

## **Budget Airfares**

By Dr Jaime S Ong

Some years ago an office colleague asked why on a flight to Hong Kong I was given a hot face towel, whereas hers was cold. The simple explanation was that she flew economy and I flew business class, but I couldn't resist telling her – she was something of a *promd*, on her first trip out of the country – that towels start out steaming hot in business class, but have already been used by the time they get to economy...

The disparity between what one gets in one fare class versus another (or between one airline and another) illustrates a key point about competing in services marketing. The conventional wisdom is that an airline doesn't compete on a core service that all other airlines deliver, which is transport from one airport to another. An airline competes on amenities that enhance customer value, like inflight movies, gourmet meals and face towels. Needless to say, the costs of enhanced services are incorporated into the ticket price, which is just fine with executives traveling at company expense.

But as professional marketers keep discovering, conventional wisdom is often upended. Low-cost carriers offering budget fares – Southwest in the USA, Gol Linhas Aereas in Brazil, Air Asia in Malaysia – are rewriting the rules of the game. They cut out every conceivable frill, and attract a different customer.

Time was when the travel season was quite sharply defined, and newspaper ads touted fares and tour packages through the summer months, then petered out during the schoolyear. But it is now September, and still the ads fill up an entire newspaper page or more each day. Since April or so, airfares to Singapore, for instance, have ranged from US\$187 to US\$242. At an exchange rate of P56:\$1, that's about P11,200 per person, round trip.

These are agency prices. The budget airlines also advertise, but invite you to book directly, skipping the travel agents – and their rates for a one-way ticket vary from P1,648 (a July ad) to an unbelievable P338 (a September ad).

This extreme variability in prices reflects the application of 'yield management' to airfare pricing. The concept, defined by Sheryl Kimes and Richard Chase as "selling the right capacity to the right customer at the right time," recognizes that "an hour is not an hour is not an hour" where customer preference is concerned. Yield management manages customer demand by managing how far in advance reservations must be made, the time of day the service is offered, the inventory of service resources, and the price. When the missus and I tried such a budget flight to Singapore this month, the nominal fare was P660 per, but we paid and were locked in 64 days before departure.

The ads' fine print warns that 1) the quoted fare is one-way; 2) taxes and charges aren't included; 3) the airport is Diosdado Macapagal in Clark, and Philtranco busfare from Megamall is P300. All told, one shells out roughly P5,000 for the bus to Clark, the flight to Singapore, and back – still less than half the advertised travel agency price, and still less, in fact, than a round-trip ticket to Davao.

Not every airline can make money this way. In July, Singapore-based Jetstar Asia and Valuair announced plans to merge, as they struggle with the same spiralling fuel costs that threaten to drive Northwest and Delta Air into bankruptcy. But the budget airline business model has features not always feasible for larger players: no in-flight meals (or towels); a single aircraft type (typically Boeing 737 or Airbus A320); use of secondary airports; and internet ticketing.

What then is no-frills flying like? Not bad, actually, if one isn't addicted to the perks of business class. You pay for whatever you eat or drink on board: P70 for coffee, P100 for instant noodles. Not filling, but it gets you through the three-hour flight. Seating is first-come, first-served, though seniors and children get to board first. A secondary airport is important because turning an aircraft around in a major airport takes twice as much time, and an aircraft on the ground isn't earning. But getting to that airport by Philtranco may mean waking up at some ungodly hour, and sitting in a monobloc chair along the aisle if the bus is full. Finally, website-based ticketing means enormous savings, and not just to low-cost carriers. There are no travel agent commissions to pay, and fewer administrative costs.

Budget air travel in Asia started with Malaysia-based Air Asia in 2001. Now there are 16 low-cost carriers, though Air Asia still has the largest fleet with 28 aircraft. Tiger Air, 49 % owned by Singapore Air, took to the air in September 2004. It now serves 10 cities in six countries. According to air-ticketing and reservations firm Abacus International, Asia's online travel bookings are expected to grow to US\$16 billion by 2006, double the 2003 figure. Electronic ticket purchases climbed 80% in the first half of this year, with the Philippines and Thailand registering the highest growth rates. It is estimated that if one out of 10 people who now take buses, trains and ferries between Singapore and Malaysia fly instead, the airlines would add 675,000 passengers per year.

Given the price of fuel, budget fares are likely to inch upwards, and the number of carriers is likely to shrink. But no-frills flying seems certain to attract a new travel segment – customers who are internet savvy, eager to see more of the region, and willing to rough it on short trips and on modest resources.

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