4D INTERNATIONAL JOURNALOF MANAGEMENT AND SCIENCE
ISSN-2250-0669
@4dcrossconnect.com.Inc
www.4dinternationaljournal.com
Volume6,Issue-1-July-2015

"MARKETING STRATEGIES OF FULL SERVICE AIRLINES AND ITS EFFECT ON CUSTOMER LOYALTY"

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Abstract

This study examines the underlying forces of service quality influences on passengers' satisfaction in aircraft transport. The study examines which dimensions have a positive influence on service quality and which dimensions have the most and least important impact on service quality in international air travel, as perceived by airline passengers. The findings of this study are based on the analysis of a sample of 100 respondents. In the survey we have collected information from passengers and usually all of them traveled by FSC and LCA's and thus were able to comment on the services of both. This study analyzed the data from passengers of three classes, economy, business and premium. The results suggest that there are different factors of in-flight service quality that are important according to the customer seat class. The dimensionality of perceived service quality in international air travel was explored and three dimensions were identified. These dimensions include in-flight service, in-flight digital service and back-office operations. The findings reveal that these three dimensions are positively related to perceive service quality in international air travel and of these dimensions, Cuisines provided, seat comfort safety are the most important dimension in in-flight service quality. Personal entertainment is the most important dimension as perceived by airline passengers in In-flight digital service quality. Online ticket booking is another dimension in back-office operations. In addition, the findings indicate that passengers' satisfaction on different airline companies on basis of the services delivered.

Results of the study reveal that although there have been significant changes in the aviation industry, which is currently in turmoil, yet the emergence of low fare carriers has been successful in making inroads in this sector. The findings provide evidence for the importance of service quality in both low cost and full cost airlines. Results show that passengers consider significant difference in the tangible features of full service carriers in that they consider it to be an important aspect of service quality. Whereas low cast carriers have become attractive given their low fares, passengers still consider tangibles to be an effective source of service quality perceptions.

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Introduction

Today competition is not only rife, but growing more intense constantly. However companies need to start paying keen attention to their competitors, they must understand their customers. Airlines are suffering from such competition. They have to believe customers as core concept of their business: customer satisfaction is what guarantees the future of airlines and it is achievable by an adoption between their services and passengers' needs. In another word, service quality is typically defined in terms of consumer satisfaction. Pricing and service quality are the key variables that decide the brand equity of each player in the airline industry. Existing literature suggests that measurement and management of service quality is the key for survival of airline companies.

The airline industry, which is a service-oriented business, is difficult to market using only traditional marketing approach. In a product business, the product is fairly standardized and sits on a shelf, waiting for the customer to reach for it. In the airline business, the customer confronts the airline whose service quality is less cretin and more variables. As competition intensifies, more marketing sophistication will be needed. Airline companies face three tasks, those of increasing their:

i. Competitive differentiation

ii. Service quality

iii. Productivity

Various carriers have introduced such innovations as movies on board, advanced seating, merchandise for sale, air-to-ground telephone service and frequent –flyer award programs to augment the offer. While one airline introduced sparsely consumed cabin crews, another added a piano bar. Airline today talk about adding suit pressing and shoe-shining services, a library of best selling books and magazines, laptop computers and so on. The only problem is that most of these innovations are easily copied. Few of them are preemptive in the long run. Still the airline that regularly researches and develops innovative will gain a temporary advantage over its competitors. In the process they earn innovative reputation and may retain customers who want to go with the best airline.

Once of the major ways to differentiate an airline is to deliver consistently and efficiently high quality services than competitors. The key is to meet or exceed the target customer's service quality expectations. But the airlines constantly face trade-offs between customer satisfaction and company profitability. The airline therefore, clearly defines and communicates the service level that will be provided, so that will be provided, so that employees know what they should get. Unfortunately most after the airlines don't deliver what they promise.

The third aspect is to increase productivity. This is done by designing more effective service, substituting absolute aircraft by new generation carries etc. Airline companies must avoid pushing productivity so hard that it reduces perceived quality. They should standardized quality and thereby increase customer satisfaction.

Customer experience is a journey that a consumer takes along a series of encounters: they become aware of a brand, consider what's on offer, make enquires, make a purchase and use the service. Customers may choose to stay with the current service provider or may even choose to opt for a different set of services. However, the airline industry has reached a crossroads where on one hand it is important to satisfy consumers by providing them with the best facilities, yet fuel and labor costs continue to find ways and means of cutting down on costs, giving rise to a phenomenon of low cost/ no-frill airlines.

The aviation sector has become the most important segment in the economic development of a nation. It plays a vital role in moving people or products from one place to another, be it domestic or international, especially when the distances involved are far. Stiff competition and favorable initiatives of the Government of India added fuel to enlarge both flights and fleets.

In a highly competitive environment the provision of high quality services to passengers is the core competitive advantage for an airline's profitability and sustained growth. In the past decade, as the air transportation market has become even more challenging, many airlines have turned to focus on airline service quality to increase service satisfaction. Service quality conditions influences a firm's competitive advantage by retaining customer patronage, and with this comes market share. Delivering high-quality service to passengers is essential for airline survival, so airlines need to understand what passengers expect from their services. Service quality can be defined as a consumer's overall impression of the relative efficiency of the organization and its services. Understanding exactly what customers expect is the most crucial step in defining and delivering high-quality service. Service quality is one of the best models for evaluating customers' expectations and perceptions. The performance of a company leads to passenger satisfaction with a product or service. Passenger satisfaction is fundamental to the practice of consumer sovereignty. Recently many researchers stresses that, customer satisfaction have become an important issue for marketing practitioners because of the rapid business environment. Passenger satisfaction can be defined as a judgment made on the basis of a specific service encounter. Satisfaction and loyalty are not surrogates for each other. It is possible for customers to be loyal without being highly satisfied and to be highly satisfied and yet not loyal. Firms are needed to gain a better understanding of the relationship between satisfaction and behavioral intention in the online environment and to allocate the online marketing efforts between satisfaction initiatives and behavioral intention program. Moreover, the results from this research would assist airline managers to better serve their customers, monitor and develop service quality to achieve the highest level of their passengers' satisfaction.

Literature Review

Passenger satisfaction in airline operations has become critically important and Dennett, Ineson, Stone, and Colgate (2000) suggest that as competition created by deregulation has become more intense, service quality in the airline industry has also received more attention. Airline companies also attempted to differentiate their services through the use of computerized reservation systems which were also designed to create customer loyalty in the distribution channels (Lee and Cunningham, 1996). However, despite the airlines' efforts to differentiate their services, an extensive survey of frequent fliers conducted by Ott (1993) revealed that consumers did not perceive any difference from one carrier to another. Cronin and Taylor (1992) originate empirical provision for the idea that perceived service quality led to satisfaction and argued that service quality was actually an antecedent of consumer satisfaction. Bitner and Hubbert (1994) determined that service encounter satisfaction was quite distinct from overall satisfaction and perceived quality. Service quality will vary; the definitions are all formulated from the customer perspective: that is, what customers perceive are important dimensions of quality. Gronroos (1982) and Parasuraman, Zeithaml and Berry

(1988) were the pioneers in the conceptualization of the service quality construct, these authors maintained that the overall perception of quality was a disconfirmation of a customer's expectation and evaluation of a services delivered. Saha and Theingi (2009) pointed out that the emergence of low cost airlines has raised concerns on how satisfied are the customers with the services provided. Doyle and Wong (1998) originate that successful companies have a differential advantage in overall company reputation and communicate it as quality to their customers (Solomon, 1985). Often, they are able to command premium prices (Tepeci, 1999). It is found that the most important criterion for customers selecting a bank is reputation (Boyd et al., 1994; Darby, 1999) while Rogerson (1983) stated that good reputation could increase an organization's sales, attract more customers, and reduce customer departures.

Air transport punctuality, along with scheduling, food quality, cost, frequency, baggage delivery, cabin service, and membership of airline alliances are usually seem as the main elements of customer service (Weber and Sparks, 2004). In general, dissatisfaction after using the products or service is the primary reason for complaints. In service industries such as airlines, a major requirement for success is to understand and satisfy customer needs and expectations; creating, communicating and delivering customer value, and keeping promise (Aksoy et al., 2003). Understanding what consumers expect from a service organization is important because expectations provide a standard of comparison against which consumers judge an organization’s performance (Jin and Julie, 2000). To do this, carriers introduced the concept of low cost carriers.

Objective Of The Study

- To enlist the key marketing and customer relationship initiatives taken by full service airlines i.e. Air India, Jet Airways, Spicejet and low cost carriers i.e. Indigo and GoAir in India.
- To identify the service delivery gap in the airline industry in order to minimize such gaps for effective service delivery with reference to Full Service Airlines vis-à-vis Low cost carriers.
- To study the customer perceptions of service quality of reference to Full Service Airlines and suggest measures to improve marketing and customer relationship initiatives in order to increase market share and increase customer loyalty.

Profile Of Selected Airlines

- Air India: Air India is the flag carrier airline of India owned by the government run Air India Limited. The airline operates a fleet of Airbus and Boeing aircraft serving various domestic and international airports. It is headquartered at the Indian Airlines House in New Delhi. Air India has two major domestic hubs at Indira Gandhi International Airport and Chhatrapati Shivaji International Airport, secondary hubs at Chennai International Airport and Netaji Subhas Chandra Bose International Airport.
- Jet Airways: Jet Airways is the second of India's two major airlines based in Mumbai, Maharashtra, both, in terms of market share and passengers carried after Air India. Socially they have-
- Spice Jet: SpiceJet is India's preferred airline, with more than 350 daily flights to 45 Indian cities and 8 international destinations. Their fleet comprises of 51 aircraft of which, 36 are Boeing and 15 are the Q400 aircraft.
- Indigo: IndiGo is an Indian airline company headquartered at Gurgaon, India. It is one of the fastest growing low cost carriers in the world. With its fleet of 72 new Airbus A320 aircraft, the airline offers 447 daily flights connecting to 35 destinations.
- Go Air: GoAir is the aviation foray of the Wadia Group. The GoAir route network spans key business and leisure destinations across the Indian subcontinent. GoAir currently flies to 21 destinations with over 100 daily flights and is positioned as 'the Smart People's Airline'

Research Methodology

A research design is the arrangement of condition for collection and analysis of data in a manner that to combine relevance to research purpose with economy in procedure.

The research is based on non-probability based survey. It was a exploratory research.

Data Sources

Primary Data was collected by surveying Officials of selected Airlines through interviews.

Sample Extent: IGI Airport, New Delhi- Terminal 3

Sample Element: Officials of Airlines and Passengers

Secondary Data was collected as follows:

a) Aviation magazines

b) Annual aviation journey

c) Brochures of Full Service Airlines

d) Internet

Findings & Analysis

Air transport in India presently supports 56.6 million jobs and generates over US$ 2.2 trillion of the global gross domestic product (GDP). Air passenger traffic is also growing at a rapid pace, a development driven in no small part by modern infrastructure and facilities.

The world is focused on Indian aviation – from manufacturers, tourism boards, airlines, global businesses to individual travelers, shippers and businessmen. If we can find common purpose among all stakeholders in Indian aviation, a bright future is at hand.

India is one the fastest growing aviation markets and currently the ninth largest civil aviation market in the world. The sector is projected to be the third largest aviation market globally by 2020.

Currently, India's aviation market caters to 117 million domestic and 43 million international passengers. Over the next decade that market could reach 337 million domestic and 84 million international passengers.

The potential of the Indian aviation industry is enormous. The market already has about 150 million travelers passing through its airports, with the capacity to grow further. By 2020, traffic at Indian airports is projected to touch 450 million. Furthermore, India's aviation industry supports about 0.5 per cent of the Indian GDP and close to 1.7 million high-productivity jobs. The annual value added by an employee in air transport services in the country is nearly 10 times greater than the Indian average.

The structure of India's airline market is expected to change significantly in coming months as carriers revisit their business models in order to restore industry viability. Nearly two thirds of the seats flying on domestic routes are on LCCs, one of the highest proportions in the world.

In this highly competitive system the six scheduled airlines have largely converged in terms of pricing and product. But given their significantly different cost structures, this situation is unsustainable for some, while presenting opportunities for others.

Over time the competing airlines will inevitably attempt to carve out more clearly differentiated market propositions, ranging from ultra-low cost to hybrid and premium full service. While that is high on the agenda, at the same time the merry-go-round of partnerships is starting to accelerate. All in all, a spicy cocktail.

India’s domestic aviation has shifted to an almost 100% low fares market

While India's low cost carriers (LCCs) have a domestic market share of 63%, passengers flying on full service airlines (Air India and Jet Airways) pay close to LCC fares in economy class. As a result India is virtually a 100% low fares market. As, in reality, the operating environment makes it very difficult to be genuinely low cost this poses a significant challenge to industry viability.

In 1Q14 the average fares for LCCs IndiGo and GoAir were in the range of INR5000-5200, with SpiceJet close to INR5000. Jet Airways’ average fare was INR5632, but this includes the contribution of the premium cabin, suggesting that its average economy class fare was closer to that of the LCCs. GoAir in fact had some of the highest fares in the market in 1Q14, while the regulator also identified a number of routes where FSC fares were below LCCs. The margin between FSC internet-only and LCC fares has narrowed significantly, but in the last 12-18 months even the more flexible GDS fares in higher buckets are only marginally higher. Overall there is very little difference between LCC and FSC economy class fares.

There is little to distinguish between LCCs and FSCs economy class products

In the Indian market LCCs and FSCs both operate from the same airports with new aircraft, offering high frequencies on key markets. LCC reliability, on-time performance, consistency, ground product and cabin crew service standards, particularly on IndiGo, are comparable with or even better than FSCs. Baggage allowance on discount fares is the same on all carriers.

...from the Indian passenger’s perspective there is little to distinguish between an LCC and an FSC in economy class...

As a result, from the Indian passenger’s perspective there is little to distinguish between an LCC and an FSC in economy class, other than the fact that the latter offers a complimentary onboard meal, but this too is being rationalized. And as a larger proportion of seats are being sold in lower fare buckets even the accumulation of frequent flyer points has diminished on FSCs.

Air India and Jet Airways continue to offer a premium cabin but the business case for such an offering is limited to certain key routes, such as the Delhi-Mumbai-Bangalore corridors and that too primarily during peak hours. In light of the weak economic conditions, which are likely to continue for the next 12-18 month, a negative impact on business class traffic is inevitable in the short term. Currently business class load factors average around 50%.

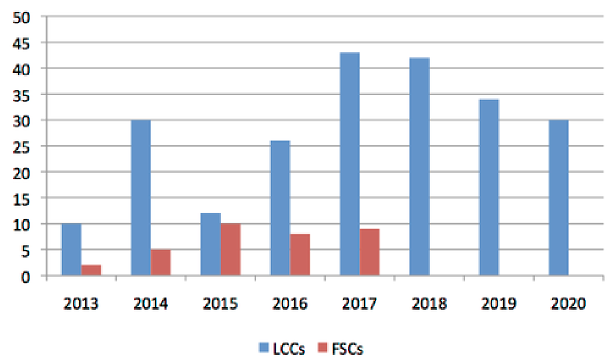
As the economy strengthens in due course there will be absolute growth in demand for full service operations but this is likely to represent a declining share of the total market, especially as LCCs offer a high quality product.

The shift to LCCs is expected to increase, particularly among corporate travellers

Today FSCs are capturing some of their traffic because they are pricing below cost, but this is not sustainable. As and when FSCs increase their fares to reflect their cost base and charge a premium above LCCs, which at some point will become necessary, we can expect to see passengers increasingly shifting to low cost.

LCCs will also continue to grow their share in part because most of the fleet expansion is occurring in this segment. In the second half of FY14 LCCs are expected to induct an additional 20 aircraft on domestic routes, whereas little or no additional fleet deployment is likely by Air India on domestic sectors.

Scheduled Deliveries of Narrow body Aircraft (domestic and international) to Indian LCCs and FSCs to 2020.



Source: CAPA Fleets

New aircraft scheduled for induction by Jet Airways are mostly to be used for replacement, however Jet's current modest expansion strategy could change following the formalization of the partnership with Etihad.

Furthermore, the convergence of LCC and FSC products in India has resulted in a growing acceptance of low cost carriers, even among corporate travellers. Mumbai, the largest corporate market, was until recently an exception to this as Jet Airways had a very strong and long-established position at this slot-constrained airport.

Jet Airways and Jet Konnect continue to have the largest share of capacity at Mumbai (30.4% compared with their all-India share of 23.9%), but during the last 12 months IndiGo has overtaken Jet Airways as the largest single domestic carrier.

The rise of LCCs at Mumbai was facilitated by Kingfisher's exit which released some slots. Capacity will be further increased with the opening of the new Terminal 2 towards the end of 2013. The congested Bangalore airport will also see the completion of the extension to Terminal 1 completed later this year, and new, modern terminals opened at Chennai and Kolkata earlier in 2013.

LCCs are best-positioned to utilize this expanded airport capacity. We expect to see particularly strong growth in LCC market shares on intra-metro routes.

With 50% higher costs than LCCs and similar fares, FSCs must restructure to restore domestic viability

As long as Air India and Jet Airways continue to operate with a full service cost structure but offer LCC fares, their domestic operations will continue to lose money. Comparing the two listed carriers in 1Q14, SpiceJet's CASK was INR3.62 (the other LCCs are estimated to be in the range of INR3.6-3.7) while Jet's was INR5.44. By Sep-13 costs are estimated to have increased to INR4.30 and INR6.50 respectively, and perhaps higher, as a result of the impact of the depreciation of the Rupee and higher fuel prices.

The market is characterized by a situation in which FSCs, which have a cost structure that is around 50% higher than LCCs, have chosen to compete by matching fares rather than reducing costs. And their load factors remain below those of LCCs. Although the impact of lower loads in business class and on regional aircraft may account for some of this, the differential is significant.

A majority of Air India's active domestic fleet consists of A319s. The single class configured versions have just 144 seats compared with the 180-189 seats on the narrow bodies operated by the LCCs. If Air India was operating larger aircraft it is possible that given its current commercial structure its load factors would be lower still.

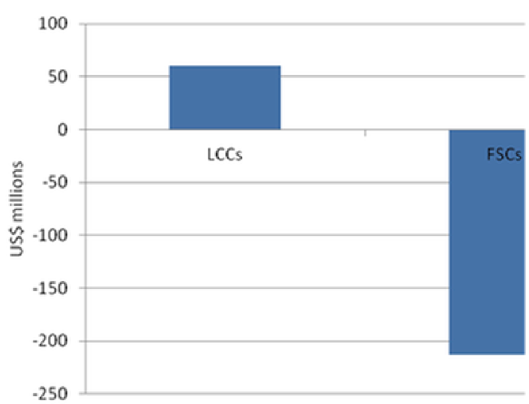
Domestic Passenger Load Factors in 1Q14

Carrier	Load Factor
Air India	71.4%
Jet Airways	71.7%
JetKonnect	73.5%
SpiceJet	76.5%
GoAir	80.5%
IndiGo	84.9%

Source: CAPA - Centre for Aviation, DGCA

This state of affairs is clearly reflected in the financials. CAPA estimates that FSCs lost USD200-225 million in 1Q14 compared with an estimated profit of USD60 million for the LCCs. All three independent LCCs were profitable during the quarter.

Estimated Profitability of Indian LCCs and FSCs in 1Q14



Source: CAPA Estimates and airline quarterly reports in the case of Jet Airways and SpiceJet

Given the results the current domestic operating model for full service carriers in India appears to be broken. That is not to say that all LCCs are turning in stellar returns, some of them it has to be said are also struggling in the current challenging environment, but relative to FSCs they are performing much better.

India's full service carriers lack a clear strategy for their domestic business models

Neither Air India nor Jet Airways has a clear domestic strategy and both of them have been reluctant to decisively move away from their legacy model. Jet confused the market with a half-hearted approach to low cost in which the carrier operated two LCC brands, with an unclear and changing passenger proposition.

Air India has hesitated to introduce a domestic low cost subsidiary for fear of cannibalizing itself and due to concerns about being able to achieve the labour productivity levels required of an LCC. However, many legacy carriers - particularly in high growth Asia - have increasingly come to the conclusion that it is better to risk self-cannibalization than allow your competitor to do it to you.

Air India continues to be able to survive because it faces less commercial accountability...

Air India has also struggled to achieve a competitive cost base because 60% of its active domestic fleet consists of A319s with a higher unit cost than the larger A320 and 737 aircraft operated by its competitors. Nevertheless Air India continues to be able to survive because it faces less commercial accountability. Being under less pressure to change, status quo is the most likely outcome - which ultimately will hurt the carrier as it fails to keep pace with the changing market realities.

Kingfisher failed in part because it was forced to compete with LCCs while saddled with a high cost structure. With LCCs continuing to expand aggressively and grow their market share, they will increasingly set the pricing levels in the market - they have the scale, network and product to do so. Air India and Jet will be forced to follow their lead, and given their current cost structures will continue to bleed.

FSCs must hybridize to bring their cost structures closer to that of the LCCs

Hybridization in the Indian context will therefore necessitate that Air India and Jet increasingly adopt elements of a low cost airline business model in order to establish a more competitive cost structure, while striving to achieve a yield differential in order to drive profitability.

Higher fares relative to LCCs would be achieved by offering services such as premium cabins, through check-in, interline capability, code sharing and GDS distribution which are important for both the corporate and offshore markets and which have the potential to generate a yield premium. But in order to be profitable they must reduce their cost base to be closer to the LCCs.

The time may now be right for Indian FSCs to introduce more modest and smaller business class cabins, or even premium economy, rather than the relatively luxurious products currently on offer on short domestic sectors. Changes to the product will not be easy and will need to be supported by significant investment in IT, branding and repositioning, as well as possibly new management that is better attuned to a leaner, more efficient business model.

That is not as easy as it sounds. Changing the business model without a change in culture cannot deliver the results required. And cultural change is a huge challenge, where the new approach must first be embraced by the promoter.

Jet Airways is reportedly considering becoming a premium carrier, among several options

Jet's domestic cost structure is unsustainable given the yield environment in the market...

Jet's domestic cost structure is unsustainable given the yield environment in the market. As noted the most obvious response to this would be to rationalize its cost structure while continuing to offer a product that justifies a fare premium.

This might involve a distribution strategy for example where the carrier may look at a two-tier approach, encouraging direct online sales where possible, but making a certain proportion of higher yielding inventory available on GDS. But Jet is reportedly also evaluating a contrary strategy amongst several options under consideration.

This would involve differentiating itself by moving in the opposite direction - towards a premium full service position, offering a product more closely aligned with its international operations. Jet Airways has become more focused on overseas expansion opportunities in light of the partnership with Etihad and there may be a subtle shift towards looking at how domestic operations can support international services, rather than focusing on their standalone viability.

There may be a segment of the market that would be willing to pay the fares required to sustain such an operation but the key question is how large is it? Analysis of the market in recent times would suggest that there is unlikely to be sufficient demand for a two class configuration across the entire network. Jet Airways' history is as a full service carrier. The challenge is to avoid reverting to this simply because this is what it knows best and because it is easier than restructuring. The market has changed in the twenty years since Jet Airways first launched and the airline must be certain that a business case exists should it go down this path.

There is also the risk of passengers becoming confused as a result of changes to the product, unless they are well-communicated, as Kingfisher found with the frequent revisions to its business model from hybrid to premium to low cost and back to premium. Jet Airways has already experienced this when it operated two subsidiary brands and pursued a 'swing capacity' strategy, regularly reconfiguring aircraft and transferring routes between full service and low cost in response to market conditions. The strong likelihood is that a premium domestic product would incur regular losses that would need to be funded.

Tata-SIA adds a new piece to the puzzle, but its domestic full service strategy may need further review

In a surprise announcement in Sep-13, one of India's leading business conglomerates the Tata Group, announced that it was establishing a 51:49 JV with Singapore Airlines to operate a full-service airline based in India. The initial plan is to operate domestic routes as is required of a start-up carrier in India for its first five years, but longer term ambitions are to launch international services which could become the primary focus.

This could in fact happen much sooner than expected with the Minister of Civil Aviation recently indicating that the requirement for domestic airlines to have completed five years of operations and have a fleet size of at least 20 aircraft may be lifted in the not too distant future.

Indian LCCs are expected to offer ancillary services to attract the corporate traveller

Hybridization in the opposite direction is also expected to occur as Indian LCCs chase a larger share of the corporate market. This is already evident at IndiGo and GoAir, both of which may move to a hybrid model in the near term, although their definitions of a hybrid model may vary.

IndiGo is expected to focus on the introduction of unbundled products which enable it to offer more of the features of a full service airline – and generate ancillary revenue - without changing the underlying business model. This could include for example lounge access, priority boarding, customized meals and loyalty programme membership, all on a user-pays basis. Rather than a hybrid airline, IndiGo appears to be pitching itself as a "corporate LCC".

CAPA estimates that there is the potential for carriers to generate an additional USD500 million per annum through this channel to be developed over the next two years. Only a fraction of this is expected to be tapped in the coming year as it will take some time to implement new initiatives, however more significant benefits can be expected to accrue from FY15 onwards.

GoAir could become India's first hybrid carrier, making it more attractive to a potential foreign airline investor

GoAir on the other hand is expected to make a determined push towards a deeper form of hybridization which may include participation in an alliance, code sharing and the introduction of a separate premium economy or lite business class cabin. This is a more challenging strategy than unbundling, involving as it does fundamental changes to the business model and a repositioning of the airline’s market proposition.

This would be a major step and if undertaken would need to be done on the basis of a clear understanding of the market potential for such a product. Adding such complexity to the business model would probably make most sense if it was in the context of an investment from a foreign airline that was interested in linking the carrier to its international operations.

LCCs are likely to find it easier to hybridize than FSCs because they have fewer legacy issues to deal with in order to change - it's always easier to go up the chain than down. And if they do it will place even greater pressure on FSCs to adapt sooner.

Hybridization of Indian airlines may create space for an ultra-low cost carrier

If Jet, IndiGo and GoAir were all to pursue strategies which would see them move up the value chain in different ways this may create an opportunity for an ultra-low cost carrier, such as AirAsia India, to occupy the space vacated.

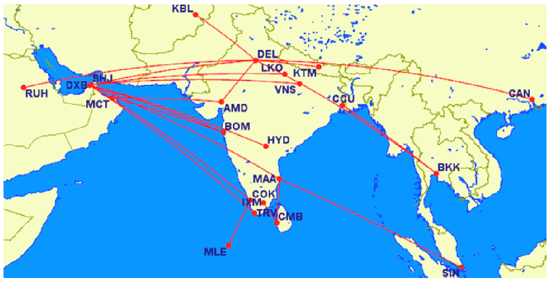
The current operating environment is not conducive to an ultra-low cost business model but if and when fuel prices abate such an opportunity could emerge.

Low cost carriers are expected to grow their regional international operations

With the domestic market continuing to be very challenging, LCCs are expected to provide a serious thrust to growing their regional international operations. We expect Indian LCCs to offer a traditional low cost or hybrid product and will focus on routes up to four hours for the next 3-4 years. The performance on sectors above five hours has been below expectations as evidenced by IndiGo exiting Delhi/Mumbai-Singapore routes (although SpiceJet continues to operate Delhi-Guangzhou with a block time of 5h45 where it is the sole operator).

The four hour range enables airlines to leverage their existing domestic fleet by operating overnight, thereby improving aircraft utilization and maximizing economic performance and commercial viability.

International Routes operated by IndiGo and SpiceJet



Source: Airline websites, Great Circle Mapper

However, the introduction of re-engined A320neo and 737 MAX aircraft from 2016 onwards could change the economics of longer regional international operations as a result of the improved performance over an extended range of over six hours. The A321neo can accommodate up to an additional 56 seats relative to the A320 in an all-economy configuration. The increased real estate on the aircraft could also permit increased legroom for the longer sectors.

A320neo and 737 MAX aircraft could improve the viability of services from Delhi and Mumbai to destinations such as Singapore, Jakarta, Hong Kong, Istanbul and Shanghai using narrow body equipment. And through partnerships with other carriers, 1-stop LCC services would be possible to destinations stretching from Europe to Australia.

AirAsia India is expected to expand aggressively on short haul international routes if the 5 year/20 aircraft rule is lifted...

AirAsia India is expected to expand aggressively on short haul international routes if the 5 year/20 aircraft rule is lifted, particularly from South Indian points such as Chennai and Cochin. With its huge network, AirAsia could offer one-stop services from India to multiple destinations across Asia via its hubs in Bangkok, Kuala Lumpur and Jakarta.

In fact Chennai, as the capital of Tamil Nadu with its vibrant and diversified economy, large diaspora across Southeast Asia and the Gulf, and favourable geographic location, has the potential to be a strong LCC hub connecting the Middle East, South Asia and ASEAN. In addition to addressing point-to-point markets, an LCC based in Chennai would for example also be able to offer one-stop service on routes such as Manila-Dubai or Jakarta-Riyadh.

Conditions may support the launch of new long haul LCC based in India, AirAsia may be the first to take advantage

If Jet Airways, which has the highest market share of international traffic to/from India, focuses on using Abu Dhabi as a hub for Westbound routes from India this means that except for a few high traffic destinations it will serve most points on a one-stop basis. In addition its product and pricing is likely to be aligned with its partner, Etihad. Tata-SIA will also be focused on delivering a high quality, full service product on long haul routes, with fares set accordingly.

This may create an opportunity for a new long haul LCC to operate competitive non-stop services to Europe, North Asia, Australia and other markets, and establish a long haul LCC hub in India leveraging its advantageous geographical location. AirAsia India could be a prime candidate to pursue this market segment subject to removal of the 5 year/20 aircraft rule.

Airport operators will need to factor changing business models into their planning

The possible changes in the airline market structure will have significant implications for airport operators and the scale and nature of infrastructure that is required. LCCs account for the majority of the domestic market, yet India has no low cost terminals let alone a low cost airport.

World class infrastructure is being developed at airports across the country, but in some cases it may be of a higher quality - and therefore cost - than the market requires. And the lifting of the 5 year/20 aircraft rule could transform the international market to/from India, leading to a higher than expected growth rate. There could be particularly rapid expansion on regional routes requiring international terminals to factor in the possibility of significant narrow body movements, rather than the long haul operations around which the recent modernization programmes have been focused.

Airports may also need to consider what role they can play in encouraging and supporting the establishment of "low cost hubs" in India, both on regional and long haul routes, where the airport operator plays a more pro-active role in facilitating connections and transfers between airlines that may not interline in the traditional sense.

The Government of India has recently started the next round of airport privatization...

The Government of India has recently started the next round of airport privatization with tender processes underway for six airports to be offered on a Public Private Partnership basis. A further nine airports will follow shortly, in addition to which the government has announced plans to fast track the development of at least 50 (and possibly up to 100) low cost airports.

Consortia bidding for these airports will need to have a clear understanding of the implications of these changing market dynamics on the capex requirements and the revenue potential of the projects on offer.

In a low fare market, being high cost makes adaptation inevitable. The basic alternatives are to reduce costs or to increase yields

India's domestic market is almost entirely a low fares market, with full service carriers pricing economy class at a level comparable with LCCs. This is a fundamentally unviable situation given the difference in their cost structures. And the gap in costs is only likely to increase over time as LCCs are scheduled to receive re-engine narrow body aircraft ahead of the FSCs, commencing from 2016. Meanwhile the recent regulatory approval of unbundling and ancillary pricing will enable LCCs to become even more competitive on base fares. As a result a restructuring of full service business models is inevitable.

Hybridization is inevitable. If Air India and Jet Airways want to participate in the larger and faster growing segment of the market they must achieve a lower cost base. It is no longer a question of deciding how or whether to establish a lower cost subsidiary. Instead the market has progressed so far that the core operations need to be hybridized to some extent.

Meanwhile LCCs are also moving to offer more of the features of a full service carrier on a user-pays basis. For India's LCCs unbundling is a way of being able to offer additional but optional services. For the passenger this means greater choice and control of the travel experience, and for the airline it means additional revenue. In contrast the challenge for FSCs in hybridization is that unbundling generally involves taking something away from passengers and offering it back to them for a fee.

As India's LCCs, and possibly even Jet Airways move up the value chain, and Tata-SIA introduces a full service product, this may recalibrate the market and create an opening for a classic domestic ultra low cost carrier. At present the operating environment is not conducive to support sufficient cost differentiation for such a model, however as when the costs abate the opportunity could arise.

A similar opportunity exists for a long haul low cost airline based in India given that all of India's network carriers will offer a full service product. Subject to the appropriate changes to the regulatory framework AirAsia India could be a prime candidate to occupy both of these spaces. IndiGo could also exploit this segment as it has options to convert some its narrow body orders to A330s.

Recent changes have the ability to transform India's position in global aviation if the market can give rise to globally competitive low cost and full service carriers that are able to leverage the country's advantageous geography.

But for this potential to be unleashed the government must provide a predictable policy and regulatory framework that allows for a level playing field. Only then will India receive the necessary capital inflows from serious operators that can deliver upon this opportunity.

Conclusion

Since passengers' perception of service quality plays a key role in the success of an airline, therefore it is important to know the difference in consumer's perceptions toward the two types of carriers. Since consumers want the best service with the least cost associated with it, it becomes a challenge for the management to come up with cost cutting measures without compromising on the quality. Customer satisfaction being the key word, management relentlessly tries to work out a balance between too much and too little. The results of the present study help in understanding the areas of concern for the customers. Consumer's reaction toward the basic service viz. schedule is of prime importance. All other aspects of the service are 'frills' and can be cut down. For short distance travelers, in flight service is an add-on that they can ignore as long as they reach their destination at the scheduled time. Therefore, the biggest responsibility of the management is to attend to the very basic needs to satisfy the consumers.

Although the present study took a positive approach in reviewing previous literature of perceived service quality for frill and no frill carriers and a comparative analysis of the relationship among them using advanced statistical tools, there are some limitations worth acknowledging. These include considering low cost and full cost carriers in general rather that taking particular cases of airlines. Future research may consider a comparative analysis of the two types of airlines taking case studies of airlines from the two categories. Researchers may also take up future research to analysis the difference in consumer's propensity to complain a service failure in the two types of carriers. It would be interesting to understand if the passengers of a low cost carrier complains in case of service failure or is it a phenomenon popular in full service carriers alone?

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