

LOW-COST AIRLINES MANAGEMENT MODEL AND CUSTOMER SATISFACTION

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Abstract

The airline industry has always been famous for its continuous challenges: cutting costs, managing fluctuating demand, keeping up with tight quality requirements while trying to maintain superior services and satisfy the needs of various customer groups. Customer satisfaction has been at very low levels for decades according to American Customer Satisfaction Index, the airline industry scores has been the lowest out of 47 other industries. In this struggling environment, airlines are forced to shift their focus towards customer service. The objective of this paper is to review airlines management models and customer satisfaction. The paper presents strategies adopted by Low Cost Carriers (LCC), which results in competition. The study involves a secondary analysis of Data drawn from the U.S. Department of Transportation monthly Air Travel Consumer Report. The results show that airlines are doing slightly better since 2012 on the four basic performance measure variables used to evaluate customer satisfaction; mishandled baggage, passengers denied boarding, customer complaints and on-time performance. The results can be used by airlines to improve their performance.

Keywords: Low-cost-airline, management model, customer satisfaction, aviation

INTRODUCTION

In 1903, the Wright brothers completed their first successful flight in Kitty Hawk, North Carolina (Boyd, 2008). Although it was considered a extra-ordinary invention, the airplane was not immediately embraced by the public as a means of transportation. Many people thought that the airplane was far too dangerous for commercial purposes. Then in 1927, Charles Lindbergh completed a solo flight across the Atlantic Ocean and public interest in the aviation industry peaked (Boyd, 2008). Soon after Lindbergh's flight, a group of air transport holding companies

formed the Aviation Corporation that included a commercial passenger division called American Airways (later known as American Airlines). Next in 1928, Boeing created its own air transport division called United Aircraft and Transportation Corporation. Then in 1931, United Aircraft followed Boeing and merged four of its air transport divisions to become United Airlines (Boyd, 2008). From this point in time, the U.S. airline industry began to expand exponentially. One huge factor in the industry's continued expansion was the turn to air delivery for mail. Wolfram (2004) stated that "The Kelly Airmail Act of 1925 provided private airlines the opportunity to function as mail carriers through involvement in a competitive bidding system" (2008). The major airline corporations used the new mail delivery system to create a new market and increase profits. The airlines then used the airmail success to expand the businesses into carrying passengers.

In 1978, the FAA assisted in getting the Airline Deregulation Act passed (Boyd, 2008). This act relinquished some of the government controls in the industry. It allowed airlines more freedom and the opportunity to privatize. Privatization in the industry leads to greater freedom for the firms, such as differing business models and operating strategies. One of the more sustainable and successful business models created by the privatization is the Low-Cost-Carrier model made popular by Southwest Airlines. The main idea behind airline deregulation was that competition among airlines would replace government regulation in determining fare and service offerings. A deregulation act proposed a gradual relaxation of the regulation of the industry, with fare and route authority to be phased out over a four-year period. The major provisions of the Airline Deregulation Act (Bailey et al., 1985) were i) To establish the freedom of any carrier fulfilling safety requirements to enter markets and for any carrier to exit a market; ii) To establish the freedom to compete on the basis of price, by abolishing any price regulation iii) To provide for a ten-year Essential Air Service Program to ensure air service to small communities, with local service subsidies to be phased out within six years.

The impact of deregulation became evident in several areas: Removing regulatory price controls was followed by lower average prices, a substantial increase in price variation, and efforts to soften price competition through differentiation and increases in brand loyalty. Lifting entry restrictions altered market structure at the industry, airport and route levels, and led to re-organization of incumbent airline networks. The industry also developed new organizational forms, including code-sharing and alliances across airlines, particularly in the aftermath of tighter merger policy. Shifting from non-price to price competition reduced many aspects of service quality, although the quality declines of most concern to customers are most likely attributable not to deregulation but to government infrastructure policy. While some of these impacts were anticipated during the debate over deregulation, others were quite unexpected

(Kahn, 1988). Today, competition in the airline industry is intensifying as low-cost carriers continue to gain market share. Airlines are turning their attention back toward the customer after years of focusing on cost reduction. Customer relationship management continues to plague the airline industry and has become a competitive differentiator. The ability of airlines to sustain long-term revenue growth and achieve profitability hinges on moving beyond traditional cost reduction strategies to implementing comprehensive and integrated customer satisfaction management solutions that support the entire customer travel lifecycle.

The Low-Cost Airline Management Model

The first efforts to deregulate the airline industry occurred in domestic markets, such as the Airline Deregulation Act of 1978 in the US, the National Transportation Act of 1987 in Canada, the Airline Agreement Termination Act of 1990 in Australia (Williams, 1994) and efforts in Europe by the European Community. Deregulation brought with it a change in the general pattern of domestic civil aviation in the United States by the development of the hub and spoke route systems. Normally, flying will include a stop at a hub between departure and destination. Airline deregulation also resulted in removing entry and price restrictions on airlines affecting, in particular, the carriers permitted to serve specific routes. Deregulation brought substantial effects on the structure of airlines in the USA, Canada and Europe. Low-cost-carriers (LCCs) have grown at the expense of "traditional national airlines". Airline deregulation has provided and continues to provide enormous benefits to the average traveler.

Deregulation has allowed the company already installed in entering new routes, as well as for the entry of new firms in market to make profit in a competitive environment. As a byproduct of the deregulation process, emerged the low cost airlines model, which induced a new competitive dynamic in the economy. Pioneered by Pacific South West and copied in 1973 by Southwest, even before the liberalization of 1978, low cost airlines have become a great success. Southwest Airlines in US was introduced as the leading exponent to this business model that showed best extent of competition fostered and ultimately pioneered this concept. The competition began to grow immediately after deregulation and the importance of new entrants declined. A low-cost carrier or low-cost airline also known as a no-frills, discount or budget carrier or airline, is an airline that offers generally low fares in exchange for eliminating many traditional onboard passenger services. Budget airlines minimize expenses by eliminating on-board passenger services traditionally associated with regular airlines. Most low-cost carriers (LCCs) share many characteristics (Routledge, 2006) as seen in table 1.

Doganis (2001) proposed a new paradigm of competition for the LCC model based on a lean operating structure as seen in table 1. Through this model, according to Boguslaski, Ito &

Lee (2004), Southwest was able to obtain unit costs lower than legacy airlines by around 28% to 50%, and in consequence also can charge lower fares. From the entry of Southwest in the market, very low fares were practiced and true price wars were common. Morrison (1995) examines the average load factor as a function of distance for the period 1978-1993 and found that under the regulatory period tariffs were raised below cost for short routes and above the cost for long routes. The Impacts of deregulation hence are collectively summarized as; steadily declining prices of air travel, improved safety, overall quality of service has improved, unfettered free competition ushered, proliferation of smaller airlines, allocation of flights and more service options with more choices. New smaller airlines and millions of passengers flying gained the most. Most of the major carriers have suffered the negative consequences of deregulation, as LCCs captured a high percentage of the markets. Porter (1980) describes the Generic Strategies for competition can be boiled down to fit in following three categories, or a combination of the following three; low-cost strategy, niche strategy and differentiation strategy .

A strategy under which a firm offers a relative low price to stimulate demand and gain market share is Low Cost Strategy. It is usually employed where the product has few or no competitive advantage or where economies of scale are achievable with higher production volume. Moreover, LCCs contribute to lower fares on the routes they operate (Dresner et al. 1995; Morrison 2001; Hofer et al. 2008) and led to higher traffic volumes. Some studies on the entry patterns of LCCs indicate that they prefer to operate on high density routes, particularly in the early years of operation (Bogulaski et al. 2004). When buyers are cost sensitive, the airline that takes a low-cost leadership posture will have a very strong competitive position in the market. The goal of a low-cost leader is to contain the costs lowest relative to the industry rivals, and in essence, to create a sustainable cost advantage over the competitors. In order for cost advantage to be effective and sustainable, the company has to gain the cost advantage in a manner that is very typical for the rivals to copy. The generic business model that LCC's have adopted is low-cost leadership. This has led price sensitive consumers switching from legacy carriers to low-cost carriers; leading to a rise in overall new consumers.

The low-cost Airline Management Model or discount carrier strategy, in which low fares are coupled with reduced amenities and minimal administrative overhead, tends to be most compatible with short haul routes. There are differences in the management model of the full service airline and the low-cost airline. Full service carriers do not necessarily reduce their fares when another full service carrier competes on the same route. Due to the phenomenon known in the industry as the "golden rule," airlines are reluctant to begin price wars, even on routes where they have a competitive advantage; for fear that the competitor will retaliate by instigating price wars on routes where the competitor has the advantage (Evans & Kessides, 1994). Also,

the industry's yield management approach constitutes an effective system of price discrimination in which carriers distinguish between discretionary customers, who pay a relatively low fare if they buy in advance, and nondiscretionary customers who pay very high fares for last-minute purchases. When Southwest Airlines enters a market, competing airlines drop their fares dramatically, a phenomenon that does not occur if a full service carrier competes against another full service carrier (Anderson, Gong, & Lakshmanan, 2005; Bennett & Craun, 1993; Morrison, 2001; Windle & Dresner, 1995). ValuJet (now AirTran), another US discount carrier, has a similar impact (Windle & Dresner, 1999). A pattern similar to the Southwest effect has been identified in the Canadian domestic market. WestJet, a low cost carrier, caused full service carriers to reduce their fares when entering a market. On the other hand, full service carriers did not lower their fares in response to the entrance of charter-type low cost carriers (Mentzer, 2000).

Low Cost Carriers in Europe

Research institutions as well as scientific magazines show their interest in LCC in Europe by providing a large number of studies and articles about the operating features and future perspectives of low cost airlines. In Continental-Europe, low cost air travel became very popular recently with a huge number of start-ups in 2002. Important steps towards the liberalization of aviation regulation were the 'US Airline Deregulation Act', 1978 and the EU's third package which came into force 1993. Key features of the third packages which was finally implemented in April 1997 (Chang & Williams, 2002), are no more restrictions for founding companies and the airlines were free to establish new routes and free pricing. The most expected issue of liberalization is the (price) competition between airlines, in which consumers gained the greatest advantages. According to Doganis, "airlines from member states can operate with full traffic rights on any route within the EU and without capacity restriction even on routes outside their country" (Doganis, 2001, p. 39). A free market in the European Union does not necessarily mean an open market outside the EU. Referring to Chang & Williams, airlines cannot usually acquire or merge with carriers from other countries, but are constrained by the ownership rules contained in bilateral Air Services Agreements. In order to overcome this commercial disadvantage, carriers have developed various forms of collaboration, including code sharing, franchising, and strategic alliances (Chang & Williams, 2002).

In Europe, the development of low-cost carriers is a significant factor in the evolution of airline networks, competition, and demand trend. The LCC concept became established in Europe in 1995 with the adoption of that model by Ryanair (Decker, 2004). The presences of LCCs continue to be significant today. All the signs are that it will increase and will not be

restricted to the leisure sector, since even businessmen are targeted (Mason,2001). According to the European Cockpit Association (ECA, 2002), in 2000, the European LCCs have transported 20.7 million passengers (8.6% of the market), and these figures have continued to strongly increase since then. The two main airlines Ryanair and EasyJet have indeed reached a European scope, exceeding that of small- or medium-sized full service network carriers (FSNC): in 2004, they have transported 26.4 and 24.3 million passengers, respectively, while in 2010 it was 72.7 million and 49.7million respectively (ELFAA). Low cost carriers have reshaped the competitive environment within liberalized markets and have made significant impacts in the world's domestic passenger markets, which had previously been largely controlled by full service network carriers. In Europe during 2010, 14% of available seat miles were provided by low cost airlines, with the two largest carriers EasyJet and Ryanair accounting for nearly 9%.

These carriers have pursued simplicity, efficiency, productivity and high utilization of assets to offer low fares. Franke (2004) and Tretheway (2004) discuss the competition between traditional airlines and LCCs, and so does Morrison (2004), who also looked into the role of the authorities controlling the competition. Gillen and Lall (2004), Francis et al. (2003) and Barrett (2004) analyze the relations between LCCs and airports, while Williams (2001) dealt with competition between charter carriers and “no-frills” airlines. The low-cost carriers answer directly to these elements by offering lower prices. In Western Europe, they also benefited directly from the third package of liberalization (Gillen & Lall, 2004).

Customer Satisfaction

The airline customer experience is such a hot topic because it's important, complex, and very broken. Airlines must put the customer experience back in focus with excellence. From the beginning of the “customer service revolution” decades ago, a body of business research has focused on customer satisfaction and customer-focused organizations (Zemke & Schaaf, 1989). Business consultants, corporations and others have worked to identify the characteristics of organizations that consistently please their customers, to develop tools for monitoring customer satisfaction, and to build continuous, quality improvement systems that respond to consumer feedback.

Although much of the research has been conducted by and for the corporate world, customer service and satisfaction is not limited to the private sector. Service quality research identifies many characteristics that are associated with service quality. Schneider and Bowen(1995) assert that “service organizations must meet three key customer needs to deliver service excellence:” security, esteem, and justice. Research identifies an array of service quality factors that are important for customers, including: timeliness and convenience, personal

attention, reliability and dependability, employee competence and professionalism, empathy, responsiveness, assurance, availability, and tangibles such as physical facilities and equipment and the appearance of the personnel.

Customer satisfaction is a core marketing construct, and it comprises two key antecedents: perceived service quality (Sivadas & Baker Prewitt, 2000; Zins, 2001) and perceived value (Mc Dougall & Levesque, 2000; Patterson & Spreng, 1997). Value is a central concept in consumer behavior literature based on the fact that shortcomings in service perceptions may be compensated by reductions in “sacrifices” (e.g. through price paid), so that customers may still be satisfied (Patterson & Spreng, 1997). In addition, research evidence support the fact that service quality influences the behavioral intentions of customers or has an indirect influence on such intentions, mediated through customer satisfaction (Zeithaml et al., 1996; Cronin et al., 2000). The relationship between service and satisfaction has received considerable interest among scholars. In the Transportation and Logistics field, Dresner & Xu (1995) examined the link between customer service and customer satisfaction using data from the airline industry. They found that three measures of customer service were common; mishandled baggage, ticket over-sales i.e. passengers denied boarding, and on-time performance. These were all positively related to customer complaints which affected overall passengers’ customer satisfaction.

In particular, reducing mishandled baggage and ticket over-sales leading to fewer bumped passengers and increasing on-time flight performance, all contributed to fewer customer complaints recorded by the U.S. Department of Transportation. Park et al. (2004), using data on the Korean airline industry, found a similar relationship between airline service quality and customer satisfaction. Comparable results have also been found in other industries. For example, using subjective data from the retail industry, Babakus et al. (2004) found that perceived service quality leads to customer satisfaction. A similar finding was made by Yee et al. (2008 and 2010) using a survey of 206 service shops based in Hong Kong. Most of the empirical work in the Transportation and Logistics field has assumed a linear relationship between customer service and customer satisfaction (Sim et al. 2010; Yee et al. 2008 and 2010; Homburg et al. 2005; Nagar & Rajan 2005; Behn & Riley 1999). However, the relationship is likely to be nonlinear due to diminishing marginal returns to customer service. It stands to reason that increasing customer service leads to higher satisfaction, but that diminishing marginal returns eventually sets in. This nonlinear view has been supported in a number of studies (Anderson & Mittal 2000; Matzler et al. 2004; and more recently, Slevitch & Oh 2010 and Finn 2012).

Although a few studies have found no significant relationship (Arthur Andersen , 1994), or even a negative relationship between customer satisfaction and financial performance (Ittner & Larcker 1998), the preponderance of the literature suggests that higher customer satisfaction contributes to higher performance; for example through lower marketing costs or due to lower price elasticity of demand. Along these lines, in their study of the Swedish market, Anderson et al. (1994), using 1989 to 1990 company-level market share data, suggest that the provision of high customer satisfaction positively impacts future financial returns. Customer satisfaction can improve profitability because it influences the repurchase behavior of customers (Stank et al. 1999; Verhoef 2003). Thus, customer satisfaction leads to customer loyalty, which in turn contributes to the profitability of a firm (Anderson et al. 1994; Mittal & Kamakura 2001). In addition, satisfied customers may be willing to pay premium prices for products, thus also contributing to increased profitability (Homburg et al. 2005).

When consumers are not satisfied with service due to the low quality or other factors, consumers are likely to change their behavior towards that brand. Customers have the right to file a complaint after receiving poor service from an airline with the department of transportation. However, switching to another brand can result from negative word-of-mouth (Dube & Maute 1996). In the study by Yee et al. (2010), they found that employee loyalty affected the quality of service and service quality affects customer satisfaction. Customer satisfaction impacts customer loyalty resulting in profits of the business. The quality of service is important to contribute significantly to customer satisfaction and customer loyalty.

Perhaps the most relevant literature to this study is Dresner & Xu (1995) and Behn & Riley Jr. (1999). Dresner & Xu (1995), in addition to examining the impact of customer service on customer satisfaction as noted above, also looked at the impact of satisfaction on profitability in the airline industry. Their finding suggests that increased satisfaction contributes to higher profits, even after controlling for the additional costs involved in providing that higher level of satisfaction. Supplementing Dresner & Xu (1995), Behn & Riley Jr. (1999), incorporate a number of operating measures into their model in order to determine how nonfinancial airline information, including customer satisfaction, relates to financial performance. Using an instrumental variables approach, similar to Dresner & Xu (1995), they find a positive link between customer satisfaction and operating income. Furthermore, in two airline industry studies, Yee et al. (2008 and 2010) also found a significant positive relationship between customer satisfaction and the airlines financial performance.

Table 1. Differences between Low Cost Carriers and Full Service Carriers

Characteristic	Low cost carriers	Full service carriers
Brand	One brand: low price	Extended brand: price/service
Price	Simple pricing structure	Complex pricing structure
Distribution	Internet, direct booking	Internet, direct, travel agent
Checking in	Kiosk, e-tickets	Kiosk, Paper tickets, e-tickets
Network	Point-to-point	Hub-and-spoke
Classes	One class	Multiple classes
During flight	No frills	Frills (free food & beverages)
Aircraft usage (load factor)	Very intensive	Average – intensive
Aircraft type	One type	Multiple types
Turnaround times	30 minutes or less	Slow: congestion/complexity
Customer service	Generally underperforms	Full service, offers reliability
Airport	Secondary	Primary
Operational activities	Focus on core – flying	Flying, cargo
Target group	Leisure, price and time sensitive travelers	Business and leisure travelers
Services	No frequent flyer program or passenger lounge	Frequent flyer program and passenger lounge

Source: Adapted from Holloway (2008) and O'Connell & Williams (2005)

RESEARCH METHODOLOGY

This study involves a secondary analysis of Data drawn from the U.S. Department of Transportation monthly Air Travel Consumer Report. The requirement is based on the criteria that an airline handled at least 1% or more of the total domestic scheduled-service passenger revenues for the year. The variables used to evaluate customer satisfaction were; mishandled baggage, ticket over-sales i.e. passengers denied boarding, customer complaints and on-time performance. This study track comparative quality for domestic airline operations for January to June each year for seven years 2006 – 2012. Any airline passenger can file complaints with DOT in writing, by telephone, or in person. Complaint categories included flight problems, overbooking-passenger denied boarding, reservations/ticketing/boarding, fares, refunds, baggage, smoking, advertising, credit, tours, and other. Several factors led to a surge of complaints against airlines during 2006 – 2012, lost baggage and airlines full with passengers were stuck on the tarmac for more than six hours without proper care, given widespread publicity, which in turn led to increased consumer awareness concerning airline quality and the means to file complaints. Statistical mean and standard deviation are used in the analysis.

RESULTS AND DISCUSSION

Table 2. Mean and Standard Deviation of airline service scores January to June 2006 to 2012

Airlines	% of Flights On-time		Passengers Denied Boarding		Passengers Complaints		Mishandled Baggage	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD
Hawaiian Airlines	93.5	0.4	0.10	0.07	0.85	0.18	2.32	0.54
Alaska Airlines	88.3	2.9	1.20	0.64	0.50	0.07	3.21	0.58
Mesa Airlines	80.2	5.3	2.16	0.46	0.52	0.15	4.60	0.55
US Airways	80.2	5.9	1.43	0.68	1.69	0.18	2.69	0.46
Airtran Airways	80.2	4.4	0.55	0.26	0.87	0.33	1.60	0.12
Delta Airlines	77.6	6.3	0.71	0.62	1.53	0.63	3.50	1.31
Skywest Airlines	79.7	2.2	1.22	0.62	0.70	0.19	5.13	0.76
American Eagle	74.7	5.8	3.13	1.47	1.05	0.43	7.40	1.29
Southwest Airlines	79.2	1.1	1.2	0.44	0.26	0.07	3.41	0.40
American Airlines	75	4.6	0.84	0.27	1.36	0.22	3.87	0.78
Jetblue Airways	75.9	4.4	0.01	0.00	1.04	0.27	2.28	0.35
ExpressJet Airlines	75	5.4	1.82	0.73	0.75	0.29	5.12	0.96
Frontier Airlines	74.2	4.3	1.60	0.90	0.90	0.26	2.43	0.28
United Airlines	74.2	4.0	1.49	0.35	2.25	1.04	3.85	0.23

To measure customer service, we use annual data on consumer complaints filed with DOT for the period 2006–2012 for the following reasons: In services, every interaction between a consumer and a service provider is a “moment of truth.” Consumers compare ex ante expectations about the service to be provided with ex post perceptions concerning the service delivered. Consumer (dis)satisfaction is a function of the difference between expected and perceived service. The more perceived service exceeds expected service, the higher consumer satisfaction will be. Conversely, the more perceived service falls short of expected service, the higher consumer dissatisfaction will be. Service quality is typically defined in terms of consumer (dis)satisfaction. Hence, service quality is inherently subjective in nature. Consumer (dis)satisfaction, in turn, drives repeat purchases (Fitzsimmons & Fitzsimmons 2001; Metters,

King-Metters, & Pullman 2003; Heskett, Sasser, & Schlesinger 1997; Zeithaml, Parasuraman, & Berry 1990).

In the seven years, the US airline industry improved in two major categories: on-time performance, baggage handling, with a slight increase in involuntary denied boarding, and customer complaints, according to the data provided by the DOT performance analysis of the top 14 carriers of U.S. airlines that are required to report performance by virtue of having at least 1% of domestic scheduled-service. The data, which are drawn from the US Department of Transportation's monthly Air Travel Consumer Report, show airlines are doing slightly better since 2012 on the four basic performance measures.

- The rate of on-time arrivals increased to 82.1 percent in 2012 from 72.4 percent in 2006 with a mean score of 79.1 percent overall for all 14 airlines. The top three performing airlines in this category from 2006 to 2012 were Hawaiian Airlines (M=93.5), Alaska Airlines (M=88.3) and Mesa Airlines and Airtran Airways (M=80.2), see Table 2.
- The rate of mishandled bags decreased to 3.20 per 1,000 in 2012 from 6.25 in 2006 with a mean score of 3.67 per 1,000 overall for all 14 airlines. The top three performing airlines in this category from 2006 to 2012 were, Airtran Airways (M=1.60), JetBlue Airways (M=2.28) and Hawaiian Airways (M=2.32).
- Denied boardings decline slightly to 1.07 per 10,000 passengers in 2012 from 1.02 in 2006 with a mean score of 1.25 per 10,000 overall for all 14 airlines. The top three performing airlines in this category from 2006 to 2012 were JetBlue Airways (M=0.01) and Hawaiian Airways (M=0.10) and Airtran Airways (M=0.55)
- Customer complaints increased to 1.04 per 10,000 passengers 2012 from 0.81 during 2006 with an overall mean score of 1.02. The top three performing airlines in this category from 2006 to 2012 were Southwest Airlines (M=0.26), Alaska Airlines (M=0.50) and Mesa Airlines (M=0.52).

Overall, all four elements got noticeably better from 2006 to 2012 but the biggest improvement were in on time performance and mishandled baggage. For the last couple of years low-cost carriers AirTran Airways, Southwest and JetBlue topped the list of airlines in the four different categories while the regional carrier American Eagle performed worst of the airlines rated in the study. Over the period under study, involuntary denied boarding as a result of overbooking (bumping) for the 14 major airlines in our study combined declined slightly meaning more people were denied boarding and complaints increased over the same period. Both on-time arrival and mishandled baggage had significant reduction during the period under study meaning improvements in these areas. So, service improvements in on-time arrival and

mishandled baggage are mirrored by reductions in complaints. Furthermore, Januszewski (2003) shows with DOT quality data that the more actual performance falls short of expected performance, the more consumers file complaints with DOT. Companies with exemplary customer service understand that delivering a superior experience for consumers drives loyalty and improves top and bottom line results. There is no secret sauce, but there are some commonalities. Customer service standouts tend to have extensive employee training and talent management programs. They also tend to treat workers well by giving them incentives, robust career development paths and other benefits. Whereas cost per available seat mile is a good cost measure encompassing all operating expenses, the rate of consumer complaints only measures consumer dissatisfaction. The rate of consumer complaints is the only available measure that captures all facets of airline customer service, yet the most common consumer response after a service encounter is to do nothing (Oliver 1997).

CONCLUSION

Despite the decreasing trend in the overall airline industry customer service, low cost airlines succeed in increasing their turnover, profit and number of passengers. While tragic events like September 11th, the war in Iraq or the world wide recession had dramatic impacts on the air transport industry, low cost carriers seem to be immune against these environmental changes. Southwest was the pioneer of the Low Cost Carrier in which they challenged the full service airlines business model and did it so well that they can claim 39 years of consecutive profitability with the highest scores of passenger and employee satisfaction. Their secret is in their business model, a point-to-point single fleet operator, cost focused and 'people' friendly with a market-leader mentality of using social media, clever marketing and a simple user-experience approach to on-line bookings. Their brand respect for customers and employees shows, and their product/service 'offer' is clear – lower costs than rivals means fare competitiveness, and capacity planning means marketing is deployed effectively to 'fill planes' and generate increased revenues. JetBlue is a similar airline that has had some success with the LCC model.

The transformation of the concept of a Frequent Flyer program into a social media loyalty program was pioneered by JetBlue who now have over 1.67million followers on Twitter. Their 'Go Places' Facebook initiative was linked to their "TrueBlue" points/discount scheme creating a unique and 'real time/location based' approach to both customer loyalty and engagement. This is an example of where and how the LCC approach being customer and value centric using technology is beginning to merge with what were the traditional full service mentality frequent flyers and loyalty programs. In Europe, Easy Jet and Ryanair have led the path of success for LCCs. EasyJet has made more effort to attract business travelers with fare

flexibility, and with allocated seating. Their 'Europe by EasyJet' campaign and 'where are you going?' communications highlights EasyJet's changing 'face' to being a pan-European network operator with several 'bases' across Europe. In Asia the same is happening, JetStar, Tiger and Air Asia have been similarly driving passenger volumes as they compete and in some cases are owned by the full service network carriers.

Hayes & Pisano (1996) and Clark (1996) raised some fundamental and thought-provoking questions regarding performance improvement paths. They provide an early identification of the concept of performance improvement paths and identify these as an important area requiring empirical research in operations management. The key question: Should improvement be attempted on one dimension at a time (e.g., quality or cost or speed), or should a company attempt to improve on multiple dimensions simultaneously? Our analysis of the airline industry provides some preliminary answers to this question, as well as directions for future research. All US airlines that are required to report performance by virtue of having at least 1% of domestic scheduled-service must pay attention and commit resources to improving these measures used by the DOT. The airline paths confirm one aspect of the sand cone model (Ferdows & De Meyer 1990): lasting quality improvements clearly precede lasting cost improvements. The sand cone sequence is quality at the base, followed by dependability, speed, and finally cost efficiency. There are no airline measures available to effectively measure dependability and speed. DOT collects data on mishandled baggage and on-time performance. While both mishandled baggage and on-time performance measure dependability to some degree, both also capture conformance quality. For those firms, there are lower cost ways to enhance service such as focusing on hiring and staffing policies around customer service; improving the execution of a social media strategy, and adopting human resource policies to make sure employees are satisfied in their jobs and convey that satisfaction to customers.

Consider the plight of the airline industry. Customers are accustomed to paying what is, at face value, a relatively inexpensive fare for a flight. But airlines have not been able to maintain the same level of service for those fares. To compensate, they have added new fees for checked baggage and on-board meals. Many have also replaced human customer service associates with computer-automated call centers. This trend began before the recession, but the prolonged slump has exacerbated it. The airlines saw their best overall industry performance in two decades with regards to mishandled bags and on-time service, see table 2. The low cost airline management model appear to have some effect on performance, JetBlue, AirTran and Southwest led the overall customer service ranking, and JetBlue allows one checked bag for free while Southwest allows passengers two checked bags at no charge. Management of traditional airlines that use a differentiation strategy as opposed to cost

leadership by low cost carriers should therefore develop an effective quality framework. They need to be innovative in this regard as the presence of low cost carriers precludes charging a price premium for enhanced service quality. Customer experience is a core element of what the service industry is all about. Most organizations celebrate when individuals or groups outperform their key metrics for sales growth or profitability. To change the culture, the entire airline industry needs to make customer experience just as important.

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