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Modelling the preference for business charter in the cross-strait market

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ABSTRACT

This paper aims at investigating business travelers' choice behavior between business charter (BC) and the business class of commercial airlines in the cross-strait market. This study applies the stated preference method and sets five scenarios with the combination of various levels of fares, waiting time, privacy and expedient clearance services and inflight communication equipment. Data were collected by purposive sampling and interviewing business travelers near the VIP centers, departure lounges, and the baggage claim areas of Taiwan Taoyuan International Airport. A sample with 420 business travelers from Taipei to Shanghai was collected. Then, the binary logit model was employed to analyze how service attributes influence Taiwanese business travelers' choice behavior between BC and business class. Estimation results indicate that fare is the most important factor. Other factors such as gender, seniority, and the number of business trips during the previous year remain significant on the probabilities of choosing BC. Additionally, five specific features of BC were set as dummy variables in the model. Those are transfer time saving, travel time controlling, client entertainment, customer visits and international conference attendance. All of them have positive effects on the preference for using BC.

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1. Introduction

Since the aviation industry was deregulated in 1978, liberalization has created innovated market opportunities for various business models in the industry of air transportation, e. g., hub-and-spoke and low cost operations. Although the market is highly competitive, the service quality and the reliability provided by commercial airlines seem to decline (Jarchow, 2004). In the meantime, there is a different operating model named business aviation (BA) that focused on providing customization, such as meals, privacy and expedient clearance service, and private space in the air. All of these aim to provide travelers with the top service experience. Moreover, in the dynamic global business market, company executives' demand in business travel grows steadily, and it also stimulates the development of BA (Agur, 2012).

Bombardier (2013) defines "business jet (BJ) penetration" as a measure of the number of BJs in a region relative to the size of the region's economy, as represented by its GDP. To normalize

different population sizes in each region, penetration rates and GDP are best compared on a per capita basis. Based on this idea, General Aviation Manufacturers Association's (GAMA) annual report in 2009 established the relationship between the number of BJs and the GDP per Capita (Fig. 1). As illustrated in Fig. 1, the most established market for BJs, North America, has the world's largest fleet, which is growing slowly. China, in contrast, has a very small number of BJs relative to the size of its economy but their fleets are now growing rapidly. According to Fig. 1, Taiwan's GDP per capita reached US\$ 22,700 in 2015, the average BJs per capita (M) should be 5. As the population of Taiwan is about 23 million in 2015, the amount of BJs in Taiwan should be 115 (5 business jets \times 23 (M)). However, there are only 9 BJs in Taiwan. Using the same calculation, the number of BJs in China should be 130, instead of the actual number of 62. Additionally, since the cross-strait direct flights commenced in 2008, the economic and trade intercourse between Taiwan and China have been dramatically increasing. It means that there is a tremendous opportunity to develop BA in the cross-strait market. There is, however, no literature related to this topic currently available, according to our survey. Therefore, this study explores Taiwanese business travelers' preference for business charter (BC) in the cross-strait market.

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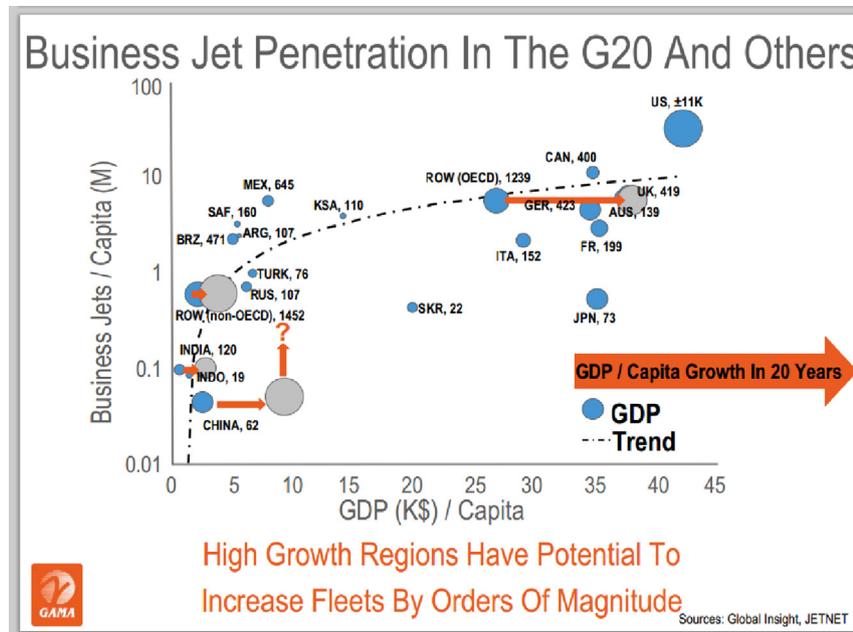


Fig. 1. Business jet penetration (GAMA, 2009).

2. Literature review

2.1. Business aviation

2.1.1. Operational models of business aviation

BA is a part of the general aviation that can be used for business purposes (NBAA, 2014). While organizations that rely on BA vary, they all have one thing in common, that is, the need for fast, flexible, safe, secure and cost-effective access to destinations worldwide. According to Bombardier (2013), BA is divided into five segments: (1) full ownership, (2) fractional ownership, (3) jet-card program, (4) branded charters, and (5) air taxi. Full ownership is the case that a BJ is owned by a person or a corporate. The owner uses the BJ as his/her private vehicle. On the other hand, fractional ownership means that a BJ is owned by several individuals or corporates. An individual or a company purchases a fraction (as little as a 1/16 share) of one BJ and receives management and pilot services associated with the aircraft's operation. Jet card programs are a program that individuals or companies prepay the fare of flying hours (usually under 50 h per year) in order to get a guarantee of providing air transport service for their needs and obtain a discount price on the contract. The fourth and fifth segments belong to the operation of BC and are under the investigation in the present research. Air taxi is per seat charter while branded charter is about chartering the whole airplane. In Taiwan, only full ownership and branded charter are allowed to operate. In this study, we focus on Taiwanese business travelers' preference for branded charter.

2.1.2. Benefits of business aviation

BA includes tangible and intangible benefits. In terms of tangible benefits, BA provides privacy and expedient clearance service and BA centers, which help travelers to have a private and efficient experience. During the flight, travelers can consider the BJ as a flying office. They can plan, work, and have meetings in a secure environment, which enables them to discuss propriety information without fear of being eavesdropped, business espionage or physical threat (NBAA, 2014). Moreover, travelers can turn their flying hours

into working hours with inflight communication equipment on the BJ.

BA brings lots of intangible benefits. The major differences between BA and commercial airlines are flexibility and time-saving (Brown, 2007). For example, BA decreases counter check-in time and provides efficient customs clearance service. BA also reduces flight time by providing point-to-point service and decreases the block or total travel time because it can utilize smaller airports closer to final destinations. In addition, people who travel by BJs do not have to alter their schedules to fit flight schedules provided by commercial airlines. Consequently, they have the freedom to change course en route and leave/arrive according to their own schedules. With comfortable facilities and customized service, business travelers can reduce their fatigue in the trip (Kaps et al., 2001; Lee, 2004; Kranea, 2009). All of these intangible benefits will create more time value for travelers. BA can provide benefits that commercial airlines cannot (Brown, 2007). Considering the overall time utility that travelers could obtain, BA should be regarded as a cost-effective alternative (Sheehan, 2004; IBAC, 2008; Budd and Graham, 2009; Agur, 2012).

2.1.3. Users of business aviation

BA is frequently used by private companies, high-net-worth individuals, and sports teams to get from one place to another in the shortest time. Large multinational corporations such as Want Want China Holdings Limited and Nike both operate BJs. In business traveling, companies that recognize the importance and the need of getting the right people in front of their customers prefer using BA. According to NBAA (2014), a survey of 346 BA passengers was conducted by Louviere and Hensher (1982). It showed that business aircraft were operated for: top managers (22%), other managers (50%), technical/professional/sales (20%) and other types (7%). This survey revealed that 72% of passengers who chose business airplanes were non-executive employees. Additionally, in the United States, companies often use business aircraft to send teams of employees to a given destination because it is the most cost-effective and efficient way of transportation.

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