



Willingness to pay for preferred seat selection on UK domestic flights

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ABSTRACT

This study employs a stated preference method to elicit and explore customer willingness to pay for airline ancillary products, specifically seat selection fees. Bivariate correlations are used to investigate linkages between passenger attributes and opinions with stated values for seat selection under a range of scenarios on UK domestic services.

The sensitivity of consumers to ticket fares, for both business and non-business travel, is found to be negatively correlated with the stated willingness to pay for their preferred seat. On the other hand, customer perceptions of airline reputation and convenience of flight times is positively correlated to willingness to pay for seat selection on non-business travel. Additionally, the previous purchase of a seat selection product is strongly correlated to future willingness to pay for seat selection on both business and non-business travel. This is deemed to be the result of consumers being better able to value the benefits of their chosen seat from past experience.

This research expands on the current literature regarding the growing importance of airline ancillary revenue. The results provide an evidence base for the development of revenue management and the marketing of seat selection fees as an ancillary product.

1. Introduction

In 2015, global airlines reported record annual profits in excess of \$35 billion (IATA, 2016). Increasing profitability was driven by falling input costs - fuel costs reduced from 33.1% (2012–2013) to 19.7% (2015) of operating costs-, robust passenger demand and increasing ancillary revenue. Despite record profitability, the global airline industry is notorious for being highly competitive with ticket fares close to marginal costs (Tretheway and Markhvida, 2014; O'Connell, 2011).

Ancillary revenues can be defined as “non-ticket revenues” (Wittmer et al., 2012). Broadly, they are categorised into two activities: “a la carte pricing” and “purchasable supplementary services” (Holloway, 2008; Lovelock et al., 2009). A la carte pricing relates to the unbundling of product attributes that were formerly incorporated within the base fare (check-in baggage, in-flight hospitality and seat selection). Thus, aided by the growth of the internet and airline reservation systems, passengers can pick and choose which services they would like to utilise and allow airlines to offer competitive base fares. Supplementary services are a broad range of products and services that augment the core product [airline fare] by facilitating its use or enhancing its value and appeal (Lovelock et al., 2009). Examples of supplementary services offered by airlines include travel insurance, environmental products (carbon offsets) and airport car parking.

Ancillary revenue generated from non-core activity (ticket sales) has

become an increasingly important and growing aspect of an airline's revenue stream for a variety of interconnected reasons: falling revenue yields on tickets sales, competition on base fares, ‘unbundling’ of fares by low cost carriers (LCCs) and online comparison websites (O'Connell, 2011). Globally, airline ancillary revenues have risen from \$2.5 billion in 2007 to \$38.1 billion in 2014 (IdeaWorksCompany, 2015). The introduction of new service fees can increase revenues but they may also reduce costs; an example being checked baggage-fees reducing the volume of hold-luggage and thus associated handling fees borne by the airline (De Wit and Zuidberg, 2012). Waguespack and Rhoades (2014) identified the growing importance of baggage fees to US airlines analysing the increase in baggage fee revenue over the period 2007–2012. For example, in the examined five-year period Delta Airlines and US Airways increased revenue related to baggage fees by 796% and 1760% respectively.

Airlines continually seek to maximize the potential revenue from existing revenue streams and develop new sources from further unbundling - developing new products and services. These developments involve a complex balance between revenue management and customer satisfaction (Mumbower et al., 2015; Tuzovic et al., 2014). Setting the price for ancillary services involves balancing any potential revenue increase without adversely leading to a decline in basic ticket sales. A trend within the airline sector has been to disguise ancillary revenue increases within ever more complex products or offering these new

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ancillary products free to preferred or elite customers (Garrow et al., 2012). Despite the growing importance of ancillary revenue to the airline industry business model, academic research to date has been limited.

This paper involves a study of the UK domestic aviation market. Previous academic study has primarily focussed on the US domestic market (Scotti et al., 2016; Mumbower et al., 2015; Tuzovic et al., 2014; Garrow et al., 2012) or international travel: intra-European (Wittmer and Rowley, 2014) and South East Asian routes (Chang and Sun, 2012). The UK domestic market is characterised by short sector lengths, strong competition (between airlines and modes), a range of airline business models (LCCs and full-service network carriers (FSNCs)) and single-class all-economy (coach) seating. These features are characteristic of other European domestic markets.

The UK domestic aviation market represents a relatively small proportion of total UK aviation sector – only 8.5% of total terminal passengers in 2016 (DfT, 2017). Between 2006 and 2016 domestic aviation activity has fallen by 13% whilst overall UK aviation activity has grown 17.8%. UK domestic air routes are diverse and range from feeder routes between UK regions and London Heathrow, inter- and intra-regional air routes and small public transport operations supported by public subsidy (Public Service Obligation).

The UK domestic aviation market is served by a range of airline operators and business models from the LCCs such as easyJet and Ryanair, subsidiary airlines of FSNCs British Airways and Aer Lingus through to the domestically focussed airlines Flybe and Loganair.

The customer's willingness to pay (WTP) for economy (coach) seat selection; the reasons being three-fold. Firstly, previous studies into WTP for seat selection have only examined WTP for the purchase of products with added passenger value *ex-post* their introduction e.g. premium coach (economy): extra leg-room, priority boarding, larger seat pitch (Hinnen et al., 2015; Mumbower et al., 2015) or, examined customer preferences and perceived fairness of ancillary services, e.g. the introduction of fees for previously free services (Waguespack and Rhoades, 2014; Wittmer and Rowley, 2014; O'Connell and Warnock-Smith, 2013). Secondly, passenger seat selection is ranked as the most important, and highly valued, of purchasable supplementary services for both long- and short-haul passengers (Wittmer and Rowley, 2014). Airline seating policies are a highly emotive topic and have recently been examined by the national aviation regulators (CAA, 2018).

2. Methodology

The Bristol Online Survey platform was used to create an online 14-question self-completion survey. The survey consisted of three parts. First, demographic data of the respondent was obtained and their past travel history. The second part consisted of six rating exercises where participants were asked to rate, on a linear 10-point scale (1 = not very important and 10 = very important), the relative importance of factors in the ticket buying decision making process when comparing between two airlines: airline reputation, frequent flyer program (FFP), ticket price, price of ancillary products, flight times and convenience of connections. In the final section of the survey, respondents were asked in various scenarios to choose a preferred seat on an aircraft (with the aid of a generic A319 seat map) and state a monetary value for a seat they had chosen. Participants were asked to state their Willingness to Pay for a seat selection production unbundled from the air fare. The survey questions were pre-screened by two industry stakeholders with a working knowledge of airline booking and revenue management with the objective of assessing clarity, appropriateness and breadth.

Survey participants were recruited via a frequent flyer website focussed on both business and leisure travel. The website was chosen as a convenient vehicle to recruit passengers. The majority of respondents were not part of a Frequent Flyer Programme (see Table 1) and thus the results can be deemed generalisable amongst all passengers. A link to the questionnaire was posted on the message forum. The survey was

Table 1
Summary of participant demographic data and travel history.

| Attribute | (%) ^a | UK passengers ^b |
|---------------------------------------------|------------------|----------------------------|
| Age (years) | – | |
| 18–29 | 20.6 | 21.5 |
| 30–39 | 36.8 | 22.2 |
| 40–49 | 24.1 | 17.6 |
| 50–59 | 13.7 | 18.6 |
| 60–69 | 4.7 | 12.6 |
| 70+ | 0.2 | 7.5 |
| Previously paid a seat selection fee | – | – |
| Yes | 14.8 | – |
| No | 82.6 | – |
| Can't remember | 2.6 | – |
| Reason for previous domestic travel | – | – |
| Business | 32.2 | – |
| Leisure/vacation | 44.4 | – |
| Visiting family/relatives | 23.6 | – |
| Member of a frequent flyer program | – | – |
| Yes | 39.7 | – |
| No | 56.4 | – |
| Don't know/unsure | 3.8 | – |

^a Total may not sum to 100% due to rounding.

^b Population age distribution is based on CAA (2017) passenger survey data of UK passengers on domestic and international routes based on 8 airports: Birmingham, East Midlands, Gatwick, Heathrow, Liverpool, London City, Luton, Manchester and Stansted.

posted on 23 December 2016 and was live for a period of 38 days. Participation in the study was entirely voluntary with participants receiving no reward. 800 respondents fully completed the survey within the time period. For the purpose of the data analysis, only those respondents who had previously flown a UK domestic route (excluding those to the Channel Isles and the Isle of Man), and who were likely to be interested in flying in the near future (on a UK domestic route within 5-years) were included. Of those completed surveys, 622 (78%) fulfilled the criteria.

Though 622 valid responses were collected in some instances, for example WTP for a preferred seat for business travel, respondents did not have to state a WTP if they did not travel by air for business purposes, thus reducing the sample size *n*. Non-business travel represents passengers who are travelling for the purposes of leisure/vacation travel or visiting family/relatives.

Respondent were asked to state their willingness to pay in British pounds (GBP). To allow comparison with previous studies the original monetary values have been converted to US Dollars¹ where appropriate.

Ascertaining the representativeness of the collected sample is problematic since the demographic profile of UK domestic air travellers is not reported separately within the CAA *Passenger Survey Report* (2017). In Table 1 the age profile of UK passengers on domestic and international flights from the sample of airports reported in the latest passenger survey is given. The skew in the collected sample could be the result of the study's online recruitment. It is not however believed to invalidate the study findings.

3. Results and discussion

3.1. Descriptive statistics

Mean willingness to pay for preferred seat selection for the two travel purposes are summarized in Table 2. A higher value of willingness to pay is observed when the purpose of a future flight is for business travel (£6.68; \$8.35) than for non-business travel (£5.56; \$6.95). Business travellers state a 20% premium to preferred seat

¹ £1 GBP = \$1.25 USD.

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