Quality in the US airline industry: is turbulence on the horizon?

The Airline Deregulation Act of 1978 did more than allow market forces to set prices and carriers to select routes based on passenger demand; deregulation also permitted carriers to determine the level of service quality provided to customers. Although there is little or no evidence of the effect of deregulation on service quality, there is a general consensus that levels have declined significantly.

While the US government did keep statistics on various metrics of airline service quality, these reports were not widely available to the public until the publication of the Air Travel Consumer Report (ATCR) in 1987. This information is also available online from the US Department of Transportation.

Initially, the ATCR reported metrics for on-time performance, mishandled baggage, denied boardings, and customer complaints. More recently, the ATCR has included information on cancellations, on-time departures, and animal shipment. This information (or some portion of it) has been used by Southwest Airlines and Continental Airlines as the basis of their “Triple Crown” and “Grand Slam” awards. The Triple Crown award, created by Southwest, reports on airline performance in on-time performance, baggage handling, and customer complaints while the Grand Slam, created by Continental, added bumped passengers (denied boardings) to the list. Not surprisingly each carrier finished first in the award they created.

Quality troubles for US airlines

As a whole, the airline industry in the USA is back where it started from in terms of quality. In fact, in some respects the industry is set to post its worst year since the US Department of Transportation began public reporting. Already for 2007, the industry has posted on-time arrival rates of only 72 per cent, an all-time low, while the rate of mishandled baggage for 2006 rose to 6.5 per 1,000 passengers and shows little signs of improving due to the increased number of passengers checking baggage in the wake of the new regulations on liquids. Further adding to the quality woes plaguing the industry has been the very public meltdown of carriers such as JetBlue Airways.

Increasing competition from low cost carriers, most of which have been recently established and do not bear the weight of high cost labour and higher cost pension plans, have forced the old legacy (pre-deregulation) carriers to reduce other costs in order to compete at the new price levels. A reduction in service levels first appeared for the economy class passenger, but even business class passengers are feeling the pinch and are complaining that the fares they pay are not reflected in the level of service that they receive.

The periods of improving quality correspond to downturns in the economy and the industry. In economic downturn, airlines reduce the number of flights, which improves on time performance as there are fewer planes trying to land at congested airports. Economic downturns also mean fewer passengers flying, fewer bags to lose, fewer people to complain.

This first issue is not simply an airline problem. When demand for airline travel is high, airlines add more flights to meet demand, but the US aviation system is constrained by the air traffic control system and the available landing slots and runways at airports. When too many planes try to fly into a congested system, flight delays occur. When weather problems arise in a tightly constrained, full capacity network system, then the ripple effects are enormous. The JetBlue meltdown is an example of this phenomenon. In the past carriers might have maintained backup aircraft that could be used in the event that weather delayed aircraft at one airport, but in the cost conscious industry of today, many carriers have given up this expensive “service” feature.

A final reason for the quality troubles of US airlines is that consumers have simply come to associate many of them with poor quality. In a 2000 report entitled Why Service Stinks the airline industry had the largest drop in customer satisfaction from 1994 to 2000 of any of the reported industries. Consumers were angry about crowded planes, delays, cancellations, complex pricing models, flight restrictions, and employees that seemed to forget that airlines are a “service industry”.

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Improving standards

The dissatisfaction of consumers with the air travel choices offered by the traditional passenger carriers has created opportunities for a number of other firms. Low cost carriers (LCCs) have benefited tremendously from the troubles of the traditional carriers. LCCs are predicted to capture up to 40 per cent of the US market within the next few years. The best of these carriers, AirTran, Southwest, and JetBlue have made these gains by doing the basic things well i.e. getting you and your luggage to the same airport on time. Carriers like JetBlue have even provided the type of amenities that traditional carriers have eliminated. The recent meltdown at JetBlue, however, has pointed out the trouble of running a lean operation in an area and industry that faces natural and man-made adversity all too frequently, JetBlue and other carriers will have to rethink the cost and benefits of such lean operations.

Other beneficiaries have been business jet manufacturers whose sales have soared. Companies such as Netjets who offer flexible, time-lease options to businesses and firms and new air taxi operators like Dayjet promise to deliver more convenient, less hassle, cost-effective service. At the higher end of the scheduled air travel market there are several new carriers that offer premium international service. Firms such as EOS, Silverjet, and Maxjet provide first class accommodations in single class aircraft for prices well within the range of the major traditional carriers. Thus, traditional carriers are finding themselves squeezed between the LCCs and these new high-end options; they are stuck in the middle and struggling to come up with a viable, sustainable model of business success. They will either have to find more ways to reduce cost in order to compete with LCCs or increase service levels, including amenities and basic service, to attract the high-end premium passengers. It can be done but not by tacking amenities on top of poor basic service quality.

There is no shortage of critics willing to offer suggestions on how to improve customer service standards, including:

- faster deployment of the advanced global satellite positioning system to track aircraft,
- construction of new runways and airports to reduce congestion over the next decade,
- additional opening of US skies to foreign competition,
- tax incentives to spur development of light jets and encourage use of smaller, alternative airports,
- passenger rights legislation to force the airlines to offer money to passengers for delays and food and water (for a fee) on flights longer than 1,000 miles, etc.,
- pre-screening travellers before they get to the airport with a pre-approved ID, and
- banning carry-on luggage except for laptops, coats and purses to speed up boarding.

Although airlines must accept responsibility for much of their service problems, they cannot address many of these issues alone. Capacity constraints are one of the overriding problems in the current system, but solving this issue is a matter of funding, both local and federal for airports, as well as community and environmental approvals for new construction.

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**Lessons in service quality**

The problems in the US airline industry should provide some stark lessons for firms in other industries. Some of these lessons can be illustrated by another recent, highly publicized service fail, the Continental Airlines passenger revolt. The Continental flight from Venezuela was diverted from Newark to Baltimore because of weather and the perennial congestion in the New York area. It then sat on the tarmac in Baltimore for five hours as a malfunctioning toilet overflowed and passengers complained of thirst and hunger before “revolting” and demanding to be taken off the aircraft. They were taken off – by canine accompanied police – and held in a closed room for another two hours where they were fed chips and pretzels before re-boarding the flight. Continental says that the airport could not make other arrangements and that there were no customs officials for the international passengers necessitating the confinement. Continental has written to all passengers with valid contact information and offered them a $200 voucher for their next Continental flight. The airport denies the Continental version and passengers continue to complain of kidnapping.

Clearly, some of the external factors cited above were involved in the incident and Continental was powerless to affect them, but there were many other aspects of the situation that should have been addressed. From the perspective of the five factors of the SERVQUAL model – reliability, assurance, tangible actions, empathy, responsiveness – Continental’s performance does not pass any of the basic criteria for service quality performance. The “promised service” was not provided to customers. Customers were not informed of the situation or made to feel...
safe, secure, and confident in their chosen provider. In fact, there appears to be little or no empathy demonstrated toward customers at all. Further, it is doubtful that the $200 voucher will be considered a sufficient recovery after service failure. This is not a new problem and should have been the subject of a service recovery plan.

Continental Airlines made many difficult choices over a decade ago to turn around an abysmal reputation for customer service and should have found a better way to respond, perhaps even a way to avoid some of the known problems with congestion and delay such as over scheduling of flights and heavy reliance on an airport in one of the most congested areas of the country.

Greg Brenneman, a key architect of the Continental turnaround, noted in 1998 that managers must be willing to ask customers, not only what they want, but what they are willing to pay for, while reminding themselves constantly of the basic need that the firm exists to serve. The mission of Continental was to “fly to places people wanted to go, when they wanted to go, in clean attractive airplanes; get them there on time with their bags; and serve food at mealtimes.” Having thus stated the mission of the airline and the customer needs the firm is meant to serve, this statement became a focus in guiding managerial actions at Continental and has served the airline well.

Managers in other firms may need to review their missions and see if they can easily identify the critical customer needs that the firm exists to serve and how the customer service standards put in place meet those needs. The forces of globalization and competition will continue to impact the marketplace in all industries, making managers address costs issues and the value propositions presented to customers. Unfortunately, US airlines as a group are serving as the “bad boys” of customer satisfaction not as role models of customer quality.

**A turbulent future?**

Twenty years from the first public tracking of airline service quality, US airlines and passengers find that they are back where they started. To date, there is little evidence that they have learned from their experiences or resolved the dilemma of customer expectations in an era of declining prices and rising costs.

Sadly, the pressures and demands are only likely to grow. The newest group of discount carriers, firms like Skybus Airlines and Allegiant Airlines, are “set to make Southwest look downright generous” in the area of amenities and are determined to drive fares down even further.

If the new high-end competitors are successful, then the traditional carriers will be in for a very bumpy ride in the future.

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