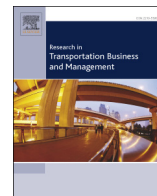




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Airport and low-cost carrier business relationship management as a key factor for airport continuity: The evidence from Poland

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ABSTRACT

Low-cost airlines have stimulated the rapid growth of the air transport market in Europe, particularly in New Member States where the aviation markets had been stifled and where flag carriers had been performing poorly. After market deregulation, almost all the airports benefited from the opportunities offered by low-cost carriers. However, following a decade of market liberalization, differences in the development of airports have appeared. Some of them continue to grow and maintain good relations with airlines, while others suffer from being served by poor air transport networks and are struggling with financial problems. This paper aims to explore management strategies and the quality of airport-airline relations in key areas, in particular the attraction and retention of low-cost services on the basis of data gathered through a survey conducted at Polish regional airports. The competitive strength of an airport lies in its development strategies, the degree of dependence on the low-cost segment, and the quality of relations based on direct contact, cooperation and trust between airport management and air carriers. The conducted study confirmed the hypothesis that the business relationship management between LCCs and airports is a key factor determining the ability of regional airports to continue and develop operations.

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1. Introduction

Research on the relations between low-cost carriers (LCCs) and airports are increasingly of interest to airport managers, market regulators and researchers, as low-cost airlines are playing more and more important role in global aviation markets. Their participation is particularly significant for air traffic in developing countries and countries in transition, where population incomes and the air mobility of society are growing, though still below the average in developed countries. Low-cost airlines generate high demand for air services by offering direct air connections at relatively low prices to many attractive tourist and business locations, as well as to countries that have opened their labour markets and attract migrant workers. Another factor which stimulates low-cost traffic is the immaturity of some aviation markets, as reflected by hub-and-spoke networks and the associated centralization of air traffic in capital airports; thereby leading to underutilization of infrastructure at regional airports, the small proportion of domestic traffic and especially the poor performance of flag carriers. Low-cost airlines, in particular, benefit from the latter, filling a gap in the offer of direct air connections from regional airports. Due to the activity of LCCs, air traffic in these airports has dynamically increased, and a large share for low-cost traffic

means that the maintenance of relations with LCCs and the attraction of new ones are crucial for the operation and development of many airports. This important role is exaggerated by the increasingly strong competition between airports for low-cost carriers, as well as for passengers (Bush and Starkie, 2014; Forsyth, Gillen, Mueller, & Niemeier, 2010). The role of airports is also changing from public utilities to profit orientated companies. All this means the relations between airports and their customers, including airlines, have changed significantly and have become increasingly complex (Graham, 2013).

According to forecasts, the low-cost air transport market will develop. Therefore as this segment is primarily responsible for the increase in air traffic at non-hub types of airports, it is important to know how the ties between an airport and an airline are shaped and maintained. What are the main benefits gained by an airport from good relationship with a LCCs? Although the issue of relations between LCCs and airports is the subject of research studies (Barrett, 2004; Francis, Fidato, & Humphreys, 2003; Francis, Humphreys, & Ison, 2004; Humphreys, Ison, & Francis, 2006; Lin, Mak, & Wong, 2013; Laurino & Beria, 2014), so far little attention has been paid to the factors that affect the maintenance of solid ties and the gaining of new ones; the factors that determine the quality of relations between airports and low-cost airlines; the nature of these relations; as well as the bargaining power of the partners. This paper seeks to contribute to a better understanding of the nature of cooperation between airport operators and low cost airlines using the example of a country where high LCC activity has

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brought about many changes in the aviation market, the effects of which are felt mainly by airports. The main aim of this paper is to identify and assess the features and the quality of relations between airports and low-cost airlines, and to determine the significance of these relations for the performance and development of regional airports using Polish airports as an example. The paper presents results from the largest regional airports in Poland, a country where the low-cost carrier share of passenger traffic was 48% in 2014 (ULC). The study was based on primary sources; including semi-structured direct interviews with airport managers, computer assisted interviews, and computer assisted telephone interviews. The problem of the relations between an airport and an airline is considered from the airport's point of view.

The paper is organized as follows. Section 2 provides an overview of the literature on relations in general, with a particular focus on the services market, including the relations between the airline and the airport. Section 3 identifies the key features of the impact of LCCs on the aviation market in Poland. Section 4 describes the data and methods used in the study. Section 5 presents the research results and the discussion. The last section includes conclusions, implications for managers and important contributions to existing knowledge.

2. Background

2.1. Business relationship management

The issue of the relationship between entities and the management of these relations, mainly in the area of marketing research regarding business-to-business marketing, supply chain management or consumer product marketing has been studied since the 80s and 90s (Zolkiewski & Turnbull, 2002). Currently, the issue is particularly important because of the conditions in which companies operate: uncertainty, dynamic changes, rising competition, and the relationships themselves are now becoming the main focus of the company's activities in the field of strategic management (Piwoni-Krzeszowska, 2014). Thus, there is an increasing interest in relationships, not only in the practice of business management, but also in undertaking research in this area. Zolkiewski and Turnbull (2002) drew attention to the fact that up to the early twenty-first century, little attention was paid in studies to the influence of relationships on the strategic development of a company and to the importance of customer relationships for competitive advantage.

A relationship can be defined as "a set of feelings, attitudes and behaviours towards each of two (or more) players in the market and the interactions between them, which can have a positive, negative or neutral nature," (Piwoni-Krzeszowska, 2014, p. 22). The issue of the quality of a relationship currently takes an important place in marketing research; however, the method of operationalizing and understanding this issue is not standardized due to its multidimensionality (Pfajfar & Mitrega, 2014). Among the quality attributes of a relationship, different authors mentioned the following: trust, satisfaction, conflict, commitment, the degree of replaceability, adaptation, communication, and cooperation; whereas in Huntley's terms, the quality of a relationship can be described by five different dimensions: technical, social, economic, partnership, and the time factor (Huntley, 2006; Lin, 2013; Pfajfar & Mitrega, 2014).

Business relationships with other entities like customers, suppliers and business partners are seen as a significant resource; intangible assets to be considered from the standpoint of the value created by those relationships for every company and its market stakeholders (Piwoni-Krzeszowska, 2014; Sun et al., 2014). Establishing these relationships arises from the need to obtain specific resources from other partners, necessary for the survival and development of an organization, and thus are the result of interdependence that at the same time has to lead to mutual benefits which would not be achieved when acting alone (Lin et al., 2013). Maintaining existing business-to-business relationships may therefore be the basis for the success of a company (Zolkiewski & Turnbull, 2002). In addition to the specific benefits of

relationships with business partners, the atmosphere of the interaction processes associated with the distribution of power and the degree of dependence between the partners are also important points (Zieliński, 2014).

The relationships between airports and LCCs have been studied before, as indicated by Lin et al. (2013); however, a mechanism for establishing and maintaining these relationships has not yet been fully recognized. This paper is intended to partially fill a gap in this area based on research conducted at regional airports in Poland.

2.2. The airport and airline relationship

Airports cannot operate in the basic areas of their activity without airlines (Francis et al., 2004). Gillen and Lall (2004) emphasize that the airlines create business for airports, but they also add that airports do not have to be passive. Their activity can manifest itself, among other things, in providing functional and cost-effective facilities with good land accessibility. The emergence of air carriers with a business model based on low costs has forced airports to adapt to the new conditions and change their approach in negotiations with airlines (Starkie, 2012). The strategy of operating on the basis of low-cost motivates airlines to negotiate reductions in aeronautical charges, which in turn causes a drop in the aeronautical revenues of airports so they are forced to balance the loss of income by increasing commercial revenues. Consequently, airports have begun to seek additional sources of revenues and expand their customer portfolio, which originally included only airlines (Francis et al., 2004). Increasing revenues from non-aviation activities, in view of the increasing passenger traffic as a result of LCCs operations, has become an important task for airports (Barrett, 2004; Graham, 2013). Airports responded to the opportunities offered by LCC in different ways (Francis et al., 2004; Lin et al., 2013; Laurino & Beria, 2014). Some of them offer incentives in order to attract low-cost airlines (Charleroi), while others, being cost conscious, are not willing to pay airlines for their operations (Coventry) (Francis et al., 2004). Small and medium-sized airports in particular, which have underused infrastructure, are under pressure to attract LCCs (Barrett, 2004; Graham, 2013).

The ability of a low-cost airline to generate high passenger traffic at an airport strengthens the market power of carriers and causes an imbalance in relations (Barbot, 2006). Competition between airports means LCCs have bargaining power, because they can threaten to transfer operations to another airport in the event of failure to meet their requirements (Francis et al., 2004). Graham (2013) adds that the degree of competition between airlines at airports has an impact on the bargaining power of airports. In addition, Francis et al. (2004) notes that beneficial agreements with LCCs may jeopardize airports relations with incumbent airlines. The dynamic nature of LCC activity affects the stability and durability of relations between airports and low-cost airlines. In general, these relations are complex in institutional, legal and financial terms (Laurino & Beria, 2014).

3. The impact of LCCs on airports in Poland

The expansion of low-cost carriers in the country is closely linked to the deregulation of the aviation industry, in particular with the abolition of restrictions on the setting up of air carriers, the access of airlines to air services on their chosen routes from selected airports, as well as the influence on prices for these services. As it happened in the United States in the 1970s and in Western Europe in the 1990s, so it happened in Poland in 2004; which, together with the other countries of Central and Eastern Europe, joined the European Union and had to adapt their national legislation, including air law, to European standards.

Before liberalization, the aviation market in Poland, as in the other countries of Central and Eastern Europe was characterized by low growth rate; the centralization of air traffic in the capital airport – Warsaw; the underused infrastructure of regional airports; the domination

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