LOW COST & LOW FARE : STRATEGY IN REVENUE MANAGEMENT FOR GOL AIR TRANSPORT S.A

Joshua Onome Imoniana*, Marly Cavalcanti**, Marcelo de Souza Bispo***

Abstract

The intention of this paper is to study the concept low cost, low fare as strategy in the market of Brazilian commercial air transport, taking as parameter the case study of Gol Air Transport S.A. For the achievement of the presented objectives the following questions are made: a) what it takes an airline company to take a strategy of low cost low fare? b) The option of low cost low fare, would have contributed to generate a new managerial model in the traditional forms of strategic management in the area of commercial air transport ? c) The constructed scenery tends to be lasting? Adopting the methodological approach of case study and analysis of events, a qualitative and quantitative research was fullfilled on the basis of the studies of Denzin & Lincoln. The results of the analyses indicate the deepening of the phenomenon of low cost & low fare that it is used in world-wide commercial aviation and makes to conclude the relevance and the potentiality of the concept low cost & low fare if it is extend to the tourist industry that suggests a new balance for the traditional companies in the strategic management.

Keywords: Low cost, low fare, Gol Air Transport S.A, Commercial Aviation, Strategy.

*Titular Professor at Universidade Metodista de São Paulo, Rua do Sacramento, 230, Rudge Ramos-São Bernardo do Campo
Cep: 09641-000, Phone 55-11-3288-0497 Fax: 55-11-3284-3139
email: jo.imoniana@yahoo.com

**Titular Professor at Universidade Metodista de São Paulo, Av. Brigadeiro Luís Antônio, 1930 Ap.111 - 01318-002 – São Paulo –SP - Brazil
Phone: 55-11-3288-0497 Fax: 55-11-3284-3139
e-mail: cavalcanti.marly@gmail.com

***Master of Science from Universidade Metodista de São Paulo, Rua do Sacramento, 230, Rudge Ramos-São Bernardo do Campo
Cep: 09641-000, Phone 55-11-3288-0497 Fax: 55-11-3284-3139
email: marcelodesouzabispo@gmail.com

1. Introduction

Brazilian commercial civil aviation comes passing for a transformation in the last years, traditional companies as the Transbrasil, the Vasp and Varig does not operate more, Varig has many years passes for a deep financial difficulty, now Gol Air Transport S.A made the aquisition of Varig, and civil aviation lives a crisis in airports. On the other hand, new companies had appeared as the Ocean Air, Webjet, the BRA and most exponential of the last years, the Gol Air Transport S.A. The numbers of embarkments and landings of passengers increase to each year, however, the financial difficulty of the airlines in Brazil seems not to have end. In this scene of great competition and costs of operation raised in virtue of aviation to have the dollar as official currency, high tax burden and the demand of great infrastructure. In this scenery, cost appears in Brazilian companies with the concept low cost & low fare, or either, low costs and low tariffs. The first Brazilian company with this concept was the Gol Air Transport, followed by the BRA and more recently for the Webjet novice. When entering in the Brazilian market of commercial civil aviation, the Gol had as main purpose, create a new market, to reach people of average and low income, that normally travelled by bus, so that these people could make its trips using the air transportation, offering lower prices that before have no existence in the market until then. However, as to practise accessible prices to mentioned social class, with the costs so raised that Brazilian aviation could do? It will be exactly possible that an airline could compete with a company of road transport? How? All these questions can be answered analyzing the strategy adopted for these companies, mainly for the Gol, the greater of them and with more significant results. The concept low cost low fare, had its beginning in the United States, where this practical is very common in the present time, having as main company the Southwest, that for signal, was the inspired model of the Gol in Brazil. The bases of the concept, are in the evaluation of the processes to optimize them of the best possible form, using
strategies as to use the available airplanes the more possible time flying, to simplify or not to use edge service, to elaborate special maintenance programs so that the motionless airplanes are the lesser possible time, to create routes that make possible a high occupation of seats (load factor). Consequently, the cost of the passenger for flied kilometer is lesser of that of the too much other companies, what it makes possible to practise lower prices in the market.

2. Principal Questions

To understand the intentions of this research, the following questions must be clarified: What it takes the company of the commercial aviation to take a strategy of low cost low fare? The option of low cost low fare, would have contributed to generate a new to look at the traditional forms of strategic management in the area of commercial aviation? The constructed scenery tends to be lasting? The objectives of the inquiry: the study it has focus of independent analysis, what it tends to identify the phenomena that lead to the choice of the strategy by means of the following objectives:

3. Generalities

To study the concept low cost, low fare as strategy in the market of Brazilian commercial aviation, using itself as case study the Gol Air transportation; To analyze the concept of low cost, low tariffs while enterprise strategy, presenting the potentialities and possible weaknesses in the operation choice in this way

a. Specific

To identify what consists the strategy of success of the case Gol; To confirm if the strategies taken for the Gol, they had stimulated forms of rethink a new paradigm for Brazilian commercial aviation, to verify if the recent fall of the Boing of the Gol Air Transport S.A in the Amazonian rain forest, affected the businesses of the company?

b. Justification of the Considered Objectives

The survey of the aspects of the strategic management, low cost and low fare is important not only in terms of mapping of that it lacks to traditional companies of the commercial area of Brazilian aviation, as in terms of technology of management, in comparison with its competitors, but also it is of great value to confirm some cognitive aspects, that the philosophy and new managerial paradigms in the area of aviation supported for companies as Gol When approaching cited aspects above, the can be reflected on the works of some authors: Davis & Newstrom (1992, 2002), Bowditch & Anthony (1999), Flamholtz (1979), amongst others. In accordance with them the managerial control is seen as the process to influence the behavior of the members of the organization, being established a series of projected mechanisms to increase the probability of the people, in order to reach the objectives of the organization (Flamholtz, 1979). This author in the truth, emphasizes a control strategy that is one of the important topics regarding the subject in quarrel. The work, in the direction to supply to the controlling of companies of the area of Brazilian commercial aviation, a study with based reflection that rethink paradigms of costs control, and of the occurred changes in management environment recently, actually, considered as surpassed for the problems brought by the age of information, for example: security of information, risks and governance.

4. Methodology of Work

This research assumes neopositivist context, a theoretical referencial to understand the phenomenon of low cost & low fare, besides searching empirical evidences that support the concept. The methodologic approach also considered exploratory work, with quantitative vision that helps to analyze the proposed questions in analytical and qualitative form, that makes possible to understand the aspects of events you manage and are operational involved. A qualitative approach proposal for Denzin & Lincoln (1994) perfectly take care of the objectives of this research (vide table 1), mainly, when strategical vision based in resources is applied in 3 Phase (low cost & low fare) and analyzes the involved events in Phase 4, and in Phase 5 interpretations.

The research in question, has focus of case study at the first moment and this guides for the necessary deepening for the study. However, in the posterior processes it is intended to extend for multi-cases where the diagnosis of the phenomenon will make possible for the companies of the Brazilian commercial aviation in a more including form, preventing precipitated prognostics of the strategical information of each one of the companies of the sector.

5. State of arts of the literature

Generalizations about costs. During the decades of 1960 the 1980, the cost was subject of the financial area that dominated the strategic scenery, entering into an alliance the productivity necessities. This subject, comes exactly with turbulent environment of management of the businesses, even so not so intense in the beginning of the age of information, in which it speaks in such a way as corporate governance, risks management and security of systems of information. These perspectives do not cause newness, therefore cost is a basic element of organizacional management.
Table 1. The research process

| Phase 1: The investigator as multicultural subject | Phase 2: Theoretical paradigms and the perspectives | Phase 3: Strategies of the research | Phase 4: Methods of data collection and analysis | Phase 5: Art of interpretation and representation |
|-------------------------------------------------|-------------------------------------------------|-----------------------------------|-----------------------------------------------|-----------------------------------------------|
| Histories and the Tradition in the Neopositivism Research | Positivism | Drawing of the Study of the Case | Interviews | .Criterion To judge Consistencies |
| Self concept | Construtivism | Human view | Data analysis | Politics of Interpretation |
| Ethic and research politic | Human beings | Participant Observation | Visual method | Interpretation |
| Ethnic models | Human beings resources | Method of Personal Experience | Politics |
| Marxist models | Theoretical Base | Method of Management of Data Evaluation | Traditional Cultural models |
| Cultural Models | Historical Action Method and Applied Research Analysis | Computer Methods of Applied Research | Applied Research |
| Clinic research | Textual analysis |

Fonte: Adaptaded de Denzin & Lincoln (1994, p. 12-14)

Therefore, Leone (2000) prefers to characterize costs as activity that if is similar to a processing center of information, that receives (or it gets) given, accumulates them in organized form, analyzes them and interprets them, producing information of costs for the diverse management levels. Martins (2001) preferred to appraise cost, as also an expense, that only recognized as such, that is, as cost, at the moment of the use of the production factors (goods and services), for the manufacture of a product or execution of a service. Examples: the raw material was an expense in its acquisition, is of new an investment, since he is activated until its sell. In complement to this, Iudicibus (1998), in turn, it adds that since that the scholars always find explanations for its "scientific beliefs", that are exactly not necessarily correct, we would have to clarify that the original direction of the word cost, applied to the accounting. Is mentioned, clearly the phase where the production factors are removed from the supply chain and placed in the productive process. It still affirms with property, what it is basic, therefore has real interest in evaluating globally the unitary cost of the product (Iudicibus, 1998). The commented relevance above, also receives support in Kaplan (1982), the politics of price of the product is something most important and difficult of decisions to be taken for the controlling. The decision affects the scales of operations, the mix of the products and in long range period, the profitability.

6. Discussing the Concept Low Cost & Low Fare

The concept of airlines low cost, low fare appeared after the deregulation of commercial aviation in North America 1978, until then, practically all the airlines in the world was kept for the governments of the countries where they had headquarters, they were flag countries. Such regulation provoked an oligopoly, in which when the companies had its costs raised for some reason, quickly this cost was repassed for final consumer (FREIBERG; FREIBERG, 2000). The end of the regulation of American commercial aviation, initiated a process of competition between companies of the segment, extending itself later for the Europe and too much emergent countries. In this new scenery, many companies had broken, fusing had happened and the dispute for passengers incited, mainly, because at this moment, already existed a dispute of prices between companies, this made possible that in 1971 in the United States, a new company with a new concept appeared, that had as premise to vender the cheaper aerial tickets of the market, called Southwest. It starts then, a new moment in American commercial aviation. For Herb Kelleher (FREIBERG; FREIBERG, 2000) one of the idealizers of the Southwest, the main one for an airline is to carry the passenger from a point A to a point B, without perfume, this, ally to a standardized fleet of aircraft, reduction of points of connection of passengers, greater number of seats inside of the airplanes. These actions make possible that the company keeps its aircraft a longer time in air, consequently increases the prescription and the profit of the company. More recently, after the evolution of the Internet, the companies of low cost, low tariff, had made use of this new instrument as great chance of business and also cost reduction, for emission and sales of tickets, the new technologies are basic allied for these companies who see in these instruments significant possibilities of increase of reach of the business and significant reduction of the cost. In Brazil this possibility of price war was initiated in the decade of 90, in the Collor government, also by means of the deregulation of the commercial aviation that, as well as in other places of the world, provoked
enormous crisis in the sector, a time that, the companies were not prepared to face the new context. A new reality took account of the Brazilian market of commercial aviation. Thus in 2001, the Brazilian Gol Air Transport S.A implements of the concept low cost, low fare in Brazil.

Based in a business-oriented model of low cost, Gol Air Transport S.A closed 2005 boarding 13 million people, for 10% of them, was its first trip, in this year invoiced US$ 1.1 billion, 27% more than 2004, when it reached profit of US$ 167 million. Each airplane of the Gol Air Transport S.A is seen as business unit cell, the fleet is composed for boings 737-700 and 737-800 of last generation, that consume 12% less of fuel. Its 320 commanders are trained as controllers of cells, each one carrying laptops with flight routes, photos of satellite and manuals. The passenger of the Gol Air Transport S.A purchase in the Internet or travel agency, the company does not emit tickets, only ship's receipt in the day of the trip, the annual economy in the meals is of US$ 1 million for airplane, the company not have any store, and the cleanness of its devices is made by only two employees.

7. The sustentability of the economy of the Concept Low Cost, Low Fare

The concept low cost, low fare have as a basic premise, the optimization of material and human resources for its consolidation. However, the control of costs that is necessary for the etefivation of this concept, is mixed to the economic stability of the country in which the company is based, therefore cambial, insum questions of oil (mainly combustible), beyond taxes and control of the inflation, is basic for the increment of the control of costs and strategic planning of the companies low cost, low fare, after all, as to compete with low costs in an inflated economic scenery, or with crises in the fuel supply, or still with tax of unstable exchange? Beyond these points, a economy with solid bases also provides a economic growth that also makes possible the increase in the demand in some segments, also in commercial aviation. The changes carried through in the Brazilian economy in last the 11 years, since the implantation of the Real Plan, had provided favorable conditions of investment in the national market, in this context in 2001 the Brazilian Gol Air Transport S.A Gol can appear and to expand its businesses, reaching in 2005 a significant place (DAC, 2005) in the domestic market of passengers with approximately 27% of market. Economic the crises deriving from 11 of September of 2001, had caused great global social and economic damages mainly, in the United States the country that more suffered with the terrorist attempted against them, since then, innumerable companies between them American air companies, had entered in deep financial crisis, also companies with the concept of low cost, low fare as Southwest and the Jet Blue. Turbulences as this, had provoked in these companies a significant loss of demand of passengers, an increase in the price of the aviation gas and a depreciation of the American dollar by means of the other currencies as the Euro (market community) and the Yen (Japanese). Example as this, mainly shows to the sensitivity of the market of commercial aviation and companies of this segment who adopt the concept of low cost, low fare as strategy.

Table 2. Comparison between commercial air companies

| Characteristics       | Traditional companies | Companies low cost, low fare |
|-----------------------|-----------------------|-----------------------------|
| Aircraft              | varied Models of aircraft | Only one model of aircraft |
| Edge Service          | Elaborated with options | Without service or extremely simple |
| Salling of Fare       | Through great number of store, agents of trips and use of GDS Store in the airports, | Agents of trips and InterNet |
| Time of daily use of the aircraft | Average of 8 hours | Average of 10 the 12 hours |
| Seats                 | Good space between armchairs | Maximum Number of armchairs allowed for the manufacturer |
| Routes and lines      | Operation in main airports and with flights right-handers | Operation in secondary airports, few connections and flights with scale |

Font: Elaborate by the authors
Revenue Management

Revenue Management is the term used to manage the quality of the produced prescription. This means that through a composition of load factor and average cost for seat, can be applied different tariffs for one same flight, so that this has the biggest possible yield.

A company does not advance if it practise excessive prices for an aerial ticket, therefore the risk of selling below of the waited becomes inevitable, a time where the market that determines the price, on the other hand, a tariff extremely reduced with a crowded airplane, also is not guarantee of income-producing flight, the prescription of the flight can be inferior to the cost of the operation. Therefore, the Revenue Management, searches a balance between practised tariff and busy seats, thus a flight can take off inside with the biggest possible yield of that the demand of the market provides. For better agreement of the concept of Revenue Management, let us see the examples below: Data: Stretch: São Paulo/Salvador Capacity of the aircraft: 120 seats Operational cost hour/flight: USS 5,000 dollars Block time São Paulo/Salvador: 2 hours Cost of the seat (unit): USS 83,33 dollars

Example 1: Tariff 120 seats for: USS 120,00 dollars the Load unit factor: 90% (108 seats)

Example 2: Tariff 120 seats for: USS 200,00 dollars the Load unit factor: 55% (66 seats)

Example 3 Tariffs: 10 seats for 100,00 dollars 15 seats for 120,00 dollars 30 seats for 150,00 dollars 50 seats for 200,00 dollars 15 seats for 250,00 Load dollars factor: 75% (90 seats)

Obs: For the composition of the 90 seats (example 3) the seats of the lesser tariffs until the biggest available tariffs had been used. With the examples above, if it can perceive that load factor is not the best pointer of yield of a flight, therefore the first example in which the exploitation of seats it was most good with 90% of occupation, was also, the flight with lesser prescription, a time that the tariff practised for all the seats was very low. In the example number 2, the flight with only one tariff is superior better than the first example, however, this was made with the exploitation of the flight more lower still yes the prescription was superior to the first example. Finally in the third example, in which a composition of tariffs was practised and the concept of Revenue Management, it is noticed that the occupation of the flight was superior to the example and the prescription better that the first one and according to example, exactly having been some
seats with lesser prices of that the first example and other greaters that in as in the example. Therefore, it is in the work of this composition of tariffs and occupation of seats, that the Revenue Management, searches a balance so that it is possible to reach the biggest yield in a flight. In the case of the companies low cost, low fare, this work of Revenue, is made with much criterion so that seats with compatible prices with the demand are offered, however inferior to the practised ones for the competition. The tariffs lowest are offered by the InterNet and for people who buy with antecedence, in case that contrary, tickets bought in the airport in the day of the embarkment, are so expensive how much of the other companies that they do not use the concept of low cost, decreases tariffs.

The company is part of the Golden group, that is one of the biggest groups of road transport of passengers of Brazil and has in its owner Mr. Constantino de Oliveira, its icon. Gol arrived at the market with a proposal to provide to accessible aerial tickets the favored the public who until then used the road transport for its trips, as the American Company Southwest, brought for Brazil the concept cost, low fare. In the beginning of its operations, the Gol counted on 7 aircraft, currently the fleet of the company possess approximately 40 airplanes all of the model Boeing 737-700/800, the number of employees is around 3,500 and carries monthly about 900 a thousand passengers. The strategy of the Gol, is mounted in that Porter (1992) flame of strategy based on costs, or either, the efficient process in the management of the costs, mainly in the sector of operations of the company, makes with that the Gol obtains to practise inferior prices the competing companies. In the process of entrance in the market, the company invested strong in its plan of marketing, having as message that the Gol was arriving to democratize the trips of airplane in Brazil, with a new concept, obtained to establish the idea of that the cheaper aerial company of Brazil and with most good and the new fleet of airplanes was. With this strategy, the company comes consideravelmente growing in size, participation of market and number of carried passengers.

Despite the quarrels on the part of authors as Pankaj (2000); Mintzberg; Ahlstrand; Lampel (2000) on the theory of Porter (1992), questioning the based competitive advantages in three described generic strategies in leaderships in costs, differentiation of the product or service, for believing that companies exist want to conciliate competitive advantages in costs as much in differentiation, as for example the McDonald's in its prosperous period of years 80, the case of the Gol, exactly not acting in a market that can be considered commoditie, when Pankaj (2000) says to be one of the few cases where the differentiation must be in costs for being to deal with similar products, the Brazilian market that consumes the air transportation seems to be sufficiently sensible the question price, exactly in the case of the executive travellers. As cited previously, the macroeconomic conditions of Brazil, allied to the growth of the market of commercial aviation that according to Infraero grew around 17% of January the October of 2005 in comparison to the same period of 2004, are 79,3 million passengers carried in 2005 against 67,7 million in 2004, this exactly represents 1,52 million of landings and takes-off in this period of January the October of 2005. It adds these numbers, the difficulties of competitors as the Vasp and Transbrasil who had left to operate, the Varig that passes for strong financial crisis, a possibility so that the Gol could quickly increase its participation in the market as seen in the previous table and to consolidate until the present moment the success of the business based on the concept low cost low fare.

| Profitability | more | 12-31-05 |
|---------------|------|----------|
| Stock | Industry | S&P 500 |
| ROA % | 19.0 | 5.0 | 8.0 |
| ROE % | 49.7 | 16.4 | 20.1 |
| Net Margin % | 19.2 | 7.5 | 14.2 |
| Asset Turnover | 1.0 | 0.8 | 0.8 |
| Fin Leverage | 2.6 | 4.7 | 5.0 |
| Sales(Employee) | 422.1 | --- | --- |

Font: Elaborate by the authors
Thus, the Gol possesses as main competitive advantages - Maintenance of low operational costs: efficient use of the fleet with an average of 13, 9 hours per day, making possible the distribution of fixed costs. - Operation of homogeneous fleet: use of only one model of aircraft Boeing 737-700/800 with only one classroom (economic). - Competitive Terceirização: for control of costs and for believing that services support ground to the passengers, manuscript of luggage and call to center are carried through of more efficient form for the rendering of services, all they are - High ratio of selling in the InterNet: 81.3% of tickets are for the Gol, exactly when carried through for agents of trips they are made by the site in the InterNet, others 12% of selling are made by call center. - Better practices of air company of low cost: use of simplified services, not having rooms vips, program of miles, edge service with light snacks and drinks, not the physical ticket use (they are all electronic), thus obtaining one better control of costs. In this way the strategy of leadership in costs of the Gol is the continuing offering a quality service, however simplified. With the necessity of scenery prospection for better composition of the strategy (MARCI;AL;GRUMBACH, 2005) the Gol has as basic elements.

| EBITDA Reconciliation: | 2003 | 2004 | 2005 | 2005 | 2006 |
|-----------------------|------|------|------|------|------|
| Net income (loss)     | R$175,459 | R$384,710 | R$513,230 | US$219,263 | R$131,084 | R$179,790 |
| Plus (minus)          |      |      |      |      |      |
| Net interest and financial expense | 77,591 | (10,979) | (96,171) | (41,086) | (23,515) | (24,795) |
| Income taxes          | 88,676 | 202,570 | 204,292 | 87,278 | 69,677 | 68,840 |
| Depreciation          | 13,844 | 21,242 | 35,014 | 14,959 | 6,803 | 12,529 |
| EBITDA                | R$355,570 | R$597,543 | R$656,365 | US$280,414 | R$184,049 | R$236,364 |

Font: Elaborate by the authors

To expand the base of customers by means of offers of services in routes with high demand and routes little taken care of, to continue reducing operational costs, to keep offers of simplified and convenient services the customer, to stimulate the demand offering low tariffs and flexibility in the payment. Another interesting point to be cited in the composition of the strategy of the Gol is the adoption
on the part of the company of a management model prioritizing the corporative governança, that Rodrigues (2004) points as a trend in the management of the corporations, a time that the governança concept results in valuation of the companies, in consequence of adjusted strategical conceptions and implementations and viable projects of magnifying and implantation of new enterprises. Based in transparency, equity, rendering of accounts and ethics, the corporate governance makes of the process more efficient and increases the credibility of the company by means of stakeholders and stakeholders, currently, the Gol Air Transport S.A also became a company of opened capital with options negotiated in the stock markets of São Paulo (Governance type 2) and in New Iorque, ADRs.

8. Final Remarks

To the end of this work, was possible to understand the concept better cost, low fare that it is used in world-wide commercial aviation and that recently arrived at Brazil through the development of the Gol Air Transport S.A. The presented case, shows a good strategy until the present moment, after all, the Gol in only 4 years of operation had a significant growth in Brazilian commercial aviation, notices that the use of high technology, makes possible a great increment on the control of costs, the sufficiently reduced, adding value to business. However, it is important to stand out the marketing moment where the Gol entered in the market, in which two airlines Vasp and Transbrasil had stopped to operate. The Varig, with its financial crisis, reduced its size consequently and the participation of market. Beyond the favorable questions in relation the competition, a significant growth of the demand for air transportation and the Brazilian tourist sector in general, had contributed for growth of the demand for air transportation and the Brazilian securi

its called enterprises Formula 1, which the business are based exactly on offering to the guest a simple room, however with quality, what it reduces the costs and it makes possible the practical one of daily a very lesser one in comparison to other hotels, in this business, the Accor mark is quality assurance for to be traditional and one of the greaters companies of tourism of the world. Thus customers sensible to price, can take up quarters in a hotel of quality with accessible price. Finally, despite these based cases in low competitive cost as distinguishing, that it is a strategy with high degree of risk, in a time that is very sensible the economic crisis, without counting that in the present time all the companies have in costs one of its main focus, the competitors can reach similar levels to the management of costs and could incite the market dispute and not having another competitive differential, the business could suffer significant instability, until making the business impracticable. Actually BRA-Tranportes Aéreos or Brazil Aerial is a Brazilian airline, that operated only freighted flights initially (Charter), for international destinations or inside of the country and from 2005 it started its operations as regular company, inside of the concept of low cost, low fare (low cost, low tariffs). Currently it flies for more than 30 destinations, with composed fleet of spurs 737 Boeing and Boeing 767 and threat the Strategical development of Gol. An investment in the ADSs or Gol Intelligent Airline Inc. preferred shares involves a high degree of risk. Annual Report on Form 20-F for the year ended December 31, 2005, describes the risks with respect to the company, the airline industry and operating environment, particularly Brazil. We should carefully consider these risks and the ones set forth below before making investment decision. The business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of the ADSs could decline due to any of these risks or other factors, and provoke lose all or part of investment. These risks are those that we currently believe may materially affect us. The relative volatility and illiquidity of the Brazilian securities markets may substantially limit the ability to sell the preferred shares underlying the ADSs at the price and time desired. Investing in securities that trade in emerging markets, such as Brazil, often involves greater risk than investing in securities of issuers in the United States, and such investments are generally considered to be more speculative in nature. The Brazilian securities market is substantially smaller, less liquid, more concentrated and can be more volatile than major securities markets in the United States. The ten largest companies in terms of market capitalization represented approximately 52% of the aggregate market capitalization of the BOVESPA as of December 31, 2005. The top ten stocks in terms of trading volume accounted for approximately 53%, 45% and 51% of all shares traded on the BOVESPA in 2003, 2004 and 2005, respectively. Holders of the ADSs and Gol Intelligent Airline Inc. preferred

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its called enterprises Formula 1, which the business are based exactly on offering to the guest a simple room, however with quality, what it reduces the costs and it makes possible the practical one of daily a very lesser one in comparison to other hotels, in this business, the Accor mark is quality assurance for to be traditional and one of the greaters companies of tourism of the world. Thus customers sensible to price, can take up quarters in a hotel of quality with accessible price. Finally, despite these based cases in low competitive cost as distinguishing, that it is a strategy with high degree of risk, in a time that is very sensible the economic crisis, without counting that in the present time all the companies have in costs one of its main focus, the competitors can reach similar levels to the management of costs and could incite the market dispute and not having another competitive differential, the business could suffer significant instability, until making the business impracticable. Actually BRA-Tranportes Aéreos or Brazil Aerial is a Brazilian airline, that operated only freighted flights initially (Charter), for international destinations or inside of the country and from 2005 it started its operations as regular company, inside of the concept of low cost, low fare (low cost, low tariffs). Currently it flies for more than 30 destinations, with composed fleet of spurs 737 Boeing and Boeing 767 and threat the Strategical development of Gol. An investment in the ADSs or Gol Intelligent Airline Inc. preferred shares involves a high degree of risk. Annual Report on Form 20-F for the year ended December 31, 2005, describes the risks with respect to the company, the airline industry and operating environment, particularly Brazil. We should carefully consider these risks and the ones set forth below before making investment decision. The business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of the ADSs could decline due to any of these risks or other factors, and provoke lose all or part of investment. These risks are those that we currently believe may materially affect us. The relative volatility and illiquidity of the Brazilian securities markets may substantially limit the ability to sell the preferred shares underlying the ADSs at the price and time desired. Investing in securities that trade in emerging markets, such as Brazil, often involves greater risk than investing in securities of issuers in the United States, and such investments are generally considered to be more speculative in nature. The Brazilian securities market is substantially smaller, less liquid, more concentrated and can be more volatile than major securities markets in the United States. The ten largest companies in terms of market capitalization represented approximately 52% of the aggregate market capitalization of the BOVESPA as of December 31, 2005. The top ten stocks in terms of trading volume accounted for approximately 53%, 45% and 51% of all shares traded on the BOVESPA in 2003, 2004 and 2005, respectively. Holders of the ADSs and Gol Intelligent Airline Inc. preferred
shares may not receive any dividends. According to our by-laws, we must generally pay our shareholders at least 25% of our annual net income as dividends, as determined and adjusted under Brazilian GAAP. This adjusted income may be capitalized, used to absorb losses or otherwise appropriated as allowed under the Brazilian corporation law and may not be available to be paid as dividends. Gol may not pay dividends to shareholders in any particular fiscal year if the board of directors determines that such distributions would be inadvisable in view of our financial condition.

If surrender ADSs and withdraw preferred shares, the risk of losing the ability to remit foreign currency abroad and certain Brazilian tax advantages. As an ADS holder, you the benefit from the electronic certificate of foreign capital registration obtained by the custodian for preferred shares underlying the ADSs in Brazil, which permits the custodian to convert dividends and other distributions with respect to the preferred shares into non-Brazilian currency and remit the proceeds abroad. If surrender your ADSs and withdraw preferred shares, this will be entitled to continue to rely on the custodian’s electronic certificate of foreign capital registration for only five business days from the date of withdrawal. Thereafter, upon the disposition of or distributions relating to the preferred shares, they will not be able to remit abroad non-Brazilian currency unless obtain your electronic certificate of foreign capital registration or qualify under Brazilian foreign investment regulations that entitle some foreign investors to buy and sell shares on Brazilian stock exchanges without obtaining separate electronic certificates of foreign capital registration. If do not qualify under the foreign investment regulations will generally be subject to less favorable tax treatment of dividends and distributions on, and the proceeds from any sale of preferred shares. The depositary’s electronic certificate of foreign capital registration may also be adversely affected by future legislative changes and competition.

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