

FUTURE DIRECTION IN AIRLINE MARKETING

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Abstract

The rapid growth and broadening of the air travel market, coupled with a more sophisticated consumer, will dramatically change airline marketing over the next decade. Mr. Colussy discusses the direction this change is likely to take and its implications for companies within the industry. New conceptualization approaches will be required if the full potential of this expanding market is to be fully realized. Marketing strategies need to be developed that will enable various elements of the travel industry to compete not only against each other but also with other products that are competing for the consumer's discretionary income.

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Airline marketing will change dramatically over the next decade. There will be the potential for a rapid growth and broadening of the air travel market, but new conceptual marketing approaches will be required to fully develop this new business potential.

Airline marketing management will face the challenge of re-evaluating and restructuring its activities to be consistent with an environment quite different from the 1950's and 1960's. Even the definition of the airlines' role in the travel industry and the product they provide will be subject to significant change.

Let's take a look at some of these changes in the marketing environment which the airlines will face in the next 10 years. There are five key elements of the marketing environment: 1) Total market growth, 2) Consumer expectations, 3) Competition, 4) Regulation, and 5) Technology.

Within the past 10 years we have seen leisure travel grow from about 1/3 of total airline traffic to approximately 50%. Over the next 10 years pleasure or vacation travel could well reach 2/3 of total airline volume. In fact, at Pan Am leisure travel already represents about 2/3 of our total passenger traffic. This does not reflect an anticipated reduction in business travel, which should continue to grow moderately, but rather a more rapid growth in leisure travel. This is the area of greatest potential for the airlines during the coming years.

The growth of pleasure travel will reflect an accelerated change in several key socio-economic factors. These factors should, in fact, contribute to a greater growth in leisure travel than has been experienced during the past 10 years. These factors include:

1. GREATER DISCRETIONARY INCOME THROUGHOUT ALL STRATA OF THE POPULATION. While perhaps difficult to be optimistic about our general economy based on our experience during the past two years, most economists are in general agreement that the next decade will present unique opportunities for a broader distribution of our country's wealth and greater per capita discretionary income at all levels.

2. WE WILL FIND OVER THE NEXT 10 YEARS THAT PEOPLE WILL HAVE CONSIDERABLY MORE FREE TIME. This will result primarily from the trend toward longer vacations. In a recent behavior science corporation study conducted for Pan Am, 37% of the respondents who earned over \$15,000 a year, had 4 or more weeks of vacation. Of the total sample, almost 60% stated that they split their vacations. The combination of longer vacations and a splitting of the vacations creates new potential for multiple air travel each year.

I might note that we recognize there is some traffic potential created by the movement to shorter work weeks, as a result of 4 day weeks and 3 day weekends with the new holiday schedule. However, the market growth resulting from this move-

ment may be smaller and slower than many in the industry now anticipate at least in the international travel markets.

3. THERE IS AN OBVIOUS CHANGE IN LIFE STYLE, REFLECTING A TREND TOWARD GREATER EMPHASIS ON PERSONAL ENRICHMENT. In the past, travel has had some difficulty in competing with tangible durable goods because it was not an item with a "useful life" that could be utilized over a period of time. However, it now appears that travel is being perceived more as a personal investment and this will lead to further growth in travel. The extended 3 to 4 week trip is becoming more important in the international market. A recent Stanford Research Institute study reveals that self-expression and individualism are becoming more important value trends while status achievement and conformity are receiving less emphasis. In the 30's and 40's a trip to Europe was made for status. Today's younger generation make the trip for personal enrichment. This reduced emphasis on "materialism" is also shown in the Behavior Science Study. When asked how they would spend a windfall gift of \$1,000, foreign travel was rated number 2 just behind home improvements but ahead of domestic travel or a new automobile. New automobile placing behind travel is a significant change in the typical American's attitude.

To summarize, leisure travel has become an integral element of the life style of a greater number of people than ever before. Over the next 10 years it will become a key element of the life style of millions of new people not previously in the market if,

of course, the travel industry does a proper marketing job.

The business and marketing significance of this can be best illustrated by reviewing what we believe to be the 3 key consumer market segments:

1. The Experienced Traveler - The "heavy user" of leisure travel, through multiple annual trips, will grow substantially in absolute numbers and relative importance. Primarily composed of people who have grown up in the '60's and '70's accepting air travel as a commonplace event, this segment of consumers has no reservations about flying and indeed look upon travel as a rewarding and desirable experience.

2. The First Time Traveler - Airlines, in our preoccupation with battles for share of market, have perhaps lost our perspective on the fact that only a small proportion of our population flies in a given year. There is ample evidence, however, that each year millions of people discover for the first time that air travel is easier and more affordable than they thought possible. Less than 10% of the U.S. population has ever left the North American continent. And once they try it, they like it. They're hooked. Participation in just one charter or a group of local friends is all it takes to introduce these people to air travel. This market segment, (the great middle America) because of its absolute size, represents truly substantial business potential.

The motivations which bring these people into the travel market are diverse. They include special interest activities such as sport related, religious, and study groups. Additionally,

strong cultural ties and increased pride of identity among the various ethnic groups in our country represent a key motivation for international travel. There is a real tendency for second generation Americans to go back to their homeland for a visit.

3. The Youth Market - This is a market segment which has perhaps been overworked and over-emphasized in other industries. But in the travel industry, the youth market, because it is traveling more frequently and at earlier ages, will continue to represent a key source of traffic.

The second key element shaping the marketing environment over the next decade will be the nature of consumer expectations. In general, the air traveler will be smarter and more knowledgable. This will be partially a reflection of the increased number of consumers with accumulated travel experience which is far beyond that which characterizes today's consumer. People coming back and talking about their trips improves the whole security thing. This accumulated travel experience will cause and permit the consumer to be more discriminating in terms of his travel decisions relating to choice of destination and selection of airline. The current wave of consumerism, sharpened by the consumer's own travel experience, will lead to a new emphasis on travel value. This value consciousness will be the key factor influencing the consumer's travel decisions.

The consumer will be offered more diverse travel options, and

he will be more skillful and discriminatory in his selection of travel products. As a result, he will not be motivated by the types of promotional techniques currently employed by many airlines.

The third key element of the marketing environment will be the competitive situation which individual airlines will face. This competition will exist at 4 levels. First, there will be competition between the various scheduled airlines. Secondly, there will be competition between the scheduled airlines and the supplemental airlines. Thirdly, there will be competition between the airlines and other modes of transportation. Fourth and probably most important, there will be competition between travel and other applications of the consumer's discretionary income.

Competition between the scheduled carriers will no doubt continue undiminished as each tries to capture its fair share of the market. Depending on each airline's route structure, the competition will be for both the business and leisure travel markets. The focus of competitive efforts directed to the business market will be on special services and schedules. Competition for the leisure market will focus on destinations and service features.

The competition that now exists between scheduled airlines and the supplemental will be considerably blurred as more scheduled

carriers offer a product comparable to the supplementals. Through their own charter activities, the scheduled carriers will eliminate the price advantage previously maintained by the supplementals. Market share in the charter business will then become a function of effectiveness in product structuring and promotion. At PAA, we feel there has been no major mass marketing effort directed at general leisure market to develop charter traffic. This is changing today.

Competition between the airlines and other modes of transportation will be primarily limited to the automobile. Steamships have adopted a marketing strategy of positioning themselves less as a mode of transportation, and more as a destination. As a result, combination fly/cruise programs should be expected to expand, making the two industries complementary rather than competitive.

The automobile will be a more important factor in the domestic market place, where it competes both as a substitute and as an alternative to air travel. However, it also represents competition to international travel, since a consumer must choose between a traditional family vacation by auto and a vacation by air to a more exotic or unfamiliar location. The consumer may prefer to have a summer home in N. H. than spend \$4,000 to \$6,000 on an international trip.

Competition between travel and other applications of the



of the consumer's discretionary income will become even more intense. New products for the home, such as entertainment and household appliances now on the drawing board, will be expensive and capture a substantial portion of the consumer's discretionary dollars. Perhaps even more importantly, the trend toward purchase of second homes, campers, boats, and other high cost leisure products can be expected to cause significant competition for the consumer's discretionary income. This competition will exist both in terms of the initial financial investment and in the subsequent income and leisure time spent in utilizing the purchase.

The fourth element of the marketing environment involves the area of industry regulation. Trends toward both U.S. and foreign governments action to stimulate air traffic, particularly through bulk travel concepts, are accelerating. In particular, we can expect relaxation of the limitations on the number of off line charters permitted entry overseas, particularly at Pacific destinations. Second, we can anticipate relaxation of qualification requirements for affinity and ITC charters. Additionally, we can expect continued downward pressure on air fares, both for scheduled and supplemental services. Pan Am advocates part charters.

The fifth element of the future marketing environment relates to technological changes within the industry. Supersonic aircraft, beyond the Concord, with more favorable economics and true inter-continental range capabilities may be expected in the early 1980's. However, in the upcoming decade they will impact principally in

the high priority business travel market, where time is the critical factor. Their impact on leisure markets will be limited to high income consumers willing to pay a premium for travel to more distant locations in shorter time periods.

As far as large subsonic transport aircraft are concerned, in the next decade we will see only evolutionary growth in existing models of aircraft with no major technological breakthroughs. The DC 10 and L-1011 will probably be stretched in both size and range capability. The maximum capacity for an intercontinental aircraft will probably be limited to approximately 600 seats for an all economy 747. Improved comfort features for narrow-body equipment will assure maintenance of their value for use in less dense markets or those with high frequency requirements.

Other advances may be expected to improve reliability, utilization and all-weather capabilities. All these factors which should contribute to better cost efficiency of existing aircraft and will hopefully permit airlines to begin to realize an adequate return on the massive investments we have made in these aircraft.

At present, our passenger handling systems on the ground are very labor intensive. Without advancement of these systems, the expected traffic growth would result in poorer standards of service and/or spiraling costs. Automated check-in and seat selection should be a reality within the next 10 years. An alternative to

the present high cost reservations system, for at least some routes, should be a possibility.

In general, technological change within the airline industry will not be dramatic. Advancements should enable us to keep pace with traffic growth but not contribute to it, as did the introduction of the jets. Additionally, we might expect cost efficiencies to keep requirements for fare increases at rates lower than for most other goods and services.

Outside the airline industry there will be requirements for other elements of the travel industry to introduce technological advancements. Hotel handling of passengers at check-in and check-out, tour operations, and surface transport to and from airports must all be upgraded to accommodate efficiently the growth in traffic. At this time there is limited coordination among the airlines and these other elements of the travel industry in terms of advance planning. I expect the airlines will take a more active role in assuring that all elements of the travel industry are better integrated and prepared for handling passenger growth. This is a real change in direction for airline intent and interest.

Having identified these 5 elements of the marketing environment -- specifically, total market growth, consumer expectations, competition, regulation, and technological changes-- what are the implications for the airline's marketing management.

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I believe these implications can be summarized in 3 key areas.

First, the airline industry faces a period offering greater business growth potential than we have ever known before. This will result from continued growth in business travel and a boom in leisure travel stimulated by greater discretionary income, more free time and multiple vacations, plus a change in life style emphasizing personal enrichment. The primary consumer segments accounting for the leisure travel growth will be the experienced, frequent flyer, the first time travelers, and the youth market. The major obstacle to exploiting this growth potential will be the alternative uses for the consumer's discretionary income.

Secondly, the transportation element of travel will become less important in the consumer's travel decision. Instead, more consumers will be interested in buying a total travel experience. Essentially, he will expect to purchase a package of services that will facilitate his movements virtually from his door to his destination and back home. The leisure traveler will expect much more help in planning his trips and assistance during his trip. The business traveler will expect a similar total travel service, with of course, a different package of features more suited to the nature of his travel.

The airlines are the logical element of the travel industry to assume the responsibility of providing the consumer with a satisfactory total travel service. More than any other element of the industry, the airlines are perceived as already having this

responsibility as far as the consumer is concerned. It is the airlines that give the greatest promotional support to the stimulation of travel and it is the airlines who are best able, in terms of resources and potential gain, to assume this responsibility.

Concurrent with this consumer emphasis on a total travel experience, the airlines must become more involved with quality control for the total trip and pricing of the total trip. Pricing, in particular, will be a key element of competition both in pricing of the air transportation as well as the land portion of the trip.

Finally, the growth in the travel market will support and require even greater market segmentation through product diversity. The travel industry will be similar to the automobile industry, where total market growth has permitted virtually unlimited model and option offerings. Because travel and the objectives for travel are so strongly related to differing personal interests, experience levels, and personality characteristics, the trend to market segmentation in our industry through product diversity can be expected to accelerate rapidly. This is giving the customer more options, even in a mass travel market situation. This product diversity will be required to develop frequency of travel. It will be made possible by a total market so large that there will be adequate volume to support very specialized travel products. The growth in international air travel is very high. The product

line will range from charters sold only as basic, economy transportation to special ground and inflight service packages for first class travelers and from large, standardized group tours to individualized special interest travel itineraries.

Before defining what I believe to be the future direction of airline marketing strategies, I would like to review quickly the key elements of the changing marketing environment and their implications for airline marketing management.

Within the marketing environment the airlines face changes in total market growth, consumer expectations, the nature and degree of competition, regulation, and technological advancement. These changes will result in significant new business potential; a consumer emphasis on the total travel experience, with a resulting priority on quality control and pricing of the total trip; and increased market segmentation through product diversity. To meet these challenges, I believe the industry will move toward new marketing strategies in 6 key areas.

First, the airline industry can be expected to expand its diversification activities both vertically and horizontally. Many airlines, including Pan Am, have hotel subsidiaries. Others, including Pan Am, market their own brand name tours, for which they control pricing and quality. Some airlines, including TWA and Pan Am, have recently announced new emphasis on charter travel. And Pan Am has just announced its entry into an auto rental program

in Europe. Pan Am's network of 650 locations in Europe is as large as Avis or Hertz in Europe. Recognizing the potential and the obligation for assuming the responsibility for the consumer's total travel experience, the airlines will move much faster into all key elements of the travel industry.

The second element of the new marketing strategies to be employed by the airline industry involves consumer priorities. During the past decade we have seen the airlines shift their priorities between frequent business travelers and new or inexperienced pleasure travelers. Within the next 10 years, a further change will lead to new consumer target priorities. The three primary targets will be the frequent business traveler who is primarily traveling first class; the "frequent" leisure traveler, who will make two or more trips per year; and the first time traveler. Each of these groups offer significant leverage for increased business and all product and promotional strategies will be heavily directed toward these consumers.

Thirdly, the airlines' definition of their product will change to be consistent with their new role as the supplier of a total travel experience. The present emphasis on inflight amenities, such as coach lounges, decor, meals, and movies will be pushed into the background and the airlines will be more concerned with structuring and providing a pleasant trip.

There will be significant increases in the variety and number of tour packages available to the consumer. This is not to imply that the market will be characterized by increased escorted group travel. Quite the contrary is true. While people may travel in groups for the air transportation, their land packages will differ considerably from one traveler to the next.

The airlines will have incentive to become even more involved in the development of the tourist infra-structure at the destinations along their route system. This will include such activities as sightseeing, hotels, car rentals, transfer services, and support industries.

This involvement by the airlines will result from the emphasis on quality control and the need for competitive pricing. The demand for new destinations and new travel experiences by the experienced traveler will also stimulate participation by the airlines in developing new vacation markets.

There is going to be a consolidation into a smaller number of total travel conglomerates. The airlines are in a strong position to head these up. Alternatively, someone like American Express could gain aircraft capability.

Finally, the product distinctions between scheduled airline's service and that of the supplements should be significantly diminished if not completely eliminated. A good percentage of the pleasure travel will be based on movements of people in large groups on either plane load or part charters, using both affinity



and non-affinity concepts.

The fourth key element of marketing strategy relates to pricing. In general, there will be an effort to simplify air fares in order to facilitate sales activities, consumer understanding and acceptance, and a profitable balance between fares for both business and pleasure markets. Most people in the industry realize that the fare situation is very complex and difficult from a sales standpoint. Developmental fares will be utilized to increase frequency of pleasure travel and to bring new consumers into the market. These pricing incentives, to the extent practical must, however, also be directed at offsetting seasonal and day of week traffic imbalances. This will tend to maintain some degree of complexity in fare structure, but this will be necessary if airlines, hotels, and other elements of the travel mix are to maintain traffic flow at some stable levels. The basic economics of our industry dictate that our resources must be effectively utilized on a year round basis. If this can be accomplished the consumer will ultimately benefit in that we can be offered the lowest price possible and the widest number of travel options to meet his own unique set of values and needs. Pricing strategy then will play a vital role in developing new business as well as ensuring fair and equitable prices to those consumers already in the travel market. All of this must be accomplished and still permit the airlines to maintain a

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reasonable rate of return and stable financial condition.

There will continue to be fare differentials, but they will be more like 10-20% rather than the 40-50% differentials we see today. The dumping of seats will not continue, but differences in overall service will be charged different fares.

The fifth key element of future marketing strategies involves the channels of distribution. At present, the airlines have limited control over their channels of distribution. This must change if we are to ensure the quality of the travel products being offered. Consumers are expected to demand better and more informed travel counseling. This requirement for more extensive travel counseling and the airlines desire and incentive to gain greater influence over the sales outlets which sell our products should lead to a more selective appointment procedure of retail travel agents. Retail travel agents will continue to play a vital role in the selling of air transportation essentially for airlines like Pan Am who do not have a large number of their own retail outlets throughout the U.S. In the area of packaged tours, distribution changes are also likely as airlines strive for better quality control and better brand identification in an effort to develop stronger consumer interest and confidence in new tour products. This should result in a consolidation in the number of current packaged tour wholesalers and a closer working relationship between airlines and wholesalers in an effort to provide a more attractive and higher value consumer product.

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The sixth and final element of marketing strategy involves the advertising and promotion activities of the airlines. First, there will be an increased priority on promotional efforts directed toward the stimulation of primary demand. This will reflect the objective of increasing the frequency of pleasure travel and the positioning of travel as an alternative to other applications of the consumer's discretionary income. Competitive advertising between airlines will focus more on the greater appeal of one carrier's destinations versus those of its competition. The primary emphasis, however, of airline advertising and promotion will be on the appeal, value, and quality of the total travel experiences which it can offer. This emphasis on the airline's ability to provide a total travel experience will be an important part of its promotional efforts.

Continued focus on inflight amenities concerned principally with the air portion of the total travel experience will have to be de-emphasized if our promotional resources are to be most effectively utilized in developing and capitalizing on the future traffic potential. Heavy promotion on special lounges will not properly compete for the consumer's discretionary dollar given the wide variety of non-travel options he has for these expenditures. It's our belief that airline marketing has matured to a point where more sophisticated techniques will be brought to bear on our total marketing problem.

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I have tried to outline the challenges and opportunities that face the airline industry, and in particular its marketing management. I have described what I believe to be the direction that the airlines will pursue in six areas of marketing strategy. To recap these areas, they are: Increased vertical and horizontal diversification in the travel industry, the placement of priority on the "heavy user" of pleasure travel, an emphasis on structuring and providing a total travel experience, the development of new pricing concepts for air transportation and travel packages, a restructuring of the channels of distribution, and a promotional effort that is consistent with the airline's definition of its product and target consumer. During the past 15 years, the airline industry has experienced both feast and famine several times. The lessons learned during this period and the total business potential resulting from the social and economic changes that can be expected provide the basis for being more optimistic about our industry than we have ever been before.

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