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Airline Passenger Marketing

Chapter Checklist • You Should Be Able To:

- Define *marketing*, and discuss its importance to carriers in providing air transportation services
- Explain what is meant by the *marketing concept* and how it has changed over the years
- Describe what is meant by *controllable marketing decision variables* (marketing mix) and the so-called *uncontrollable variables*
- Explain what is meant by the *consumer-oriented marketing concept* and how it relates to market segmentation
- Give several examples of three different intensive growth strategies
- Discuss some of the postderegulation marketing strategies used by the major carriers
- Discuss what is meant by *trends* and how they will impact the future of airline passenger marketing

INTRODUCTION

Marketing is certainly one of the most important activities in any company, and the airlines are no different. Approximately one-half of a major or national carrier's employees are engaged in the marketing process. Reservations personnel, ticket and customer service agents, baggage handlers, flight attendants, food service representatives, passenger and cargo sales representatives, and pricing and market research analysts are involved in marketing the company's product—air transportation.

Marketing is that broad area of business activity that directs the flow of services provided by the carrier to the customer in order to satisfy customers' needs and wants and to achieve company objectives. Marketing is more than selling: it involves a number of business activities, including forecasting, market research and analysis, product research and development, price setting, and promotion, including advertising. Marketing also involves the finance activities such as credit and collection that are associated with ticket sales. Marketing is customer oriented. Creating products and services that fulfill the needs of existing customers and attract new customers is the primary goal. Determining who the customers are or could be and what their needs are is part of the process. Marketing must also assist in achieving the company's objectives: an acceptable return on investment, a reasonable level of profits, and an adequate market share.

Why is marketing so important? Without marketing and sales, there would be no airlines. Marketing is the stimulus that encourages innovation, research, and investment. A carrier can have the latest equipment and the most efficient human and capital resources available, but unless somebody is there to sell the output produced, it is all for naught.

Historically, airlines have not done a good job when it comes to market research concerning route networks which ultimately has an impact on airline passenger marketing. The type or types of passengers the airline serves determines specific routes, therefore determining specific airports the airline will operate at. Many airlines have failed because of the poor quality of their research. In the United States, prior to the U.S. Deregulation Act of 1978, airlines did not have a need to do research because there was almost no competition. In other words, airlines had a monopoly on certain routes and passengers were forced to fly certain airlines regardless of price or desire. The same applied to many of the European Union (E.U.) countries until the mid-1990s when the Third Package was implemented. The Third Package was the final step of creating a liberalized environment in Western Europe where carriers can fly to any destination, at any price, and compete with other carriers as long as they are operating in a safe environment.

In the 21st century, airlines around the world are finding that extensive research concerning passengers and destinations is required, due to an increasingly competitive environment. Many airlines now spend great portions of their annual budget on market research because airlines have realized for the first time in their existence that passenger loyalty no longer exists. Passengers will fly with the carrier that provides the best price and gets them to their end destination on time. In today's aviation environment, passengers are price sensitive whereas before, passengers were more time sensitive.

Even though extensive market research is necessary, there is no guarantee that the airline will be successful. Forecasting techniques are simply forecasts and the only real way to "test" a market is to operate an actual aircraft on a route. If successful, the airline has virtually no worries. However, if this test is not successful, the airline must have a contingency plan in place to determine how the aircraft will be utilized without it spending time on the ground. The author of this book believes three trends are occurring within the global airline industry. It is important for the developer of the airline business plan to be able to identify future trends and select a specific tier in terms of what category of airline the business plan is to be designed around. The three tiers include: regional/feeder carrier, new-entrant/low-cost/no-frills carrier, and the "megacarrier."

DEVELOPMENT OF THE MARKETING CONCEPT

The carriers' marketing history before World War II was considerably different from what goes on today. In the early years, emphasis was placed on the carriage of mail, not passengers. There was more profit in carrying mail, and besides, the mail didn't complain if it arrived late or was too hot or too cold. Furthermore, people still had a love affair with railroads and automobiles. Market demand for air travel was just sufficient to absorb the available capacity. This era was the **production-oriented period** in airline marketing history—a time when services were so scarce that customers accepted whatever was available.

After the war, airline executives knew much more about how to operate their companies than they knew about how the product they produced—air transportation—should be sold. This was natural in an industry in which the first task had been to develop a product in which the public would have confidence, an industry that after the war was confronted with selling something relatively new, and an industry that basically had to improve its product entirely out of capital, not out of earnings. Furthermore, while many of the newly hired airline personnel in the postwar period brought technical skills acquired in the military, nobody really had any experience in marketing the product.

For hundreds of years, people had traveled by land and water. The airlines in the postwar period had to offer a higher-quality product than consumers demanded at the time. Probably no other product ever offered to the public had to be so perfect, so safe, so convenient, so passenger oriented, and so reliable as did air transportation before public acceptance could be expected.

As the carriers' capacity increased, many companies assumed much more active roles in convincing consumers to purchase the new services offered. At this point, it could be said that the airlines entered their **sales-oriented period**. More often than not, this approach produced services that reflected the operations and selling talents of the company, and only secondarily the needs of the flying public. It was basically a shotgun approach to marketing, convincing people to fly rather than drive or take the railroad. The airlines' success cannot be disputed in light of the tremendous growth during the two decades following the war, combined with the demise of passenger rail service in the United States. By the late 1960s, market demand had outstripped available capacity, and so the wide-bodies were developed to alleviate this problem.

Unfortunately, the airlines have been plagued with excess capacity ever since the introduction of the wide-bodies in the early 1970s. Since that time, many carriers have focused on the marketing concept, which stresses shaping services to meet consumer needs rather than molding consumer needs to fit the available services. This concept has played an important part in the emergence of the **consumer-oriented period** in the airline business, with its many tests and new-product surveys designed to discover what consumers really want. We have moved from the shotgun approach of marketing air transportation to the target market approach—that is, identifying the specific groups of customers to whom the company wishes to appeal with its services. Once this is determined, the next step involves the selection of the appropriate blend of marketing activities, the kind and amount of activities necessary to reach the target market. Let's take a look at these marketing activities, which many analysts refer to as the *marketing mix*.

THE MARKETING MIX

The **marketing mix** consists of the types and amounts of controllable marketing-decision variables that a company uses over a particular time period. Commonly referred to as the "four Ps," these variables are:

1. **Product**. The right product (or service) must be developed for the target market.
2. **Price**. A price that gives good value to the customer and adequate revenue to the carrier must be set for the product.
3. **Promotion**. Personal selling and advertising must be used, both to communicate information about the product to the customer and to facilitate sales.
4. **Place**. Appropriate channels of distribution must be found to ensure that the product reaches the target market at the right time and in the right place.

These four elements are the controllable marketing factors that should be used to reach the target market. Thus, any discussion of the business activities that direct the flow of services to customers must stress the four Ps. Because all four elements are present to some degree in any marketing situation, the airline marketer's task is not to decide whether to use a particular element, but rather to determine the relative emphasis to place on each element in the final marketing program.

It must be recognized that the marketer must contend with certain **uncontrollable variables**. Unfortunately, the marketing team does not work in a vacuum. Its actions and strategies will be affected by some or all of the following variables:

1. *Cultural and social differences.* These are the traditions and values of various ethnic groups that represent potential customers. Such traits as eating habits can vary considerably in different parts of our own country, to say nothing of different countries.

2. *Political and regulatory environment.* Political climates are constantly changing. New levels of taxation and government spending can affect marketing strategies set by the carriers. Regulatory requirements, such as allocations of landing quotas at certain airports because of extreme peaking in the number of flights, can undermine the best of marketing plans.

3. *Economic environment.* A good marketing program might be a flop if the economy is going through a recession or rapid business downturn. Airlines are very sensitive to changes in the economy.

4. *Existing competitive structure.* The number and types of competitors the marketing team must face in its target markets may vary considerably.

5. *Resources and objectives of the company.* Top management really controls these variables, and the marketing team must work within the restraints imposed on them. For example, if management has placed great emphasis on short-term profits and less emphasis on long-term market share on a particular route, the marketing team must develop a strategy consistent with the company's goal.

Although the marketing team can do little or nothing about these uncontrollable variables, it certainly must recognize them and be in a position to respond to them by altering its marketing strategy. The term *marketing strategy* is used to describe the process by which the marketing mix is changed.

Now let's take a closer look at the four Ps.

Product

To the average consumer, a product is simply a physical item with certain uses and a particular appearance. In terms of the marketing mix, it is much more than this. A product purchased by consumers encompasses functional, psychological, and aesthetic features as well as convenience, reliability, and so forth. All of these characteristics are simply called the *product.*

The airline product is not a physical item at all, but services that consumers find useful. Safety, on-time reliability, convenience in terms of airport proximity or seat availability, frequency of departures, in-flight cabin services, ground services including ticketing and baggage handling, aircraft type, and even the carrier's image are part of the airline product. This definition is consistent with the airline marketing concept, which stresses the importance of services that satisfy certain consumer needs.

Quite frequently, airline marketing analysts discuss the *product differentiation* that exists in the industry. If we consider the output of an airline to be a seat departure, some analysts will argue that we are basically dealing with an undifferentiated or standardized product. A seat departure on United is the same as one on Delta or American. Or is it? A seat departure from Chicago to New York at 11:30 A.M. and including meal service is not the same as a seat departure at 1:00 P.M. with no meal service. Thus, the product is differentiated. There is some truth to both arguments. If three carriers are serving the same market, all using the same aircraft and providing basically the same cabin service, on what basis do they compete? Generally, the answer can be found in the frequency of service. The carrier with the most frequent service at times consumers wish to fly will generally capture the largest market share. Consequently, each carrier attempts to schedule more flights than its competitors around the popular early morning and late afternoon hours to capture the biggest share of the market. Unfortunately, too much capacity in terms of seat availability will reduce load factors to a point at which no one can earn a reasonable profit. As a result, there is a tradeoff between meeting consumers' needs in terms of seat availability and meeting the company's objectives, including a reasonable return.

In marketing the airline product, certain unique characteristics must be recognized:

1. The product (service) cannot be kept in inventory to match fluctuations in demand. The revenue lost as a result of an unfilled seat when the aircraft departs is lost forever.

2. The service is usually personalized. Two people who take the same flight might come away with completely different opinions about the service, depending on their individual experiences.

3. There is no such thing as replacement of a bad product, as is the case in the sale of other products.

4. It is difficult to check the quality of the service before the final sale. There is no showroom to visit to test the product before purchase.

5. Delivery of the product cannot always be guaranteed, due to mechanical problems or the unpredictability of the weather.

6. The service can be produced only in batches, as opposed to individual units.

These characteristics have prompted the airlines in today's extremely competitive environment to intensify their efforts in two areas: (1) offering better qualitative and quantitative service to passengers, and (2) enhancing their image. *Qualitative service* includes such things as courtesy and efficiency in contacts with passengers. *Quantitative service* primarily includes such subtle additions as wider variety of on-board magazines and entertainment and greater seat-pitch angle. Enhancing the company image is most evident in recent advertising campaigns in which the general theme projects an airline team ready to serve any and all customer needs.

As noted earlier, many airlines are guilty of not doing thorough research when it comes to researching route structures and passenger types. A good business plan incorporates extra effort when it comes to background research. However, finding a point to start can often be a difficult task. One question should be answered before any research is undertaken: "What route(s) do you have in mind?" To investigate this question, the developer should research underserved routes, saturated routes, become familiar with passenger demand (past, today, tomorrow), and also become familiar with destination legalities. The latter factor is most important when dealing with destinations outside the airline's home country.

Many airlines have evolved based on a "hunch." Some have succeeded while others have failed. Starting an airline is a risky business as it is and anything the developer can do to minimize risk is most beneficial to achieving success. Expanding an existing airline by offering new products and services can be just as risky. Having a general idea of what kind of airline one wants to start is good but background research is necessary to make sure the idea is sound. In most cases, the developer will find new opportunities or barriers that weren't known in the preliminary stages, creating a new concept. For existing carriers, the same laws apply.

In the airline industry, there are many different types of services that can be offered and the business plan should be focused on a particular area or niche market. In most cases, the more specialized the airline is, the better the chance of success. Examples of different areas to research are presented below. It should be noted that this is merely a list of examples to get started and not a complete listing of all the areas requiring research. Once a thorough investigation has been done, the developer will have a greater understanding of what type of airline will be designed in the airline business plan. The following discussion directly relates to how airlines market their products and services to the passenger.

Scheduled or Non-Scheduled Service. For the most part, an airline will offer either a scheduled service or a non-scheduled service. A scheduled airline will fly to different destinations using a published time schedule. For example, *X Airways* offers service from *Airport A* to *Airport C* on Mondays, Wednesdays, and Fridays departing at 0700. Depending on the country of registration, the airline will operate under a particular flight certificate authorizing scheduled service. This certificate is issued by the government (civil aviation authority) of that country. A non-scheduled airline will offer services to different destinations but will not fly according to a published time schedule. For example, *X Airways* offers service from *Airport A* to *Airport D* but the days and times might not be specific. Again, depending on the country of registration, the airline will be issued a specific flight certificate authorizing non-scheduled service.

Luxury, Mid-Range, Low-Cost and No-Frills, Shuttle, and Charter. When building the airline business plan, the developer must know what type of service to operate in terms of the amenities it will offer. Generally, a luxury-oriented airline stands a good chance of failing from the start due to high overhead costs. A good example of this type of carrier was the U.S.-based MGM Grand Air that provided luxury service between New York and Los Angeles. One of the predominant reasons of its failure was the high overhead costs associated with offering First Class seating with extra leg room, china dishes for meal service, exotic food and drink, and aircraft that were expensive to operate and maintain.

A mid-range airline will cater to passengers wanting a reasonable airfare with some in-flight amenities including food, drink, and entertainment. Generally, mid-range airlines have a reasonable chance to survive as long as the cost structure is well maintained. For the most part, major airlines are categorized as mid-range.

Low-cost carriers cater to passengers wanting cheap airfares with little demand for in-flight services. However, it is important to distinguish between a low-cost and a no-frills carrier. In terms of cost structure, a low-cost airline offers a reasonable airfare resulting from low-cost management strategies. A no-frills airline also offers reasonable or cheap airfare resulting from what might be considered extreme low-cost management strategies. Basically, a no-frills airline offers a seat from point A to point B with no in-flight service. In the United States, Southwest Airlines is considered the leading low-cost no-frills air carrier.

A shuttle airline caters mainly to business travelers seeking movement between two major city centers. The shuttle concept is similar to a conventional bus service offering a reasonable airfare with no reservation. High frequency and easily remembered times are typical attributes of a shuttle.

A charter airline offers services to destinations based on demand without using a published time schedule. In other words, the aircraft might be rented one time or multiple times to transport people or goods to specific destinations. This type of service is referred to as an ad-hoc charter. The more common type of charter caters to passengers seeking leisure-oriented destinations. Most airlines in the charter market operate by a non-published time schedule to specific destinations on a seasonal basis. In the northern hemisphere, many charter carriers operate north and south during the winter and east and west during the summer.

First, Business, Economy. What type of seating should the airline offer? Historically, major airlines offered three types of seating configurations: first, business, and economy. Today, as it becomes more difficult to operate a successful airline from a financial perspective, many airlines are doing away with the three classes and moving toward two classes. First class is being removed and replaced with increased business class seating and increased economy class seating. The marketing geniuses at many major airlines have renamed the expanded business class first class for psychological reasons. Increasing deck capacity means more revenue is generated for the airline. In short, "putting more butts in the seats", is the new trend. If an airline offers a first class seat, extra space is occupied by the seat because the first class passenger demands extra leg room meaning increased seat width and pitch. Alongside extra room, this particular passenger type demands a costly in-flight service consisting of food, drink, and personal entertainment.

Business class seating is important to airlines wanting to attract business travelers willing to pay a high air fare. Historically, business travelers have been time sensitive and not price sensitive meaning that the major airlines could offer a last minute seat and expect to generate a high yield. However, since the events of 9/11, a new trend has occurred.

Economy class seating is more important than ever before. Since 9/11, many corporations have cut down on operating costs by reducing travel budgets for employees. Business travelers that once traveled in business class are being forced to travel in economy meaning that many of the major airlines are no longer receiving the same high yields they previously did. For the first time in aviation history, major airlines are realizing that their "bread and butter" are economy class passengers. Low-cost airlines typically offer a single economy class and generate revenue based on volume rather than by seating class. An aircraft can accommodate more seats with a single seating configuration meaning that airlines operating with maximum deck capacity have lower operating costs passing the difference on to the passenger resulting in a reasonable ticket price.

Food and Bar. The airline product seems to be changing as the global airline industry continues to evolve.

Some industry experts claim the industry is maturing. In reality, the industry is still young and is anything but mature. Until recently, the airline product was defined as a seat combined with additional services like food, beverage and entertainment. Today, anything other than a seat is considered an add-on. In the United States, most airlines do not serve complimentary food items or alcoholic beverages. Today, passengers are forced to purchase such items. In some cases, even the option of purchasing add-ons is non-existent. Unfortunately, for the passenger, this provides an extra expense on top of the airline fare. The flip side is that in-flight meals are often restaurant quality.

Passenger Seat Weight Restrictions. Some airlines are now charging overweight passengers a fee resulting in purchase of a second seat or upgrade to another class of service. In some cases, if there are no two seats available or an upgrade is not available, the passenger must wait for the next available flight. The issue of overweight people is a growing problem for U.S.-based airlines as space on-board the aircraft is at a premium. According to the Centers for Disease Control and Prevention, 34.9% of Americans are defined as obese. Southwest Airlines was the first airline to charge such a fee.

Entertainment. Although many aircraft are equipped with various types of in-flight entertainment, offering such entertainment can be a costly decision. The technology associated with offering movies, radio, television, and telephone is very costly and someone has to pay. Historically, such entertainment was complimentary. Just like food and drink, entertainment is now offered by many airlines for an extra charge. Many airlines have realized the profit to be made by selling headsets, live satellite television and movies to the passenger.

Cargo and Freight. If a passenger airline plans to offer cargo or freight service, there are some important factors to consider. Firstly, due to height and weight restrictions, it is important that the transport of such goods does not interfere with the primary revenue generator – the passenger. Also, the type of aircraft operated will impact the amount of cargo and freight that can be hauled. A wide body aircraft is necessary to offer a pallet and container system but this is becoming increasingly important with narrow body aircraft as range increases with the advancement of new technology. Prior to any operations, the airline business plan should identify how much involvement with cargo and freight the airline plans for the future. The answer to this could impact the type of aircraft flown, having a significant impact on costs. Current trends indicate that the transport of cargo and freight is beneficial if done on a supplemental basis. A passenger airline cannot compete with the mainstream door to door operators like Federal Express, UPS, TNT, and DHL.

Duty-Free. The offering of duty-free goods only applies to airlines flying on an international basis. For the most part, offering such a service is a positive move because it makes two parties happy. Firstly, the passenger appreciates the opportunity to purchase duty-free goods on board the aircraft. Secondly, the airline benefits by earning a profit on each sale.

Baggage Restrictions. As mentioned previously, many airlines are increasing deck capacity with increased economy and/or business class seating. Due to increased passenger weight, airlines are finding that they have to limit the amount of baggage a passenger can check-in. Passengers checking-in baggage beyond the airline's restriction are often charged an excess baggage fee. Many airlines have realized how much revenue can be earned as a result of such a fee. For 2013, it was estimated that U.S.-based airlines earned approximately $6 billion from checked baggage and reservation change fees (Table 10.1).

TABLE 10.1 Baggage Fees by Airline 2013

Airlines ranked by 2013 baggage fee revenue, dollars in thousands (000)						
Rank	**Airline**	**1Q**	**2Q**	**3Q**	**4Q (May 5 release)**	**2013**
1	Delta	191,986	217,072	226,243		635,301
2	United	143,252	158,012	170,186		471,450
3	US Airways	130,470	139,306	130,564		400,340
4	American	123,115	132,698	127,070		382,883
5	Spirit	47,741	53,499	57,488		158,728
6	Southwest	42,727	42,500	32,411		117,638
7	Allegiant	33,594	33,038	28,957		95,589
8	Alaska	20,671	24,249	28,580		73,500
9	JetBlue	17,893	17,863	19,622		55,378
10	Hawaiian	16,563	17,753	19,115		53,431
11	Frontier	14,212	14,186	18,659		47,057
12	Virgin America	12,205	15,557	16,149		43,911
13	Sun Country	4,926	3,592	3,825		12,343
14	Mesa	1,014	966	N/A		1,980
15	Island Air Hawaii	635	851	N/A		1,486
16	American Eagle	0	0	12		12
	All	801,004	871,142	878,881		2,551,027

Source: Bureau of Transportation Statistics, Schedule P-1.2. Updated: Dec. 16, 2013.

Interline Agreements. Because the major airlines operate on a hub-and-spoke system, they have the ability to offer interline agreements with other airlines. Although this is positive from a marketing perspective, one of the potential downfalls is that interlining can cause contractual nightmares and baggage transfer headaches. It is also important to note that when interlining passengers, often the passenger is not aware of what airline they are flying on. As a result, bad service offered by one of the interlining airlines can be associated with your airline. On the other hand, a positive experience may also be associated with your airline. New-entrant airlines are finding it beneficial not to interline with competing carriers in order to keep operations simple. Also, because many new-entrant and low-cost airlines do not utilize hub airports, there is no reason to interline passengers because there is no need for connectivity.

Other Amenities. To increase an airline's chance of success in an increasingly competitive industry, the carrier should be able to offer amenities that competing carriers do not offer. Adding a sense of uniqueness will become more important as the 21st century progresses.

Price

Once a rather docile element in the marketing mix because of its control by the Civil Aeronautics Board, price has become one of the most volatile areas today. In fact, since deregulation, pricing has become the major competitive variable. This is not surprising in an industry with relatively few companies, each aware of the other's pricing policies and having to match the competition or lose market share. Because of its importance in the marketing process, pricing is discussed in detail in the next chapter. Our discussion of pricing in this section will be general, leaving such items as the types of fares and the theory of demand and output determination to the next chapter.

Basically, two general factors—demand and supply—determine the level of prices in any market. *Demand factors* are the intensities and loyalties that customers bring: how willing and able they are to pay for air transportation. *Supply factors* involve the quantity of seats that a carrier places in a particular market. The major component of supply is the total cost of producing and marketing the seats that are made available. Thus, we will consider here the two major factors that determine price levels: demand, and production and marketing costs.

Demand. The quantity of tickets purchased by customers in a particular market will largely depend on the price. Few customers would be willing or able to pay $1,000 for a flight from Miami to San Francisco, regardless of the service provided. Yet if this flight were priced at $100, the number of tickets that could be sold would probably far exceed the number of seats available. This illustrates a fundamental principle in economics regarding the demand for a product: as the price of an item falls, the quantity of that item purchased by customers normally rises.

We can readily see the importance of price in determining the quantity demanded, but there are other factors in or determinants of market demand. Included are the preferences of passengers for one airline over another because of some real or perceived difference, the number of passengers in a particular market, the financial status and income levels of passengers, the prices of competitors and related travel expenses, and passengers' expectations regarding future prices. These factors will all be discussed in detail in Chapter 11.

Production and Marketing Costs. Production and marketing costs also have a bearing on the prices an airline sets. The cost per seat-mile flown must be covered by the price of the ticket. Included in an airline's total cost of operation are its direct operating costs—fuel, crew salaries and expenses, landing fees, and so forth. Indirect operating costs, or fixed expenses, such as maintenance costs, general administrative costs, and the marketing expenses associated with passenger servicing, all must be covered by the revenue generated on flights throughout the system. Thus, in a sense, the production and marketing costs of the carrier represent the floor under the price set for the carrier's product.

Promotion

Promotion is the communication between carrier and customer. This communication can be achieved in various ways, but the two most important forms of promotional communication are *advertising* (sometimes referred to as mass selling) and *personal selling*. Other promotional activities include frequent-flier programs, sweepstakes, raffles, two-for-the-price-of-one air travel, and free giveaway items.

The broad goal of an airline's promotional activities is to increase revenues and profits. To accomplish this, a carrier must engage in activities that inform, persuade, and remind customers in the target market about its services. The principal task in promoting a new item is often simply to inform prospective customers about the existence of the service, to demonstrate its superiority over potential alternatives, and then to encourage customers to try the service and form their own opinions. When a product faces competition from close substitutes, such as competing carriers, the promotional objective is generally to *persuade* customers to buy the carrier's services rather than another carrier's services. If more competition arrives in the marketplace, the promotional effort is directed toward *reminding* customers of their favorable experience with the service and encouraging them to continue to use it or to return to it if they have switched to another carrier.

Advertising is another important element in the promotional scheme of an airline. Other promotional activities include the literature provided to travel agencies to inform them of the latest specials, such as promotional fares and tours, that are available. Much of this activity is carried out by the carrier's sales personnel that service a particular agency.

A major goal of promotion is to let customers in target markets know that the carrier's services are available at the right time, place, and price. This calls for selecting the right blend of promotional activities—the combination that best suits the particular market. This will be covered in greater detail in our discussion of target markets later in the chapter.

Place

For a service to be of value to consumers, it must be available when and where they want it. The place element in the marketing mix includes all institutions and activities that contribute to delivering the product at the times and to the places consumers desire—in other words, convenient facilities or sales outlets where customers can purchase the service.

In the airline industry, there are three basic types of sales outlets: (1) the carrier's own sales offices, including field ticket offices (**FTOs**), city ticket offices (**CTOs**), and centralized reservations offices; (2) other carriers' sales offices; (3) and travel agencies. Several variations of these include joint airline/military ticket offices (**JAMTOs**) and combined airline ticket offices (**CATOs**). A JAMTO, as the name implies, is located at a military base and is staffed by ticket agents from one or more carriers that serve airports close to the military base. A CATO is generally found in a small city; personnel from two or more carriers staff the facility.

An airline's own sales offices can be on-line or off-line. The *on-line sales office* is located in a city served by the carrier. An *off-line sales office* is normally located in a larger metropolitan area; usually only major carriers have off-line sales offices. *Field ticket offices,* as the name implies, are located at the airport in the terminal area or on a major street somewhere near the airport.

Quite often, a carrier, or several carriers together, sets up a portable ticket booth in the lobby of an office building in a large city to provide a convenient location for frequent travelers to purchase tickets. An example is the Insurance Exchange Building in downtown Chicago.

The carrier's centralized reservations facility, usually located hundreds of miles from major metropolitan areas, services a whole region through the use of toll-free telephone numbers. A flight from Miami to New Orleans might be confirmed by calling a reservations facility located in North Carolina. In some cases, a passenger might end up speaking to a reservations agent in a different country whose costs are cheaper for the airline (e.g., Philippines, India). The main function of an airline's reservations system is to determine the load status of all future flights. The number of unsold seats can be accessed right up until boarding time.

Other carriers' sales offices can also be very helpful outlets. Tickets sold through this source are referred to as *interline sales.* Millions of dollars in interline sales are processed through the airlines' clearinghouse every year.

The importance of travel agencies grew significantly during the 1980s to the late 1990s. In 1970, there were 6,911 travel agency locations in the United States, which produced $2.3 billion of the industry's $9.3 billion in total revenues, or roughly 25 percent. By 1985, the number had increased to 27,193 agencies, which produced $32.3 billion of the industry's $46.7 billion in revenue, or close to 70 percent. In 1991, approximately 42,000 travel agents booked 80 percent of the flying public. This meant that 80 cents out of every dollar that went through the scheduled airlines' corporate cash registers was generated by a travel agent. Obviously, agents were a very important element in the airline marketing distribution system.

The travel agent operates a supermarket of services in the travel and transportation field, embracing airlines, railroads, cruise lines, buses, and rental automobiles. The agent also arranges hotel accommodations, sightseeing trips, and package vacation tours on an individual or group basis.

The agent's income is derived primarily from commissions paid by carriers, hotels, and other operators for business produced. There is no cost to the traveling public. To be eligible for commissions on sales for domestic or international travel, the travel agency must be approved and appointed by either the Airlines Reporting Corporation or the International Air Transport Association (IATA), after rigid scrutiny of the agent's professional transportation experience and financial resources. Only then does an individual carrier decide if it wants to place its ticket validation plates with the agency.

In many geographic areas where the carrier does not operate, the appointed travel agent is the carrier's sole representative. Travel agents play an important role in the sale of air transportation because they influence customers' decisions concerning destination and carrier. In the postderegulation period, in which promotional fares have proliferated, the travel agent can be an invaluable resource for customers seeking the best buy available.

In many larger cities, the carriers' passenger sales managers hold monthly meetings with travel agents to exchange ideas and information. Travel agents and their employees periodically visit the various carriers' reservations offices to develop a rapport with the carriers' personnel, with whom they are in daily contact. The carriers also host seminars for travel agency personnel to inform them about the latest marketing policies and procedures. A basic course, designed for inexperienced agents, might include the fundamentals of the airline reservations function, including ticketing procedures. An advanced course might include international travel and ticketing.

Evidence of the travel agent's importance can be found in the demise of Eastern Airlines. Travel agents, hearing rumors of Eastern's financial troubles, shifted millions of dollars in business to other carriers to protect themselves and their customers. Unfortunately, this served to hasten the collapse of the carrier.

By the late 1990s and start of the 21st century, the importance of the travel agent had decreased significantly. The use of the Internet, also known as direct selling, in many cases replaced the need for a travel agent, benefiting both the passenger and the airline. The airline is able to eliminate travel agent commissions and pass the savings on to the passenger, resulting in a lower airfare. The Internet also allows passengers from anywhere in the world to book on-line 24 hours per day, 365 days per year, offering a great deal of convenience. In the United States in March 2002, Delta Air Lines was the first airline to eliminate travel agency commissions completely, followed by the rest of the competition. As a result, travel agents throughout the country increased fees to clients by increasing the travel agent fee. In many cases, a $25 per ticket charge became $45 per ticket. Passengers now flock to the Internet for great deals, consulting airline Web sites and other popular sites, such as Travelocity, Priceline, and Orbitz. Booking via the Internet will continue to grow rapidly. In 1998, 2 percent of airline ticket bookings were done on the Internet. By late 2002, 12 percent of air travel bookings resulted from the Internet. This figure jumped to 15 percent in 2003. By 2011, according to the Travel IndustryAssociation of America (TIA), this figure was approximately 40 percent. By 2013, this figure was approximately 50 percent.

THE CONSUMER-ORIENTED MARKETING CONCEPT

Introduction of wide-body service in the early 1970s marked the climax of the production-sales orientation in the air transportation industry. Excess capacity and a shortage of customers changed the marketing concept to a consumer-oriented approach. According to many analysts, the industry was entering its mature stage after rapid growth in the 1960s. In this stage in an industry's development, many potential customers have already tried the product, weaker competitors have left the industry, the remaining competitors have become well entrenched, and their marketing policies and images are well known. Customer loyalties and market shares become stabilized.

Market research came to the forefront as the carriers began to learn all they could about existing and potential customers for air transportation. The purpose was to design products (services) to meet changing customer requirements as they arose, or preferably before they arose. In other words, the carriers sought to develop services that would be responsive to particular customer needs. To do so, marketing research analysts had to find out who was flying, why they were flying, what income group they belonged to, what they wanted and liked, where they wanted to go, what they could afford (first class or coach), what their personal status was (single, married, stage in their family life cycle), what newspapers and magazines they read, what TV shows they watched and radio station they listened to, whether they paid with cash or credit cards, and what times of the year they traveled. Moreover, researchers had to learn what was going on at different times in different places and ascertain which activities would be of interest to the company's prospective or existing customers.

Market research became a vital component of the marketing mix during the 1970s and has provided the foundation for the planning and execution of marketing programs to the present day. During this consumer-oriented period, carriers have begun to focus on increased market segmentation and more intensive growth strategies.

Market Segmentation

Market segmentation is the process of dividing potential customers for a product (service) into meaningful consumer groups, or *market segments,* in order to identify a target market. This process involves three steps:

1. Finding relevant characteristics that divide a market into smaller consumer groups. For example, an airline market might be segmented by trip purpose (business, pleasure, personal), traveler characteristics (age, sex,

occupation, income, flying experience), trip characteristics (length of haul, peak versus nonpeak, day of the week, season), or length of stay (return same day, overnight, vacation).

2. Using these characteristics to identify all significant market segments and to relate them systematically to the services each segment might buy.

3. Selecting target markets—the collection of market segments most consistent with the company's objectives and capabilities.

Figure 10-1 gives an example of the segmenting process. Because no two travelers are alike, the markets can be segmented and the marketing mix shaped around their differences and needs. We can further grasp the overall trend of finding needs and filling them by taking a closer look at some of the business markets that contribute to the revenue of a typical major carrier.

Mercantile Travel. Retailers, wholesalers, and manufacturers account for a considerable amount of air travel. For example, department store personnel, including buyers, managers, and executives, fly to numerous conferences, trade shows, and special previews of seasonal fashions. Airline marketers view retail establishments as an excellent place to promote travel on their airline, as well as a good target market for air travel. The airline marketing staff assists department store display personnel with various promotions by providing models of airplanes, posters, and so forth.

Religious Travel. In addition to recognizing the particular needs of the members of this market segment, carriers must be aware of the special protocol involved in doing business with the various groups. Included in this segment are members of the clergy as well as laypeople traveling for numerous reasons, including retreats, conferences, and school-related activities.

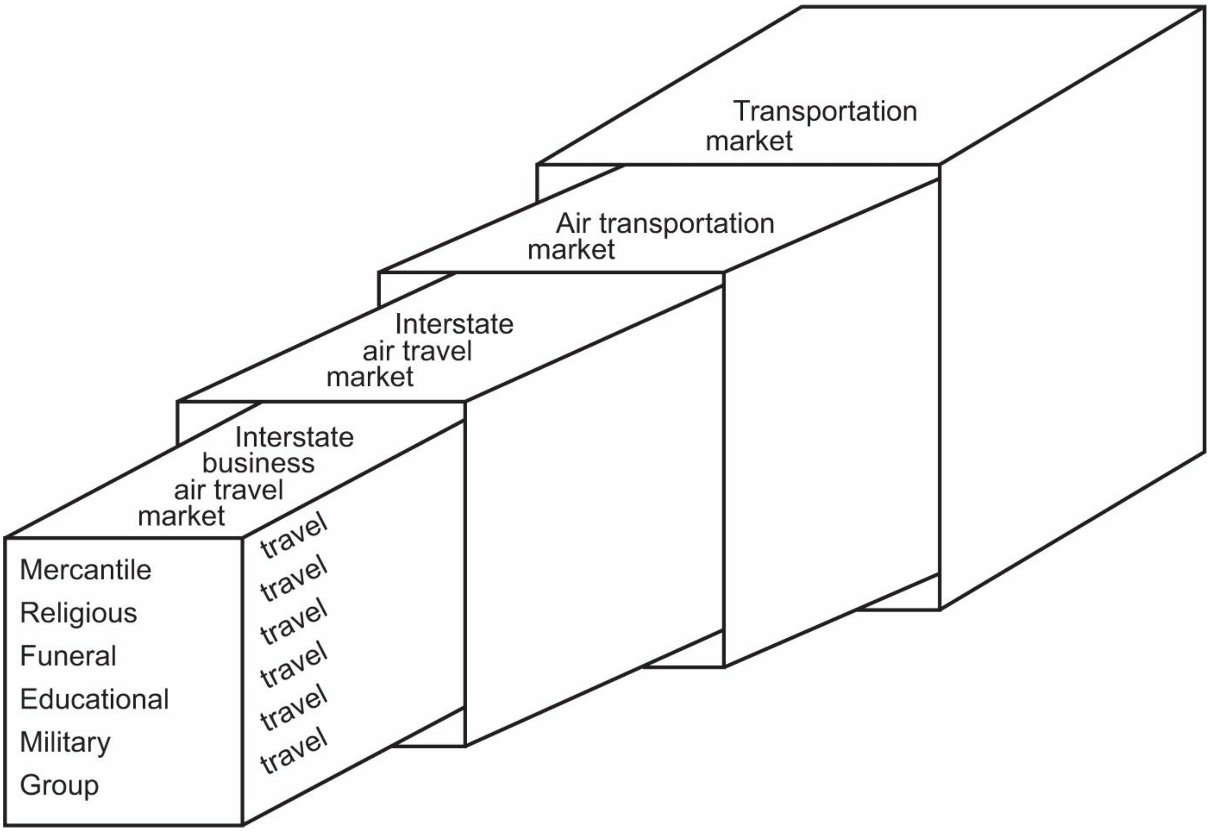

FIGURE 10-1 Market segmentation—groups of customers who share qualities that render the segment distinct and make it of significance to marketing

Funeral Travel. Some airlines have a close relationship with funeral directors because they are among the best repeat customers. Funeral directors account for not only the revenue from the shipment of human remains but also the revenue from the grieving relatives (an average of three) who choose to accompany the deceased or to travel on another flight. Here again, the marketing staff works very closely with the customers because of the critical timing involved.

Educational Travel. The educational travel market segment includes colleges, universities, secondary schools, and the like. Included are administrative personnel, faculty members, students, athletic teams and their fans, along with others, such as college athletic scouts, members of the news media, and promoters. This is a large market segment that makes repeated use of air travel.

Military Travel. This segment represents a continual flow of travel by personnel on official business, emergency leave, furlough, discharge, and relocation. Some military bases are literally cities unto themselves that provide a significant volume of traffic to carriers servicing nearby airports. Again, the marketing personnel work very closely with the base commander and military staff personnel in developing schedules and services to accommodate the needs of this segment.

Group Travel. An increasingly important segment of target marketing in recent years has been group travel. The opportunities are unlimited, because most everyone belongs to various groups—amateur athletes, teachers, doctors, post office employees, trade associations, and so on. A specially developed package tour might be a group of diabetics accompanied by a physician or a golfers' tour accompanied by a golf pro. One of the reasons airlines have promoted group travel extensively in recent years is the packaging aspect, which generally includes air fare, hotel accommodations, certain meals, various tours, and even rental cars. In this way, they avoid competing with other carriers only on the direct price of air fare.

Intensive Growth Strategies

As the term implies, **intensive growth strategies** involve a concerted effort to (1) penetrate existing target markets, (2) increase product development, and (3) develop new target markets.

Market Penetration. One method of penetrating existing markets more deeply is through the use of *promotional fares.* Promotional fares have been, and still are, an effective way for carriers to fill empty seats with leisure travelers who are being more carefully targeted in specific off-season markets and for off-peak travel periods.

Another approach to greater market penetration is by varying the *classes of service.* In the early years, carriers offered only one-class service. Next came first class and tourist, followed by coach and economy class for domestic travel, and then night coach and day coach, and even deluxe coach and deluxe night coach. Then came standby travel, in which no reservation was held for the passenger. Next came shuttle services, in which passengers did not make a reservation but simply flew based on available space. This was followed by leisure class, in which passengers purchased a regular coach-fare ticket, made a conditional reservation, and showed up 20 minutes before departure time. If a confirmed passenger did not show up, the leisure-class passenger would take that seat, either coach or first class, depending on what was available. If the flight was full, the passenger got a refund or a seat on the next flight out.

The carriers have initiated a number of other promotions in their attempt to achieve deeper penetration of existing markets: frequent-flier bonus awards for mileage accumulated; buy-one-ticket-get-one-free certificates to selected cities; weekender clubs in which travelers, for a nominal membership fee, receive exclusive notice of vacation packages; and upgrading of coach-fare passengers to first class for a small charge.

Product Development. Business travel is not as responsive to changes in the price variable as is pleasure travel, because businesspeople typically must travel during a particular period because of business needs. It is much easier for pleasure travelers to change their plans to take advantage of price reductions. Consequently, a greater emphasis is placed on *product improvement* when it comes to the business flier. These are also the type of things that build loyalty to a particular carrier.

In an effort to accommodate businesspeople's basic traveling requirements and maintain the conservative environment they may desire, product improvements such as the following have been added to the in-flight service:

1. In-flight telephone and fax, including Internet and e-mail access.

2. In-flight reservations for hotel and car rentals.

3. Comfortable seats with increased width and pitch.

4. Gourmet meals and complimentary beverages.

5. Enhanced entertainment systems, including direct TV and video games.

6. Reading and writing materials.

7. Larger lavatories with amenities.

8. Impressive duty-free services.

Some carriers have shown reruns of the professional football game of the week for business travelers who might have missed it. One carrier distributes a privately circulated newsletter to important business travelers.

Special on-ground services include lounges and meeting rooms for business travelers. Although these facilities are available to the general flying public, there is a membership fee, which tends to make them too expensive for the occasional traveler. Furthermore, they are generally located in out-of-the-way parts of the airport behind unmarked doors.

Carriers have sent special baggage identification tags to known business travelers to make the bags easily recognizable in crowded airport terminals. Special credit cards have been issued to especially frequent business fliers, again to acknowledge the importance of their patronage.

This discussion regarding product development, using the business segment as an example, is by no means exhaustive. Airlines are continually improving existing products (services) and developing new ones directed at particular market segments.

Market Development. Market development is the process of selling current products to new target groups. Market research is continually searching for new target markets based on the traditional method of *demographic segmentation* and the newer psychographic segmentation. Demographic segmentation is the process of distinguishing different groups based on age, sex, race, nationality, and so forth. *Psychographic segmentation* attempts to differentiate groups along lifestyle or personality lines.

Some of the newer, fastest growing airline target markets are the singles market, special interest groups, the athletic market, the women's travel market, and the African American travel market. The increasing size, affluence, and complexity of the singles market is creating new opportunities and challenges for airline marketers. Women are marrying much later, more single men are maintaining their own households, and the number of unmarried persons living together has increased significantly. By the year 2013, approximately 50 percent of all households were headed by a single person, including those formerly married or living with friends or relatives.

Conventionally, the singles market implies individuals who are unencumbered with responsibilities, who have considerable mobility, and who can spend money on travel that people with traditional family commitments generally cannot. This is particularly true for single people between the ages of 25 and 35. Higher education and income levels and greater amounts of leisure time add up to more travel, both individually and in groups. Ski-weekend packages, theater and other cultural tours, and air-cruise packages are all popular with this demographic group. This group also includes "special interest groups."

The athletic travel market segment includes traffic generated by athletic events and by the transportation of members of the athletic teams. The growing interest in sports at the collegiate and professional level and increases in amounts of leisure time and family discretionary income are factors that should produce increased revenues for the carriers during the early 2000s and beyond from this segment. The expansion of professional leagues to additional cities, the creation of new leagues in some sports, and the proliferation of postseason playoff games have added up to increased travel. One carrier advertises itself as “the airline of sports champions” and is referred to as the “airline of the NFL” by the National Football League (Continental, now United).

Chartering aircraft to professional teams has become a lucrative business for some of the major carriers. Privacy, in-flight service, and dependability (on-time performance) are key ingredients to the success of this growing market for the carriers.

Another growing market segment that the carriers see as having considerable potential is the women’s travel market. Although women have traditionally flown primarily for personal and pleasure purposes, many more women are now flying for business reasons as they pursue careers that in the past were primarily open only to men. Airline marketers who are responsive to the particular needs of the female flier will capture the biggest share of this market.

Another newer, fast-growing market segment, according to the carriers’ marketing staffs, is the African American travel market. A great deal of research is presently under way to determine the air travel needs of this market, whose economic status has improved since the 1960s. Although African Americans represent only 12 percent (2013) of the total U.S. population, they account for 30 percent of the population of major metropolitan areas. This fact helps explain the interest of the major carriers in attracting this market, which is located on their prime routes.

MARKETING STRATEGIES SINCE DEREGULATION

Now that the marketplace determines profits, airlines have moved aggressively to expand market share and to hold down costs. The tremendous growth in air travel has been achieved through price competition, expansion of service into new markets, and adjustment of service to meet consumer demands. Deregulation has dramatically changed the methods by which airlines market their services. In the competition for passengers, the major carriers have invested heavily in computerized reservation systems (CRSs), developed aggressive techniques to recruit and reward travel agents, built brand-name loyalty through frequent-flier programs, and established affiliations with commuter airlines to provide feeder traffic to their hubs. These strategic moves by the majors—spurred in part by the competitive environment introduced by deregulation—have strengthened the competitive advantages of large carriers.

Behind many of the strategic moves of air carriers since deregulation has been an effort to develop and exploit **economies of scope**. Economies of scope in the airline industry are achieved as a function of the number of points served by a carrier and should be distinguished from *economies of scale,* which are achieved as a function of size (see Chapter 7). Economies of scope are generated as a result of traveler demand for service in more than one city-pair market. For example, a large carrier can enjoy an economy of scope by advertising on television because the carrier serves many markets, unlike a carrier that serves only a few city-pairs. In addition, once travelers obtain information about service quality, cost, and convenience in one city-pair market, they form an impression about that carrier's service in other markets. Economies of scope also result from the generation of information through CRSs, reward structures for travel agents, incentives built into frequent-flier programs, and service patterns made possible by hub-and-spoke networks. Economies of scope confer competitive advantages to large air carriers, even in the absence of economies of scale.

Computerized Reservation Systems

Computerized reservation systems/global distribution systems (CRSs/GDSs) display airline schedules and prices for use by agents in making reservations. The economies of producing and distributing information in the airline industry are fundamental to postderegulation airline competition. Airfares and service patterns have become much more complex and change much more often than in the past, contributing to the importance of CRSs and the advantages that these systems confer on their owners. Although CRSs create opportunities for the smallest carriers to have their flights and fares displayed for travel agents nationwide, they also provide important marketing advantages to the carriers that own them.

The main systems are: ameliaRES (low-cost carriers and regional airlines), Abacus, AccelAero, Amadeus, KIU, Mercator, Navitaire, PARS/SHARES (by EDS), Patheo, Radixx, Sabre, Travel Technology Interactive, TravelSky, and Travelport GDS (Apollo, Galileo, Worldspan). CRSs have been expanded to make other types of reservations, such as hotel rooms and rental cars. Fees from sales made using the systems are sources of substantial revenue and profit for their owners.

Because a CRS is programmed to select flights based on published schedules, airlines find tremendous economic advantages in developing schedules that show flights to major cities arriving and departing during the early morning and evening peak hours. For example, to compete for lucrative business travel, airlines bunch arrival times at major airports at 8:30 or 9:30 A.M., in time for morning meetings. The DOT's requirement that airlines report on-time performance was designed in part to prevent airlines from underestimating their actual flying time to gain a more favorable position on the CRS.

CRSs are potent marketing tools because travel agents, who rely heavily on them, are a central part of the commercial air travel system, currently booking about 70 percent of all tickets, compared with less than 40 percent before deregulation. It is estimated that about half of leisure travelers and one-fourth of business travelers do not have a preference for an airline; thus, travel agents can play a major role in influencing consumer decisions. CRS owners, well aware of the importance of agents in influencing consumers, offer several incentives to influence their behavior and, through frequent-flier programs, offer incentives to travelers even when lower-cost flights might be available.

Passenger Service System

In addition to the GDS/CRS discussion, it is important to also understand what a Passenger Service System (PSS) is as they are becoming increasingly important. Generally, a PSS consists of three systems used by airlines to manage the business efficiently.

The first system is an Airline Reservation System. This system permits the airline to sell inventory (seats) and contains information like fares, schedules, Passenger Name Records (PNRs), and tickets issued.

The second system is an Airline Inventory System. This system consists of extensive data related to the airline's flights and seats available. The purpose of this system is to determine the number of seats available on a specific flight by booking class.

The third system is a Departure Control System (DCS). This system is connected to the reservation system and is used to confirm names of passengers booked on a specific flight and issues boarding documentation. Additionally, the DCS has further applications including links to customs/immigration and border security agencies.

Travel Agents

Travel agents provide an important service to consumers, especially since deregulation, by supplying efficient access to a complex array of travel options. Agents act as brokers of information and sellers of travel services to consumers often closely affiliated with individual air carriers through CRSs and supporting services. Over 90 percent of all travel agencies are automated (by means of CRSs), and most carriers rely on a single CRS to influence agents. Carriers pay commission overrides, which, combined with CRSs, have had much success in causing agencies to shift travelers to favored suppliers.

Some forces at work in the marketplace mitigate the extent to which overrides reduce competition. Most agencies are small, and many do not earn overrides. On the other hand, the travel business is becoming somewhat more concentrated, with firms having revenues of $5 million or more now representing one-third of the industry. These large firms seek out commission overrides.

Another market force that increases competition is the increasing concern of corporate clients with getting the best price. Corporations are more actively monitoring the travel costs of their employees. In addition, a fee system is being developed whereby travel agents earn fees directly from the corporation rather than through a commission. Currently, however, the fee system is limited and available only through some of the larger travel agencies. Some travel agencies even give large corporate clients rebates on the commission overrides that they earn from air carriers, and large corporations increasingly are arranging discount fares directly with airlines. These benefits, however, largely accrue to major corporations able to hire full-time travel managers to oversee their travel agents.

Small-business and leisure travelers have less influence over travel agents, because the incentives for travel agents working with these customers are mixed. Agents may seek out the lowest price for the most acceptable routing in hopes of gaining repeat business. At the same time, the commission system rewards agents on the basis of the total price; thus, there is a disincentive to seek out the lowest fare. In addition, some agents know that the commission will be even larger if they book the flight with a preferred supplier (one from whom the agent has been promised a commission override). However, it is important to recognize that the role of the travel agent, when it comes to booking passengers on the airlines, is decreasing quickly.

Through economies of scope, commission overrides can strengthen the competitive position of large carriers or carriers that serve a large number of city-pairs from the travel agent's home city. From a travel agent's perspective, the airline serving the largest network of cities from the agent's home city provides the agent with the most opportunities to sell tickets or to offer alternatives to consumers considering flying on an airline with a smaller local presence. This advantage in offering incentives to travel agents, combined with frequent-flier programs, reinforces the advantages of size (scope) and thereby makes it more difficult for new entrants to compete, be they major airlines or small, low-cost carriers.

Frequent-Flier Programs

Frequent-flier programs have been perhaps the airlines' most successful marketing tool. When American, under a new management team with extensive experience in marketing, first offered its frequent-flier program in 1981, the other carriers dismissed it as a gimmick. The incumbent carriers, who had higher labor costs than the new entrants, soon recognized the importance of retaining business travelers. These travelers are less inclined to take advantage of the discount fares offered by the majors, which usually come with a number of restrictions, but they might opt for the no-restriction low fares offered by their upstart competitors. The importance of offering frequent-flier benefits is heightened by the fact that roughly 5 to 6 percent of fliers account for about 40 percent of all trips taken annually. The use of frequent-flier programs by all of the major carriers is testimony to their importance in building customer loyalty, especially from business travelers. However, gaining and maintaining passenger loyalty is more difficult than ever before. Passengers are more interested in low airfares than they are in frequent flier miles.

Some corporations audit airfares to be sure that employees choose low-cost fares, and some firms try to reclaim frequent-flier benefits for the company. However, most companies concede that employees see frequent-flier awards as compensation for having to travel extensively and, concerned about employee morale, are unwilling to try to reclaim awards for themselves. Unquestionably, a particular program influences a frequent flier's choice of airline, but many frequent fliers also consider flight frequency and on-time performance as important factors in selecting an airline. Consequently, many frequent fliers belong to more than one program. This practice is becoming more problematic, however, because some programs impose expiration dates, thereby making it harder to win awards while participating in multiple programs.

Large carriers with extensive route networks will naturally have the most attractive systems because they can offer travelers more trip choices with which to earn mileage and more exotic vacation possibilities as rewards. Cooperative arrangements between small carriers, who are sometimes competitors, tend to be short-lived. The economies of scope enjoyed by larger airlines build consumer loyalty, particularly among business travelers, who are less concerned about price. Frequent-flier programs confer advantages to size that cannot be offset by a smaller airline that is attempting to compete only on the basis of price.

Business-Class Service

Another program designed to attract business fliers was initiated in 1979 by Pan American World Airways. **Business-class service** is aimed primarily at international business travelers to overcome the regulatory restraints on increasing normal economy (coach) fares in long-haul international markets. Initially, the service consisted of not much more than a few on-board amenities: free drinks, movies, and so forth. It has since become a major element on international routes for most carriers, partly because corporations frequently prohibit, or severely limit, employees from traveling at first-class fares. Most international carriers have now progressed to 8-abreast seating in business class on a 747, compared to the normal 10 in economy, and several carriers have extended the concept to 6-abreast seating. Most of these seats are as comfortable and provide as much leg room as first-class domestic flight arrangements. At the same time, some carriers have improved first class through provision of "sleeperettes" with leg rests. The price level of business class on international routes has generally been in the range of 10 to 25 percent above economy fares. Today, the range is more like 25–100 percent depending on route. Thus far, with the shorter distances involved, business class has not become a major factor in the domestic market, but rather a by-product of some carriers' internationally configured aircraft flying certain domestic sectors. Nevertheless, as carriers attempt to limit the amount of traffic moving at discount fares, some form of business-traffic segregation and pricing must remain one of their options.

Code Sharing

Code sharing refers to two airlines, usually a major and a regional carrier, that share the same identification codes on airline schedules. By code sharing with a regional airline, a major can advertise flights to a much larger market area and expand its market at relatively low cost. The freedom provided by deregulation allowed carrier managers to allocate equipment and personnel in line with costs, and many communities began receiving service by means of turboprop aircraft that carry 60 or fewer passengers. Commuter carriers often provided a low-cost operation, principally because of their use of lower-cost equipment more suited to their specific market characteristics and, to a lesser extent, because of lower overall labor costs. In effect, the commuter carriers began feeding service to the jet carriers at costs below those that the jet carrier could achieve over the same route.

With the development of hub airports, the major carriers soon realized that they could attract passengers traveling beyond their hubs by advertising their affiliations with the commuters serving their hub. Affiliations between carriers of differing sizes, in which schedules and baggage handling are coordinated, predate deregulation, but use of the larger carrier's CRS code by the smaller airline feeding traffic to the larger carrier places these affiliations in an entirely new context.

Listing the commuter with the code of the major in the CRS provides itineraries to travel agents and allows little-known commuter airlines to benefit from the brand name of the major carrier. CRSs also give greater weight to itineraries involving code sharing, which means that they will be listed before other possible interline connections and therefore are more likely to be seen and chosen by travel agents.

Code-sharing agreements became widespread by 1985, and the relationships between the commuters and major carriers became so important that many commuters were acquired in whole or in part by their affiliates. The majors were motivated partly by a desire to control the commuters' low-cost feed to their hubs, but they were also concerned with gaining enough control to ensure levels of quality and safety consistent with their image. As an example of the degree of vertical integration that has occurred in the commuter industry, the top 50 commuter airlines account for about 97 percent of all commuter airline traffic, and all but a few of these top 50 share CRS codes with a major or a national airline.

Consumers may receive some indirect benefits as a result of code sharing. Major airlines entering into code-sharing agreements are likely to impose commensurate service requirements on the commuters, and they may assist them in the purchase of higher-quality aircraft. Efficient, integrated service between large and small carriers, however, predates code sharing, and information about such relationships was displayed in CRSs before code sharing. However, equally convenient connections, and even those that may better meet consumer preferences, may not be as fairly treated in CRSs because of the preference given to on-line connections. Therefore, consumers may not always benefit from code sharing.

The effects of code sharing on competition are somewhat less direct, but they are still important. Because the commuters provide service on routes with relatively low traffic volume, many routes can be served only by a single commuter. By effectively controlling the commuter traffic arriving at its hubs through CRS listings or outright ownership of the commuter, the major further protects dominance at its hub. Code sharing also makes it difficult for other regional airlines to compete with the code-sharing partner in markets in which demand is sufficient to support more than one carrier, because only one commuter can share the CRS code. This could ultimately lead to reduced competition in the regional airline segment of the industry and higher fares for consumers traveling from small communities. In addition, by extending the service networks offered by large carriers, often at a cost lower than the large carrier could provide directly, code sharing enhances the economies of scope enjoyed by larger carriers.

Interactive Marketing Agreements

Interactive marketing agreements will soon be a common term used in the airline business. Low-cost carriers (LCCs) and point-to-point carriers do not typically participate in code-sharing for various reasons, therefore limiting market presence due to simplified route structures. However, as LCCs and point-to-point carriers expand, offering destinations outside the simplified network will increase in terms of importance. Airlines will form "loose" relationships with other carriers that complement the business model. Code sharing involves contractual, liability, connectivity and accounting issues whereas interactive marketing agreements simply relationships.

An interactive marketing agreement is when two or more airlines develop a relationship where each carrier agrees to promote the other carrier(s). The most simplified form of promotion is use of the airline's web site, encouraging passengers to click through to another carrier's web site to get to an end destination. When the passenger makes a financial transaction on-line, the participating carriers are compensated. For example, MAXjet Airways, a now defunct airline that operated between the United States and London, UK had the desire of linking up successful LCCs on either side of the Atlantic. Discussions were initiated between easyJet in the United Kingdom and JetBlue in the United States. The idea was to cross promote the three airlines using each of the airline's web sites. If a passenger flew from Long Beach, CA to New York on JetBlue then flew MAXjet from New York to London, the passenger could then fly on easyJet to Geneva. In this hypothetical example, the passenger might not have been aware of the existence of all three airlines but because of cross promotion, the brand name of each carrier was expanded as was the route network. All three airlines would receive financial compensation without the complications associated with a code-share agreement.

As interactive marketing agreements form over time, do not be surprised if global LCC alliances begin to form. Eventually, interactive marketing agreements might mature into code-share agreements among LCCs but for the time being, this is not likely.

Hub-and-Spoke Service

Airlines have tried to maximize the number of passenger seats filled by eliminating unprofitable routes and concentrating on lucrative high-density routes serving large-and medium-size airports. The **hub-and-spoke system** establishes a number of routes connected to a central hub airport where passengers are collected from feeder flights, transferred to other flights on the same line, and then carried to their ultimate destination. The traffic pattern at a hub airport consists of closely spaced banks of arrivals and departures. Passengers land at the airport and transfer to another flight within 40 to 50 minutes. Although Delta used Atlanta as a hub long before deregulation, most of the other majors adopted this practice during the 1980s, because it permits service between more origin and destination points. Moreover, passengers can be retained by the airline for longer distances, raising the average revenue per passenger. In most cases, carriers choose a busy airport as a hub so they can offer passengers a wide variety of possible connections and capitalize on already heavy origin and destination traffic. About three-quarters of the passengers at Atlanta and one-half at Chicago, Denver, and Dallas–Fort Worth arrive merely to change planes for other destinations.

Hub-and-spoke networks are appealing to air carriers for several other reasons. Most noteworthy, they allow carriers to provide service to a larger number of city-pairs, without a commensurate increase in cost, than do point-to-point networks. For example, a carrier needs a minimum of 10 flights to serve 10 city-pairs in a point-to-point route system. If operated through a hub, however, those same 10 flights can serve as many as 100 city-pairs. Also, by concentrating the flow of passengers toward a central point, hubs make possible service between city-pairs that do not have sufficient passenger flows to support nonstop service in a point-to-point system. Passenger demand for nonstop service also gives the carrier an opportunity to charge higher-than-average fares on a route that it monopolizes. Finally, as a result of the extensive networks made possible by hubbing, carriers are able to attract passengers and, with tight scheduling, to meet passengers' preference for single-carrier service. This also gives the hub carrier a marketing advantage.

The freedom to enter new markets also allowed carriers to adjust their route systems to balance their traffic flows. For example, United, which operated primarily in east–west markets, added more Sunbelt cities to take advantage of increased demand for travel to those cities during the winter.

Because hub-and-spoke operations rely on tightly scheduled arrivals and departures, congestion and delay can occur during peak hours, especially at the airports in Chicago and Atlanta, which serve as hubs for several major airlines. Moreover, the slots at these airports are on half-hour time periods. To maintain their position on CRSs, airlines tend to cluster arrivals and departures in the first 10 minutes of their slots, intensifying demands on an already full air traffic control system. Bad weather, requiring instrument flight rules, can make delays much worse. The additional costs attributable to congestion and delay, such as fuel, missed connections, and customer dissatisfaction, have caused some airlines to establish hubs at less busy airports.

Although the hub-and-spoke system has traditionally been very successful for the major airlines, new cost-cutting strategies implemented after September 11, 2001, have altered this success. Airlines have been forced to reduce frequency to many destinations and, in some cases, to drop services altogether. This has resulted in less connectivity taking place at the hub airports, meaning passengers are spending more time in airports waiting to transfer to the end destination. To a certain degree, major airlines are going back to the point-to-point system, but this new phase is defined as the "dehubbing" process. As of 2006, it is difficult to determine if dehubbing will be a short- or long-term measure to reduce costs.

Advertising and Sales Promotion

Before deregulation, clever advertising and sales promotion material, extolling the service virtues of one carrier over others, tended to be the prime basis of most advertising. Ads focusing on schedule, frequency, and equipment also were run. The principal difference between carriers, however, was the level and standard of service on the ground and in the air. Pricing was a secondary feature under the relatively tight rein of regulation. Today, most airline advertising has changed considerably. The emphasis has shifted from service to a combination of price, destination, and frequency.

TABLE 10.2 Current Trends Impacting Airline Marketing

Ancillary Revenues	Globesity	Storytelling
Authenticity	Green Skies	The Attention Economy
Brand Spaces	Gulf Gullivers	The Conversation Economy
BRIC's	Hi-Speed Rail	The Expectation Economy
BYOD (Bring Your Own Device)	Hometrotting	The Experience Economy
Business Class-only	Local	The New Normal
Co-Branding	Long-haul, Low-cost	The Next-11
Co-Creation/Crowdsourcing	Mass Globetrotting	The Social Flight
Connected Crew	New Frontiers	The Third Screen
Connectivity	Newbie Travellers	Trading Up and Down
Corporate Social Responsibility	No-Frills Chic	Transparency
Customer Experience Mgt	Perkonomics	Transumers
Democratic Travel	Personalization	Travel 2.0
Digital Nomads	Prosumers	Tryvertizing
Digital Natives	Real-Time	(Un)bundling
Diversity Feeder Businesses	Right Sizing	Upgradia
Female Flyers	Self-Service Nation	Value Players
Flying Families	Signs of the Economic Times	Virtual Connecting
Format Competition	Short-haul Convergence	WHOP's
FST TRCK	Social Media	
Future:Tense	Sustainable Travel	

Source: Adapted from Airlinetrends.com.

THE FUTURE OF AIRLINE MARKETING

The marketing "industry" continues to evolve and many experts believe a new era of marketing is upon us when it comes to airline passenger marketing. The new buzz word being used in marketing circles is "trends" as they are the result of changing cultural, technological, and economic factors that directly influence the airline's ability to offer diverse products and services that ultimately attract passengers. Table 10.2 highlights current trends impacting airline marketing.

Today's airline passenger is more educated than ever as a result of access to different technologies, social media, etc. No longer can airlines dictate to the traveling public what they want. In today's modern environments, it is the customer base or potential customer base telling airlines what types of products and services they demand and how much they are willing to pay for it. As a result, airlines are reinventing the ways in which they market to the customer base by investing in tools to handle the digital marketing environment they now operate in.

As of 2014, airlines must focus on innovative technology in order to stay ahead of the competition as the consumer market is driving innovation which ultimately leads to the Passenger Experience (PaxEx). At time of writing, airlines are focused on the following trends and developing marketing initiatives to address such as: “me-centric” passengers; self-service and real time information; passenger-centric airline business models; airlines as retailers; quiet zones, virtual classes, social flights; onboard hospitality (flight crews as concierges); airlines as cultural ambassadors; branded amenities (teaming up with consumer brands); Inflight Entertainment (IFE); learning from other business sectors; and eco-friendly airlines.

It is important to note that trends are often interpreted as fads and this can have a large impact on an airline’s success both positively and negatively. On the positive side, if an airline is taking advantage of current trends, the opportunity to attract a customer base is good. However, on the negative side, the infrastructure costs associated with trends is extensive and an airline must have access to the required resources to take full advantage. Trends often make future planning a difficult process.

The future of airline passenger marketing is unpredictable and successful models will be developed and implemented with adaptations from other industries. For example, the author of this book will not be surprised if airlines of the future adapt the Amazon.com business model for marketing. Seattle-based Amazon.com is the world’s largest on-line retailer with strong merchant partnerships and exclusive marketing arrangements in place. Although the marketing model cannot be duplicated 100 percent, there are many successful tools and strategies than can be applied in an airline environment.

KEY TERMS

business-class service

CATO

code sharing

computerized reservation system

consumer-oriented period

CTO

Departure Control System

economies of scope

frequent-flier program

FTO

hub-and-spoke system

intensive growth strategies

interactive marketing agreement

JAMTO

market segmentation

marketing

marketing mix

passenger name record

Passenger Service System

PaxEx

place

price

product

production-oriented period

promotion

sales-oriented period

uncontrollable variables

REVIEW QUESTIONS

1. Define *marketing.* What is meant by the *production-oriented period* in airline marketing? The *sales-oriented period?* The *consumer-oriented period?*

2. Briefly describe the uncontrollable variables in the marketing process. Why are they uncontrollable? How might they conflict with marketing plans? Give an example.

3. How would you define the airline *product?* How is it different from other products? In what sense do airlines basically sell the same products? What are some unique characteristics of the airline product? What effect do these have on marketing?

4. It can be said that price was an inactive element in the marketing mix before deregulation. Why? Do you think that the carriers would prefer to compete on the basis of the other three Ps alone, as in the good old days? Why or why not?

5. What are the basic factors that affect price? What is *promotion?* Give some examples of how promotion is used to inform, persuade, and remind. What are the three basic types of airline sales outlets? Define *FTOs, CATOs,* and *JAMTOs.* What is the main function of an airline's reservation system?

6. Why did the number of travel agencies increase so significantly during the 1980s? What are some advantages to the consumer of using a travel agent? To the airline? What are some disadvantages to the individual airline?

7. Under the consumer-oriented marketing concept of the 1970s and 1980s, market research has played an important role. Why? What is meant by *market segments* and *target marketing?* How can an airline market be segmented? (*Hint:* Consider trip purpose.) Give some examples of segmented business-travel markets. What methods are generally used by the carriers to penetrate existing markets more deeply? Give some examples of in-flight and ground-product development.

8. What is meant by *selling present products to new target groups?* Discuss the newer target markets in terms of their marketing potential and the marketing mix needed to service their individual needs.

9. How do *economies of scope* differ from *economies of scale?* What are *computerized reservations systems?* How

have they become an important marketing tool? Discuss the importance of travel agents in marketing air transportation services. What is the purpose of frequent-flier programs? Of business-class service?

10. What are the differences between code sharing and an interactive marketing agreement? What is the primary purpose of the hub-and-spoke system vs. the point-to-point system? Why are such systems appealing to the carriers? How has advertising and sales promotion changed since deregulation?

11. What are the differences between a CRS/GDS and a PSS? Explain the three systems that comprise a PSS.

12. Discuss the future of airline passenger marketing. What is meant by "trends" and how do they impact an airline's ability to market to customers?

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