

Copyright is owned by the Author of the thesis. Permission is given for a copy to be downloaded by an individual for the purpose of research and private study only. The thesis may not be reproduced elsewhere without the permission of the Author.

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

Brad Goodall

Supervisor: Alan Williams

School of Aviation
Massey University

Albany, Auckland

2004

©Copy Right 1994 Brad Goodall. All rights reserved



“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 wide spread 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 1978¹. 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

Firstly I would like to thank the Massey University School of Aviation and the opportunity to participate in the Masters Degree of Aviation. I would like to give special thanks to Lynn Hunt for her openness and willingness to help when I first approached her with my interest in participating in the programme.

I would also like to express my gratitude to Allan Williams and Gurjeet Gill for the guidance and assistance they have provided in the writing of this thesis and my friends and family for all their emotional and financial support.

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.

Table of Content

TITLE PAGE	i
ABSTRACT	ii
PREFACE	iii
ACKNOWLEDGEMENTS	iv
TABLE OF CONTENTS	v
LIST OF TABLES	vi
LIST OF FIGURES	vii
LIST OF ABBREVIATIONS	viii
1.0 INTRODUCTION	12
1.1 Introduction.....	12
1.2 The Nature of the Airline Industry.....	13
1.3 Recent Trends.....	13
1.4 Globalisation.....	14
1.5 Relevance and Importance.....	15
2.0 LITERATURE REVIEW	16
2.1 Literature Review.....	16
3.0 MATERIALS & METHODS	17
3.1 Materials & Methods.....	17
4.0 METHODOLOGY	18
4.1 Methodology Choice.....	18
5.0 BACKGROUND	19
5.1 The U.S Airline Industry.....	19
5.2 The American Airline Industry: Regulation to Liberalisation.....	19
5.3 The Europe Airline Industry: Regulation to Liberalisation.....	21
5.4 Asia and the Rest of the World Follow Suit.....	21
5.5 Recent Events in the Global Airline Industry.....	22
5.6 Future Analysis.....	23

6.0 UNDERSTANDING PASSENGERS AND THEIR CHARACTERISTICS.....	24
6.1 Passenger Demand and Segmentation.....	24
6.2 The “Connected” Leisure Passenger	25
6.3 Leisure Passengers: Price Sensitivity and Profitability.....	25
6.4 The Business Passenger.....	26
6.5 Business Passengers: Price Sensitivity & the Hassle Factor.....	27
7.0 AIRLINE BUSINESS MODELS.....	28
7.1 Traditional Full Service Business Model.....	28
7.2 New Challenges For Full Service Airlines.....	29
7.3 The New low Cost Business Model.....	30
7.4 Reservations, Success’s & Challenges For LLC’s.....	31
7.5 Full Service Airlines Running LLC’s.....	32
7.6 Low Cost Verse Full Service Airlines.....	33
8.0 PRIMARY AIRLINE CHOISE DRIVERS AND RETAINERS.....	35
8.1 Background.....	35
8.2 The Price of Airfares	36
8.3 Airline Schedule.....	37
8.4 Seamless Air Travel.....	38
8.5 Staff On The Ground.....	40
8.6 Cabin Crew, Flight Attendants, Trolley Dollies.....	41
8.7 Safety.....	42
8.8 Safety, Deregulation & Low Cost Carriers.....	43
8.9 Airline Security.....	44
8.10 New Security Measures Post September 11th.....	45
9.0 SECONDARY AIRLINE CHOICE DRIVERS AND RETAINERS.....	46
9.1 Aircraft Preferences.....	46
9.2 The Aircraft Cabin.....	47
9.3 Aircraft Seats.....	48
9.4 Food & Drinks.....	48
9.5 In-Flight Entertainment.....	49

9.6 In-Flight Communications.....	50
9.7 The Products and Services Offered on the Ground.....	51
10.0 AIRLINE IMAGE, BRAND & PASSENGERS EXPECTATIONS.....	53
10.1 Airline Image & Branding.....	53
10.2 Advertising of Airlines Their Products & Services.....	53
10.3 Airline Promises & Service Standards.....	54
10.4 Passengers & Their Expectations.....	55
11.0 PRODUCT AND SERVICE DEVELOPMENT.....	57
11.1 The Airline Product and Service.....	57
11.2 Product & Service Planning.....	57
11.3 Product & Service Planning In a Competitive Environment.....	59
12.0 FACTORS DETERMINING AIRLINE AMENITIES ON OFFER.....	60
12.1 Flight Duration.....	60
12.2 Class Segmentation- First Class.....	60
12.3 Business Class.....	61
12.4 Economy Class- The Back of The Bus.....	62
13.0 PASSENGER COMPLAINTS.....	63
13.1 Understanding Passenger Complaints.....	63
13.2 The Effects of Cost Cutting.....	64
13.3 Top Three Customer Complaints- Lost Baggage.....	65
13.4 Delays.....	66
13.5 Customer Service & Brand Promises.....	67
13.6 Other Factors Leading to Complaints.....	69
13.7 Service Failures & Recoveries.....	69
13.8 The Passenger Bill of Rights.....	70

14.0 PASSENGER LOYALTY.....	72
14.1 Understanding Passenger Loyalty.....	72
14.2 Passenger Loyalties & Values.....	72
14.3 The Threat Airline Bankruptcy has on Loyalty.....	74
14.4 Customer Relationship Management.....	74
14.5 Loyalty Programs FFP.....	75
15.0 CONCLUSIONS AND FINAL REMARKS.....	77
15.1 Conclusion.....	77
16.0 FUTURE STUDIES.....	78
16.1 Future Studies.....	78
17.0 REFERENCE.....	79
17.1 Reference.....	79
18.0 LIST OF APPENDICES.....	84
Appendix I: Low Cost Airlines.....	84
Appendix II: Failed Low Cost Airlines.....	84
Appendix III: Accident Rates by Airline- December 2001.....	85
Appendix IV: Growth of Low Cost Airline in Europe.....	86
Appendix V: Growth of Worldwide Aviation.....	87
Appendix VI: Airline Accidents Rates Jan 1981 - Jan 2004.....	87
Appendix VII: Development of World Scheduled Revenue Traffic 1994-2003.....	89
Appendix VIII: World Annual Traffic 1971- 2001.....	90
19.0 INDEX.....	91
19.1 Index.....	91

LIST OF TABLES

Table 1 Airline of the Year 2004-Final Ranking.....	30
Table 2 Market Share of Domestic Origin & Destination Passengers, 1990-2002.....	32
Table 3 Differences between Low Budget & Mature Airlines.....	34
Table 4. Top 10 Companies (Overall) - Best Employer: The People's Choice.....	41
Table 5 Skytrax Best Cabin Staff Global Ranking 2004.....	42
Table 6 On-Time Performance of Major Airlines in Europe Dec-2003.....	65
Table 7 Major European Airlines Lost Baggage.....	66
Table 8 Summary of Airline On-time Performance 1995-2003.....	67

LIST OF FIGURES

Figure 1 U.S Domestic Growth Compared to Canada's.....	19
Figure 2 Hub and Spoke Network.....	27
Figure 3 Low Cost Point to Point Operation.....	29
Figure 4 Soft & Hard Airline Factors.....	33
Figure 5 Price of Canadian & US Domestic Airfares after Deregulation.....	35
Figure 6 American Airlines and British Airways Airline Alliance.....	37
Figure 7 The Marketing Mix.....	58
Figure 8 Gap in Delivery of the Brand Promise.....	64
Figure 9 Impact of Customer Service Training on Customer Service Perceptions.....	68
Figure 10 Customer-Perceived Value from a Service-Price Offer.....	73

LIST OF ABBREVIATIONS

FAA	Federal Aviation Authority
LLC	Low Cost Carrier
FSA	Full Service Airline
SARS	Severe Acute Respiratory Syndrome
VLCT	Very Large Commercial Transport
CAB	Civil Aeronautics Board
FFP	Frequent Flyer Programs/Points
IFE	In-flight Entertainment
AVOD	Audio Video on Demand
PTV	Personal Television
AUC	Air Transport Users Council
US	United States of America
AEA	Association European Airlines
DOT	Department of Transportation