

The simultaneous operation of a network and low-cost carrier business model and its effect on perceived customer value

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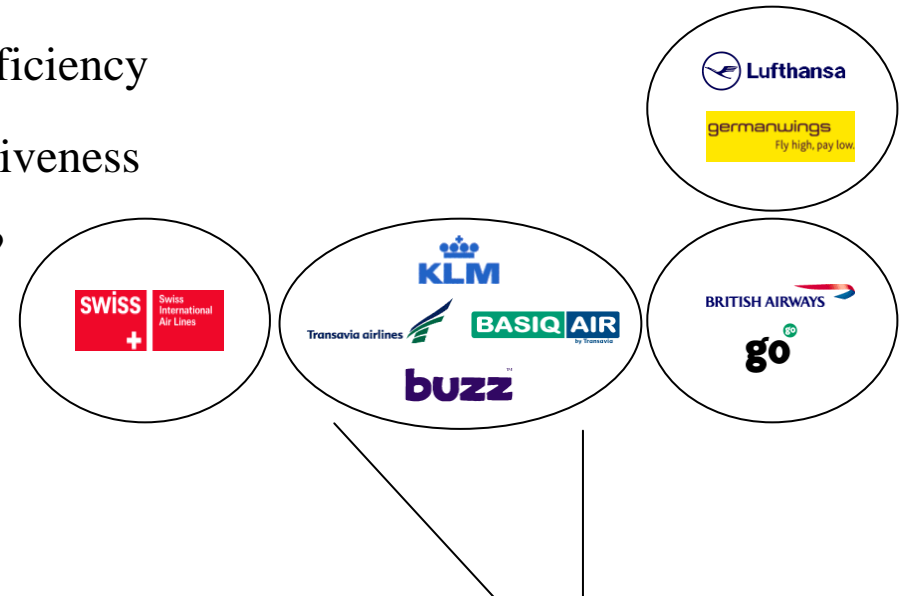
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Introduction

- Incumbents set up parallel no-frills low-cost units
- Operating a full-service network carrier simultaneously with a no-frills low-cost carrier delivering the same basic output in the same grouping
- Failure of many examples in the airline industry

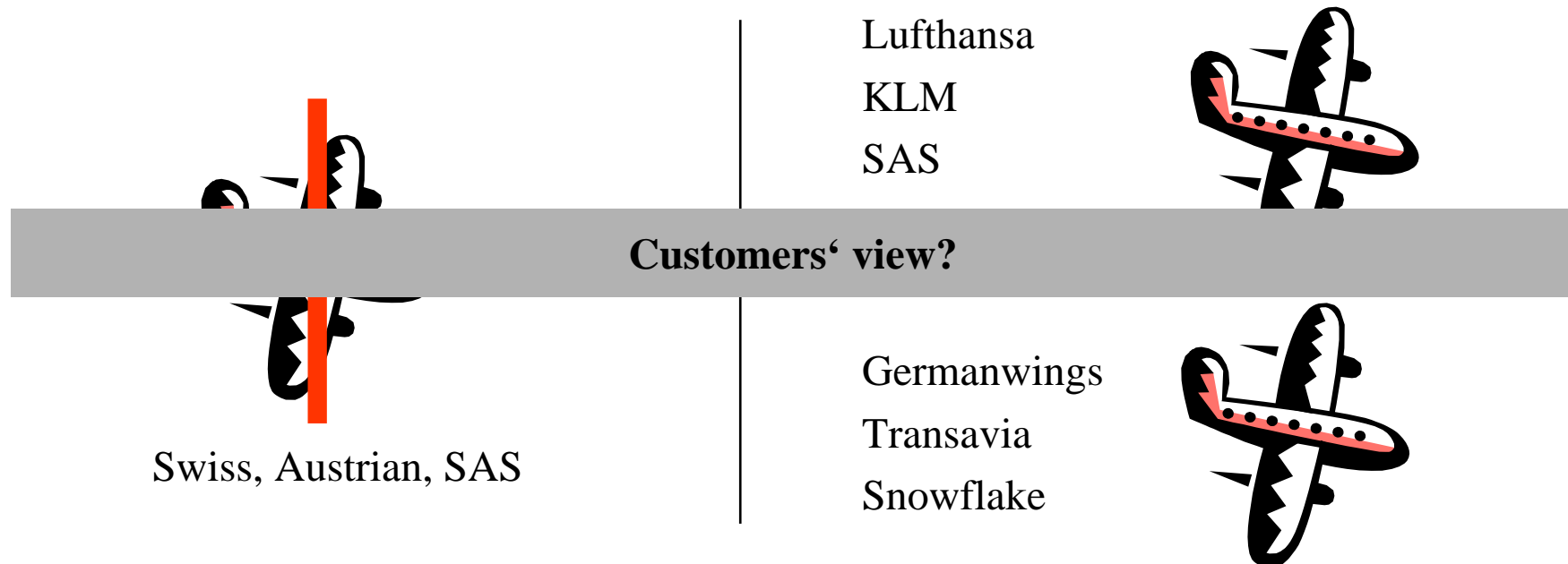
- Compatibility of business models questioned
- (Graf, 2004): Incompatibilities of the business model are the causal reason for failure
- Internal incompatibilities limit organizational efficiency
- External incompatibilities limit marketing effectiveness
- How does the customer perceive such offerings?



Purpose of the study

Main research question:

“What are major effects of the simultaneous operation of a full-service high quality and no-frills low-cost business model in the same grouping on perceived customer value of airline passengers?”



Subordinated research questions

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“What are major effects of the simultaneous operation of a full-service high quality and no-frills low-cost business model in the same grouping on the perceived customer value of airline passengers?”

Subordinated research questions:

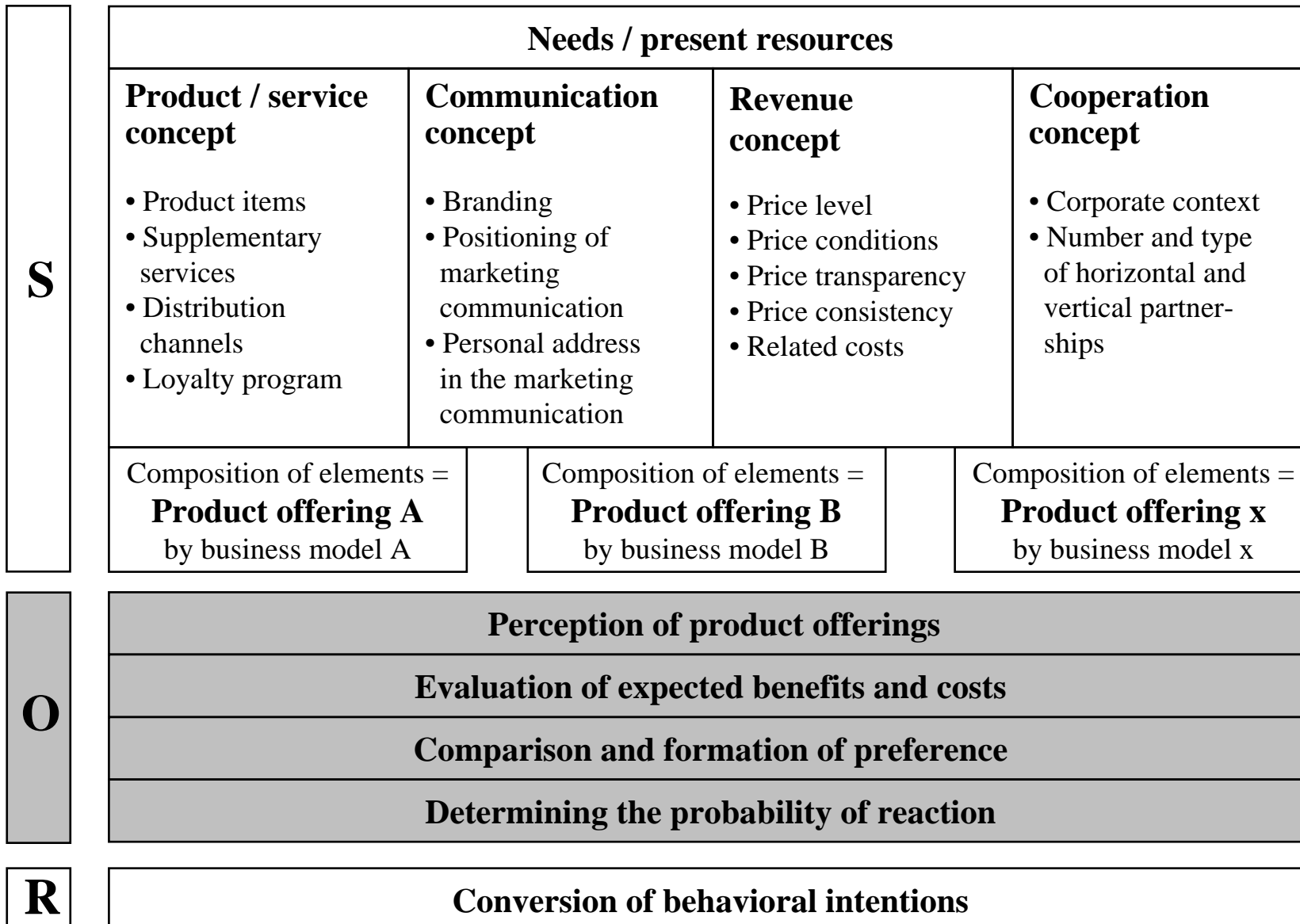
- Which stimuli of a business model are actually recognized by a customer?
- Do customers distinguish between different business models and their perceived stimuli?
- How do the stimuli perceived by the customers affect each other?
- Which elements of the perceived customer value construct are affected?
- What are consequences in consumer behavior?
- What are contextual factors on which the effects on the customer side depend?

- Conceptual paper to develop a research model
- Goal of testing the model and the derived hypotheses quantitatively in a consumer survey
Method for analysis unknown yet
- Conceptual background: Theories of Business Modeling and Perceived Customer Value
- Some explorative empirical insights:
 - a) 10 semi-structured interviews with senior airline managers
 - b) 8 in-depth customer interviews of Swiss International Air Lines
 - c) Customer survey and complaints, news clippings

Repetition: Subordinated research questions

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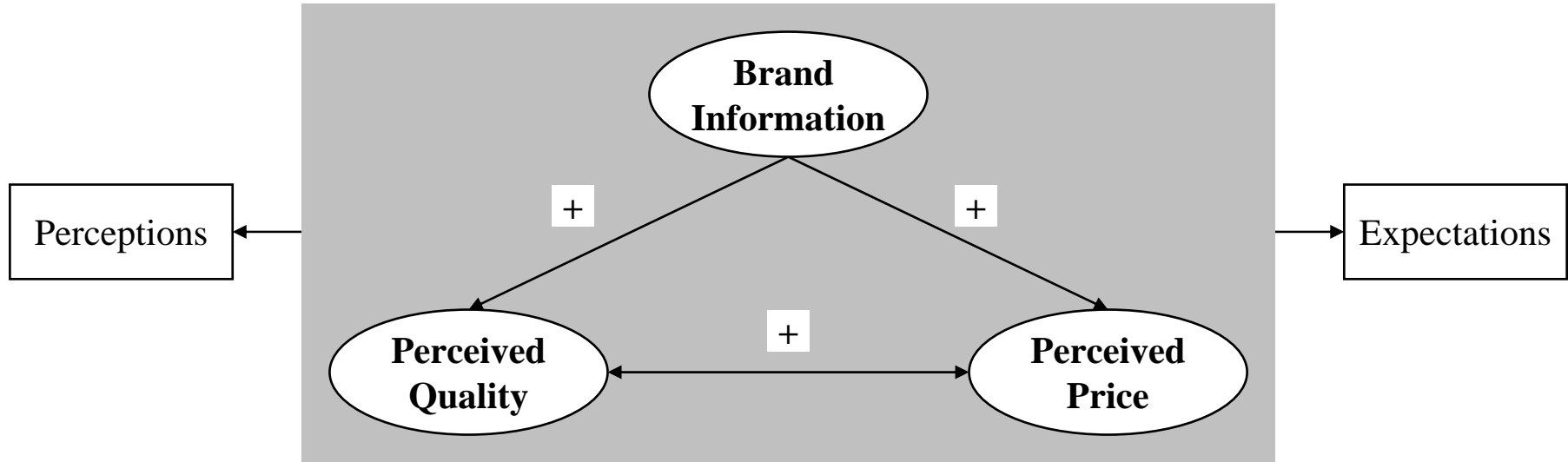
Stimuli of a business model customers perceive



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Relationships of the stimuli perceived by customers

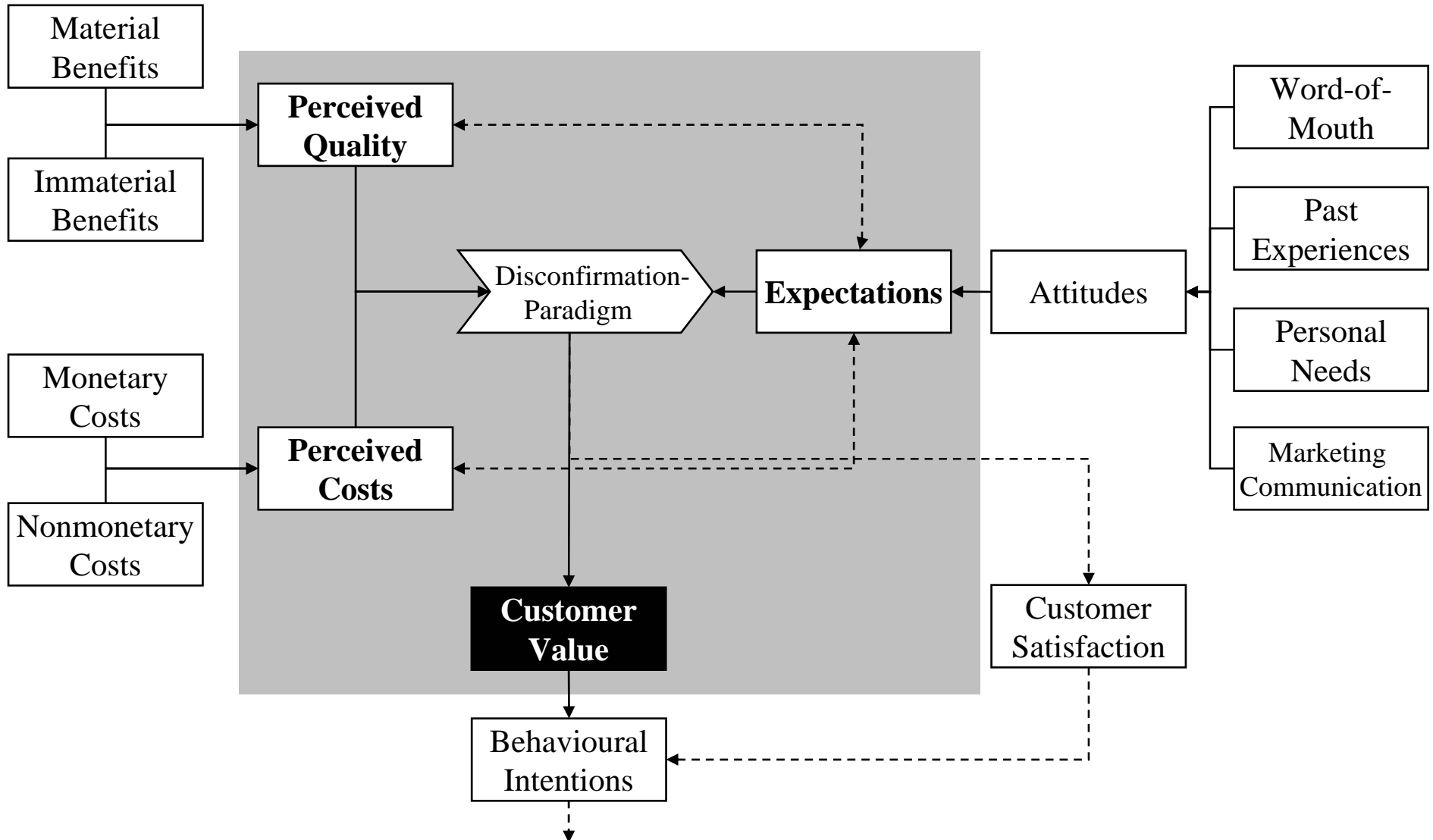


1. The use of the price as an indicator of perceived quality is rational
2. Consumers infer from the perceived quality to the price of a product
3. Favorable brand information has a positive effect on perceived quality
4. Favorable brand information enhances the price effect
5. Services: Expectations are particularly formed by price and brand information
6. Perceptions influence expectations and the other way round
7. Consumer define adaptation levels

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Construct of perceived customer value (PCV)



Combination of business models

Combining a network and low-cost carrier in the same grouping



1. means combining a full-service and no-frills product offering
2. means combining a point-to-point and connection based product offering
3. means combining a business and leisure-travel oriented product offering

Model of the affected dimensions in PCV

Independent variables: Degree of separation, Customer involvement, Market characteristics



Material benefits:

- Tangible /intangible elements before, during and after the service encounter

Immaterial benefits:

- Community effects
- Emotional payoff
- Convenience
- Reputation

Monetary costs:

- Reference price

Non-monetary costs:

- Price fairness
- Price transparency
- Price reliability and consistency



- Perception of **inequity**, receiving lower quality for paying higher prices
- **Dissatisfaction** due to negative fulfillment of will and should expectations
- Less **credibility** in the grouping and its product offerings

Customer Value

Behavioural Intentions

- Negative **perception of the prices** attached to the product offerings
- **Consumer confusion** due to stimulus overload and stimulus similarity
- Higher **perceived risk** in acquiring the product offerings of the grouping

Hypotheses:

- The major stimuli perceived of a business model are quality, price and brand information
- Airline customers categorize the stimuli of different airline business models
- Perceived customer value (quality against price) is affected by the parallel operation
- The effects depends on contextual factors, which are controllable and non-controllable
- The effects also explain the failure of earlier attempts

Future research:

- Testing of the model in a consumer survey
- Operationalization and verification of the hypotheses

Questions to the audience:

- Is any major and imaginable effect on the customer side missing?
- Is the chosen model a good approach to depict and measure the effect on the customer side?
- Is a consumer survey the appropriate method to receive the data?
- What are potential methods to analyze the data:
 - a) Multivariate factor analysis (regression analysis of the variables)?
 - b) Conjoint measurement of disrupting factors of competing airline product offerings?
 - c)

any comments: grafluca@gmx.de, thank you!