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Emerging Passenger Preferences in an Era of Global Deregulation

A thesis submitted to
The School of Aviation at
Massey University
In partial fulfilment of the requirements for the degree of
Masters of Aviation

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School of Aviation
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"It's the last time I fly a no-frills airline!"
(www.cartoonstock.com)

(The above picture nicely illustrates the motivation behind this thesis.)
ABSTRACT

This thesis draws on insights and practices of the complex nature and workings of the aviation and airline industry respectively. This is followed by an assessment on the effects global deregulation has had on the industry, airlines and their passengers. The impact weak demand for air travel resulting directly from a sluggish economy, the outbreak of war, terrorism and world health scares is also investigated. The thesis then moves into an examination of airline passengers and how airlines attempt to categorise them. In particular it gives a perspective into the new nature of leisure and business passengers. Different airline business models are also discussed through an in-depth analysis of the organisational frameworks by which they operate. Increased levels of competition throughout the industry have reinforced the need for airlines to develop their business model to the characteristics of their target market to achieve differentiation and competitive advantages. The core issue surrounding this thesis is then discussed and focuses on exactly what passenger preferences are for different products and service amenities. The importance of discovering these preferences has become vital with airlines budgets at an all time low finding the satisfaction that matters while keeping the customer profitability satisfied has become that much greater. This involves looking at the value placed in the various products and services and subsequently the cost involved to the airline. The combination of these products and services are then examined and the trade off’s passengers make when choosing between alternative airlines. This helps airlines add or remove any product discrepancies to ensure passengers remain attracted, satisfied and loyal all while remaining competitive and profitable. The thesis then details passenger complaints and service recovery along with other strategies implemented by airlines to keep their passenger loyal. This is proving to become an increasingly difficult task to achieve as both leisure and business passengers appear to switch between brands to the one offering the best deal at that point of time. The final topic of discussion relates to the future impact of budget carriers dedicated solely to the long haul market and the popularity of the new generation Airbus A380 among airlines and their passengers.
PREFACE

The airline industry receives a significant amount of attention from a number of individuals and organisations. This interest ranges from government policy-makers and regulators to the media to us the travelling public at large. Despite such widespread interest I feel it would be fair to say that there have been relatively few comprehensive studies of competition-related issues since the Airline Deregulation Act of 1978. This act set new foundations in the industry that caused fundamental re-alignments in the marketplace. Paramount levels of new competition between airlines were set and boundaries became somewhat blurred. With increased levels of competition and unfavourable operating conditions airlines have ultimately struggled to reorganise and redefine themselves in what can be described as a chaotic and often unpredictable marketplace. This has created the need for airlines to increase their efficiency and to "profitably" attract and satisfy passengers leading to my hypothesis.

"Factors experienced during flight other than price, schedule and safety are the primary airline choice drivers and retainers".

1 The Airline Deregulation Act of 1978 removed all barriers to market entry and airlines became free to choose their own capacity, frequency, times and fares.
ACKNOWLEDGMENTS

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Finally I would like to thank all the people that make the airline industry what it is and hope that my work provides a useful insight into passenger preferences in a globally de-regulated market place.
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<tr>
<td>FAA</td>
<td>Federal Aviation Authority</td>
</tr>
<tr>
<td>LLC</td>
<td>Low Cost Carrier</td>
</tr>
<tr>
<td>FSA</td>
<td>Full Service Airline</td>
</tr>
<tr>
<td>SARS</td>
<td>Severe Acute Respiratory Syndrome</td>
</tr>
<tr>
<td>VLCT</td>
<td>Very Large Commercial Transport</td>
</tr>
<tr>
<td>CAB</td>
<td>Civil Aeronautics Board</td>
</tr>
<tr>
<td>FFP</td>
<td>Frequent Flyer Programs/Points</td>
</tr>
<tr>
<td>IFE</td>
<td>In-flight Entertainment</td>
</tr>
<tr>
<td>AVOD</td>
<td>Audio Video on Demand</td>
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<tr>
<td>PTV</td>
<td>Personal Television</td>
</tr>
<tr>
<td>AUC</td>
<td>Air Transport Users Council</td>
</tr>
<tr>
<td>US</td>
<td>United States of America</td>
</tr>
<tr>
<td>AEA</td>
<td>Association European Airlines</td>
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<tr>
<td>DOT</td>
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