Airline service quality in the USA and EU

In the USA, 2007 shows all the signs of being one of the worst years on record for airline service quality performance. On-time arrival rates dropped to 72 per cent, an all-time low, and the rate of mishandled baggage which stood at 6.5 per 1,000 passengers in 2006 grew as an increasing number of passengers were checking baggage in the wake of the new regulations on liquids in handheld carry-on luggage.

In addition, the industry has witnessed several very high profile service failures including the very public meltdown of JetBlue Airways, a former darling of the US airline industry. Bad weather and lean operations over the Valentine's Day holiday resulted in the stranding of over 5,000 passengers, primarily at the New York hub. This event was projected to cost JetBlue US$14 million in refunds and overtime.

Within Europe the rapid expansion of the low cost airline sector has increased the number of passengers travelling within the EU to over 450 million. At the same time interest in airline service quality has become more pronounced due to the introduction of a series of measures designed to compensate passengers for service failures. In 2005 European Regulation gave EU consumers rights when denied boarding or when a flight is either cancelled or delayed. Since the introduction of these new measures the European Consumer Centre (EDC) has reported a significant rise in complaints relating to luggage, delays and cancellations.

The events of the summer of 2006 in the UK, but with knock-on affects across all of Europe, also highlighted some of the problems experienced by passengers. A failed terror plot uncovered in the UK led to much stricter security arrangements and a ban on all hand luggage. The impact on overall airline service quality was significant as British Airways (BA) was forced to cancel flights due to long delays at check in. It is estimated that at least 10,000 bags were misplaced by BA and over 700 flights cancelled in the immediate aftermath of the security threat.

The international airline industry

The airline industry plays an important role in the global economy. It is a vital component of the leisure/tourism industry and remains essential to the conduct of international business. It represents one of the biggest industries worldwide with global airline revenues exceeding $12.9 billion in 2006. The direct contribution to national GDP on a global basis is estimated to be $140-145 billion. It is also experiencing unprecedented and sustained levels of demand that are straining the existing aviation infrastructure to breaking point. Yet despite this growth, profitability has remained elusive and marginal and is one of the many contradictions within the industry which has experienced only four periods of profitability over the past five decades.

Several factors account for the overall profitability problems of the industry. First among them is the cyclical nature of the industry, which is a leading indicator of economic downturn. The demand for the product is dependent on demand for related activities, like holidays and business. The product is perishable and demand varies by season, day of the week, and time of day. High fixed costs relative to variable costs make volume crucial. As previous events have shown, the industry is very sensitive to environmental influences. In fact, the Air Transport Association has labelled the constellation of events that started with the September 11 attacks and included war in Afghanistan and Iraq and disease
outbreaks such as SARS and Foot and Mouth as the “perfect economic storm” for international airlines. Rising fuel costs and competition from other modes of transport add further pressure.

Deregulation and liberalization in the airline industry has transformed competition and led to the emergence of a variety of new entrants into the airline industry. The removal of restrictions on fares, as well as legislative and regulatory changes to encourage new entrant low cost carriers, has changed the competitive landscape. Ryanair and Easyjet in the EU and Jetblue and Spirit in the USA highlight the new breed of air carrier. These factors have contributed to the already complex nature of the industry and created some unique managerial challenges.

The business model used by Low Cost Carriers (LCCs) is that of price leadership. In direct contrast, the traditional scheduled carriers, also known as Legacy Carriers, have pursued a full service differentiation strategy with emphasis on hub and spoke networks, primary airport use and Frequent Flyer Programmes, all augmented through alliance membership. Such carriers target short and long haul, leisure and business passengers. The nature of the Legacy Carriers operations tends to make the cost structure higher than that of other airlines. In recent years we have seen many of the larger Legacy Carriers compete on the basis of price on short haul routes in direct competition with the low cost sector. At the same time, the Legacy Carriers have sought to concentrate on service differentiation strategies for their long haul routes (Aer Lingus, British Airways, and United and Delta in the USA).

Airline service quality and the role it plays in a business strategy of differentiation, has therefore assumed greater importance in recent years. This is particularly noticeable on the higher yield international long haul routes where service quality is viewed, not only as an important part of competitive strategy, but a key resource for building competitive advantage over rivals.

Airline service quality

In the pre deregulation era, airline service quality was assessed with respect to industry and managerial variables, such as flight frequency, load factors, transit times and aircraft type. However, in the post deregulation and liberalized environment the provision of superior service quality has been accepted as an important source of customer retention and loyalty, which may ultimately lead to superior competitive performance. Many argue that customer loyalty can be achieved by organizations that display consistency, reliability and fairness in the provision of their service, and that organizations making realistic promises about delivery are more likely to capitalize on superior service delivery.

However, the conceptualization and measurement of the quality of a service has long been problematic for researchers. Service intangibility, simultaneous production and consumption and differences between mechanistic and humanistic quality have further complicated the issue. It is argued that service quality is the difference or gap between customer expectations and perceptions of the service, and understanding such gaps could enable managers to identify potential shortfalls from a consumer perspective. Therefore, the SERVQUAL instrument was designed to offer organizations guidance and help in the analysis of dimensions of service quality. The SERVQUAL instrument was operationalized in the form of five dimensions:

1. tangibles;
2. reliability;
3. responsiveness;
4. assurance; and
5. empathy.

Despite many criticisms the SERVQUAL model has remained popular within service quality research.
Until recently comparisons across regions of the world was difficult. Some EU airlines did self report statistics on the levels of customer service maintained and made the measures available on their websites, however, making comparisons was very difficult due to reporting methods and metrics.

The Association of European Airlines, whose members include the major network carriers operating in the region, has begun producing a Consumer Report detailing punctuality (on-time arrival and departure), flight cancellation, and missing baggage statistics for 26 of its member airlines. Monthly and annual Consumer Reports are published on the AEA website. This new data makes comparisons between EU and US airlines performance on the key service quality indicators possible.

Managerial implications

Given the continuing perceptual and metric-based declines in airline service quality, airlines should be stepping forward to address the factors within their control, but it is not clear that a few high profile efforts to create executive-level positions in the airlines or new voluntary commitments to customer satisfaction will be enough. It has been suggested that airlines suffer from a “business culture in which the costs of fuel and labour are viewed as more important than happy customers in determining profitability” which is to blame for the current consumer woes.

Changing performance metrics may not be enough to change consumer perceptions. If airlines are becoming the service that consumers love to hate, then airlines may need to find new ways to inspire love. From the perspective of the five factors of the SERVQUAL model – reliability, assurance, tangible actions, empathy and responsiveness – the example of Continental's performance with a diverted and delayed flight does not pass any of the basic criteria for service quality performance. The Continental flight from Venezuela to New York sat on the tarmac in Baltimore after weather forced its diversion to that airport. After five hours without food or drink, passengers revolted and demanded 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 blamed the airport and custom officials for the problems and offered passengers a $200 voucher for their next Continental flight. The airport denies the Continental version while passengers complain of kidnapping.

In this case, the “promised service” was not provided to customers in the time or manner that they expected. Further, 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 and it is doubtful that the $200 voucher was considered a sufficient recovery after service failure.

Flight delays are not a new problem for US airlines and should have been the subject of a service recovery plan. Service recovery should include:

- training employees to resolve customer issues;
- empowering them to do so;
- recognizing success stories; and
- communicating best practices.

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