Tourism, Hospitality & Event Management

Mark Anthony Camilleri

Travel Marketing, Tourism Economics and the Airline Product

An Introduction to Theory and Practice

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To Adriana, Michela and Sam.

Praise for this Book

"*Dr. Camilleri provides tourism students and practitioners with a clear and comprehensive picture of the main institutions, operations and activities of the travel industry*".

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"*The remarkable growth in international tourism over the last century has been directly influenced by technological, and operational innovations in the airline sector which continue to define the nature, scale and direction of tourist flows and consequential tourism development. Key factors in this relationship between tourism and the airline sector are marketing and economics, both of which are fundamental to the success of tourism in general and airlines in particular, not least given the increasing significance of low-cost airline operations. Hence, uniquely drawing together these three themes, this book provides a valuable* *introduction to the marketing and economics of tourism with a specific focus on airline operations, and should be considered essential reading for future managers in the tourism sector*".

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"*An interesting volume that provides a good coverage of airline transportation matters not always well considered in tourism books. Traditional strategic and operational issues, as well as the most recent developments and emerging trends are dealt with in a concise yet clear and rational way. Summaries, questions and topics for discussion in each chapter make it a useful basis for both taught courses or self-education*".

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"*This book addresses the key principles of tourism marketing, economics and the airline industry. It covers a wide range of theory at the same time as offering real-life case studies, and offers readers a comprehensive understanding of how these important industries work, and the underpinning challenges that will shape their future. It is suitable for undergraduate students as well as travel professionals, and I would highly recommend it*".

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"*In the current environment a grasp of the basics of marketing to diverse consumers is very important. Customers are possessed of sophisticated knowledge driven by innovations in business as well from highly developed technological advances. This text will inform and update students and those planning a career in travel and tourism. Mark Camilleri has produced an accessible book, which identifies ways to accumulate and use new knowledge to be at the vanguard of marketing, which is both essential and timely*".

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"*This contemporary text provides an authoritative read on the dynamics, interactions and complexities of the modern travel and tourism industries with a necessary, and much welcomed, mixture of theory and practice suitable for undergraduate, graduate and professional markets*".

Alan Fyall,
Orange County Endowed Professor of Tourism Marketing,
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Preface

An ever-increasing number of destinations have opened up to and invested in tourism, turning this industry into a key driver for socio-economic progress. Over the past six decades, tourism has experienced continued expansion and uninterrupted growth, despite occasional shocks. The tourism industry has become one of the largest economic sectors in the world. Many new destinations are increasingly emerging, in addition to the traditional favourites, including Europe and North America. International tourist arrivals have increased from 25 million globally in 1950 to 278 million in 1980, to 674 million in 2000, and reached 1186 million in 2015. Likewise, international receipts earned by destinations worldwide have surged from US$104 billion in 1980, US$495 billion in 2000 to US$1260 billion in 2015.

Tourism is one of the leading industries, in terms of international trading between countries. In addition to receipts earned in destinations, international tourism has also generated US$211 billion in exports through international passenger transport services that were rendered to non-residents in 2015, bringing the total value of tourism exports up to US$1.5 trillion, or US$4 billion a day, on average. International tourism now represents 7% of the world's exports in goods and services, up from 6% in 2014, as tourism has grown faster than other world trade, over the past four years (UNWTO 2017).

In this light, this book provides a broad knowledge and understanding of travel marketing, tourism economics and the airline product. It explains the strategic and operations management of the travel, tourism and hospitality industry sectors. At the same time, the readers are equipped with a strong pedagogical application of the political, socio-economic, environmental and technological impacts of tourism and its related sectors. The course content of this publication prepares undergraduate students and aspiring managers with a thorough exposure of the tourism industry. It highlights the latest trends, including; eTourism, revenue management, travel distribution and contemporary interactive marketing for the future.

This publication is written in an engaging style that entices the curiosity of prospective readers. Covering both key theory and practice, it allows prospective tourism practitioners to critically analyse future situations and to make appropriate decisions in workplace environments. It explains all the theory in a simple and straightforward manner. It often makes use of short case studies that are carefully drawn from selected tourism businesses. Descriptive cases set the theory in context as they have been purposely chosen to represent the diversity of the industry, ranging from small travel agents to large, full-service airlines or multinational hotel chains.

At the start of each chapter, the readers are presented with an abstract that will help them focus and organise their thoughts. At the end of every chapter, the author has presented a succinct summary. This way, the readers of this book could review and retain key information.

Chapter 1 introduces its readers to the subject of tourism marketing. It provides an overview to different aspects of the tourism product, including; accessibility, accommodation, attractions, amenities and ancillary services. Chapter 2 raises awareness on the rationale for market research in travel and tourism. It explains how it enables marketing managers to make better decisions in order to improve their products or services, for the benefit of their customers. Chapter 3 suggests that tourism businesses should consistently monitor their macro- and micro-environments as the industry is continuously changing. When organisations regularly scan their marketing environment, they will be in a position to deal with any possible opportunities and threats from the market. Chapter 4 explains how tourism firms may adopt segmentation strategies, targeting and market positioning. Chapter 5 provides a sound knowledge on the integrated marketing communications' tools, as they play an important role in achieving the company's promotional objectives. Chapter 6 sheds light on how tourism businesses make use of distribution channels to reach customers. Chapter 7 illustrates how strategic planning supports management in their decision-making. It suggests that strategic planners ought to assess their resources, competences and capabilities as they evaluate their strategic options in the market place. This chapter also underlines the importance of critically analysing and evaluating the strategic plan's effectiveness, and to take remedial actions, if necessary.

Chapter 8 indicates how pricing has become an extremely important element in the marketing mix. It outlines the pricing strategies that are usually employed in the travel industry, including prestige pricing, penetration pricing, cost-based pricing, differential pricing and uniform pricing. Chapter 9 suggests that pricing and revenue management systems stimulate demand from different customers to earn the maximum revenue from them. It clarifies how this discipline involves using price optimisation strategies that align the right products to each customer segment. Chapter 10 describes the airlines' products and their constituent parts. It posits that the products' tangible and intangible elements must be customised and developed so that they attract various segments from different markets. Chapter 11 explains how the schedules plan is integrated into the airlines' corporate plan as it involves an evaluation of the financial implications arising from the fleets' requirements and their chosen route networks. It clarifies how the schedules planning process must be drawn up to satisfy a number of conflicting objectives. Chapter 12 reports how the airlines' marketing policies are affected by costs, which could influence the airlines' levels of service and long-term profitability. It provides a detailed overview of the airlines' direct and indirect operating costs.

This comprehensive book is unsurpassed in readability and breadth. It allows its readers to acquaint themselves with key issues in travel marketing, tourism economics and the airline product. It is primarily intended to undergraduate and / or vocational students in tourism (including tourism management, hospitality management, airline management and travel agency operations). It is also relevant to airline employees, hoteliers, inbound / outbound tour operators, travel agents and all those individuals who are willing to work within the tourism industry. Course conveners in higher education institutions could use this textbook as the basis for insightful class discussions.

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Part I
An Introduction to Travel Marketing

Chapter 1
The Tourism Industry: An Overview

Abstract This chapter introduces its readers to the concept of tourism. It sheds light on the rationale for tourism, as it explains the tourists' inherent motivations to travel. It also describes different aspects that together make up the tourism industry. Tourists travel to destinations that are accessible to them. They require accommodation if they are visiting a place for more than 24 h. Leisure and business travellers may also visit attractions, and engage themselves in recreational activities. Hence, the tourist destinations should have the right amenities and facilities. In this light, this chapter clarifies how destinations may offer different products to satisfy a wide array of tourists. Tourism products can include; urban (or city) tourism, seaside tourism, rural tourism, ecotourism, wine tourism, culinary tourism, health tourism, medical tourism, religious tourism, cultural (or heritage) tourism, sports tourism, educational tourism, business tourism (including meetings, incentives, conferences and events), among others. In conclusion, this chapter lists major points of interest in North America to clarify how diverse destinations may be appealing to different tourists, for many reasons.

1.1 Introduction

This chapter describes the main sectors within the travel, tourism and hospitality industries. It provides a good overview of the vertical and horizontal inter-relationships between different sectors. Firstly, this chapter describes the nature of tourism and the individuals' inherent motivations to travel. Secondly, it distinguishes the constituent parts that make up the tourism product, including; accessibility, accommodation, activities, attractions and amenities. Thirdly, it suggests that tourist destinations are increasingly attracting a wide array of travellers who may have different needs and wants.

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1.2 Defining Tourism

Individuals become tourists when they voluntarily leave their normal surroundings, where they reside, to visit another environment. These individuals will usually engage in different activities, regardless of how close or how far this environment (destination) is (Hall, 2008; Holloway & Taylor, 2006; Jafari, 2002). Therefore, tourists are visitors, and what they you do whilst visiting another place may be considered as tourism. Back in 1963, the United Nations Conference on International Travel and Tourism agreed to use the term ‘visitors’ (other than residents) to describe individuals visiting another country. This definition covered two classes of visitor: Tourists were classified as temporary visitors staying at least 24 h in a destination. If they are travelling for recreation, health, sport, holiday, study or religious purposes, their visit could be categorised as leisure. Alternatively, excursionists, including cruise travellers may be considered as temporary visitors, if they stay in a destination for less than 24 h. However, these definitions fail to take into account the domestic tourists. In 1976, the Institute of Tourism (which later became the Tourism Society) suggested that tourism is the temporary short-term movement of people to destinations outside the places where they normally live and work. Therefore, tourism includes the movement of people for all purposes, including day visits or excursions (Cooper, 2008; Holloway & Taylor, 2006).

This broader definition was slightly reformulated at the International Conference on Leisure Recreation Tourism that was organised by the Worldwide Network of Tourism Experts (AIEST) and the Tourism Society in Cardiff, in 1981: “Tourism may be defined in terms of particular activities, selected by choice, and undertaken outside the home environment. Tourism may or may not involve overnight stay away from home”. In 1991, the United Nations World Tourism Organisation declared that “Tourism comprises the activities of persons travelling to and staying in places outside of their usual environment for not more than one consecutive year for leisure, business or other purposes”. At this stage, one could differentiate between domestic and international tourism (Yuksel, 2004). The former refers to travel that is exclusively undertaken within the national boundaries of the traveller’s home country. The latter refers to travel within the borders of one’s home country. Domestic travel will have an impact on the balance of payments and will reduce the outflow of money from the tourists’ home country (Mathieson & Wall, 1982).

1.2.1 The Nature of Tourism

At this stage, it is important to realise that there are two types of travellers: There are those who travel for reasons of business. Others may travel for personal motives, including visits to friends and relatives (VFR travel); study; religious pilgrimages; sport; health, et cetera. For the first group, the decision to travel, and where to go, is largely beyond their control. The business travellers will have little discretion in the choice of their prospective destination, or on the timing of their trip. Generally, the purpose of their trip is not to enjoy the destinations' attractions and facilities. Business travel is usually arranged at short notice and for specific and brief periods of time; the duration of their itinerary may often be as short as a day (Swarbrooke & Horner, 2001). In this case, there could be a substantial journey time involved. For these reasons, business travellers need the convenience of frequent, regular transportation facilities, efficient, reliable services and good accommodation facilities (in terms of accommodation and catering) of a high standard, at their destination (Jafari, 2002). Very often, business travellers will be less concerned about the cost of travel, as their employer could be paying for their travel arrangements (Gustafson, 2012). Higher prices will not deter them from travelling, nor will lower prices encourage them to travel more often. Therefore, there seems to be inelastic demand for business travel (Gillen, Morrison & Stewart, 2003; Brons, Pels, Nijkamp & Rietveld, 2002; Arnott, De Palma & Lindsey, 1993). On the other hand, leisure travel is highly elastic for those travellers who are price-sensitive. The lower prices for holidays to particular destinations will usually lead to an increase in the aggregate numbers of travellers (Hall, 2008). Frugal tourists will usually shop around for affordable holidays (Xiang, 2013). Therefore, they may be prepared to delay their travel, or to book well in advance of their travel dates, if this would translate to a significant reduction in their travel costs (Russo, 2002).

The growing disposable income among many populations from developed and developing countries is having an effect of reducing price elasticity for many holiday makers, as upmarket winter sports holidays, cruises, special interest and long-haul travel continue to attract a greater proportion of travellers (UNWTO, 2017).

1.2.2 The Ability to Travel

Beyond price, there are other reasons why specific tourism products (for example airline service or certain types of holidays or resorts) are chosen, as opposed to others. The demand for tourism is dependent on whether the potential traveller has the ability to travel (i.e. travel facilitators) or the desire to travel (i.e. travel motivators). Leisure time and disposable income are two of the most important travel facilitators in tourism. They are called facilitators because they are factors that may actually facilitate or enable individuals to travel. There are other factors that may also affect the persons' ability to travel. Alternatively, these may limit the ability to travel. These factors include:

- **Age** can affect the ability to travel either through health restrictions, or through financial limitations;
- **Stage in the family life cycle**: Travellers may have the money and the time at their disposal, but family commitment may preclude travelling;

- **Political stability and peace**: Although this issue may not prevent travelling; it may limit the tourists' choice of destinations. There may be restrictions that may be imposed on nationals of some countries for political reasons, including; conflicts, wars or acts of terrorism.

Different people will consider different qualities in destinations. For example, individuals may value sporting facilities, others may prefer social life and night clubbing. Travel for leisure and pleasure could involve a wide range of human emotions and drives that may be difficult to explain. However, the motivations to travel relate to the individuals' will to travel. The motivators are the factors which could explain why people do what they do, they also seem to justify the individuals' behavioural intention. They are intrinsic, and could relate to the human beings' inner feelings, emotions and beliefs, as they arise out of need and wants. Motivators may be conscious and subconscious and are often deeply embedded in one's psyche. Tourism planners, developers and promoters need to identify why people choose to travel, when some necessity compels them to do so. What motivates them to travel to a holiday destination? It is obvious that tourism satisfies some human needs. The question is, which ones? The travel motivators may be divided into four categories, as featured in Table 1.1.

Undoubtedly, a large number of people wish to travel. Therefore, the tourism industry has a vested interest in determining: What motivates individuals to travel? What motivates them to engage in specific tourism activities, and to choose one destination as opposed to another? The prime motivation to engage in pleasure travel is the desire to be elsewhere, even temporarily from the routine constraints and stresses of everyday life.

Sharpley (1994) contended that the motivation to travel may be attributed to extrinsic or intrinsic factors. Extrinsic tourist motivation is often influenced by a

Table 1.1 Travel motivators

Category	Motivations
Physical	Refreshment of body and mind for health purposes; participation in sports; pleasure (or fun); excitement; romance; shopping and entertainment; among others
Cultural	Curiosity about foreign countries, people and places; interest in art, music, folklore and architecture; interest in historic places (remains, monuments and churches); experiencing specific events (for example Olympic Games, et cetera); among others
Personal	Visiting friends and relatives; meeting new people and seeking friendships; seeking new and different experiences in different environments; escaping from one's own permanent social environment (desire for change); personal excitement of travelling; visiting places and people for spiritual reasons (including pilgrimages); among others
Prestige and status	Pursuit of hobbies; continuation of education and learning; seeking of business contacts and professional goals; conferences and meetings; ego enhancement and sensual indulgence; fashion, keeping up with others, et cetera

need to escape from the pressures and conditions of life in a tourist's home society. Therefore, the need for tourism could have been developed from the individuals' anti-thesis to work. Conversely, the individuals' intrinsic motivation to travel may arise from deep-rooted, psychological needs, such as self-esteem, or a need for companionship. Sharpley (1994) held that the tourists' motivation results from a variety of social, economic, demographic and psychological factors that are peculiar to each individual tourist. The author went on to suggest that these factors are not constant and may change through time.

1.3 The Tourism Product

The tourism industry's major function is to serve travellers. Its success depends on the positive inter-relationships of all sectors. It is hoped that this synergy among tourism service providers will translate to a positive experience to the individual tourist. Basically, tourism comprises four main sectors: (i) Transportation (ii) Accommodation (iii) Ancillary Services and (iv) Sales and Distribution.

Tourism would not exist to the extent that it does today if tourists are not able to travel from one destination to another, in a quick and efficient manner. Transportation is what makes this possible. The transportation available to the tourist can be divided into air, water and land. The tourists' need for transportation can be divided into three groups: transportation from the point of origin to the host country (destination) and return; transportation between host destinations, where tourists travel to more than one destination; and transportation within host destinations.

Generally, air travel will be used to reach distant destinations. For the shorter distances, tourists may travel by car, by train and sometimes by boat. Travel between host destinations could be undertaken by air, although this may well depend on how far they are from their country of residence. Different means of transportation are normally used within host destinations. Frequently, tourists would like to experience different forms of transportation, which often add colour to their overall tourism experience. Many countries offer unusual forms of transportation including cable cars, funicular railways, monorail, punting, jet-boating and rafting, among other options. These alternative transport vehicles are an attraction within themselves. For instance, the Emirate of Dubai is currently evaluating the construction of a fast transport link through a hyperloop system that could potentially reduce travel times to tourists and residents alike. The hyperloop's vacuum-sealed pod transportation system is a futuristic passenger and freight transport system. Its promoters allege that this innovative technology could reach near-supersonic speeds.

1.4 Transportation

1.4.1 Air Travel

Air transportation can be separated into national (or domestic) and international flights. Domestic flights depart from one point to another within the same country. International flights depart from a point in one country to a point within a different country. Travellers may travel through public or private companies. Airlines may offer scheduled, chartered, low-cost, commuter or regional services, operating to/from their country. Very often, they may also have smaller airlines which operate air taxi services, non-scheduled services and sight-seeing tours.

1.4.1.1 Scheduled and Chartered Services

The scheduled and chartered tour arrangements may have fixed itineraries as transportation service providers are expected to operate regardless of the numbers involved. Yet, in times of disruption or in any emergency, scheduled services usually accommodate distressed passengers, other than chartered services. The main difference between scheduled and chartered services is price. The majority of tourists who prefer to pre-organise long distance travel arrangements may usually opt for scheduled transportation, for this purpose. This is where the selected means of transportation operates according to a fixed timetable. Therefore, the scheduled flights will operate regardless of numbers.

The charter flights which encounter technical or other problems may not have the same ability to meet the needs and wants of their passengers. The chartered service is usually cheaper as the producer of the tour is able to negotiate better prices for the charter of a whole aircraft and/or for large block bookings at hotels.

1.4.1.2 Legacy Airlines

National airlines (also known as legacy carriers) carry the bulk of the world's scheduled air traffic under the flags of over one hundred nations. For example, American, Delta, United, Air Canada, Aero Mexico, British Airways, Lufthansa and Qantas would be considered legacy carriers. Many of these flag carriers have a long history, as they may have started their operations in the first half of the 20th century. They may also be considered as full-service carriers (particularly during long-haul journeys, where they provide in-flight service). They typically own a broad and varied fleet, with many different types of aircraft. Usually, these airlines may have an extensive route network, as they operate to domestic and international destinations. A trend among legacy carriers is to outsource short-haul and medium-haul flights to regional airlines.

Legacy airlines started differentiating their product as they created and innovated many of the comforts on board their aircraft, including; the inflight entertainment that passengers enjoy while travelling. Many legacy airlines offer a multitude of higher-end travel services and could even offer airport lounge facilities, among other services. They may offer these services as they collaborate with other airlines through partnerships and codeshare agreements, alliances and mergers.

Full-service, legacy carriers may be equated with 5-star hotels which offer complete luxury for their guests' sumptuous experiences. The 5-star hotels offer many facilities, hire many employees and offer posh real estate as opposed to smaller hotels. Moreover, the smaller hotels may not be located in best location. They may have less employees, as most services are do-it-yourself. The low-cost hotels may offer only basic facilities to their guests.

1.4.1.3 Low-Cost Carriers

The concept of low-cost carriers (LCC) is based on the idea of delivering low fares to induce demand. Attaining low-cost requires high efficiency in every part of the business. Therefore, the key components of the LCC business model are the following; high aircraft utilisation; no frills, including; no inflight entertainment, no business-class seating, the use of a single type of aircraft,.the aircaft cabin interiors may be fitted with minimum comforts, no seat-back video screens, no reclining seats and blinds. These airlines may choose to carry advertising inside the cabin to increase revenue. Meals and beverages are usually paid for in full. Moreover, LCCs may typically cut overheads by flying to/from more remote airports (with lower access charges). Some airlines also extend the definition of "frills" to include standard services and conveniences; for example, a no-frills airline may charge passengers additional fees for check-in luggage, for using airport check-in desks, or for priority boarding, among other services. LCCs keep their costs down as they do not print their own tickets. Passengers are also encouraged to check-in online. Moreover, LCCs may be strict when it comes to no-show guests, as they do not allow cancellations. and may not offer refunds for missed flights.

LCCs' processes are kept as simple and straightforward as possible. They usually operate a single type of aircraft. This way, pilots, flight attendants, engineers, mechanics and operations personnel are specialised in a single type of aircraft. This means that there is no need for costly re-training of staff to operate different types of aircraft with their own specifications, and for maintaining an extensive inventory of spares.

1.4.1.4 Legacy Versus Low-Cost Carriers

For the time being, passengers could not combine their low-cost travel arrangements with other legacy airlines' reservations. LCCs operate a simple point-to-point network, unlike the legacy carriers who will usually provide onward connectivity options through other airlines. If they have more than one travel itinerary that includes a low-cost carrier, they could not have their luggage labelled and passed from one flight to another (as it is the case for legacy airlines). Unlike the full-service carriers, LCCs do not use the same Global Distribution Systems (GDSs), which are very costly. LCCs have kept their distribution channels as simple as possible. They usually sell their tickets through the internet (Buhalis & Law, 2008), via their website or via price comparison sites, like Kayak, Google Flights and Momondo, among others. Their fares are usually paid by credit cards and debit cards. LCCs may not utilise many sales offices and they do not rely on the travel agents' services. This allows them to save costs, which are usually reflected in their prices. However, LCCs would usually contract specialised call centres for telephone sales and customer service issues.

1.4.2 Water-Borne Transportation

There are many forms of water-transportation, including ocean cruises, ferries and hovercrafts, passenger cargo ships, river cruises, house boats and yacht charters. Cruising in particular has staged a revival after many years of decline. Whereas cruises are designed for pleasure, ferries provide a necessary means of water transport for both passengers and cars, over short distances. Recently, short-sea (ferry) vessels have also achieved new levels of comfort and speed on many routes. Technological developments have helped to reduce high operating costs, while new forms of water transport have been developed, such as hovercrafts, jet foils and the twin hulled catamaran ferries.

1.4.2.1 The Ocean Liners

Line voyage services are those offering passenger transport on a port-to-port basis, rather than as part of a cruise. Ships supplying these routes are known as liners. Some former ocean liners operate as cruise ships, such as Marco Polo. However, their use is diminishing. The only dedicated transatlantic ocean liner in operation is Queen Mary 2 of the Cunard fleet. She also has the amenities of contemporary cruise ships and offers significant services like cruises.

1.4.2.2 Cruising

A cruise ship or cruise liner is a passenger ship that is used for pleasure voyages, where the voyage itself and the ship's amenities are a part of the experience, as well as the different destinations along the way, i.e., ports of call. Transportation is not the only purpose of cruising. In fact, many cruises return passengers to their originating port (this is known as a closed-loop cruise), with the ports of call that are usually in a specified region of a continent. The cruise ships are divided in the following categories:

- **Traditional Cruises** which provide a holiday at sea, sailing from and returning to the same port. This itinerary could last from 7 to 15 days with five or more ports of call.
- **Fly cruises** involve the transportation of passengers by air from a home base to join a cruise ship at a certain port. Afterwards when the cruise trip is completed the passengers will return by air to their origin.
- **Cruise and St**ay is a combination of a fly-cruise and ground arrangement, where the passengers stay some time in one of the ports of call.
- **Mini-cruises** are short cruises of 2–5 days duration and are often operated by car ferry operators during low season.
- **Educational cruises** include special lessons on board and often relate to a special interest of the passengers.

1.4.2.3 Ferry Services and New Modes of Crossing Channels

The term ferry is one which embraces a variety of forms of short distance, water-borne transport. This includes urban transport, in cities, where outlying suburbs and surrounding towns are reached by water. Ferries of this type also attract tourists, either as a convenient form of local transportation or as an original way to view the city.

In spite of the introduction of new fast ferries, alternative and still faster forms of water transport are becoming popular on many short and medium range routes. With a certain degree of novelty, hovercrafts, hydrofoils and catamarans have improved water transportation services with benefits of speed and convenience. Hovercrafts rides on a cushion of air above the surface of the water. A hydrofoil is a lifting surface, or foil, that operates in water. They are similar in appearance and purpose to aerofoils that are used by aeroplanes. A catamaran is a multi-hulled watercraft featuring two parallel hulls of equal size. Catamarans range in size from small (sailings or rowing vessels) to large (naval ships and car ferries). The structure connecting a catamaran’s two hulls range from a simple frame strung with webbing to support the crew to a bridging superstructure incorporating extensive cabin and/or cargo space.

1.4.2.4 Other Water-Borne Transport

The attraction of water offers many other opportunities for tourist activity, both independently and in forms which have been commoditised and packaged for the tourist. Inland waterways, particularly; lakes, rivers and canals provide exceptional opportunities for recreation and tourism. Where there is a large river, there is normally some form of river cruising. Houseboats are usually found in canals or on rivers. These forms of accommodation offer flexibility for independent travellers who can navigate their own houseboat. They combine accommodation and travel on the waterways. Boat rentals and yacht charters are highly competitive businesses, particularly during the high season (i.e. in summer, as the weather permits).

1.4.3 Land Transportation

Travel on land gives a choice of travel by rail or road, with the latter offering travel by car, coach (or bus) and campervan.

Travel by rail is readily available in most parts of the world, and combined air-rail travel has become quite frequent. Generally speaking, trains offer two classes of service; first and second class. Long distance trains normally carry sleeping or couchette cars.

Cars are a popular means of transportation and these may be privately owned or rented. The increase in private car ownership has changed travel habits of tourists. For instance, the fly-drive packages have adapted to the needs of the motoring tourists. Very often, car rental companies collaborate with airlines as they offer services, such as: rental locations at most airports; rent-it here, leave-it-there systems (often referred to as one-way rentals); free world-wide reservation services with no cancellation fees; chauffeur driven services in many countries; and special "unlimited mileage" plans. In addition, taxi services are provided in all major cities in all continents.

The hotel and catering industry responded to these developments by building motels and hotels, roadside cafes and restaurants along transport routes as they benefited from accessibility.

1.5 Accommodation

The accommodation sector comprises different forms of hospitality facilities which can be conveniently categorised as service (where catering is included) or self-catering establishments. Service accommodation may consist of hotels, bed and breakfasts (B&B's), travel inns, and the like. Whereas self-catering accommodation may include; campsites, caravans and holiday rentals of villas, apartments and chalets, among others. Half-board accommodation will usually include breakfast and dinner, whilst the full-board service will involve the provision of lunch, as well. Hotels are the most significant and widely recognised service providers of overnight accommodation for tourists and business travellers. They may also form one of the key elements of package holidays.

Historically, accommodation was established along major transport routes, particularly where there are cross-roads. Subsequently, hotels were developed close to railways and airports. The accommodation which is situated close to major transport routes is designed to serve the transit market (i.e. people who are on their way to somewhere else). On the other hand, those tourists on vacation will generally want to stay as close as possible to the major centres of tourist activity (for example; near the seaside or in close proximity to the mountains, country towns, health spas or major cities). If the major attraction is the sea, tourists will want to stay as close to the sea as possible. For example, hotel guests may be willing to pay a premium price for a room that is located in the sea front. The business travellers may require accommodation which is close to their business activity. Whilst location is generally considered the most critical factor with regard to the profitability of an accommodation unit, other factors, such as price and facilities are also deemed important in the hospitality sector:

Price could be a limiting factor for many leisure travellers. At times, it may also place restrictions on the choice of accommodation. Many tourists travel on a budget. Therefore, they may only consider accommodation that is affordable to them (i.e. if it is within their price range). The size of the hotel establishment can also be considered as a crucial aspect of the hospitality product. Some individuals consider large hotels to be impersonal and "cold". Therefore, they may opt for smaller units. Others may perceive that the larger hotels are more likely to provide a guaranteed minimum level of service. The hotel amenities can also prove to be a very important criterion for tourists, particularly to the business travellers who may require certain specialised services.

1.5.1 Hotel Brands and the Corporate Chains

With the development of mass tourism, so have the large hotel chains and corporations within the accommodation sector. This expansion has also been aided by franchising, whereby hotels and motels are increasingly being operated by individual franchisees who are paying royalties to their parent companies, for the privilege of operating under their brand name. This form of expansion has been used with great success around the world as chains market their products more aggressively, advertise extensively and work closely with large tour operating organisations. In addition to their own websites, they provide an effective distribution network that is linked to global distribution systems, they tend to a have a higher presence in the industry than their market share would suggest.

Leading chains around the work have often diversified their brands by price and image to appeal to a wider variety of markets. International hotel chains retain a strong hold on the global accommodation market. Their policy is to create an international and uniform marketing image to distribute their product around the world.

A recent trend among hotel chains has been the development of budget-price properties. For example, in mainland Europe, Accor Hotels has exploited the deficiency in this sector by introducing the super budget chains, 'Formule 1' and

'Ibis Budget'. While others have popularised low budget brands such as bed and breakfast (B&B) hotels (for example, Britain's Premier Inn). These very low-priced hotels have managed to reduce costs by developing a unitary design as they automated many of their services. Super budget hotels, including Easyhotels offer very basic rooms, which may be quite small. The rooms may offer TVs (at a premium) and small showers and toilet cabinets. However, they may lack wardrobes or even bed side lights. They may not have communal areas or bars, and housekeeping services are usually charged. Sales are exclusively online and they may not advertise their properties. Moreover, no discounts are given to distributors, such as travel agents or tour operators.

1.5.2 Consortia

In an effort to counteract the distribution strengths of large chains, many independent hotels around the world have frequently banded together to form consortia. While this strategy may allow the group to benefit from economies of scale, such as mass purchasing, it reinforces their marketing strength. It enables them to improve their distribution through a united website. Therefore, consortia may benefit from websites of other leading suppliers, including travel search engines. While many of the larger consortia such as Best Western Hotels and Resorts and Inter Continental Hotel Group operate on a global scale; others may operate on a national scale. Some privately-owned hotels have even united within a themed consortium, in order to market themselves more effectively at home and abroad. For instance, Choice Hotels International has established a strong national brand in overseas marketing. This is a highly appropriate strategy when developing a niche approach. For example, Small Luxury Hotels of the World focus on building an image of high standards, yet they strive to deliver a personal service. While Grand Heritage Hotels, an American owned consortium which is now drawing membership from high graded UK hotels emphasise luxury and status. Other specialist consortia operating in the UK include: Pride of Britain Hotels, Scotland's Personal Hotels and Great Inns of Britain, among others.

1.5.3 The Bed and Breakfast (B & Bs)

Tourists may want to meet and engage with the local people. They may enjoy an intimate relationship with the culture of the country they are visiting. For this reason, they may choose to seek accommodation in guesthouses or bed and breakfasts (B&Bs). These forms of accommodation establishments are generally family-run, and they may cater to leisure as well as business tourists. B&Bs in particular provide a very valuable service to the industry, in that they can offer the informality and friendliness that is sought by many tourists. Many of these small establishments (which may not have more than three bedrooms) would usually provide accommodation to holiday makers who are touring by car.

1.5.4 Farmhouse Accommodation and Agri-Tourism

Farmhouse holidays have also enjoyed considerable success in recent years. European countries with strong agricultural traditions have catered for tourists in farmhouse accommodation for many years. Farmers have often turned to tourism as a means of boosting revenue, particularly during the off-peak season. The simultaneous trend to healthier lifestyles and an increased appeal on natural foods and the outdoor life have also helped to make farm tourism popular among tourists. As a result, many tourist boards have provided assistance and training to those farmers who were interested in expanding their accommodation for tourism purposes. For example, both Ireland and Denmark have been packaging modestly priced farm holidays for the international market, in association with international tour operators and major ferry companies. In the case of Denmark, this has been a logical development to attract price sensitive tourists to what is generally perceived as an expensive destination.

1.5.5 Camping and Caravanning

Camping is one of the most popular outdoor recreational activities for many tourists. In 2015, the revenue from campgrounds and parks was estimated to reach around 5.8 billion U.S. dollars. Recreational vehicles including caravans are also a popular and convenient way of camping. These vehicles provide campers with home comforts such as kitchen facilities and living areas.

1.5.6 Second Homes and Time-Share Accommodation

Second homes may be used for seasonal, recreational, or occasional use. Alternatively, second homes may be described as properties that are owned or rented on a long lease. No doubt. the growth of second-home ownership has had an effect on the tourism industry.

Time-share is a specialised form of "vacation ownership" as it is associated with the ownership of a property. Multiple users will usually hold rights to use the property. Each sharer is allotted a specific period of time to use the property (typically, the duration of time-share accommodation is of one week, at the same time of every year). Therefore, the accommodation units may be partially owned on a lease, or may have a "right-to-use". The sharer holds no claim to ownership of the property. Timeshare offerings may be structured through deeded interests, right-to-use, club membership, share-based plans, et cetera.

1.5.7 Educational Accommodation

Educational accommodation, including; universities and other institutions of higher education may often rent their students' rooms during the summer months. The students' accommodation is usually situated near major tourist destinations, such as London, Cambridge, Oxford and Edinburgh, among other university cities. Several universities have experienced considerable success in this venture and have further expanded their involvement with the leisure market; by providing essential facilities that reflect the standards of budget holidaymakers.

1.5.8 The AirBnB Model of Shared Accommodation

The Sharing economy describes economic and social activities, involving; online transactions in an open-source community. It usually refers to peer-to-peer sharing via an online market place. The sharing economy may take a variety of forms, including using information technology to provide individuals with information, that enables them to optimise resources through an effective use of excess capacity. Airbnb is a good example of an online marketplace which enables individuals to lease or rent their accommodation. Airbnb allows online visitors to book accommodation for entire homes, private or shared rooms. Online users can filter their search results according to their affordable budgets. Moreover, Airbnb's user-friendly website allows its users to choose particular amenities, facilities and other options, which will suit their requirements. This form of "shared" accommodation is usually cheaper than hotels, particularly in urban areas. AirBnb does not own any accommodation; it is merely a broker and receives commissions from both guests and hosts, in conjunction with every booking.

1.6 Ancillary Services

Most tourists on holiday will want to be amused, entertained and active during their visit. In this case, they will require information on their destination's ancillary services, including activities and attractions. Shopping, catering and wifi facilities are also important aspects of the tourism product. The access to business centres, interpreters, financial services and communication facilities may also be necessary requirements in tourist destinations.

1.6.1 Tourist Publications and Online Content

Tourists will require information about their prospective destination both before they leave home and once they arrive. This information should give details on the local people and their way of life, language, currency, climate, amenities, transportation, accommodation and attractions. The tourists are unable to see, touch or feel the tourism product in advance. Hence, the supply of such material is critical to the success of any tourist destination. The content marketing of the destinations could be a deciding factor as to whether tourists will visit them or not. The provision of clear and informative material that is readily available online are considered as essential services to prospective visitors.

Today's travel marketers can increasingly impact their consumers through ubiquitous mobile devices, including smart phones and tablets. The usage of the mobiles has changed the consumers' attitudes, expectations, and even the way they buy hospitality products and travel related services. Local and "near me searches" have changed the travel path to purchase with in-destination or "in the moment" sales opportunities. Consumers expect the "mobile first" user experience with easy access to contact information, maps, directions and reviews. They expect accuracy in listing information, and immediate responses from brands.

1.6.2 Public Service and Amenities

A destination's infrastructure is not usually developed with the tourist in mind, but should include facilities and services that are required by tourists. Infrastructural elements include; roads, electricity and water supplies, communication facilities, sewage and waste disposal, policing and security, medical services and hygiene. In developed countries, these facilities are provided for residents. However, if a region has tourist potential, its infrastructure must take into account the likely needs for future expansion, due to a possible influx of tourists.

1.6.3 Financial Services

Tourists require access to financial services in order to fund their travel arrangements. Foreign exchange is probably the most important service required; tourists may also need insurance and credit facilities.

Insurance is an important service and could be an obligatory aspect of a tourist's travel arrangements. Travellers may need coverage for one or more of the following contingencies: medical care and hospitalisation (and where necessary, repatriation); personal accident; cancellation or curtailment of holiday; delayed departure; baggage loss or delay; money loss and personal liability, among other products. Some policies may also include coverage for the collapse of the travel agent or tour operator (who sold the tourism products).

Travellers today have an ever widening choice of how they could pay for travel services and goods while abroad. These include carrying foreign cash, in the form of banknotes (yet, this may lead to loss or theft); by using travel vouchers, credit cards or debit cards. Travellers' cheques could be utilised in many parts of the world, as these products are sold by banks and commercial institutions. Travel vouchers may be used for the payment of travel services, including car hire and hotel accommodation.

1.6.4 Food and Beverage

For many travellers, the consumption of food and drink forms an important part of the travel experience. It is not unusual for the tourists' consumption patterns to change quite considerable whilst they are away from home. Many tourists gain great enjoyment from dining out, particularly, if they are not in the habit of doing this at home, whilst others may decide to consume convenience foods.

1.6.5 Entertainment

This category includes facilities such as cinema or movies, night clubs, theatres, plays and shows. As a general rule, they are often attended for the sole purpose of filling in the night time hours rather than being part of a planned itinerary.

1.6.6 Retail Facilities

Shopping can be seen as an attraction for some tourists, or it may be considered as a basic facility that tourists expect. The retail trade provides an important service to the tourist, in terms of supply. Tourists may need to purchase basic necessities such as toiletries, or may want to purchase souvenirs and gifts which reflect the destination they visited. Moreover, the purchase of duty-free goods at airports; or on on-board ships and aircraft; or at specially designated duty-free ports have been in demand by tourists, for a long time.

1.6.7 Education and Training

With the growing institutionalisation of tourism industry sectors, there is a greater emphasis on professionalism. In many countries, many professional bodies have introduced their own programmes of training and vocational education, which are often carried out through full time or part time courses at local colleges of further or higher education. Examples of these, include courses offered by the Institute of Hospitality, formerly known as the Hotel Catering International Management Association (HCIMA), the Chartered Institute of Transport (CIT) and the Institute of Travel and Tourism (ITT). In-service training for travel agents was first formalised with the introduction of the Certificate of Travel Agency Competence (COTAC), nationally validated by the City and Guilds of London Institute (CGLI) and supported by ABTA's National Training Board (now known as TTC training). Certificates in Travel (for travel agents) and Tour (for Tour Operators) replaced the former ABTA-approved ABTAC and ABTOC qualifications, but all too briefly (Holloway & Taylor, 2006).

Many universities in the world are increasingly introducing undergraduate degrees in travel and tourism. These higher education or vocational institutions are joining the already well established higher national diplomas, post graduate diplomas and master's degrees in the subjects of tourism and hospitality management. The popularity of degree level tourism programmes has led to a huge expansion of courses on offer. Recent trends have led to the establishment of more specialised degrees, including masters' degrees. Leading universities in hospitality and tourism management, include: Hong Kong Polytechnic University, Griffith University, the University of Queensland, Pennsylvania State University Loughborough University, University of Surrey, Purdue University (West Lafayette), Virginia Polytechnic Institute and State University, Bournemouth University and the University of Birmingham, among others (ARWU, 2017).

1.6.8 Tourist Guides and Courier Services

There is no specific term which will conveniently identify those individuals whose function is to guide, inform and engage with groups of tourists. Whilst some tourist guides and couriers may be employed by carriers and tour operators, others may work independently or could provide freelance services to companies in the industry.

1.7 Sales and Distribution

In addition to the above mainstream sectors, there is a side of the tourism industry that is related to the provision of support services. In tourism, the consumer is nearly always moved to the product as opposed to a product being moved to the consumer (which is the case with most other services). The tourism product and the consumer are usually separated by geography, as they may be situated in the opposite sides of the world. The system by which a tourist product is sold to the tourist is known as the sales distribution system. In common with most other industries, the tourism sales distribution is carried out through service providers (including; airlines, hotels, transportation companies, et cetera), wholesalers (tour operators) and retailers (or travel agents), both being known as intermediaries, or middlemen. In this day and age, consumers are increasingly purchasing tourism products through digital media (Schegg & Stangl, 2017). Therefore, many service providers and tour operators are selling directly from their corporate web sites, or through travel search engines (where online visitors may compare prices).

In tourism, the producer (or manufacturer) equates with the supplier of service (i.e. the supplier of the transportation, accommodation or ancillary service). The wholesaler is known as the tour operator or tour wholesaler. The retailer is known as the travel agent. The suppliers are those organisations which provide the actual components of the tour (for example an airline will provide air transport; a hotel will provide accommodation and a motor coach company will provide surface transportation and some sightseeing arrangements). Other suppliers include organisations that offer activities (for example; trekking, jetboating, rafting and surfing, et cetera) and those that offer attractions such as theme parks, live-theatres, museums and the like.

The wholesalers are the tour operators who may also provide complete tours for sale, i.e. including transport, accommodation and land arrangements (these may be components of inclusive tours). Traditionally, tour operators have been classified as either inbound operators or outbound operators. Inbound operators arrange and package holidays for tourists entering the country in which the tour operator is based, whilst the outbound operators arrange and package tours outside of the country from where they are based (i.e. overseas). The retailer is the travel agent who sells the tours to the consumer.

1.7.1 Travel Agency Operations

Generally, the travel agents' job is to work out an itinerary that suit their customers' requirements in order to secure reservations from them. This can be achieved by either working through a tour operator or by approaching individual suppliers, directly. The travel agents are usually paid commission by the supplier/tour operator for sales made on their behalf. However, many airlines have either reduced their commissions (to travel agents) or eliminated them, completely.

The travel agents secure specific elements of the tourism product to meet their client needs. Therefore, the travel agents provide a location (either through brick and mortar premises, or online) where potential tourists can seek information on the tourism products;

- Travel advice on the various options available;
- A booking service to secure reservations, on the various aspects of the product, such as transport, accommodation, sight-seeing, et cetera;

- Support in travel formalities. This may include the procurement of travel documents, including passports and visas;
- The issuance of tickets, vouchers and itineraries for all travel arrangements.

A passport (or identification document) is required to travel internationally, and in some cases a visa may also be needed. The inability to get these documents may hamper the individuals' ability to travel, at least internationally. Moreover, some destinations may have currencies that could not be exchanged in other countries. Alternatively, individuals may have certain restrictions on the transfer of their funds. These issues may restrict international travel, although they could boost domestic tourism.

1.7.1.1 Types of Tours

The tour is one of the most often used words in the travel industry. It is also one of the most confusing because of its different meanings. To one client it may mean an itinerary that is advertised in an attraction brochure. To another, 'tour' may simply mean visiting a city or a tourist attraction during a trip. In many cases, tours are put together by retail agents who will then obtain actual components of the tourism product; directly from suppliers or through local tour operators. These tours can be customised to suit the individual clients' requirements, or they may be prepared in advance and marketed by the retail agent. In these cases, the retail agents act as tour operators and can either sell tours through their agency, or sell them through other retail agents. Likewise, tour operators may sell directly to consumers as they may have their own front offices, or a user-friendly web site.

An itinerary may be independent or packaged. A package tour, for which the official term is 'inclusive tour' is an arrangement where transport and accommodation services are purchased by the tourist, at an all-inclusive price. The inclusive tours have the following characteristics: the travel arrangements are planned in advance; they may include transport, accommodation and surface arrangements; they are sold at an all-inclusive price, covering all features included in the tour; and must be paid in full prior to departure.

Inclusive tours can be divided into independent inclusive tours (IITs) or escorted inclusive tours (or group inclusive tours—GITs). The independent tours are designed for individual travel and can be completely or partially tailor-made, to suit the clients' needs. The itinerary may be flexible or may be fully planned in advance. The escorted tours have all the components of the independent, inclusive tour. However, they also offer the services of a qualified tour escort in addition to the normal arrangements. These tours are usually arranged for groups of people who will travel together throughout the tour.

Tours which only provide a combination of accommodation and other activities within the same city or area are known as package tours or packages. The actual arrangements are usually quite flexible and may provide several choices of hotels, restaurants and other activities. Inclusive tour charters (IT charters) are charter flights combined with land arrangements. This arrangement is usually made available to the consumer at fixed, all-inclusive prices, through retail agents. Cruises and rail tours can also be classified as tours because they provide the various components that are normally associated with tours, i.e. transportation, accommodation and some surface arrangements. All-inclusive tours can be formed by combining several packages and/or tours to form a complete itinerary. For example, tourists can fly to a destination and join a cruise. Afterwards, they may decide to purchase a tour to visit local attractions near the port, before returning to their cruise.

1.8 Tourism Organisations and Their Stakeholders

Whilst the transportation, accommodation and the provision of ancillary services relate to supply of the tourism product; the sales sector is involved with demand. Therefore, retailers and tour operators have to deal with what their customers want. The first three sectors are concerned with supplying the traveller a specific service. These sectors may operate independently or they may collaborate together. For example, a hotel will probably rely on guests arriving by some mode of transportation. Likewise, suppliers of activities and attractions may also require a transport operator to get visitors to their location. Hence, in many cases there is scope for the tourism businesses to forge a close relationship with other service providers.

Moreover, the tourism industry would not operate efficiently unless there is some form of regulation and structure. The tourism industry participants may represent the government (for example national authorities, including tourist offices and agencies) or the private sector as they may be direct providers of tourist facilities or services, support organisations or development organisations. Their interests may be international, national, destinational or sectorial. At an international level, the geographical scope of an organisation may be either worldwide (for example, the World Tourism Organization—UNWTO) or restricted to a specific region of the world (for example, the Association of European Airlines). Whilst at a national level, the organisation's interest may be local or regional. Examples of these organisations may represent; surface transport sectors, hotels and other accommodation units, tour operators or wholesalers, travel agents, or training bodies).

1.8.1 National Tourism Offices

National governments usually establish tourist offices or tourism authorities to serve national goals in the realms of tourism planning and development. The tourism offices strengthen the public and private partnerships in international tourism marketing. Moreover, they may have an important regulatory role. Specifically, their responsibilities include:

- The promotion and advancement of the tourism destination;
- To advise government on tourism operations and to issue licenses;
- To contribute toward the improvement of the level of human resources in the tourism industry;
- To advise government on the planning and development of the tourism industry, as well as on the infrastructure supporting the industry;
- To assist and advise on any tourism-related issues and to undertake activities, events and projects to improve the tourism product (MTTA, 1999).

1.9 Tourist Destinations

We have already seen how the four sectors of the tourism industry work, and we also looked at the tourism product. We have identified how tourism sectors rely on each other to provide those ingredients the travellers are looking for.

1.9.1 Key Elements of Tourist Destinations

Regardless of how or why individuals travel, there are some fundamental requirements that travellers' expect from destinations. Tourism researchers and developers say that there are several key elements that are essential to the success of a tourist destination. These are traditionally referred to as the 5A's—including; access, accommodation, attractions, activities and amenities.

Access: For a destination to be viable to tourists, there must be some way to get to the country, the region, and the various attractions. This does not mean that there has to be first class or mass transportation available to everything, but it does mean that access must be made possible. Access relates to transport but it can simply refer to a walking trail or a cycling track.

Accommodation: If tourists are to be more than just one-day visitors, they must have somewhere to stay. It is important for tourist destinations to offer a wide array of accommodation facilities, in terms of different price ranges. Sometimes, the accommodation is virtually part of the attraction of the destination, especially if it overlooks a spectacular scenery or landmark.

Attractions: Tourists rarely travel to a destination simply for the sake to stay in particular accommodation establishments. They usually travel to see what the destination has to offer them in terms of what they can see, do and experience. The features that attract a person to a particular destination are known as attractions. Attractions can be natural wonders, man-made attractions, special events, cultural or historic sites, arts and crafts, sport, music or dance, unusual or unique flora and fauna, night life (et cetera). Attractions are many and diverse. Therefore, the wider the variety of a destination's attractions would possibly appeal to a large number of tourists.

Activities: Tourists may enjoy doing certain activities whilst at their destinations. These activities include; shopping, eating out, using sports facilities and engaging in outdoor recreational journeys (among other activities).

Amenities: The destinations' amenities include the provision of electricity and water, sanitary facilities, safe drinking water, roads, police and emergency services, postal and communication facilities, media, et cetera. Crucially, these structures ensure that the tourists stay safe and sound during their stay in a destination. Tourists need to have access to basic facilities to feel comfortable and secure.

1.9.2 Different Types of Destinations

Destinations possess tangible characteristics and consist of a number of physical attributes, including; attractions, amenities, buildings, landscapes and so on. However, the tourists' perceptions are less tangible, such as; the hospitality of the locals (for example, Gemutlichkeit), the atmosphere generated by being in particular event, the sense of awe, alienation, or other emotions that could be generated by specific destinations (Murphy, Pritchard & Smith, 2000; Moutinho, 1987). Destinations have different appeals to different markets. Some individuals love crowds, others love isolation and find crowded places unbearable. The appeal of the destinations is varied as they offer immense opportunities for tourism to be developed in almost any country, and in any region; provided that they are targeted at the appropriate market (Hall, 2008).

Most of the destinations are managed to some extent, whether they are natural or constructed. The national parks are usually left in their natural state of beauty as far as possible. Nevertheless, they have to be managed through the provision of access, parking, facilities, accommodation (such as caravans and campsites), litter bins and so on. Broadly, we can categorise destinations by delineating them according to their offerings, as suggested in Table 1.2: Moreover, holiday destinations depend on their image and tourist perceptions (Beerli & Martin, 2004; Echtner & Ritchie, 1993). Very often, the destinations' image is often frozen in time and could no longer represent a true picture of the place. For as long as the tourists' perceptions remain positive, promotional bodies will seek to support these images in their advertising and promotion. Most well-known tourist destinations, like cities and beach resorts, may usually rely on the stereotypes which have been built over the years.

The following section provides a good example of different destinations that are available in North America, including; outstanding national parks with spectacular sceneries, the vast expanses of countryside, the historic sites, and a wide range of cultural and recreational facilities (including transportation, accommodation and restaurants). All types of accommodation exist in many parts of the United States of

Table 1.2 A non-exhaustive list of tourism destination categories

Adventure tourism may include active holidays, such as winter sports which are commonly associated with rural sites. Mountain resorts have often been developed to attract winter sports enthusiasts
Culinary tourism or food tourism involves the exploration of food. This aspect of a destination may be considered as a vital component of the tourism experience. Very often, tourists will dine in local restaurants when they are on holiday. Various types of restaurant fall into several industry classifications based upon menu style, preparation methods and pricing. Additionally, how the food is served to the customer helps to determine this classification
Cultural tourism (or culture tourism) is concerned with the traveller's engagement with a country or region's culture. Tourists travel to learn about the lifestyle of other people. They may be interested in their history, art, architecture, religion(s), and other elements that helped them shape their way of life
Ecotourism is a form of tourism that is related to the responsible tourism to natural areas. Its focus is on the conservation of the environment, including flora and fauna. At the same time, it is intended to improve the well-being of the local people as it characterised by its low-impact, small-scale tourism (rather than mass tourism, which is more commercial)
Educational tourism: This may involve those tourists who travel to a destination for educational purposes. Very often, many students pursue specialised courses to learn foreign language(s) in tourist destinations
Health tourism may be offered by resorts and spas. They may be based in rural, seaside or urban areas
Medical tourism involves those people who are travelling to obtain medical treatment in a different country. In the past, this term may have referred to those who travelled from less-developed countries to major medical centres that may be situated in highly developed countries (for treatments which may be unavailable in the tourists' home country)
MICE: Meetings, incentives, conferences and exhibitions (or meetings, incentives, conferences, and Events) is a type of business tourism involving large groups of travellers who are brought together for a particular purpose. Their itineraries are usually planned well in advance
Religious tourism is a type of tourism, where tourists may travel individually or in groups for pilgrimage, missionary, or leisure (fellowship) purposes
Rural tourism includes lakes and mountain tourism, but may also comprise countryside touring, agri-tourism products, such as farm holidays, fruit picking, gardens, visits and stays in rural retreats, river and canal holidays, wild life parks and national parks, et cetera
Seaside tourism includes seaside resorts, natural beaches, rental of boats and jet ski, fishing itineraries, coastal footpaths, scuba diving, et cetera
Sports tourism refers to travel which involves either observing or participating in sporting events
Urban tourism includes visits to cities, towns, capitals and the like
Wine tourism refers to tourism that is related to wine tasting, consumption or purchase of wine. Wine tourism can consist of visits to wineries, vineyards and restaurants that are usually known for their unique vintages, as well as for their organised wine tours, wine festivals or other special events

America (USA) and Canada, ranging from modern deluxe hotels or resort complexes to simple boarding houses and well-equipped camping sites. Motorised vehicles offering built-in sleeping accommodation, cooking and hygienic facilities are very popular means of transportation and are comparatively cheap to hire.

1.9.2.1 Major Points of Interest in North America, Comprise the Following Attractions

Niagara Falls with their spectacular rapids of the Niagara river are situated between Lakes Erie and Ontario. This attraction can be visited either from Canada or from USA.

The Grand Canyon and the Painted Desert: This attraction is an enormous gorge with a depth of 1.6 km and a maximum width of about 30 km. It is part of the Colorado River. Within the State of Arizona, there is a 'Painted Desert' as it has colourful petrified flora, including fragments of fossilised trees.

The City of New York has many monuments and structures, including the statue of Liberty, Manhattan skyline, Empire State Building, famous museums, Greenwich Village, Central Park, exciting theatres, movie houses, Broadway, opera, innumerable restaurants and one can find all grades of accommodation.

The Rocky Mountains: Stretching from Alaska through to Mexico, the Rocky Mountains provide Canada and USA with their most spectacular mountain scenery and views. There are many pioneer towns and abandoned mining center (ghost towns). Moreover, there are many national parks including Banff, Glacier and Jasper in Canada and Arches, Bryce, Zion, Mesa Verde and Yellowstone, among others in the USA. These places offer dedicated areas for camping, hiking, mountain climbing, fishing and skiing.

Hawaii is an all year-round resort island in the Pacific ocean. This destination enjoys good weather, superb beaches, water sports, surfing, yachting, fishing and gold. There are numerous hotels of all standards as well as many fine restaurants. One may also find good shopping facilities. There are live volcanoes on the big island of Hawaii and Haleakala Crater on Maui island amid lush tropical vegetation.

Disney Complexes: Fantasy worlds that were built for pleasure and relaxation purposes. They offer breathtaking exhibits and presentations that are all provided within great complexes, comprising hotels and restaurants. These theme parks are located in Disney World Orlando, Florida and Disneyland Los Angeles, California.

San Francisco: The city's attractions include the spectacular Golden Gate Bridge, Chinatown and the famous network of colorful cable cars. The centre's architecture is picturesque and offers good sea food restaurants.

Calgary organises a great stampede (including cowboy competitions, rodeos and wagon racing among activities). Nearby, there is a Dinosaur Provincial Park, at Drumeller. The city is also close to Banff National Park.

Bermuda: With its sub-tropical climate, superb golf facilities, good beaches and fine water sports coverage, this destination offers different grades of accommodation ranging from deluxe hotels through to boarding houses. However, tourists cannot rent cars on the island. Nevertheless, the island offers excellent bus and ferry services. Taxis are plentiful and reasonably priced.

Washington D.C. is the capital of the USA. With its Capitol building being the seat of Government, the Lincoln Memorial and the world-famous Smithsonian Institute are some of the attractions of the city.

There are many other attractions in North America. However, they are too many to mention in the context of this book.

1.10 Questions

- *Describe the difference between travel facilitators and travel motivators as they relate to tourism demand?*
- *Price, location and facilities influence the selection of accommodation. Briefly describe how each may affect the tourists' decision of where to stay?*
- *What are the functions of tour operators and travel agents?*
- *Name different types of tourist destinations?*

1.11 Summary

The tourism product is composite in nature. It includes everything tourists purchase, see, experience and feel from the time they leave home until the time they return. Thus, it is the sum of all services, including; the provision of transportation, accommodation, attractions and activities, financial services, tourist publication and tour guides, among other things.

While it is important to identify different aspects of the tourism product, the emphasis must be on the fact that the whole is greater than the sum of its parts. In effect, this means that tourism products and sub-products are dependent on each other. The provision of one sub-product (transportation) may not be worthwhile if other sub-products are unavailable (for example accommodation). Basic facilities are of no use if attractions are not available and vice versa. Moreover, a bad experience with one sub-product (accommodation) may affect a tourist's impression of another sub-product (a sight-seeing tour).

In conclusion, destinations should consistently provide high standards in the provision of their tourist services. It is extremely important that tourism service providers identify their travellers' needs and wants to ensure their satisfaction, at all times.

Chapter 2
Understanding Customer Needs and Wants

Abstract Business ought to understand their customers' needs and wants, if they want to remain successful in a competitive market place. Therefore, this chapter introduces its readers to market research as tourism businesses continuously require information on their customers. In this light, a well laid-out plan will help them sharpen their research objectives. Once a research problem has been defined, an appropriate methodology could be chosen to gather exploratory or descriptive data. Very often, the tourism businesses may outsource the market research function to specialised agencies. The successful research organisation which has been entrusted with the market research will collect the data, analyse it and interpret its findings. Afterwards, the research agency will be in a position to report its conclusions, research limitations and implications of study. The research report will only add value to the commissioning business if the marketing managers would take heed of its key recommendations.

2.1 Introduction

The tourism service providers should have a good understanding of their customers. They are expected to continuously research the market to get to know their customers' needs and wants. This chapter raises awareness on the importance of market research for tourism businesses. It provides an outline for a research plan, which is intended as a guideline for prospective practitioners in travel marketing. Hence, the readers of this chapter will acquire relevant knowledge on market research techniques, methodologies, data analyses and interpretation of the findings.

If the research is outsourced to a specialised agency, the business should provide a brief to the research organisation which explains its research objectives; it outlines how market and consumer data can be collected; the type of research being envisioned (by clearly indicating what are the businesses' expectations from this project); question areas to be covered during the research; it provides a realistic time table; as well as a budget. Subsequently, the agency will usually return a proposal to

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the business by an agreed date. It is advisable that the commissioning business will ask for quotes from several research agencies before committing itself with one of them.

2.2 The Rationale for Market Research

Drucker (1973) contended that the purpose of the business is to create a satisfied customer. He went on to suggest that marketing cannot be considered as a separate function, it is the whole business that is seen from the point of its final result, that is, from the customers' point of view. Kotler (1973) argued that marketing is about offering the right product or service at the right price; that is available in the right place, at the right time, and, doing so at a profit. In other words, marketing is essentially the management process by which companies identify, anticipate and satisfy their customers' need and wants, while simultaneously making a profit. In a similar vein, Levitt (1986) held that the purpose of a business is to create and keep a customer. He maintained that there can be no corporate strategy that is not in some fundamental fashion a marketing strategy, as the purpose of business is to sell products or services that customers are willing to purchase. Therefore, if a company is truly market oriented, it will focus its attention and activities on its customers and their expectations. The actions of such a company arise directly from its customers' needs and wants.

Discussions about the purpose of marketing are still ongoing. Grönroos (2006) suggests that "Marketing is a customer focus that permeates organisational functions and processes and is geared towards making promises through value propositions, enabling the fulfilment of individual expectations created by such promises and fulfilling such expectations through support to customers' value-generating processes, thereby supporting value creation in the firms' as well as its customers' and other stakeholders' processes" (p. 407). Academics often refer to this belief as the marketing concept, which says that the best way for a firm to accomplish its goals over the long run is to choose a group of customers and to do a better job than competitors in satisfying the needs of those customers. To do this, a company must put itself in the customer's situation.

The marketing management process is responsible for identifying, anticipating and satisfying customer requirements, at a profit. It is the job of the marketing managers to link and sequence operational activities and to co-ordinate the work of all commercial areas. They must also work closely with other departments (including; finance, maintenance, operations, et cetera) towards the goal of adding value to the customer and to the business itself. Marketing managers must ask themselves what the real value of their products or services is to their consumers. Vargo and Lusch (2004) suggested that the marketing of travel and tourism involves the co-creation of value, as intangible, dynamic resources are more important than tangible, static resources, because of the inseparability of production and service consumption. Therefore, today's marketers are expected to anticipate their individual customers' needs and wants; to ensure their long-term value, over time. This, of course, requires extensive market research and analysis. Hence, it is imperative that companies carry out a rigorous process of customer and market analysis. It is in their interest to investigate the present market, the needs and wants of customers and how they may satisfy them. It is necessary to investigate possible competition and to anticipate market developments through market research. Market research may be defined as the systematic design, collection, analysis and reporting of data and findings relevant to a specific marketing situation facing a company (Kotler & Armstrong, 2012). The processing and analysis of information obtained through market research provides them with relevant knowledge base on which they can make better decisions about the development of a product or a service. The knowledge generated through marketing research is therefore classified into the content areas of making, enabling or keeping a promise.

2.3 Assessing the Customers' Needs and Wants

Basically, a need is a conscious feeling of deprivation in a person. In other words, it is something which a customer requires to experience satisfaction. For example, in the case of business travellers, the punctuality of a service is a good example of what constitutes a need (Peterson, Neels, Barczi & Graham, 2013). An airline failing to provide a high standard of punctuality will lose business to its competitors. For example, the travel search engines analyse and profile hotels to refine their offerings to online users. Many prospects search for accommodation in specific areas (for example in the city centre). They may expect to have breakfast, wifi or internet access, a fitness centre and car parking facilities in their hotel. They may demand for accessible rooms as they may have a reduced mobility. The online booking site convert these requests into meaningful results, as it shows the right hotels which match the criteria of prospective guests.

However, not every customer requirement can be put under the heading of a need. For example, a warm and friendly attitude on the part of the cabin staff, though pleasant, cannot be said to have a crucial influence on the traveller's choice of an airline. It should therefore be classified as a want rather than a need. Wants are highly significant in marketing today because, in many markets, airlines can meet customer needs just as well as their competitors. On many routes, passengers fly similar aircraft, and could notice that several airlines offer similar time tables and punctuality records. In such situations, the customers' choice of airline is frequently based on less significant wants.

A want is a need after it has been influenced by culture, society and an individual's personality. There are two kinds of wants, a 'tangible' want and a 'psychological' want. For instance, the business travellers appreciate the product feature of a separate class of service, on-board an aircraft. The costly option of travelling in separate, dedicated cabins provide business passengers with a peaceful environment away from crying children, where they can rest or work. Of course, there are other needs and wants for different types of travellers:

The needs of the short-haul traveller include the high frequency of service from a convenient local airport, suitable flight timings, high standards of punctuality, a totally flexible product in terms of seat accessibility, ease of cancellation and rebooking and the ability to "no-show" without penalty, among others. In the case of business travellers, price is not on necessarily on their top list of priorities.

In looking at the wants of a short-haul traveller, it is important to recognise the difference between independent and corporate business travellers. The independent travellers will generally accept product frills only if they are offered at no extra charge. The corporate travellers are usually attracted to airlines offering frills, before and during the flight.

Attractive product frills include separate check-in desks for business travellers before their flight, luxurious lounge facilities, the provision of a separate business class cabin, comfortable seating with adequate legroom as well as gourmet meals on board the aircraft, among other aspects of service. Moreover, all passengers expect efficient baggage handling and a high level of customer service in every encounter with airline employees.

In addition to the needs and wants of the short-haul travellers, long-haul travellers may demand a non-stop service to their chosen destination. Inflight entertainment facilities are also expected to reduce the tedious nature of travelling for long hours. Moreover, on long-haul flights, the business traveller will require comfortable seating and leg room, as well as substantial meals.

Price is by far the most influential factor in the choice of airline transportation for a high proportion of leisure passengers. Leisure travellers pay for their flight from their own pocket. If the air fares are too expensive, family groups will not afford holidays. Of course, leisure travellers' needs may be similar to those of the business travellers, but their demands may be far less rigorous, as they paid considerably less money for their tickets.

Both business and leisure travellers will expect airlines to assure them of their safety and security. This issue will surely be on their list of concerns. A substantial amount of leisure travellers may include apprehensive holiday goers who do not fly on a regular basis. Another aspect which is important to the leisure traveller is the availability of peak-time capacity. Generally, such peaks occur during the weekends and on a seasonal basis, due to holiday scheduling from work. It is important that the airlines allocate sufficient capacity to meet the demand at such peak times. Notwithstanding, a pleasurable inflight service is also very much appreciated by leisure travellers.

Indeed, there is potential for airlines to operate successfully and at a profit, if they anticipate their customers' needs, wants and expectations. Amid incidents like the recent United Airlines overbooking debacle or Delta's spring break computer outage that may have tainted the respective airlines' reputation and image, an American Customer Satisfaction Index (ACSI), that was conducted between April 2016 and March 2017, indicated that passengers were satisfied (with an ACSI score of 75%) with the levels of airline service. However, United's violent removal of a passenger was captured on social media, but is not reflected in the ACSI results as it occurred after the completion of data collection. United's incident did cause a fall in the company's stock price. For the time being, it is still unclear how much impact this specific incident will have on future passenger satisfaction as United already has the lowest score among the full-service, legacy airlines. Industry leaders, including; JetBlue scored 82%, Southwest 80%, and Alaska Airlines 78% were among those successful airlines, according to ACSI. Very often other carriers, including legacy airlines are falling behind in terms of customer satisfaction. Yet, the most dissatisfied passengers are those who are only opting for low-price above anything else. In this case, the ultra-low-cost operators Spirit and Frontier were among those airlines who have mostly suffered from a reduction in customer satisfaction, when compared other airlines (ACSI, 2017).

Major airlines like Delta and American are increasingly competing more aggressively on price. However, although they may offer low ticket prices; they cannot afford to deliver a low-quality service. According to ACSI, in the last three years, Spirit has consistently ranked last in terms of passenger satisfaction, although the airline did improve last year (up from 54% in 2015 to 62% in 2016). However, the airline did not build upon its gains in 2017. Spirit's efforts to improve customer relations and punctuality did not pay off, as yet, as their passenger satisfaction currently stands is 61%.

In a similar vein, in 2016, guest satisfaction with hotels was 76%, according to ACSI, this score was 2.7% higher than the previous year. This growth was driven by gains for smaller hotels and bed and breakfasts (B&Bs). Evidently, with the rise of online hospitality brokers, like Airbnb; travellers had more choices than ever before, forcing hotel operators to compete on both price and customer service.

Hilton guests were the most satisfied (81%), and in the second place, Hyatt and Marriott scored 80%. Marriott's Starwood brand came third (79%), closely followed by InterContinental (78%). Best Western, La Quinta and Choice that were in the range of 76–74%; while the combined score of all other smaller hotels and B&Bs were up by 3–74%. Wyndham (71%) lagged behind most of the major hoteliers, but G6 Hospitality (Motel 6) was ranked in the last place (65%). These results indicated that many prestige hotel brands, including JW Marriott were topping the charts (85%), while upscale Hilton Garden Inn and Hyatt Place have shared the next spot at 84%. Starwood's Aloft, part of the Marriott family, scored 83%, alongside Hilton's Embassy Suites Hotels. With 76%, Wyndham Baymont Inn & Suites was top-rated among midscale properties, whist Days Inn (67%) was the best economy brand. However, Super 8 from the Wyndham family had the lowest-ranked chain in the industry, at 63%.

The customer satisfaction levels with travel websites for booking flights, hotels and car rentals stood steady at 79%. Expedia gained 4%, as it rose to 80%. Other brands of the Expedia family, Orbitz also gained 1–78%. Whilst Travelocity lost 1–77%, which is in line with its competitor Priceline (77%), which lost 5% from the last year's score. These ACSI (2017) reports were based on the findings from 8660 customer surveys that were duly collected between April 18, 2016, and March 19, 2017.

2.4 The Marketing Research Process

Marketing managers could use research data to personalise their products or services to their customers. For instance, the customers (or guests) of a hotel could have their own needs and wants. The hotel guests may be leisure travellers, including families with children, senior citizens, young adults, et cetera. Alternatively, they may comprise business travellers who travel on their own. Therefore, relevant market research will provide the hotel management with a good insight on their guests, and their preferences. This information will support hotels' front liners in delivering an appropriate customer service to their guests. This way, they could be in a position to improve their guests' customer experience.

There are a variety of market research techniques which may be applied by travel marketers, for example, survey questionnaires, interviews, focus groups and so on (Bryman, 2006, Patton, 1990). Quantitative research involves the statistical analysis of large numbers of people, or a representative sample of them (Creswell & Clark, 2007). Generally, this latter form of research is conducted in a highly structured way. The quantitative research may also be conducted through the use of scales, (for example, by using Likert and/or Semantic Differential Scales) in questionnaires. This research technique uses parameters such as population shape, size, proportions, and so on. It entails sampling, questionnaire construction, interviewing and data processing, by using statistical formulae. The qualitative research involves the collection of a significant amount of data from a relatively small sample of informants, as opposed to quantitative research.

However, irrespective of the type of research technique which you apply, there are certain stages in the market research process which must be carried out, as illustrated in Fig. 2.1:

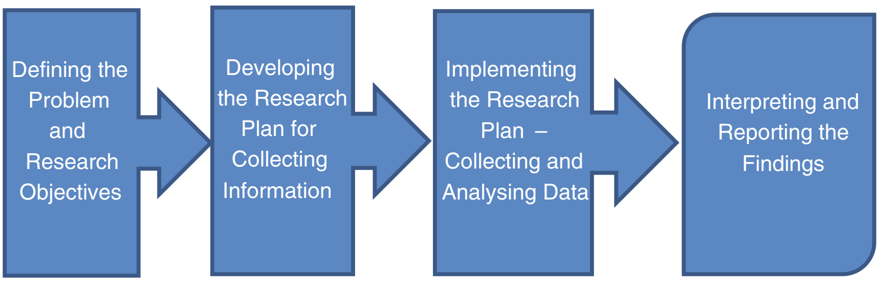

Fig. 2.1 The market research process

2.5 Defining the Problem and the Research Objectives

This is the initial stage of the research process. It involves identifying the research problem and carefully defining the research objectives. The market researchers should also decide what form of information they require. Basically, there are two forms of research objectives:

- ***Exploratory***: This type of research gives an insight on problems that are in a preliminary stage of investigation. Exploratory research help the marketer to better define the problem, and to define a hypothesis;
- ***Descriptive***: This type of research is used to describe the characteristics of a population or phenomenon being studied. It does not answer questions about how/when/why the characteristics occur. Descriptive research could reveal information on the market potential, demographics, consumer attitudes, and so on. It allows researchers to test a hypothesis about cause and effect relationships.

2.6 Designing the Research Plan

Once the problem and research objectives have been defined, the next step is to concentrate on designing the research plan. This entails:

(a) Specifying the type of data to be collected and the sources from which they may be collected;
(b) Determining the methods to be used for data collection (quantitative or qualitative research techniques);
(c) Deciding whether to use random or non-random samples;
(d) Calculating the time and cost of research.

The researcher may collect primary and/or secondary data. Primary data consists of information which is not presently available, but is needed to deal with the problem under investigation. Secondary data is existing data which may be used for the problem at hand, although it was not originally gathered for this purpose. Secondary data may be gathered from internal sources (for example, booking data, fare type analysis and so on) or from external sources (data compiled by government sources, airport authorities, consultant reports, chamber of commerce reports, among others).

2.6.1 Market Research Techniques

There are a number of market research techniques which may be used for data collection purposes. The following is a brief account of the various types of research:

2.6.1.1 Survey Questionnaires

A questionnaire allows the researcher to gather information with a considerable level of accuracy and at an affordable cost. It is a vital element of marketing research and should be skilfully and intelligently constructed. Quantitative data can be gathered through the use of electronic, mail-based or personal, face-to-face surveys. To carry out an effective investigation, the following design criteria should be applied when creating a questionnaire:

(i) To maintain the respondents' cooperation and involvement, the questionnaire must be interesting and easy to read. This may be achieved by keeping the questions as brief and concise as possible.

(ii) When designing the questions the researchers should think carefully about the information they are seeking. The meaning of the questions that are asked should elicit specific information that is sought by the researchers. If a question runs over 20 words, it needs to be refined, or broken down in smaller questions.

(iii) The researchers should ensure that they ask one question at a time, and that each question can be answered in its own right.

(iv) The researchers should communicate with the respondent. Questions should be clear and easy to understand. They should avoid ambiguous words and phrases, i.e. words with two or more accepted meanings. Abstract and vague concepts must be avoided. Imprecise wording can lead to confusion as well as ambiguous responses. Researchers should not formulate questions in such a way that may subject to different interpretations, as they may have more than one meaning.

(v) It is extremely, important that the wording that is used in the questionnaire will be clearly understood by the participants to whom the survey is directed. Jargon or technical terms that are peculiar to a particular trade or profession must be avoided.

(vi) Researchers should avoid bias. Their questions should not influence their participants' answer in any way.

(vii) The participants should be helped as much as possible to work out their answers. A certain amount of generalisation should be allowed. The researchers could use prompt cards and tick boxes, as a means of enhancing the participants' memory.

(viii) The sequence of the questions has a major influence on the accuracy of the gathered data. The questionnaire could be sequenced in such manner to maintain the respondents' interest and to entice them to answer all questions. The tedious questions could be placed among those which are the most interesting. Personal questions should be positioned in the latter part of the questionnaire. As a means of encouraging the respondents to answer personal questions, ask them to indicate their answer from a range of tick boxes, rather than conveying the information verbally. This may avoid any possible embarrassment and discomfort.

(ix) To elicit responses to personal questions, the participants could indicate ranges, through the use of Likert scales.

Multiple choice questions may also be used. In this case, respondents are able to choose from a range of possible answers, which are designed to reflect different shades of opinions or perceptions on products or services. It is important to think carefully when designing these questions so as ensure that there are alternatives answers in multiple-choice questions. This will provide sufficient scope for respondents to make valid answers. Alternatives must be mutually exclusive (there should be only one possible answer) so that respondents are able to differentiate between responses without difficulty.

The researchers should facilitate the interviewers' tasks by using a clear layout, large, legible type and as simple a structure as possible. To minimise costs and time, they are expected to provide an efficient basis for data processing by using specific programmes which allow them to transfer data for subsequent analysis (e.g. SPSS or STATA). The individuals' attitudes or beliefs are often very difficult to measure. However, there are effective ways in which questionnaire designs can reduce such problems. Moving scales could provide information which are easy to measure and process. For instance, the survey responses can be measured by using systematic differential scales or Likert scales from 1 to 5, 1 to 7, or 1 to 10.

Once the questionnaire has been successfully complete, it's time to test it. Irrespective of how experienced a researcher is, or how strictly they have applied the construction rules, it is important to pilot test the questionnaire. Only by trying out the format on a small sample, the researcher will be able to assess that the questionnaire has succeeded in reaching its underlying objectives. It is at this stage that the problems of ambiguity, incomprehension and excess length can be identified and rectified in a considerably lower cost, rather than if they remain undetected, following completion of the survey.

Whether the questionnaire has been designed by the staff within your organisation or by a specialised research agency, the individual for whom the research is being conducted should insist on vetting the questionnaire. A checklist for vetting the questionnaire is suggested hereunder, in Table 2.1:

This research method could be an easy way to reach a large number of users and non-users of tourism products. The respondent may be more open and truthful when answering questions in the absence of interviewers (in the case of electronic or mail-based surveys). The electronic questionnaire is an inexpensive and flexible way to collect quantitative data. Survey questions must be extremely simple and clear in order to trigger high response rates. In fact, one of the main disadvantages in using this research technique is that the response rate to surveys is generally poor. Many consumers are increasingly receiving surveys through emails on a regular basis, so they may lose interest in responding to them. Very often, they ignore them or simply forget to complete them.

Table 2.1 Questionnaire checklist

Are the research objectives right?
Will the questions listed collect all the data required?
Is every question essential?
Is the right type of data collected: Are you collecting facts? opinions? motives?
Is the question sequence presented in a logical pattern?
Are the types of questions that are being used appropriate: Are you using Open-ended Questions? Multiple-choice Questions? Rating Scales?
Is the question wording simple to understand? Unambiguous? Clear?
Is it reasonable to expect the respondent to answer every question?
Will the answers be easy to record?
Will the answers be easy to process?
Does the questionnaire look good?
Is the questionnaire easy to administer?
Has the questionnaire been piloted?
Is the right type of questionnaire being used? Personal? Postal? Email? Telephone?

2.6.1.2 Inflight Survey

The inflight survey is a commonly used method of data collection in the aviation industry. As the name suggests, this form of research is carried out during the flight. It is aimed at establishing the customers' feelings toward product specification, for example; seating comfort, meal quality and other airline features.

However, there are some disadvantages that are related to this research technique. It is extremely difficult to obtain a random sample of respondents, although all inflight passengers may have an equal chance of being included in the survey. The researcher must rely on the cabin crew to distribute the questionnaires. However, the cabin crew may not be objective spectators. Should they suspect complaints and negative feedback from specific travellers, they may be tempted to overlook them when distributing the questionnaire or to reject the completed surveys which will have negative criticism. Due to the time-constraints of a short-haul journey, the inflight questionnaire may only be given on preselected seat numbers, which may be allocated on a random number basis. This may also result in bias. On long-haul flights, such bias is reduced, as there is sufficient time for all passengers to receive and complete the questionnaires, before landing.

Again, questionnaires must be short, specific and direct (as explained above). Due to time constraints and other factors, there may be no room for open-ended questions. As a result, it is very difficult to collect general attitudes and opinions; which could prove useful to making strategic marketing decisions on responses that are based on multiple choice questions or scales. Therefore, marketing managers should also give due consideration to open-ended questions to ensure that they obtain the information they are seeking (although participants may not always provide their feedback, as it is easier for them to complete multiple choice answers). It is important to use open-ended questions in an effective and intelligent manner.

The main problem with inflight surveys is that the research participants have deliberative chosen to travel with your airline. Although, their feedback is useful, it is really those passengers who are travelling with competitors who should be questioned.

2.6.1.3 Face-to-Face Interviews and Focus Group Meetings

Qualitative research is usually conducted in a fairly, unstructured way, usually through in-depth interviews or through focus group meetings. In this case, the researcher explores the informants' reactions, opinions and behaviours of a small number of individuals; which are known as the sample of the population. Due to the small scale of the investigation, qualitative research is usually completed more quickly than quantitative research.

However, in this case, the collected data cannot be justified in statistical terms. Even though the research findings may give clues about other members of the target population, the data base is too small to make generalised statements like; "10% of the target population believe that…". The findings from this form of research may give an insight into existing trends. The qualitative methods could enable researchers to continue their investigation through quantitative research.

Qualitative data may be gathered from individuals or by forming focus group discussions amongst selected customers. However, the latter form of qualitative research is time-consuming, logistically difficult and quite costly. If the interviewers are highly-skilled, and the methods they use are reliable; personal interviewing is a flexible way of gathering relevant information concerning; consumer perceptions, and opinions. Such qualitative data will enable the business to make sound decisions in relation to the introduction of new products and to ascertain the consumers' attitudes toward existing services. It will also provide them with the opportunity to shed light on any problems and difficulties which the company may be experiencing at a particular point in time.

2.6.1.4 Telephone Interviews

Telephone interviewing is a good way of accessing research participants. However, it is often perceived as an invasion of privacy; which may result in tarnishing the corporate image of the business. Moreover, there may be difficulties in contacting the selected respondents, as their contact numbers (land lines or mobile phones) may not be listed.

2.6.1.5 Test Marketing

Test marketing is a remarkably versatile marketing tool. For example, a particular business is considering launching a new product or it may introduce a new service. It would be more feasible for the business to test its innovation for a short period of time before introducing a product or changing its established services. The first reaction from customers experiencing this new product is usually recorded through questionnaires that are subsequently analysed and interpreted by researchers. This enables marketers to decide whether they should modify their products before fully implementing them (Shaw, 2016). Although test marketing is a reliable way of assessing the customers' reactions, it does not always guarantee success. Management must still make important decisions. However, after the market research, their decisions will be more informed as they could be based on the consumers' reactions to their products or services.

Test marketing can be a costly exercise and may lead to confusion among travellers, particularly if new product features are discontinued at the end of the testing period.

2.6.1.6 Complaints and Complaint Analysis

This research technique is a very valuable and simple indication of customer dissatisfaction on the businesses' existing products or services. A consistently, high frequency of complaints is a clear indication of customer dissent on certain aspects of the business. The marketing managers ought to be proactive on consumer complaints and should immediately act on improving their weaknesses. A system for classifying complaints and complements must be operated by the respective businesses before such a research technique may be implemented.

2.6.1.7 Customer Contact Staff

Another important source of qualitative information that is readily available to the businesses is from their own sales and customer service employees. These people are in touch with the customers. They are in a valuable position to provide first-hand information about customers' feelings toward various products and services.

2.6.1.8 Desk Research

Desk research is another important technique for data collection. It involves the analysis and interpretation of already available data. Businesses may collect data from both internal and external sources. Although this form of secondary research is very practical as it is relatively cheap and fast; the gathered data may not always be in an ideal form. The data collected from external sources may be out-of-date by the time it is published. Moreover, it would be more advisable for the businesses to carry out their own research, on a regular basis; as there may be frequent changes in the marketing environment.

2.6.2 Sampling

Sampling is one of the major tools of market research. It involves the study in considerable detail, of a relatively small number of informants who have been selected from a larger group. To carry out successful market research, it is important to have a clear understanding of what sampling is all about. Here are some important terms which are used in the realms of research:

Population: This refers to any group or objects which are alike in one or more ways, and which form the subject which is being studied in the survey. In certain cases, human populations can refer to special sections of the general population of a country; for example, business travellers who have flown to a particular route and so on. It is necessary to clearly define the population before starting the data gathering process.

A Census: This occurs when a universe is being investigated in its entirety. This rarely happens in commercial research, unless the universe is small and is easily located.

A Sample: This may be defined as a segment of the population. It is a microcosm of the population from which it is drawn so that conclusions made about a particular sample can be extended to the population it represents. Sampling selection techniques seek to ensure that the members of a survey sample are truly representative of the members of the population from which they are chosen. A sample cannot reflect a completely perfect image of the population. However, distortion can be minimised if careful attention is paid to the principles which must be applied when sampling. Without correct sampling procedures, the sample selected would not be representative, and the research findings would not be valid and reliable. Samples are used in all types of marketing, from ad hoc product tests to continuous surveys, such as the measurement of television audiences.

The Sampling Frame is the source material or device from which a sample is drawn. It is a list of all those within a population who can be sampled, and may include individuals, households or institutions.

Probability Sampling or Random Sampling: This sampling technique will consider every member of the population, as all individuals will have an equal chance of being included in the sample. The first step in drawing a random sample is to make a list of all members of the population. The probability of getting any particular sample may be calculated.

In a simple random sample, each research participant is chosen at random, such that each individual has the same probability of being chosen, at any stage during the sampling process. The simple random sample is an unbiased surveying technique. Systematic sampling is a statistical method involving the selection of elements from an ordered sampling frame. The most common form of systematic sampling is the equi-probability method.

Stratified Sampling: This technique suggests that the sub-populations (strata) could be sampled, independently. Stratification is the process of dividing members of the population into homogeneous sub-groups, before sampling. The strata should be mutually-exclusive: every element in the population must be assigned to only one stratum. The strata should also be collectively-exhaustive: no population element can be excluded. Then simple random sampling or systematic sampling is applied within each stratum. This often improves the representativeness of the sample by reducing sampling error.

Nonprobability sampling techniques are not intended to be used to infer from the sample to the general population, in statistical terms. The chosen sample does not represent the whole population. However, non-probability sampling is widely used in qualitative research. Examples of nonprobability sampling include:

- ***Convenience sampling***: The research participants are chosen due their relative ease of access. Such sampling is biased because researchers may unconsciously approach certain respondents and avoid others. Moreover, there may be respondents who volunteer for a study, whose responses could differ from others.
- ***Snowball Sampling or Referral Sampling***: This form of sampling exists where research participants recruit future subjects from among their acquaintances. Such samples are biased although they could lead to higher response rates.
- ***Judgmental Sampling or Purposive Sampling***: The researchers choose the sample of respondents who they think would be appropriate for their study. This sampling is primarily used when there is a limited number of people that have expertise in the area being researched, or when the research interest is focused on a specific field or a small group.

A Statistic: This is any quantity calculated from a sample to estimate a population parameter.

A Parameter: This refers to a variable or attribute that is calculated from the population, for example the mean or standard deviation. Good sampling allows large quantitative surveys to represent the views of the population being studied, to a known and calculable degree of accuracy. It is possible, using the correct statistical formulae to find the Level of Confidence and the Limits of Accuracy of a Survey.

- ***Level of Confidence***: This refers to the fact that, from a randomly drawn sample, it is possible to work out the statistical significance. It is very encouraging to hear from researchers, or you may find out from your calculation that you have a 95% level of confidence in your results.
- ***Limits of Accuracy***: The sample's limit of accuracy can also be calculated. The larger the sample the more accurate the calculation of the populations' parameters are likely to be. That is, the larger the size of the sample, the narrower the range of limits of accuracy.

Reliability in statistics is the overall consistency of a measure. A measure is said to have a high reliability if it produces similar results under consistent conditions.

Validity is a degree of measurement that is equivalent to accuracy. Within validity, the measurement does not always have to be similar, as it does in reliability. However, just because a measure is reliable, it is not necessarily valid. Construct validity refers to the extent to which operationalisations of a construct are measured as defined by theory. Such measures may be associated (convergent validity) or not associated (discriminant validity) with things they should be related with.

The ***statistical significance*** suggests that your statistic is reliable and rejects the hypotheses that there is no relationship between two measured phenomena, or no association among groups.

The use of appropriate statistical calculations makes it possible to determine what size of the sample would be required in order to minimise sampling errors. Although it is not essential that marketers are able to perform the statistical calculations; it is important to note that the reliability and validity of the findings from large-scale quantitative research surveys is determined by the statistical competence of researchers.

When designing the sample, the researchers should ask themselves three important questions:

- Who is to be surveyed?
- How many people should be surveyed?
- How should the people in the sample be chosen?
- Who is to be surveyed?

It is extremely important to clearly distinguish the aims and objectives of the survey questionnaire; to decide on the sample size, and; the type of survey to conduct. The researchers should clarify what they are looking for. They could carry out some pilot work to ascertain some of the potential issues and difficulties that are related to the data gathering process. Informal discussions and brainstorming sessions provide invaluable contextual knowledge which could give them a clearer picture on the objective and goals of the survey. In this light, original insights may be modified and additional ideas may be brought to the surface. Once the marketers have clearly identified their research objectives, they could decide upon the population they wish to sample.

When deciding the size of their sample; there are a number of questions they must ask. What is the purpose of their survey? What information are they seeking? Are they carrying out a qualitative or quantitative research? What level of accuracy do they require? What level of confidence are they expecting? What time constraints are they working under? How much money is available for research? As already discussed; the level of confidence and of accuracy of a sample may be calculated before the research begins. These factors will greatly affect the size of the sample, and so the researchers will be able to calculate a realistic sample size.

The larger the size of the survey, the greater its precision and reliability. However, practical constraints must be considered; the greater the size of the sample, the greater the cost in terms of labour and money. Careful thought should be given to the time constraint. Urgency will not allow a large survey. Therefore, the validity and accuracy of the project could be put at risk due to short cuts and inadequate samples. The researchers should advise the marketers on the level of accuracy they can expect from small surveys. Cost and accuracy are closely linked, and effective fieldwork is slow and expensive, but it does not always produce reliable and accurate results. When size is being considered, the non-response factor should also be taken into consideration.

The selection of a sample relies on the type of sampling method one decides to use. The two basic types of sample are: probability or random samples and non-probability sampling:

2.6.3 Probability or Random Samples

These are samples which are constructed so that every member of the population being sampled has an equal chance of being selected. There are a number of ways of selecting a random sample; by using a lottery method, or by using random tables. The purpose of random sampling is to avoid biases which may arise when researchers use their own judgement as they choose samples.

Probability or random sampling has been widely adopted by leading research bodies because they have a sound theoretical basis. As the probability sampling method is based on a mathematical selection of participants, it does not lend itself to bias. The results of a probability sample are statistically-sound unlike other forms of research, namely non-probability sampling. Therefore, the conclusions drawn from surveys responses that were chosen at random are considered to be well-grounded.

However, there are disadvantages to random sampling. In commercial practice, there are very few reliable lists of populations. The population data may be out of date. To construct a sampling frame also takes considerable time and effort. Calls to randomly select informants may be widely scattered, causing considerable costs in time and money. Due to delays in time, the accuracy of the data will be affected. To speed up the process, a larger research team may be employed, which will turn increase the costs of the survey. One of the principle drawbacks of this form of sampling is that non-response is a serious source of bias, so the researcher must endeavour to secure as many successful responses as possible. It is standard practice that, having failed to contact specific respondents by the third attempt, the surveyor may abandon them and should possibly garner the interest of other candidates.

Since random sampling has these drawbacks, it is fairly expensive, when compared to other sampling methods. Nevertheless, researchers believe that the value of random sampling cannot be matched by any other method; in terms of collecting reliable, unbiased information. A trade-off has to be made between accurate and statistically reliable results, and considerable costs in time and money.

2.6.4 Non-Probability Samples

These are samples that are chosen by the researcher. The selection of the sample is dependent on human judgement, unlike the scientific method of probability sampling. This form of sampling allows the researchers to gather data without sampling, as they dictate who are the respondents. As a result, it is substantially less expensive than random sampling. However, the problem of non-response is minimised. Moreover, the non-probability sampling approach and its data management process is easier, inexpensive and it provides a faster way to gather data; when compared to random sampling. The non-probability method does not necessitate the preparation of sampling frames of special lists of respondents.

Quota sampling is a more refined and accurate version of non-probability sampling. It is a form of judgement sampling; where the biases of non-probability sampling are controlled to some extent by stratification, and the setting of quota in each stratum. The population is divided into sub-groups according to the survey's requirements, for example, by age, gender, social class, et cetera. Quotas are usually set by the researchers and they will select the individual respondents. It is at this stage of the survey where there is potential for bias. However, if the researchers are carefully selected and properly trained, these hazards may be controlled, to some extent. The results from non-probability samples may not be reliable due to possible bias. Hence, the research findings that are derived from these samples are not accurate enough to be extended to the general population.

2.7 Research—Whose Job Is It?

Who should carry out the research is a very valid question. Do the marketing managers have the right skills and competences to do it themselves? Are they assigning an agency to do this job for them? These are basic considerations to take into account when addressing the captioned question.

Can the businesses dedicated sufficient time and resources to carry out the research themselves? The quality of the data to be collected during fieldwork may be threatened if the sponsor is identified as the surveyor. Marketing managers are expected to act in an assertive and vocal manner. They can sometimes encounter difficulties in adopting a neutral role, particularly when they are researching the market. However, it is important for managers to engage with customers. The research fieldwork would surely increase their understanding of the market in which they operate. It would also give them a better idea of what to expect from other researchers. It may be possible for the marketing managers to get involved in the fieldwork during the pilot stage of the questionnaire. This will give them a greater appreciation of the strengths and weaknesses of the questionnaire.

Most businesses that are serious about customer-centric marketing will have dedicated market research departments; with at least some skilled and experienced members of staff, who would be capable of gathering and analysing data. For instance, airlines use their own staff to carry out day-to-day market research, including an ongoing flight survey analysis. However, airlines may occasionally recruit external research consultants. External researchers will work in a more objective manner than internal researchers. They will also bring fresh ideas with them. When external research is commissioned, the role of the airlines' managers is to define the research problem. They are expected to specify to the researchers their objectives, and to clarify on the information required. It is crucial that they act on the research results after they have been carefully analysed and processed.

2.7.1 Preparing a Brief

The business that is commissioning research should consider a list of specialised agencies which may be appropriate for them. They should choose a reputable research organisation according to its capabilities and expertise. Once a research organisation is chosen, the business should provide a brief to the research organisation, which should include; the business and research objectives; suggestions on how market and consumer data can be collected; the type of research being envisioned (by clearly indicating what are the businesses expectations from this project); question areas to be covered during the research; a realistic time table; and a budget, as featured in Table 2.2.

It is advisable that the commissioning business will ask for quotes from several research agencies before committing itself with one of them.

2.7.2 The Research Agency's Proposal

After the agency has been briefed, the agencies should then return a proposal to the business, by an agreed date. The proposal could include the following elements:

(a) **Statement of objectives**

A statement of objectives should clearly reflect the list of objectives that were presented to them, in the brief.

(b) **Description of how the research will be done**

This includes a description of the various research methods that will be used for data collection. They should give details on the sampling method. A breakdown of questionnaire content should be included, as should details on all the data analytical processes to be undertaken. That is, the coding of data and the statistical analysis of quantitative findings. Alternatively, they could explain how qualitative data will be analysed, et cetera. The agency should justify its decision for adopting specific methodologies.

Table 2.2 The research brief

Background and research objectives: It is necessary to provide the research organisation with a thorough understanding of the business, its products and services. The researchers have to understand why this research is being carried out. Therefore, the business should provide them with information pertaining to the industry and the marketplace, including existing competition. The business should provide as much information as possible about the characteristics of customers. This will enable the agency to suggest the most appropriate method for contacting the sample. It could also help them to estimate costs more precisely
Data on the relevant population group: The researchers should be knowledgeable of the business' intention to target a specific population group. They should indicate the segment(s) which should be targeted by the researchers during their fieldwork
The type of research envisaged: The agency should be informed about what kind of research is required by the business. The business could make use of qualitative or quantitative findings
Question areas to be covered: An agency will do their job a lot better if the client is specific about what information is required. For example, the business should indicate to the agency; the question areas that should be addressed; and could describe the type of questions that could be used. Of course, this does not mean that the business is designing the questionnaire
A realistic timetable: The business should indicate the date by which it would like to receive the proposal and also the date by which they need to receive the research findings. This will influence both the type of research method which will be used as well as the planning of the fieldwork
An invitation to discuss research: This provides the opportunity for the agency to clarify any questions they may have in relation to the project
Budget: The agency should know how much money the business is budgeting for the research. This way, the research organisation will be in a position to prepare a proposal to meet the businesses' requirements. However, some may argue that, by revealing to the agency that a large amount of money is available, there is a danger that they will find ways to spend the budgeted figures

(c) **Reporting**

The proposal should highlight how the research findings will be presented. The proposal should give details on the presentation and tabulation of results.

(d) **Costs**

The agency should also present a clear breakdown of the individual costs for the research project.

2.8 Implementation of the Research Plan

Once the management has defined the problem, delineated their research objectives and decided on what information they require, they should proceed to the next stage of the research process. They are expected to design the survey questionnaire and/or prepare a brief for their field interviews.

When the questionnaires have been constructed and tested, it's time for them to start gathering the data. This entails engaging with a sample of respondents, and examining other research options. This process should be closely monitored (by the marketing manager or the research agency, as appropriate) to ensure that the collected data is valid, reliable and trustworthy.

This stage is the most expensive part of the data collection process, and the agency or the organisations' management should continuously monitor how the research is being is carried out. The members of staff who are gathering data have be objective whilst collecting their data, throughout the research fieldwork.

2.9 Data Analysis

Having collected the data, marketers must then interpret their findings. Interpretation is easier if the data analytical methods are carefully planned in the research process.

The results of the collected data may be a large pile of completed survey questionnaires (if the researchers have used printed questionnaires). Alternatively, the researchers could have annotated their qualitative data in the form of transcripts. The way how the gathered data is analysed and presented is an influential factor of how valuable the research will be. Many research agencies are increasingly using computer software packages to statistically analyse their quantitative findings.

The researchers will draw their own conclusions in writing and may also use data tables. The statistical analyses usually focus on the results, and on what deviates from the variable being measured. These findings will be analysed and interpreted by the researchers, and presented to the respective marketing managers. It is important that they will be in a position to understand the main findings and the research implications.

2.10 Preparation and Presentation of a Research Report

The following section provides a useful guideline of what should be featured in a research report. The report will communicate the research findings and the implications of study to the decision makers. Key elements in the report are presented in Table 2.3;

Table 2.3 Key elements of a market research report

1. Title page (This area lists the title, client, research agency, date, et cetera)
2. List of contents
3. Preface
4. Summary of the findings or conclusions (the summary of the main findings may be accompanied by recommendations) Points 1–4 provide a concise report of the nature and outcome of the research programme
5. Previous related research (This section indicates how previous knowledge may have a bearing on the research at hand)
6. Research method (Procedures that are used to collect information; How was the research conducted?—How was the research carried out?—Who were the research participants?—What were the research techniques that were used in the analysis?—The characteristics and size of samples should also be recorded
7. Results (It is important to provide clear, simple and a logical presentation of the research findings. The results are usually presented through paragraphs, tables and graphs)
8. Conclusions
9. Appendices

Points 5–9 provide the detailed evidence from which conclusions, implications and recommendation are derived

Generally, a report seldom provides answers to all of the research questions under investigation. Thus, the research limitations will have to be pointed out in the report, along with reasonable explanations of the potential weaknesses of the research methodologies, sampling frames and analytical techniques that were employed in the study. Moreover, the research report will only be valuable to the commissioning business it the marketing managers would make a good use of its key findings and recommendations.

2.11 Questions

- *What are the "needs" and "wants" of business customers?*
- *In your own words, outline the difference between quantitative and qualitative research?*
- *Why is non-probability sampling used more frequently than random sampling?*
- *Outline, in your words, the various steps involved in the market research process?*

2.12 Summary

The marketing managers are constantly searching for information which will enable them to make better decisions, and to improve their products or services for the benefit of customers. Therefore, the marketing research will support them in this regard; as its underlying objective is the systematic collection, analysis, interpretation and reporting of information relating to consumers, products and other environmental factors which may influence their organisations' performance.

There are various stages of the market research process. The initial stage is the identification and definition of the problem and research objectives. The second step entails designing the research plan. The researchers may gather primary and/or secondary data. The secondary data can be gathered through a desk research from previous studies and reports. The primary research may be gathered through quantitative and/or qualitative research methods. The quantitative techniques consist of statistical analyses of large numbers of respondents. Qualitative studies are usually carried out on a small sample of research participants. This latter technique will usually involve the investigation of the individuals' in-depth opinions, reactions, beliefs and behaviours. The research fieldwork is the most expensive part of the study. Following the data collection, the researchers are expected to analyse and interpret their findings. The final part of the research process is the preparation and presentation of a report which features key conclusions, limitations of study, research implications and recommendations.

Chapter 3
The Marketing Environment

Abstract The tourism marketing environment consists of internal and external forces which could impact the organisations' performance. To be successful, companies must adapt to ongoing trends and developments in their macro and micro environments. When organisations scan their marketing environment they will be in a position to deal with any possible threats from the market and to capitalise on any available opportunities. Therefore, this chapter explains the external environmental factors, including; political, economic, social and technological influences. It also considers the internal environmental factors, including; capital structures, resources, capabilities and marketing intermediaries; as it identifies competitive forces from differentiated or low-cost service providers.

3.1 Introduction

A sound knowledge of the customer requirements is an essential ingredient for a successful business. For this reason, companies should consistently monitor their marketing environment. The marketing environment is continuously changing, as it consists of a number of unpredictable forces which surround the company.

As well as conducting a thorough analysis of the actual marketing environment, the businesses must investigate the conditions in which they operate. The regulatory and competitive conditions as well as other market forces, including; political, economic, social and technological forces, could affect the organisational performance of the tourism businesses. Hence, this chapter will look into some of these issues. The tourism industry is highly influenced by economic factors, including; strong exchange rate fluctuations, the price of oil and other commodities, among other matters. Moreover, social factors including global concerns about safety and security could influence tourist behaviours. Notwithstanding, the regulatory environments will also have an impact on tourism and airline businesses (Belobaba, Odoni & Barnhart, 2015). For instance, the airline industry's deregulation and liberalisation has created numerous opportunities for many airlines, including

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low-cost carriers. At the same time, it has threatened inefficient airlines who have been protected by regulation.

Undoubtedly, competition is a vitally important element in the marketing environment and it should not be under-estimated. The businesses competitors comprise suppliers of substitute products. They may be new entrants in the marketplace. Alternatively, they may include customers and suppliers who were stakeholders of the business. In this light, tourism marketers should be knowledgeable of different business models as competition can take different forms, like for example, differentiated, full-service companies or low-cost service providers. For these reasons, organisations should have effective mechanisms to monitor the latest developments in the marketing environment.

3.2 Environmental Scanning

Environmental scanning entails the collection of information relating to the various forces within the marketing environment. This involves the observation and examination of primary and secondary sources of information, including online content from business, trade, media and the government, among others. The environmental analysis is the process of assessing and interpreting the information gathered. An ongoing analysis of the gathered data may be carried out by marketing managers or by researchers who have been commissioned to conduct market research (as explained in the previous chapter). Through analysis, marketing managers can attempt to identify extant environmental patterns and could even predict future trends. By evaluating trends and tendencies, the marketing managers should be able to determine possible threats and opportunities that are associated with environmental fluctuations. When discussing the 'marketing environment' we must consider both the external environment (i.e. the macro-environment) as well as the internal environment (i.e. the micro-environment) (Kotler, Armstrong, Frank & Bunn, 1990).

3.3 The Macro Environment

The tourism businesses must constantly assess the marketing environment. It is crucial for their survival and achievement of their long-term economic goals. Therefore, marketing managers must engage in environmental scanning and analysis. Most firms are comfortable assessing the political climates in their home countries. However, the evaluation of political climates in foreign territories is far more problematic for them. Experienced international businesses engage in political risk assessment, as they need to carry out ongoing systematic analyses of the political risks they face in foreign countries. Political risks are any changes in the political environment that may adversely affect the value of any firm's business activities. Most political risks may result from governmental actions, such as; the passage of laws that expropriate private property, an increase in operating costs, the devaluation of the currency or constraints in the repatriation of funds, among others. Political risks may also arise from non-governmental actions when there is criminality (for example: kidnappings, extortion and acts of terrorism, et cetera). Political risks may equally affect all firms or may have an impact on particular sectors, as featured in Table 3.1. Non-governmental political risks should also be considered. For example, Disneyland Paris and McDonalds have been the target of numerous symbolic protests by French farmers, who view them as a convenient target for venting their unhappiness with US international agricultural policies. In some instances, protests could turn violent, and may even force firms to shut down their operations, in particular contexts.

International corporations who intend investing in different markets should consider asking these simple questions: Is the host country business-friendly? Is its government a democracy or a dictatorship? Is the authoritative power concentrated in the hands of one person or on one political party? Does the country rely on the free market or on governmental controls to allocate resources? How much of a contribution is the private sector expected to make in helping the government achieve its overall economic objectives? Does the government view foreign firms as a means of promoting or hindering its economic goals? When making changes in its policies, does the government act arbitrarily, or does it rely on the rule of law? How stable is the existing government? If it leaves office, are there going to be any drastic changes in the economic policies of the new government? Firms should always contemplate (research) these issues before entering into a new market. They should be knowledgeable about the host country's political and economic structures, in order to minimise uncertainty and unnecessary risks. Appendix 1. provides a good background on the aviation industry's regulatory environment.

Table 3.1 Typical examples of political risks

Type	Impact on firms
Expropriation	Loss of future profits
Confiscation	Loss of assets, loss of profits
Campaigns against businesses	Loss of sales; increased costs of public relation; efforts to improve public image
Mandatory labour benefits legislation	Increased operating costs
Kidnappings, terrorist threats and other forms of violence	Increased security costs; increased managerial costs; lower productivity
Civil wars	Destruction of property; lost sales; increased security costs
Inflation	Higher operating costs
Repatriation	Inability to transfer funds freely
Currency devaluations	Reduced value of repatriated earnings
Increased taxation	Lower after-tax profits

A PEST analysis (political, economic, social and technological) provides a useful framework to analyse macro-environmental factors. The businesses should carefully analyse these issues before considering their expansion in a different country through foreign direct investment.

3.3.1 Political, Legal and Regulatory Issues

The political analysis relates to how governments influence the companies' strategy and operations. The political environment encompasses laws, government agencies and pressure groups which could have an effect on tourism organisations and entrepreneurs. Such factors include; national politics on financial matters, including; foreign debt, and the rates of inflation (i.e. increase in prices), recession; policies and regulatory legislation on reciprocal trade and foreign investment; travel restrictions, the governments' tourism policies; as well as ecological considerations, among other issues.

Political, legal and regulatory issues can affect the viability of tourism firms. Therefore, any prospective changes in the governments' priorities (for example; public spending) or a change in government can lead to the opening-up or the closing of markets. The business activity tends to grow and thrive when a nation is politically stable. National governments and their legal systems could could facilitate or hinder businesses, in many areas. Therefore, any political changes are closely related with the legal and economic matters (for example: employment laws, minimum wage laws, health and safety laws, zoning regulations, environmental protection laws, consumer protection laws, tax laws, et cetera). For instance, new European Union regulations have led to greater levels of competition in European aviation. However, many stakeholders are concerned about the environmental impact from airlines.

Many nations are increasingly encouraging free trade by inviting firms to invest in their country, whilst allowing their domestic firms to engage in overseas business. These nations may decide not to impose conditions on imports, or they would not discriminate against foreign-based firms. On the other hand, there are other governments who may oppose free trade. The most common form of trade restrictions is the tariff, (i.e. a tax that is placed on imported goods). Tariffs or levies are usually established to protect domestic manufacturers against competitors by raising the prices of imported goods. Multinational firms may face the risk of expropriation. This happens when the government will take ownership of land, buildings and/or other fixed assets; sometimes, without compensating the rightful owners for their loss. When there is the risk of expropriation, multinational firms will be at the mercy of foreign administrations. Unstable governments may have the authority to change their laws and regulations at any point in time, to meet their needs.

Very often, the best sources of information are their own employees. Whether they are citizens of the business' home country or of their host country, employees possess first-hand knowledge of the local issues, and are a valuable source of risk information. The views of local staff should be supplemented with the views from outsiders. The government, embassy officials and the international chamber of commerces are often rich sources of information. Many governments will usually signal their economic and political agendas during their political campaigns before being elected in parliament. Once in office, several governments continue to provide useful information about their current and future plans. Moreover, numerous consulting firms specialise in political risk assessment. Their role is to assist those firms who are considering foreign direct investment, those who would like to penetrate into a particular market. To reduce the risk of foreign operations, many developed countries have created government-owned or government-sponsored organisations which insure firms against political risks. For instance, the Overseas Private Investment Corporation (OPIC) insures US overseas investments against nationalisation. The Multilateral Investment Guarantee Agency (MIGA), a subsidiary of the World Bank provides similar insurance against political risks. Private insurance firms such as Lloyds' of London also underwrite political risk insurance.

3.3.2 The Economic Issues

The economic analysis will involve an examination of the foreign countries' monetary, fiscal and economic policies. The factors affecting consumer purchasing and spending patterns, include; wealth per capita; discretionary income; industrial development; currency restrictions; balance of payments; leave of imports/exports; fluctuations in interest and foreign exchange rates, among other issues. The exchange rate of a country's currency represents its value in relation to that of another country's currency. Currency rates fluctuate on a daily basis, thus creating high risks for many industries, including the travel and hospitality sectors. Tourism businesses will be more encouraged to expand and to take calculated risks when economic conditions are right. For example, when there are low interest rates, and when they are experiencing rising demand. Rising incomes and higher standards of living have often translated to more disposable money on luxuries like; long-haul travel and other hedonic behaviours.

3.3.3 Social Issues

A social analysis delves into societal behaviours, customs, values, norms, lifestyles and preferences. Demographic factors, including the age structure of the population may also change, over time (for example, there are many developed countries that are already having an ageing population). Moreover, social issues could also comprise the cultural environment, which is influenced by the individual populations' size, race, religious beliefs, gender, family, education, occupation, and the individuals' position in the social stata, among other variables. Institutions could influence society's basic values, perceptions and preferences. For instance, there may be changes in consumer behaviours which could be attributed to trending fashions and styles. Climate and seasonal variations could also affect consumer behaviours, and their travelling propensity. Of course, there may be other factors that could affect the consumers' inclination to travel, including; credit facilities and attitudes, competition from other spending behaviours, et cetera. In addition, social issues may also relate to distances to be travelled; urban versus rural lifestyles and attitudes to travel; emigration, school vacation periods, perceptions on international commuting, et cetera.

Tourism marketers ought to be sensitive to different social issues. A good understanding of societal changes could help them position their business, and to anticipate market demands. For the time being, many countries are experiencing a surge in popularity, particularly in short-break itineraries. This has inevitably led to a boom in demand for tourism products in the off-peak and low seasons. At the same time, **a**irports and airlines are striving in their endeavours to improve their levels of security, in the wake of the latest terrorist attacks. Currently, there is also the possibility that the U.S. government could ban laptops from aircraft. Other social factors that must be taken into consideration, include; civil wars, assassinations or kidnappings of foreign people. These contingent matters are equally dangerous for the viability of the tourism firms' operations.

3.3.4 Technological Issues

A technological analysis is required as marketers need to keep themselves up-to-date with the latest innovations in the tourism industry. Like any other business, the tourism firms, including airlines are effected by new technologies, which could create new products and market opportunities (Tussyadiah, & Inversini, 2015). For example, larger and faster aircraft which are more pleasing to the customer, as well as airport+ developments and their facilities, including; efficient check-in desks; lounges, shuttles and online travel booking sites, among other things, have surely improved the customer experience. Moreover, recently there have been a number of interesting developments in the field of airport security. The need for quicker, seamless processing and baggage checks has led the Transportation Security Administration (TSA) to explore the possibility of new security lanes. There have also been significant efforts to improve the accuracy of threat detection. New emerging technologies are providing better security, but can also help to enhance the passenger experience. Recently, many airlines are also considering the introduction of facial recognition devices that may be used for the boarding of passengers.

The rapid pace of technological change has been forcing travel and tourism businesses to spend heavily to remain on the cutting edge. This way they could better serve their customers. In the 90 s, many full-service, legacy airlines have introduced elaborate reservation systems which enabled them to improve their services to passengers. Subsequently, they introduced big data, analytics and customer relationship management systems that have improved their customer-centric approaches. In addition, many airlines, particularly, the full-service carriers have established sophisticated frequent flyer programmes, as they forged industry partnerships and/or code-sharing agreements with other carriers.

Recently, the uses of digital media, electronic databases and interactive communications have enabled vast quantities of information to be shared and distributed online, in an efficient manner. Tourism marketers are increasingly using technology to improve the standards of service. Several innovative destination management organisations (DMOs) are utilising a range of smart technologies to improve their customer service levels. For instance, KTO Tourist Information Centre (TIC) of Seoul, in South Korea, has adopted a mix of information, communication technologies (ICTs), including a visitor website with an interactive map featuring pre-arrival information. Facebook, Twitter, Instagram and Snapchat are being used by marketing and public relations executives for customer engagement and wide array of mobile application are being used by many travellers. For instance, the city of Montreal Tourist Office promotes its attractions through an interactive video that provides virtual experiences to tourists; while, Las Vegas Tourism Office provides personalised itineraries and Tourism New Zealand have come up with an interactive trip planner with customisable maps, price ranges and activities. Tourism businesses are increasingly expected to be knowledgeable and proficient in the use of internet (Buhalis & Law, 2008). The ongoing developments in technology and the proliferation of ubiquitous media and mobile communications have affected tourism businesses, in many ways. Many customers and prospects are using interactive media to engage with the business in two-way communications. They may also get involved in electronic word-of-mouth publicity (which can be either positive or negative) in social media, and by using review and rating sites like TripAdvisor or Yelp.

3.4 Micro Environment

Many travel and tourism businesses are continuously monitoring the countries' political, economic, social and technological changes to reduce their risks. However, the external environmental forces will also affect the organisations' micro environment. The micro environment consists of forces which are close to the companies themselves, forces which will affect their ability to serve customers. These forces include the organisations' capital structure, resources, capabilities of management and staff, companies' aims and objectives, the companies' marketing intermediaries, customer markets, competitors and all other stakeholders that may have an interest or an impact on the organisations' ability to achieve their objectives (for example, financial, media and government stakeholders, among others).

3.4.1 Capital Structure

The organisations' capital structure and how finance is allocated across departments and units will have an effect on the companies' marketing programmes.

3.4.2 Resources

The firms' specific assets are useful for creating a cost or differentiation advantage over other competitors. The organisations' resources may include; patents and trademarks, intellectual capital, installed customer bases, reputation and brand equity, among others. For example, the size and type of fleet of aircraft that are owned and controlled by airlines will determine the type of service which they can offer to the market.

3.4.3 Capabilities

The firms' ability to utilise resources is one of their capabilities. When organisations introduce a product to the market before their rivals, they will achieve a competitive advantage. Such capabilities may be embedded in organisational routines and may not be documented as strategic procedures. Moreover, the organisations' structures and the leadership of their various departments, and the relationship between management and staff may not be easily replicated by other businesses. The competitors may not always be in a position to mimic the capabilities of successful businesses.

The firms' resources and capabilities together form their distinctive competences. These competences enable innovation, efficiency, quality and customer responsiveness; all of which can be leveraged to create cost or differentiation advantages.

3.4.4 Company Aims and Objectives

When companies decide which market segments to target, they must carefully evaluate their internal strengths and weaknesses, and communicate their value propositions to their chosen markets.

3.4.5 Marketing Intermediaries

Marketing intermediaries are firms which help companies to promote, sell and distribute their goods or services to customers. When discussing about the tourism industry, tour operators and travel agents will usually act as intermediaries. Therefore, travel and hospitality businesses, including airlines and hotels, need to develop a sound relationship, loyalty and a strong bargaining power with tour operators, travel agents to sell their products. Moreover, the tourism industry and its distribution network are exposed to a number of changing internal and external environmental forces (these have been mentioned in the previous sections). With technological developments, there may be variations in economies and consumers could become more sophisticated and demanding. For example, today's customers have access to price comparison web sites, like; Google Flights, Kayak, Momondo, TravelSupermarket.com, Expedia, et cetera.

3.5 Identifying Competition

An adequate knowledge and understanding of competitive trends in the market place is necessary, as competition is a vitally important element in the marketing environment (Kotler et al. 1990). The competitive forces determine whether there is profit potential for a specific industry. The starting point of the competitive analysis is the identification of competitors. Porter (1979) identified five forces that govern industry competition: the threat of new entrants; the bargaining power of suppliers; current competitors; the bargaining power of customers; and the threat of substitute products or services. According to Porter (1979), the key to growth and survival, is to use one's knowledge of these five forces to "stake out a position that is less vulnerable to attack from head-to-head opponents, whether established or new, and less vulnerable to erosion from the direction of buyers, suppliers, and substitute goods." Such a position, he argues, can be gained by solidifying relationships with profitable customers, by integrating operations, or by gaining technical leadership.

In the tourism industry, the suppliers of tourism amenities can exert pressures over other businesses. For instance, these suppliers may refuse to work with the firm or they may charge excessively, high prices for their services. In this day and age, digital media has facilitated offline and online sales as it has provided a platform for interactive communications between businesses and their customers. Moreover, the competition from new entrants has also posed significant threats to businesses (Schegg & Stangl, 2017). The profitable markets that yield high returns will obviously attract new firms. The arrival of new competitors could eventually decrease the profitability for all other incumbent firms within the industry.

For example, the airline industry is a growing one, and extant carriers who fail to enhance their route network may be bypassed by competing airlines (Belobaba et al., 2015). There may be a number of national or low-cost carriers who may be competing for the same customers, on the same route. Furthermore, the bargaining power of customers could also exert pressure on businesses. If a large number of customers ask for lower prices from companies, they will have no other choice but to succumb to their requests. On the other hand, the buyer power is low when the customers act independently. The buyer power is high if the customers have a wide selection of service providers to choose from. When customers are buying in large quantities from a supplier; a temptation exits for the customers to move back along the chain, to become direct competitors with the supplier, rather than to remain their customers. This may be the case for those established tour operators who frequently block pre-negotiated carrier seats or hotel rooms. These travel organisations have grown to a point where it would be more viable and secure for them to set up their own airline or hotel properties. Consequently, they will find themselves competing with the travel and tourism business that originally supplied them.

3.5.1 Analysing Competition

A competitor analysis involves an assessment of the strengths and weaknesses of current and potential competitors. This analysis provides an offensive and defensive strategic context to identify opportunities and threats in the marketplace. Travel and tourism business could profile their competitors into one framework. They need to identify who their competitors are and to determine their strengths and key success factors (for example, the provision of high quality services, low-cost operations, route networks, convenient timings, good onward connections, et cetera). They should also acquire knowledge on their customers' needs and wants (for example, business or leisure passengers), including the value propositions that they may offer them (as discussed in Chap. 2).

The generic competitive strategies of cost leadership, differentiation and focus are conspicuous in the airline industry. The legacy carriers usually provide higher quality services as they typically offer first class and business class seating, frequent-flyer programmes, and are usually characterised by their exclusive airport lounges. Also, legacy carriers generally have better cabin services, including; meal services and inflight entertainment. Whereas, the low-cost carriers (LCCs), which are also known as no-frills, discount or budget carriers may usually offer lower fares and fewer comforts. To make up for the revenue lost in decreased ticket prices, the LCCs will probably charge for extras such as food, priority boarding, seat allocating, and baggage.

Several legacy carriers are also members of established airline networks and alliances that include; Star, Oneworld or SkyTeam alliances. During the last twenty years, there were some major mergers and acquisitions among traditional airlines. For instance, in 2015, American Airlines' has merged with US Airways; AirTran merged with Southwest a year before, United joined Continental in 2010; and Northwest become part of Delta, back in 2008. These airline mergers have resulted in the consolidation of resources, improved efficiencies, in terms of economies of scale and scope, thereby reducing costs for the new conglomerates. For instance, American Airlines' merger with US Airways has yielded an annual savings of up to $1.5 billion. Yet, these mergers have often led to reduced competition, higher fares, crowded planes and added baggage fees, at the detriment of customers.

3.5.1.1 Legacy Versus Low-Cost Carriers

Even with their rich history, the legacy airlines had to evolve over time to adapt to the changing regulatory, economic and technological forces that have shaped the aviation industry. The legacy carriers had to compete in turbulent marketplaces, as LCCs have shaken up many markets. The arrival of the low-cost airlines has resulted in a reduction in air fares as these 'no-frills' airlines have cut on-board perks and introduced inclusive extras for their passengers. For example, their passengers are charged for check-in baggage, limited weight allowance for checked luggage, early boarding, seat allocation and the like.

Very often these developments have affected the quality of airline services. In fact, many national airlines are increasingly mimicking low-cost models. For example, KLM and British Airways have introduced checked-baggage fees on their European routes. Such fees were associated with budget airlines like EasyJet and AirAsia. Moreover, several traditional airlines have discontinued the provision of complimentary, inflight meals on short-haul flights. Several European flag carriers, including Aer Lingus and Iberia, sell food and beverage on board. Some of the legacy airlines are even charging their passengers for seat reservations and seat allocations. According to KPMG, these initiatives have reduced the legacy carriers' cost disadvantages against low-cost airlines by more than a third. Apparently, legacy airlines are abandoning old differentiators like free baggage and inflight catering, particularly in their short-haul flights. The service that is being offered by both low-cost and legacy carriers is becoming more or less the same.

Legacy carriers are frequently outsourcing short-haul traffic to specialised regional airlines. They may only offer multiple classes of service including business and first class in medium and long-haul flights. However, there are more travellers using airline services, year after year. This may be due to the fact that the travellers are increasingly availing themselves of the low fares that are being provided by different airlines (including legacy carriers). At the same time, the business travellers are increasingly becoming price-sensitive. In fact, many of them are also travelling on LCCs. Yet, the airlines' low prices are negatively affecting their bottom lines.

3.6 Questions

- *An airline marketing manager must have a sound knowledge of the airline marketing environment. Why?*

- *Explain environmental scanning. Outline its importance to travel and tourism marketers?*
- *Identify the forms of competition faced by the airlines industry today, as outlined in this chapter?*

3.7 Summary

The tourism marketing environment is made up of a number of unpredictable forces which surround the company. Examples of such forces include; political and regulatory issues, economic factors, social and technological developments. By closely monitoring the changing environment, the businesses could be in a position to anticipate certain threats and may possibly capitalise on any available opportunities in the market. They may only do this if they are consistently scanning and analysing their marketing environment. Briefly, environmental scanning involves the collection, observation and examination of information relating to the various forces in the macro (external) and micro (internal) environments. Environmental analysis is the process of assessing and interpreting the gathered information. The marketing managers must be aware of the latest trends and developments. They should continuously monitor their competitors, as they may take different forms. They may be suppliers of substitute products. They can be new entrants. Alternatively, competition may even come from customers and suppliers. Equally, marketers should be knowledgeable of different business models, as competition is coming from differentiated and low-cost service providers, among others.

Appendix 1

The Aviation Industry's Regulatory Environment

In the past, many governments have adopted a very high degree of regulation in all areas of the tourism industry's activities, particularly in the aviation sector. Such regulations imposed severe constraints on how airlines marketed their services. To gain a better understanding of the marketing environment, it is important to understand the regulatory environment and the changes which take place in this area (Kotler et al., 1990).

1. **Safety**

Safety is an important issue when discussing aviation regulation. As a means of ensuring that safety standards are maintained in airline operations, governments have imposed regulations into the industry. Only airlines which can demonstrate their ability to operate safely will gain admittance in their air space. This form of regulation has always been, and still is agreed upon by many countries.

2. **Protection of Scheduled Service**

A scheduled service may be defined as a regular, reliable service which is provided all year round, in accordance with a published timetable. For such a service to be maintained during the quieter off-peak periods, airlines must make substantial profits during the peak season. Without regulation, a heavy entry of airlines will only be attracted to the market during the peak season, which would greatly reduce the profits during off-peak periods. Consequently, regulation has often protected scheduled services. This argumentation has been used by incumbent airlines to discourage the arrival of new competing operators.

3. **Maintenance of Services for Societal Interests**

Although it may be declining in importance; in the past governments wanted to ensure that airline services were provided in thinner markets (even though it would have been unprofitable to the respective airlines) in order to encourage regional economic development in their respective country.

4. **Prevention of Excessive Competition**

Without regulatory controls, fierce competition would work against the consumers' interest (Porter, 1986). In normal conditions, competition should be seen as productive and healthy. It could be perceived as a positive market force, particularly for customers. However, a massive influx of competitors into the market can have a negative effect, if not controlled in an adequate manner. It could result in a substantial drop in air fares and price wars among airlines. Consequently, the weaker airlines will be unable to maintain their service at low fares levels, and will eventually file for bankruptcy; leaving stronger airlines to monopolise the market. This will lead to higher fares and the quality of service could be reduced, in the long run.

5. **To protect national interests**

The Paris agreement of 1919 accepted the principles that nations have absolute authority over the airspace above their territories. Since then, governments have regulated air transport to ensure that their national interests prevail. Regulation has often been reinforced by the governments' ownership of airlines. The governments often considered their flag carriers as a symbol of nationhood. National airlines were maintained to improve relationships with stakeholders, including bilateral relationships with other governments. Very often, national governments imposed strict regulations to promote their objectives. The state ownership of the national airline was prevalent for a number of reasons: Most airlines developed at a time when heavy government involvement in the industry was commonplace. Defence considerations were also of paramount importance, and the ownership of an airline was considered a matter of national security. Owning an airline was also seen as a way of protecting the balance of payments and promoting regional economic development. However, such ownership gave rise to the following problems: Unprofitable routes that were kept open for political reasons; Staff levels that were maintained at a high level as a means of keeping unemployment figures down. Fares were kept low as a means of reducing domestic inflation. As a result, money was coming out of public funds to keep an undercapitalised industry afloat, and so the tax payers had to fork out more money from their pockets to subsidise unprofitable airline operations.

Forms of Regulation

In the past, the governments' regulation has been prevalent in the aviation market. Governments often controlled the industry by granting or refusing entry into their market, as well as controlling capacities and frequencies, types of services and fares.

Both domestic and cabotage[1] services were under single government control. This avoided excessive competition among the national carriers. However, depending on the governments' policies, the regulatory regimes varied from country to country. For example, in the past a few governments allowed single, state-owned airlines in the market, where tight control cut out any direct competition between domestic airlines. The United States of America (USA) and the European Union (EU) countries have swept away from these regulatory systems as they liberalised their internal market (Wensveen, 2016; Shaw, 2016).

[1]Cabotage is the transport of goods or passengers between two places in the same country by a transport operator from another country.

Deregulation and Liberalisation

Since October 1978, the American domestic services were deregulated. Other countries, like; Canada, Australia and the UK have followed, with varying degrees of deregulation within their domestic markets. In international markets, significant developments have also taken place, with very liberal air agreements being conducted between European countries. USA has also signed a number of agreements which allowed competition on some of the international routes to and from America. In June 1990, the EU adopted the second phase of Air Transport Liberalisation in anticipation of the full common market (i.e. 31th December 1992). This package covered market access, fares, capacity, competition policy and external relations. From a multinational point of view, the main developments in deregulation have affected those EU carriers operating intra-European services.

The overall picture in relation to the regulation of the airline industry is one of substantial changes—changes which are still evolving (Belobaba et al., 2015). Some markets are still unaffected by liberalisation, and will probably continue to be so in the foreseeable future. However, many airlines hailing from regulated markets, will be affected if they compete with deregulated carriers in major international routes. In marketing terms, deregulation and liberalisation offer a considerable opportunity for efficient airlines to compete effectively. Nevertheless, incumbent airlines which could have been protected by regulation may be subject to considerable threats, unless they change and adapt to the competitive environment. It is important for their marketing managers to be aware of the differences between competition in regulated markets and competition in liberal or deregulated ones, so that they can make the necessary adaptations to their marketing policies.

Competition in the Deregulated Airline Market

Opportunities created by deregulation allow airlines to optimise their route networks. New and promising markets can be entered rapidly. Similarly, services can be quickly withdrawn from unprofitable routes, and the resources devoted to these markets may be transferred to other developing markets. Deregulation also means that airlines can increase their capacity levels, as soon as an increase in demand justifies it. The airlines who incur lower costs than their rivals, can afford providing reduced fares. This will enable them to exploit their cost advantages to the full.

It has been argued that deregulation has threatened inefficient airlines. The airlines who operate their services in liberalised markets had to learn to compete with other carriers (Button, 2017). To do this, they had to take quick decisions quickly, and they also needed access to up-to-date information about the changing marketing environments. This way, they would minimise their rivals' chances to compete against them. For instance, they may use smaller aircraft, improve their service and enhance their route network. If an airline garners control over particular routes, over slots and gate space, they will be in a dominant position in the market, relative to their competitors. The airlines' capability to control its market loyalty, feed traffic and operating costs (including labour costs) are also extremely important factors. The airlines should also defend their brand status, at all times.

Today, the airline industry is considered as a service business and must be prepared to operate in a highly competitive environment. No longer will public funds and regulation protect inefficient airlines. In the last few decades, many governments have reduced their direct involvement in the aviation industry. Many European airlines which were previously state-owned have sold their equity stake to private investors. Recently, the European Commission has put forward a comprehensive strategy to strengthen the competitiveness and sustainability of the entire EU air transport network. It has therefore identified three key priorities:

- "Tapping into growth markets, by improving services, market access and investment opportunities with third countries, whilst guaranteeing a level playing field;
- Tackling limits to growth in the air and on the ground, by reducing capacity constraints and improving efficiency and connectivity;
- Maintaining high EU safety and security standards, by shifting to a risk and performance based mind-set" (EU, 2015).

In the main, the EU airlines have an unprecedented choice of European destinations, and they could offer competitive prices to their passengers. The liberalisation of the European aviation industry has led to increased frequencies of domestic and international flights. As a result, the number of passengers carried have increased substantially, following the deregulation of markets. Moreover, low-fare carriers are now amongst the top airlines, both in terms of passengers and in terms of market capitalisation. For example, there is no limitation on traffic rights within Europe for EU airlines, as long as they have been granted an EU operating licence. However, restrictions and obstacles are still very common outside of Europe and in the context of international services and third country markets. The international routes (beyond the EU zone) will usually involve at least two governments. This means that international aviation is negotiated by way of bilateral bargaining.

Air Services Agreements

Agreements between governments relating to scheduled air services are known as air service agreements (ASAs) and they cover many aspects of air services between the countries. One of their primary functions is to regulate traffic rights, in terms of what traffic can be carried and what cannot. Traffic rights are defined under the so-called 'Freedoms of the Air'.

- The First Freedom permits overflying of one country's airspace by airlines from another country. For example, when flying from London to Geneva, the aircraft flies through French air space.
- The Second Freedom allows airlines from the first country to land in a second for non-traffic purposes (for example for refuelling). Between friendly nations, the exchange of these non-controversial freedoms is virtually automatic.
- The Third Freedom allows traffic to be carried by the home airline to a foreign country, for example, a flight from London to Paris.
- The Fourth Freedom permits this airline to pick up commercial traffic in the foreign country and to bring it back to its home base.
- The Fifth Freedom is the right to carry traffic between two foreign points. Under the terms of the Air Services Agreement between the United Kingdom and India, the Indian carrier is granted the right to pick up traffic originating in the UK and to fly between London and New York. Therefore, the granting of the Fifth Freedom rights is often contentious. Again, where such rights are granted, it is nearly always on a reciprocal basis. In the case of flights offered to Air India, under the terms of the UK/India Air Service Agreement, these rights are only given by the UK government because, in return, the Indian government allows Fifth Freedom opportunities for a British carrier to pick up Indian traffic originating in Mumbai, and to fly beyond.
- The Sixth Freedom occurs when airlines fly passengers from outside destinations to their home base, and then from their home base to a point beyond; thus combining Third and Fourth Freedoms. For example: Singapore Airlines (SIA) is an active competitor in the markets between the UK and Singapore. It also has an agreement with Australia covering the same rights between Singapore and Australia. By combining these sets of rights, and using its home base as a refuelling and stopover point, SIA has been able to expand significantly.

Following the granting of traffic rights, air service agreements can dictate which gateways can be served by an airline or airlines, from each country. ASAs may also cover frequency and capacity of services. Arguably, the development of the Fifth and Sixth Freedoms has made many of the traditional forms of regulation less significant, in marketing terms. Even in nominally regulated markets, price competition became prevalent with consumers availing of discounts in many ways. For example, all routes within the European Union were open to Third, Fourth and Fifth Freedom services. The capacity restrictions have been eased and were completely abolished by 1993. Eventually, greater pricing freedoms became available. The EU commission has been empowered to go ahead with negotiations, initially with the European Free Trade Association (EFTA) and later with others, to extend the benefits of LUX II package. Other initiatives are currently being dealt with in possible multi-lateral ASAs.

Open Skies Agreement

Since 1992, the USA's Department of State has pursued an "open-skies" policy that is designed to eliminate government involvement in airline decision-making about routes, capacity, and pricing in international markets. Open-Skies agreements also contain provisions governing commercial opportunities, safety, and security issues. The United States has negotiated open-skies agreements with more than 100 aviation partners.

The EU-USA Open Skies Agreement

The EU–USA Open Skies Agreement is an open skies air transport agreement between the European Union and the United States of America. The agreement allows any EU or American airline to fly between any point within their territories. Airlines of the European Union are also allowed to fly between the United States and non-EU countries like Switzerland. The initial agreement was signed in Washington, DC., on the 30th April 2007. The agreement became effective on the 30th March 2008. Phase two was signed in June 2010. For example, under this agreement, London Heathrow Airport was opened to full competition. This ended the exclusive right that was primarily granted for only two American airlines and two British airlines (Bermuda II) to fly transatlantic services out of Heathrow. Nevertheless, the expansion of transatlantic flights to or from Heathrow continue to be limited by lack of runway capacity (currently its two runways operate at over 98% of their capacity), government restrictions (especially when expansion plans to build a third runway and a sixth terminal was cancelled on the 12th May 2010, and the fact that many take-off slots are owned by incumbent airlines).

Chapter 4
Market Segmentation, Targeting and Positioning

Abstract Businesses may not be in a position to satisfy all of their customers, every time. It may prove difficult to meet the exact requirements of each individual customer. People do not have identical preferences, so rarely does one product completely satisfy everyone. Many companies may usually adopt a strategy that is known as target marketing. This strategy involves dividing the market into segments and developing products or services to these segments. A target marketing strategy is focused on the customers' needs and wants. Hence, a prerequisite for the development of this customer-centric strategy is the specification of the target markets that the companies will attempt to serve. The marketing managers who may consider using target marketing will usually break the market down into groups and to target the most profitable segments. They may adapt their marketing mix elements, including; products, prices, channels, and promotional tactics to suit the requirements of individual consumers. In sum, this chapter explains the three stages of target marketing, including; market segmentation (ii) market targeting and (iii) market positioning.

4.1 Introduction

Target marketing involves the identification of the most profitable market segments. Therefore, businesses may decide to focus on just one or a few segments. They may develop products or services to satisfy each selected segment. The target marketing strategy differs from mass marketing (where a company may decide to produce and distribute one product to all consumers) or from product differentiation (where a company offers a variety of products to a large market). Marketers have been moving away from mass marketing endeavours, as they are increasingly targeting smaller segments with customised marketing programmes. In this light, this chapter sheds light on the process of market segmentation. It clarifies how businesses could select the most attractive segments as they employ market coverage and positioning strategies to attract them.

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4.2 The Market Segment

A market segment is a group of individuals, groups or organisations who may share the same interests, traits and characteristics. The consumer segments may have similar needs, wants and expectations. Therefore, businesses should ask themselves which segments should they serve? To answer this question, the businesses must determine the most appropriate way to distinguish and to differentiate their segments. Once the segments have been identified they must customise their offerings to satisfy each and every one of them.

4.3 Market Segmentation

Market segmentation is the actual process of identifying segments of the market and the process of dividing a broad customer base into sub-groups of consumers consisting of existing and prospective customers. Market segmentation is a consumer-oriented process and can be applied to almost any type of market. In dividing or segmenting markets, researchers typically look for shared characteristics such as common needs, common interests, similar lifestyles or even similar demographic profiles. So, market segmentation assumes that different segments require different marketing programmes, as diverse customers are usually targeted through different offers, prices, promotions, distributions or some combination of marketing variables. For example, Southwest Airlines' single-minded focus on the short-haul, point-to-point, major-city routes, allowed them to prosper as their competitors floundered. The airline's focus on specific segments allowed them to do a better job of deciding what their target segment really valued (for example, convenience, low price, on-time departures and arrivals, among other things).

Once the customer segments have been identified and profiled, the marketer must decide which segment to target. Diverse customers will have different expectations. For instance, there may be customers who will value the full-service, whilst others may be more price-sensitive. Notwithstanding, not all firms have the resources to serve all customers in an adequate manner. Trying to serve the entire market could be a recipe for disaster. The overall aim of segmentation is to identify high-yield segments. They are likely to be the most profitable groups of customers, or may hold potential for growth. Hence, these segments will usually become target markets. In the tourism industry, the business traveller is usually considered as a lucrative segment. However, there are different types of business travellers:

- The Hard Money Travellers (or the independent business travellers), these include the business individuals travelling at their own expense;
- The Soft Money Travellers (or corporate business travellers), these include business individuals travelling on an expense account;
- The Medium Money Travellers (or the conference or incentive business travellers), these include business individuals travelling within a group;

- The Interim Travellers, these include business travellers who are combining personal travel with a business trip;
- The Frequent Short Travellers, these include business travellers who consistently fly a short-haul route;
- The Periodic Travellers, these include sales persons who make a round of stops on a steady itinerary.

However, these six groups are said to be only part of some other travel groupings which have often been identified as principal sources of revenue for the tourism industry. Travel and tourism marketers must analyse these various segments. They must then select at least one segment and decide how to service them, in terms of fare prices, facilities, frequencies and special features.

4.3.1 The Benefits of Segmentation

By dividing the market into segments, marketing managers can acquire a better understanding of the needs and wants of customers. This enables them to customise or 'tailor' the company's marketing activities more accurately and responsibly to the individual customers' likings. Segmentation marketing supports businesses in meeting and exceeding their customers' requirements. It may also allow them to evaluate the competitors' strengths and weaknesses. This way, they could discover business opportunities in markets which were not served well.

Customer segmentation enables marketers to adopt a more systematic approach when planning ahead for the future. This leads to better exploitation of marketing resources, resulting in the development of a more finely-tuned marketing programme. For example, the businesses' integrated marketing communications can be better organised, as targeted advertising (for example native advertising) and promotional activities can be directed at individual customers. For example, the emergence of data-driven, digital technologies such as sensor analytics, geo-location and social data-capture could track the users' movements and other real-time phenomena are increasingly being used by tourism businesses to add value to customer-centric marketing endeavours (Schegg & Stangl, 2017; Camilleri, 2016).

4.4 Segmentation Variables

Having defined segmentation and discussed about its benefits, the next question to address is; how could businesses segment their markets? The traditional variables that may be used for market segmentation can be grouped into five main categories: (i) Demographic; (ii) Geographic (iii) Psychographic; (iv) Behavioural and (v) Product Related Factors.

4.4.1 Demographic Segmentation

Demographic segmentation involves dividing the market into groups that are identifiable in terms of physical and factual data. The demographic variables may include; age, gender, income, occupation, marital status, family size, race, religion and nationality. These segmentation methods are a popular way of segmenting the customer markets, as the demographic variables are relatively easy to measure.

For example, the age range for business travellers may usually span from their late twenties to their mid-fifties. According to a MMGY Global (2016), younger employees are travelling for business purposes and their buying habits are completely different than their older counterparts. On average, millennials took 7.4 business trips in the last year, compared to 6.4 for Generation Xers and 6.3 for baby boomers. Younger travellers are less likely to book air travel based on loyalty programme perks. They are more likely to book their flight according to the airline service and the customer experience they offer. Younger travellers are more likely to use room share services like Airbnb, than other segments (Skift, 2016). However, for the time being, major hotel brands are not under any serious threat. At the same time, Uber and other ridesharing services are becoming mainstream across all age groups, as they may be cheaper than taxis (Pew Research, 2016).

The age range in the leisure market is a very broad one and quite different to that in the business market. Children particularly can play an important role in leisure travel, as they travel abroad on holidays with their families. Young people in their early to mid-twenties too are prepared to spend their disposable income on travel before they take on the responsibilities of family life. At the other end of the scale, we have those who are retired from work, are in a relatively good health and in good financial position which allows them to travel.

In the past, middle-aged males dominated the business travel market. However, recently, the advertising and promotion of airline services have increasingly targeted female business travellers. This market controls 60% of U.S. wealth and influences 85% of purchasing decisions (Skift, 2014). The female gender is high-tech, connected, and social. They represent 58% of online sales (Skift, 2014). To get maintain their competitive edge, travel brands must start focusing their campaigns to better target women. The leisure travel market is far more balanced in terms of gender. In fact, in older categories of leisure travellers, that is over the age of sixty, women outnumber men due to their longer life expectancy (Boston Globe, 2016).

The ability to travel for leisure purposes greatly depends on an individual's income. Leisure travel is a luxury which may be foregone when times are financially difficult. Generally, as personal income rises, the demand for air travel increases. However, should there be a recession, money belts are tightened and less leisure trips may be taken. This is an example of a concept known as income elasticity (this topic will be discussed in Chap. 8). Income elasticity can be defined as the relationship between changes in consumers' income level and the demand for a particular item.

4.4.2 Geographic Segmentation

Geographic segmentation involves selecting potential markets according to where they are located. This segmentation approach may consider variables such as climate, terrain, natural resources and population density, among other geographic variables. Markets can be divided into regions because one or more of these variables could differentiate customers from one region to the next. For example, those individuals who are living in wet and cold climates will favour warm, sunny destinations for their holidays. This issue could greatly affect competition among airlines for certain destinations, particularly during the peak holiday seasons.

The culture or country of origin of all travellers is also an important factor which must be taken into consideration, particularly when targeting corporate segments. Not all business travellers belong to the same stereotypical image of the sophisticated, affluent middle-aged business man hailing from specific regions such as the north-west of Europe, North America or Japan. Today, business travellers may include traders who are travelling to different locations in the world, including developing countries, where there are growth prospects. In this case, convenient schedules and inflight frills are relatively unimportant when compared to excess baggage policies and low fares.

4.4.3 Psychographic Segmentation

Psychographic segmentation could be used to segment markets according to personality traits, values, motives, interests and lifestyles. A psychographic dimension can be used by itself to segment a market, or it can be combined with other segmentation variables. The psychographic variables are used when purchasing behaviours correlate with the personality or lifestyles of consumers. Diverse consumers may respond differently to the businesses' marketing efforts. For example, affluent business travellers who are used to high standards of living will expect an airline's service to complement such a lifestyle (Swarbrooke, & Horner, 2001). The lifestyle one leads and expects to lead greatly depends on an individual's social status which is generally influenced by occupation. Social grades (grades in status) may be broken down as follows:

- A: Higher managerial, administrative or professional;
- B: Intermediate managerial, administrative or professional;
- C1: Supervisory, clerical and junior managerial, administrative or professional;
- C2: Skilled manual workers;
- D: Semi or unskilled manual workers;
- E: State pensioners or widows, casual or lowest grade workers.

Most business class passengers come from the A, B and C1 social grades. These people have high occupational status. They may earn high incomes and are usually accustomed to a good lifestyle. Therefore, they may demand a very high standard of service. Marketing managers must carefully consider additional facilities for these passengers, as they should ensure their comfort, at all times. Examples of additional facilities that could be provided to these individuals (particularly those who are in Class A) could include; separate cabin for business class, separate check-in desks, the use of private lounge, and so on. Air travel is no longer an elitist luxury. Although members of the A and B social grades form a substantial number of leisure travellers, many airlines, particularly low-cost carriers are increasingly targeting lower social grades, namely, C2, D and E, as a means of exploiting the market.

4.4.4 Behavioural Segmentation

Behavioural segmentation is defined as the segmentation of the market according to individual purchase behaviours. Behaviour-based segmentation is conspicuous with the benefits sought from the product, with the identification of specific buying behaviours, in terms of shopping frequency and volumes of purchase, et cetera. For example, a customer relationship management system could include customer profiles of frequent-flyer travelers, and could reveal valuable information on their past transactions. The frequency with which individuals travel often depends on their occupation. The higher the standard of living of individuals will enable them to travel more frequently. This issue may prove detrimental to those airlines who do not perform at the same standard as their competitors. A poorly run airline could lose the return custom of the business travellers. Moreover, it may lose credibility among potential prospects who may have come in contact with disappointed travellers.

4.4.5 Product-Related Segmentation

These variables depend on the product or service to be marketed. In the airline industry such variables include, journey purpose, the length of the journey, the passengers' country of origin, and the like. For instance, passengers could be travelling for business reasons, therefore they may need to book for their short itinerary in the last minute. When discussing about business travellers it is necessary to break them into segments, namely, corporate, independent, incentive or conference travellers. As mentioned earlier, there are quite a large number of market segments which provide good sources of revenue for the airline industry. However, the business passengers, including those categories of travellers that were just mentioned, may differ from each other, in terms of their spending power.

The independent travellers are usually travelling on their own expense, so they would expect value for money. The corporate travellers are subsidised by their company, so they may be more interested in the standard of service, as well as on other frills being made available to them. The conference and incentive segments have other requirements. This latter segment consists of individuals who travel in groups. Their arrangements are usually made well in advance by either corporate businesses or by specialised travel agencies. As a means of offering cheap group rates, airlines could possibly organise group travel at unsociable hours.

The length of the travel journeys may also dictate the customers' needs, wants and expectations. For example, the needs of the customers who are travelling on a long-haul flight from London to Singapore, would be different from those of other travellers on a short-haul flight from London to Paris. Long-haul travellers will need very comfortable seats, inflight entertainment, inflight meals and so on. On the other hand, the short-haul travellers may only require a drink and some literature (inflight magazine) to peruse. Then, there are other journeys which may be categorised as medium-haul flights. An example would be a flight from London to Rome. These passengers will have different requirements to those mentioned above. In this case, they may expect comfortable seating and a light snack. Other services such as priority boarding and a welcome drink may also be expected by business travellers.

4.5 The Requirements for Effective Segmentation

There are a number of ways of how a market can be segmented. However, not all market segmentations are effective. Market segments must mean something, they must have relevance to the product being marketed. The market segments must possess the following characteristics:

4.5.1 Measurability

It must be possible to measure the size and purchasing power of the segment. It must be possible to gather concrete information on the various characteristics of the market. For example, 42% of passengers earn $100,000 per annum. The businesses would be more effective in their marketing strategies and tactics if they hold accurate data, on their chosen segments.

4.5.2 Substantiality

This is the degree to which segments are profitable enough to be worth pursuing with 'tailored' marketing programmes. For example, it may not pay an airline to market its service to people who are in the grade E social strata.

4.5.3 Accessibility

This refers to the degree to which one may reach and serve segments. For example, there is no point in conducting a heavy television advertising campaign for the business class service during off-peak viewing times of the day.

4.5.4 Actionability

This relates to the degree to which effective programmes can be redesigned to attract and serve relevant segments. For instance, a small airline could identify different market segments, but its human and financial resources may limit its ability to adequately develop separate marketing programmes.

The four parameters, including measurability, substantiality, accessibility and actionability of market segments, can be explained through a simple example:

After much market research, an airline has decided to offer an additional service on a new direct route between two main cities. Previously, travellers had to fly indirectly to their destination, by connecting through an intermediate city. The segment which the airline proposes to target is the business class traveller. A market research has identified the business traveller segment as the main customers using this indirect route. As a result, the airline concluded that a new direct service would be welcomed by this group of travellers. Research has indicated that a substantial number of business travellers already travel this route although indirectly, and the size and purchasing power of this segment is considerable.

Accessibility does not pose a problem to the airline, as it proposes to promote the new route through corporate magazines and newspapers, online through digital media and in prime television and radio advertising. Moreover, the new service will be manageable for the airline, satisfying company objectives, resources and fleet size.

In summary, the problem is to identify a segment of the market which can be easily targeted. An airline may also use psychographic segmentation if it wants to establish the needs for several business traveller segments, such as those whose choice of airline is dominated by schedule convenience. At the same time, it could target leisure traveller segments, such as those who are nervous of travelling by air. However, although it may be possible to develop products to satisfy the needs of the business traveller segments, it will prove quite difficult for the airline to identify the latter psychographic segment. For instance, those nervous of flying would not live in just one area, or they may not read the same magazines, et cetera.

4.6 Market Targeting

Once the market segmentation has been completed, the company should be aware of the needs and wants of its selected segments. It is in the interest of the business to identify any untapped needs in the marketplace, as there could be customers who may not be adequately served by competitors. It is then necessary to identify the most profitable segments and to decide which segments will be served. There are three market coverage alternatives which can be applied; undifferentiated marketing; differentiated marketing and concentrated marketing.

4.6.1 An Undifferentiated Marketing Strategy

An undifferentiated marketing strategy ignores any differences in the market. Therefore, this strategy involves approaching the customers with one market offer. In this day and age, discerned customers are increasingly becoming more demanding. It will prove difficult for the business to develop a product or a brand which will satisfy all consumers who may have different needs, wants and expectations.

4.6.2 A Differentiated Marketing Strategy

A differentiated marketing strategy will usually involve targeting a number of segments. Therefore, this marketing coverage strategy entails developing an individual product or service offering, and creating a marketing plan for each and every segment. Hence, the company should carry out a thorough market research to learn about how it can satisfy its selected segments. This will translate to more costs than an undifferentiated strategy. Therefore, it is extremely important for the company to decide which services are of critical importance to its chosen segments. The marketing managers should determine whether there will be significant margins when opting for differentiated marketing. For example, the legacy airlines' provision of additional facilities, such as; separate check-in desks, airport lounge facilities, separate cabins with comfortable seating for first class or business class passengers, as well as superior inflight meals, will translate to greater costs.

4.6.3 Concentrated Marketing

The companies with limited resources will usually target just one or a few sub-markets. If a segment is successfully chosen, there is a possibility that the firm may earn a high rate of return on its investment. However, this form of marketing could also involve a high-risk factor. If the selected segment fails, the company can experience hefty losses.

In sum, the appropriate market coverage strategy may be determined by a number of factors:

- The company's resources. If the resources are limited, concentrated marketing could be the most logical choice;
- The type of service which is to be offered. For example, airlines could offer chartered or scheduled service, low-cost or full-service, long-haul or short-haul services, business or leisure services, and so on;
- Diversities within the market. The companies need to understand their customers' requirements. For example, independent business travellers may have different needs and wants than those of the corporate business travellers who are sponsored by their employers;
- The competitors' market coverage strategies. For example, if competing airlines are successfully applying segmentation techniques; probably, it would not make good business sense to employ an undifferentiated marketing strategy.

Which segment should be selected? Only those market segments which are profitable should be considered. Therefore, the company should target individual customers within those segments and nurture a long-lasting relationship with them.

4.7 eTourism: Targeting Customers in the Digital Age

In classic marketing, customers are segmented into groups. However, in reality, individual customers have different needs and wants. This is the core aspect of personalised marketing. Today, the advances in technology have enabled many businesses to reach their potential customers by using digital and mobile applications.

A few companies have already reinvented how they target digital consumers to maximise value from them, individually. Google, Facebook, Ebay and Amazon among others are dominating digital marketing; and are pushing the entire field of advertising to other levels. The use of personal info, web-browsing, search history, geographic location, apps and Google Play Store's transactions have gone mainstream. Google has begun using transaction records to prove that its ads are working, and are pushing people to make more purchases. This allowed Google to determine the effectiveness of its digital ad campaigns and to verify their conversion rates.

All individuals leave a "digital trail" of data as they move about in the virtual and physical worlds. This phenomenon is called, "data exhaust". Initially, the "digital trail" was an interesting term that was used to describe how Amazon.com used predictive analytics in order to suggest items for its customers. Although, individuals tend to regularly repeat their habitual behaviours, pre-dictive analytics cannot determine when and why they may decide to change their future preferences (Camilleri, 2016). Of course, every person is unique. The possibility of “one off” events must never be discounted. Yet, a firm with sufficient scarce resources and inclination could be in a position to exploit how consumers deviate from rational decision making, on a previously unimaginable scale. Big data and analytics are continuously being gathered in new, innovative ways that have changed and improved businesses operations. For example, Deloitte Consulting have developed a mobile app that enabled Delta Air Lines’ executives to quickly query the airline’s operations. For instance, when users touch an airport on a map, the system brings up additional data at their disposal. Executives could also drill further down to obtain granular information on staffing requirements. and customer service levels as they identify problems in their airline operations.

However, business intelligence and predictive analytics could raise a number of concerns. Many customers may be wary of giving their data due to privacy issues. The underlying question is; when does personalisation become an issue of consumer protection? Very often, advances in technology are faster than legislation, and its deployment. These issues could advance economic and privacy concerns that regulators will find themselves hard-pressed to ignore. Some academics argue that the digital market manipulation may be pushing the limits of consumer protection law. Evidently, society has built up a body of rules that are aimed to protect personal information. Another contentious issue is figuring out the value of data and its worth in monetary terms. In the past, companies could have struggled to determine the value of their business; including patents, trade secrets and other intellectual property.

4.8 Targeted Segmentation Through Mobile Devices

The mobile is an effective channel to reach out to many users. The mobile devices, including smart phones and tablets could increase the productivities and efficiencies of organisations. For the time being, the mobile applications (apps) are an “in demand” area for research and development. Gartner (2015) anticipated that mobile analytics was going to be one of the latest technologies that could disrupt business intelligence. In fact, the market for advertising on mobile is still escalating at a fast pace. Moreover, there are niche areas for professional growth, as more and more individuals are increasingly creating new applications for many purposes on mobile operating systems.

Recent advances in mobile communication and geo-positioning technologies have presented marketers with a new way how to target consumers based on their location (Camilleri, 2016). Location-targeted mobile advertising involves the provision of ad messages to mobile data subscribers. This digital technology allows marketers to deliver ads and coupons that are customised to individual consumers’ tastes, geographic location and the time of day. Given the ubiquity of mobile devices, location-targeted mobile advertising are increasingly offering tremendous marketing benefits.

In addition, many businesses are commonly utilising applications, including browser cookies that track consumers through their mobile devices as they move out and about. Very often, when users leave the sites they visited, the products or services they viewed will be shown to them again in advertisements, across different websites. Hence, many companies are using browsing session data combined with the consumers' purchase history to deliver "suitable" items that consumers like. There are also tourism businesses who are personalising their offerings as they collect, classify and use large data volumes on the consumers' behaviours. As more consumers carry smartphones with them, they may be easily targeted with compelling offers that instantaneously pop-up on their mobile devices.

For instance, consumers are continuously using social networks which are indicating their geo location, as they use mobile apps. This same data can be used to identify where people tend to gather—this information that could be very useful. This information is valuable to brands as they seek to improve their consumer engagement and marketing efforts. It may appear that businesses are using mobile devices and networks to capture important consumer data. For instance, smart phones and tablets that are wifi-enabled interact with networks and convey information to network providers and ISPs. This year, more businesses shall be using mobile devices and networks as a sort of sensor data—to acquire relevant information on their consumers' digital behaviours and physical movements. These businesses have become increasingly interactive through the proliferation of near-field communication (NFC). Basically, embedded chips in the customers' mobile phones are exchanging data with the retailers' items possessing the NFC tags. The latest iPhone, Android and Microsoft smartphones have already included these NFC ca-pabilities. This development has recently led to the use of mobile wallets. The growth of such data-driven, digital technologies is surely adding value to the customer-centric marketing. Therefore, analytics can enable businesses to provide a deeper personalisation of content and offers to specific customers.

The geo-based marketing message or offer is delivered at the right time, and at the right place. The brands that hold customer data can gain a competitive edge over their rivals. Of course, firms will need more than transaction history and loyalty schemes to be effective at this. They may require both socio-demographic and geo-data that new mobile technologies are capable of gathering.

For instance, many mobile service companies are partnering with local cinemas, in response to the location-targeted mobile advertising; as cinema-goers often inquire about movie information, and they may book tickets and select their seats through their mobile app. The consumers who are physically situated within a given geographic proximity of the participating cinemas could be receiving location-targeted mobile ads. The cinemas' ads will inform prospects what movies they are playing and could explain how to purchase tickets through their phone. The consumers may also call the cinemas' hotlines to get more information from a customer service representative. Besides location-targeted advertising, the mobile companies can also promote movie ticket sales via mobile ads that arte targeted to individuals, according to their behaviour (not by location). Therefore, the companies may direct mobile-ad messages to those consumers who had previously responded to previous mobile ads (and to others who had already purchased movie tickets, in the past months). Moreover, the cinema companies could also promote movies via Facebook Messenger Ads if they logged in the companies' website, via their Facebook account. The mobile users might receive instant message ads via pop-up windows whenever they log into the corporate site of their service provider.

It is envisaged that such data points will only increase as the multi-billion dollar advertising monopolies are built on big data and analytics that can help businesses personalise immersive ads to target individual customers. The use of credit card transactions is also complementing geo-targeting and Google Maps, with ads; as the physical purchases are increasingly demanding personalisation, fulfillment and convenience. Consumers and employees alike are willing to give up their data for value. Therefore, the businesses need to reassure their customers through concise disclosures on how they will use personal data. They should clarify the purpose of maintaining consumer data, as they should provide simple user controls to opt in and out of different levels of data sharing. This way, they could establish a trust-worthy relationship with customers and prospects.

Companies are already personalising their mobile shopping experience based on the user situation and history. Tomorrow's tourism businesses are expected to customise their user experiences of applications and web interfaces, according to the specific needs of each segment. Big data and analytics capabilities are increasingly allowing businesses to fully leverage their rich data from a range of new digital touchpoints and to turn this into high impact interactions. Those businesses that are able to reorient their marketing and product-development efforts around digital customer segments and behaviours will be in a position to tap into the hyper-growth that mobile, social media and the wearables market are currently experiencing.

4.9 Product Positioning

The final stage in target marketing is product positioning. Firms formalise "positioning statements" which specify the position they wish to occupy in their target customers' minds, relative to other competitors' products or services. Customers continuously compare products or services. Therefore, marketers must build their positioning strategies to improve the customers' (and prospects') perceptions of their products. Effective product positions have four important characteristics. Firstly, they are built around benefits for prospective customers. Secondly, they differentiate the specific firms' products or service from those of key competitors. Thirdly, the respective firms need to possess relevant skills, resources, and the credibility to deliver on their implied statements and promises. Finally, an effective position is defensible, which means that an aggressive competitor cannot act quickly to neutralise or preempt another positioning strategy. For example, a full-service, national carrier could differentiate itself among other competitors as the only airline offering a superior service in its chosen markets. The tourism businesses should stand out from their rivals whether they decide to position themselves alongside competitors, or to position themselves in untapped niches. They may position themselves for their high standards of service, additional amenities and so on.

Alternatively, low-cost carriers like Southwest Airlines could position themselves as a punctual airline, as a no-frills airline, as a low-cost airline, as a safety-conscious airline, as a friendly airline, and as the airline serving the western part of the U.S. Recently, they used TV advertising to counter an unpleasant customer perception about the airline's 'free-for-all' seating policy. The rationale behind this spot was to build an image in their consumers' minds.

4.10 Questions

- *What is market segmentation?*
- *If your company is working with very limited resources. Which alternative would you recommend applying and why?*
- *Define product positioning and briefly state its relevance to the airline industry?*
- *Outline in your own words the variable which you could use when segmenting the business travel market in the airline industry?*

4.11 Summary

It is virtually impossible to satisfy all customers, so it is up to the company to select the specific parts of the market which they can best serve. Therefore, businesses could identify market segments, select a few profitable segments, and develop products and marketing mixes that are aimed at the particular customers. Target marketing is made up of three stages: market segmentation, marketing targeting and product positioning.

Segmentation is the identification of customer groups who share similar characteristics. This process has a number of advantages and enables a marketing manager to design an effective plan for each segment. Usually, tourism companies segment their market by using demographic, geographic and psychographic, behavioural and product-related variables. The chosen segments ought to be measurable, accessible, substantial and actionable.

Three market coverage alternatives including; undifferentiated marketing; differentiated marketing and concentrated marketing were also put forward in this chapter. Businesses should consider the most appropriate market coverage strategy according to their resources, the type of service to be offered and the diversities within the market. However, they should also evaluate their competitors' market coverage strategies.

The final stage in target marketing is product positioning. Consumers have different perceptions of products or services. Therefore, business should underline their products' unique attributes, features and value propositions to differentiate themselves from other competitors in the marketplace.

Chapter 5
Integrated Marketing Communications

Abstract Promotion is one of the four major elements of the marketing mix. Therefore, an integrated marketing communications (IMC) strategy consisting of a combination of promotional tools could be an essential element of the businesses' overall marketing strategy. Different promotional tools could foster an increased awareness of a company's products or services, inform people about features and benefits, and move them to make a purchase. In this light, this chapter examines these promotional tools, individually. It suggests that effective IMC plans promote the companies' products and services, by sending clear, consistent and complementary messages that are ultimately intended to turn prospects into customers. In conclusion, it posits that the marketing managers must consider the 6Ms (including the market, the mission, the message, the media, money and measurement) when they are preparing an IMC plan.

5.1 Introduction

The rationale behind integrated marketing communications (IMC) is to achieve the promotional objectives in reaching target markets and to raise awareness of the companies' products and services. Therefore, IMC may involve the combination of different promotional tools, including; advertising, personal selling, sales promotions, direct marketing, interactive marketing, publicity and public relations. This chapter describes the IMC tools which make up the promotional mix. It explains the characteristics of each marketing communications tool. It also considers the various factors which could influence the successful implementation of an IMC plan, including the measurement of its effectiveness.

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5.2 Selecting the Right Communication Vehicles

Everyone is exposed to commercial messages during a typical day: radio and TV commercials, ads in the morning newspaper, billboards along the highway, solicitations in the mail, calls from telemarketers, web page banners, among others. The magnitude of the contemporary communications clutter is such that consumers have often learned to tune out from promotional messages. Today's businesses want to distinguish themselves through the clutter as they strive in their endeavours to generate leads and convert prospective customers.

The marketers who possess a generous budget may have access to an arsenal of communication options, including electronic media (TV and radio), print media (newspapers and magazines), direct-mail solicitations, telemarketing, personal selling, public relations and the web, among others. The choice of the relevant marketing tools and the identification of the right messages to target different market segments; could prove to be a difficult task. Very often business may not convey the same message across channels. This may usually happen if the marketing communication efforts are not integrated. Instead, there may be a disparate and dispersed group of activities.

The smaller organisations, in particular, might focus on just one or two promotional elements due to financial constraints. Their marketing communications may include a website and some print advertisements. In fact, the Advertising Research Foundation (2016) revealed that that 60% of promotional campaigns relied on two or fewer media. Sometimes, even larger organisations may not integrate marketing tools to reach wider audiences. For some reason, these organisations may not consider a coordinated and integrated strategy to marketing communications. In this case, they will risk wasting their time and resources on activities that could not reap the desired goals and objectives.

Certain communication vehicles, along with their characteristics may be suitable for tourism products and services. However, businesses should evaluate whether their customers or prospects are (or are not) considering a purchase decision. They need to know if their customers are aware of their products or services? If they are, how much are they appreciating their benefits? What are the customer perceptions of the business? What position does the business occupy in their mind?

The chances are that the businesses will find out that prospective customers may (or may not) know certain aspects of their products. Therefore, businesses should use communication vehicles that are intended to send relevant messages to them. Their integrated communication approaches should provide consistent, persuasive messages that are specifically crafted for their selected target audiences. These corporate messages could be coordinated through precise channels to maximise impact. Hence, multi-channels, multi-audience approaches to message creation could produce synergies that will increase the potential to influence target customers. The multi-channels include; advertising, personal selling, sales promotions, direct marketing, internet marketing, publicity and public relations, as illustrated in Fig. 5.1.

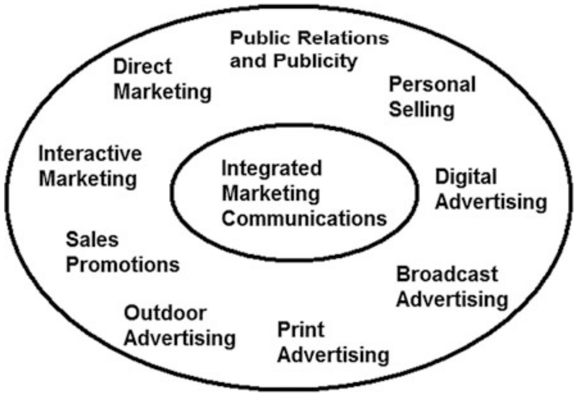

Fig. 5.1 The marketing communications mix

5.3 Advertising

Advertising is an extremely important element of the promotional mix. It is a non-personal communications tool that is paid for by a specific sponsor. Advertising is a mass-marketing communication tool that is designed to inform and persuade a large number of people. Therefore, this medium requires some type of media platform to deliver the message. Advertising messages are required for all promotional elements, which is why the process of creating advertisements could be an essential first step in IMC. The goals of advertising may include: to create awareness of a new product; to describe the attributes and features of the product; to suggest usage situations; to distinguish the product from competitors' products; to direct buyers to the point-of-purchase, and; to creating or enhancing a brand image, among other things. However, advertising may be limited in its ability to actually close the sale and to finalise a transaction.

Advertising objectives must be successful in reaching the businesses' target markets. For instance, airlines may use this medium to inform their customers about new or improved product features, new routes being served and so on. The advertisements may also remind the customers of existing product features, routes served, et cetera. There are several advertising media options, including; print advertising, broadcast advertising, digital or mobile advertising, and outdoor advertising, among others.

- Print Advertising, includes; newspapers, magazines, inflight magazine, printed flyers, brochures, posters, backs of tickets and supermarket receipts.
- Broadcast Advertising, includes; radio, television and cinema.
- Digital or Mobile Advertising includes; Online streaming channels, online banners, web pop-ups, the opening section of streaming audio and video, et cetera.
- Outdoor Advertising, includes; Wall paintings, billboards, street furniture including infrastructure, sky writing, human billboards, town criers, sides of

buses, banners attached to airplanes ("logo jets"), seatback tray tables or overhead storage bins, taxicab doors, roof mounts and passenger screens, musical stage shows, subway platforms and trains, elastic bands on disposable diapers, doors of bathroom stalls, stickers on apples in supermarkets, shopping cart handles, sporting venues, and the like.
- Any place an "identified" sponsor pays to deliver their message through a medium is advertising.

The media that is used to advertise a business and its services must be carefully selected. The choice of media depends on a number of factors, including: (i) the markets which are being targeted; (ii) the combination of media which will be the most effective (and the media habits of the target markets); (iii) the amount of money that is dedicated to the advertising budget, which can be affected by the decisions made in (i) and (ii).

5.3.1 The Advertising Campaigns

Businesses ought to set advertising objectives and determine their budget before choosing relevant media for the promotion of their products and services. They may also decide to contract a specialised advertising agency or to organise the advertising campaign in-house. The market managers are entrusted to make timing decisions. They need to consider the best time period to place their campaign to achieve the desired results. For instance, they could organise an all-year-round campaign or a seasonal campaign. It is important to note that such decisions must be linked with the companies' overall marketing strategies, plans and tactics.

The advertising budget may be affected by several factors. The marketing managers need to consider their businesses' objectives before allocating resources to advertising. They may want to advertise their products and services to maintain their profitability and market share. In this case, they will have to dedicate specific financial resources to advertising. The three most common methods that are used to calculate the advertising budget are as follows:

5.3.1.1 The Percentage of Sales Method

This method assumes that the level of sales should determine the amount spent on advertising. Its methodology is based upon an arbitrarily chosen percentage of sales (either past or forecast). For example, if 5% of sales may be the chosen percentage. If last year's sales amounted to $10,000,000, this year's advertising budget would be $500,000. The percentage of sales method is adopted by many businesses, however it should not be recommended.

5.3.1.2 The Competitive Parity Method

This method is based on the idea that the businesses should spend the same discretionary amount as their competitors on advertising. However, there may be a possibility that the competitors may have miscalculated their advertising budget. Consequently, the company will allocate excessive or insufficient resources toward advertising. This methodology ignores the other factors which should be taken into account when determining the advertising budget, for instance; 'Who is being targeted?'; 'What media will be used?' 'What are the advertising objectives?'. This method of calculating the advertising budget is erratic and should never be recommended.

5.3.1.3 The Task and Investment Method

This method assumes that the advertising budget should be related to the organisation's objectives and its advertising goals. The more ambitious and far reaching these objectives are, the more money will be allocated to the advertising budget to achieve them. This approach involves asking the questions; 'What is the business trying to achieve?' and 'What form of promotion will help the business to reach its advertising objectives?' The task and investment method is the best method to calculate the advertising budget as it is based on the return on investment principle.

5.3.2 Outsourcing Marketing Communications to an Advertising Agency

The selection of an advertising agency is very important and must be considered carefully. Using a specialised agency may be quite expensive. However, the benefits of having advertising experts working on the campaign should outweigh these costs. Very often advertising agencies may use different marketing communication techniques. Their strategies and tactics could involve traditional media and digital marketing tactics, as they use data and analytics to track their online performance. Hence, the outsourcing of advertising campaigns may ultimately prove to be feasible, transparent and an affordable option for the following reasons:

- Outsourcing allows the commissioning business to improve its capacity without adding staff. The business could capitalise on the experience of experts, who will execute advertising campaigns from strategy through to setup, management and reporting.
- The specialised agency could easily access every marketing channel. They may be in a better position to customise their content to target segments, whether they are local, international or geographically-dispersed.
- The contracted agency will be efficient in the compilation and interpretation of data to determine the effectiveness of their marketing communications.

5.3.2.1 The Advertising Brief

It is advisable that commissioning businesses prepare an advertising brief before they engage the services of advertising agencies. The success of the campaign will usually rely on the brief's content. Ideally, the brief should be approved by the higher echelons in the organisations' strategic management before it is sent to the advertising agency. This will prevent any misgivings which might arise after the campaign has been planned and designed by the selected advertising agency. This way, there will be clearer communication strategies, which will be in line with the corporate objectives. Therefore, the brief must answer the following questions:

(a) What are the objectives of the campaign?
(b) What is the message to be communicated?
(c) What is the target market?

5.3.3 Evaluating Advertising Success

The commissioning business managers need to determine whether the advertising campaign has satisfied its objectives. The evaluation of the campaign involves measuring its effect on the organisational performance, in terms of; return on investment, market share, brand equity, corporate reputation, et cetera. The business or its advertising agency should measure the campaign's effectiveness, before, during and after its execution: They will investigate their consumers' perceptions, and gauge their response to the campaign. They may want to know whether people are being influenced by the businesses' advertisements. If they do, what elements of the advert are they recalling? Did their attitude change toward the businesses' products and services? It is imperative that the businesses notice any differences in their consumers' attitudes. If the campaign is successful, the consumers will become increasingly aware and interested in what is being advertised to them. The scope of the campaign is to stimulate customers to purchase products and services from the business.

Advertising is one of the most important promotional tools in the tourism industry. This promotional tool could be effective if the business (or the advertising agency) formulate specific communication objectives. These objectives will have to define which market segments will be targeted by the businesses' advertising. The selection of media and the choice of advertising agency must be carefully considered. Moreover, the advertising campaign must be closely monitored and evaluated before, during and after the placement.

5.4 Public Relations and Publicity

The public relations (PR) is a management function that helps an organisation to establish and maintain communication with the public. PR promotes a favourable opinion of a company, its products, and its services. The traditional perspective of PR is about building mutually-beneficial relationships, and earning public understanding and acceptance from others. Therefore, it is a very useful tool, which, if used effectively can help to improve the businesses' corporate image, boost its reputation, and stimulate demand. PR tools include press releases, speeches by executives and public service activities. Unlike other forms of communication, PR operates through unpaid channels. Consequently, the business may have less control over how the PR efforts will play out.

The primary virtue of PR in marketing communications is to put the company in a favourable image, usually via the use of broadcast, print and digital media. At times, PR efforts may entail certain costs to the firm, but generally, PR is clearly distinguished from advertising as the firm does not pay for space in the media vehicle. The output of public relations activities is somewhat less controllable than is the case with either advertising or sales promotion. For instance, a TV advertisement guarantees that a business reaches its audiences, as prospective customers are frequently exposed to a particular message. This level of control may not be attainable with PR, as other parties decide whether or not to feature a media release. As a result, publicity is often referred to as public relations; in terms of providing favourable information to media and third-party outlets. Publicity may originate from bloggers, mainstream media, as well as from new media forms, including podcasts. All this is done to provide a message to consumers without having to pay for direct time or space. Therefore, publicity creates awareness and carries out more credibility than other promotional vehicles. After the message has been distributed, the publicist will lose control on how the message will be used and interpreted by others.

The advantages of publicity are low-cost and credibility (particularly if the publicity is aired in between news stories like evening TV news-casts). New technologies such as blogs, web cameras, web affiliates, and convergence (phone-camera posting of pictures and videos to websites) are changing the cost-structure of publicity. The use of publicity is also known to be an important strategic element due to its effect of intentional exposure over a prospective consumer. Favourable publicity is also created through reputation management in which organisations strive to control via the web. Furthermore, despite the fact that publicity, both good or bad, can be beneficial for a company, much of it is paid for, despite claims that publicity is free of charge. Despite publicity being an influential benefit within the marketing sector, one disadvantage which highly affects publicity, is the lack of ability in which publicity cannot be repeated. The use of publicity, the acquisition of free space or time in the media, can potentially be extremely beneficial to the businesses. This does not happen by accident, though. It must be well thought-out.

A very important function of public relations and publicity is to promote the corporate image and reputation of a business. The "image" is the total sum of impressions of a company. For instance, a casual act by an employee can appraise or damage the corporate image in the eyes of a single customer, or caller on the phone. However, the major elements of corporate image include; the core business and the financial performance of the company, the reputation and performance of its brands (i.e. brand equity); its reputation for innovation or technological processes; policies toward employees; external relations with customers, shareholders, and the community, at large, and; the perceived trends in the markets in which the business operates.

Public relations and publicity support other marketing tools, and could be seen as the backbone of the promotional mix. The success achieved by the other elements of the mix could easily be damaged or reduced by bad public relations or negative publicity, something which is undesirable to businesses. Very often, the businesses cannot control the favourable or unfavourable messages about products or services that appear in online reviews and referrals. If for some reason, the business receives bad publicity, its role in this area is the limitation of damage. For example, many airlines and large hotel chains may have a section within their PR department to engage with online communities. This section will usually handle publicity issues, including negative reviews.

Recently, we are increasingly witnessing a surge in the businesses' engagement with online communities, including consumers. User-generated ratings and reviews provide relevant information on the businesses' products, and their levels of customer service. For instance, many prospective customers read reviews before choosing which places to visit, to stay or to eat. Very often, the online ratings and reviews will have an effect on consumer behaviours. It is likely that prospective customers will be mainly influenced by negative reviews, rather than by positive ones. Many studies indicate that individuals will read consumer reviews before shopping.

5.4.1 Reviews and Ratings

Presently, there are millions of online reviews that are related to travel and tourism. Digital platforms which provide travel-related content concerning destinations, attractions and businesses (these are generated by users, themselves). For instance, TripAdvisor provides travel-related reviews and opinions on accommodation establishments, restaurants and attractions. In addition, many websites, which are traditionally known as booking engines, including; Booking.com, Airbnb.com, et cetera, also provide reviews that are integrated in their presentation of properties, restaurants and other amenities. A distinction should be made between reviews and ratings: Reviews will generally include qualitative comments and descriptions, whilst ratings usually feature quantitative rankings, corresponding to degrees of user satisfaction. The ratings may be part of a review.

Sometimes, internet users may notice that there may be controversial reviews and unverified negative criticism. In a similar vein, the tourism service providers may also claim that they were subject to unfounded negative ratings. At times, businesses have even been blackmailed by consumers, who have threatened them that they will write negative reviews unless their demands are not met. On the other hand, consumers have also reported cases of unfounded positive ratings of services. As a result, online users are increasingly paying more attention to these contentious issues.

Recently, The World Committee on Tourism Ethics has elaborated its recommendations for the responsible use of ratings and reviews on digital platforms. Their recommendations are addressed to three main groups of stakeholders, namely: online platforms (operators like TripAdvisor or Yelp) service providers (businesses that are listed on these platforms); and users (consumers).

Digital platforms that incorporate reviews and ratings for their products and services need to ensure the accuracy, reliability and credibility of their content. Online platforms should undertake all reasonable measures to ensure that the individual reviews reflect the real users' opinions, findings and experiences. The provision of publicly available information through digital media involves a certain degree of trust; therefore the veracity of the reviews is essential for their integrity, reputation and good functioning of the review platforms. Whilst it is not always easy to verify the authenticity of user generated content, the digital platform should have quality control mechanisms and processes to ensure that their reviews are clear, accurate and truthful, for the benefit of the service providers as well as prospective consumers.

5.5 Sales Promotions

Sales promotions are marketing activities that provide an incentive to stimulate immediate action. There are two types of sales promotions: consumer-oriented and trade-oriented. Consumer-oriented sales promotions can be considered as a pull strategy that creates demand.

Consumer promotions may include; samples, redeemable coupons, special offers, freebies, complementary upgrades, contests, competitions, sweep stakes, et cetera. Retail promotions are used by the trade and may be addressed to the end consumer; for instance, they may include offering; point of purchase pricing, point of purchase displays, like discounted items and loyalty programmes. These tactics are usually more effective when used as a short-term inducement to generate purchase behaviours.

Conversely, the trade-oriented sales promotions are aimed at intermediaries. These are used to incentivise an intermediary to promote (and supply) products and services to the intended audience(s). The trade promotions may include; temporary off-invoice price discounts or cooperative advertising allowances, et cetera.

Trade-oriented applications may also include; trade shows, exhibitions and other public relations events.

Sales promotion consists of those promotional activities which supplement other market activities, especially advertising, sponsorships of events, personal selling, et cetera. For example, it is very common for tourism businesses to sponsor, not just the event, but also individual sports people and teams. Very often, the sales promotional activities could support the launching of a new service. Therefore, such promotions are usually of a short-term nature. They are designed to both stimulate and induce the customer into buying from the business. However, it should be noted that certain sales promotional tactics may not be suitable for all kinds of businesses, particularly those who are offering differentiated services.

5.6 Personal Selling

Personal selling is an important marketing communications tool as the organisations' representatives interact and engage in two-way communication with potential customers. Therefore, members of staff can develop a good understanding of their particular customers' perceptions and preferences. This will allow them to adapt their communications message to individual customers. Personal selling is an interactive, conversational method of promotion. One of its advantages is that it targets precise market segments. Therefore, it is usually very expensive as it is based on a per-contact basis.

Very often, the other elements of the promotions mix are used to support the personal selling effort. For example, without direct marketing and database support, personal selling efforts cannot be fully-optimised. Without advertising that creates awareness and knowledge about the businesses' products and services, personal selling could not exist. In addition, personal selling is essential for trade-oriented sales promotions to work. Trade shows and conference marketing require strong personal selling skills, as they rely on person-to-person communications. A very useful application of this IMC element is related to lobbying activities. However, a great deal of marketing messages containing relevant content must be created before lobbyist activities become effective.

The sales representatives are expected to generate demand from customers. Therefore, their duty is to convert prospects into customers. Effective sales individuals have the ability to keep existing customers and to encourage new ones. On the other hand, ineffective front line employees can, over time, erode the businesses' customer base. The sales representatives are influential to the businesses as their role is to acquire and retain customers. They are also responsible for the delivery of after-sales services, and they could provide technical support to customers with their queries. They may also need to know how to handle consumer complaints.

Complaints provide a good opportunity to businesses to strengthen relationships with customers. The businesses' front office employees should listen to customers with an open mind. They have to hear what customers have to say without pre-judging the situations. Once the front office employees understand the complaint they have to empathise with customers and assure them that something will be done to resolve the matter. The business should follow-up this incident with a report on what went wrong, and steps should be taken to rectify the situation. The goal of this process is to show customers that the business cares about them. Crucially, management must ensure that all of their front office employees will know how to approach complaints and criticism with openness, empathy, and with a sincere desire to help. This way, they could create lasting and satisfying relationships with customers.

Personal selling can be very advantageous in the airline industry, particularly when used in the high-value end of the market. For example, the sale persons can highlight an airline's differentiated services to business travellers. Very often, airlines employ competent individuals whose primary role is to 'service' corporate accounts, leisure groups and intermediaries. In a sense, the main function of personal selling is to fill in the gaps where advertising and other methods of non-personal selling will fall short.

5.6.1 Evaluating Sales Representatives

The tourism businesses operate in a highly competitive market place which are characterised by their product complexity and increasingly sophisticated buyers. It is inevitable that emotional influences from positive or negative word-of-mouth publicity could affect the customers' purchasing decisions. Therefore, proficient sales persons would be in an excellent position to engage with customers and to influence their purchase decision. If sales people are monitored and evaluated on a regular basis, they will be capable of doing a better job. Any successes or failures in terms of their provision of customer service will be pointed out to them. This will enable them to refine and improve their selling techniques. The sales people can be evaluated in quantitative terms, on their sales volume, sales revenue, number of sales calls made, number of new accounts placed on record and level of expenses that is expressed as a percentage of sales turnover. Their qualitative evaluation could involve assessing their product knowledge, quality of sales presentations, personality traits and characteristics, customer awareness of the product, the promotional content they articulate in digital or in print media, et cetera.

5.7 Direct Marketing

Direct marketing tactics allow businesses to communicate directly with customers through a variety of media, including; by electronic newsletters, mobile messaging apps, websites, online adverts, fliers, online and offline catalogues, promotional letters, targeted television, newspaper and magazine advertisements, as well as outdoor advertising, among others. Direct marketing often relies on the proposition, offer, communication, choice of channel and the target customer. While advertising is comprised of non-personal communications, direct marketing seeks to create one-to-one personal relationships with customers. Again, the goal is to generate a response.

Direct marketing is attractive to many marketers because it is a communications tool that provides a direct response from customers. Its positive results can be measured directly. For example, if a marketer sends out 1000 solicitations by mail and 100 respond to the promotion, the marketer can say with confidence that the campaign led to 10% direct responses. This metric is known as the 'response rate,' and it is one of many clearly quantifiable success metrics that are employed by direct marketers. In contrast, general advertising uses indirect measurements, such as awareness or engagement, since there is no direct response from the consumer. The measurement of results is a fundamental aspect for the successful implementation of direct marketing.

In this day and age, the engine behind direct marketing is usually a sophisticated database. The collection of data is growing at an exponential rate as it is continuously stored, in massive amounts, by search engines, including; Google, Bing and Yahoo. In addition, more information is being gathered by social media giants, like; Facebook, Twitter, Linkedin, SnapChat, Instragram, et cetera. The advances in technology are increasingly allowing marketers to know more about their audiences. For instance, marketing are benefiting from the growth of geo-location data services like satellites, near-field communication and global positioning systems that track users' movements that measure traffic and other real-time phenomena. New anonymous cookie-less data capture methods are connecting consumer data with matching geolocation-based data. In the past; businesses did not have these means to capture, store and analyse such data. Now, companies can economically gather and store all data from each and every customer transaction. These methods are increasingly empowering marketers to hyper-target consumers with real-time mobile ad campaigns; before, during and after in-store activity, as they drive conversions. Geolocation capabilities not only enable advertisers to capitalise on a lead, at the right time, but they can also offer valuable insights into shopping habits and consumer behaviours. As a result, customers are continuously being targeted with relevant content.

Evidently, the internet has made it even easier for marketing managers to measure the results of their direct marketing campaigns. This is often achieved by using a specific website landing page which is directly related to the promotional material. A call to action will ask the customer to visit the landing page, and the effectiveness of the campaign can be measured by taking the number of promotional messages distributed and dividing it into the number of responses. Another way to measure the results is to compare the projected sales or the generation of leads with the actual sales or leads after a direct advertising campaign.

5.8 Interactive Marketing

Interactive marketing is a marketing communications strategy that enables two-way communications between sellers and individual buyers. This exchange takes place online through email, social media, and blogs. The advantages of interactive marketing include the ability to precisely communicate to individuals with addressable messages that can be customised in ways that make the messages more relevant to consumers.

The interactive marketing tools rely on an open engagement with customers. One of the most noteworthy advantages of utilising digital media, including websites, blogs, micro-blogs is their two-way, interactive nature. Today, Web 2.0, also referred to as "Travel 2.0" in tourism, includes a range of new technological applications such as media and content syndication, mash-ups, tagging, wikis, web fora and message boards, customer ratings and evaluation systems, virtual worlds, podcasting, blogs, and online videos (vlogs). Moreover, the development of social media channels has also been crucial for the successful execution of this communication strategy. Interactive marketing is also linked to content marketing, so companies can produce relevant content that is shared many times through social networks. Such content may "go viral" among social media users. In addition, consumers may trust those who may be considered as thought leaders in their industry, so this strategy can bring in many inbound leads, coming through download pages. On the other hand, internet users can choose what content they wish to be exposed to, respond to, and share.

Direct and interactive marketing techniques typically include response mechanisms that allow consumers to respond directly to a communication and to potentially make a purchase. Compared to mass media communications, direct and interactive marketing is much more precise and measurable. The ability to measure direct and interactive marketing effects allow marketers to design communication programmes that target consumers, based on; recency—the amount of time since last purchase, frequency—the number of previous purchases, and monetary value—the total expenditures a customer makes over time, et cetera.

For example, Google may have access to consumer profiles more than any other company, because it knows when consumers view ads in Google Search, Gmail, YouTube, Google Maps, and Android apps. It also knows where consumers go, both online and in the physical world, based on cookies and location data from their phones. The company will shortly be in a position to track credit and debit card transactions and link them to online consumer behaviour. Google's moves will bring significant marketing opportunities to advertisers. It may appear that businesses could leverage themselves if Google provides them with relevant data on the customers' needs and wants. Google could also indicate when prospects need products or services, and what price they are willing to pay. These answers allow marketers to better target individual consumers. However, these advances will also raise privacy concerns. There may be wary consumers who may want to separate the greater personalisation of content from advertising. For this reason, they may install ad blockers, tracking blockers, and they could decide to switch off their phone's location services

The strategies, methods, and metrics of direct and interactive marketing are becoming more central to the businesses' marketing strategies as digital technologies are also allowing interactive marketing communications to take place through television and mobile devices. Recently, many individuals are using their mobile devices to construct new experiences by attaching personal meanings to their tourist experiences. Whereas the use of social networks allows them to engage, communicate and co-create in the online world. The tourism organisations' websites are using social media networks as well as interactive communications to enable tourists to personalise their sites with their experiences. They empower tourists and facilitate the co-creation of content for the benefit of other prospective tourists. Therefore, social media might contribute to the branding of tourist destinations. Very often, potential tourists rely on the experiences of others for their decision-making, due to the experiential nature of the tourism products. Therefore, social media could have an impact on the travellers' holiday plans.

Different types of tourists may have different attitudes toward using online tools, including; social media in their travel management. For instance, travellers may use price comparison sites, or may avail themselves of online travel search engines to learn about available hotels. Given their important role in facilitating the travellers' access to online tourism domains, social media has become an important interactive tool for prospective tourists who search for travel information. Moreover, social media users and their reviews may impact on tourism marketing. For example, independent reviews and ratings may often be considered as trustworthy sources for prospective tourists, as they provide objective information on tourism products and services.

5.9 Planning the Integrated Marketing Communications Campaign

The integrated marketing communications campaigns are drawn from all of the elements of the promotional mix which have been discussed in this chapter. The businesses' communications objectives may not change much over time. However, the promotional campaigns may run for a few weeks, sometimes even for a few years. Consequently, it is usual for the overall promotional campaigns to be based on clear strategies that will help the respective business to achieve its goals and objectives. The different marketing tools are distinct from each other in terms of their purpose. However, they may be used together in unison—something which is easier said than done. Therefore, marketing managers are faced with important decisions with respect to their IMC planning, organisation, implementation and control. They need to coordinate the various promotional activities into a concerted, organised, promotional campaign. They will have to allocate financial resources in support of every marketing tool; and coordinate their spending so that all customer touch points are getting consistent messages. The marketing communications activities will be planned according to specified timescales, which outline the dates by which the business hopes to achieve all or some of its promotional objectives.

There are many marketing communications tools, including digital media and traditional channels. Managers must also ensure that each of their promotional activities will truly represent their product or services, in a consistent manner. The worst thing that can happen is to have different media conveying conflicting marketing messages. Such discrepancies may confuse customers and undermine brands. One practical way to avoid inconsistency is to review the IMC programme on a regular basis.

The job of specifying the right communications mix has grown more complex simply due to the number of options, variations and combinations to be considered. Usually, a large chunk of the IMC budget is dedicated to an advertising or media agency. For instance, a TV commercial is strictly a one-way message; it can create awareness, and it may impart information about the features and benefits of the product. Personal selling, involves a two-way conversation where the salespersons can describe the features and attributes of their products or services. At the same time, customers may ask for specific information, or may voice their concerns on certain issues. The salespersons and the buyers can negotiate and perhaps conclude with a transaction. Therefore, two-way communication methods are effective in moving the buyer along the final steps of the marketing funnel. In a similar vein, direct marketing and interactive communications, offer some of the advantages of two-way communications.

In sum, the marketers' challenge is to communicate with customers in a way which triggers their purchase decision. At the same time, they must optimise their resource allocation among all promotional activities, as effectively as possible. They may have to consider the following 6Ms whenever they use their marketing communications tools:

5.9.1 The Market

The market comprises customers, including other intermediaries; such as retailers or wholesalers, as well as consumers.

5.9.2 The Mission

The marketing objectives may include increasing sales volumes, market share, return on investment, and profitability. The communication objectives may include; raising awareness of a product or service, increasing the consumer knowledge of the product features and attributes, improving the consumers' preferences and convictions toward the product, entice customers to make their purchase decisions. These latter objectives are related with the hierarchy of effects model, which map out the response process of prospective customers before their actual purchase. One premise of this process is that communications take time to yield results. Another aspect of this model is that; different elements of IMC can be very effective and specifically targeted at integral steps in the response process. For example, advertising is an excellent tool to raise awareness and to convey information on a product or service. Public relations may be used to generate interest and desire. Personal selling (which necessitates face-to-face interactions) may be used to convert preference and conviction into purchase behaviours.

5.9.3 The Message

The consumers may be interested in the features and benefits of products or services. Whilst the intermediaries (if any) may want to know more on the terms of trade, the reliability of delivery, volume discounts, and about the businesses' efforts to generate demand through advertising.

5.9.4 The Media

Which communication tools should be used to promote the businesses' products or services? One medium is seldom enough to reach segments.

5.9.5 The Money

How much will be budgeted for every marketing tool?

5.9.6 Measurement

How will the business assess the impact of its integrated marketing communications?

In many cases, the corporate communications are usually aimed at more than one market segment, and will probably involve more than one communication vehicle. In fact, the businesses are expected to use consistent messages across different marketing tools to target their chosen consumer segments. Specifically, the steps involved in planning the integrated marketing campaign are illustrated in Table 5.1.

Table 5.1 The integrated marketing communications plan

Executive summary Table of contents
I. Situation analysis An overview of the marketplace, competition, environmental factors (as they relate to IMC issues) and the customers/prospects
II. Strategic objectives & strategy IMC/Communication objectives, specify target market(s) for communications, product positioning/brand image
III. Integrated marketing communications programme Marketing tools include: Advertising, Direct Marketing, Interactive Marketing, Sales Promotion, Public Relations and Personal Selling (if relevant) Set objectives, develop a message and a media strategy
IV. Determine the budget (for each marketing tool)
V. Implementation timetable
V. Measuring effectiveness

Firstly, the business must carry out a situation analysis in order to have a good overview of the marketplace, competition, environmental factors (as they relate to IMC issues) and the customers/prospects. This way, the business can identify any opportunities and threats in the marketing environment (Kotler et al., 1990)

Once this research has been carried out, the strategic objectives will be laid out, and the IMC/communication objectives will specify target market(s). The product positioning/brand image can be spelled out and communicated to all marketing employees.

Afterwards the marketing managers must decide what combination of promotional tools will be the most successful in achieving the promotional objectives. In other words, they must decide upon the most suitable communications mix. Marketing tools include: Advertising, Direct Marketing, Interactive Marketing, Sales Promotion, Public Relations and Personal Selling (if relevant). A budget should be determined for each marketing tool.

The business must be very clear about how much it can afford and how much it wants to spend on promotion. The task and investment method is generally considered the most appropriate for a promotional budget. This method is related to the IMC objectives and the corporate strategies. Therefore, the promotional budget is based on specific objectives, rather than choosing an arbitrary amount or basing the marketing budget on sales revenues or projections alone. In conclusion, business should measure the effectiveness of each marketing tool, by using quantitative and qualitative metrics.

5.10 Questions

- *Outline three possible advertising objectives?*
- *Outline the importance of the advertising brief?*
- *Briefly discuss the main features of personal selling?*
- *How can direct and interactive marketing be used in an airline context?*

5.11 Summary

Promotion is one of the four major elements of the marketing mix. There are several marketing tools that may be used to promote a product or a service. A combination of these tools may be used; depending on the promotional objectives, the target market(s) and the promotional budget, among other issues. Integrated marketing communications (IMC) is a strategic process that is required to produce a consistent brand message that is aimed at each customer touch point. Its goal is to use multiple modes of communications, including; advertising, personal selling, sales promotions, direct marketing, interactive marketing, publicity and public relations. These promotional tools foster awareness of a company's products or services, inform people about features and benefits, and move them to make a purchase.

There are several advertising media options, including; print advertising, broadcast advertising, digital or mobile advertising, and outdoor advertising, among others.

Personal selling may be used to target the precise market segments (including intermediaries). Certain customers may deserve more attention than others, particularly those which are the most profitable customers. The most successful sales representatives are customer-centric, as they adapt to their offerings to customers.

Sales promotions may be consumer-oriented, retail-oriented or trade-oriented. The promotional activities are designed to stimulate and induce customers (including other business customers) into buying from the business.

Direct marketing seeks to create one-to-one personal relationships with customers. The sophisticated databases are increasingly allowing many businesses to communicate directly with consumers through a variety of media, including; electronic newsletters, mobile messaging apps, websites, online adverts, fliers, online and offline catalogues, promotional letters and targeted advertisements.

Interactive marketing enables two-way communications between the businesses and their customers. This exchange takes place online through email, social media, and blogs. Both direct and interactive marketing techniques can be used to target consumers with personalised messages.

The traditional perspective of public relations (PR) is about building mutually-beneficial relationships and earning public understanding and acceptance. Therefore, it is a very useful tool which if used effectively can help to improve the businesses' corporate image, boost reputation and stimulate demand. PR tools include press releases, speeches by executives and public service activities. Unlike other forms of communication, PR operates through unpaid channels. Therefore, the businesses may have less control over how the PR efforts will play out.

Publicity also has the considerable advantage of reaching out to audience members who might normally resist other promotional tools. An advantage of publicity, including online reviews, is that customers often perceive the word-of-mouth marketing (and referrals) as being more credible than other forms of promotion. However, as in the case of PR, the businesses cannot control the favourable or unfavourable messages about products or services, particularly those that may appear in online reviews.

Effective IMC plans are aimed to provide relevant, consistent and complimentary messages to customers. Hence, the objective of marketing communications is to create awareness, provide knowledge, and create favourable impressions to attain a preferred position in the customers' minds. Ultimately, they are intended to move prospects through the purchasing funnel, to close the sale. It is useful to think of communication vehicles along two dimensions: targeted versus scattered, and one-way versus two-way. In choosing communication vehicles, it is necessary to consider where potential customers are in the purchasing process.

The marketing managers should (1) find the best way to allocate financial resources in support of their IMC strategy and (2) coordinate their spending so that all customer touch points receive consistent messages. They also need to consider the 6Ms (including; market, mission, message, media, money and measurement) when they are preparing an IMC plan.

Chapter 6
Tourism Distribution Channels

Abstract The distribution channels link the customers with the businesses. For many years, the tourism businesses may have distributed their products and services through intermediaries. However, the latest advances in technology have brought significant changes in this regard. More individuals and corporate customers are increasingly benefiting of ubiquitous technologies, including digital media. The development of mobile devices and their applications, are offering a wide range of possibilities to the travel industry. Consumers are using smart phones and tablets to purchase tourism products. These issues have inevitably changed the structure of the tourism industry; in terms of control and value for money to consumers. In this light, this chapter describes the traditional and contemporary travel distribution channels as it raises awareness of the potential of new distribution technologies. Afterwards, there is a discussion on the role of digital media in the distribution chain as tourism businesses are increasingly selling directly to customers through the internet via websites and travel search engines. In conclusion, this chapter anticipates what the future holds for the distribution of travel and tourism products.

6.1 Introduction

Distribution channels enable customers to buy or gain access to travel products. Therefore, they may refer to all aspects of the link between the businesses and their customers (whether individual consumers, groups or corporate customers). In the last fifty years, the tourism service providers and their intermediaries have used technology to distribute their products and services. Many hotels and car rental companies are still utilising global distribution systems to sell their products to customers. This chapter suggests that tomorrow's business must continue to embrace innovative distribution technologies to improve their customer experience.

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6.2 The Distributive Chain

Many businesses have often relied on intermediaries to deal with the passenger side of their business. The travel intermediaries are either travel agents or tour operators. The retail travel agents sell directly to the travelling public, whereas the tour operators (or travel organisers) are the wholesalers of the tourism industry. The latter intermediaries may usually purchase large blocks of airline seats, hotel rooms or tours, in advance, and then sell them as packages to other travel agents.

Thirty years ago, the use of intermediaries was quite advantageous to the tourism service providers; as they often facilitated the exchange process between the business and the consumer. They reduced the total cost of marketing, as they combined their sales efforts with the travel service providers. The intermediaries also helped to avoid heavy expenditures in retail marketing, as they provided brick-and-mortar (in terms of offline sales) opportunities in relatively small markets. Moreover, the travel agents provide additional services to customers (for example, they could support customers in their travel formalities, including visas and foreign currency).

6.3 Air Travel Distribution

Prior to the emergence of digital media, the leisure and business travellers did not have any other options, other than to make their reservations and ticketing through travel agents and/or sales offices. At the time, many airlines have opened their own sales offices, or have appointed general sales agents (GSAs) to represent them in different markets. GSAs were appointed to markets that were not served directly by an airline, or where the volume of passengers was insufficient to open ticket reservations offices. These GSAs were also paid a commission on the tickets they issued in their respective markets.

In the past, the travel trade claimed that many airlines were taking businesses from them, as the airlines wanted to exert control over their distributive chain. At the time, many travel agents used to sell airline tickets, package tours or even supplementary travel items. They also claimed commissions from different tourism service providers, including airlines. However, in the past decades, many international airlines have cut these commissions. As a result, the traditional brick and mortar intermediaries had to focus on improving their services and value proposition to survive in a tough competitive environment.

The new, no-commission world has been on its way since 1995, when airlines first started cutting down on the fees they paid travel agents to distribute their tickets. Small storefront travel agents were the most affected; as the larger agencies were capable of rebating commissions from corporate customers. Prior to the removal of the airline commissions, the travel agents generated their revenues through global distribution systems. They had access to information networks that allowed them to easily track the records of customers, from different airlines. However, the arrival of the internet has changed all that. Today, online travel agents as well as independent travellers could compare the airlines' fares, in a few clicks.

6.4 Computer Reservation Systems

In the 1950s, a few airlines and hospitality businesses started using computer reservations systems (CRSs) to automate their booking systems, or for inventory purposes. Eventually, these CRSs were improved to offer not only airline facilities, such as information concerning availability, but also provided booking services on a whole range of travel products, including; hotels, car hire et cetera.

Airlines started automating their distribution systems by installing software in their intermediaries' computer terminals. The main U.S. airlines behind this development were American Airline's Sabre and United Airline's Apollo. In 1976, United began offering its Apollo system to travel agents. Initially, these CRSs were single access, as the travel agents could only access single airlines. However, the marketing value of these convenient CRSs was indispensable and their development spread quickly to other parts of the world. The single access approach was soon replaced outside the United State with multi-access systems. European airlines also began to invest in CRSs in the 1980s. Many of them deployed their own reservations systems in their homeland, as there was a surge in demand for air travel. Videcom international handled about 97% of UK airline business trade bookings by 1987. This system was replicated in other areas of the world, including the Middle East (DMARS), New Zealand, Kuwait (KMARS), Ireland, Caribbean, United States and Hong Kong, among others. Travicom was a trading name for Travel Automation Services Ltd. When British Airways (who by then owned 100% of Travel Automation Services Ltd) chose to participate in the development of the Galileo systems, Travicom changed its trading name to Galileo UK. In 1987, a consortium that was led by Air France and West Germany's Lufthansa has developed Amadeus, which was modelled on SystemOne. Amadeus Global Travel Distribution was launched in 1992. In 1990, Delta, Northwest Airlines, and Trans World Airlines formed Worldspan, and in 1993, another consortium (including British Airways, KLM, and United Airlines, among others) formed the competing company, Galileo International, that was based on Apollo.

CRS development took place rapidly as improved technology has changed the whole approach to reservations. Some initial problems were encountered with some CRSs, as they had built-in biases to give the operating airline a marketing advantage. However, measures were taken to force the elimination of these biases. Evidently, these CRSs were effective distributive forces for the travel and tourism industries. These CSRs allowed immediate direct bookings to be made and they provided supplementary services to customers. They enabled travel agents and airlines across the world to book instantaneously through the airlines' CRSs. The airline products were distributed across the world. Various consortia of airlines came together to develop their own CRS systems. At the time, the development costs of these CRSs were huge. It was also clear that the American (U.S.) systems were already well ahead in this field. As a result, various alliances formed between existing and developing CRSs which have made rapid progress with regard to their system development and the installation of work stations among travel agencies. With regard to the European CRS industry, just like their U.S. counterparts, have come under the scrutiny of regulatory authorities. Both the European Civil Aviation Councils and the European Community (i.e. the European Union) have developed codes of conduct for the operation of CRSs. Eventually; most airlines have outsourced their CRSs to Global Distribution Systems (GDSs) companies, which have enabled consumer access through Internet gateways.

6.4.1 Global Distribution Systems

The development of the GDSs offered ever-increasing services and searching power to tourism businesses. A GDS is a network that is operated by a company, which enables automated transactions between travel service providers (mainly airlines, hotels and car rental companies) as well as travel agencies. Travel agencies have traditionally relied on GDSs for services, products and rates, to provide travel-related services to end consumers. GDSs offered useful links to travel services, rates and bookings, thereby consolidating tourism products and services across all sectors. Modern GDSs typically allow users to book hotel rooms, rental cars, airline tickets, as well as other activities and tours. They also provide access to railway reservations and bus reservations in some markets, although these are not always integrated within the main system. Smaller companies such as KIU have developed customised GDS products that are aimed at niche markets including; the low-cost carrier segment, and small and medium-sized domestic and regional airlines.

GDSs differ from CRSs, as their reservation systems are used by service providers themselves (also known as vendors). Primary customers of GDSs are travel agents (both online and office-based). These intermediaries make reservations on the GDSs in real time. For instance, when airlines and travel agencies request a reservation from a service provider, the GDSs route their request to individual CRSs. This enables them to book flights, hotels, activities and associated services directly with the vendors who are part of GDS networks. The airlines who are members of the International Air Transport Association (IATA) could make bookings on other airline sectors. Their reservation systems have facilitated inter-airline bookings. Therefore, air travellers could book their entire itinerary, involving different flights on IATA carriers. The airlines' distribution and payment facility is led by IATA's settlement systems (ISS). Similarly, IATA's Billing and Settlement Plan (BSP) BSP is a system that is designed to facilitate and simplify the selling, reporting and remitting procedures of IATA's Accredited Passenger Sales Agents, as well as to improve financial control and cash flow for BSP Airlines. This is a worldwide system as BSP operates in 181 countries and territories. The system currently serves approximately 400 participating airlines with an on-time settlement rate of 99.99%. In 2015, IATA's BSP processed $230.3 billion (IATA, 2017).

The tourism industry's GDSs originated from traditional legacy models that were operated by airline vendors and travel agents. During the early days of CRSs, flight ticket reservations were not possible without a GDS. As time progressed, many airline vendors (including budget and mainstream operators) started adopting 'direct selling' strategies to their wholesale and retail customers (passengers). They have invested heavily in their own reservations' direct-distribution channels and partner systems. These developments have led to a lower dependency on GDS systems. Recently, IATA announced its 'New Distribution Capability' (NDC), which is essentially an XML-based data transmission standard which provides a set of guidelines for communications between airlines and 3rd party distributors. Specifically, NDC allows the sale of ancillary products (for example, baggage, meals, special seating, et cetera). Therefore, IATA's NDC holds the potential to help airlines boost revenue. Yet, there are still questions as to whether there will be any benefits stemming from reduced distribution costs. On average, the costs on the tickets sold through GDSs hovers around US$12 per return ticket, which is 20-times more when compared to selling tickets through direct channels for some airlines (Atmosphere Research Group, 2016). With airline profit margins under constant pressure, airlines are finding innovative ways to reduce their distribution costs by selling tickets to customers directly, rather than through 3rd parties. Hence some experts are predicting that the GDSs may be phased out by 2020. For example, in 2015, Lufthansa Group announced that it was imposing an additional €16 charge when bookings are made through an external GDS, rather than from its own system. The German airline suggested that the costs of using external systems were much higher than their own. Several other airlines, including Air France–KLM and Emirates also stated that they were going to follow these developments. These issues suggest that airlines are reducing their reliance on dedicated GDSs.

On the other hand, many hotels and car rentals firms continue to take advantage from GDSs, particularly from the GDSs' last-minute inventory disposal which has provided them with additional operational revenue. In this case, the GDSs turned out to be a useful tool for them, as it facilitated their global outreach. These tourism businesses benefited from the GDS networks as they had lower marginal costs when compared to the airlines' distribution costs.

6.5 Online Sales via Websites

The tourism industry has seen a number of interesting trends and developments for many airlines and their intermediaries. It may appear that the travel "distribution" is becoming like "e-commerce," with campaigns, offers, and channel marketing. For many years, the GDSs had a dominant position in the travel industry. Yet, new technologies are making fundamental changes in the structure of the travel industry, vis-à-vis, its distribution of products and services. To bypass the GDS and avoid their high fees, many airlines are distributing flights directly via their websites. Today, several airlines have closed their own ticket offices in many markets. They are increasingly relying on digital media to engage with customers. Alternatively, they may use the services of customer centres, where customers may contact the airline, via a call centre. As a result, individual customers can easily purchase their airline tickets online. In addition, multiple price comparison websites have also brought significant developments in terms of pricing and inventory, for the benefit of travel agents and end-customers.

Online booking engines allow passengers to make the booking themselves and to pay for their itineraries through their credit or debit cards. Customers will generally receive an electronic-ticket confirmation with a unique identifier code within 24 h of their ticket purchase. They may also check-in online and print their boarding passes. Alternatively, they may store their boarding pass on their mobile device or smart phone for easy access at security, and when they board the aircraft. Passengers must make sure that the entire barcode is visible on the screen of their mobile device, particularly when they pass through the terminals' security locations.

Today, the most common way to purchase travel products including airline flights, car rental, cruises, hotel accommodations and other forms of transportation, among others; is through online and mobile search engines. This year, digital travel sales in the U.S. alone will reach $189.62 billion, 40.0% of which will come from mobile devices (eMarketer, 2017). Consumers are increasingly making their travel arrangement through their mobile due to larger smartphone screens and easier payment methods. Moreover, many tourism businesses and online travel agencies have improved their websites and may have introduced user-friendly mobile apps. As a result, many prospective travellers are not only booking their trips, online; but are also searching their itineraries, when they are out and about, via their mobile device.

6.5.1 Elements of Travel Websites

Corporate websites will help the travel and tourism businesses in their distribution strategies, as they improve consumer leads and sales conversions. Clear, differentiated pricing information on service-tiers, provide product options to online prospects. The tourism businesses ought to focus on the benefits they provide, by highlighting their value propositions; rather than simply illustrating their products' features.

Despite the fact that so many transactions are carried out online, the lack of personal interaction in this medium means that even the smallest thing that's out of place on ecommerce pages can rapidly erode the customers' trust in products and businesses. Therefore, businesses could build consumer confidence and trust by using an SSL certificate to make transactions secure, particularly if they are processing credit cards.

The online businesses are expected to articulate their terms and conditions, including any relevant cancellation and refund policies. Moreover, customer-centric businesses should feature their contact details (including an address, telephone and emails) to customers. Many online sites are increasingly offering live chat facilities on their site, to help prospective customers in their queries, or to address their concerns.

If the businesses do not offer such interactions in real time, they still need acknowledge their online prospects' message(s), and inform them that they will be responding to them in reasonable time. Moreover, the use of testimonials from consumers, including; reviews and ratings will serve as proof that the tourism business is providing an adequate level of service to its customers. The positive experiences from customers themselves, will help to improve conversions and sales. The tourism web sites should underline the true benefits of their product. Therefore, they should present relevant written content which will make the product stand out from the rest. In this day and age, attractive web sites are well designed to entertain visitors. The travel sites could also feature a good selection of images and videos. This allows prospective visitors to become familiar with the tourism product. Destination management organisations are increasingly allowing online visitors to zoom in high-res images and video clips in their websites. The interactive images and videos should load as quickly as possible. Any delays of even a couple of seconds would turn off dissatisfied visitors. The speed with which a page loads can be a critical determining factor as to whether visitors may (or may not) commit themselves to lay down their credit card. When designing product pages, it is important to consider load speeds, particularly if there are large images, rich interactivity or other media in web pages.

Very often, different product pages may clutter up web pages with excessive calls to action. These pages may contain customer photos, complicated pricing options, unnecessary details on customer support, too many reviews, et cetera. Without good design, these calls to action could easily blend into a confusing mess. While it may be tempting to utilise the web page with many actionable steps, the web sites should be as clear and focused as possible. A good call to action could include high-contrast buttons, call-outs and actionable elements which leave plenty of breathing room to make them stand out.

Online users might not be willing to commit themselves in buying products straight away. Therefore, businesses could entice visitors to fill in their subscriber list to receive exclusive offers, via email. This way, the businesses will be in a position to send newsletters and promotional material to the online prospects, at a later date.

Businesses ought to facilitate their online purchase and transaction confirmation. A complicated funnel could deter the conversion of prospects. The customers who are in the businesses' checkout page should be allowed to finalise their purchase as quickly and efficiently as possible. If their customer experience of their online purchase involves an unnecessary effort to check out from the website; they may have second thoughts on the businesses' quality of service. Therefore, users should not be distracted with anything that will take them away from the businesses' purchasing funnel. It is important to let customers finish their transaction before taking them anywhere else on the website.

6.5.2 Travel Search Engines

Many search engines are increasingly offering advantageous deals on travel products. Very often, they may have user-friendly websites that help individual consumers search for the best prices. For example, a flight search may include one-way, return or multiple destinations. The travellers may specify whether they would like to travel in a particular class of service (for example, economy, business or first class). Travellers may also opt for direct services (which are usually more expensive), and their search can be narrowed down according to their preferred departure and arrival times (if any).

In addition, many search engines identify their "best flight" option. Their algorithm will usually base their decision on layover time, the length of flight, and departure/arrivals times. They may also let you know if there are cheaper flights available, particularly if there are nearby airports.

Price Alerts: The search engines will enable their users to set a price alert on tourism products. For example, after the users have given details on the travel dates and their email address, they will receive regular emails which will communicate whether the price for the flight (that was searched through the search engines' system) has gone up or down in price.

Travel alerts are convenient for those passengers who are planning their itineraries in advance. Online prospects will be updated on the best time to purchase their flight (in this case).

Flight Deal Websites: Online prospects can find good flight deals by following niche websites that are dedicated to posting such deals. Most of these websites may not necessarily be affiliated with any airline. Very often, consumers may check these websites on a regular basis. Alternatively, they may follow travel and tourism groups through social media.

Flexibility: An inexpensive flight may not always be the right flight for passengers. The prospective customers may demand flexible dates. For instance, they may want to avoid unnecessary overnight stays in random cities (a hotel accommodation may well increase the cost of the travellers' journey). Moreover, there are other important considerations. For example, customers may not be willing to travel to distant airports. They may not like to travel at night, et cetera.

The best flight deals may not last long as search engines may frequently change their flight prices.

Bonus Tip: Many low-cost carriers may not feature all costs in their prices. These "hidden" costs may comprise carry-on baggage fees, checked-baggage charges and seat fees. Customers should check these fees and charges before purchasing a flight with any airline. Such “hidden” costs and expenses are usually disclosed on the airlines’ respective websites. In many cases these supplementary fees can be paid in advance. If customers would not pay in anticipation of their flight, they may easily incur additional charges.

Therefore, the overall best deal should be determined according to flight times, hidden costs, and personal airline preferences.

6.6 Latest Advances in Travel Distribution

The development of digital media technologies, particularly the internet and social media are offering a wide range of possibilities to the travel industry. These latest technological advances have enabled many travel businesses, including airlines and hotels to manage their distribution channels in a more efficient and economical way. With the changing landscape of travel e-commerce and the ubiquity of IT solutions which gather, store, and analyse data in a variety of ways; airlines have improved their ability to monitor their performance across channels. Very often, they are in a position to quickly adjust offers. Their prices are usually based on a variety of situations and circumstances, as they optimise communications and transactions.

By using big data and analytics on their customer behaviours, many travel businesses are taking advantage of channel-based distribution. Hence, the distribution networks have come a long way from the ticket counter. Evidently, travel and tourism businesses are leveraging themselves with data-driven marketing, as they seek new customers and prospects. For example, they may increase their profitability from high-yield customers as they are using elaborated pricing and revenue management systems. The travel distribution is evolving from its current passive, rigid, and technology-centric state to a more flexible, dynamic, and passenger-centric environment.

6.7 The Future of Travel Distribution

Any changes in the tourism distributive systems may be stimulated by external macro factors such as politics and trade, global and national economies, technological innovations and access to them, et cetera. The airline industry could be affected by increased competition from low-cost carriers, new mergers and acquisitions, and fuel costs, among other issues. However, the commercial future of the tourism industry may also be influenced by other factors, including travel distribution. Tourism businesses can possibly become even more effective in how they sell their products and services; particularly if they deliver positive customer experiences. Tourists perceive value in customer-centric businesses.

Most probably, in the future, there will be significant improvements in terms of technologically enhanced customer services. Tomorrow’s businesses will be serving passengers from geographically-diverse regions. There will be more travellers from emerging markets and developing economies. The travel distribution systems will have to cater for senior citizens, as there are aging populations in many countries. The distributive channels must be designed to accommodate a divergent nature of users. Tourism service providers and their intermediaries will be expected to provide engaging, intuitive shopping experiences that tap into the traveller's discretionary purchases.

The travel businesses will need to embrace new technologies and flexible distribution processes; as outmoded distribution components will be replaced. It is envisaged that new distributive systems will be relying on mobile devices as these technologies enable consumer interaction with speech and voice recognition software. The tourism businesses could possibly leverage themselves with artificial intelligence. They may facilitate their dynamic pricing, as well as personalisation of services. The distributive systems could interface with virtual reality software to help businesses merchandise their products in captivating customer experiences.

Probably, the third-party retailers will continue to form part of the distribution mix. However, many service providers will be using their direct channels to reach their targeted customers. There may be fewer market intermediaries, and online travel agencies will see significant declines. It is very likely, that airlines will not have to pre-file volumes of defined fares through third-parties, as they may not rely on inventory buckets to manage their selling capacity. The airlines must recognise the need to invest in new internal selling systems. Today's passenger service systems already lack the flexibility that airlines require. They are not adequate enough to serve the airlines' flexible and dynamic sales environments. These systems could be replaced with modular retailing platforms. Full Retailing Platforms (FRPs) which will allow airlines to take back the control they require to be better retailers through any distribution channel (Atmosphere, 2016).

Moreover, Google, the multinational technology company, could be playing a much larger role in travel distribution. The technology giant could participate in, and possibly disrupt the tourism industry if it becomes an online travel agency; whether through acquisition or by launching a product of its own. In fact, its travel product, Google Flights is increasing in popularity among travellers. Furthermore, there could be further improvements in online payment facilities, particularly in the development of digital and mobile wallets.

In the foreseeable future, the travel marketplace will surely introduce new technologies and capabilities; as multiple venture capital firms are increasingly investing in disruptive innovation. There may be new businesses, including private air service operators, who could provide "on-demand" airline services. Alternatively, technology companies could develop or acquire meta-search engines or online travel agencies. Hence, the travel and tourism businesses need to find ways that intentionally overturn decades of outdated, travel distribution practices. The distribution community can choose to innovate and disrupt, or allow others to be leading innovators.

6.8 Questions

- *Outline the main distributive links between the airline the customer?*
- *Discuss what marketing policies should management adopt with regard to intermediaries?*
- *Explain how new technologies in travel distribution could improve the airline product?*

6.9 Summary

The distribution channels refer to all aspects which link the businesses with the consumers. In the past, airlines used to hold sales offices/ticketing offices in city centres and airports. Their distribution network also consisted of tour operators and travel agents who were entrusted with the distribution of tourism products. These intermediaries were usually paid by sales commissions, in return for their services. Today, many of these businesses are not receiving commissions from airlines. Therefore, they had to restructure their operations by reducing their costs. Airlines are also restructuring their business models as they have changed traditional distribution networks. They have reduced their sales offices, and are increasingly using the services of customer call centres that can be contacted on a 24/7 basis.

The development of new technology has resulted in fundamental changes in the distribution of travel products. The most significant developments have taken place in global distribution systems. Moreover, individual and corporate customers are benefiting of ubiquitous technologies as they can purchase their online tickets through the internet and from their mobile devices.

In assessing distribution strategies, the travel industry must examine the issues of control and value for money. In addition, the development of mobile devices and their applications, are offering a wide range of possibilities to the travel industry. Ultimately, tomorrow’s business must continue to embrace innovative distribution technologies to improve the customer experience.

Chapter 7
Strategic Planning and the Marketing Effectiveness Audit

Abstract The central role of marketing stems from identifying processes which create value to customers. Therefore, the marketing strategies and plans should be based on relevant frameworks which create and capture value to customers and to the businesses, themselves. The strategic planning involves a thorough analysis of the businesses' internal strengths and weaknesses, and an evaluation of opportunities and threats in the market place. The scanning of the marketing environment leads management to choose particular customers and product strategies. Therefore, strategic planners have to assess their resources, competences and capabilities, as they should determine where their company stands relative to other competitors. They are expected to evaluate strategic options and to consider alternative courses of action, including market penetration, market development, product development and diversification. This chapter outlines the different stages of strategic planning. In conclusion, it underlines the importance of conducting ongoing effectiveness audits that should analyse marketing and operational aspects.

7.1 Introduction

Successful organisations rely on strategic planning, organisation, leadership, implementation and control to create value. The processes of strategic planning could create value by meeting and exceeding customer needs and by delivering benefits to them. Therefore, the strategic planning process is related to the short-term marketing and operational plans. For instance, one of the main functions of strategic planning is to identify the organisations' strengths (including customer service standards, research and development, et cetera) which can be used to take advantage of opportunities (arising from political, economic, social, technological issues) in the marketing environment. In this light, it is imperative that businesses evaluate their strategic plan and marketing processes through performance management tools and marketing effectiveness audits.

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7.2 Strategic Planning

Strategic planning is one of the most important stages in the application of marketing, as it helps them to think ahead in a systematic way. It involves the scrutinisation of the internal and external marketing environments. Marketers are expected to have a good understanding of their companies' strengths and weaknesses. They will rely on the interactions among company executives and their functional areas, including; finance, human resources management, operations, information technology, et cetera. Their support and coordinated efforts will help the company to achieve the desired performance standards for their organisation. This causes the company to sharpen its objectives, and to better prepare for sudden developments. An effective communication of the strategic plan enables staff to know what the company is aiming to achieve, and what is expected of them.

The strategic planners support their organisations' executives, senior managers, and marketers in their decision making by setting priorities. They could focus their energy on improving internal resources, capabilities and competences (to strengthen operations), whilst ensuring that employees and other stakeholders are working in tandem toward achieving common goals. The strategic plan establishes agreements around intended outcomes. It involves ongoing assessments and adjustments of the organisations' direction, in response to changing environments. Strategic planning is a disciplined effort that produces fundamental decisions and actions. Therefore, it informs the organisation where it stands, in terms of; who it serves, what it does, and why it does it; with a focus on the future.

The marketing managers ought to assess all aspects of the organisation's strategy in the market place (i.e. the company's products, services and markets). Marketers need to be aware of their marketing environment. Their competitors' strengths and weaknesses must be identified, as rival firms may seek differentiation possibilities or cost advantages. Therefore, marketers should continuously monitor their competitors' objectives and strategies to be able to predict their intentions.

Moreover, businesses could benefit from collaborative relationships with key partners in the distribution chain, including retailers and suppliers. With respect to these marketplace stakeholders, the firm must understand: their cost structure; expectations about margins and allocation of tasks; support and training requirements; and the nature of their relationship with the firm's competitors. The suppliers should be considered as critical collaborators in supporting the businesses' marketing strategy and tactics. They are often responsible to supply quality products (e.g. organic products to hotels, gourmet meals for inflight services, et cetera) on a reliable basis.

Very often, businesses may benefit from first-mover advantages, if they are the first entrants in the marketplace. This way, they may achieve a competitive advantage over their rivals. With such an advantage, first-movers are usually rewarded with huge profit margins and a larger market share. However, not all first-movers are rewarded. If they do not capitalise on their advantages, they may leave untapped opportunities for new entrants to penetrate the market. In this case, competitors could be more effective than the first-movers.

Businesses are increasingly shortening their planning horizons as they may face contingent issues from the external environment. For instance, marketing strategy should consider the technological context. The use of digital media has supported many businesses in their distribution and communications endeavours. However, there were firms who were lagging behind, as they were not quick enough to realise the importance of this disruptive innovation. Other macro environmental factors, include; politics, regulation, law, and social norms.

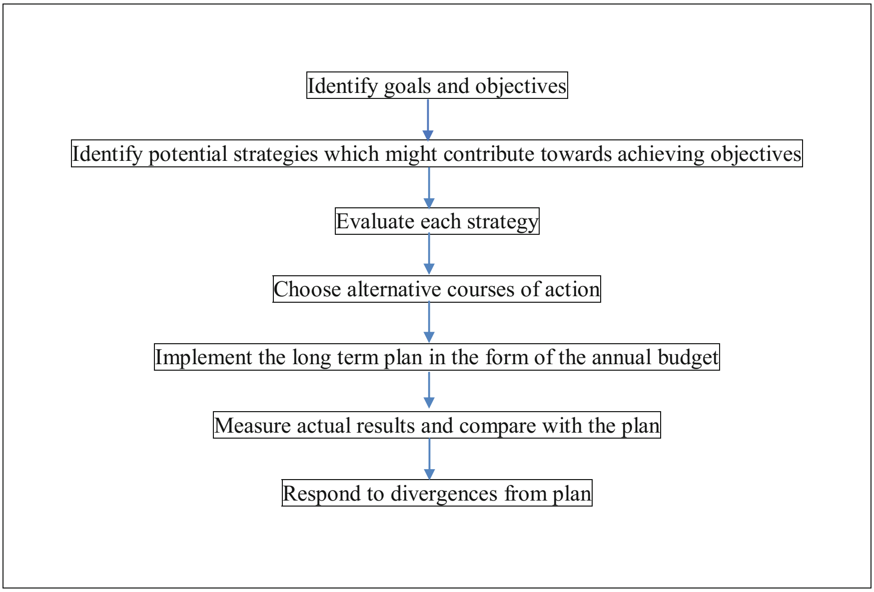
7.3 The Strategic Plans

A strategic plan is a document which is used to communicate the organisation's long term goals and specific objectives. It coordinates the business in its execution of activities and processes. A well-articulated plan aligns resources, capabilities and actions with the organisation's mission, vision and strategy. Therefore, strategic planning is concerned with the allocation of human and financial resources in the most effective pattern within the organisation. Strategic management activities transform the static plan into a workable system that provides strategic direction to decision making. Very often, the strategic plan may have to be flexible as circumstances change. There are no absolute rules regarding the right methodological frameworks for the preparation of strategic plans. However, many frameworks may have common elements, including; (1) an analysis of the internal and external environments, (2) strategy formulation in different levels across the organisation, (3) strategy execution and implementation, where the high-level plan is translated into operational planning (4) an ongoing evaluation of the plan, which may necessitate refinements and adaptations to changes in the environment.

Planning involves making choices between alternatives and is primarily a decision making activity. This is clearly evidenced in Table 7.1. The last two steps cover the control process which involves measuring and correcting actual performance. These steps ensure that the right alternatives are chosen and that effective plans are implemented.

1. **Identify objectives**: The goals are overarching principles which guide marketers in their decision making. Businesses can plan ahead for their future, if they generate goals. Objectives are the specific steps which are required to achieve goals. These businesses' objectives are typically specific, measurable, attainable, realistic and may have an associated timeline. Objectives can be motivating to both management and employees, as meeting objectives provides a sense of accomplishment.
2. **Identify potential strategies**: Once an organisation has decided 'where it wants to be', the next step is to identify the possible courses of action or strategies that might enable the organisation to get there. The organisation must carry out an

Table 7.1 The planning and control cycle



information gathering exercise to ensure that it has a full understanding of where it is now. This is also known as the position audit, or strategic analysis; as it involves looking inwards and outwards. A SWOT analysis will help the business to identify internal strengths and weakness within the organisation and to consider opportunities and threats in the external marketing environment.

(a) The organisation must gather information from all of its internal parts to find out: What resources it possesses? What are its capacities and capabilities? What is the state of technical know-how? How well it is able to market itself? How much cash it has in the bank?
(b) It must also gather information from external sources so that it can assess its position in the environment. Just as it has assessed its own strengths and weaknesses, it must do likewise for its competitors (its threats). Current and potential markets must be analysed to identify possible opportunities. For instance, the state of the economy ought to be considered. What is likely to happen in future? Is the economy in a recession, or is it booming?

Having carried out a strategic analysis, alternative strategies can be identified. An organisation might decide to be the lowest cost producer in the industry, perhaps by withdrawing from some markets or by developing new products for sale in existing markets. This may involve internal development or a joint venture.

3. **Evaluate strategies**: The strategies must then be evaluated in terms of suitability, feasibility and acceptability. Management should select those strategies that have the greatest potential for achieving the organisation's objectives.
4. **Choose alternative courses of action**: The next step in the process is to collect the chosen strategies together and to coordinate them into a long term strategic plan.
5. **Implementing the long-term plan**: The strategic plan should them be broken down into smaller parts. It is unlikely that the different parts will fall conveniently into successive time periods. Strategy A may take two and a half years, while strategy B may take five months, but will not start until year three of the plan. It is usual to break down the plan as a whole into equal time periods (usually one year).
6. **Measure actual results and compare with the plan**: Actual results are recorded and analysed. The information about actual results is fed back to the management concerned and is often in the form of reports. This reported information is important feedback.
7. **Respond to divergences from the plan**: By comparing actual and planned results, management can then do one of three things, depending on how they see the situation:

   (a) They can take control action. By identifying what has gone wrong and then finding out why, corrective action can be taken.
   (b) They can decide to do nothing. This could be the decision when actual results are going better than planned, or when poor results were caused by something which is unlikely to happen again in the future.
   (c) They can alter the plan or target if actual results are different from the plan or target, and there is nothing that the management can do (or nothing perhaps that they want to do) to correct the situation.

7.4 Marketing Plans

Short term marketing plans specify the marketing goals and objectives of businesses. They outline how resources will be used toward achieving marketing results. A detailed and calendarised plan sets out how and when marketing objectives are to be achieved; what tactics and resources will be used to achieve the desired performance, et cetera. Hence, marketing plans clarify what is expected from members of staff in marketing functions; including, product development, field sales, publicity, standards, research, public relations, distribution, and so on. They may also establish who will carry out what task, when and why. This tactical plan ensures as far as possible that the overall marketing operations are working towards achieving common goals. The marketing plans should contain the following nine items: (1) an executive summary; (2) an assessment of the current market situation; (3) a strengths, weaknesses, opportunities and threats analysis;

(4) a list of objectives; (5) a specification of market research requirements; (6) a marketing strategy; (7) an action programme; (8) an outline of control and review procedures; and (9) a contingency plan.

1. **Executive Summary**
   This is a short statement of the main goals and recommendations of the marketing plan.
2. **Current Market Situation**
   An analysis of the current market situation can be divided into five different sections, as follows:
   Marketing situation: This consists of historical data on the size and growth of the various markets in as much detail as possible; it includes relevant information on consumer segments and market shares. Data is also presented on customer need and wants, perceptions and buying behavioural trends;
   Competitive situation: Here the major competitors are described in as much detail as possible, in terms of market share, type of products, et cetera;
   Distribution situation: A description of the distributive channels;
   Marketing environment situation: A description of broad environmental trends (including; demographic, economic, technological, political, legal, social/cultural, and so on), which will have a bearing on the company's strategic direction. The marketing environment is continuously changing. If this was not the case, there would be no need for market planning. The marketing environment yields opportunities and threats which will surely condition the organisation's overall objectives, and consequently their marketing plans. The marketing plans will help them to respond quickly and efficiently to changes in the environment.
3. **Strengths, Weaknesses, Opportunities and Threats Analysis**
   Endeavours should be made to identify the particular strengths and weaknesses contained within the company. The main opportunities and threats from the external environment are also identified.
4. **List of Objectives**
   The organisational goals should be converted into statements of marketing objectives that are designed to achieve these goals (for example, an increase in sales or profitability can be achieved through: an increased brand awareness; a growing market share, the launch of new products or services, targeting new customers, the penetration into new markets; forging stakeholder relationships, improved internal communications, et cetera).
5. **Market Research Requirements**
   At this stage, a programme of market research must be specified (for a year, at least). Earlier, this book (in Chap. 2) suggested that market research entails the systematic collection, analysis, interpretation and reporting of information relating to consumers, products and environmental factors which may influence the market situation.

There are two types of research—quantitative and qualitative. Quantitative research involves the statistical analysis of large numbers of people. Qualitative research explores in some depth, the reactions, opinions and behaviours of a small number of people, which are known as the sample of the population. The market research process can be divided into 4 different stages:

- The initial stage is the identification and definition of the problem and research objectives. The research objectives may be exploratory or descriptive;
- The second step entails designing the research plan. Decisions must be made here regarding the methods of data collection to be applied and the type of data to be collected (primary or secondary). The time and cost of the research must also be calculated;
- The third stage of the plan is the implementation of the research. This is the most expensive part of the process. Thus, this stage requires careful monitoring;
- The fourth stage is the analysis of the data, and the preparation of market research report with its findings and conclusions (including implications, limitations and recommendations).

It is essential that this research is carried out efficiently so that the information which it yields is accurate. As the marketing plan is based on relevant research; any inaccurate findings could distort the marketing plan.

6. **Strategies and Tactics within the Marketing Plan**

A broad marketing strategy or marketing mix should be given for each target market under the headings of: product, price, distribution and promotion.

In other words, a particular marketing strategy for each target market must be specified—for example, a company may target the business travellers, the leisure travellers, and so on. Afterwards, the company's overall strategic plan will identify those segments which are the most profitable, or which may be relevant to the business, for other reasons. Once it has done this, it must decide what positions it wants to occupy in these segments. This process is known as marketing positioning. It is not enough for the business to have an outstanding or an excellent product, if it is incorrectly positioned in its target market segments. Market positioning at its most basic level involves having an effective corporate image which appeals to the chosen customers. It must ensure that the customers appreciate the company's unique advantages over its competitors. Market positioning should contribute to the company's achievement of its overall objectives. It does this by highlighting the most appropriate areas of investment, and by identifying those market segments which will yield the highest return on investment. The company's marketing strategy can then be concentrated to improve its market share through better positioning among target segments.

Market Share

The market share which a business holds is influenced by its success, or lack of success, in terms of the positioning of its image. A badly positioned product may lead to a reduction in market share. A well-positioned product results in increased market share. The businesses must identify themselves as being one of the following: marketing leader; market holder (or challenger) or market foot holder.

The market leader has a dominant market share. Possible strategies for the market leader include: expand the market share further; expand the size of the market; protect the current market share; adopt a product innovation strategy; create a specific selling strategy; ensure efficient sales promotion, or employ heavy advertising.

The market holder (or challenger) is usually the second, third or fourth, in terms of market share. Possible strategies for the market holder include adopting a direct attack strategy which emphasises the customer benefits; the adoption of a product innovation strategy; a product variety strategy; improved service strategies; creative distribution strategies and intensive advertising strategies.

The market foot holder is a company with just a foothold in the market. Such a company may have a modest market share. The market footholder needs to get a clear picture of the market and the company's position in it. These companies should target profitable market segments. They ought to identify market needs and meet them through the application of different strategies, including:

Market Penetration

In market penetration strategy, the organisation tries to grow by using its existing offerings (products and services) in existing markets. In other words, this will usually involve increasing the market share within existing markets. This can be achieved by selling more products or services to established customers, or by finding new customers. Here, the company will want to increase its sales for its present products in its current markets. This can be accomplished by: (i) a decrease in price; (ii) enhanced promotions and wider distribution networks; (iii) acquisition of rival businesses, in the same market; (iv) modest product refinements, among other options.

Market Development

In a market development strategy, a firm tries to expand into new markets (new cities, new destinations, new countries, et cetera) by using its existing offerings. This can be accomplished by (i) targeting different customer segments (ii) targeting new customers from other areas or regions (iii) targeting foreign markets. This strategy is more likely to be successful where the firm has a unique product technology which it can employ in a new market. In this case, the company would benefit from economies of scale, particularly, if it decides to increase its output, and if the new market is not too different from the one it has experience of. The market development strategy will only be feasible if the new market is profitable.

Product Development

This strategy suggests that a company could create new products and services for its existing markets. This involves extending the product range for the benefit of the firm's existing markets. These products may be obtained by: (i) investing in research and development of additional products; (ii) acquiring the rights to produce and sell someone else's products or services; (iii) buying new products and "branding" them; (iv) working in collaboration with other businesses, for example, through mergers and acquisitions to access new distribution channels or brands.

Diversification

If an organisation pursues a diversification strategy, it will probably introduce new offerings, in terms of products or services, in new markets. This strategy is risky because both product and market development is required. There are different diversification strategies:

- **Related diversification:** This strategy involves a process that takes place when a business expands its activities in product lines that are similar to those it currently offers. For example, an established hotel chain may consider diversifying into budget accommodation.
- **Concentric diversification**: This strategy involves acquiring or creating new products or services to reach more consumers. The companies' new offerings are usually closely related to its existing products and services.
- **Vertical integration:** This strategy involves a company's expansion in its distribution chain. For example, vertical integration is conspicuous when a manufacturer owns its supplier and/or distributor. The vertical integration strategy can help companies reduce costs and improve efficiencies by decreasing transportation expenses and reducing turnaround time, among other advantages. However, at times it could be more effective for a company to rely on the established expertise and economies of scale of other vendors, rather than trying to become vertically integrated.
- **Unrelated Diversification**: This strategy involves introducing new or unrelated product lines or services in new markets.

Once the marketing strategies are well defined, product development may begin. Pricing may be determined, and the channels of distribution may be chosen. These activities will be employed in accordance with defined strategies, which have been formulated with the company objectives in mind. The final stage of the marketing process includes selling products and delivering the service. This involves communicating to the customers using the promotional mix (i.e. advertising, personal selling, direct marketing, sales promotion, public relations and interactive channels) in order to create awareness of, or stimulate sales of the product. The promotional mix is one of the components of the marketing mix, otherwise known as the 4Ps.

The overall amounts of money that are allocated for market penetration, market development, product development or diversification, together with their related promotional expenses, should be included in this Sect.

7. **Action Programme**

Each element of the marketing strategy must now be elaborated in a separate section, which should answer each of the following questions: What will be done? When will it be done? Who will do it? How much will it cost?

8. **Control and Review Procedures**

The control and review procedures decide and outline how the plan will be controlled and monitored, once it is set in motion. (for example, what kind of feedback information is required and how often?). A date must now be set for a formal review of the plan.

Control is the final stage in the marketing planning process. It monitors the effectiveness of the marketing plan. The information provided by this control procedure forms the basis for the next round of strategic planning. If the business did not conduct an evaluation of its marketing plan, the plan would be little more than an expensive waste of time. Evaluation is a learning process. Corrective action must be taken immediately if the company realises that the plan is failing to aid it in achieving its overall objectives. A common method of carrying out such an evaluation is to conduct a marketing effectiveness audit.

Control is concerned with three things: setting standards; measuring performance and taking corrective action when performance falls too short of the stated objectives.

9. **Contingency Planning**

Certain control plans also contain contingency elements. A contingency plan outlines the steps to be taken in the case of specific adverse developments occurring (for example price wars, strikes, delays and so on).

7.5 Performance Measurement

Performance measurement aims to establish how well the business is doing in relation to a plan. Performance measures may be financial and non-financial metrics. Factors to consider include the following:

- Measurement needs resources, including people, equipment and time to collect and analyse information. The costs and benefits of providing resources to produce a performance indicator must be carefully weighed up.
- Performance must be measured in relation to something, otherwise measurement is meaningless. Overall, performance should be measured against objectives of the organisation, and the plans that result from specific objectives. If the organisation has no clear objectives, the first step in performance measurement is to set them. The second is to identify the factors that are critical to the success of those objectives.

- Measures must be relevant. This means finding out what the organisation does and how it does it so that the measures reflect what actually occurs.
- Short or long term achievement should be measured. Short term target can be valuable, but exclusive use of them may direct the organisation away from opportunities that will mean success for the business in the long term.
- Measures should be fair. They should only include factors which managers can control by their decisions, and for which they can be held responsible.
- A variety of measures should be used. Managers may be able to find ways to distort a single measure, but should not be able to affect a variety of measures. The Balanced Score Card, the Building Blocks Model and the Performance Pyramid (see below) provide good methods of measuring performance from a number of perspectives.
- Realistic estimates may be required for measures to be employed. These include estimates of the impact of non-financial items.
- Measurement needs responses, above all. Managers will only respond to measures that they will find useful. For example, senior managers could introduce customer-centric performance metrics which measure customer acquisition, customer retention and development.

Once suitable performance measures have been selected, they must be monitored on a regular basis to ensure that they are providing useful information. There is little point in an organisation devoting resources to measuring market share if an increase in market share is not one of the organisation's objectives.

7.5.1 Non-Financial Performance Indicators

One of the many criticisms of performance measurement is that they do not measure the skills, morale and training of the workforce, which can be as valuable to an organisation as its tangible assets. For example, if employees have not been trained in customer services, an organisation is unlikely to be successful. Employee attitudes and morale can be measured by surveying employees. Education and skill levels, promotion and training, absenteeism and labour turnover for the employees for which each manager is responsible can also be monitored. In many of these cases, the measures used will be non-financial ones. They may be divided into the following:

(a) Measuring the quality of incoming supplies (e.g. food and beverage);
(b) Monitoring employee performance (e.g. through customer surveys);
(c) Measuring customer satisfaction; (e.g. letters of complaints, customer ratings, et cetera).

Service quality is usually measured by qualitative metrics, although some quantitative metrics are used, as well. The number of lost customers could be an indicator of service quality. The amount of time serving a customer could also be considered as a measure of service quality. Many hospitality and airline businesses use questionnaires to investigate the consumers' attitudes toward the service. Other possible measures of customer satisfaction in the tourism industry, include;

Market research information on consumer preferences with specific products, a number of customer complaints as a percentage of total sales volume, average time to deal with consumer queries, new customer accounts opened, and repeat business from existing customers, among others.

7.6 The Balanced Score Card Approach

Kaplan and Norton's (1996) Balanced Scorecard (BSC) measures organisational performance by using a balanced set of performance measures. Traditionally, companies have often used short-term financial metrics as performance measures. However, the "balanced scorecard" also includes non-financial measures to better focus on organisational performance. BSC provides a clear prescription as to what companies should measure in order to 'balance' the strategic and financial perspectives. The BSC approach is a strategic planning and management system that focuses on four perspectives and uses financial and non-financial indicators, as shown in Table 7.2.

BSC connects strategic elements such as mission (the purpose), vision (aspirations), core values, strategic focus areas (themes, results and/or goals) and the more operational elements such as objectives (continuous improvement activities), non-financial measures (or key performance indicators; which track strategic performance), targets (the desired level of performance), and initiatives (projects that will help the business to reach its targets) with the traditional financial measures, including return on investments, profit margins, liquidity ratios et cetera. BSC's approach involves the continuous improvement activities and actions that will support organisations to achieve their financial, customer/stakeholder, internal process or organisational capacity (learning and growth) objectives. Generally speaking, the performance improvements in these four areas will support the organisations' strategies. For example, the objectives relating to the organisational capacity perspective will enable the business to improve its internal process perspective, which, in turn, enable the organisation to create desirable results in the customer and financial perspectives. Key performance indicators (KPIs) will be identified for each perspective and are tracked over time. The KPIs will indicate their progress toward desirable outcomes.

Table 7.2 The Four Perspectives of the Balanced Scorecard Approach

Perspective	Question	Explanation
Customer (or Stakeholder)	What do existing and new customers value?	This perspective views organisational performance from the point of view the customer (or stakeholders). It gives rise to targets that matter to customers, including cost, quality, delivery, et cetera
Internal	What processes must be improved to achieve marketing objectives?	This perspective views organisational performance through the lenses of quality and operational efficiency. It is related to the organisation's products or services (and their internal processes).
Organisational Capacity (or Innovation and Learning)	How can the business improve further to create value?	This perspective views organisational performance through the lenses of human capital, infrastructure, technology, culture and other capacities that are key to breakthrough performance. It considers the business's capacity to maintain a competitive position through the acquisition of new products
Financial (or Stewardship)	How can the business improve its financial performance and its value to shareholders? How can a business use its financial resources?	This perspective considers the organisation's financial performance and its use of resources. It covers traditional measures such as growth, profitability and shareholder value

7.7 The Building Blocks Model

Fitzgerald and Moon (1996) have developed an approach to performance measurement in business services that is based on three building blocks; including dimensions, standards and rewards, as featured in Table 7.3.

Table 7.3 The building blocks model

Dimensions	Standards	Rewards
Competitiveness	Ownership	Clarity
Financial performance	Achievability	Motivation
Quality of service	Fairness	Controllability
Flexibility		
Resource utilisation		
Innovation		

The dimensions may be considered as critical success factors (or goals) for the business. Therefore, suitable metrics are used to measure the performance dimension. For example: competitiveness could be measured through relative market share; the financial performance can be measured by the profit margin; the quality of service could be determined according to product reliability; the delivery time of a product could be considered as a measure of flexibility; a metric for productivity is the utilisation of a resource, and; the degree of innovation could be ascertained according to the developments of new products.

The first two; competitiveness and financial performance relate to downstream results. The other four are upstream determinants. For example, a new product innovation will not impact on profit, cash flow and market share that were achieved in the past. However, a high level of innovation provides an indicator of how profit, cash flow and market share will move in the future. If innovation is the driver or determinant of future performance, it could also be considered a key success factor. The standards set, i.e. the KPIs, should have the following characteristics:

- **Ownership**: Managers who participate in the standard setting procedures are more likely to accept the standards than if they were imposed to them by others;
- **Achievability**: An achievable, but challenging standard is a better motivator than an unattainable one;
- **Fairness**: Managers should be allocated equally challenging standards.

Employees will work hard towards achieving the standards, particularly if they are motivated. The actual means of motivation may involve performance-related pay, a bonus or a promotion. The standards need to be as clear as possible. The standards should be linked to controllable factors. In sum, Fitzgerald and Moon's (1996) building block model could measure the key determinants of organisational performance, as their targets are set in such a way to engage and motivate staff, through ownership, achievability and fairness.

7.8 The Performance Pyramid

Lynch and Cross (1992) developed the performance pyramid which includes a hierarchy of financial and non-financial performance measures. Figure 7.1 illustrates how the performance pyramid links the corporate strategy with day-to-day operations. It assists in the achievement of the corporate vision.

Level 1: The corporate vision or mission will help the organisation to achieve long-term success and competitive advantage.

Level 2: The focus on marketing and financial factors are critical for the achievement of corporate vision.

Level 3: The marketing and financial strategies that were set at level 2 lead to the achievement of customer satisfaction, increased flexibility and higher productivity at the next level. These are the guiding forces behind the organisation's operations that will drive the strategic objectives of the organisation.

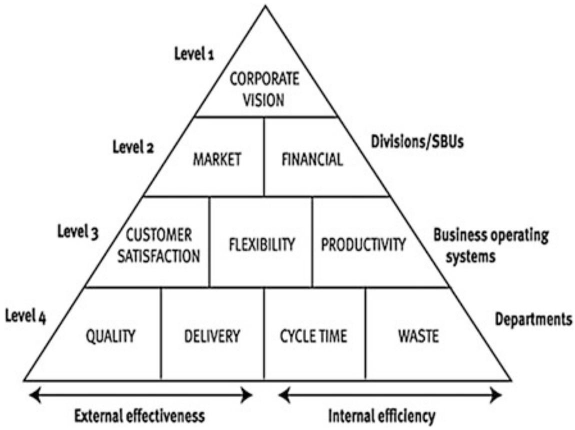


Fig. 7.1 The performance pyramid

Level 4: The operational forces in level 3 can be monitored by using key measures, including; quality, delivery, cycle time and waste.

The left hand side of the pyramid contains measures which have an external focus and which are predominantly non-financial. Those on the right are focused on the internal efficiency of the organisation; which and are predominantly financial.

One of the drawbacks of the performance pyramid is that it focuses on two groups of stakeholders, i.e. shareholders and customers. Additional measures could be included to measure the businesses' engagement with other stakeholders.

7.9 The Marketing Effectiveness Audit

It is extremely important for any business to analyse its marketing effectiveness. Without measurement systems, organisations might continue to use strategies which are outdated, which do not help them achieve their corporate or marketing objectives. A marketing audit is a systematic examination of the marketing unit's objectives, strategies, organisation and performance. It has three functions, as follow:

- It identifies what the marketing unit is doing;
- It examines how it is performing these activities, and evaluates the effectiveness of these activities, in terms of the organisations' objectives and resources;
- It recommends future marketing activities.

It is important for any well-run organisation to carry out such periodic reviews of operations. This is particularly true in the field of marketing, where objectives and strategies can become quickly out-dated; as a result of changes in the environment and within the marketing organisation itself. Audits highlight trends rather than present concrete facts. They help the marketing managers to sample the effectiveness of their marketing activities. As such, they will not tell them how to improve or change activities. However, they highlight the strengths and weaknesses, and will show them where their decisions have been appropriate or less appropriate. An analysis of the marketing performance should be carried out to establish whether performance targets were reached. The marketing effectiveness will critically analyse the following aspects of the marketing orientation:

1. Customer Philosophy;
2. An Integrated and Effective Organisation;
3. Adequate Information;
4. Strategic Orientation;
5. Efficient Operation.

7.9.1 The Customer Philosophy

The customer philosophy refers to the ability of staff and management to recognise the primacy of studying the market place. It will evaluate whether management and staff are able to distinguish between different segments. There may be different opportunities that may arise from adopting a customer-centric approach.

Some managers may be technology-oriented, as they could enhance certain features of their product. Conversely, they may not embrace technology to engage with customers. There are other managers who may be sales oriented, as they believe that they would sell anything to their customers. Alternatively, managers may be driven by cost-efficiency.

7.9.2 An Integrated and Effective Organisation

This refers to the integration of all marketing functions towards achieving customer satisfaction. This involves using the total quality concept as a mantra throughout the entire company. Total quality can be achieved if each operating division has a clear view of customer needs. This concept suggests that the employees' priority is customer satisfaction. However, this view ought to be internalised by the members of staff in every department and must be reflected in the service they provide. It requires ongoing communications and dialogue among departments within the organisation. The information must flow freely between sections. The information communicated by one division may be critical to the operation of another. Therefore, effective channels of communication must be in place to allow the free movement of such information. Communication must exist all the way up from the lower levels to top echelons of management. This sort of flexibility will allow the business to service individual customer needs. This way, the customers will perceive that the company care for them. Every person and process in the business, either immediately or ultimately will affect the customer and the product. Therefore customer satisfaction is everybody's responsibility. The total quality management system requires proactive rather than reactive management as every employee should be involved from top to bottom.

7.9.3 Adequate Information

Marketing managers must assess whether it has relevant, up-to-date information on target markets, particularly on their customers' needs and wants. They must ensure that they receive information relating to the quality of customer service from all functional divisions which affect customer service. It is essential that there are two-way channels of communication for an organisation to function effectively.

7.9.4 Strategic Orientation

The businesses should have a well-defined core strategy which includes formal systems long range and short-term plans, which will consider contingency elements, if necessary.

Business demands that the future plans are under constant review and that they always contain contingency plans. A contingency plan involves making preparations to deal with problems, should they occur. For instance, airlines may have to deal with overbookings. An agreement with another airline would allow them to accommodate denied passengers who are not accepted on board. Many airlines may have interline agreements with other airlines to deal with overbooking situations.

The company's overall strategic plan defines its mission and objectives. Functional and marketing plans must also be prepared.

7.9.5 Efficient Operations

The businesses must ensure that appropriate resources are made available to carry out the various marketing activities. The organisations' operations involve both human and other resources (financial and technical). The companies' employees must be carefully recruited, assigned, trained and developed. They can achieve maximum efficiency if the human resources managers deploy them in the right areas. Different marketing strategies will require managers with different personalities and skills. Again, the total quality concept comes into play. The strategic planners must also recognise that the various operational and marketing activities must be allocated appropriate finances if they are to achieve optimum efficiency.

The marketing effectiveness audit involves the ongoing evaluation of performance against set targets, involving both quantitative and qualitative assessments. Financial and non-financial metrics can be used to examine the organisational performance, in many areas.

7.10 Questions

- *What are the main aims of strategic planning?*
- *Briefly define the marketing plan?*
- *List the nine elements which must be included in the marketing plan?*
- *Explain the four perspectives of the balanced score card. How can they be used to evaluate an organisation's strategic plan?*
- *List the five major characteristics of marketing effectiveness audits?*

7.11 Summary

Strategic planning involves an ongoing assessment by top management of all the aspects of an organisation's strategy. Long range strategic planning includes; a definition of goals and objectives; a determination of where the company stands in the marketing environment; an evaluation of competences, resources and capabilities to put the strategic plan into action; an assessment of alternative courses of action and the strategic options available; decisions regarding possible avenues that are likely to be pursued; a preparation of other short-term plans to be conducted; the budgeting for the long term plan; the measurement of actual results and analyses; and taking necessary actions to improve the organisational performance.

The strategic planning of a company is a vital contributing factor to its long term economic performance. It guides the business by illustrating those ways in which it can most effectively employ its marketing resources. It also gives rise to a market plan. The marketing plan is a documented statement of marketing policies and activities. It consists of a specification of objectives (including associated goals) which will guide the businesses' marketing efforts; a presentation of resources to be used to achieve objectives and goals; and also a statement of long-term developments that may affect marketing decisions, in the short term. The marketing plan targets the most profitable segments of customers. It also communicates the positioning strategy it wants to occupy in these segments. The market share is influenced by its success, or lack of success, which a business has in positioning its image. In assessing its market share, the business must identify its position in the marketplace.

A marketing plan should contain the following nine items: an executive summary; an assessment of the current market situation; a strengths, weaknesses, opportunities and threats analysis; a list of objectives; specification of market research requirements; a marketing strategy; an action programme; outline of control and review procedures; and a contingency plan.

The monitoring and control of the market plan provides information which can be used in the next round of strategic planning. A formal system of strategic planning, if run successfully can mean the difference between a business which recognises and meets its customers' needs and wants and one which falls short of this goal. The strategic management functions ought to be measured. Factors to consider include financial and non-financial performance metrics. Managers may use a variety of measures to assess their organisational strategy; including; the Balanced Score Card, the Building Blocks Model and the Performance Pyramid.

In conclusion, it is extremely important to analyse the businesses' marketing effectiveness. A marketing effectiveness audit is a systematic examination of the marketing unit's objectives, strategies, organisation and performance. It is important for any well-run organisation to review their operations. A marketing audit relies on five major characteristics, including; customer philosophy; an integrated and effective organisation; adequate information; strategic orientation and efficient operation.

Part II
Tourism Economics

Chapter 8
Tourism Supply and Demand

Abstract The demand for tourism products may be affected by the marketing mix elements, including the nature of the product or service, its distribution, its promotional strategies and its price. Price is the only element in the marketing mix which actually produces revenue. However, the setting of a price is not an easy task, as there are a number of pricing strategies which any travel business may apply, including; prestige pricing, penetration pricing; cost-based pricing; differential pricing and uniform pricing. Moreover, there are a number of factors which will influence what type of pricing strategy could be employed. Such factors include; corporate objectives; the marketing objectives, and the organisations' cost levels, among other matters. This chapter explains the various approaches which may be utilised when setting prices. Ultimately, the customers themselves will decide whether the product that is being supplied to them will meet or exceed their expectations.

8.1 Introduction

The price one important element of the marketing mix, as it is the only one which adds value to the business. Price is very dependent on the customer demand for the service. Generally, as price goes down, the quantity demanded rises, and as price rises, the quantity demanded goes down. This may suggest that prices are inversely related to demand. However, at times, customers perceive that higher prices could be an indicator of high quality. The relative responsiveness in demand to changes in price is known as elasticity. An elastic demand is one where a change in price greatly changes demand. An inelastic demand is one where a change in price has a little effect on demand. Therefore, customers' demand for products is not always related to their price. There are other elements which could affect their purchase decision.

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8.2 Determining Demand

It is the customers themselves, who will determine whether a price has been correctly set. The customers will decide whether the perceived value of the service reflects its asking price. If the product's price exceeds its value, customers will not purchase it. The price set is also dependent on the consumers' demand for the product or service. The general rule is that price is inversely related to demand. In other words, as prices go down, the quantity demanded rises. Alternatively, as the prices rise, the quantity demanded would usually go down. This may also be applicable to the tourism industry. As the air fare to a particular destination increases, the demand for that destination decreases.

To illustrate the effect price has on quantity, the economists use what is known as the classic demand curve. The classic demand curve is normally a line sloping downward to the right. It indicates to the marketing manager the number of units that the market will buy in a given period, at different prices, which might be charged. There is an inverse relationship between demand and price. That is, the higher the price, the lower the demand, and the lower price the higher the demand.

For prestige products, the demand curve slopes upwards. The higher price is perceived as being an indication of a high quality good. The prestige goods may be perceived as delivering more value. Demand in such circumstances can actually increase as the price goes up; although after a certain level, the curve resumes its traditional slope. An example of such a product in the airline industry might be the first and business class seats. Figure 8.1 illustrates the demand curve which indicates the relationship between price and quantity for normal and prestige products.

When setting prices, many companies try to measure their demand curve. When modelling the demand curve, one has to estimate demand at different prices.

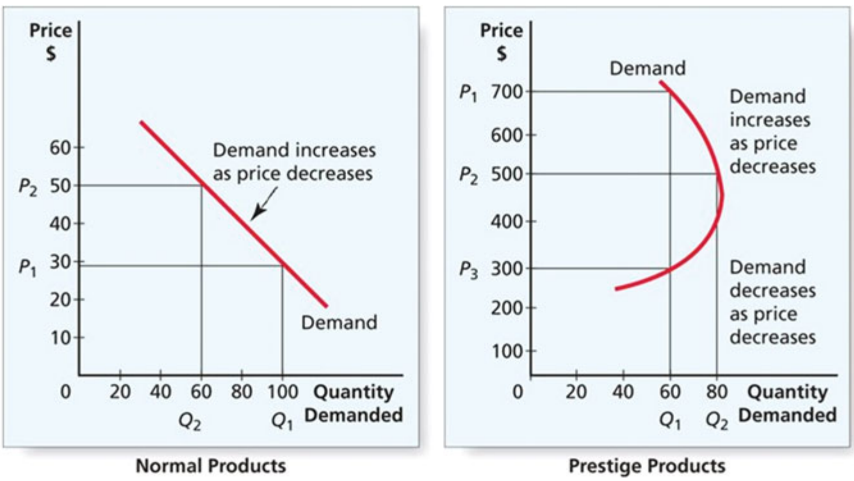

Fig. 8.1 The quantity demanded per period for normal and prestige products

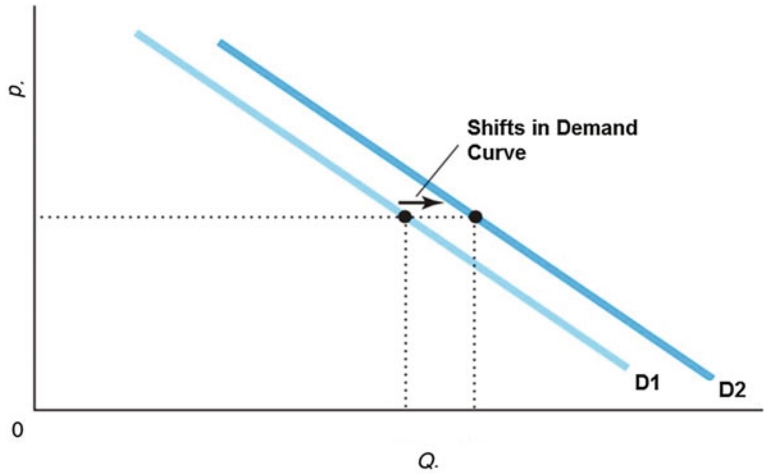

Fig. 8.2 Quantity demanded per period

However, when carrying out this process, it is important to remember that other elements of the marketing mix must remain constant. Demand does not depend on price alone. A shift in the demand curve from D1 to D2 (i.e. an increase in demand) may occur for different reasons:

Customer tastes may be influenced by other marketing mix variables. Marketing mix variables such as promotion and distribution play an influential role. An improvement in these areas may cause a shift in the demand curve from D1 to D2, as featured in Fig. 8.2. An increased quantity of products could be sold at an increased price. Alternatively, a shift from D2 to D1 (a fall in demand) could happen when there are substitute products. For example, leisure passengers may travel by different modes of transports which could be cheaper for them.

The marketing managers ought to ensure that other marketing factors do not vary when measuring demand. For example, an advertising campaign should not be launched if they are attempting to test various price levels. They will not really know whether it is the actual price change or the increased product promotion which is influencing the change in customer demand.

8.3 Elastic Demand

The relative responsiveness of changes in demand to the changes in price is known as elasticity (Brons et al., 2002; Arnott et al., 1993). A marketing manager who understands the concept of elasticity will find it easier to set prices to different products. An elastic demand is one where a change in price will alter the demand for a product. In other words, if a demand is elastic, a change in price causes an opposite change in total revenue. That is, a rise in price will decrease revenue, and a fall in price will increase total revenue. The demand curve for leisure travellers, the price sensitive segment of the market is an example of elastic demand. When an increase in price occurs, there is a decrease in the quantity demanded, and when there is a decrease in price, there is an increase in the quantity demanded.

8.4 Inelastic Demand

An inelastic demand has an opposite effect, as shown in Fig. 8.3. An increase in price will increase total revenue, and a decrease in demand results in a decrease in revenue. In other words, price has a little effect on demand. For instance, the demand for the airline's seats in business or first class is a good example of a relatively inelastic demand (Brons et al., 2002). In such cases, the airfare is not really important to corporate passengers. A small change in price may bring little changes in demand.

Generally, it could be said that the less elastic the demand, the more the business can consider raising its prices. If there is elastic demand, firms should consider lowering their prices as a means of producing more sales revenue.

8.5 Airline Demand

There are a number of ways in which an airline may consider estimating demand elasticity:

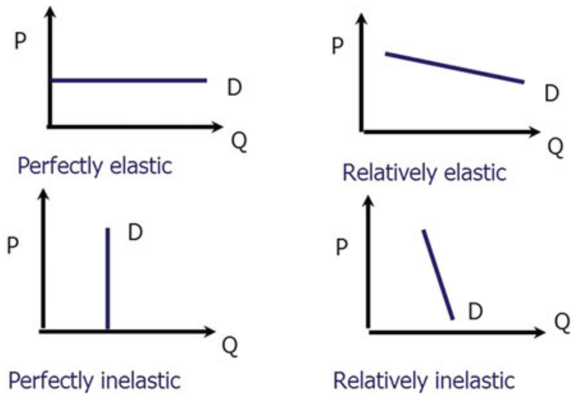

Fig. 8.3 Quantity demanded per period for elastic and inelastic products

8.5.1 Direct Attitude Survey

The marketing managers will explore their customers' attitudes toward particular price changes. This information may be gathered through an inflight survey. However, great care must be taken when wording the questionnaire; so that the customers understand why an increase in price may be required. For example, if the respondents are asked, "Would you be prepared to pay a higher price?", most of them will say "No".

8.5.2 A Historical Analysis of Passenger Yields

This analysis could take the form of a cross-sectional analysis of the relationship between price charged and demand. A historical analysis explores how prices may have affected the level of demand on particular services. A cross-sectional analysis involves a thorough investigation of the passenger mix. It determines how prices changes have affected the routes' profitability.

8.5.3 Market Test

A market test is where an airline implements a price change for a fixed period of time, and studies its effect. However, this research method may have its disadvantages. Once a price change is introduced (especially if it is a price reduction); it may prove difficult to alter that decision without experiencing negative reactions from customers. Market testing also alerts competition of the airline's intention, giving them the opportunity to follow such initiatives. If it is a price increase and the market is highly elastic, or if the market is very competitive, then such a test could turn out to be quite expensive.

8.5.4 Conjecture

Most marketing managers may rely on their past experience to charge prices for their products. However, it should be noted that accurate assessments of elasticity are extremely difficult to ascertain. This is because elasticity varies from each end of the route, by time of day, by day of week and month of year.

8.6 Pricing Methods and Strategies

In the past, international fares were agreed upon by the International Air Transport Association's (IATA) member airlines. At the time, many governments put pressure on airlines to use cost-based pricing. Today, the majority of airlines operate in deregulated and liberalised markets. Therefore, they are in a position to offer what fares they wish. There are a number of pricing strategies which may be applied. The following are the most common pricing methodologies that are employed by the marketing managers:

8.6.1 Prestige Pricing (or Price Skimming)

A marketing manager uses prestige pricing strategies when they set artificially high prices for their products or services, in order to to attract hedonic, high-value customers. Prestige products or services may be perceived as more valuable items by affluent customers, as their higher price may be associated with better quality and glamour. Such a skimming strategy may result in a rise in demand for the product. For example, First Class or Business Class fares possess a number of characteristics of prestige products. In the market place, such fares are considered to be the airlines' premium products. These products reflect status and high-quality lifestyles of passengers, mainly business travellers (Swarbrooke, & Horner, 2001).

Many companies may apply this pricing method when they penetrate a new market, as a means of attracting high-end customers. In this case, the marketing managers will set a high price for their new products to skim maximum revenue from specific market segments, which may be willing to pay the high price. This way, the company will make fewer, but more profitable sales.

8.6.2 Penetration Pricing

Penetration pricing involves the setting of low prices for innovative products or services. The marketers' intention is to generate quick sales, and to win a large market share. If the target markets are elastic, penetration pricing will provide significant opportunities for market growth. Frequently, low-cost airlines have used penetration pricing when they first entered the market, in many countries. However, certain airlines who may have limited resources and lower capacities may find themselves having to compete with industry giants. The industry competitors, including the legacy carriers will rely on economies of scale (Caves, Christensen & Tretheway, 1984). They may decide to cross subsidise unprofitable routes where they are competing against low-cost airlines, and raise their prices on other destinations where they own a monopoly. They often attempt to force new entrants out of their market. Such tactics are known as predatory pricing.

8.6.3 Cost-Based Pricing

This approach uses three similar methods of cost-based pricing, including, cost-plus, break-even or target-profit pricing.

Cost-plus pricing is the easiest method. It entails adding of a standard mark-up to the cost of the product. When applying this to the travel industry, the cost per passenger/guest is calculated, and a mark-up is usually added to set the selling price of the lowest fare or hotel rate.

Break-even pricing is another cost-oriented, pricing approach. Here the company determines the price at which it could break-even. The marketing managers using this approach must calculate how many passenger seats should be filled, or how many rooms should be occupied, to break-even. In other words, the marketers' intentions are to cover the costs or to reach their target profit margins. When determining the break-even point, a break-even chart may be used.

A break-even chart indicates the relationship between sales, costs and profit, at different levels of sales activity. Marketing managers can quickly ascertain, by simply looking at the chart, the approximate profit or loss which is likely to be earned, at a specific level of activity. This chart will clearly illustrate a break-even point. In the chart, the horizontal axis represents the number of units sold, and the vertical axis indicates the costs and the sales.

The fixed cost line cuts the vertical line at the level of the fixed cost, and runs parallel to the horizontal axis. The fixed cost is the same for all levels of sales activity, and does not vary with increased sales levels, or with the quality of the service being offered.

The total cost line meets the fixed cost line at the vertical axis. Total costs may be defined as fixed costs plus variable costs. The variable costs are costs which vary directly with the type of service being offered.

The sales line, otherwise known as the total revenue line must start at the point where the vertical and horizontal axes meet, because, at 0 activity, 0 sales are made.

Total revenue may be defined as the number of units sold multiplied by the price per unit.

The break-even point has been reached at the point where the total revenue curve meets the total cost curve. By drawing a line from this point to the sales in volume axis, it is possible to read off the number of units which must be sold in order to break-even, as shown in Fig. 8.4.

The point where the total cost line intersects the sales line (i.e. total revenue line) is the break-even point. According to the chart, P is the break-even point.

The target profit pricing method uses the concept of the break-even chart. This method sets a target profit margin, and manipulates the break-even chart to calculate how many units must be sold before reaching the desired profit. Therefore,

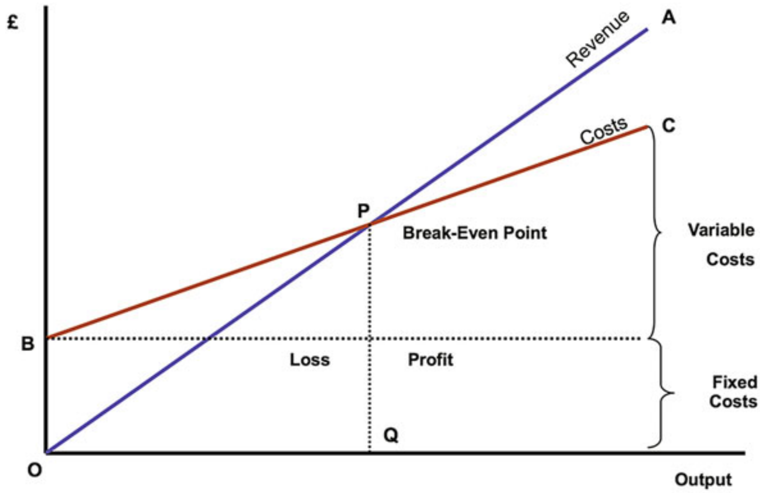

Fig. 8.4 The break-even chart

marketing managers must refer to a specific quantity of units along the horizontal axis, and from it, draw a vertical line parallel to the sales and costs axis. The profit or loss as the case may be, is represented by the gap between the total cost line and the sales line.

8.6.4 Volume Pricing

This is essentially a price reduction strategy that is usually dedicated to those who buy large volumes of a given product. For example, incentive and conference travel is normally organised for groups, so prices are usually reduced, to induce demand. Those intermediaries, including tour operators who will buying a large amount of airline seats or hotel rooms, may be offered lower prices from the service providers.

8.6.5 Differential Pricing

Differential pricing may be defined as a pricing method where prices vary amongst different customers; according to their willingness and ability to pay. For example, the airline market is a highly segmented one. Each segment has its own requirements, and price elasticity levels. Airline fares may be broken into the following categories; first, business, premium economy and economy class, among others. The economy class could be broken down into other sub-segments. Whilst the demand for the first and business class fares is relatively inelastic; the customers who purchase the economy or other promotional fares; will usually be price-sensitive. If an airline is only providing a low fare to cater for highly elastic demand, it can provide one large aircraft at an operationally convenient time (for example, outside peak landing fees periods). The airline revenue managers will know that in this case; if the fare level is right, the demand will accept the frequency and timings. This will give the airline the lowest seat kilmetre cost and probably a reasonable profit as well.

Hence, a differential pricing strategy caters to different segments in the market. Business class and first class fares are very expensive. However, the airlines will incur relevant costs (that are reflected in higher prices) to deliver superior services. For the asking price, passengers are provided with a premium product, a top quality service, which satisfies the needs and wants of the business travellers. The airlines' higher fares will usually refect the provision of frequent services to meet the demand of business travellers. A higher frequency will usually involve a smaller aircraft, and would translate to higher costs for the airline.

The marketing managers may set different prices for their economy class of service. Yet, very often, the economy fare passengers are entitled to the same inflight service, they may have similar seating arrangements (although they pay different prices for them). These passengers will also receive the same baggage services. These passengers may have purchased promotional or discounted fares which are subject to various conditions and restrictions. Moreover, they will usually experience lower seat access levels as the departure date approaches, as opposed to the business class passengers.

For the airline providing high seat access levels to profitable market segments means having seats available at the last minute. This may result in lower seat factors of around 60-70% in scheduled operations, as compared with the 90-95% for charter operations.

8.6.6 Uniform Pricing

A uniform pricing policy is one where there is a little difference in the price paid for a particular product from segment to segment. Previously, it has been argued that if the promotional fares are raised, the demand from price sensitive passengers will drop. In this case, the airline will find itself in difficulty as it will not be able to reduce its overhead costs. Consequently, the remaining passengers will have to bear a greater proportion of the overheads, if the airline is to remain profitable.

If the airline is to retain a high frequency of service with less passengers; it will have to use smaller aircraft. The small aircraft are not as economical as the larger ones. Hence, the airline will have to raise its fares. If the airline decides to keep the large aircraft, it will have to reduce its frequencies and to withdraw its services from thinner markets. The bottom line is that uniform pricing is not satisfactory as it results in a reduction in product quality, and an increase in fares.

Very often, many airlines are using differential pricing strategies as they offer different prices to diverse customer bases, according to their needs and wants. The prices vary according to their willingness and ability to pay. The full-service carriers may usually charge very high prices to the business travellers, and provide cheaper fares to the price-sensitive leisure passengers. Nevertheless, the differential pricing may have its disadvantages. A differential pricing strategy may result in revenue dilution.

8.7 Revenue Dilution

Revenue dilution occurs when a passenger who is prepared to pay high fares will choose a lower one. The differential pricing may result in excessive dilution, which is unprofitable for the business. As a means of avoiding revenue dilution and ensuring that differential pricing works successfully, the airlines must ensure that those who are willing to pay a higher fare, will do so. This is easier said than done. Airlines should have high-yield seats available whenever they are requested. This may be achieved by:

1. Utilising a sophisticated revenue and capacity management system which will enable the airline to control when and where seats are sold. A yield management system will ensure that high revenue passengers will not find difficulties in obtaining a seat, when required.
2. The cheaper fares will include certain conditions, including advance purchase rules. They may not allow cancellations or refundable itineraries, and so on.

8.8 Price Determinants

The type of pricing strategy which the marketing manager will decide to use is determined by a number of factors, including: organisational and marketing objectives; types of pricing objectives; cost levels; other marketing mix variables; market demand; competition and legal and regulatory issues, among other matters.

8.8.1 Organisational and Marketing Objectives

Company policy and image, target profit margins, staff and fleet size could influence the type of pricing policy which the marketing managers will apply. Company policy and image will play an important role when determining a pricing strategy. The price set must be consistent with the general corporate objectives and strategic direction of the company. For example, a full-service airline may want to be associated with the top-end of the market by providing a high-quality service to the business travel segment. To price below the average rate for such a service may imply an inferior and poor-quality service.

Any airline which would like to target the business market should provide an extensive schedule and a high-quality service. Therefore, it will require considerable resources and capabilities to do so.

8.8.2 Pricing Objectives

The most fundamental pricing objective is that of survival pricing. When experiencing severe competition, businesses may be forced to offer lower prices than their rivals. This way they will generate revenue, and improve their chances of survival. If a tourism service or sub product does not generate revenue as it is not used over a given period of time (for example, an empty seat on a particular flight), it will perished. While the service or sub-products may be available for sale at some later point in time, the revenue that was originally lost, can never be regained. For example, a hotel had thirty empty rooms on a specific date. These empty rooms cannot be sold at a later date because the service has been completed, and perished. Similarly, an airline could depart with empty seats which cannot be sold at a later date.

Moreover, the demand for tourism products is usually seasonal. For example, many north Americans flee south to Hawaii and to the Caribbean, during the winter months; whilst Australasians travel to Europe during the summer months of June, July and August. Of course, seasonality may be due to other factors, other than climate, including; vacation and holiday periods. For example, families may habitually travel at the same time of the year, usually over Christmas, Easter or summer periods. This is the usual close-down time period for schools, industry and commerce, in many countries. Since tourism is highly seasonal, suppliers may reduce their prices during off-peak times. A low price strategy assists in creating demand particularly among price-sensitive customers. Conversely, operators may charge higher prices when there are peaks in demand, due to major attractions and special events.

Profit maximisation is another pricing objective. However, it may prove difficult to measure, as businesses could not be in a position to determine when they have reached maximum profit. As a result, profit maximisation may be evaluated according to a certain ‘level of satisfaction’. A change in profit relative to previous periods may be considered as satisfactory or unsatisfactory for the businesses. The setting of prices to obtain a fixed rate of return on a company’s investment is a profit-related objective. Hence, many businesses could be aiming to achieve a specific profit.

Another possible pricing objective is that of increasing market share. Many companies may design pricing policies which will enable them to improve their market share. However, at times, they may be satisfied with their current status in the market. In this case, their objective would be to retain their status quo. Companies with such an objective may not use pricing as a competitive tool. They will probably maintain a steady market share by nurturing their brand equity.

8.8.3 Cost Levels

The marketing managers should be careful to analyse all costs so that they will be included in the total cost. Therefore, the pricing of products should be based on the company's direct and indirect costs (and may consider overhead expenses) if they are projecting a certain profitability margin.

8.8.4 Other Marketing Mix Variables

The marketing mix elements, including; promotions (the integrated marketing communication mix) and place (distribution channels), could determine the target customers' perceptions of the firms' products (or services), in a given competitive context.

The extent to which a product is promoted can have a huge effect on consumer demand. The products' price will usually determine their target market. Low-priced products may attract price-sensitive markets. Such products will be promoted through different marketing communications channels other than high-priced, high-quality, premium services. The more expensive the products; the higher the customers' expectations. Considerable thought and action must go into product development so as to provide the customer with a valuable service which reflects its price. One of the most significant promotional tools is word-of-mouth publicity. For instance, online reviews and ratings are increasingly playing a major role in tourism marketing.

When making a pricing decision, the businesses should consider their distribution costs. The companies' intermediaries, including; tour operators, online travel agents, and the like, will expect financial compensation for selling travel products. Alternatively, they will expect discounts and special incentives to push the businesses' products to consumers. For example, they may book large seat orders and place substantial mark-ups on seats which they have bought from the airline (these products may be demanded for inclusive tours). These factors must always be taken into consideration by the airline marketing managers, as they have to add mark-ups to the cost price of seats, when selling them to intermediaries.

8.8.5 Market Demand

There is a highly segmented market for tourism products. Each of the market segments vary in terms of elasticity, and service requirements. These variables will influence the way in which prices a set.

The business travel segment is generally more inelastic in demand. Fluctuations in prices will not affect demand to any great extent. However, the business travel segment expects a high-quality service. Generally, business travellers are prepared to pay a higher price for such services (Swarbrooke, & Horner, 2001). The higher fares will not only cover the costs of the superior service, but will also convey an image of a premium, prestige product.

The passengers from the leisure travel segment are usually price-sensitive. Their expectations are somewhat lower than those of the business travellers. Demand is extremely elastic in this segment; and an increase in price may result in lower demand.

The socio-political factors may affect market demand. If a destination is politically or socially unstable, tourists may not want to go there. Most people like to feel safe and comfortable. For instance, many destinations have experienced dramatic reductions in the number of tourist arrivals, following the terrorist activities in certain countries.

Economic factors, including the individuals' income and well-being, will affect their propensity to travel. However, this may not necessarily translate to an increased demand for all tourism products. For instance, if leisure travellers receive an increase in income, they may decide to travel to long-haul destinations rather than short-haul itineraries. Alternatively, these clients may increase the quality and standard rather than to increase their frequency of travel. Such customers may decide to upgrade their hotel accommodation, or to travel in higher classes. Income may affect demand according to the purpose of travel. For business travellers it may not make much difference, whilst for leisure travellers it can make quite a substantial difference. Their demand may also be influenced by the availability of substitute products. If there are no substitutes for the product, then consumers will be forced to buy regardless of price.

In addition, customers may develop perceptions about tourism products. Whether they are accurate or not, they could influence their purchase behaviours. Therefore the travellers' perceptions, the online ratings and reviews should be carefully considered, as tourism products must always be purchased in advance.

8.8.6 Competition

The businesses should be aware of their competitors' prices. They may decide to respond to their rivals' pricing strategies, or to be proactive by taking the pricing initiative, themselves.

8.8.6.1 Responding to the Competitors' Pricing Initiatives

There is no rigid method of responding to a price initiative taken by competitors. Every situation is unique. However, businesses are capable of making confident decisions if they examine the situation from different viewpoints:

At times, competitors may decide to lower their prices: It is not wise for other businesses to follow suit, unless they establish why their competitors are pursuing such a pricing strategy. It may be the case that the competitors have made a bad decision. It must be determined whether the competitors' pricing initiative was a long term or a short term one. For instance, an airline's poor fleet planning may result in the company changing its prices on a long-term basis. In such situations, rivals will have to respond or risk losing their market share. Price reductions will eventually lead to lower yields for the airline. As a result, this will have a negative impact on the airline and its long-term sustainability prospects. If the pricing initiative appears to be a short-term action, it is advisable to ignore it, and to avoid de-stabilising the market.

The price reductions on certain products may be questioned by the airline's customers. As discussed above, the airlines may usually charge higher prices for their business and first class as these services are considered as prestige products. The airlines can differentiate themselves from competitors when they provide superior services; that are perceived as an index of quality and corporate image.

On the other hand, the airlines' should continuously monitor those competitors who are resorting to price-cutting policies. Certain leisure markets may be more price-sensitive than others, as they may exhibit higher price-elasticity levels. The lower prices could result in an increase in demand for the economy class of service.

8.8.6.2 Taking the Price Initiative

Generally, businesses may avoid lowering their fares, as this will affect their bottom lines. Price wars have destroyed the profitability of many businesses. However, there may be a tendency toward price competition: when firms have low variable costs; when there is little differentiation among the competitors' products; when industry growth rate is low, and; when the economies of scale are important (Caves et al., 1984). The businesses need to consider their cost levels before taking the initiative to lower their prices. The lean businesses who may have less costs, will usually be in a much stronger position to lower their prices than other competitors with high costs. However, more established high-cost businesses may have stable financial backing, which will enable them to meet, if not undercut, the new companies' prices. They could eventually push their competitors out of the market.

An increase in price may be required if the business is facing controllable or uncontrollable costs. For example, if the airlines' uncontrollable costs, include; increased airport landing fees and air traffic control charges; they may either decide to absorb these costs or alternatively, they may increase their fares as a means of covering these added costs. Of course, rival airlines will also face the same pressure. In such cases, the airlines could inform their customers about their uncontrollable costs, which have forced them to increase their fares. Ongoing corporate communications and public relations will help them to maintain their customers' goodwill. On the other hand, the airlines' controllable costs, including the employees' salaries and wages, are under their direct responsibility. Such costs may not justify taking pricing initiatives to improve the organisation's financial performance. They may even aggravate the airline's profitability, in the long-term.

8.8.7 Legal and Regulatory Issues

Legal and regulatory issues may have an impact on a company's pricing structure. Although, the airline industry has experienced deregulation and liberalisation in the past decades, there is still some government intervention, in certain areas. In international markets, air service agreements between governments necessitate that national airlines should meet and agree on the fares and rates to be charged to passengers. The agreed fare is brought back to both the airline's governments who have the right to veto the fare. Should this happen, the airline concerned must seek to re-open negotiation.

Deregulation and liberalisation have affected the airlines' pricing policies in many contexts. For example, liberalisation has changed the fares regime in the United States of America, in the European Union and in many other places. Today, several airlines have introduced lower fares which have contributed to increased travel. Moreover, the rise of the low-cost carriers has often resulted in lower air fares within pre-agreed zones. Evidently, pricing is increasingly being used as a competitive tool, in many contexts.

8.9 Questions

- *Define the price elasticity of demand?*
- *What is the difference between elastic and an inelastic demand? Give an example of their presence in the airline industry?*
- *Explain how differential pricing can be employed in the airline industry?*
- *How has a change in pricing policy affected a particular airline's sales in the past?*

8.10 Summary

The price is an extremely important element of the marketing mix. It is very dependent on the customer demand for the service. The general rule is that as the price goes down, the quantity demanded rises; and as price rises, the quantity demanded falls. However, there are exceptions. In some cases; the higher the price, the greater the demand. Therefore, higher prices could be an indicator of high quality.

The relative responsiveness of changes in demand to changes in price is known as elasticity. An elastic demand is one where a change in price greatly changes demand. An inelastic demand is one where a change in price has a little effect on demand. There are a number of pricing strategies, including; prestige pricing, penetration pricing; cost-based pricing; differential pricing and uniform pricing.

Prestige pricing involves charging high prices for superior services. These services may be perceived of a higher quality. For example, prestige pricing may be used in first class and business class fares. Penetration pricing involves the setting of a low price on a new product, with the intention to attract a large number of customers, to increase market share. This strategy is frequently used by new airlines to penetrate into a new market. Volume pricing often translates to price reductions to those who buy large volumes of a given product. Fare discounts could be given to travel intermediaries and distributors in the value chain, including online travel agents, and tour operators who buy in bulk. Cost-based pricing uses three methods of cost oriented pricing, including; cost-plus pricing; break-even pricing and target profit pricing. Differential pricing may be defined as a pricing method where prices are varied amongst different customers, according to their willingness and ability to pay. A uniform policy is one where there is little difference in the price paid for a particular product among different segments. However, applying such a pricing policy in the economy service would result in a poor quality service, and high fares.

It may appear that the differentiated pricing policy is the best policy to apply in the economy class as it enables the airline to increase its revenues, and to lower operating costs. However, differential pricing may also lead to revenue dilution. This occurs when a passenger who is prepared to pay a high fare (rate) makes use of a lower one. This may result in considerable losses to the airline (or hotel).

There are a number of factors which will affect the type of pricing strategy to be employed. Such factors include; organisational and marketing objectives; the pricing objectives of the company, and the cost levels, among other issues. As already stated, pricing is not an independent variable; it is affected by other variables of the marketing mix, namely, distribution, product development and promotion.

Chapter 9
Pricing and Revenue Management

Abstract Modern revenue managers understand, anticipate, and react to market demand to maximise their businesses' revenues. They often do so by analysing, forecasting, and optimising their fixed, perishable inventory, and time-variable supply, through dynamic prices. Hence, the objective of pricing and revenue management is to stimulate demand from different customers to earn the maximum revenue from them. The essence of this discipline is to understand the customers' perceptions of value and to accurately align the right products to each customer segment. Therefore, this chapter suggests that revenue management systems combine data mining and operational research with strategy. Essentially, this involves maximising revenue from a combination of high-yield and price-sensitive customers; as these systems are intended to reduce seat spoilage and to increase load factors; thereby filling excess capacity. Moreover, these systems also manage overbookings, and are intended to minimise denied boarding.

9.1 Introduction

The role of pricing and revenue management systems is to optimise the product for different kinds of customers. Pricing and revenue managers use data-driven, yield management systems to allocate adequate and sufficient capacity to profitable customers. At the same time, they also meet the needs of price-sensitive customers. Hence, customer-centric, yield management systems forecast demand and availability, to maximise revenue by using differentiated prices, at the right time. Such price optimisation strategies suit each individual customer. For instance, the purpose of the airline revenue management systems is to optimise the passenger mix on each flight. In this light, this chapter explains the concept of yield management. It sheds light on the various factors which influence the pricing of travel products to different customers.

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9.2 Defining Yield Management

Yield management is a variable-pricing strategy which anticipates and influences consumer behaviour. It is intended to maximise revenue and profits from a fixed, time-limited resource (such as airline seats or hotel rooms). Pricing, revenue and yield management systems will support travel and tourism businesses as they sell products to the right customer, at the right time, for the right price. Very often, the yield management processes could result in price discrimination, as customers who are consuming identical goods or services are usually charged different prices.

As the customers demand for seamless, personalised travel experiences, airlines and many hotels are increasingly implementing pricing strategies that are aligned with their revenue objectives. Their revenue management systems provide accurate, real-time information in the right format (Chase, 2007). They will enable them to improve their retailing, whilst responding to the shifting market dynamics. At the same time, yield management systems could help businesses to maintain and expand their market share, and to increase their profits, on a day-to-day basis (Cross, 1997).

Yield controllers use highly-sophisticated computer systems to forecast the consumers' behaviours (Chase, 2007). Specifically, they could identify when customers purchase certain products, and determine at what prices they are purchasing them. This allows businesses to protect enough space for late booking, high-yield passengers or guests, whilst at the same time, allocating the remaining space to discount fares. Effective yield management systems provide differentiated fares to meet the needs, wants and expectations of different customers; whilst simultaneously ensuring that the business gets the highest possible revenues from each and every customer. Hence, yield management involves; setting differential pricing, as well as adopting non-pricing strategies, including overbooking management.

9.3 Differential Pricing

The raising or lowering of the price is the most basic task of a revenue manager. At times, the higher prices may usually result in fewer bookings. However, if there is adequate and sufficient demand, the setting of a high price could result in profitable business transactions with high-yield customers. Very often, businesses may use specific marketing communications to target affluent customers. Conversely, a decrease in price could easily generate demand from price-sensitive customers. Therefore, yielding may also involve turning away less attractive customers. To do this, businesses could resort to tactics, such as; introducing restrictions, utilising particular marketing channels, et cetera. For example, setting a minimum length of stay (for a hotel accommodation) is one way of achieving this objective. Adding or removing inventory for a channel, is another option.

9.4 Fare (Seat) Mix Management

The correct implementation of the yield management systems could improve the airlines' revenue, whilst enabling them to better meet the needs of their marketplace (Belobaba, 1987). Yield management increases the possibility of seats being available to profitable, late booking business travellers. The airline product could also be aimed at price-sensitive customers, as revenue management systems allow for a wider variety of discounts, particularly to advance purchasers. The lower fares have the effect of both stimulating demand, and filling excess capacity; without decreasing unit revenue. Yield management systems use dynamic pricing that is based on current demand in order to optimise the passenger mix on each and every departure; so that the revenue on each flight is maximised.

Consequently, a broad range of fares will usually target different customer segments. For instance, an airline sells 100 seats for $50 and generates $5,000. However, if it offers four fares of $80, $60, $40 and $20 and it sells 25 seats at each fare, it generates the same figure. However, in the latter case, there are both high yield customers, as well as price-sensitive customers who are travelling with the airline. An increase in the number of high-yield fare passengers will increase the profitability of the airline. However, if an airline will only provide high fares, eventually, it would lose some lower fare customers. Either passengers would be driven to buying from lower-priced competitors; or they would be driven completely out of the market. Therefore, airlines need to find a satisfactory balance between yield and load factor. Such a trade-off is extremely difficult to create, as every single flight has its own individual booking pattern.

The technical definition of 'yield' is; revenue per revenue passenger kilometre. This can be calculated from the net fare (after discounts and commissions), which is divided by the number of kilometres flown. For example: When the fare is $200 and the distance is 800 kilometres; the yield is 200/800 = $0.25 per kilometre. This can also be defined as; 'an amount yielded' (i.e. the return of a financial investment, usually calculated with reference to the cost and dividend).

9.5 Non-Pricing Strategies

Frequently, travel businesses will have no-shows. No shows are those customers who make reservations, but fail to honour them. Similarly, there may be airline passengers who book seats on specific flights, and then will fail to turn up. For this reason, aircraft may sometimes take-off with empty seats. For this reason, businesses use overbooking and other review strategies to minimise costs, whilst mitigating customer impact.

9.5.1 Airline Overbooking

In the airline industry, as in any other, it is very important to exercise control over the variables which affect revenues. Customarily, the airlines' flights are loaded with a precise number of seats that are allocated to each fare or class of service. However, in an effort to reduce and minimise the cost of spoilage (empty seats), several airlines deliberately overbook their flights. Their effective capacity management systems will also enable them to set an acceptable overbooking level. Yet, the airlines' overbookings may increase the risk of denied boardings; which may be detrimental to the airlines' image and reputation. Both the denied boardings and the no-shows will result in significant financial losses to the airlines concerned.

The costs of the spoiled seats (from an airline's perishable service) can be calculated by multiplying the number of empty seats by the average fare. However, the cost of denied boarding is harder to quantify, as this involves handling dissatisfied customers, who may easily churn for other carriers. Hence, the yield management systems should be designed to minimise these contingent issues.

Hence, the overselling of any flight is a process which must be handled very delicately, as different variables must be taken into account, including; time of departure, route, day of the week, fare mix, seasonality and historic flown data. The fundamental concept behind overbooking is to maximise revenue opportunities, by limiting seat spoilage, whilst striving to reduce any denied boarding.

9.6 Integrating Yield Management

Although, yield managers may usually have access to elaborate systems that could provide them with insightful data about customers; they would also benefit from effective communication with their colleagues, from reservations; pricing, sales and check-in departments, among others.

Reservations and sales staff are the airline's front-liners. They regularly deal with prospective customers. For this reason, they are in a good position to provide valuable information to yield managers. Conversely, yield managers can also exchange useful feedback with them. For instance, they can inform them on special offers that may be targeted at particular travellers. Certain flights may be suitable for the price-sensitive, leisure customers.

Pricing and yield management (very often they are the same department) could identify high load-factor markets. Certain destinations may provide an opportunity to increase fares. Alternatively, pricing managers may need to stimulate demand by decreasing fares in low load-factor markets.

Based on the relevant information that is provided by yield controllers, sales managers can design programmes which could create new business opportunities for the airline. They can do this without causing revenue dilution; that is often created by the displacement of high-yield traffic. Sales and yield management could possibly direct group bookings toward certain flights and routes, to increase more traffic.

The yield management department should also collaborate with the passenger services department, particularly with the check-in staff who will often have to deal with denied boardings, due to overbooked flights. Moreover, check-in staff may possess essential 'flown' information (this is information on no-shows and go-shows) which may be useful to the yield managers (although they may already possess this information through their revenue management systems). However, it would be beneficial for the airline; if the departments communicate on a regular basis, particularly about over-sales levels and denied boardings. From a financial perspective, the airline will improve its operations if the number of spoiled seats is reduced and the risk of denied boarding is minimised.

9.7 Customer-Centric Yield Management

Marketing managers use pricing, revenue and yield management systems to identify their customers' requirements, and their booking behaviours. In essence, there are two basic types of passengers—business and leisure passengers. They differ in terms of their needs, wants and expectations. The passengers' unique requirements will dictate their booking characteristics, including: when they book their seats; how much they are willing to pay; how likely they are to no-show; which airline they choose to fly with; where they stay; et cetera.

We have already seen how yield management can be extremely beneficial to an airline when it is implemented in a correct manner. However, these systems are also intended to improve the customers' experience. For the business passengers, a yield management system would ensure that more seats are available for last minute bookings. Moreover, it would also cater to the leisure market by offering low fares to advance purchase customers.

9.7.1 The Business Passengers' Requirements

The business passengers will usually purchase their flights very close to the date of their departure. Therefore, they would expect the airlines to provide available seats at the latest possible time. These customers may need to fly at very short notice. At times, they may also have to change their flights, or to cancel their itinerary. Generally, the cost of the ticket will be less important to these travellers, than the time and date of departure. Therefore, business customers will usually avail themselves of flexible, high fares which will allow them to book at the very last minute. These customers are charged the highest fares. Therefore, this segment will provide the higher yields to the airline. As business passengers are willing to pay the highest fares, they are extremely profitable to airlines. The pricing, revenue and yield managers must ensure that these passengers' expectations are always satisfied.

9.7.2 The Leisure Passengers' Requirements

The booking patterns of leisure passengers are completely different than those of the business passengers. Unlike the business passengers, who usually book very close to the departure date; the leisure passengers may book well in advance. In this case, the time and date of departure may be considered less important factors to the leisure passengers.

9.8 Revenue Management Mechanisms

Since the business and economy class passengers have different purchasing behaviours, revenue management systems strive to create a balance between these distinct groups of customers. This may prove challenging to the airlines' yield managers. The reason for this lies in the fact that the demand for discounted fares, will usually occur before there is the demand for the higher fares. As both passenger groups are competing for the 'same' seat, it is up to the yield controller to decide to whom the seat must be allocated. A fundamental task of yield management is to find a trade-off among full fare (business) passengers and the various other discount passengers (Smith, Leimkuhler & Darrow, 1992; Belobaba, 1987). If this balance is achieved, the airlines will be in a position to satisfy all of their passengers' needs, while simultaneously maximising their yield.

If the airlines quote a low-yield price for their seats, they will sell them well in advance of their flight departure dates. In this case, it would be likely that most of the customer bookings will be mostly from leisure passengers. Therefore, there won't be seats available for sale when business passengers contact the airline, at a later stage. This issue may lead the business persons to travel with one of the airlines' competitors (assuming that a seat is available with them). If the business travellers are consistently refused last-minute bookings with any airlines, they will stop trying to fly with them.

The airlines' yield management systems control when capacity is made available for sale. These data-driven systems will usually involve the blocking of seats to high-yield passengers. This capacity will be released prior to the departure date. Higher prices will be charged to passengers as the departure date approaches. It is very likely that these seats will be purchased by the business travellers who will usually book late, at very high prices (Swarbrooke, & Horner, 2001).

Whilst the former approach ensures that the airlines' flights are filled with low yield passengers. The latter approach offers greater opportunities to sell more seats at high yield fares. At the same time, it is equally possible that high yield seats could remain unsold. This could result in a loss of revenue.

In sum, elaborate revenue management systems are capable of providing a high degree of accuracy, as they are based on previous booking patterns (Chase, 2007). Therefore, yield controllers are increasingly relying on advanced digital technologies to price their seats to different consumer segments.

9.9 The Essential Criteria for Successful Yield Management

9.9.1 Personnel

A successful yield management programme requires dedicated and competent employees that are experts on their airline's route network, competitors' destinations, schedules, prices, as well as on consumer demand (Smith et al., 1992; Belobaba, 1987).

9.9.2 Data-Driven Systems

The yield controllers necessitate up-to-date information on their external marketing environment and on their companies' capabilities, resources and competences. Moreover, the management of data and analytics will support them in their strategic decision making and day-to-day operations. Very often, revenue management systems will provide them with detailed information on past transactions, which will clearly indicate the number of (un)sold seats (and waitlisted passengers, et cetera) for specific flights, during the day, week or other periods. They may also anticipate the booking patterns into the future. These systems usually indicate when and where there is demand for certain destinations. They could specify which flights may be sold quicker than others; as they reveal how many bookings have been received, to date. They may be used to analyse booking patterns, by comparing data with previous periods. They could also report past punctuality records, no-shows, go-shows and denied-boarding, among other metrics.

The pricing, revenue and yield management systems would typically consist of the following elements:

(i) The Yield Management System: This involves drawing information from the airline's reservation system This data could be used to extract reports on advance bookings;
(ii) Historic Bookings: This is information on the airline's full booking history for the past months or years. It could include forecasts that are based on past records;

(iii) Flown Data: This is relevant information on past flights, including; no-shows and go-shows;

(iv) The Reservation System: An airline's reservation system will usually hold inventory flights into the future as well as booking records of past itineraries. The reservation systems are used by yield controllers to load the schedule with specific seat allocations for a full season, and to make changes to the airline's inventory on a day-to-day basis;

(v) Culture: The organisations' different departments must support the yield managers. An organisational culture which fosters a collaborative environment among members of staff would improve the objectives of yield management. For example, the yield managers could hold relevant data which could assist the check-in staff in dealing with displaced passengers, particularly during the high season when there are more travellers. The members of staff should recognise the importance of having a total quality management mantra. Effective engagement across departments would help the airline to improve the customers' overall experience with the airline.

9.10 Questions

- *Yield management can be defined as: 'the process which matches demand and supply, to earn the maximum revenue on each and every flight'. How is this match actually achieved?*
- *What is the reason for the widespread practice of overbooking within the airline industry?*
- *Define (i) the cost of a spoiled seat and (ii) the cost of denied boarding?*
- *Business passengers and leisure passenger have different booking characteristics. Briefly outline the booking pattern of both passenger groups?*

9.11 Summary

Yield management can be defined as the process that is used to match demand and supply; to earn the maximum revenue on each and every flight. Its underlying objective is to optimise the passenger mix on each departure. In the airline industry, the technical definition of the term 'yield' is revenue per revenue passenger kilometre. This can be calculated from the net fare (after discounts and commissions) divided by the number of kilometres flown. It can also be defined as the yielded amount.

Yield management increases the possibility of seats being available for high yield, late booking passengers. It also involves the allocation of seats to lower discount fares. This has the effect of both stimulating demand and filling excess capacity, without decreasing revenues by any significant amount. Revenue management systems could reduce unanticipated denied boardings, while at the same time, increasing load factors. This can be achieved by managing differential pricing or overbooking practices. An effective overbooking management could reduce seat spoilage.

Yield management systems can make a substantial difference to an airline's profits. Therefore, it is imperative that the entire airline is committed and dedicated to it, including the reservations, pricing, sales and check-in employees, among others. Some of the essential criteria for successful yield management include; the airlines' (or hotels') personnel and data driven systems.

Part III
The Airline Product

Chapter 10
The Airline Business

Abstract The airline product consists of tangible and intangible elements. It is important to remember that passengers are purchasing more than the airline product; they are also acquiring its benefits, including their customer experience, which they associate with it. Hence, the process of product development and market research should be ongoing, if an airline is to keep itself up-to-date with the latest developments in the market place. The airline marketers should know what constitutes a high standard of customer service, particularly toward high-yield, profitable customers. Nonetheless, there are different kinds of customers, including; short-haul, long-haul, leisure and business passengers, who may hold different expectations from their airline. They may have certain needs and wants which could be higher on their list of priorities. In conclusion, this chapter suggests that customer-centric airlines could follow a total quality mantra, where every process is continuously improved for the benefit of customers. Such a total quality management approach implies that all members of staff are responsible to improve their airlines' service quality.

10.1 Introduction

Today, commercial airlines serve many countries with modern jet equipment, and offer a wide range of services between major cities. Typically, airline products include, full-service carriers offering different classes of service, low-cost carriers (LCCs), inclusive tour packages, connecting services, stopovers, fly/drive, fly/cruise, incentive packages, charters, et cetera. These airline products possess tangible and intangible elements. The tangible part may include; a comfortable boarding lounge; whereas the customer service that is provided by the courteous cabin crew could be considered as the product's intangible aspect. Therefore, this chapter explains many aspects of the airlines' products. For instance, the short-haul, long-haul, leisure and business travellers may have different needs and wants. Therefore, a customer-centric airline is supposed to anticipate these customers'

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demands and exceed their expectations. This can possible be achieved if the airlines adopt a total quality mantra, in order to improve their service quality, for the benefit of customers.

10.2 Aspects of the Airline Product

As mentioned earlier, customer needs and wants are extremely important with regard to the airline product. It is possible to identify needs for different customer segments. For example business passengers may need punctual services (Peterson et al., 2013); whilst the leisure passengers may usually demand low prices (Tribe, 2015). Generally, the price is higher on the list of priorities for the leisure passengers than it is for the business passengers. However, this trend may be changing. In the past, business travellers were relatively inelastic as they were prepared to spend more for their seats (Swarbrooke & Horner, 2001). Moreover, the arrival of increased competition, particularly from low-cost carriers seems to have changed this demand (Porter, 1986).

There are tangible and intangible aspects of the airlines' products. The tangible characteristics of the business class service may include; the provision of separate check-in counters, special lounges, priority boarding, superior inflight meals, inflight entertainment, et cetera. The intangible features of the airlines' products include; friendly check-in employees, courteous cabin crew, et cetera. Yet, it could be difficult to distinguish the consumers' needs from wants. This task is made even more difficult by the competitive environment in which the airlines must operate. Today, customers can choose to travel with a wide selection of airlines that could be operating the same routes.

Essentially, all airlines should be satisfying their customers' transportation needs, and they are expected to be safe and secure. At times, they may even offer similar fares and deliver the same service standards in certain routes. Hence, the airlines that are capable of satisfying their customers' wants could be in a better position to achieve a competitive advantage, relative to their rivals. For instance, today many passengers can check-in their luggage off-airport premises, in many hotel or train stations, around the world: The guests at the Disney Resort can check their bags up to 24 h before their flights. This is of great benefit to passengers who are getting to the airport on public transit, or who may simply do not want to leave their bags around, before they travel. In a similar vein, passengers can check-in in Kuala Lumpur's central station if they are flying on Malaysian or Cathay Pacific. In Hong Kong's airport, passengers can check-in in the same day of their travel at the main stations. Similarly, at Paris-Charles de Gaulle, passengers can also drop off their baggage the day before their departure. This service is available to all passengers who are travelling in all classes of services, to all destinations.

10.2.1 Short-Haul Passengers

The short-haul passengers' most basic needs are conveniently timed, high frequency flights. The shortest journey by air is usually a day trip. Very often, day-return itineraries are intended to business passengers who start and finish their business on the same day. However, different markets may have different timing requirements. Generally, early morning, outward journeys and late evening, return journeys are convenient for many passengers, and are often demanded. Most markets have a Monday to Friday requirements for such types of journey. The short-haul passengers may opt for point-to-point journeys (a flight from origin to destination). Alternatively, they may use short-haul routes to connect with long-distance flights. In this case, the timing and frequency of the short-haul flights ought to be feasible for those passengers who may wish to make a connection onto another long-haul flight.

Therefore, it is necessary to differentiate between those passengers who travel point-to-point journeys, from those who use short-haul routes to connect with long distance flights. For point-to point business passengers, larger seats are probably less important that they are for other connecting passengers. This is mostly because the connecting passenger is likely to compare the seats on short-haul aircraft with the seats on long-haul aircraft, which are usually larger.

10.2.2 Long-Haul Passengers

Long-haul passengers may have certain wants which may be higher on their list of priorities, than they are for the short-haul passengers (some aspects of these needs and wants have been previously discussed in Chap. 3: The Marketing Environment). Specifically, the airline product comprises the following elements (Table 10.1):

The airlines' schedule and route network are extremely important in relation to departure and arrival slot times; particularly for those carriers operating long-haul routes (Wu, 2005). For instance, a flight may depart at an ideal time in its country of

Table 10.1 Components of an Airline Product

• **Aircraft type**, including the cabin's layout (galleys, lavatories, aisle spaces, seating, entertainment, and other features) and the cabin's noise levels;
• **Punctuality** and on-time performance, in terms of arrival and departure times;
• **Price** influences the level of demand. Moreover, the characteristics of the aircraft affect the overall costs, and the air fares that are charged to passengers;
• **Schedule points** to be served; direct or intermediate stops, timings and frequencies.

destination, and vice versa. This may happen for two reasons; the elapsed time of the flight, and/or time zone differences and changes en-route. Another difficulty is to establish what customers consider as an attractive departure and arrival schedule. Customers may prefer non-stop flights. They may also want to arrive as quickly as possible to their destination. Many airlines now have the opportunity to improve their scheduling in this respect. They can do this because of new technology aircraft such as Boeing 777–200; 787–200; Airbus 350/900, et cetera. Another schedule feature which can be deemed important is the choice of gateway airport. However, today, there are many international airports offering a high standard, in many regions of the world.

The airlines' operating long-haul routes experience severe constraints in relation to departure and arrival slot times. Since long-haul passengers spend a relatively long time on the aircraft, another extremely important want for them is an adequate on-board service. Recently, many airlines also started offering high-speed inflight wi-fi on-board their aircraft. Passengers can use this service to surf the web, send and receive emails, stream video content and music, et cetera. For the time being, passengers have to pay for a fast streaming service. Elements which come under on board service, include; seating, catering, inflight entertainment, and more importantly, the cabin crew's standards of customer service, which will ultimately affect the customer experience of the airline product. Together with schedule convenience, frequency of service and the high levels of seat access will be closely related to the cost of providing these features. Several long-haul airlines are increasingly offering similar products. This is especially true with regard to how they serve their corporate business passengers.

10.2.3 The Business Travel Market

Most of the products' features that were mentioned above satisfy the passenger wants rather than their needs. They are not absolutely necessary but are desirable attributes of the airline product. For instance, a separate check-in desk differentiates the airline product in terms of speed and status. Special baggage facilities for business passengers include; priority baggage handling, larger baggage allowances, generous carry-on luggage allowance, special luggage tags, priority delivery at the destination baggage hall, et cetera. In addition, many airlines offer separate lounges that include business facilities for their corporate travellers. Moreover, it is usual for legacy airlines to offer a seating area that is dedicated to business passengers on board their aircraft. The separate cabin area would offer enhanced features, including; comfortable seating with more legroom, better inflight meals and entertainment.

Business passengers may demand last-minute seat access, flexible and frequent air services. Seat access is the ability of business passengers to obtain a booking when they need it. The level of seat access is measured in terms of percentage probability—for example, there may be a 90% probability that a particular business traveller will be able to get the booking s/he needs at the time required. Flexible arrangements offer the possibility to change flight arrangements, if necessary. Therefore, airlines must ensure the provision of frequent flights with sufficient capacity on each and every flight.

The pricing of air fares is a relatively important issue for all travellers, although a few years ago, the business segment used to be relatively inelastic (i.e. insensitive to changes in price). In recent years, a number of changes may have altered the face of this high-yield market. The rise of low-cost airlines and their frequent schedules to many destinations, may have changed this situation.

The business market has been characterised by a significant increase in the number of independent travellers which were either self-employed or small business owners. Unlike corporate travellers, whose fare is usually paid for by their employer, these independent business passengers will pay their own fare. This means that the air fare is a more important consideration for them than it is for other passengers in the business segment. Moreover, the corporate market is characterised by centralised purchasing. This meant that some big businesses were negotiating with airlines for discounts and price concessions, as they would with any other supplier of goods or services. This is particularly true for the frequent travellers. The number of companies who seek fare discounts has increased competition among airlines (Porter, 1986). In the past, when airlines offered identical prices, the companies could not negotiate to obtain fare discounts for their business travellers. Generally, the airlines will only offer discounts to specific companies who spend a certain level of expenditures.

10.2.4 Frequent Flyer Programmes

Frequent flyer programmes, can be considered as loyalty schemes that reward, and therefore encourage, frequent buying behaviours. At times, the development of frequent flyer programmes has proved to be extremely influential in terms of the passengers' choice of full-service airlines. Air passengers are usually rewarded for the air miles they have travelled, through points and/or fringe benefits. Once they accumulate enough points, they can redeem free flights or upgrades. In other words, the frequent flyer programmes are an incentive scheme that link the needs and wants of passengers. More importantly, these loyalty programmes are a sophisticated way of retaining customer information within customer relationship management systems (CRM). CRM systems allow airlines to access valuable data about the customers' travel patterns and behaviours. Hence, they support airlines in their provision of personalised customer service. They are intended to improve the consumers' retention and loyalty. The earlier frequent flyer programmes used to offer reward miles on air travel alone. However, contemporary loyalty programmes are also being used in conjunction with other firms, including retail, financial and hospitality businesses (for example, the use of a particular credit card could increase air miles). Many of these businesses are collaborating with airlines at a certain price, of course. At the same time, frequent buyers (rather than frequent flyers) accumulate miles (and points) outside the airline, as they are offered attractive incentives from different businesses to accumulate their rewards.

Yet, these developments may have led to a shift in focus from "customer satisfaction" to "revenue optimisation", as frequent flyer programmes are turning into profit centres. The existence of a frequent flyer programme does not always guarantee sufficient motivation to use the airlines' services. Moreover, in some cases the customer data is also spread across many external partners, and thus cannot be used in data mining or business intelligence activity. While it is essential to invest and sustain a good frequent flier programme, it is also necessary to come up with viable improvements or alternative ways to handle customer relationships, more effectively.

10.2.5 The Leisure Travel Market

Unlike the business market, which may still seem relatively inelastic, in many markets; the leisure travel market is extremely elastic, as demand is heavily influenced by price. For the leisure traveller, price is an extremely important factor when choosing an airline. The leisure passengers pay for their fares (they are not sponsored). They may often travel in groups, in which case the individual air fare may have to be multiplied by three or four. Their air fare is just one part of the total cost of the holiday (or vacation). Hence, from the leisure passengers' point of view, the less expensive the fare is, the more they can spend on other travel products. Leisure travel is highly discretionary. Very often, the holiday expenses may not be considered as priorities for some individuals.

Leisure travel is seasonal. Generally, certain destinations may experience a surge in demand in certain months of the year, as opposed to business travel. Therefore, schedule considerations may be less significant to leisure passengers than they are to business passengers. On the other hand, safety and security considerations are still very important aspects of the leisure market. Leisure passengers may be infrequent flyers. Moreover, this segment is price-sensitive, as leisure customers would travel more if the prices are affordable to them. Nevertheless, the leisure passenger may still expect a certain level of good service and courtesy from the cabin crew. In fact, an increasing numbers of leisure passengers are opting to pay extra in order to travel in business class. Other discerned customers may be intrigued to travel with those airlines which, in their opinion, may offer them a higher level of differentiated service on-board.

10.3 Customer Service

The customer service is especially important in securing the repeat business of regular travellers. In a highly competitive market, understanding what constitutes customer service can help airlines gain a competitive edge over their rivals.

10.3.1 Customer Service at the Point of Sale

Customers may contact the airlines directly through their sales offices (if any), via their telephone reservations (or call centres), or by simply purchasing their air tickets from their corporate web site. This first stage of the customers' contact with the airline is extremely important, as it is their 'moment of truth'. It is crucial that the airlines will satisfy and exceed their customers' expectations. Otherwise, they may decide to switch to other competitors. The aspects of customer service that are required by the airlines' front line, members of staff include:

10.3.1.1 Prompt Attention

The customers must be attended to as quickly as possible. An effort must be made to measure the customers' idea of promptness in terms of minutes/seconds. That is, the airline should have a standard for such things, such as maximum queuing times in the sales office or telephone waiting times.

10.3.1.2 Courtesy

The definition of customer service is something which is very difficult to define as it is a subjective issue. Courtesy means different things to many people. It differs cross-culturally. However, it is still necessary for an airline to have certain minimum standards and procedures, in this area. Many airlines lay down specifications to their staff, outlining the verbal communications and non-verbal cues that are required during customer service. It is crucial for airlines to deliver high standards of customer service when engaging with customers. However, many airlines may be using intermediaries, including calls centres that may not necessarily provide the same levels of service.

10.3.2 Online Engagement with Customers

The web has become a hub for content, conversations, communities and connections. It has become very common for customers to search for online reviews and ratings of travel and tourism businesses. Therefore, the airlines should present great online content through their corporate web site, and wherever they are engaging with interactive users. The airlines could use social media networks to share relevant content that is of value to prospective customers.

Social media outlets are becoming more relevant to connect with online users. The airlines should always respond as quickly as possible on social media as online users demand instant feedback and fast responses. The airlines' engagement will show that they care for their prospective passengers.

10.3.2.1 Attention to Special Requirements

The customers who may have special requirements ought to be served with the highest standards of customer service; for example, passenger requirements may include; special assistance to disabled passengers, special on-board meals, particular seating arrangements, et cetera.

10.3.2.2 Provision of Additional Information

The customers may request any additional information on hotels, weather, travel formalities, currency, and so on. Such information may be catered for and provided through the businesses' corporate web site.

10.3.3 Customer Service at the Airport (Home and Destination)

The basic components of the passenger services at the airport are not always delivered by the airlines. The airports' services may include: access to the airport and parking; check-in; baggage handling; passenger boarding (however, the airline should be helpful and efficient where there is the movement of children, disabled persons, et cetera); lounge facilities; airport wifi facilities; customs, immigration and security services; passenger information, direction and embarkation facilities, among others (De Neufville, 2016). Many of these are under the direct responsibility of airport authorities or government agencies. However, the customers may not be aware of this. Very often, they may consider the above elements as part of their overall airline package. Thus their customer experience may be directly affected by each of these aspects.

As was seen earlier, the airlines can directly control their own staff's standards of customer service. However, they can only exert an influence, over their intermediaries' staff. Similarly, the airports' authorities are outside of the airlines' direct control. They can put pressure on them (to a certain extent) to improve their facilities, if they are not satisfactory. To this end, most airport authorities regularly meet with their airport users, including airlines, and ground/passenger handling service providers, among others.

Nevertheless, it should be noted that it is extremely valuable to the airline to have members of staff who are dedicated to help passengers at key points, including baggage retrieval. Passengers will surely appreciate the airlines' presence in these areas. This engagement will also provide a good source of consumer feedback to the airline.

10.3.4 Inflight Services

The inflight service is heavily emphasised in airline advertising and during marketing campaigns. It is the feature of the overall airline product, which customers associate with the airline. Therefore, it is of the utmost importance that the airlines' service is as efficient as possible. Unlike other areas of customer service, this area is the sole responsibility of airlines. Once the aircraft has taken off, the customer service is under the airlines' direct control. Important areas under this heading are: seating, lavatories, catering, entertainment, the cabin crew's customer-centric ethos, the provision of entertainment packs for children, public address system, clear information on onward flights, wifi facilities, and the like. As was seen previously, inflight service is particularly important to the corporate business passenger, especially when travelling on long-haul flights.

10.3.5 Post-Flight Services

Post-flight services include many of the features that were listed under the heading 'Customer Service at the Airport', as it comprises; baggage handling, passenger movement and so on. Yet, there are also some additions. Some airlines offer transportation to their passengers by special coach or limousine from the airport to their hotel, or to other terminals.

Another component of post-flight services is the operation of an effective system that is capable of dealing quickly and competently with lost or mishandled baggage. Many legacy airlines may even offer prompt refunds to passengers holding unused tickets, when these are requested. Moreover, the handling of complaints and compliments are usually regarded by many airlines as an extremely important part of their service. Many of these issues may demand that airline employees observe strict standards of customer service procedures.

10.4 The Total Quality Concept

Many airlines are now moving away from the practices of treating the elements of their product separately. Instead, they are trying to achieve a higher quality of service by instilling more awareness of the 'total quality concept' amongst their members of staff. In the past, the customer service training was usually directed to front-line employees. However, the total quality policy is aimed at every employee. The theory behind this concept suggests that the customer services rely on each employee and on every operational process. The back-office operations will ultimately affect customers and the airline product. Therefore, the customers' satisfaction is everyone's responsibility.

Where there is a total quality concept the members of staff, from top to bottom are usually involved in decisions concerning their airline product. The employees are expected to participate in every aspect of the airline, to improve the product and service quality, for the benefit of customers. A participative leadership may be required as airline staff could be in a position to ameliorate the provision of their customer services. For instance, if a flight is overbooked, an arrangement could be made with other airlines to cater for denied boardings. The total quality concept may also involve that all employees are aware of contingent procedures. For example, the passenger handling employees could be proactive in their customer services by providing lunch vouchers if a flight is delayed. The passengers will be satisfied if ground staff can handle such situations with confidence, rather than having to consult management. An efficient customer service would anticipate the customers' needs and wants without causing further delay and inconvenience.

Those airlines who are not putting the total quality concept into practice are in danger of falling behind their competitors, particularly those differentiated, full-service carriers. As the market become ever more competitive, the service aspect of the airline product becomes more important. The most successful airlines of the future will be those who offer a total quality, customer-centric product.

10.5 Questions

- *Examine the customer service element of the airline product of your national carrier. How can it improve its service? Discuss?*
- *Explain why price is a very important factor when choosing an airline?*
- *Describe two factors which must be taken into account when designing the customer service features of the airline product?*
- *Do you think the airline's market share would improve if an airline practices the Total Quality Concept?*

10.6 Summary

The customers' needs and wants are extremely important with regards to the airline product. However, as a rule, wants are more important than needs in a highly competitive environment, where many airlines offer similar fares and the same levels of service quality, in certain routes.

The short-haul passengers may expect conveniently-timed, high-frequency flights. When discussing short-haul passengers, it is important to differentiate between those passengers making point-to-point journeys and those who are using a short-haul route to connect with a long-distance flight. There are certain needs and wants which are higher on the long-haul passengers' list of priorities than they are on the short-haul flights.

The business passengers' most important needs are frequency, convenient timing, punctuality, flexibility and safety. The wants of the business travellers' may include; a separate check-in facility, special baggage facilities, separate seating compartment on board and other features. Although price is a relatively important factor for all travel segments, it is usually less important to the business passengers than to leisure passengers. For the leisure travellers, price remains an extremely important factor when choosing an airline.

Frequent flyer programmes incentivise loyal passengers. They may be extremely influential in terms of the passengers' choice of airline.

Customer service covers all of the product features, encompassing; customer service at the point of sale; engagement with customers through digital media; customer service at the airport (home and destination); in-fight service and post-flight service. Many airlines are becoming customer-centric as they follow a total quality concept. This mantra holds that every employee and every process within the airline could ultimately affect customers and the product. Therefore, the total quality concept suggests that the customers' satisfaction is everyone's responsibility.

Chapter 11
Airline Schedules Planning and Route Development

Abstract The airline's scheduling process is intended to provide a plan on the operating patterns of the companies' aircraft and their resources, to meet the anticipated demand. The schedules' plans are usually based on one season only. However, they should be integrated into a long-term corporate plans, as the latter plan specify the fleets' and other operational requirements. The main reason behind the short-term nature of the schedules plan is the unpredictable economic environment in which airlines operate. For this reason, this chapter provides an introduction to the schedules planning process, as it describes its conflicting objectives, including; customer satisfaction, productivity of human resources, high aircraft utilisation, high load factors, high frequency, maximisation of connections and consistent timing. It deliberates on scheduling constraints, including: slot problems; night curfews; industry regulations; pool agreements and peak surcharges; maintenance requirements, standby arrangements and general operational requirements; as it specifies about slot allocations, frequencies and resources, among other issues. Afterwards, this contribution also deals with the major routing patterns which are often considered during the scheduling process.

11.1 Introduction

The major factors which may affect the airline product include: pricing policies, inflight services, seating density and schedules, among other things. The airlines' schedules attempt to estimate future demand for the companies' products for a given period of time. Therefore, the schedules planning process must be drawn up in such a way to satisfy a number of conflicting objectives. At the same time, the schedules planners may have to deal with internal and external constraints. For this reason, the schedules planning cycle is commenced six to nine months before a schedule is required for a given season. During this period, the airlines may need to develop specific route patterns which ought to be consonant with the strategic and operational plans, as well as with their schedules.

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11.2 Corporate Plan and Schedules Plan

As mentioned above, the corporate plan is based on a number of years, usually five. However, the schedules planning process is not as long-term as the corporate plan, as it is usually based on one season only. The main reason behind the short-term nature of the schedules plan is the economic environment in which airlines operate. Over the past years, the airlines' macro environment has become increasingly volatile and unpredictable. Therefore, long-term schedules planning could be very risky. Consequently, the airline's strategic planning department may have to prepare several drafts before issuing their final schedules plan. Each drafted plan will be based on the fleet's requirements which have been outlined in the corporate plan. Each plan must be carefully examined before making a final decision on fleet size and resources (for the following season). The schedules plan must be drawn up in such a way to satisfy a number of objectives. The planning process may prove to be difficult as some of these objectives may be conflicting (these issues will be explained, shortly). Hence, the schedules planner must create a careful balance between these differing objectives, so that, the most productive schedule is achieved. This balance must be created while operating within financial, technical and operational constraints. The next two sections examine the scheduling objectives and any constraints which may affect the schedules planning process.

11.3 Scheduling Objectives

The underlying scheduling objectives include: customer satisfaction; productivity of human resources; high aircraft utilisation; high load factors; high frequency; maximisation of connections and consistent timing.

11.3.1 Satisfy the Customer

As was mentioned earlier, the schedules plan should satisfy the requirements of the various market segments which the airline targets (this is a schedules planning function). Therefore, the schedules planners require information on their airline customers' behaviours. They can obtain this data from a number of sources, including; historic data from the yield management department; information from sales and reservations agents, and from the airline's marketing research department. The schedules planner must make use of such information in order to accommodate the passengers' preferences, needs and wants. Thus, the schedules plan is an attempt to satisfy passengers with regards to time of day, the day of week, the frequency with which flights operate, and so on.

11.3.2 Productivity of Human Resources

The schedules planners must ensure that staff numbers are set at an optimal level for each shift. Their aim is to reduce the occurrence of peaks and troughs (highs and lows) in staffing requirements, so that the airline delivers a consistent service. If a schedules plan is well prepared, it will result in lower staffing costs. The extra staff who are on duty during given shifts in the weekends or in public holidays will usually receive additional allowances, even if there is little or no work for them to do. Yet, the operational and technical areas may always require minimum staffing levels for every shift. For instance, if a shift calls for ten loaders between 3 and 4 am., but only needs four loaders after this time, it is usual for ten loaders to work the whole shift. Obviously, this may not satisfy the scheduling objective which is to achieve maximum productivity from the available human resources. Therefore, the schedules planner must work towards improving efficiency so that the members of staff are not under-utilised. This applies to many areas within the airline, including the rostering of cabin crew, cockpit crew, maintenance, engineering and so on (Ernst, Jiang, Krishnamoorthy & Sier, 2004).

11.3.3 High Aircraft Utilisation

With regards to aircraft utilisation, one of the most important things to remember is that the aircraft can only make a profit while they are flying. Aircraft on the ground make no money for the company. One way of looking at this is to assume that the indirect costs of aircraft ownership (depreciation, interest, et cetera) are relatively fixed. Consequently, as aircraft utilisation increases, the total hourly, indirect costs decrease. This leads to a decrease in overall costs, and as a result, the overall financial situation of the airline improves.

The nature of an airline's route network has a major influence on aircraft utilisation. This is the reason why aircraft utilisation varies from airline to airline. If an airline's route network is dominated by long-haul routes, it will have high aircraft utilisation rates. Conversely, the shorter flights would translate to increased turn-around times. This means that the overall availability of the aircraft is reduced. Usually, the long-haul carriers will fly for more hours than the short-haul carriers. Their average daily utilisation is of 12–13 h per aircraft or 4250 h per annum, as compared to the 7.5 h per day or 7250 h per annum for short-haul carriers. However, there are short-haul carriers, particularly low-cost airlines that are achieving 8–9 h per day or 3300 h per annum. The schedules planners' job is to prepare schedules which will maximise the aircraft utilisation for their route network.

11.3.4 High Load Factors

The schedules plan optimises the level of traffic available and the level of capacity offered. Excessive frequency can cost an airline a lot of money. If the schedule is misjudged and the airline operates too many flights on a specific route, some of the flights could take-off with empty seats. Consequently, the airline will lose money. The planning of the load factor is crucial issue, as it must not be set too high or too low. To increase load factors many airlines may consider reducing their frequency of flights. However, such a measure may be counter-productive; as high load factors will result in a situation where passengers could not find a seat on the flights they want. Hence, passengers could be intrigued to utilise the other airlines' services.

11.3.5 High Frequency

Industry experience suggest that many airlines have increased their market share (or became market leaders) after they have increased their frequency of flights to particular destinations (rather than increasing the level of capacity on given routes). This argument contradicts what was discussed in the previous point, with regard to high frequency and load factors. However, it is the schedules planner's job to reconcile one requirement with another. It must be noted that certain destinations may require lower frequencies and larger load factors. For instance, certain routes that are used by business passengers may require frequent flights and smaller aircraft. The schedules planners are expected to maintain a balance between high load factors and high frequency. However, they are constrained by their fleet numbers and aircraft capacities.

11.3.6 Maximisation of Connections

The airlines' schedules could also be planned in such a way which could optimise passenger connections at both ends of a given route. Many carriers have developed connecting hubs with the underlying objective of adding new points for traffic to feed and de-feed long-haul flights (McShan & Windle, 1989). For example, Iceland's fast-expanding WOW Air connects European points with North American destinations. The layovers in Reykjavik could boost the economics of long-haul flights from short haul flights. Airlines can shuffle passengers through intermediary hubs, where they can feed and de-feed short-haul and long-haul routes. There are other developments which can boost traffic flows, like for example; marketing arrangements between carriers, the use of code share flight arrangements, et cetera.

11.3.7 Consistent Timings

The schedules should be as consistent as possible in terms of maintaining the same flights departure times for particular services, from season to season. This is also known as ‘clock-face timing’. The airlines’ back catalogue of schedules consistency will help them build familiarity and loyalty among their consumer base (Wu, 2005). At times, the airlines may find it difficult to maintain such consistency due to certain scheduling constraints (these constraints will be discussed, shortly).

11.4 The Schedules Planning Process

The schedules’ planning is constrained by the airline’s fleet size. The schedules planners need to ensure that the prescribed number of aircraft is scheduled on the airline’s network, in such a way which will help their airline to achieve its overall objectives. When the schedules planning process has been completed and the final plan has been drawn up; the actual flight dates approach and the plan is given to the airlines’ operational departments. Then, it is their responsibility to put the schedule into action. Therefore, the schedules planning process is an integral part of the successful operation of any airline. It affects and is itself affected by the considerations of other departments.

The importance of the schedules plan cannot be over-emphasised. The plan must be as accurate as possible, as the airline can never under/over-estimate its fleet’s requirements. If it under-estimates the fleet’s requirements, the airline will not schedule enough flights and will find itself unable to operate the flights that are being demanded by target customers. Alternatively, if the airline over-estimates its fleet’s requirements, it will probably schedule too many flights which will result in the under-utilisation of its fleet. This will ultimately result in significant financial losses to the airline. For these reasons, the scheduling department should always work in collaboration with other departments (Pinedo, 2005). Clearly, every department within the airline should be involved in the schedules planning processes as their involvement would improve the schedules planning process and the airline’s operations. The airline departments which should be involved in the schedules planning decisions may include; corporate planning, fleet planning; sales; marketing; product development; operations control; catering; cargo; ground operations and staff recruitment; among others. The marketing department will ensure that the airline schedule will meet and exceed the customers’ expectations.

11.5 Scheduling Constraints

The external constraints include; slot problems, night curfews, industry regulations, pool agreements, and peak surcharges. Whilst, the internal constraints include; maintenance requirements, standby arrangements and general operational requirements.

11.5.1 Slot Problems

Many airports are increasingly experiencing congestion problems. Very often, the volume of air traffic to and from certain airports could exceed their runway capacity. Such problems exist in London Heathrow, Tokyo Narita, Washington National, Frankfurt and Milan Linate, among others. As a result, the air traffic co-ordinators have had to operate a slot system, whereby time slots are allocated for arrival and departure times. Such a system operates on the basis of certain principles. The most basic of these principles is the 'grand-father's rights'. This specifies that if a carrier had a particular slot in a given season, it will be entitled to use that slot again in a subsequent equivalent seasons. This system has suited incumbent carriers. However, it could impose severe constraints on the schedule planners to change timings and/or increase their frequencies at congested airports. This system may be considered as anti-competitive; however they are adopted in many congested airports. The landing slots may have a commercial value and can be traded between airlines. For instance, Oman Air paid $75 m to Air France–KLM for a pair of take-off and landing slots at Heathrow Airport in February 2016. A year before, American Airlines paid $60 m to Scandinavian Airlines (Sunday Times, 2016)

11.5.2 Night Curfews

Many airports are either closed at night or they may operate well below their daytime capacity levels. Therefore, night curfews place restrictions on schedules planners as they have to schedule flights to and from such airports during day time hours. Time restrictions like this are usually enforced at airports which are lobbied by strong, local environmental groups. An airline which breaks night curfew regulations is usually subject to heavy fines. For example, many airports in Germany have restrictions and curfews during the night. Frankfurt International Airport, has banned scheduled aircraft movements between 23:00 and 05:00 h. Moreover, a limited number of flights are allowed during the periods (22:00–23:00 and 05:00–06:00 h), providing they comply with ICAO chapter 4 noise regulations. In addition, further restrictions will usually apply to noisier aircraft.

11.5.3 Industry Regulation

In certain cases, governments may grant exclusive rights to one of more airlines to operate on given routes. They may decide that certain point(s) could be served for tourism, commercial, or for other purposes. Such regulations may be considered as another form of constraint, which could have a strong influence on the construction of schedules.

11.5.4 Pool Agreements/Joint Venture Agreements

Occasionally airlines may enter into joint venture agreements in many areas. However, the agreements relating to the provision of frequency, type of equipment and timings could have an impact on the airlines' schedules planning process.

11.5.5 Peak Surcharges

The airports which experience severe congestion problems could apply specific measures. Peak surcharges are usually applied to passengers and to aircraft which operate during specific peak periods. Their purpose is to discourage carriers from flying during congested, peak periods. These measures may not be very successful as there are many other variables which could influence or even dictate flight timings. At times, peak surcharges may compound congestion problems, particularly during peak periods by creating additional, more acute peaks, before and after the original peak periods.

11.5.6 Maintenance Requirements

The schedules planners must consult with the engineering department as aircraft maintenance requirements affect schedules. Each aircraft within an airline's fleet has its own individual maintenance schedule. Provision is made within the schedule for different kinds of maintenance checks to be carried out on the aircraft, at various intervals. The schedules planners have to know when the aircraft will be grounded for maintenance. They must 'block off' enough aircraft time from their overall fleet availability so that appropriate maintenance checks can be completed. The maintenance periods must be built-in within the schedule.

11.5.7 Standby Arrangements

The schedules planners have to strike a balance between the airline's need to operate as economically as possible, and their objective of delivering their schedule. When the schedules planners draw up the schedule, they need to ensure that they provide reliable and punctual services. This could be easier in theory than in practice. Aircraft delays may be inevitable, regardless of the schedule planners' level of competence in drawing up optimal schedules. The delays may arise due to unscheduled maintenance snags, bad weather, air traffic control, awaiting connecting passengers, and so on. The airline must be ready to deal with contingent situations when they happen. Schedules planners may rely on specialised software which analyses past schedules and punctuality records to predict future performance. For delay reasons, some airlines may have a back-up plan, in order to maintain the schedule's punctuality. An aircraft could be designated to act as a standby vehicle for the rest of the fleet. Several factors could influence the level of standby cover which is required by a given airline, including the airline's financial circumstances, the condition and age of its fleet, the state of the competitive environment, and so on. The standby arrangements are expensive as they involve the under-utilisation of aircraft. Consequently, many airlines may not have an aircraft for standby, particularly if they possess modern, reliable aircraft in their fleet.

11.5.8 General Operational Requirements

There are a number of general operational requirements which must be taken into consideration during schedules planning. The operational requirements may include, turnaround times, crew meals, breaks, provision of aircraft cleaning, catering and so on.

Every year, the schedules planners prepare two schedules, one for summer and one for winter. Generally, the schedules cycle is initiated nine months before a schedule is required for any given season. Although, many airlines may use specialised systems, this procedure will usually cover the following steps:

(a) The aircraft in the airline's fleet are allocated, one by one to certain routes throughout the day;
(b) This procedure is repeated for a number of times so that each aircraft is allocated to a particular route for each day of the week;
(c) The information created by steps 1 and 2 sets out the tasks for each aircraft. This data is compiled into a document that is known as the aircraft integration chart;
(d) When the integration chart is complete, copies of it are dispatched to each of the operational area which it affects. These areas will then provide their feedback on the chart;

(e) The integration chart is an operational document and is not meaningful to commercial areas within the airline, such as sales and marketing. Consequently, at approximately the same time when the integration chart is being circulated within the airline's operational areas, a draft time table is also prepared and circulated in the airline's commercial areas. The draft time table contains the same information as the integration chart, but in a different format. The commercial areas will also provide their feedback on the commercial aspects of the draft timetable;

(f) When the integration chart and the draft time table have been circulated, the operational and commercial areas will meet together to discuss on them. For instance, the marketing departments will be concerned with ensuring that the final schedule will achieve their objectives. Following the communications among departments, the schedule planners will modify and refine their drafts. Hence, subsequent drafts will be circulated for approval. The final drafts constitute the airline's schedules for a given season.

The discussions and feedback which take place between the operational and commercial areas will clearly evidence the interactive nature of the schedule planning process. Inevitably, these departments may often have to compromise on their differing commercial, economic and operational interests.

11.6 Different Routing Patterns

This section deals with the major operating patterns which are often considered during the scheduling process. There are three major types of routing patterns:

11.6.1 The Hub and Spoke System

In situations where the volume of traffic is sufficient, the hub and spoke routing system that is featured in Fig. 11.1, is widely considered to be the most satisfactory and effective pattern. The hub and spoke involves the operation of non-stop direct flights which lead to low operating costs (McShan & Windle, 1989). The absence of intermediate stops may result in high passenger load factors. If this is case, it would be easy to match the capacity with demand.

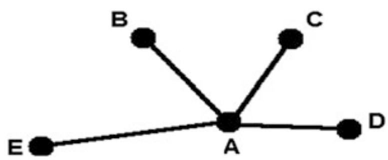


Fig. 11.1 The hub and spoke system

The hub and spoke philosophy suggests that the airline can operate services more frequently between hubs, as it could feed traffic into the hubs from the spokes, and vice versa. The main advantage for the passengers is access to a traffic system with many and frequent departures to various destinations. The hub and spoke method has been adopted by many airlines, but particularly in the United States. There, it has been developed in order to expand the number of routes from central hubs, like Chicago, Detroit, Denver, et cetera.

The hub and spoke diagram illustrates a situation where an airline serves four city markets from point A. The direct routes are: AB, AC, AD and AE. However it is possible for the airline to add six new (one-stop) city pairs to their route network. It can do this by scheduling the times of the flights AB, AC, AD and AE in a way which enables point A to act as a connecting hub. The new city pairs that could be created are: BE, BC, BD, CE, DE and CD. If point A is used as a connecting hub, the airline concerned can rapidly expand its route network. This would result in a significant increase in traffic. Another device that could be used in a hub and spoke systems is the utilisation of through flight numbers over the connecting hub, even though an aircraft change may occur.

11.6.2 The Triangular System

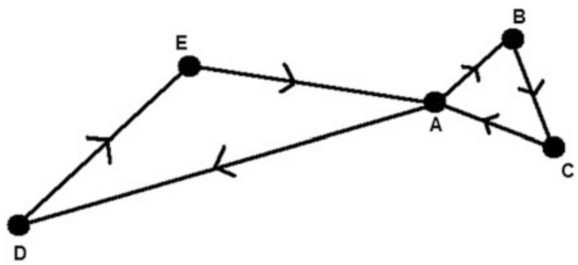
In a triangular system, there may not be enough traffic from the outlying points B, C, D and E to absorb the total aircraft capacity. For this reason, it may be necessary for the airline to combine two or more points on one service. This routing pattern produces the triangular pattern, as illustrated in Fig. 11.2.

An important consideration is the fifth freedom traffic rights which have to exist between BC and DE. However, this routing will only cater for one-way traffic. Therefore, the airline may not provide a good competitive product on BC and DE.

The triangular pattern may be justified when the traffic between AB, AC, AD and AE is not sufficient to support non-stop direct services. Therefore, this routing can also be useful in certain geographic locations, for example, small island communities could feed gateway airports.

Yet, this routing may also allow the airline to enhance its frequency to higher levels (as previously discussed, the level of frequency may be an important determinant for an airline's market share). The triangular pattern could be feasible if particular carriers would make use of larger capacity aircraft.

Fig. 11.2 The triangular system



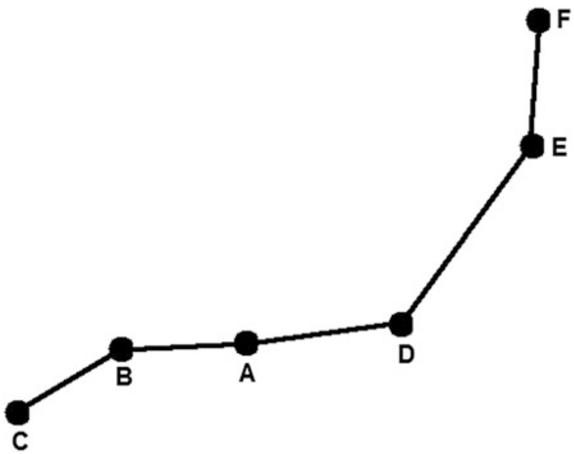
11.6.3 The Linear System

An airline using the linear routing pattern operates from point A, as shown in Fig. 11.3. It transits points D and E, before it reaches F; in the eastern direction (and returns in the same manner). It serves points B and C in the same way; in the westward direction (and returns in the same manner). Depending on the sector lengths, it may be necessary for the aircraft to overnight away from the home base (i.e. point A). The linear pattern involves the acquisition or use of Fifth freedom rights and a combination of Third/Fourth and a Fourth/Third freedom rights.

This routing pattern may result in high operating costs. The combination of different points in the same service could make it difficult for the airline to match traffic and capacity over the different sectors. This issue may lead to lower load factors. On the other hand, it may enable airlines to provide services to major destinations since they are transporting passengers from more than one originating point. In such a situation, the airline has the ability to board and land passengers at different points along the route. For example, there are airlines in West Africa who are serving the coastal regions by using such a linear system.

In conclusion, the schedule planning function is a strategic activity, and getting it right is a major contributing factor to successful airline operations. From a marketing point of view, it is imperative that the schedule is carefully prepared as it has an influential role in achieving the objectives of satisfying the requirements of various market segments. The schedules planning department cannot work in isolation. The schedules planners will have to collaborate with commercial, operational and technical departments within the airline. This way, they will be in a position to construct the schedule which will best support the airline to achieve its corporate objectives.

Fig. 11.3 The linear system



11.7 Questions

- *Outline the role which the schedule plays in satisfying customers?*
- *Why is it important for the schedules planners to familiarise themselves with maintenance schedules?*
- *Briefly outline the steps involved in schedule construction?*
- *Do you think that the schedules produced by your airline genuinely help the company to achieve its corporate, operational; and commercial objectives? Discuss?*

11.8 Summary

The airlines' schedules planning processes are integrated into their overall corporate plans. The long term corporate plans will usually consist of: an assessment of the fleets' requirements to meet the forecasted demand; as well as an evaluation of the financial implications arising from the fleets' requirements. Therefore, the schedules attempt to estimate future demand for the companies' products, for a given period of time.

The schedule is based on one season only, at any given time. The main reason for the short-term nature of the schedules plan is the unpredictable economic environment in which the airlines operate. Hence, the schedules planning must be drawn up in such a way which will satisfy a number of conflicting objectives. A trade-off is necessary among financial, technical and operational departments.

The scheduling objectives are customer satisfaction, productivity of human resources, high aircraft utilisation, high load factors, high frequency, maximisation of connections and consistent timing. There are two categories of scheduling constraints; external and internal. The external constraints include slot problems, night curfews, industry regulation, pool agreements and peak surcharges. The internal constraints may include maintenance requirements, standby arrangements and general operational requirements.

The construction of a schedule takes place as part of the schedule planning cycle. This cycle occurs twice a year and produces two schedules (one for summer and another one for the winter period). Generally, the cycle is commenced six to nine months before a schedule is required for a given season.

There are three major types of routing patterns. They are hub and spoke, triangular and linear routing networks.

Chapter 12
Aircraft Operating Costs and Profitability

Abstract The airlines' marketing policies are influenced by costs and expenses which could influence their levels of service, and their ability to be profitable. Their direct and indirect operating costs are affected by sector length; utilisation of aircraft, fleet size and labour costs, among other issues. Moreover, the aircraft design characteristics, such as aircraft size, aircraft speed, age of the aircraft, crew complement could also affect the airlines' cost structure. Furthermore, the airlines may have overheads, including; sales costs, administration, accounts, general management and employment costs, among others. Therefore, this chapter provides a detailed overview of airline operating costs and explains how to analyse their profitability. Initially, it introduces its readers to the airlines' direct and indirect costs, as well as overheads. Afterwards, it deals with cost comparison parameters and metrics.

12.1 Introduction

The airline marketing managers need to have a good understanding of the airline's cost structure. Therefore, this chapter provides an overview of the aircraft operating costs, as it explains how they are usually allocated. Of course, accountancy practices may differ from one airline to the next, and the cost allocation methods, and the headings under which these costs are reported, may also differ. It is not the intention of this chapter to provide a detailed analysis of accountancy techniques and practices. It is merely intended as a reference to guide airline marketers in their decisions. Yet, this contribution explains the terms that are frequently used in the aviation industry. Moreover, the following sections describe various cost comparison parameters and profitability metrics.

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12.2 The Airlines' Cost Structure

Airlines cannot compete on price without reducing their costs and overheads. The airline industry relies on airport services, the provision of aviation fuel, labour, et cetera. Moreover, there may be airlines, particularly the legacy carriers which could also be dependent on costly distributive networks. Generally, the airlines' costs are divided into three categories; direct operating costs, indirect operating costs and overheads. The direct operating costs are incurred as a direct result of the operation of a specific service—for example, the fuel and oil consumed on a flight; The indirect operating costs are incurred for a whole period of time, such as an operating season, for example; pilot salaries must be paid, even if a specific service is cancelled, and; overhead costs are incurred for even longer periods, such as buildings, or the airline management's salaries.

12.3 The Direct Operating Costs (DOCs)

The direct operating costs occur when flights are actually operated. Within the airline industry there are two types of direct operating costs; aircraft-related DOCs and traffic-related DOCs. The main difference between the two sub-sections of direct operating costs is that aircraft-related direct operating costs are relevant to the type of aircraft being operated. For example, the budget carriers may keep their maintenance costs down as they operate the same type of aircraft. This way, they lower their direct operating costs. The traffic-related direct operating costs are independent of the aircraft type.

- Aircraft-related DOCs include; fuel and oil, maintenance (Excluding in-house labour), landing fees, en-route fees (including navigation fees), handling fees and crew expenses.
- The Traffic-related DOCs include passenger and cargo commission, airport load fees, inflight catering and general passenger related costs.

A detailed explanation of the Aircraft-related DOCs is given here:

12.3.1 Fuel and Oil

The fuel costs for any given operation are based on the price of fuel and the fuel consumption characteristics (and the efficiency) of the aircraft involved. Fuel hedging is a common risk management tool that is used to stabilise the airlines' fuel costs (Lim & Hong, 2014).

12.3.2 Maintenance Costs

These costs are affected by several factors, including: the price of consumable spares; the time between overhaul on the airframe engines and components; the failure rate of various components; the manpower effort required to perform the various maintenance tasks; the cost of labour; the cost of getting the aircraft or components to the overhaul location (where applicable).

Maintenance costs are unavoidable in the airline industry to meet safety requirements. However, it is necessary to make trade-offs between cost levels and punctuality performance. Although it may not appear quite obvious, the airline's punctuality record is of concern for marketing managers as this is often demanded by customers, whether they are business or leisure passengers. This issue may have an influence on the airlines' maintenance costs. The airlines which strive to achieve an excellent punctuality record will need to have a substantial line maintenance capability. This makes it possible for them to deal with technical problems as soon as they arise. For this same reason, a heavy investment in spare parts is called for. The airlines' maintenance costs are usually very high; but if they want to maintain a good punctuality performance, these expenses are unavoidable.

An additional factor which affects maintenance costs is scheduling. If the airlines want to reduce their operational costs, their schedules must ensure that every aircraft in their fleet has a high annual utilisation. The fixed costs of aircraft ownership will be spread over higher output. However, high aircraft utilisation rates may necessitate essential maintenance of aircraft.

Another drawback that is caused by high aircraft utilisation or tight scheduling is their effect on punctuality. This is virtually unavoidable. As soon as there is a delay in a flight schedule, it cannot be made up, unless there is a standby aircraft. So, for example, if an aircraft is delayed early in the day, every flight for the rest of the day will also be late. We can see that tight schedules may have their disadvantages. However, cost penalties could be incurred through slack scheduling. This may affect unit costs since the aircraft are under-utilised. Hence, their unit operational costs will be higher.

12.3.3 Landing Fees

These charges are levied by airport authorities for the airport facilities and services that they provide. It is common for charges to be divided into two categories at most airports—a fixed aircraft fee and/or a variable load-related fee.

- The fixed aircraft fee is normally based on the aircraft's maximum weight. However, some exceptions could be made, depending on the airport. Some airports allow reductions for quieter aircraft which meet ICAO's stringent noise rules.
- The variable load-related fee may usually consists of a charge per arriving or departing passenger.

12.3.4 En-Route (Including Navigation) Fees

These fees are charged by governments to cover the cost of en-route air traffic control and navigation facilities. Most countries in Europe use 'Eurocontrol' to charge for these services, in accordance with a standardised formula; which uses a centralised billing facility. The formula relies on two factors; the distance travelled in each country's airspace and the size of the aircraft.

The second factor is based on the aircraft's gross weight. Outside Eurocontrol, the charges may differ. For example, irrespective of the aircraft's size, some countries may either charge a flat rate per overflight, or a flat rate per mile. Other countries may base their charges on the maximum take-off weight.

12.3.5 Handling Fees

These fees are levied by outside handling agencies for aircraft turnaround services. Examples of such services may include; passenger check-in and boarding, baggage and cargo loading, aircraft cleaning and normal turnaround technical support. These costs are linked directly with aircraft capacity. However, additional factors may also have an influence on handling costs, for example; time of day (night time or peak period), whether the specific aircraft is equipped with an auxiliary power unit (this dispenses them of the requirement for ground power and air start units), whether or not the aircraft has a containerised baggage system, and so on. The costs for self-handling are treated as indirect operating costs, as these costs will be incurred regardless of the number of services handled.

12.3.6 Crew Expenses

The principal factor which influences crew expenses is crew complement. In some specific circumstances, an aircraft's block speed can have an impact on whether or not a crew over-night may be required. Crew salaries are usually treated as indirect operating costs.

The second category of direct operating costs is: Traffic Related DOCs:

12.3.7 Passenger and Cargo Commission

These commissions relate to the sales commission fees which an airline must pay to intermediaries, including cargo agents for selling their services. They are usually represented as a percentage of gross revenue. Many airlines have cut travel agency commissions in many countries.

12.3.8 Airport Load Fees

These have already been covered under the heading of landing fees.

12.3.9 Inflight Catering

Clearly, the costs of the food and beverage that are prepared for inflight catering are considered as direct operating costs (DOCs). Therefore, the costs incurred when meals are uplifted from a return sector are considered as DOCs. These costs are incurred if specific sectors are operated. If the main base catering is prepared by the airline itself; then the catering employees' salaries and their equipment will be treated as indirect operating costs.

12.3.10 General Passenger Related Costs

These costs include mishandled baggage costs, interrupted and cancelled flight expenses, such as; the handling of denied boardings, et cetera. These expenses may also include the provision of specialised services to business and first-class passengers.

12.4 Indirect Operating Costs

Indirect operating costs are incurred for a whole period of time such as an operating season. These costs cannot be avoided once a certain level of flying has been chosen. In other words, if the flight programme changes (for example; due to a flight cancellation), the costs in aircraft standing charges, flight crew pay, cabin crew pay, maintenance labour (in-house) and the handling cost at base stations will still be incurred. All of these costs are directly affected by aircraft type.

12.4.1 Aircraft Standing Charges

Aircraft can be bought outright or acquired through loans or leasing agreements. In all cases, some form of regular payments is involved (for example; loan repayment, or payment of leasing charges). All of these payments are categorised as indirect operating costs. With regard to the leasing of aircraft, a lease charge replaces the depreciation and interest charges. Provision for major spares comes under the heading of depreciation. In the case of small fleets, the spares cost per aircraft is actually higher than it is for large fleets. This is because, regardless of fleet size, there is a certain minimum requirement for some items. Most of the standing charges are directly related to aircraft purchase price.

The depreciation period is shorter in the case of used aircraft. The same is true for a new aircraft due to the risk of premature technical/economic obsolescence; arising through improved aircraft design. With regard to used aircraft, the deals offered on financial arrangements and interest costs are usually less attractive than those offered for new aircraft. Development write-off constitutes the amortisation (death) of pre-service expenditure, such as training costs, route proving costs and engineering costs. Generally, hull insurance is based on a percentage of the aircraft's insured value. This insured value is affected by both the safety record and the experience level of the carrier. It is not unusual for new, and yet unproven, aircraft types to be given a higher premium until they have established a safety record. Higher premiums are charged when airlines fly into specific areas that are designated as war zones.

12.4.2 Flight Crew Pay

Most of the long-haul aircraft may usually require a third crew member and sometimes a fourth for rest purposes. Other factors could influence the total number of crew which may be required for any given schedules. Such factors include scheduling, crew work rule and productivity. Crew numbers are usually influenced by the size of the airlines' fleet. In some airlines, crew salaries are established in accordance with a productivity formula. It is quite normal for the pilots of the larger aircraft to command higher salaries.

12.4.3 Cabin Crew Pay

The number of personnel in a cabin is directly related to the seating capacity of the aircraft. There are legal requirements that are derived from ICAO annexes for cabin crew safety. The number of cabin crew on board is usually dependent on the number of seats and the number of exits in the aircraft. However, most airlines have more cabin crew than the legal minimum. Normally, there is a cabin crew member for every 25–35 passenger seats, although these requirements can vary because of special inflight catering requirements, including services that are provided to business and first-class passengers.

12.4.4 Maintenance Labour (In-House Labour)

Maintenance labour is affected by other cost categories that were already discussed under the heading of direct costs.

12.4.5 Handling Costs at Base Stations

These costs arise when performing handling services at airports where such services are dealt with on an in-house basis.

12.5 Overheads

The overhead costs and expenses are incurred for even longer periods. These costs may include; sales, administration, accounts, general managements, employment and HR departments, and property costs, among others. Many of these costs are relatively unaffected by both the type of aircraft used, and the level of flying operations. However, should the number of passengers increase; it is possible that a requirement might arise for additional staff in the revenue accounts (in order to deal with an increased ticket volume; if this department is still managed by the airline. Many airlines have outsourced this section).

12.6 The Effects of the Airline Environment on Aircraft Operating Costs

12.6.1 Sector Length

The short-haul operations have higher costs than medium or long-haul operations. There are a number of reasons for this:

- Short-haul operations must pay a higher proportion of landing fees and handling fees;
- A short-haul operation, by its nature; causes more periods of inefficient aircraft operation, particularly during approach and take-off periods;
- Fuel consumption is higher at low levels of operation. Therefore, fuel costs are proportionately higher for a short-haul operation, than for a medium or long-haul ones;
- In short-haul operations, there are more aircraft turnaround periods. This results in lower aircraft utilisation, and lower productivity levels;

- A short-haul operation incurs higher maintenance costs. This is directly related to the need to overhaul the cycle-related components, including; engine parts and under-carriage units.

12.6.2 Utilisation

Fixed costs such as standing charges can be distributed over longer flying hours to achieve lower unit costs. Long-haul operations provide the best opportunities for the maximum utilisation of aircraft. This is because, the higher the utilisation of aircraft, the smaller the turnaround periods. Turnarounds are obviously unproductive. Therefore, fewer turnarounds would lead to lower costs for the airline. Today's modern aircraft are capable of increasing fleet utilisation as they are becoming more reliable in terms of operational efficiency and economy. With regard to short-haul operations, fleet utilisation could be improved if the turnarounds are kept, as short as possible.

However, an airline's ability to maximise its fleet utilisation is inhibited by certain commercial factors. For example, there are many markets where passengers are extremely reluctant to fly during particular times of the day (for example during late night or early morning), as this has the effect of shortening the commercial day.

12.6.3 Fleet Size

Cost levels are directly related to the number and type of aircraft, in a given fleet. As previously discussed, an airline with a small fleet (i.e. less than five units) will proportionally incur higher costs in certain areas, in terms of spares and crew; than an airline with a larger fleet. There are also other costs that may be related to having a small fleet. The smaller airlines are expected to have an adequate provision for standby capacity or schedule recovery. Furthermore, in-house functions (for example; maintenance and pilot training) may not be conducted by small airlines. They will have to purchase these services from external agencies, usually at very high costs.

12.6.4 Labour Costs

Local labour costs have an impact on costs such as crews, maintenance and handling costs. Operations in countries where there are lower wages, would translate to significant cost reductions. However, this advantage might be counter-balanced by losses which may arise from poor labour efficiencies in certain functions, such as; maintenance and handling.

12.7 Effect of Aircraft Design Characteristics on Operating Costs

12.7.1 Vehicle Efficiency

Vehicle efficiency consists of three separate elements, including aerodynamic efficiency, propulsive efficiency and structural efficiency.

(a) Aerodynamic Efficiency is concerned with how the aircraft is streamlined. The achievement of the highest possible aerodynamic efficiency is restricted by considerations such as structural weight and interior passenger comfort.
(b) Propulsive Efficiency is related to the fuel burn characteristics of the engine in relation to its power output. It is usually expressed in terms of specific fuel consumption. During recent years, there has been research into the maximum fuel efficiency of aircraft engines. A lot of progress has been made to that end.
(c) Structural efficiency is concerned with how economical an aircraft has been designed in terms of structural weight. A common comparison is to relate the structural weight as a fraction of take-off weight, or to establish the structural weight per seat. It is important to realise that comparisons such as these are only valid when comparing aircraft with others with similar range capabilities. For example, different operational requirements mean that a long-range aircraft will usually have greater structural weight than a short-range aircraft. This is because the long-range aircraft must be capable of carrying a heavier fuel load. Thus, it requires a heavier structure and greater wing area.

12.7.2 Crew Complement

Many aircraft are operated by a flight crew of two pilots, even the largest and longest range types.

12.7.3 Engine Number

If an aircraft has fewer engines, its maintenance costs will be lower. As a result, twin engine aircraft have become very popular among airlines. Boeing and Airbus' wide-bodied aircraft have both developed two-engine aircraft and are often used in long range routes.

12.7.4 Aircraft Size

It has already been explained that unit costs are reduced when increasing aircraft size. However, this rule can be upset by the diseconomies of small fleet size (Caves et al., 1984).

12.7.5 Aircraft Speed

Generally, higher speeds result in increased productivity for a given aircraft size. Yet, there may be practical constraints which could place restrictions on the extent to which an aircraft's higher speeds can produce productivity benefits. If an aircraft's higher speed can be used to increase productivity, then it is possible for the fixed costs to be distributed among a greater number of revenue flights, thereby reducing costs. In the past, Concorde and the Tupolev Tu-144 were designed to transport passengers at speeds greater than the speed of sound. These supersonic airliners involved high development costs, expensive construction materials, great weight, and an increased cost per seat; when compared to other aircraft.

12.7.6 Age of Aircraft

A used aircraft might not be an attractive financial proposition. An airline considering purchasing a used aircraft would have to think very carefully about the life of an old aircraft, and to consider its noise levels. This issue would reduce the resale value of such aircraft. A new aircraft has a life expectancy of at least twenty years. Consequently, the acquisition of modern aircraft can be written-down over a long period of time. Moreover, the airline may find more available financing arrangements with attractive interest rates, if they consider purchasing a new aircraft.

Another advantage of buying a new aircraft is that it will necessitate lower maintenance costs than used aircraft, especially during the first few years of operations. This is due to the fact that the major inspections will only begin after approximately six years of operation, when the manufacturers' warranty will usually cover the costs of repair.

The older aircraft will require frequent and stringent inspections on their airframe. Therefore, the maintenance of old aircraft may also need expensive spares. All of this leads to an increase in maintenance costs, particularly after 12–15 years of an aircraft's service. After a certain period, it may no longer be possible to maximise the aircraft's utilisation due to maintenance requirements.

The new aircraft will be more fuel-efficient than the old aircraft. Often, manufacturers introduce small fuel saving refinements during an aircraft's life. Occasionally, some of these refinements could be retrofitted to older aircraft. However, as the aircraft get older, they will usually develop more technical problems. They may become heavier as they develop imperfections in their outer skin. These may occur for a large number of reasons, for example, due to poorly rigged control surfaces, poor fitting or slight deformed access doors or undercarriages, et cetera.

12.8 Cost Comparison Parameters and Profitability Analysis

Up to now this chapter has dealt with the aircraft costs and how they are allocated. An understanding of cost comparisons and profitability metrics are also essential requirements for airline marketing managers, because their policies are directly affected by costs and expenses:

12.8.1 Cost Per Aircraft Kilometre, Seat Kilometre and Tonne Kilometre

It is necessary to compare the operating cost characteristics of different types of aircraft. However, since the aircraft can vary so much in size and capacity, the only way to compare their performance is to express their costs in terms of units of production. This is known as unit cost comparisons. Unit cost can be defined as the average operating costs incurred per available tonne kilometre (ATK).

We now know what is meant by unit cost comparison. But what exactly are units of production? This can be explained through a simple example. Seat kilometres are calculated by multiplying a given aircraft's seating capacity by the distance travelled. So, a 100-seat aircraft flying a 500-kilometre sector produces 50,000 seat kilometres. Besides the passenger-carrying capacity, the aircraft also has belly cargo capacity. This must also be taken into consideration, because it is a capacity which can also be sold.

The full capacity of the aircraft is taken into consideration by converting the passenger and cargo capacity in terms of weight (i.e. each passenger plus their baggage). Moreover, the aircraft may be capable of carrying an additional tonne of cargo. In this case, the aircraft carrying 100 passengers (of 80 kg each) weigh 8000 kg. If we include their 2000 kg baggage (20 kg each) and the cargo capacity (1000 kg) in the equation, the aircraft's payload capacity is 11 tonnes. So, during the course of a 500-kilometre flight, the aircraft would generate 5500 Capacity Tonne Kilometres/CTKs (500 x 11).

By using these calculations, it is then possible to make meaningful comparisons between the cost of operating a number of aircraft of different sizes and capacities. Airline marketers can work out the load factor and the break-even load factor.

12.8.2 The Load Factor

The load factor is the percentage of total capacity available for revenue passengers, freight and mail, which is actually sold and used.

12.8.3 The Break-Even Load Factor

The break-even load factor is the percentage of total capacity which should be utilised to cover the operating costs, i.e. the point at which operating revenues will equal operating costs.

An accurate portrayal of the aircraft's economics can be established if CTK is calculated. For instance, if a route had a 50% load factor with a 100-seat aircraft. In such a case, replacing the aircraft with a 120-seater which had 10% lower seat kilometres would not be a good idea. It would actually be worse, financially; because the additional capacity would not be filled and so the reduced cost calculation would not mean a saving. Although the cost per seat kilometre is lower for the larger aircraft, the absolute costs of operation are higher. If this was not the case, no airline would ever buy smaller aircraft.

12.8.4 Profitability and the Break-Even Load Factor

Profitability control is extremely important, not just to airlines, but to any business. It is an essential tool that is used to measure the profitability of a company's different products, customer groups, territories and channels. The profitability analysis will yield valuable information on the routes' feasibility. The airline marketers will decide whether to expand, reduce or discontinue their flight operations, based on their profitability analyses. As with many aspects of the airline business, there are many theories on how to measure profits. We will look at one such theory:

12.8.4.1 Return on Capital Employed

The return on capital employed is a useful measure for comparing the relative profitability of companies after taking into account the amount of capital used. The implication is that any expenditure on investments should have an effect on profits. From the marketing managers' point of view, the field of investment over which they can potentially exert the greatest influence is that of product strategy. It is their responsibility to invest in their airline product, in a manner which will maximise the profit earned by each unit of capital employed. Once the costs have been established, the next step is to determine the likely profitability of the operation. A parameter which is often used is the break-even load factor.

Previously, in this chapter, it was seen that costs can be expressed in terms of cost per unit of capacity, for example, cost per CTK (Capacity Tonne Kilometre). Revenue, on the other hand, could be expressed in terms of revenue per unit of traffic carried. If, for example, on average passengers pay $100 fares and will travel 500 km; the revenue per revenue passenger kilometre (RPK) will be $100 divided by 500 = 20c (therefore, the revenue is \$100/500 km X 1 = 20c). In a similar vein, the total revenue and the total number of RPKs can also be calculated. This will be influenced by the number of passengers, of course.

Let us assume that the cost of operating a flight with a 100-seat aircraft is \$5000 divided by the seat kilometre produced (i.e. 50,000), which is 10c; we can then calculate the break-even load factor by dividing the cost per seat kilometre by the revenue per passenger kilometre; which is 50%, in this case. It is possible to perform a similar calculation using the revenue per revenue tonne kilometre (RTK) and cost per CTK.

In the airline industry three basic parameters are relevant when assessing profitability: the revenue per RTK (the revenue tonne kilometre), the cost per CTK (capacity tonne kilometre) and the load factor. If fares begin to fall at the same time as costs begin to rise, two things happen: Firstly, the revenue per RTK would decrease. Secondly, there would be a substantial change in the break-even load factor.

Profitability can be examined on different levels, depending on (i) the timescale involved and (ii) any relevant costs.

For example, if the airline may consider operating an extra flight every week; it will have to cover both direct and indirect costs of operating the service. An extra weekly flight requires additional flight crew, cabin crew and other manpower. It also uses fleet capacity, which will eventually contribute to the need for an additional aircraft. An airline's profitability target must make necessary provisions for the recovery of all costs.

12.9 Questions

- *How are the maintenance costs affected by a) punctuality and b) scheduling?*
- *An airline's operating cost structure is affected by aircraft type selection. How?*
- *How will the sectors' length affect the airlines' operating costs?*
- *When deciding whether or not to operate an extra flight, the airline marketers must consider all options, from different perspectives. Explain why?*

12.10 Summary

The airline marketing managers' policies will influence their level of service. However, they are also affected by relevant cost and expenses. Airlines may have direct operating costs, indirect operating costs and overheads. The aircraft operating costs rely on sector length; the utilisation of aircraft, fleet size and labour costs. Moreover, the aircraft design characteristics, such as aircraft size, aircraft speed, age of the aircraft, crew complement, among other issues, will also effect the airlines' operating costs. Overheads include sales costs, administration, accounts, general management and employment costs. Many of these are relatively unaffected by both the type of aircraft used and the level of flying operations. However, should the number of passengers increase; it could be possible that the operational requirements might necessitate more resources.

It is necessary to compare the operating cost characteristics of different types of aircraft. However, because aircraft can vary so much in size and capacity, the only way to do this is to express costs in terms of various units of production. This is known as unit costs comparisons. Unit costs can be defined as the average operating cost incurred per available tonne kilometre.

Once the costs which will be incurred for airline operations have been established, the next step is to determine the likely profitability of the operation. Profitability control is extremely important, not just to the airline, but to any business. A parameter often mentioned in the airline environment is the break-even load factor. This is the percentage of an aircraft's total capacity which must be filled, in order to cover the costs of the operation.

In the airline industry, three basic parameters are relevant when assessing profitability; the revenue per RTK (or revenue tonne kilometre); the cost per capacity tonne kilometre (CTK) and the load factor. Profitability can be examined on different levels; depending on the time scale involved and the level of costs that are actually incurred. An airline's profitability target must include provisions for the full recovery of costs.

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