

**Handout 1: Model Memo**  
**Using Evidence and Analysis to Create Strategic Recommendations**

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To: Felix Hernandez, CEO, Fancy Airlines  
From: Delia Masoud, Founder, Strategic Consulting  
Re: Differentiated broad market approach to compete with low-cost airlines  
Date: 9/2/2024

Fancy Airlines is facing stiff competition from low-cost airlines offering reduced ticket prices to budget-conscious travelers. While revenue grew consistently at a rate of 5-8% between 2014 and 2017, FY 2018 and FY 2019 saw revenue decrease by 10% and 8% respectively, a drop which coincided with the entry of Cut-rate Airlines and Fly Cheap into the market. These airlines immediately launched aggressive ad campaigns focused on the prohibitive cost of air travel and positioned themselves as attainable alternatives. While there was also a change in Fancy Airline’s leadership at the time, we do not believe that this has had a significant impact on company performance, as employee satisfaction remained high, and operations continued as normal.

In order to successfully compete with low-cost airlines, we recommend that Fancy Airlines focus on advertising its brand image as the industry leader in on-time flight arrivals and retain its commitment to high-quality and reliable service in the form of spacious seating, generous luggage allowances, and complimentary entertainment. Customer satisfaction surveys show that Fancy Airline’s repeat flyers consistently rate “an enjoyable, stress-free flight experience” as their top motivation for booking. Fancy Airlines has experimented with offering lower rates on certain “no frills” flights, but this only confused customers who had come to expect the airline’s usual amenities. Rather than pivot to a cost leadership strategy, Fancy Airlines should instead undertake a differentiated broad market approach designed to attract more business travelers and low-cost airline customers. According to market research, the latter demographic is increasingly unhappy with the hidden fees and poor service offered by budget carriers. The strategy proposed will allow Fancy Airlines to win back customers without sacrificing reputation.

1. What is the central challenge facing Fancy Airlines? What kinds of evidence and reasoning support the identification of this challenge?

2. What does the writer recommend that Fancy Airlines do to address this issue? What kinds of evidence and reasoning support the recommendation?