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Effects of switching costs on customer attitude loyalty to an airport in a multi-airport region

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ABSTRACT

The purpose is to analyze impacts of switching costs on customer attitude loyalty to an airport operator in a Norwegian multi-airport region. A sample of 167 respondents is analyzed by a structural equations modelling approach. Irrespective of customers' perceptions of switching costs, service quality seems to be the most important customer loyalty driver. For low switching costs customers flight offers are also an important loyalty driver. For high switching costs customers facilities are important. An anticipated reduction in switching costs due to improvements in the regions' infrastructure thus implies that more attention should be paid to an upgrading of the flight offers in order to create more airport loyalty in future. This may also have some interesting policy implications, which is briefly discussed in the paper.

1. Introduction

Airport loyalty programmes for airline passengers (customers) have recently been introduced to the market in some of the large airports (Simpliflying, 2010; Comarch, 2011; Riga Airport, 2011; Stanstead Airport, 2011). Such programmes frequently include discounts on parking, free airport-wide Wi-Fi, discounts in airport lounges, and discounts and points when shopping at airport stores. The more you visit and spend the more perks you earn through the programmes tiered membership. The reason for introducing airport loyalty programmes is a growing concern among airport managers about increased airport competition (BAA, 2007, 2008). Managers of airports in multi-airport regions in particular, are striving to increase customer loyalty in order to obtain long-term goals, recognizing that loyal passengers are not only users of the same airport over time but are also more tolerant of price increases as well as being advocates for their services (Fornell, 1992; Anderson et al., 1994; Bendapudi and Berry, 1997). Retaining customers costs less than attracting new ones (Reichheld, 1996; Richards and Jones, 2008), implying that loyal customers are more profitable than other customers (Helgesen, 2006; Keiningham et al., 2007). Managers of airports therefore need more insight in loyalty drivers, making customer loyalty an important strategic theme for management in the airport sector (Chen, 2008; Cui et al., 2013). Such insight is, however, also useful for planners and administrators of transportation systems.

Airports and airlines are of course closely related, and passengers' loyalty to an airport may be influenced by their loyalty to the airlines serving this airport (Alberts et al., 2005; Gardiner et al., 2005; Marcucci and Gatta, 2011). However, the degree of this influence may be contextual dependent (McLay and Reynolds-Feighan, 2006). The same airlines may serve more than

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one and even all of the airports in a region, and this is to a large extent the situation regarding the five airports in the region which is the contextual focus of this study. Besides, the effects of airlines may be controlled for, both directly and indirectly.

There is a relatively small literature on airport choice in a multi-airport region (Ishii et al., 2009). Such research has mainly focused on passengers' sensitivity to objectively measured attributes and characteristics like airline fares, departure frequency, airport access time, and airport access costs, and estimated by conditional or nested (airline–airport) logit models (Ishii et al., 2009; Pels et al., 2003, 2009; Lian and Rønnevik, 2011), or analyzed by natural experiments (Volodymyr et al., 2012). It is, however, well recognized in the air travel demand literature that air fares data may be of poor quality, and that heterogeneity in price sensitivity may obscure the estimates. In addition, the traditional discrete choice modelling approach *assumes* that the choice of an airport or an airport–airline combination depends on travel costs contingent upon a particular destination. But choice of destination may also be dependent on travel costs (Pels et al., 2009).

There is a lack of analyzes within this literature that deals specifically with the different effects (direct or moderation effects) that travellers' perceived switching costs may have on airport or airline–airport choices. One reason for this is probably the difficulties concerning the calculation and interpretation of the policy-relevant marginal effects in the complex logit model that such an analysis would require. It is well known that coefficients from a logistic regression in general are more difficult to interpret than coefficients from a linear model. This interpretational issue becomes even more troublesome when introducing more non-linearity by including interaction terms or when comparing coefficients between different groups. The present study therefore uses a different approach by estimating a linear structural equations model (SEM) of airport loyalty with subjectively measured variables. This makes it easier to interpret interaction terms and to compare coefficients between groups.

Switching costs may reduce rivalry by making the firm's demand curve more inelastic (Klemperer, 1987). This will probably influence the customer to be more loyal in the sense that she will stick to the supplier. In what way and of which magnitude switching costs affect airport loyalty is therefore an important issue both for airport management and for planners and administrators of transportation systems. By focusing on attitudes that may motivate choices instead of the choices themselves, it is possible to analyze the various effects of switching costs in a more profound way. The purpose of this paper is to analyze impacts of switching costs on attitude loyalty to an airport operator in a Norwegian multi-airport region. The analysis is based on data from a survey of customers to Aalesund Airport in the north-western region of Norway, and the study addresses the following research questions: (1) Do switching costs have direct effect on attitude loyalty? (2) Are satisfaction and image perception mediators of attitude loyalty drivers to the airport? (3) Do switching costs have moderation effect on the links between these mediators and attitude loyalty? (4) What are the managerial implications of the findings with respect to satisfaction creation and image building for an airport? (5) What are the policy implications for public authorities?

The remainder of the paper is structured as follows: The next section gives a contextual overview. This is followed by a brief discussion of the theoretical framework and the hypotheses. Section 4 describes the data and the methodology used. Section 5 presents results, and Section 6 addresses conclusions, implications, and possible routes for further research.

2. Context

Due to long distances and low population density, access to an airport is important for travellers in Norway. Norwegian air services are provided by 52 airports, of which the state-owned company Avinor operates 46. Of these there are 4 large airports (including the main airport Oslo-Gardermoen), 4 national airports, 9 regional airports, and 29 local airports. (Avinor, 2013). International connections are available from all the large and national airports and some of the regional ones (Halpern and Bråthen, 2010).

Since 2002 domestic flights between large, national and regional airports have been dominated by two national (Scandinavian) companies (Norwegian and SAS). SAS is a traditional airline (TA) company whereas Norwegian is a low cost carrier (LCC) company. SkyTrax World Airline Awards announced Norwegian as the best LCC in Europe and number six in the world in 2013 (SkyTrax, 2013). Flights between local domestic airports have been operated by one company (Widerøe, by the time of the survey a SAS subsidiary airline company). Regarding flights in and out of Norway, SAS and Norwegian had a total market share of 55% in 2009, whereas the three largest foreign airline companies operating in and out of Norway, two TA's (KLM and Lufthansa) and one LCC (Ryanair), accounted for about 25% (Julsrud et al., 2011). Presently, SAS is in a difficult financial position, and there are speculations whether the company can survive in its present form as a pure Scandinavian company (Milne and Parker, 2012). One possible option is to split up the company and sell out parts of it to foreign actors (Julsrud et al., 2011). Increased future competition will thus probably to a large extent come from foreign actors. The Norwegian aviation market seems to be attractive for foreign companies. This may be exemplified by a newly entered agreement between Avinor and KLM on a new daily route from Aalesund to Amsterdam (Sandvik, 2012), and present negotiations between Avinor and Ryanair on flights in the domestic Norwegian market (Henriksen, 2013).

Avinor ASA is a limited self-financing company which receives no state subsidies. In 2011 total operating revenues amounted to NOK 8622 million. In addition to revenues from aviation-operative activities, Avinor has large revenues connected to airport hotels, tax-free stores, parking facilities, restaurants, and other services for air passengers. These additional revenues now account for almost 50% of total revenues and are expected to increase in future (Avinor, 2013).