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Changes to the marketing strategy of the airline industry in Europe due to the proliferation of low-cost airlines in Europe

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Declaration of authenticity

Hereby, I declare that the research of the presented Master Thesis is my own work, or fully and specifically acknowledged wherever adapted from other sources. This work has not been published or submitted elsewhere for the requirement of a degree program.

Prague, December 2015

Title of the master˝s thesis

Changes to the marketing strategy of the airline industry in Europe due to the proliferation of low-cost airlines in Europe

Abstract

The aim of this thesis is to analyze the changes to marketing strategy of airline companies in Europe due the proliferation of low-cost carriers in Europe. The thesis is divided into three parts. In the theoretical part, the marketing strategy framework is established by reviewing the latest literature on marketing theory and its application to the airline industry. The second chapter provides the historical background and shows the specifics of the airline industry in order to determine when the proliferation of low-cost carriers in Europe occurred. It also analyzes the impact the proliferation had on the business operations of the network carriers by looking at the changes to different elements of the marketing mix. Finally, the third chapter summarizes the author's research on consumer behavior in the airline industry. The research was conducted through a quantitative questionnaire and it investigates consumers' perception of price and brand awareness.

Key words

Airlines, Airline Industry, Low-Cost Carriers, Network Carriers, Marketing, Marketing Communication Strategy, Marketing Mix

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Introduction

Flying gets people excited. For some people, it is the fact that they are going somewhere far away; for others, it is flying itself. Children, when asked what they want to become when they grow up, often say they want to be pilots or stewards. In other words, it is an industry which stirs up emotions.

For a long time already, flying has been a crucial part of the global transportation network, moving people and goods from one side of the planet to the other in a minimal amount of time. Flying is important for the world of commerce and for private use. Airline transportation is one of the driving forces of globalization. The airline industry has gone through a long journey until it became shaped into its current form. Taking to the sky and leaving the ground behind was a mythical accomplishment. Flying used to be impossible, then when possible it used to be dangerous. Eventually the technological advancements made it a reliable form of transportation. It went from being an exclusive form of transportation for the select few, to being affordable to almost anyone, once the proliferation of low cost carriers occurred. Waking up in Moscow, grabbing lunch in London and closing the day in New York has now become not only physically, but also economically, possible.

The airline business is a very dynamic industry. The dynamics are partially driven by the technological evolution which began with primitive propeller planes and has now become a double-decker, quattro-engine composite plane which can fly for up to 14 hours non-stop.

However, the main challenges to the industry are of an external nature. Whether it is the unpredictably changing oil prices, natural and socio-economic disasters or even terrorism, the carriers are facing difficulties on many fronts. On top of that, the business environment is very competitive. The fast pace with which it evolves, together with the many challenges it faces, make the industry interesting to study.

There has been a lot of research done around the airline industry. Most of it focused on studying the pricing of airline tickets (Malighetti, Paleari 2009), the low-cost carriers' business model (Alderighi, Cento, Nijkamp, Rietveld 2004; Pereira 2011 and Gabor 2010) or the regulation of the industry from the public sector (Driver 2001). There is also literature on general marketing practices of airliners (Doganis 2002 and Shaw 2011).

However, the author didn't find any studies which examined the changes in airlines' marketing strategy caused by the strong growth of competition in the form of low-cost carriers. For this reason, this thesis is focusing on “**Changes to the marketing strategy of the airline industry in Europe due to the proliferation of low-cost airlines in Europe”**.

In the past, the market was dominated by traditional carriers and then in the late 1990s the low cost airlines emerged. The major proliferation of LCCs didn’t happen until later. The market share of any airline company can be measured by many different indicators; the most often cited ones are revenue, airliner seat capacity or number of scheduled departures and carried passengers. No matter which metric is applied, the answer is always the same. The growth in the last 25 years is unprecedented.

While the growth of established carriers has slowed down or stopped all together, low-cost carriers were better prepared to adapt to the shifts within the industry and have been able to grow and achieve profits. The fastest growth of LCCs can be observed between the years 2003-2008.

The author has chosen this topic for multiple reasons. First, as mentioned above, the airline industry is a very dynamic one. Airlines face multiple challenges on a daily basis and it is in the nature of marketers to solve these problems and come up with new innovative ways to market products and services. Second, the author briefly worked for the Czech national carrier, Czech Airlines, in 2008, and has a natural interest in the industry and its evolution.

The goal of the thesis is to analyze the changes to the marketing strategy of the network carriers in Europe. In order to achieve this goal, two hypotheses are identified. The first hypothesis is formulated around the anticipated changes to the marketing mix of airline companies:

> **Hypothesis 1:** The proliferation of low cost carriers put price into the center of the marketing mix. Price has become the most important decision factor for consumers when buying airline tickets.

Furthermore, it is expected that if the price became the main decision factor behind airline ticket purchases and travellers started chasing low prices through various channels, the importance of building up brand awareness among customers would rise. That’s why the second hypothesis was formulated around the rise of brand awareness advertising:

> **Hypothesis 2:** Campaigns run by airlines have shifted from direct response and are now predominantly focused on raising brand awareness campaigns.

The thesis consists of three main parts. The theoretical introduction lays out the framework for studying marketing strategy. It reviews the literature on the topics of marketing mix and marketing communications as well as how these fields apply specifically to the airline industry.

The second chapter looks at some of the characteristics and specifics of the airline industry. The history of the industry is briefly overviewed and the main milestones are identified. The main event which completely restructured the industry is the deregulation, which subsequently allowed for the existence of low-cost carriers. The second part of the chapter is about the business operations' perspective and it describes the influence of the proliferation of low-cost carriers on the marketing mix of traditional airlines, or as they are called further in this thesis, full-service network carriers.

Finally, in the third chapter, consumer behavior in the airline industry is analyzed. The whole chapter draws upon the primary research conducted by the author. The research focused on gaining some valuable insights into what drives consumers' flight ticket purchase decisions as well as analyzing the brand awareness of selected carriers. The research was administered through a quantitative survey which was distributed on the Internet.

1. Marketing theory in the airline industry

This chapter focuses on marketing theory relevant to the airline industry. In this section the author looks at the marketing mix of airline companies and describes various components of the product, promotion, price, and place (distribution of airline tickets). Further the author looks at concepts of marketing communications of airline companies and analyzes different communication strategies as well as consumer behavior of airline passengers leading to ticket purchase.

Before diving further into the theory of marketing, it is important to differentiate between the two airline models that this thesis works with. The first model is so called “full service network carriers” (FSNCs) or just network carriers and the second model is “low-cost carriers” (LCCs).

According to Reichmuth (2008), a FSNC “is an airline that focuses on providing a wide range of pre-flight and onboard services, including different service classes, and connecting flights” while LCC “focus on cost reduction in order to implement a price leadership strategy on the markets they serve.”

Low cost carriers became a major trendsetter for the whole industry by bringing in new marketing strategies. With the proliferation of LCCs, travelling by plane has become affordable for a larger segment of passengers who previously couldn’t afford to travel by plane. Network carriers had to adapt to these trends which often meant not only reinventing the product but restructuring internal processes from the scratch. Those who didn’t react to the situation fast enough started facing rising existential problems.

Understanding the processes which allowed low cost carriers to capture a major market share by cutting their costs, and therefore being able to offer cheap flight tickets, will be crucial for understanding how marketing strategies of the airline industry changed with the rise of LCCs. Low cost airline proliferation is mainly connected with the rise of three major carriers in Europe - Ryanair, Easyjet and Air Berlin (Mason, Alamdari 2008)[1].

a. Marketing mix of the airline industry

The common misconception is that marketing is a sales tool for selling goods or services which have already been produced. Instead, marketing should be understood as an instrument which

[1] Measured by available seat kilometer (ASK)

helps businesses make decisions about what needs to be produced and how what's already been produced will be sold.

This thinking was well captured by Kotler and Armstrong (2011) who argue that marketing is a process which could be characterized by a model consisting of five steps (**Figure 1**).

Figure 1: A simple model of the marketing process

Source: (Kotler, Armstrong 2011)

The basis of marketing is to research and understand the genuine customer requirements. In the last steps marketers need to come up with a strategy on how to satisfy these requirements. Good marketers go a step further and don't just analyze what customers want through consumer research, but they also try to predict consumer needs, which consumers themselves might not know and therefor they won't show up in any consumer research studies. If airline companies only focused on sales of what has already been produced, they would be like any other businesses that doesn't innovate - doomed for failure. Successful airlines are those which anticipate change and are ready for it when it occurs.

Such readiness or in this case "non-readiness" has been demonstrated by many network carriers in recent years in their response to the challenge which the rapid growth of low-lost carriers have brought to them (Shaw 2011).

The airline industry is highly internationalized. For example, only 15% of the total number of British passengers traveled on domestic (UK) routes in 2014 and with UK leading the way of domestic air travel in Europe, we expect this percentage to be much lower in other European countries. The rest of the British passengers, 105 millions, traveled internationally[2]. For these reasons, the definition of marketing which is stated above is not sufficient, the marketing theory discussed in this thesis needs to be perceived as international marketing theory.

[2] Source: (CAA, 2015), http://www.caa.co.uk/default.aspx?catid=80&pagetype=88&sglid=1&fld=2014Annual

Cateora (2005) defines international marketing as “the performance of business activities designed to plan, price, promote, and direct the flow of a company’s goods and services to consumers or users in more than one nation for a profit.” Certain aspects of the foreign environment influence airlines operations in foreign countries, such as political stability, class structure, and economic climate.

Airlines must work with endless decision areas such as routes, aircrafts, frequencies, schedules, in-flight products and services, fare classes and communication strategy. Setting up the marketing strategy through individual components of the marketing mix needs to respond to the marketing environment and it needs to be deeply rooted in the knowledge of the customer.

The marketing environment is affected by the mix of external constraints and opportunities. There are tools which could be used to analyze the environment, such as the PESTE analysis tool (political, economic, social, technological and environmental). The strength of PESTE analysis lies in the separate view on each of these factors which could have a significant impact on the formulation of successful marketing strategy.

Understanding the company’s customers is the other success point. Airlines need to have information about market size, demographics, customer requirements and attitudes. In order to succeed, airlines are not just looking at the absolute figures, they also need to understand the relative changes of such indicators if they are to be successful in predicting the changes within the industry.

The marketing strategy is a crucial part of defining the overall strategic direction of a company. This strategic directing must be aligned with company's objectives and key results. Next we will look at each part of the marketing mix in more detail.

i. Product

Product is the most important component of the marketing mix for airline companies, because it is tightly connected to brand. Cateora (2005) defines the global brand as “the worldwide use of a name, term, sign, symbol, design, or combination thereof intended to identify goods or services of one seller and to differentiate them from those of competitors.” Brand has direct influence on carriers’ control over the distribution channel. Carriers aim to make a strong brand proposition to their customers so when they are shopping through aggregators they come to it with a specific carrier in mind (Shaw 2011). One of most problematic aspects associated with service brands is that consumer have to deal with intangible offerings (McDonald, de Chermetony 2001).

One of the specifics of the airline product is that its storage is unfeasible (Pereira 2011). It is an experience product with very high degree of intangibility and it is the constellation of services complementing it which make it more tangible. Overall results of the performed service is the factor that will be measured and evaluated by the passengers whose minimum requirement from it is safety, comfort and convenience (Driver 1999).

The product has vertical and horizontal aspects. Vertical aspects are those which consumers can distinguish by quality and horizontal are those where consumers cannot make such differentiation[3]. Among the vertical aspects are for example on-board services and travel conditions, and among the horizontal aspects are for example departure time and airport access.

Global competition places new emphasis on certain parts of the product. These are quality, innovation, adaptation and attached components. Perception of product quality by passengers is influenced by many factors, for example customer service on board, catering, preflight and in-flight comfort, and carrier's dealing with unprecedented situations.

From the passenger's point of view, the product might seem very homogenous and it's common that the distinction from the consumer perspective happens through the service offerings (also called components). Both products and services could be hiding under the product umbrella. Since the difference between products and services in the airline business is very small in many instances, the term "market offerings" could be used instead (Catoera, 2005). It is likely that a passenger who travels only occasionally is unlikely to differentiate between market offerings of various airlines. Such passenger might notice the quality of the in-flight service, cleanliness of the aircraft, or if the flight was on time. On the other hand, frequent flyers could identify the product or the service at a much more complex level.

The similarity of the product is partially caused by the fact that the majority of operating aircrafts were manufactured by a limited number of aircraft manufacturers and therefore the space for differentiation is limited. Doganis (2002) claims that this has two consequences. First, airlines operating in competitive markets are forced to heavily invest into assets, such as new planes, new and more frequent routes, advertising etc. Second, the product homogeneity makes it easy for new companies to enter the market and compete with established airlines on scheduled routes. Certain features might further define the product. These are airport, airline alliance, frequent flyer programs and clubs.

[3] "Product Differentiation." 2015. *Wikipedia, the Free Encyclopedia*. https://en.wikipedia.org/w/index.php?title=Product_differentiation&oldid=692844942.

ii. Price

Out of all the parts of the marketing mix, price is the most flexible instrument for airline companies. Pricing is an active instrument of accomplishing marketing objectives. The company uses use price to achieve return on profit, market share, or other goals (Cateora 2005 and Mishra 2011).

Price is the divider into the following consumer segments. The theory suggests that very few travellers have any preference toward the airline brand they are flying with. However, these travellers could be split into two groups. One group of travellers buys the first ticket they come across, no matter how expensive it is. They have some level of brand preference, prefer direct flights, safety and in-flight amenities. The second group of travelers will keep searching for the lowest price in the market (Shaw 2011). This is the most basic segmentation between network carriers' passengers and low-cost airlines passengers.

Airline companies can adopt one of the four pricing strategies shown in **Figure 2**. Penetration pricing price is set artificially low in order to gain market share. This strategy might be adopted by both network and low cost airlines trying to enter new markets which are already being serviced by other companies. Economy pricing could also be described as "no frills" price. It's adopted by companies which keep minimum marketing and promotion costs. This is the pricing strategy of low-cost airlines. When applying the price skimming technique, an airline company charges a higher price because it has a substantial competitive advantage. However, the advantage tends not to be sustainable. The high price attracts new competitors into the market, and the price inevitably falls due to increased supply. This pricing strategy is used by premium carriers or on routes which are serviced by only few airlines. Premium price is charged on products with complements.

Figure 2: Pricing strategies matrix

Price			
	High	Skimming	Premium
	Low	Economy	Penetration
		Low	High
		Quality	

Source: (*Pricing strategies* 2015)

iii. Promotion

Engilbertsson and Sigurdsson (2008) define promotion as “the coordination of all seller-initiated efforts to set up channels of information and persuasion in order to sell goods and services or promote an idea.” Promotion has several elements which include: advertising, direct marketing, interactive/internet marketing, sales promotion, publicity/PR and personal selling (Engilbertsson, Sigurdsson 2008).

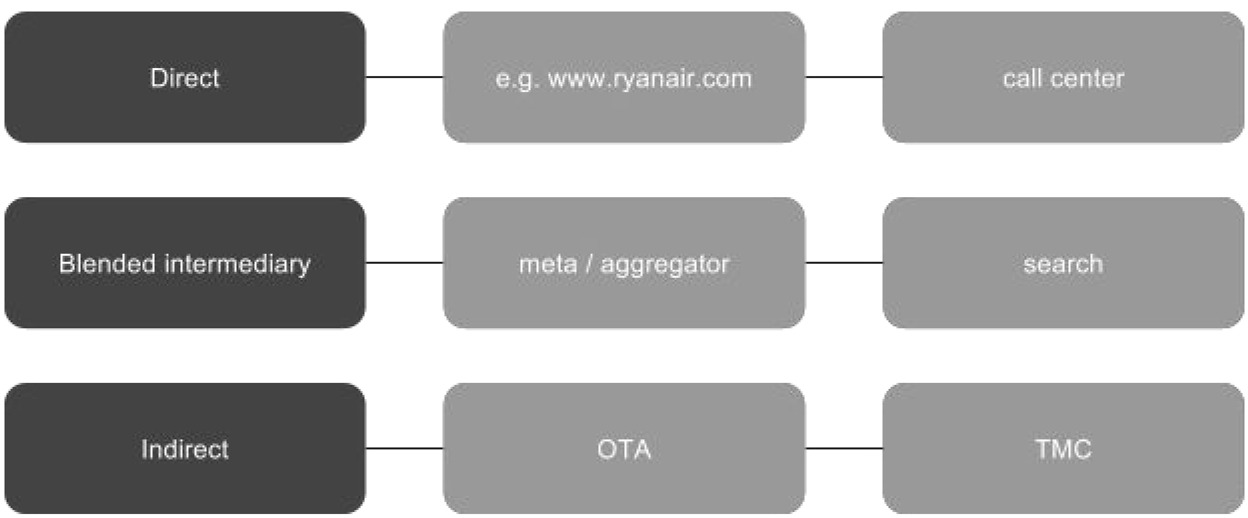
With 77% of flights booked online and with 81% of travel purchases starting online (Bohn, Huth 2013), Internet marketing plays a key role in carriers’ promotion mix (Gleeson 2015). According to Engilbertsson, Sigurdsson (2008), the Internet is a multifaceted promotional tool. On one hand it is an advertising medium and the other hand it is communication medium which is used to execute all of the elements of the promotional mix.

Online promotion could be executed through search advertising, display ads, online video advertising etc. Most common internet advertising model is called PPC, price-per-click, where the advertiser only pays if the consumer clicks on the advertisement. One of the biggest advantages of online promotion is the high degree of targeting. The process of communication is more described in the next section of this chapter.

iv. Place (distribution channels)

Place or distribution is an indispensable part of the marketing mix and it's about delivering the product to the customer on time and at the right place. In the airline industry, we talk about distribution of flight tickets to passengers. Distribution could be direct, indirect (*Distribution* 2015) or through a blended intermediary (see **Figure 3**). Direct distribution is more common for low cost carriers, while network carriers sell tickets not only through their websites but also through travel agents (OTA - online travel agency, TMC - travel management company). Distribution of airline tickets through aggregator sites is the most common form of ticket distributions today. On average, a customer visits aggregators' sites 6 times during one booking session (Bohn, Huth 2013). It is the second highest number of visits after non-branded search. Aggregators[4] are the most popular for travel bookings, together with online travel agencies. Around 75% of all bookings are preceded by at least one visit to an aggregator website. Distribution channels are discussed in more detail in chapter 2.b.ii and again in the research results discussion in chapter 3.d.

Figure 3: Ticket distribution channels



Source: (Airline Industry Overview, 2015)

[4] e.g. www.skyscanner.com

b. Concepts of marketing communications of airline companies

Out of the marketing mix, marketing communication, or in other words promotion, is the most visible element (Hlavacek 2015). The vehicle through which companies communicate with their customers is called communication mix.

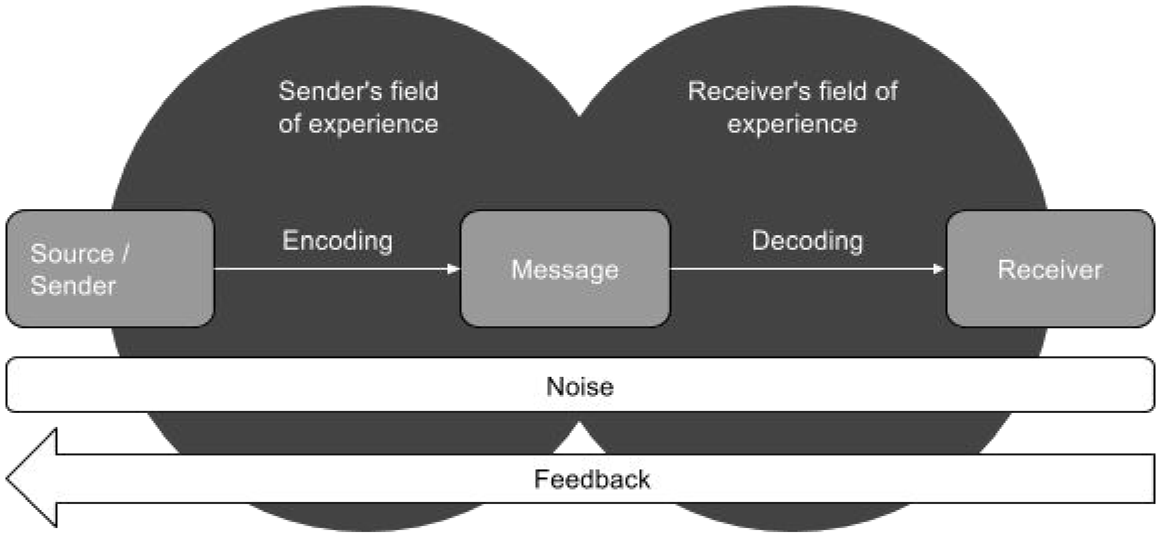
The most frequently used tools of the marketing mix are (Kotler, Armstrong 2011):

- Advertising
- Sales promotion
- Personal selling
- Public relations
- Direct marketing

Marketing communications is rooted in the process called integrated marketing communications, which involves coordinating the various promotional elements and other marketing activities that communicate with the company's customers (Engilbertsson, Sigurdsson 2008). Engilbertsson and Sigurdsson (2008) define communication as "the passing of information, the exchange of ideas, or the process of establishing a commonness or oneness of thought between a sender and a receiver."

In its simplest form, the marketing communication model has three parts: source - message - receiver (see **Figure 4**). The sender, in our case the carrier, is sending a message, hoping to influence the receiver's behavior. The message could be information about flight ticket discounts transformed in the form of advertising with the intention to stimulate passengers purchase activity.

Figure 4: **Model of the communication process**



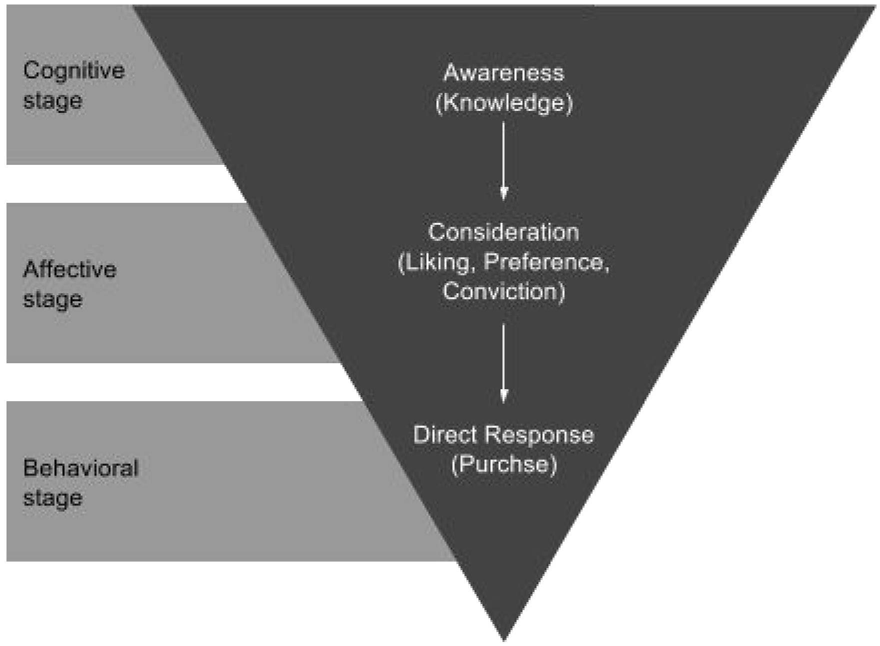
Source: (Engilbertsson, Sigurdsson 2008)

Engilbertsson and Sigurdsson (2008) say that the most important part of developing an effective communication program is understanding the response process through which the consumer goes when moving toward a specific behavior (like purchasing a service) and how the promotional efforts of the marketer influence consumer responses. In the next section we will look at a specific response hierarchy model.

i. Consumer purchase journey

Belch and Belch (2012) define four different models of the response process - AIDA model, innovation adoption model, information processing model and hierarchy of effects model. As the hierarchy of effects model shows the process by which advertising works it will be the most relevant for this thesis (see **Figure 5**). It assumes that the consumer passes through a series of steps in sequential order from initial awareness of a product or service to actual purchase which could be called the conversion.

Figure 5: Hierarchy of effects model (also known as marketing funnel)



Source: (Belch, Belch 2012)

Marketing communication may not lead straight to a direct response. According to Engilbertsson and Sigurdsson (2008), a series of effects must occur with each step fulfilled before the consumer can move to the next stage in the hierarchy.

In the cognitive stage advertising should provide more information and facts about the product or service. The affective stage is about changing attitudes and creating new feelings toward the product. Finally, in the behavioral stage, the ads stimulate a direct response. While awareness and consideration is measured usually through qualitative research among consumers, direct response is measured through conversion.

According to Belch and Belch (2012), advertising fulfills communications' tasks the same way that the marketing funnel is build, by first accomplishing higher-level objective such as awareness and then moving downward toward consideration and direct response campaigns. Subsequent tasks involve moving consumers who are aware further down the funnel. Higher levels are easier and often cheaper for the company to accomplish than those at lower stages of the funnel. The percentage of customers at each level declines as we move down the consumer purchase funnel.

Figure 6 shows how certain communications tools within a category of communications tools can be used to move customers through various stages of the simplified buying process. According to Banfi, Caylar, Duncan and Kaijii (2013), it is the traditional above-the-line (ATL)[5] advertising which serves as the best medium to raise consumer awareness about the service or product. While below-the-line (BTL)[6] advertising serves better the purpose of locking down the customer toward the end of the funnel and making him commit to the purchase.

The views on the consumer purchase funnel are not aligned and many argue that the traditional funnel schema doesn't reflect the consumer behavior well and it should change. Edelman and Singer (2015) attribute this shift away from the traditional funnel to several factors among which are the rise of social media, ever rising use of mobile devices, and technology improvements which help consumers to compare prices, complain, and find best deals.

Court, Elzinga, Mulder and Vetvik (2009) also agree that the funnel is changing. The traditional funnel, where consumers start with a set number of brands, whittle them down as they move through the funnel until they make a purchase decision, is being replaced by a so called consumer decision journey (Edelman, Singer 2015).

The consumer decision journey has four stages. They are: consideration, evaluation, purchase, and post-purchase (Banfi, Caylar, Duncan, Kaijii 2013). Through the consumer decision journey companies should strive for creating brand engagement turning that into brand preference, and leveraging it to drive sales and loyalty.

Consumers are open to influence through multiple touchpoints such as advertisements, news reports, conversations with family and friends, and product experiences (Krupka 2015). Juggling multiple touch points is native for integrating marketing communication of airlines who manage and relentlessly optimize thousands of combinations of offers, prices, creative content, and formats to ensure that potential travelers see the most relevant opportunities (Smith, Taylor 2004).

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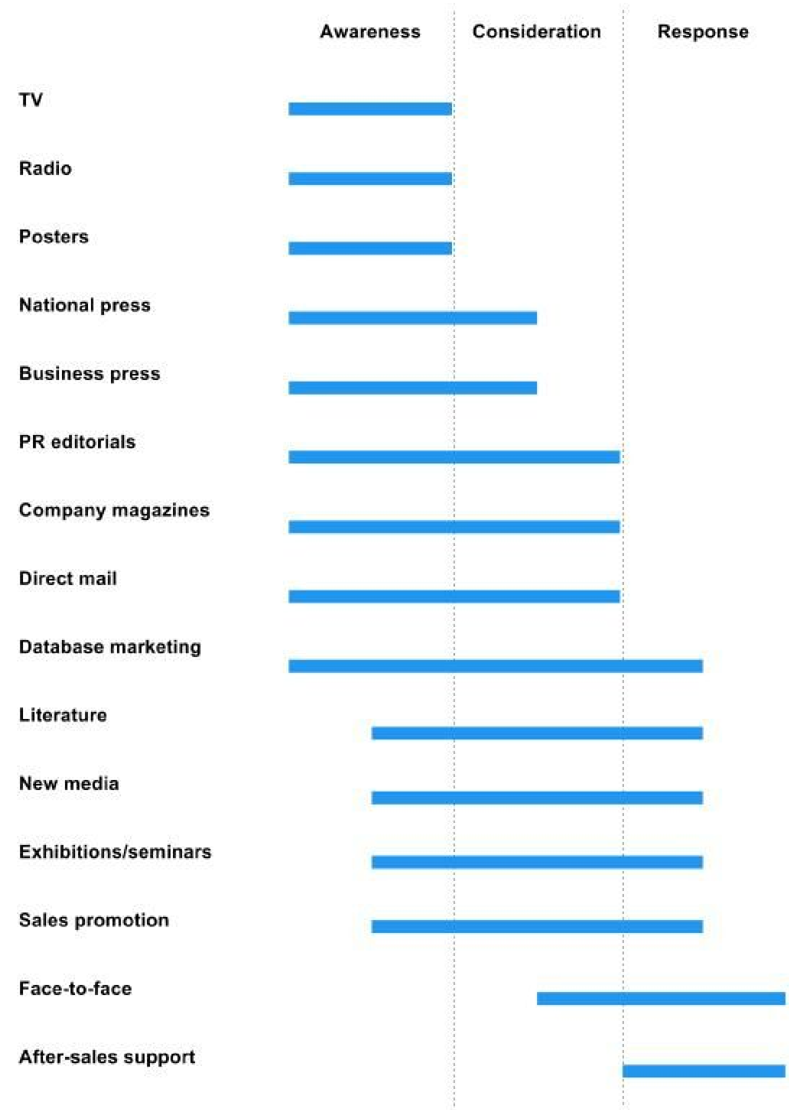
[5] ATL communications use media that are broadcast and published to mass audiences (*Below the line (advertising)* 2015)

[6] BTL communication use media that are more niche focused (*Below the line (advertising)* 2015)

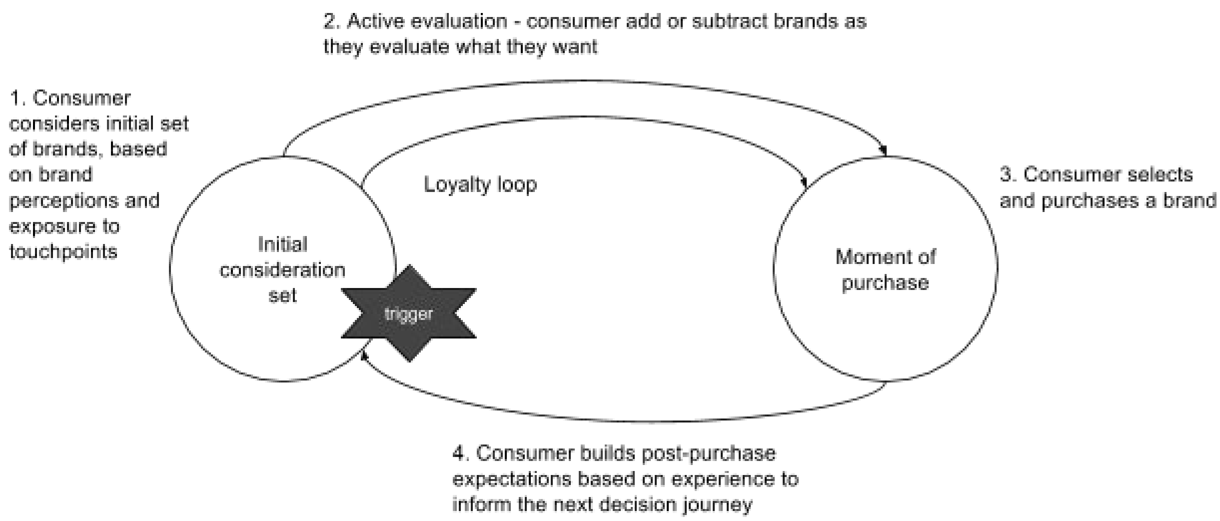
Figure 6: Marketing and the integrated communications mix



Source: (Smith, Taylor 2004)

Online tools gave consumers the unprecedented power to evaluate products and services. According to Court, Elzinga, Mulder and Vetvik (2009), this higher involvement of consumers is a big game changer, because evaluation could suddenly add brands to the consumer's consideration set which initially were not part of it. Court, Elzinga, Mulder and Vetvik (2009) see the consumer decision journey more as a loop which is shown in **Figure 7**, rather than a funnel

Figure 7: The consumer decision journey



Source: (Court, Elzinga, Mulder, Vetvik 2009)

With 80% of consumers doing research online before purchasing a travel ticket (Bohn, Huth 2013), the consumer decision journey seems to be good representation of the consumer behavior during the airline ticket purchase. As awareness, consideration and response are still vital part of the consumer decision journey, we will now look at those in more detail.

ii. Brand awareness communications campaigns

Bennett (1988) defines brand as a name, term, sign, symbol, design, or any combination of these concepts, used to identify the goods and services of a seller. In the service industry, the brand name is the company's name, unlike having individual branding for tangible products (Berry et al., 1988). Therefore, in the airlines industry, we may find the corporate image of the airline company being the airlines brand itself.

Services could be defined by the degree of tangibility and airline industry has been identified as one of the more intangible service industries (Wong, Musa 2011). It is not fully intangible however, because it is accompanied by minor goods such as inflight meals or entertainment (McDonald, de Chermetony 2001).

Wong and Musa (2011) suggests that consumers don't establish relationships with the airline service but with the brand instead and so it's possible to differentiate between the airline companies through the respective service brands (Wong, Musa 2011).

That's why brand awareness advertising is important for airline companies. In general, brand awareness matters. According to Court, Elzinga, Mulder and Vetvik (2009), consumers are three times more likely to buy a product or service whose brand is included in their initial consideration set.

Substantial advertising campaigns and consistent brand identity are essential elements in gaining brand recognition. Also service advertising is important in order to tangibilize the service in the consumers' minds of the consumer by highlighting services benefits (Wong, Musa 2011).

Wong and Musa (2011) say that awareness advertising is one of the dimensions that customers consider when evaluating service brands, producing strong impressions on the senses. They suggest that consumers do refer to advertising as to an informative tool. This brings us back to the consumer decision journey, and the importance of awareness advertising for the consumer's brand evaluation.

The types of advertising which are relevant for raising brand awareness are announcements, descriptive copy, classified ads, slogans, jingles, skywriting, teaser campaigns (Belch, Belch 2012). Girard, Anitsal and Anitsal (2013) add that logos have a positive impact on brand awareness that leads to the business performance. Unique brand associations attached to logos can create strong customer preferences for their brands.

Another reason why brand awareness is important for airline companies more than ever, is that branded search is now coming later down the consumer purchase journey than ever before. There are 38% of all bookings which are accompanied by non-branded search, compared to 5% of bookings which are accompanied by a branded search. The importance of non-branded search is on the rise, with 88% of online bookers whose research includes non-branded travel queries in 2012, compared to 81% in 2009 (Bohn, Huth 2013).

Brand awareness is composed of brand recognition and brand recall. Recognition (aided awareness) is important at the point-of-purchase while recall (unaided awareness) is important prior the purchase. Aided awareness measures the number of people who express knowledge of a brand or product without prompting. Aided brand awareness measure the number of people who express knowledge of a brand or product when prompted (Percy, Rossiter 1992).

iii. Consideration campaigns

According to Belch and Belch (2012), advertising which is relevant for driving consideration are competitive ads with argumentative copy or image ads with status and glamour appeal.

With the increase of non-branded search and the use of aggregating web sites (Bohn, Huth 2013), it's clear that brand consideration can be won or lost at any point throughout this loop.

According to Dyer (2014), consideration is important because it inspires potential customers to engage, read, download, comment and share. This helps the company to break through the clutter of online advertising. Success in consideration can be measured by the following metrics: increased page views, longer visit duration, lower bounce rate and improved social metrics.

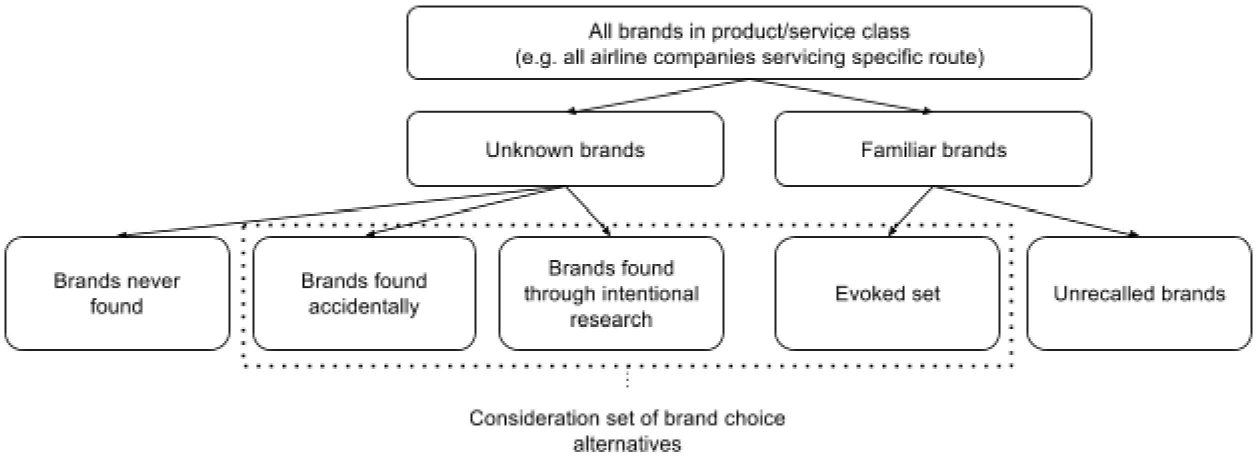
Consideration is shaped during many instances along the consumer decision journey. According to (Morris 2013), it starts long before consumers are in-market and continues long after they buy. Each moment leads fluidly into the next, from the instant the product or service is purchased, when pictures and reviews are posted online, to servicing and the everyday experience of the product, which shapes consideration the next time the customer is ready to shop.

This view is confirmed by Peter and Olson (2004) who consider the consumer purchase funnel to be a problem solving process. “Consumers are presented with choice alternatives in order to solve the process. For purchase decisions, the choice alternatives are the different product classes, product forms, brands or models the consumer considers buying.”

When time comes for the consumer to make a purchase decision, he usually considers only a subset of possible alternatives, called the consideration set. How a consumer arrives to the consideration set is shown in **Figure 8**.

According to Court, Elzinga, Mulder and Vetvik (2009), campaigns which raise consumer’s consideration are very relevant because as previously mentioned consumers might add brands to the consideration set which were previously not part of it during the evaluation process. Such advertising is raising the top-of-mind awareness of the brand which makes it more likely for the brand to be included in the choice alternatives during the problem-solving process (Peter, Olson 2004).

Figure 8: Forming a consideration set of brand choices alternatives



Source: (Peter, Olson 2004)

As for types of advertising that might particularly work for airline companies, argumentative copy might work for low cost carriers when they communicate their cost leadership strategy. On the other hand, status and glamour appeal consideration campaigns might work better for network carriers and especially toward their business travelers.

iv. Direct response campaigns

Direct response campaigns are a direct communication bridge between the company and the consumer without any intermediary. This allows for strong message adaptation to motivate individuals from the target audience. Its main objective is to "stimulate an immediate reaction from the target audience" (Machkova, Kral, Lhotakova 2010).

According to Belch and Belch (2012), advertising which is relevant for driving response are point-of-purchase retail store ads, deals, last chance offers, price appeals and testimonials.

Charlesworth (2014) observes two clashing tendencies in the direct response campaigns nowadays. First is the high clutter of information consumers are targeted with via direct response campaigns online. Second, direct response campaigns are increasingly more effective through possibility of remarketing and retargeting which is a "type of behavioural advertising whereby a consumer who has visited a site but not met the site's objective (usually a purchase) is shown relevant ads for that site in their subsequent surfing around the web."

Such campaigns are immensely important for airline companies, in order to “trap” a consumer along the evaluation path and make her purchase a ticket. Bohn and Huth (2007) investigated that leisure travellers visit up to 37 websites during research for single journey. Remarketing and retargeting can help to not-lose the consumer along the way.

Airline abandonment is a hindering problem for airline companies. Hunink (2015) suggests that 88% of consumers abandon their flight bookings at some point. This accounts for 42 million abandoned bookings. Direct response campaigns could help bring some of these consumers back though remarketing, which enables the customer to come back to exactly where they left off, and complete their booking easily.

The advantage of direct response campaigns is that they are easy to evaluate. Online direct response advertising allows for measuring of impressions, that is how many people actually saw the advertising, click-through-rate (CTR), how many people clicked on the advertising, and conversion, how many people from those who saw the advertising actually completed the purchase.

2. Marketing analysis of the airline industry

This chapter draws on marketing theory learnings from chapter 1. It starts with a brief overview of the history of passenger aviation, but the aim is to provide a marketing insight into the airline industry from the business point of view (later in chapter 3 the consumer point view is discussed). The marketing strategy in this chapter is discussed from the network carrier, as well as the low-cost carrier perspective. The chapter examines when the big proliferation of low-cost carriers in Europe happened and then looks at the marketing strategy of network carriers and how it has changed over time.

a. Brief history of passenger aviation

The first airplane took the sky in 1903 (Brooks 1967). The six decades that followed were marked by fast development which was mostly fueled by government defence expenditures, with civil air transportation developing as a side product in the early 1940s. The boom in passenger air transportation came around 1979 with the global deregulation of the airline industry. The global airways became busier and the safety of flying had improved. Until new threats, such as terrorism, surfaced much later and questioned airlines' safety. Still, airplane is the fastest civil transportation vehicle and it is considered to be the safest.

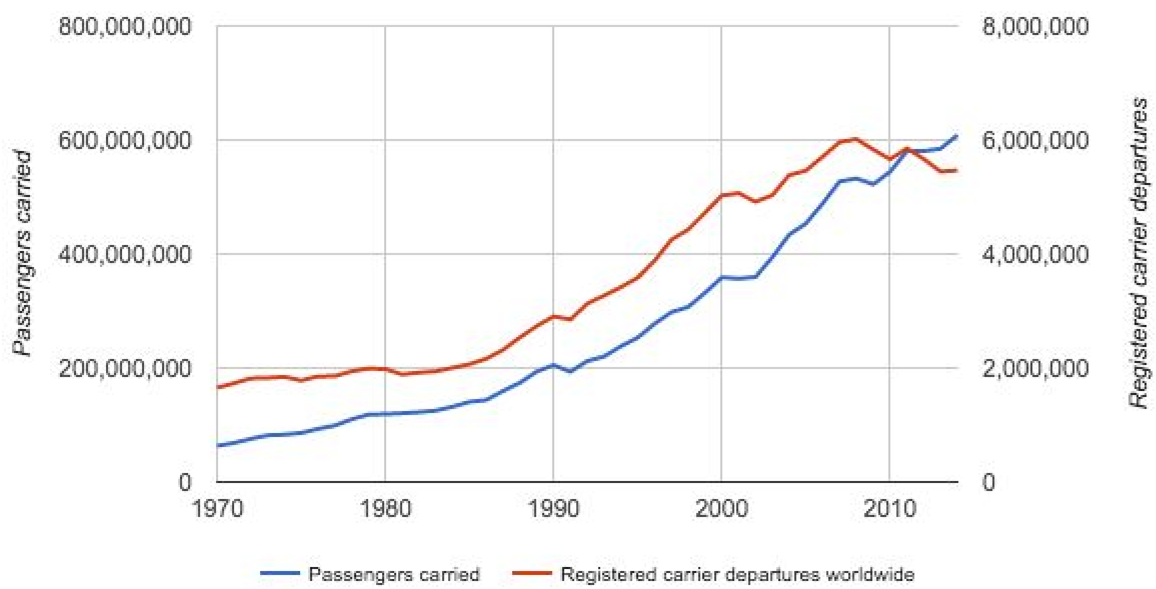
For many years, travelling by plane was considered a luxury. The globe suddenly became smaller as airline transportation gave people the possibility to visit faraway places that were previously impossible to reach or it would take weeks or even months to reach them by land transportation. For this earlier unprecedented benefit passengers had to pay extra. While in 1977 the average price for 1 mile flown was $0.30/mile (adjusted for inflation to 2010 $s), in 2010 passengers paid only $0.13 for the same distance (McCartney 2010). This drop in price could be predominantly attributed to the arrival of large capacity airliners and technology evolution. Also, because of the low-cost carriers proliferation, flying became accessible for other segments of people, who previously couldn't afford to fly.

Air transportation completely took over as the most important form of passenger long-haul transportation. Today, civil air transportation is $4,500 million industry with roughly 200 airline companies serving regularly scheduled routes (Brooks 1967).

The World Bank has been collecting data on civil air transport since 1970. **Chart 1** shows that the demand for air travel in Europe is continuously growing. According to Budde, Goth, Love, Shilling and Woffenden (2006) the demand for air travel could be split into underlying and induced. Underlying demand is formed by such factors as an increase in population, consumer income and international trade growth and changes in consumers' taste. On the other hand induced demand is driven by growing supply which drives prices down and therefore stimulates additional demand. Airlines need to be careful when forecasting demand growth to separate those two as forecasting for the induced demand would cut into their profit margins.

The growth in demand and matching growth in supply has been much more intense in the last two decades. While the number of passengers carried by airlines registered in European Union countries grew by 142 million between the years 1970 and 1990, in the following two decades it grew approximately 2.5 times as much. This trend is also visible if measured by the number of plane departures from airports located in European Union countries which is again correlated with the growing demand. If we define the induced demand as surplus of year-over-year growth of carrier departures over passengers carried, from the data below we can calculate that the highest induced demand happened in Europe in year 1991 and 1997. This is probably the effect of market deregulation which will be addressed in a later section.

Chart 1: Passengers carried by carriers registered in the EU, registered carrier departures worldwide from EU countries



Source: Deutsche Zentrum fur Luft- und Raumfahrt e.V.

In the last two decades, the growth of carried passengers in Europe has been mainly supported by the growth of low-cost carriers. Measured by the number of available seats per week within geographical Europe, these carriers grew by 181% between 1998-2003 and by 272% between 2003-2008 while network carriers grew only 32% over the whole period of 1998-2008 (Reichmuth 2008). It was a hard decade for the network carriers with the 9/11 events in 2001, SARS epidemic in 2002 and unpredictable changes of oil prices.

i. General specifics of the airline industry

The airline industry has a reputation of being an attractive, dynamic and technologically advanced industry. This is because the civil airline industry is influenced by many internal and external factors over which the companies have little or no control and which in combination create a very unpredictable entrepreneurial environment. Attractiveness of the field is rarely the main reason why investors invest their money into publicly traded companies. Investors expect their capital to appreciate which in today's turbulent environment cannot be guaranteed by most of the airline companies.

Among the market factors which influence it are: economic activity, demand fluctuation, consumer heterogeneity, uncertainty of travellers' departures and destinations, limited aircraft capacity, perishable nature of the product (i.e. an unsold seat on a plane which just took off) and passengers fear of flying (Alderighi, Cento, Nijkamp, Rietveld 2004).

It is also a very heavy fixed cost industry and these costs are difficult to manage effectively as there are high barriers to exit the industry. The product is easily replaceable and the differentiation could be achieved mainly through high expenditures into brand equity. Also, commercial competition characterized by the repeated cutting of prices below those of competitors is a common practice among the airline companies. The simplified PESTLE analysis in **Figure 9** shows some of these complexities.

Figure 9: PESTLE analysis of the airline industry

Political

- international landscape
- close governmental oversight
- some routes embargoed
- countries with national carriers

Economic

- correlated to GDP
- key economic indicator
- popular investment
- cornerstone of our infrastructure

Social

- increasing ethnic and leisure travel
- social media at the heart of bad experiences sharing

Technological

- deeply dependent on technology
- brought digitalization into private industry

Legal

- antitrust charges

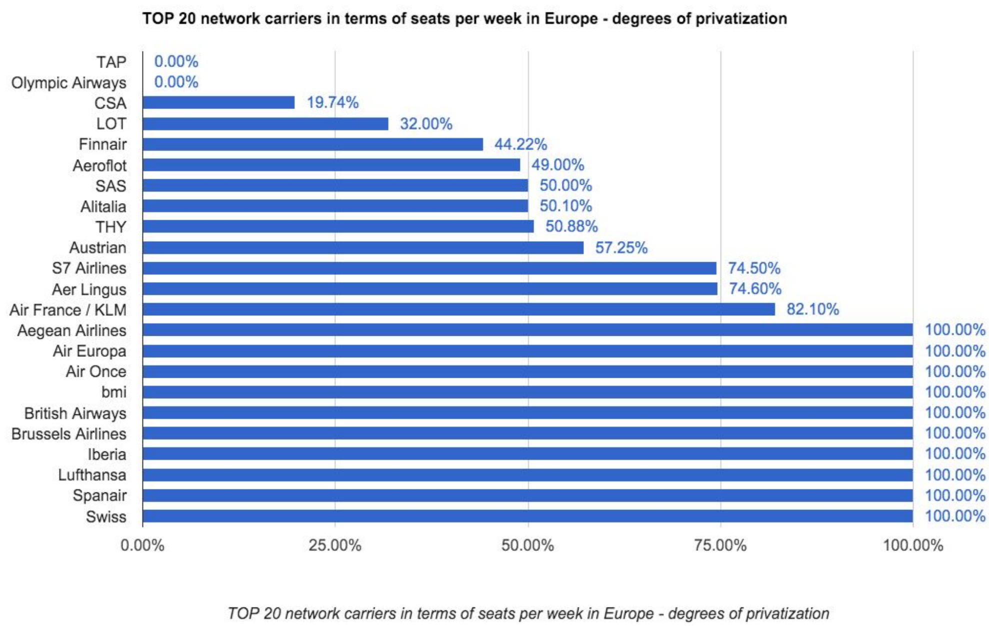
Environmental

- seen as heavy polluters
- huge focus on clean fuels (as part of their marketing strategy)

Source: Airline Industry Overview (2015)

Examples based on this PESTE analysis can be found throughout the entire thesis. The political impact is seen in the market deregulation or the impact of government ownership. State owned or previously state owned airline companies are often among the most financially struggling as they don't always see shareholders' value as the major decision driver. These companies have been controlled by governments for many years and the state protected them from external market impacts through subsidies and other administrative measures. Adaptation for the new market situation is especially difficult for such carriers, because they got used to the easy access to capital and also their management is usually highly politically influenced and trade unions enjoy substantial sovereignty. For illustration, **Chart 2** shows the degree of privatization among top 20 network carriers in Europe. Many of these carriers are under some influence of the government.

Chart 2: Degree of privatization



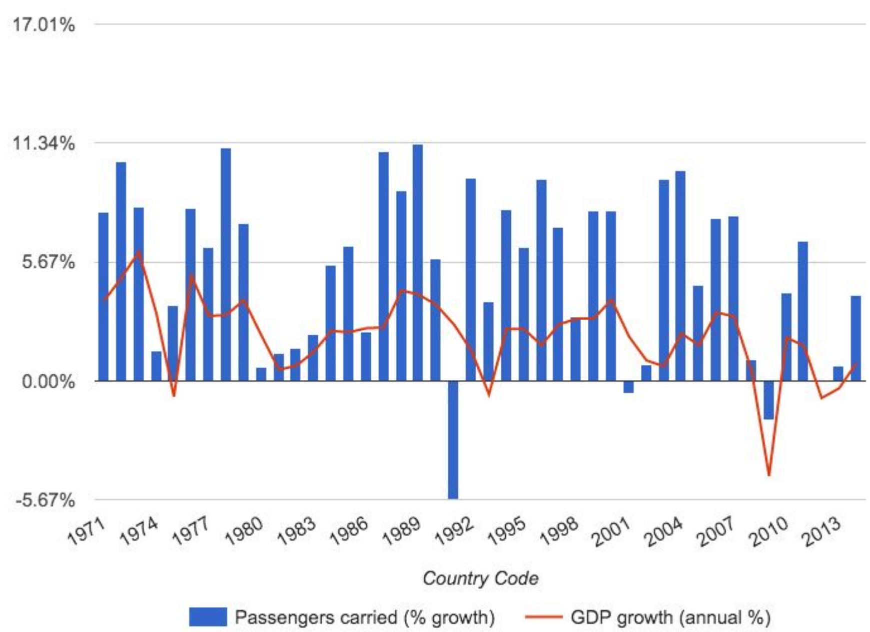
Source: Airline websites, airline annual accounts

The legal impact on the airline industry is evident in various prohibition of mergers, the technology impact is visible through carriers' demand for more and more efficient airplanes, which also accounts for the social and environmental impacts. However the most relevant for this thesis is to look closer at the economic impact.

The defining economic influencer is the GDP. It is no surprise that the airline industry is highly correlated to its fluctuation. **Chart 3** shows this correlation for the Eurozone area, where the passenger growth was approximately double the GDP growth. When there has been a decline (or negative) in GDP, response of passengers' demand was slower. This chart also reflects the decline in civil air travel caused by the events of 9/11, SARS and economic slowdown between 2007-2010.

Growth of passengers travelling in premium classes (business and first) is more sensitive in responding to the overall economy's performance. For example, there has been a 25% decline of passengers travelling in business class between 2008 and 2009 while there has only been a 9% decline in passengers travelling in economy class. This disproportion is there because some of the business class passengers didn't stop flying, but downgraded to economy class instead (W. A. 2015).

Chart 3: Annual growth of carried passengers in EU, annual GDP growth of EU members

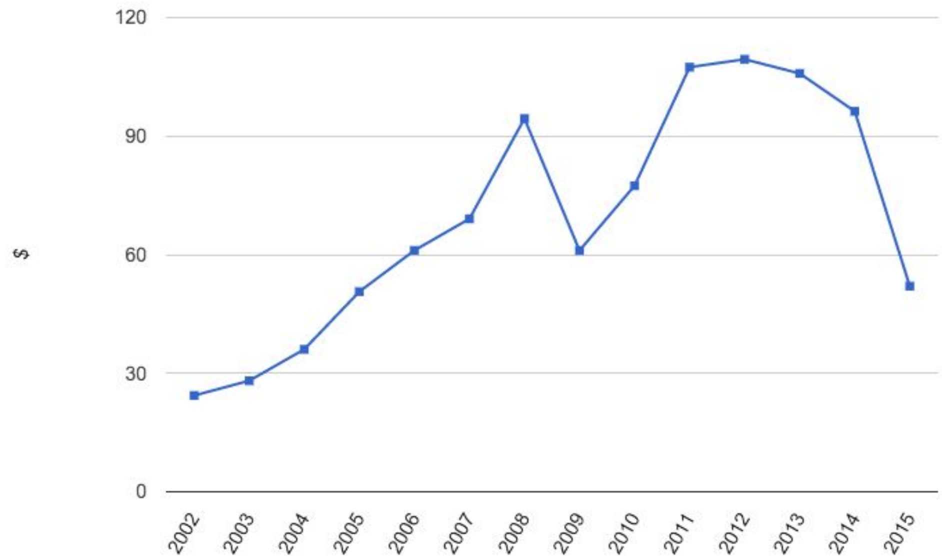


Source: World Bank

The supply side of the industry is predominantly influenced by input prices and mostly by the price of oil which dictates the price of kerosene, the airplane fuel. The dramatic increase in fuel costs is visible in the **Chart 4**. For carriers, the cost of fuel could make up to 30% of operating costs.[7] However, not even more promising oil prices mean high profits for carriers. Over the past year, the oil prices dropped from over $100/gallon to under $50 (Binggeli, Dichter, Weber 2013) but carriers globally could still only achieve a profit margin of only 3.2% (*Climbing through the clouds* 2011). This is due to commodity hedging. Carriers were betting on the growth of oil prices, and thus they are not profiting from the actual price drops now, because due to hedging they still have to pay the old high prices.

[7] IATA Annual Review 2014

Chart 4: Historical OPEC basket price of oil



Source: OPEC

All of the above mentioned specifics create a challenge that needs to be addressed by carrier's marketing strategy in order for marketing departments to be able to contribute to a company's goals. In many markets and on many routes, the competition is fearless and carriers have to fight over the same segment of passengers. A good example of such an environment could be the route between Prague (PRG) and London (LON - London all airports). The route is currently served by five different carriers[8] but only one network carrier - British Airways. Czech Airlines had to drop out of the race on this route in 2010[9] and returned only under the codeshare schema with Smart Wings,[10] Czech registered low-cost carrier. The history and specifics of low-cost carriers are discussed in a later section.

ii. Deregulation of the industry

Regulation and later deregulation of the airline industry caused major shifts which eventually led to the proliferation of low-cost carriers around the world, and specifically in Europe. The establishment of international routes dates back to the International Air Conventions in Paris in 1919 and it was redefined later at the Chicago Conference in 1944. It was after the World War II

[8] www.skyscanner.com
[9] Source: Idnes.cz (available at: http://goo.gl/fcqwZ7)
[10] Smart Wings is owned by Travel Service, which is a shareholder in Czech Airlines.

that strict regulation was inaugurated to control the dynamics of the growing air transportation sector.

The delegates of the Chicago's conference came up with four principles which defined the civil air transportation for a long time. These were sovereignty over a state's airspace, equal rights for all states to participate in traffic, non-discrimination as to nationality, and freedom to designate national airlines which will operate the air space (Driver 2001).

Historically traffic rights between two countries were recorded as part of the bilateral air service agreements (Reichmuth 2008). This meant that, for example, the United Kingdom and Germany had such an agreement and carriers based in one of these two markets could fly to destination in the other market. But it didn't allow British based carrier to operate on routes between Italy and Germany, for example. Such measures were a considerable hindrance on cross border mergers. Also, it meant that every country needed a national network carrier which connected it to other cities in other countries.

The deregulation on the European Union level came in two waves. The first wave happened in 1993 and re-confirmed some of the principles for carriers based in the European Union, such as the freedom to land and take-off and take passengers and cargo from the home country to the foreign country. The more significant wave occurred in 1997 and introduced the so-called 7th freedom (Driver 1999). Suddenly EU based carriers were able to take passengers and cargo from a one foreign country to another foreign country. This was the last step to deregulation in Europe and it led to increased competition through diminishing of government ownership (Wijnholds 1996). It opened up the window for consolidation within the sector and it also provided scope for the adjustment of the marketing mix variables which are addressed in later section in this thesis. Barbot (2006) predicted that the force of consolidation will only allow for the existence of five large network carriers in Europe. Today, we indeed only have five carriers which carry over 60 million passengers a year[11]. Finally, deregulation allowed network carriers to shift away from the point-to-point transportation network toward the more economical hub-and-spoke system.

The outside-of-EU market hasn't been fully deregulated, which continues to block potential M&A among carriers who are serving a considerable amount of non-EU routes (Bohn, Huth 2013). Authorities still play a major role in the concentration process which also affects LCCs, such as the blocked takeover of Aer Lingus by Ryanair[12] by European authorities.

[11] According to IATA these are: Lufthansa, Ryanair, British Airways, Air France-KLM and easyJet
[12] Source: Financial Times (available at: http://goo.gl/6iizS6)

Even though such concentration could bring synergy effects in the form of (Reichmuth 2008):

- network optimization,
- effective redeployment of passenger and cargo activities,
- extended offering of aircraft maintenance services,
- purchase savings, sales distribution and
- IT applications savings.

These synergy effects would naturally have to result in even higher cost reduction and therefore extended customer benefit in the form of cheaper tickets.

iii. Low-cost carriers and their proliferation in Europe

In recent years, the entry of low-cost carriers (LCC) has totally revolutionised the civil air transportation sector. The roots of cheap flying are in the United States of America, where the first low cost flight took off on May 6, 1949 (Spolek 2011). The plane belonged to Pacific Southwest Airlines, and it flew from San Diego, CA to Oakland, CA. The big boom in cheap flying came with the start of Southwest Airlines at the beginning of the 1970s (Malighetti and Paleari 2009). It wasn't until 1990s when the phenomenon spread world-wide.

The early days of low cost flying in Europe came much later. Laker Airways started offering passenger flights at the end of the 1970s, with the first flight connecting London Gatwick and New York and tickets cost £33. Laker Airways was planning to launch a low cost operation in Europe, but the financial standing of the company faltered and it had to file for bankruptcy in 1982. Shortly afterwards, in 1985, Ryanair was established, later becoming the market leader in European low cost operations[13]. The company was enjoying a monopoly position until 1995, when easyJet started its operations.

There were several catalysts which sped up the growth of LCCs in Europe (Gabor 2010). The first of them was the deregulation of the airline industry in the European Union which was discussed in the previous section. Others factors were existence of entrepreneurs who started LCCs, population growth and the growth of wealth in the European society, second-rate airport availability, and finally the rise of the Internet which made for a cheap direct distribution channel and allowed for price transparency. LCCs triggered a new kind of demand by shifting flying from a value-added experience to a commodity which is stripped down of all the extras and more consumers can thus afford it. (Jarach 2004). People who weren't able to afford to fly

[13] Until 1992, Ryanair was a full-service-network-carrier (Paolo Malighetti 2009)

suddenly started visiting their friends and relatives in other countries, ethnic and leisure travel increased, and it went as far as shifting some of the business clientele away from full-service-network-carriers (FSNC) to LCCs.

In contrary to FSNCs, which focus on providing a wide range of pre-flight and onboard services, including different service classes, and provision of connecting flights, low-cost carriers focus on cost reduction in order to implement a price leadership strategy in the markets they serve (Reichmuth 2008). It's common that LCCs sell tickets for under 60% of prices offered by FSNCs. FSNCs' operations are backed up by massive marketing expenses, while LCCs spend minimum if at all on marketing (Jarach 2004).

LCCs success on short-haul flights is explained by their ability to achieve savings on input costs, which are roughly 30% of total costs per available-seat kilometer on these flights, compared to only 13% on long-haul flights (Binggeli, Dichter, Weber 2013). **Figure 10** shows which strategic measures lead to the reduction of which unit input cost categories for LCCs.

Figure 10: Cost cutting strategies by LCCs

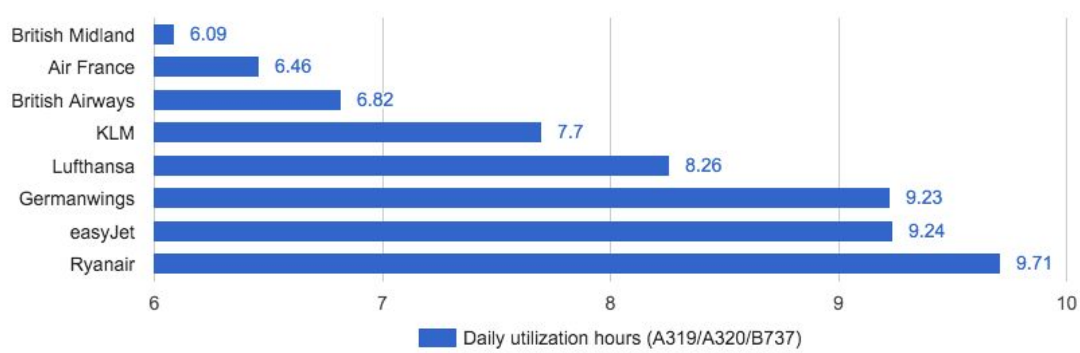
Cost category	Fleet		In-flight service			In-flight service
Unit cost category (per passenger/km)	Homogenous fleet	Young fleet	High density seating, fewer galleys, toilets	No meals and drinks, no lounges	No seat reservation	No seat reservation
Maintenance	X	X	X			
Fuel		X	X			
Staff	X	X	X			
Airport costs			X		X	X
ATC costs			X			
In-flight service				X		
Capital and leasing	X		X		X	X
Marketing/Sales			X			
Overheads	X		X	X	X	X

Cost category	Network		Marketing and PR		HR
Unit cost category (per passenger/km)	Use of smaller airports	No interlining, no connections	Focus on direct sales	"Low prices sell themselves"	Variable remunerations, low hierarchies
Maintenance					
Fuel	X				
Staff		X			X
Airport costs	X	X			
ATC costs					
In-flight service					
Capital and easing	X	X			
Marketing/Sales	X		X	X	
Overheads		X			X

Source: Deutsche Zentrum fur Luft- und Raumfahrt e.v.

One of the major cost cutting strategy used by LCCs is achieved through maximizing the utilization of their fleet which usually consists of young and homogenous planes, a fact that already creates savings. Fleet utilization is achieved through reduced ground times and delays by serving smaller airports and by focusing on point-to-point flights. **Chart 5** shows the daily utilization of specific type of aircrafts by specific carriers. Ryanair can utilize their Boeing 737 fleet on average by 42% more than British Airways.

Chart 5: Daily utilization hours (A319/A320/B737)

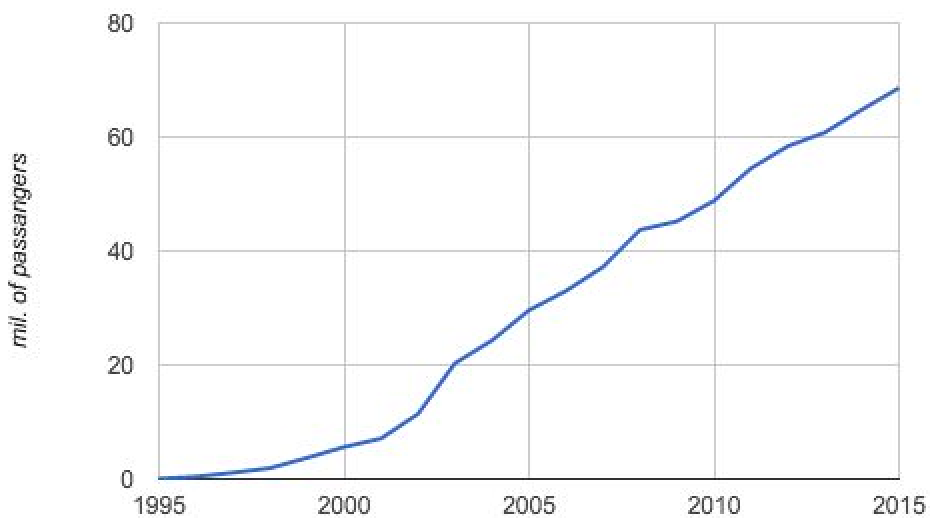


Source: Deutsche Zentrum fur Luft- und Raumfahrt e.v.

Ryanair and easyJet took advantage of their starting positions and were able to double the number of available seats between 2004-2008 (Gabor 1010), while their revenue grew by 199%, respectively 159%, over the same period of time (Barbot 2006). Even the LCC sector was hit by a wave of consolidation which helped the previously mentioned two carriers to dominate the market even more. Ryanair bought Buzz from British Airways and easyJet bought Go from KLM (Mason, Alamdari 2008).

Today, Ryanair and easyJet, have roughly 50% of the market share of LCC flights in Europe, followed by Air Berlin[14], Norwegian and Vueling. The growth of LCCs is visible on **Chart 6** which shows the total number of passengers travelling on easyJet each year. It grew from zero to 68.6 million passengers in 2015. The biggest growth happened between 2003-2008. During this time easyJet alone added 32 million new passengers, which was 21 million more than between 1997-2002, and 11 million more than between 2009-2014 (Sitner 2015).

Chart 6: Number of passengers on easyJet flights



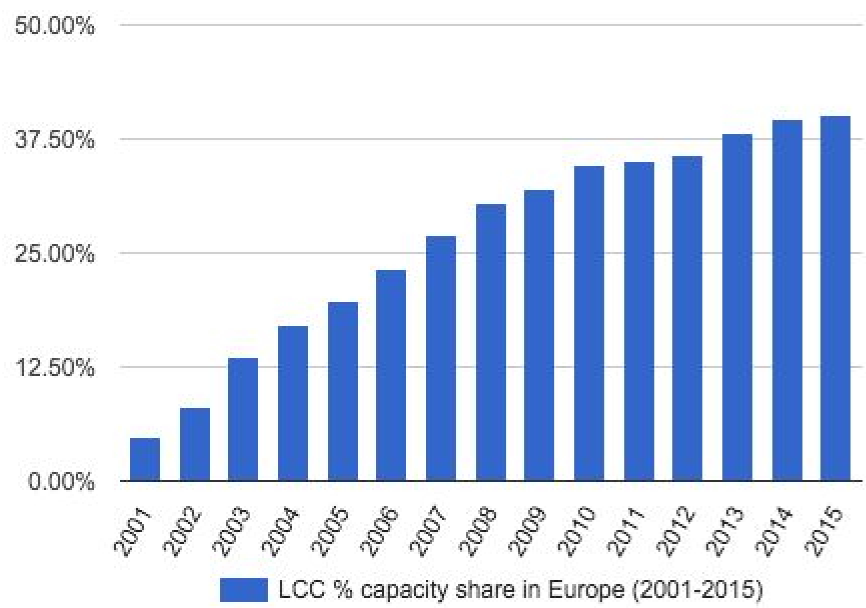
Source: (Sitner 2015)

[14] According to some classification Air Berlin is not a LCC but a FSNC (Hill 2003)

The dynamics of LCCs in Europe is further illustrated in **Chart 7**, which shows the share of low-cost carriers on the overall seat availability in Europe. The growth of LCCs caused that on certain routes there is no other option but to choose the service of LCC rather than FSNC.

Drawing on the data provided by Reichmuth (2008) and Pavlik (2011), the major proliferation of low-cost carriers in Europe happened between years 2003 - 2008. During this time, the share of LCCs grew by almost 17% and the seat availability per week on LCCs' flights went up by 272%. For the purpose of this thesis, we will consider 1993-2002 the pre-LCCs era, 2003-2008 is the time of LCC's proliferation and also an adjustment period for network carriers and past 2008 it will be the new era of LCC's market dominance on European short-haul routes.

Chart 7: LCCs share of total seats availability in Europe (2001-2015)



Source: CAPA - Center for aviation with data provided by OAG

b. Influence from the proliferation of LCCs in Europe on the marketing mix of network carriers

The airline industry has gone through some turbulent times in the last 20 or so years. At first the individual players were squeezed by regulation which dictated where the carriers could fly and where they couldn't, but at the same time the competition was limited mostly to national carriers which focused on providing connection from their home markets. Deregulation, which came at the beginning of the 1990s, opened up the skies and brought along competition, mostly in the form of low-cost carriers. At first the position of national and other network carriers seemed unshakable, but external events to the industry, such as the terrorist attacks from 9/11, the global SARS epidemic and economic recession, shook up the business. It was the demand for long-haul flights that got most affected, leaving the network carriers, who greatly depend on the long-haul service, as this is where they generate about 90% of operating profits, struggling. In the meantime low-cost carriers emerged stronger than ever, and grew at triple digit numbers starting in 2003, posing another threat to FSNC.

Figure 11: Marketing strategies

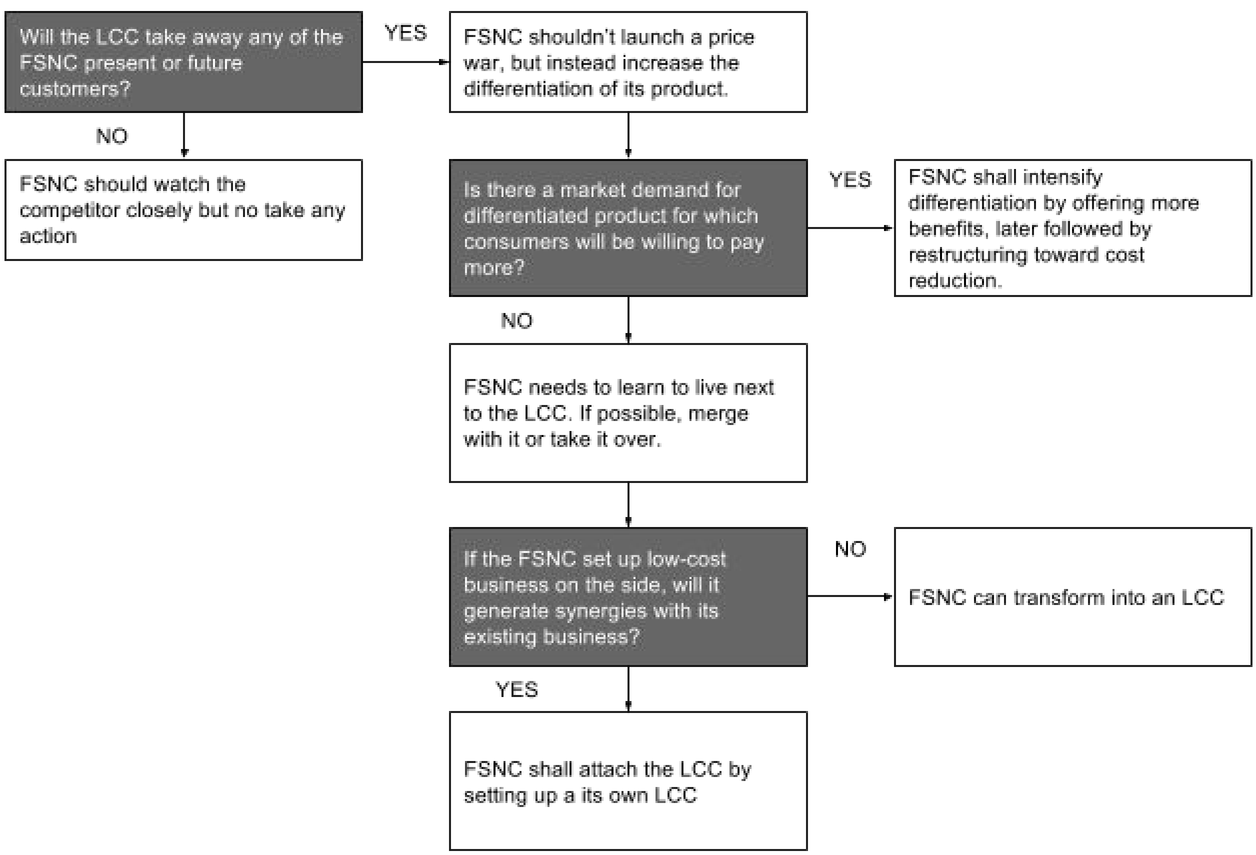
Strategy	End of 1990s	Mid 2000s - now
Routes	Expansion Point-to-point operation	Selective network Hub and spoke operation
Pricing	Competitive	Diversified by product, with lowest pricing for the basic product
Advertising	Increased	Focused on building awareness of the diversified product offerings. Niche advertising.
Services	Some innovation	Push for innovation in the premium products' segment
Brand	Building the reputation of national carriers	Building awareness

Source: (Wijnholds 1996)

Network carriers had to readjust to the new situation and marketing was at the core of their strategy adjustment to these new and ever changing conditions. **Figure 11** summarizes how the marketing strategy changed over time. This section looks closely at these changes and it examines how the biggest European carriers adjusted their marketing mix in response to the proliferation of the low-cost carriers.

It is the product that underwent the most significant change of all the components of the marketing mix. Price only allows for limited adjustments before it starts cutting too much into the profit. Distribution channels changed dramatically as well, but it was more of a natural result of the technology evolution which made the Internet the main direct selling channel. Promotion only followed the lead of other components and reflected on them. So network carriers were mostly left to work with just the product. **Figure 12** helps to explain the significance of product to network carriers when low-cost carriers entered the market and some of the conclusions about the product in the next section are directly based on this schema.

Figure 12: Framework for responding to LCC rivals



Source: (Kumar 2006)

i. Product changes

This section describes how the product offerings of the three largest European network carriers changed as a result of proliferation of low-cost carriers in Europe. For the purpose of this chapter, three largest carriers are identified by IATA's[15] estimates on how many passengers will these carriers carry in 2015. The largest carriers are Lufthansa[16], British Airways[17] and Air France-KLM.

The main changes and alternations that the network did to their product could be summarized into:

- response to demand segmentation,
- focus on long-haul operations through hub and spoke system,
- tapping into the niche markets.

Let's start by looking at the demand segmentation. All three of these carriers followed the framework for responding to LCC rivals and increased product diversification as a result of demand segmentation. It's a natural opportunity for network carriers to design cool products, continually innovate, offer unique product mix and sell experience while LCCs, with the price leadership strategy, focus mainly on maintaining a homogeneous product offering for low prices.

There is a lot of unsatisfied demand left behind once LCCs take their share of passengers and network suppliers have to tailor their services to cater to these individuals. One such separate segment is business and first class passengers, also called premium passengers when combined. That's why all the big carriers offer reservations in three respective classes, first, business and economy. Lately the fare "premium economy" has been widely adopted by airlines not just in Europe. It comes from the insight that premium fares buy only marginally better inflight service, so for the segment of passengers who don't wish to pay premium for exclusivity in business, but still demand for example extra leg room, better meal options, extra checked-in luggage and priority boarding, there is the premium economy product offering (Driver 1999).

Today, Lufthansa, British Airways and Air France-KLM carry approximately 15% of passengers in their premium classes who help them generate one third of their revenues (Mason, Almdari 2008). The split of fares between first : business : economy is on average 4 : 2 : 1. This makes the first class passengers so valuable for these carriers that they usually under-book premium

[15] International Air Transport Association, data available at www.iata.org
[16] Including Austrian Air and Swiss
[17] Including Iberia

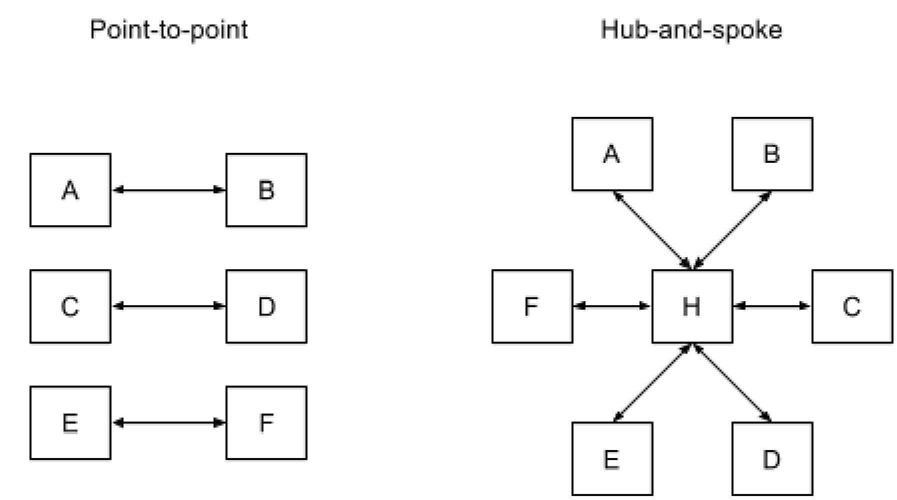
classes, simply because declining a first class passenger due to an overbooking would be too costly for them (Driver 1999).

One notable trend regarding premium class is its near disappearance from the short-haul flights. It’s because the added value of the higher booking classes is somewhat limited by the size of the aircraft servicing short-haul flights where network carriers have to compete with LCCs and therefore choose the most effective cabin configuration, usually with the focus on maximum capacity.

The second product differentiator is the focus of these big network carriers on long-haul flights. Long haul flight usually last 6-12 hours and is served by a wide-body aircraft. One reason why FSNC don’t face competition on long-haul flights from LCCs is that it would require LCCs to operate wide-body aircrafts while operating a uniform fleet is their major cost cutting strategy.

As discussed above, wide-body aircrafts allow for improved inflight experience, and network carriers make 90% of their operating profit on long-haul flights (Budde, Goth, Love, Shilling, Woffenden 2006). The only reason why FSNCs operate intra-European flights, even though they only make 10% of their profit on them, is that they feed passengers into their long-haul flights through their main hubs in Europe. On these “feeding” intra-European routes, FSNCs have largely adopted LCCs practices in order to be able to compete. However they couldn’t reduce their offerings to zero, because minimum quality and frill are still expected from them (Pereira 2011).

Figure 13: Network configuration

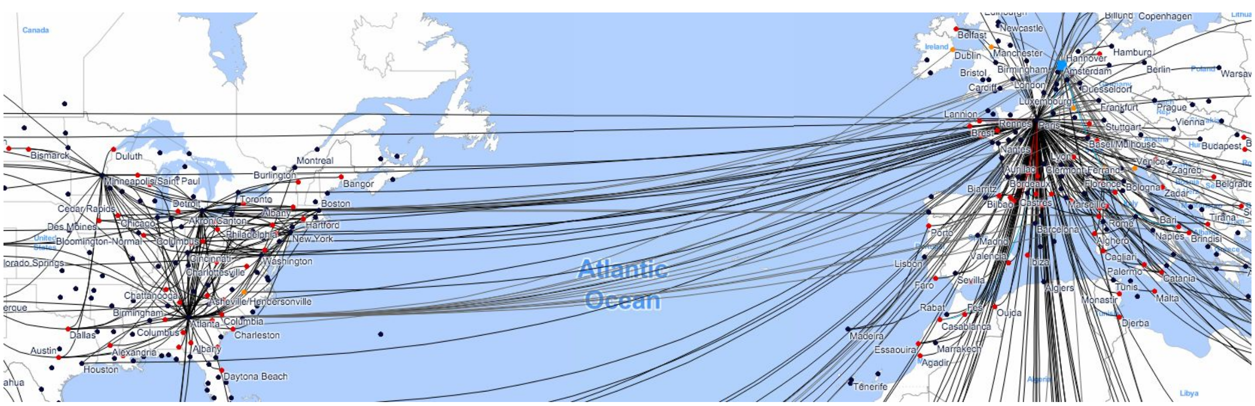


Source: author’s own interpretation

Third product change was the shift from point-to-point system to hub-and-spoke operated network. The difference between the two is shown in **Figure 13**. Upon deregulation of the industry in Europe, FSNCs switched from point-to-point transportation to the hub and spoke system, because prices became primarily demand-oriented and economies of scale got more and more important. Point-to-point became widespread because of deregulation, but it was the LCCs who widely adopted it. As FSNCs started to focus on long-haul flights, they became inclined to use the hub-and-spoke system. Network carriers use small aircrafts as "feeders" for their hubs out of where they operate wide-body aircrafts on long-haul flights. Wide body aircrafts allow again carriers to segmented demand into higher booking classes and thus this is where network carriers make most of their profits.

Seventy five percent of Europe's passengers pass through 15% of airports (Driver 1999). For Lufthansa, British Airways and Air France-KLM, the European hubs are Frankfurt, London Heathrow Airport, and Amsterdam Schiphol and Paris CDG. The bundling and reallocation of incoming and outgoing airline passengers at the hub airports enables these carriers to serve significantly more O&D (origin and destination) markets with a given amount of flights (Reichmuth 2008). Even though there is high level of detail in **Figure 14**, it illustrates the Air France hub-and-spoke operation out of Paris CDG airport. Some hubs evolved naturally because of their advantageous geographical position. For example, Iberia is leading carrier on routes to South America, because it's hub in Madrid is closer to the destinations than any other European network carrier's hub.

Figure 14: Air France destination network



Source: www.airfrance.com

The side product of the hub-and-spoke system is so-called code-sharing. Network carriers resell seats on their own aircrafts to other network carriers from the same alliance. Alliances take advantage of synergies to expand operating networks and saving is achieved due to common use of resources (Pereira 2011). The problem of code sharing is that a passenger who previously thought she would be flying on British Airways aircraft, might end sitting up on a codeshare partner plane's, for example American Airline in this case. Thus, code sharing is currently blurring the underlying consumer preference for distinctive services (Driver 1999) and could be problematic from a brand perspective.

Finally, network carriers aim to differentiate the product by entering niche markets. An example of niche a market could be British Airways serving business passengers from London City Airport or Lufthansa's aim at winter sport enthusiasts by offering direct flights to airports near the favorite Alps' ski resorts. Such routes are not lucrative for LCCs because of the fluctuating demand, high marketing costs connected with attracting demand and high airport fees.

ii. Distribution channel and pricing strategy changes

Because changes to the distribution channel and pricing strategies of network carriers caused by the proliferation of low-cost carriers haven't been as significant as changes to the product, they will be discussed alongside in this section.

A growing proportion of passengers choose price over service. According to IATA's 2015 Annual Review[18], for 14% of passengers the reason for choosing a specific airline is the lowest fare, the second most cited reason after flying on a direct (non-stop) flight. So passengers are willing to pay more only to get straight from the origin to their destination. However the statement that price is valued by customers above else is far from universal as passengers have different travelling needs to which network carriers learnt to respond (Carey, Kang, Zea 2012).

Pricing of the airline product is a very complex procedure and deep understanding of it is not relevant for this thesis. For those who are interested, description of airline ticket pricing strategies can be found in Malighetti, Paleari (2009). The complexity of pricing causes that it has become quite nontransparent. Passengers may be paying very different fares for what may be an identical flight experience.

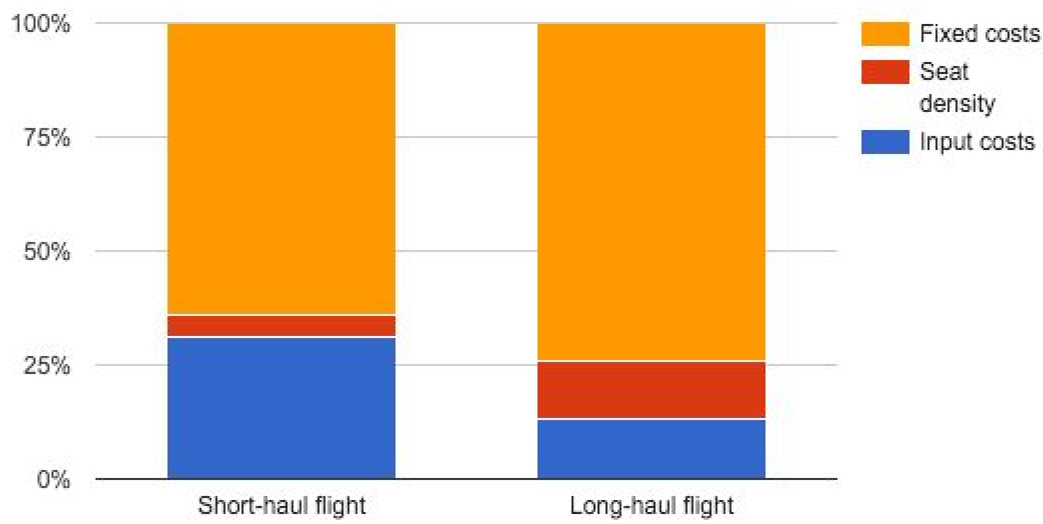
Price is still an active marketing tool. Aggregators, such as Skyscanner, that mostly cater passengers, who decide which flight to book largely on the basis of price, emphasize price as the main product differentiator (W. 2015). However, according to the model by Kumar (2006), it's not advisable for network carriers to enter into price wars with low-cost carriers and they should

[18] (*ECONOMIC PERFORMANCE OF THE AIRLINE INDUSTRY* 204AD)

rather focus on convincing customers to pay more for benefits through marketing communications.

Low cost carriers' business model has been built around cost cutting and they are likely better at it than network carriers. **Chart 8** explains the cost breakdown by the duration of a flight and it's clear that on short-haul flights, usually dominated by LCCs, the input costs (onboard service, labor and administrative costs) are a much larger share of the overall costs per available seat kilometer and it's the LCCs who are better at cutting down such costs, resulting in their ability to offer lower price to the customer.

Chart 8: Cost breakdown by the duration of flight



Source: (Binggeli, Dichter, Weber 2013)

When a LCC enters a specific route, which was previously operated by a FSNC, the network carrier's natural response it to lower prices in all available classes (Alderighi, Cento, Nijkamp, Rietveld 2004). FSNCs were able to do that by mimicking the business model of LCCs on short-haul flights through implementing cost-cutting strategies such as outsourcing of non core service, rationalization of distribution channels, structural changes to their operations, expansion of networks to new markets, through code-sharing, and by sticking to the hub-and-spoke system (Driver 1999).

The changes to the distribution system of flight tickets have been largely driven by low-cost carriers. The main revolution came with the growth of Internet which started serving as the main direct sales channel and also as the tool to compare different flights and prices (Mason, Alamdari 2008). Prior to that, airlines had to rely on the expensive computer reservation system (CRS) which would be accessed by passengers through travel agents, dedicated city retail spaces, and direct phone lines (Driver 1999). CRS operators charged fees anywhere between $15-$30 per ticket for the use of the system, plus they could manipulate the search results, pushing certain carriers to the top.

The Internet was first a brand showcase where airlines posted information about their operations. It wasn't until the late 1990s when it became a distribution channel which cut the unnecessary costs down. That's why it become a very popular sales channel for LCCs which later helped to spread it until it became an industry standard in distributions. Using the internet is convenient from the passenger's point of view as well, because it cuts down the time needed for booking. Today, LCCs generate 98% of their bookings through their own websites (Kumar 2006) and it was their successful implementation of this distribution channel which led FSNC to follow their lead.

The author deliberately leaves out the section on how promotion changed with the proliferation of low-cost airlines as the whole next section is dedicated to it.

c. Analysis of marketing communication of network carriers in Europe

According to Wijnholds (1996), advertising should highlight the unique strengths, services, routes and brand image of the companies. Strong brand presence is a means for customer attraction and retention (Driver 1996). Branding influences a customer's perception and since travel is an experience good, positive perception is vital for airline carriers. Even though consumers are becoming cynical about brands (Kumar 2006), investments into branding are still important for carriers as it gives them sustainable competitive advantage (McDonald, de Chermetony 2001) and without further investment this advantage would depreciate.

The changes in marketing communication of network carriers in Europe go hand in hand with the changes of the other components of the marketing mix. Promotion has become a pivotal instrument for carriers to communicate with their potential customers about their product offerings. As FSNC started to focus more and more on product differentiation, the marketing communication mix has shifted in order to support that. Suddenly there was a need to communicate the added value FSNCs' product was bringing for the specific segment of travelers.

Network carriers are faced with ever more experienced consumers and they have to continuously search for ways to break through the advertising clutter by adapting their marketing tactics involving both online and offline spaces. Airline advertising is a complex field but there are three main persisting trends:

- raising awareness of premium services
- selling the hub-and-spoke transit system
- raising awareness of the niche product offerings

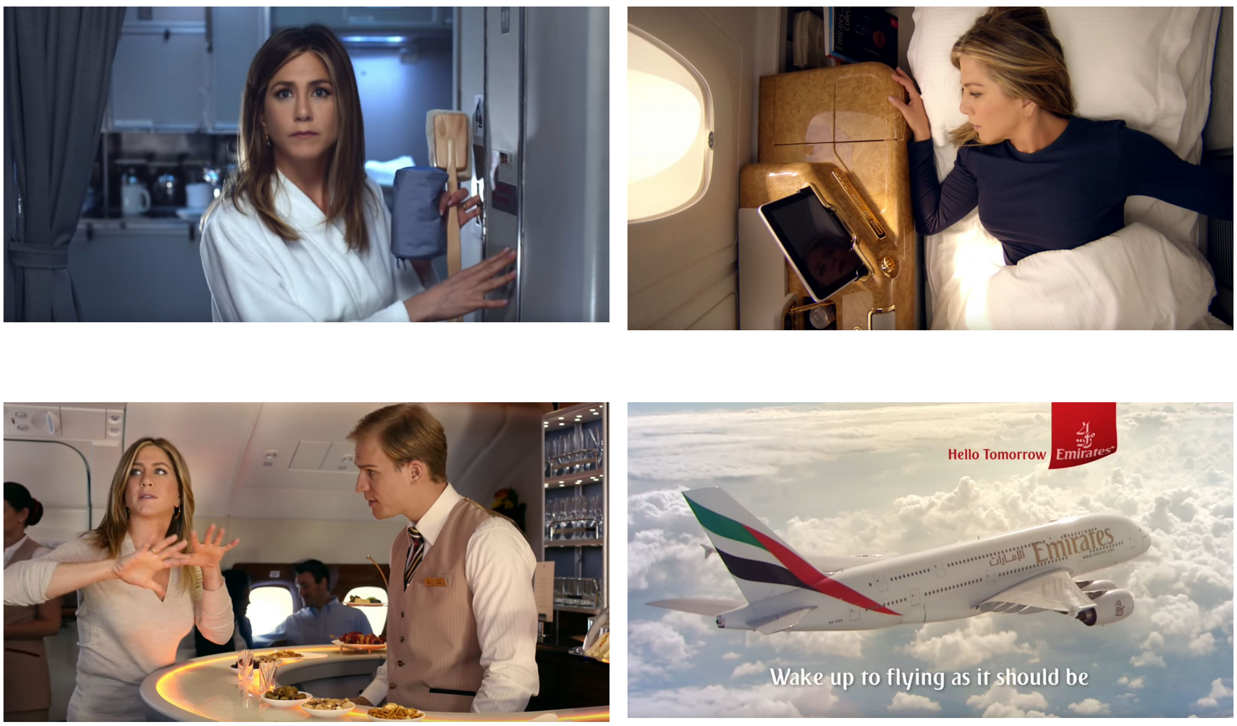
Since there isn't much space for differentiation in the economy class and as premium class has become the main money making segment for network carriers, their advertising budgets have shifted toward awareness raising campaigns highlighting the promise of performance, badge of origin, value reassurance and transformational experience (Driver 1999). All, Lufthansa, British Airways and Air France-KLM run advertising campaigns promoting their premium class with the focus on demonstrating the in-flight comfort. There is one common feature present across all campaign creatives - flat beds in premium class as shown in **Figure 15**. Inviting full-bleed visuals are a key success parameter for such awareness campaigns.

Figure 15: Current advertising campaign for business class travel on various carriers

Source: www.klm.com, www.lufthansa.com, www.ba.com

Another example of a communication campaign which raises awareness of the premium class quality is the following advertising campaign currently run by Emirates Airlines. The reason to show this campaign is to illustrate the research findings from chapter 3, where Emirates Airlines ranked by far as the most luxurious airline by respondents. The campaign featured in **Figure 16** draws upon celebrity endorsement and comparison method to show the outstanding quality of Emirates premium class services on the A380 fleet.

Figure 16: Current advertising campaign for premium class services on Emirates Airlines



Source: YouTube channel of Emirates Airlines[19]

The second promotional strategy of major European network carriers is to build awareness about their strong networks based off of the hub-and-spoke system. The key concept behind this strategy is to show passengers how far they can get by choosing to travel with a certain airline from the origin to the destination with just one connection in the carrier's main European hub. **Figure 17** shows such campaigns by Lufthansa and British Airways. For example, Lufthansa in its current CRM campaign lures passengers to travel to destinations in North America through its hub in Frankfurt. Prices are localized for the market where the campaign is running. The second

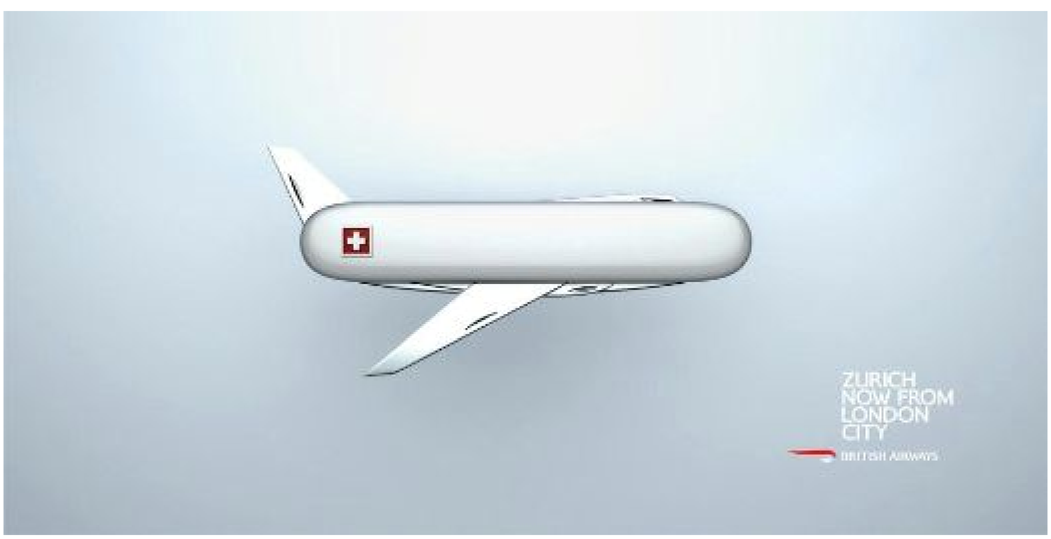
[19] https://www.youtube.com/user/EMIRATES

example is targeted toward British Airways passengers in Manchester, telling them that just because they don’t live in the capital, they cannot reach the world with just one connection at London Heathrow airport.

Figure 17: Current advertising campaign for hub-and-spoke destinations on various carriers

Source: www.lufthansa.com, www.ba.com

Figure 18: Current advertising campaign by British Airways for niche market segments



Source: www.ba.com

Finally, the last promotional strategy is focused on advertising campaigns targeting the niche segments. As discussed in the previous section, such segments could be passengers wanting to travel from London City airport (**Figure 18**) or leisure travelers wanting to reach ski destinations in the Alp's (**Figure 19**). The next chapter focuses on consumer behavior in the airline industry and will better explain how these marketing communication strategies are in line with what the consumers want and how they behave when searching for flight tickets.

Figure 19: Current advertising campaign by various carriers for niche market segmentation

Source: www.ba.com, www.swiss.com

3. Analysis of consumer behavior in the airline industry

Consumer behavior in the airline industry is analyzed in this part of the thesis. At first, the survey objective is defined. Second, the hypotheses of the master's thesis are revisited. This is followed by a description of a research sample and the description of data acquisition and analysis methods. Finally, the results are presented, interpreted and conclusions for evaluating the hypotheses are drawn.

a. Survey objectives, hypotheses and research limitations

The aim of the research was to analyze consumer behavior in the airline industry and partially follow on the research done by Bohn and Huth (2013), which was presented in the previous chapter. In the research for this thesis, the study was conducted with a broader sample of respondents. The main goal was to look at which factors drive flight ticket purchase decisions, analyze the impact of price and look at awareness factors.

In order to be able to analyze the consumer behavior in the airline industry, the author created a survey and distributed it randomly among people who had recent experience with flying. The objective was to use this data to confirm or reject the hypothesis.

There are several limitations with regards to the way the research was conducted and therefore to the conclusion which were drawn from the survey results. First, the sample size was relatively small and the geographical location of respondents varied. Plus respondents had various socio-economic backgrounds. Therefore extrapolating the results onto the general population is only approximate.

Second, the sample consisted mostly of digitally savvy respondents. There were 52% of respondents who accessed the survey through a link posted on some social media channel. Social media users are on average younger, with better socio-economic background and travel around the world more. Also, they are more likely to use digital channels when purchasing their flight tickets.

Third, there might have been respondents who would have been a good approximation of the population but since they didn't fly in the last 24 months, they didn't qualify for the survey sample.

In order to analyze the consumer behavior in the airline industry, two hypotheses were established. The first hypothesis deals with the positioning of price within the marketing mix:

> **H1:** The proliferation of low cost carriers put price into the center of the marketing mix. Price has become the most important decision factor for consumers when buying airline tickets.

The second hypothesis touches upon the communication strategy of network carriers:

> **H2:** Campaigns run by airlines have shifted from direct response and are now predominantly focused on raising brand awareness campaigns.

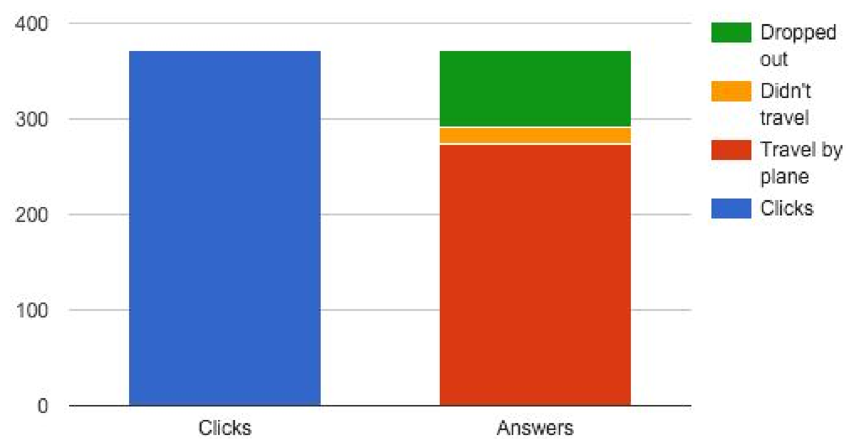
b. Description of the analyzed sample

The analyzed sample consisted of randomly selected respondents who came across the survey on the Internet. The link to the survey was distributed on social media channels and then directly sent via email to some of the author's acquaintances. However, the author had no control over who filled in the questionnaire or who didn't. The URL connected to the survey had embedded tracking. There were 359 people who clicked on the survey link. Out of those, 305 responded to the survey, making the response rate 85%.

The survey was only available in English, but respondents could write answers to open ended questions in any language. Only answers from respondents who had recent experience with flying qualified. The recent experience with flying was tested by the first question: "Have you traveled by plane in the last 24 months?" Those who answered "yes" could continue answering the survey; those who answered "no" were brought straight to the end of the survey. **Chart 9** summarizes the number of respondents and how they behaved after clicking on the link with the survey. The left bar shows that 54 people who clicked on the survey link immediately bounced off and didn't even start filling in the questionnaire, 17 hadn't recently travelled by plane and thus didn't qualify as respondents, and finally 288 were qualified respondents who served as the sample for further analysis.

Chart 10 shows the age and gender distribution of respondents. The age brackets were suggested by Cummings (2015) as the well represent the different generations. The highest represented age group from the sample were millennials, split into young millennials - 18-25 y.o., and old millennials - 26-35 y.o., who were the highest represented of all. Also, there was a slightly unequal representation based on gender, visible in chart 10 (on the left) due to the fact that for the collection of data, the method of self-selection was used, which means that anyone could have filled out the survey and there were no gender restrictions. The only criterion was the willingness to fill out the survey.

Chart 9: Respondent's behaviour during the approach to survey



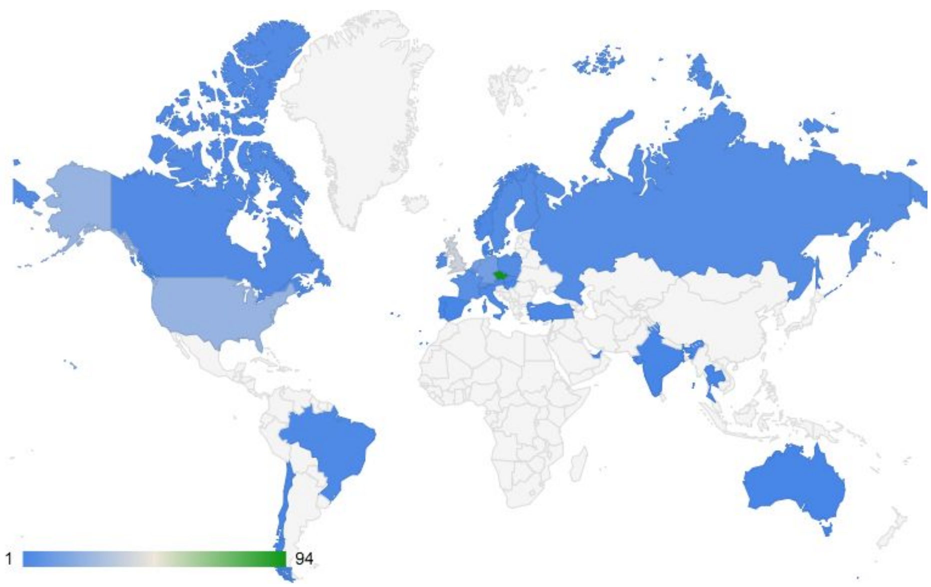
Source: author's own research

Chart 10: Age and gender structure of respondents

Source: author's own research

Finally, **Figure 20** shows the geographical dispersion of respondents. The respondents were from the total of 32 countries, but were heavily concentrated, as 70% of them have a permanent address in only 5 countries: Czech Republic, United Kingdom, United States, Netherlands, and Germany.

Figure 20: Geographical dispersion of respondents



Source: author's own research

c. Methodology of collecting and processing of data

An online survey was used to conduct the quantitative collection of data. The URL of the survey was shortened using "www.goo.gl" and tracking was applied to the shortened link in order for the author to be able to measure click through rate and response rate. The link was distributed through social media channels in three rounds. On top of that, some of the respondents were targeted directly. The target group was mainly people who recently very likely traveled by airplane. Recency of such travel experience was necessary to provide a quality sample of respondents.

The responses were collected between November 5, 2015 and November 20, 2015, thus in total of 16 days. A majority of responses were collected within the first week of the survey release, but the collection continued until the target of 300 responses was hit. Then the collection of answers was terminated.

The survey was conducted through Google Forms[20] and analyzed by using the Google Spreadsheets[21]. The questionnaire consisted of 24 questions. It was a mix of multiple choice and open-ended questions. There were three main sections within the questionnaire: general, price sensitivity and awareness questions. Question #13 “Are you a member of any airline alliance?” if answered “yes” triggered two follow-up questions.

The respondents took part in the survey voluntarily and their participation in the research was completely anonymous. The only personal questions was those related to age and gender and for both of those questions participants could choose that they wished not to disclose the information.

With the 305 respondents and 288 of them who travelled by plane in the last 24 months, the research sample was sufficiently representative. All the results, analysis and calculations can be accessed here: https://goo.gl/ti5qwK.

d. Results and their interpretation

This section is dedicated to the analysis of responses collected through the consumer questionnaire. The section is divided into four sub-sections: general results, price related results, awareness related results, and cross-vertical results.

General results

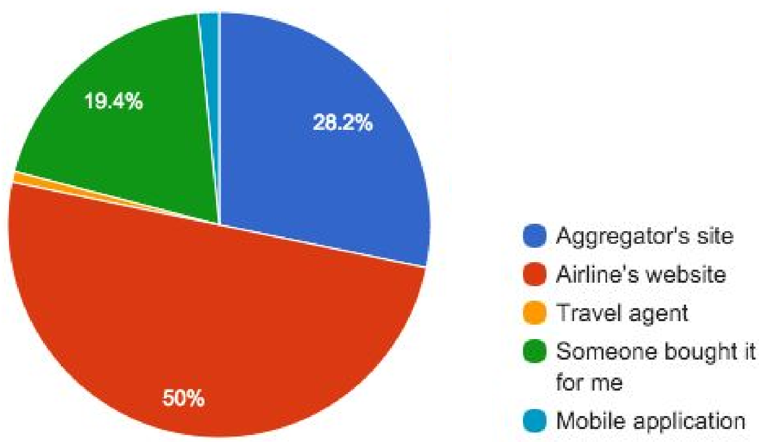
On average, people who travel, travel with high intensity. All respondents travelled on more than 2500 flights in the last 24 months. Connecting and return flights were only counted once. 70.9% respondents took direct flights, making it 1773 flights, and 29.1% connected on their flights, making it 728 flights. If we make the assumption that all passengers took return flights as well and when they connected they only connected once, then all the respondents went through approximately 6500 take-offs and landings. This accounts for very solid experience with flying.

Assuming there was one flight ticket issued for each flight (direct, connecting, and returning flight were each part of 1 booking and therefor 1 ticket), there were some 2500 thousand flight tickets bought by the sample of respondents. **Chart 11** shows what channels were used to

[20]https:// forms.google.com
[21]https://spreadsheets.google.com

purchase theses flight tickets. Half of the respondents buy tickets directly on carriers' websites. The other half is evenly split between purchasing through aggregator sites and having tickets purchased by someone else (this would most likely be business travellers for whom tickets were bought by their admins). Here is where the results differ from the data collected by Bohn and Huth (2013) who claim aggregators to be the most popular channel. This deviation might be caused by the high share of technology savvy people among respondent to this survey which was marked as one of the limitations of this study.

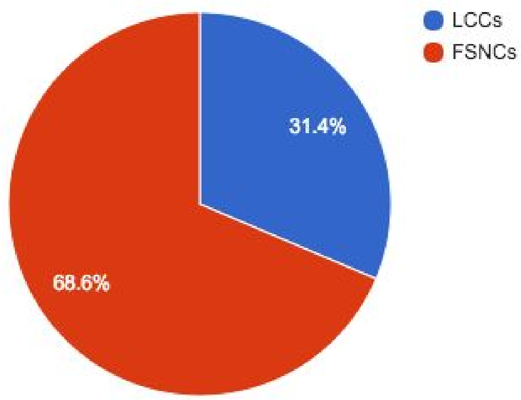
Chart 11: Airline ticket purchase points



Source: author's own research

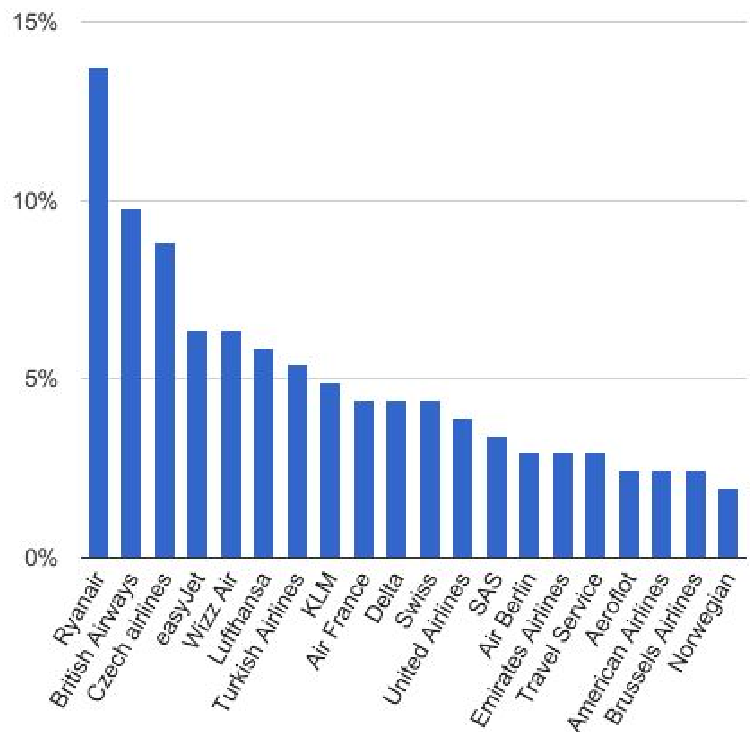
Respondents were more likely to travel on a full-service network carrier rather than on low-cost airlines. **Chart 12** shows the split between the two. Travellers who claimed they mostly travelled on direct flights in the last 24 months were more likely to travel on LCCs then those who had to connect to their end destinations. This confirms the theory that the market of intra-Europe routes is controlled by low-cost carriers. At the same time, Ryanair was by far the most travelled with carrier, as shown in **Chart 13**. Respondents took approximately 910 flights with Ryanair. The split between individual carriers is influenced by the respondents' country of residence and thus this results have some limitations.

Chart 12: Share of flights flown with LCCs



Source: author's own research

Chart 13: Most traveled with carriers



Source: author's own research

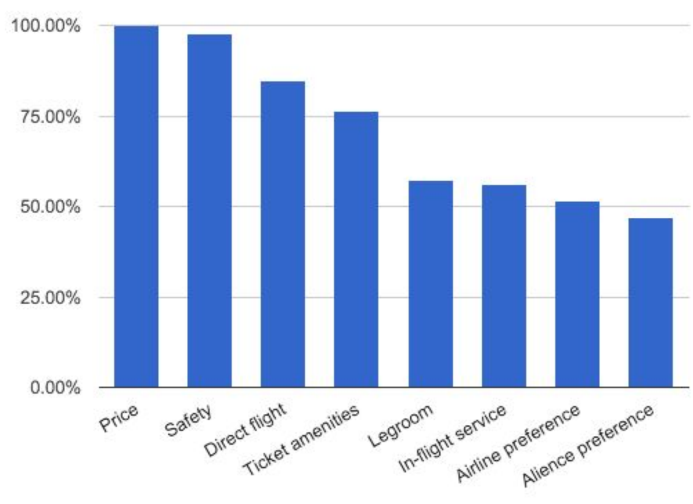
Price related results

A big part of the study focused on understanding how consumers perceive the price of flight tickets. In the first from the series of questions on price, respondents were asked to rate different attributes they were likely to consider when buying an airline ticket (see **Chart 14**). The number one attribute consumers contemplate is price. On a 1-5 scale, price was rated 4.77 as the most important attribute, and ranked even higher than airliner safety history[22]. The sensitivity toward price declines as consumers get older, and presumably have higher income. Millennials find on average price more important than boomers by 7%. The researched showed only minimal differences in price perception based on genders.

Among the top 3 attributes was also the option to fly on a direct flight to the end destination. And travelers are still relatively sensitive to ticket amenities (e.g. number of checked bags included in the price of the ticket). Interestingly, people seem to be indifferent to the amount of legroom available on plane when purchasing the ticket, but not enough legroom has high recall among passengers and is often the subject of passengers' complaints.

Not so good news for airlines is that customers perceive flying on a specific carrier or within a specific alliance below average on the importance scale. This means that the 50% of people who don't book tickets on the carrier's website will predominantly make their purchase decision based on price and not differentiate between brands.

Chart 14: Indexed importance of flight attributes for customers

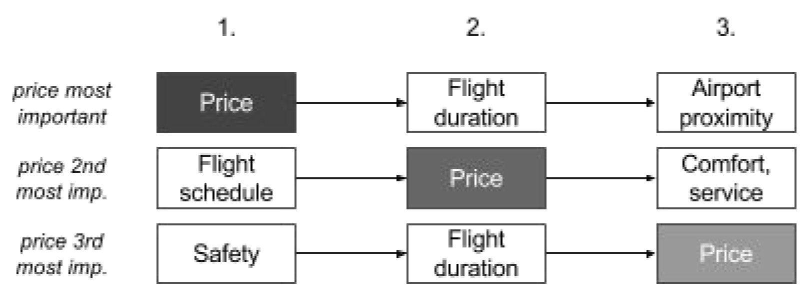


Source: author's own research

[22] The author looked at airline safety in more detail. There is more information on it in **Appendix 2**.

The previous chart visualizes aided importance of several attributes on the ticket purchase behavior. There is also another way to look at the results. This time though unaided awareness of the 3 most important attributes considered by consumers during a ticket purchase. Respondents were simply asked to name the three most important attributes they are likely to consider during their next flight ticket purchase. The results are shown in **Figure 21.** It shows that price was the prevailing attribute in all of them. However, it was more interesting to look at what were some of the other-than-price attributes consumers selected independently. For example for people who chose price as the top attribute (62% of respondents) the next attributes in order of importance were flight duration and airport proximity. Those for whom price wasn't the main decision attribute (11% of respondents), gave priority to schedule, flight duration and safety over the cheapest ticket.

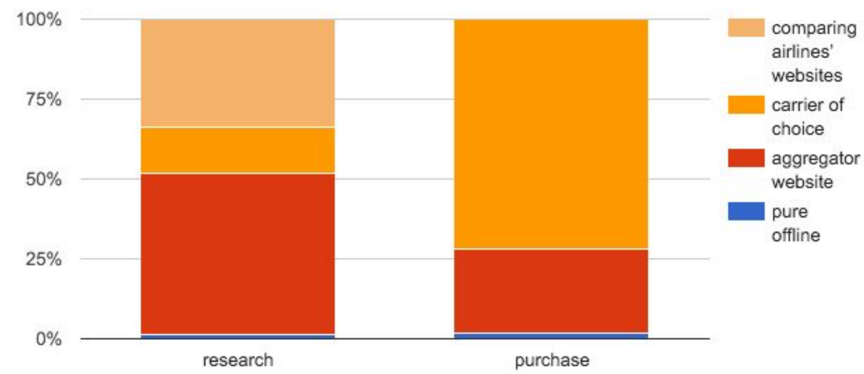
Figure 21: Three most important attributes considered by consumers during flight ticket purchase



Source: author's own research

The purchase funnel visualisation confirms the previous results on purchase channels. Respondents were asked to describe their purchase behavior in terms of how they search for flight tickets and how they purchase them (**Chart 15**).

Chart 15: Research and purchase consumer behavior

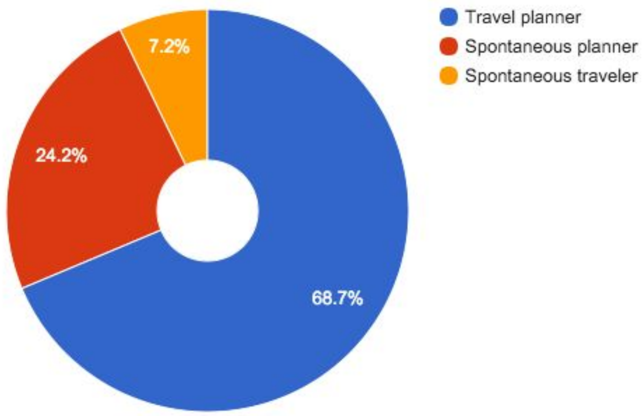


Source: author's own research

It's clear that offline research and purchase accounts for the absolute minimum of the consumer behavior in today's digital age. Only 1% of respondents shop offline. When it comes to research, consumers rely on aggregator sites and on comparing different offers on carriers' websites. In the purchase step the focus is predominantly on the carrier of choice where 75% of travelers go directly to its specific website. Still about half of the traffic to the aggregator websites ends up choosing a specific carrier's website for purchase and the aggregator site only servers as a research and comparison tool. Here is clearly a potential for carrier's awareness branding which would help swing undecided consumers to the specific brand.

The chart below represents data where respondents characterized themselves as travel planners, spontaneous planners and spontaneous travelers. The groups are described as follows. Travel planner is someone who spends a couple of days researching before buying a flight ticket and the purchase happens more than 2 weeks in advance of the travel. Spontaneous planner buys tickets more than 2 weeks ahead of travel as well, but does minimum research. Finally, spontaneous traveler doesn't do much research and buys ticket immediately prior travel. Respondents who chose one of the first two options cited cheaper airfare as the main reason for purchasing tickets in advance. It is clear from **Chart 16**, that 93% of respondents characterized themselves as planners.

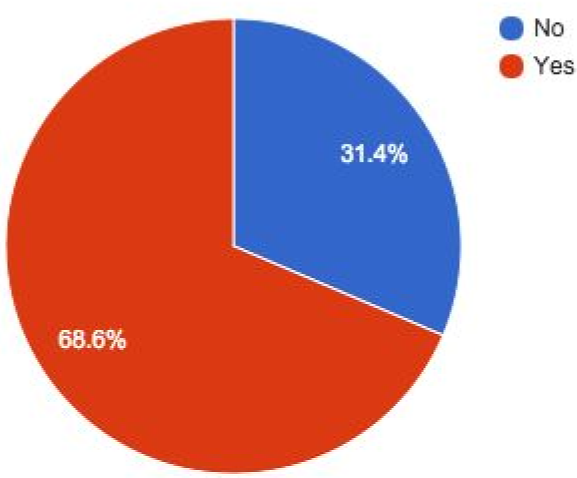
Chart 16: Airline ticket purchase behavior



Source: author's own research

Next, the weight of price on consumer decision making is shown in **Chart 17**, where two thirds of travellers confessed that they decided to cancel their trips all together due to price fluctuation. Such behavior has subsequent impact beyond the airline industry, but such analysis is not within the scope of this thesis.

Chart 17: Travelers who canceled their trips due to price increase



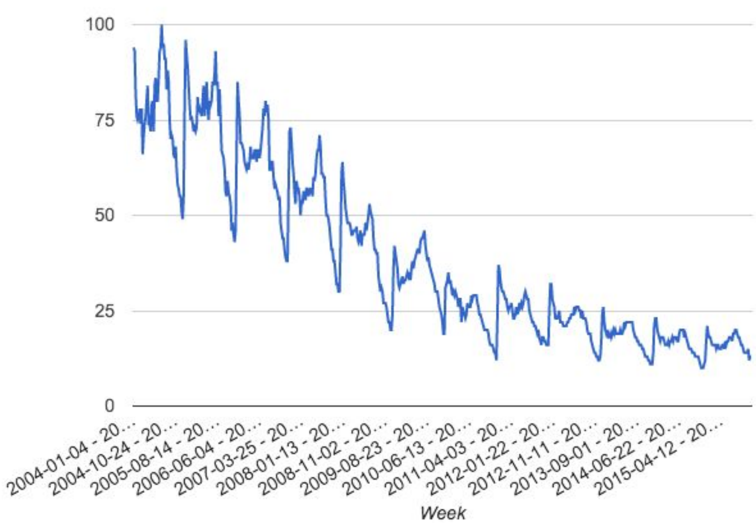
Source: author's own research

Surprisingly not many consumers take advantage of frequent flyer programs and their benefits even though the number of flights done by the travellers in the research sample indicates that they would be eligible for rewards. 54% of respondents are members of at least 1 frequent flyer program, but only approximately 22% ever purchased a flight ticket using their accumulated miles.

The final research piece on price was done using Google Trends. Through Google Trends, it is possible to observe the interest in different search queries over time within a given region. As Google Trends is sensitive to different languages the analysis had to be limited to the United Kingdom as the only country in Europe with English as the official language.

What's seen in **Chart 18** is the indexed interest in the search query "cheap flights". Without applying any statistical analysis, the declining interest in searching for cheap flights on Google.com is obvious. One possible explanation could be that through proliferation of low-cost carriers starting in 2004, cheap flight ticket prices became the standard and therefore the need to search for them declined.

Chart 18: Search interest for the query "cheap flights" in the United Kingdom between 2004 and now



Source: Google Trends[23]

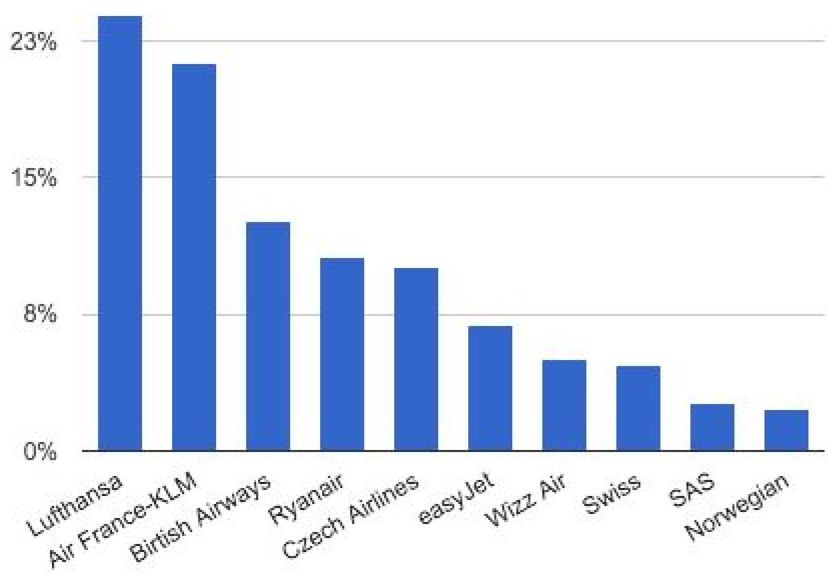
[23] Numbers represent search interest relative to the highest point on the chart. If at most 10% of searches for the given region and time frame were for "cheap flights" we'd consider this 100. This doesn't convey absolute search volume.

Awareness related results

The second part of the research focused on understanding the brand awareness of carriers. Including brand awareness related questions was crucial for evaluating the second hypothesis. The data on awareness ties to the section 2.c on carrier's brand advertising. Both aided and unaided awareness of European carriers was tested as well as association of certain values with carriers. The last piece on awareness tested the ability of consumers to recognize brand advertising of selected carriers.

Chart 19 shows the results of the unaided awareness test. Respondents were simply asked to name which European airlines they know. Instead of showing real values, the results were indexed. The results are positive news for the big European FSNCs, because they scored at the top of the awareness scale. This is most likely the result of the ongoing brand awareness campaigns that these carriers were running, some of which are shown in the section 2.c.

Chart 19: Unaided awareness of airlines' brands

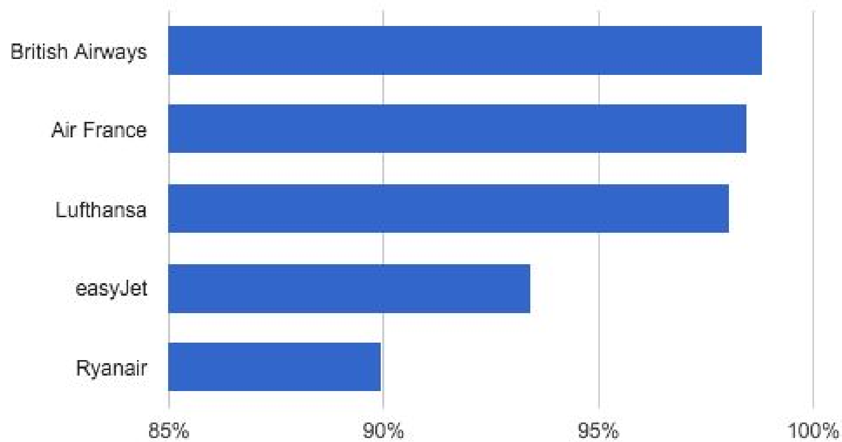


Source: author's own research

Lufthansa, Air France-KLM and British Airways are top of mind brands for 58% of respondents. Without doubt this has an impact on the consumer purchase decisions. The data from the previous section showed that some 50% flight tickets are bought directly on the airline's website and half of the rest through aggregators where brand awareness is highly important in order to sway the consumer toward a particular carrier.

Aided awareness was tested simply by asking respondents to mark the carriers they have heard of before. The results in **Chart 20** are corresponding to the results of the unaided awareness. Interesting finding is the relatively low unaided awareness of any LCCs while their aided awareness is much closer to the brand awareness of FSNCs. This is potentially the result of no or very low brand awareness campaigns from LCCs. For travelers LCCs are simply not the top of mind brands but if they see LCC's brand name they generally recognize it.

Chart 20: Aided awareness of airlines' brands

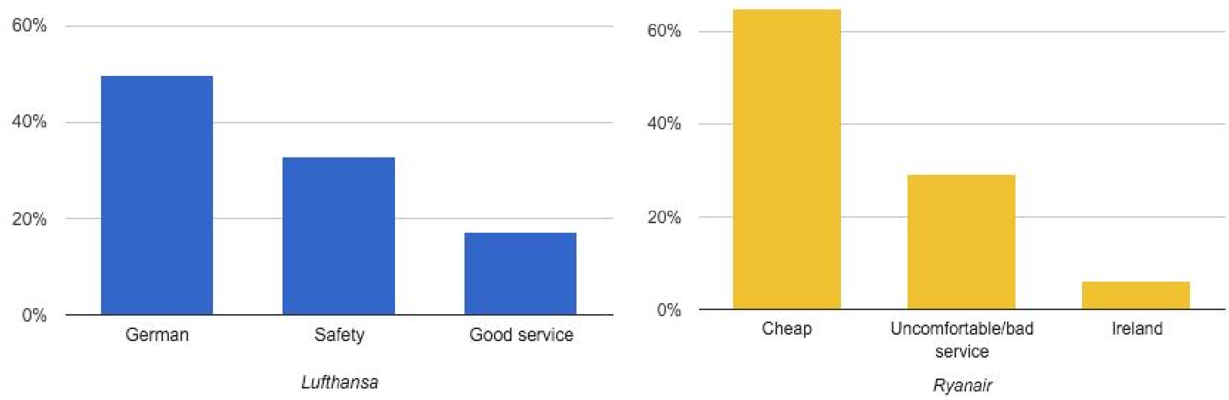


Source: author's own research

In the next step, respondents were asked to list up to 3 values they associate with 1 FSNC and 1 LCC which ranked the highest on the unaided awareness scale, those being Lufthansa (FSNC) and Ryanair (LCC) (see **Chart 21**). One immediately visible result is carrier's association with the country of its registration (or more specifically the country where they first started operating). This fact is visible even some 20+ years of after the European air space deregulation and the decline national carriers.

The value association also supports some of the conclusions from chapter 2, that FSNC are not competing on price with LCCs, but rather focus on communicating niche offerings, higher class service and network operations via the hub-and-spoke system. That explains why good service is among the top ranked values associated with Lufthansa while there is no such association for Ryanair.

Chart 21: Indexed value association with selected FSNC and LCC



Source: author's own research

The split between values associated with certain carriers and in general with FSNCs and LCCs is also obvious in the next findings (see **Figure 22**). Here respondents were asked to name specific carriers which they associate with selected values. The values presented were: luxury, safety, on-time arrivals (or punctuality) and cheap airfares. Lufthansa and Ryanair defended their ranking as the safest, respectively the cheapest carrier perceived. Lufthansa is also seen as the most punctual. By far the carrier which is the most associated with luxury is Emirates[24]. The association between Emirates and luxury is approximately as strong as Ryanair's association with cheap airfare which directly resonates with the communication strategy chosen by both carriers.

Figure 22: Carrier association with selected values

Luxury	**Emirates**	Safety	**Lufthansa**
On-time arrivals	**Lufthansa**	Cheap airfare	**Ryanair**

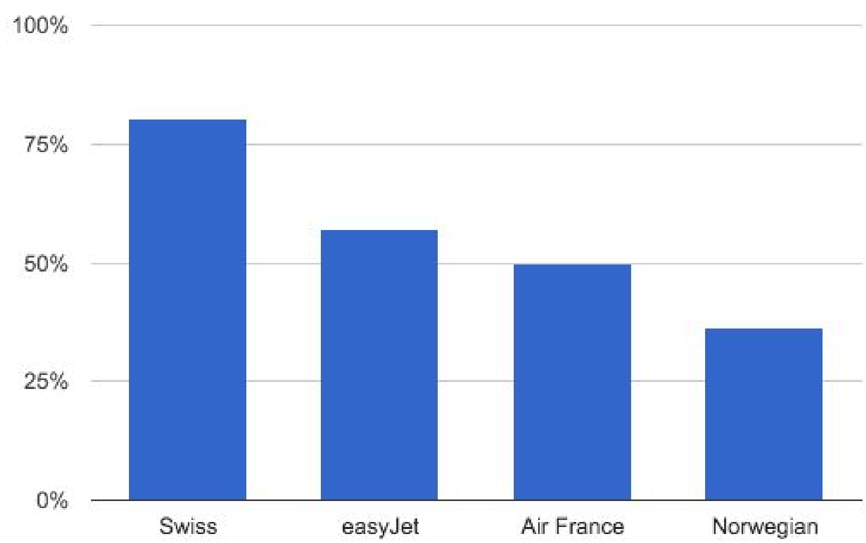
Source: author's own research

In the final part of the testing, respondents were shown 4 different out-of-home advertisements and were asked to name which carrier were the advertisements for. Any specific branding was

[24] Emirate Airlines is a UAE registered carrier, therefore a non-European carrier. However it's a major player on routes between Europe and Middle East, Africa and Asia and therefore European travelers have significant experience with it and results including Emirates Airlines were included the overall results presented in this thesis.

removed from these advertisements, thus respondents had to draw upon their brand knowledge to recognize the carriers' advertising, and thus awareness was being tested. Out of the 4 ads presented in the questionnaire, 2 belonged to FSNC and 2 to LCCs. Unfortunately no strong conclusions might be drawn from these results as neither the FSNC nor LCC category performed stronger against the other (see **chart 22**). In general these findings are consistent with the unaided and aided awareness test as well as with the intensity with which passengers traveled on those carriers.

Chart 22: Brand recall in blind advertising



Source: author's own research

Cross-vertical analysis

The richness of the collected data allowed for some cross-vertical analysis between price and awareness. The specific example presented below is the relationship between awareness and price sensitivity.

Respondents who have higher awareness of network carriers are about 2% less sensitive to price than respondents who have higher awareness of low-cost carriers. This is likely caused by FSNCs' focus on brand awareness campaigns which promote other attributes than just price. Network carriers should therefore continue to focus on awareness advertising if they want to lower the perception of price during consumer's purchase behavior which is likely to improve their standing against LCCs.

e. Verification of the hypotheses

In this section, the hypotheses are revisited and discussed based on the results shown in the previous sections. The hypotheses being discussed are:

> **H1:** The proliferation of low cost carriers put price into the center of the marketing mix. Price has become the most important decision factor for consumers when buying airline tickets.
>
> **H2:** Campaigns run by airlines have shifted from direct response and are now predominantly focused on raising brand awareness campaigns.

The verification is done based on the data collected for this thesis and the conclusions are restricted by the limitations of the research.

Hypothesis 1

Based on the results of the survey, price has been determined as the most important factor consumers look at when shopping for flight tickets. Approximately 73% of respondents said that price will be one of the 3 attributes they will consider during their next ticket purchase, 62% of those chose price as the most important attribute. Furthermore the price of a ticket also scored the highest among the attributes that passengers ranked as important. It ranked even higher than safety record of particular airline, meaning consumers are willing to compromise on safety in return for a cheap ticket. At the same time, with the proliferation of LCCs, FSNCs were forced to differentiate themselves through product offerings. Nevertheless, price remains the main marketing mix component for all carriers on intra-European routes. Therefor H1 has been confirmed.

Hypothesis 2

Low-cost carriers introduced an operating model which was very fitting for intra-European travel and they managed to deliver it at the lowest cost possible. This drove FSNCs from competing on the intra-European routes to compete on the niche markets, premium class seating and through their network based on the hub-and-spoke system. FSNCs communication strategy shifted accordingly toward brand awareness campaigns. The research results shown that the unaided and aided awareness of FSNCs is higher than brand awareness of LCCs. Also the values communicated through awareness campaigns are being recognized and associated with FSNCs by travelers. Therefor H2 has also been confirmed.

Conclusion

The objective of the thesis was to analyze the impact of low cost carriers' proliferation in Europe on the marketing strategy of network carriers in Europe. Out of all the marketing mix elements, the focus was predominantly on studying the impact on price and promotion (marketing communication strategy). Low-cost carriers in Europe widely differ but they all apply some form of cost leadership strategy and that's why their impact on the price element of companies' marketing mix across the industry is very significant.

Understanding of the marketing mix framework was important as it helped to bridge the gap between the price leadership strategy and the impact it had on marketing communication of network carriers (also called "promotion") which was the second subject also examined during this research.

The airline industry is heavily influenced by many internal and external factors which affect the way carriers conduct their business operations. The external factors identified as having the most influence over the industry were: oil prices, global economic activity, third party regulation, natural and manmade disasters. It is shown in chapter two that the industry's activity highly correlates with the global GDP growth. Deregulation opened up the sector and practically allowed for low-cost carriers to emerge. Finally, this chapter also shows the decline in passenger air traffic demand due to events such as the SARS epidemic outbreak, Icelandic volcano eruption or the events of 9/11 in the United States.

The highest level of airline industry deregulation in Europe came in 1997 with the provision called "7th freedom". This granted carriers the right to operate passenger service between two countries, none of which were the country where the carrier was registered. The sum of these circumstances allowed for the major proliferation of LCC's in Europe which happened during the five years between 2003-2008. During this time easyJet alone added 32 million new passengers, which was 21 million more than between 1997-2002, and 11 million more than between 2009-2014.

As a result, the marketing strategies of network carriers had to change to adapt to the new situation in the market. The thesis analyzes these changes to the marketing mix on the three biggest network carriers in Europe: Lufthansa, British Airways and Air France-KLM. The proliferation of LCCs caused higher segmentation in demand to which network carriers responded by offering a more diversified product. This is for example visible in the premium class offerings, such as the first and business class seating allocations, but lately also premium economy seats, which have become the main revenue drivers for network carriers. Carriers also heavily shifted their focus toward long-haul operations. Cost structure on long-haul flights largely prohibits LCCs from entering this segment in high numbers and therefore allow FSNCs to better compete on this market and it creates another revenue driver for them.

The focus on long-haul operation also created the hub-and-spoke system set-up. Network carriers operate from hubs. For the studied carriers, these hubs in Europe are Frankfurt, London Heathrow, Paris CDG and Amsterdam Schiphol airports. The carriers' short-haul operation works only as a feeding mechanism for the long-haul flights out of these hubs. As FSNCs have to compete with LCCs on the short-haul flights, they are often forced to offer tickets for below the operating costs' prices on those flights. The hub-and-spoke transit system is catered to by the airliner manufacturers, producing airplanes for efficient long-haul operation such as the Airbus's A380 or Boeing's 787.

Focusing on niche markets is another way airlines differentiate themselves. All three of the biggest FSNCs thus operate flights out of small airports which are close to business centers and are too costly for LCCs to operate out of (e.g. London City airport). They also offer niche leisure travel options (e.g. Lufthansa's flights from London to airports near ski resorts in the Alps).

It is no surprise that in the 21st century digital economy the Internet is the main distribution channel for flight tickets. The research showed that only 1% of the research sample does travel research and tickets purchases offline. The Internet wasn't always the dominant distribution channel, but because of its relatively low costs and high transparency it became massively adopted by LCCs which eventually led to the whole sector adopting it to customer's satisfaction.

The changes in the marketing communication strategy go hand in hand with the changes of the rest of the marketing mix. While LCCs either don't advertise at all or only focus on direct-response campaigns with the price as the main value proposition, FSNCs advertising has been focusing on raising awareness of the premium class services, selling the hub-and-spoke transit system and raising awareness of the niche product offerings.

The last part of the thesis was devoted to the research on consumer behavior in the airline industry and the results of the consumer survey were analyzed. The survey was randomly distributed among the researched sample of respondents. Consumers' perception toward pricing and brand awareness were the two main studied subjects.

The results of the research confirmed the theoretical findings and industry data that people travel by plane often. Out of the sample, 94% of people travelled by plane in the last 24 months, taking in total approximately 6500 flights and purchasing some 2500 flight tickets. The results showed that even though the general assumption was that aggregator websites would be the main purchase points, 50% of respondents bought tickets directly on airlines' websites. The aggregators still fill up the purchase funnel, with about half of the respondents using them to conduct research and compare prices.

About two-thirds of the total flights were taken on FSNCs. However Ryanair was the most traveled with airline among the sample, followed by British Airways, Czech Airlines, easyJet and Wizzair.

Price turned out to be the most important factor for consumers during ticket purchases. Travellers' ranked it 4.6 on a 5 point scale of importance and it surprisingly ranked higher than flight safety. Other factors proving to be relevant for consumers were flight duration, or possibility to take direct flights, and airport proximity and accessibility.

People are aware of the ticket pricing cycle and two-thirds of them plan their travels well in advance, because they believe it will help them achieve the lowest prices. The same share of customers decided against travelling in the past when they observed ticket prices rise. This had a subsequent impact beyond the airline industry on other travel industry participants (e.g. hotels, car rentals, restaurants etc.).

The potential of frequent flyer programs as marketing tools has become limited, meaning people are members but don't take any or little advantage of programs' benefits. Finally, the internet search query for "cheap flights" has been continuously declining, indicating that cheap prices have become an industry standard in Europe and consumers don't feel the need to specifically search for them.

The awareness testing uncovered that for both unaided and aided awareness, full-service network carriers outperform the LCCs. The three biggest airlines in Europe, Lufthansa, British Airways and Air France-KLM, have higher brand awareness among the sample group than any LCC. LCCs scored very low in the unaided awareness test.

The value association is much stronger for low-cost carriers, meaning they can trigger an emotional response in consumers easier than network carriers. Most consumers associate values such as "cheap" with LCCs. While values associated with network carriers are often "safety", "on-time operation" and "luxury".

Finally a cross-vertical analysis uncovered a mild correlation between brand awareness and price sensitivity. In general, travellers who had higher brand recall were less sensitive to the price element and vice versa. This is a supporting argument for network carriers who want or need to compete with low-cost carriers that investing in building their brand awareness could help them acquire new customers in the future.

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Appendix

Appendix 1: Consumer Behavior in the Airline Industry Questionnaire

1. Have you traveled by plane in the last 24 months?*
    a. yes
    b. no

2. How many flights did you take in last 24 months? (connecting and return flights count as 1)*
    a. 1
    b. 2-5
    c. 6-10
    d. 10-20
    e. 21 or more

3. What airline did you fly on your last 3 trips? (If you were on fewer than 3 flights within the last 12 months, only list airlines flown (return and connecting flights count as 1 flight))?*

4. What was the origin and destination on your last flight?*

5. On your last trip, did you fly direct or did you connect?*
    a. connecting flight
    b. direct flight

6. How did you purchase your last flight ticket?*
    a. someone bought it for me (using whichever channel)
    b. on the airline's website
    c. on an aggregator site (e.g. Skyscanner, Expedia)
    d. using the airline's mobile application
    e. through a travel agent
    f. by calling the airline company
    g. other

7. When buying your next flight ticket, what are the 3 things you are likely to consider during the purchase?*

8. How important are the following attributes for you when buying an airline ticket for leisure travel? (rate on scale 1-5, 1 being not important, 5 being very important)*
    a. flying a specific airline
    b. ticket price
    c. amenities included in the ticket (e.g. checked bags etc.)
    d. level of inflight-service (e.g. catering, entertainment etc.)
    e. legroom provided in standard economy class
    f. flying on a direct flight to my end destination
    g. flying with a specific airline alliance
    h. getting safely from origin to end destination

9. Have you ever decided against booking a trip because the price of the flight went up?*
    a. yes
    b. no

10. What best describes your behaviour when buying an airline ticket?*
    a. I'm spontaneous. I buy the flight ticket the same day I make the plan to travel somewhere. The purchase usually happens last minute (2 weeks in advance or less)
    b. I'm spontaneous. I buy the flight ticket the same day I make the plan to travel somewhere. The purchase usually happens in advance because I know the tickets will be cheaper (more than 2 weeks in advance)
    c. I'm more of a planner. It takes me couple of days to buy a ticket, I do research and check how prices change. The purchase usually happens in advance, because I know the tickets will be cheaper (more than 2 weeks in advance)

11. Which steps best describe your flight ticket pre-purchase behavior?*
    a. I do offline research
    b. I do online research on an aggregators website
    c. I do online research by comparing offers on specific airlines' websites
    d. I do online research on my carrier of choice
    e. I do offline purchase
    f. Other

12. Which steps best describe your flight ticket pre-purchase behavior?*
    a. I do offline purchase
    b. I do online purchase on specific airline's website
    c. I do online purchase through aggregators site

d. Other

13. Are you a member of any airline alliance? (e.g. Sky Team, One World, Star Alliance etc.)*
    a. Yes (which one, if more your primary)
    b. no

14. Which airline alliance are you a member of? (If you are a member of more than 1 alliance, put down the primary one)*

15. Have you ever used your miles to purchase a flight ticket?*
    a. yes
    b. no

16. What European airlines do you know? (3 top of mind choices)*

17. Which of the following airlines have you heard of?*
    a. Air France
    b. Adria Airways
    c. Lufthansa
    d. British Airways
    e. Blue Air
    f. Ryanair
    g. Norwegian
    h. AirBaltic
    i. Enter Air
    j. Bulgaria Air
    k. easyJet
    l. Volotea

18. Which airline company is your top of mind association with the following values?
    a. luxury
    b. on-time arrivals
    c. safety
    d. cheap airfares

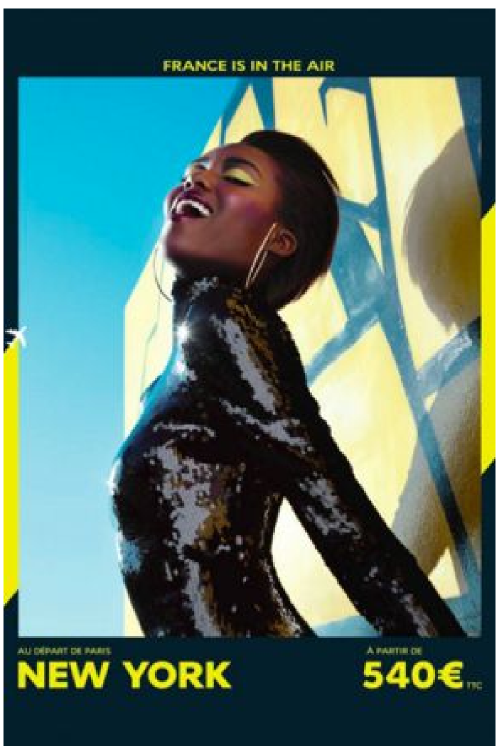
19. What are the 3 things that come to your mind when you hear the name Ryanair?*

20. What are the 3 things that come to your mind when you hear the name Lufthansa?*

21. Which airline companies are the following ads for?

a. 

b. 

c. 

d. 

22. How old are you?*
    a. <18
    b. 18-25
    c. 26-35
    d. 36-55
    e. 56-75
    f. >75
    g. I wish not to disclose

23. What's your gender?*
    a. Female
    b. Male
    c. Other
    d. I wish not to disclose

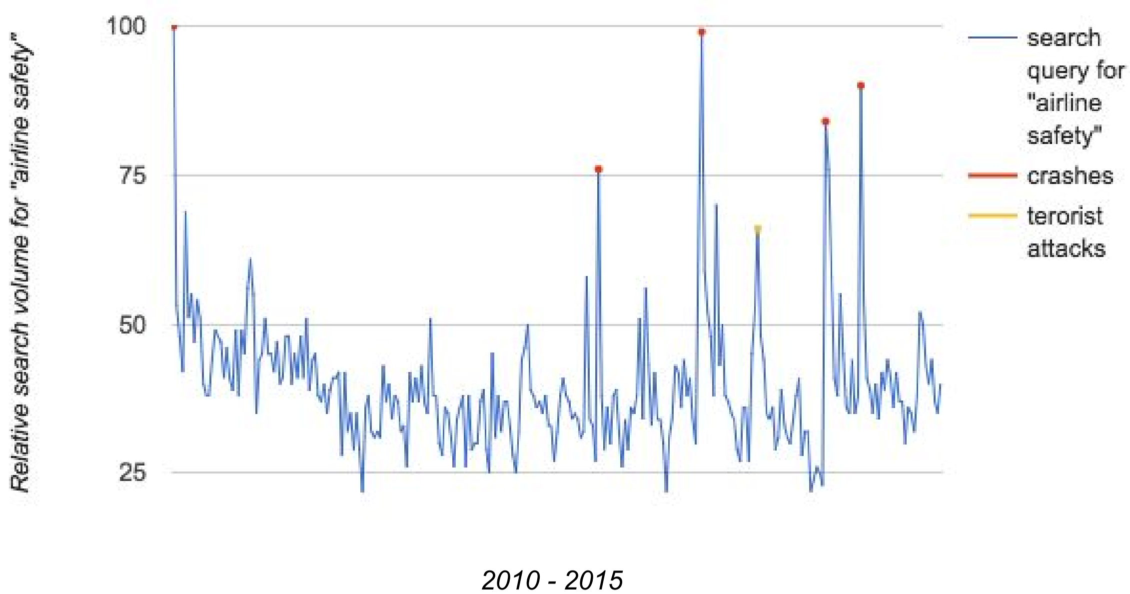
24. What's your country of residence?*

* mandatory to answer

Appendix 2: Consumer fear of flying

Airlines research has shown that flight safety ranks first as the most important factor for passengers in choosing an airline (Wong, Musa 2011)[25]. That's why it's important to have a look at the passengers' fear of flying more closely and analyze how it influences consumer behavior. **Chart 23** shows the relative number of searches on Google[26] world-wide for the query "airline safety". The simplified assumption is that the higher is the current fear of flying the more passengers search for "airline safety". Red dots mark the biggest airplane crashes and the yellow dot represents the biggest terrorist attack during the last 5 years (*List of accidents and incidents involving commercial aircraft* 2015). The chart below clearly confirms passengers' high sensitivity toward airline safety with its subsequent impact on the airline industry.

Chart 23: Relative interest in airline safety



Source: Google Trends[27]

[25] Author's own research found out that flight safety ranks as number two after the ticket's price as the most important factor for choosing an airline. More details on this could be found in chapter three.
[26] www.google.com
[27] www.google.com/trends