



Consumer behaviour and Market segmentation

Dr Keith Mason FRAeS

Istanbul Technical University
Air Transportation Management, M.Sc. Program
Airline Marketing
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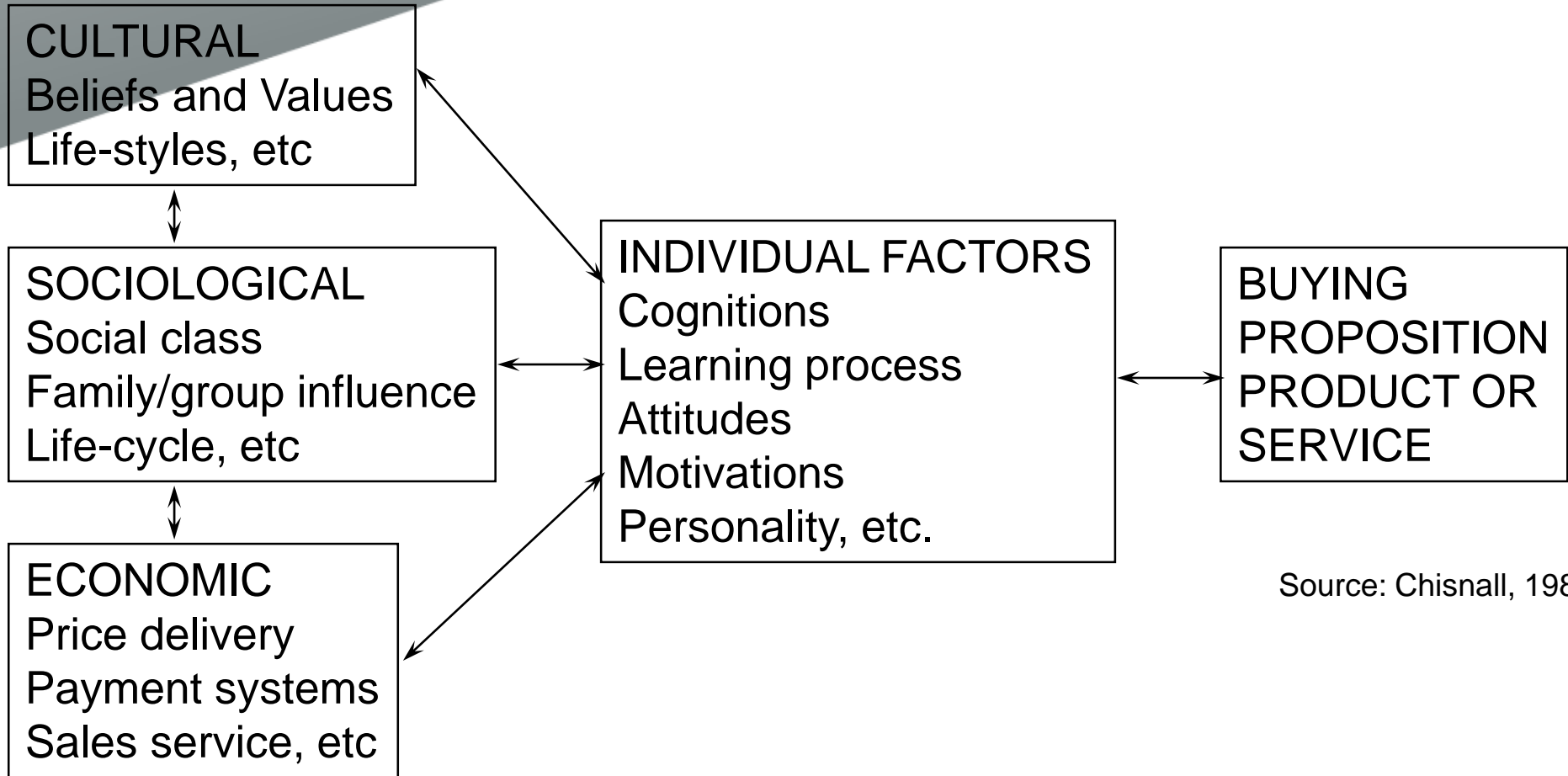


Customer/Consumer Behaviour

- Definition of consumer behaviour
- Models of customer / consumer behaviour
- Factors affecting purchase decisions
- The decision making process
- Models of airline customer / consumer behaviour

- A field of marketing literature that draws from behavioural sciences
 - Social psychology, sociology, anthropology
- Marketing management is the identifying, anticipating and supplying of consumer requirements as a means to meet organisational goals
- Consumer Behaviour is the act of individuals in obtaining and using goods and services, including the decision processes that precede and determine these acts.
 - It is therefore essential to study consumer activity to enable the the marketing function
 - What product? What price? What method of promotion? Which distribution channels?

A first model of buyer behaviour



Source: Chisnall, 1986

Criticism of the first model

- Difficult to assess the various impact of items on the buyer proposition
- All of the variables are interrelated
 - No specification of **how** the variables relate to one another
- Considers only one product
 - individuals generally choose between alternatives
- Does not provide a method from which we can interpret and thereby manipulate buyer behaviour

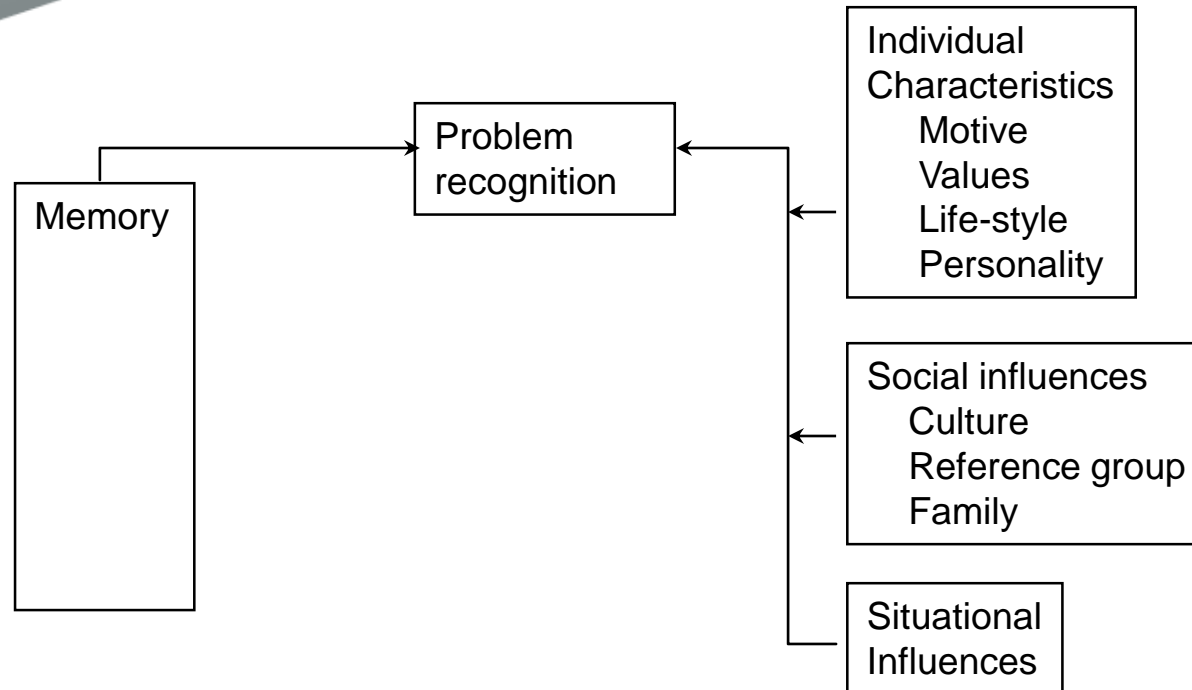
Factors affecting a purchase decision

- Age and life cycle
 - Single, DINKY, married with children, divorced/separated with children, empty nesters - grey consumers
- Social class
- Occupation
- Income
- Marketing mix variables
- Perceived quality of service
- Characteristics of journey
- Previous experience

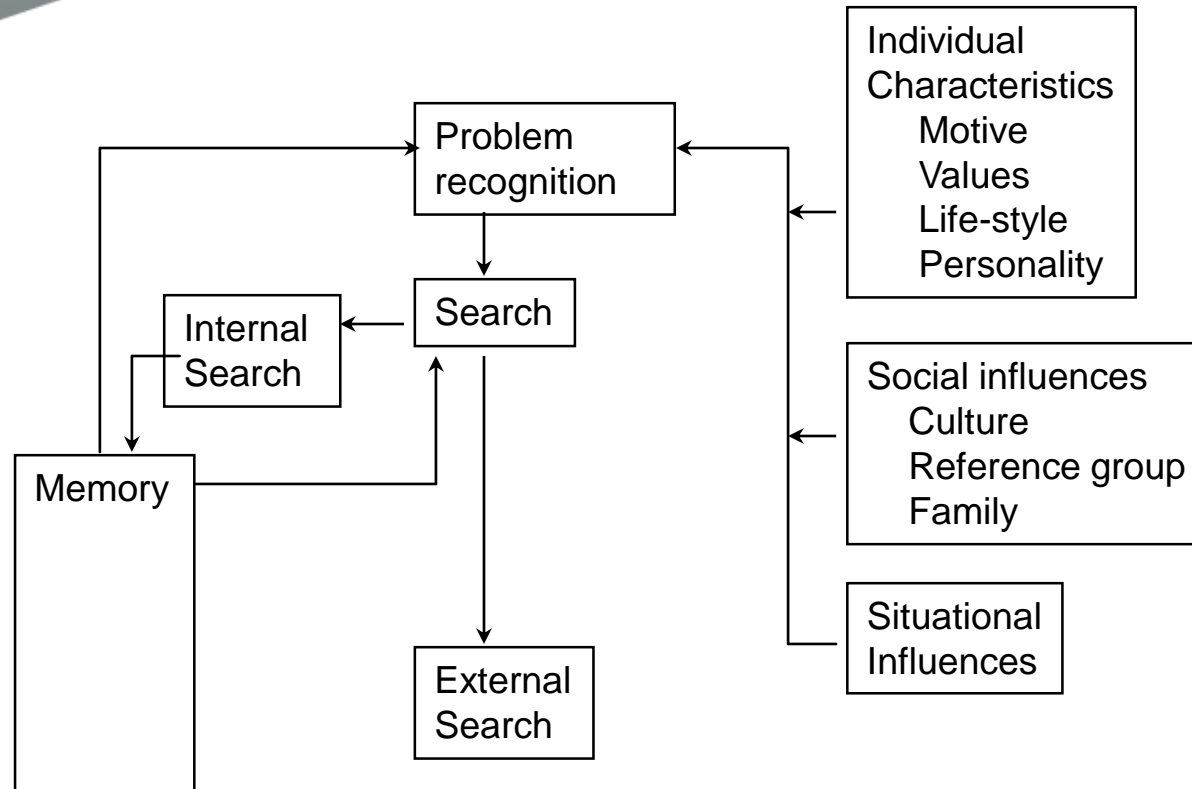
Parties involved in the purchase

- **Consumers - Passengers who use the service**
 - Business traveller, Family unit, Family members, Spouse
- **Infuencers - have impact in the decision process**
 - Business colleagues, Corporate travel manager, Children, Spouse
- **Deciders - Make the decision**
 - Passenger, Secretary, Travel agent, Spouse
- **Approvers - Authorise the final decision**
 - Financial Director, Corporate Travel Manager, Spouse
- **Customers - Make the payment**
 - Accounts Department / Organisation, rarely the Spouse
- **How are conflicts resolved?**
 - Marketing focus is invariably on **consumers**
 - Focus perhaps should concentrate on the decider or customer

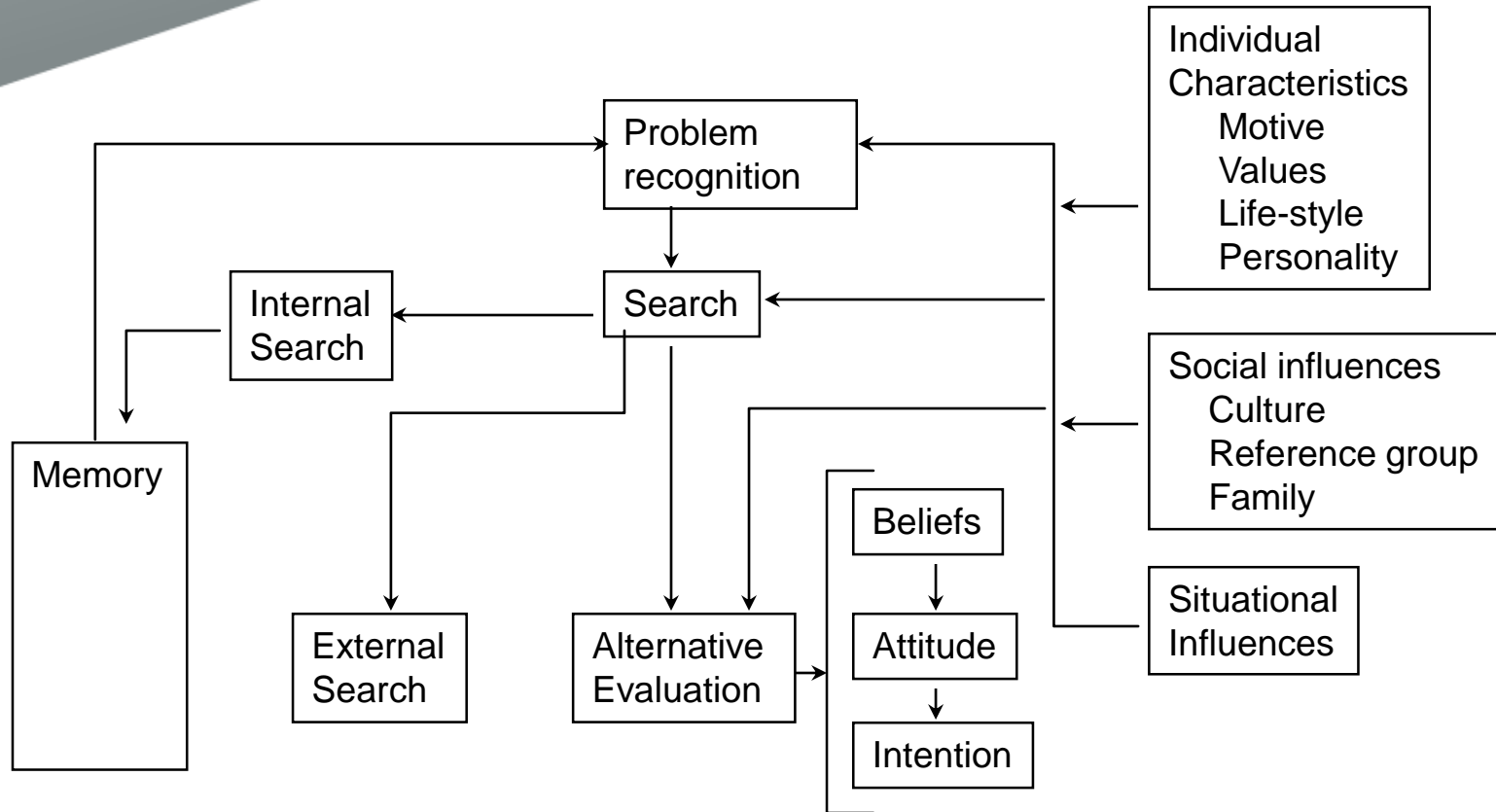
Another model - Problem recognition



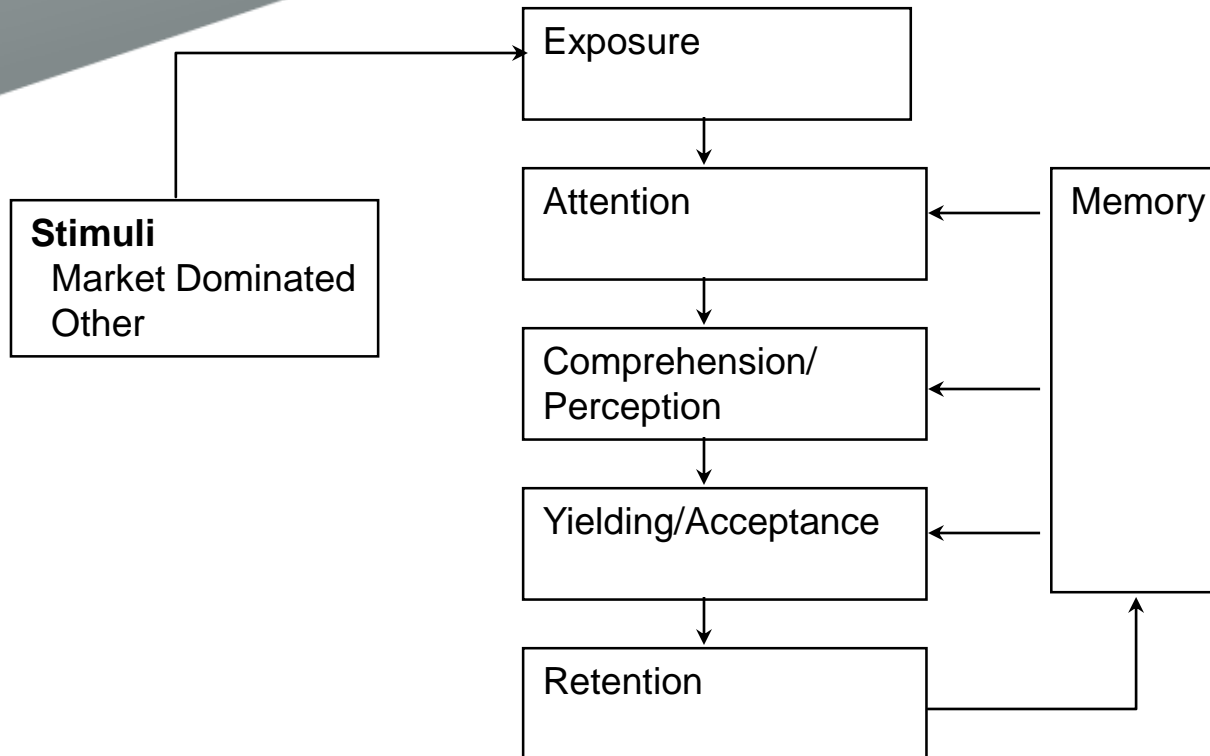
Search



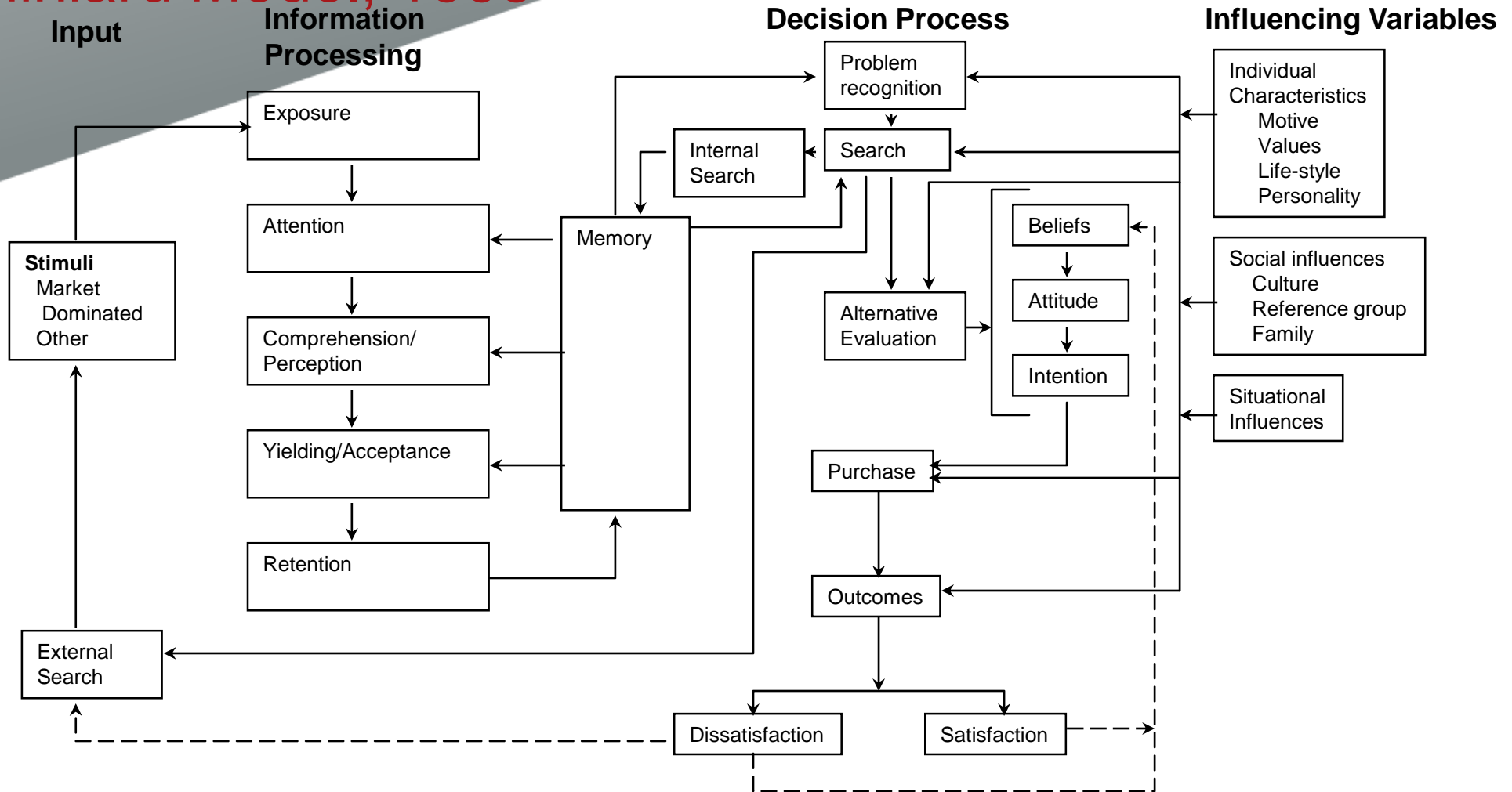
Alternative Evaluation



Information Processing



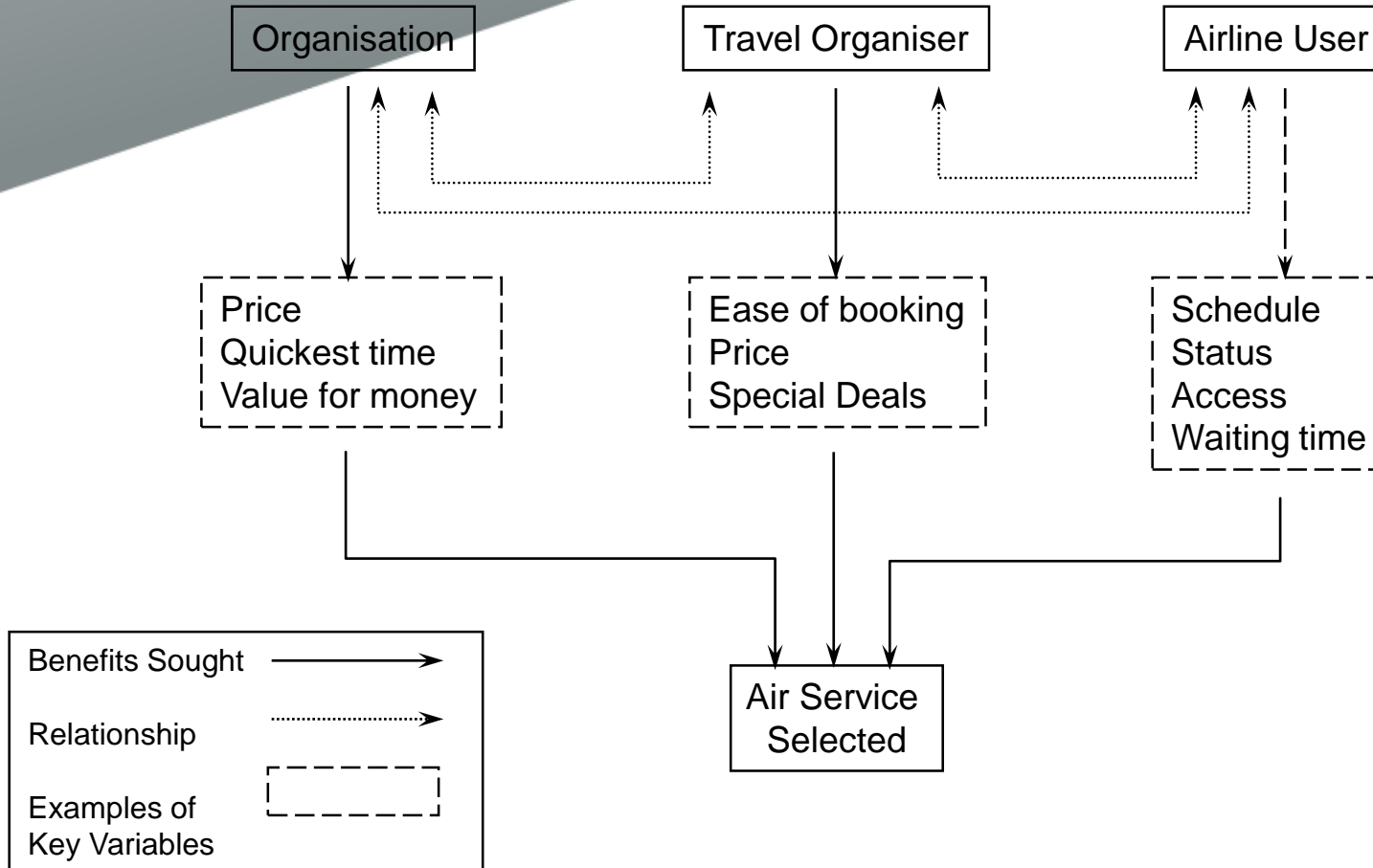
The Engel, Blackwell, Miniard Model, 1995



The air travel decision making process

- Problem recognition
 - The need to travel, desire to go on holiday
- Setting objectives
 - Low fare, frequent service, schedule, network, comfort, IFE
- Information search
 - Internet, Travel guides, agents, GDS, TV holiday channels
- Evaluation of alternatives
 - Different airlines, different services, different airports, different modes,
- Purchase decision
 - Booking
- Post purchase evaluation
 - Assessed against objectives set (is this really the case?)

Model of Business Travel



Source: Mason (1995)

Summary

- An understanding of consumer behaviour is required so that an airline marketer can develop a market offering (in terms of the 4 Ps) suited to the market
- The decision making process is complex and various models of this process have been developed
- The airline customer is not necessarily the passenger
 - How do you develop products suited to both?
- Consumer behaviour at one time (purchase situation) may be different from at another time
- Market segmentation may offer a method by which these issues can be satisfactorily addressed

What is Market Segmentation?

- Total market approach
 - Homogeneous market (all customers have similar needs / wants)
 - Single marketing mix (standard service, standard pricing strategy, promotion and distribution standard)
- Segmented market approach
 - Heterogeneous market (customers have different requirements)
 - Looking for groups of like minded customers and develop products that can be offered directly to the segment
 - Each segment selected has a marketing mix aimed at the similar needs and wants of the group.

Why Segment the Market?

- Following liberalisation passengers are faced with increased choice of airlines
- Carriers must attract passengers based on product attributes and marketing mix variables that are attractive to those passengers
- Market segmentation provides a method of investigating the value placed by passengers on product factors and combinations of product factors.

Benefits of Market Segmentation

- Gain an understanding of its customers
- Develop products that will meet customer demands
- Provides tool to enable the customer to allocate resources.
 - Each segment will have a different degree of attractiveness; segmentation analysis provides the information necessary to allocate resources
 - The result of segmenting the market will reap more benefit than total market approach
- Provides a guideline as to how to promote those products
- Facilitates the development of a strategy that will meet its objectives

Segmentation Base Classification

- Segmentation models can be classified as:-
 - General
 - General consumer data used to explain differences in behaviour
 - Situation specific
 - Market behaviour to specific products are investigated to see if differences in behaviour can be explained by consumer characteristics
 - Objective
 - Variables that can be accurately measured (e.g. age)
 - Inferred
 - Variables that cannot be observed or measured accurately (e.g. personality)

Segmentation Bases

- Geographic
 - Catchment areas
- Demographic
 - Age, gender, family size, life cycle, religion, income, occupation, education
- Psychological
 - Personality, attitude, motivation, risk
 - Activities, Interests and Opinions (Wells *et al*, 1971)
- Behaviouristic
 - Product usage
 - Business, leisure, VFR
 - User rate
 - high, medium, low
 - User status
 - Non-users, ex-users, potential users, first-time users, regular users
 - Benefits sought

Criteria for Segment Selection

- **Measurable**
 - Easy to identify and measure
- **Sustainable**
 - Segment is sufficiently large (by revenue) to warrant separate treatment
- **Accessible**
 - The members of the segment can be reached by marketing mix (particularly by promotion)
 - Consequently the demographic variables remain popular as media have audience figures by demography
- **Stable**
 - The segment will last sufficiently long to make it profitable to target

Targeting Strategy

- **Concentration**
 - Marketing effort directed towards a single segment by creating and maintaining one marketing mix
 - Advantages: Highly specialised product/service; Ability to compete with larger firms
 - Disadvantages: Business depends on one product and therefore prone to changes in market conditions; Difficult to change image
- **Multi-segment Strategy**
 - Serve a number of segments
 - Advantages: Can move from one segment to another as appropriate
 - Disadvantages: High costs

Targeting Segment Selection

- Market attractiveness
 - Large market
 - Growing market
 - High margin
 - Low competition
 - High entry and low exit barriers
 - Not vulnerable to uncontrollable events
- Ability to serve the market compared with competitors
 - Unique service
 - Superior quality
 - Lower costs
 - Technological advantages

Positioning Segments

- Product offering developed suited to each segment in relation to its competitors within the sector
- Establish a competitive advantage
 - Difficult in service sectors
 - Brand image may be used to create advantage
 - Communicate the advantage effectively to the segment
- Brand considerations
 - Etihad and numerous equity partners, Lufthansa and Germanwings, Virgin Atlantic and Virgin Blue and Virgin Nigeria
 - Alliance branding v. individual branding

Principal Airline Market Segments

- Journey purpose
 - Business
 - Leisure
 - Visiting Friends and Relations
 - Personal
- Route length
 - Short Haul
 - Long Haul
 - Domestic
 - International
- We will consider business travel and leisure travel separately

Segmentation bases

- Demographic
- Geographic
- Psychological
- Behaviouristic
 - Usage, user rate, user status, benefits sought

Business Travellers

- Mainly male - 80%
- Middle aged
 - 35 - 54
- 17 trips per annum
 - 5 Long haul
 - 12 short haul
 - down 3 since 2004
- Half work for large companies
- Half work for SMEs

Source: IATA CATS 2009

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Source: IATA CATS 2009

Or perhaps like this

Why won't the numbers work?

How will I finish this report?

I want to be at home with my family

Why can't I get an upgrade?

Why is my coffee non-branded?



Behavioural Segmentation

Purpose of travel

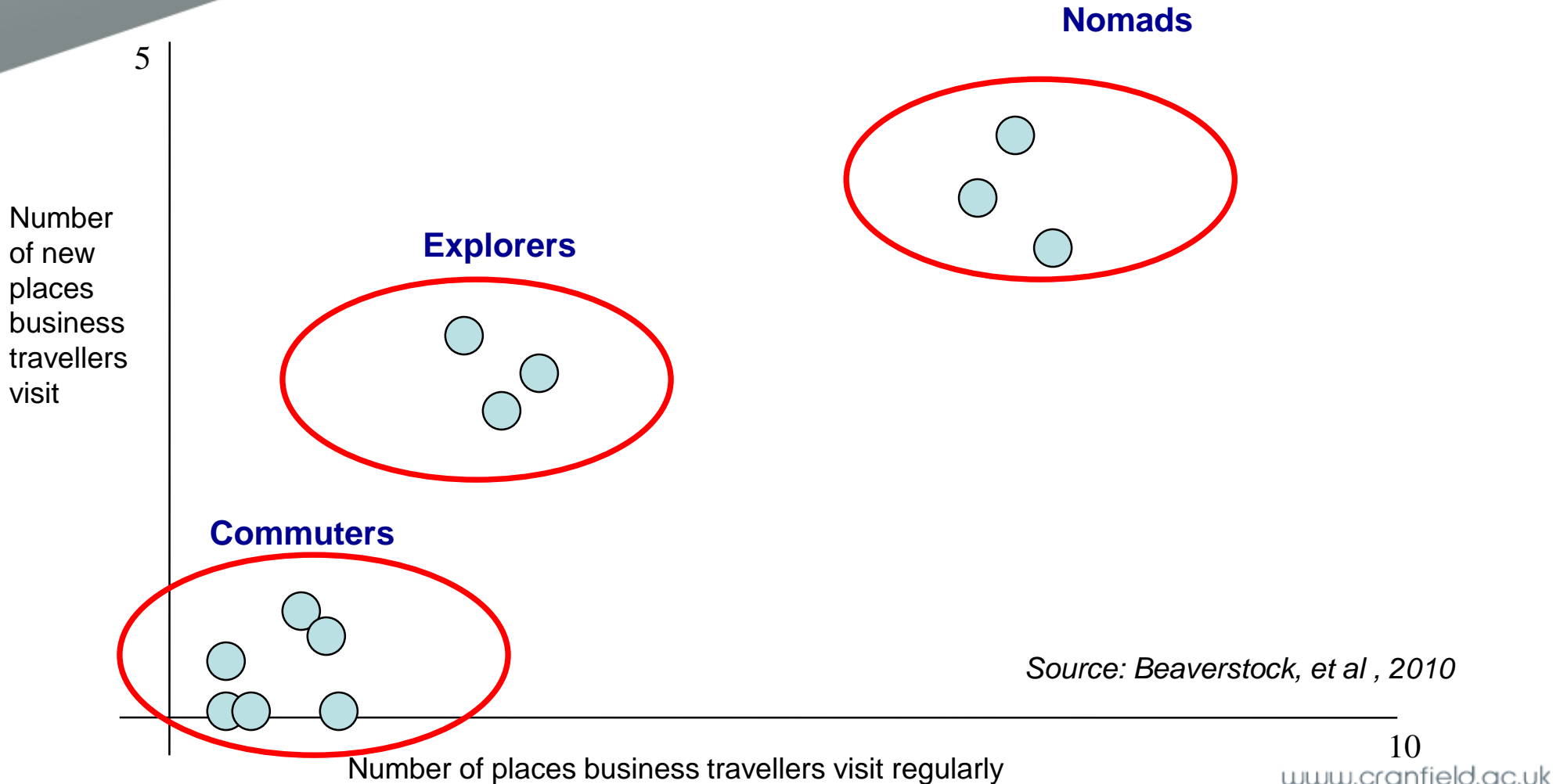
- Purpose of travel
 - Trips for sales and commercial (45%)
 - Customer support (21%)
 - Conference and presentations (20%)
 - Internal company meeting (10%)
 - Training (4%)

(Source: KDS, 2009)

- Travellers purpose of travel changes repeatedly
 - How do you identify?
 - Needs change by purpose of travel

Differing types of business travellers

Each group will have differing needs



Source: Beaverstock, et al , 2010

Behavioural Segmentation - User Rate

- 54% of bookings with main airline supplier
- 32% of expenditure covered by route deals
 - falling prices has lead many companies to taking cheapest available prices in the open market.
- Frequent flier programmes aim to identify and maintain loyalty, high consumption and high yield passengers
 - Do FFPs erode yield and do they deliver loyalty?
- Frequent fliers programme members:-
 - Travel more often than non-members
 - Are less concerned with meal and cabin service than non-members
 - Place less importance on low fares than non-members
 - Rely less on travel agents than non-members (Browne, Toh, Hu, 1995)

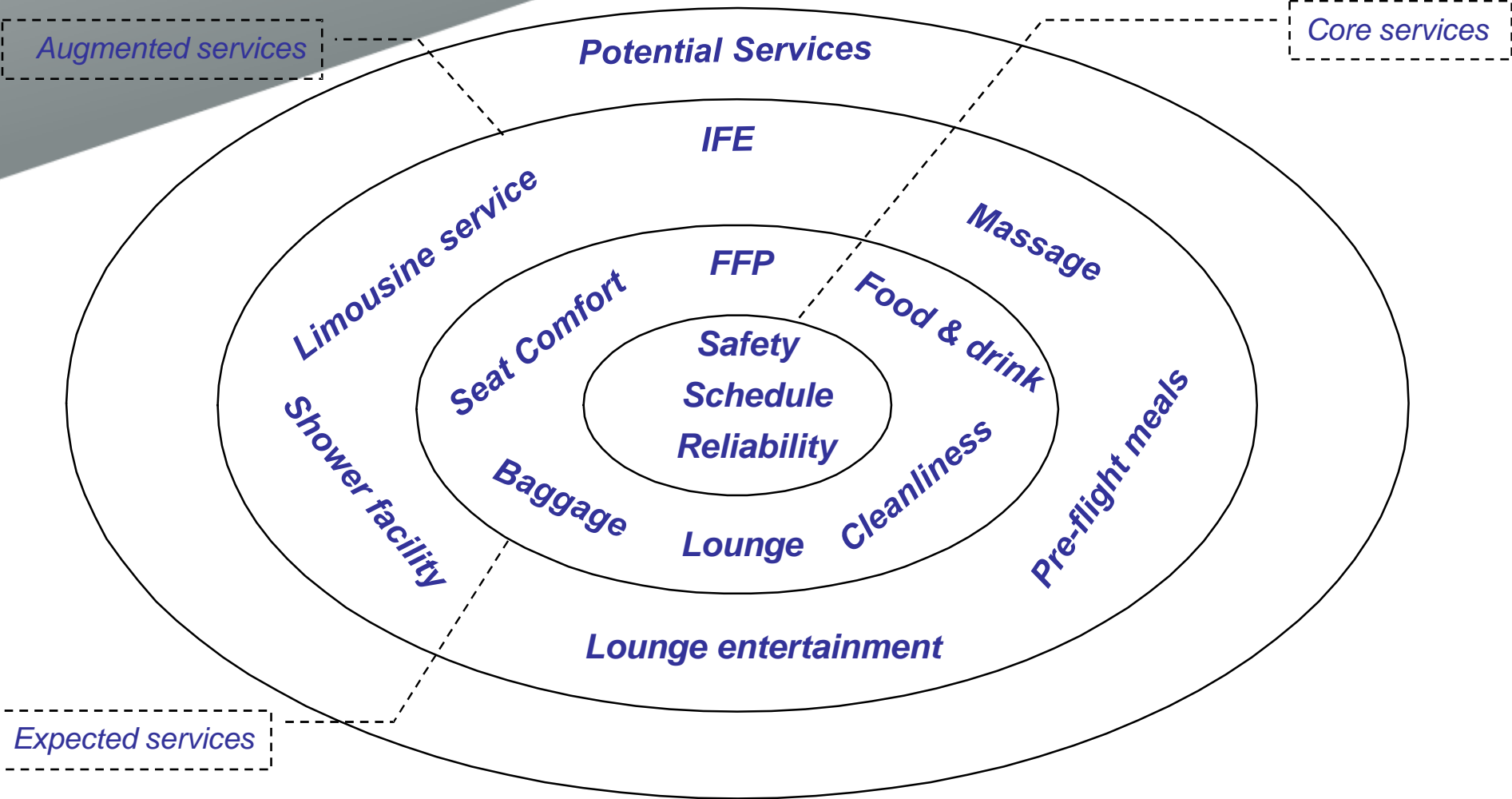


**SO WHAT DO THESE PEOPLE
WANT?**

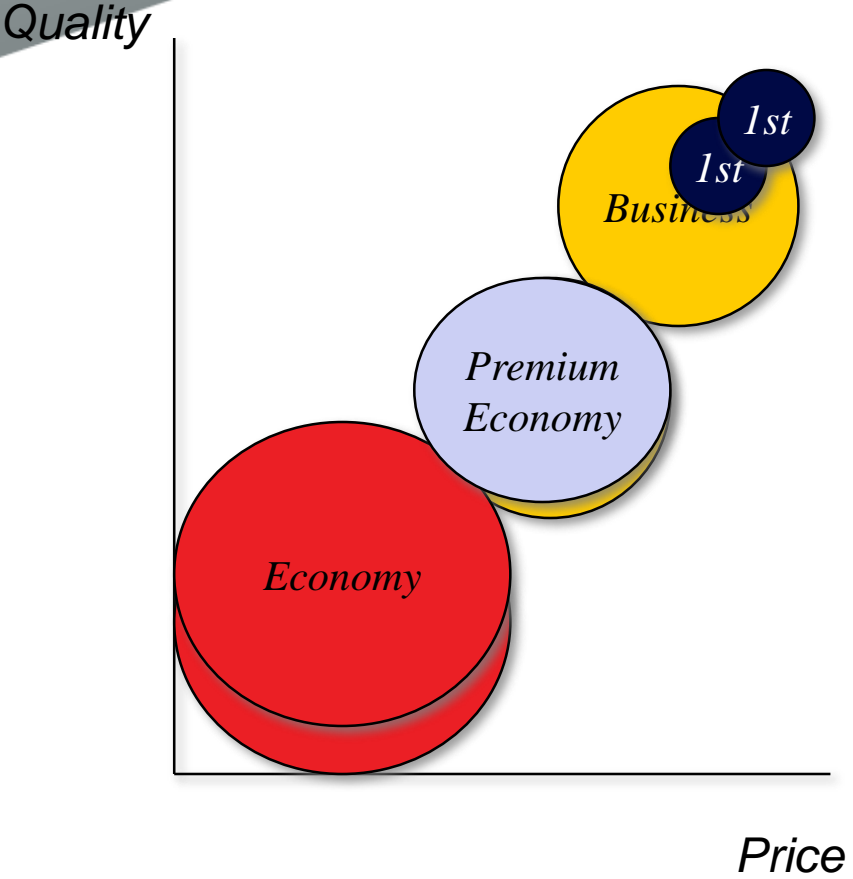
Segmentation by Benefits Sought

- National carrier
- Collect miles
- In-flight entertainment
- Destination airline
- Successful airlines
- Broaden experience
- Aircraft type
- Low fares
- Innovative products
- Individual service
- Recognition
- Comfort
-

Business Passengers' Map of Airline Product

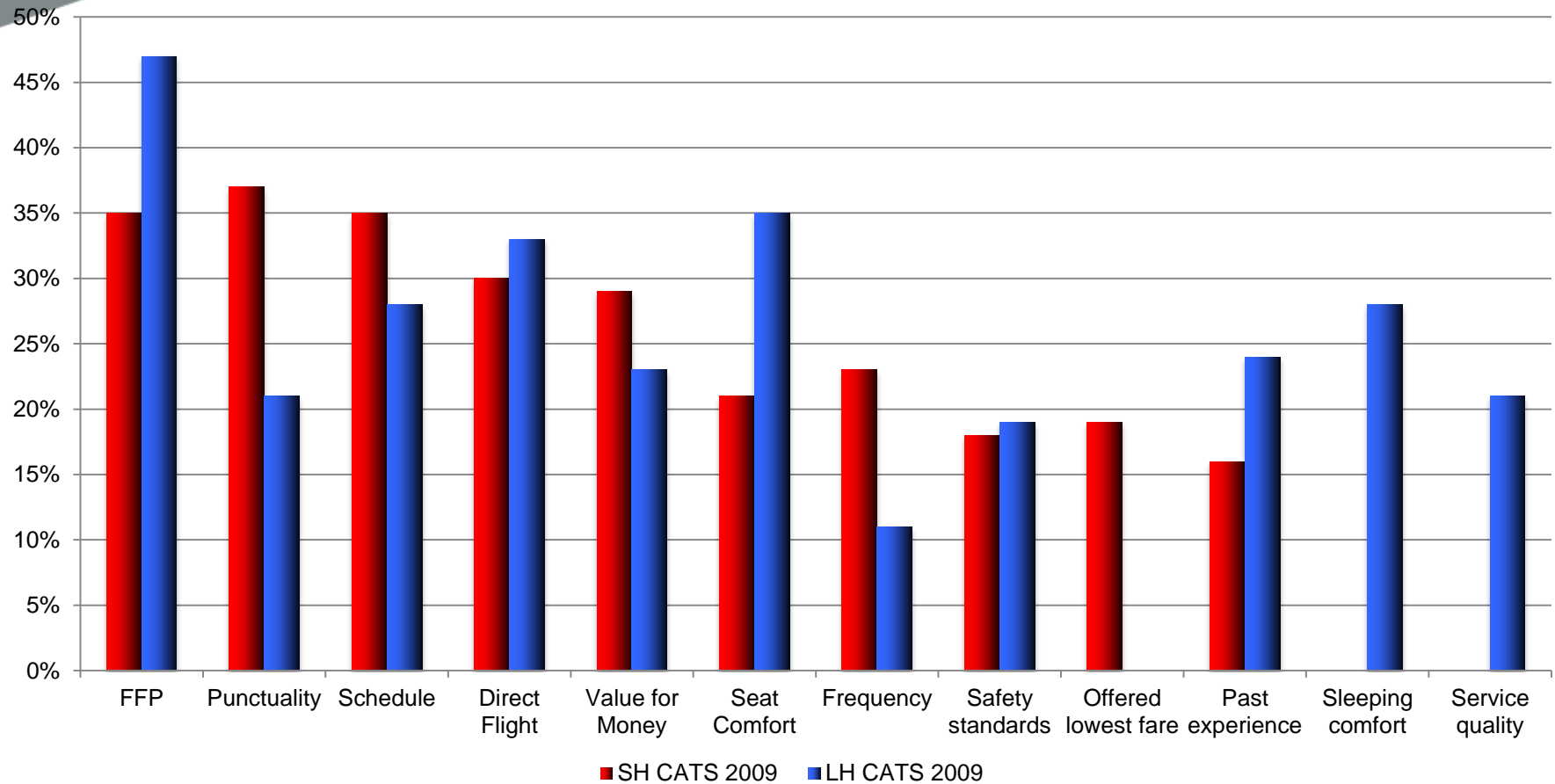


Product expectations move over time



Choice of airline

Factors affecting choice of airline: IATA CATS 2009



Convenience Matters Most to Business Travelers

Top 4 Features Rated "Extremely/Very Important" by Business Travelers

89%	Most Convenient Departures/ Arrival Times
84%	Past Experience with Airline
83%	Price
82%	Fewer Stops/Better Connections

Lodging

81%	Price
80%	Most Convenient Location
75%	Past Experience with Lodging Establishment
67%	In-Room Services Offered

Car Rental

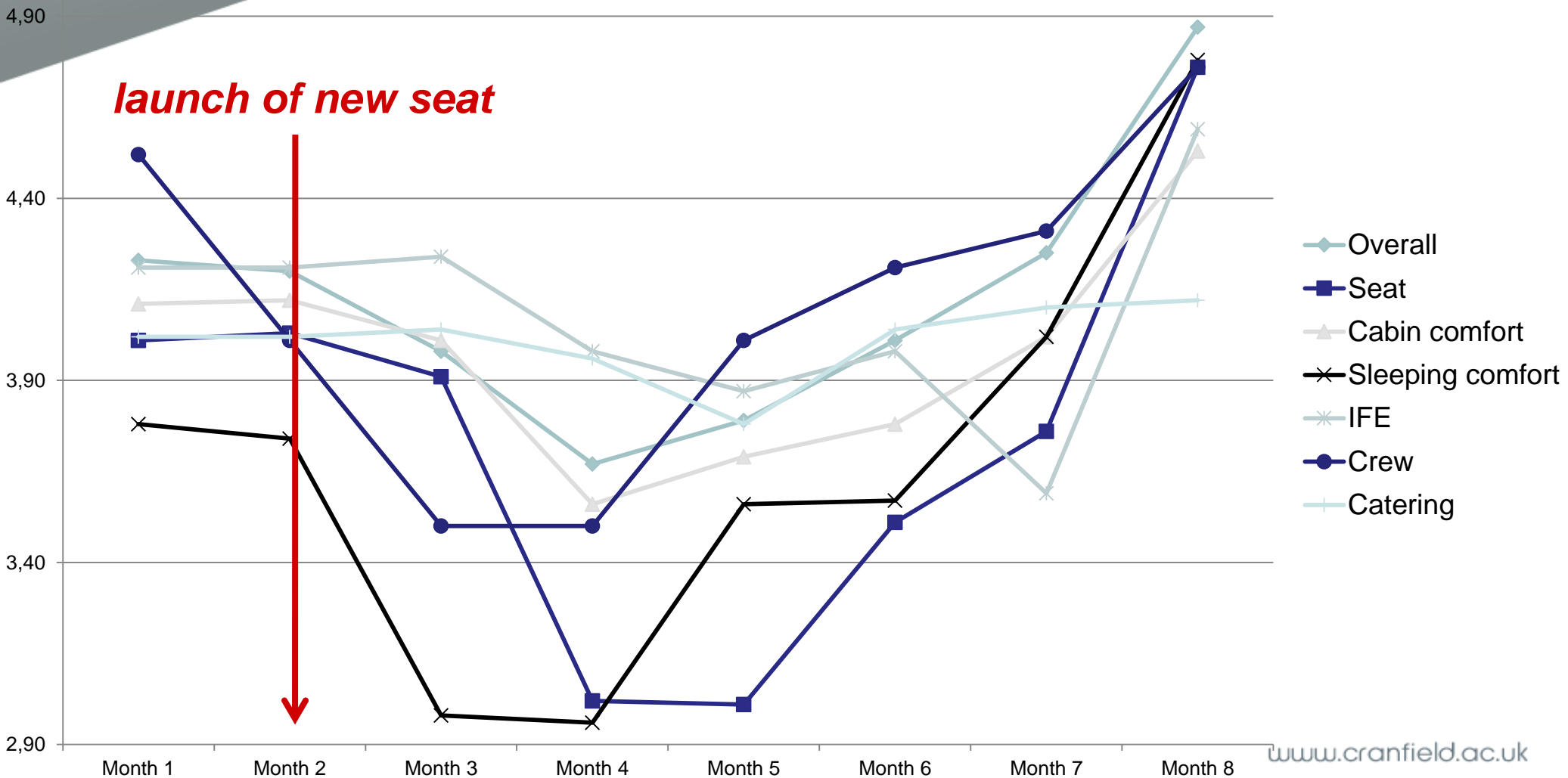
81%	Price
80%	Past Experience with Car Rental Agency
61%	Promotions
58%	Cancellation Policy/Ability to Change Bookings

Source: *The Traveler's Road to Decision*, Google and Ipsos MediaCT, July 2012.
 (Q45) How important are each of the following when purchasing an airline ticket for leisure/business travel? Base: Airline, Hotel, and Car Rental quotas.

Impact of product development

- Increased positioning versus competition
- Market leadership / raised market standing
- Improve on load or yield
- Further cementing brand
- Increased customer satisfaction

Increased satisfaction .. after some time



Travel spend 80/20?

> 10,000 employees



1,000 – 10,000
employees

< 1000 employees

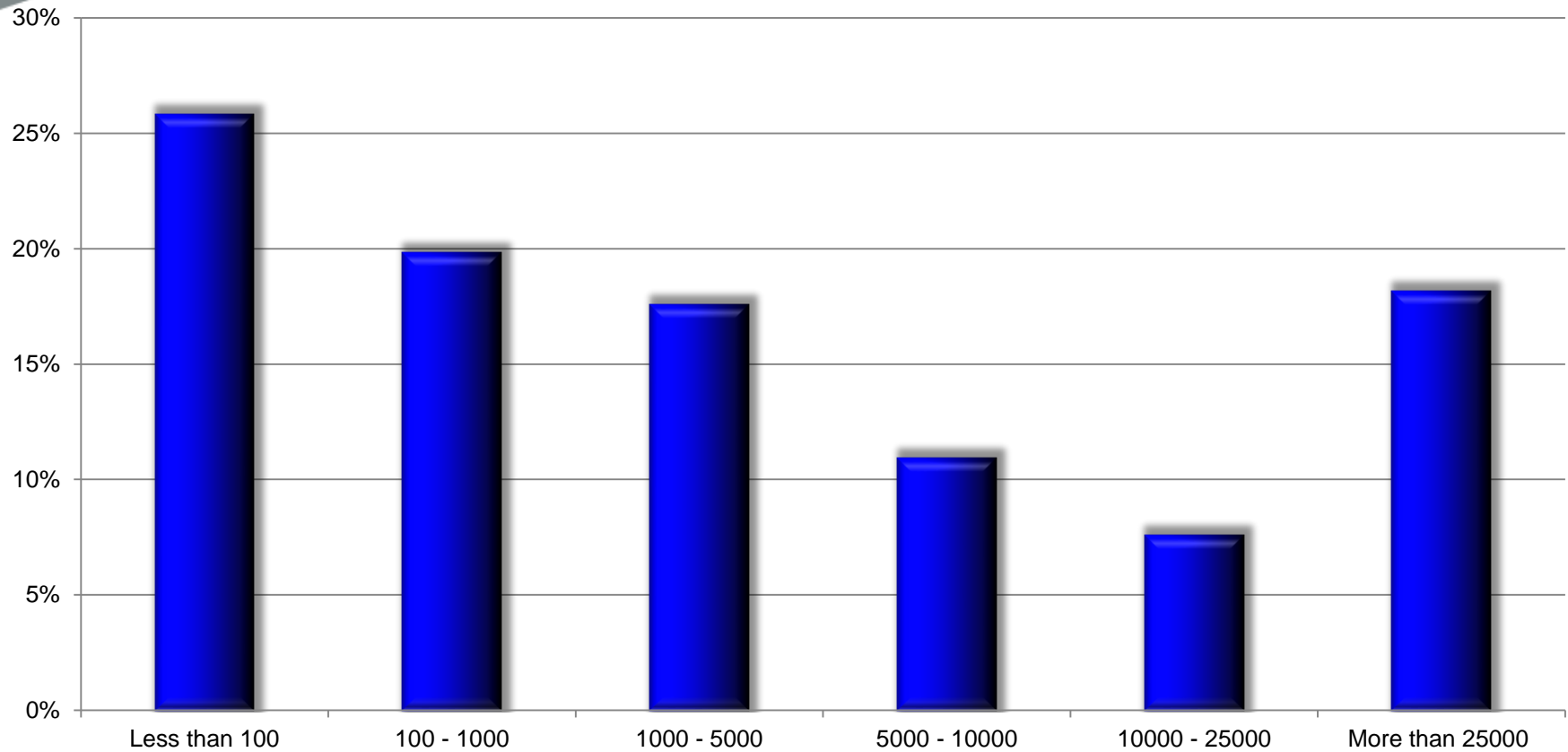
< 100 employees



Airlines cannot afford to manage
accounts for companies with spend
less than £50k

Company size

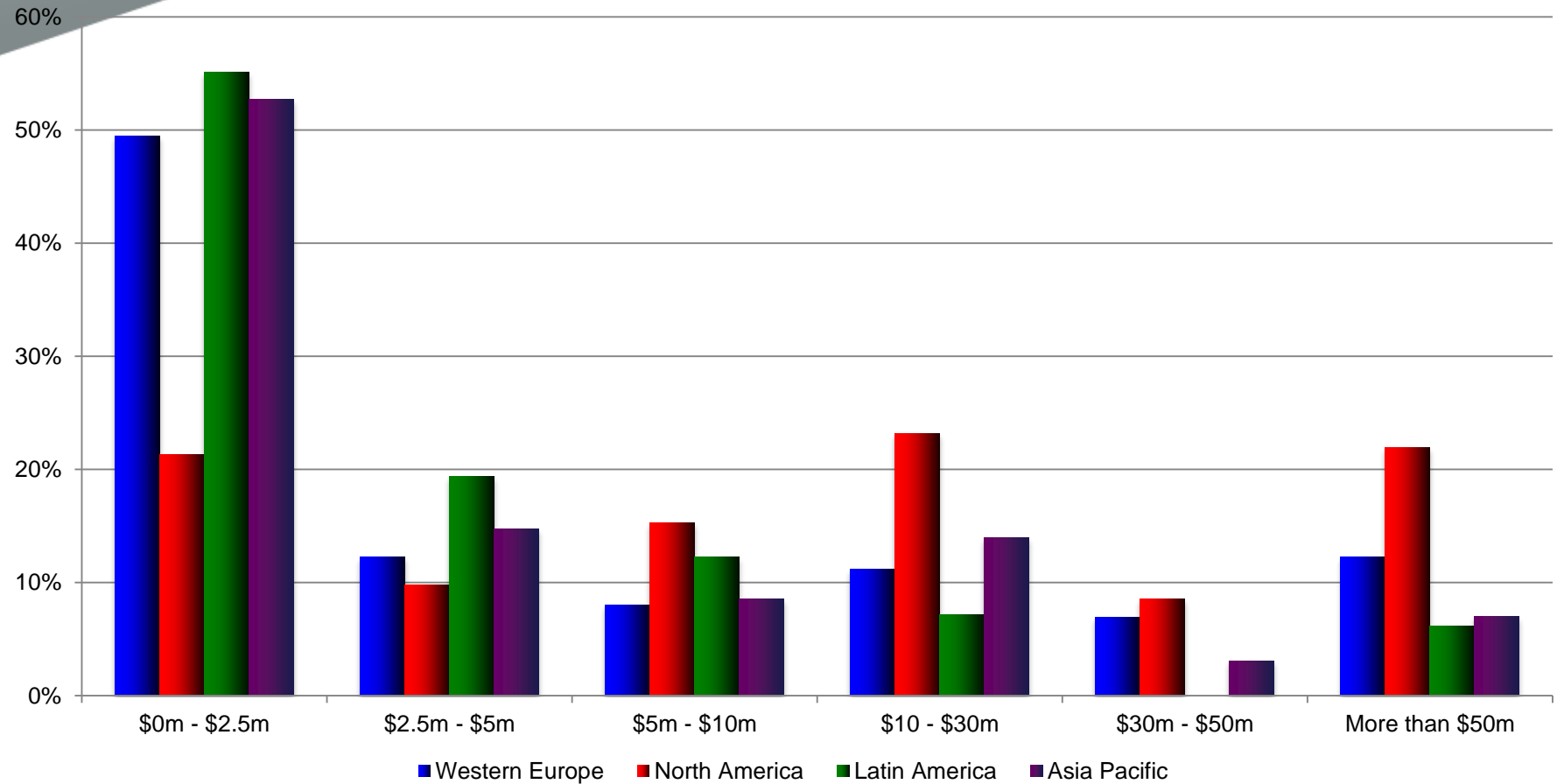
Company Size: Number of Employees



Mason/Amadeus 2007

Spend on travel

Annual corporate spend on travel



Mason/Amadeus 2007

Cabin usage by business travellers

Ticket Type	How much of each cabin is business passengers?		Which cabin do business passengers use?	
	1996	2007	1996	2007
Long-haul destinations				
First/Business/Club	79%	73%	34%	23%
Premium Economy	n/a	56%	n/a	9%
Economy	28%	20%	66%	69%
Total Long-haul	36%	25%	100%	100%
Short-haul int'l destinations				
Business/Club	93%	81%	40%	9%
Economy	39%	26%	60%	91%
Total Short-haul	50%	28%	100%	100%

Source: CAA Passenger Survey, 1994–96, 2005–07

Note: Airports not surveyed in 1996 and/or 2007 have been scaled up from the nearest survey year

From this.....



Via this.....

Move down inside the bus please!



To this.....



- Downgrading and use of low cost airlines
- Change in booking behaviour
 - Increase in fare transparency
 - Travellers “going commando” – booking direct
 - No longer prepared to pay high multiples for business class
 - Increase in price elasticity
 - Increase in “value for money” purchasing
- Use of other forms of communication
 - Increased use of web-conferencing, tele-presencing, video-conferencing.
 - This adoption has been increased as companies become aware of the carbon cost of travel.

Business Travel Cuts – Summer 2009 onward

- 71% of companies had significantly reduced business travel
- Class of travel
 - 38% Business class
 - Of these 70% said only for trips > 5 hours
- Austerity to continue till 2012
 - 24% of MDs and FDs believe this “frugality” will be the blue print for future travel spending

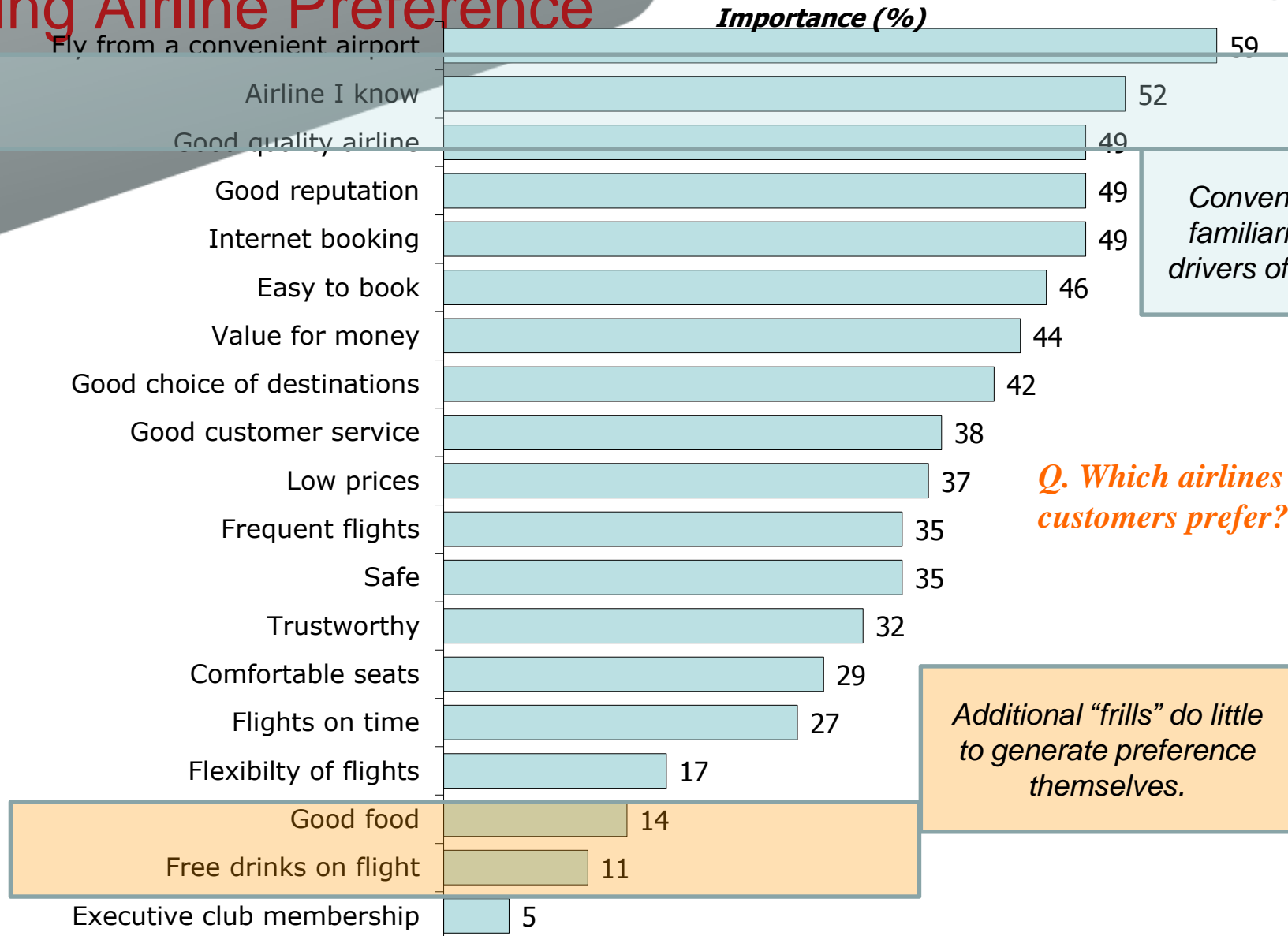
Source: KDS, 2009

Source: AMEX survey, Oct, 2010

Non-Business Travellers

- Personal
 - Last minute booking
 - Frequent service
 - Price is important
 - Small segment - insufficient to warrant separate treatment
- Leisure
- Visiting Friends and Relations
 - Leisure and VFR are invariably treated together

Driving Airline Preference



Convenience and familiarity are key drivers of preference

Q. Which airlines do customers prefer?

Additional "frills" do little to generate preference themselves.

Leisure traveller - Lifestyle changes

Lifestyle Changes Europe:-

- Lengthier and more flexible holiday entitlements
- Increased job and educational mobility
- Rise of the “Grey Panthers”
- The Gap Year phenomenon
- 2nd Homes overseas
- Sporting, cultural events

Lifestyle Changes Asia:-

- Increased use of disposable income for cheap travel – LCCs
- Rise of the newly middle class travellers
- Ego Tourism
- Educational travel
- Sporting, cultural events

Demographic Segments in Leisure & VFR

- Age - A very wide range
- Gender - 50/50
- Peaking - Weekly and seasonal
 - Charter operators can manipulate demand with tour operator.
- Planning well in advance
 - Although increase in Mini-breaks
- Life Cycle - Tour operators segment on life-cycle
 - 18-30, Sandals (couples only), Beaches by Sandals (Families) Eurocamp, Family destinations, Cruise and safari, Saga
 - Tour segments may require specialised airline services (e.g. Flights to family destinations may provide children's books and colouring pens)





Research Study Methodology

- Google commissioned Ipsos MediaCT, an independent marketing research company, to conduct a travel study to better understand the role travel plays in the lives of U.S.
- Respondents completed a 21 minute attitude & usage survey into travel habits and attitudes. If qualified, respondents were routed to one of four deep dive sections: Airline, Cruise, Lodgings, and Car Rental.
- Interviews were conducted from 4/24/12 to 5/17/12 yielding a total sample of 5,000 consumers who have traveled at least once for leisure reasons (or a minimum of 3 times for business purposes) in the past six months.
- An augment of 1,500 affluent leisure travelers and 1,000 cruisers were also recruited

TRAVELER TYPES DEFINED



=

Leisure Traveler
has taken at least
one trip for leisure in
the past 6 months



=

Business Traveler
has taken at least
three trips for
business in the past
6 months

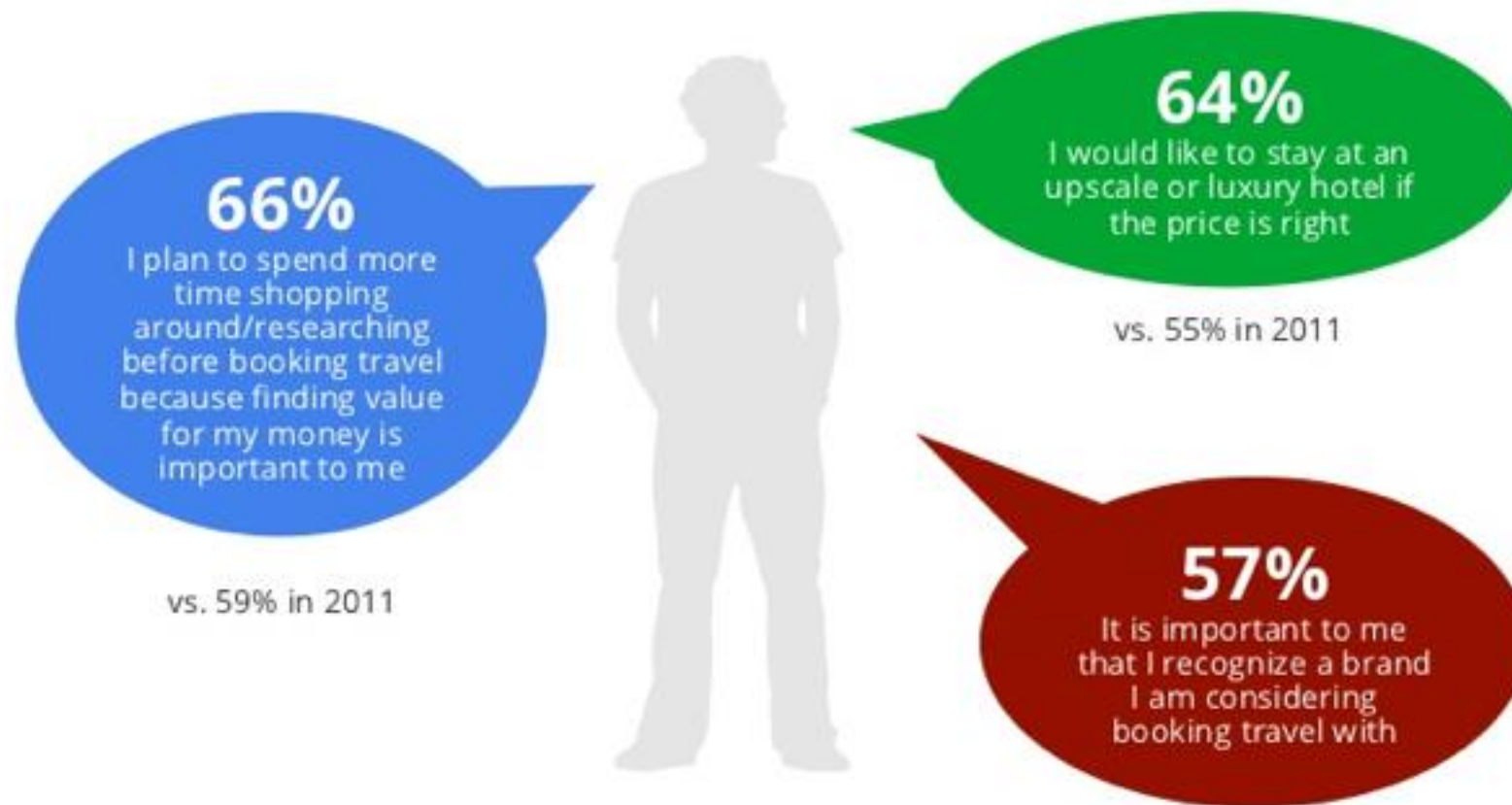


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Affluent Traveler
has taken at least
one trip for leisure in
the past 6 months
and has a household
income of \$250K+



Leisure Travelers Increasingly Seek Travel Value



Summary

- Airline markets can be segmented in many different ways
- Business v. Leisure is principal division
- There is much business travel segmentation research
- There is little airline leisure segmentation research
- Markets are changing
 - Evidenced by the introduction of premium economy, charter premium, and the withdrawal of first class products
- How can the research be usefully applied?
 - Lifestyle and psychographic segmentations particularly difficult to target unless by relationship database analysis