# Online Marketing in the Airline Industry: Expectations about Future Developments

**The traditional relationship between an airline and its customers through intermediaries has changed significantly over the last decade. The development of the internet as a distribution channel has presented the legacy airlines with the opportunity to take out these intermediaries resulting in multiple benefits. The question is to what extend airlines can actually move all distribution to direct online sales channels, and whether this strategy would be advantageous in the first place. So our main question is: 'What can we expect about the developments of online marketing in the airline industry?'. To answer this question, we will discuss customer relationships in the airline industry, next the drivers of e-commerce, internet strategies, critical success factors of online marketing, and finally the expectations about the development of online marketing in the airline industry.**

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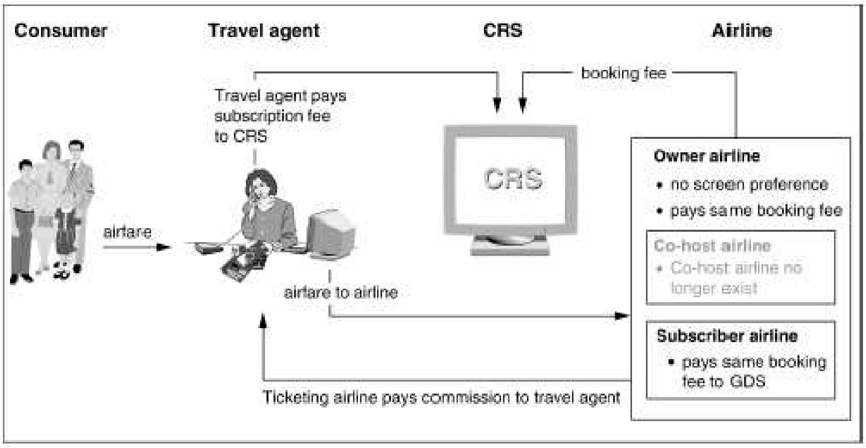
## Customer Relationships in the Airline Industry

Before the commercial application of the internet, most airlines used brick and mortar sales offices and call centers to market their product to potential passengers. Their activities were supported by the development of so called Computer Reservation Systems (CRSs) at the end of the 1960s, which were developed and owned by airlines (GAO 2003). Examples are SABRE by American Airlines and IBM, Apollo by United Airlines and Trans World Airlines, and Galileo. These systems allowed the travel agents to query airline flight schedules and fare information in order to find and reserve a suitable ticket for their customers. The CRSs therefore developed into Global Distribution Systems (GDSs) reaching markets across the globe. Figure 1 below depicts the airline ticket distribution relationships under the rules established by regulators.

When authorities reduced the control of GDS's by airlines, the GDSs became corporate entities in their own right controlling as much as 75% of total airline ticket sales (Alamdari 2002), and they added other lines of business to the original airline ticket booking function as well such as hotel and car hire booking.

When the pressure on airlines to reduce their distribution costs during the economic downturn in the early 1990s, airlines started to bypass traditional GDS's by setting up booking facilities on their own websites and through online travel agents (although online travel agents often use online GDS versions too) dealing directly with the airline. The birth of the e-ticket in conjunction with the development of the internet channel has resulted in further savings in printing and mailing costs that characterized traditional paper tickets.

**Figure 1:** *Airline ticket distribution relationships (GAO, 2003)*



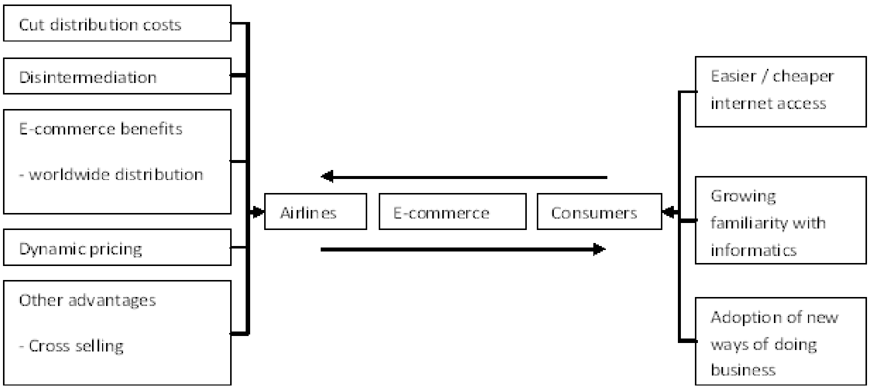

## Drivers of E-commerce in the Airline Industry

*Airline Point of View*

One driving force for growth of e-commerce in air transport is the cut in distribution costs by selling tickets online, which could benefit both the customer and the airline. Disintermediation has additional advantages for the customer, like easy comparison of products of different airlines and the fares offered. While travel agencies were involved in recommendations on what airline to fly, based on schedule, in-flight comfort, frequent flyer program, safety and reputation for punctuality, today the passenger can evaluate himself those factors with help of the internet. Therefore, the buying power of customers is increasing. However, the internet also creates opportunities for airlines. The airline product is instantly marketed worldwide to individual customers whose details can be stored in a customer database for use by the airline and not the CRS or travel agent. This direct connection can be used for special offers to last-minute impulse buying customers, dynamic pricing, cross-selling, improved cash flows due to direct sales and cost reductions such as the opportunity to outsource revenue accounting to lower wage countries.

*Customer Point of View*
Three driving forces on the customer side of the relation help to drive customer acceptation (see figure 2 below). The easier and cheaper access to internet facilities, growing familiarity with information technology and public acceptation of the internet as a trusted sales channel combine to drive customer adoption of the airlines' online marketing strategy and growth of e-commerce in air transport.

**Figure2:** *Forces driving growth of e-commerce in air transport (Doganis, 2001)*




## Internet Strategies in the Airline Industry

*Brick-and-click Internet Strategy: Legacy Carriers*
The nature of the business model used by legacy carriers is feeding long-haul flights from local markets around a central hub airport (e.g. KLM is feeding traffic from local European markets to Amsterdam Airport for its long-haul services flying to the United States, Asia and beyond). Customers of KLM may also use these feeding flights for traveling within Europe however. The latter demand provides a perfect opportunity for selling tickets online as the itineraries are rather straight forward from point a to point b. Selling tickets for long-haul travel introduces more complexity to online selling however as the passenger might have to change airline along the way in order to reach a destination not directly served by the contacted airline (Doganis 2002). Furthermore, approximately half of these long-haul travelers are traveling for business purposes, especially the high revenue passengers (Doganis 2002). As businesses do not wish to deal with a large number of parties to book a trip, being a one-stop shop for them is essential.

Legacy carriers usually conduct multi-channel management, which allows the customer to have multiple touchpoints to get in contact with the company. Legacy carriers could distribute tickets via offline as well as online channels. Legacy carriers have the options to establish their own ticket office, in order to distribute tickets. Other offline channels include GDSs and traditional travel agencies, consolidators and tour operators, and travel management companies. However, since travels agents and GDS fees are a relatively high proportion of the ticket price, legacy carriers more and more shift their ticket distribution to the internet, usually through their own website.

A multiple-airline travel portal was set up by USairways, United, American, Delta, Northwest, and Continental airlines: Orbitz, which is based on GDS system Worldspan. Aer Lingus, Air France, Alitalia, Austrian Airlines, British Airways, Finnair, Iberia, KLM, Lufthansa own the European system of this concept, called Opodo. Next there exist online travel agencies that distribute tickets, like Expedia and Travelocity.

A major driving force behind the development of interline e-tickets of legacy carriers (multiple-airline ticketing and code-sharing) are the three global airline alliance groupings OneWorld, SkyTeam and Star Alliance, who increasingly integrate their IT systems to offer a seamless travel experience across the member airlines in the most cost effective way (IATA 2005). These alliance groupings have also started to offer complete travel solutions for corporate travel planners as they are able to offer a worldwide network through direct sales. In this way the legacy carriers aim to push more of their customers to their own online channel.

*American Airlines Online Strategy: Differentiation through Online Brand Experience*
American Airlines started its online strategy in 1996. The main online strategy was not just to facilitate flight bookings and information search, but also to help to build the American Airlines brand, and even brand communities. For example, American Airlines did a campaign called 'whyyoufly' where people could submit their stories about why they fly on a separate campaign website (Anfuso, 2004). This interactive marketing strategy gets people highly involved with the brand, and taps into the need for self-expression and self-enhancement, and to express positive emotions to restore equilibrium after their originally balanced state has become unbalanced (Hennig-Thureay, 2004). The site encouraged online booking by offering 1000 frequent flier miles. With the 'Whyyoufly' website American Airlines intended to emphasis that flying is a means to an end: your destination, where an important moment in your life can occur. By showing that American Airlines has a big route network on the site, the company wants to communicate that the airline has more to offer than cheap tickets. This differentiation strategy is very clearly exposed in their online marketing strategy.

*Pure Player Internet Strategy: Low-cost Carriers*
Deregulation of domestic air transport in the United States in the late 1970s and intra European air transport in the mid-1990s has given new entrants in the form of Low Cost Carriers (LCCs) the opportunity to challenge the legacy carriers. Without going into the details of the LCCs business model here, it suffices to say that achieving the lowest cost of operating is fundamental in their ability to challenge the established legacy carriers in terms of airfares on offer. The nature of the LCC business model is based on straightforward point to point flights. Most of these LCCs do not even facilitate a transfer within their own networks, let alone interline transfers to other airlines. The simplicity of the business model therefore makes it ideally suited for distributing tickets through online channels, and online marketing is now a fundamental part of the their compet-

itive strategies. Not surprisingly, LCCs have adopted the internet en masse facilitated by the fact that they are operating in developed nations with high levels of internet usage among its potential customers. The possible advantages of e-commerce in the airline industry are gratefully leveraged by these LCCs as it allows them to on the one hand increase revenues while on the other hand lower costs. While it became evident that online sales are growing fast for many carriers resulting in an average 21.5% of ticket sales through airlines' own websites in 2006 (see Appendix A), LCCs can be found in the category of over 50% of online ticket sales through own websites. To get an idea of the magnitude of sales through own online channels by these LCCs, consider the following figures: EasyJet achieves 100% direct sales with 95% through its website and 5% through its call center (EasyJet 2006), Ryanair also achieves 100% direct sales with more than 98% of its bookings through its website (Ryanair 2007) and for the iconic LCC Southwest in the united States 70% of customers book through its website while also selling through travel agents (Southwest 2006).

*EasyJet Online Strategy: Achieving the lowest Costs*

The internet has been one of the key enablers of the low cost, but high value airline strategy. In 1999, EasyJet even used the slogan 'The web's favourite airline' in order to attack rival British airways 'the world's favourite airline' slogan. Low-cost carrier EasyJet focuses on online ticket bookings, so call center staff could focus solely on customer service, and there is no expensive travel agency needed. Internet migration of customers was encouraged through £5 discount for online bookings. Booking through the call center is further discouraged by charging customers €0.80 a minute which can quickly amount to the price of a low cost airline ticket while on hold. The website offers choice of flights, and the best fare available on each flight. The electronic recommendation agent of EasyJet takes into account convenience and the lowest price for a roundtrip, instead of the lowest price of single flights. The booking process of a flight takes five steps. A passenger has the option to register on the site, which provides them with even more options. At the third step of the booking process EasyJet is trying to cross sell other EasyJet branded services that are related to a trip, like hotels, car rental, travel insurance, and even a fast-boarding


service. These offerings are adapted to the flight and destination the customer selected, which make the offerings very attractive. EasyJet therefore appears to aim for the highest share-of-journey of a customer (The share of the travel budget a passenger spends at EasyJet). The website design is highly functional, intuitive, and the navigation is very simple, and there's less emphasis on the emotions triggered by flying which reflects the company's strategy that values no-frills and convenience (O'Neil, 2001).

## Critical Success Factors for Online Marketing in the Airline Industry

When customers shop online they evaluate the company on the interface quality of the website, the encountered quality, and fulfillment quality. Therefore, the critical success factors of online marketing in the airline industry are based on the total customer experience.

*Reducing Search and Cognitive Costs*

A critical success factor for online marketing in the airline industry is to become a one-stop-shop for customers, and focus on the entire travel experience for a single price. EasyJet and Transavia.com already offer additional services on their website that may benefit the traveler during their trip. An electronic recommendation agent that can assemble a price-optimized, customized total travel solution is convenient for the customer and saves search and cognitive costs (Bellman et al, 2006). These convenience attributes take the focus away from cost alone and make comparisons less transparent which increase search costs and locks in customers (Bellman et al, 2006). With respect to cognitive costs, airlines aim to make it easier for customers to use their websites by setting up a personal account. Once a personal account is set up, any subsequent visit to the website can be personalized and the buying process streamlined to lower cognitive costs relative to alternative methods which creates again a lock-in effect (Bellman et al, 2006).

*Personalization and Customization*

KLM want their customers to book online not only for administration purposes, but also to become more intimate with the customer. Clearly, the CRM system is connected with it's online marketing strategy. Although personalization is still in the start-up phase at KLM, behavioral targeting is becoming more advanced nowadays. Behavior targeting means the tracking of website visitors with cookies and customize offerings according to their behavior. Frequent flyer program membership provides another opportunity for legacy carriers to tailor services on their website to their best customers when these customers have an online account connected to their frequent flyer account. Another kind of personalization at KLM, is the personalization of e-mail advertising messages, based on the profile and buying behavior of a customer (Tomesen, 2007).

*Emphasis on Non-price Attributes*

This big question is whether airlines can only compete on price because of the presence of the internet. Lynch and Ariely (2000) showed that increasing quality usability and emphasis on the non-price elements of value results in a reduced price sensitivity (Bagla, 2004). As noted before, surveys have shown that the traveler's choice of airline is not only affected by the schedule and price but also by the in-flight comfort, frequent flyer program, safety and reputation for punctuality (Doganis 2001, Doganis 2002). In this respect there is an excellent opportunity for airlines to play into these decision factors on their websites. The transparency of quality information on the internet will make customers more loyal to the companies that are able to create unique selling propositions. Therefore online branding might be a critical success factor for especially legacy carriers, who compete on differentiation.

## Expectations about the Development of Online Marketing in the Airline Industry

### *Future of Global Distribution Systems (GDS's)*

GDS's have come under increasing pressure to change their business model as other online channels such as Orbitz in the US, Opodo in Europe and Zuji in Asia owned partially by the major airlines offer a viable alternative while bypassing the GDS's altogether. In order to counter this thread, GDS's have started to buy into these online channels (Airline Business 2006b). Due to the fact that airlines are now focusing their efforts on sales through their own website and have subsequently sold their stakes in the GDS's, GDS regulation has been relaxed allowing more liberal pricing of fees and consolidation to take place in this industry. Rapid change has subsequently taken off in the GDS landscape as Sabre, the GDS developed by American Airlines, was bought by private equity investors and WorldSpan was bought by Travelport who also owns the Galileo GDS and Orbitz travel portal (Airline Business 2007). Being in private hands and freed from regulation, the traditional GDS can evolve to take on a value adding role in the distribution channel once more.

### *Future of Travel Management Companies (TMC's) Using GDS's*

It is important to take into account the new role in the distribution chain that travel agents have adopted. As airlines in the US and many European countries have either significantly lowered or eliminated travel agent commissions altogether, travel agents were forced to look to the travel purchaser as their customer, switching their business model from being agents for airlines to being travel management service providers to travelers (Alamdari and Mason 2006). These Travel Management Companies (TMC's) sell their expertise in the area of travel by working as consultants for corporate travel solutions. Their revenues are derived from transaction or management fees for each travel arrangement made. In order to work efficiently, these TMC's mainly use GDS's in order to get quick access to a large inventory of seats from various airlines. As these TMC's arrange the whole trip for a corporate client, the added functionality of hotel and car hire booking through the GDS is an added advantage.

The role of the TMC's is by no means nearing its end. In fact, airlines accept their presence next to their own online channels albeit in a way that adds value for both the airline, the TMC using the GDS's and the customer. The airlines will look to TMC's to sell products considered difficult to sell through their own online channel. When asked for the likely development in the relationship between the TMC and the airline, airline representatives provided the answers presented in table 1 below. The added value of TMC's for airlines and for their customers lies in their ability to aggregate the various parts of an itinerary into a single travel package as requested by the customer. In this respect the airline can focus on its core activities of selling tickets while offering a complete service through the TMC.

Although the relationship between the airline and the TMC shows a high level of agreement among airline respondents, the role of the GDS in the actual ticket reservation process is less clear however. When asked for the likely development of the airline's own website, the airline representatives where mixed in their view on whether it should offer the functionality to book complex itineraries or that this should be left to the TMC's as shown in table 2 below. It is interesting to note that the functionality to book alliance partner flights is listed as the most likely development. This functionality will reduce airlines' reliance on GDS's further as more itineraries can be fulfilled on the website due to a larger global reach.

Based on the analysis above, the future developments in online strategies for legacy carriers are focused on the continued development of the internet channel for distribution. By offering alliance partners' flights through an airline's own website, interlining between partner airlines no longer requires the use of GDS's. Furthermore, the development of business travel management solutions goes a long way in satisfying the need of business customers for a single point of contact. It also became clear however that large and complex corporate accounts require more service than an airline's website can currently offer. The role of TMC's as a partner of the airline to manage these accounts will therefore take an important place next to the airline's direct online sales channel.

### *Future of Online Marketing by LCC's*

The future development of online marketing for the LCC's looks somewhat

**Table 1:** *Airlines' changing relationships with TMCs (Alamdari and Mason, 2006)*

| | *Score* |
|---|---|
| Encourage direct bookings for simple itineraries | 4.22 |
| Airlines & TMCs develop global strategies for large accounts | 4.00 |
| TMCs will aggregate content for corporate accounts | 3.94 |
| Develop new fee structures for complex itineraries | 3.59 |

**Table 2:** *Future airline website developments (Alamdari and Mason, 2006*)

| | *Score* |
|---|---|
| Offer alliance partners' flights | 4.60 |
| Build business travel management solutions for indiv. corporate accounts | 4.00 |
| Build in complex itinerary functionality | 3.70 |
| Expect TMCs to develop itinerary functionality for corporate accounts | 3.50 |
| Expect TMCs to develop functionality for airline alliances | 2.75 |
| Not develop them greatly | 1.25 |

Scale both tables: 1 = very unlikely; 5 = very likely different than that of the legacy carriers as the LCC's have a different starting point. LCC's in general sell large portions of their tickets online already and have never used the services of GDS's. This strategy has served them well up to now as their passenger numbers are still growing rapidly. The US and European air transport markets have matured or will mature in the not too distant future. The use of direct sales channels only however, has the same disadvantage that the legacy carriers are facing when pushing their online channel further. Corporate travel managers prefer to procure their travel requirements from a single or at the most a few providers. Although legacy carriers aim to overcome this limitation by offering alliance partner flights, LCC's face a constraint in terms of the total travel package they can offer as they do not have a worldwide network of flights. The challenge for LCC's is therefore how to target the corporate travel market in order to boost sales in a maturing market. The GDS's have jumped into this market by offering the LCC's very low fees for featuring their products in the system enabled by the abolition of GDS rules that fixed these fees in the past. A recent example of a LCC that opted to feature its inventory on a GDS is JetBlue in the United States (Airline Business 2006c). An important motivation for doing so is the fact that fares offered in the GDS can carry a $40 premium while still being competitive compared to other offers by legacy carriers. This premium is sustained due to the fact that corporate travel managers are captive to the GDS as they seek out one point of sale. EasyJet on the other hand developed a corporate portal on its own website to deal directly with corporate clients. Although this strategy might work for corporate customers traveling mainly in Europe, it defies the notion of a one stop travel management portal. Malaysian LCC AirAsia made a deal with a GDS that served a different purpose as it relies on GDS distribution to reach customers in developing countries it flies to who have limited access to the internet. The future online strategies for LCCs can be expected to feature multiple distribution strategies although the internet will continue to be the main source of sales. The motivation for using alternative distribution channels such as GDSs might vary from airline to airline and from region to region but they can definitely add value to the LCC business model. By no means should LCCs therefore be limited to direct online marketing only.

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## Appendix A

**Table 3:** *Total ticket sales split by online and e-tickets*

| ***Percentage of ticket sales*** | *Own airline website (% of respondents)* | *All online channels* (% of respondents)* | *Call centers (% of respondents)* | **E-tickets issued *(% of respondents)*** |
|---|---|---|---|---|
| None | 3 | 8 | 0 | 7 |
| 2 or less | 18 | 11 | 8 | 7 |
| 2 – 10 | 18 | 15 | 26 | 0 |
| 10 – 20 | 14 | 19 | 26 | 2 |
| 20 – 30 | 31 | 26 | 23 | 6 |
| 30 – 40 | 9 | 6 | 7 | 13 |
| 40 – 50 | 4 | 0 | 7 | 6 |
| Over 50 | 10 | 29 | 0 | 58 |
| Average 2006 | 21.5 | 29.7 | 17.7 | 58.9 |
| Average 2005 | 17.2 | 21.3 | 18.3 | 34.9 |
| Average 2004 | 11.0 | 14.5 | N.A | 19.1 |
| Average 2003 | 9.7 | 15.8 | N.A | 14.7 |
| **Average 2002** | 5.1 | 10.1 | N.A | 11.1 |

Source: Adapted from Airline Business 2006 and Airline Business 2005

* All online channels include own website and online channels such as Orbitz, Opodo, Zuji, Travelocity and Expedia