to keep on investing not only in product implementation but also on marketing strategies and actions.

In fact, even if it appears clear that the brand/logo recognition in markets like the aviation sector is directly correlated to the main socio-demographic features of its customers, most operators in the aviation business appear not to be completely aware of the importance that a correct and effective branding strategy has for improving sales by attracting possible future customers but, above all in period of crisis like the present one, to maintain the actual level of core clients, faithful to the brand. In addition to this, the association between added value brought by an effective management of intangibles and the level of sales has been not yet completely explored for this sector.

In conclusion, while closing this gap in the theory, this essay states that the real key to erode market shares from competitors in an oligopolistic industry at low concentration ratio is to operate more from a psychological point of view and to use the leverage which is assured, for instance, by the feeling of loyalty to a brand common to many customers. In this sense, understanding the human component which creates privileged position on the market is of paramount importance for companies operating in regimes of oligopoly or perfect competition and, even more, in oligopolies with low concentration ratio.

In stating this, the essay therefore highlights the role of intangibles in the creation of evident competitive advantage in oligopolies at low concentration ration showing that, in order to reach this result, not only have companies to build a clear dominance of their product or services when compared to the ones offered by competitors but, at the same time, they need to

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9 Important is to note that the considerations in the previous couple of paragraphs could be as well valid for many other industrial sectors.
10 This preference accorded by customers to one brand rather than another may be connected to many different aspects, all of them related to specific psychological shades (e.g. nationalism, habits, type of service offered, main language used, etc.).
effectively manage their intangibles in order to successfully confront the impact of advertising practises organised by them.

Additionally, this research work also underlines that the level of action and the importance of intangibles is necessarily superior in oligopolies when compared to markets where a regime of perfect competition or monopoly reigns.\textsuperscript{11}

Bibliography

In spite of the interest and the relevance of the subject, not many academic essays are concentrating their attention to the dynamics created while defining strategies for intangibles in industries strictly considered as oligopolies at low concentration ratio.

Whereas, in fact, many essays are dealing, from one side, with marketing and branding in oligopolies\textsuperscript{12}, with competition in dynamic oligopolies for multiple brands\textsuperscript{13}, with Nash Equilibrium and all game models applied on different productive channels (retail, supply chain)\textsuperscript{14} and, from the other, with branding and marketing in the airline world\textsuperscript{15}, very few are specifically related to aviation in terms of oligopolistic market space.

Important is to remark that, apart from an analysis of the purely economic literature illustrating the main features and characteristics of oligopolies at low concentration ratio, this dissertation presents a wide-ranging overview of the main texts and more pertinent studies emerging from the academic literature outlining:

- the specificities and peculiarities of this industrial segment, starting from a description of it and a short historical outline\textsuperscript{16};
- theories on brand management and marketing\textsuperscript{17} and about strategic management\textsuperscript{18};

\textsuperscript{11} Marketing in perfect competition is not crucial for a company in determining its pricing policy when aiming at conquering a largest share of the market of reference as well as, in case of monopoly, advertising is not important for the market leader already possesses the market.
\textsuperscript{12} See, in particular, Prasad, Naik,Sethi (2008)
\textsuperscript{13} See, in particular, Erikson (2009), Bass F.M., Krishnamoorthy A., Prasad A. (2005)
\textsuperscript{15} See, in particular, Shaw (2011), Abrahams (2008), Kapferer (2008), Mc Carthy (2011) and others
all major theories concerning the management of intangible assets and on how to approach and to develop theories for case studies research\textsuperscript{19};

- the main legal and statutory rules and set of laws (in particular, the antitrust ones) organising the sector;

- customer focused strategies and consumers’ behaviour theories\textsuperscript{20};

- statistics tools suitable for the aim of this research work and methodology \textsuperscript{21}

The search for these sources has not been confined to the analysis of the major known and assessed texts and books on the subject but it includes also shorter and quicker references like articles from periodical, from dedicated websites and from sector reports.

In addition to all this, this essay supports its conclusions also on empirical data resulting from a series of interviews specifically conducted.

In conclusion, it seems of paramount importance to remind once more here the fact that nearly all considerations directly addressing the aviation segment can be \textit{ibidem} valid for any other industrial sector.

Books

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