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**Airline types**

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There are three main types of airline that supply the tourism industry: charter, scheduled full-service and scheduled low-cost. At the extremes, the three types of airline are positioned and marketed very differently, as illustrated in Figure 1. However, Figure 1 also illustrates areas of hybridisation and convergence which is arguably more typical of how modern airlines are positioned and marketed today. Each of the three main types are described as follows:

(1) Charter airlines serve holiday markets, but also short breaks. Their flight comprises one of several components of a package holiday. They operate point-to-point services (P2P) to holiday destinations from regional or secondary airports, using aircraft with economy class seating. Flight tickets are included in the overall price of the package holiday, which is published in advance, and priced according to seasonal variations in demand. Distribution is directly via the tour operator or indirectly via a travel agent. Marketing communications drive traffic to the tour operators ´brochure´ that details packages available for the upcoming season. Many of the largest charter airlines are owned by a tour operator. For instance, TUI, which is the largest tourism group in Europe, owns five charter airlines: TUI Airways UK, TUI fly Belgium, TUI fly Germany, TUI fly Netherlands and TUI fly Nordic.

(2) Scheduled full-service airlines serve business and visiting friends and relatives (VFR) markets, but also holidays and short breaks. They sell tickets for year-round flights across their network, which typically consists of a hub airport in their home country and a network of ´spokes´ to domestic, intra-regional and intercontinental destinations. Many of them cooperate with partner airlines, for instance, by joining an alliance such as the Star Alliance, Oneworld, SkyTeam, or Vanilla Alliance, to allow for the interlining of passengers and their baggage (meaning that they can travel seamlessly on several flights with different airlines, without needing to purchase separate tickets for each one). They offer several classes onboard with varying degrees of service (e.g. in terms of seat space and comfort, complimentary food and drink, baggage allowance, and boarding priority). The different classes cater to different price segments. Multiple direct and indirect distribution channels are used including a call centre, ticket offices at airports and on the high street, the airline website, travel agents on the high street, and online travel agents (OTAs). Sales are supported by Global Distributions Systems (GDS) such as Sabre, Amadeus or Travelport, and by the airline´s own computer reservation system. Marketing communications drive traffic to the various distribution channels and are supported by the airline´s Frequent Flyer Programme (FFP) and wider customer relationship management efforts to retain and reward frequent flyers. It includes airlines like Qatar Airways and Singapore Airlines that have a particular reputation for high levels of service quality.

(3) Scheduled low-cost airlines commonly serve short break, holiday, and VFR markets, but also business. They sell tickets for their flights but also offer opportunities for self-packaging, which enables them to earn commission from partners such as car rental and accommodation providers. They operate year-round P2P services to/from regional or secondary airports that are less congested than main airports and therefore keen to offer price incentives and marketing support to help establish and grow traffic. They offer economy class seating onboard that is without ´frills´. They then charge extra for frills such as checked-in baggage, seat reservations, or food and drink onboard. This generates ancillary revenues for the airline. Although the basic principle is to offer low fares, they use dynamic pricing to get the right price to the right customer at the right time meaning that prices can be relatively high close to departure when passengers are expected to have a higher willingness to pay. Distribution is via the airline´s own website and marketing communications drive traffic to their website. It includes airlines like Ryanair and Spirit Airlines that have a particular reputation for low fares.

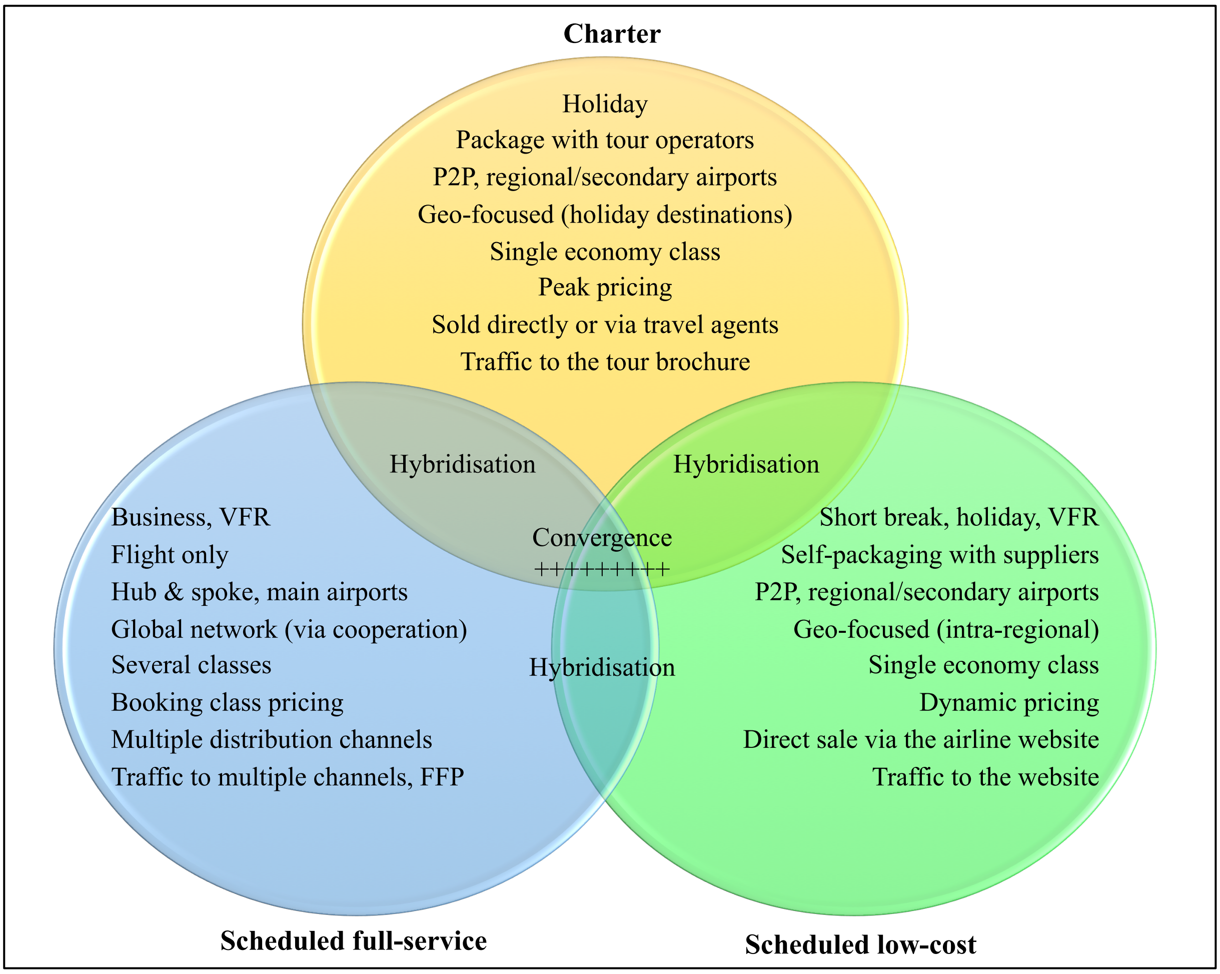


Figure 1. Main types of airline and areas of hybridisation and convergence.

After several failed attempts, scheduled low-cost airlines only really emerged as markets began to be deregulated (e.g. in the US, Europe and parts of Southeast Asia). Initially, they were not viewed as a substantial threat to established charter and scheduled full-service airlines. However, they have experienced rapid growth in the markets they serve, and their presence has intensified competition in those markets. Several airlines have adopted hybrid business models to exploit synergies between the different types of airline, with varying degrees of success. For instance, Corbo (2016) examines the hybridisation of Air Berlin (that ceased operations in 2017) and JetBlue. While examples of hybridisation exist, there is also a more general trend of convergence, for instance, full-service airlines have adopted successful features of low-cost and charter airlines such as the use of direct sales via the airline website, directing traffic to the airline website, dynamic pricing, opportunities for self-packaging, and no frills for economy class seating on domestic and intra-regional services. As an example, British Airways offers direct sales via its website where it is possible to book a flight only, a package holiday, or components of a package such as a flight plus hotel, flight plus car hire, hotel only, car only or an experience such as a hop-on hop-off bus tour of London. The airline´s Economy Basic fare excludes free seat reservations, food or drink onboard, and checked-in baggage.

Meanwhile, low-cost airlines have reached saturation in mature markets and have responded by adopting successful features of full-service and charter airlines such as the use of main airports (Dobruszkes et al., 2017), non-scheduled services on behalf of tour operators or packages of their own (e.g. easyJet Holidays), several booking classes (e.g. Norwegian´s LowFare, LowFare+ and Flex), the use of indirect distribution channels such as OTAs (e.g. momondo.com, which is a metasearch website that distributes flight tickets for Ryanair, Wizz Air, WestJet, Spirit Airlines, Norwegian, and Southwest Airlines), FFPs (e.g. Norwegian Reward with over 10 million members), and interlining agreements with other airlines. Regarding the latter, US-based low cost airline JetBlue has had interlining agreements with Aer Lingus, Lufthansa (which included adding their flights to the Sabre GDS), South Africa Airways, American Airlines, Virgin Atlantic, Jet Airways, Air China and Porter Airlines; while the first pan-regional low-cost airline alliance, the Value Alliance, was founded in 2016 by several airlines in Asia including Cebu Pacific, Cebgo, Jeju Air, Nok Air and Scoot.

Long-haul markets have traditionally been a challenge for scheduled low-cost airlines whose business model is more suited to short and medium-haul services, and there is still much debate about whether or not low-cost long-haul is a viable business model (e.g. see Albers et al., 2020). AirAsia and Norwegian have had some success and JetBlue has plans to launch services to London from New York and Boston. However, in order to succeed, the airlines depend to some extent on scheduled full-service characteristics such as interlining, the use of FFPs, several booking classes with frills, and multiple distribution channels.

As a result of growing commonalities between different types of airline, the convergence of airline business models has become of great interest to researchers (e.g. see Daft and Albers, 2015), and while different types of airline can still be delineated, there is also evidence of there being more of a continuum than a categorisation (Lohmann and Koo, 2013), which is indicated by the symbol ´+++++++++´ in Figure 1. A key challenge for the future will therefore be to reconcile convergence (and partnering with other airlines, or even consolidation) with uniqueness of the brand, especially given that brand equity is already weak in the airline industry. As a result, airlines are increasingly focused on the deployment of digital technologies that allow them to better engage with consumers, for instance, to develop more personal, meaningful and long-term relationships (Halpern, 2019), but also to provide a more customer-centric approach to their business. In line with this, there is a general need to better understand how the rise of new digital technologies associated with Industry 4.0 such as cognitive computing and Big Data Analytics can be effectively used by airlines, for instance, to tailor personalised offers to potential consumers.

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