

# The Role of Customer Relationship Management in the Airline Industry

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**Abstract:** In the status quo, airlines are unable to maximize profits, partly because of the lack of transformation in customer management over the decades. In this study, we inherently showcase a part of the reason that airlines are not heavily profitable and how it can be averted. This study employs a critical review method of literature and economic theory analysis to explore the significance of Customer Relationship Management (CRM) in driving sustainable growth within the airline industry. Customer acquisition, retention, and churn management are critical imperatives, with personalized experiences and loyalty programs playing key roles. The discourse underscores the transformative potential of CRM in shaping the airline industry's future trajectory, fostering sustainable growth, and ensuring long-term profitability. The study also illuminates the intricate interplay between CRM practices and demand-supply dynamics, demonstrating how enhanced CRM practices lead to increased demand for airline services and cost savings. With foundational economic theories as the basis, the study highlights how improved customer relations can result in relatively inelastic demand curves, thus reducing sensitivity to price changes and enhancing revenue stability. The study provides practical insights for airlines to leverage CRM strategies, stimulating revenue growth and expanding market share. Moreover, the study acknowledges its limitations and proposes avenues for future research within this domain.

**Keywords:** Customer Relationship Management, Churn, Acquisition, Retention

## Introduction

This research paper employs a critical review method of literature and economic theory analysis to unveil the pivotal role of Customer Relationship Management (CRM) in driving sustainable growth within the airline industry. Departing from conventional literature reviews, our approach emphasizes conceptual innovation, aiming to uncover nuanced insights and actionable strategies for airlines to navigate the complexities of customer acquisition, retention, and churn management. CRM is a multifaceted strategic approach emphasizing the systematic management of customer data and interactions to foster enhanced loyalty. CRM assumes paramount importance within the airline industry, transcending transactional interactions to nurture enduring relationships with existing and prospective customers. Customer acquisition, retention, and churn management are critical imperatives, with personalized experiences and loyalty programs playing key roles.

Drawing upon classic economic theories, this research illuminates the intricate interplay between CRM practices and demand-supply dynamics. Enhanced CRM practices increase demand for airline services and cost savings, reflecting airlines' ability to offer more flights at every price level. This study also underscores the transformative potential of CRM in shaping the future trajectory of the airline industry, fostering sustainable growth, and ensuring long-term profitability and competitiveness. The study acknowledges its limitations and proposes avenues for future research within this domain. Addressing its limitations prompts avenues for future research, including field experiments and longitudinal studies to validate hypotheses and explore broader implications of CRM across diverse businesses.

This study shows consumers' relationship with the firm in three stages. Firstly, the consumer chooses to fly with an airline for the first time, referred to as acquisition, as it corresponds to the firm acquiring a customer. Secondly, the consumer's choice to stay loyal to the firm is retention, as the firm retains the consumer for a long

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. Contexts, ultimately charting a path forward for CRM in the airline industry and beyond.

## Methods

We use the critical review method of literature and economic theory analysis to identify the role of customer relationship management in the sustainable business growth of the airline industry. The critical review is a crucial research tool; it emphasizes arenas of influence that may not be empirically observable. This method significantly and substantively varies from the traditional literature review because it seeks to bring 'conceptual innovation' or theoretical development to the issue under analysis. In this article, we critically review the literature, examining the role that customer relations play in promoting sustainable business advancement within the airline sector. The study delves into strategies that firms can employ to utilize marketing techniques effectively, aiming to diminish churn rates, augment customer retention, and cultivate loyalty among clientele. For our analysis, we have selected papers from top journals on retention, acquisition, and churn, as well as on loyalty programs and effective pricing strategies in the airline industry context. Furthermore, we use a classic economic lens, demand-supply theories, to support our insights from the critical literature review. We examine how the demand and supply curve shifts under different economic situations that emerge from better customer management practices.

### *Literature Review*

#### *Customer Relationship Management (CRM)*

Customer Relationship Management (CRM) is a multifaceted strategic approach businesses adopt to effectively engage with their customer base. It encompasses systematic customer data management and strategic handling of customer interactions to foster and enhance customer loyalty (Kotler and Armstrong, 2010). Shaw (2007) further elaborates on CRM, presenting it as a marketing philosophy that prioritizes nurturing existing customer relationships over pursuing new clientele. The overarching objective of CRM implementation is to support customers' decision-making processes during transactions, thereby reducing marketing expenditures, amplifying revenue streams through cultivating positive customer relations, and ensuring sustained customer retention.

#### *The Significance of CRM in the Airline Industry*

The discourse surrounding customer acquisition, retention, and churn management within the airline industry underscores the complex interplay of factors

shaping consumer behaviors and firm strategies. Effective CRM practices are indispensable in navigating this dynamic landscape and fostering sustainable business growth. Customer Relationship Management (CRM) is fundamental for fostering sustainable business models within various industries. Harrison (2000) contends that CRM endeavors to attract, retain, and bolster customer relationships, thereby emphasizing the cultivation of enduring and mutually beneficial connections. In the context of the fiercely competitive airline industry, it becomes imperative for airlines to recognize the paramount importance of not only acquiring but also retaining and fortifying relationships with customers (Kalakota and Marcia, 1999).

As the landscape of the airline industry evolves amidst heightened competition and shifting consumer dynamics, customer management, and marketing focus transcends mere transactional interactions. Airlines are compelled to shift their attention towards nurturing comprehensive relationships with both current and prospective customers. Leveraging powerful tools and databases, including those derived from Computer Reservation Systems (CRS) and frequent flyer programs, the airline industry finds itself poised to spearhead a pivotal reorientation in marketing strategies toward relationship marketing (Faßnacht, 2001). Full-service carriers are urged to embrace integrated CRM strategies to attain competitive differentiation and long-term profitability effectively. Likewise, low-cost carriers must invest in foundational CRM capabilities to streamline customer-facing operations and optimize operational efficiency (Boland *et al.*, 2002).

#### *Customer Acquisition*

In contemporary air travel, consumer purchasing behaviors swiftly evolve due to technological advancements. With access to abundant information from diverse sources, travelers can meticulously plan their journeys, compare airline ticket prices, and evaluate service offerings before finalizing their purchase decisions. Consequently, the discourse on relationship marketing has emerged as a critical focal point within the airline industry, wherein establishing favorable connections with customers is instrumental in securing repeat patronage. Despite occasional service failures, implementing airline Customer Relationship Management (CRM) programs often mitigates dissatisfaction (Law, 2017).

Key considerations include pricing strategies, the availability of flight options to desired destinations, and access to pertinent market information. Moreover, Kim (2022) underscores the significance of information accessibility in shaping consumer decisions, wherein internet-derived data significantly enhances market awareness. These insights collectively underscore the multifaceted nature of customer acquisition endeavors.

### Customer Retention

Customer retention emerges as a critical imperative for airlines seeking to maintain long-term profitability and sustainability. Koch's (1998) 80/20 Principle underscores the disproportionate contribution of a minority of customers to sales revenue, underscoring the importance of retaining existing clientele. Echoing this sentiment, (Chablo, 2000) highlights the disproportionately higher costs associated with acquiring new customers as opposed to retaining existing ones. Dong *et al.* (2011) elucidate the intricate relationship between customer acquisition and retention, cautioning against an undue emphasis on acquisition at the expense of retention rates. They propose a dual scenario approach wherein firms can either engage in direct sales or delegate sales responsibilities to representatives to simultaneously maintain acquisition and retention rates (Mahajan and Muller, 1986).

Moreover, customer satisfaction emerges as a cornerstone of retention efforts, with positive customer experiences significantly influencing future purchasing behaviors and revenue generation potential (Kim, 2022; Oblander *et al.*, 2020). Gopalakrishnan *et al.* (2021) highlight the impact of non-tiered loyalty programs in enhancing customer value and reducing economic lock-in, thereby fostering sustained retention rates.

### Churn

Churn, or customer attrition, poses a significant challenge within the airline industry, necessitating proactive churn management strategies. Godinho De Matos *et al.* (2018) underscore the prevalence of high churn rates and delineate firms' reactive and proactive churn management approaches. Ascarza *et al.* (2018) delve into consumer perceptions of firm efforts to enhance customer experiences, emphasizing the importance of social connectivity in mitigating churn rates. They advocate for targeted social media outreach as a proactive churn management strategy, albeit acknowledging potential economic trade-offs (Braun and Schweidel, 2011).

The literature review underscores the pivotal role of CRM in driving sustainable business growth within the airline industry. By adopting integrated CRM strategies, airlines can effectively navigate the complexities of contemporary market dynamics, fostering enduring relationships with customers and ensuring long-term profitability and sustainability. However, challenges such as customer acquisition, retention, and churn management necessitate nuanced approaches tailored to the unique needs and preferences of airline clientele.

### Economics Theory

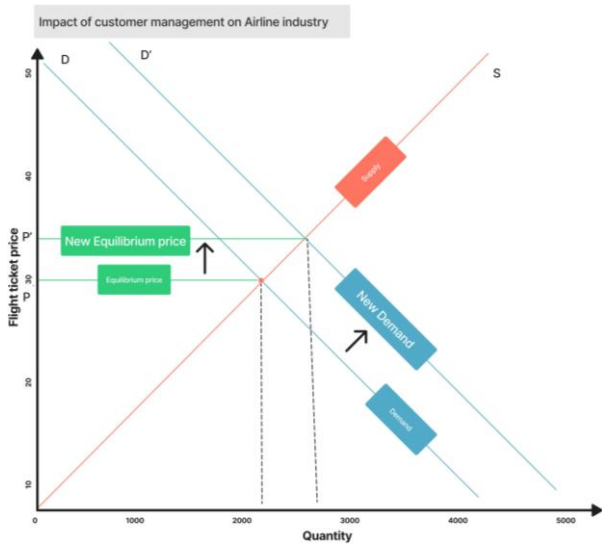
Our research is fundamentally related to economic theory in many ways. Improved customer relationships

will lead to a relatively inelastic demand curve, as the firm will have a higher demand and a more stable demand. 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 customer management.

By providing excellent customer service, addressing inquiries promptly, and resolving issues efficiently, airlines can create positive experiences for passengers. Satisfied customers are more likely to remain loyal to the airline. Personalized offerings such as seat preferences, meal choices, and loyalty rewards programs make customers feel valued and appreciated. Keeping passengers informed about flight updates, delays and cancellations in a proactive and empathetic manner with clear and timely communication can mitigate frustration and dissatisfaction. Furthermore, establishing feedback mechanisms, such as surveys or customer feedback forms, allows airlines to gather insights directly from passengers. Acting upon this feedback demonstrates a commitment to continuous improvement and shows customers that their opinions are valued. Ensuring consistent service excellence across all customer touchpoints reinforces positive perceptions of the airline brand.

These better management practices positively affect the airline industry's economy. Loyal customers are more likely to choose the airline for future travel, resulting in higher sales and revenue. Additionally, satisfied customers may be willing to pay premium prices for superior service. Acquiring new customers is typically more expensive than retaining existing ones. Airlines can save on marketing and promotional expenses by reducing customer churn through better relations. In a competitive market, superior customer service can differentiate an airline from its competitors and attract more passengers. Positive word-of-mouth recommendations from satisfied customers can also improve the airline's reputation and market position.

Figure (1), the demand curve, illustrates the relationship between ticket prices and the quantity of flight passengers. Improved customer relations can lead to an increase in the demand for flights offered by an airline. When customers have positive experiences, they are more likely to choose that airline for future travel, resulting in a rightward demand curve shift. This shift indicates that consumers are willing to purchase a larger quantity of tickets at any given price level, leading to higher sales and revenue for the airline. As customer relations improve, the demand curve shifts to the right, moving to increased new Demand ( $D'$ ), indicating an increase in demand across all price levels due to factors like positive word-of-mouth and enhanced brand loyalty.



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

As customer satisfaction and loyalty increase due to better relations, the airline may be able to command a price premium for its services. This is because loyal customers may be less sensitive to price changes and more willing to pay higher fares for the perceived value and quality the airline offers. The elasticity of demand for the airline's tickets may decrease as a result, indicating that price changes have a relatively minor impact on the quantity demanded. By retaining existing customers and reducing customer churn, airlines can save on marketing and promotional expenses associated with acquiring new customers. Additionally, operational efficiencies gained through improved customer service and streamlined processes can lead to lower operating costs. These cost savings can shift the supply curve to the right, indicating that the airline is willing and able to supply a larger quantity of flights at every price level.

As illustrated in Fig. (1), the supply curve, representing the relationship between ticket prices and the quantity of flights supplied by airlines, also shifts to the right. This shift reflects the airlines' ability to offer more flights at every price due to streamlined operations and cost reductions resulting from improved customer management. The new equilibrium point, where the new demand and supply curves intersect, depicts a higher quantity of flights sold and potentially higher ticket prices, a new equilibrium price, compared to the initial equilibrium. This adjustment leads to increased revenue and profitability.

Additionally, positive word-of-mouth recommendations from satisfied customers can attract new customers and increase market share. As the preferred choice for travelers, airlines with better customer relations may capture a more significant portion of the market, leading

to further increases in demand and revenue. With higher demand and increased supply, the market for airline services will become more stable. Hence, the equilibrium in the airline industry will adjust to accommodate the changes in demand and supply resulting from better customer relations. This adjustment will lead to higher prices, increased flight quantities, and potentially a more competitive and stable market environment.

## Conclusion

Our comprehensive analysis underscores the pivotal role of Customer Relationship Management (CRM) in the sustainable growth of the airline industry. Through a critical review of the literature and economic theory, our research uncovers key insights and actionable strategies for airlines to navigate the complex dynamics of customer acquisition, retention, and churn management. Effective customer acquisition relies on understanding pricing dynamics, market availability, and information accessibility. Moreover, prioritizing customer satisfaction, loyalty programs, and personalized experiences is critical for fostering long-term relationships and increasing Customer Lifetime Value (CLV).

Proactive churn management, including leveraging social media for early identification of potential churners, emerges as a crucial strategy to minimize customer attrition. From an economic standpoint, our analysis highlights how enhanced CRM practices influence demand-supply dynamics, leading to more inelastic demand curves and cost savings from reduced churn. Airlines can capitalize on these findings by investing in personalized customer experiences, proactive communication, and data-driven CRM strategies to drive revenue growth and market share expansion. In essence, our research provides actionable insights for airlines to harness the power of CRM, ultimately driving sustainable business growth and competitiveness in the airline industry. We highlight high-level impact strategies, such as creating consumer awareness through advertisements, delegating product sales, enhancing retention and loyalty, introducing a program without economic lock-in, and the need to increase customer lifetime value to achieve economic profit.

## Limitation

While our study offers valuable insights into the role of Customer Relationship Management (CRM) in the airline industry's sustainable growth, it is essential to acknowledge several limitations. Firstly, our analysis predominantly relies on existing literature and economic theory, which may not fully capture real-world complexities and nuances. Additionally, the scope of our study primarily focuses on CRM strategies related to customer acquisition, retention, and churn management,

potentially overlooking other significant aspects such as operational challenges, regulatory constraints, and technological advancements impacting CRM implementation in airlines. Furthermore, our review may be subject to publication bias, as we primarily select papers from top journals, potentially overlooking valuable insights from smaller or niche publications. Moreover, while economic theory provides a theoretical framework for understanding demand-supply dynamics, its application to real-world airline operations may be oversimplified, overlooking contextual factors and industry-specific challenges. Due to the lack of complicated models, we cannot know, in detail, the short and long-term impacts of buying points compared to earning them. We do not know if the average customer is close to or far from redemption. Finally, the generalizability of our findings may be limited to the airline industry and further research is needed to explore the applicability of CRM strategies across different sectors and business contexts. Addressing these limitations could enhance the robustness and applicability of future research on CRM in the airline industry and beyond.

## Future Studies

In the future, researchers may conduct a field experiment verifying the hypothesis of this study. Furthermore, research may be conducted answering the questions "advertisements or availability?", "More customers, subsidized rate, or fewer customers, full price?" "Advertisements: Short-term or long-term impact?" "Do partner programs co-relate to loyalty?" and "Exploring the role of e-marketing and websites in improving customer relationships". All these questions correspond to customer relationship management in one sense or another. Various methods can be employed to address this question based on the context of the study and available resources. A randomized controlled trial could be used to investigate the impact of advertisements versus availability.

Similarly, a quasi-experimental design might assist in analyzing the effects of different pricing strategies on customer behavior. Longitudinal studies could illuminate the short-term and long-term impacts of advertisements. Additionally, quantitative analysis and qualitative research methods could be utilized to examine the correlation between partner programs and customer loyalty.

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## Ethics

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