



The impact of low-cost carriers on airport choice in the US: A case study of the Washington–Baltimore region



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ABSTRACT

Previous research has shown that low-cost carriers (LCCs) may stimulate traffic at an airport by offering low fares. Using passenger survey data from the Washington–Baltimore region's three airports, we find that the benefits of LCCs to airports extend beyond the traffic generated directly by the LCCs through their low fares. In addition, we find that the mere presence of an LCC at an airport can attract passengers, even to competing carriers. These "halo effects" from LCC presence increase the significance to airport managers of attracting LCCs in order to generate passenger demand.

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1. Introduction

Many people live in metropolitan regions served by more than one airport. Other individuals may travel several hours, bypassing their local airport to access an airport outside of their region in order to obtain desirable flights. While a passenger's choice of airport is influenced by several factors (e.g., access time, parking, terminal services, airside operations, airline availability, baggage handling, fares, security checks, etc.), three factors have been highlighted as key airport choice determinants (Windle and Dresner, 1995; Pels et al., 2003; Hess and Polak, 2006; Suzuki, 2007; Ishii et al., 2009). These determinants are accessibility to the airport, fares, and flight frequencies. Better accessibility to an airport reduces airport access time. Frequent flights to popular destinations better match scheduled flight times to desired travel times. Low airfares reduce the travel expenses for airline passengers.

Along these lines, the presence of low-cost carriers (LCCs) at an airport may be helpful in attracting passengers. The primary feature used by LCCs in attracting passengers is their low fares (Windle and Dresner, 1999). However, the attraction of LCCs may not be limited to low fares. Some LCCs (notably in the U.S.) are ranked high for their operational performance, including factors such as on-time performance and low rates of mishandled bags. Some LCCs have also been noted for their passenger-friendly attitude (Heskett and Schlesinger, 1994; Gillen and Lall, 2004). In addition LCCs that are known for their low fares may be able to generate a low-fare image and attract passengers, even if their fares to specific destinations are not actually the lowest among competitors. In particular, a passenger may choose to fly on an LCC without even checking the fares of competitors, assuming that the LCC has the lowest fares. This strategy is facilitated when the LCC does not participate in the online travel agencies used by its non-LCC competitors, thus making direct fare comparisons more cumbersome.

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Table 1
Originating passengers traveling to domestic destinations by airport.

Airport	2005 Q1			2007 Q4			2009 Q4		
	Passenger (in 000)	Traffic split (%)		Passenger (in 000)	Traffic split (%)		Passenger (in 000)	Traffic split (%)	
		LCC	Non LCC		LCC	Non LCC		LCC	Non LCC
BWI	1616	54	46	2023	63	37	1979	67	33
DCA	1540	10	90	1721	11	89	1598	13	87
IAD	1342	9	91	1207	26	74	1072	24	76
Total	4498	36	64	4951	36	64	4649	39	61

LCC competition may also make a route more competitive, resulting in lower fares and higher flight frequencies even among competitors (Morrison, 2001; Vowles, 2001). As a result, LCC competition may stimulate passenger traffic for non-LCC carriers, thus further benefiting the airport in which the LCC (and non-LCC) operate. Therefore, there are several reasons beyond the low fares offered by an LCC why passengers may choose to fly from airports where LCCs have a major presence. The purpose of this study is to examine the impact of LCCs on passenger choice of airport above and beyond the direct impact from their low fares.

Using data from the Washington–Baltimore region, we examine the factors influencing passenger choice among the three area airports, Ronald Reagan Washington National Airport (DCA), Dulles International Airport (IAD) and Baltimore/Washington International Thurgood Marshall Airport (BWI). The Washington–Baltimore region represents a good area for this type of analysis since all three of the airports may be readily accessed by a large percentage of the region's residents and visitors. As well, passengers may fly to all major domestic destinations from all three of the airports via nonstop or one-stop routings. Moreover, the airports are differentiated in the degree of service by low-cost carriers, with BWI having considerably more LCC service than the other two airports (see Table 1). Therefore, the Washington–Baltimore region provides an excellent case study for the determination of the impact of LCCs on airport choice decisions.

This study adds to the existing literature in two ways. First, recent industry trends have shown a narrowing gap between LCCs and legacy carriers with respect to fares (MSNBC.com, 2010; USATODAY.com, 2011).¹ As the LCC advantage in fares is reduced, we investigate whether LCCs attract passengers to an airport for reasons other than low fares. Additionally, our study offers potential implications to airport operations managers. Airport managers have little control over a number of key factors that attract passengers to their airports. Airport locations, for example, are not easily changed. New access roads or transit facilities are generally very expensive to construct, with long lead times. The levels of airfares and flight frequencies are primarily determined by airlines. However, airport managers, through their marketing efforts and differential pricing,² may be able to attract LCCs to their airports (Barrett, 2004; Gillen and Lall, 2004). If they are able to do so, the airports could benefit from increased passenger volume over and above what one would forecast based on the scheduling and pricing of the LCCs. The results of this paper provide solid evidence of the potential gains from having an LCC at an airport and may be used as justification for the marketing expenditures necessary to attract LCCs. Indeed, we find that both LCC and non-LCC carriers gain market share on routes when there is an LCC presence (compared to routes from other area airports without an LCC presence).

The remainder of the paper is organized as follows. Section 2 provides an overview of the previous literature and our hypotheses regarding LCCs. Section 3 reviews the data and methodology. Section 4 presents the results and Section 5 provides some conclusions.

2. Literature review

Numerous airport and airline choice models have been estimated over the past 40 years. These studies have included many variations with regard to model used, variables included, and geographic area of study. Table 2 provides a snapshot of the key studies. The following summary discusses major issues crucial to airport choice studies:

2.1. Setting for analysis of airport choice

The predominant method for investigating a passenger's choice of airport is through a case study approach; that is, data related to passenger choice data are obtained from a specific geographic area where there are multiple airports. Previous researchers examined various regions in the US, Europe and Asia (Table 2). Although these case studies have limitations

¹ "Low-Cost carriers don't always provide the cheapest fares", Jane L. Levere, 10/19/2010, MSNBC.com (http://www.nbcnews.com/id/39689733/ns/travel-business_travel/t/low-cost-carriers-dont-always-mean-cheapest-fares/#.UyoCaXRbYw), accessed 06/01/2011; "Low-cost carriers get aggressive on fare hikes", Roger Yu, 02/02/2011, USATODAY.com, (<http://travel.usatoday.com/flights/post/2011/02/low-cost-carriers-raise-fares-in-2010-amid-recovering-economy/141167/1>), accessed 06/02/2011.

² For example, recently Savannah/Hilton Head International Airport's attempted to attract JetBlue Airways, a US LCC, by offering the airline financial incentives valued at US \$3–4 million to offset rent, landing fees, marketing costs and crew rooms. See, Scott W. Harrison, "Savannah/Hilton Head International Airport continues search for low-cost airline", Savannah Morning News, Savannahnow.com (<http://savannahnow.com/exchange/2012-07-27/savannahhilton-head-international-airport-continues-search-low-cost-airline#.Uild1BZpk00>), accessed 08/22/2013.

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