



# **PRODUCT MARKETING IN AIRLINE BUSINESS**

TB 201 Airline Business and ticketing

Chapter 4

# MARKETING IN AIRLINE BUSINESS

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- Marketing is that broad area of business activity that directs the flow of services provided by the carrier to the customer in order to satisfy customers' needs and wants and to achieve company objectives. **Marketing is more than selling: it involves a number of business activities, including forecasting, market research and analysis, product research and development, price setting, and promotion, including advertising.** Marketing also involves the **finance activities** such as credit and collection that are associated with **ticket sales**. Marketing is customer oriented. Creating products and services that fulfill the needs of existing customers and attract new customers is the primary goal. Determining who the customers are or could be and what their needs are is part of the process. **Marketing must also assist in achieving the company's objectives: an acceptable return on investment, a reasonable level of profits, and an adequate market share.**

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- In the 21st century, airlines around the world are finding that extensive research concerning passengers and destinations is required, due to an increasingly competitive environment. Many airlines now spend great portions of their annual budget on market research because airlines have realized for the first time in their existence that **passenger loyalty no longer exists. Passengers will fly with the carrier that provides the best price and gets them to their end destination on time.** In today's aviation environment, passengers are price sensitive whereas before, passengers were more time sensitive.

## 4 THE MARKETING MIX

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- 1. **Product.** The right product (or service) must be developed for the target market.
- 2. **Price.** A price that gives good value to the customer and adequate revenue to the carrier must be set for the product.
- 3. **Promotion.** Personal selling and advertising must be used, both to communicate information about the product to the customer and to facilitate sales.
- 4. **Place.** Appropriate channels of distribution must be found to ensure that the product reaches the target market at the right time and in the right place.

## 5 PRODUCT

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- The airline product is not a physical item at all, but services that consumers find useful. Safety, on-time reliability, convenience in terms of airport proximity or seat availability, frequency of departures, in-flight cabin services, ground services including ticketing and baggage handling, aircraft type, and even the carrier's image are part of the airline product. This definition is consistent with the airline marketing concept, which stresses the importance of services that satisfy certain consumer needs.

## 6 • In marketing the airline product, certain unique characteristics must be recognized:

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- 1. The product (service) cannot be kept in inventory to match fluctuations in demand. The revenue lost as a result of an unfilled seat when the aircraft departs is lost forever.
- 2. The service is usually personalized. Two people who take the same flight might come away with completely different opinions about the service, depending on their individual experiences.
- 3. There is no such thing as replacement of a bad product, as is the case in the sale of other products.
- 4. It is difficult to check the quality of the service before the final sale. There is no showroom to visit to test the product before purchase.
- 5. Delivery of the product cannot always be guaranteed, due to mechanical problems or the unpredictability of the weather.
- 6. The service can be produced only in batches, as opposed to individual units.

## 7 SCHEDULED OR NON-SCHEDULED SERVICE.

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- For the most part, an airline will offer either a scheduled service or a non-scheduled service.
- **A scheduled airline will fly to different destinations using a published time schedule.** For example, X Airways offers service from Airport A to Airport C on Mondays, wednesdays, and Fridays departing at 0700. Depending on the country of registration, the airline will operate under a particular flight certificate authorizing scheduled service. This certificate is issued by the government (civil aviation authority) of that country.
- **A non-scheduled airline will offer services to different destinations but will not fly according to a published time schedule.** For example, X Airways offers service from Airport A to Airport D but the days and times might not be specific. Again, depending on the country of registration, the airline will be issued a specific flight certificate authorizing non-scheduled service.

## 8 LUXURY, MID-RANGE, LOW-COST AND NO-FRILLS, SHUTTLE, AND CHARTER.

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- when building the airline business plan, the developer must know what type of service to operate in terms of the amenities it will offer.
- Generally, a **luxury-oriented airline** stands a good chance of failing from the start due to high overhead costs.
- A **mid-range airline** will cater to passengers wanting a reasonable airfare with some inflight amenities including food, drink, and entertainment. Generally, mid-range airlines have a reasonable chance to survive as long as the cost structure is well maintained. For the most part, major airlines are categorized as mid-range.



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- **Low-cost carriers** cater to passengers wanting cheap airfares with little demand for inflight services. However, it is important to distinguish between a low-cost and a no-frills carrier. In terms of cost structure, a low-cost airline offers a reasonable airfare resulting from low-cost management strategies. A no-frills airline also offers reasonable or cheap airfare resulting from what might be considered extreme low-cost management strategies. Basically, a no-frills airline offers a seat from point A to point B with no in-flight service.

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- A **shuttle airline** caters mainly to business travelers seeking movement between two major city centers. The shuttle concept is similar to a conventional bus service offering a reasonable airfare with no reservation. high frequency and easily remembered times are typical attributes of a shuttle.
  - A charter airline offers services to destinations based on demand without using a published time schedule. In other words, the aircraft might be rented one time or multiple times to transport people or goods to specific destinations. The more common type of charter caters to passengers seeking leisure-oriented destinations. Most airlines in the charter market operate by a non-published time schedule to specific destinations on a seasonal basis.

## || FIRST, BUSINESS, ECONOMY.

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- **First class:** If an airline offers a first class seat, extra space is occupied by the seat because the first class passenger demands extra leg room meaning increased seat width and pitch. Alongside extra room, this particular passenger type demands a costly in-flight service consisting of food, drink, and personal entertainment.
- **Business class** seating is important to airlines wanting to attract business travelers willing to pay a high air fare.

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- **Low-cost airlines** typically offer a single economy class and generate revenue based on volume rather than by seating class. An aircraft can accommodate more seats with a single seating configuration meaning that airlines operating with maximum deck capacity have lower operating costs passing the difference on to the passenger resulting in a reasonable ticket price.

## 13 FOOD AND BAR.

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- The airline product seems to be changing as the global airline industry continues to evolve. Some industry experts claim the industry is maturing. In reality, the industry is still young and is anything but mature. Until recently, the airline product was defined as a seat combined with additional services like food, beverage and entertainment. Today, anything other than a seat is considered an add-on. In the United States, most airlines do not serve complimentary food items or alcoholic beverages. Today, passengers are forced to purchase such items. In some cases, even the option of purchasing add-ons is non-existent. Unfortunately, for the passenger, this provides an extra expense on top of the airline fare. The flip side is that in-flight meals are often restaurant quality.

## 14 PASSENGER SEAT WEIGHT RESTRICTIONS.

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- Some airlines are now charging overweight passengers a fee resulting in purchase of a second seat or upgrade to another class of service. In some cases, if there are no two seats available or an upgrade is not available, the passenger must wait for the next available flight. The issue of overweight people is a growing problem for U.S.-based airlines as space on-board the aircraft is at a premium. According to the Centers for Disease Control and Prevention, 34% of Americans are defined as obese. Southwest Airlines was the first airline to charge such a fee.

## 15 ENTERTAINMENT.

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- Although many aircraft are equipped with various types of in-flight entertainment, offering such entertainment can be a costly decision. The technology associated with offering movies, radio, television, and telephone is very costly and someone has to pay.

## 16 CARGO AND FREIGHT.

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- If a passenger airline plans to offer cargo or freight service, there are some important factors to consider. Firstly, due to height and weight restrictions, it is important that the transport of such goods does not interfere with the primary revenue generator – the passenger. Also, the type of aircraft operated will impact the amount of cargo and freight that can be hauled. A wide body aircraft is necessary to offer a pallet and container system. Currently, there is only one narrow body aircraft equipped to handle a pallet and container – the Airbus A320. Prior to any operations, the airline business plan should identify how much involvement with cargo and freight the airline plans for the future. The answer to this could impact the type of aircraft flown having a significant impact on costs.



## 17 DUTY-FREE.

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- The offering of duty-free goods only applies to airlines flying on an international basis. For the most part, offering such a service is a positive move because it makes two parties happy. Firstly, the passenger appreciates the opportunity to purchase duty-free goods on board the aircraft. Secondly, the airline benefits by earning a profit on each sale.

## 18 BAGGAGE RESTRICTIONS.

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- Many airlines are increasing deck capacity with increased economy and/or business class seating. Due to increased passenger weight, airlines are finding that they have to limit the amount of baggage a passenger can check-in. Passengers checking-in baggage beyond the airline's restriction are often charged an excess baggage fee. Many airlines have realized how much revenue can be earned as a result of such a fee.

# 19 PRICE

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- Basically, two general factors— **demand and supply** —determine the level of prices in any market. Demand factors are the intensities and loyalties that customers bring: how willing and able they are to pay for air transportation. Supply factors involve the quantity of seats that a carrier places in a particular market. The major component of supply is the total cost of producing and marketing the seats that are made available.

## 20 PROMOTION

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- Promotion is the communication between carrier and customer. This communication can be achieved in various ways, but the two most important forms of promotional communication are **advertising** (sometimes referred to as mass selling) and **personal selling**.
- The broad goal of an airline's promotional activities is to **increase revenues and profits**. To accomplish this, a carrier must engage in activities that **inform, persuade, and remind customers** in the target market about its services. The principal task in promoting a new item is often simply to inform prospective customers about the existence of the service, to demonstrate its superiority over potential alternatives, and then to encourage customers to try the service and form their own opinions.

## 21 EFFECTIVE MARKETING FOR AIRLINES

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- **Social Media**
- Airlines connect with customers on social media, working to deepen the relationship by humanizing the brand. Companies use social media accounts in a variety of ways, including to provide customer service, offer updates on sales and promotions, and give customers a fun glance at what goes on behind-the-scenes. For example, Delta has the Twitter handle @DeltaAssist to provide customer service to social savvy flyers. Southwest frequently shares Facebook updates on community initiatives the company participates in and stories of employees going the extra mile to satisfy a customer.

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- **Unique Advertising**
  - Many airlines are working their way into the daily lives of customers with non-traditional advertising methods. For example, Simpliflying notes that Delta has held “Sky360 Lounges” at food festivals and sporting events, and Air France has sent food trucks out in New York City to distribute free samples to passersby. These creative advertising strategies work to further develop the brand. Instead of simply limiting marketing efforts to frequent flyers, these methods reach the public at large, building a favorable brand image with people who may not already have a preferred airline.

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- **Loyalty Programs**
  - Airline loyalty programs encourage flyers to book repeat flights with the same company. Many airlines charge similar fares for identical trips, so this is a way to gain an advantage. When a customer earns a certain number of points or reaches a specific tier status, he becomes eligible for perks like free flights, seat upgrades, passes to airport lounges, complimentary Wi-Fi, alcoholic beverages at no charge, discounted parking and more. Loyalty program members often book flights exclusively with one or two airlines to earn benefits at a rapid pace.

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- **Distinctive Flight Perks**
  - Many airlines have gained a customer advantage by marketing an entertaining in-flight experience. This includes features like in-seat entertainment systems programmed with current television shows, movies, music and games. Some airlines, including OpenSkies, a subsidiary of British Airways, are even offering passengers iPads stocked with entertainment on select flights. Companies incorporate these perks into their marketing strategies, enticing a customer to choose the airline the next time he flies.



## 25 PLACE

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- In the airline industry, there are three basic types of sales outlets:
- (1) the carrier's own sales offices, including field ticket offices (fTOs), city ticket offices (CTOs), and centralized reservations offices
- (2) other carriers' sales offices
- (3) and travel agencies.
- Several variations of these include joint airline/military ticket offices (JAmTOs) and combined airline ticket offices (CATOs).

## 26 MARKET SEGMENTATION

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- This process involves three steps:
- 1. Finding relevant characteristics that divide a market into smaller consumer groups. For example, an airline market might be segmented by trip purpose (business, pleasure, personal), traveler characteristics (age, sex, occupation, income, flying experience), trip characteristics (length of haul, peak versus nonpeak, day of the week, season), or length of stay (return same day, overnight, vacation).
- 2. Using these characteristics to identify all significant market segments and to relate them systematically to the services each segment might buy.
- 3. Selecting target markets—the collection of market segments most consistent with the company's objectives and capabilities.

## 27 SEGMENTATION

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- **Mercantile Travel.** Retailers, wholesalers, and manufacturers account for a considerable amount of air travel. For example, department store personnel, including buyers, managers, and executives, fly to numerous conferences, trade shows, and special previews of seasonal fashions. Airline marketers view retail establishments as an excellent place to promote travel on their airline, as well as a good target market for air travel. The airline marketing staff assists department store display personnel with various promotions by providing models of airplanes, posters, and so forth.

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- **Religious Travel.** In addition to recognizing the particular needs of the members of this market segment, carriers must be aware of the special protocol involved in doing business with the various groups. Included in this segment are members of the clergy as well as laypeople traveling for numerous reasons, including retreats, conferences, and schoolrelated activities.

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- **Funeral Travel.** Some airlines have a close relationship with funeral directors because they are among the best repeat customers. Funeral directors account for not only the revenue from the shipment of human remains but also the revenue from the grieving relatives (an average of three) who choose to accompany the deceased or to travel on another flight. Here again, the marketing staff works very closely with the customers because of the critical timing involved.

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- **Educational Travel.** The educational travel market segment includes colleges, universities, secondary schools, and the like. Included are administrative personnel, faculty members, students, athletic teams and their fans, along with others, such as college athletic scouts, members of the news media, and promoters. This is a large market segment that makes repeated use of air travel.

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- **Military Travel.** This segment represents a continual flow of travel by personnel on official business, emergency leave, furlough, discharge, and relocation. Some military bases are literally cities unto themselves that provide a significant volume of traffic to carriers servicing nearby airports. Again, the marketing personnel work very closely with the base commander and military staff personnel in developing schedules and services to accommodate the needs of this segment.

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- **Group Travel.** An increasingly important segment of target marketing in recent years has been group travel. The opportunities are unlimited, because most everyone belongs to various groups—amateur athletes, teachers, doctors, post office employees, trade associations, and so on. A specially developed package tour might be a group of diabetics accompanied by a physician or a golfers' tour accompanied by a golf pro. One of the reasons airlines have promoted group travel extensively in recent years is the packaging aspect, which generally includes air fare, hotel accommodations, certain meals, various tours, and even rental cars. In this way, they avoid competing with other carriers only on the direct price of air fare.



## 33 REFERENCES

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- John G. Wensveen (2011), Air Transportation: A Management Perspective, 7<sup>th</sup> Ed, Ashgate Publishing Limited, England.