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Avram, Bogdan

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ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics
Düsternbrooker Weg 120
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The Hybrid Airline Model. Generating Quality for Passengers

Bogdan AVRAM*

“Lucian Blaga” University of Sibiu, Romania

This research aims to investigate the different strategies adopted by the airline companies in adapting to the ongoing changes while developing products and services for passengers in order to increase their yield, load factor and passenger satisfaction. Finding a balance between costs and services quality in the airline industry is a crucial task for every airline wanting to gain a competitive advantage on the market. Also, the rise of the hybrid business operating model has brought up many challenges for airlines as the line between legacy carriers and low-cost carriers is getting thinner in terms of costs and innovative ideas to create a superior product for the passengers.

Keywords: *airline industry, airline quality, product quality, service quality, passenger satisfaction, airline competition, hybrid airline model*

JEL Classification: *M10, M20, M30*

1. Introduction

In the unpredictable global economic aviation market and due to the dynamic and highly volatile commercial environment, both legacy companies and low-cost carriers have seen many changes. While legacy companies have been dealing with cost reduction programmes in order to better compete with the rise of the low-cost carriers, the last ones have been keen of increasing their market share in key strategic markets once dominated by the legacy companies. What we see today is the beginning of a new operating model, the hybrid model which combines elements from both legacy and low-cost carriers. Set to change the aviation perspective, the hybrid model is adopted by both types of carriers. While legacy companies are struggling to reduce costs and increase ancillary revenue systems, keeping the „well-known quality” of legacy, the low-cost carriers have been adopting parts of the legacy model which means new ancillary revenue systems, switching their operations to larger airports and boosting frequency on business-oriented routes in order to increase their yields. The fierce competition on the market has determined the companies to focus on both service and product quality in order to attract more and more passengers. Quality seen from the aviation perspective may have different meanings depending on the company. While others are investing in designing new loyalty programmes, new options for passengers, new inflight products, others are just using technological development as a way to gain competitive advantage on the market and also changing their attitude towards passengers, investing in CRM programmes. According to Porter’s sources of competitive advantage, the

* Corresponding Author:
Bogdan Avram, “Lucian Blaga” University of Sibiu, Faculty of Economic Sciences Alumni, Romania

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airlines that focus on only one area (differentiation, overall cost leadership or focus on a particular segment) will be able to establish and sustain a competitive advantage. While the rise of the new operating model has set a trend to focus on creating quality value for the passengers, companies often need to find a balance between differentiation (perceived uniqueness by the customers) and cost leadership (low-cost position).

2. Theoretical Framework

2.1. Airline Hybrid Business Model Conceptualization

The airline's reaction to the ongoing challenges from the aviation industry has forced them to adapt and be more flexible. The business model as well as technology innovation can be considered as the main pillars for the transformation of the airlines. The creative capacity of airlines to adapt and evolve is essential for their survival in the hyper competitive market. The hybrid business model represents a new dimension in airline innovation, mainly being a set of capabilities to trigger the creation of value in line with the economic of social objectives of the airlines. Amit and Zott (2012) propose a definition of the business model that „depicts the content, structure and governance of transactions aimed to create value through exploring the business opportunities on the market”. To differentiate their business, some LCC are adopting business models that include shifting to primary airports, start hub and spoke activities, offering meals and other in-flight services and well as entering alliances or forming their own alliances (de Wit and Zuidberg, 2012). The battle for the cost-conscious passengers has forced many FSC as well to change and adapt their focus. Klophaus, Conrady and Fichert (2012) claimed that most European LCC's have adopted a hybrid market strategy and changed core elements of their basic business model. In fact, a hybrid airline has adopted a current business model that comprise the best features of both the legacy and low-cost business models in one, balancing costs (known to be the focus of the LCCs) and value (known to be the focus of full-service carriers).

LCC core elements		FSC core elements
Flexibility of air fares	>	< Seat reservation
Reduced volume of catering	>	< No charges for food and drinks
Turnaround time under 30 minute	>	< Audio/video entertainment
Aggressive marketing policies	>	< Loyalty programmes
Price determination of flight sectors	>	< Transfer flights
Direct sales of air tickets	>	< Registration of pax to their final destination
Multiple routes on „point to point” basis	>	< Different system fares
		< Cooperation with travel agencies (sales)

Figure 1. Characteristics of a hybrid airline model (LCC and FSC core elements), author's concept, Source: adapted from Stimac, I., et al, 2012

2.2. Service and Product Quality Conceptualization

Becoming a major area of attention, quality seen from the aviation perspective is very complex in models, methods or definitions. Given the market dynamics, airlines have been forced to shift their attention towards the customers, understand their needs, preferences and expectations from the moment of ticket-searching until the post-flight services. Measuring quality in the aviation industry can prove to be a challenging task given the different characteristics of services from products, mainly because a set of physical aspects can not be applied to service quality due to intangibility and consumption (Tiernan et al., 2008). Kelley (2012) claims that service process steps are founded on the airline passenger lifecycle which consists of five stages: *check-in* – shopping/eating/drinking/working, *security* – shopping /eating/drinking/working, *flight* – shopping /eating/drinking/working, *baggage claim* – transport/ lodging/ eating/shopping/site-seeing, *home* – transportation, parking facilities. The concept of passenger lifecycle is to research for opportunities to create value for passengers, the airline having the opportunity to create value between each stage of the lifecycle.

Topla (2012) agrees that there are 8 service process attributes in the airline industry: ticket purchase, pre-flight services, check-in services, airport services, departure, onboard services, arrival and post-arrival. Also, the dimensions of service quality in the airline industry are reliability, assurance, facilities, employees, flight patters, customer customization and responsiveness. Fageda et al (2011) claim that due to the highly competitive market conditions, companies have to deliver high-quality services, changing their strategies in order to retain their market share. Atilgan et al (2008) agree that services quality have seen a great speed and intensity in change to previous years. The service quality has a direct impact on a company's competitiveness on the market given that the airlines are formed by a large number of intangible elements which are hard to measure.

In general terms, there are certain differences between good/products and services. Intangibility is the nature of services while tangibility is the nature of goods. Given the characteristics of goods, the quality

measurement is much more complex since the delivery of services meet the customers experiences with an airline. Experts in management and quality often use the term perceived service quality which is a result of the differences between perceptions regarding the delivery of services and the satisfaction of the client, the actual outcome of the service process (Lovell; Wirtz, 2011). Cronin and Brady (2011) proposed a model for measuring service quality which include the following: interaction quality, physical service environment quality and outcome quality. These three factors influencing quality are formed by elements like attitude, ambient conditions, social factors or even time.

Furthermore, Emel (2014) argues that measuring the quality of services requires the understanding of the nature of services. Being different from goods due to their nature and characteristics, it is very important for service providers to use marketing tools to develop services and increase their quality. From the business administration perspective, service quality is an achievement in customer service, as they compare perceived value with expected value. The businesses need to find customers to which value is important and by which they can satisfy the need of the customers. The relationship between service quality and customer satisfaction is strong given the high level of expectations of customers from the airline companies, linkable also with perceived and expected services which could result in satisfaction or dissatisfaction (Leingpibul, 2009). Kottler and Keller (2009) define service as any intangible act of performance that a certain party offers to other party and it does not result in any ownership of anything.

2.3. Customer Experience Conceptualization

Part of the customer satisfaction, customer experience is an important part for any airline across the globe. Satish (2011) defines experience as “private events that occur in response to some stimulation These experiences involve the whole living and often the result from direct observation and/or participation in events, real or virtual”. Johnson and Kong (2011) claim that when customers have a good experience, they will be satisfied and therefore loyalty rate is increased. Barksy and Waite (2013) explain that the positive experience will increase customer satisfaction. In regards to the customer experience and price, Kotler, Bowen and Makens (2010) mention that customers compare the price with the value that they perceive. Borowski (2015) has defined customer experience as the quality of all the consumer’s encounters with the firm’s brand and products, including advertising, packaging, the actual product. Rawson, Duncan and Jones (2013) showed that the companies which are able to manage the entire customer experience will gain massive rewards.

3. Creating Quality for the Airline Passengers: Application on the Hybrid Model

The fierce competition on the market and the industry, has forced all airline companies regardless of their business model to restructure, create new products, streamline processes, cut costs and price key routes very aggressively. While for many years, low-cost companies have focused only on pricing and offering basic services, the legacy companies which have focused on quality services and products have changed their strategies to find a balance between quality and price. So do the low-cost companies who have realized that price is no longer the ultimate factor when passengers choose an airline. **Therefore, finding a balance between quality and price characterizes the current commercial aviation market.** Besides this, companies are focusing on establishing alliances/partnerships, multi-channel strategies or developing products, integrating new products and services, developing customer service programmes, or even exploring market opportunities to gain brand awareness and find profitable routes. Now, due to the market conditions, defining low-cost or legacy business model has become hard as the hybrid model combines cost-saving strategies which are essential for the low-cost model with the quality service and route system essential for the legacy-model. These changes are of great importance for the passengers who are becoming more and more price-conscious but also rather selective when it comes to finding a good quality service.

The trend to moving to a hybrid business model has a direct impact on all operations of the airline companies:

- the movement means focusing more and more on using technology to offer passenger flexibility and fast-bookings but also to integrate technology into the in-flight services. Also, seen from the airline perspective, investing in technology helps the airline companies to gain insight on marketing opportunities as well as passenger behaviour in terms of quality services. More, as hybrid airlines continue to expand on markets, technology also helps airlines to provide quality service while maintaining lower costs given the complexity of the operations;

- adopting the hybrid airline model, gives passengers flexibility in travel as more and more companies are signing partnerships with other companies, allowing passengers to change flight at major hubs (eg.

short/medium-haul companies partnerships with long-haul carriers). Therefore, in many cases quality means having a suitable flight schedule for key routes which generate the most income.

- The hybrid model stimulates companies to offer a wide range of service to all passenger segments, increasing revenues through the ancilliary revenue systems. This helps passengers to choose and make their travel more easy and comfortable at the same time.

- One of the most important aspects regarding the relationship between quality and the hybrid airlines is the customer relationship management. In general, price-sensitive passengers are rarely loyal to a certain airline brand, give that the price is not longer an unique selling proposition. To offer quality services, the airline companies understand the importance of passenger relationship management.

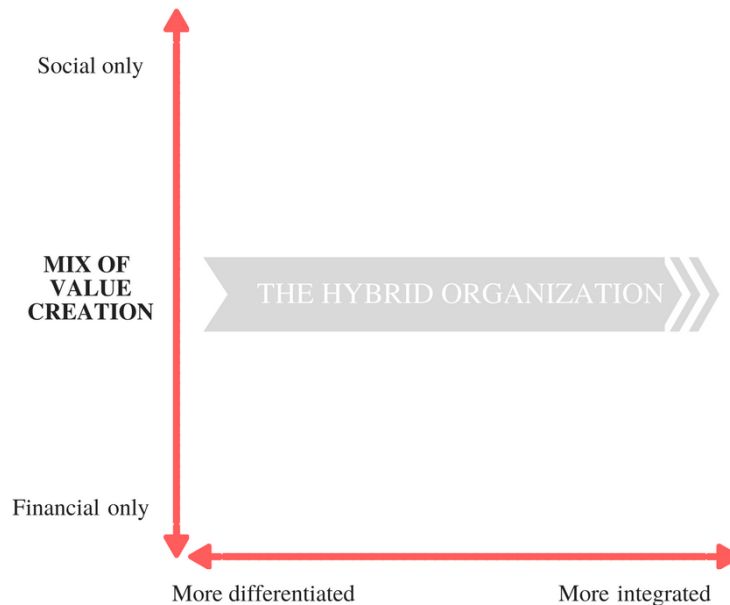


Figure 2. The hybridization process model (author's concept)

Generally, in the aviation industry, the airline companies work with third parties like handling providers or airports. The total perceived quality service includes the interaction the airline companies, handling providers and the airports. In order to satisfy the customers, the hybrid airlines need to know their customers and expectations. We may divide this issue depending on the passenger profile:

- If a hybrid airline operates at bigger airports, it targets business customers who need frequency, fast boarding and quality services. Frequency on all routes also helps the airline to keep their costs low as they benefit from large discounts from bigger airports, landing discounts, load factors discounts etc. To fulfill these principles, many airlines in order to keep their costs lower, have configured their planes in full economy class, while offering in the same time the possibility of choosing bigger legroom seats or choose a personalized package in the moment of booking. The yield is certainly bigger enhanced by the ancilliary revenues generated by customers flying from bigger airports. Bigger airports offer quality conditions for the customers choosing this type of airports, mainly quality facilities which are more expensive to be implemented at regional airports. Also, the bigger number of handling operators gives the airlines flexibility;

- If a hybrid airline operates at a regional, smaller airport, it often targets leisure or ethnic traffic. Knowing the type of customers flying from these type of airports is crucial to establish the strategy. For example, benefiting from lower airport charges, airlines will offer a basic 2/7 service as there are fewer business customers who would choose to fly. Also, as the preferences change, hybrid companies need to find what the customers want depending on the region.

In the airline industry, quality is quantified from the moment of the booking until the post flight services. It is extremely important to analyse each step and what airlines do to maintain quality.

- *Ticket purchase:* aviation statistics show that 80% of the passengers buy tickets from the company's website while the rest via other sources. In the last few years, low-cost companies transitioning to a more hybrid model have been opting for GDS distribution system in order to sell a wide network especially to secondary cities. According to Flightglobal Magazine (2013), Easyjet is a clear example of why hybrid airlines are using GDS distribution in order to change their business strategy. They are focusing on selling to business travellers who still use management travel organizations. Also, more and more companies are focusing on using technology in order to create value for passengers in this step of the journey. Creating user-friendly

websites, easy to navigate, more payments methods for the passengers, payment flexibility or even more package options which include basic service or additional grouped services often cheaper than bought alone. As more and more hybrid airlines are focusing on the customer, it is important for them to create value since the beginning.

- *Pre-flight services*: companies often charge customers when they want to change bookings. Companies which have a strong presence on key strategic markets, focus on offering value by allowing changes to the booking, free of charge on some services. Also, companies like Ryanair are becoming more friendly with customers, increasing baggage allowance on-board or even lowering their fees. Often, customers perceive these small changes in a positive way. Others are focusing on adding services like taxi, hotel booking after the booking has been made.

- *Check-in services*: the quality of these services depend more and more on airport infrastructure, employees attitude or even the company's policies. Companies like Ryanair, Wizz Air, Lufthansa are adding more and more packages for passengers in order to increase their revenues and add value to the passengers in the same time. Ryanair for example offers 3 package options: from basic (ticket plus a small luggage) to a business flex package which includes all the services offered by the airline. The companies need to make sure that the airport infrastructure is ready for their requirements as more and more passengers become selective: business lounge entrance, personalized check-in service and so on.

- *Airport services*: often the perceived value offered by the airlines companies is linked by the passengers to airport services. Airlines need to make sure that the airport on which are operating satisfies all their requirements. Also, companies like Ryanair are working closely with airports to increase ancillary revenues while offering quality services for passengers, like options to spend their time before departure.

- *Departure*: the moment when the passenger is ready to leave the airport and fly to the destination, many airline companies offering services like priority boarding. Also, some companies require airports to board via bridges in order to create a different vision in the mind of the passenger.

- *Onboard services*: companies focus on creating the best environment for flying. Either we talk about on-board services, inflight entertainment, companies are focusing on creating value for passengers. Also, on-time departure/arrival or safety are key components for quality.

- *Arrival and Post-arrival services*: companies need to make sure luggage arrives safe at the destination and should work closely with the handling company. Also, it is extremely important for companies to offer personalized service like fast-track passport control.

Depending on the business model, low-cost carriers have focused on stimulating demand with low fares while the selling proposition for full-service carriers is to focus and emphasize the overall passengers experience and for hybrid carriers it is all about value with a service orientation strategy. Thriving though a global market, hybrid carriers are moving into the mainstream markets, delivering a strong value and selling proposition. As opportunities arise, hybrid carriers have made movements in building a virtual network by directly partnering with other carriers, no matter the alliance membership. Vueling, for example, partnered with American Airlines or Iberia to feed passenger to these two carriers via their hub at Barcelona or via Madrid. Also, companies are developing products, loyalty schemes for both individual or larger companies, recognize high-value passengers or enhance their experience by ancillary options. Lufthansa, which is a pioneer for quality had to adapt to the market conditions. In order to increase their yields, the company has focused on adopting elements like travel packages (basic to business flex). Leaving alone the cost reductions, the company decided to focus the efforts on offering each type of passenger exactly the services it needs. Also, it is offering quality services in the airports, for example on the entertainment segment. Other carriers adopted and offered passengers plenty of booking options by using new technology. Wizz Air, the largest carrier in Eastern Europe, focused its efforts on positioning on the market as an ultra low-cost carrier. In fact, the company operates on both main and regional airports, depending on the served market. On key routes, they offer flexibility as well as operating on main airports while offering a basic inflight product. The company compensates the basic product with the reliability, on-time performance, security, key quality elements that are taken into account by every passenger when choosing an airline.

4. Conclusion

After briefly analysing the aviation industry environment seen from the hybrid airlines and their impact on quality, many airlines in order to remain competitive on the market, allocate greater budgets than in previous years to create a satisfying environment for the passengers, creating greater services and products, positioning themselves different in the passenger's mind. Quality will remain an undisputed key element for the aviation industry in the many years to come. Airlines need to better know their customers, create an improved customer

experience and personalized service that will result in a great way to increase passenger satisfaction and loyalty, generating extra revenue. Using technology will boost passenger satisfaction by often reducing delays and increase safety and security.

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