WARC

As ‘revenge travel’ slows, what can airlines do with their brands to optimize their pricing?

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Consumers are unwilling to give up traveling but macroeconomic factors – inflation, disposable income, and the stock market – have made them more sensitive to pricing.

- BERA.ai research found that brands that navigate rising price sensitivity more effectively do so thanks to the impact of their brand strength on consumer willingness to pay (WTP).
- This is measured using four key brand-building metrics: familiarity, regard, meaning, and uniqueness (FRMU).

Why it matters

Travel brands – including airlines – are in some of the most price-sensitive categories, so brand building is an important tool that airlines have to preserve, protect, and even boost their pricing power in response to consumers' increasing sensitivity to price.

Takeaways

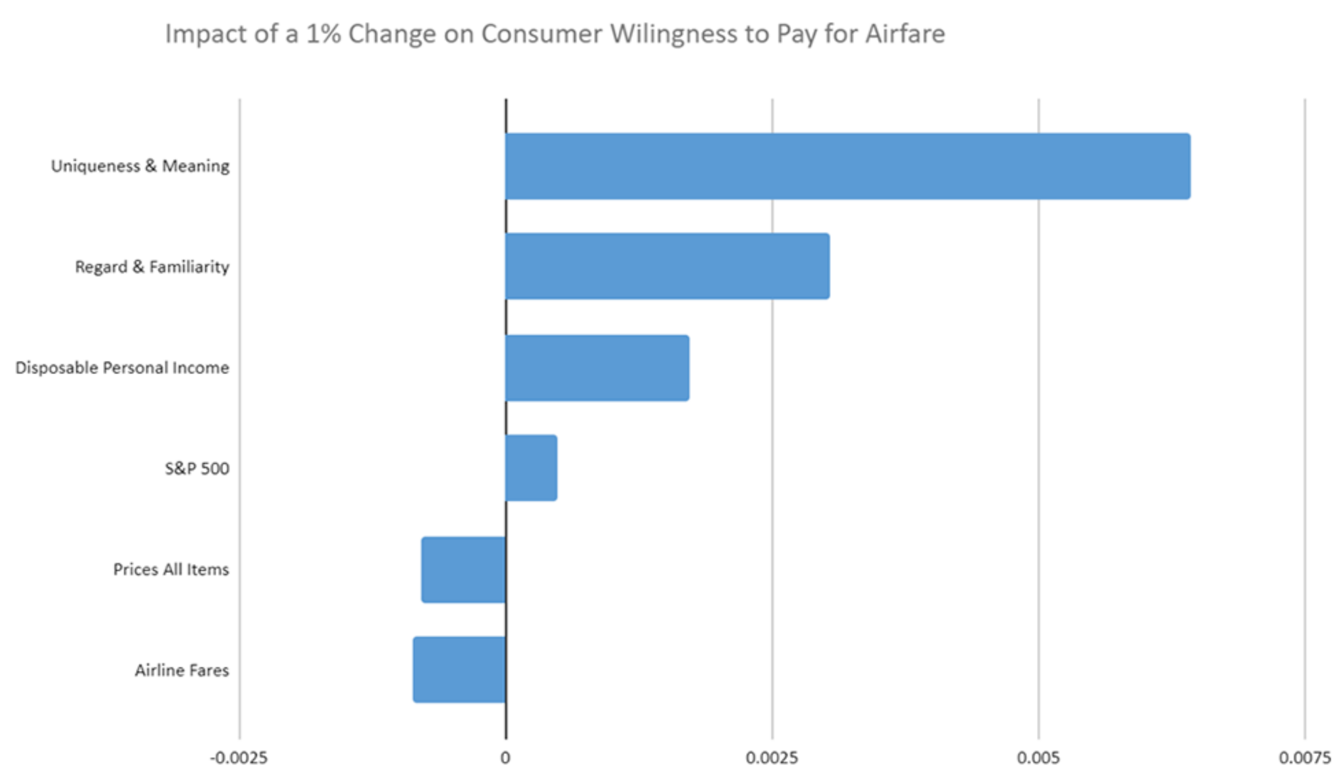
- BERA.ai found that a brand’s equity – its familiarity, regard, meaning, and uniqueness (FRMU) – is by far the single most important factor driving consumer willingness to pay (and thus, pricing power) in the airline industry.
- To accurately gauge whether their local pricing is optimal or at risk, airline brands should be able to quantify their brand’s FRMU versus competing brands in each local market.
- In local markets where an airline brand is disadvantaged on M&U, it should sharpen its pricing and simultaneously work on building M&U leadership in those markets.
- In addition to incorporating the three most important macroeconomic indicators, airlines should also incorporate consumer perceptions of brand-driven pricing power into their pricing models.

Travel intent is up in the US, with consumers expressing an unwillingness to part from experiences that bring them **joy**. Consumers are looking for memorable and convenient trips that offer tailored experiences. However, despite a GWI/**WARC** report which found that 29% of US consumers surveyed purchased a domestic flight ticket, the era of “revenge travel” seems to be waning. Inflation and overall macroeconomic tensions have made consumers more selective with their travel spending and increasingly price-sensitive. What can airlines do in response?

Based on findings from BERA.ai, a brand intelligence platform, the answer lies in understanding the power of brand equity to ease consumers’ price sensitivity. They found that a brand’s equity – its familiarity, regard, meaning, and uniqueness (FRMU) – is by far the single most important factor driving consumer willingness to pay (and thus, pricing power) in the airline industry.

The impact of FRMU

Airline brands with strong FRMU are able to navigate rising price sensitivity more effectively, thanks to the impact of their brand strength on consumer willingness to pay (WTP). Since travel brands – including airlines – are in some of the most price-sensitive categories (see chart below), brand building is an important tool that airlines have to preserve, protect, and even boost, their pricing power in response to increasing sensitivity of consumers to price. Moreover, because brand strength varies locally – and sometimes by a lot – the ability to measure and manage brand FRMU locally should have a profound effect on how airlines manage their pricing across local markets.



Travel category elasticity vs other categories

Category	Average estimated Price Elasticity (from 2022 data)	Rank
Toilet Paper	-0.8%	1
Canned & Jarred Foods	-0.8%	2
Chocolate	-0.8%	3
Facial Tissues	-0.9%	4
Paper Towels	-0.9%	5
Lip Balm	-0.9%	6
Oral Care - Mouth Wash & Rinse	-1.0%	7
Pain Relievers & Analgesics	-1.0%	8
Oral Care - Toothpaste	-1.0%	9
Cleaning Products	-1.0%	10
...	...	...
Hotels	-1.3%	55
Luxury Hotels	-1.4%	73
Airlines	-1.7%	111
Online Brokerage	-2.0%	123
Domestic Beer	-2.1%	124
Light Beer	-2.1%	125
Pre Paid Mobile Providers	-2.2%	126

Source: BERA

How the study worked

BERA.ai's research looked at nine airline brands from January 2019 to April 2024, as well as airline pricing data from the same time period. BERA.ai maintains multi-year data on over 130 metrics for 4,000 brands around the world. The most important of these metrics are for the four variables that quantify the relationship consumers have with a brand ("brand equity") that determine its contribution to financial performance, including volume growth, pricing power, margins, and shareholder value. The four metrics are:

Familiarity: This is the extent to which consumers feel they know and understand a brand – beyond simply being aware of its existence alone. This can change greatly as events cause consumers to move beyond their awareness of a brand to learn more about it.

Regard: This reflects how much consumers respect a brand and can be affected by how a brand's pricing strategies, products, or services change.

Meaning: This addresses the relevance consumers perceive a brand to have in their lives. It generally sees the biggest declines if a crisis highlights or creates a conflict of values between consumers and a brand.

Uniqueness: This refers to the differentiation consumers see in a brand. Events can impact this measure if they cause consumers to reevaluate a brand's unique contribution to their lives.

For each of the airline brands, BERA.ai used the brand equity metric known as the BERA Score (footnote 1) to examine how these four factors affect pricing power and consumer WTP across different markets (see first chart, farther above).

According to the findings, a one percent increase in Meaning and Uniqueness (M&U) leads to a .64 percent increase in consumer WTP, suggesting that consumers are looking for an airline's distinctiveness when choosing where to spend. This is evidenced in how prices for trips to theme parks, sporting events, and even concerts overseas like Beyonce's Rennaissance Tour and Taylor Swift's Eras Tour have increased quickly, resulting in "funflation."

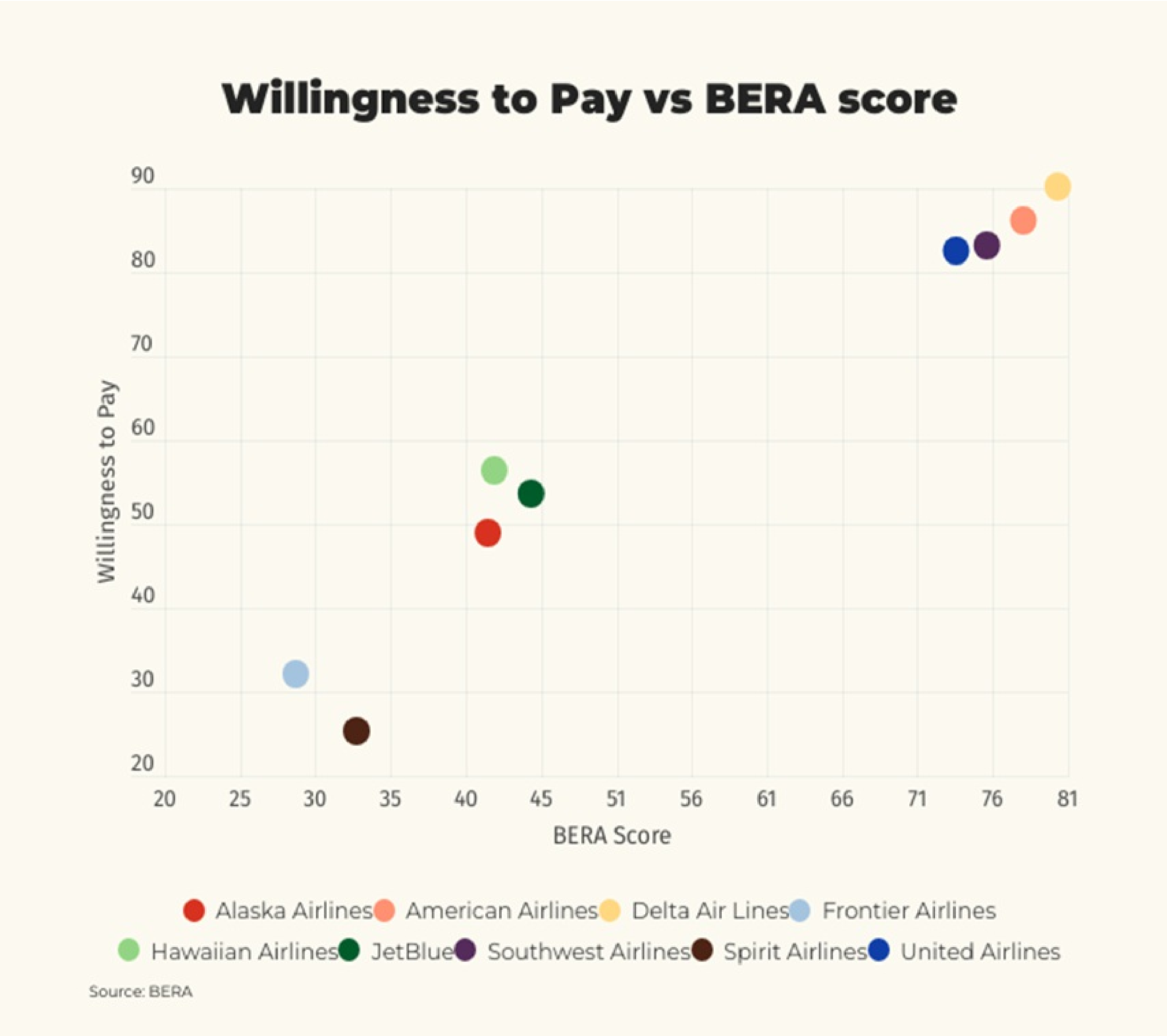
Currently, airfare and hotel prices are higher than in previous years across the board, resulting in lower WTP. Therefore, airline brands should focus their marketing efforts on increasing perceptions of their brands' M&U with all consumers in their target markets to minimize price sensitivity and increase pricing power. Creating distinct experiences for different destinations and different kinds of travelers will make meaningful differences in their brands.

The opportunity for airline brands to drive incremental revenue by reducing price sensitivity through brand building is exponential. For an average airline brand with an annual revenue of $25 billion, a 1-point increase in its perceptions of M&U would equate to an incremental revenue gain of about $300 million through increased pricing power.

Familiarity and Regard (F&R) follow Meaning and Uniqueness as key motivators for minimizing price sensitivity: a 1 percent increase in F&R produces a .31 percent increase in consumer WTP. Whereas a brand's Meaning and Uniqueness differentiate itself in experience, convenience, and other emotion-based associations, increasing F&R involves ensuring the quality of products and services and that consumers experience that level of quality on a consistent basis to build trust.

The Delta Airlines example

Delta is a great example of strong brand equity thanks to its strong perceptions of familiarity, regard, meaning and uniqueness. BERA.ai found that Delta has the highest FRMU (BERA Score) nationally amongst the airlines. Consumers associate the brand with superior safety and high-end experience, and it has ranked first in customer satisfaction across many surveys, making it a first-pick choice for many consumers planning their holidays. Thus, it is no coincidence that Delta has the highest consumer WTP in the airline industry.



When inflation goes high, consumer willingness to pay (WTP) goes low

Beyond brand equity, economic conditions also impact consumer WTP for travel. Greater disposable income is an important positive driver and conversely, inflation is a key negative driver. As prices rise, consumer purchasing power decreases and so does WTP.

BERA.ai compared the CPI Airlines Fares Index to its WTP metric for the airline category and found a strong negative correlation. As airfare prices rise, consumer WTP falls and price sensitivity increases. This effect is consistent across categories but is especially strong in categories that involve discretionary spending and higher-priced goods and services like travel.

The best response to decreasing consumer WTP is not a pricing one, but a brand-building one. Qatar Airways did exactly this in its recent advertising campaign. The airline helped consumers look past the price of their fares by creating a virtual reality where consumers could experience their flight before booking. This provided needed insights and answered questions without consumers having to call the airline or navigate the airline's website. The **campaign** was innovative, relevant to the audience in those markets and, most of all, it was convenient, resulting in an ROI of 285% and a margin increase to 10.2% from 5.8%.

Brand building and optimal pricing are local!

Does consumer willingness to pay differ by market? (YES!)

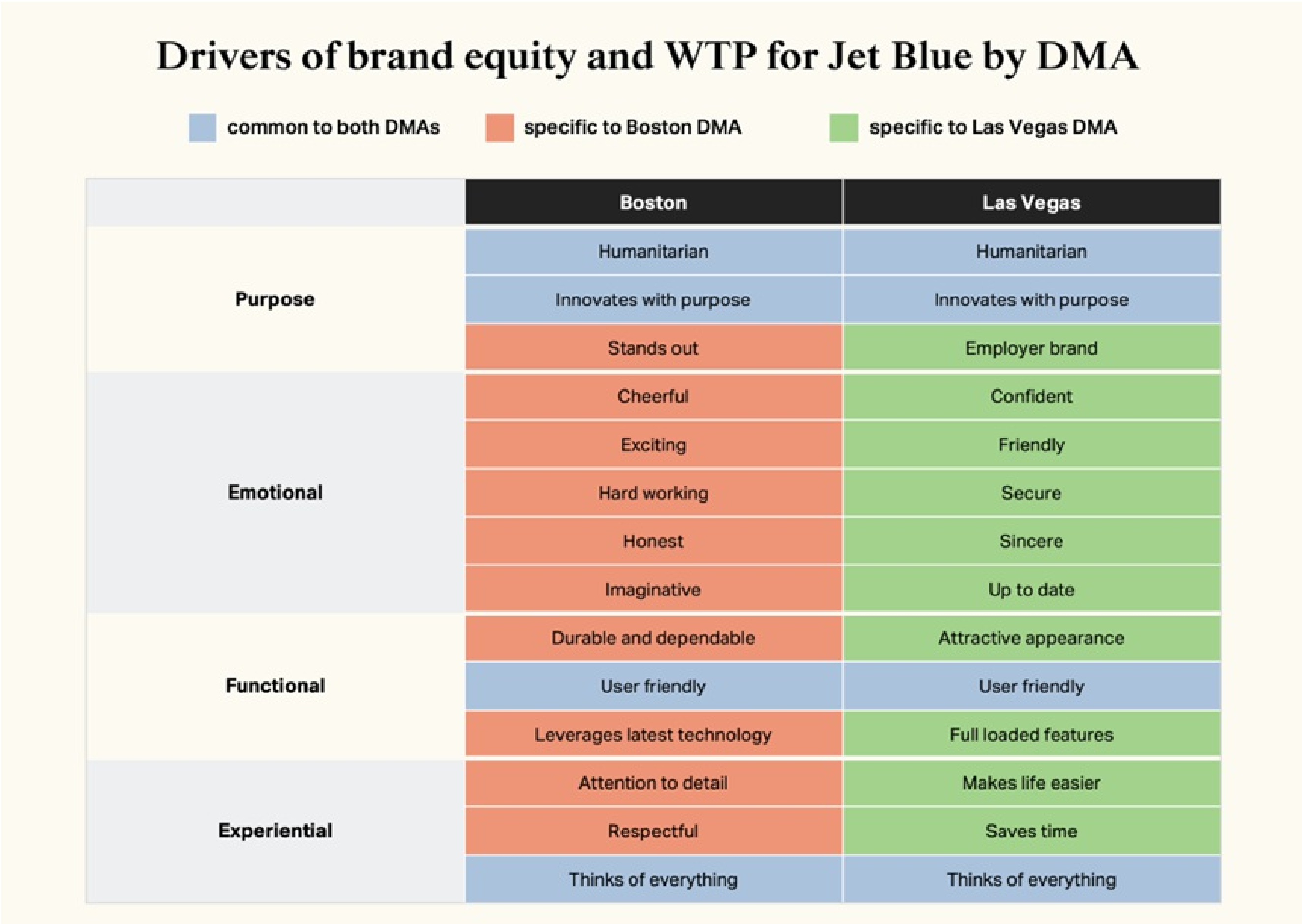
Willingness to Pay Rank Within DMA	New York	Boston	Dallas	Chicago	Las Vegas	Los Angeles	Seattle
Delta Air Lines	1	2	3	4	2	2	2
American Airlines	4	3	1	2	3	3	5
Southwest Airlines	5	4	2	3	1	1	6
United Airlines	3	5	4	1	4	4	4
Hawaiian Airlines	6	6	5	5	5	6	3
Alaska Airlines	7	7	6	6	6	5	1
JetBlue	2	1	8	8	8	7	7
Frontier Airlines	8	9	7	7	7	8	8
Spirit Airlines	9	8	9	9	9	9	9

Source: BERABERA Insights on Airline Pricing for WARC

Building brand equity is not one-size-fits-all across local markets. The key drivers of a brand's equity differ by market, as does its pricing power. To accurately gauge whether their local pricing is optimal or at risk, airline brands should be able to quantify their brand's FRMU versus competing brands in each of their local markets.

For example, nationally, BERA.ai found that the brands with the highest WTP scores were Delta with a score of 90, American Airlines with 86, and Southwest and United with 83. But these scores – and thus their pricing power – vary tremendously by local market.

Take JetBlue. Its brand ranked first among airlines in Boston in terms of consumer WTP, but ranked last in Las Vegas! It's no coincidence that in Boston, JetBlue scored 66 on associations of brand purpose and 69 on associations of brand experience, while in Las Vegas, it only scored 29 and 25, respectively. Moreover, among the 14 key drivers of brand equity (and thus, WTP) for both DMAs, only four are the same for both markets (see chart below)!



Drivers of brand equity and WTP for Jet Blue by DMA

common to both DMAs | specific to Boston DMA | specific to Las Vegas DMA

	Boston	Las Vegas
Purpose	Humanitarian	Humanitarian
	Innovates with purpose	Innovates with purpose
	Stands out	Employer brand
Emotional	Cheerful	Confident
	Exciting	Friendly
	Hard working	Secure
	Honest	Sincere
	Imaginative	Up to date
Functional	Durable and dependable	Attractive appearance
	User friendly	User friendly
	Leverages latest technology	Full loaded features
Experiential	Attention to detail	Makes life easier
	Respectful	Saves time
	Thinks of everything	Thinks of everything

The stark difference between the two DMAs, despite the brand being the same, demonstrates the need for brand-building efforts to be specific to each market.

Pricing power is strongly affected by the shape and level of a brand's FRMU, which varies depending on the DMA. It's not just a matter of knowing your local audience but also knowing how your brand currently stacks up with that audience.

What marketers can learn

- An airline brand's local-market Meaning and Uniqueness (M&U) should dictate local-market pricing. In local markets where an airline brand is disadvantaged on M&U, it should sharpen its pricing and simultaneously work on building M&U leadership in those markets. It should hold the line on pricing in local markets where it is advantaged and invest to sustain high M&U in those markets.
- Investing in building M&U is one of the highest return investments airlines can make, given the intense sensitivity of their business models to pricing and the effect of brand equity on pricing power. BERA.ai found that raising M&U perceptions among non-customers substantially increases the odds of those consumers picking an airline for reasons other than price. Among current customers, it strengthens loyalty for non-price reasons.
- In addition to incorporating the three most important macroeconomic indicators – inflation, disposable income, and the stock market – airlines should also incorporate consumer perceptions of brand-driven pricing power into their pricing models, namely F&R and M&U.

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