Marketing low cost airline services to business travellers

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Abstract

A number of EU low cost airlines have reported their success in attracting business travellers on some of their routes. Recent research shows that business travellers working for small companies are more willing to trade in-flight service, frequency and FFP points for lower fares than those working for larger companies. A survey of short haul business travellers using a major carrier at Heathrow airport is compared with travellers of a low cost airline at a secondary London airport. The hypothesis that business travellers using low cost airlines form a separate market segment from business travellers using full service airlines is not shown. Short haul business travellers are, en masse, becoming increasingly price sensitive. Travellers using network carriers use low cost airlines and vice versa. Corporate influence in purchase decision making is more evident in travellers choosing network carriers and this is partly a function of the size of the company, with larger companies favouring such carriers. Marketing implications for both low cost and full service airlines are discussed.

1. Introduction

Since the completion of the three liberalisation packages in the European Union the air transport market has become increasingly competitive (Civil Aviation Authority, 1998). The UK industry in particular has seen dramatic change as low cost airlines have established and developed significant markets for their services. UK Civil Aviation Authority (CAA) statistics for 1999 show that the low cost airlines easyJet, British Airways' subsidiary Go, and the now defunct Debonair and AB Airlines represents 12% of passengers to and from the UK to the European Economic Area (EEA). This has grown from a base of less than 2 million passengers in 1994. These figures exclude the passengers carried by non-UK registered carriers Ryanair and Virgin Express.

At their inception the low cost airlines focused marketing activity primarily on the leisure market, however each now report significant proportions of their customer base as being business travellers. EasyJet claims that on certain routes over 50% of their passengers are business travellers (Haji-Ioannou, 1999). Go in a recent report note that "low cost airlines make sound business sense, and are gaining credibility with the corporate travel market - to the extent that up to 40% of Go's passengers are flying on business" (Go Fly Ltd., 1999). McWhirter (2000) notes that regularly between 40% - 80% of passengers on low cost airlines are travelling for business.

The anecdotal evidence of success in the business travel market reported by the low cost airlines indicates that either the business travellers using these carriers are travellers who previously did not fly to do business or that these carriers are winning a significant proportion of business travellers away from the traditional network carriers. As the market changes it is important to attempt to assess the nature of the short business travel market in the coming years. Managers of traditional full service airlines will need to assess whether the products they provide need to be re-designed to protect their markets, and managers of low cost airlines need information about the nature of the business travel market so that they can assess whether they ought to be targeting, more explicitly, such travellers.

2. Marketing issues for network carriers and low cost airlines

While the capture of UK short haul business travel traffic by low cost airlines has been viewed as unplanned when the low cost airlines came into existence. The business traveller sector now represents a major market for low cost airlines. To date these airlines have been successful in attracting a significant element this sector by competing on price. Is price the only marketing variable that these carriers need to compete on or should products be developed to meet more closely the needs of the business traveller? For the network carriers what reaction is most appropriate?

The low cost concept has been most successfully applied by airlines that have stuck fairly close to the original Southwest Airlines, low cost model. Debonair deviated from the Southwest, low cost, model by introducing an "Affordable Business Class" which was a curtain separated cabin that served a limited business class in-flight product and flexible

ticket. The airline also had a simple, "buy ten get one free", frequent flier scheme. These schemes were generally perceived by customers as not as good as a full service business class product (particularly the lack of flight frequency and limited route network limiting the value of flexible ticketing and the frequent flier scheme) while not being cheap enough for a low cost airline. This lack of focus, along with a host of other problems caused the airline to fail. Separating business travellers on a low cost airline is difficult to achieve as it increases the vitally important costs to the airline and requires reconfiguration of the aircraft. The introduction of a separate business class would possibly reduce the number of seats on board and would require an increase in the number of cabin crew thereby further increasing costs. If the passengers do not see the product as meeting the current business class standards, which three in four passengers are already criticise as lacking value for money (Company Barclaycard, 1999), such a scheme would seem unlikely to be successful.

All the low cost airlines offer in-flight snacks and drinks which passengers must pay for. This "pay as you consume" concept has also been further applied by buzz which offers access to business lounges at £10 a visit. Network carriers would find it difficult to adopt such practises as their passengers have traditionally accepted drinks, meal services, and other comfort items incorporated into the ticket price.

The price is an area where some low cost airlines have segmented leisure and business travellers. While easyJet has a simple price per sector policy, Go, buzz and Ryanair have all introduced a number of different fare classes and ticket restrictions. Go has five fares classes; fully flexible fares, flexible discount fares (which can be changed up to five days in advance of travel), a two nighter fare, and saver and super saver fares. Both saver classes

require Saturday night stays. All but the first fare type will have restricted appeal to business travellers. Similar price discrimination is also practised by Ryanair with their introduction of business fares, and buzz which has open fares that are most suited to meet the ticket flexibility needs of business travellers, but all are priced accordingly. EasyJet sell their lowest fares first and then increase fares as the departure date draws closer. In this way business travellers that can plan ahead can book a cheap one day return trip. Nearer the departure travellers will find the prices significantly higher than the lead in fare particularly on early morning departures.

While most promotional budgets of low cost airline go on adverts for the mass market, some low cost airline have been aiming marketing expenditure in the corporate market. Mason (2000) indicates that low cost airlines are more likely to be successful in attracting business travellers from small and medium sized companies. These companies are more likely to book directly with the airline, but these airlines will find it more difficult to attract travellers that work for very large companies. Both Go and buzz have business travel sales teams which visit corporates to try a negotiate route deals where possible. To achieve significant sales in this market low cost airlines need to overcome two hurdles. Many corporates have major deals with large network carriers which can supply the majority of its travel needs on a global scale. By entering a route deal with a low cost airline, a corporate may fall foul of deals it holds with other airlines. Also most corporates extensively use business travel agents and most low cost airlines have an uncomfortable relationship with agents ("We hate agents and agents hate us" (S. Haji-Ioannou, 1999)). If a route deal can be agreed the airline will need to establish a distribution method for processing bookings. As yet, the low cost airlines have not developed extranet facilities for corporate clients, as many of the major carriers are

doing.   Alternatively, the airline would need to come to some arrangement with the corporate's agent to process bookings.

For network carriers, the in-roads made into their business travel market has not gone unnoticed. Their large corporate market is more easy to defend as argued above, but to defend the small and medium sized enterprises (SME) market, network carriers may adopt a number of strategies.

The network airlines must be aware that the travellers, particularly from small and medium sized companies are increasingly price sensitive. British Airways in response to the changing market has introduced "value for money business fares". The new fare structure offers savings for customers that plan their journeys in advance, are flexible with their flight times and stay overnight at their destination (BA press release, 5th May 2000). Quite similar to those pricing strategies offered by the low cost airlines.   The airline is also in the process of updating is Club Europe product demonstrating its faith in a significant element of the market that is faithful to business class products for short haul travel.

The airline is also addressing changes in the distribution. It has introduced a new on-line business travel management system for small and medium sized companies in the UK which allow the company's employees to book flights, hotels and cars on their corporate intranet (BA press release, 7th April, 2000). This airline clearly sees that the battle for short haul business travellers is more in the SME sector of the market than in the large corporate sector where its position is more protected.

3. Research Objective

The principal hypothesis that will be examined in this paper is that business travellers using low cost airlines represent a different market segment than those travellers that use traditional network carriers for short haul services. The hypothesis will be investigated by examining similarities and difference between two samples of business travellers; one using a low cost airline and one using traditional full service network carriers.

If it may be established that the two market segments are quite distinct it would provide support for the view that has been suggested in some trade articles that business travellers using low cost airlines are new to the market and the presence of low cost airline services has opened the market to a new group of price sensitive business travellers.

If however the markets are not distinct the research would provide evidence that low cost airlines have drawn traffic away from traditional carriers as business travellers attribute less value on the frills provided by traditional carriers for short haul services.

The paper will also consider airline responses to the market place in terms of marketing strategies.

4. Methodology

To collect data on the two groups of travellers survey data were collected at both London's Heathrow and Luton airports. Two days were spent at each airport during June 2000 and a

team of three people performed the interviews. At Heathrow, face to face interviews were conducted at the departure gates for international short haul services in Terminal 1, while at Luton passengers were interviewed at check-in desks. Passengers at Heathrow were customers of various full service network carriers. At Luton passengers of the low cost airline easyJet were exclusively sampled. The different approaches were suited to the nature of the two airports and also the permissions granted to the study team. At Heathrow the check-in desks are busy throughout the day and the layout of the area makes interviewing passengers extremely difficult. Approval was granted by BAA, the company that operates Heathrow, to interview passengers at the departure gate prior to boarding. This was satisfactory, but access to business lounges which would have been ideal was not granted. At Luton air-side access was not granted but the layout of the terminal building with all easyJet's check-in lines grouped together meant that interviews were easily carried out at this location. A total of 227 responses were collected with 67% of the sample representing passengers of the low cost airline. It is unfortunate that time and cost considerations prohibited further data collection at Heathrow to balance the samples.

5. Results

The demographic breakdown of the sample was similar to previous studies of short haul business travellers in the UK. The gender split of the sample does not provide any evidence of a growing proportion of women travelling for business purposes, with 91% of the sample men. This is similar to the 89% and 90% proportions found in surveys conducted in 1992 and 1997 (Mason, 1995, and 1999). The high proportion of male business travellers has, in earlier studies, been attributed to the age profile of travellers, and in this survey the age

profile is not changed, with 30% of travellers less than 35 years old, 38% between 35 and 44 years old, and 32% of travellers are over 45 years old. The sample's age profile is similar for travellers interviewed at Heathrow, using network carriers and at Luton using the low cost airline.

The findings of an earlier study (Mason, 2000) found that company size has an influence on the price elasticity of business passengers and on the value placed on in-flight comfort, flight frequency and frequent flier schemes. This would imply that the corporate profile of the sample drawn from travellers using easyJet would have a greater representation of smaller companies that those travellers using network carriers sampled at Heathrow. Although Table 1 seems to provide some evidence that the corporate profile of travellers using network carriers at Heathrow is more heavily skewed towards larger companies than the group interviewed at Luton, a chi-squared test, shows no significant differences in the company size profile of the two samples.

To establish whether travellers with low cost airlines are from a separate market segment distinct from travellers using network carriers, corporate purchasing infrastructure and behaviour, such as whether a company employs a travel manager, a travel department, or has a travel policy, may be examined. Previous research has shown the growing influence on traveller decision making behaviour by the company they work for (Mason, 1999). Differences between the two samples would provide evidence of different business travel market segments. Table 1 shows, perhaps surprisingly, that travellers at Heathrow are more likely to be subject to travel policy prescriptions that those using the low cost airline at Luton. This may be partially an effect of company size as, although not significantly

different, the profile of travellers at Heathrow were more likely to be from larger companies. A cross tabulation of company size and travel policy clearly shows that larger companies are more likely to have a travel policy than smaller companies (see Table 2). Table 1 shows that Heathrow departing travellers were more likely to work for a company with a travel manager or travel department than those using the low cost airline at Luton. The proportion of companies that have travel managers or departments found in this study is slightly lower than found in an earlier study (Mason, 2000) but this may be explained by the imbalance in the size of the samples drawn at the two airports. Again company size has a significant effect on whether a company has a travel manager of travel department as can be seen in Table 2.

Of the travellers surveyed at Heathrow, 73% worked for companies that had a corporate travel policy. This figure is significantly higher than the 55% of travellers using easyJet at Luton. Travel policies tend to be more explicitly stated in larger companies than smaller companies and in this dataset there was a larger proportion of travellers from large companies found at Heathrow than at Luton, therefore this finding is not surprising. The respondents were asked what their travel policies said about use of low cost airlines. Exactly half of those travelling on network carriers indicated that their companies encouraged the use of low cost airlines, with only 12% of travellers stating that their companies prevented use of low cost airlines. This finding will clearly be of concern to the network carriers.

Looking at the flight selection and booking process, Table 3 shows there are some similarities and some differences between the two samples. There was no statistical difference between the two samples when flight selection was considered. Two thirds of all respondents selected their own flight. This is slightly higher than the level found in a similar

survey conducted in 1997. While it cannot be shown whether this difference is significant it may be a result of the increasing use of the internet by business travellers to collect travel information. This view may be partially supported by the significantly higher proportion of the travellers using the low cost airline. EasyJet has been successful in gaining a very high proportion of their total sales on the internet (around 70% in 2000). Other than the traveller's secretary (18%) or travel department (8%) there were no other main sources of influence in the purchase decision.

Once the decision has been made there seems to be clear differences in the method of booking. While a similar proportion of both groups use their secretary to book flights (41%), a much greater proportion of the travellers using low cost airlines book their travel. Of those travellers using the low cost airline, 42% booked their own flights compared with only 23% of those using the traditional airlines. The group of travellers using traditional airlines depend more highly on travel departments (17%) and travel agents (13%) to book travel.

Investigation of the channel used to book travel also reveals clear differences in between the two groups. A large proportion of the traveller using network carriers have their travel booked via a travel agent (64%), while a much smaller proportion of easyJet's customers had had their travel booked at a travel agent (13%). EasyJet are not offered on any computer reservation system and pay no agency commission so it is surprising that any respondents had had their travel booked through this channel. However, there are a number of agents that will book travel for customers via low cost airlines' web sites for a service fee and this may well be incorporated in any management fee paid by a corporate to an agency. The vast majority of the sales for the low cost airline was through their two main channels; the internet

(45%) and telesales (33%). For travellers using major network carriers, besides using the travel agent channel, direct sales to the airline was next most popular channel (9%) and other channels used in small amounts.

Some discussion in the trade press suggests that business travellers using low cost airlines are flying for speculative sales visits. The main difference in the purpose of travel seen in Table 3 is a larger proportion of those using the low cost airline are making sales or marketing trips (21% compared to 10% of travellers at Heathrow) while a larger proportion of travellers of the network carriers are going to conferences or exhibitions than those using the low cost airline (19% compared to 6%). While the first comparison provides some support for the proposition, it is not conclusive as conference and exhibition attendance often also involves sales and marketing efforts.

A comparison in usage behaviour towards network and low cost airlines is presented in Table 4. For all four variables the differences between the groups are significant. While virtually all travellers interviewed at Heathrow had used a network carrier for business trips before, a small group of travellers (12%) at Luton had never used a full service carrier before. This group may be business people who have begun travelling for business as the prices offered on low cost airlines make such travel worthwhile, and as such provides some evidence of low cost airlines generating new business travel. The majority of the travellers using easyJet had previously used a low cost airline within the last 12 months (78%). This figure is some 30% higher than those travellers interviewed at Heathrow. A similar pattern is found when considering whether travellers have used a low cost airline in the past for making a business trip. Of the travellers interviewed at Heathrow, 59% had never used a low cost airline for

making such a trip. This statistic may be viewed as providing an opportunity for low cost airlines to make further in-roads into the traditional market of full service carriers, alternatively it may show that these travellers are happy with the service provided by network carriers and are unlikely to switch travelling behaviour. To assess which view is more likely the respondents were asked whether they believed traditional network carriers offered value for money in business class for short haul travel. Here there were no significant differences between the groups, indicating that current behaviour has not biased attitudes. Four out of five respondents (79%) thought that business class service did not offer value for money for short haul travel. If such a large proportion of travellers using network carriers believe business class products do not offer value for money, then perhaps low cost airlines are more likely to attract these travellers. This view can be further supported by the finding that 74% of travellers interviewed at Heathrow would consider using low cost airlines for business travel in the future. These figures has grown dramatically from a survey of business travellers by American Express in 1999. Respondents to the Corporate Travel Barometer (American Express, 1999) indicated that 40% had used a "no frills" airline in the preceding twelve months and 56% would use them in the coming year.

Respondents were asked to consider what behaviour would be most likely if their travel budgets were reduced. While 22% of travellers using network carriers would reduce the amount of travel, a significantly larger proportion of those using the low cost airline (37%) said they would react in this manner. This finding, perhaps, provides some further evidence that a small but significant group of business travellers that use low cost airlines use these carriers for low cost speculative sales visits. This would suggest that during any economic downturn, low cost carriers would not be able to rely on this group. However, these carriers

could perhaps rely on other sources of business during poor economic periods as 32% of travellers using network carriers indicated that they would take as many trips but switch to low cost airlines. This group also indicated that they would also downgrade to economy class (28%) or take fewer business class trips (18%).

Differences between the two samples can be seen between the average number of frequent flier schemes that travellers are members of. At Heathrow travellers are, on average, members of 2.5 schemes, whilst at Luton travellers are, on average, members of 1.8 schemes. This would possibly imply that the network carriers' frequent flier scheme continue to have influence on business passengers.

Table 5 shows the difference in means between the importance placed on a number of short haul product variables between the two groups. A scale from 1 to 10 was used with 10 being the highest level of importance. The ANOVA significance level of the difference between the two mean is also shown. The mean for passengers using network carriers is significantly different from the mean calculated for passengers using the low cost airline where the significance level is less than or equal to 0.05.

It can be seen that in both samples punctuality and frequency are viewed with the highest importance and there is no statistical difference between the attitudes of the two groups. For users of low cost airlines fare level was the next most important product element. This group placed statistically more importance on price than those that used network carriers. Ticket flexibility is the next most valued item and there is no significant differences between the two groups. The last three product elements; in-flight service, frequent flier schemes, and

the availability of an airline business lounge were all rated significantly higher by travellers using full service airlines than those using low cost airlines. Given that these products are rated lower than items such as punctuality and frequency it should be examined whether network carriers that are generally viewed as having better in-flight service, and provide frequent flier schemes and business lounges can retain their traditional customer base as low cost airlines develop their route networks. This question has been partially addressed in Mason (2000) where it was reported that travellers working for larger companies rate such variables higher than those in smaller companies. In this study respondents were asked how much they would willing to pay to gain entry to a business lounge on a single visit (this item was not included in the earlier study). The average price travellers would be willing to pay out of their own money was £3.60. When asked how much the travellers thought their company would be prepared to pay to gain the traveller entrance to the lounge, the average price was £7.60. This specific question was asked, in part, as the new low cost airline buzz is now charging £10 for business passengers to use a lounge as part of their "pay as you go" concept. When classified into price brackets, the survey suggests that 40% of business travellers, whether travelling with a low cost or a network carrier, believed that their company would be prepared to pay £10 or more to allow their travellers into an airline lounge.

6. Conclusion

This paper has sought to establish whether business traveller using low cost airlines represented a distinct market segment than those business travellers using traditional network carriers. The profile of business travellers using low cost airlines seems to be different in the

size of the company that they work for, the booking process used, the channel used to book flights, and the importance placed on the price of travel, in-flight service, frequent flier schemes, and business lounges.

While there are differences between the two groups there was also much common ground, particularly in the proportion of travellers who select their own flights, the opinion travellers have about the value for money of business class products, and the importance of airline punctuality, flight frequency and ticket flexibility.

Considering the findings of the survey, there does not seem to be two distinct market groups in the UK short haul business travel market, more a blurring across the sector and thus the research hypothesis is rejected. Travellers using low cost airlines for business also use network carriers and vice versa. While price seems more important to those using the low cost airline, price and value for money is also a prime consideration for travellers that use the network carriers. The past few years has seen a step shift in the attitudes of short haul business travellers. The views of the distinct segment of price sensitive travellers found in 1992 (Mason, 1995) is now found throughout the market and this has been brought about by the availability of lower fares provided by greater competition.

Some evidence has been found of travellers that use low cost airlines for low expense sales visits, and of low cost airlines drawing traffic away from network carriers.

The size of company that a traveller works for did not show a significant difference between the two groups, but there is a noticeable skew in the cross tabulation. Travellers using low

cost airlines are more likely to work for small and medium sized companies, while traditional network carriers attract a greater proportion of travellers working for larger companies. There would seem to be two clear reasons for this split. Firstly, people working for smaller companies are likely see a clearer delineation from travel costs to the profits made in their businesses than travellers working for larger companies. Secondly large companies are more likely to be able to negotiate deals with travel agents and airlines. The low cost airlines have generally shunned the travel agency market and therefore are not in a strong position to win a significant proportion of this traffic. What cannot be said is that the travellers working for large companies fall into an exclusive market domain of full service carriers while low cost carriers also do not have a monopoly of traveller working for small companies.

Acknowledgement

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Table 1: Profile of business travellers at LHR & LTN: Travel Policies

Corporate Travel Policies	Heathrow	Luton
Company size		
1-24	20.0%	29.9%
25-99	11.4%	16.6%
100-1000	20.0%	19.1%
1000-5000	14.3%	21.1%
5000+	34.3%	22.3%
Corporate Travel Policy?		
Yes	72.7%	55.3%
No	27.3%	44.7%
Travel Manager (TM)/Department (TD)		
Has Neither TM or TD	55.7%	68.8%
Company has either TM or TD	24.3%	24.8%
Has both TM and TD	20.0%	6.4%
Travel policy view of low cost airlines		
Prevents their use	12.1%	2.5%
Encourages their use	50.0%	70.1%
Holds no opinion on their use	37.9%	27.4%

Table 2: Effect of company size on travel policies

Company Size	1-24	25-99	100-1000	1000-5000	5000+
Co. has Travel Policy	25.9%	48.5%	75.0%	67.9%	89.5%
Travel Manager (TM)/Dept.(TD)					
Has Neither TM or TD	93.4%	85.3%	61.4%	58.6%	28.8%
Company has either TM or TD	4.9%	14.7%	31.8%	31.0%	42.4%
Has both TM and TD	1.6%	0.0%	6.8%	10.3%	28.8%

Table 3: Travel purpose and booking behaviour

Travel Purpose & Booking Behaviour	Heathrow	Luton
Purpose of Travel		
Sales/Marketing	10.3%	21.0%
External meeting/visit	47.1%	45.7%
Internal meeting/visit	14.7%	15.9%
Emergency/problem solving	7.4%	5.8%
Conference/exhibition	19.1%	5.8%
Traveller selected flight	60.0%	70.5%
Flight booking		
Traveller	22.9%	42.0%
Secretary	41.4%	41.4%
Travel Agent	12.9%	1.9%
Travel Department	17.1%	6.4%
Booking channel		
Travel Agent	64.3%	13.4%
Airline Telesales	8.6%	32.5%
Airline Internet site	2.9%	45.2%
Travel Agent site/ corporate intranet	11.4%	3.1%

Table 4: Use of network and low cost airlines

Use of traditional and low cost airlines	Heathrow	Luton
Used a traditional carrier before	98.6%	88.2%
Used a low cost airline in past year	48.6%	78.3%
Used a low cost airline for business	41.4%	76.3%
Will use a low cost airline for business in future	73.9%	98.7%
Business class offers value for money?		
Yes	24.6%	19.7%
No	75.4%	80.3%
In the event of a cut in travel budget you would		
Reduce travel	22.8%	36.8%
Take fewer business class flights	17.5%	10.5%
Down grade to economy	28.1%	3.5%
Same no. of flights but on low cost airline	31.6%	49.1%

Table 5: Importance placed on product elements

Product Element	LHR mean	LTN mean	Significance
Punctuality	8.96	9.22	0.331
Frequency	8.45	8.64	0.483
Price	6.90	8.38	0.000
Ticket Flexibility	7.49	7.90	0.180
In-flight service	6.93	6.10	0.019
Frequent Flier Scheme	5.96	5.03	0.040
Business Lounge	5.64	4.50	0.000