ELSEVIER
Journal of Air Transport Management 13 (2007) 31–36
Journal of AIR TRANSPORT MANAGEMENT
www.elsevier.com/locate/jairtraman

What is driving the continued growth in demand for air travel? Customer value of air transport

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Abstract

This article introduces the concept of customer value as a driving factor for continued growth in demand and eliminates a subversion of the customer-value theory for the air-transport industry. This theoretical framework includes risk as subcomponents of perceived relative benefits as well as perceived relative costs. Based on data of a survey the weight of the different influential factors is evaluated. Management implications as well as methodological learning for the measurement of customer value are derived. The key conclusion thereby is that a stronger focus on customer value will be a key challenge of airline management. Important developments take place at the lower and upper end of the price and quality ranges. Thereby the orientation should be directed by the real, often hidden and not only to the stated preferences of customers.

Keywords: Air travel; Customer value; Discrete choice analysis

1. The relevance of customer value

Customer value can be considered simply as the perceived benefits of a specific good or service compared to its perceived cost by single customers or groups of customers. Customer value is thus a factor that impacts on the growth of demand at a micro level. It is created by the products offered (in this case flights) and by the interaction between customer and supplier. Economic theory indicates that demand growth is dependent on different factors including:

- demand from business and leisure passengers, that is influenced by family and life models, tourist needs, economic development and business models;
- supply which is influenced by technology and airline business models;
- substitution by other transport opportunities like train transport and road transport.

Fig. 1 shows the effects of different factors on the growth of air transport demand and customer value as a micro-level factor that has a direct influence on the macro-factors. The emphasis of customer value in air transport has been changing over time. Technological changes and the evolution of new business models can be identified as driving forces. In the pioneer stages of air transport, price did not matter much. In the historic archives there are hardly any posters or folders highlighting price. The emphasis was on basic factors as air links or routes and the transport itself. Even the quality of seating was basic to allow safe take-off weight. There was little protection against noise or cold; passengers just had to be transported relatively safe from A to B.

With the emergence of relatively reliable passenger planes like the DC-3 and the Junkers Ju-52 integrated route systems gained in importance. Transfer passengers and even a first kind of hubbing at the main airports emerged, as did on-board hostesses/stewards and food services. After World War II long-haul flights were introduced. In an environment of more regulated airfares, efforts to increase customer value focussed on on-board service. Even first class cooks were introduced on some

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0969-6997/$ - see front matter
doi:10.1016/j.jairtraman.2006.11.002

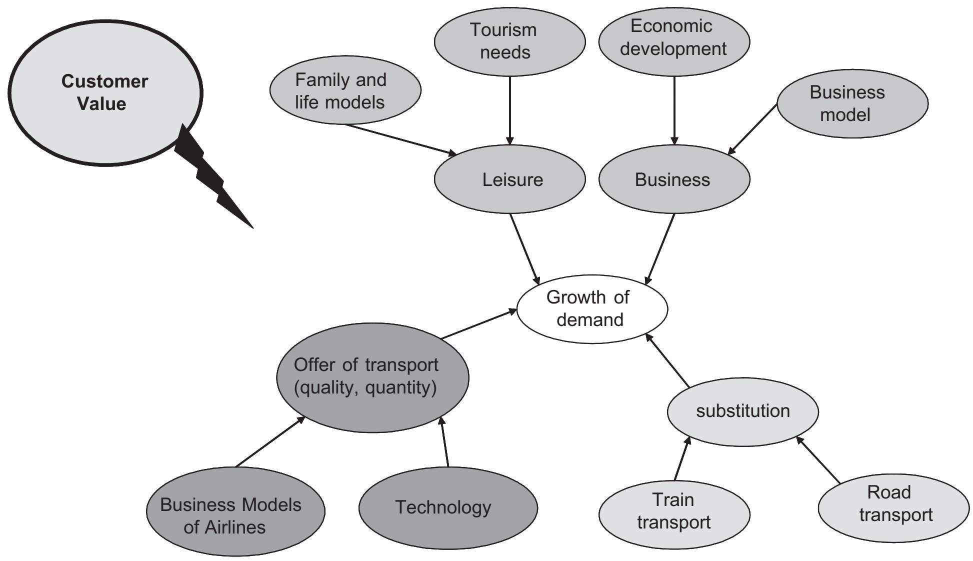

Fig. 1. Customer value and passenger air-transport demand.

services. High-quality seating systems, and even beds, were an important area of product differentiation for first-class passengers.

In the late 1960s and early 1970s, with the introduction of wide-body airplanes and demonstration effects of unregulated domestic services in the US, regulation of prices started to erode. New features for passenger comfort were introduced including video and audio systems. The focus, however, was more on price and costs. Reduced costs of mass transport and rising numbers of passengers per plane allowed for more price differentiation. Apart from the official International Air Transport Association tariffs for international services, cheaper, grey-market prices emerged. Customer value no longer just rested on transport quality, but increasingly on lower fares.

The 1990s, following a pattern that had already begun to emerge in the US domestic market in the 1980s after the passing of the Airline Deregulation Act, brought a differentiation in airline-business models in Europe with the emergence of low-cost carriers and with the network carriers relying more on hubbing. In its own way, each of the two business models put an emphasis on prices. The low-cost model is taken as the most important contribution to customer value. The model is legitimised by its low cost and competitive prices. Network effects in the hub-business model favour the biggest player with the largest market share. In theory, continuously falling marginal costs and steadily growing marginal returns result in economies of scope and density and from this the evolution of a natural monopoly (Bieger and Agosti, 2005). Competing for larger market shares, companies often lower their fares down to the marginal costs in the leisure- and economy- class segments of the passenger market. Fares and costs thus turn out to be the most important focus of management even in the network model. Customers of network carriers can take advantage of low prices but have to accept longer trips and often a decreasing quality of in-flight services. They also have to accept the inconvenience of transfers of airplanes at hubs.

The introduction of planes like the Boeing 737-800 allows for economical intercontinental flights with a small numbers of passengers. New service concepts of business services on long-haul routes are being offered based on these airplanes (e.g. by Lufthansa). Some airlines are adding premium-service features for their high-fare segments with the introduction of private jets or the honours membership. In some parts of the market, it is felt that customer value still revolves primarily service more quality and that niche, taylor-made products can serve this.

2. Consumer value

Customer value has been extensively dealt with the marketing and consumer behaviour literature. The concept can be linked to Woodruff (1997) who argues that "customer value is a customer's perceived preference for and evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer's goals and purposes in use situations." Many authors see the concept of customer value as a kind of further development of the quality construct. Since quality involves benefits in form of fulfillment of expectations, the customer value concept goes beyond by including costs and being broader in the concept of benefits.

The most popular operationalisation of the customer-value construct goes back to Gale (1994). He sees the perceived customer value as a result of perceived benefits and costs. Costs can consist of material costs like money and non-material costs like time, loss of prestige and financial costs. Benefits relate back according to the disconfirmation parading to the overfulfilment of expectations, which is linked again to the quality construct.