

Case Report, Clinical Procedure, Editorials, Hypotheses, Investigations, Letters to the Editor, Literature Reviews, Research Article, Research Notes, Review Articles, Technical Reports, Original Research Paper

The Role of Customer Relationship Management in the Airline Industry

Devasya Agarwal¹

¹(1st Affiliation) Economics, Modern School Barakhamba Road, New Delhi, India;

Article history

Received: Date-Month-Year

Revised: Date-Month-Year

Accepted: Date-Month-Year

*Corresponding Author:

Devasya Agarwal,
Modern School Barakhamba
Road, New Delhi, India;
Email: devasyaag8@gmail.com

Abstract: In the status quo, airlines are unable to maximize profits, partly because of the lack of transformation in the management of customers over the decades. In this paper, we inherently showcase a part of the reason that airlines aren't heavily profitable, and how it can be averted. This paper maximizes ways to achieve the impact of previously conducted studies, to achieve consistency and improve the number of times a particular consumer flies with a particular airline, translating to more profits. Coherently, this also means that a customer stays with the airline for a longer period than before.

Keywords: Customer Relationship Management, Churn, Acquisition, Retention

Introduction

In this paper, we study the impact of customer relations in the airline industry. We will be analyzing methods regarding which firms can use marketing strategies to reduce churn, increase customer retention, as loyal customers are essential for stability, and to acquire new customers, required for the growth of the given institution. This paper is divided into two main parts, the first one being a literature review, where we will be considering already existing papers published on top journals, and putting forward an overview of what they present, while the second part will be looking into the relevance of the economic theory with our research, based on customer acquisition, customer retention and churn rates, and devising mechanisms on how firms can reduce churn and increase the acquisition and retention. For the literature review, we will be analyzing papers on retention, acquisition, and churn, as well as on loyalty programs, effective pricing strategies in the airline industry context, and how the demand and supply curve shifts under different economics situations. We also will be elaborating the interlinkage between acquisition and retention. Through the course of this paper, we see consumer related with the firm in three stages. Firstly, the consumer chooses to fly with an airline for the first time. This is referred to as acquisition, as it corresponds to the firm acquiring a customer. Secondly, the consumer chooses to stay loyal to the firm- this is retention, as the firm is retaining the consumer for a long period of time.

Thirdly, churn refers to the percentage of consumers abstaining from the firm, choosing not to fly or to fly with another firm during the given time frame.

Literature Review

Customer Acquisition

Shukla (2013) analyses how customers analyze their options in the first place. Three of the most common ones are analyzed. Firstly, the pricing strategy can directly incentivize the consumer to choose one firm over another, as when two similar goods are available, the customer always chooses the cheaper one. Secondly, in the airline industry, revenue also depends on the available options for flights to a specific location, and the customer must choose the firm which offers the flight available for the given destination, at the time of requirement. This requires firms to know about the demand for a specific destination at a given time of the year. Lastly, information about the market should be available to the consumer. Kim (2021) also focuses on how the customer, when deciding to buy a particular good, does not have all the information required to make the right decision. However, if they search for relevant data available on the internet, the information, with them, about the market, improves significantly. This makes all three aspects necessary for customer acquisition.

Customer Retention

Dong et al. (2021) portrays the negative relation between customer acquisition and retention, and how pushing acquisition, can sometimes lead to a loss in the retention rate. They also show us how acquisition and retention were seen as two separate spheres, though they did not analyze interlinkage. The paper gives the firms two scenarios, where, in the first, acquisition and retention do not have a co-relation. In this case, the firm can sell goods directly to consumers, as it will not affect the retention rate. However, the second case states that if there does exist a negative relation between the two, the firm should use representatives under a delegation method to sell goods. These representatives can acquire customers, while maintaining a loyal relation, and hence a feasible retention rate as well. Others have also understood the importance of customer satisfaction, and a good experience for the customer to maintain retention. Kim (2021) proves how a single experience, whether good or bad, can influence a customer, in whether they choose the same firm to buy the required goods and services in the future. Oblander et al. (2020) have also found that customer satisfaction is vital for retention, and how each customer has the capability to get the firm more revenue by being a loyal and regular customer and increasing the Customer Lifetime Value (CLV). Customers who will then suggest the product to their family and friends also help in increasing cashflow for the given firm. Gopalakrishnan et al. (2021) emphasize the impact of a non-tiered loyalty program in each firm, though they consider these programs in the context of grocery stores rather than airlines. Their study shows us how non-tiered programs reduce the economic lock-in for a consumer, as one missed visit will not cause them to lose out on any benefits. It also proves how these programs can result in higher customer value, as the discount only increases with increasing spending, incentivizing the consumer in turn to spend more money. However, Gopalakrishnan et al. also concede that loyalty programs, in terms of each customer coming in and going out of the program, cannot be measured simultaneously.

Churn

Matos et al. (2018) show us the high churn rates which already exist in the market. They also point out the two ways that firms use in the existing world to prevent customers from leaving. The first being reactive management, in where, it is analyzed that this may be a stage, which is too late, to try and retain the said customer, and the second one, which is proactive management, i.e., going to the customer before they indicate that they want to churn. However, this also imposes a problem, as reaching customers, before they have given any indication of wanting to leave the firm, results in giving price cuts to most of the consumers,

resulting in higher retention, but lower economical gain and hence less Customer Lifetime Value, but it may increase the total profits for the firm. However, proactive churn management can also be volatile. Hence, it provides a new method of proactive churn management, where the likely churners could be targeted through social media. Ascarza et al. (2017) gives us insights into the minds of consumers, and how they believe firms can improve their experience. It also investigates how customer retention is considered vital; however, many firms are still unable to meet their retention expectations. This paper analyses the negative relation of social connectivity with churn. It portrays how, if the product gives the consumers a feeling of social embeddedness, they are less likely to churn. The paper also throws light on the importance of calculating lifetime value to measure retention.

Economics Theory

Our research is fundamentally related to economic theory in many ways. For instance, improved customer relationships will lead to a relatively inelastic demand curve, as now, the firm will have not only a higher demand, but also a more stable demand, as now, there will be more loyal customers and less churn. Even if we believe in Keynesian economics, which postulates that market economies are self-regulating, these economies will always bend towards and benefit the firms with better management of customers.

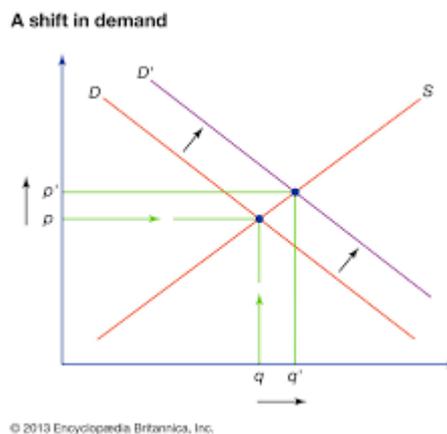


Fig. 1. A sample demand graph showing the effect of increased demand on price and equilibrium quantity.

We can also prove, using a demand and supply curve, that if the demand for a particular firm increases, while the supply (i.e., the number of flights on a given route) stays the same, the price will go up, profits will increase, and the airline will also have a scope to expand as the required quantity for their goods will increase. Talking

about the substitutional effect in the airline industry, both the number of tickets, and amount of purchase matter, as if one customer is wanting to go for a vacation, the airline can either advertise, and lead the consumers to buy cheap tickets, but a higher number of them, or lead the customers to buy premium, good quality tickets for a shorter flight route, this in turn a change in the total revenue for the firm. This example is one of many ways that the substitute effect plays a role in the industry.

Conclusion

Throughout the paper, we analyze key methods to improve the statistics relating to CRM in the airline industry. The high-level impacts include awareness amongst the consumers through advertisements, the sale of products under a delegation, improving retention and loyalty, the concept of a program without an economic lock in, and the requirement to increase customer lifetime value to achieve economic profit.

Limitation

Due to the lack of complicated models, we are unable to know, in detail, the short- and long-term impacts of buying points as compared to earning it, we do not know if the average customer is close to, or far from redemption. Lastly, we cannot implement our review in a real-life setting, and see its impact in real time.

Future Studies

In the future, researchers may conduct a field experiment verifying the hypothesis of this paper. Furthermore, research may be conducted answering the questions “Advertisements or Availability?”, “More customers, subsidized rate or Less customers, Full price?”, “Advertisements: Short term or long-term impact?” and “Do partner programs correlate to loyalty?”. All these questions correspond to Customer Relationship Management in one sense or another.

References

1. M.G. Matos, P. Ferreira, R. Belo. Target the Ego or Target the Group: Evidence from a Randomized Experiment in Proactive Churn Management. *Marketing Science* 37(5), 793-811 (2018)
2. Gopalakrishnan, Z. Jiang, Y. Nevskaya, R. Thomadsen. Can Non-tiered Customer Loyalty Programs Be Profitable? *Marketing Science*. 40. 10.1287 (2021)
3. Y. Kim. Customer Retention under Imperfect Information. (2022)
4. E. Ascarza, S. Neslin, O. Netzer, Z. Anderson, P. Fader, S. Gupta, B. Hardie, A. Lemmens, B. Libai, D. Neal, F. Provost, R. Schrif. In Pursuit of Enhanced Customer Retention Management: Review, Key Issues, and Future Directions. *Customer Needs and Solutions*. 5. 10.1007/s40547-017-0080-0. (2018)
5. M. Braun, and D. A. Schweidel. Modeling Customer Lifetimes with Multiple Causes of Churn. *Marketing Science* 30(5). 881–902 (2011)
6. Oblander, E.S., Gupta, S., Mela, C.F. et al. The past, present, and future of customer management. *Mark Lett* 31, 125–136 (2020)
7. Y. Dong, Y. Yao, T. H. Cui. When Acquisition Spoils Retention: Direct Selling vs. Delegation Under CRM. *Management Science* 57(7).1288-1299 (2011)
8. V. Mahajan, E. Muller. Advertising Pulsing Policies for Generating Awareness for New Products. *Marketing Science, INFORMS*, 5(2).89-106 (1986)