

Chapter 10

Airline Passengers

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Learning outcomes:

- To identify different airline passenger segments based on situational, socio-economic, demographic, and psychographic characteristics.
- To understand the concept of customer value.
- To recognise different interpretations of utility.
- To appreciate soft and hard value drivers for airline passengers.
- To identify differences between airline loyalty programmes.
- To be aware of the relative merits of airline loyalty programmes.

10.0 Introduction

Airlines create value for employees, investors, governments, customers and consumers. This chapter focuses on the customers and consumers of the airline product. Airline customers, who include passengers and corporate travel providers, exert considerable market power in the air transport industry through their purchasing decisions and travel behaviour. As a purchaser of a commercial aviation product, customers are responsible for stimulating product and service innovation and their behaviour ultimately decides which airlines succeed and which carriers fail. As all airlines offer the same basic product – safe carriage by air from A to B – they seek to differentiate themselves from their competitors on price and/or service. Airlines will only be successful if they are able to create sustainable value for their customers. Whereas customers make purchasing decisions consumers actually experience (consume) the product or service that has been bought. Satisfying the needs of passengers, who may be both customers and consumers, is inherently challenging and complex. This chapter focuses on three management tools that airlines use to achieve sustainable competitive advantage: passenger segmentation, customer value and customer retention.

Keywords: Passenger – a person who travels on an aircraft

Corporate travel providers – specialist travel companies that arrange business travel on behalf of other organisations

Customers – people who purchase a good or service for personal use (in the case of a passenger) or on behalf of another person (in the case of a corporate travel provider).

Consumers – people who consume the product or service that has been purchased. In the case of air travel, passengers can be both customers and consumers.

10.1 Passenger segmentation

To effectively tailor their products and services to the needs of particular customers, airlines segment their passengers into different groups. The process of segmentation seeks to identify

groups of customers who share common characteristics. The resulting market segments contain customers with similar preferences and/or buying behaviour. Customer preferences differ between market segments. Criteria including nationality, age, and trip motivation (business or leisure) are typically used to segment passengers. Individuals travelling on business, for example, may have very different needs than if they were travelling for leisure purposes. Market segments can be categorised on the basis of situational, socio-economic, demographic, or psychographic criteria.

Keyword: Passenger segmentation – grouping passengers according to their stated or revealed preferences and/or buying behaviour.

Situational criteria relate to the context in which the customer travels. Typical segmentation variables include:

- Sales channels (such as travel agents, online or phone);
- Time/date of flight;
- Time of booking;
- Location and access of origin and destination airports;
- Seat and ticket availability;
- Ticket flexibility;
- Loyalty/Frequent Flyer benefits;
- Airport services;
- In-flight services.

Keyword: Situational segmentation – grouping passengers according to booking preferences and travel requirements.

Socio-economic and demographic segmentation considers the personal characteristics of individual travellers. Typical criteria are:

- Gender (passengers may exhibit different needs and priorities on account of their gender. Some airlines offer female-only airport lounges and on-board lavatories);
- Nationality;
- Religion;
- Age;
- Physical (dis)abilities (which may require special assistance such as the use of wheelchairs);
- Relationship status;
- Income;
- First language;
- Occupation;
- Education/qualifications;
- Whether passengers are travelling alone, in a group, in a family group or with babies or young children.

Keyword: Socio-economic and demographic segmentation – grouping passengers on the basis of personal and social characteristics.

Psychographic segmentation focuses on trip motivation, engagements, values, attitudes, interests, opinions, personality, behaviour and lifestyle characteristics. These characteristics might indicate why a specific product category is preferred, but not why a specific product was chosen. The biggest challenge with psychographic segmentation is that such criteria are often more difficult to measure and operationalise than demographic segmentation criteria. Psychographic variables include:

- Trip motivation: the reason for travelling, such as business or leisure;
- Destination;
- Length of flight: short or long haul;
- Length of total time away from home;
- Travel class: economy, economy plus, business or first class;
- Travel experience: frequency of flying;
- Cultural background of the passenger;
- Airline preference. This may be based on the business model of the airline (such as a full service, low cost, or charter), its perceived safety and service standards, its brand value and reputation (high quality or low cost), its cultural resonance and familiarity to the passenger, and whether or not it belongs to a global airline alliance;
- Membership of airline or airline alliance loyalty programme: account balance and status level;
- Seat preference (whether for a particular seat such as 4A, an extra leg room seat, an aisle seat or a seat in a child-free quiet zone);
- Environmental considerations: age of the aircraft and the airline's environmental credentials.

Keyword: Psychographic segmentation – focuses on travel behaviour, motivation, values, attitudes, interests, behaviour, opinions, personality and lifestyle criteria.

The aviation industry uses different variables to segment their passengers. The European aircraft manufacturer Airbus, for example, segments passengers into six groups according to socio-economic, demographic and psychographic variables (see Figure 10.1).

Figure 10.1: Airbus' passenger categorisation

Bargain travellers • Functional / Cheap Chic • Age: 20 – 45 • marginal business flyer • occasional leisure flyer • Segment Size: major	Mainstream travellers • High Streets Shopper / Travel Experiencers • Age: 25 – 45 • occasional business flyer • occasional leisure flyer • Segment Size: major
Traditional travellers • Conservatives / Habituals • Age: 55+ • marginal business flyer • occasional leisure flyer • Segment Size: major	Trendsetting travellers • Cosmopolitans / Discoverers / Globetrotters • Age: 18 – 99 • frequent business flyer • frequent leisure flyer • Segment Size: medium
Senior travellers	High Society travellers

• Corporate Seniors • Age: 45 – 70 • frequent business flyer • frequent leisure flyer • Segment Size: medium	• Company Leaders / VIPs / Celebrities • Age: 20 – 99 • very frequent business flyer • frequent leisure flyer • Segment Size: niche
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Once segments are identified, airlines need to identify the requirements of these customers and explore the most effective way to target and engage them. Conventional market research techniques, such as questionnaires, opinion polls and focus groups, have long investigated the relative importance of different product dimensions (including comfort, convenience and price). However, such methods may not accurately reflect true decision behaviour where financial resource restrictions and trade-offs play an important role. Contemporary market research applies sophisticated methods which enable the identification of revealed motives or preferences (as opposed to stated preferences) which sometimes customers are unable or unwilling to disclose. Innovations in data analysis techniques and the exploitation of 'Big Data' will enable more sophisticated customer segmentation. Airline operators are increasingly using advanced statistical methods to analyse large amounts of customer data in the search for patterns and trends that identify new customer segments and enable them to tailor their products to individual segments.

Keywords: Big Data – describes large data sets detailing human behaviour or interaction which are too big, complex or dynamic to be handled by traditional data processing methods. Big Data also refers to the complex and fast changing technologies that are used to analyse these data sets.

Stated preference – what customers say they prefer

Revealed preference – how customers actually behave

10.2 Passenger value

Service quality has become a major issue in the airline industry and is one of the ways in which airlines differentiate themselves and create value for their customers. Major developments in customer service have taken place since the early 1930s including; the introduction of flight attendants, pressurised aircraft, improvements in in-flight catering, and innovations in ground service provision. In the new millennium, there is evidence of a renewed focus on product features and service quality, especially in business and first class. The key drivers of service quality are:

- Growth in demand for business class travel and premium products;
- Technological and digital innovation that enables service features such as individual in-flight entertainment programmes, lie-flat seats and live service updates;
- Stronger focus on long haul products by Full Service Network Carriers (FSNCs) as a reaction to the declining profitability of short-haul routes due to the rise of Low Cost Carriers (LCCs);
- New competitors from Asia and the Middle East who specialise in providing superior levels of in-flight service to premium customers.

New or improved services aim to add customer value. Customer value can be seen as the surplus of customer benefits that occur when examining the utilities that customers experience in the process of consuming a product or service compared to the costs of providing it. Thus, customer value is the subjective value or perceived utility a customer derives from a product or service. The operand of customer value is based on economic utility theory which assumes that human behaviour seeks to maximize individual utility. Customer utility can be used to generate strategic competitive advantage. An awareness of different customer value dimensions allow direct investments into specific quality or cost factors. Customer value is not to be confused with customer equity; customer equity defines the value of the customer to the company.

Keyword: Utility - In economic terms, utility can be understood as a measure of preferences or benefits of an individual over a set of goods or services.

Keyword: Customer value - The value a customer places on the product or service received. It is the perceived value the customer receives.

Keyword: Customer equity - The value of the customer to the company. A loyal customer has a higher value to a company, as the revenue derived from that customer is higher and the result of lower marketing and sales costs.

A long-standing debate focuses on hard versus soft service factors. Hard factors are those such as price and ticket flexibility which are measurable and similar for all customers. Soft factors are often referred to as convenience factors that are subjectively interpreted and experienced by individual customers. Soft factors are often intangible, such as the perceived friendliness of the cabin crew or the quality of in-flight catering. In the field of airline services, soft factors are increasingly important. The effect of hard and soft factors on customer value can be affected by socio-demographic and contextual demographic variables. For instance, the impact of soft and hard service elements is influenced by the cultural background and previous travel experience of individual passengers.

Service elements have a different meaning for different customer segments. Although research has shown there are no major differences between business and leisure travellers, and frequent and non-frequent travellers in the perception of the customer value of a business-class flight, customer segments that are separated by booking class (first, business, economy plus, and economy) and domicile indicate differences concerning the importance of price, brand and sleeping comfort when it comes to assessing the range of products and pricing offered by different airlines. First-class travellers show considerably lower price sensitivity in connection with a higher brand affinity and a stronger emphasis on seat comfort. Recently, research has indicated that a specific customer segment is willing to pay a premium for environmental services, such as carbon offsetting (Wittmer and Wegelin, 2012).

Keywords: Service elements – tangible or intangible aspects of a service.

Price sensitivity – indicates how sensitive customers are to changes in the price of a product.

Passengers invariably show high willingness to pay for recreation, safety, and flexibility. This can be understood as passengers displaying a high propensity to pay for their wellbeing. Wellbeing is seen as an individualised and subjectively experienced way of being, which is linked to travel related

stress and determined by the behaviour of individual travellers (De Vos et al. 2013, Ettema et al. 2010). The higher the travel class, the higher the personal wellbeing.

Airlines are increasingly tailoring more of the product to individual travellers in an effort to increase customer value. Such services come in the form of supplementary services, such as on-board internet access, lounge access, and ground transport services. Passengers pay an additional fare for such services, generating additional (termed 'ancillary') revenue above the basic airfare. This better enables passengers to customise their air travel and maximise their value. This trend is accelerated by developments in ICT and the aforementioned "Big Data" methods, as this enables airlines to identify and respond to individual customer needs. Ancillary revenues have become an increasingly important revenue stream for all airlines, not just LCCs (see Chapter 8).

Case Study 10.1: Evolution of in-flight services at Swiss International Air Lines

In response to detailed market research, SWISS introduced fully-flat seats in business class in 2009. The fully reclinable seats were equipped with air cushion technology which enables passengers to modify the softness of their seat. In addition, each seat is equipped with a TV screen and entertainment system. SWISS' long haul fleet is now equipped with the new business class, thus providing a consistent product. To further create customer value, SWISS spends considerable effort on high quality on-board catering. Its *SWISS Taste* programme aims to offer passengers the very best of Swiss cuisine in economy, business and first class.

In 2014, SWISS announced the introduction of "SWISS Choice", a first step towards more individualised services. Passengers can reserve their seats and order duty free products in advance or can purchase additional baggage.

10.3. Passenger loyalty

Some people repeatedly fly with one airline or alliance. Airlines seek to support repeated purchasing behaviour by building long-term relationships through customer relationship marketing (CRM). CRM places equal or greater emphasis on maintaining relationships with existing customers as it does in its search for new ones as it is far cheaper and easier to enhance existing relationships than develop new ones.

Keyword: Customer relationship marketing – aims at creating long term relationships with customers by focusing on customer value and satisfaction rather than quantity of sales.

Customer Retention and Customer Loyalty

Airlines spend considerable time and effort on building customer loyalty through frequent flyer programmes (FFPs). The rationale for operating a FFP is to promote customer retention. Loyal customers have a significant impact on company value.

Keyword: Frequent flyer programme – a membership scheme with different status levels that enables passengers to collect mileage points for flights and related purchases which can be redeemed for free flights, upgrades, or discounts on selected retail and travel products.

Lasting customer relationships are beneficial for companies. Customer retention is important due to increasing competition and developments in ICT (see Chapter 16). The internationalisation and globalisation of markets, liberalisation, shorter product life cycles and continuous development of products further accentuates the problem. This led airlines to seek to decrease costs and focus on meeting and exceeding the needs of particular customer segments. However, focusing on the needs of customers is not an altruistic measure but a business decision based on the knowledge that customer recruitment is more expensive than customer retention. A small increase in customer retention can lead to an increase in profits. Over time, airlines have moved away from attempting to satisfy every single customer to prioritising the most valuable customers and influencing the behaviour of less valuable customers to convert them into loyal, profitable ones.

An important approach to enhance customer retention is a customer loyalty programme. Customer loyalty is central to relationship marketing and takes into account how companies can benefit from loyal customers by increasing customer profitability and lower customer marketing costs. Companies in different industries have established loyalty programmes. The classic examples are retail companies; customers collect points with every purchase, which subsequently can be used to purchase discounted products. The mechanism of the loyalty programme in the airline industry is similar. Passengers collect mileage points with every flight, which subsequently can be used to purchase flights, upgrades or for airline-branded products. In addition, a customer may reach different status levels depending on the number of mileage points collected. The higher the status level, the more benefits the customer receives. The benefits may include the use of a priority check-in, priority security line, priority boarding, priority wait-listing or standby for fully booked flights, a more personalised service, access to higher class lounges, limousine services, higher baggage allowance and upgrades. By having different tiers of membership, airlines generate aspirational marketing and the different status benefits increase the service quality along the traveller's service chain. The different status levels are often named after rare jewels (for example sapphire, ruby, emerald or diamond) or precious metals (such as silver, gold and platinum) to suggest exclusivity and value.

Keyword: Aspiration marketing – creates a desire among consumers to obtain an exclusive or luxury product or service that, in reality, few can afford.

Customer retention programme such as cards and clubs have four main targets which collectively have a positive impact both on customer retention and profit:

- *Customer selection:* A loyalty programme enables a firm to better build customer segments. For example access to a loyalty programme can be limited to a certain customer group, enabling it to be either an open or closed programme. It is also possible to specifically address various customer segments. By creating incentives such as a status programme, some customers are selected and treated better than others. With a clear structured segmentation, customer satisfaction, customer value and retention can be enhanced and furthermore, customer information can be improved. Loyalty programmes enable a firm to collect vast numbers of data points on their passengers such as flight frequency and purchasing behaviour. The airline can simultaneously profit from increased market awareness, which it can utilize to develop a more targeted marketing plan and individualised services. Gaining this data is of upmost importance to increase cross-buying activities and decrease price sensitivity. Information management is

important for successful customer relationship management as it helps to segment customers and ultimately create increased customer value and loyalty.

- *Interaction and integration through dialogue:* Loyalty programmes require regular contact and interaction with passengers.
- *Image improvement and strengthening of identification:* If a customer feels directly and individually targeted by an airline, a certain additional emotional value is generated. Customer programmes can be developed either in a company-specific or company-overarching way. Company-overarching programme admittedly decrease the own financial investment and the loyalty, which is created, is mostly distributed between the programme partners rather than only with the own company.

Keyword: Cross-buying activity – Customers cross-buy different services from the same provider.

Keyword: Company-specific way – By following company specific ways loyalty is created by and for the own company rather than for the alliance on a whole.

Keyword: Company-overarching way – Company-overarching ways decrease the own financial investment and the loyalty, which is created, is mostly distributed between the programme partners rather than only with the own company.

10.4 Airline alliances and loyalty programmes

Airline alliances are an important factor in passenger loyalty and a key feature of some loyalty programmes. Alliances enable their partner airlines to offer members of their individual loyalty programmes the benefit of being able to collect and redeem frequent flyer points with other carriers in the alliance in addition to granting them access to a wider range of benefits that increase customer value, such as more destinations, improved flight connections, enhanced flight frequencies and access to more airport lounges. Nevertheless, each airline within an alliance retains and administers its own FFP and selects the level of reward and bonuses that it offers. This can make aligning the benefits and rewards of different FFP memberships within one alliance inherently challenging.

Some airlines, for example, may provide passengers who hold a ticket with their airline with some form of preferential service (such as lounge access for a high status member flying economy class) that is not available to passengers with equivalent FFP status holding tickets issued by a partner airline. This is because the frequent flyer points needed to gain a particular status level with different airlines within an alliance varies. A Lufthansa passenger, for example, needs to collect 100,000 status miles points to become a gold member with Miles and More whereas an Aegean Airlines passenger only needs to collect 20,000 status miles points to become a gold member of the Aegean Miles and Bonus programme. As a consequence, a passenger might hold an Aegean Miles and Bonus Gold Card, despite flying mostly with Lufthansa. This fact has led airlines within an alliance to differentiate benefits for passengers based on their FFP membership and status level.

As Chapter 8 explains, airlines enter alliances to gain: increased economies of scale and scope; access to a wider range of markets; and opportunities to increase customer benefits and utility. The aim of an alliance is to allow customers to benefit from the combined geographic coverage and service of all member airlines. Three alliances - Star Alliance, oneworld and Skyteam – currently dominate the passenger market (see Table 10.2). Although full service network carriers were the first to enter into formal alliance arrangements, they are not the only airlines who seek to create loyalty benefits for customers. A number of low cost carriers, including Southwest (US), Gol (Brazil), and Air Asia (Malaysia), operate membership or loyalty programmes which offer benefits such as priority boarding or a higher baggage allowance. Since November 2012, members of Emirates' Skywards FFP were able to redeem their miles on easyJet flights.

	STAR	oneworld	Skyteam
Formed	May 1997	February 1999	June 2000
Members	27	15 (+24 affiliates)	20
Daily flights	18,521+	10,117	16,323
Destinations	1,321	1,010	1,052
Countries served	193	155	177
Annual pax (m)	653.8	512.8	612
Employees	410,274	389,788	481,691
Aircraft fleet	4,561	3,428	3054+ (1580)
Lounges	1000+	600+	629
Total revenue (US\$)	177.42 bn	143,231 m	Not stated

Table 10.2 Comparison of main airline alliances, 2014 (Source: individual alliance webpages)

Star Alliance

Star Alliance is the world's largest global airline alliance. It was founded in 1997 by Air Canada, Lufthansa, Scandinavian Airlines, Thai Airways and United Airlines. New members have since joined the alliance and 27 member carriers currently operate at 1,320 different airports within 193 countries. Star Alliance categorises its frequent flyer customers into silver, gold and (depending on

the issuing airline) platinum or honorary status tiers. This is in addition to the status level that is held with an individual airline's FFP.

- *Star Alliance Silver status:* After reaching the premium level of one of the different airline members, the frequent flyer receives Star Alliance Silver status. This status includes a priority wait listing and a guaranteed seat reservation if a place becomes available on a fully booked flight. Passengers also have priority standby on the next scheduled flight in the event of missing their original flight.
- *Star Alliance Gold status:* Gold status cardholders receive the same benefits as the Silver status members plus five additional benefits. The cardholder receives access to all STAR Alliance airport lounges worldwide, regardless of the class of travel. Priority check-in is permitted at all airports and cardholders receive priority boarding and an additional 20 kilograms baggage. Bags belonging to Gold card members get priority handling and are among the first to be unloaded.

oneworld

The oneworld alliance was founded in 1999 by American Airlines, British Airways, Cathay Pacific, Canadian Airlines and Qantas. The alliance consists of fifteen airlines and twenty-four further partners who collectively serve over a thousand destinations in 155 countries. Oneworld offers different tier benefits to its customers. The different tiers aim to create loyal behaviour among passengers. They provide status benefits, which are often intangible and not like a direct discount system such as mileage points:

- *Oneworld Ruby status:* The lowest tier status is Ruby and is awarded when a customer reaches the first premium level of a members' frequent flyer programme. In addition to the benefits of each airline, three oneworld privileges exist. These are: access to business class priority check-in; preferred or pre-reserved seating; and priority standby on fully booked flights.
- *Oneworld Sapphire status:* A member with Sapphire status level receives the Ruby benefits plus additional privileges. Sapphire members can access business class lounges at every airport, even if they are flying in economy class, they receive priority boarding and an additional baggage allowance.
- *Oneworld Emerald status:* The benefits in the Emerald tier status include those of the Ruby and Sapphire levels and two additional privileges. If first class lounges are available at an airport, cardholders may use them regardless of the class they are flying in. Emerald status cardholders are permitted to check-in at the first class priority check-in desks, can access fast track security lanes and receive an extra baggage allowance.

SkyTeam

Skyteam was formed in June 2000 by Aeroméxico, Air France, Delta Air Lines and Korean Air and now has 20 members. SkyTeam offers different status levels and benefits such as:

- *SkyTeam Elite status*: Elite status customers benefit from an extra baggage allowance, priority check-in, priority boarding, preferred seating and priority standby. Members can earn and redeem miles on every SkyTeam flight.
- *Sky Team Elite Plus status*: The next higher status is the Elite Plus, which offers three additional benefits above the Elite status. Members have access to exclusive member lounges and may invite a guest to accompany them. They are guaranteed an economy class seat on every long-haul flight if they book more than 24 hours ahead and their luggage receives priority baggage handling.

10.5 Challenges of frequent flyer programmes: Induced disloyalty

As a result of the rapid accumulation of frequent flyer miles, some airlines changed the terms and conditions of their loyalty programmes to make them more restrictive. As a consequence, the benefits and status associated with FFPs has, in many cases, decreased since the early 2000s. Although an airline can change the rules of its loyalty programme by reducing the value of mileage points, such actions might alienate previously loyal customers and airlines need to be aware of the effect of 'customer disloyalty' or 'relationship ending'.

Despite the anticipated benefits of operating an FFP, research has revealed that FFPs can be less successful at creating long term loyalty than expected. Moreover, passenger dissatisfaction with loyalty programmes can evoke negative publicity. This dysfunctional behaviour can range from low ratings and non-recommendation to switching to other programmes. There is an on-going debate into the overall effect of loyalty programmes and the danger is that loyalty programmes may actually destroy customer value over time, rather than create it.

10.6 Conclusion

Only airlines that create long-lasting value for all of its customers will be able to successfully compete in the marketplace. Three elements are crucial. First, airlines must identify different customer segments, and design tailor-made products to satisfy the need of each segment. New data mining techniques (often referred to as Big Data) will allow airlines to better identify differences between segments. As in other industries, digitalization will be central to improving airlines' ability to create lasting customer value. Second, airlines must maximize customer value for each passenger. They must innovate and offer services that meet and preferably exceed customer needs and expectations. As a result, offering supplementary service on top of the travel experience is a key factor for the financial performance of airlines. Thirdly, airlines must retain customers over time. Airlines may use loyalty programmes to increase retention and loyalty. However, airlines are becoming increasingly aware that changing the modifications of loyalty programmes may have an adverse effect on customer loyalty. Thus, the set-up and evolution of customer loyalty programmes must be handled with great care. Irrespective of whether the airline is a European FSNCs that is coming under increasing pressure from premium Middle Eastern Carriers abroad and LCCs at home or a small regional airline flying between secondary airports, the question of customer loyalty and customer retention is crucial.

10.7 References and further reading

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