Emerging Passenger Preferences in an Era of Global Deregulation

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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 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 1978[1]. 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.

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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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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

1.0 INTRODUCTION

1.1 Introduction

"We took so much cheese off the pizza that eventually nobody wanted to order from us anymore" Gordon Bethune, Continental Airlines Chief Executive"[2]

This now famous metaphor nicely conveys the motivation behind this thesis. The question many airlines and industry experts are beginning to ask is how far is too far or are we already there? It's a well-known fact that airlines around the world have been under increasing scrutiny and pressure to cut costs and streamline their operations. This has come as a direct result of a global downturn in the demand for air travel due to a number of contributing factors. This has particularly been the case for Full Service Airlines (FSA's) that have posted losses during these times while Low Cost Carriers (LLC's) have continued to prosper[3]. All airlines are now operating in an industry with a new organisational framework, a new playing field with both new players and new rules. However these rules are often not clearly cut with a blurring between the two predominant business models. In this new era of openly competitive air transportation airlines must carefully decide how to play. Do airlines cut costs wherever possible not knowing the impact it will have on passenger attraction and satisfaction, or spend whatever it takes to keep attraction and satisfaction scores high? No matter what market an airline intends to serve today they must carefully find the equilibrium between the two and establish the satisfaction that matters while keeping the customer "profitability" satisfied. This involves examining passenger preferences between various air travel alternatives and understanding what drives passenger attraction, satisfaction, and loyal behaviours. After identifying these characteristics and the nature of airline passengers' airlines must decide which market they intend to serve and develop their business model to meet this market accordingly. This is a vital task to ensure strong links exist between passenger characteristics and the airline business model. How well this is done will ultimately reflect on the airlines bottom line of healthy profits and sustainable growth rates.

[2] (Field, 2004, Pg 49).

[3] FSA's are also commonly referred to as Hub and Spoke or Network Airlines while LCC's are also commonly referred to as no frills or budget airlines/carriers.

1.2 The Nature of the Airline Industry

The airline industry is no ordinary industry and it is certainly not a simple A to B business. Airlines are intensely operational and forced to deal with a number of critical and complex issues and problems. Airlines also have to operate in one the most intensely regulated and vulnerable industries in the world. An aircraft cannot move without the permission of a number of governing bodies and governments often control access to airports. Aircraft are also incredibly expensive to purchase and requires high levels of training and expertise to run. LLC Southwest Airlines alone utilises a fleet of 387 Boeing 737's to perform 2800 flights per day throughout the United States (U.S) (Fischer, 2004). Each flight faces possible delay issues including bad weather, mechanical problems, air traffic control delays, and airport congestion to name a few. Despite these difficulties airlines face on a day-to-day basis the majority of flights manage to run safely and on time (Piguet, 2003, Pg 5).

Air transportation is now a commodity product that lies in the heart of the service industry. It requires a large number of highly trained and dedicated employees to efficiently deliver both the tangible and intangible aspects of this product and service. Air transportation has no product inventory or shelf life, when a seat flies empty that seats revenue is lost forever. Competition in selling these seats is extremely intense and airlines cannot enjoy a location advantage like other industries. New entrant airlines will most likely have to operate in and out of airports where competitors have already established a customer base. Demand for air transportation is intensely cyclical since much of leisure is discretionary and business traffic is dependant upon the state of the local and global economy. The industry is also vulnerable to world events such as September 11th, Severe Acute Respiratory Syndrome (SARS), rising fuel costs and the recent outbreak of war reducing the global demand for air travel. The industry can recently be described as a crisis upon crisis however the world has recently celebrated the 100th anniversary of Orville and Wilbur Wright's first flight so let's hope we can look forward to another 100 years of aviation.

1.3 Recent Trends

The airline industry has gone through an intense period of global liberalisation and deregulation. At the same time it has been under severe financial pressure as a direct result of fierce competition and a number of unfavourable global events. This combination has created an often-hectic marketplace, which FSA's are particularly struggling with while LLC's continue to profit. Today LLC's have successfully spread throughout America, Europe, Asia, and the South Pacific and are now entering into new regions and countries such South Africa, South America and India. There wide spread success has placed mounting pressure on traditional FSA's to ultimately cut costs and redefine themselves. For most airlines this has involved substantial restructurings laying off thousands of workers and cutting back on many of the products and services they have typically provided. Passengers themselves have also adapted to this new market environment becoming more active in making their air travel decisions. Passengers are now exposed and have access to a multitude of brands and travel options at the click of a button. The biggest dilemma airlines face is trying to attract and satisfy these passengers while remaining both competitive and profitable. This is proving to be a difficult goal to achieve with passenger loyalty at an all time low as passengers switch between brands to the brand offering the best deal at that current point in time.

1.4 Globalisation

The airline industry like the characteristics associated with many other industries has proceeded along a path of globalisation and consolidation at a considerable speed. National governments realise the importance airlines play in facilitating economic growth, world trade, international investment and tourism making them central to the globalisation process itself. This is why historically national governments have tried to protect their flagship airlines from negative world events that airlines grow more vulnerable to in the globalisation process. During the first half of the 1990s, the industry suffered not only from a world recession but air travel was further depressed by the Gulf War in 1991 which saw a substantial drop in the number of international airline passengers. Globalisation has caused an increase in the level of competition between airlines forcing airlines to re think their strategies to become more efficient and competitive in this new environment. Governments have also re thought their strategies recognising the benefits of privatisation. Governments slowly began to reduce the subsidies made to their loss-making airlines and a majority have gradually transferred ownership of their airlines from the state to the private sector. This has been another driving reason for airlines to become more efficient and competitive. In order to achieve this and increase their appeal to prospective shareholders airlines aggressively cut their costs and reduced capacity to increase their load factors and return to profitability. As a result of globalisation airlines are also entering into global alliances and partnerships with other airlines ranging from simple marketing and code share agreements to franchise and equity transfers. These alliances and partnerships are a cheap means of linking airline networks together and expanding their passengers' seamless air travel to overseas markets.

1.5 Relevance and Importance

The relaxation of many economic regulations and fundamental re-alignments in the industry's framework has meant changes for both airlines and their passengers. This liberalised market place has seen the development of new types of business models and more informed and active passengers. This ultimately spells greater competition among airlines, which equates to greater choice and travel options for passengers. However with budget constraints at the forefront of financial analysts and airline executives' the attraction factor is becoming hard to find. The crucial assignment for all airlines is to determine what features to offer and what features to cut back on without affecting passenger loyalty or blowing the budget. Shearman, (1992) accuses the majority of U.S airlines of lowering their standards in their attempt to achieve this since the industry was deregulated in 1978. It appears difficult to disagree with Shearman's accusations, as with lower costs you would have to expect lower standards. Airlines must ensure they do not remove the wrong piece of the puzzle that could potentially bring down the whole structure of the airline. This requires airlines to gain an insight on passenger characteristics, preferences and nature of their demand for air travel. This information is fundamental to the decision making process and should be used when making decisions concerning flight scheduling, pricing, class designs, seat allocation and revenue management. Investments should selectively be made into the products and services that passengers particularly value. By doing this airlines are linking passenger attraction and satisfaction to the profitably and growth of the airline.

2.0 LITERATURE REVIEW

2.1 Literature Review

Widespread deregulation brought an alarming rate of choice for airline passengers and passengers soon became inundated which travel options. LLC's introduced a simplified service at low fares in the short haul market a combination never seen before. This combination proved very popular among leisure passengers and even some groups of business passengers. Their soaring popularity was so great that LLC's can be attributed as one of the primary reasons leading to the severe financial difficulties many FSA's have been going through. Shearman, (1992) and Pilling (2002) studies have highlighted that with so many travel options passengers cannot be blamed for not knowing what to expect when they purchase an airline ticket. With increasing levels of competition the main issue for airlines has become knowing what products and services to offer passengers while remaining competitive. Bowen, & Headley (2004) have done some valuable research in this area, which predicts a merging between the two dominant business models. U.S carrier Jetblue is an example of this offering their passenger the latest In-flight entertainment (IFE) and Frequent Flyer Programs (FFP) while FSA's attempt to offer a more simplified and efficient service reinforcing Bowden and Headley's research.

Several researchers have addressed finding the link between products and service offerings with passengers and their purchase and repeat purchase behaviours. Glynn & Jones (2001) have conducted important research on finding the satisfaction that matters while keeping the passenger profitability satisfied, a core element in this thesis. Dr Alamdari, F. of the Air Transport Group Cranfeild University done some valuable research and developed an important model relevant to this thesis. This model identifies hard factors, i.e. price, schedules, and safety networks to attract passengers while soft factors i.e. food, drinks, image and reputation will retain passengers and keeps them coming back.

In this thesis, I have presented a look at the history of the airline industry to help gain an understanding of what and why the industry represents what it does today. This has helped to facilitate an understanding of the products and services airlines offer and the effect they have on passenger's behaviour. This in turn helps airlines model themselves to meet the forever changing needs and wants of their passengers both in the present and future.

3.0 MATERIALS AND METHODS

3.1 Materials And Methods

I have chosen qualitative research methods and designs for the research methodology. This methodology uses explorative research techniques that require information to be collected from a variety of sources. This information was primarily collected through reports, reviews, case studies and experiments. The Internet provided a large source of this information however required a large amount of cross-referencing to ensure its reliability. Airline Journals also provided a large source of information supplementing much of the information obtained from the Internet. Many of the articles obtained from Airline Journals related directly to the thesis topic and provided useful insights from airline executives and other experts in the heart of the industry. Newspaper articles also proved to be a valuable source of information providing information on the latest movements in the industry. The final primary source of information came from publications on various management theories and strategies being used in the airline industry. While this source contained some value information a substantial amount of it was dated and not relevant to the latest issues airlines face today. By combining all these sources of information it has enabled a relatively comprehensive overview to be provided on the values and expectations passengers have of airlines and how airlines productively use these passenger expectations and values.

4.0 METHODOLOGY

4.1 Methodology Choice

Exploratory qualitative research was chosen as the research methodology for this thesis[4]. This methodology relies on secondary research, academic knowledge and societal resources as the primarily sources of information. Obtaining this information involved conducting in-depth analysis and interpretation of business articles, academic reports and other publications. The purpose of this research was not to establish objective facts but to explore and provide some useful insights on some of the current issues airlines and their passengers are facing today. More specifically how airlines can use information on passengers traits to determine the connection between passenger attraction and satisfaction to airlines profitability and growth. The fundamental characteristics of the social relationship and interactions between airlines and passengers were also examined in order to establish this connection. Furthermore this entailed analysing and then categorising both passengers and airlines in order to obtain an understanding of how these groups interact and the different theories guiding them. By using these methods it has enabled myself to add my own personal interpretation of the research material in conjunction with other research. This process of transparent analysis has orientated the results towards being a descriptive conclusion as opposed to predictive findings. The only disadvantage of using this research methodology has been limited to the subjective nature of the research. The quality of the research conclusion is very much dependent on my skills in the analysis process and the possibility of developing any biases in the interpretation process.

[4] Lofland & Lofland 1984 defines this methodology as a method of data collection and analysis that are nonquantitative while another way of way of defining it is to say it focuses on "quality", a term referring to the essence or ambience of something (Berg 1989).

5.0 BACKGROUND

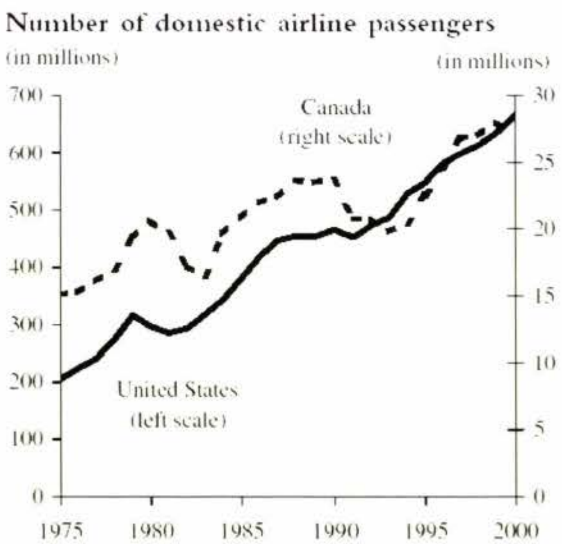
5.1 The U.S Airline Industry

Throughout history the airline business in the U.S and throughout the world has been one of the most highly protected and regulated industries in the world. This has entailed a comprehensive system of government controls that have been strongly characterized by nationalist sentiments towards the protection and promotion of their national flagship airlines. Such sentiments have suppressed competition leaving monopolistic and inefficient airlines to deliver often poor levels of customer service as described by Upham, Maugham, Raper, & Thomas (2003). This situation wasn't helped as airlines around the world suffered from high inflation, low economic growth, falling productivity, and rising labour and fuel costs. Regulators were failing to cope with the increasing complexity of the airline industry and their efforts to cope with these problems often only made matters worse. In 1976 the U.S Civil Aeronautics Board (CAB) asked Congress to dismantle their economic regulatory system to allow airlines to operate under market forces. That year President Jimmy Carter signed the first piece of legislation that would largely deregulate the airline industry. However it wasn't until the Airline Deregulation Act of 1978 that the industry was fully deregulated (Kahn, 2002). This movement laid a path to free competition in a liberalised market place. Airlines now found themselves free to choose their own capacity, frequency, times and fares provided the Federal Aviation Authority (FAA) deemed them safe, financially sound and professional.

5.2 The U.S Airline Industry: Regulation to Liberalisation

Now that barriers to market entry had been removed a number of new airlines soon appeared on the scene. The effects this had on the market were enormous with Figure 1 illustrating the growth the U.S airline industry experienced compared to Canada's still highly regulated industry. These new entrant airlines were highly innovative and eager to profit offering no frill services at extremely cheap fares. Many of these new entrant airlines based their business model from the successful pioneer LLC Southwest Airlines. The business plan was simple to fly passengers to their destinations at the lowest possible fares, if they got there on time and people liked their service they would come back. Southwest Airlines began flights between Dallas, Houston and San Antonio at fares never seen before and deregulation saw their operations soon spread all over the country. Traditional FSA's found themselves facing intense competition as the number of copycat LLC's grew. According to Fernandes, (2004) LLC's passenger numbers grew at a rate of 48 percent annually following the first five years after deregulation compared with mere 4 percent for FSA's. LLC's soon grabbed about 25 percent of the U.S. domestic air travel market (Armstrong, 2004).[5] A number of America's biggest legacy airlines slowly began to disappear at the success of these new carriers. Eastern, Pan Am, Trans World Airlines, Republic, Piedmont, Ozark, and Texas Air were just some of these airlines. One could argue the collapse of these airlines highlighted a number of problems with deregulation and the industry was becoming inherently unstable without government intervention. Kahn, (2002) highlights some valid problems with deregulation, which include congestion and a limited re-emergence of monopoly power that brings the exploitation of a minority of customers. Although I would agree with this to a certain extent concerning the re-emergence of a monopoly power I believe deregulation has been a means of increasing efficiency throughout the industry. To the general disinterested observer deregulation has had to have been a success as it has offered passengers a number of widespread benefits in the form of cheaper airfares enabling more people to fly than ever before.

Figure 1. US Domestics Growth Compared to Canada's



Source: U.S. Bureau of Transport Studies, Canada Aviation Statistics Centre

[5] LLC's have become so successful in fact that LLC JetBlue is now the most profitable airline operating within the U.S (Fernandes, 2004).

5.3 The Europe Aviation Airline Industry: Regulation to Liberalisation

Europe followed America's lead in the liberalisation of its airline industry. However Europe's move to deregulate its industry was much more cautious and gradual. Europe introduced three packages from 1988 to the final package in 1997 that would enable airlines from one member of the European Union to fly passengers within another member's domestic market (Upham, et al., 2003). When all three packages had been delivered airlines operating in Europe were granted the same freedoms of their American counterparts. Just like in America the number of new entrant airlines especially LLC's flourished and were soon gaining some impressive market share. Dublin based carrier Ryanair lead the way closely followed by the success of London based carriers Easy Jet and Virgin Express. FSA's in Europe soon too found themselves up against tough competition and being forced to look at ways of becoming more efficient and competitive against the onslaught of LLC's. Some FSA's developed a "if you can't beat 'em, join 'em" tactic by creating their own lost cost subsidiaries. These were run in conjunction with their full-service offerings to get a share of both markets. However these ventures did not last long and it soon became obvious that these airlines failed to achieve the low costs required to successfully compete against true LLC's. Examples included British Airway's sale of Go to Easy Jet after three years of operation in 2001 and KLM Royal Dutch Airline's sale of Buzz to Ryanair in 2003. Despite such a poor track record FSA's continue their attempts to create LLC's and incorporate many aspects of the low cost model into their own operations. Examples include the introduction of Delta's Song and United's Ted to compete against the likes of Southwest, Jetblue and Frontier. Closer to home Air New Zealand continues to promote the development of Freedom Air and Qantas's has recently introduced Australian Airlines and LLC Jetstar to compete against Richards Branson's ever-successful Virgin Blue.

5.4 Asia and the Rest of the World Follow Suit

Asia and other major regions and countries including the South Pacific, South America, South Africa and India have been much slower to deregulate their industries compared to the pace set by America and Europe. These nations have continued to suppress competition in order to protect their flagship airlines from harm. However Asian nations have recently introduced a number of economic and commercial imperatives in a slow but gradual move towards deregulation. A number of LLC's are now operating in Asia which include Singapore based Tiger Airways, Valuair, Malaysia's Air Asia and China's Dragon Air to name a few. LLC's are now also operating in Australia and New Zealand, which include Virgin Blue, Pacific Blue, Freedom Air and Jetstar. LLC's have also made appears in other regions such as India with Air Deccan, South America with Gol and Kulula in South Africa. Open Sky agreements are one of these economic imperatives that are helping to increase the level of competition and efficiency throughout the industry. Open Sky agreements permit unrestricted international air services between participating countries and offer many benefits to airlines and their passengers. While Open Skies agreements do not allow foreign airlines to operate in another country's domestic market they do promote both international and domestic traffic creating new opportunities for both FSA's and LLC's to capitalise on.

5.5 Recent Events in the Global Airline Industry

Increased levels of competition coupled with wars in Afghanistan and Iraq, global terrorism and SARS have devastated many airlines already lacklustre balance sheets. An overall slowdown in the economy and continually rising fuel costs reducing the demand for air travel has equated to some heavy losses for airlines. The events of September 11th would have to be the primary cause for the unprecedented financial crisis many airlines have been facing.[6] Airlines in the U.S and throughout the world suffered losses in the billions while related business's closed down and thousands of employees lost their jobs. Many airlines simply shut down, wavered on the point of bankruptcy or faced massive restructuring and government subsides in order to survive. Examples close to home include the collapse of Ansett Australia and the governments rescue package and vast restructuring of Air New Zealand. In stark contrast many LLC's continued to post substantially strong profits during these unfavourable operating conditions. These profits exhibited the strength of the low cost business model in its ability to post profits in both the goods times and the bad. Seat filling and cost cutting became imperative for all airlines and aggressive action was taken to sell tickets, cut costs and eliminate excess capacity. Airlines desperately attempted to attract passengers back into the air with any class of tickets and fares they could (Redmile, 2002, Pg 70). Airlines were still of course faced with the challenge of overcoming passengers' reluctance to fly due to their prevailing awareness and anxiety about safety and security issues. Business travellers learned to cope without extensive travel and leisure passengers learnt to take advantage of the highest discounted fares on offer. In-flight food disappeared and so to did other amenities such as free entertainment, magazine subscriptions, newspapers and even the liquor services dried up (Redmile, 2002, Pg 70). Some airlines brought back these amenities but at a charge while others gave in to the demands of passengers to provide them for free. Despite continuing hostilities and little relief from the current economic climate airlines are slowly beginning to

[6] No industry has ever suffered greater economic damage than the U.S airline industry did from the September 11th terrorist attacks, which saw a temporary but complete shut down of the commercial aviation system (Lee, Ito 2004).

move from crisis management to recovery management, moving back from cost cutting to the business of traffic generation (Pilling, 2002, Pg 55).

5.6 Future Analysis

So what does the future hold for air travel, airlines, employees and the travelling public? The outlook is promising according to aircraft manufacturer Boeing predicting a 5.4 trillion dollar market for new commercial airplanes and aviation services over the next 20 years (Siddiqi, 2004). According to Siddiqi (2004) this accommodates for a forecasted 5.2 percent annual increase in world aircraft travel, which will see the fleet of the world's aircraft double by 2023. With Boeing's assessments of the future the long-term market outlook is remaining positive. This is despite poor performances by the global economy and unfortunate world events, which has adversely affected the growth of the industry[7]. Airlines will continue to develop more robust and extensive networks in the form of airline alliances, to fulfil the demand for more direct frequencies. This will be coupled by increasing liberalisation in the market place, another key factor leading to more entrants focusing on improving efficiency and lowering costs and inturn stimulating demand by offering lower priced real time airfares. Both the full service and low cost business model will continue to evolve and somewhat merge closer together. FSA's will continue their drive to reduce costs while some LLC's offer that little bit extra in the ways of products and amenities to gain that competitive advantage. In terms of aircraft it would appear the single isle A320's and B737 will continue to remain most popular in the short haul domestic market with passengers preferring frequency of schedules over aircraft size. Aircraft preferences in the long haul market are a bit more difficult to predict. While the B747 will continue to prove popular the success of the A380, which has the ability to offer significant economies of scale to passengers will be closely watched with much anticipation. Airports will continue to expand and while congestion will be an issue and slow the efficiency of the service down it will not stop the growth of the airline industry. I believe the use of secondary airports that has proved successful for LLC's will increase as the congestion experienced at major hub airports continues to rise.

[7] The predicted growth of the industry is derived from the growth of globalisation and international trade.

6.0 UNDERSTANDING PASSENGERS AND THEIR CHARACTERISTICS

6.1 Passenger Demand and Segmentation

The demand for air transportation is derived in the sense that most people use it to achieve some other purpose i.e. very few passengers fly merely for the sake of flying. This makes air travel an intermediary good with airlines having very limited control over passengers demand. Air travel is a highly price-elastic commodity however LLC's have shown that new demand can be generated if airfares are priced low enough. With this in mind it is then becomes important to understand the underlying characteristics and nature of airline passengers. The most important lesson I have learnt from writing this thesis is that not one size fits all. Planning decisions concerning flight scheduling, pricing, fare classes, seat allocation among paths/classes and revenue management must be tailored to meet the needs of passengers in each specific market. This requires passenger and market segmentation in order for airlines to customise their products and services to meet their needs for performance, product and service features, reliability, conformance, durability, serviceability, and aesthetics. Airlines often invest into expensive research programmes to obtain this information however the foundations are simple. Monahan (2003) outlines these foundation by grouping passengers according to their goals and needs. In other words classifying passengers by the factors that motivate them to travel and what characteristics they have in common. Even within these goals, needs and characteristics there will exit differences. For example having a strong or weak preferrence for a paticular time of the day. The most simplistic classification of passengers is into two categories, leisure passengers and business passengers. Each of these categories has its own unique set of characteristics and different motivations for travelling. Depending on the groups' characteristics and preferences, passengers will choose a particular airline, flight and fare class to fulfil their travel needs. This decision will often involve a number of trade offs between a multitude of different brands, schedules, aircrafts, fares and classes. Leasuire passengers are typically modelled to buy their tickets early while fares are still cheap. On the other hand business passengers are modelled to buy their tickets later on when tickets are priced at a preimum. Airlines therefore specifically reserve a number of seats for business passengers in the hopes they will sell them at the last minute to earn greater profits for the airline. Leisure passengers are primarily attracted by low fares while business passengers are more concerned with conveniences and scheduling. However today both passenger groups are more active and better connected to an array of travel options representing a major challenge for competing airlines.

6.2 The "Connected" Leisure Passenger

Leisure travel is defined as journey undertaken by a person outside his or her working time, for the purposes associated with planned decisions as to how this time should be used (Shaw, 1985). The two defining differences from the business passenger is that leisure passenger's voluntary travel and pay their own way in doing so. This is reinforced by the fact that many leisure trips are undertaken annually i.e. family holidays usually during holiday seasons. Global air travel is the bedrock behind leisure travel with passenger's preferring overseas destinations. As a passenger's income increases the amount of leisure travel also increases, which is often to more distant and exotic locations. The nature of leisure passengers are also changing especially in recent times where passengers have become better connected and informed to a multitude of travel choices. Technology has revolutionised passenger behaviour especially in relation to the way they shop and how they buy. Walker (2000) describes these changing and new leisure passengers as "e-customers" a "fearsome new animal"[8]. These Passengers can actively search through a multitude of brands and offerings in the comfort of their own home. They can instantly find what they are looking for comparing services and prices at the click of a button and switch brands accordingly to that moment's best offer.

6.3 Leisure Passengers: Price Sensitivity and Profitability

The demand for leisure travel is always likely to be price and income elastic. This is especially the case during times of economic uncertainty or other reasons that cause sharp declines in consumer confidence. The Internet and online advertising has permanently increased the level of price sensitivity more than ever before. As a result leisure passengers have certainly become less profitable and less likely to purchase premium services on offer. Adding to this the leisure market has become extremely competitive with a proliferation of airlines offering passengers a variety of travel options. The majority of leisure passengers are seeking the lowest prices available and are less concerned with service, flight frequency, and variety of destinations. Airlines have therefore had to focus a lot of attention on improving their online marketing effectiveness through improved booking technology, making it easier for passengers to actually find and purchase the lowest featured fare. Airlines have been typically been able to offer these cheap fares from first and business class passengers in a sense subsidising these discounted fares. With decreasing numbers of first and business class passengers to discount these fares for leisure passengers' traditional revenue management approaches will not produce the most favourable results for airlines. Airlines have had to

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[8] Walker, 2000, Pg 85

change the way they conduct business accordingly to the changes in the nature of leisure passengers. If an airline is representing a premium product it cannot reduce its prices to match the prices of other airlines and is therefore not going to do to well if it tries to compete on price. However FSA's offering the benefits of FFP's to passengers does remain a strong and effective marketing tool that is used to compete against price. Despite these challenges leisure travel still constitutes a large and lucrative market segment in most countries that new and existing airlines will continue to chase (Walker, 2000, Pg 85).

6.4 The Business Passenger

Business passengers along with wealthy leisure passengers and mail were the foundations of growth in the early years of aviation[9]. Business travel is defined as travel that is undertaken for reasons directly related to a persons' employment (Shaw, 1985). The primary difference between business and leisure travel is that the passenger does not pay their own way. Therefore the demand for business travel is relatively price inelastic making business passengers' airlines most prized and profitable customers. Business travel has historically accounted for 40 percent of airlines seats sold and generated 60 percent of the airline's revenue (Heller, 2004). This lucrative market is characterised by passengers who are more likely to travel several times throughout the year and tend to purchase upgraded comfort services, which equate to higher margins for the airline. A recent survey by an Orlando marketing firm YPB&R discovered that 1 in 10 business travellers craves lots of legroom, nearly two-thirds say they value the extra-spacious overhead compartments and almost half would die for the full meals served to first-class passengers (Elliott, 2004). Business passengers also want no complicated restrictions on their fares with the opportunity to change their travel plans with ease as they often change in the business world (Shifrin, 1999 Pg 44). Business passengers will also tend to purchase work related product and services offerings. These include access to a variety of communication facilities including the Internet, telephone, fax and messaging services both on the ground and in the air. This makes it vital for airlines to have these competitive advantages by continually addressing the requirements of business class passengers through the latest market intelligence.

[9] Mail alone was actually more profitable and unlike passengers would not complain if it arrives late or is too hot or cold.

6.5 Business Passengers: Price Sensitivity & The Hassle Factor

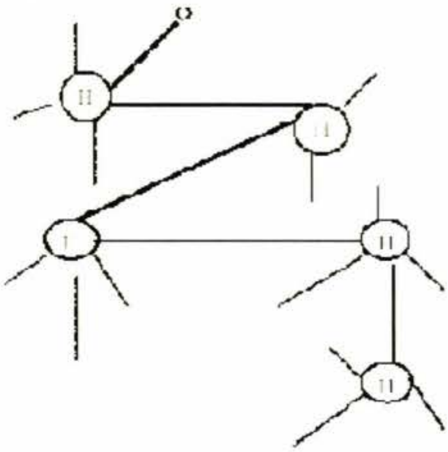
With a decrease in the level of business confidence many businesses have been tightening their travel policies. Businesses are now monitoring travel expenditure more closely and aiming to reduce their level of travel. Price sensitivity has become a key issue with businesses focusing on long-term pricing and expense control. To achieve this many businesses have centralised their travel purchasing though the appointment of corporate travel managers. This gives them purchasing powers from bulk purchasing and discounts from airlines. These changes have squeezed out individual choice creating a new type of business passenger, which has similar characteristic to the leisure traveller. Business passengers have been slung towards the back of the aircraft spurred on by the rise of low cost alternatives. Increased security measures which often result in increased passenger-processing times and delays has also reduced the demand of business travel. This hassle factor is making many business passengers make do without travelling and resort to alternatives. Such alternates include teleconferencing and alternative travel modes with rail proving extremely popular especially in Europe. Executive business passengers have been abandoning scheduled airlines all together avoiding this hassle factor and getting a higher level of service. These passengers are now travelling on corporate jets, including fractionally owned aircraft that companies share access to, similar to a vacation time-share. Never the less the business market will always remain the most lucrative market to airlines and they will continue to invest into attracting these passengers back into the air and purchasing the premium products and services on offer.

7.0 AIRLINE BUSINESS MODELS

7.1 Traditional Full Service Business Model

In simple terms an airlines business model is how the airline makes money or rather the sources and structure of this earning. Broadly speaking there are two dominant business models being employed in the airline industry today. The first is used by FSA's, which has traditionally operated on high cost structures utilising the hub-and-spoke system illustrated by Figure 2. The hub and spoke system has enabled a broad geographic coverage to be achieved but requires a diverse fleet of aircraft to operate in and out of hub airports, which can create devastating congestion. These complexities have created barriers to market entry preventing competitors from entering the market creating powerful monopolies. FSA's typically offer seamless travel; FFP's, three classes of travel, free food, comfort, entertainment and generally a far more comprehensive back up system if anything goes wrong. FSA's use large capacity wide body aircraft on long-haul routes to optimise economies of scale making them well suited to the long haul market a market that LLC's operating in the short haul market could struggle with. In the past this airline model has worked well serving the widely differing needs of both the leisure and business passengers. However today this business model is struggling because business passengers who provide the high-yield revenue and in effect subsidise the cheap fares for leisure passengers is no longer assured. As a result cost has in effect become king in many boardrooms of FSA's around the globe and FSA's are continually reviewing and restructuring their business models and the way they do business.

Figure 2. Hub and Spoke Network



Source: Yergin, Daniel, Vietor, Richard H.K. and Evans, Peter C.; Fettered Flight: Globalisation and the Airline Industry; Cambridge Energy Research Associates, Cambridge, MA, 2000.

7.2 New Challenges For Full Service Airlines

"We've finally reached the point, perhaps, where [low cost carrier] penetration maybe be fatal"- David Grizzle, Senior Vice-President, Continental Airlines[10].

In todays forever changing market place airlines can no longer afford to stick to a stagnant business model. Many hub and spoke airlines didn't change their business model to meet the changing needs of the market and this has attributed too much of the trouble they are in today. In the past these so-called legacy or major airlines have taken a long time to die. Trans World Airlines lost money for decades before its final bankruptcy filing and acquisition. Airlines operating today on large hub and spoke networks with international connections are facing new challenges that can see their demise in a matter of months. These airlines have typically targeted business passengers offering executive lounges, luxurious seatings and rapid check-in facilities with an overall far superior service. While adding costs the revenue generated from these competitive devices were substantially greater. The downside for these airlines today is that these added extra revenue enhancements in a competitive market place are much more difficult to realise. These airlines are therefore shifting the emphasis to simplifying their operations and cutting cost, a lengthy exercise that some airlines are struggling with. Alan Bender, an aviation Professor at Embry-Riddle Aeronautical University in Daytona Beach explains that although these high-cost airlines are down they're not out (Bowen & Headley, 2004). The challenge is being fought on many fronts including increasing the efficiency of labour forces and reducing spending on in flight products and ground services. United Airlines alone lost 3.2 billion dollars in 2002, with labour costs at nearly half its revenues the airline now wants to save 2.6 billion dollars a year by chopping back drastically on pay and benefits for pilots, flight attendants and mechanics (Riley, 2003). Despite these attempts many FSA's are struggling to achieve the successes that LLC's are still achieving. Any forecast of the demise of FSA's would be premature as not everyone wants to see pilots, flight attendants and customer service agents wearing golf shirts. This is illustrated in Table 1 in Skytrax's Airline of The Year, a global barometer of airline passenger opinions. The survey is made up from 10,821,215 respondents of more than 90 different passenger nationalities, conducted from June 2003 to March 2004.

[10] (Field, 2004, Pg 49).

Table 1. Airline of the Year 2004-Final Ranking

Airline of the Year 2004 - Final Rankings	
1st	Singapore Airlines
2nd	Emirates
3rd	Cathay Pacific
4th	Qantas Airways
5th	Thai Airways

Source: Skytrax Airline of The Year 2004. Retrieved from the World Wide Web 21st June 2004 fromhttp://www.airlinequality.com/2004/airline_04_entry.htm

7.3 The New low Cost Business Model

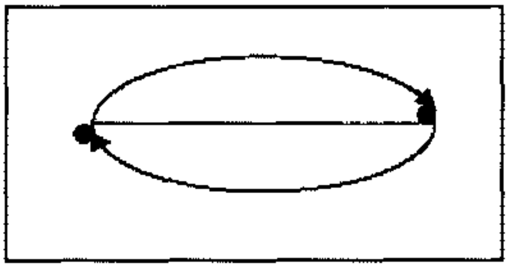
The new low cost business model focuses on point-to-point short haul operations and has been widely implemented by LLC's around the world.[11] Figure 3 illustrates the point-to-point operation utilised by LLC's. There success has been well documented stimulating very rapid traffic growth and offering significant savings and value for money for both leisure and business passenger's (Dogans, 2001, Pg 63). According to the Fernandes (2004) LLC's earn approximately 45 percent less revenue per mile than FSA's that therefore require around the same margin in lower costs. While business systems and attitudes differ from company to company operating a low cost business model shares the same ideology of getting passengers from A to B at the simplest and lowest cost possible. Optional extras such as extra legroom, airport lounges, IFE, and food is either not offered or offered on a user pays basis. They aim to offer low one-way fares at high daily frequencies on short-haul routes[12]. LLC's typically operate from smaller so-called alternate airports that are less congested and landing rights are less expensive. When an LLC does depart from a major international hub airport it will usually be at an off peak time. LLC's typically use single-aisle aircraft such as the new generation Boeing 737s or Airbus A320s. Using one aircraft type streamlines maintenance, crew training and flight preparation. There is no first-class or business sections or assigned seating which means more rapid boarding and disembarking and a lack of catering and absence of freight also helps achieve quicker turn around times. LLC's also achieve cost savings by offering bookings online via websites, which is quick, simple, and cheap. Paperless tickets are another cost saving method employed by LLC's to reduce the price of

[11] LLC's focus on three factors: efficiency, simplicity and employees, according to John Wensveen, a professor of airline management at Embry-Riddle Aeronautical University in Daytona who is also a consultant to the industry.

[12] Short haul flights are generally considered flights which to not exceed the four to five hour duration mark.

airfares. In addition LLC's do not offer FFP's or interline baggage facilities for passengers transferring to or from other airlines. There are also factors which passengers do not see such simple labour contracts and wage rates that are significantly lower than FSA's, fundamental to keeping airfares low.

Figure: 3 Illustration of Low Cost Point-to-Point Operation



Source: Yergin, Daniel, Vietor, Richard H.K. and Evans, Peter C.; Fettered Flight: Globalisation and the Airline Industry; Cambridge Energy Research Associates, Cambridge, MA, 2000.

7.4 Reservations, Success's & Challenges For LLC's

When LLC's first made an appearance on the aviation scene industry experts and passengers had a number of reservations and concerns. According to James (2002) these concerns included not having enough planes, flying into remote airports and a lack of customer contact. Even their unconventional new names with the likes of EasyJet, Buzz, and Go had an unsettling air of impermanence. These fears were soon put to rest by super cheap fares coupled with a fast and efficient service. This combination was an amazing feat never seen before explains David Stempler, President of the Air Travellers Association (Bowen, & Headley 2004). Not all LLC's succeeded in the low cost race and it appeared carriers with the lowest cost structure were winning the competition. With such fierce competition many LLC's fell victim to this battle. This posed a fundamental question of whether LLC's were here to stay or just a passing phase. However today there would be little doubt that there rapid growth and increased market share has presented a dominant threat and cemented their presence in the future. As a result passengers of all dimensions can now enjoy an array of travel options, which surely must be a good thing. However there are fears that this array of travel options produced from burgeoning competition has reached a point of saturation. Lim (2003) describes this saturation as sparking fears of a dotcom-style bust reminiscent of the proliferation of Internet firms during the 1990's. Europe has up to 50 LLC's a number sure to fall but is unlikely to include the well-established operators like EasyJet and Ryanair (Admin, 2004). LLC's will continue to face a number of challenges in their expansion that may restrict them to the short haul market. These include airport-related costs at major international hub airports such as ground handling services, gate and crew layover times being considerably more expensive. FSA's are able to enjoy economies of scale in the long haul market a market where LLC's could struggle with in achieving the significant savings they have made in the short haul market. With such factors to contend with it seems unlikely that LLC's will dominate the long-haul environment to the extent they have in the short-haul market. Table 2 shows the history of the U.S Domestic Airline Market and how well the LLC's are doing at competing against FSA's.

Table 2. Market Share of Domestic Origin & Destination Passengers, 1990-2002

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
AirTran[1]				0.0	0.6	1.4	1.0	0.9	1.2	1.3	1.5	1.6	1.9
ATA	0.1	0.1	0.1	0.4	0.7	1.0	0.9	0.8	1.1	1.2	1.3	1.6	1.9
Frontier					0.0	0.2	0.3	0.3	0.3	0.5	0.6	0.6	0.8
JetBlue											0.3	0.8	1.3
Southwest	7.0	8.2	9.6	11.3	12.7	13.6	14.1	13.8	13.8	14.3	14.9	16.2	15.8
Other LCC's			0.2	1.9	2.4	2.3	2.8	2.4	2.2	2.2	2.0	2.1	2.0
Total LCC's	7.0	8.3	10.0	13.7	16.3	18.4	19.0	18.2	18.5	19.4	20.6	22.9	23.7
Alaska	1.8	1.9	1.9	2.0	2.6	2.9	3.1	3.0	3.1	3.0	2.9	3.0	3.2
America West	3.8	4.3	3.6	3.4	3.3	3.4	3.3	3.3	3.2	3.2	3.4	3.6	3.8
American	14.8	15.3	16.2	14.7	12.7	11.5	11.0	10.7	10.8	10.4	10.9	10.8	11.1
Continental	6.8	7.4	7.4	7.3	8.3	7.2	6.5	6.6	7.0	6.9	6.7	6.9	6.8
Delta	12.6	15.0	15.5	15.0	14.8	13.4	14.8	15.7	16.2	15.9	16.1	15.2	16.0
Northwest	7.1	7.3	7.5	7.3	7.1	7.4	7.5	7.6	7.0	7.6	7.6	7.6	7.6
TWA[2]	3.9	3.8	4.1	3.6	3.6	3.6	3.5	3.6	3.9	3.8	3.8	3.2	
United	11.5	12.8	12.7	11.8	11.2	11.9	11.9	12.1	13.2	12.7	11.7	11.0	10.2
US Airways	14.0	13.1	12.4	11.8	12.3	10.7	10.1	10.7	10.7	10.2	10.4	10.3	9.6
Other Carriers	16.6	10.8	8.8	9.5	7.7	9.7	9.2	8.7	6.6	6.9	5.9	5.6	5.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: U.S. DOT DBIA Database, 1990-202. Data for 2002 is from the first and second quarters

7.5 Full Service Airlines Running LLC's

Around the globe FSA's are scrambling to redefine themselves in order to remain competitive and profitable. Part of this restructuring for some has involved taking on the low cost challenge and created their own "me too" lost cost subsidiaries. However history has shown that FSA's have not been successful at running their own LLC's. The underlying cause of this failure is the inability to differentiate the low cost business model from their core operations. These failures have not deterred others airlines from playing the low cost game. United recently started LCC Ted despite its failings with Shuttle, which built an extensive network around the West Coast to compete against Southwest Airlines. US Airways also had an answer to Southwest with Metrojet and Continental Airlines with Continental Lite but both attempts failed to replicate the success of Southwest. These attempts failed to eliminate both complexity and variability required to compete on fast efficient service and airfares alone. Delta Airlines is a good case study to examine these failures with its LLC Delta Express being shut down after September 11th and new LLC Song heading in the same direction. Song has chosen to operate B757s, with 199-seat capacity as opposed to B737's or A320's with 130 seat capacities. Operating larger aircraft means less flights per day, an inability to serve smaller cities, which restricts the development of an extensive route system, and taking longer to load and unload meaning longer turn around times. For Southwest this means they can win any price game that Delta chooses to play by retaining the absolute lowest cost base. Not all airlines have failed to successfully run LLC's with examples closer to home including Air New Zealand's international LLC Freedom Air and Qantas's newly introduced Jetstar which at first glance is having considerable success. However one does have to wonder why airlines are not fixing the factory so to speak and creating sideshows instead.

7.6 Low Cost Verse Full Service Airlines

One of the consequences of a global economic recession and down turn in aviation is to validate one type of business model. So how do you know whether a business model is any good and whether one type of business model is better than another? LLC's have changed the face of the industry as we once knew it. LLC's are also one of the underlying factors that can be attributed to the financial crisis many FSA's have been going through. It appears that the new point-to-point operation they run is invalidating the previously dominant hub and spoke model. FSA's are able to create huge profits during boom times and this will be the case when the economy and business travel picks up again. However during recessions and low levels of business travel with their high operating costs the model generates heavy losses. LLC's do not have the same risks associated with it although the profit margins are lower due to the lower prices charged. The beauty of low cost model is they can thrive in boom times and also do considerable well in recessions still able to post healthy profits. The major challenge for FSA's was LLC's drawing away more and more passengers that FSA's requires to profitably operate their large networks. As a result FSA's began to trim their high costs offering a much more learner version of their once former self's. In a nutshell this means the creation of a new type of structure that affects the type of fares, products and services offered. Part of this strategy was to offer more and deeper discounts across the board to fill seats within the networks. No matter what business model and operation an airline runs it must be built to withstand a number of internal and external shocks. Although designing a business model around different scenarios may prove difficult revamps are essential and the need for continual change pursues. Table 3 illustrates some of the major differences between FSA's and LCC's.

Table 3. Differences Between Low Budget & Mature Airlines

Low budget Airline	Mature Airline
Relatively low prices	Higher prices
Less in-flight service	More in-flight service
Primary/secondary airports	Primary airports
Less business/1st class travellers Price sensitive customers	More business/1st class travellers Service sensitive customers
Mostly online booking	Mostly traditional booking & agencies
Difficult to change dates (less flexible)	Easy to change flight dates/times (more flexible)
Ticket-less travelling (no printing and sending of tickets)	Printed tickets
One type of ticket	Variety of tickets (business, leisure, youth etc.)

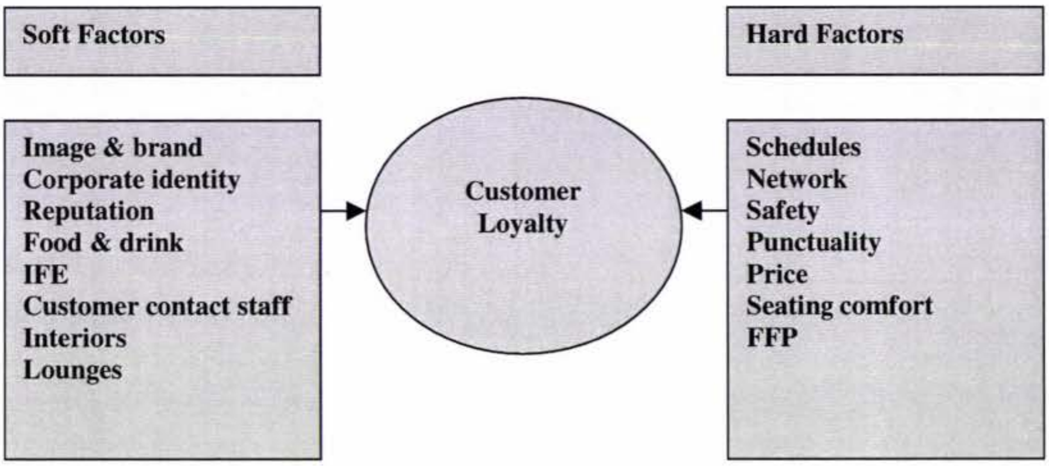
Source: Jacob. M & Jakesova. Z (2003) *Emerging Tendices In the European Airline Industry.* United Kingdom: University Press

8.0 PRIMARY AIRLINE CHOISE DRIVERS AND RETAINERS

8.1 Background

To remain profitable airlines like all other companies must continually review the way they conduct business. This is especially true in today's forever changing market place. Airlines today are being forced to continually purse strategies that control costs while at the same time improve the appeal of their products and services both in the air and on the ground. This means undertaking cost analyses on passenger preferences for the various products and services airlines have to offer. This task involves setting up a framework for investment appraisal weighing up the benefits and costs each product feature brings. Glynn & Jones (2001) describes this task as linking the effect a product feature has to a passengers overall purchase and repeat purchase behaviours. For decisions to be effective this information must be accurate, precise and most importantly include precise passenger monetary valuations of the different levels of products and service attributes. Information must therefore not be over simplified but at the same time a clear picture of what drives customer attraction and satisfaction must be created for senior management. For example asking a passenger to give one reason why they choose to fly with one particular airline. The picture produced from this question would be distorted because there is generally not one single reason but a combination of reasons. Airlines must collate these reasons in a form to establish the contribution each reason makes statistically to the final decision. Traditionally airlines have collated these reasons into a form structured by function. Structuring reasons this way has been detrimental to the overall package produced. The seating people have always understood the importance of seating and the catering people have always understood the importance of catering etc. Each department would work in isolation and not be willing to make trade off's in order to decide how to prioritise spending. Today these departments must work in unison in order to achieve the mutual goal of attracting and satisfying passengers on a budget which is more highly scrutinised than ever before. Figure 4 illustrates a combination of these various factors associated with this task. Dr Alamdari believes hard factors attract customers while soft factors retain customers.

Figure 4. Soft & Hard Airline Factors



Source: Dr Alamdari, F. (September 2001 11^{th}-14^{th} 2001) Air Transport Group Cranfeild University. 2001 Annual Conference and Exhibition.

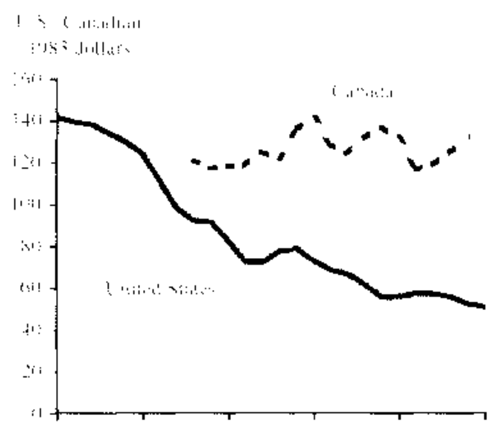
8.2 The Price of Airfares

Like all other industries the price of the product and service is the most critical and dynamic product feature in any market segment. It is the single most important factor for passengers when choosing an airline and for airlines because generates their turnover[13]. Passengers seek stable economical fares all year round but this often isn't the case especially with FSA's. At the same time it would be a myth to believe that price is the only factor passengers care about. Many passengers are willing to pay extra for factors such as leg room, access to airport lounges, IFE and knowing that if things go wrong they will be looked after. Pricing is an extremely complex and unpredictable process driven by competition, and reflected by demand and inventory (yield management). Pricing airfares too high or too low could mean losses in sales and potential profits for the airline. Airlines determine price using the supply and demand relationship. This involves dividing seats including those in the same class into several price ranges. You will always find the lowest fares for seats in advertisements targeted at leisure passengers that would otherwise go empty. The highest priced fares are often sold last to passengers who make their travel plans at the last minute and are less concerned with price. As previously mentioned both leisure and business passengers are becoming increasingly price sensitive and price is having a greater impact on demand (Doganis, 2002, Pg 63). Deregulation has been the primary cause for this change resulting in the industry

[13] An airlines profit is derived from the difference between total selling price to the passenger and total cost to the airline to provide the service including the management process of balancing revenues and costs to earn this profit.

becoming renowned as one of the world's most competitive. This is despite airfares falling dramatically over the past two decades in tandem with deregulation. This has enabled more passengers' to travel by air that would not have travelled otherwise which must be a good thing. These passengers are benefiting greatly from competition as it can be assured if one airline cuts prices it's more than likely the others will follow. At the same time prices have fallen you could say the level of service has also fallen in tandem with deregulation. Elliott, (2003) believes that now prices are bottoming out, many passengers are concluding that they don't like the result of deregulation. It's an odd feeling, getting what you want but not wanting what you got. Figure 5 illustrates the fall of the average domestic airfare Canada's still regulated market and America deregulated market.[14]

Figure 5. Price of Canadian & US Domestic Airfares after Deregulation



Source: US Bureau of Transportation Studies, U.S Bureau of Labour Statistics, Canada Aviation Statistics Centre, Bank of Canada Review.

8.3 Airline Schedule

An airlines schedule is another major factor that plays an important role in the minds of passengers when making their travel arrangements. According to Ramaswamy, (2004) the generation of an airlines schedule is the most important decision making problem an airline faces. The opportunity cost of flying a suboptimal schedule may be many hundreds of millions of dollars. Business passengers travelling in the short haul market are especially sensitive to an airlines schedule. Their departure and arrival times and in particular whether a flight is direct or not is the most important factor (Doganis, 2002). As all passengers become

[14] The United States domestic airline market was deregulated in 1978 leading to a significant fall in the level of prices while the Canadian market remained high regulated and prices grew with inflation.

more eager to get to their destinations in a frequent faster manner than ever before the importance of an airlines schedule is increasing. It would appear flight schedule would have to be the second most important factor to passengers overall after price when making travel arrangements. However the importance of an airlines schedule will shift depending on the duration of the flight. In the short haul market business passengers require at least one flight in the morning and one flight at night in each direction to allow business trips to be completed in one day. Flight schedules on the weekend are less important to business passengers and more important to leisure passengers so that they can get away on short stay weekend holidays. Ideally it's best to have several flights a day using smaller aircraft. However the type of market, level of passenger demand, length of the haul and the amount of competition will often dictate an airlines frequency of flights. An airline operating smaller aircraft at higher frequencies will mean higher operating costs per unit. However such a schedule is likely to attract more business passengers that may be prepaid to pay higher fares for the convenience of such a schedule. For a new operator to enter the market offering a once daily service when a competitor has a high frequency schedule is unlikely to have much of an impact. This is why LLC's entered the market offering high frequency point-to-point schedules. This has been the biggest fundamental change in airline scheduling putting traditional network airlines under substantial competitive pressures (Fiorino, 1999).

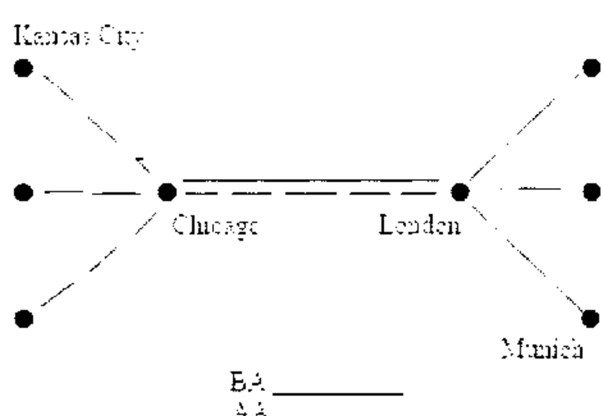
8.4 Seamless Air Travel

Getting from A-B-C smoothly with one ticket is high on all passengers' wish lists. Airlines are only able to offer this feature through an array of airline alliances and code sharing agreements. These arrangements link domestic and international hub and spoke networks together and range from moderately simple to extremely complex. Figure 6 illustrates how alliances connect two sides of the world to each other's home markets. Airline alliances, code sharing agreements and other forms of cooperation between distinct airline entities have increasingly become a common sight in international air travel markets. The first code share agreement dates back to 1989 with an agreement made between Northwest and KLM and since then have increased in popularity and size[15]. Airline alliances and code share agreements are the only means today for an airline to provide its passengers seamless air travel to pretty much anywhere in the world. Airline alliances and seamless travel offer passengers a number of wide spread benefits. These include only having to check your luggage in once, FFP across the board and access to airport lounges around the globe. For

[15] Detroit is a hub for Northwest and Amsterdam is KLM's hub. By connecting these two hubs the alliance created 16,240 connecting opportunities under a single code in the computerised reservations system.

airlines alliances have proven to be an extremely effective marketing tool. They have helped foster positive relationships between airlines and passengers entrusting loyalty amongst their passengers. Generally speaking only FSA's have entered into these alliances and code share agreements. The main global alliances are Star Alliance, Oneworld, Skyteam and The Qualiflyer Group. The two predominant airline alliances are Star Alliance and One World, which have in excess of ten members each[16]. However the growing size of these alliances has posed particular problems for the leading airlines. As more and more airlines join these global alliances there is less likely to be consistent level of service and product standards throughout the alliance. This can prove detrimental not only to other airlines brands and images but to the actual alliance brand itself. When it comes to LLC's they have stayed clear of any form of airline alliances. LLC's claim they reduce and bring unfair competition by increasing alliance members market share and the ability to eliminate any competition (Gail, Butler, & Keller 1998). Some LLC's are starting to offer some of the benefits that airline alliances bring without entering into any formal agreements with other airlines. Jetblue now offers its passengers FFP's and access to airport lounges across the country side which maybe one of the reasons why the airline is the most profitable domestic airline operating in the U.S.

Figure 6 American Airlines and British Airways Airline Alliance



Source: Bruekner, J Whalen, T (2003) The Pros and Cons of Airline Alliances: America: University of Urbana-Champaign.

[16] Star Alliance has 15 members that together travel to 755 destinations in 132 countries While Oneworld has 8 members' and together travel to 571 destinations in 135 countries.

8.5 Staff On The Ground

The efficiency, helpfulness and friendlessness of staff at call centres, check in desks and boarding gates have a major effect on a passengers overall travel experience. The relationship and interaction between passengers and ground staff is a non-measurable and intangible aspect of the passenger's journey. However there are many aspects to staff that influences the outcome of this relationship. This includes their appearance, degree of empathy and willingness to help provide a prompt and pleasant service for all passengers. It goes without saying that all passengers want to deal with friendly employee's that exhibit these qualities. According to Fiorino, (1999) these are the most important factors in determining the quality and efficiency of a passengers overall travel experience. Friendly and courteousness staff can even overcome the biggest shortcomings in a passenger's experience. However at the same time poor staff attitudes can destroy even the best-planned product and service (Louth, 2003). A number of factors influence the overall quality of staff however the quality and recurrence of the training they receive would have to be the primary determinants. Singapore Airlines deputy Chairman and CEO Dr Cheong Choong Kon recognises that their people are the airlines most important asset (Madu, 1998). Due to this recognition Singapore Airlines invests heavily into the training of its people. It's no wonder why the airline has won countless awards for the friendliness, assurance and knowledge of their people. It comes as no surprise also that Singapore Airlines is known as a company that is highly regarded by its employees. A survey in 2002 called the People's Choice conducted by JobStreet.com saw Singapore Airlines being voted as the second best employer to work for behind Hewitt Packard as illustrated in Table 4. After airlines have developed quality recurrent training programs they must then develop effective tracking mechanisms to closely monitor the feedback obtained from their employees and passengers. This will measure the effectiveness and impact its people has on passengers in developing and promoting the airline. Management must also inturn play a role in motivating and empowering its staff at all levels to satisfy their passengers. Even ground-handling staff need relate to today's business and leisure passengers needs and be willing to go the extra mile for them.

Table 4. Top 10 Companies (Overall) - Best Employer: The People's Choice

Ranking	**Company organisation**
1	Hewlett Packard
2	Singapore Airlines
3	IBM
4	Citibank
5	Agilent Technologies
6	Microsoft
7	Singapore Telecommunications
8	Motorola
9	Nokia
10	General Electric

Source: Kaufman, (2002). *How High Does Singapore Airlines Fly So High?* Retrieved 1st December 2004 from the World Wide Web: http://www.trainersdirect.com/resources/articles/BusinessManagement/

8.6 Cabin Crew, Flight Attendants, Trolley Dollies

Whichever generic term you prefer cabin crew play a vital role in the safety and well being of all passengers. They also represent the airline in its best interests as they spend more time with the passengers than any other staff members. While regulatory bodies impose a minimum number of cabin crew for each aircraft type airlines will often exceed this number in recognition of the important role they play. Cabin crew have a substantial impact on passengers' impressions of the airline and they must ensure good public relations are maintained. Airlines therefore require their cabin crew to have a number of positive attributes. Cabin crew must appear approachable and friendly; listen attentively while showing a degree of caring and sensitivity and use humour to good effect. They also must be able to associate to passengers with different age profiles, ethnic profiles, and show respect for cultural differences. Further more cabin crew have to effectively manage children travelling alone, parents travelling with infants, passengers who suffer extreme anxiety about flying, and disabled passengers such as those with impaired vision/hearing or are wheel chair bound. While all airlines recognise the importance of have friendly and approachable cabin crew the number of cabin crew on each flight has a direct impact on the level of service provided and in turn a serious cost implication. LLC's will usually stick to the minimum number of cabin crew required while FSA's will generally opt for more especially on long haul flights. Using Singapore Airlines as an example their Boeing 747-

400 long haul flights will carry 19-cabin crew when the minimum required is only 11(Madu, 1998). Its no wonder this airline is known as one of the world's major "passenger" airlines receiving numerous local and international titles and awards for its passenger services. Singapore Airline Singapore is not the only Asian airline being rated highly among passengers as illustrated in Table 5. Respondents nominated airlines based on their service efficiency, cabin presence, service attentiveness, staff friendliness, staff language skills, courtesy of staff, sincerity, enthusiasm and attitude of cabin staff.

Table 5. Skytrax Best Cabin Staff Global Ranking 2004

BEST CABIN STAFF - 2004	
1	Malaysia Airlines
2	Thai Airways Int'l
3	Asiana Airlines
4	Air Tahiti Nui
5	Qatar Airways
6	Singapore Airlines
7	All Nippon Airways
8	SriLankan Airlines
9	Dragonair
10	China Airlines

Source: Skytrax *Cabin Staff Of The Year 2004*. Retrieved 30^{th} June 2004 from the World Wide Web: http//www.passengersurveys.com/Airlines/cab_staff_04.htm

8.7 Safety

Safety it is a factor that is somewhat assumed by passengers in the sense that it is guaranteed by every airline to a certain extent. To the public eye it would appear the majority of airlines have an equally good safety record. Therefore in the passengers mind it makes it very difficult to determine if an airline is 'safe' or 'unsafe'. The reality is there are simply too few fatal airline accidents to serve as a basis for reliable statistics. Ranking airlines by fatalities per passenger and kilometre flown in reality does not say anything about the safety of the airline. Therefore this makes it very difficult to appreciate how this factor influences passengers' choices between alternative airlines. An airlines safety is a shared responsibility between government regulators, air traffic controllers, aviation manufacturers, airport safety and security agencies, third party contractors and even the passengers themselves. The most important indicator of airlines overall safety actually comes from the national regulatory body that governs it. However there are also factors outside their control such as the environment the airline operates in i.e. mountainous terrain or frequent storms and in recent times hijackings and bombing attempts. Airlines operating large capacity aircraft in major industrialised countries will have stricter safety regulations to follow as opposed to airlines operating smaller capacity aircraft in more remote locations. Major airlines such as Qantas Airways and Southwest Airlines for example have never had a fatal accident while others such as Pan Am and Eastern have had several. This doesn't make one airline automatically safer than the other although presumably it does affect the public's perception of safety (Louth, 2003). Passengers need to remember that not all airlines treat safety equally with some putting safety as a higher priority than others. They also need to remember that good airlines can go bad, and bad airlines can improve. However access to such information is often restricted as Barter, (2003) points out. Five airlines have such poor safety records they have been banned in at least one country but their identities have been kept secret. If an airline were famous for poor on time performances, lots of passenger complaints, and severe financial problems this would have to bring into question the efficiency of their safety systems.

8.8 Safety, Deregulation & Low Cost Carriers

Safety at its core isn't cost effective with recommendations for safety changes evaluated not in terms of how many accidents they might prevent or lives they might save, but in terms of how many dollars they would cost the airlines, manufactures and maintenance companies. Looking at the statistics alone you can easily see that air travel is unequivocally safer now than it was before deregulation. Accident rates during the twelve-year period from 1978 to 1990 were 20 to 45 percent below their average levels in the six or twelve years before deregulation (Kahn, 2002). However with such a recent increase in the level of competition brought about by the presence of LLC's one does have to ask the impact this is having if any on safety. These questions have been brought on concerning the new practises and accusations made concerning the flight operations of LLC's. These include LLC pilots being encouraged by management to take off not at full throttle and to fly their aircraft immediately to cruising altitude to save on fuel. Fernandes, (2004) also identities accusations that LLC's will often cut flight routes in order to keep to their tight schedules and maintain their on time performances. However again looking at statistics alone to date LLC's have only had one fatal crash back in 1996 when a ValuJet DC-9 crashed in Florida killing all 110 passengers and crew and ultimately spelling the end for the airline. The cause of the accident was attributed to the shipper not declaring dangerous goods however ValuJet clearly had a high number of accidents and incidents as a direct result of maintenance cutting corners illegally.

Valujet aircraft were flying regularly with mandatory equipment broken and pilots routinely making bad cockpit decisions. From 1993 the FAA conducted 21 separate investigations into Valujet, which included eight engine shutdowns during flights, thirteen forced returns to airports and twenty-eight problems with landing gear, to name just a few (Warner, 1996). This created new attention towards the safety of LLC's and raised questions about government's ability to regulate the level of new start up airlines.

8.9 Airline Security

I believe anyone would be hard pushed to write a thesis on any topic regarding the airline industry without mentioning the consequences the September 11th terrorist attacks have had[17]. The events of that day heightened the awareness of security at a local, national and international level around the world. This underscored the importance of improving the security of air travel in a previously too trusting security system. It's no secret that many of the world's major airlines struggled to cope with the effects of September 11th that resulted in a global down turn in passenger numbers. Reassuring passengers that air travel is safe was crucial to reversing this trend but Richard Reid's bungled attempt to detonate a shoe bomb on an American Airlines flight from Paris to Miami in December 2001 was far from comforting. Government's worldwide developed a command-and-control approach by tightening security at airports and on aircraft through a number of enhanced security systems. However the threat of airline terrorism is nothing new and dates back to the 1970s and 80s, in the form of Palestinian terrorist groups and their European offshoots. It wasn't until the 1988 Lockerbie bombing that sent shockwaves throughout the industry and became a turning point in airline security. In response new security measures were introduced which included scanning all carry on luggage and walk-through metal detectors. These knee jerk reactions often give the appearance of good security rather than actual real security. While many of these security measures make sense some are simply cosmetic gestures many that passengers are willing to put up with viewing them as minor inconveniences.

[17] The September 11th terrorist attacks: American Airlines Flight 11, carrying 92 people crashed into the World Trade Centre's north tower, United Airlines Flight 175, carrying 65 people crashed the World Trade Centre's south tower, American Airlines Flight 77, carrying 64 people crashed into the Pentagon and United Airlines Flight 93, carrying 45 people crashed 80 miles southeast of Pittsburgh.

8.10 New Security Measures Post September 11th

No security measures in place at the time were able to stop the September 11th hijackers who cleverly studied the airlines operations and exploited the gaps in the present security systems. When commercial flights resumed a few days after the attacks, there were noticeable changes in security procedures at all airports around the world. The new and increased security measures saw more frequent screening of passenger baggage for explosives and weapons. Undercover-armed law enforcement officers were even placed on some flights to prevent such hijackings. Passengers were now required to show some legal forms of photo identification several times through their journey before takeoff, at check-in, in the screening areas, and finally at the gate before boarding. These changes came hard and fast and the passengers whom were brave enough to travel found themselves facing tiring congestions and delays. Airlines were faced with a difficult task of trying to satisfy unprecedented amounts of security legislation while at the same time keeping their passengers happy. Consistency throughout all airports required airlines to focus on operational efficiency and staffing levels in order to achieve a more uniform level of customer service across the board. It has been difficult to determine how well these new security measures have done in reassuring an already nervous flying public. It is possible that these new security measures have had a corrosive effect on passengers' confidence by constantly alerting them to the dangers they may face when they fly. However in a survey examining how people felt about air travel nearly a year after September 11th it was found that most passengers felt that their air travel practices were unaffected by the events of September 11th, or they have returned to their previous level of comfort about flying (Fleming, 2002). While security like safety at its core is not a competitive product one can argue that the airlines goal wasn't to make planes harder to hijack rather to ensure passengers are willing to fly. The harsh truth is that no security measure can stop someone determined enough from carrying out a crazed, nihilistic attack. The only true way to achieve the total ultimate safety and security system is by doing away with flying altogether, which nobody wants.

9.0 SECOUNDARY AIRLINE CHOICE DRIVERS AND RETAINERS

9.1 Aircraft Preferences

McCartney and Pasztor (2003) rank the type of aircraft as an important part in the passengers' decision-making process. However there is not a huge variety and difference when it comes to aircraft. When an airline chooses what aircraft to use it will usually reflect the length, nature and environment of the journey. Generally speaking small regional routes aircraft will range from 30-100-seat capacity and be either a turbo prop or small jet. Jets are certainly the preferred aircraft by passengers, as they more comfortable and quieter than turbo props. Turbo props are perceived as being bumpy, slow and noisy with a less sound safety record. As a result airlines and charter operators are replacing turbo props with jets in an attempt to make regional air travel more appealing and boost passenger traffic. However the use of jets is not always possible as turbo props are able to operate in some environments that jets can't. In the short haul market 4-5 hours the most popular aircraft type is the Boeing B737 and competing aircraft manufacturer Airbus A320. So which aircraft is most preferable amongst airlines and most importantly amongst passengers? Skytrax a London based aviation research company conducted a global survey between March and May 2003 and discovered that the A320 is the preferred aircraft for 57 percent of airline customers. The survey covered cabin noise, width, ambience, seat comfort, overhead bin space and the comfort of embarking and disembarking with Airbus being the preferred aircraft in all of these categories. The Long haul market over 5 hours has been dominated by Boeing's range of B747's but their lifespan is nearing an end[18]. Boeing has introduced its new long range B777 that is proving popular among some airlines. However Airbus's new range of long haul aircraft are becoming increasingly popular with both airlines and passengers. It is Airbus's Very Large Commercial Transport (VLCT) in the form of the A380 that will be the most revolutionising aircraft in the industry for some time and its popularity with passengers will be closely monitored. While this aircraft will no doubt prove popular among first and business class passengers its economy class sections may give a new meaning to the term cattle class. Gordon Bethune Chief Executive of Continental Airlines doesn't see the appeal in having to check in with 500 other passengers, to sit on a plane with 500 other passengers and to wait for your bags with 500 other people (Matlack, 2003). Unless the A380 can provide substantial economies of scale that airlines pass onto their economy class passengers I cannot see it being a popular aircraft for these passengers.

[18] Boeing delivered the first 747-400 in 1969 to Northwest Airlines. Since the first 747 delivery in 1969, Boeing has delivered more than 1,380 747s, including 616 747-400s (Woodyard, 2003).

9.2 The Aircraft Cabin

For passengers the aircraft cabin is the most important part of the aircraft for obvious reasons, they spend the most time inside it. The design of the aircraft cabin largely dictates passengers' perception of comfort in relation to the interior layout and configuration. These two factors have the biggest impact on passengers' perception of comfort because they have a direct impact on a passenger's personal space. Therefore passengers want the cabin to be well thought out to create a safe, comfortable and ergonomic cabin environment. This has increasingly become the case as a result of an increasing concern of developing blood clots from deep vein thrombosis dubbed "economy class syndrome" although the relationship still remains unproven[19]. Louth, (2003) describes the key to a passenger's perception of comfort as being space. This includes spacing between seating areas, galleys, toilets and storage areas. However the greater the spacing between these components the higher the unit cost per seat i.e. more spacious seats means fewer seats per aircraft which equates to a higher operating cost per seat. Some airlines have put galleys in the freight hold and carry on luggage compartments below the floor to save on space however this comes at the expense of freight capacity. In the short haul market research has shown that low fares count more than generous seating space. However when flights get longer over 5 hours priorities tend to shift and comfort becomes the number one concern after flight availability (Hewit, 2001). On these flights its fair to say that passengers not only want sufficient leg room but the ability to work, rest, read, eat and drink without interfering with other passenger's ability to do the same. LLC's are renowned for their seating density to achieve lower operating cost per seat, which is then used to offer their low fares. Leisure passengers are often willing to make this sacrifice in the short haul market but the majority of business passengers are less willing to do the same. Carlson Wagonlit Travel recently conducted a survey which found that 30 percent of business passengers would never use a no frills service. The main reason behind these findings was the concern of the lack of legroom, which most passengers believed comes with such a service (Elliott, 2004).

[19] Deep vein thrombosis is a blood clot (thrombus) that develops in a deep vein, usually in the leg. This can happen if the vein is damaged or if the flow of blood slows down or stops.

9.3 Aircraft Seats

As briefly mentioned in the precious chapter seating is the most important comfort factor for passengers inside the aircraft cabin[20]. Legroom is most important factor followed by the seat width which together accounts for 60 percent of a passenger's total sense of comfort as explained by Boeing's Klaus Braucer (Hewit, 2001). Brauer goes on to explain that this sense of comfort has a major impact on the mood of the passengers during flight. This makes it critical for passengers to be comfortable to ensure they have a positive travelling experience. When it comes to designing seats there is a lot of free range for designers whom are only restricted by space. In the early 1970's, CAB used to dictate seating standards however deregulation led the design and configuration of seating to be left up to the marketplace (Costello, 1999). Today the only regulation regarding seating is that the space between each seat must be large enough to ensure that passengers can evacuate quickly in an emergency. In the long haul market especially the business and first class sections there exists a quest to broaden market appeal and achieve greater differentiation. Seat size, ergonomic design, and value-added features are becoming essential to an airlines marketing strategy in this market. Such innovations include new seats that have the ability recline and turn into flat beds and even "mini berths" as being offered by premium airlines such as Emirates and Singapore Airlines. In the short haul market Michael Baughan Senior Bice President Commercial Aircraft Products B/W Aerospace explains of the renewed interest in standardisation and simplification of airline seating (Fiorino, 1999). Many cost saving methods in this market are being explored including removing tray tables, the ability of seats to recline, removing magazine pockets and placing safety information on the back of seats. Airbus has even introduced a new seating concept which resembles that of a cinema style fold up chair that would cut boarding and disembarking times by up to 40 percent (Copping, 2003). Several A320 airlines operators have shown interest in this fold up economy seat concept and could be in the market within a couple of years.

9.4 Food & Drinks

In its presence and absence it's topic that passengers love to discuss, complain and criticise (Glynn & Jones 2001). Airlines have historically placed immense emphasis in the quality of their food and large selection of drinks. However there is little evidence that a passenger's gastronomic preference influences their decision when choosing between alternative airlines.

[20] There are two components to seating, the width- the distance across the seat, and the pitch -the distance between the back of one seat and the same point on the seat in front.

Food and drinks is one area where management have a broad level of discretion limited only by competitive pressures. In today's competitive market place food and drinks is used to attract passengers both in its presence and absence. The food offered on a flight if any is often dependant upon the type of airline, the class and the flight's duration. FSA's have typically placed great emphasis on advertising having best meals cooked by master chefs and offering the most expensive wines, best spirits, the finest coffee not to mention the free newspapers, magazines and toiletry bags. After September 11th airlines had to determine what the return was on continuing to invest into these amenities and for the majority of airlines this meant cutting them. Continental Airlines was the only major U.S network airline not to cut free meals in their economy class "cost cutting that makes air travel even less pleasant is not the answer" Continental Airlines Chief executive Gordon Bethune[21]. Some airlines have chosen to turn food from a cost expense into a profit centre and passengers have proved they were willing to buy meals provided they were good quality. Most airlines managed this risk by mitigating the waste and losses that accompanied this move by contracting catering firms to run the programmes and assume some of the financial risks. The airlines and catering companies had to be careful of what to offer passengers, as market research does not always reveal what passengers always desire (Field, 2004, pg 49). For example passengers may tell an airline they want healthier fresher meals but in reality they only eat the muffins and potato chips on offer. For LLC's not much had changed in the fact that they continued to offer no food and drinks at all or the only the bare minimum such as pretzels, peanuts and cola.

9.5 In-Flight Entertainment (IFE)

In essence the thought of travelling thousands of miles through nothing but endless amounts of blue sky in a very confined space does not sound very appealing. IFE is the key in making this journey more enjoyable and most importantly preventing boredom. The type of airline, the class and the flight's duration often reflects the level and quality of the IFE on offer. The only IFE LLC's are likely to have is the safety demonstration and any games the cabin crew decide to play. On the opposite end of the scale FSA's flying long haul routes are likely to have an array of latest state of the art IFE on offer. IFE is a key selling point for these airlines and is often used to gain that elusive competitive edge against the competition. While IFE is not considered to be a primary choice driver it does play a large part in the overall satisfaction of the service which to a certain extent has become part of many passengers expectations (Shifrin, 2004, Pg 40). However after September 11th spending on all amenities including new IFE upgrades were stalled. It wasn't until 2003 that these unfinished IFE projects were

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[21] (Field, 2004, Pg 49).

continued and new investments into IFE were again being made. These investments included new technologies such as Audio Visual on Demand (AVOD) on Personal Television (PTV) in every seat offering multiple channels of satellite films and music. Virgin Atlantic Airways was the first airline to bring this level of IFE into the economy class but it is increasingly becoming the norm on airlines flying long haul routes. A survey conducted in 2004 by The World Airline Entertainment Association confirmed that 75 percent of all airlines have PTV's in their economy class on long haul flights (Fiorino, 1999). Air New Zealand is one airline that doesn't have PTV's and is now facing tough competition from airlines that do. Emirates is one of these airlines providing their passengers with over 500 channels of movies, music, computer games radio stations and even a pilot's eye view of take-off's and landing's from a camera mounted in the landing gear. Air New Zealand is now looking at upgrading its Boeing 747-400 jumbo jets with new seats and PTV's at a cost of $20 million dollars per aircraft but many industry critics believe Air New Zealand has already missed a generation of product development (Daniels, 2004).

9.6 In-Flight Communications

The technological advances in IFE are closely tied in with new innovations being made with in-flight communications. These developments have been driven by the demand of tech-savvy business passengers coupled with the airlines need to development new sources of income. Many airlines now offer passengers the ability to use their laptops and palm tops with access to the internet, email services as well as having access to fax, telephone and mobile connections. In fact these facilities are proving so popular amongst business passengers that approximately half the worlds airlines plan to offer these types of wireless access on board within 2 to 4 years according to a survey commissioned by Wireless Cabin, a consortium of large European technology companies and the German Aerospace Centre (Grinsven, 2004). Some airlines are offering these services free of charge while others have chosen to offer them on a user pays basis. Lufthansa was one of the first airlines to offer these services on a user pays basis to see whether their passengers were willing to pay for such conveniences (Heller, 2004). Like catering many airlines have chosen not to purchase these systems outright but have entered into shared ventures which half both the both the revenues and risks they bring. The ability to txt message is the latest developments in onboard communications. Singapore Airlines has recently trailed a yearlong one-way txt messages service with airline technology provider SITA and now has a commercial two-way service in place[22]. Passengers

[22] George Cooper, Senior Vice-President Airline Operations and AIRCOM Services, SITA INC, said, "Text messaging has become mainstream, with 1.5 billion text messages being sent each day worldwide. (WAEA Seattle WA 22nd September 2004)

are able to send and receive txt messages of up to 160 characters, and payment can be made by credit card or an SITA Aircom prepaid calling card. Qantas is also offering a txt message service as of September 2003 last year at a cost of U.S$1.90 using the IFE telephone handset. Although such levels of connectively would have little swaying power in the minds of leisure passengers I have no doubt it is influential factor that plays in the minds of business passengers. "SMS is one of the many in-flight services that differentiate Malaysia Airlines and it helps to promote their reputation as a leading airline both in the region and globally," says Rashid Khan, Malaysia Airlines' Senior General Manager (Sales, Marketing and Distribution) (WAEA Seattle WA 22nd September 2004).

9.7 The Products and Services Offered on the Ground

This is an area where airlines do not always have a substantial amount of control over. The primary reason is because many airlines don't own the airports or terminals they operate in. The majority of airports around the world are either owned or operated by local governments and airport companies. They have no control over vital factors such as timeslots, airport gates, air bridges, check in desks, waiting areas and airport lounges to name a few. Some airlines will therefore opt to build their own terminals allowing them greater control over some of these factors. However the facilities at airports and terminals away from their hubs are limited to what the airport authority and handling agents are able to provide. According to Pilling, (2004) when passengers travel through airports and terminals they prefer speed to comfort. For airlines this means providing well-manned check in desks and plenty of ground staff for passenger handling and assistance in general. Also helping to achieve this is new technology, this is also helping to reduce costs at the same time. New self-service kiosks are being introduced to automate the process of checking in passengers, which means a significant cost savings for airlines[33]. Not all airlines tend to focus solely on cost cutting strategies as frequently exhibited by wealthy Emirates and Singapore Airlines. These airlines go out of their way to ensure their first and business class passengers are looked after on the ground as good as they are in the air. First and Business Class passengers flying Emirates and Singapore Airlines receive complimentary personal airport transfers in a chauffeur-driven car and access to 24-hour airport lounges around the globe. These lounges contain an array of features including fully equipped bedrooms that have televisions, bathroom facilities and even massage chairs. Singapore Airlines has even gone to the extent of providing its own exclusive first-class/business lounges at all the airports it services irrespective of the frequency of its service or the number of passengers. It can be difficult to assess the impact these investments

[33] This technology is actually nothing new as Continental Airlines first deployed electronic self-check-in kiosks back in 1995 when they were first installed at Newark Liberty International Airport

have on a passenger decisions when choosing between alternative airlines but such investments do have an impact on imbedding loyalty amongst their premium passengers.

10.0 AIRLINE IMAGES, BRANDS & PASSENGERS EXPECTATIONS

10.1 Airline Image & Branding

A respectable, well-liked and trusted image/brand is an important and valuable asset to any airline. An airlines image represents the airline, their passengers and how the public at large relate to it. The importance of having a good image goes far beyond having a fancy amalgam of a name, symbol, or design. The image embodies the product and service by communicating a form of personality relevant of how the airline behaves and the tone of its values and corporate culture. It also identifies and differentiates the services of one particular airline or even a group of airlines from others. For example the Virgin brand is widely seen as an individualistic, innovative, and nonconformist group, which stands for fun, flair, value for money and competitiveness. This is created through a variety of mediums ranging from the nature and design of its aircraft interiors, sales offices and airport lounges through to the service provided by its staff in the air and on the ground. Once an image and brand has been created the airline must ensure what is promised actually materialises and meets the passengers expectations. When this expectation contained in the airlines brand promise is not meet passengers easily become disgruntled and frustrated. Delays, cancellations, and lost baggage are common examples of such failures. These situations certainly don't deliver on a promise and can ruin passenger loyalty and erode the airlines brand. Brands are even used at a higher level to create bonds and relationships between the airline and their passengers. If an airline's brand is positive and has already established a relationship with a passenger then this will favour the airline when the passenger has to make their next travel decision amongst an array of alternative airlines and brands. This has become increasingly important in recent times as passengers are exposed to a multitude of new airlines, mergers, acquisitions, and alliance activity. Therefore airlines must develop superior winning brand strategies that can support their overall business objectives and provide a unique source of competitive advantages.

10.2 Advertising of Airlines & Their Products & Services

All sales begin with some form of advertising an essential part of any business. Without bums on seats or freight in the cargo hold no airline will stay in business for long. With mounting levels of competition effective advertising campaigns have become increasingly important. Airlines must ensure that passengers remember their name so the next time they come to travel they book with them and do so time and time again while spreading the word to others. No matter what style of marketing campaign an airline undertakes its fundamental they give the impression that they are creating genuine customer value and helping the passengers to be better off. Each marketing campaign must work in with the marking mix i.e. the combination of product, price, promotion and place. When the marketing mix is wrong and poorly communicated the effects of this can be catastrophic[24]. LLC Debonair in the United Kingdom made a promise to distinguish its low-fare product by adding a few minor cabin service features not offered by competitors such as Ryan air and Easyjet. Unfortunately most potential customers were either unaware of the incremental benefits or failed to perceive them as meaningful to the purchase decision and as a result the airline went bust. In contrast to Debonair's failings Jet Blue based out of New York have added the same minor cabin service features that have been communicated to target customers effectively and favourably received (Walker, 2000). It is also vital airlines to choose the correct channels of communication to advertise the product and the price. FSA's have typically gone about advertising their superior products and services such as their comfortable aircraft interiors, state of the art IFE offerings and friendliness of their staff. They have also relied on conventional media channels such as television, radio, newspapers and magazines. LLC's have taken a different approach advertising their simple but efficient low cost service and most importantly low fares to attract passengers. LLC's while still using conventional media channels have also relied heavily on the Internet where passengers can visit their website and obtain the desired information. This kind of advertising ensures information reaches the targeted customer as opposed to untargeted traffic, which is very expensive and it does nothing for the bottom line. LLC's have been known for ridiculously priced fares around the 1 to 5 dollar mark while FSA attempt to counter this by advertising double FFP's and extra rewards and incentives to ensure passengers fly with them.

10.3 Airline Promises & Service Standards

No matter what market an airline targets they must be conscious to only promise a standard they can deliver. Passengers will generally expect only what the airline tells them to expect. Therefore it is up to the airline to ensure no gap exists between what the brand advertises and what the airline and its employees can delivery (Heaton & Feldman 2001). Airlines running different business models offer different promises and service standards to different target markets. It is not possible to conclude that one airlines business a model has better offerings than another as each has their own advantages and disadvantages. An increased amount of

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[24] The 'marketing mix' is probably the most famous phrase in marketing. The elements are the marketing 'tactics'. Also known as the 'four Ps', the marketing mix elements are price, place, product, and promotion.

competition has certainly increased the variance in airline promises and standards for passengers to choice from. When an airline makes a promise it requires continual investment in products and services to maintain this promise. Such promises range across the board from maintaining on time performance to always having the latest offering in IFE and seating comfort. Maurice Flanagan Group Managing Director of Emirates made a promise to create a standard or service in the air and ground which would prove unbeatable (Holloway, 2003). They also made a promise to themselves and their passengers that they would not introduce a new service unless they could maintain it. Making such promises can become a nightmare for airlines with countless amounts of hindrances and obstacles its amazing airlines can make any promises at all. For example the amount of investment and level of obstacles involved in creating seamless air travel is immense. Seamless air travel requires expensive check in desks, lounge facilities, compatible computer systems and extraordinary relations with governments, airports and security authorities to name a few.

10.4 Passengers & Their Expectations

With a multitude of brands each offering different product standards and service promises passengers cannot be blamed for becoming a little confused on what to expect when they purchase an airline ticket. As we know air travel was once considered to be a luxury for wealthy business people and the rich. This is far from the case today where in this day and age everyone and anyone can travel by air. The Airline Deregulation Act of 1978 was fundamental in bringing down the price of airfares enabling more people to fly than ever before. Passengers soon became obsessed with the low cost phenomenon placing this virtue above all others in the hierarchy of values. However falling airfares also meant a decrease in the level of service being offered generally making air travel less pleasurable. Passengers tend to expect the best of both worlds' low fares and high service that some of the travelling public think they are entitled too. Passengers want to travel with the dignity and class of pre-deregulation air travel while enjoying the low fares that allow them to crisscross the countryside as if they were riding the subway. It seems very unlikely that the airline industry will ever be re-regulated and this means some passengers may have to lower their expectations. It's the other consequences of airline deregulation, reduced service levels that some passengers may not be prepared to live with however now there is not much choice. Overall the majority of passengers got what they wanted cheap airline tickets that has enabled more people to fly. While passengers may have to lower their expectations many LLC's believe that just because their passengers pay low fares doesn't mean flying isn't fun anymore. Even Southwest understands that it's unrealistic to expect low fares and high service levels however they are well known for its fun attitude and keeping their passengers entertained. Their cabin crew are well known for their jokes; games and silly competitions they play and even the pilots join in on the fun often making jokes with the passengers and cabin crew.

11.0 AIRLINE PRODUCTS AND SERVICE DEVELOPMENT

11.1 The Airline Product and Service

There have been a number of improvements and downgrades in the quality of products being offered by airlines depending on what market you are looking at. Heaton & Feldman (2001) describes airline travel as a journey from A-B, which comes with a whole bunch of features. The air journey is seen not as an end product but part of a variety of other products and services. Historically passengers didn't buy features, they brought airline tickets that came with a whole bundle of features such as cabin services, food & drinks and in-flight movies some influencing customers choice more than others. This package of products and services can be categorized like an iceberg with the tip of the service being above the water followed by core of the operational services and other activities underneath. Passengers are only interested in the final products i.e. on time performance, good food and a large selection of drinks. They are not aware or interested in the activities that produce these deliverables unless there is a problem with the product or service. The final product must have the ability to satisfy passengers' needs and wants. More importantly they must produce a product and service that is valuable to them i.e. the passengers appraisal of the worth of the utility is well received. This value is the passengers appraisal of what is gained from acquiring that product and what is given up to acquire it. Such appraisals cover schedule convenience, on time performance, in-flight comfort, enhancement of self-image through association, FFP's as well as less non-monetary costs such as queues at airports and crowded airplanes. These appraisals in principle can be monetised by equating it to the maximum price the passenger is prepared to pay for these factors or avoidance of the negative ones. The ability to satisfy passengers can at times be out of the airlines control and can often depend on the personal circumstances and preferences of the individual passenger.

11.2 Product & Service Planning

From a passengers view point one airline seat is very much like another and there is little difference between one jet aircraft and another. Even when airlines do differentiate their products competitive and economic forces often means they end up offering a very similar overall product. Never the less sound product and service planning is vital for any company especially in the airline industry as it requires such a unique combination. Despite having to adhere to a variety of safety and technical regulations there are competitive and commercial reasons to provide quality products and services. Airlines must decide what product and services they are going to offer to the different market segments. This combination of product and service offerings will have a direct impact on passenger attraction and satisfaction and inturn operating costs. As a result airlines conduct a number of market research activities including passenger surveys and monitoring its own and competitors past performances. This is often a complex task and that requires cross validation of information and data. Passenger preferences for products and services vary not only between different market segments on the same route but also between neighbouring routes and geographical areas. Airlines must use this information to satisfy the varying needs and requirements of passengers in the targeted market segments and do so profitably. Product and service planning is part of the marketing mix and airlines must ensure they have the right product at the right price in the right place (Wells, &Wensveen 2004)[25]. The price must be set at a level that gives good value to the passenger while at the same time adequate revenue to the airline for the product and service being provided.

Figure 7: The Marketing Mix

Source: Shewe, C & Alexander H (2004). *The portable MAB in Marketing.* Retrieved 1st June 2004 from the World Wide Web: http://www.consultancymarketing.co.uk/marketing

[25] Figure 7 illustrates the marketing mix diagram that is widely used by all different types and sorts of business including airlines.

11.3 Product & Service Planning In a Competitive Environment

"Our aim is to orient the airline so that it is totally driven by customer needs" Steven Ridgeway, Managing Director, Virgin Atlantic, (Dogans, 2002). Airlines enjoy considerable freedom to achieve this by dictating prices airfares, capacity and the products and services offered both in the air and on the ground. Only competitive pressures and the costs they are prepaid to incur for these features limit an airlines choice. This freedom comes from the progressive relaxation of rules and regulation in both the national and international market place. Airline products and services is a wonderful playground for marketing managers especially when it comes to the in-flight service. However at the same time it is a wonderful playground to save money says Alfred Rigler, global senior vice president total in flight service at LSG Sky Chefs (Pilling, 2003, Pg 36). Investments into many new product and service features simply halted after the September 11th terrorist attacks as airlines were forced to focus on reducing costs. Airlines began looking to trim back in flight services in order to save money as opposed to spending it on improving the services. Frugality became the watchword amongst all airlines and marketing teams pretty much lost all of their spending power explains Charles Tevail, Chief executive of branding agency Future Brand (Pilling, 2003, Pg 36). The industry has started to slowly recover and marketing teams are starting to gain back some freedom to create new marketing strategies (Elliott, 2003). This involves product and service differentiation and achieving standards that are equal to or better than their competitors. An underlying factor of this strategy is ensuring that passengers feel they are getting value for money. As we know there are always tradeoffs for example greater cabin space and comfort are very important to passengers but at the same time so are low fares. The cabin layout and density directly impacts on costs equating to higher fares. In-flight amenities are also valued by passengers especially first and business class passengers such as the quality of food and drinks, range of newspapers and magazines, IFE and communications but again they all have a direct impact on costs and inturn the price of airfares.

12.0 FACTORS DETERMINING AIRLINE AMENITIES ON OFFER

12.1 Flight Duration

The duration of the flight probably has the biggest influence on the level and type of products and services provided by airlines and expected by passengers. On short haul flights there is less time for meals, drinks and other in-flight services to be offered. Passengers also generally don't expect a great deal in terms of in-flight amenities either. Passengers are willing to sacrifice these perks and tolerate relatively cramped conditions in exchange for cheaper airfares. Passengers prefer airlines to concentrate on running the short haul sector similar to a bus company with a frequent, no hassles, and no frills efficient services. LLC's have specialised in providing exactly this type of service. This brings into question LLC's ability to be successful in the long haul market due to the totally different products, services and depth this market demands. According to Boeing spokesman Sean Griffin passengers choose a short haul flight in the following order, flight availability (when they want to fly) a good fare, marketing perks i.e. FFP's, quality of customer service, and in-flight comfort (Hewit, 2001). The long haul market is a totally different ball game that has predominantly been dominated by FSA's that have the products, services and depth that this market requires. FSA's are able to demonstrate a wide range of services and products that the short haul market does not require and can even be difficult to add. On long haul flights comfort has always been the biggest priority across all cabin classes. This has never changed and "the rest is simply value to be added to the total package" says Sarah Blomfield Product Manager at Cathy Pacific[26]. These value adding products include food, beverages, IFE, newspapers, magazines and airport lounges to name a few. Whether LLC's could provide a successful product and service in the long haul market remains to be seen but is a question many people are starting to ponder.

12.2 Class Segmentation- First Class

What class a passenger flies directly determines the type of products and level of services provided. Generally speaking there has been three dominant classes, first, business and economy class. First class is an airlines premium product, which you wont find on LLC's and in today's market you wont always find it on FSA's. Many FSA's around the world have reduced and even cut their first class offerings on their domestic routes. Some have even extended this cut to the medium haul market. However the majority of FSA's still have first class offerings on long international flights. The first class experience no matter what airline

[26] (Pilling, 2003, Pg 36).

providing it's a huge step up above all other classes. As an example Cathy Pacific and Emirates provide a complementary limousine service to and from the airport where the boarding pass is handed to the passenger as they get out of the limousine. This is followed by exclusive access to luxurious airport lounges with an array of facilities and services. Onboard the first class section typically offers seats that turn into lie-down-flat beds complete with features such as down-filled mattresses, duvets and large pillows. It's also assured that there will be a number of goodies such items as pyjamas, toiletry kit's and bath towels on offer. The food is also on another level with often world-class gourmet meals being cooked to order. However industry trends show the first class cabin is shrinking with more and more airlines reducing the size and even choosing to remove their first class sections. These airlines include Continental, Delta SAS, Garuda and KLM to name a few, whom are choosing instead to invest into improving the quality of their business class. If and when the economy fully recovers to its full strengths and airlines once again become filled to capacity its likely that business class will no longer be able to contain the passengers who wish to fly in luxury making it likely we see a return of the first class service again.

12.3 Business Class

Business class passengers combined with first class is vital revenue for all airlines especially FSA's. In the U.S domestic market these two classes account for around 13 percent of all ticket sales and account for 25 percent of the revenue (Valhouli, 2003). Many business passengers who regularly commute around the globe believe travelling in comfort in order to get good nights sleep and having access to communications and refreshment facilities are an absolute a necessity. Despite these preferences executives in boardrooms around the globe are limiting their decisions and pushing their employee's towards the back of the aircraft with new policies forbidding them from flying business class. While many new travel policies forbid executives from flying in business class business passengers don't want to get stuck next to screaming toddlers on their way to Disney Land. Kevin Mitchell and The Business Travellers Coalition undertook a survey in 2001 before September 11th and actually found that businesses planned to cut their corporate travel by 28 percent, which would be more or less permanent (Heller, 2004). This combination has made it extremely hard for airlines not only to attract business class passengers back into the air but more importantly towards the front of the aircraft. One attempt has been to simply rename their top of the line product to "business class" in an attempt to draw back this vital traffic back into the air. This new business class has brought about the beginnings of a new type of three class travel as described by Boeing's Brauer which includes business class with a high and low end and of course economy class

(Fiorino, 1999). However such strategies may have little impact on the decisions made regarding company policies in the boardroom it is sure to have some effect. What airlines ultimately need is a boom in the economy to stimulate business traffic. Airlines would then be able to go about the business of promoting their business class sections and encouraging business to change such policies. This is just one of the many factors outside the airlines control that airlines must wait unit it changes in their favour.

12.4 Economy Class- The Back of The Bus

There are many terms for economy class ranging from travelling with the sardines to travelling in cattle class to sitting at the back of the bus. Whichever term you prefer the fact of the matter is the majority of passengers travel in this class. There's no doubt where the economy class passenger would prefer to be sitting however the costs associated with that piece of real-estate in first and business class are substantially greater. For example, base ticket prices (without discounts) for a return flight from Auckland to London on Singapore Airlines is $2879 for economy class, $8299 for business class and $11,689 for first class which to the average income earner is a lot of money for a good night's sleep and few glasses of champagne (Daniels, 2004). With the majority of people opting for the cheaper option "airlines go about finding the most efficient way of packing people within a very confined space" says Joe Ferry, head of design at Virgin Atlantic Airways[27]. This is especially the case in the fare driven short haul market where comfort and amenities have been cut back as finely to the bone as possible. September 11th was the primary cause for these cut backs in economy class but not all airlines followed suit. Continental Airlines was the only major U.S airline not to cut amenities after September 11th Rasheed Johnson, spokesman for Continental Airlines explained that they wanted their passengers to be comfortable and anything that would make flying less comfortable and pleasant was not the answer even if this meant passengers had to pay higher fares (Heller, 2004). As the economy and air travel recovers airlines are slowly beginning to reinvest into the comfort and amenity offerings in their economy classes. The main investment today has been into IFE systems in the form of movies, games and communication that are increasingly becoming the norm. Murray Wild, New Zealand's North Island manager for Singapore Airlines describes IFE as the preferred method of keeping the economy-class passenger happy (Daniels, 2004).

[27] (Pilling, 2004, Pg 44).

13.0 PASSENGER COMPLAINTS

13.1 Understanding Passenger Complaints

Knowing what frustrates passengers is a valuable source of information that should be used productively. When a passenger complains this information should be used as an important learning experience. This complaint and learning experience should be used to improve the product and service the airline delivers. However research shows that the majority of disgruntled passengers never complain about their frustration instead preferring to take their business elsewhere if possible (Holloway, 1998). This makes it more important to use the few proportional complaints that are made. In simple terms passenger frustration comes from short falls in an airlines brand promise that passengers pay for and expect to receive. This situation can occur from a multitude of factors some controllable and some not. An example of a brand failure would be poor on-time performance as a result of delays and cancellations. These could result from controllable factors such as inefficient business processes or computer systems that don't mesh well or uncontrollable factors such as bad weather or unexpected mechanical issues. I believe training and communication both internally and externally are the most important factors in preventing the majority of complaints. For example management send signals about their brand promise however they never articulate any standards designed to reinforce this promise. Another common example is where employees are ill equipped to deal with different situations that can jeopardize their ability to deliver on the brands promise. Figure 8 Illustrates the gap between what airlines usually promise; what their passengers expect and what can actually eventuate leading to passenger dissatisfaction and defections. When such failures do occur service recover becomes vital to save the relationship between the airline and the passenger. A recent report from the Air Transport Users Council (AUC) criticised the airlines, especially LLC's for the poor way they handled customer complaints. The AUC said it was especially concerned about budget carrier Ryanair claiming the airline often displayed a poor attitude towards its customers (Macleod, 2004). All airlines must be very conscious of developing such a reputation ensuring they handle any complaints they receive in an efficient, friendly and productive manner.

Figure 8. Gap in Delivery of the Brand Promise

Source: Heaton H, Feldman D, (2001) *Making Airline Employees Brand Managers.* Retrieved from the World Wide Web: 12/01/04 http://www.mercemc.com

13.2 The Effects of Cost Cutting

So what affects has the competitive and relentless drive towards cost cutting had on airlines and their passengers? Using the European Airline Market as a case study the effects have been substantially negative. The AUC released a report that highlighted flight delays and cancellations have increased by approximately 30 percent as a result of the fare wars fuelled by LLC's (Macleod, 2004). The report highlighted LLC's pushing staff and machines to the limit as being the primary causes. These causes can result to poor levels of customer service, on time performance and an increase in the number of complaints being made. It would appear obvious that some airlines are trying to do too much with too few staff, aircraft and other resources. With continual and mounting competition airlines continue to run at a constant overstretch. This stretch works when everything is running smoothly but it is when the pieces slip out of the puzzle that chaos strikes. Although it would appear LLC's are the main culprit on time performance is actually being lead by a LLC looking at a snap shot of the busiest time year last year in Table 6. In the U.S domestic market LLC's are also leading the way according to the 2003 14th Annual Report on Airline Performance conducted by the University of Nebraska at Omaha and Wichita State University which was based on Department of Transport (DOT) statistics. This reports measures on-time performance, customer complaints, lost baggage, denied boarding's and other factors. The report established three of the top four performing airlines as LLC's. The study's authors Brent Bowen, director of the University of Nebraska's aviation institute and Dean Headley, an associate professor of marketing at Wichita State University said, "They're on time more, they bump fewer passengers, they mishandle less baggage and they generate fewer complaints"[38]. The findings of this report are backed by the findings of another study The Airline Flight Quality Survey conducted in 2003 also based on DOT statistics. This study found that LLC's such as JetBlue and Southwest were more likely to arrive on time and get your luggage to the right airport. In contrast, higher priced FSA's performed below the industry average and generated more complaints. It would appear from these reports that U.S LLC's are performing in ways that are important to their passengers and by paying less you may actually be getting more.

Table 6. On-Time Performance of Major Airlines in Europe Dec-2003

Airline	Ranking	Percentage %
Ryanair	1	85
SAS	2	83.5
Lufthansa	3	81.9
Air France	4	76.3
Easyjet	5	76.2
Alitalia	6	73.4
British Airways	7	73.3

Source: AEA monthly performance statistics for December 2003

13.3 Top Three Passenger Complaints- Lost Baggage

According to the DOT the inconvenience of mishandled baggage, delays, and bad customer service are the biggest sources of frustration for airline passengers (Jamison, 2003). Of these factors the AUC believes that mishandled baggage is the biggest single cause of complaints (Macleod, 2004). This includes baggage that has been damaged, misrouted, delayed or had items stolen from it. These are all issues that don't relate to an airlines brand promise and pose an annoyance to passengers' travel plans. While no airline delibertly delays or losses a passengers baggage it happens more frequently than passengers prefer. In the U.S alone 250 000 passengers make baggage complaints each month (Alexander, 2004). Table 7 identifies the best performing airlines in the European market when it comes to lost baggage with again another LLC leading the way. When an airline misplaces a passenger's baggage it can usually be traced and delivered to the passenger between anywhere from a few hours to a few days. Unfortunaly some lost baggage never finds its way back to the passenger and ends up in

[38] (Bowen & Headley 2004).

warehouses owned by the airline and auctioned after three months. There is so much lost and unclaimed baggage out there that some companies specialise in actioning unclaimed baggage. Airlines will offer some form of compensation for any unexpected expenses and the inconvenience of having your baggage delayed or lost. However this will usually not make up for the level of inconvenience and aggravation added to the travelling experience. Although airlines do their best to get their passengers baggage to the right destination on time and in one-piece mishaps will always occur and baggage will continue to be lost. Some inovative airlines have developed web based systems which enable passengers to check the status of their baggage however this is just a small gesture of reassurance.

Table 7. Major European Airlines lost Baggage

Airline	Ranking	Baggage Lost Per 1 000 Passengers
Ryanair	1	0.5
SAS	2	10.9
Alitalia	3	17.4
Air France	4	18
Lufthansa	5	18.5
Austrian	6	21.9
British Airways	7	23
EasyJet	**Refuse to Publish**	

Source: Association European Airlines (AEA) Monthly Performance Statistics for December 2003

13.4 Delays

Delays can result from a number of different reasons ranging from bad weather to security checks to engineering issues.[29] No matter what the cause of delay is they all have the ability to create a ripple effect throughout a passenger's itinerary. One delay can cause a passenger to be late at every step of the journey with the possibility of missing connecting flights for those passengers travelling multiple sectors. Delays are not always easy to control despite the crippling effect they can have as a lot of uncontrollable factors come into play. Airlines have no control over weather problems, unforeseen engineering issues, air traffic control delays and a stack of other issues that affect the arrival and departure times of aircraft. Airlines do however make every attempt to reduce the probability of these factors causing a delay. This includes regularly maintaining their fleets and investing in new technology that enables

[29] A delay is defined as the difference between the planned and actual times of operation and an official delay is classified as anything that pushes the scheduled departure or arrival time of an aircraft out by more than 15 minutes.

aircraft to take off and land with very low visibility caused by fog, rain or snow. As a result the weather rarely disturbs departures and arrivals times but this is not to say it doesn't still create delays. Sandstorms and extremely strong winds can still interfere with flight operations and can seriously threaten the flight's safety. New and increased security measures in place at airports are another uncontrollable factor that is increasing the level of delays at airports. Long lines in screening areas, evacuation of terminals and re-boarding of aircraft have become far more common. Most passengers however are tolerating of these delays due to the devastating consequences September 11th had. Governments, airport authorities and security authorities are streamlining these new security measures and delays caused by security processes will become less frequent in the future. Table 8 provides the on time performance of the U.S domestic market which is doing considerable well considering these new and increased security measures now in place.

Table 8. Summary of US Airlines Domestic On-time Performance 1995-2003

Year	Operations	Percent On-time Arrivals	Percent Late Arrivals	Percent Late Departures	Percent Cancelled	Percent Diverted
1995	5,327,435	78.57	19.51	15.54	1.73	0.2
1996	5,351,983	74.54	22.8	18.2	2.4	0.26
1997	5,411,843	77.94	20.03	15.65	1.81	0.22
1998	5,384,721	77.2	19.87	16.16	2.68	0.24
1999	5,527,884	76.11	20.85	16.96	2.79	0.25
2000	5,683,047	72.59	23.86	19.91	3.3	0.25
2001	5,967,780	77.4	18.51	15.98	3.87	0.22
2002	5,271,359	82.14	16.47	13.61	1.24	0.16
2003	6,488,539	81.96	16.3	12.86	1.56	0.18

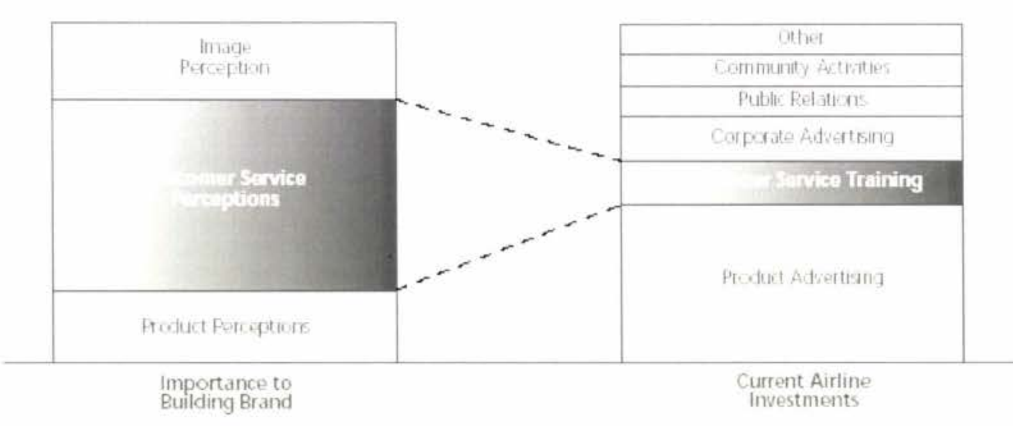
Source: Bureau of Transportation, Statistics

13.5 Customer Service & Brand Promises

Ron Kulmann, Vice president of Unisys R2A Transportation Management Consultations in California predicts that customer service will prove to be the most crucial battleground in the airline market of the future (Knibb, 2004, Pg 82). It goes without saying that customer service is an integral part of any business and directly contributes to the success or failure of that business. Customer service will usually be a part of an airlines brand promise but proves to be a hard factor to measure. This is because Passengers perception of customer service is largely subjective. Two people on the same flight might come away with completely different opinions about the service depending on their individual experience (Wells & Wensveen

2004). This makes it important to understand the role the human factor plays in customer service and an airlines brand delivery. An airlines brand promise will usually contain promises of high levels of customer service and when these expectations developed are not met passengers are left feeling let down and dissatisfied. As a result a large proportion of these passengers would not use the same service again given the choice. It is also likely that the affected passengers will tell others about their negative experiences more than they would have done if their travelling experience were positive. The most common failures in delivering on an airlines brand promises are actually organisational and not the bad intentions or lack of interest among employees. When employees fail to deliver on the brand promise it is usually a result of a combination of the employee misunderstanding the airlines priorities implied by the brand promise, a lack of staffing levels, training or latitude to deliver the band promise. The demand for training and internal communication is becoming increasingly important with the digital economy continually changing the skill set required for front line employees. Figure 9 illustrates the impact customer service training has on passengers perception of customer service and the proportion this makes up of the brand promise. Despite the importance of customer service training it represents only a very small proportion of the airlines budget. Downsizing and cost cuttings continue to put airlines and their employees under mounting pressure. This pressure can destroy a brand's equity if the airline undermines the importance of customer service or any other important aspects of the customer relationship.

Figure. 9 Impact of Customer Service Training on Customer Service Perceptions



Source: Heaton H, Feldman D, (2001) *Making Airline Employees Brand Managers.* Retrieved 12th January 2004 from the World Wide Web: http://www.mercemc.com/perspectives/Specialty/MOT_pdfs/MOTT-SS01-AirlineEmployees.pdf

13.6 Other Factors Leading to Complaints

Passenger complaints cover all aspects of airline operations ranging from reservations to ticketing to the temperature of the aircraft cabin. One rare but significant gripe is "bumping" a situation where a passenger can't fly as a result of the airlines' tendencies to oversell their seats, in the hope that not everyone will turn up. Although the likelihood of being bumped is very low when it does happen it can be an extremely frustrating experience. Airlines will offer to pay off the displaced passenger with free food, hotel rooms and discounts on future travel. Another main source of frustration comes from passengers discovering the airline they booked with is not the airline they are flying with. This is becoming increasingly common as the size of airline alliances proliferates and the average passenger becomes more confused by these code share agreements. Another source of complaints covers from the products and service offerings in the air and on the ground, which is pretty much everything! These products and services cannot easily be quantified or compared because they are produced and consumed simultaneously. This means the delivery process itself is as much subject to consumer evaluation as is the outcome i.e. Passenger perception of these products features will vary between different passengers on the same trip (Louth, 2003). As airlines continue their drive to reduce costs they have to be extremely conscious not to remove the wrong piece of the puzzle. Using Air New Zealand as a case study the airline introduced "Tasman Express" a low cost service for its business passengers across the Tasman. Many business passengers refused to fly the airline if they continued to be served food in cardboard boxes and coffee in takeaway-style cups (Daniels, 2003). Surely enough the airline soon took some embarrassing steps back and again began serving hot meals using crockery and cutlery. Complaints don't have to be a negative piece of information and should be used productively to satisfy their passengers as in this case where Air New Zealand listened to its passengers and acted on accordingly.

13.7 Service Failures & Recoveries

Service failures are a natural part of any airlines operations and there will always be instances where they occur. How the airline reacts to these failings is the defining moment in order to save the relationship and ensure it does not lead to passenger defections. Where an airline fails to deliver on its brand promise rests the true strength of the airlines brand and is the moment of truth that often counts the most. Operations become disrupted more regularly than one would think however it's the airlines ability to deal with these issues that makes all the difference. Today's passengers want frontline employee's that have the authority to solve their problems themselves on the spot. Despite the buzz about airlines having flatter hierarchies this remains far from the case with full-scaled bureaucracy remaining entrenched in many airlines. Only a minority of airlines so far have empowered their front line employee's by giving them leeway to exercise their own judgement in solving passenger problems by themselves[30]. When a problem passes this point and a passenger wants to make a formal complaint they want customer service representatives that deal with the complaint in a timely, positive and responsive manner (Holloway, 1998). Too often in these situations airlines fail to achieve this taking the risk of eroding their brand equity and losing even their most loyal passengers. When this loyalty is lost defection management comes into play. This involves knowing how many passengers are being lost, why they are being lost and putting in a plan to remedy the situation and hopefully reverse it.

13.8 The Passenger Bill of Rights

Passengers have very few rights when it comes to flying, which leaves a lot of power in the hands of airlines. This lack of rights and even guidelines for the treatment of passengers concerned the American Congress. When snow covered runways in Detroit left hundreds of passengers stuck in aircrafts for nearly eight hours in January 1999 Congress decided it was time to act. This incident along with a rising number of other complaints concerning flight delays, baggage handling and ticketing brought the need for Congress to discuss the treatment of passengers and their rights. Congress primarily wanted airlines to communicate more to passengers. Furthermore giving them access to the information required to make informed decisions regarding air travel was the key issue. On the 5th of February 1999 John McCain, R-Ariz, and Ron Wyden, D-Ore, announced they would introduce the "Airline Passenger Fairness Act" to establish some minimum standards for customer service and access to information (Wall street Journal 18th June 1999). This bill gave passengers the right to know if a flight was oversold, information on all possible fares on their flight, notice of delays on scheduled flights and lifting the restrictions on using only part of a ticket's connection. The bill also covered a few more issues, which included a 24-hour deadline to deliver misdirected baggage to its destination, disclosure of why a flight had been delayed, diverted or cancelled, to grant refunds within 48 hours and provide details about FFP's including the number of redeemable seats. Following the announcement fourteen major U.S airlines agreed to a customer service commitment pledging to improve air travel. However passenger rights still remain very limited in the U.S and through out the world. For example most passengers would think in the event of a lengthy delay they would be entitled to a free a hotel or a meal.

[30] Employee empowerment, is the enlargement of employee jobs giving them the responsibility and ``authority to make decisions about their work without supervisory approval" while still creating value for the customer (Boone & Kurtz 1998).

This is still far from the case and airlines still only remain liable for reimbursing a passengers for lost luggage, however even this liability is limited.

14.0 PASSENGER LOYALTY

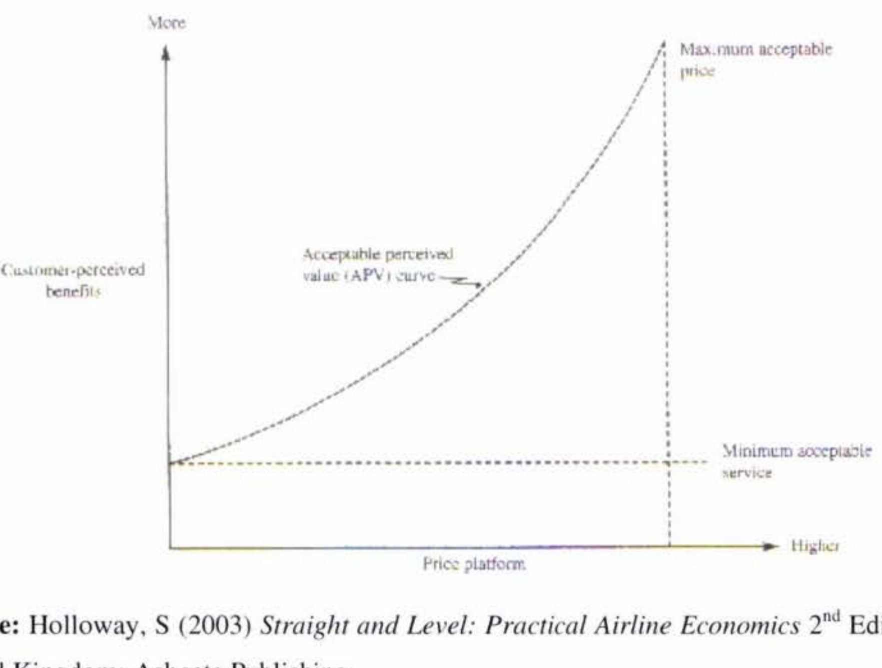
14.1 Understanding Passenger Loyalty

In the past major airlines have traditionally spent endless amounts of money building up customer loyalty. This has been achieved through FFP's, product amenities and a level of service that is far superior to their competitors. However airlines continue to cut their costs in the form of amenities and levels of service that passengers have grown to depend. With some FSA's looking more and more like LLC's at what point will they loose the advantages they have in passenger loyalty that has taken so long to painstakingly to assemble? It is economically better for airlines to maintain the passengers it is already doing business with. However passengers today do not have the same level of loyalty they have had in the past. Passengers are becoming more willing and open to try new airlines if the price is right explains Daniels, (2003). Griffin, (2003) confirms that airlines around the world today are struggling to build the substantial levels of passenger loyalty they have had in the past. Especially concerning is the retention of high value passengers which is an ongoing challenge for many airlines. Airlines know that passengers who are satisfied are more likely to be loyal to them than those who are not. However at the same time passenger satisfaction is certainly not a pre-condition to loyalty. Airlines have also realised that running good loyalty programs and passenger saying they intend to repurchase is not enough. Airlines must ensure they do repurchase by offering a seamless travel experience and consistent reliable service across all channels, which has become somewhat of a requirement (Heaton & Feldman 2001). Its also important for airlines to make passengers feel they are getting their money's worth (Fischer, 1965). This entails ensuring passenger across all market segments are well understood and the voice of the passenger and their needs is matched to the design, production, and delivery of the airline product. Airlines must be consciousness not to always think in terms of yield management but to what will make flying more enjoyable and brings passengers back time and time again.

14.2 Passenger Loyalties & Values

Griffin (2003) defines the key to building loyalty is to provide value as defined by the passenger. Holloway, (1998) believes that passenger defines value as a quality product and service i.e. what the customer gets from the airline, offered at the right price. Positive differences can result in unexpected satisfaction while negative differences lead to dissatisfaction. Dr Noriaki Kano a Japanese quality expert and university professor believes value has three different dimensions to it basic, expected and unanticipated. Basic values are the fundamental aspects of the product and service for example a safe aircraft with an air-conditioned cabin and an operational lavatory. The next level up is expected value which passengers have become accustomed to receiving from the market leaders. Examples include a wide range of in-flights meals and drinks, complimentary in-flight magazines, courteous and helpful flight attendants, and FFP's. After expected value is unanticipated value, which goes far beyond the norm and pampers, delights and surprises the airline passenger, the true place where customer loyalty lies. With airline budgets at an all time low and intense scrutiny to reduce costs unanticipated value has become hard to provide. This has increased the importance of finding the satisfaction that matters and working out which features to cut back on without affecting customer loyalty (Glynn & Jones 2001). Air New Zealand discovered this when it took its cost cutting methods to far introducing its budget style Tasman Express business class. Figures 10 is a simple illustration of an Acceptable Perceived Value curve and in Air New Zealand's case the perceived benefits went below the price. Positions on the right of the curve are only sustainable in long term if there are barriers to entry and this was not the case for Air New Zealand in the Trans-Tasman market

Figure 10. Customer-Perceived Value from a Service-Price Offer



Source: Holloway, S (2003) *Straight and Level: Practical Airline Economics* 2nd Edition. United Kingdom: Ashgate Publishing.

14.3 The Threat Airline Bankruptcy has on Loyalty

The threat of looming airline bankruptcy is certainly having an effect on the loyalty of airline passengers around the world. It is no secret that many airlines struggled due to the consequences of September 11^{th} and are still struggling today. A lot of airlines fell victim as a result and in the U.S alone United, Hawaiian, U.S Airways and Delta all filed for bankruptcy protection. When three of the six biggest U.S airlines files for financial bankruptcy passengers must become concerned and worry that the other airlines not in bankruptcy just haven't gotten around to announcing it yet. All airlines must consider the effect this is having on passengers' loyalty and the part it plays when passengers come to choosing an airline. Passengers must be unquestionably concerned about not only loosing their tickets but the renewal of any built up FFP's. However filing for bankruptcy doesn't mean an airline is about to shut its doors but at the same time it certainly isn't a good sign. In past times of trouble America West, Continental, Pan Am, Midway, and Trans World Airlines all filed for bankruptcy. America West and Continental are the only two still around today which justifies any concerns passengers may have. While Trans World Airlines was sold with little disruption Midway went belly-up overnight, stranding passengers at airports all over the U.S. For passengers it's hard to predict whether a major airline will cease operations anytime soon so they will continue to fly cautiously. Airlines must then continue to operate in a confident manner ensuring passengers do not loose faith in the airlines ability to stick around and remain a profitable airline in the long run.

14.4 Customer Relationship Management

Today many airlines have becomes obsessed with technology, internal efficiency, and reducing costs, all internally focussed issues. If airlines want loyalty and commitment from their passengers they have to ensure they provide genuine value, loyalty and commitment in return. Therefore developing positive relationships with passengers has become increasingly important in today's market where the options presented to them are forever increasing. Developing customer relationship management is proving to be a highly valuable asset in this competitive market place[31]. This strategy is customer-driven as opposed to being product or technology driven and focuses on the relationship between the airline and its passengers. It

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[31] Customer relationship management also commonly known as relationship marketing or loyalty Marketing

focuses on achieving passenger loyalty and retention by creating long-term relationships and emphasises product and service benefits while increasing the levels of contact and commitment to the passenger. You can actually liken the relationship between an airline and their passengers to an emotional bank account. Deposits are made in the form of passenger satisfaction and withdrawals are made in the form of tolerance in the event of service failures. Competitors can easily imitate a product or service but it's the personalised passenger relations that increase the loyalty of an airline's clientele that is hard to imitate. Airlines' that offer these long-term differences are able to retain their clientele especially their most valued passengers ensuring competitors are kept at bay as much as possible. Agno (2002) highlights the importance of customer relationship management by explaining that existing passengers offer airlines their greatest profit potential. Attracting passengers is an extremely expensive exercise taking a lot time, energy and money, a substantial amount of investment. In contrast making sales with existing customers is relatively inexpensive making them much more profitable sales and passengers as a whole. Many airlines make the mistake of focusing on generating more sales from new passengers as opposed to building on the sales made with existing passengers. The "80/20 Rule" applies in this situation where a larger proportion of income will be generated by a smaller proportion of passengers.

14.5 Loyalty Programs FFP

In order for airlines to look after and retain their most prized passengers airlines often rely on the benefits that FFP's have to offer[32]. FFP's have been around for some time with American Airlines first offering such a program in 1981 with its AAdvantage FFP. The AAdvantage FFP's success soon made it the biggest and most successful relationship-marketing tool in the airline industry[33]. In 2001, American Airlines' AAdvantage program received 11,000 new members each day (Auwerter, 2004). FFP's work by offering passengers various types of rewards and benefits such as free flight upgrades and merchandise for the miles they have flown. These rewards that would otherwise cost quickly became very popular and the industry soon became rife with various types of FFP's. However FFP's and similar types of programs remained primarily a U.S phenomenon up until the early 1990's (Holloway, 1998). These programs were helping to induce brand loyalty influencing passenger's choice towards the airline with the most attractive FFP and inturn boosting both market share and revenue. Today

[32] FFP's are in fact a subset of a larger class of related marketing approaches known variously as frequency marketing, relationship marketing or loyalty marketing.
[33] FFP's now have a 120 million members worldwide accumulating 500 billion frequent-flier miles per year (net of redemptions), according to InsideFlyer, a publication dedicated to frequent travellers (Auwerter, 2004)

with loyalty at an all time low and passengers appearing to swap brands back in forth in time with the best deals on offer these programs alone are not enough to engender true loyalty. To help counter this FFP's are now being used across the board in airline alliances increasing the attractiveness and benefits associated with such programs. Airlines have also been increasing the value and quality of the benefits they offer to ensure these programs achieve there desired effect. Like all other areas of airline costs the benefits of these programs are under increasing pressure to show how efficiently it delivers to the bottom line. The majority of LLC's have shunned FFP's because of their expense and their belief that the benefits associated with such programs are over estimated and the efforts to run such programs are under estimated. On the other side of the coin FSA's continue to believe in their importance and are continually developing and redesigning their programs. One new focus has been to ensure membership status is linked directly with the passenger's profitability to the airline. The passenger is rewarded for the length and class of air travel. This should reflect the passengers' membership status and inturn determines how much money is invested into keeping them loyal. For example a passenger that flies a long haul route in first class once a year may actually be more profitable to the airline than a passenger who shuttles every weekend on a short haul route using the cheapest deals around.

15.0 CONCLUSION

15.1 Conclusion

The needs and wants of different passenger types throughout the world vary from passenger to passenger. Attempting to classify individual passengers into single categories and again into sub categories to answer the hypothesis has proved difficult. Asking what factors lead to passenger attraction and satisfaction is like asking how long a piece of string is. While general and overall summary answers can be provided it will not answer the hypothesis question specifically. Price, schedule and safety will always play the most important part in the majority of passengers mind when deciding which airline to fly. What factors follow these will vary between different passenger categories, subcategories and even the many different personalities and characteristics within these groups of passengers. While factors experienced during flight do play an important part in a stereotypical passengers mind to what degree cannot be measured because there is no stereotypical passenger. I believe airlines should not necessarily focus on categorising passengers rather to attract, satisfy and keep loyal all passengers by delivering exactly what their brand promises. Thus ensuring their passengers receive a consistent value for money service across the board. In an era of global deregulation, liberalisation and fierce competition airlines must be conscious not to cut costs by downgrading products and removing services without knowing the effects they will have on passenger attraction and more importantly satisfaction. At the same time airlines cannot confidently spend whatever it takes to keep satisfaction scores high. An airline must understand the nature and characteristics of its target market and develop itself around that market to meet the markets needs. This involves selectively choosing the products and services that drives these passengers to purchase and repurchase flights with them. In doing this airlines are ensuring they achieve the goal of linking passenger attraction satisfaction to sustained profitability and growth for the airline.

16.0 FUTURE STUDIES

16.1 Future Studies

I would consider it safe to say that the economy and airline industry is emerging to what looks like a period of sustainable growth ensuring global terrorism does not continue to increase. Pressing topics for the airline industry will be the expansion of LLC's into the medium to long haul market, a move that will be closely watched and scrutinised. BackpackersXpress Airlines is one LLC that looks to tackle the long haul head-on, a market that has been typically dominated by FSA's. BackpackersXpress will be the first LLC solely dedicated to the long haul market beginning with routes between the United Kingdom and Australia. Using a fleet of 2 one class Boeing 747's it will be the first ever airline to solely target the backpacker/adventure passenger market. The viability and success of this carrier will be interesting with the possibility of setting a new class and market for medium to long haul international air travel. Experts say LLC's growth strategy which works fine in short haul market may only go so far without significant upgrades (Armstrong, 2004). Another major future movement in the industry will be the introduction of VLCT in the form of the Airbus A380, the largest and most expensive commercial airplane ever built. This is Europe's largest ever-civil aircraft programme when it began back in the 1980's and revealed to the public in 1995. The A380 is set to replace Boeing's B747 which has dominated the long haul market for the last 20 or so years. The Mammoth A380 double decker jet that can be configured to carry as many as 800 passengers will be released in the second quarter of 2006 when Singapore Airlines is due to take delivery of the first A380. Although this aircraft has a number of appealing features it also has a number of drawbacks. Boeing and Airbus have dramatic differences in their outlook for this aircraft. Boeing believes there is a limited market for such huge airplanes, while Airbus sees more potential customers running through overcrowded hubs with this aircraft (Wright, 2001). What ever view point you take the impact the A380 will have on the market will also be closely watched and be sure to have the potential to change the nature of aviation, as we once knew it.

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18.0 APPENDIX

18.1 Appendix

Appendix I- Low Cost Airlines

NORTH AMERICA	EUROPE	ASIA
AirTran Airways	Basiq Air	Air Asia
America West Airlines	bmi Baby	**AUSTRALASIA**
American Trans Air	flyBe	Jetstar
Frontier Airlines	Buzz	Australian Airlines
JetBlue	EasyJet	Freedom Air Int'l
National Airlines	Germania	Virgin Blue
Southwest Airlines	Go	**SOUTH AMERICA**
Spirit Airlines	Goodjet	Gol
Sun Country Airlines	Ryanair	**SOUTH AFRICA**
Tango	Virgin Express	Kulula
Vanguard Airlines		
WestJet Airlines		

Source: Airline Equality http://www.airlinequality.com/Airlines/low_cost.htm

Appendix II- Failed Low Cost Airlines

FAILED LOW COST AIRLINES
1. Europe Aeris Bankrupt on 07Nov2003
2. Europe Agent Air Never started
3. Europe Air Bosnia Bankrupt
4. Europe Air Catalunya Bankrupt
5. Europe Air Freedom Bankrupt December 2003
6. Europe Air Littoral Bankrupt on 15Feb2004
7. Europe Airlib Express Bankrupt
8. Europe BerlinJet Bankrupt
9. Europe BuzzAway Sold by KLM to Ryanair
10. Europe Dream Air Never realized their Dream
11. Europe Duo Bankrupt 01 May 2004
12. Europe Fly Eco Will probably never start
13. Europe Flying Finn Bankrupt on 27Jan2004

14. Europe Free Airways Never started
15. Europe Fresh Aer Bankrupt
16. Europe GetJet Poland Never started
17. Europe Go Fly Sold by British Airways to EasyJet
18. Europe Goodjet Bankrupt
19. Europe Jet Magic Bankrupt 28Jan2004
20. Europe Jetgreen Bankrupt on Wed.12May2004 after 1 week flying!
21. Europe JetsSky Never started, probably a scam! (Jan2004)
22. Europe Low Fare Jet Bankrupt
23. Europe Now Bankrupt May2004
24. Europe Silesian Air Never started
25. Europe Skynet Airlines Bankrupt 26May2004 (booking engine too slow!)
26. Europe White Eagle Sold entire 737 fleet
27. Europe Windjet Never started
28. Africa Flamingo Airlines Bankrupt
29. Asia + South Pacific Air Nauru (may be restarting soon...)
30. Asia + South Pacific Impulse Airlines Bankrupt

Source: http://www.etn.nl

Appendix III- Accident Rates By Airline- December 2001

Airline	Rate	Events	No. Flights
America & Canada			
Air Canada	0.63	3	4.75 Million
Alaska Airlines	0.74	3	4.05 Million
Aloha Airlines	0.49	1	1.34 Million
American Airlines/Eagle	0.59	10	17.0 Million
Continental Airlines/Express	0.63	5	8.00 Million
Delta Air Lines/Connection	0.3	6	20.0 Million
Midwest Express Airlines	3.85	1	0.26 Million
Northwest Airlines/Airlink	0.43	4	9.20 Million
Trans World Airlines/Express	0.74	6	8.10 Million
United Airlines/Express	0.5	9	18.0 Million
USAirways/Express (USAir)	0.56	8	55.5 Million
ValuJet/AirTran	5.88	1	0.17 Million

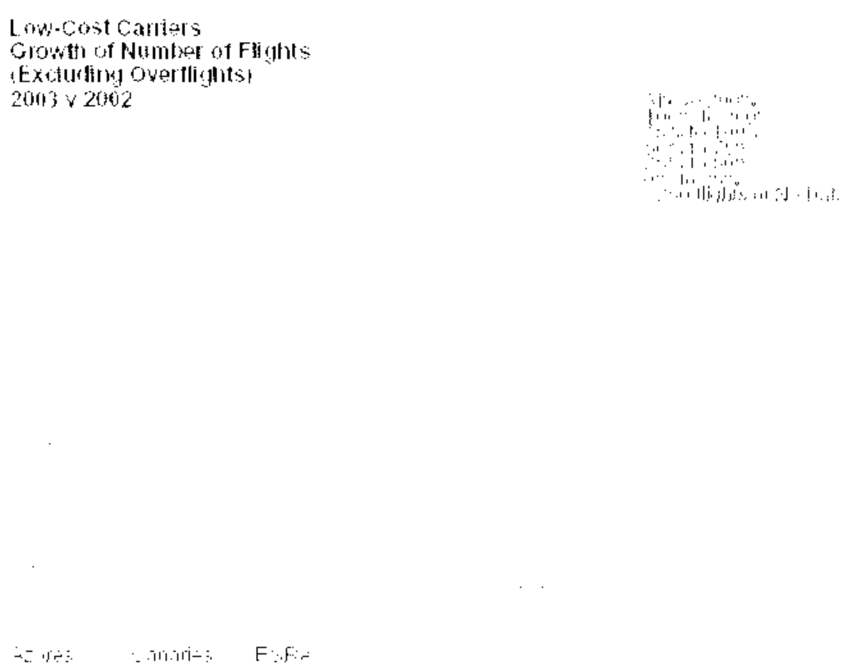
Europe

Airline	*Rate*	*Events*	*No. Flights*
Europe			
Air France	1.19	7	5.90 Million
Alitalia	0.77	3	3.90 Million
Braathens SAFE	0.74	1	1.35 Million
British Airways	0.32	2	6.50 Million
British Midland	0.97	1	1.03 Million
Iberia	0.89	4	4.50 Million
KLM	1.25	3	2.40 Million
Lufthansa	0.41	3	7.30 Million
Olympic Airways	1.67	3	1.80 Million
Swissair	1.25	4	3.20 Million

Airline	Rate	Events	No. Flights
Tap Air Portugal	[illegible]	[illegible]	0.85 Million
Turkish Airlines (THY)	7.3	8	[illegible] Million
Australia & Asia			
Airline	*Rate*	*Events*	*No. Flights*
Other			
Air India	6.82	3	0.44 Million
Air New Zealand	0.74	1	1.35 Million
All Nippon	0.23	1	4.64 Million
Asiana	1.85	1	1.54 Million
Cathay Pacific	0.97	1	1.03 Million
China Airlines	10.2	7	0.69 Million
Garuda Indonesia	4.08	8	1.96 Million
Indian Airlines	4.8	12	2.50 Million
Japan Airlines	2.05	5	2.44 Million
Korean Air	5.38	7	1.30 Million
Malaysia Airlines	1.11	2	1.80 Million
Pakistan International	5	7	1.40 Million
Philippine Airlines	4.68	8	1.71 Million
SilkAir/Singapore Airlines	2	2	1.09 Million
Thai Airways International	2.85	3	1.05 Million

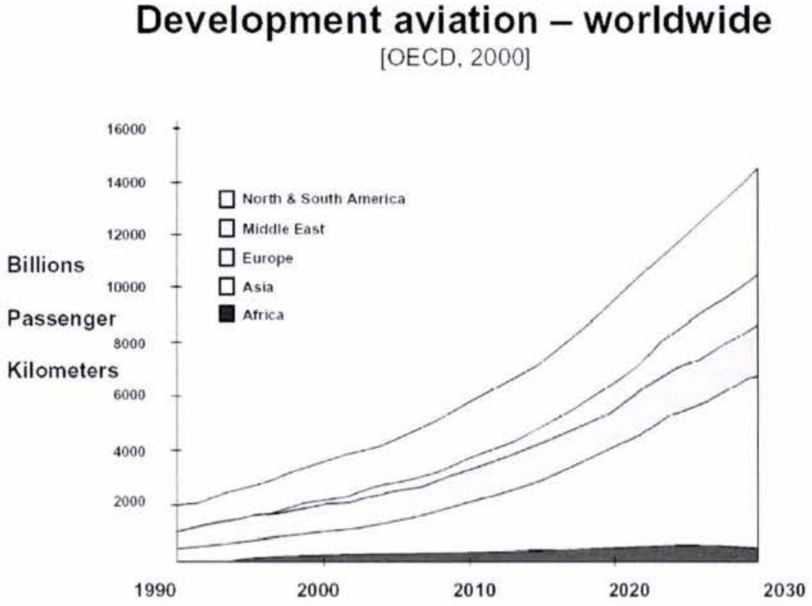
Source: Air Disaster http://www.airdisaster.com

Appendix IV. Growth of Low Cost Airline in Europe



Source: Euro Control Statistics 2004

Appendix V. Growth of Worldwide Aviation



Source: T and E Europeans Voice for Sustainable Transport

Appendix VI. Airline Accidents Rates Jan 1981 - Jan 2004

NORTH AMERICA							
Regional Rank	Airline	Last Accident	Million Flights	Fatal Events	Adj. Fatal Event	Accident Rate	Overall Rank 1 - 91
1	Delta Airlines	1996	18.57	4	1.24	-10.28	1
2	Southwest Airlines	-	11.90	0	0	-7.38	2
3	US Airways	1994	15.53	5	2.50	-7.14	3
4	American Airlines	2001	18.85	5	4.06	-6.40	4
5	United Airlines	2001	15.59	6	2.04	-5.64	5
6	Continental Airlines/Cont. Exp.	1991	9.89	3	1.72	-4.42	6
7	Northwest Airlines	1993	10.65	4	2.61	-4.00	7
8	United Express	1996	8.48	3	2.50	-2.76	10
9	Alaska Airlines/Horizon Air	2000	5.50	1	1	-2.41	13
10	America West Airlines	-	3.78	0	0	-2.34	14
11	American Eagle	1994	9.58	4	3.72	-2.22	15
12	Air Canada	1983	4.15	1	0.56	-2.01	16
13	Comair	1997	4.00	1	1.00	-1.48	17
14	Hawaiian Airlines	-	1.47	0	0	-0.91	23
15	Midway Airlines	-	1.23	0	0	-0.77	27
16	American Trans Air	-	0.44	0	0	-0.27	42
17	USAir Shuttle	-	0.70	0	0	-0.43	33
18	Delta Express	-	0.35	0	0	-0.22	48

19	JetBlue Airlines	-	0.15	0	0	-0.09	55
20	Aloha Airlines	1989	1.34	1	1.00	0.17	64
21	AirTran Airways	1996	0.72	1	1.00	0.56	69
22	Midwest Express Airlines	1985	0.57	1	1.00	0.65	71

EUROPE

Regional Rank	Airline	Last Accident	Million Flights	Fatal Events	Adj. Fatal Event	Accident Rate	Overall Rank
1	Lufthansa	1993	7.63	2	1.02	-3.71	8
2	British Airways	1985	5.82	1	0.41	-3.23	9
3	SAS Scandinavian Airlines	2001	5.81	1	1	-2.60	12
4	Alitalia	1990	3.50	1	1.00	-1.17	19
5	Finnair	(1963)	1.77	0	0	-1.10	21
6	Braathens	(1972)	1.72	0	0	-1.07	22
7	Iberia Airlines	1985	4.04	2	1.60	-0.90	24
8	Air Lingus	-	1.18	0	0	-0.73	28
9	Austrian Airlines	-	1.00	0	0	-0.61	29
10	Tap Air Portugal	(1977)	0.94	0	0	-0.58	30
11	British Midland	1989	1.51	1	0.40	-0.53	31
12	Yugoslav Airlines (JAT)	(1973)	0.69	0	0	-0.43	34
13	Malev-Hungarian Airlines	(1977)	0.52	0	0	-0.32	38
14	KLM /KLM Cityhopper	1994	2.02	2	1.10	-0.26	43
15	Air Europa	-	0.42	0	0	-0.26	44
16	Air France	2000	5.19	5	2.96	-0.26	45
17	Icelandair	(1963)	0.37	0	0	-0.23	46
18	Olympic Airways	1989	1.82	1	1	-0.13	52
19	Virgin Atlantic Airways	-	0.16	0	0	-0.10	54
20	Lithuanian Airlines	-	0.11	0	0	-0.07	57
21	Ukraine International Airlines	-	0.11	0	0	-0.07	58
22	Transaero Airlines	(1961)	0.08	0	0	-0.05	59
23	Lauda Air	1991	0.30	1	1.00	0.82	75
24	THY Turkish Airlines	2003	1.40	3	2.61	1.75	84

ASIA - AUSTRALIA

Regional Rank	Airline	Last Accident	Million Flights	Fatal Events	Adj. Fatal Event	Accident Rate	Overall Rank
1	All Nippon Airways	(1971)	4.24	0	0	-2.63	11
2	Malaysia Airlines	1995	3.24	1	0.65	-1.36	18
3	Qantas Airways	(1951)	1.77	0	0	-1.10	20
4	Air New Zealand	(1979)	1.42	0	0	-0.88	25
5	Cathy Pacific Airways	(1972)	0.84	0	0	-0.52	32
6	Air China	2002	1.92	1	.77	-0.42	35
7	Japan Air Lines	1985	2.30	2	1.14	-0.29	41
8	Asiana Airlines	1993	1.03	1	0.62	-0.01	61
9	China Eastern Airlines	1993	0.90	3	0.86	0.30	66
10	Philippine Air Lines	1994	1.09	4	1.08	0.41	67
11	China Southern Airlines	1997	1.49	2	1.51	0.59	70
12	Singapore Airlines/SilkAir	2000	1.18	2	1.50	0.77	74

13	Air India	1985	0.43	2	1.15	0.88	76
14	Thai Airways International	1998	1.49	2	2.00	1.07	77
15	China Northwest Airlines	1994	0.39	2	1.50	1.26	78
16	Pakistan International Airlines	1992	1.29	3	2.15	1.35	79
17	Garuda Indonesian	2002	1.82	6	2.59	1.46	81
18	China Southwest Airlines	1999	0.54	3	2.00	1.67	83
19	Indian Air Lines	1999	2.00	5	3.06	1.82	85
20	Korean Air	1997	2.03	5	3.30	2.04	86
21	China Airlines	2002	0.73	7	4.96	4.51	90

Source: http://www.planecrashinfo.com

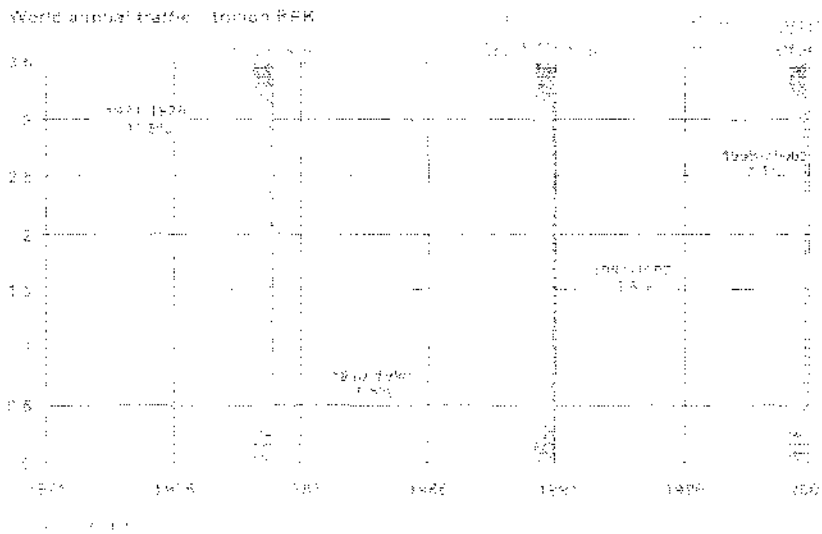
Appendix. VII Development of World Scheduled Revenue Traffic 1994-2003

DEVELOPMENT OF WORLD SCHEDULED REVENUE TRAFFIC 1994-2003

YEAR	Passengers Carried	Freight Tonnes Carried	Passenger-Kilometres Performed	Seat-Kilometres Available	Passenger Load Factor	Tonne-Kilometres performed: Freight	Tonne-Kilometres performed: Mail	Tonne-Kilometres performed: Total (Passengers +baggage, freight, mail)
	Millions				%	Millions		
				TOTAL SERVICES				
1994	1,233	20.5	2,099,940	3,169,340	66	77,220	5,410	273,420
1995	1,304	22.2	2,248,210	3,358,600	67	83,130	5,630	293,930
1996	1,391	23.2	2,431,690	3,563,770	68	89,200	5,800	317,150
1997	1,457	26.4	2,573,010	3,727,900	69	102,880	5,990	344,190
1998	1,471	26.5	2,628,120	3,837,730	68	101,820	5,760	348,600
1999	1,562	28.1	2,797,800	4,050,780	69	108,660	5,720	370,420
2000	1,672	30.4	3,037,530	4,286,200	71	118,080	6,050	403,960
2001	1,640	28.8	2,949,550	4,271,860	69	110,800	5,310	388,150
2002	1,639	31.4	2,964,530	4,167,110	71	119,840	4,570	397,120
2003*	1,657	34.5	2,991,620	4,189,470	71	125,240	4,620	404,310

Source: ICAO News Release

Appendix VIII. World Annual Traffic 1971- 2001



Source: ICAO News Release

19.0 INDEX

19.1 Index

<u>Definitions of some of the terms used</u>

Airline: Is a commercial enterprise that provides scheduled flights for passengers.

Deregulation: Removing barriers and rules to market entry and operations specifically flight routes, frequencies and prices charged.

Code Sharing: Code sharing is a commercial agreement between two airlines that allows an airline to put its two-letter identification code on the flights of another airline as they appear in computerized reservations systems and in the *Official Airline Guide*.

Full Service Airline: traditionally state owned, full service network carriers offering comprehensive range of amenities that carry higher price tags.

Governing/Regulatory Body: A governmental organisation that is assigned responsibility of regulating the nations airline industry.

Low Cost Carrier: operates on the new low cost business model with simple and efficient services at low fares.

Yield Management: A pricing model that aims to maximize the yield to the seller by charging buyers different prices according to the value they place on the purchase.