

2 The Market for Air Transport Services

An airline which is to apply the principles of Marketing successfully needs a thorough knowledge of current and potential markets for its services. This knowledge should encompass an understanding of the businesses in which they participate, and of the market research techniques they must apply in order to gain the knowledge they need about the marketplace. They must be able to identify “Customers” and distinguish them from “Consumers”. They must segment their markets and identify the requirements of Customers in each of the segments. Finally, and most importantly, they must examine their markets in a dynamic rather than a static sense and anticipate future changes in customer needs.

2:1 What Business are we in?

To begin this work, any airline first has to answer the question as to which market or markets are to be studied. To do so, it must answer the fundamental question about the business or businesses in which it participates.

In doing so, there are two possibilities. The first, and obvious way is to define business participation in terms of what the firm does. Thus it would be easy for an airline to say that it was a player in the aviation business.

There is a significant problem in doing so. It will result in a serious underestimation of both the extent and the nature of the competition that the airline faces. As a consequence, defining business participation in this way is often characterised by the term ‘Marketing Myopia’. A far better way is to look at the question from the point-of-view of the needs that the firm is aiming to satisfy and the competition that it faces. A large combination airline will be working in at least the following areas:

1. Transportation

There is a clear economic, and, often, social need for transport. Those with this need will look for it to be satisfied in an optimum way. Whether use is made of air transport or a surface transport mode in order to do so will be less important to them. There are now many short-haul routes where

surface transport can provide a level of service in terms of comfort and door-to-door journey times which is as good or better than that available from airlines. In the future, this form of competition is likely to become more marked still, given the ambitious investment plans now in place in many countries for the improvement of surface, especially rail, transport.

2. Communication

Airlines have always assisted people to communicate, as travel allows opportunities for face-to-face meetings. It should not be assumed any longer, though, that travel is essential for such meetings to take place. The world is undergoing a revolution based on video-conferencing, conference-calling and email. The future will see video-conferencing becoming even cheaper, of better quality (with the spread of Broadband networks), and more widely available. More companies are now investing in video-conferencing suites for their staff. Also, increasing numbers of personal computers are being sold with in-built web cameras, allowing video-conferencing to come to the desk top. These are all indicators of the substantial amount of competition that airlines are already facing from the telecommunications industry. The degree of this competition will increase further in the future, especially during recessionary times when many firms are under acute pressure to save money. Its possible impact on the airline industry is further discussed in Section 3:5:1.

3. Leisure

Airlines today are increasingly involved in the intensely competitive leisure industry. Customers have to decide how they will use both their disposable income and disposable time. Disposable income can be used to purchase holidays. It can, though, also be used to buy a wide range of other consumer items. Disposable leisure time can be used for the taking of air-based holidays. Equally, it can be used for other leisure activities. It certainly will be if travelling by air becomes a tiresome experience through flight delays and more and more chaotic airport handling brought about by increasing congestion and growing security requirements.

4. Logistics

In the air freight industry, it is rarely possible for airlines to sell successfully against surface transport operators on the basis of price. Surface transport rates are almost always cheaper than those charged by the airlines. Commonly, surface rates are only a fraction of the air-based equivalent. As we shall see in Section 2:4:2, airlines are only able to succeed if they propose to the shipper a logistics concept based on fast transport, low inventories and limited investment in field warehousing.

They therefore compete in a Logistics business, with their rivals being the surface transport firms offering a different Logistics philosophy, as well as other airlines bidding for a share of the available air freight market.

5. Information

As a more minor, but still interesting issue, on the cargo side of their business, airlines certainly compete in businesses associated with the movement of information. For example, until the mid-1980s, many airlines had lucrative markets composed of moving urgent documents. Since then, this market has been progressively challenged by the electronic transmission of documents initially through fax machines and, more recently, E-mail.

Another example of competition for the airlines from electronic data transmission is in the field of newspaper publishing. Until recently, many airlines had profitable markets in the transport of newspapers. Newspapers were a classic air freight commodity in the sense that an out-of-date paper had no value and therefore speed was of the essence in getting them to their market quickly. The problem for airlines now is that newspaper publishers have realised that there are two ways of ensuring that this happens. They can, at great cost, ship printed newspapers. The alternative is to transmit the data contained in the newspaper very cheaply to satellite printing stations. The papers can then be printed near to where they will be sold and distributed by truck, at a far lower total cost.

6. Selling Services Running a successful airline requires numerous skills to be developed, and many carriers have an important revenue source from selling these skills to others who need them. Traditional skills which are sold are those associated with aircraft engineering, airport ground handling and data processing and management.

As an overall summary, airlines participate in many businesses and must take a broad view when answering the question “What Business are we in?” If they do, they will be better placed to correctly identify their customers – the subject of the next section – and to take proper account of the extensive, and increasing, amounts of competition that they face.

2:2 Who is the “Customer”?

2:2:1 Definitions

We now turn to the task of addressing one of the most fundamental and

commonest mistakes made in airline marketing – failure to make a proper distinction between the “Consumer” and the “Customer”.

To begin with definitions, “Consumers” are those people who actually travel. They are therefore easy to identify and analyse. Their existence is clear by reporting for flights and their requirements and preferences can be analysed using questionnaires. They are therefore usually given a great deal of attention by those responsible for Marketing in the airline business. Unfortunately, they may not be decision-makers about the things that matter. In Marketing, such decision-makers are defined as “Customers”.

There are at least four customer decisions which must be analysed:

1. Will a trip be made at all?

For many firms today, the cost of travel is a major item of corporate expense. In a recessionary period, firms will attempt to reduce expenditure in order to minimise the effect of recession on corporate profitability or, in extreme cases, to stave off bankruptcy. In such a situation, executives might present a case to their boss that a business trip should be undertaken, only to find that the necessary expenditure is not sanctioned. Instead, they are told to use, say, the phone, email or video-conferencing as a way of conducting the business in question. In such a situation the true “Customer” for the airlines might be the firm’s CEO or VP-Finance.

2. What mode of transport will be selected?

As was mentioned in the last section, it is likely that the future will see a significant increase in the amount of competition that airlines face from surface transport operators, especially railways. On short-haul routes, railways are capable of giving superior door-to-door journey times and, arguably, a better quality of service than airlines. Carriers will face a significant challenge for the business travel market, and may well have to target those who formulate corporate travel policies in order to minimise the adverse effect on their traffic.

For leisure travellers, the impact of surface transport competition is likely to be greater still. Besides competition on service quality, surface operators will be able to challenge airlines on price, with both train and bus services likely to become increasingly significant. The “Customer” in such a situation might be the family member who has most influence in travel decisions.

3. For air trips, what class of service will be purchased?

With many airlines, passengers have a choice of flying First Class (at least

on long-haul routes), Business Class and Economy or Coach Class.² In the business travel market, the person who travels will have little or no say in the decision as to which class will be purchased. Almost all firms have a Corporate Travel Policy whereby very senior executives are allowed to travel First Class, those of middle rank in Business Class (at least on long-haul routes), whilst junior employees have to be satisfied with Economy Class. Interestingly, during recessionary periods, almost all firms have a downgrading policy in order to save money with, in particular, much First Class and Business Class travel being eliminated.

In order to maximise the amount of high yielding traffic available to them, carriers will have to target those who make decisions about Corporate Travel policies. They will, in particular, have to persuade these people that the benefits of buying travel in the premium cabins of the aircraft – for example, that these cabins allow better opportunities for sleep or work – outweigh the very substantially higher prices that are charged for access to them.

4. Which airline will be selected?

If it has been agreed that a particular journey will be made by air, the question of the choice of airline is clearly a crucial one. In the past, many business travellers did have the choice to make this decision themselves. It has been a major trend of the last ten years that this has become so in fewer and fewer cases. As we shall see in Section 2:2:4, during this time more and more companies have centralised travel purchasing in order to gain access to corporate discounts from airlines. Such policies narrowed the choice which the individual traveller could exercise, even if they were not restricted to using a single airline.

In leisure air travel, as will be discussed in Section 2.2.5, the market is still often a wholesale one. Many airlines still mainly confine themselves to selling blocks of seats to Tour Operators and Consolidators. The individuals who travel will therefore have very little say in the airlines that they fly with.

Given the importance of these four decisions, there is a crucial need to take account of them properly if effective marketing policies are to be established. In particular, the mistake of assuming that the “Customer” is the same person who boards the aircraft must be avoided.

² Though in recent years the number of airlines offering a First Class cabin has declined sharply, whilst others – notably Virgin Atlantic – have offered a ‘Premium Economy’ between Business and Economy Class

2:2:2 “Apparent” and “True” Needs

In analysing customer decision-making, all firms need to understand the factors that their customers take into account in making up their minds. In order to do so, the obvious method is to ask them to describe the factors in a properly constructed and administered market research survey.³

The problem for the analyst is that what people say may not be the truth. Rather, it may perhaps reflect what they regard as an acceptable answer, rather than an accurate description of the factors they really take into account. This difference between the claim and the truth is known in Marketing as the difference between “Apparent” and “True” needs.

To illustrate the point, a corporate business traveller asked to describe the factors that they take into account in choosing their airline might give a series of respectable answers, all reflecting the service features that permitted them to use their time as effectively as possible in their employer’s interest. If they did, issues such as flight frequency (to allow for travel flexibility), punctuality and a roomy cabin (to permit working during flight) might figure prominently. The truth might be rather different. Today, many business travellers base their choice-of-airline decisions on their wish to support an airline on as many occasions as possible because this will maximise the personal benefits available to them (bought using their employer’s money) through that airline’s Frequent Flyer Programme. These benefits will of course, feed the True Need of greed.

As another example, almost all airlines attempting to exploit the business travel market find that, in order to do so, they must pander to the pride and ego of those who fly. Such features as separate reservations phone lines, a separate check-in desk (ideally with a piece of red carpet in front of it) and separate cabins on board the aircraft do, admittedly, sometimes have a practical purpose, of allowing the business traveller access to useful benefits. However, of equal, or probably greater, importance is that they massage the travellers’ ego.

“True Needs” in marketing can cover other aspects as well. Some customers might, for example, be lazy and prefer to keep purchasing from an existing supplier rather than make the effort to change even if such a change might result in better value-for-money. Others might be risk-averse, preferring to stay with a tried-and-tested solution rather than an

³ For a survey of current market research techniques, see V Kumar, D A Aakar, G S Day, *Essentials of Market Research*, John Wiley 1999. A Proctor, *Essentials of Marketing Research*, Prentice Hall 2003.

alternative which might be better but which also might go disastrously wrong.

“True Needs” are at the heart of successful marketing. In many ways they reflect the weaknesses of the human personality. They are also relatively constant in their importance through time. No-one who is concerned to make a success of an airline’s marketing activities should make the mistake of assuming that a declared customer requirement is actually a true description of what is motivating purchasing decisions.

2:2:3 Industrial Buying Behaviour

As was noted in Section 1:1:1, a major difference between “Consumer” and “Industrial” Marketing concerns the question of the ways in which decisions are made. In Consumer Marketing it is usually possible with confidence to target the individual or the family. In contrast, in Industrial Marketing, purchasing decisions will often be made in a complex way with different corporate executives interacting in different ways through a so-called Decision-Making Unit or DMU.

Because of its importance, there is now a substantial literature dealing with the workings of Decision-Making Units, and the ways in which those who wish to sell to the firm should approach the different DMU participants. This literature suggests that these participants should be divided into five categories, each of which will be working to their own agenda in terms of both “Apparent” and “True” needs.

These categories are as follows:

1. Deciders

These are the people who will make the final purchasing decision. They will, no doubt, have an Apparent Need of making the decision which will be in the best interest of the firm that employs them. There may, though, also be a hidden agenda. For example some Deciders may be looking for personal inducements through bribes or offers of corporate entertainment. Others, perhaps fearful of losing their job, may be looking for a safe, risk-free solution.

2. Gatekeepers

“Gatekeepers” are defined as those who control the flow of information into the Decision-Making Unit. Gatekeeping may take on a number of forms. The Decider’s secretary or Personal Assistant will be taking on a Gatekeeping role if they opt to protect their boss from timewasting visits by what they believe will be unwelcome sales people. They will do so by declining to offer appointments to these sales executives when they phone.

Another form of Gatekeeping occurs when someone attempts to keep people away from the DMU who might show up their previous decision-making as having been mistaken. Once a decision has been made, there are almost always people with a vested interest in ensuring that it remains unchallenged. They will try to isolate people who might be able to prove that the firm would have done better to buy from another supplier.

Anyone involved in Industrial Marketing will have to deal with Gatekeeping issues from time-to-time. There is a variety of methods open to them in doing so. They may try, for example, to by-pass the Gatekeeper. If the problem is a secretary who is refusing to offer an appointment, they could time their next phone call to ensure that it was after business hours when the secretary might have gone home but their boss is still in the office. If the boss answers the phone, an opportunity will present itself to attempt to persuade them that an appointment should be given. (If such attempts are successful, of course, they will invite a backlash from the secretary the next morning when they look at the diary. This may in turn result in them attempting to discredit the salesperson in the eyes of their boss).

A second method of addressing Gatekeeping problems will be through intimidation. Here, the sales person makes it clear to the Gatekeeper that they will offer a deal which will result in substantial benefits to the firm in question. These benefits cannot be given, though, if they have no opportunity to talk to the relevant decision-maker. It will reflect poorly against the Gatekeeper's judgement that their attitude is threatening to deny these benefits to the firm. It could even cause their job security to be brought into question if their attitude becomes more widely known – as the salesperson will ensure that it does unless they change their mind about their refusal to offer an appointment.

Whilst it may sometimes be necessary to use by-passing or intimidating tactics, they should be avoided if at all possible. The making of enemies seldom achieves the desired objective, in Industrial Marketing or anywhere else. By far the best tactic is to aim to convert the Gatekeeper so that they adopt an attitude of support rather than hostility. If the Gatekeeping problem is that of a secretary refusing to give an appointment then the offer of appropriate corporate entertainment may be sufficient. If the Gatekeeper is someone attempting to ensure that a previous decision they have made cannot be challenged, it is far better to address directly the root cause of the problem – the fact that they feel vulnerable and are worried about their status and job security. Reassurance that they will have an important future role to play if the decision is changed will be a way of calming these fears.

3. *Users*

Users are defined as those people who will actually use the product or service once it has been purchased. Because of this, they tend to be very concerned about the quality and utility of the product, and less worried about the cost of obtaining it.

In the next section, we shall be applying this model of Industrial Buying Behaviour to the situation where a firm is seeking to sign a corporate deal with airlines, whereby carriers will offer discounts in return for loyalty. In such a situation, the “Users” will be the business travellers who actually fly. They will lobby the “Decider” (commonly an executive with a job title such as Corporate Travel Manager) to deal only with airlines that offer extravagant service standards, a strong product reputation and an attractive Frequent Flyer Programme and with a prestigious brand position, even if these airlines do not offer such a good deal financially.

4. *Buyers*

Buyers are those who negotiate the final deal with the different suppliers. In a large firm, there will probably be a separate Purchasing function. In a small company, negotiations with suppliers may be the responsibility of the Finance Department.

In terms of true needs, those carrying out purchasing negotiations will certainly wish to protect their job security. They will probably conclude that the best way of doing so will be to demonstrate that their interventions save the company substantial amounts of money. To take account of this, salespeople will probably have to reserve the final concession that they are empowered to make until the last stages of a negotiation when the Purchasing Department is involved.

As a further aspect of saving money, those from the Purchasing Department are unlikely to share the enthusiasm of Users for extravagant product standards. They will probably favour more utilitarian solutions. For example, in the case of corporate dealing for business travel, those from the Purchasing function may well prefer deals with those so-called “Cost Leader”⁴ airlines which are able to deliver the product basics of safety, frequency and punctuality, but which do not offer the frills of luxurious seating and high levels of provision of food, drink and in-flight entertainment. The fares on offer from such airlines will probably be cheaper. Such fares will also address the natural prejudice of people who probably do not fly a great deal on business themselves and may regard those who do as a pampered and privileged minority.

⁴ See section 4:2:1.

5. Influencers

Influencers are those people who do not use a product, or become involved in detailed negotiations with suppliers, but who do influence the final outcome of the buying process.

Influencers can come from both outside and inside a firm. An example of an outside Influencer might be the Decider's partner, who had enjoyed some particularly pleasant corporate entertainment offered by one supplier involved in bidding for a piece of business. They then encourage their partner to continue to deal with this firm in order that further opportunities to accept hospitality might arise. A further example would be a government minister or civil servant urging the firm to take account of the national interest in making its purchasing decisions by considering such issues as employment and the Balance of Payments.

Internal Influencers might exist as a result of internal corporate battles. For example, one unscrupulous executive might be trying to discredit another. They might well argue that the firm should change its source of supply for a product or service if this would help to embarrass the person who had selected the original supplier.

2:2:4 The "Customer" in the Business Air Travel Market

It is hoped that enough has now been said to show that correctly identifying and targeting "Customers" rather than mere "Consumers" is a cornerstone of successful marketing in the airline industry. This leads to the question of the identity of different customers and their "True Needs" which should be taken into account in order to ensure accurate targeting.

We have already seen that, in the business travel market, there will still be occasions when the person who travels has an absolute right to select the mode of transport they will use and, if it is to be an air-based journey, the airline with which they will fly. For example, someone running their own small business will presumably have this right, whilst even in large corporations there are still cases where companies leave these choices to individuals. We shall be further considering the question of the requirements of these people in Section 2:3:3.

Even where someone is able to claim that they have the right to choose the airline they fly with themselves, it may not actually be the case that they exercise this choice. For example, a busy business executive might trust their secretary to select airlines, and make the necessary bookings. There can be no doubt that executive secretaries make up an important group of "Customers" in the business air travel market.

In making a choice-of-airline decision, a secretary will presumably not select an airline which they know their boss hates. They will also take

account of requirements such as preferred departure airport, flight timings etc. However, from the point-of-view of Airline Marketing, there will presumably be occasions where two or more airlines both have a sound reputation, and offer an equivalent product in terms of timings. Here, the secretary will be able to exercise choice. As with all marketing decisions, they will have a set of True Needs which must be understood. For example, they will have understandable preference for the easy solution. It is unlikely that they will be prepared to wait for twenty minutes for an airline reservations department to answer the phone, when they know from experience that its rival will always respond instantly, or attempt to navigate a confusing website if other sites are easier to use. They will also get to know which airline is pleasant to deal with in terms of a warm and caring attitude from its customer contact staff.

Secretaries will also often have a True Need of greed, in that they may well prefer to deal with airlines that offer them an incentive. Thus many airlines have clubs for executive secretaries which provides a database to allow them to target secretaries with offers of corporate entertainment and discounted travel in return for loyalty.

Another example of a possible Customer in the business travel market is the travel agent. A business traveller may have the right to choose the airline they fly with themselves, but may leave the choice to their travel agent on the grounds that, perhaps, they are too busy to worry or that they regard the travel agent as an expert whose advice they should accept.

The role of the travel agent is still a controversial one in Airline Marketing and there will be repeated references to it throughout the book. It is easy to isolate the proportion of bookings which come through agents today. In some markets, still something over 70% of the bookings that traditional airlines receive come through agents, though the proportion is now generally declining. In terms of the subject of this section of the book, though, this does not mean that the travel agent is necessarily a "Customer" for them on such a high proportion of occasions. If someone specifies to the agent that one particular airline is the only one that is acceptable to them, the agent does not make a choice as a Customer, they merely take an order. The agent is a Customer, though, in any situation where, as described above, the person who travels leaves the choice-of-airline decision to them.

In terms of True Needs, senior agency managers will be motivated by greed, in that they will be predisposed to recommend the airline offering the highest rates of commission and certainly those which still pay commissions rather than those which do not. They do not have complete freedom to merely consider commissions, though, because if they recommend airlines that the person who travels finds unacceptable they run

the risk that they will lose the account to a rival, and presumably more trustworthy, agency. There are, though, now a good number of respectable airlines where a recommendation for one giving better commissions would not arouse suspicion.

In the world of travel agency operations, airlines also have to take account of another set of customers. These are the travel clerks who actually make bookings and issue tickets. Generally, senior agency managers do not carry out this work. Equally, they rarely pass on to their staff the financial benefits of additional commission payments. In many countries, travel agency staff are poorly rewarded financially. Because of this, travel agency clerks often have true needs similar to those noted above for executive secretaries. They will prefer airlines that are easy and convenient to contact. They will also welcome the offer of incentives – particularly free travel opportunities on so-called educational or familiarisation visits arranged by airlines.

The final example of a “Customer” in the business air travel market has already been referred to in the last section. This is where a firm appoints someone to be responsible for corporate dealing with carriers. Under such an arrangement, freedom-of-action will be denied to the executives who actually fly. Instead, they will be required to choose from one or a small number of airlines. In turn carriers will be approached to offer substantial discounts in order to be one of the favoured airlines. In a large organisation, the management of business travel might be given to one executive with a job title such as Corporate Travel Manager. In a smaller one, it might be a task carried out by a senior manager from the Finance or Purchasing department.

As we have discussed, the growth of corporate dealing has been one of the major trends in business air travel marketing in recent years. In particular, recessionary conditions from 2001 until 2003 saw severe pressure being placed on travel budgets in many markets, and corporate dealing being recognised as a valuable way of reducing costs. The possible renewal of such conditions in 2007 will again bring pressure on travel budgets.

Today, the question of correctly identifying and targeting “Customers” in the business air travel market is a vital one for airlines, and one that is causing increasing controversy. The problem is that it is very difficult to be certain exactly who is making the relevant decision. The normal expedient adopted by many airlines of simply asking the person who flies the question as to who was responsible for their choice-of-airline decision is unlikely to yield much enlightenment, striking as it does at the heart of questions about corporate status and privilege.

Because of this difficulty, many airlines today follow the policy of

giving incentives to everyone, whether or not the person in question is actually able to influence the amount of business obtained. Thus, today almost all airlines offer individual travellers incentives through a Frequent Flyer Programme. They may also give the firms that these people work for substantial corporate discounts. Finally, the travel agents that these firms use are still sometimes rewarded by the offer of override commissions, though the extent of this practice has declined in recent years.

The results of such profligacy was that selling costs were for a long period the fastest rising cost of doing business for many traditional airlines. Indeed, the escalation of such costs stood in sharp contrast to carriers' success in reducing many other costs. It will be a major challenge in the future to better identify "Customers" and to ensure that promotional spending is more effectively targeted. This is especially so because failure to do so is a mistake most of the newer "Cost Leader" airlines have avoided.

2:2:5 The "Customer" in the Leisure Air Travel Market

Identifying the "Customer" is just as difficult, and just as important, in the leisure air travel market.

As was mentioned in Section 2:1, when airlines are bidding for business from the holiday or vacation traveller, they are competing for the person's disposable time and disposable income. They must also ensure that, if it is decided to spend time and money on a holiday, an air-based vacation will be selected. The airline must then ensure that the holiday is taken at a destination which it serves, and that people travel to the destination on its flights, rather than on those of a rival carrier.

In analysing this complex set of decisions, it should first of all be born in mind that a great deal of holiday travel is undertaken in family groups. The question of how travel decisions are made within the family is thus a crucial one which should, for example, decide the creative content of advertising and promotional work, and the media buying decisions which are made.

Within the family, children can have an important influence on travel buying decisions made by their parents. For very young children, parents may deliberately choose an airline where they believe that facilities available for the care of babies are good. For older children, such factors as the availability of video games in an airline's in-flight entertainment system might be significant. For older children too, the choice of vacation destination may be made by their parents, but parents will take into account their children's preferences. This is something which has been recognised in the creative strategies adopted by a number of vacation

destinations, such as Disney resorts, in their advertising. Much of this appears to be designed to exploit so-called ‘Pester Power’.

It is also a crucial issue as to whether or not men or women have a greater influence on holiday decision-making. Here, cultural influences assume great importance. Some societies are traditionally matriarchal, where women are dominant in family life. Others are patriarchal, where men dominate. In the UK, it is recognised that women are extremely influential in holiday planning, and the creative strategies adopted by airlines and tour operators have increasingly reflected this.

With other possible “Customers” in the leisure air travel market, it must be recognised that the travel agent is important, being in fact more so than is the case for business travel. In the leisure market, the question of the destination for a vacation is a significant one, where people will often accept the advice of their travel agent. Of course, with business air travel the destination will have been decided prior to contact with the agent.

Another difference between business and leisure travel market is that, as will be discussed in Section 2:3:4, the business travel market is a concentrated one. It consists of a relatively small number of people who each travel a great deal. Indeed, the average number of air trips made per year by a business traveller averages more than ten in many markets. The leisure market, on the other hand, has fewer frequent travellers. Some leisure travellers are making their only trip of a lifetime. Many more take only one air trip a year, for their annual holiday. Given, therefore, that they are relatively inexperienced, they may have to turn to someone for advice on such aspects as the making of bookings, visa applications etc. The natural place for them to look is to their travel agent. The result is that it is possible to argue about the importance of the travel agent as a “Customer” for airlines in the business travel market. No such argument should occur with leisure travel. Travel agents are still important, and airlines must cultivate their loyalty if they are to obtain a proper share of this market. They will do so through the traditional so-called offline agents, but will increasingly have to sell over the Internet to the rapidly developing on-line travel agency industry (See Section 7:2).

A further feature of the leisure market as far as airlines are concerned is that, as was noted in Section 1:1:2, it is often still a wholesale market. Despite the use of on-line booking leading to an increasing presence in retailing, many airlines still wholesale blocks of seats to organisations known generically as Tour Operators (or Travel Organisers) and “Consolidators”.

The difference between a Tour Operator and a Consolidator is becoming more and more difficult to define, given that many firms now combine both functions. In principle, though, the difference is that the

Tour Operators are aiming to be value-adders, in the sense that they take airline seats, accommodation, surface transfers and add-ons such as tours, sports opportunities etc to make up packaged holidays. A “Consolidator” is simply a dealer in discounted air tickets. More popularly known as “Bucket Shops”, Consolidators provide an outlet whereby airlines can wholesale blocks of seats for a very low cost-of-sale. The problem, of course, is that because of the Consolidators’ bargaining power, prices and yields can be extremely low.

In targeting the leisure air traveller, airlines must regard the senior managers and product managers of major Tour Operators as very important customers. They will have no hope of success in this market unless they can persuade Tour Operators to feature the destinations they serve in their brochures, and on their websites, and, when they do, to buy their seats to serve these destinations from the airline in question.

With the role of the Consolidator, airlines have difficult decisions to make, decisions which are further discussed in Section 7:1:1. Reliance on them as a significant channel of distribution, will result in a straightforward selling task, in that an airline will be able to act purely as a wholesaler. There is a grave risk though, of the carrier losing control of its distribution channels, with potentially disastrous financial consequences. If, though, a decision is made to make significant use of the Consolidator channel, then the owners of the major consolidators must be regarded as highly significant “Customers”.

2:2:6 The “Customer” in the Air Freight Market

The focus of this book is mainly on the passenger side of the airline business. A full study of the application of marketing principles to the air freight business is available elsewhere.⁵ It is nonetheless important that everyone who works for an airline should have an understanding of the air freight business, because the nature of the airline industry is such that frequent liaison will be necessary between passenger and freight departments. Air freight also gives another excellent illustration of the ways in which the application of marketing principles can make the difference between success and failure. No apology is therefore made for the inclusion of coverage of the air freight industry in this book.

In looking at the question of the “Customer” in the air freight market, it should first of all be born in mind that there are marked differences

⁵ See “Effective Air Freight Marketing” by Stephen Shaw, Pitman Books, 1993. A new edition is in preparation and will be published in the autumn of 2007.

between the passenger and freight businesses. These are discussed further in Section 2:4:1.

In air freight, marketing intermediaries known as Air Freight Forwarders are extremely important to most airlines. Few carriers have a significant commitment to retail marketing. Instead, more than 90% of their traffic is typically provided by forwarders. There is every possible reason to regard the forwarder as a significant customer, more important still than the travel agent on the passenger side of the business. There seems to be a much greater degree of willingness on the part of freight customers to allow forwarders to make routeing and carrier selection decisions than is the case with travel agents. Also, a considerable proportion of air freight traffic is sent under the 'Consolidation' principle. Here, a forwarder will gather together a large number of small packages from individual shippers and present them to the airline as one large consignment. In return, the airline charges a much lower rate per kilo, and the forwarder passes on some of this saving to the shippers who generate the small consignments.

By definition, when shippers allow their consignments to be sent as part of a Consolidation, they are accepting that they will have no right to decide the airline that will be used to carry them. Instead, the decision as to which carrier will be given the traffic will be made by the senior management of the air freight forwarder, and all airlines must regard such managers as 'Customers'.

In the individual shipment, non-consolidated market, airlines will have another set of customers – the clerks who work for freight forwarding companies. A great deal of air freight moves at night, and is dealt with by an army of shift-working clerks. Also, as we shall see in Section 2:4:2, a considerable proportion of air freight moves as emergency shipments with no prior notice of the need to move goods being possible. In such a situation, routeing and carrier selection decisions will be made by clerks, late at night, when the senior managers of a forwarder are at home in bed. Airlines therefore have the task of building and maintaining a relationship with forwarder clerks as a significant customer group.

As has been noted above, many airlines only attempt to market their air freight services through air freight forwarders. For those that try and do more than this, a very much broader base of 'Customers' appears.

It should first of all be born in mind that in air freight there is a true 'retail' market of non-expert users. For example, a secretary may find that their boss tells them to send a small, urgent package of papers or samples. It is a major success of the so-called 'Integrators' (to be further discussed in Section 4:4:2) that they have been able to simplify their processes to such an extent, and to design and administer a retail marketing

organisation, so that their services are easily accessible to all customers.

Away from the small shipment market, a limited number of airlines have taken this retail marketing philosophy in another direction, in that they have chosen to deal with the firms who produce freight, rather than merely rely on traffic offered to them by air freight forwarders. To say that such policies have proved controversial would be an understatement. The subject is covered fully in Section 2:4:2. For the moment, though, it is important to note that such a strategy requires a completely different view to be taken regarding the identity of the 'Customer'.

In bidding for business from the true originators of traffic, airlines will be facing two different situations. Firstly, they will have to attempt to obtain a good share of existing air freight flows. In order to do so, they will normally contact the Shipping Manager or some similarly-titled executive. Whether the correct person to approach is with the exporting firm or with the firm carrying out the importing activity will depend on the terms of trade under which a consignment is moving. Secondly, any cargo-orientated airline will also need to develop new air freight traffic by arguing that firms should use air freight in order to exploit new marketing opportunities, or to improve on the efficiency of existing logistics systems based on surface transport.

The exact arguments which should be used to do so are complex ones and are again covered in Section 2:4:2. For the moment, though, it should be noted that air freight can only be justified as part of a logistics philosophy in which higher transport expenses are traded off against cost savings and marketing benefits achieved elsewhere. In most firms, Shipping Managers are comparatively junior executives who do not have the authority to make these tradeoffs as they have no say over issues such as inventory and warehousing policy. In order to achieve a favourable outcome, airline salespeople will often need to target their message at a much higher level in the management hierarchy. In some firms, the Managing Director or President will be the right person to approach. In others, which take an integrated view of the management of the logistics function, there may be an Executive Vice-President or Board Director in place whose responsibilities include all the sub-functions of Logistics. If there is, this person should clearly be targeted in a sales campaign.

2:3 Market Segmentation – Air Passenger Market

2:3:1 The Concept

In Section 1:1, it was stated that the objective of a firm's marketing policies

should be to meet the needs of its Customers, at a profit. We now have to deal with the problem that in one very real sense, this ideal objective is often unobtainable.

It is a truism to say that all Customers are different. If an airline was to carry out market research into the requirements of its Customers, the outcome would not be a uniform set of results. Rather, there would be a spectrum of needs, and it would be quite impossible for the carrier to meet all these needs exactly whilst at the same time retaining sound production economics.

The problem is a common one in all areas of Marketing. For example, a car company might set out with the reasonable-sounding objective of giving all its customers exactly the colour of car that they would like. This would mean, though, producing some cars in wildly eccentric colours in order to satisfy the most unusual requests, with the result of very high production costs. Instead, car manufacturers usually produce cars in, say, eight or ten different colours. This gives them the benefit of much lower costs, but they have to accept that they will not be able to fully satisfy the requirements of all of their customers. Those with outlandish tastes will only be able to choose from cars which in no way give them the colour they are looking for. Even more conservative customers may find that a particular shade is too light or too dark.

The process of trading off customer requirements against production economics occurs in almost all industries – notably so amongst airlines. It is called ‘Market Segmentation’, and leads to the following definition of a ‘Market Segment’:

A market segment is a group of Customers who have sufficient in common that they form a viable basis for a product/price/promotion combination.

There are two possible mistakes which can be made when segmenting a market – those of under-segmentation and over-segmentation.

Under-segmentation occurs when Customers are grouped into segments which are too large, and where there is actually a high degree of difference in the requirements of those included in the segment. A finer segmentation might allow at least some of these differences to be incorporated in product, price and promotion policies without an undue cost penalty being incurred. Over-segmentation is the situation where too many segments are isolated, with the result that they give insufficient indicators with regard to policy development.

The correct segmentation does, of course, depend on the question of the use that will be made of it. With product planning, almost all airlines are handicapped by the fact that only two or three classes of service

currently exist on board aircraft.⁶ Therefore, a broad segmentation must be used for product planning purposes. In contrast, if the objective is to provide the basis for a Database Marketing campaign, a much finer segmentation can and should be employed.

2:3:2 Segmentation Variables in the Air Passenger Market

Segmentation of the air passenger market has traditionally been based on the use of three variables: the purpose of the passenger's journey, the length of their journey and their country or culture of origin. Each of these variable remains important in Airline Marketing today, and we will examine them in turn.

1. Journey Purpose

Journey purpose has always been the fundamental segmentation variable in the air passenger market, with the essential division being between business and leisure travel.

In using such a division, it should not be assumed that all air trips can be placed in one of these two categories. Some are completely outside them. For example, many airlines have significant markets which consist of pilgrims visiting Islam's holiest places in Saudi Arabia. Such trips cannot be viewed as either business or leisure – they constitute an entirely separate market segment. Or again, airlines often find that they derive business from the medical market where someone who falls ill finds that the treatment they need is not available locally. They therefore travel by air to a destination where medical facilities are better. Again, the medical market should be viewed as a separate market segment.

Despite the clear existence of exceptions, the distinction between business and leisure remains a valuable one in Airline Marketing and there is no doubt that a usefully high proportion of trips can placed in one of these two categories.

In looking at the Journey Purpose variable, worthwhile sub-segments can be isolated, in both the business and leisure categories.

In business travel, a useful distinction is between Corporate and Independent business travellers. Corporate travellers are those who travel for a company, and who are able to put the price of their ticket and other business travel costs onto an expense account. They may adopt a more cavalier approach to the costs of the services they buy, placing importance

⁶ Though some airlines, notably British Airways and Eva Airways, currently use four classes.

instead on high product standards. Independent business travellers, on the other hand, are those who are self-employed or who work for small companies. These people feel to a much greater degree that the price of an air ticket is coming out of their own pocket. As we shall see in Section 2:3:3, some of their requirements are identical to those of the Corporate traveller. They do, for example, still regard a high frequency of flights and good punctuality as essentials. They are, however, often prepared to make sacrifices in terms of product frills – for example, by travelling in the rear cabin on board the aircraft rather than choosing costly First or Business Class products, or by using one of the so-called “Cost Leader” airlines. There are now many signs that the size of the Independent sub-segment of business travel demand is increasing relative to the size of the Corporate sub-segment. We shall look at the factors which explain this trend, and at its possible significance, in Section 3:4:4.

In the leisure segment of demand, again, two sub-segments can be isolated – those of Holiday and Visiting-Friends-and-Relatives (VFR) travel. When someone is travelling by air on holiday, they still have to pay for their meals and accommodation at their destination. This restricts the size of the market to those who have relatively high disposable incomes. With VFR travel, on the other hand, meals and accommodation are normally provided free-of-charge. This allows airlines to develop new markets amongst people with lower disposable incomes, especially in situations where recent population migrations have left strong residual ethnic links between two communities.

2. Length of Journey

There are fundamental differences between the requirements of a short-haul traveller compared with someone who is flying a long-haul route. As we shall discuss further in the next section, on short-haul routes, the airport experience is an especially important one, whilst in-flight aspects such as seating comfort or food assume rather less significance. On long-haul routes, on the other hand, the in-flight experience is very important indeed in ensuring customer satisfaction.

An interesting debate is where the cut-off point between short-haul and long-haul services comes. No-one would presumably dispute that a flight of, say, forty-five minutes’ duration should be regarded as short-haul and one of ten hours as long-haul. The difficult area is that of flights of, say, three or four hours. Here, for reasons of operational convenience most airlines continue to provide their short-haul product, despite the fact that passenger expectation is often for something substantially better. In particular, passengers will almost certainly respond unfavourably to being

offered service in a single aisle aircraft with six abreast seating and a narrow seat pitch.

3. Country/Culture of Origin of the Traveller

In the airline industry in recent years there has been considerable discussion of the concept of 'global brands' and the possibility of truly global branding becoming a feature of Marketing in the aviation business. At the same time, with many airlines grouping together in large alliances, attention has been focussed on the supposed need for seamless service concepts whereby wherever anyone flies, anywhere in the world, on the traffic system of the alliance, they should receive a comparable product.

Unfortunately, global branding and seamless service concepts in aviation come into conflict with the marked differences in customer requirements which occur between different cultures. For example, most people in north-west Europe or North America, would recognise a stereotype of the 'Business Traveller' as being someone who is middle-aged, and soberly dressed, carrying only a small amount of baggage. In contrast, in many third-world countries, 'Business Travel' takes on a quite different meaning. It largely consists of traders who fly to a destination where consumer goods are available cheaply. These goods are then purchased and flown to the developing country where they are in short supply and can therefore be sold at a premium. In strong contrast to the product standards that might be expected by a European business traveller, in many developing countries such standards are irrelevant. Instead, overwhelmingly the most important customer requirement is that the airline should offer a high free baggage allowance.

Even within the confines of market segments derived from developed countries, significant market-by-market differences in customer requirements occur. For example, different races often vary significantly in terms of height and weight, with people from many Far Eastern cultures often smaller on average than their European or North American counterparts. They may therefore regard seating comfort as being a rather lower priority. Or again, questions of appropriate food-and-drink to be offered will vary from market-to-market. A suitable 'breakfast' in France will be a different meal from what would be acceptable in the U.K.

All-in-all, the question of culture or country of origin of the person who is travelling must be seen as a highly significant segmentation variable in aviation marketing.

2:3:3 Customer Requirements – Business Travel Market

Given the segmentation of the air passenger market that we have been describing, it is useful to return to the definition of ‘Marketing’ given in Section 1:1. There it was stated that “Marketing is the management process responsible for identifying anticipating and satisfying customer requirements profitably”. From this definition, it might be thought that our task is now a straightforward one. Having identified the main variables used to segment the market, we should now move on to discuss the requirements of customers in each of the main market segments. Unfortunately, there is a significant complication. Despite our definition of marketing encompassing the concept of satisfying customer needs it is rarely possible to immediately satisfy all possible customer requirements. The reason is that to do so would require a degree of spending that would prove uneconomic. Instead, airlines have to prioritise needs so that what they are able to invest is focussed on their customers’ most important requirements, on which their choice-of-airline decisions are most likely to depend. Customer Needs, therefore do not just have to be identified, they have to be prioritised as well.

If this is the case, it raises the question of how both the identification and prioritisation can take place. There are, of course, standard techniques of market research and analysis that airlines can use. Many carriers, for example, carry out in-flight surveys of their passengers. Often, such surveys include questions which ask passengers to list the factors they take into account in choosing their airlines. Unfortunately, in-flight surveys only allow carriers to sample the opinions of people who are flying with them already. They are potentially even more interested in the views of people who are at the moment choosing to fly with their competitors.

To remedy this problem, it is possible to engage firms of market research consultants and instruct them to carry out a survey of the whole of a market, rather than just amongst the airline’s own customers. These surveys may be carried out by mail or email, by telephone or through individual or group interviews. Interview-based research at least should have the benefit of a better structure and more reliable answers, though at the penalty of a substantially increased cost. Even with such research, though, there are risks. In particular, respondents may give answers that they feel the questioner wants to hear, or which match up to their own, not necessarily accurate, view of their own importance. As was mentioned in the last section, these latter issues often arise especially over questions as to who is responsible for the person’s choice-of-airline decisions. There is a natural wish to give the impression that they are important enough to make this decision themselves, even if they are in practice bound by a company

travel policy that allows them little or no flexibility.

An alternative way of understanding customer needs is increasingly open to airlines as the forces of deregulation and liberalisation advance in the industry. It is one thing to ask people what their requirements are. It is often a more convincing policy to observe what they actually do when they are presented with a choice. Such situations often occur when new competitors arrive in a market, offering radically different service concepts from the incumbent carriers that they are challenging. If these new competitors immediately achieve a substantial market share, it allows the analyst an opportunity to change and adjust views about the nature of market requirements.

As an example of this, as we will discuss in Section 4:2:1, in many markets one of the major trends of recent years has been the rapid rise of airlines offering very low fares, and asking passengers to make carefully calculated sacrifices regarding frills in the product to obtain them. In the USA, by far the most successful of these carriers has been Southwest Airlines. Recent estimates have suggested that upwards of 25% of US air travellers are now choosing one of the no-frills airlines, and that a significant proportion of these people are business travellers rather than the back-packers one might have expected to make such a choice. In turn, this has led to a reappraisal of the priorities of customers, especially in those markets with only a short flight time of an hour or less. Similar rethinking has been required in Europe as a result of the substantial growth achieved by, amongst others, Ryanair and Easyjet.

Having made these qualifications, it is now necessary to set out some opinions as to the nature of customer needs, starting with the business travel market. We shall divide our discussion between the Corporate and Independent sub-segments of business travel demand, and between short and long-haul routes. In turn, we shall begin with what the available evidence⁷ suggests are the high priority issues.

1. Frequency and Timings

In short-haul markets, frequency and timings are all important for the business traveller. Most business people find that their lives are extremely busy, and that their plans often change at short notice. If they do, an airline offering them a high frequency will have crucial advantage. Frequency will ensure that business travellers can fly out for a meeting shortly before it is due to begin and return to their offices or homes very soon after it has

⁷ See for example the Corporate Travel Survey carried out annually by IATA, the airlines' trade association, and the OAG Business Travel Lifestyle Survey. Again, this is an annual publication.

been completed. Because this is so, on almost all routes there will be a very strong correlation between the share of the frequency that an airline holds, and the share of the market it will obtain. Indeed, there is some evidence to suggest that this is an S-shaped relationship where the airline which dominates its competitors in terms of frequency will obtain an even higher share of the market than its frequency share would indicate.

Alongside the question of flight frequency, the timing of flights will also be a vital consideration. A high frequency of flights will be of no value if all the flights are concentrated at the weekend or during middle-of-the-day periods. It is essential that there should be extensive opportunities on short-haul routes for business travellers to make day-return trips. Flights will therefore need to be concentrated in the early morning and evening periods.

2. Punctuality

Punctuality of flights is of obvious, crucial, importance to the business traveller, with flight delays meaning inconvenience, missed appointments and, perhaps, the loss of customers. No airline can hope to obtain a large share of the available business travel market if it is saddled with the handicap of a poor punctuality reputation.

3. Airport Location and Access

On short-haul routes, passengers will prefer service from a local, easily accessible airport, rather than from a more distant hub. This rule may apply even if the service from the local airport is with a “No Frills” airline.

4. Seat Accessibility/Ticket Flexibility

“Seat Accessibility” is a piece of aviation jargon which refers to the probability of a passenger being able to book a seat on a flight shortly before it is due to depart. It is an important product need for the business traveller. Some business travel is undertaken in response to a sudden crisis, which requires someone to travel on a “next flight out” basis. In other situations, a flight may be booked well in advance, but at the last minute a change of plan means that the booking must be cancelled and a new one made on an earlier or later flight. This requires that the ticket held by the passenger should be a flexible one, and that seats should be available near to flight departure time on the alternative service. Clearly, an airline can be giving a very high frequency on a route, but this frequency will be of no value to the business traveller if all the flights are fully booked days or weeks in advance.

A further aspect of ticket flexibility is that many business travellers expect the right to no-show for a flight, and then to be re-booked on a later

one, without any penalty being charged. Of course, because of this, airlines have difficult decisions to make about the extent to which they will overbook flights to take account of the likely extent of no-shows, an issue which is further covered in Section 5:4:2.

5. Frequent Flyer Benefits

Today, almost all airlines operate their own Frequent Flyer Programme, or are partners in another carrier's programme. This whole, controversial, subject is dealt with in Section 9:3. In that Section, we shall be probing the question of the degree to which FFP benefits build market loyalty. It will be argued there that these benefits can be important in doing so, but that on short-haul routes their impact should not be exaggerated. For a short journey, the number of mileage points on offer will be quite small. It is true that the passenger will often happily take these by choosing the airline whose Frequent Flyer Programme they are currently supporting. However, what is uncertain is the extent to which they will actually change their behaviour and accept a less convenient option in terms of flight frequency, flight timings and departure airport in order to do so. The evidence is that on short-haul routes flights are chosen on the basis of an appropriate departure timing and the availability of a seat. If this is the case, then the offer of Frequent Flyer miles simply acts as a welcome bonus.

6. Airport Service

On a short flight, time spent at the airports at each end of the route may exceed the flight time. It is therefore not surprising that airport service should be a significant factor in choice-of-airline decisions. Business travellers will demand the opportunity to check in very late for a flight, by using a separate check-in desk to guard against the possibility of being delayed by a long line of less time-sensitive travellers. An online check-in facility may be even better. Today, they will expect expedited security and passport checks, and that a lounge should be available in which they can relax prior to a flight and make any last-minute phone calls or send emails. Finally, they will expect a premium baggage service. For many, this will mean that they do not check in baggage at all, but instead are able to carry their baggage on board with them. This requires airlines to provide large overhead baggage bins on their aircraft. When a larger amount of baggage is being carried and business travellers have to check it in, they expect an opportunity to retrieve bags very quickly at the destination airport.

Airport service provides a good illustration of the differences between 'Apparent' and 'True' needs discussed in Section 2:2:2. In all the factors mentioned above, the business traveller could make a good case for the service feature being an essential component of a product which will meet

their air travel needs. For example, a late check-in will have a value in allowing them to maximise the time they spend in their office before leaving for an air trip. However, at the same time, the separate check-in desk also panders to True Needs associated with pride and ego and the need for a recognition of status, something of great significance in terms of effective marketing to the business traveller.

7. In-Flight Service

On short-haul routes, the fact that flight times are short means that in-flight service often assumes a lower priority than frequency, punctuality and airport service in choice-of-airline decisions. Nonetheless, it can still be extremely important. As we shall see in Section 5:3:2, in competitive markets airlines usually have little choice but to match the frequency of their rivals and to closely mimic their flight timings. Also, it is sometimes difficult to achieve a Sustainable Competitive Advantage through airport service, at least in the large number of countries where airport terminal facilities are provided on a common user basis by airport operators. Because of these factors, the in-flight experience may be a crucial one for choice-of-airline decisions, even on routes where flight times are only three-quarters-of-an-hour or so.

In terms of the factors which will be taken into account in evaluating the in-flight experience, seating comfort in terms of seat pitch and seat width will be significant. Also, a separate Business Class cabin may be appreciated. This will satisfy a need for a working environment away from crying children etc., where important documents, say, can be read before a business meeting. It does, though, once again pander to the True Need for the recognition of status.

A final requirement in terms of in-flight service will be meals and drinks appropriate to the time of day. Here, it seems that breakfast, and an evening meal on after-business returning flights are especially welcome.

Having set down some of the fundamental requirements of the Corporate business traveller on short-haul, point-to-point journeys, we can now use this basic model to probe customer requirements in related, but significantly different, situations.

Here, a first interesting case is to examine the requirements of the Independent rather than the Corporate, business traveller. We saw in the last section that the Independent sub-segment of demand is growing relative to the Corporate one. With Independent business travellers, the fundamental needs remain exactly the same in terms of frequency, timings, safety, punctuality, seat accessibility and ticket flexibility. Price, though, assumes a greater significance than in the Corporate market. As we discussed, Independent business travellers feel that the ticket cost is coming

out of their own pocket in the way that the Corporate traveller does not, with only the fact that the ticket cost is tax-deductible lessening its impact. The Independent traveller will therefore trade off cheaper ticket prices against product frills such as standards of seating comfort, free drinks, and in-flight meals. Interestingly, the willingness to do this makes the Independent business travellers' set of requirements one which can be well-satisfied by the "Cost Leader" airlines we shall be describing in Sections 4:2:1 and 4:2:2.

A further difference between Corporate and Independent travellers comes in their attitude to Frequent Flyer points. For the Corporate traveller, Frequent Flyer benefits are usually no more than an attractive perk of the job, providing opportunities for enjoyable free leisure flights. For the Independent traveller, on the other hand, free flights are much more commonly used for business travel purposes and provide a welcome opportunity to reduce expenditure on air tickets. One would therefore expect a greater focus still on obtaining mileage points.

A next important area where the requirements of the business traveller can differ is between the short-haul flights we have been considering and long-haul journeys. On long hauls, flight frequency and flight timings remain significant, but they take on a rather different meaning. On many long-haul routes, an adequate frequency is that an airline should give a daily flight. On denser routes, double daily flights may be appropriate, especially if they allow the airline to satisfy the need for both morning and evening arrivals at the destination. In few cases, though, will there be the need for the six or eight flights a day which may be required to provide adequate customer choice and to discourage entry by competitors on short routes.

On long-haul routes today, a significant consideration alongside frequency is often that there should be direct, non-stop flights available. As aircraft manufacturers have innovated with aircraft having longer and longer ranges, so it has become possible to fly a greater and greater number of the world's air routes on a non-stop basis. As airlines have, in turn, exploited this opportunity by introducing non-stop services, so passenger expectations have changed. Today, it is difficult or impossible for an airline operating a stopping service to compete for high-yielding traffic with one which flies a route non-stop.

As aircraft ranges have increased in recent years, so it has also been possible for aircraft manufacturers to introduce cost-effective, smaller long-haul aircraft. Planes such as the Boeing 777-300ER, 777-200LR, and Airbus A330 and A340 all come into this category, as will the B787 and Airbus A350 when they are introduced. Such aircraft allow direct, non-stop services to be introduced on a secondary city to secondary city basis.

These services are removing from passengers the need to connect to hubs and are proving very attractive.

Another important difference between short and long-haul markets is in the attitudes to Frequent Flyer points. On a long-haul route, substantial numbers of points are at stake. Indeed, for many programmes, taking a long-haul flight with a particular airline, at least in First or Business Class, earns sufficient mileage for a short-haul flight on that airline's network to be taken free-of-charge. Because of this, there is a greater likelihood of a passenger on long-haul choosing the airlines whose FFP they are supporting, even if this means travelling earlier or later than they would ideally like.

As one would expect, there are differences in the attitudes towards airport and in-flight service on long-haul routes compared with short-haul. Seating comfort on board, a separate cabin to allow for sleep and work, meal quality and in-flight entertainment all figure prominently in the business traveller's long haul expectations. An especially telling point may be the attitude of different airlines' customer contact staff. On a long-haul flight, passengers will be exposed to uncaring attitudes for many hours, with the likelihood of lasting damage being done to the airline's reputation.

Airport service may, correspondingly, be of rather less importance. Long-haul passenger tend to check in earlier than those on short trips, presumably because, with lower frequencies, the penalty of missing a flight will be greater. The offer of a very late check-in time may therefore be less important. In contrast, though, lounge facilities will be of greater significance.

With the questions of seat accessibility and ticket flexibility, these are of lower importance on long-haul routes. A long-haul trip will often require at least three days out of someone's diary. Finding such a gap will normally take a great deal more pre-planning in comparison with a short-haul flight which can be carried out on a day-return basis. Therefore, the last-minute availability of a seat is of less importance on a long haul flight.

A last, interesting way in which the requirements of the business air traveller can be viewed concerns the needs of the connecting traveller. Some airlines make the mistake of assuming that everyone who flies on their short flights is a short-haul traveller. This is not so. Many of these passengers – upwards of 50% or more on very short routes – are connecting at hubs onto long-haul flights. They are therefore a long-haul passenger, on a short part of a long and tiring journey.

The requirements of the connecting passenger are, as one would expect, a mixture of those which prevail in the short-haul and long-haul point-to-point markets. The question of flight timings is an especially interesting one in this situation. The connecting passenger requires a high

frequency of flights in exactly the same way as the point-to-point market does. The optimum flight timings, though, may be quite different. The point-to-point market has a requirement which peaks early and late in the business day. The connecting market, on the other hand, requires a spread of flights throughout the day, because long-haul flights depart from a hub at different times.

Punctuality assumes even greater importance for the connecting passenger. A delay of, say, an hour will certainly annoy the point-to-point traveller. It may not, though, destroy their entire itinerary. A delay of an hour, though, to a connecting passenger's flight into a hub may result in the long-haul flight being missed. This, in turn, may cause an actual delay of a day or more, on routes which are only served at a comparatively low frequency.

A further difficulty with the connecting passenger concerns the question of cabin comfort. It was argued earlier in this section that for the point-to-point short-haul traveller, cabin comfort was a relatively low priority, given that the person concerned will only be exposed to poor standards of comfort for a relatively short time. For connecting passengers, on the other hand, cabin comfort assumes great importance. This will be especially so on return flights when they may have spent many hours in a long-haul business class with very comfortable seating only to be faced, when exhausted, with completing their journey in a very cramped environment which airlines are basing on the needs of the point-to-point passenger.

Enough has been said in this section to demonstrate that, for all airlines, the business traveller is a demanding customer. There is no easy or cheap way of meeting the business traveller's needs, with carriers heavily dependent on the better yields obtainable from the business travel market to cover what will, inevitably, be higher production costs. Crucially, at the time of writing many airlines are still finding these better yields to be insufficient to ensure reasonable profitability.

2:3:4 The Business Travel Market—Demographics and Psychographics

In market segmentation exercises, the word "Demographics" is used to describe the physical and tangible characteristics of the members of the segment. "Psychographics" is the term used to describe the intangible attitudes, preferences and, perhaps, prejudices of the members of the segment.

In terms of the Demographics of the business travel market, the traditional stereotype of the business traveller of being male and middle-aged still largely holds true. In Europe for example, still over 80% of

business travellers are men, whilst the average age of those who travel on business is in the early forties. In some markets, this situation is unlikely to change radically. In Japan, for example, the part played by women in business is still a limited one, whilst the “jobs for life” principle still followed by many Japanese firms means that people continue to be business travellers up to the official age of retirement. In Europe and North America, though, radical change is beginning to occur. Women are becoming much more important in business travel, with forecasts suggesting that by the year 2010 perhaps 25-30% of all business travel will be undertaken by women. At the same time, many firms are attempting to down-size and to reduce their labour costs. The expedient to do so is often to insist on early retirement. Where this is done, the age profile of the firm’s employees will fall, with a corresponding effect on the average age of those who fly on business. The possible impact of these changes in the age and gender structure of the business travel market will be further discussed in Section 3:4.

Another important Demographic feature of the business travel market is that it is undertaken by relatively wealthy individuals, drawn from that small – often very small – proportion of a country’s population where average income levels are high. The significance of this is that such people are fortunate to enjoy a lifestyle of comfort and affluence. They naturally expect the airline that they choose to reflect this.

A final, vital, Demographic characteristic of business travel is that it is a highly concentrated market. As has been previously mentioned, in all countries, it is undertaken by only a small number of individuals, each of whom on average travels a great deal. In the UK, the average number of air trips made per year by a member of the business travel community is more than ten.

A number of consequences stem from this high trip frequency. Business travellers become experts, familiar with the standards offered by different airlines, and able – and willing – to make comparisons between them. They also become extremely attractive to airlines, because the carrier which can establish and maintain their loyalty over a lifetime of business travel (which may extend for twenty years or more) will gain a large amount of revenue as a result. Finally, the fact that these so-called Lifetime Values are so high justifies substantial investment in the establishment and maintenance of databases, and in a Relationship Marketing strategy designed to encourage and reward loyalty. This, of course, leads us into the subject of Frequent Flyer Programmes which is fully covered in Section 9:3.

In terms of the Psychographics of business travellers, two characteristics stand out. Business travellers tend to have strong opinions,

and are often prepared to communicate these opinions loudly and frequently, especially when they wish to complain about a particular airline. Carriers should not be surprised by this. Over a long period of time, almost all airlines have tried to encourage people to fly with them using advertising approaches which make unqualified promises of service excellence. If they do this, they should not be disappointed if people complain when the promises that have been made to them are not fulfilled.

A further important feature of the business traveller is that attitudes vary through time, with a pronounced Life Cycle effect often discernible. The young executive who is first promoted to a job which will require extensive international air travel will probably regard such travel as exciting, and will do all they can to ensure that as many trips as possible are undertaken. After a few years, though, attitudes can change dramatically. The person concerned realises that travel is not all it is made out to be, often consisting of long, tedious and boring journeys, repeated doses of jet lag, interrupted weekends, and often acute difficulties in maintaining social and personal relationships. From then onwards, instead of trying to find reasons why trips should take place, efforts may be focussed on avoiding at least some of these journeys. Of course, it is at this stage of the Life Cycle that the possibility of using video conferencing and other forms of electronic communication to replace air travel will be at its most appealing.

As an overall summary of the characteristics of the business travel market it is true to say that many airlines have regarded the business traveller as being at the core of their marketing efforts. This is not surprising, bearing in mind the fact that yields per passenger-kilometre have generally been much higher than those obtainable from the leisure segment. It would be a mistake, though, to assume that high yield is the same thing as a high profit contribution. It is true that typically airlines obtain a high proportion of their revenue from business travellers. However, such travellers also account for a high proportion of airlines' costs. Besides the intrinsically high costs of meeting the product needs described in Section 2:3:3, in recent years the business travel market has become a bloodbath of costly competition. There have been successive rounds of innovation which have raised the product specification offered to the business traveller to higher and higher levels, without, sometimes, corresponding opportunities to raise fares in order to maintain profits. This phenomenon will be further investigated in Section 5:2:1, which deals with the theory of the Product Life Cycle.

At the same time as the costs of meeting needs and competing effectively in the business travel market have risen, so the proportion of air trips made up by business travel has progressively fallen due to the rapid growth of the leisure segment of demand. As has already been noted,

though demand forecasting in air transport remains extremely difficult, all forecasters agree that this is a trend which will continue, with, if anything, the relative growth rates of business and leisure travel diverging even further as business growth slows and that of leisure accelerates. If this is the case it will lend further weight to the vital conclusion that today no airline is likely to be successful if it ignores the leisure segment. As we shall see in the next section, ensuring profitable exploitation of leisure demand is equally challenging, but the nature of the challenge is different from that in business travel due to the strong contrasts in the characteristics of business and leisure demand.

2:3:5 The Leisure Segment of Demand

The differences between business and leisure air travel begin with the Demographics of leisure travel. Unlike the domination by men of business travel, leisure travel consists of an approximate balance between males and females. Indeed, with leisure travel by older people – say, those over 65 – in many markets female travellers dominate because of their longer life expectancy.

In terms of age profiles, the situation is also very different. Business travel tends to be concentrated in the middle-aged 35-55 age group. Leisure travel, on the other hand, encompasses all ages. Children are important in leisure travel, whilst young adults, benefiting from reasonable incomes and few commitments, usually have an especially high propensity to fly. A period of lower disposable income then often follows, due to the costs associated with family life. Once children have left home, though, disposable income often rises and may remain at high levels until quite late in life if pension arrangements are good enough.

Average personal incomes in leisure travel are often in strong contrast to those in the business travel market. The days when air travel was only enjoyed by wealthy members of a so-called “jet-set” are long gone. Today, rising disposable incomes and even more the falls in the real cost of air travel which have taken place have broadened the base of the leisure market enormously, taking it well beyond the relative few who make up the segment of business travel demand.

Besides differences in demographic characteristics, there are also substantial contrasts in leisure customer requirements.

In leisure air travel, the dominant requirement is for a cheap air fare, for obvious, but vitally important, reasons. Unlike in at least the Corporate sub-segment of business travel demand, people are spending their own money, not their company’s. Their spending is not tax deductible in the way that benefits someone who is an Independent business air traveller.

Often, too, leisure air travel is undertaken in a family group. If it is, the amount of cash payable will be multiplied several times over, making access to a low fare an even more important requirement. Finally, in the leisure market airlines suffer through being at the back of the queue in terms of people being willing to spend more. When a family travels on holiday a choice often has to be made between spending on a luxurious but expensive flight, or on a good quality hotel and meals in decent restaurants at the destination. Not surprisingly, the focus of spending tends to be on the destination, because people will only be on the aircraft for a few hours whereas they will be at their holiday destination for perhaps two weeks.

The overall effect of these factors tending towards price sensitivity is a clear one: the leisure air travel market is and always will be low-yielding. Revenue earned per passenger-kilometre is usually low, whilst decisive marketing advantage will always accrue to an airline able, through low costs, to charge and sustain fares lower than those of its rivals.

Despite the fact that yields tend to be low, it should not be assumed – as is often done – that involvement in the leisure market will necessarily result in airlines losing money. The leisure market has a number of characteristics which allow efficient airlines to meet their customers' requirements much more cheaply than is possible in the business travel market, in ways which may allow the leisure market to be a substantial, and welcome, source of profits.

Foremost amongst these characteristics is the fact that leisure travellers do not generally require frequent, on-demand service. This allows airlines to use relatively large aircraft to serve the leisure market, and gain the benefits of the lower seat-kilometre costs available from such aircraft. They can also operate at very high load factors – often in excess of 90% - because no last minute availability of a seat needs to be offered. This will minimise the difference between available and revenue seat-kilometre costs.

A further benefit of serving the leisure market is that its peaking patterns and timing needs are generally quite different from those which characterise business travel. It is true that leisure demand often shows pronounced seasonal peaking which increases the cost of serving it because of the need to provide costly peak-time resources which are poorly utilized at off-peak periods. This, though, is offset by the fact that flights for the leisure traveller can be spread throughout the day and, often, the night as well because there is none of the marked peaking of demand during the early morning and after-business evening hours which characterises the business market, at least on short-haul routes. The result is that airlines serving leisure routes can achieve very high annual aircraft utilizations. The so-called charter airlines in Europe have often been able to achieve

utilizations of 4,000 – 4,200 hours per year, in contrast to scheduled carriers carrying large numbers of business travellers which only usually reach 2,500 – 2,700 hours. Therefore their fixed costs of aircraft ownership or lease rentals are spread much more widely, with a correspondingly beneficial effect on unit costs.

A final, interesting, point of debate concerns the willingness of leisure passengers to sacrifice product features which, though desirable, can be traded off against the availability of cheaper fares. Some product features leisure travellers will clearly not sacrifice, safety being the clearest example. It is also clear that reasonable standards of punctuality performance are essential, at least if people are to make repeat flights with a particular airline. Amongst the product areas where people will, apparently, accept sacrifices are seating comfort, airport service and catering.

With seating comfort, many carriers serving the leisure market find that their passengers will accept lower standards in both seat pitch and seat width. This allows many more seats to be placed in a given aircraft type. For example, in an Airbus A330-200 series aircraft, a typical scheduled service seating configuration would be to equip the aircraft with 8-abreast seating at a 32 or 33 inch seat pitch. This allows just over 250 seats to be placed in the aircraft. A charter airline, on the other hand will use 9-abreast seating at a 28 or 29 inch seat pitch. This increases the number of seats to over 340, reducing seat-kilometre costs by more than 20%. (Concern over Deep Vein Thrombosis may reduce the ability of these airlines to use very low seat pitches in the future).

In the area of airport standards, leisure passengers will often accept longer minimum check-in times. This allows carriers to process a flight using a smaller number of check-in desks.

With in-flight service of meals and drinks, a considerable number of “no frills” airlines now offer no complementary meal or drinks service at all. Many others give a free meal – sometimes of a lower, cheaper, standard than that obtainable on a scheduled flight, but charge for drinks, at least for alcoholic ones. This provides a useful cost saving, and also turns drinks service into a revenue, rather than a cost item.

Overall, the leisure segment of demand now constitutes the dominant one in the air transport industry today and we shall make further reference to it throughout the book.

2:4 Segmentation of the Air Freight Market

For many years, air freight was the “poor relation” of the passenger business. Freight income made up only a small proportion of airline revenues, and it was consequently starved of both resources and management attention. It was often seen as no more than a by-product operation, to fill belly-hold space in passenger aircraft that would be available anyway.

Such attitudes are no longer acceptable. Some airlines are now able to specialise in carrying nothing but air freight, and to be highly profitable in doing so. For many others, freight now accounts for a highly significant and increasing proportion of profits. With the exception of 2001 – a poor year for air freight – average annual growth rates in the air freight business have exceeded those in the passenger markets by two or three percentage points, for many years. This is a trend which is likely to continue, making freight’s contribution through time greater still.

At the same time as freight revenues have increased, competition in the air freight market has grown steadily, and it is becoming less and less likely that airlines treating freight purely as a by-product will be successful. Professional marketing is therefore a prime requirement and it is essential that we should give proper attention to the marketing of air freight, beginning with the question of the segmentation of the air freight market.

2:4:1 Differences between the Air Passenger and Air Freight Markets

In order to do so it is first of all necessary to examine the principal differences between the air passenger and air freight markets. It is true to say that only the fact that aircraft are used to carry the demand coming forward links these two markets. In all other respects they are totally different.

A first area of contrast is that air freight travels only one way on a route. It is true that some passengers are emigrating. They therefore settle in the country they are flying to and do not return. A small number are unfortunate enough to die at their destination. However, almost all passengers who fly out on a route will also return on it. Therefore over a year most passenger markets end up approximately directionally balanced, even though there may be directional problems associated with particular seasonal traffic flows. On the freight side, a directional balance will be no more than a happy co-incidence. Directional imbalances will be most marked on routes to and from countries which are mainly primary producers. These countries, especially if they are relatively wealthy, such as Australia, may import many items which are suitable air freight

commodities. However, a lower proportion of their exports will come into this category, consisting as they do largely of primary products. It is certainly possible to correct such a situation in the long-term by offering attractive low prices, in the weaker direction. Poor yields are, though, then being substituted for low load factors.

A further problem in air freight marketing is that freight is extremely heterogeneous. Passengers are homogenous in the sense that they each occupy a seat. Freight, on the other hand, varies in every possible way. Consignment sizes vary from small packages and letters weighing less than a kilo up to consignments of 30,000 kilos or more. Consignment density and “stowability” will also vary. Some commodity types – books are a good example – are both dense and easy to stow. Others – for example bicycles – are of low density and have poor stowing characteristics. Unless airlines keep a very close check on their pricing policies, carrying such commodities can easily become unprofitable.

A final area of variation is in the handling and stowage conditions that different commodities require. For example, some are fragile and need especially careful handling. Others are of high value, such as banknotes. Therefore, special security arrangements will be needed. A further, and increasingly common requirement is for the refrigeration of physically perishable goods.

The most important difference between the air passenger and air freight businesses concerns the nature of the competition that airlines face in these different markets.

On the passenger side, airlines are very fortunate that, on long-haul routes, almost all passengers who travel do so using air transport. With air freight, the situation is very different. Air transport faces intense competition from surface on all routes. This competition is especially difficult to meet because it is based on low prices. It is true that in some cases air and surface rates are comparable due to the different charging methods that are adopted with respect to consignment density. Such situations are, though, rare. In almost all situations, air freight will be significantly more expensive than the surface transport alternative, if analysis is confined merely to a comparison of freight rates. These differentials can be extremely large, often reaching the level where air freight is ten times more expensive than surface transport.

The competitive situation makes the marketing of air freight an especial challenge. Airlines have to find and demonstrate arguments to justify the use of an apparently much more expensive mode of transport. These arguments form the basis for the segmentation of the air freight market.

2:4:2 Segmentation Variables – Air Freight Market

Market segmentation is as important in the air freight market as it is on the passenger side of the business. Only if markets are properly segmented can airlines find a basis for their product, price and promotional policies.

Using the criterion of the reasons why air freight rather than cheaper surface transport should be employed, a clear first segment of air freight demand is that consisting of Emergency traffic. Emergency situations occur when goods have to be moved by the fastest possible mode of transport, with the costs of achieving a fast transit a secondary consideration. In turn, Emergency situations may be divided into two types. An Operating Emergency occurs when a firm has to rectify an operational problem. For example, an oil company may find that one of its rigs has to cease production because of a breakdown. Every hour of lost production time will then have a substantial cost associated with it – a cost which can be minimised if air freight is used to ship the spare parts which are needed to enable production to resume. Another example of this type of emergency is an ironic one. Deep-sea shipping companies are air freight's biggest competitor on long-haul routes, yet these companies are major users of air freight. When a ship has to remain in port because spare parts are needed before a fault can be repaired, the shipping line operating it would be very foolish if it did not use air freight to move these parts. If it did not do so, the ship in question would be stranded in port for a much longer period than is necessary.

The second type of emergency situation is termed the Marketing Emergency. Such a situation occurs when a supplier is in danger of missing a deadline or one of its customers has expressed dissatisfaction with service levels. Then, again, air freight is the obvious choice, though the justification will be based on the maintenance of customer loyalty rather than cost reduction.

In terms of customer requirements, the Emergency segment has clear customer needs which airlines must satisfy if they are to compete in the market.

A first need is for the fastest possible door-to-door transit time. In order to be able to offer this to the shipper, an airline has first-of-all to give a high frequency of flights. Emergency situations do not give advanced notice of when they will occur. Therefore, a carriers with a high frequency will give the shipper the best likelihood that a flight will be available within a short time after the need to ship the goods has arisen.

Frequency, though important, will not be enough on its own. It must be accompanied by a capacity management policy ensuring that space will be available to shippers who need to book Emergency consignments shortly

before a flight is due to depart. It is of no value to an Emergency shipper if an airline has a high flight frequency, but all its cargo space is fully booked days or weeks before flights are due to leave. Of course, once a booking has been offered it is important that freight should be flown on the flight on which it is booked and that it should benefit from safe and reliable ground handling.

A very important customer requirement in the Emergency traffic segment is that the selected airline should have the ability to track shipments at all times and be able to communicate accurate and timely information about the status of a consignment. It will also be important to provide a door-to-door collection and delivery service, so that the shipper feels that once a booking has been made, their troubles are over with someone taking responsibility for the entire transit.

The Emergency traffic segment presents airlines with both problems and opportunities. As will be discussed further in Section 5:6, meeting the needs of customers in this market presents a very demanding and costly task. It does, though, often provide them with very high yields, a factor which makes it an area where airlines compete intensively.

The Emergency segment of demand has always been, and remains, highly important to an airline's air freight business. It would be an unambitious airline, though, which sought to do no more than exploit the Emergency market. This would confine air freight to a comparatively small role in the international logistics industry. To avoid this, it has been necessary to develop arguments as to why air freight should be the preferred option for the Routine as well as the Emergency shipper.

An area where it has been possible to do this constitutes the second major segment of air freight demand. It concerns traffic which is Routine-Perishable in nature – Routine as opposed to Emergency, and Perishable because the goods in question only remain saleable for a limited period of time.

Perishability in international logistics occurs for two reasons in particular. Physical Perishability describes situations where goods physically deteriorate. Cut flowers and soft fruits are good examples of this. With them, the argument for using air freight is clear. Producers of, say, cut flowers can always attempt to sell them in local markets close to where they have been grown. If they do so, prices will be low due to market saturation. A more profitable option might be to send the flowers to distant markets where they will have scarcity value. Then, though, air freight will have to be used in order to ensure that the goods reach the market in a saleable condition.

Economic Perishability is the second type. It occurs not when goods are prone to deteriorate physically, but when the Life Cycle within which

they remain saleable is a short one. Newspapers have been such a commodity. Other examples include fashion clothing, children's toys, and pop music CDs. These goods can be sold in large quantities and at good prices if they reach the market when demand for them is still rising rapidly. Air freight often provides the only realistic way of ensuring that this happens, at least in long-haul markets.

In terms of customer requirements, the Routine Perishable market differs in some respects from the Emergency segment. At least for Physically Perishable goods, it may be possible to forecast further ahead when the need for shipment will occur. This is because many commodities which come into this category have a pronounced seasonal pattern to their production. In turn, though, this gives problems to airlines attempting to exploit the market. Flows of Emergency shipments occur throughout the year, even though it will not be possible to forecast exactly when a particular emergency will occur. Perishable traffic, on the other hand, may only be offered seasonally. Airlines may therefore have surplus capacity at the off-season.

A further problem of Perishable traffic is that it tends to result in routes having marked directional imbalances. As we have already noted, this is because an area noted for production of perishable foodstuffs may not be one which attracts significant in-bound flows of commodities suitable for air freighting.

Besides the problems associated with capacity being available at the right time and place, Perishable freight often needs special handling. It may be fragile in nature, or need refrigeration, both of which force up airlines' handling costs. It will certainly require airlines to achieve high standards of regularity and punctuality, and to ensure that freight should always be carried on the flight on which it is booked. There also needs to be a comprehensive monitoring and control service in place, to make sure that if a mistake is made it is discovered in time for it to be rectified.

The question of the importance of price to the Routine Perishable shipper is an interesting one. High service quality will clearly be necessary if goods are to reach the market in time and in the right condition. Airlines may thus reasonably hope that customers will be prepared to pay more if this is the only way to obtain the required service, and that the market will be a relatively high yielding one. In practice, this may be true, but only in the short term. The economics of exporting Perishable goods by air are based on the premium price being obtained in the distant market being sufficient to cover the extra costs of air freight while still leaving a profit. The more air freight rates rise, the more such profits are threatened, leading to the possibility that the trade may have to be abandoned. Therefore, the

lack of price-sensitivity in the Routine Perishable market should not be exaggerated.

Both the Emergency and the Routine Perishable markets are important in the modern air freight industry. Despite this, though, by far the greater part of the goods which move in international logistics cannot be placed in either of these categories. They must therefore be described as being Routine and Non-perishable. The air freight industry must be able to demonstrate the value of its services for shippers of this type of freight. If it cannot do so, then the industry will never achieve its full potential.

The industry's problem in developing this market is that shippers of Routine, Non-perishable freight usually have an alternative. They can use a surface transport instead of air freight and they will normally pay a substantially lower freight rate if they do. The task of air freight marketing is to demonstrate that if air freight is used rather than apparently-cheaper surface transport, significant advantages will accrue, advantages which will often be sufficient to outweigh the freight rate differential. Isolating these advantages and communicating them effectively has proved to be a major challenge. The customer must be persuaded to compare all the costs associated with using surface transport with the benefits of employing air freight.

In three relevant areas, a direct comparison will be possible:

1. Packaging costs will generally be lower when air freight is employed. Air freight often allows less packaging to be used, due to its more favourable environment for carriage. Because of this, costs will be reduced both because of the lower cost of packaging materials, and because this cheaper packaging will result in a saving on freight costs due to each consignment having a lighter weight.
2. Insurance costs will usually show a substantial saving in favour of air freight – again, a reflection of air transport's superior environment for carriage, and the shorter times for which goods are at risk.
3. Air freight should bring important cash flow advantages. Most international trade is carried out on a credit basis. The consignor usually allows the consignee a period of time before they have to pay for goods that they have received. The credit period does not begin when the goods are dispatched but rather when the consignee takes delivery of them. If surface transport is used, the transit time on a long-haul route may be several weeks. During this time, the consignor will be incurring interest charges, because they will have invested money in producing the goods but will not

have been paid for them. If, on the other hand, they dispatch the goods by air freight they should be received by the consignor in a matter of two or three days. If they are, cash flow will be several weeks faster and interest payments will be correspondingly reduced.

Defining the remaining advantages of air freight over slower surface transport is more difficult, because they depend on a comparison of different Logistics philosophies.

If a manufacturing company wishes to minimise its transport costs it will, of course, use surface transport modes. Surface transport will therefore be used to bring raw materials to its production points and then to move finished products to customers. Though low transport costs will be the result of such a policy, significant adverse consequences will also ensue. With regard to the supply of raw materials and components to production points, it will be necessary to hold large stocks. This is because surface transport cannot generally provide the high frequency of deliveries which air freight can, and which allow supply to take place under so-called "Just-in-Time" (JIT) principles. With surface transport usage, stocks of components must be held in sufficient quantities to allow production to continue in the intervals between deliveries.

With delivery of finished products to customers, again the use of surface transport will require extra stock to be held. For many products, demand will rise from time-to-time, in a way which cannot be precisely forecast. For example, demand for some products is weather-related, so precise demand forecasts cannot be prepared for them more than a few days in advance. If demand for a particular product does rise, it is extremely important that firms should be able to keep their wholesalers and retailers supplied with stock to sell. If they fail to do so, they risk losing the loyalty of these marketing intermediaries.

Ensuring continuity of supply given random and unforecastable fluctuations in demand requires companies to hold substantial amounts of so-called "Safety Stock". In order to distribute such stock, again surface transport can be used, and direct transport costs will be minimised as a result. However, many other logistics costs will be increased substantially.

To illustrate this point, let us take the case of a European firm exporting electrical consumer goods to a distant market such as Australia. If surface transport is used by the exporting company, it will be necessary to invest in substantial local warehousing. This is because, with surface transport transit times of perhaps six to eight weeks, customers will not be prepared to wait for goods to be dispatched and sent once an order has been placed. Instead, they will expect their goods to be available within a few days of ordering them. In the case of the Australian market, full coverage

will probably require a warehouse in the East – perhaps in Sydney – and one in Western Australia.

The consequences of the need to invest in local warehousing will be substantial and costly. As stated earlier, stock will have to be held which is not only sufficient to cover day-to-day demand. There must also be considerable Safety Stock to prevent the collapse of service levels should a random and unpredictable increase in demand occur. This will mean investment in warehousing to hold the stock, and also in the capital costs of stockholding. For some items, there may be a risk too of deterioration or obsolescence, with falling demand meaning that the value of the stock falls while it is held.

Besides the cost of local warehousing, the need to invest in such warehousing results in a significant loss of marketing flexibility because it makes entering a new market a very slow process. Before the firm can begin selling in the new market, it will need to obtain warehousing capacity and ship out substantial quantities of stock so that adequate service levels can be offered to early customers. This will take time. As a result, when selling does finally begin, the market conditions which prompted the decision to enter may have changed. The initiative may then fail, with the result that the stock has to be withdrawn – a costly process in itself – and the new warehouses sold off.

The use of air freight avoids all of these problems. Instead of large amounts of field stockholding being necessary, local stocks can be reduced or eliminated. Most stock – especially Safety Stock – can be held at one central location – in the case we are looking at, in Europe. This means that aggregate amounts of Safety Stock can be reduced, because it becomes a reasonable proposition that demand fluctuations in the different market that the firm serves will to some extent to cancel one another out.

If local stockholding can be reduced or eliminated, marketing flexibility will also be greatly increased. Markets can be entered quickly when demand is strong. Should demand falter at a later stage, withdrawal from the market will be equally easy. Therefore, the company concerned can market its product on a world-wide basis, focusing attention always only on those countries where demand for the product is buoyant.

Though there can be no doubt about the power of the arguments relating to the use of air freight for Routine Non-perishable Traffic, it is important that those concerned with the marketing of air freight should also understand the limitations of the concept.

Foremost amongst these is that the air freight solution can be portrayed as a high risk one. It is based on firms keeping field inventories to a minimum, and supplying customers from central stockholding points after

orders have been placed. If something happens to prevent the warehouses at these central points from working effectively – a strike, for example – or if there are delays in transport from them due to such factors as industrial action or bad weather, service to customers will be immediately and seriously affected. Such problems are, of course, avoided to a degree if local inventories are held. It is therefore important that any logistics system based on low inventories and fast transportation should be a reliable one.

With the question of the use of air freight to minimize packaging and insurance costs, this argument only has weight if there are large differences between the so-called Environment for Carriage available from surface and from air transport. These differences are steadily being reduced through time as surface operators adopt the principles of containerisation and roll-on/roll-off. These allow goods to be sealed and protected from the beginning of a journey to its end, with a much reduced risk of damage.

Overall, this chapter should have made clear that a sound understanding of the marketplace is an absolutely essential building-block in the successful application of marketing principles to the airline industry. Without this building-block in place, all other aspects of marketing become pointless. It is therefore impossible to exaggerate its importance.

SUCCESSFUL AIRLINES

- ➔ Are those which take a broad view of the markets in which they participate, avoiding the mistake of “Marketing Myopia”.
- ➔ Acknowledge the distinction between “Consumers” and “Customers”, and concentrate their marketing efforts on “Customers”.
- ➔ Segment their markets properly, avoiding the mistakes of both over and under-segmentation, and build a sound understanding of the needs of their customers in each of the major market segments.