Leisure Travel: Implications for Airline Alliances

Dr Andreas Papatheodorou
University of the Aegean

Dr Kostas Iatrou
Hellenic Aviation Society

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Hellenic Aviation Society

Executive Summary

- The rationale behind the formation of airline alliances includes the reaping of scale and scope economies and the acquisition of marketing and branding advantages. To really add value to the airline customer, however, alliances should consider the purpose of travel, i.e. they should appreciate and understand the derived nature of the airline product. The relevant literature seems to understate this issue or at best focus on business passengers. Given the rising importance of leisure travel and tourism in the world economy, its implications should be explicitly assessed.
- The emergence of low cost carriers and the subsequent simplifications in the holiday packages offered by charter airlines have played a major role in boosting leisure travel in Europe at least. Still, the intelligent management of frequent flyer programmes and the creation of a seamless network in long haul (or even intercontinental) air travel may induce leisure passengers to opt for an allied airline instead.
- This paper addresses the topic by undertaking primary research in the form of semi-structured interviews with airline executives and structured questionnaires addressed to passengers. The interviewees are supportive of the view that alliances of network carriers may offer benefits to leisure passengers although they do recognise the competitive threat posed by low cost carriers. Similarly, the statistical analysis of the questionnaire results reveals that frequent flyers and more affluent respondents are more knowledgeable about strategic alliances and have a tendency to prefer allied carriers for long-haul but not for short-haul flights. This outcome may add to the understanding of airline alliances and consumer behaviour and have important implications for airline strategy at a global level.

Air Transport and Tourism

- In addition to its well-established linkages with local, regional and national economies, air transport is explicitly related to tourism.
- Every industry with a ‘tourism ratio’ (i.e. tourism related receipts of a specific sector expressed as a percentage of its total turnover) exceeding 15% may be regarded as part of the tourism sector; in this context, air transport is a tourism industry par excellence with a ratio often over 90%.
- About 40% of international tourists travel by air today compared to 35% in 1990 (ICAO, 2004), while the direct employment effect of air transport on tourism is estimated at 6.7 million jobs (ATAG, 2005).
- In fact, the demand for air transport in mainly derived by demand for tourism; both sectors are strongly cyclical and are highly sensitive to changes in the economic, social and political environment.

Airline Alliances - Benefits for Passengers

- Higher frequency
- Improved transfer times
- Larger availability of destinations
- Improved ground and in-flight service levels
- More attractive loyalty schemes

Primary Data Research Methodology

- To better understand the relationship of network airlines and alliances with leisure travel a qualitative survey with four people from the industry was conducted, i.e. Chris Tarry (CTAIRA), Mauro Oretti (Director Alliances, Alitalia), Eddie Wong (Director, Navitaire) and Takis Adamidis (Director, Olympic Airways) based on 14 questions
- Moreover, a quantitative primary data research was undertaken in early May 2007 in Athens and Heraklion. In both locations, departing travellers waiting for their flight at the airport halls were asked to fill a questionnaire of 14 close-ended questions. A total number of 117 respondents agreed to participate in the survey – questionnaires were validly and fully filled by 97 travellers giving a validity response rate of 82.90%, which is deemed as satisfactory.

Interview Questions (1)

- What is the role of network carriers in tourism? Has this role changed over time? Does the fare level influence the travellers'/tourists' decision to fly directly or not?
- Do alliances provide leisure travellers with benefits? Of what kind?
- Do benefits for tourist passengers resulting from the alliances of network carriers appear on short- or longer haul flights? Are there any differences?
- Have network carriers and alliances recently experienced a change in the numbers and market share of tourist passengers? Has such change been recorded in short-, medium- or long-haul flights?
- Can network carriers and alliances increase the number of leisure tourist passengers? In what ways?
- Have alliances influenced or altered the direction of main tourist flows? Will they do so in the future?
- Does the existence of an extended seamless network resulting from alliances induce the leisure passenger to fly with a particular airline?
- Does the existence of a valuable frequent flyer programme resulting from alliances induce the leisure passenger to fly with a particular airline?

Interview Questions (2)

- Have airline alliances and e-commerce influenced the relation between airlines, travel agents and tour operators and if yes in what ways?
- Most studies agree that airline alliances have increased fares for small communities due to a higher cost of service. Do airline alliances pose a threat to smaller destinations that can not be served by LCC/regional airlines?
- Co-operation through alliances and joint activities is expected to reduce airline operating costs. Is this reduction passed on to air fares? Will alliances influence the cost of air transport and hence the overall price of a holiday package?
- A recent international trend in tourism is for people to take shorter and more frequent breaks to easily accessible urban destinations. Can this trend affect the balance of tourism growth across the regions? What role do airline alliances play in this trend? Will they reinforce it or will they seek to change it?
- Leisure travel has been traditionally dominated by charter airlines but also increasingly by LCCs. Can network carriers via alliances influence the choice of those passengers that would otherwise fly with charter airlines and/or LCCs?
- Does the advancement of LCCs and the subsequent establishment of air routes between secondary airports result in leisure traffic creation (new markets) or diversion away from traditional and/or charter carriers?

Table 1a: Socio – Demographic and Travel Characteristics

Country of Origin		Annual Household Income		Age Cohort	
Germany	29	Less than € 10,000	12	Less than 18	2
Greece	15	€ 10,000 - € 20,000	14	18 - 30	24
UK	10	€ 20,000 - € 40,000	30	31 - 45	38
Sweden	9	€ 40,000 - € 60,000	21	46 - 65	25
France	7	over € 60,000	20	over 65	8
Russia	2				
Italy	2	**Gender**			
Other	23	Male	48		
		Female	49		
Total	**97**	**Total**	**97**	**Total**	**97**

Dr Andreas Papatheodorou – University of the Aegean
Dr Kostas Iatrou – Hellenic Aviation Society
Email: a.papatheodorou@aegean.gr and kiatrou@aviationsociety.gr

Table 1b: Socio – Demographic and Travel Characteristics (cont.)

Level of Education		Purpose of Travelling Today		Trips per Year	
Primary	2	Business	19	1 - 3	35
Secondary	29	Leisure	54	4 - 6	25
University Degree	45	Business and Leisure	13	7 - 10	17
Masters and Doctorate	21	Visiting Friends and Family	9	11 - 15	9
		Medical	1	over 15	11
		other	1		
Total	**97**	**Total**	**97**	**Total**	**97**

Table 2: Importance of Airline Choice Factors when Travelling on Leisure

Airline Choice Factors	Mean	SD	CV%	Mean Diff t-test	p-value
Ability to book ticket online, SH	3.48	1.04	29.90	1.19	0.24
Ability to book ticket online, LH	3.39	1.10	32.29		
Airline reputation, SH	3.69	0.94	25.45	**-2.74**	**0.01**
Airline reputation, LH	3.87	0.90	23.20		
Availabilty of good connections (i.e. < 1h), SH	3.73	0.87	23.37	-0.74	0.46
Availabilty of good connections (i.e. <1h), LH	3.80	0.98	25.63		
Comfortable seat, SH	3.64	0.84	23.19	**-4.30**	**0.00**
Comfortable seat, LH	4.03	0.90	22.20		
Complimentary IFC, SH	3.35	1.00	29.86	**-4.61**	**0.00**
Complimentary IFC, LH	3.80	0.91	23.89		
Complimentary IFE, SH	2.67	1.13	42.47	**-6.27**	**0.00**
Complimentary IFE, LH	3.38	1.13	33.46		
Convenient outgoing and incoming schedule, SH	3.72	0.98	26.23	-1.14	0.26
Convenient outgoing and incoming schedule, LH	3.81	0.93	24.33		
Exisence of Business Class, SH	2.40	1.36	56.58	**-4.21**	**0.00**
Exisence of Business Class, LH	2.88	1.38	47.94		
Existence of FFP, SH	2.98	1.27	42.51	**-3.53**	**0.00**
Existence of FFP, LH	3.31	1.31	39.58		
High flight frequency, SH	3.31	0.97	29.38	-1.56	0.12
High flight frequency, LH	3.45	1.02	29.56		
Lowest fare, SH	3.44	1.17	34.05	-0.82	0.41
Lowest fare, LH	3.53	1.11	31.47		
Ancillary services (e.g. hotel, car rental) online, SH	2.87	1.15	40.17	-0.58	0.56
Ancillary services (e.g. hotel, car rental) online, LH	2.92	1.17	40.09		
Punctuality, SH	3.70	1.20	32.43	0.64	0.52
Punctuality, LH	3.65	1.07	29.34		
Safety and security, SH	3.92	1.37	34.89	0.88	0.38
Safety and security, LH	3.85	1.28	33.22		
Ticket flexibility and refund ability, SH	3.60	1.09	30.20	-1.18	0.24
Ticket flexibility and refund ability, LH	3.70	0.95	25.62		
Use of local airports at the destination, SH	3.42	0.98	28.55	0.59	0.56
Use of local airports at the destination, LH	3.36	0.90	26.88		
Use of local airports at the origin, SH	3.36	0.99	29.50	-0.21	0.84
Use of local airports at the origin, LH	3.38	0.92	27.15		
Use of primary airports at the destination, SH	3.40	0.98	28.67	-1.77	0.08
Use of primary airports at the destination, LH	3.56	0.85	24.00		
Use of primary airports at the origin, SH	3.31	0.93	28.05	-1.74	0.09
Use of primary airports at the origin, LH	3.44	0.94	27.16		

Figure 1: Knowledge of Terms

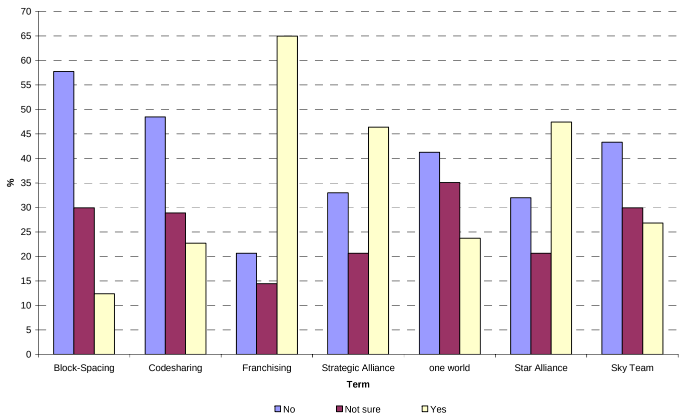

Table 3: Comparison of Allied with Non-Allied Carriers

Opinion Statements	Mean	SD	CV%
Allied airlines offer better flight connections	3.42	0.90	26.28
Allied airlines offer better in - flight service and cabin standards	3.25	0.88	27.05
Allied airlines offer better located airports	3.46	0.84	24.32
Allied airlines offer higher frequency of flights	3.67	0.81	22.15
Allied airlines offer lower fares	3.11	0.90	28.91
Allied airlines offer more convenient outgoing and incoming schedule	3.48	0.77	21.96
Allied airlines offer more generous frequent flyer programme	3.53	0.96	27.18

Dr Andreas Papatheodorou – University of the Aegean
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Figure 2: Strategic Alliances and Leisure Preferences

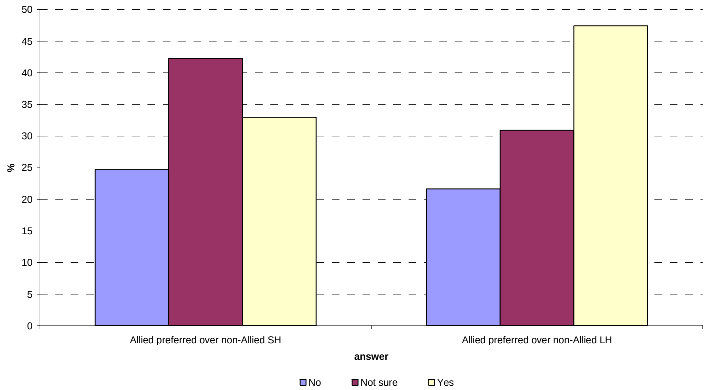

Table 4: Strategic Alliances and Flying Frequency

Categories		*Knowledge of the term Strategic Alliance*			
		No	**Not sure**	**Yes**	**Total**
trips / year	**1 - 3**	18	5	12	**35**
	4 - 6	8	4	13	**25**
	7 - 10	4	6	7	**17**
	11 - 15	1	3	5	**9**
	over 15	1	2	8	**11**
	Total	**32**	**20**	**45**	**97**

Table 5: Short-Haul Leisure Preferences and Flying Frequency

Categories		*Preference of an allied over a non-allied carrier when travelling SH for leisure*			
		No	**Not sure**	**Yes**	**Total**
trips / year	**1 - 3**	8	13	14	**35**
	4 - 6	5	10	10	**25**
	7 - 10	6	9	2	**17**
	11 - 15	4	3	2	**9**
	over 15	1	6	4	**11**
	Total	**24**	**41**	**32**	**97**

Table 6: Long-Haul Leisure Preferences and Flying Frequency

Categories		*Preference of an allied over a non-allied carrier when travelling long haul for leisure*			
		No	**Not sure**	**Yes**	**Total**
trips / year	**1 - 3**	6	10	19	**35**
	4 - 6	6	7	12	**25**
	7 - 10	6	7	4	**17**
	11 - 15	3	2	4	**9**
	over 15	0	4	7	**11**
	Total	**21**	**30**	**46**	**97**

Dr Andreas Papatheodorou – University of the Aegean
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Table 7: Strategic Alliances and Income

	Categories	*Knowledge of the term Strategic Alliance*			
		No	**Not sure**	**Yes**	**Total**
Income p.a.	**Less than €10000**	7	2	3	**12**
	€10000 - €20000	6	4	4	**14**
	€20000 - €40000	10	9	11	**30**
	€40000 - €60000	4	4	13	**21**
	over €60000	5	1	14	**20**
	Total	**32**	**20**	**45**	**97**

Table 8: Short - Haul Leisure Preferences and Income

	Categories	*Preference of an allied over a non-allied carrier when travelling SH for leisure*			
		No	**Not sure**	**Yes**	**Total**
Income p.a.	**Less than €10000**	3	3	6	**12**
	€10000 - €20000	3	5	6	**14**
	€20000 - €40000	9	12	9	**30**
	€40000 - €60000	4	11	6	**21**
	over €60000	5	10	5	**20**
	Total	**24**	**41**	**32**	**97**

Table 9: Long - Haul Leisure Preferences and Income

	Categories	*Preference of an allied over a non-allied carrier when travelling long haul for leisure*			
		No	**Not sure**	**Yes**	**Total**
Income p.a.	**Less than €10000**	5	3	4	**12**
	€10000 - €20000	3	4	7	**14**
	€20000 - €40000	9	8	13	**30**
	€40000 - €60000	2	10	9	**21**
	over €60000	2	5	13	**20**
	Total	**21**	**30**	**46**	**97**

Conclusions

- This paper aimed at exploring the implications of airline alliances for leisure travel. The theoretical background highlighted the interdependence between air transport and tourism while the results of the primary data research are supportive of the view that airline alliances may indeed have some benefits for leisure travellers in addition to business passengers.
- Still, these benefits will be mainly understood and potentially reaped by leisure travellers with a business culture, i.e. affluent frequent flyers engaged in long haul activities. On the other hand, the typical budget, price-sensitive travellers are not knowledgeable of the airline business complexity and the value added by airline agreements and alliances in particular. As a result, they may be lured by the promotional fares offered by low cost carriers and charter airlines.
- Having the above in mind, a possible strategy for airline alliances would be to extend and diversify their marketing efforts to attract affluent leisure passengers but also to inform business travellers about leisure opportunities offered by alliances especially in long-haul travel. Direct marketing and customer relationship management built on generous loyalty schemes (i.e. FFP) can be of major importance here.
- Similarly, airline alliances may target specific segments of budget leisure travellers who would still be inclined to travel long-haul at least once in their lifetime (e.g. honeymooners). A possible partnership with specialised tour operators and/or travel agents (both online and offline) could prove necessary as many of these passengers may lack the knowledge or the confidence to book a complex airline product or a long-haul holiday package without the assistance of an intermediary.

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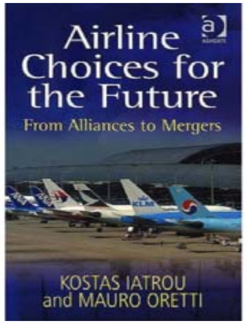

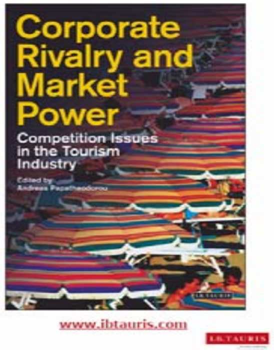

Thank you for Your Attention!

Dr Andreas Papatheodorou
Dr Kostas Iatrou

E-mail: a.papatheodorou@aegean.gr
kiatrou@aviationsociety.gr

Web Site: www.trioptron.org
www.aviationsociety.gr