ANCILLARY REVENUE PRICING

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ABSTRACT

The airline industry has evolved from a system of long-established state owned carriers operating in a regular market to a dynamic, deregulated industry. This development – especially the emerging competition of Low Cost Carriers – had a major influence on the price setting behavior of airlines. Profitability of airlines is limited and pricing systems are reconsidered.

In order to stay competitive traditional full service carriers consider the implementation of ancillary revenue systems (similar to Low Cost Carriers). This paper investigates challenges of an ancillary revenue pricing approach for full service network carriers.

A qualitative means-end approach was used to find attributes which are of importance for air passengers and influence their ticket buying behavior. In addition, the study provides an insight into the perception of an ancillary revenue system in the full service network carrier market.

The findings provide 18 ticket purchase attributes and 15 behavioral terminal values shown in hierarchical value maps. Based on those values it became evident that most passengers appreciate if some services are included in the price and not offered as ancillaries. Benefits of ancillary revenue systems are the individual ticket creation, customization, improved price-performance ratio, flexibility gains and progressive idea. Main drawbacks are complicate and complex booking process, feeling of uncertainty, branding problem, deformation of competitive behavior, similar system like Low Cost Carriers, feeling of paying extra for every service, perceived loss in service and quality.

Keywords: Airlines, ancillary revenues, full service network carriers, pricing strategies
1 INTRODUCTION

The airline industry has evolved from a system of long-established state owned carriers operating in a regular market to a dynamic, deregulated industry. This development – especially the emerging competition of Low Cost Carriers (LCCs) – had a major influence on the price setting behavior of airlines. Profitability of airlines is limited and pricing systems are reconsidered.

One newly-emerged strategy, which finds its origin above all in low-cost carrier business models, is ancillary revenue system. It started with the rise of oil prices in year 2002 where airlines initiated to impose additional fees for upgrades to the ticket fare. Shortly, this change extended into fees for other services such as meals, baggage or seating assignments which considerably increased the expected revenues.

However, there are certain risks connected to this pricing strategy as it is a typical characteristic of LLC’s. Hence, the implementation of such a system might damage the image of full service carriers representing traditional values, high product and quality services as well as customer orientation by offering individual support. It therefore has to be proved whether such a pricing approach fits within the overall marketing strategy and within the holistic corporate image.

The goal of this study was to determine and answer the following research questions:

- Could an ancillary revenue pricing approach be a suitable and successful pricing strategy for full service carriers?
- Is there a willingness and acceptance to pay for auxiliary services?
- Which attributes and attribute levels have a major influence on the ticket purchase-decision process, during the flight experience as well as on post-purchase behavior?
- How can ancillary revenue components be bundled in order to maximize customer utility?
- Which impact might an ancillary revenue approach have on the image of a full service network carrier?

2 THEORETICAL FRAMEWORK

2.1 Pricing Strategies in the Airline Industry

Nowadays, air transportation services are affordable to most part of our society. By taking a closer look at the development of the airline industry it becomes evident that this has not always been the case. One major factor, which contributed to the contemporary situation is the airline deregulation phase in 1978 (Peoples, 2012).

The emergence of low-cost carrier business models combined with the development of the internet as major marketing tool are especially challenging for full service network carriers. In order to cover high fixed costs such airlines have to reconsider and rebuild their pricing
strategies. Often, it is impossible to set up reasonable airfares, which are able to cover all the costs. In order to deal with their high amount of fixed costs, some full service network carriers either adapt to the LCC business models or establish low-cost carrier subsidiaries, which are inserted into distinct low-cost carrier routes or markets (Basso et al., 2008).

Carriers pricing strategies are often complicated and incomprehensible because a variety of internal and external factors are influencing the cost structure. Nevertheless, they can be categorized into some overall strategies, which are essential in order to understand pricing behaviour (Chi et al., 2009). Generally, it can be distinguished between linear and nonlinear pricing strategies. In the airline industry, linear pricing is used in connection with the term flat rates whereas nonlinear pricing reflects other strategies. Those nonlinear strategies are commonly used in highly competitive, incomplete market environments with imperfect information. In contrast to linear pricing, they reflect the concept that customers pay different ticket fares without justifications for identical or similar flights (Hernandez et al., 2012).

Airline pricing strategies can be broadly classified in traditional pricing, LCC pricing, dynamic pricing and newly emerged pricing strategies.

Traditional Airline Pricing

In traditional airline pricing, the revenue management uses several different price levels and inventory systems. Air fares are established and adapted due to capacity, market conditions and demand forecasts. In contrast to other strategies, competitive prices are not explicitly examined as it is assumed that they already influence general market conditions.

Due to the fact that price transparency has gained importance during the last 20 years, customers started to compare air fares from different providers and therefore, it has become indispensable for airlines to constantly predict and assess current as well as future market conditions. Moreover, they have to adapt their prices immediately. Global distribution systems and travel agents enabled airlines to get information about specific needs of consumers such as their ideal departure time or the preferred airline. Additionally, they allowed the modification of prices based on general business policies. (Gunther et al., 2012)

Dynamic Pricing

Although, dynamic pricing was originally perceived as low-cost carrier pricing strategy, nowadays it is often adapted by legacy carriers and appears in various forms. Yield management can be understood as dynamic pricing. Both terms represent the method of maximizing returns by defining dynamic prices which differ according to seat load factors and booking or consumption times. Moreover, the differentiation can occur due to specific market segments.
Ancillary revenues play an important role in dynamic pricing and can be subdivided into three different main strategies, namely unbundling, traditional fares with add-ons and bundling (Wittmer et al 2012, Wittmer, Rowley, 2014).

The expression unbundling is also referred to as à la carte services. A la carte simply means that customers can choose from the menu. It is a pricing mechanism which shows the description and prices of individual product and service attributes of a flight ticket (Granados et al., 2012). The pure a la carte pricing approach is mostly provided by low-cost carriers. Besides the basic flight, customers have to pay separately for almost every additional component such as checked bag or seat reservation (Tuttle, 2012).

The objective of unbundled pricing is to fight back against commoditization and sustain the position of direct distribution channels. Furthermore, customers are more flexible in choosing services that maximize the utility on the basis of their requirements. Due to the fact that GDS and online travel agencies enabled consumers to easily compare air fares, airlines’ revenues decreased continuously. As a result, many airlines started the so-called à la carte pricing in their direct distribution system in order to inform customer about different product bundles and provide the possibility of customization (Luo et al., 2007; Granados et al., 2012).

Another type of dynamic pricing are fare options, which enable travellers to choose between different service packages according to their requirements (Tuttle, 2012).

Air Canada and Air New Zealand were one of the airlines which introduced relatively early a strategy with fare options. On the one hand, they maintained the traditional product which includes the flight, hand luggage as well as on-board catering and on the other hand they started providing a defined set of add-on services (Air Canada, 2013).

The third ancillary revenue strategy is called bundling and refers to the situation where an airline provides several predefined packages for different customer groups with the option of adding specific services. This form is quite new and can be seen as further extension of fare options.

Newly Emerged Pricing Approaches

In recent time, some airlines tried to adapt their pricing strategies by implementing new forms. One such approach is the pay-by-weight pricing system – also known as pay-by-the-pound – which was firstly introduced by Samoa Air. The system is quite simple. While booking a flight ticket, passengers are requested to indicate their approximate body weight as well as the expected weight of their luggage in kilograms. Afterwards, the system calculates the overall air fare (Samoa Air, 2013).

Another approach is the so called variable pricing system which was introduced by Allegiant Air in 2011. The mechanism of this pricing system is based on the agreement that customers have to pay a final ticket price depending on the fuel cost at take-off time. Thus, travellers pay a certain ticket price at the time of reservation and might be charged additionally if fuel prices rise at time of departure. (Tuttle, 2013a)
At the current status, there is also a model, called personalised or customised pricing system. This model is only theoretically discussed but not implemented. According to this approach, passengers have to pay a flight price based on their individual travel and purpose history. Furthermore, other aspects such as the nationality or marital status would have an influence on the airfare composition. Thereby, the airfare is not anymore influenced by purchase time or choice of seat class but by personalized elements. (Tuttle, 2013b)

2.2 Consumer Decision-Making

How people behave when facing the challenge of making decisions is a widely discussed question in common literature. The theory of judgment and decision making can be found in the disciplines psychology, sociology, business management, economics, political sciences, medical sciences, engineering, and other fields (Arkes & Hammond, 1988). In the study at hand, the theory of judgment is used in the field of business management to explain the behavior of consumers; specifically, how consumers judge offerings and make buying decisions.

Judgment is "the mental or intellectual process of forming an opinion or evaluation by discerning and comparing," (Merriam-Webster, 2014) meaning the power or ability to decide on the basis of evidence (Arkes & Hammond, 1988).

Although there are studies about judgment and decision making that go all the way back to 1918 (Thorndike, 1918; Edwards, 1954; Hammond, 1955), the systematic empirical study of judgment and decision making began in the 1960ies. This was especially the case in the field of cognitive psychology concentrating on motivational research. Decision analysis focuses on a priori decomposition, meaning separating the decision process into several components before the decision is made (Arkes & Hammond, 1988). Therefore, consumers have to fulfill a multifaceted task when making buying decisions, as they are often faced with several alternatives and a large amount of product attributes which have to be evaluated (Solomon, 2013, Wittmer, Riegler, 2013). Consumer decision-making models explain the problem solving process which starts with the recognition of a need. Consequently, in order to solve the problem, the customer has to pass through several steps: information search, alternative evaluation, purchase and post-purchase evaluation (Howard & Sheth, 1969; Engel et al., 1973). The consumer has well-defined preferences and aims at maximizing utility. Thus, he or she chooses the option, which maximizes his or her received value (Bettman et al., 1998).

Consumers are confronted with difficult value trade-offs, such as price versus convenience (Bettman et al., 1991). In this case, consumers either apply a heuristic or a systematic decision process (Gigerenzer & Gaissmaier, 2011; Doyle, 1998).

The individual’s brain is not able to process all the available information and thus applies specific decision rules to evaluate product alternatives. Reisen et al. (2008) found that in the early stages of the decision making process, individuals tend to use heuristic decision making strategies. In
later stages, until the end of the process, alternatives are evaluated more carefully. During this phase consumers trade off price against other factors and finally make their purchase decision. Hence, it could be assumed that the instrumental factor price dominates systematic decisions, whereas other product attributes are prevailing factors when making heuristic choices.

During this decision-making process, consumers are influenced by a variety of factors like situational, sociocultural or psychological influences as well as by the marketing mix of different suppliers.

While developing the marketing strategy and mix, companies should be aware of this process and its influencing factors as they can take advantage of them. (Solomon, 2011)

The means-end theory is a concept based on customer behaviour knowledge which was developed by Gutman in the early nineties. The model makes it possible to connect peoples’ behaviour with consumer values in so-called means-end-chains. Means can be understood as products, objects or activities whereas ends reflect desired states of being (Gutman, 1981). The goal of this theory is not only to identify explicit consumer relations and built attitudes towards products but also to discover and analyse the implicit nature of this correlations between product attributes and personally developed values. Figure 12 illustrates this process in a simplified way (Kuss et al., 2007a).

Figure 1: Means-end process
Figure 1 illustrates the holistic means-end-process in more detail. At the beginning are product attributes such as the price or the quality. The attribute level can be subdivided into tangible attributes and intangible attributes. Attributes are linked with consequences which are divided into functional and psychological. (UXmatters, 2013) Functional consequences reflect the tangible or physical-tangible outcomes of using a certain product such as eating a meal which satisfies the hunger or using a car to get a certain distance. Psychological consequences, in contrast, stand for psychological as well as social outcomes of the product usage. Usually, they are rather internally or personally perceived and reflect how the consumption of a product makes one feel. For instance, the usage of a certain shampoo might provides a feeling of attractiveness or wearing a certain brand makes one feel stylish. Those affective qualities are often linked with expected social consequences, for example what your friends might think about you. Consumers might experience positive as well as negative consequences. It has to be noticed, that customers usually rather think about the accumulated benefits they get, by consuming a product than about product attributes in general. Therefore, the segmentation of consumer groups should highly rely on this knowledge. Consumers also consider undesirable consequences of using a product. These are perceived risks and might be divided into physical, financial, functional or psychosocial risks. During the purchase decision process, consumers are constantly weighing up the perceived benefits and risks of a product or service in order to come to a choice. Core values are at the bottom level of the hierarchy. They are split into instrumental and terminal values. In general, those values are derived from people’s life goals and encompass emotional associations with those goals. Instrumental values reflect preferred modes of behaviour such as acting as an independent person, showing responsibility or thinking logical. Terminal values, in contrast, are favourable states of being or broad psychological states such as being happy, beautiful, caring or socially recognized. (Wittmer, Riegler, 2013, McGraw-Hill, 2013)

3 RESEARCH PROCEDURE AND DATA

The aim of this paper is to investigate and analyse if an ancillary revenue pricing system can be successful strategy for full service network carriers. In order to do so, theoretical and empirical research was conducted. The theoretical part contains different pricing strategies and consumer behaviour aspects whereas during the empirical part, qualitative interviews were executed.

The interviews set the focus on five ancillary revenue options, namely the basic flight, seat reservation, free checked bag, rebooking/cancellation option and business class upgrade. The goal of the research in form of qualitative interviews was to investigate four different areas which all have an influence or are linked with the implementation of an ancillary revenue system.

Firstly, the results of the interviews should offer valuable clues about attributes as well as attribute levels which influence customers while purchasing, experiencing and post-evaluating a
flight offer. These attributes have been used in order to identify underlying consumer. They are simulators of purchase behaviour. Secondly, it was investigated what passengers expect from different airline categories such as low-cost carriers, major network airlines which include carriers such as Lufthansa or British Airways and premium airlines like Singapore Airlines or Emirates. The objective was to get insights about general perception of different airline categories and to get an understanding of the main distinctive attributes. Moreover, it was investigated what possible impact an ancillary revenue pricing system might have on the future image perception of full service network carriers.

The survey was highly linked to consumer behaviour. The means-end theory of Gutman (1981) provides an approach to measure behaviour based on final values. The laddering method, which is derived from the means-end theory, was specifically used in order to apply the theory while establishing the interview guide as well as for the final analysis. Laddering is an approach, which gives insights into the demand side and therefore enables marketers to understand the meaning of product attributes to consumers as well as their underlying consequences and values. These insights into consumer behaviour should be effectively used for further marketing activities.

The data for the analysis was collected by semi-structured one-to-one in-depth, interviews with a sample of 18 persons. In general, an interview with selected persons according to the quota sampling plan lasted about 30 to 45 minutes.

4 ANALYSIS AND RESULTS

4.1 Ticket Purchase Decision Attributes

During the interview, the participants were asked which attributes are of importance for them while purchasing a ticket during the flight experience and after the-purchase. Moreover, additional attributes were investigated during the process of the survey. The aim of this approach was to identify on the one hand, different attributes and their attribute levels which are of high importance and on the other hand, to analyse the underlying associated instrumental and terminal values with the help of hierarchical value maps. The following two paragraphs will demonstrate the findings.

Attributes & Attribute Levels

By comparing the responses of all 16 interviewees, it resulted that most participants value similar attributes although sometimes in connection with different attribute levels. Table 1 shows attributes and attribute levels which were frequently mentioned.

Table 1: Attribute levels and explanation

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Attribute levels</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>service quality</td>
<td>bad/ good/ top service</td>
<td>The service quality was mentioned relating to the general degree of good or</td>
</tr>
<tr>
<td></td>
<td>friendly staff</td>
<td>bad service in the plane, the friendliness, cooperativeness and</td>
</tr>
<tr>
<td></td>
<td>cooperative/ helpful staff</td>
<td></td>
</tr>
<tr>
<td>professional staff</td>
<td>individual care</td>
<td>customer support/ hotline contact person</td>
</tr>
<tr>
<td>--------------------</td>
<td>-----------------</td>
<td>------------------------------------------</td>
</tr>
<tr>
<td><strong>cost element</strong></td>
<td>ticket price</td>
<td>cost-performance ratio</td>
</tr>
<tr>
<td></td>
<td>cost-performance ratio</td>
<td>additional/hidden costs</td>
</tr>
<tr>
<td><strong>food &amp; beverage</strong></td>
<td>on-board catering</td>
<td>quality of food/ beverages variety of choice</td>
</tr>
<tr>
<td><strong>time element</strong></td>
<td>direct flight</td>
<td>flight schedule</td>
</tr>
<tr>
<td></td>
<td>transfers/ stopovers</td>
<td>punctuality</td>
</tr>
<tr>
<td></td>
<td>handling/ transaction time</td>
<td>no delays</td>
</tr>
<tr>
<td></td>
<td>no strikes</td>
<td></td>
</tr>
<tr>
<td><strong>holistic quality on all levels</strong></td>
<td>plane condition</td>
<td>staff education/ service food &amp; beverage comfortable equipment</td>
</tr>
<tr>
<td><strong>flight comfort</strong></td>
<td>comfortable flight</td>
<td>comfortable seat</td>
</tr>
<tr>
<td></td>
<td>legroom/ more space convenience products</td>
<td>air quality</td>
</tr>
<tr>
<td></td>
<td>climate</td>
<td>cleanliness</td>
</tr>
<tr>
<td><strong>condition of fleet/ planes</strong></td>
<td>age of planes</td>
<td>equipment maintenance design technology</td>
</tr>
<tr>
<td><strong>security &amp; safety standards</strong></td>
<td>airline brand</td>
<td>familiarity with processes condition of plane staff training safety instructions</td>
</tr>
<tr>
<td><strong>airline choice</strong></td>
<td>brand image</td>
<td>reliability confidence familiarity past experiences</td>
</tr>
<tr>
<td><strong>choice of offers</strong></td>
<td>additional services class (eco, business, first) destination choice</td>
<td></td>
</tr>
<tr>
<td><strong>entertainment system</strong></td>
<td>technology/ state-of-the art modernity choice of films/ games… multilingualism</td>
<td></td>
</tr>
<tr>
<td><strong>flexibility</strong></td>
<td>individual ticket choice</td>
<td>choice of flights rebooking option cancellation option</td>
</tr>
</tbody>
</table>
Participants stated that using a plane should transmit a special feeling of flying and therefore the servicescape like the interior design, the clothing of the staff, the processes and the overall contact should be designed in a unique way.

Due to the fact that travelling is quite stressful, the flight itself and the processes should be organised as stress-free as possible.

Some customers stated the customer involvement during the ticket constellation as well as in form of the e-ticket and the self-check-in as an important attribute.

The simple handling was mentioned concerning booking processes as well as concerning instructions or information given at the airport.

The costs for getting at the airport were mentioned in connection with the needed time and money which depends on the location and accessibility of the airport.

This attribute was mentioned in relation with the lounge access, the priority check-in and the priority luggage.

<table>
<thead>
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<th>Attribute</th>
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<tbody>
<tr>
<td>feeling of &quot;flying&quot;</td>
<td>Participants stated that using a plane should transmit a special feeling of flying and therefore the servicescape like the interior design, the clothing of the staff, the processes and the overall contact should be designed in a unique way.</td>
</tr>
<tr>
<td>stress-free travel</td>
<td>Due to the fact that travelling is quite stressful, the flight itself and the processes should be organised as stress-free as possible.</td>
</tr>
<tr>
<td>customer involvement</td>
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</tr>
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<td>simple handling</td>
<td>The simple handling was mentioned concerning booking processes as well as concerning instructions or information given at the airport.</td>
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<tr>
<td>costs for getting at airport</td>
<td>The costs for getting at the airport were mentioned in connection with the needed time and money which depends on the location and accessibility of the airport.</td>
</tr>
<tr>
<td>business offer</td>
<td>This attribute was mentioned in relation with the lounge access, the priority check-in and the priority luggage.</td>
</tr>
</tbody>
</table>

**Hierarchical Value maps**

This part identifies possible value associations between the investigated attribute and attribute levels by creating hierarchical value maps. In a first step, functional and psychological consequences were detected based on the explicitly given answers during the laddering interview. Afterwards, potential implicit instrumental and terminal values were derived from them.

Each individual being has underlying values about preferred modes of behaviour (instrumental values) and preferred modes of being (terminal values). Usually, customers associate consequences, which might be benefits or risks, with the consumption of certain products or services, which might lead or mislead to personal values. Therefore, individuals try to consume products, which embody their personal values and might serve as instruments to achieve final preferred modes of being.

Figure 2 and 3 show instrumental value maps for the service quality and the cost element. The service quality is the attribute which was mostly stated even though in context with different attribute levels and various consequences. To give an example, an excellent service leads to the functional consequence of a convenient flight and the psychological consequence of feeling being appreciated or a making good flight experience. Derived from this, it was interpreted that this consequences are linked to the instrumental values of acting respectful, polite or well-mannered which lead to the terminal value of contentedness or happiness. By referring to the professionalism of the staff it can be stated that the interviewees link this with a convenient flight and the feeling of safety which leads to the terminal value of having a secure and safe life.

All in all, the service quality has a high value for passengers as it leads to different pursued values such as friendship, taking care of loved ones social recognition, contentedness, pleasure and security.
The cost element, which is illustrated below, involves three attribute levels leading to different functional consequences such as an overpriced or cheap ticket, a consistent or inconsistent cost-performance ratio as well as to hidden costs. Those functional consequences, in turn, release psychological consequences such as the feelings of being betrayed or unfairly treated, being better off or getting what was paid for. Finally, consumers probably try to reach the terminal values self-respect, sense of accomplishment, contentedness or equality.

4.2 Expectations of Airline Categories

One part of the interview helped to identify customer expectations and perceptions of different airline categories. The categories were divided into low-cost carriers, major airlines and premium airlines. On the one hand, LCC’s include airlines such as easyJet, Ryanair or Southwest Airlines. On the other hand, major airlines were described as normal size carriers such as Swiss, Lufthansa, Air France or British Airways whereas premium airlines represent carriers like Singapore Airlines or Emirates.

Frequently mentioned attributes relating to expectations of low-cost carriers are cheap tickets, a simple transportation from one place to another, additional and hidden costs, less or no free on-
board catering, less included services (reduced to the minimum) and less or even a bad service quality. Moreover, there are some repeatedly mentioned attributes such as the low level of comfort, sufficient safety and security standards, bad customer support, old planes and outdated equipment, friendly and helpful staff, rapid booking processes and general handling, high degree of capacity utilization, less professional staff, unexpected flight cancellations, delays, badly located airports, individual package creation and different marketing activities in comparison to other airlines.

In connection with major airlines, interviewees predominantly mentioned the good service quality. Furthermore, they frequently mentioned the free on-board catering as well as included complementary services. Repeatedly named were attributes such as more comfort, friendly and helpful staff, good safety and security standards, quality on all levels, good customer support, interesting entertainment programs, modern fleet and interior equipment, reasonable price-performance ratios, punctuality, efficient processes, higher prices, professional staff, larger number of destination offered no luggage problems, good communication and the lounge access.

Finally, in a third step, the interviewees were asked what further expectations they have by comparing major airlines and premium airlines. As a result, the majority stated the exclusive and high-level service performance. Additionally, they repeatedly mentioned attributes such as high-tech entertainment programs, modern equipment and design, top quality on all levels, very friendly and attentive staff, professional & multilingual staff, individual customer care, exceptional comfort level, excellent on-board catering, state-of-the-art technology, flight as an experience/ surprise, modern fleets, nice lounges, punctuality and reliability as well as new and innovative service offers.

4.3 Possible Impacts on Future Image Perception

This section discusses possible impacts of introducing an ancillary revenue pricing system on the future image perception of full service carriers. In a first step, the respondents were asked what personal advantages and disadvantages they would expect from such a system. Not until then, they were requested to think about potential impacts and changes on the overall image perception.

Resulting from the interviews, most respondents have mixed feelings towards an ancillary pricing system. On the one hand, many interviewees emphasized the advantage of customization or individual ticket creation which is perceived as extended benefit and further, strengthens the loyalty towards the brand Swiss. They appreciate the idea of being involved in the ticket creation process and having a flight, which coincides with their specific requirements. In their opinion, this option would further improve the price performance relationship and it would result in flexibility gains as it allows more precise service choices.

In general, there was no apparent tendency concerning changes in the image perception among
the different age groups. Surprisingly, many participants in the age group of 30-50 or above 50 even featured positive or at least uncertain attitude towards such a pricing approach. A lot of them think that this system reflects a progressive idea, which might be quite conceivable in future as it is very customer-oriented.

On the other hand, several interviewees also raised their concerns about implementing this system. Most notably, people who do not travel regularly or who only infrequently book their ticket online, are afraid that the booking process might become too complex with this approach. They raised concerns that the booking could become very complicated and very time-intensive. Moreover, unexercised users feel uncertain or overstrained as they worry about forgetting certain add-ons or other important issues. As a result, some participant stated that they prefer the status quo.

Another major issue, which is perceived as critical by the interviewees, is the deformation of the competitive behaviour. Due to the fact that ancillary revenues were originally perceived as a LCC pricing strategy, this approach bears the risk of a change in the image perception. Several respondents demurred that the airline might undergo a shift into the low-cost airline category and be in direct price wars with them. Although, the implied consequences are not evident, many passengers doubt whether there might be losses in the current quality and service standard. The consequence might even be that Swiss customers act on this assumption and therefore perceive a quality and service loss, although it actually remains the same.

However, this topic is highly controversial and the majority of passengers advanced the opinion that the image perception highly depends on the way the change is communicated. As soon as customers feel of paying extra for every additional service, which until now was included in the offer, they feel certain kind of negative psychological consequence preventing them from achieving their personal values.

5 SUMMARY AND CONCLUSIONS

The knowledge about crucial attributes which are influencing consumers while booking, experiencing and post-evaluating the purchase of a flight ticket provide a useful background in order to better understand customer behaviour in the flight ticket purchase process. By interpreting underlying preferred modes of behaviour (instrumental values) as well as end states of being (terminal values) it was identified that the various values such as secure and safe life or taking care of others are pursued by most passengers. By understanding which attributes are of high customer value and having an idea about their possible sources, airlines can actively improve them on the specific attribute levels.

Further, the analysis of expectations and perceptions of different airline categories can be effectively used for the airline positioning. When implementing a new pricing strategy such as the ancillary revenue approach, it should be paid attention not to make a shift towards the expectations of low-cost airlines.

Based on the literary and empirical findings, the suitable response would rather be that the
The success of this pricing system lies on its implementation and communication form.

A possible option is if passengers can choose a flight package which involves different services and have the possibility of deselecting ancillary services which they do not need. By providing such an offer, passengers who prefer purchasing a completed package, by reason that they do not want to spend too much time or are overextended by the booking process, can buy their flight ticket as they are used. In contrast, passengers who like to customize their package can select flight attributes, which help them reaching their underlying values. A further positive consequence of this system is, that at the beginning of the booking process an overall airfare is indicated to the customers and they get price discounts by deselecting services. Thus, they do not have the feeling of paying in addition for every service but rather that they get a better price if they take time and adapt the ticket to their individual needs.

To sum up, it can be concluded that an ancillary revenue system bears risks as well as opportunities. The importance lies in the fact, that full service airlines should be aware about how they want to differentiate from low-cost carriers and that they clearly distinguish themselves by establishing a unique selling proposition which does not only focus the financial aspects but rather emphasizes and highlights other benefits.

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