

## Hooters Air: Hot wings don't fly

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### ABSTRACT

This instructional case is designed to develop students' understanding of growth strategies, segment focusing, target market buying behavior, and brand expansion. The case explores a failed attempt at brand expansion by Hooters, a popular American restaurant chain that attempted to diversify into the airline industry. Hooters entered a highly competitive yet stagnant growth airline industry in 2003 as Hooters Air, targeting itself toward vacationers and golfers. Hooters Air sought to differentiate itself from other carriers with specialized flight destinations, a distinctive style of in-flight service, and first-class seating at an affordable price. After facing numerous challenges, including sky-rocketing fuel costs and general brand confusion, Hooters Air folded its wings in early 2006. The failure of Hooters Air is considered an ill-fated example of brand expansion.

Keywords: Hooters Air, brand extension, marketing segmentation/positioning, diversification, marketing growth strategy

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## TARGETED COURSES AND LEARNING OBJECTIVES

This case is suitable for both undergraduate and graduate courses in marketing, management or entrepreneurship, as well as courses in which students are studying business strategies and marketing planning topics such as marketing growth strategy, branding strategy/brand expansion, new product introduction, market segmentation/positioning, and entrepreneurship.

The primary purpose of the Hooters Air case is to explore brand extension, growth strategies, and means of targeting customer segments. The specific learning objectives for the case are to develop students' ability to:

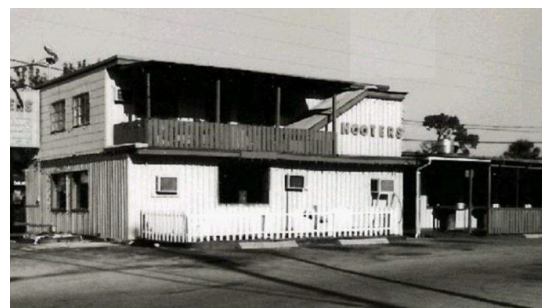
1. Conduct and interpret a SWOT analysis
2. Define one or more target markets and determine appropriate positioning within identified segment(s)
3. Explain buying behavior of consumers within a defined target market
4. Explain elements of a brand image and design marketing strategy consistent with existing brand image
5. Explain growth strategies and different means by which an existing company may grow (or diversify) within its current business segment

## HOOTERS AIRLINE CASE NARRATIVE

### The Hatching of Hooters

In 1983, a group of six friends who lacked any experience in the restaurant industry, put their heads together to create the Hooters concept. The first location opened in April of that year on the shores of Clearwater, Florida. The founders loved the ambiguity of their chosen name for the restaurant: on the one hand they could use an owl as their mascot due to the "hooting" sounds that the bird is known for, but primarily they could gain the attention of potential male customers as the word Hooters is also American slang for female breasts. The idea was originally conceived an April Fools' Day joke among friends, because the original six believed that their venture would imminently fail.

Hooters had a year's worth of struggles and growing pains before some good fortune came its way in the form of free publicity. Tampa took center stage in late January 1984 when the city played host to Super Bowl XVIII, pitting the Washington Redskins against the Los Angeles Raiders. Fullback John Riggins, who was one of the main stars for Washington, happened to eat



*The original Hooters restaurant on Hwy 60 (Gulf to Bay Blvd) in Clearwater, FL. Source: [http://blog.syracuse.com/entertainment/2011/12/original\\_hooters\\_gets\\_a\\_faceli.html](http://blog.syracuse.com/entertainment/2011/12/original_hooters_gets_a_faceli.html)*



lunch at Hooters the day before the game. Riggins became fond of the establishment, because at the conclusion of his team's Super Bowl Sunday loss, he returned with several teammates for a midnight snack, and to drown their sorrows. The media attention that followed quickly propelled the business, as Hooters quickly went from grossing \$2,000 per night to now nearly \$4,000 per night as the norm during this stretch (Pederson, 2005).

### Hooters of America

In 1984 an Atlanta investment group entered the picture. The six friends who had founded Hooters of Clearwater, Inc., were now willing to sell expansion and franchise rights to this group, Neighborhood Restaurants of America. They went on to form Hooters of America, Inc. The original owners of Hooters of Clearwater received 10% of all Hooters of America sales, in addition to 3% royalties on all Hooters merchandise sales. The deal struck also called for Hooters of Clearwater to retain final say when it came to both restaurant design and menu, as well as the right to build Hooters restaurants in Pinellas and Hillsborough counties in the Tampa Bay area (Pederson, 2005). By 1991, 50 Hooters restaurants were now operating and Hooters of America received revenues in excess of \$100 million. As an example of its rapid growth, by the end of 1993 the company had reached the 100-restaurant pinnacle while bringing in \$200 million in revenue (Pederson, 2005).

Hooters continued to gain a boost in brand equity from free publicity. In the summer of 1986 the U.S.S.R. boxing team arrived in Tampa for an exhibition against the USA. The Russians discovered Hooters, which was like nothing they had seen back home, and ate dinner there. The following day, the *Tampa Tribune* ran a full color picture of a Russian boxer enjoying his wings while flanked by a Hooters Girl in a tight t-shirt. During that same summer, Hooters girl Lynn Austin was chosen as *Playboy* magazine's Playmate of the Month in July. The famous publication also included a small article about Hooters as well as pictures that celebrated Austin in her Hooters outfit. Droste told *Florida Trend*, "We were already doing well at that point, but the *Playboy* article was important because it gave us our first national exposure" (Pederson, 2005).

The Hooters Girls always took center stage in the Hooters concept, not the food nor drink. The young ladies were always recognizable by their uniforms, consisting of a white tank top with the "Hootie the Owl" logo coupled with location name on the front, complemented by extremely short bright nylon orange runner's shorts. Hooters Girls also gained prestige through numerous celebrity appearances at popular sporting events and charity functions. They also found a home on billboards, trading cards, and calendars that were for sale.



Lynn Austin, the "Original Hooters Girl" and *Playboy* Playmate. Source:  
<http://www.capitalbay.com/news/393340-hooters-celebrates-its-30th-iconic-u-s-breastaurant-serves-up-sexy-waitresses-chicken-wings-and-beer-for-three-decades.html>

Hooters of America published a glossy *Hooters Magazine* that featured Hooters Girls in everything from sexy swimsuits and bikinis to evening wear (Hooters.com, 2014).

In 2001, Hooters of America, Inc. purchased the Hooters trademark. CEO Robert Brooks said of the \$60 million deal in a PR Newswire release: "As the Hooters system expands throughout the United States and internationally, we at Hooters of America felt that it was important that we own the trademark and have complete control of the Hooters concept and thus our own destiny" (Rigsby, 2001).

Hooters of America operated 80 of their own company owned locations, but also had agreements with 25 domestic and franchisees and 12 international. 170 restaurants were operated domestically, while 20 total restaurants operated in Mexico, Canada, Argentina, England, Switzerland, Austria, and Aruba (Pederson, 2005). Hooters continued to operate in the Tampa Bay area, Chicagoland, and greater New York, and gained development rights in other territories (Pederson, 2005). Hooters of America, Inc. was highlighting its plans for international expansion during the latter half of 2004 and into very early 2005 with Thailand, India, Trinidad, Shanghai, Croatia, and Australia on the docket (Pederson, 2005).

### Hooters Air Gets Its Wings

With the success Hooters enjoyed in the restaurant business, was it time to expand the Hooters brand into other business areas? CEO Robert Brooks thought so and investigated launching the Hooters brand into the friendly skies. An interview with CNN/Money in 2000 regarding Hooters' plans to purchase the bankrupt Vanguard Airlines demonstrated just how much of a learning curve the company faced with respect to entering the aviation business. Vice president of marketing, Mike McNeil remarked, "The first step is to assess if there's a desire to get in this business, because quite frankly we don't understand it very well yet" (Gunelius, 2009). Was the use of the airline nothing more than a marketing ploy to promote Hooters restaurants with the planes serving as flying billboards? Expansion into the airline industry had the potential to further build the brand's popular legacy of Hooters Girls by acting as an unconventional means of generating awareness for the Hooters restaurant chain. With the growth of other specialty airlines, Hooters Air stood out as an eccentric example of niche-market airlines popular during the 1990s through 2000s.

Brooks' rationale in entering the aviation industry was that he "planned to have a little fun in an industry that had always fascinated him." He bought Pace Airlines in December 2002 thereby acquiring its small fleet of Boeing 737's and a 757 to cover a variety of destinations (Hooters Air Folds its wings, 2006). Hooters Air was established in 2003 and started operations on March 6<sup>th</sup> of that year when the first owl-tailed Hooters Air 737 took to the skies with a Myrtle Beach base (chosen as a favorite golf destination for management).

In addition to a regular flight crew, each route featured two Hooters Girls dressed in the standard restaurant uniform of the famous tank top and tight orange shorts with nylons. The Hooters Air Girls aided in meal service, played trivia and games with passengers, and sold Hooters merchandise (Kalch, 2014).



According to a former Hooters Air Girl who was interviewed for this case, Ms. L. Kalch, the airline worked exceptionally well. “Every ticket was first class seating...the seats were roomier leather seats with lots of leg room and a free meal served on every flight. Prices were \$99 to travel to all destinations, except the Bahamas; that was \$149. Passengers liked the idea of the first class experience, without dishing out the additional money. In the beginning, the flights were packed with 132 passengers. Over time the flights got smaller.” (Kalch, 2014).



Source: [http://www.leasingnews.org/Pages/Hooters\\_Air.htm](http://www.leasingnews.org/Pages/Hooters_Air.htm)

### Specialty Airlines and Niche Markets

During the time Hooters Air's was active, there were several other specialty airline companies in the marketplace. Some were niche-oriented and market-specific with regard to the customers they served, whereas others, usually the subsidiaries of larger airlines, served a broader target market. Several of the more well-known niche, low-cost airlines were Southwest, AirTran, JetBlue, Delta Express, and Metro Jet, all of which had similar destinations to that of Hooters Air. Most of them offered popular flight routes to Florida and Myrtle Beach because they were some of the lowest-priced destinations in the United States (Parsons, 2000). Many low-cost and niche airlines also offered great one-way prices and did not penalize passengers for not purchasing a round-trip ticket (Parsons, 2000). Such niche airlines were successful at the time because they served consumers' need for convenience and speed of service. They offered great last-minute fares and walk-in rates were far lower than fares major airlines charged when advance purchase requirements were not met (Parsons, 2000). They were also able to rapidly adapt to marketplace changes by listening to their consumers and providing new routes on a frequent basis (Parsons, 2000).

Another interesting and successful niche airline was Delta's subsidiary airline, known as "Song," which exploited market research suggesting women actually made up the majority of adult leisure travelers and were generally the ones who booked vacations for their families (Maynard, 2004). Therefore, their major approach was to target these women through branding and marketing. The intent appeared to be to capture women as their main target audience and then capitalize on the leisure traveler market as a whole by employing targeted women as brand evangelists. Delta's *Song* was able to effectively accomplish this by dressing their flight attendants in uniforms that were



Source:

<https://www.thrillist.com/travel/nation/defunct-airlines-hooters-naked-air-pet-airways-erotic-airways-and-more>

designed by a famous fashion expert, Kate Spade. The colors were stylish and trendy, utilizing a bright lime green accent, which was contrary to the typical conservative, red, white, and blue for which the airline industry uniforms were known. In addition to designer uniforms, they provided products and services targeted to fastidious female travelers with martinis freshly shaken at seat side, fine candy, meals made with organic ingredients, and low-fat and low-carb options (Maynard, 2004).

The majority of the specialty airlines during the time Hooters Air's was flying the friendly skies consisted of vacationer-based airlines that were focused on particular groups of travelers seeking travel for recreation. Hooters Air followed this trend; their central target market consisted of golfers traveling to play golf in popular destinations in the Carolinas and Florida. Other specialty airlines that employed niche growth strategies similar to Hooters were Naked-Air, Pet Airways, Erotic Airways, and Smokers Express. The common strategy across such airlines was the attempt to diversify into a new specialty market with a new specialty product.

### **Air Travelers Fly in the Face of Tradition**

Buying habits of airline travelers changed drastically after the tragic events of September 11, 2001. Airlines who were already struggling under the weight of high fixed costs, huge debt loads, bitter labor relations and slim profit margins (Feldman, 2001) faced increased losses due to those events.

"Airlines are in rotten shape: Losses for the year, forecast at \$2.2 billion before the Sept. 11 terrorist attacks, could now easily surpass \$6.5 billion. A \$15 billion federal bailout has kept planes in the sky, but America's travel habits may be permanently changed by the war against terrorism, and some major carriers will likely go bust in the near future" (Feldman, 2001).

In addition to the fear these events brought to the industry, consumers continually sought the most economical avenue to fly. Rewards programs were in full swing with each company working harder and harder to maintain air travel business. When one company had an advantage, other companies would quickly close the gap and up the ante (Walters, 2002). Reward programs evolved rapidly and soon became co-branded with major credit card companies such as Visa, MasterCard, and American Express. These new reward cards offered customers the ability to earn travel miles by using these cards to purchase everyday items. Co-branded cards were the rage with 212.1 million cards in circulation during 2003 and expected growth approaching 529.3 million in 2009 (Ramsaran, 2005). Airlines were banking on customers using rewards programs and co-branded cards for repeat business (Ramsaran, 2005). Customers possessed multiple co-branded rewards cards from different competitors and quickly learned how to exploit such cards to acquire the best deal. It was fairly common practice to have several



reward cards, rotating use to exploit existing rewards. “In reality, customers are not so much loyal to the brands, but to the rewards they offer” (Walters, 2002).

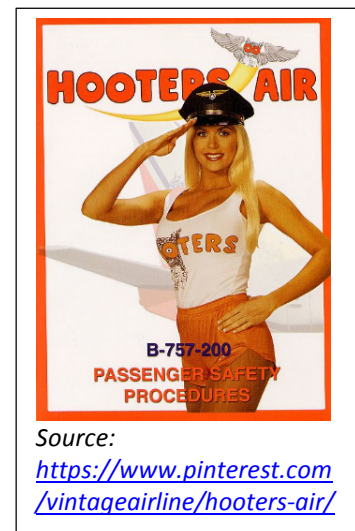
In addition, airlines were starting to see the importance of better understanding their customer base through the use of customer relationship management (CRM) tools. CRM, when executed properly, showed that “effective implementation of such a program can increase an airline’s revenue by as much as 2.4% per year” (Biggelt, Gupta, & de Pommès, 2002). The problem Hooters and other airlines faced, was an inability to manage and utilize this data effectively. Some airlines stored this data on as many as 20 different internal systems and 10 external ones (Biggelt, Gupta, & de Pommès, 2002). “One US airline spent \$25 million on a new data warehouse and associated tools but failed to use the resulting information profitably, in part because not all divisions of the airlines organization had signed onto the project’s goals” (Biggelt, Gupta, & de Pommès, 2002).

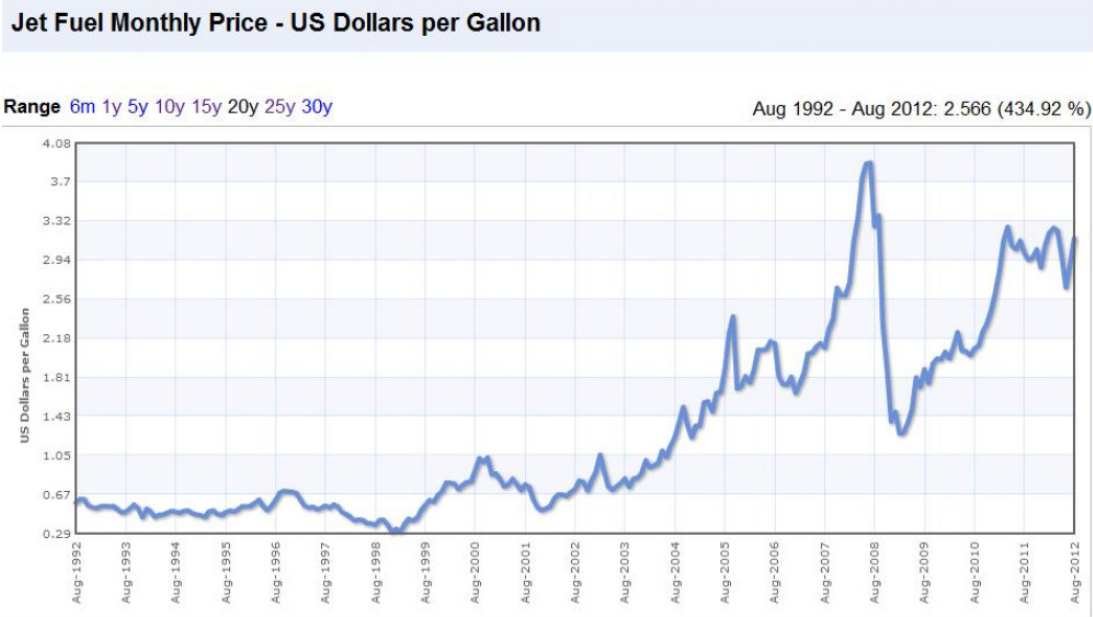
### Hooters Air in the Not-So-Friendly Skies

The airline industry was in a complicated state and the hot wings airline faced a number of seemingly insurmountable challenges. When it came to gate expansion at major airports, Hooters Airline was at a distinct disadvantage. Large legacy carriers had the advantage and many smaller airlines such as Midwest Airlines and American Trans Air were competing side by side with Hooters Air. The taxiways were crowded and gates were at a premium.

Management also had to compete against well-known brand names and loyalty programs of major carriers (Walters, 2002) while at the same time outsourcing job titles from Pace Airlines (More airlines contract to cut costs, 2005). Hooters Air also faced increased competition not only from the majors, but also from smaller regional competitors whose low cost operating structure drew more customers (Michels, 2003). A 2004 market analysis completed by eClype stated “the majors would continue a two front war with low cost airlines and insolvency” (Michels, 2003). The competition was a win for air travelers providing them the ability to fly regionally at much cheaper rates. Big airlines were banking on repeat customers fueled by the many rewards programs they offered. Hooters Air was positioned as a fixed price (\$99 fare), low-cost airline to attract its customers; unfortunately, the price of jet fuel continued to skyrocket each month the carrier was in operation. Profit margins plunged as jet fuel costs increased.

Moreover, Hooters Air customers were disappointed that the restaurant-brand food did not extend to the airline. Federal Aviation regulations did not permit cooking food on board, so the fried chicken wings and other popular restaurant fare were not available in flight. There were also concerns regarding safety and the professionalism of the flight crew. According to Ms. Kalch, former Hooters Air Girl, “It also had to do with the misconception of what the airline really was; yes, it was a Hooters Air flight, but people were nervous about bringing their children and husbands on the flight. They seriously thought that the two Hooters girls were the actual flight crew, and that they were putting their safety in the hands of an untrained waitress, so I think they were worried about the security measures as well. If marketing materials featuring both the full flight crew as well as the Hooters girls had been produced, they could have helped dispel this notion” (Kalch, 2014).





Source: <http://www.indexmundi.com/commodities/?commodity=jet-fuel&months=240>

Confused customers had trouble making the connection between an airline and the brand promise of good food accompanied by Hooters Girls (Kalch, 2014). It was reported, “The airline business model requires a broader customer base than a niche restaurant chain. Also, Hooters' beer-and-chicken-wings demographic doesn't necessarily include lots of frequent flyers” (Jana, 2006). The customer base continued to dwindle, flights were less full, and costs continued to rise.

### Hooters Air Folds its Wings

By early 2006, CEO Brooks no longer saw the need to attempt to save Hooters Air. "The flying industry is in a terrible mess," Brooks said. "I've got a fair amount of money, but I don't have enough to fix this animal... I think the best thing we can do is basically put it to bed, at least for right now, until the industry changes." (Hooters Air Folds its wings, 2006). By March, Hooters Air was just another casualty of the Airlines Industry, which would continue to struggle for the next decade.



Source:

<https://www.pinterest.com/pin/513903007456129950/>

### DISCUSSION QUESTIONS

1. Have you ever dined at a Hooters restaurant, flown Hooters Air, or stayed in a Hooters hotel? What brand image did you take away from your experience with Hooters?
2. If you had been the CEO of Hooters in 2001, would you have diversified the business into the airline industry? Why or why not? What alternative growth or diversification strategies might have been appropriate?
3. Perform a SWOT analysis of both Hooters of America, Inc. and Hooters Air in 2003. What are the key differential competitive advantages of each?



4. What was Hooters Air's target market? Was this segmentation appropriate? How could Hooters Air have better defined their target market?
5. If you had been the marketing manager of Hooters Air, what differences in the marketing mix elements would you have implemented, compared to what they actually did?
6. When Hooters Air was running at a loss, what would you have done to address the problem (other than shutting down the airline)? List at least three alternatives, choose one, and defend your choice.
7. Now that Hooters Air has folded its wings, what might Hooters do today to continue growth and expansion?

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