



## Customer value of purchasable supplementary services: The case of a European full network carrier's economy class



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### A B S T R A C T

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There is a general trend in the airline industry to try to find ways to generate ancillary revenue by offering additional or unbundled services. Low-cost carriers in particular are known to offer unbundled services, but only a few network carriers have started to unbundle their services and seek ancillary revenues. Meanwhile, others do not attempt this, due to a possible negative impact on customer perception and their brand image.

The goal of this study is to determine the viability and customer value of purchasable supplementary services for economy class passengers of European full-service network carriers. The focus of the study lies in determining specific characteristics of the customer value concept in the context of purchasable supplementary services. By conducting a choice model the implicit preferences in regard to purchasable supplementary service of economy class passengers were analysed. A survey was conducted at Zurich Airport in Switzerland and the results and analysis were built on the data of 249 respondents. The results show that economy class passengers do perceive value in purchasable supplementary services and display a general intention to purchase such services provided they give the passenger added value and utility.

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### 1. Introduction

The past few years have shown that airlines now earn less through traditional ticket sales, but have increased their income share with ancillary revenues. There is a general trend in the airline industry to try to find ways to generate ancillary revenue by offering additional or unbundled services. Low-cost carriers in particular make up to 35% (Spirit Airlines, 2012) of their revenue by unbundling the services of a flight ticket and charging extra for different services depending on passengers' use (e.g., baggage check-in). Full-service network carriers can also do as low cost carriers do and unbundle their products, but the question is whether their customers become dissatisfied, and whether this tactic reduces their brand value and thus makes them slip into price competition with low-cost carriers.

This study examines maintaining the traditional services of full-service network carriers and creating new, supplementary products to sell in addition to the airline tickets and thereby gain additional ancillary revenues. The goal of this study is to determine viability and customer value of purchasable supplementary services for economy class passengers of European full-service network carriers. The focus of the study lies in determining specific characteristics of the customer value concept in the context of purchasable supplementary services. Additionally, knowledge about the unbundling of existing services, the introduction of new additional services, and the packaging of purchasable supplementary services is gained, in order to determine the feasibility of implementing such measures. The following research questions are answered by this study:

What is the overall customer preference and purchase intention regarding purchasable supplementary services?

What is the customer preference regarding unbundled purchasable supplementary services?

What is the customer preference regarding new purchasable supplementary products?

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Would customers consider purchasing supplementary services in bundled packages?

## 2. Literature review

### 2.1. Ancillary and supplementary revenues

Ancillary revenues come into play when airlines start charging customers additional fees for services which are not included in the air fare. Ancillary revenues can be defined as “non-ticket revenues” (Wittmer et al., 2012). They relate to “revenues beyond the sale of tickets and are indirectly seen as part of the travel experience” (Holloway, 2008; Sorenson, 2009). Holloway (2008) provides a good overall insight into ancillary revenue generation by categorizing the activities into two primary activities. The first activity involves “unbundling the traditional airline product and charging for product attributes that were formerly encompassed within the ticket price or were available only to travellers in premium cabins” (Holloway, 2008, p. 188). This is one categorization, which is also known as “a la carte pricing” and can include several activities (Sorenson, 2009).

The focus of this study is on purchasable supplementary services that add customer value to economy class travellers. According to Lovelock et al. (2009), supplementary services can be defined as “...services [that] augment the core product [or service] by facilitating its use and enhancing its value and appeal... and plays an important role in differentiating and positioning the core product against competing services.” Table 1 shows a list of possible supplementary services based on the literature review and expert interviews with airline managers.

### 2.2. Customer value

A body of literature exists that provides different definitions and concepts of customer value. However, one issue that most authors from various areas of specialization agree on is that there is no one operational definition of customer value that can span a range of

conditions. In recent years several researchers have started to develop tools and procedures for the measurement and management of customer benefits generating strategic competitive advantages (Day and Crask, 2000; Woodruff, 1997; Belz and Bieger, 2004; Payne and Holt, 2001; Matzler, 2000; Gale, 1994; Zeithaml, 1988).

An analysis of the literature shows that authors define and use concepts of customer value differently. There is a strand of literature that defines customer value as the value to the customer (Pechlaner et al., 2002; Huber et al., 2001; Matzler, 2000; Parasuraman, 1997; Woodruff, 1997; Gale, 1994). Another strand focuses more on customer value from a company’s point of view in the meaning of customer lifetime value or customer equity (Günter and Helm, 2003; Rudolf-Sipötz, 2001; Laitamäki and Kordupleski, 1997). Yet another strand looks at customer value as a relationship value, which relates to the value of the relationship between customers, suppliers and companies, rather than simple transactions (Ravald and Grönroos, 1996; Payne and Holt, 2001; Kothandaraman and Wilson, 2001). Most of these see customer value as a comprehensive management approach for strategic value-oriented positioning of an enterprise (Slater, 1997; Slywotzky, 1997), which contains the value for customers as well as the value of the customer for the company, and offers solutions in the area of performance and customer systems (Belz and Bieger, 2004).

In this paper the customer value construct is understood to be the customer’s perceived benefit of a product in relation to the definitions by Woodruff (1997) and Gale (1994). Based on a customer-oriented product development, creating and increasing customer value is seen as a key target for product and service development by companies in accordance with the value comprehension of customers (see Fig. 1).

The identification of the selected supplementary services described above was the first step in formulating the attributes and levels for the conjoint analysis. The second step was to categorize them in a meaningful way that would relate to the customer value concepts. For the purpose of developing the attributes and levels of the conjoint analysis, the customer value

**Table 1**  
Supplementary service examples.

Type	Description/example	Touch-point
Additional trip insurance	General travel insurance; trip protection in case of irregularities	On/off online booking
Environmental products	Carbon offset programs; donations to environmental programs	On/off online booking
Pre-purchase of duty-free items	Purchasing duty-free items online before departure	On/off online booking
Off-airport transportation	Railway or public transportation tickets; shuttle bus or limousine transfers	Trip to/from airport
Parking	On-airport parking or priority parking spots	Trip to/from airport
Virtual airport guides	Pre-purchase of augmented reality applications for smartphones	On-airport
Priority check-in	Faster check-in possibility by avoiding queues using priority check-in lanes and counters	Check-in/bag-drop
Additional checked baggage items or allowance	Ability to purchase additional checked baggage allowance (weight) and number of baggage items	Check-in/bag-drop
Priority security lanes or boarding pass lanes	Fast-track lanes through boarding pass and security control	Boarding pass control/security control
Lounge access	Purchasing business class lounge day passes	Dwell time before boarding
Airport internet access	Pre-purchase airport Internet access	Dwell time before boarding
VIP services	Transfer to aircraft or back to terminal with limousine or shuttle bus; meet and greet escort to the gates or to baggage claim	Go to gate/upon arrival
Priority boarding	Allowed to board aircraft first before other passengers	Boarding
Premium/preferred seat selection	Reserving preferred seats, e.g., exit row seats in economy class	On-aircraft/in-flight
Premium meals	Upgraded meals in economy class	On-aircraft/in-flight
In-flight entertainment	Including premium movies, gambling, games	On-aircraft/in-flight
In-flight connectivity	Internet access, mobile telephony (SMS or calls on personal phone)	On-aircraft/in-flight
Priority baggage delivery	Baggage items are delivered first at baggage claim	Baggage claim
Baggage delivery services	Baggage delivery to home or hotel upon arrival	Post-flight
Transfer/irregularity priority lanes	Fast-track lanes to transfer or lost and found counters	Post-flight

Sources: Adapted from Airline Information (2010); Holloway, 2008; Reals Software, 2008; Grossman, 2005; Bejar, 2009; Sorenson, 2009.

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