

The value and usage of ticket flexibility for short haul business travellers.

Abstract

Fully flexible business class and “full economy” airline tickets are aimed at meeting the needs of business travellers whose travel requirements may change after a ticket is purchased. The provision of these products has implications for airlines revenue management systems which may lead to overbooking and denied boarding. Low cost carriers have developed a method by which tickets can be changed only when required. This paper investigates the usage and value of ticket flexibility by business travellers as the popularity of high fare-fully flexible tickets has fallen in recent years. A survey of 284 business travellers showed business travellers change their flight arrangements in only 32% of short haul trips. A stated preference study investigated the likelihood of respondents to change tickets in three hypothetical scenarios. The results indicate that to extend a business trip for business purposes travellers are confident that their company will bear the cost of changing a ticket valuing additional time at about £54 per hour but that the value of personal time when travelling is fairly low at £15 per hour. The study concludes that business travellers do not need to change their tickets often and that when they do, low cost carriers offer a more cost efficient method of providing ticket flexibility. This pay-for-usage approach to ticket flexibility undermines the traditional airlines’ pricing structures and this

has contributed to the reduced, relative value of business class and full economy class tickets for short haul air travel.

KEYWORDS

Business Travel, Ticket Flexibility, Low cost carriers,

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INTRODUCTION

The airline industry has long relied on the business travel market as a major (and often principal) source of profit. Depending on the route, business travellers may represent half of all passengers (Civil Aviation Authority, 2003) and given that they tend to pay higher fares than leisure travellers, provide a higher proportion of the airline's revenue. In recent years however the demand for business travel has been undergoing significant change. The liberalisation of the European Union (EU) market and with it the arrival of low cost airlines in the EU has brought new competitive conditions to the market place. Business travellers making short haul trips have increasingly adopted low cost airline services (Mason, 2001) with 71% of UK business travellers indicating that they used low cost airlines for business trips in 2004/5 (Company Barclaycard, 2005).

While business travellers have increasingly made use of low cost carriers, the number of short haul European business trips that are taken in business class has fallen dramatically from a high in 1991, at over 60% of all business trips, to less than half that in figure (25%) in 2003 (British Airways, 2003). This trend is likely to continue and British Airways forecasts that as few as 15% of short haul business trips will be taken in business class in 2006.

This dramatic change in behaviour may be partly explained by a fall in the value placed on the business class product. A regular survey of business travellers

indicates that only 15% of this important group believe business class products provide value for money. This figure has fallen from 24% in 1998 (Company Barclaycard, 1998 and 2003/4). Freely transparent fare information provided on the internet has brought business travellers to question whether business class products are worth their significantly higher fares. The reduced value placed on business class products and also the increase in usage of discount economy tickets and low cost airlines implies that the business class product is now either over-specified for the market or that the discount economy tickets and low cost carrier products offer sufficient product benefits for the needs of a significant element of the business travel market. This paper seeks to establish the value and usage of ticket flexibility in short haul markets by business travellers.

Airlines have aimed business class and fully flexible “full economy” tickets at the business travel market. These tickets offer the traveller the ability to change the bookings taken at short notice, and to take refunds if the ticket is unused. Pilot studies conducted on a number of small groups suggest that business travellers only change their flight arrangements in 20% - 30% of trips. The cost of flexible tickets is significantly higher than non-changeable, non-refundable discount economy tickets (For example see fares from London to Amsterdam Figure 1). To offer flexibility airlines have introduced overbooking profiles on their flights to overcome the uncertainty of whether a traveller will turn up for his/her flight. On some occasions this may lead to too many passengers checking-in for a flight and the airline incurring denied-boarding compensation payments. Consequently

airlines charge high prices for tickets that offer traveller flexibility to insure against these additional costs.

Low cost carriers have introduced an alternative method of offering ticket flexibility to travellers on a pay-as-you-go basis. These airlines sell one-way tickets and do not offer any refund for flights that are not taken. Only one price is offered in the market for a particular flight at any one time. The lowest fare is offered when the flight is first made available for sale and as the departure nears and seats are sold, the price will be raised. Various studies show that prices rise sharply in the final two weeks of sale (e.g. Foster, 2002, Mason, 2002). To offer flexibility, passengers are allowed to pay an administration fee (circa. £10) and the difference between the fare paid for the ticket and the price currently available for the flight that the traveller wishes to change to. If we consider taking ten trips between London and Amsterdam (based on the prices given in Figure 1), the pilot study suggests the traveller will need to change tickets on perhaps three trips. If the costs of the changed low cost airline tickets are close to the full economy ticket price, the total savings made on the trips where changes are substantial. Table 1 shows that if all 10 trips were taken in business class the cost would be circa €6,000 and circa €3,000 if taken with full economy tickets. Using the low cost carrier the cost is estimated to be €1,355, saving of 77% over the business class fares and a saving of 55% over the full economy tickets. This pay-for-usage ticket flexibility offers a realistic alternative to business class or full

economy tickets, and introduces a price incentive to book earlier for those trips that can be pre-planned.

Research objectives

While business travellers demand ticket flexibility, little research has been undertaken into the usage of ticket flexibility and its value to the business passenger. The purpose of this research is, therefore, to attempt to provide greater insight into the value of ticket flexibility – one of the principal benefits offered by short haul business class products – and how much ticket flexibility is used. Better insight into business traveller usage and value of ticket flexibility should provide airlines with the means to re-examine the design of their offering aimed at the short haul business traveller market. The study will also investigate whether there is a relationship between the reasons for a business trip (e.g. sales and marketing, conference/expo, internal meetings, etc.) and the necessity to change a traveller's booking.

METHODOLOGY

To investigate the research objectives a survey of business travellers was conducted. The population of business travellers was considered to be any traveller who has travelled for business purposes in the past twelve months. A highly-targeted internet based survey methodology was used as access to

survey business travellers at various airports was not possible due to increased security arrangements introduced after the 9/11 attacks. An online survey was developed and passengers from three separate lists of business travellers were invited by email to visit the website to complete the survey. There is a potential for people outside the survey population to complete an open online survey, therefore the survey was not submitted to any search engines and the survey was only available for completion for a short period of time. An invitation to complete the survey was sent to subscribing members of three business traveller groups/communities. Members of a US based subscription-only business travel newsletter¹ were invited to participate. Subscribers to the magazine Business Travel World Members and members of the UK based Institute of Travel Management were also sent invitations to participate in the survey. The survey was undertaken between 21/5/04 and 21/6/04. In all, 284 responses were collected. Two-third of responses came in the first week with a further peak (21% of the sample) in the third week when an email reminder was sent. This completion rate pattern assuaged concern that non-qualified respondents completed the survey.

Demographic and business travel behavioural data were collected from each respondent. Travellers were asked how often they travelled, how often they used different types of airline ticket, how far in advance they knew that they would be making a trip, and when they booked their tickets. Travellers were also asked whether they had changed their tickets on the last time they made a business

¹ www.joesentme.com

trip, whether they had changed tickets before travel or during the trip and the reasons for changing the flight arrangements.

To investigate how much travellers are prepared to pay for ticket flexibility, the survey included three hypothetical scenarios which travellers had to indicate how much they would be prepared to change their tickets. In all three scenarios the respondent is asked to imagine that his/her company has paid £100 for a return flight to undertake a business trip. The traveller is told that the company is currently in the middle of a cost cutting exercise and the CEO has asked every employee to keep costs to a minimum on all trips. The scenario places the traveller on a Friday afternoon at the end of a three night business trip.

Scenario 1: In the first scenario the traveller has secured a £50,000 contract and the meeting has finished early. The traveller has arrived at the airport in time to catch an earlier flight home. The traveller is given the opportunity to pay an additional fee to take an earlier flight. The traveller is asked how much he/she would pay to get home one hour, two hours and three hours earlier.

Scenario 2: In the second scenario the traveller is told that the meeting is running longer than expected but that he/she is are close to reaching an agreement for a £50,000 contract but there are a few minor items to agree. The traveller is given the opportunity to pay an additional fee to take the later flight. The traveller is asked how much he/she would pay to spend one hour, two hours

and three hours more at the meeting that would enable the contract to be brought to a successful conclusion.

Scenario 3: In the last scenario the traveller is asked to imagine that that the trip was an important internal company meeting which finished early, the traveller arrives at the airport in time to catch an earlier flight home. Again he/she is given the opportunity to pay an additional fee to take an earlier flight and is asked how much he/she would pay to get home one hour, two hours and three hours earlier.

For all three scenarios the traveller is asked to consider how likely the company is to pay the additional amount.

RESULTS

Nearly two-thirds of the sample (64%) was US based, 27% from the UK and 9% from continental Europe. While there is a clear bias towards US respondents, the sample is deemed as being appropriate as the research does not require geographically orientation, although the analysis will examine whether geographically derived differences exist in sample.

Demographic profile

The demographic profile of the survey was found to be similar to other surveys of business travellers (e.g. Company Barclaycard, 2004/5 International Air Transport Association's Corporate Air Travel Survey, 2004, American Express, 2000) and earlier surveys undertaken by the author (Mason, 2000, 2001) giving confidence in the veracity of the sample as being representative of the business travel market. Four-fifths (80.1%) of the respondents were male. Respondents made on average 21.6 air trips per year for business purposes and of those 15.4 were to short haul destinations. The age profile of the sample is skewed towards middle age with 34.3% of the sample being between 45 and 54 years old with a further 24.2% being 55 years or above. Travellers aged between 35 and 44 represented less than a quarter of the sample (22.3%) with the just 15.1% between 25 and 34.

Forty four percent of the sample work for companies with more than 1,000 employees. The rest of the sample is fairly evenly distributed between very small companies with less than 25 employees (24%) and medium sized companies. Fourteen percent worked in companies with between 25 and 100 employees and 16.9% worked for companies with between 100 and 1000 employees.

Travel behaviour

The purchase behaviour of the sample shows that the principal reason for making a business trip is to attend an internal company meeting (30.0%) followed by sales and marketing trips (24.0%) and then attendance at a conference or sales expo/show (21.3%). Over seventy percent of the sample (71.5%) used a major airline for their last business trip with 20.2% using a low cost airline and just 8.4% of sample using a regional carrier. Here the extent of the adoption of low cost carriers by the business travel community can be seen. It is clear that these types of carriers now represent a real alternative to traditional carriers for business trips. A chi-square test of independence showed that the choice of airline was not influenced by the purpose of the business trip.

The type and class of travel of the respondents' last ten short haul business trips are given in Table 2. The table shows that US and UK travellers display extensive use of discount economy tickets and low cost carrier services as price has become more significant in the purchase decision, while continental travellers make most use of full economy tickets.

Advance knowledge of a trip

A commonly held view is that the need to travel for business travel is not known long in advance. The results of the survey show that travellers know that they need to arrange travel, on average, 24 days in advance of the trip and book the trip some 18 days in advance. Significant differences exist in the length in

advance travellers know they will be making a trip between the various reasons for the trip. Table 3 shows that conferences visits are planned the most far in advance while other reasons seem to have, on average, a two and half week lead time with tickets bought about two weeks in advance. This result has implication for network carries that sell fully flexible business class and “full economy” class tickets. Such tickets are priced at a high level irrespective of how far in advance the ticket is purchased, offering the travellers no incentive to book early. By contrast the low cost carriers’ one-way sales policy means significantly lower fares are available up until perhaps two weeks prior to the flight and therefore, business travellers that use these carriers have an incentive to book as soon as they know they have a requirement to travel. The survey suggests that, with on average 24 days notice, they can take advantage of these lower fares.

The usage of ticket flexibility

The survey sought to investigate how often ticket flexibility is used and required by business travellers. Two-third (67.8%) of the respondents did not change their tickets on their last trip. This figure is somewhat below the 80% indicated by the pilot survey, but does show clearly that in the majority of cases travellers do not change their flight arrangements. For travellers with business class or full

economy class tickets this amounts to paying for ticket flexibility which is unused and therefore wasted.

Of the 32% of travellers that changed their tickets, 8.5% changed tickets for personal reasons most of whom changed their tickets whilst travelling. The tickets that were changed for business reasons were evenly split between travellers changing itineraries prior to the trip (12.1%) and tickets changed whilst travelling (11.4%). The results suggest that business travellers only need some form of ticket flexibility for business-related reasons in only a quarter of trips (23.5%). A chi-squared test showed that the need to change flight arrangements is independent of the reason for the trip (such as sales visit, conference or internal company meeting). It would seem all reasons for business travel are equally as likely to require itinerary changes.

The value of ticket flexibility

To investigate how much travellers are prepared to pay for ticket flexibility travellers were asked to describe their likely behaviour under the three scenarios described in the methodology section earlier. For each scenario the maximum amount a traveller would pay to take a one hour, a two hour or a three hour earlier (or later) flight was determined. The average prices that travellers would be prepared to pay for this ticket flexibility were then calculated. Under each

scenario an average value per hour was determined. A summary of the findings are shown in Table 4.

The value of ticket flexibility for Scenarios One and Three are very similar. In the first scenario the traveller has just secured a valuable contract while in the third an internal company meeting has finished early. Although the reason for the trips were different, both scenarios offered the respondent the opportunity of saving personal time. The results show that the value of saving time for personal reasons (e.g. getting home from a business trip one, two or three hours earlier) is between £15 and £16 per hour saved.

In Scenario Two the traveller is asked to indicate how much he/she would be prepared to pay to take a later flight so that he/she can attempt to bring the sales meeting to a successful conclusion. Here the value of this work-related time is valued much higher than the personal time at £54 per hour. The travellers indicated that they would be prepared to pay significantly more than the original price of the ticket (£100) to extend the meeting if they thought they could secure a deal. It can be noted that the combined cost of the original ticket and three hours ticket flexibility at £262 is similar to the cost of fully flexible economy tickets in European short haul markets.

The business travel market is often described as being price inelastic as a result of the company bearing the cost of the travel. The travellers were asked to rate

on a five point scale (1 = very likely, 5 = very unlikely) the likelihood that their company would reimburse the cost of changing the ticket. The score for Scenario 2 ($\chi = 1.47$) indicated that respondents were significantly more confident that their company would pay for the flexibility to extend a business trip than return home early under either Scenario 1 ($\chi = 2.12$) or Scenario 2 ($\chi = 2.48$). It is perhaps this knowledge that led to the respondents to be more willing to pay a higher amount for ticket flexibility in the second scenario.

Table 4 also shows the average hourly value of time for business travellers divided into segments by their geographical residence, corporate status, and trip frequency. The results also show that there is little difference in the values placed on personal or business-related time by travellers in the three geographic locations.

The value of business-related time (Scenario 2) seems unrelated to a travellers' corporate status with a very narrow range of values between £53.15 and £54.23 found. However, the results suggest that those higher up the corporate hierarchy (and thus more likely to have higher salaries) valued their personal time more highly than those at lower corporate status with Company Directors valuing their time £2.69 per hour more than those in non-management positions under Scenario 1 and even more highly under Scenario 3 (£3.85).

Finally, considering trip frequency, the results show that very frequent travellers (more than 30 trips per year) valued both business-related time (Scenario 2) and personal time (Scenarios 1 and 3) more highly than those that travelled less indicating that these most frequent travellers place highest value on ticket flexibility.

CONCLUSION

The results have shown that travellers do not change tickets to a great extent. For business-related reasons tickets are changed on less than a quarter of all short haul trips. It has also been shown that the need to change ticket is not related to the purpose for which a business trip is being made.

The research has shown that to extend a business trip for business purposes travellers are confident that their company will bear the cost of changing a ticket and value at a reasonable level (over £160 for three additional hours) but that the value of personal time when travelling is fairly low (about £16 per hour). This low value can be attributed to the fact that travellers are not sure whether the company would bear any additional ticket cost for personal reasons. This price sensitivity is also seen in the majority of flights taken with discount economy tickets or with low cost carriers (79% combined). Company policies toward lower fare products clearly have impact on travellers' behaviour.

The rise in network carriers' fully flexible fares while discounted fares have fallen has led to a wide gap between the two price points. This may well have caused the perceived loss of value in business class tickets. The introduction by low cost airlines of a method of offering ticket flexibility means travellers only have to pay for ticket flexibility when they need to use it. Combining this pay-as-you-go flexibility with lower fares booked two weeks or more in advance means companies can significantly reduce short haul travel budgets. Increased fare transparency afforded by the wide spread availability of air fares on the internet has also contributed to the reduced, relative value of business class and full economy class tickets for short haul air travel. To arrest the fall in value placed on business class and full flexible economy tickets network carriers may consider de-bundling ticket flexibility from the rest of the airline product, allowing business travellers to set the flexibility for each booked flight separate from the level of comfort (cabin class) appropriate to their needs.

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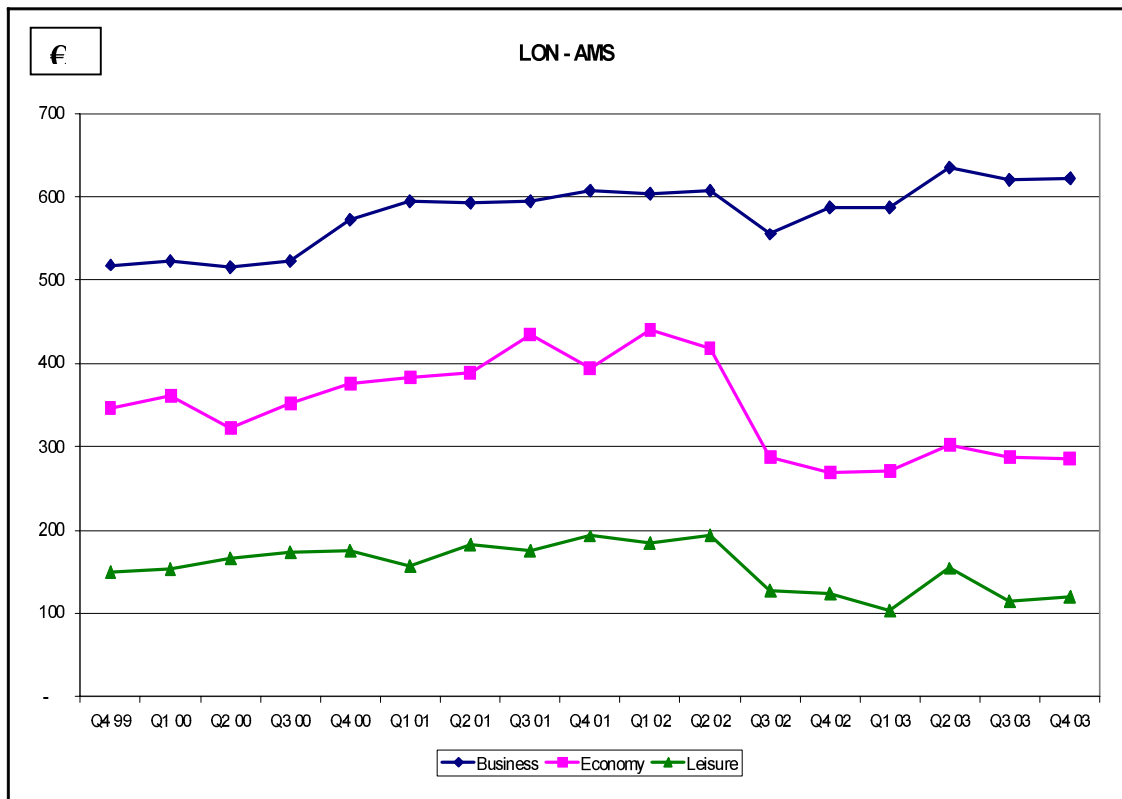
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Figure 1: Air Fares, London to Amsterdam

Source: American Express Consulting Services: European Corporate Travel Index

Table 1: Low cost airline (LCA) estimated savings on ten trips from London to Amsterdam

London - Amsterdam	Ticket cost	Ticket change	Trips not changed	Trips changed	Total cost	Possible saving with LCA
Business class tickets	€ 600	€ 600	7	3	€ 6,000	77%
Full Economy	€ 300	€ 300	7	3	€ 3,000	55%
Low cost airline	€ 65	€ 300	7	3	€ 1,355	

Table 2: Traveller location and use of ticket types

Traveller location	Business Class	Full Economy	Discount Economy	Low cost airline
UK	22.8%	25.3%	36.7%	15.1%
Continental Europe	11.8%	55.5%	28.0%	4.7%
US	5.4%	13.5%	66.8%	14.3%
All sample	10.6%	20.1%	55.6%	13.8%

Table 3: Advance notice of trips

Reason for trip	Advance notice of trip	Advance ticket purchase
Sales and marketing	18.0 days	16.6 days
Conference/expo	48.1 days	31.8 days
Internal company visit	17.4 days	12.4 days
Other	17.6 days	13.0 days
Overall	24.0 days	17.6 days
UK	24.2 days	19.4 days
Continental Europe	10.0 days	8.8 days
USA	25.9 days	15.2 days

Table 4: Average hourly value of ticket flexibility under three scenarios

Average value for	Scenario 1		Scenario 2		Scenario 3	
All respondents	£	16.07	£	54.09	£	15.15
Residency						
US (62%)	£	16.35	£	54.31	£	15.48
UK (27%)	£	16.15	£	53.01	£	15.91
Europe (9%)	£	15.95	£	54.43	£	14.71
Corporate level						
Company Director (25%)	£	16.88	£	54.23	£	16.20
Senior Manager (26%)	£	16.57	£	54.01	£	15.96
Other Management (32%)	£	14.67	£	53.86	£	14.18
Other (14%)	£	14.19	£	53.15	£	12.35
No of trips in last 12 months						
1 - 5 trips (12%)	£	14.50	£	54.43	£	13.19
5 - 10 trips (15%)	£	14.33	£	46.82	£	12.70
10 - 20 trips (29%)	£	16.70	£	54.34	£	16.38
20 - 30 trips (16%)	£	16.95	£	54.67	£	15.81
30 - 50 trips (21%)	£	16.01	£	56.26	£	16.04
More than 50 trips (6%)	£	18.40	£	61.81	£	14.41



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