GOL:
Evaluating the Entry of a Brazilian Airline in the Mexican Market

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GOL (www.voegol.com.br) was one of the most profitable low-cost airlines in the world which had net revenue of 1747 million dollars and a net income of 261.5 million dollars and 779 million dollars in cash to December, 2006.
The success of the Brazilian company was centered in the low cost strategy in the domestic market and some Latin-American countries. The company reached 37,1% share in the home market and 13% of Brazilian international market share to December 2006.
GOL flew 530 daily flights to 55 destinations in five Latin American countries at the end of 2006.
At the beginning of 2007, the company's challenge was to launch new destinations in Latin America. Following this objective, the company was evaluating the entry in the Mexican market. Mexico was the second most important market in Latin America behind Brazil, with a market value of 5.5 billion dollars and more than 40 million passengers. Within Mexico two big companies, Mexicana and Aeroméxico, were competing in domestic and international markets. In addition five new local low cost carriers were also competing for the local market. These issues showed some difficulties that had to be evaluated for a successful entry in this market.

The company
The company was the most profitable low-fare, low-cost airline operating in Brazil providing frequent service on routes connecting all of Brazil's major cities and selected South American cities.
GOL began its operations in January 2001 with six single-class Boeing 737-700 Next Generation aircraft serving five cities in Brazil. They carried one million passengers in less than a year of operation.
The company origins were based in the founders experience in land transportation: the Aurea Group. They were the owners of 36 companies dedicated to the land transport.
The miracle worker was Constantino de Oliveira Jr., CEO and President of GOL. When Oliveira decided to introduce in Brazil the low-cost model that had done so well for Southwest in the U.S. and Ryanair in Europe, few gave him much chance to succeed. Oliveira was barely 32 and had no experience in commercial aviation. However, Oliveira did have some managerial experience with the Aurea Group, his family-owned land transportation company, which has been in the business for more than 50 years.
In 2004 began the internationalization process flying to different top destinations in South America: Buenos Aires, Montevideo, Asunción and the last destination was Santiago de Chile in September 2006.
The long-term business objective was to bring affordable air travel to all significant destinations in South America. By the end of 2006 they were operating 530 flights per day to 55 domestic and international destinations. GOL showed a ROE 25.8% during the 2006 fiscal year.

In March 2007, Gol, bought in $320 million dollars the rights to control the almost extinct Brazilian airline company, Varig. This company still had its market value because of its name which was still known in many countries of the world as the most traditional airline brand name in Brazil.
GOL made the purchase through its subsidiary company GTI S.A. By doing this, GOL tried to protect its finances against the billions Varig had in debt. Through this GOL also made clear that it will try to lift Varig independently from its main company.
The two companies were completely distinct, with different executive staff and in theory were competitors. GOL continued the focus on low-cost domestic flights while Varig was prioritizing international and non-stop flights, which were more expensive for the passengers.
GOL had the second place in the Brazilian airline market for national and international flights. In February 2007 the company made almost 19% of international flights while TAM was the leader with 61%. For domestic flights, the competition is tighter with GOL making 40% of the flights compared to 47% from TAM.

The Mission

To provide safe and high-value passenger and cargo transportation through innovative solutions for our customers, shareholders, employees and society.

The Vision

To be recognized by 2010 as the airlines that popularized high-quality, low-fare air transportation in South America.

Values

To continue to improve the company’s business model based on original, creative, ethical and fair initiatives which are focused on sustainable and long-lasting results and based on high-quality service and low fares for our clients. For our employees - respect, professional
recognition and career opportunities, coupled with a spirit of solidarity and an attitude of social and environmental responsibility.

The business model

The company’s operating model was based on a highly integrated, multiple-stop route network that was a variation on the point-to-point model used by other successful low-cost carriers worldwide. The high level of integration of flights at selected airports permitted GOL to offer frequent, nonstop flights at low fares between Brazil’s most important economic centers and South America interconnections through its network linking city pairs through a combination of two or more flights with little connecting or stop-over time. The company’s network also allowed it to increase its load factors on its strongest city pair routes by using the airports in those cities to connect its customers onwards to their final destinations.
In addition to offering low fares, its strategy was to make flying a simpler, more convenient experience. The company had achieved this objective largely through the elimination of unnecessary extras and common-sense applications of technology. GOL encouraged its customers to use the internet not only to make reservations, but also to make many of the arrangements from the comfort of their home or office that they would otherwise have to make at crowded airports or airline ticket offices, such as checking-in and changing their seat assignments.
Tarcision Gargioni, the marketing vice president attributed the success to technical factors. “Our planes fly more than other airlines’ planes do. They carry more people, and spend less time on the ground, on average. That makes a difference. Basically, our work is more focused on costs, and we have a record of achievement that translates into higher productivity than other companies.”
Gol’s competitive advantage was not simply expertise at managing costs and optimizing its operational efficiency. “Gol has always been a low-cost company, but it was never a low fare airline. Its ticket prices are

lower than other Brazilian companies' prices but if you compare them with Europe and the United States, Gol's prices are not low," noted Sampaio Gilso de Lima Garofalo, a professor at the Pontifical Catholic University of São Paulo.
The company boosted productivity by increasing aircraft utilization, which reached an average of 14 block hours/day – the highest in the Brazilian industry and above the best international standards.
In addition, GOL's record turnaround time of 25 minutes was one of the lowest among its international peers. Low turnaround was meaning more time in the air, with higher productivity, in turn allowing lower fares.

The marketing strategy

GOL deployed aircraft in a highly efficient manner to maintain industry leading aircraft utilization, and concentrate heavily upon internet-based distribution channels and sales. The strong promotion of internet-based distribution channels and sales was an integral element of its low cost structure and efficiency and had made the company one of the largest and leading e-commerce businesses in Brazil.
The sales channels were concentrated in 82% in internet and 15% trough the call center and the airport. Close to 70% of the sales were indirect and commissionable trough travel agencies.
GOL believed it effectively employs technology to make its operations more efficient, using real time sales and operating information, internet based sales and ticketless traveling, advanced yield management systems and intelligent outsourcing.
Simplified on-board service was part of Gol's strategy. Gol worked in a niche unexplored by other airline companies which offers industrialized meals that were not always appreciated. On short haul flights, Gol was offering snacks and cereal, that are healthy, nutritious, and considered "super in" according with research from the Brazilian magazine VIP.
The company believed that through its low fares and high-quality services, GOL provided the best value in its international and domestic markets and create demand for air travel services. GOL's average fares were lower than the average fares of its primary competitors. The company identified and stimulated a demand among both business and leisure passengers for air travel that is safe, convenient, and simple and is a reasonably priced alternative to traditional air, bus and car travel.
By combining low fares with simple and reliable service that treats passengers equally in a single-class environment, GOL had successfully increased its international and domestic market share, strengthened customer loyalty and were attracting a new group of air travelers in its markets. These new travelers did not previously consider air travel due to the higher prices and more complicated sales procedures that preceded its entry into the market.
The company believed that the GOL brand had become synonymous with innovation and value in the Brazilian domestic airline industry.
In 2005, GOL was named one of Brazil's most valuable brands by Isto é Dinheiro magazine in its fourth annual Most Valuable Brazilian Brands Ranking, with a brand value of US$326 million. The Company was also named Best Airline in Latin America by Global Finance magazine in 2005. In addition, GOL was recognized among Brazilian and international investors as a company with a very high level of disclosure and transparency, releasing financial information simultaneously in Brazilian GAAP and U.S. GAAP. The Company ranked first in the category of "Disclosure Procedures" in Latin America and top 5 in the category of "Corporate Governance" in Brazil at the Eighth Annual IR Global Rankings in February 2006.
In particular, GOL was expecting to increase its focus on business travelers from medium-sized companies, a growing customer base that tends to be more prices sensitive, by closely monitoring the routes and flight frequencies that best serve their travel needs and increasing its marketing efforts directed at this segment of its customer base. By offering international flights with stops integrated in its network GOL created opportunities for incremental traffic, feeding its network and increasing its competitive advantage and supporting its strategy

of stimulating demand for its service. The addition of routes between Brazil and cities in neighboring South American countries had been based upon an extension of its existing network using the same growth strategy that had proven to be successful for the company to the end of 2006.

The international development

In 2004 they started flying to Buenos Aires, Argentina as the first international destination.

Eight months after the inauguration of the Brazil - Buenos Aires route, GOL verified an exceptionally high satisfaction ratio among Argentinean passengers, with 83% of interviewees approving of the company's services. The survey, carried out between April and July, 2005 by Databrain Pesquisas Inteligentes, also highlighted extremely strong customer loyalty: 89% said they would not hesitate to use GOL again, while no less than 92% affirmed that they would "certainly" recommend the company to friends and acquaintances and 62% said it was their favorite airline. It was worth pointing out that 56% of the passengers using this route were from Argentina.

These figures encouraged them to continue expanding their routes in the region and they added two more Argentinean destinations - Córdoba and Rosario – in the first two weeks of January, 2006. No other Brazilian airline was flying to as many destinations in that country.

They continued the international development adding flights to Montevideo (Uruguay), Asunción (Paraguay) and Santiago (Chile).

The Mexican Market

In 2005, the Mexico's government decided to privatize two state-owned airlines - Aeromexico and Mexicana - and allowed several low cost airlines to enter in a market with 103 million population.

The Mexican airlines industry generated total revenues of $5.5 billion in 2005, this representing a compound annual growth rate (CAGR) of 4.2% for the five-year period spanning 2001-2005. Industry passenger volumes increased with a CAGR of 5% from 2001-2005, to reach a total of 46.6 million passengers in 2005.

In 2006, more than 70% of the Mexican in and out international flights were dominated by foreign airlines.

In that year only seven Mexican carriers flew to foreign destinations. These airlines represented 27% of the total international traffic.

According to the Mexican General Direction of Civil Aeronautics (DGAC), since October 2005 there were more commercial flights from the US to Mexico. Just seven US airlines carried 40% of the international Mexican passengers. These airlines represented 34% of the flight between Mexico and their countries. American Airlines had 11% of the international Mexican market.

The performance of the industry was forecast to accelerate, with an anticipated CAGR of 5% for the five-year period 2005-2010 expected to drive the industry to a value of $7 billion by the end of 2010.

The industry's volume was expected to rise to 54 million passengers by the end of 2010, this representing a CAGR of 3% for the 2005-2010 period.

Main Mexican Players

Mexicana was one of the leading airlines in Mexico with 20% of total market share. This company lost close to 20% market share in the previous years and presented financial problems.

In its international operations, Mexicana had a large portfolio of codeshare agreements with other airlines, which gave customers access to a wide range of destinations.

This company operated services to close 800 world destinations, and had locations in many different countries, including New Zealand, Hong Kong, South Africa, the UK, Singapore, Argentina and the US. Mexicana was headquartered in Mexico City, Mexico.

Mexicana was hoping to growth 12% in 2007. The company had 30% of the domestic market, 25% of the US-Mexican market and 52% of the Latin America market.

Aeromexico, another important player, had approximately 300 daily departures and its maintenance base had been certified as the workshop authorized for airplane repairs by the FAA in the United States and the D.G.A.C. in Mexico.

This company primarily operated in Mexico, North America, South America and Europe. In South America the main destinations were: Sao Paulo (Brazil), Buenos Aires (Argentina), Santiago (Chile) and Lima (Perú). It was headquartered in Colonia del Valle, Mexico and employed about 7,900 people.

The company recorded revenues of $3,662.8 million dollars during the fiscal year ended December 2005, an increase of 8.8% over 2004. The net profit was $135.2 million dollars in fiscal year 2005, as compared to $55.3 million dollars in fiscal year 2004.

Mexicana and Aeromexico, were also exploring other strategies besides price discounting-from low cost carriers- to retain customers.

To strengthen services offered to domestic passengers, in 2005 Mexicana launched the low-cost carrier Click Mexicana. The services offered value fares on domestic flights via the airline's hubs in Mexico City, Gaudalajara, and Veracruz.

Both airlines were undergoing cost cutting measures, again, like their US counterparts and look to international routes where low cost carriers did not fly.

The Mexican low cost carriers

Air transportation in Mexico, historically limited to upper and middle class households, was aiming for the masses with the influx of new low cost carriers in 2005 and 2006.

The lack of a strong low cost competitor, a young population, and recent economic stability created an environment ripe for investment. The large bus transportation market provided opportunities for low cost carriers to divert people from road travel to air travel.

Most of the potential passengers were part of the 33% population between 20 and 40 years old.

Click, a subsidiary of Mexicana, was the first to arrive in July 2005. Avolar was next to fly in September followed by Interjet. Volaris began flying in March 2006 and in June, Aerolineas Mesoamericanas started as well.

Of the airlines flying in 2006, Click served the most cities (19 in Mexico, plus Havana, Cuba, and soon, Miami), followed by Avolar (17), Interjet (7), and Volaris (5). There were also Vuela and Viva.

For the most airlines, passengers were expected to be Mexican nationals attracted by cheaper fares and better connections than those offered on the older carriers. But the opportunities did not just lie within the domestic market.

The open skies agreement with the United States made it easier for Mexican airlines to fly there. With a large immigrant population in the U.S., these airlines had the opportunity to expand internationally and catch people visiting friends and family across the border.

Some of these new airlines were interested in developing a marketing strategy to target the 26 million Mexicans that live in the US, to increase their growth in the next decade.

Many routes also made sense for U.S. travelers as well, especially people interested in hopping around or tacking on an extra city or beach to their getaway.

One of the challenges for the low cost carriers and the US passengers were the booking systems. Most websites were in Spanish only. Also, prices were generally given only in pesos. Travelers accustomed to getting around on bumpy, crowded Mexican buses, however, preferred the new headaches to the old ones.

Lost cost carriers priced their fares slightly higher than the price of a bus ticket along the same route with the expectation that people were willing to pay a small premium for a shorter travel time.

Developing internet sales was crucial to keep distribution costs low. To become a significant player, a low cost carrier had hourly departures to compete against national carriers for business travelers. The brand was also important to compete against US carriers along routes to the US.

Evaluating the entry in the Mexican market

One of the key 2007 issues that GOL presented to the investors was the growth strategy. This point was focused in launching 8 new markets: 5 in Brazil and 3 international and to add over 130 new flight frequencies.

Mexico was the market selected although some regulations difficult the entry, like the share of foreign investments in local companies.

Gol entered the previous international markets with the same entry strategy: alone and with low fares. But Mexico was a special market. It was necessary to fight two strong domestic and international players: Mexicana and Aeroméxico. The first one also had launched a few months earlier a low cost carrier named Mexicana Click. At the same time the big challenge was the five new low cost carriers that invested, in total, close to 800 million dollars to launch their companies. Each company invested between 90 and 200 million dollars.

These companies were trying to develop the domestic market during the following years but at the same time had the future objective to be international o Latin American players. One important point was that there was not any low cost Latin American carrier competing in the international Latin American routes.

Another challenge was centered in the possibility that the big U.S. players that dominated more than the 40% of the Mexican international flights decided to compete in a more aggressive way in the international Latin American routes.

With these scenarios, what was the best strategy to enter the Mexican market? Was the traditional GOL´s low cost model the best way? Was it the best option to evaluate the entry in the domestic market with a local partner? Or was it enough to go alone like the other GOL´s international destinations? Recently Gol had bought Varig in Brazil. Was the same strategy the best way to enter Mexico? What were the pros and cons of each decision? Was there another option to enter the Mexican market?.

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Teaching Note

a. IMMEDIATE ISSUES, BASIC ISSUES AND KEY POINTS OR HIGHLIGHTS

The immediate issue of this case is to evaluate the best strategy to enter the Mexican market. The basic issues are centered on analyzing the different type of modes of entry: self development, in collaboration with a partner or through an acquisition. Related to these decisions the case allows us to study the competitive environment in Mexico and the possible attack or entry of US players.

Another important point to analyze is the value chain or GOL´s business model and its sustainability.

As a wrap up the key point could be to focus on the importance of pros and cons of replicating a model in other countries, specifically in Latin American countries.

b. INDICATION OF LEVEL OF ANALYSIS FOR WHICH CASE HAS BEEN WRITTEN

The main audiences are MBA and undergraduate students of international or global marketing courses. It's a short case that also can be used in executive courses.

c. SUGGESTED STUDENT ASSIGNMENT

What were the options to enter the Mexican market?
Was the traditional GOL´s low cost model the best way to enter the Mexican market?
Was it the best option to evaluate the entry in the domestic market with a local partner?
Was it enough to go alone like the other GOL´s international destinations?
Recently Gol had bought Varig in Brazil. Was the same strategy the best way to enter Mexico?
Was there another option to enter the Mexican market?.

d. SUGGESTED ADDITIONAL READINGS OR REFERENCE

Keegan, W. & Alon, I.. Global Marketing Management. 8th. Edition. Prentice Hall. 2008. Chapters 8 and 10.

e. POSSIBLE DISCUSSION QUESTIONS

The key questions for discussion:

What is the actual situation of the Mexico airline market?
Which are the sources of GOL´ s competitive advantage in Mexico?
Which are the main key success factors of its chain value?
How sustainable will their position in the airline sector be in the future?
Is it easy to replicate the business model?
GOL based its success operating on short routes. Is it possible to replicate the model on long routes with only one type of plane?
How effective will their diversification in other Latin American markets be?
Does GOL have enough international management experience to continue growing in Latin America?

Does GOL have to use the same entry market strategy in new destinations? Why?

f. POTENTIAL USES OF THE CASE

This case could be taught in a global marketing course. More specifically in sessions related to entry and expansion strategies or competitive analysis and in strategy sessions with focus on the value chain.
This case could be also taught in courses related to Latin America business studies.

g. ANALYSIS

What were the options to enter the Mexican market?
These are the possible options:
Enter with the same successful strategy than GOL used in other Latin American countries like Argentina, Uruguay, Chile and Perú.
Acquire a traditional Mexican airline
Acquire a low cost Mexican airline
Look for a US player as a partner
Look for a Mexican investor

Was the traditional GOL´s low cost model the best way?
The traditional low cost model worked in other countries. But it’s important to add that the Mexican market is very different. First, Mexico is the second largest market behind Brazil and within Mexico the competition is very hard. Second in other Latin American countries there were not other low cost local competitors. In Mexico, there were local low cost competitors with the strong intention to be international. So this model could have some type of threats in the future. It is not the same to try to develop only the international Latin American routes or the Mexican domestic routes or both.

Was it the best option to evaluate the entry in the domestic market with a local partner?
This was another option that could be considered. First, there was some type of restrictions about foreign investment. The positive side is the local market knowledge, main characteristic and the lobby needed business negotiation. All the management issues would stay in hands of GOL managers.

Was it enough to go alone like the other GOL´s international destinations?
There is some risk. First there is very strong Mexican competitive environment. Second, the business model could be copied partially by other players. Third, there are some type of threats about the decision of these players to enter the international Latin American routes.

Recently Gol had bought Varig in Brazil. Was the same strategy the best way to enter Mexico?
It was a possible option. Maybe Mexicana could be the target. This company was losing market share and maybe money. But here there is also the same question than in Brazil. Why buy a traditional company?. This is not GOL´s business. It’s also an important investment. The positive side may be to have some type of presence in the local market. A better way could be to acquire a low cost airline or part of one.

Was there another option to enter the Mexican market?.
GOL could wait and look at what will happen with the low cost airlines performance. With this type of information maybe the decision will be clearer. This is the positive side. The other side is that maybe GOL can not wait if the Mexican or US carriers are trying to enter the international Latin American routes.

Another option is to look for a partnership with a US player. This option reduces the risk of US entry in the international Latin American routes. Maybe through the creation of a new company.

h. SUGGESTED TEACHING APPROACH

This case can be taught using some time for group discussion. In this case, each group has to present the evaluation of one option or alternative.
Another way may be to develop a role playing activity with 2 students that represent the international marketing director and a Mexican investor or player (traditional or low cost) and the negotiation agreement.

i. COMPUTER SUPPORT AND AUDIO-VISUAL SUPPORT

Not available

j. PROPOSED SESSION PLAN(S)

0 - 5 minutes	Case Discussion Question 1
5 - 15 minutes	Case Discussion Question 2
15 - 25 minutes	Case Discussion Question 3
25 - 60 minutes	Case Discussion Question 4
60 - 75 minutes	Case Discussion Question 5
75 - 90 minutes	Case Discussion Question 6 & Wrap-up and Conclusion