



COUPON SEQUENCE AND USE

Requiring the complete and sequential use of flight segments is to the benefit of the traveling public.

As shown in this paper, this requirement enhances competition (and lower fares), allows for better connectivity (including for smaller communities), and reduces wasted capacity (and therefore overbooking).

The issue

Airlines require passengers to travel as per the itinerary shown on their ticket, from the place of departure via any agreed connecting points to their final destination, and vice versa. Each leg of the journey is linked to a specific segment on an electronic ticket. If all the segments are not used in sequence, the ticket as a whole will lose its validity in most circumstances.

Certain groups see this requirement as an inconvenience to customers and an unfair restriction on their ability to obtain cheaper fares. As shown below, this is not the case.

IATA position

Airlines are not selling individual flight segments – they are selling a journey from the passenger's departure point to his/her destination. Each of these journeys is a product on a market, with a specific price attached to it based on market conditions. On board of any scheduled flight we find passengers that will have paid a range of different fares, depending on the tariff conditions under which they bought their tickets. Passengers may have connected to the flight, or will be connecting to another flight, and their fares will reflect the actual competitive situation in the end-to-end markets concerned.

Market segmentation is a critical element in the pricing of air travel. It ensures that there are prices to suit every pocket. And it allows a "mix" of fares which will determine whether that flight is economically viable or not. However, this approach requires that carriers exercise careful control over the numbers of each type of fare they sell on any particular flight. The key to market segmentation is having rules which allow the various products to be differentiated from each other. One of the most important rules is that flight segments must be used completely and in sequence.

Market segmentation and connecting flights: more competition and cheaper fares

Let's assume a passenger wants to travel from Paris (PAR) to New York (NYC).

He will find direct PAR-NYC flights and cheaper indirect options, for instance if he accepts to stop in Amsterdam (PAR-AMS-NYC) or start in London (LON-PAR-NYC). Airlines flying indirect routes via their hubs are competing with airlines offering direct ones and may offer a discount to encourage passengers to choose a less convenient connecting product. Let's assume our passenger finds that the cheapest option is the LON-PAR-NYC. Why is he obliged to use all the segments of his journey and why is he thus not allowed to start his journey in PAR instead of in LON? The answer is that the markets LON-NYC and PAR-NYC are different and that, in an environment of pricing freedom, the fares reflect these differences.

The airline offering the cheaper LON-PAR-NYC flight is actually competing with carriers offering direct LON-NYC flights and maybe with other carriers offering LON-X-NYC flights via their hubs in X. If that airline cannot "fence" its PAR-NYC fare from use by passengers who buy a cheaper indirect route, it will simply abandon the indirect product, since it will lose more revenue on the PAR-NYC market than it could gain from selling in the indirect LON-PAR-NYC market. This means less competition on the LON-NYC market, leading to higher fares on the remaining direct and indirect services.

Market segmentation and connecting flights: better connectivity

Let's now assume that the above example is replaced by a passenger who wants to go from LON to NYC and finds a cheaper Stuttgart (STR) routing: STR – LON – NYC. Again, if the airline offering this option cannot "fence" its LON-NYC fares by obliging passengers to fly all legs in sequence, it will choose to remain on the LON-NYC market but withdraw from the STR-NYC market and leave it to the very few competitors who serve this regional community. Alternatively, the airline may raise the fare of the STR-LON-NYC to the level of LON-NYC. In both cases, this will be to the detriment of the passenger.

Market segmentation and return tickets: why direction matters?

Here the question is: why is a fare in one direction not always the same as the fare in the opposite direction?

Consider, for example, a flight operating between Brussels (BRU) and Lisbon (LIS) in the summer. In the Belgium market demand for seats in that direction is usually high at this time of the year. Therefore the airline is unlikely to offer incentives or discounts to sell that product. However, at the same time the demand for seats to Brussels in Lisbon is not as high. In order to encourage consumers the airline may need to put on a sale or use other incentives to promote its product. Therefore an airline may offer low fares for travel from Lisbon in summer but would not want to offer the same fare levels for travel to Lisbon. This mix of fares makes the overall operation of this route economically viable. If these so called "directional imbalances" were not allowed, and if passengers could therefore transform a LIS-BRU-LIS into a BRU-LIS-BRU, carriers would raise their tariffs to the higher level or, if competition does not allow this, they might even withdraw from the market, reducing consumer choice and raising prices.

As we see, directional imbalances are linked to offer and demand and it can happen that in the summer a return ticket LIS-BRU-LIS is actually cheaper than a one-way BRU-LIS. If passengers were allowed to buy the cheaper LIS-BRU-LIS option and transform it into the more expensive BRU-LIS (by discarding the first segment), the likely result would be that prices for everyone would rise to the higher level, and competition would diminish. In addition, one-way tickets, particularly on international routes, are often more flexible than discounted roundtrip tickets, offering the buyer more convenience. For example, one-way tickets may not require advance purchase or have minimum/maximum stay requirements. It is a different product that has a different price.

The rule reduces wasted capacity and overbooking

It is also important for airlines to know whether passengers who have secured a confirmed booking will in fact be using it. It is not unreasonable for them to assume that if passengers do not use their first booking, without contacting the airline, it is unlikely that they will use any subsequent bookings on the same ticket. Airlines need to be able to determine the optimal capacity to schedule for that flight sector and, therefore, maximize the efficient use of its assets. In turn, this minimizes the number of "no shows" experienced by airlines allowing them to reduce the need to "overbook" by allowing them to forecast passenger loads with greater accuracy. By the same token, maximizing the efficient use of capacity reduces CO₂ emissions per passenger.

Nevertheless, the industry recognizes that unforeseen circumstances do occur and has made arrangements to accommodate passengers in such cases. Should passengers be required to change any aspect of their transportation due to force majeure, they must contact their carrier as soon as possible and airlines will use reasonable efforts to transport passengers to their next stopover or final destination, without recalculation of the fare. For example, imagine a passenger living in a small town near Naples, Italy and travelling from Naples to London via Rome. Due to a transport strike in the area, he is unable to reach Naples airport. He has informed the carrier and managed to arrange a car to Rome in time to make his connecting flight. In such a case, airlines will make every effort to accommodate the passenger in Rome without recalculating the fare.

Conclusion

Appropriate rules or "fences" are built around products so that a supplier may approach various market segments with variable prices. If the airline is prohibited from using these fences then the likely consequence is that low fares or special deals would no longer be offered. Airlines would be less likely to try and compete with low prices if those prices would automatically apply to other, more valuable, products.

It is not surprising to observe that the same rules are applicable and enforced in other transport modes such as railways.

Aviation connectivity delivers significant economic and social benefits to the global economy. In addition to connecting peoples and cultures, aviation contributes 3.5% of world GDP. Complete and sequential segment use is key to ensuring increasing levels of connectivity throughout the globe and providing consumers with a variety of options and fares when they travel. It therefore must be maintained.