Factors that affect the demand for air transportation tourism essay

Environment, Air

Chapter 2

Literature Review

2. 1 Introduction

The purpose for this work is to review the literature on factors that affect the demand for air transportation and, ascertain what the airline companies did to their management in their effort to stick to the changes in the desire for air transportation. To promote the demand for air transportation, airlines implemented different advertising and marketing strategies. With the development of technology, airlines have taken marketing to digital era; promotion and online sales are among the strategies of marketing that are being used by airlines globally.

2. 2 Markets

2. 2. 1 Definition of a Market

Armstrong & Kotler (2009) and Quester, McGuiggan, Perreault & McCarthy 2007) definitions of marketing always come from people as advertising and selling. Though, they afterward show that advertising and selling are only basics of marketing.

The first certified definition of marketing was accepted in 1935 and was presented by the National Association of Marketing Teachers as "…those business activities involved in the flow of goods and services from production to consumption" (Gunlach 2007, p. 243). In 2007, the new certified definition of marketing was given by the American Marketing Association. " Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, client, partners, and society at large" (Keefe 2008, p. 29). These different definitions confirms how the idea of marketing has modified over the years from the concepts of transaction like distribution, promotion and pricing to the concepts of relationship such as the significance of commitment, risk and trust (Baines, Fill & Page 2008).

2. 2. 2 The Airline Marketing Environment

The airline business in terms of the ability to make profit according to different business experts (i. e. Belobaba, Odoni, and Barnhart 2009; Doganis 2006) was explained as being recurring and fundamentally unstable. Doganis (2006) portrays the business as also being consistently battered by developments and restraints both externally and internally. Over the last forty years, the airline business has gone through a five to six years of satisfactory gains which was shortly followed by two to four years of diminishing gains (Doganis 2006). The net profits of the world airlines as commented by Belobaba, Odoni, and Barnhart (2009) have been recurring and very variable over the past three decades after the 1978 deregulation Act. In Figure 1, sources of data from the Air Transport Association (ATA) have also shown the recurring nature of the business in which the amplitude of the reoccurrence is seen to be getting bigger and bigger over the past thirty years.

According to Doganis (2006), the airline business in the new millennium has had to cope not only with many unfavorable external shocks but also with changing and possibly shaking internal developments. Much research has examined the airline business during and after deregulation. According to Doganis (2006), the business has been reshaped in several ways; some of which are the distribution and selling online, transfer of state owned carriers and new low cost no add-ons carries are just some of the vital developments that have been putting impacts on the airline industry at the time of falling air fees.

Competition from carriers with low cost and the decreased readiness in travelers for business to pay for a higher fee charged by full fee airlines continues to play a part in a major way to the poor financial functioning of airlines with full fare. The performance of poor finance still remains as one of the greatest challenges faced by today by the airline industry (Belobaba, Odoni, and Barnhart 2009). Other outside factors such as Iraq war in 2003 and the SARS outbreak have also influenced many airlines not in the United States. Routes that leads to and passes through the Middle East took the biggest blow, affecting many different airlines round the world while airlines in East Asia such as Cathay Pacific, Thai airways and Singapore airlines saw the levels of their traffic collapse over 50% and finally took many months to get back (Doganis 2006).

The universal airline business today comprises of over 2000 airlines managing more than 23, 000 business aircraft, providing service to more than 3700 airports (ATAG 2008). The world's airlines in 2007 transported more than 2. 2 billion passengers in 29 million scheduled flights (IATA 2008). The need for air travel is very much connected to the economic climate of the world. When the economy slows down, the increase in demand for air traffic and that of air freight also slows down (Doganis 2006). The major stimulant for air travel is the growth of the economy. On the average, 5-6% of yearly growth in air travel has been fed by an average of 2-3% yearly growth in Gross Domestic Product (GDP) worldwide (Belobaba, Odoni, and Barnhart 2009).

Though the growth in air traffic is connected with the performance of the world's economy, the airline business on its own is a major force in the economy, with respects to the way it operates and its impact in industries that are related such as tourism and manufacturing of aircraft (Belobaba, Odoni, and Barnhart 2009). For instance, airlines in Singapore in 2009 transported to and from New Zealand, 470, 000 passengers and the tourism in New Zealand have grabbed the opportunity to advance its tourism. Tourism New Zealand had in recent times entered into an agreement with airlines in Singapore to jointly grow and advance tourism to New Zealand under the service of airline in Singapore (Tourism New Zealand 2009). This has clearly confirmed how the operation in one airline can affect the business in another sector such as the tourism business. Taking a cursory look at the future of airline business, Doganis alleged that the long term view for air transport seemed good, proposing that the long term predictions for the growth in air traffic making reference to the world's GDP, would be around 5% over the first 20 years of the present millennium. Doganis (2006) also drew conclusions that the factors that affects the performance of airlines' finance may vary between markets or different regions.

Consequently, the airlines' performance in a specific region may fail to match to the global economy (Doganis 2006).

In combination with the assumption of Doganis (2006), Belobaba, Odoni and Barnhart (2009), also concurred that based on history, the yearly growth in air transportation has been almost two times the yearly growth in Gross Domestic Product. In spite of the positive predictions in yearly traffic growth, Belobaba, Odoni, and Barnhart (2009) also claimed that after 30 years of deregulation and following liberalization of many other markets round the globe, the business remains delicate.

2. 2. 4 Marketing process

The planning process of marketing which includes all features of managing marketing consists of the analysis of marketing, strategy development and the application of the market mix (Dibb 2002; Rankin 2009) is broadly embraced by industries from all different type of business and is extensively discussed in business publications, journal articles and marketing texts. The reassessment of planning theory and practice for marketing have seen a huge number of studies such as Greenley and Bayus (1994), Peter and Donnelly (2004), Ardley (2006), McDonald (2007), Armstrong and Kotler (2009). The planning for marketing was found not as direct as the strict literature suggests. Greenley and Bayus (1994) reviewed on the decision making of marketing planning between industries. The result indicated that by making use of a multifaceted approach, industries were made to understand the process of marketing planning

The objectives of marketing can be achieved by using strategies for marketing which are largely concerned with the marketing mix (McDonald 2006). According to Peter and Donnelly (2004) the marketing process included calculated plan, marketing plan, implementation and control and marketing information system and marketing research. Marketing was also stated by Armstrong and Kotler (2009), as the process by which companies create values for customers and build strong customer relationships in order to capture value from customers in return. This process as stated above involves understanding the customer needs and wants and the marketplace, the design of the market strategy driven by the customer, the making of an incorporated marketing program that offers superior value, enabling customer relationships and lastly, capturing values from customers.

Ardley (2006) conducted an examination on a narratological approach to the planning of marketing and found out that the narratives used by the marketing managers in the examination were intensely convinced by the constructing of meaning and act in the setting of an organization. The study done by Dibb (2002) also showed that the efficiency of the process is not certain depending on how industries enact the process thus the planning for marketing must be dependent on a clearly organized and well presented process.

2. 2. 5 Marketing Strategies and Practices for Airlines

Though the products and services in the airline business are varied with various structures of market, sectioning markets by class flow is not longer a suitable indicator for recognizing varied customer segments (Teichert, Shehu and von Wartburg 2007). Also, the level of air service in these different products is rather the same between airlines (Doganis 2002). Airlines distinguish products and services from other airlines in competition, according to Doganis (2002), by being the first to release new types of aircraft, put in more on ground services and in-flight catering, increase rate of service and most essentially by price competition. Hanlon (2007) specified that by doing a marketing campaign, a number of passengers can be increased without any price changes. This section of the literature will consider some of the marketing strategies and practices of airline which includes online sales and promotion, advertising, cost cutting, management of brand and recurrent flyer programs used by airlines so as to get new passengers and keep the ones that are already their customers.

2. 2. 5. 1 Market segmentation and strategies

In the airline business, the decisions that customers make are usually based on flight schedule, price of ticket and conditions, the quality of service, the socioeconomic characteristics of travelers and the purpose of the trip. As market and the buying behavior of customers change, it is essential to access the nature of the behavior of the customer in the future (Teichert, Shehu & von Wartburg 2008). As part of the strategies of the airline business, airlines are first of all needed to section the market so as to permit efficient marketing to be used. Subdivision of the market has been reviewed by many researchers (for example Chin 2002; Palmer & Miller 2004; Teichert, Shehu &von Wartburg 2008; Claussen & O’ Higgins 2010). There is a wide accord among the investigators that subdivision is a basic component of the strategy of marketing. Subdivision has been observed to contribute in understanding customers, adaptation of the product mix, distribution of resources, in addition to the development and assessment of new products and market approaches (Palmer & Miller 2004).

Conventionally, the airline market is sectioned into economy and business passengers; nevertheless, the research by Teichert, Shehu & von Wartburg (2008) showed that depending on flight class as the criterion for subdivision may result in ineffective offerings and marketing guidelines. The researchers suggested the leisure and business market with the new subdivision of effectiveness, comfort and price-oriented offerings for future market success of airlines. On the other hand, the leisure and business market can also be divided into different sections with various features and demands. Claussen & O' Higgins (2010) sectioned the business market based on its position and the level of revenue. Nevertheless, the leisure markets have been sectioned into service oriented customers, flexibility and price.

As there is an increase in distance and travel time, the frequency of flight might reduce and the number of airlines that provide straightforward flights drop. This is because these airlines tend to make more profit from short distance trip especially from those passengers on vacation. Therefore, the buying behavior of customers could be influenced by these factors. Market sectioning plays an essential part when constructing the strategies of marketing as failure to properly section customers may result in misinterpretation of the customer's behavior and lastly inefficient strategies of marketing.

Advertising

One of the communication methods of marketing used by airlines is advertising. Shaw (2007) has studied what advertising can and cannot do for airlines. The research found that the advertising can be used to upgrade the brand values and image of the airline but cannot be used to brain wash the customers if the service delivered is below standard as the customers will tell the difference between what is being advertised and their experience. In addition, rather than being a tool for marketing, advertising has also been used as a form of communication in organizational crisis. Research by Cowden and Sellnow (2002) looked into the use of advertising as part of the image restoration strategies of Northwest Airlines related to the 1998 pilots' strike. Squalli (2009) researched the relationship between the expenditure of airline advertising and the safety perception of customers and found that airlines do not increase advertising in relation to accidents but increase it to portray the aspect of safety and discount promotions in different seasons.

Gilbert, Child and Bennett (2001) examined various strategies of advertising specifically of low cost carriers in Europe. The research found that most of the low cost carriers follow a means to success that is learnt from the United States low cost carriers which believe that it is necessary to create the awareness of customers in the chosen market. Examples of media used by these carriers for advertising include magazines, radio, poster sites and newspapers. Advertising plays an essential role in airline business. Many businesses and airlines have already used advertising to boost their image and brand and create the awareness of the products to the customer which in turn encourages more customers. In some cases, advertising is also used as a part of the crisis communication tool of industries.

Online Sales and Promotions

Businesses are making use of the immense growth in the internet to unequivocally sell their products. The internet is seen by airlines as an area of great potential growth especially when airlines started to give discount for online bookings. Gilbert, Child and Bennett (2001) found that many low cost carriers gave discount for booking online because the online service is easy to access, provides a cheap cost of operating and is an exceptional means of advertising and distribution. The behavior of the customer and benefits of using the internet as a channel to buy flight tickets have been reviewed by many investigators (for example Brunger & Perelli 2008; Kolsaker, Lee-Kelley & Pui Ching 2004; Sonal & Preeta 2005; Toh & Raven 2003). Sonal & Preeta (2005) found that exclusive features of the internet have encouraged the progress of electronic trade and increased occurrence of net-based sales promotion. The features include interactive medium, global access, effectiveness of cost, and possibility of customization. Sonal & Preeta (2005) also found that the existence o the internet also increases the efficiency of other communication tools.

Brunger & Perelli (2008) examined the effect of the internet on the fees of airline based on the viewpoint of customers. The study showed that internet extent of search and improved personal control while lower fees are a side effect of wider and more detailed search. Toh & Raven (2003) studied the importance of using strategies of Integrated Internet Marketing (IIM) by airlines. The research found out that using the strategies of IIM have increased suitability for customer, gave lower price, and reduced unfairness that customer might experience when using travel agents. Though the web is used as a substitute to promote and allocate the products, research by Kolsaker, Lee-Kelley &Pui Ching (2004) observed that risks which include the privacy concern, security and poor customer services have been found to be associated with the willingness of customer to purchase ticket through the internet. On the other hand, the research also stated that suitability which includes site usability, time savings and information provision can encourage the willingness of customers. It can be observed that the internet is largely used by airlines and is becoming an essential and efficient communication tool in marketing. The features of the internet provide a substitute option of searching for information and online buying. Internet reductions have captivated the attention of customers especially for those who follow the low cost carriers who used internet as allocation channel and to lessen their cost of operation which can in turn raise the demand of passengers especially those that are price elastic.

Pricing

The biased pricing and distribution of price have already been studied by many researchers such as Chi & Koo (2009), Hanlon (2007), and Martin & Koo (2009). The factors that influence the variations of everyday air fees have been studied by Martin & Koo (2009). The research revealed that the price distribution was affected by demand in the market and pressure on competition developed from the presence of low cost carriers; however, the legacy airlines seem to use a more insistent high-low strategy of pricing in reaction to the presence of low cost carriers. Chi & Koo (2009) also carried out a research on the pricing behavior of airlines in the United States airline business. The research observed that in the same market condition, the pricing techniques among these United States airline differed.

According to Hanlon (2007), the legacy airlines have occupied high market shares and might bring in a price cuts so as to destabilize their counterparts. These practices were used seriously by legacy airlines particularly after the 1978 deregulation. The air transport market competition has gone up while the real air fees have dropped as observed by Chi & Koo (2009). Airlines have offered reductions in their fees in order to get more customers in some market. Shaw (2007) has studied some of the practices of airline on the reduction in air fees. The study showed that the reduction in air fees normally come with limit such as the conditions for minimum and maximum stay, special fees, tour package and standby ticket. In the market of these days after the development of low cost carriers, the need for air travel has considerably increased. Reacting to the changes in the buying behavior of customers, some airlines with full fees have developed new strategies for pricing such as reduction ticket with boundaries together with higher quality of service so as to be in competition with low cost carriers.

2. 3 Airline Customers

Today, airlines are more and more involved in the extremely competitive business. This part examines airline customers in various markets such as;

leisure and business so as to make sure airlines have an accurate target market.

2. 3. 1 Business customers

Many airlines have taken those travelers who go for business as being at the peak of their marketing efforts since the benefits received per distance traveled by a passenger had generally been quite bigger than those gotten from those who travel for leisure (Shaw 2007). Airlines normally provide greater frequencies for flight for passengers that take the business route since these passengers have been observed to place higher value on their time (Dresner 2006). Claussen and O' Higgins (2010) also suggest that on some business trips where the demand for business class flights reached the greatest point such as the London to New York route, airline companies offered premium flight to this business market by eliminating the first class and less profitable economy class cabins.

For that reason, aiming right customers in the business market is essential specifically during falling periods which many establishments have a demoting policy in order to economize money specifically using the First Class and Business Class. As shown by Shaw (2007), airlines will have to aim at those who made the decisions about the corporate travel policy of the company or even managerial secretaries by showing the advantages of paying to travel in the best cabins of the aircraft. In spite of the fact that airlines mainly section their customers into economy and business passengers and align the strategy of their product with suppleness in business market and price for passengers embarking for leisure trips, a study by Teichert, Shehu & von Wartburg (2007) claimed that in the well spirited and intelligibility market, separation of airline passenger markets into leisure and business class did not adequately take the preference extensiveness among customers and could lead to a misinterpretation of the preferences of the customer. Passengers that travel for business are observed to become very appealing to airlines because the carrier will make a huge income from this market if they can set up and sustain loyalty of these passengers. Getting acquainted with the need of customers and their buying behavior is vital to effective marketing (Peter and Donnelly 2004).

2. 3. 2 Leisure Customers

As low cost carriers have come into the business and increase their market share, the proportion between business travelers and leisure travelers as travelers that travel on leisure accounts for a larger percentage of total traffic (Dresner 2006). These fluctuations in the market have led to tougher competition in the airline business. Dresner (2006) and Shaw (2007) claimed that the increase in the business of leisure passengers was influenced by the increase in the number of carriers with low cost, infrastructural development of air transportation and increase in non-refundable income. Some investigators (Dresner 2006; Njegovan 2006; Papatheodorou & Lei 2006) showed that leisure passengers were normally considered as highly flexible in price and time rich than business passengers. That is to say, charging reduced prices on routes for vacation could maximize the revenues of airline.

According to Shaw (2007), the income earned per distance covered by a passenger on leisure trip is lower than that of a passenger on business trip;

on the contrary, these passengers do not need regular service and normally travel during the peak periods in different seasons. This earned income allows airlines to use comparatively large aircraft which can carry more load so as to reduce the difference between available and income per cost of distance traveled by passenger. Nonetheless, Njegovan (2006) claimed that the need for air transportation was reasonably not elastic as regards air fees; nevertheless, the need was rather sensitive to the fluctuations in the total expenditure of the customer.

Doganis (2002) also supported the above claim that when forecasting the need for air services, the need for all other types of expenses that passengers would experience must also be forecasted. In addition, Dresner (2006) observed that the percentage of passengers that embark on business and leisure trips did not cause airlines to make considerable modification to their operations while Doganis (2002) argued that mixing passengers that travel for leisure and business purposes has significant effects on marketing and pricing strategies. By comprehending the need of the leisure market, airlines will have the ability to create the business plan in line with the market demand. However, the airlines must make sure that air travel will be chosen and the vacation is booked within one of the routes of the airline rather than that of a competitor.

2. 4 Demands for Air Travel

This section seek to identify the different factors that affects the demand for air travel and the strategies airlines have embraced to encourage the demand for air travel. The demand for air travel occurs from different factors. Current developments towards international air services liberalization has permitted many low cost operations to spread into many new markets, resulting in falling air fees (Doganis 2006). In addition to the depreciating air fees, an increase in personal income has led to an increase in demand for leisure tours. According to Chin (2002), liberalization of trade, natural growth of population, globalization and accelerated economic growth has had a positive impact on the demand for business travel. In combination, Doganis (2006) also made a remark that the growth in demand for air traffic and for air freight seems to be closely related to the economic climate of the world.

On the other hand, Chin (2002) noted that the demand for air services depends on the volume of air traffic on the particular route. The factors that affects demand on particular route is again linked to the comparative attractiveness of the destination of the traveler, the exchange rate of the currency, comparative cost of holidays, extent of migration as well as the price of goods. Again, Chin (2002) specified that the nature of commercial and industrial activities surrounding the environs of the airport has also played a part on the influences of volume in business traffic. Most especially the pattern and growth of demand of any route are affected by the demographic and economic feature of the market at both ends of the route (Chin 2002).

In spite of all the different factors stated above, many airlines have agreed to use the Frequent Flyer Program (FFP) to encourage the demand for air travel. FFPs are intended to achieve a high degree of brand reliability specifically among business travelers and at the same time to draw primary demand (Brancatelli 1986). According to Lederman (2007), the improvements to an airline's FFP are also related with the increase in its demand on routes in which the airline is specifically dominant on.

2. 4. 1 Loyalty Programs

Loyalty plans form part of an overall marketing strategy for airlines and can be more advantageous than other forms of marketing. Hanlon (2007) provided three types of the loyalty plans which are the Frequent Flyer Programs (FFP), Travel Agency Commission Overrides (TACOs) and corporate discount. On the other hand, the FFP deals with passengers while the other two focus mainly on travel agents and industries individually. Generally, the FFPs were explained by many authors (for example Chin 2002; Hanlon 2007; Long, McMellon, Clark & Schiffman 2006) as the most popular and successful marketing strategy created by airlines so that the loyalty of travelers are induced and captured.

The FFPs give incentives to the passenger for repeat patronage of the services of a specific airline or airlines through associations by offering upgrades and free travel to the passenger. According to Chin (2002), FFPs are majorly designed to achieve a high degree of brand loyalty specifically among passengers who travel for business. The FFPs are also made to get the attention of primary demand, efficiently dissuade the competition of new carrier, and give airlines direct and effective tools to communicate with their customers. In addition, FFPs are made to protect market share, erosion of profit and revenues as a result of the FFPs of their competitors. Long, McMellon, Clark & Schiffman (2006) also contributes by saying that the frequency marketing program rather than FFPs in airline business is also broadly used by many types of business such as credit cards, hotels, car rentals, and telephone companies.

Despite the fact that the FFPs are usually used by airlines to capture the loyalty of customers, a study done by Whyte (2003) claimed that the repeat purchase behavior of some customers create a negative impression of loyalty as they do not want to waste the points they have gained and repurchase the services to get enough points for a free flight. The efficiency of FFPs used in many airlines as a marketing tool has been researched by some researchers (e. g. Chin 2002; Long, McMellon, Clark & Schiffman 2006). Passengers that travel for business seem to be more interested in the FFPs while passengers on leisure trip are more interested with the real benefits and onboard treatment (Long, McMellon, Clark & Schiffman 2006). Chin (2002) found that the network coverage of airline, duration and distance of flight, features of an individual FFPs and the market share of airlines could affect the efficiency of FFPs.

In terms of demand, study on the effect of international FFPs on local airline demand by Lederman (2007) indicated that improvements to an airline's FFPs have the greatest influence on demand and fees particularly on routes that set out from an airline's most heavily occupied airports. The study done by Chin (2002) also showed that the FFPs are more efficient in increasing the demand within the group of FFPs member rather than among the non-FFPs members. It can be seen that the FFPs are seriously used by airlines to make bigger their market and build the brand loyalty. Passengers on business trip seem to be more concerned with the FFPs not only through the frequent flyer miles but also from access to benefits gained from airline's partners, priority seating and airline's lounge. From the total results, the FFPs are one of the most efficient instruments for marketing used by airlines and have been found to increase the passengers demand.

2. 4. 2 Industry Supply

When there is a demand, a supply must also be available to cater for the needs of the demand. The airline industry supply side factor includes factors such as frequency of service, availability of seat, time of departure and arrival and number of in-transit stops influences the distribution of demand between competing carriers and play a major role in affecting the specific demand of airline (Chin 2002). Increasing the frequency of departures on a specific route can enhance the suitability of air travel for passengers. By doing so not only does the high motivation of demand in air travel is satisfied, the airlines were also able to benefit from higher traffic and incomes associated with this increased frequency (Belobaba, Odoni & Barnhart 2009).

According to Doganis (2006), since restraints in the growth of traffic can be caused by the insufficiency of the aviation infrastructure in several parts of the world, the sustained growth of traffic at around 5% a year will put the existing infrastructure on pressure. The infrastructure insufficiency will eventually limit the supply side of the airline industry as insufficient infrastructure such as runways slots can possibly affect the number of flights departing and arriving from the airport thus, affecting the supply output of the airlines.

2. 5 Conclusion

The findings from this review suggest that getting to know the customer behavior is a vital point to success of airline business. Airlines need to understand the need of customers in various markets and provide the right product for the customers. However, the behavior of customer may also change with the effect of the economy. Thus airlines need to have a working plan in order to support the change of travel pattern