



Longitudinal examination of passenger characteristics among airline types in the US

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ABSTRACT

We examine longitudinal changes (2005–2015) in the characteristics of passengers flying with two types of airlines in the United States: low-cost carriers (LCCs) and legacy carriers (or non-LCCs). In addition to the extant views on passenger similarities and dissimilarities across LCCs and NLCCs, we find that airline-type passenger segments are dynamic and constantly changing. Furthermore, we argue that such dynamics in passenger segments may have been escalated by the introduction of a new type of airline – ultra low-cost carriers (ULCCs). We assert that taking more caution in targeting air passengers is necessary, as we found a mixture of both convergence (e.g., airport access time, per diem) and divergence (e.g., number of checked bags, terminal wait time) in the key passenger characteristics across airline types.

1. Introduction

1.1. Background

The demand for air transportation has substantially increased throughout the world. Higher incomes in developing countries (e.g., China, Brazil, India) have increased the potential demand for air travel. Moreover, the liberalization of the rules governing market entry and pricing in the airline industry, for many countries, has led to the introduction of more affordable airfares by new entrant airlines (Borenstein, 1992). In particular, low-cost carriers (LCCs) have aggressively attracted passengers who are sensitive to fare levels (Mason, 2005). Incumbent legacy carriers or non-LCCs (NLCCs) have also responded by decreasing their costs and fares to better compete with LCCs. The competition among these airlines in liberalized markets has contributed to an increase in air travel demand (Cho et al., 2012).

By limiting the amount of services provided to passengers (e.g., limited hub connections resulting in fewer destinations, no airport lounge access), LCCs have been able to offer lower fares to their customers (Hofer et al., 2008; Tsiriktsis, 2007). Further, these LCCs often require passengers to pay extra money for services that were previously “free” (e.g., advanced seat selection, checked baggage allowances). Accordingly, LCCs have traditionally attracted passengers willing to forego these “ancillary” services, while seeking lower ticket prices. In short, fare sensitive travelers (e.g., leisure passengers) are disproportionately attracted to LCCs, while NLCCs tend to attract a larger

percentage of business passengers (Brons et al., 2002).

In recent years, a significant shift in the passenger mix has been taking place between the LCC and NLCC segments, making airline-type passenger segmentation more dynamic, at least in highly mature LCC markets (e.g., Europe and United States) (Fageda et al., 2015; Mason, 2005). For example, LCCs have been quite successful in attracting business passengers who are time-sensitive and travel frequently by expanding their reach through more centralized networks, including “primary” airports with a high service frequency (de Wit and Zuidberg, 2012; Dobruszkes et al., 2017; Klophaus et al., 2012). LCCs have also been able to provide, in some ways, more superior service to business passengers than their NLCC competitors, such as providing a more liberal policy on ticket exchanges (e.g., Southwest Airlines). However, with such improvements in service, the average costs for established LCCs may have increased substantially, resulting in fares closer to those of NLCCs.

On the contrary, NLCCs have contributed significantly to the shift in the passenger mix by constantly reducing their base fares via cost-cutting practices and, accordingly, narrowing down the fare gap between the two airline types (Tsoukalas et al., 2008). With NLCC fares at a competitive level with LCCs, the NLCCs have been able to attract more leisure travelers who previously chose LCCs but sought additional services, such as strong frequent flier programs (e.g., elite service) and mileage redemption for international destinations. In the meantime, NLCCs have moved to “cafeteria” pricing schemes, charging for many of the formerly “free” amenities, in an effort to offer discounted ticket

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prices, thus effectively pricing like many LCCs.

In addition to the changes that occurred within the airline industry, some socio-economic changes may have further propelled the shifts in the passenger mix. After the global financial crisis occurred in 2008, businesses have increasingly booked their flights with LCCs to save expenses. On the other hand, NLCCs have become an attractive alternative for certain leisure travelers, such as households with “dual incomes and no kids” (i.e., DINKs) (Papatheodorou and Lei, 2006). As opposed to family-oriented leisure passengers with a high sensitivity to airfares, DINK passengers are more sensitive to premium services (e.g., frequent flyer rewards, priority check-in and boarding, in-flight entertainments). Interestingly, these traits of DINK passengers closely resemble those of traditional NLCC passengers. Thus, NLCCs may have been able to attract these passengers by aggressively promoting premium service options such as wider seats and more legroom (e.g., Delta's Comfort Plus, United's Economy Plus).

Another factor that needs to be taken into consideration is the emergence of a new type of airline, namely the “ultra” low-cost carriers (ULCCs) (e.g., Spirit, Frontier, and Allegiant in the US; Flybondi in Argentina; Wizz Air in Germany; JetSmart in Chile). ULCCs charge extremely low base fares that simply cover the cost of a seat. Instead, they add ancillary fees for almost any additional service (e.g., preferred seat selection, carry-on baggage charges, credit card payments, on-board soft drinks) (Bachwich and Wittman, 2017). In the US, Southwest Airlines CEO Gary Kelly stated, “Southwest has long battled major rivals like American, Delta and United. But the growth of a new breed of ULCC discounters - airlines like Spirit and Frontier - is opening up a second front of competition for Southwest”.¹ In short, we believe that the offerings of this new airline type have great appeal for bargain-seeking leisure passengers who generally fly on “traditional” LCCs (e.g., Southwest and JetBlue), and contributed to the shifts in the passenger mix between the various passenger segments.

1.2. Research question

The primary goal of this study is to examine whether the differences in passenger characteristics, often asserted to exist between LCCs and NLCCs, are still valid in the US market (the oldest and most mature LCC market). While passenger segmentation is frequently discussed in the extant literature, as a tool to enhance revenue by airline and airport managers (Koklic et al., 2017; Lu, 2017; Chang and Hung, 2013), few studies have examined whether passenger profiles between LCCs and NLCCs have changed, and if they have changed, how they have changed.

Thus, we examine the following questions:

1. Have the characteristics between passengers flying on LCCs and NLCCs changed between 2005 and 2015?
2. Has a distinguishable passenger group been formed for ULCCs during the same ten-year period?

An Analysis of Variance (ANOVA) is used to show the differences in passenger segments based on the mean values of the passenger-related variables among the different airline types. Survey data, collected in 2005 and 2015, from the Washington-Baltimore Metropolitan Area, were examined to analyze passenger characteristics across the airline types over this 10-year period.

The remainder of this paper is organized as follows. A literature review is presented in Section 2. The nature of air travel in the Washington-Baltimore Metropolitan Airports is discussed in Section 3. Our

¹ “Southwest: Competition from ‘ultra low-cost carriers’ is soaring”, USA TODAY, accessed 2017/08/01 (<https://www.usatoday.com/story/travel/flights/todayinthesky/2016/10/26/southwest-low-cost-carrier-competition/92782630/>).

research data and methodology are illustrated in Section 4. The results are presented and discussed in Sections 5 and 6, respectively. In Section 7, we provide our conclusions, research limitations and suggestions for future studies.

2. Literature review

2.1. LCC passengers and NLCC passengers

LCCs entered the US domestic market after the industry deregulation in 1978. They primarily targeted price-sensitive passengers by introducing competitive fares (Borenstein, 1992; Martínez-García et al., 2012). Empirical tests have shown that price-sensitive passengers (e.g., leisure travelers) have a stronger preference for LCCs and their lower fares, but are less sensitive to the quality aspects of air travel (e.g., value of time, convenience), when compared with business passengers (Cho et al., 2015; Dresner et al., 1996; Pels et al., 2009).

NLCCs, which offer premium services, may be more attractive to business passengers than leisure passengers (Brons et al., 2002). Due to their relatively high time value, business passengers may prefer the services of NLCCs that minimize travel time (e.g., flights from primary airports, direct services to major business destinations). Given that business passengers often travel frequently, they may also prefer premium services that are more commonly provided by NLCCs (e.g., business class seats, priority check-in, airport lounges) (Chen and Chao, 2015; Fourie and Lubbe, 2006; Loo, 2008).

2.2. Airline type passenger segmentation

Despite the observed passenger shift trend (e.g., more business passengers traveling on LCCs) (Mason, 2000, 2005), some academic studies have directly compared LCC and NLCC business passengers. They found that these two groups of business passengers exhibit different levels of sensitivity to prices, in-flight services, Frequent Flier Programs, and terminal lounges. These are distinguishable attributes among LCCs and NLCCs (Evangelho et al., 2005; Fourie and Lubbe, 2006; Huse and Evangelho, 2007). Similar findings were revealed when further tested on a broader base of airline passengers (not only business passengers) (O'Connell and Williams, 2005).

Other studies further investigated the factors that drove a passenger's choice among these two airline types (Chang and Sun, 2012; Chiou and Chen, 2010; Martínez-García et al., 2012; Mikulić and Prebežac, 2011). They consistently found support for the notion that different factors matter for different airline-type passengers. More specifically, Chiou and Chen (2010) argued that LCC passengers, on average, tend to focus more on the value of the service, while NLCC passengers focus on the quality of the service. More recently, Lu (2017) found a noticeable dissimilarity between LCC passengers and NLCC passengers with regard to age, education level, and the need for optional services (e.g., internet connection, seat selection). Koklic et al. (2017) illustrated the moderating impact of airline type and argued that the positive impact of personnel quality on satisfaction is much stronger for LCC passengers than for NLCC passengers. This is because LCC passengers may have relatively lower expectations for service quality.

Overall, this stream of the academic research advocates that there is significant heterogeneity among LCC and NLCC passengers. It implies that airlines would benefit more from targeted marketing campaigns and services options based on airline types.

2.3. Longitudinal dynamics in passenger segments

Recent changes in the industry suggest notable dynamics in passenger segments. The expanded capacity and services of LCC operations (e.g., providing services from primary airports, offering flights to more diverse destinations, flying long-haul routes including international destinations often through airline alliances) have helped attract

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