



The digitalisation of market relationships in the airline business: the impact and prospects of e-business

David Jarach*

Marketing Department, SDA Bocconi Business School, Via Bocconi 8, 20136 Milan, Italy

Abstract

In today's hypercompetitive environment, new sources of product and process innovation are continually being sought to reinforce companies' competitive advantages. In the recent past, the digital revolution inspired new managerial applications to strengthen positions within market arenas. In the case of airlines, early web applications were in the form of asynchronous sites, where customers could get little more than the same information on timetables and fares provided by travel agents albeit in new formats. Later, carriers started selling tickets on the web to make use of the cheaper distribution channel than the standard computer reservation systems (CRSs). Today, Internet potentially permits carriers to get significant economic and competitive benefits beyond those simply coming from e-commerce. A wider e-business perspective may assure a one-to-one relationship with target customers, with a consequential fine-tuning of a firm's system offer. At the same time, carriers may exploit the significant cost savings from their procurement processes. © 2002 Elsevier Science Ltd. All rights reserved.

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1. Introduction

As a general market trend, the substantial growth in the output in the recent years has moved firms beyond traditional focus on efficiency and, in particular, to look for potential market segmentation and product differentiation. What is now of importance for many firms is the adoption of 'customer responsive' through the reengineering of the value proposition of the desires and expectations declared by customers. The challenge for firms is, therefore, linked to a focus on applications that allow further increases in the customer–supplier interface so that it is possible to generate new forms of competitive advantage at the lowest possible marginal costs.

In this sense, the so-called Digital Revolution (Shapiro and Varian, 2000), namely the diffusion of Internet on a pervasive scale, may create new strategic patterns of action for proactive firms (Valdani, 1995, 1997). These goals may, on the one hand, be reached through the design and development of 'really new' and innovative value propositions. In this case, firms offer their products and services through the digital channel

alone and give life to virtual companies such as Amazon.com and Ebay.com. On the other hand, 'occasions for change' may be implemented on an incremental basis, and by working on an existent product and service portfolio. This can embody the case of existing firms that initially open a web site to establish complementary communication and distribution channels but eventually offer new ancillary services. This alternative may be suitable for those industries generally included in what is often considered the old economy. Air transport falls is considered to fall into this category. Table 1 shows evidence of the weight of online retail sales in the main sectors in the US. Its importance in travel is clearly seen.

In simplified terms, the appeal of doing business on the Internet comes from the possibility of contacting consumers and producers in a highly flexible way. The web interface multiplies the range of choices for buyers, while giving sellers access to new demand clusters at normally much lower transaction and operating costs. This is especially so in the context of transactions involving less tangible items and services (Valdani, 2000).

The impact of Internet on a firm's value management is just confined within a narrow e-commerce approach. e-Commerce is increasingly only a first step within a

*Tel.: + 39-02-5836-6868; fax: + 39-02-5836-6888.

E-mail address: david.jarach@sdabocconi.it (D. Jarach).

Table 1
The weight of online sales by sector in the American economy^a

| By category | By sales (\$) | By growth rate |
|-------------|---------------|------------------------------|
| Software PC | Hardware PC | Travel |
| Hardware PC | Travel | Music |
| Books | Books | Clothing |
| Travel | Accessories | Cars |
| Music | Gifts | Mass consumption electronics |

^aSource: *Airline Business*, July 1999.

wider goal of digitalisation of the firm's entire front-line and back-office applications. In this sense, the passage from e-commerce to an enriched e-business perspective suggests a change not only in the way outputs are sold (e-commerce), but also in a redefinition of offer types and procurement practices together with a one-to-one consolidation of the links with the target customers or suppliers. Fig. 1 shows those that are often seen as the four main drivers of the impact of e-business within a firm's value stream.

As seen in Table 1, the implementation of new digital technologies has been most intense in the macro-environments of tourism and travel. The impact has been particularly significant in the tourism pipeline (Jarach, 2001) and for air travel. Air carriers, for example, have enjoyed exponential growths in online ticket sales for the past two years and there are forecasts suggesting that this new distribution channel would amount to \$12 billion dollar for airlines by 2002.¹

2. Applying Internet to airlines' processes

The first examples of digital usage by airlines in the early 1990s saw the implementation of essentially asynchronous applications, with low degrees of interactivity between the sender and the receiver of messages. These early systems were used mainly by carriers to obtain the dominance on a new medium platform. Carriers' web sites were simply offering travellers, details about the range of the carrier's offer system: on-board services, destinations offered, flight frequencies, and timetables. They were duplicating through a different medium of information already provided by travel agents.

More recently, airlines' web applications have been aimed at developing a new distribution channel for bookings and sales. The application of e-commerce solutions have had a considerable positive impact on containing carriers' costs by smoothing their dependence on computer reservation system (CRS) interfaces and on travel agents' commercial practices. The data on the US market show that web sales are four times

cheaper than distribution² through travel agencies and CRSs. Table 2 illustrates the importance of the single distribution channels for airline services.

Today, however, it appears that the digital revolution may offer carriers much greater opportunities than just widespread use in online sales. For instance, the impact on the productive side of services and opportunity to optimise relationships with suppliers is potentially considerable. Again, a chance of raising the standards of service that are being offered while reducing the costs of service delivery is available through the Internet. Fig. 2 shows the wider potential impacts of e-business on airlines.

3. Four areas of impact for the e-business-oriented airline

3.1. Redefining the relationship with the customer

A pervasive use of Internet solutions may result in significant improvements in the processes dealing with acquisition, management, and maintenance of loyalty levels of customers. The basic online connection can be seen as a first step within a wider range of Customer Relationship Management (CRM) applications. CRM is intended to develop a continuous interface between the firm and its potential clientele before, during, and after a purchase and during the consumption experience. The approach is to develop highly personalised solutions. This concept differs from what was adopted by airlines before the digital revolution regarding their loyalty schemes in the form of frequent flyer programmes (FFPs) (Valdani and Jarach, 1997).

Evidence from FFP's implementation³ has shown that these are only the second-best devices for an effective management of the entire loyalty cycle. In fact, the construction of a database of customers such as those enrolled in an FFP only allows for modest interaction between the airline and the consumer. This interaction has in the past been typically implemented by the use of newsletters or other traditional direct mail-based methods. Moreover, the enrollment in an FFP does not automatically imply that the subscriber is genuinely loyal to the airline, especially since virtually all major airlines use them. On the contrary, the 'hard' aspects of service, such as destinations served, flight frequencies and timetables, tend to remain dominant in most frequent flyers' purchase choice. FFPs are also often not very efficient from a cost perspective given the potentially high opportunity-costs that come from the

²Delta Airlines estimate published by *Airline Business* and *Flight International*.

³The experiments in loyalty programmes were developed in the airline business as American Airlines introduced the first frequent flyer programme in 1981. This was called Advantage and it was later copied by other airlines.

¹From *Airline Business*.

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