

# **The Implications of Customer Relationship Management on the Success of Turkish Airlines**



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## ABSTRACT

This study concentrates on the implications of customer relation management on the success of Turkish Airlines. The research question addressed is the following: 'What are the major leverage points of effective Customer Relationship Management for Turkish Airlines to increase customer loyalty in its North American market?'. The hypothesis established for the research states that the Frequent Flyer Program-based CRM model offers the highest return for Turkish Airlines in terms of increased customer loyalty in North America.

In the research the secondary data was gathered from science journals and books, well as the website of Turkish Airlines, the website of the CAPA Center for Aviation, or the website of SITA Air Transport. Primary data was obtained through questionnaire involving around 350 participants.

The topic has key significance as the North America segment is the carrier's fastest growing segment while CRM is recognized amongst the key loyalty drivers for airlines in the highly competitive and challenging business context. The results designate that while at present the FFP-based CRM model is the highest leverage point for airlines, the current trends indicate that in the future such CRM models will be transformed into a more integrated frameworks that rely on campaign management and reservations and ticketing.

**ABBREVIATION SUMMARY**

CAGR	Compound Annual Growth Rate
CRM	Customer Relationship Management
e-CRM	Electronic Customer Relationship Management
FFP	Frequent Flyer Program
GCC	Gulf Cooperation Council
IT	Information Technology
m-CRM	Mobile Customer Relationship Management
ROI	Return on Investment



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## CHAPTER 1

### INTRODUCTION

#### 1.1. Background of the Research

In today's fiercely competitive business climate combined a broad range of airlines are available for customers to choose from. Deregulation, amplified product parity, the accessibility of new and direct distribution channels, sector alliances are among the many aspects that have a collective force on carriers to put emphasis on new differentiators so as to keep or increase their market share. As airlines are facing challenges in differentiating themselves from their rivals, the airline business has become commoditized and profits are hard to obtain (Aiderous, 2017). From the customer standpoint, the competition associated with the elevated number of airlines flying on the same route led to customers recognizing the need to choose which airline they prefer to fly with and have a long-term relationship with, therefore having implications on customer loyalty. Indeed, it is assumed that customer loyalty in the evolving airline sector is perceived as a key source of airline growth, since improving customer loyalty leads to sustainable profits (Benner, 2010).

As carriers struggle to increase their market share or sustain their profits in this highly competitive and economically challenging business climate, they necessitate to create innovative tools to optimize their customer loyalty and revenue streams (Boland et al., 2002). In this regard, airlines have turned to the solution of Customer Relationship Management (CRM) to detect, develop and retain their high-value travelers and thereby improve customer loyalty. CRM for carriers goes beyond

conventional sales and marketing as it takes into consideration all the touchpoints within the travel experience of the customer with the help of information and communication technologies to gain more information about the travelers and connect with them to enhance their loyalty (Ahadmotlaghi and Pawar, 2012). CRM has become a core element in their corporate strategy of airlines as its technological grounding enables the firms for accurate segmentation, profiling, and targeting thereby facilitating a customer-centric business culture as well as supporting the airlines' differentiation from their rivals (Boland et al., 2002). Therefore, in airline economics literature, CRM has become a hot management topic which airlines are focusing on to gain competitive advantage, ensure higher customer satisfaction and customer loyalty (Aiderous, 2017).

## **1.2. Rationale of the Research**

As explained by Kotler (2012), through the utilization of CRM, the airline can gain information and knowledge concerning the customer and transform its offerings accordingly to drive customer loyalty. Nevertheless, CRM is a very expensive and complex tool as a result of which airlines face difficulties in understanding and implementing it effectively. While it is important to assess the actual impact of CRM initiatives on customer loyalty in the airline sector to get a clear picture on how to capitalize on this management tool, so far limited research has been done to study CRM's role in customer management in the airline industry and the linkage of CRM initiatives to airline loyalty (Aiderous, 2017). Thus, this research aims to address this research gap by scrutinizing the key CRM initiatives driving customer loyalty within

the airline sector. Hence, this study specifically focuses on identifying the key CRM initiatives that drive airline customer loyalty and identifies the major leverage points of effective CRM for airlines. It is believed that the findings of this research can support better management of airline-customer relationship and assist in improving airline customer loyalty through CRM initiatives.

The case study chosen for this research is Turkish Airlines for two reasons. First, the airline has transformed into one of the largest international network carriers globally and it has the largest country coverage in the world by flying to 120 countries (Turkish Airlines, 2018). Second, Turkish Airlines is coping with its growth by initiating a transformation program in 2017 that covers rethinking and renewing its current Frequent Flyer Program-based CRM model (SITA, 2019). Therefore, as this study is focusing on identifying the major leverage points of effective CRM for airlines through the case study of Turkish Airlines, it is assumed that the findings can provide support for the CRM infrastructural changes at the carrier.

It should be recognized that in order to study the key CRM initiatives that drive customer loyalty among Turkish Airlines passengers, the author found it necessary to focus on one specific geographic market segment of the carrier. The North American segment was chosen by the researcher to be suitable for this study. This is because North America is the carrier's fastest growing segment. While Turkish Airlines only launched its first flights to North America in 2008, as of 2018 it contributed to 7 of the carrier's top 10 global destinations as well as having the highest growth rate in passenger numbers (Compound Annual Growth Rate (CAGR) of 36% between 2008

and 2017), higher than any other region Turkish Airlines flies to, including its domestic segment (CAPA, 2018).

### **1.3. Research Question, Hypothesis, and Objectives**

The question the research is addressing: What are the major leverage points of effective Customer Relationship Management for Turkish Airlines to increase customer loyalty in its North American market?

The hypothesis established for the research is the following: The Frequent Flyer Program-based CRM model offers the highest return for Turkish Airlines in terms of increased customer loyalty in North America.

The objectives of the study are:

- 1) To give an overview of CRM in the commercial aviation sector and its connection to customer loyalty
- 2) To present the key trends of Turkish Airlines in the North American market segment and the airline's current CRM strategy
- 3) To measure and compare the key CRM initiatives of frequent flyer programs, customer care, campaign management, and reservations and ticketing driving customer loyalty for Turkish Airlines in North America and identify the most effective initiative for its CRM success

### **1.4. Structure of the Dissertation**

Chapter 1: Introduction – The introductory part of the dissertation explores the background to the topic of the implications of CRM on the success of Turkish Airlines

and explains the rationale behind the selection of Turkish Airlines to be the subject of this study. Furthermore, in this section the research question, hypothesis, and objectives are revealed.

Chapter 2: Literature Review – This subdivision discusses the theoretical grounding through the conceptualization of customer relationship management with regards to its definition, dimensions, and its connection to customer loyalty. Furthermore, the essence of CRM in the airline industry is discussed in the Literature Review in line with the evidence from previous empirical studies. Based on the explored theoretical grounding, the research model is developed in this section.

Chapter 3: Research Methodology – This part presents the selection of appropriate methods and the choice of suitable techniques for the study by reflecting on the research process elements such as the research philosophy, approach, method, strategy, population and sampling, data collection and analysis, the research ethics, and the limitations of the study.

Chapter 4: Results – This part describes the results of the data collection. In view of secondary data, this chapter highlights on the key trends of Turkish Airlines in the North American market segment and the airline's current CRM strategy. Regarding primary data, the results of the questionnaire along with the multiple regression analysis are deliberated here.

Chapter 5: Discussion – In this part the observations made in the course of the data analysis are discussed and placed into the theoretical context. The discussion focuses

on two areas, being the key CRM initiatives driving airline customer loyalty and the enhancement of CRM strategy effectiveness for Turkish Airlines.

Chapter 6: Conclusion and Recommendations – This subdivision reviews the discoveries made in the study and presents the concluding remarks. Furthermore, the areas for future research are deliberated and recommended by the author based on the particular shortcomings of the research process applied in this study.



## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1. Introduction to Literature Review**

The Literature Review discusses the theoretical grounding of the study. In this regard, the fundamental concepts and theoretical frameworks presented in this chapter include the conceptualization of customer relationship management with regards to its definition, dimensions, and its connection to customer loyalty. Furthermore, the Literature Review highlights on the essence of CRM in the airline industry by discussing the evidence from previous empirical studies. In line with the theoretical grounding, the research model is developed.

#### **2.2. Conceptualization of Customer Relationship Management**

##### **2.2.1. Definition**

According to Ross (2016), Customer Relationship Management (CRM) emerged to be amongst the utmost dynamic organizational management and information technology (IT) topics of the millennium. In general, the objective of CRM extends beyond being a tool to enhance sales and service efficiency, as it is a method that enables the constant design and development of the value-generating activities of the firm as well as its supply chain networks so as to achieve sustainable and profitable relationship with the customers. Taking into consideration that such statement implies the broad and complex nature of CRM, so far no universally recognized definition has occurred for the term CRM. In fact, while industry

practitioners have agreed that CRM should not be regarded simply as a technology and that the core of CRM is customer value management, the definitions proposed to describe the term cover a wide range in line with the field of expertise of the academics (Chen, 2010).

From an IT standpoint, Tan (2007) claimed that CRM bears upon customer interaction centers and online systematic processing that enable the organization to perform online query-driven analysis of stored customer-related data. Ang and Buttle (2002) further added that CRM is grounded on superior quality customer information in addition to being facilitated by IT with the goal of acquiring and retaining customers.

Another group of academics defined the term CRM from the individualized service standpoint. For instance, Wright et al. (2002) referred to CRM as a mixture of IT and management practices to serve the customer in a personalized way from the moment of placing the order until the provision of after-sales service. Wilson et al. (2002) similarly claimed that CRM is a concept based on which the organization can adjust particular products/services to each customer in an advanced way in line with the history of the customer to create an individualized, one-to-one experience through which the customers feels cared for.

Additional group of academics defined CRM from the marketing viewpoint. For example, Goodhue et al. (2002) referred to the notion as an application or initiative that assists the firm to optimize its interactions with its customers and prospects through touchpoints such as call center, email or web to capture, retain or cross-sell customers. Dyche (2002) referred to CRM as an infrastructure facilitating the

enhancement of customer value along with the design of adequate techniques through which the firm can encourage its valuable clienteles to remain loyal and purchase again. According to Kellen (2002) CRM is a business strategy that has the objective of achieving long-lasting competitive advantage through bringing optimal customer and business value at the same time. Smith (2002) also claimed that the notion should be perceived as a business strategy that combines IT towards effectively managing the customer life-cycle.

According to Ross (2016), when understanding the concept of CRM, the most widely cited definitions for the term in academic context is the one proposed by Greenberg (2001). Greenberg (2001, p. 200) defined the notion as:

CRM is a complex system that (1) provides a means and method to enhance the experience of the individual customers so that they will remain customers for life; (2) provides both technological and functional means of identifying, capturing, and retaining customers; (3) provides a unified view of the customer across the enterprise.

Greenberg (2001) further stated that in spite of the broad range of definitions proposed for the term CRM, the key characterizes that academics agree on are: its customer centricity, its ability to capture and retain customers, its measurable return on customers; its dependence on technology, and the fact that CRM is about customers and processes. For this research, the definition proposed by Greenberg (2001) should be considered to be the most suitable, because it reflects on CRM's clear and direct connection to customer loyalty as well as its technological and functional assistance to the business in this regard.

Regarding the definition of CRM, however, it should be recognized that with the development of new technologies new concepts have emerged that reflect on the changing structure of CRM and the evolution of the term. For example, the concepts of Social CRM, e-CRM, m-CRM or CRM 2.0 emerged as a result of the new search engine and mobile tools (Ross, 2016). Nevertheless, such CRM concepts are out of the scope of the research, because the IT infrastructure and CRM strategy at Turkish Airlines is regarded to be young as it has only been expanding in the last five years (SITA, 2019), thus it is believed that such new areas of CRM still do not have a considerable share in the overall CRM strategy of the airline.

### **2.2.2. The Connection of CRM and Customer Loyalty**

Several studies have found empirical evidence for the connection between CRM and customer loyalty. For example, Buttle (2004), Verhoef (2003), Zhang et al. (2011), and Zikmund et al. (2003) found correlation between CRM, customer loyalty and customer satisfaction in addition to claiming that loyalty is its key benefit. Khaligh et al. (2012) studied the effect of CRM on customer loyalty within the Iranian telecommunications sector. They observed positive correlation between the two variables. Indeed, they emphasized that CRM is a crucial factor in increasing customer loyalty and gaining competitive advantage.

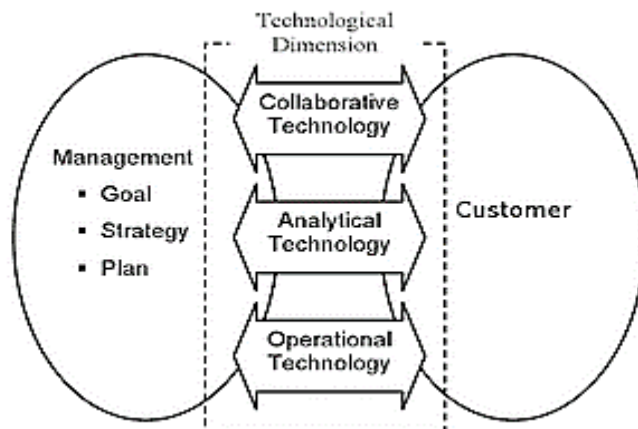
The study of Battacharya (2011) showed that successful CRM execution leads to customer loyalty and elevates firm competitiveness. Faed (2010) similarly found that CRM elevates customer loyalty, sustains profitability, and generates competitive advantage by integrating technology, processes, and people. Zineldin (2006) claimed

that 'CRM is the royalty of loyalty'. He argued that a well-formulated CRM strategy increases the level of customer loyalty by changing the quality of the services offered and creating value beyond the value of the products. Indeed, he emphasized that CRM is a key function to safeguard the fulfillment of customer needs, sustain profits, and ensure competitive positioning.

### **2.2.3. Dimensions of CRM**

According to Tan (2007), CRM is built on three core dimensions: customers, management, and technologies. The alignment of these dimensions is represented in Figure 1 below. The management dimension relates to formulating and tracking customer relationship goals with the help of metrics. In addition, the management is involved in the planning and the development of the CRM strategy to promote a customer-reactive corporate culture (Ang and Buttle, 2002). The customer dimension of CRM relates to the fact that all CRM systems include customer service and related matters in their design, application, and operation. In fact, CRM systems are only considered effective in case they benefit the customers as through CRM they can enjoy an enhanced, personalized customer experience (Tan, 2007). The technology dimension facilitates the collaborative, operational, and analytical activities of CRM (Goodhue, 2002).

#### **1. Figure 1: The Three Dimensions of CRM**



(Source: Tan, 2007, p. 271)

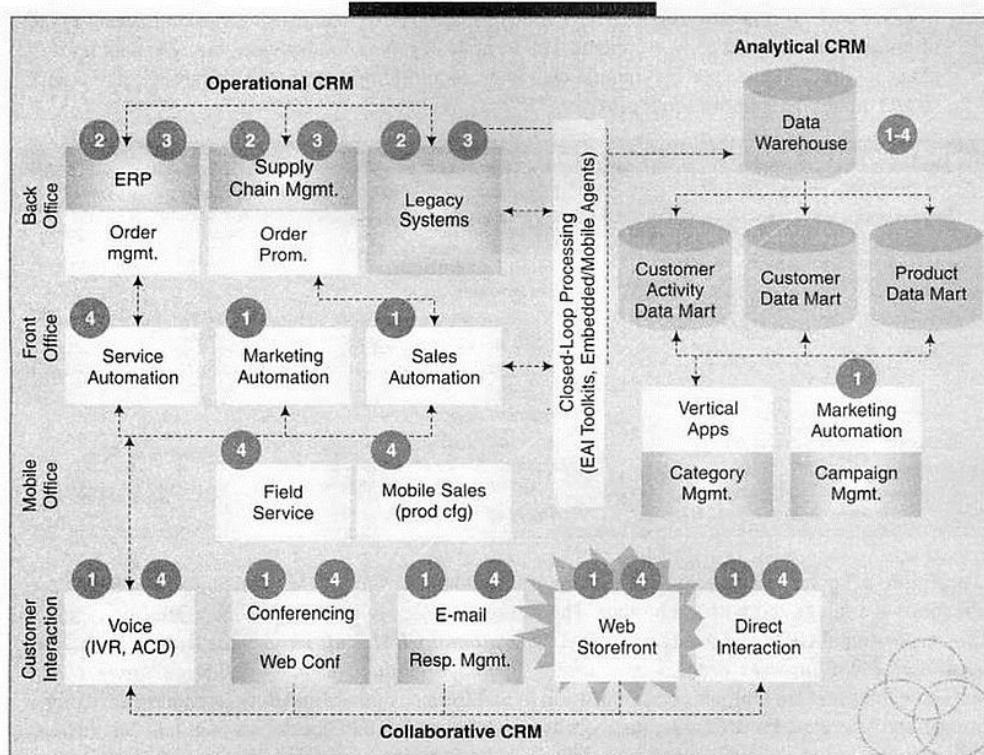
Regarding the technology dimension it is important to describe how the collaborative, analytical and operational technologies are integrated with each other (Behl, 2009). This integration is shown below in detail in Figure 2. Operational CRM is commonly referred to as the front office CRM as it comprises those areas, where the direct customer contact takes place or so-called touchpoint. In this regard, operational CRM allows and facilitates communication to and from customers. This means that the touchpoints can be either inbound such as a calling the customer support hotline, or outbound for instance an sending an e-mail promotion. In fact, most of the CRM products currently on the market belong to this operational technology group (Dyche, 2002).

Analytical CRM is generally described as back-office CRM since it relates to acquiring in-depth knowledge on customer-related activities that took place in the front-office. In this regard, back-office CRM relies on the utilization of technological tools and business intelligence to gather, process, and analyze customer-related data. By constructing individual customer profiles instead of broader segmentation, firms can

see the true value of their clients and capitalize on this knowledge. In fact, with analytical CRM firms can assess the cost of customer acquisitions or the cost of servicing the client from both time and resources standpoints, allowing for more effective targeting. This is regarded as a critical success factor for CRM as it increases both customer loyalty and profitability (Behl, 2009; Dyche, 2002).

The collaborative CRM technology encompasses all CRM functions that deliver a touchpoint amongst the customer and the marketing network such as e-commerce, or mobile systems. When utilizing such technologies within the collaborative CRM, the pre-existing marketing channels should also be improved (Tan, 2007).

2. Figure 2: Integrated View of CRM Technologies



(\*on the figure 1 signifies targeting, 2 acquiring, 3 retention, and 4 expansion)

(Source: Behl, 2009, p. 332)

## 2.3. CRM in the Airline Industry

### 2.3.1. Airline CRM Structure and CRM Initiatives

In today's fiercely competitive environment, airlines are attempting to sustain profits and improve airline loyalty through differentiation, personalized service offerings, and effective communications. Furthermore, as customer needs are evolving continuously, airlines face challenges to keep track of the true passenger needs and tend to stick to out-of-date ideas of what airline services should encompass (Aiderous, 2017). Another issue that arose is that airline management tends to focus on the cost reductions to reach efficiency, putting customers to the back of the priority list in strategic planning (Boland et al., 2002). To address these issues, carriers have started to implement CRM that is utilized as a business strategy and technological tool to assist in realizing their objectives. CRM in the airline industry touches upon all customer contact channels or touchpoints from the marketing to the follow-up and gathers operational data based on customer recognition. In general, this structure can be represented as per below:

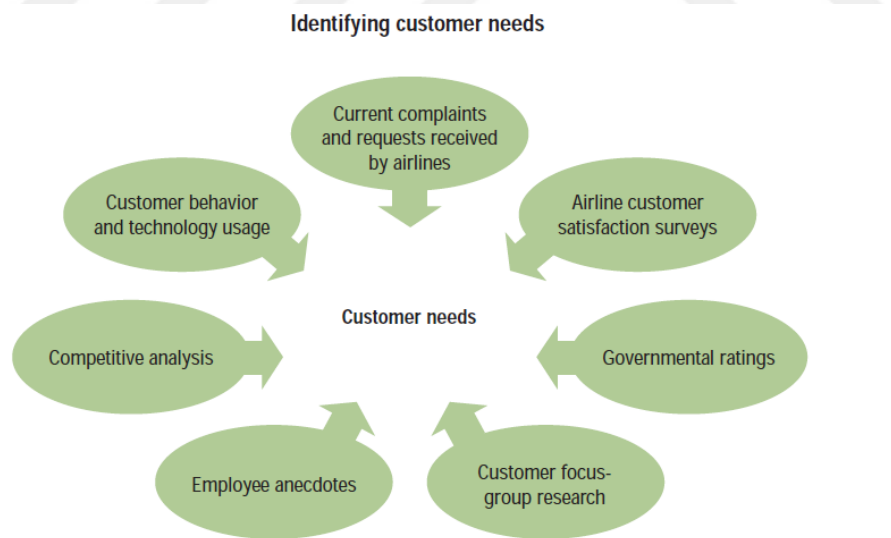
3. Figure 3: General CRM Structure for Airlines



(Source: Tarokh, 2010 cited in Aiderous 2017)

According to Boland et al. (2002), the main objective behind the application of CRM for airlines is to differentiate its services based on customer and business value so as to drive profits and loyalty. Indeed, carriers can better analyze the business value of their customer-facing services through acquiring deeper knowledge on the profitability and major loyalty drivers in each customer group. To do this, airlines gather CRM data from a broad range of direct and indirect customer inputs as presented below. These input sources combined with cutting-edge analytics and business intelligence technology assist the airlines to gain exclusive insights into the needs of their customer segments.

#### 4. Figure 4: Sources of Customer Inputs for Airlines



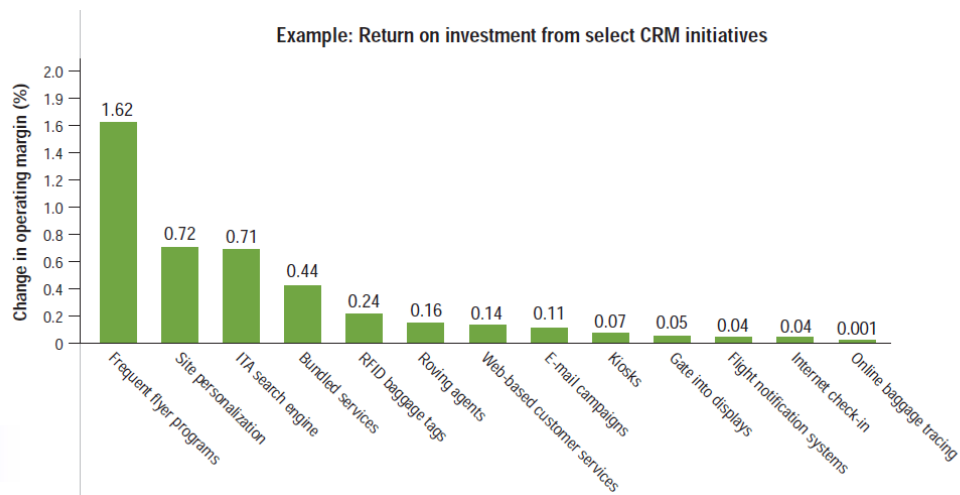
(Source: Boland et al., 2002, p.8)

In addition to understanding the customer needs, airlines necessitate to identify which CRM initiatives deliver the highest shareholder value. This is of crucial significance as airlines need to consider implementation costs, associated risks, and

expected rate of return to prioritize or reject potential CRM investments. Boland et al. (2002) in this regard categorized the key CRM initiatives into four categories, being the frequent flyer program (FFP), customer care (e.g. in-air internet, baggage handling, complaint handling), ticketing and reservations (e.g. online/mobile check-in, website/mobile bookings), and campaign management (e.g. e-mail promotions, in-flight advertising). Therefore, in our research we similarly rely on these four key CRM initiatives to measure their effectiveness in driving customer loyalty for Turkish Airlines in North America.

When measuring the expected rate of return of the elements of CRM initiatives (see figure below), Boland et al. (2002) estimated that the CRM initiative of FFP offers the highest return for the airline with a drive of 1.62% in operating margin and the greatest impact on customer loyalty. Other initiatives were estimated to bring slighter improvement to customer loyalty and generate lower return for the airline. For instance, the campaign management initiative element of e-mail campaigns was estimated to increase the operating margin by 0.11%, the customer care initiative element of web-based services impacts the operating margin by 0.14%, or the ticketing and reservations element of online check-in only by 0.04%.

##### 5. Figure 5: ROI from Select CRM Initiatives



(Source: Boland et al., 2002, p.9)

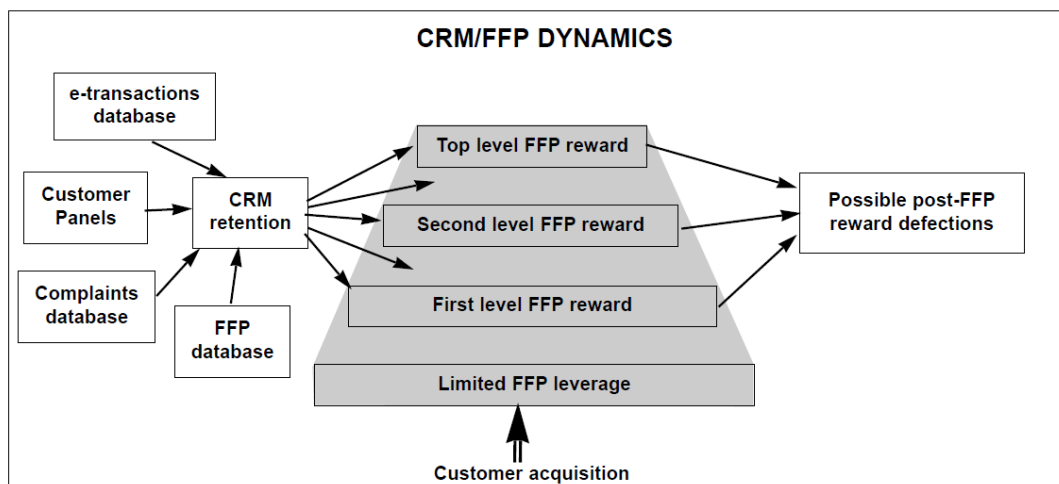
The rate of return estimations for CRM initiatives of Boland et al. (2002) are in line with the findings of De Pommès (2011). De Pommès (2011) highlighted that while it is challenging to estimate the value CRM actually delivers to the bottom line, based on his study involving almost 20 international airlines he measured that CRM initiatives lead to 0.9%-2.4% revenue improvements. Furthermore, he estimated that the costs of CRM initiatives amount to 0.3%-0.6% of the cost base. Thus, he emphasized that the bottom-line effect of CRM for airlines is substantial, reaching around 100-250 million USD for international carriers. Nevertheless, to achieve such value, airlines necessitate to have cutting-edge CRM implementation covering all airline functions.

### 2.3.2. The Key Role of Frequent Flyer Programs in Airline CRM

According to Coombs and McMullan (2011), airline CRM uses FFP databases as the key data source to increase effectiveness. FFPs have been utilized since the 1980s to accumulate passenger data based on which airlines can gain deeper understating of

customer trends and behavior. FFP in fact, is regarded as the leverage point for airlines as the more extensive their FFP data, the easier for the airline is to execute effective CRM. Tnooz (2013) further explained that FFPs are the key drivers of airline loyalty as in their nature they are loyalty programs to reward and thereby motivate loyal purchasing behavior. In this essence, FFPs are crucial elements in CRM as they enable carriers to gain access to a minefield of valuable data on frequent flyer behavior which is indeed willingly shared by the customers in exchange for miles or fringe benefits. Yet, while most international carriers have vast FFP data, only a few airlines are believed to leverage on it on a regular basis. The CRM-FFP Dynamics model developed by Coombs and McMullan (2011) indicates that FFP-based CRM facilitates retention, customer acquisition, and detects defections.

6. Figure 6: CRM-FFP Dynamics



(Source: Coombs and McMullan, 2011, p.18)

In FFP-based CRM models, airlines typically follow either a reactive or a proactive approach. It is estimated that around 15-20% of the airlines take a reactive approach in which they use FFP data by detecting functional defections or decrease in

purchasing behavior and then directly follow-up with the passenger to avoid permanent defection. However, while these airlines have the capability to carry out a defection recovery process, the results are often ineffective due to the lack of continuous execution, thereby diluting the its effect to retain customers (Coombs and McMullan, 2011).

Other airlines take a proactive approach to capitalize on their FFP-based CRM model. This is done by applying predictive behavior-based models such as Yield Management Systems to their FFP data that is then converted into a data stream based on which both individual and group activity can be predicted. In line with such predictions, the airline can adjust its services to differentiate and personalize the service experience for the passenger. Therefore, this proactive FFP-based CRM model allows for more accurate tracking and improved predictive capability in addition to facilitating the creation of personalized service offerings to be delivered to high-value flyers. Therefore, it can be observed that FFP data gives a powerful competitive advantage to airlines to leverage on both reactively and proactively (Coombs and McMullan, 2011).

### **2.3.3. The Increasing Role of Other CRM Initiatives in the Airline CRM**

#### **Model**

Despite its key role in the CRM dynamics, the power of FFPs has eroded in the last decades as frequent flyers tend to join to several FFP schemes (around 4 FFP affiliations/frequent flyer). As of today, FFPs are getting more and more challenging to be used a tool of differentiation and at the same time their costs are increasing,

making it for airlines a cheaper solution to optimize service experience than to reward its frequent flyers (Coombs and McMullan, 2011). This is also supported by Tnooz (2013), claiming that while it is crucial to maintain and invest in FFPs, it has become also necessary to invest in other CRM initiatives to enhance CRM effectiveness. To reflect on this crucial aspect, in the discussion the author also deliberates the current CRM practices of Turkish Airlines and its investments in future CRM initiatives. This is a significant factor in order to observe what additional CRM practices utilized by the carrier are perceived by Turkish Airlines to enhance its CRM effectiveness other than its frequent flyer program in the North American segment.

As claimed by Coombs and McMullan (2011), apart from the FFP-based CRM applications, additional ways of leveraging customers include customer care and campaign management. With CRM-derived customer care, the airline can realize a type of brand-bonding with the passenger. Such elements of this initiative include for example executing directly the passenger requests or giving direct information about the actions of the carrier. The other CRM initiative to leverage customers is the campaign management as the objective of this CRM application is to persuade as many flyers as possible to deliver the message on individualized service offerings. Therefore, in this study the author aims to analyze and evaluate the key CRM initiatives of frequent flyer programs, customer care, campaign management, and reservations and ticketing driving customer loyalty and argues that Frequent Flyer Program-based CRM model offers the highest return for Turkish Airlines in terms of increased customer loyalty in North America.

#### **2.3.4. Airline CRM-related Issues**

According to Boland et al. (2002) and De Pommès (2011), while most airlines recognize the importance of CRM to their bottom lines, the currently existing CRM models for airlines are rather sub-optimal. Only a limited number of airlines truly capitalize on CRM analytics and most of them rely on the utilization of simplistic segmentation frameworks. The investments in CRM by airlines are mostly competition-driven and not customer-driven. By imitating the first-movers through the provision of similar service offerings, the competitive differentiation that could be realized through CRM is eroded. In fact, the competitive catch-up led to copying the CRM initiatives of their rivals without making adequate evaluations on their true value to the customer. For instance, FFPs have not only become universal, but also online or mobile-check-ins or e-ticketing have become widespread as well. This raises the issue that while the objective of CRM is to personalize the service offering and thereby assist in the differentiation, however, in the airline industry CRM is rather a commodity with many initiatives that are indistinguishable between the airlines. In this regard, in the discussion section the author will also reflect on the key competitors of Turkish Airlines in North America and the similarities and differences between their CRM practices to see the extent to which such initiatives are indistinguishable from airline to airline.

Moreover, as a result of the technological advancements, most airlines now can access the same technologies, thereby eroding their prospects to develop services with sustainable differentiation. Furthermore, the implementation of the carriers' CRM strategy is typically inefficient as it has no clear direction because the

departments tend to set differing objectives. The situation of airline CRM is further aggravated by employees lacking the means to ensure consistent service level at all touchpoints, thereby restricting the benefits of CRM for both the passengers and the airline (Boland et al., 2002). This is regarded by the author to be a crucial aspect to deliberate in the discussion chapter to see what issues Turkish Airlines faces when implementing its CRM strategy and how such issues impact the assumption that FFP is the best tool to improve customer loyalty.

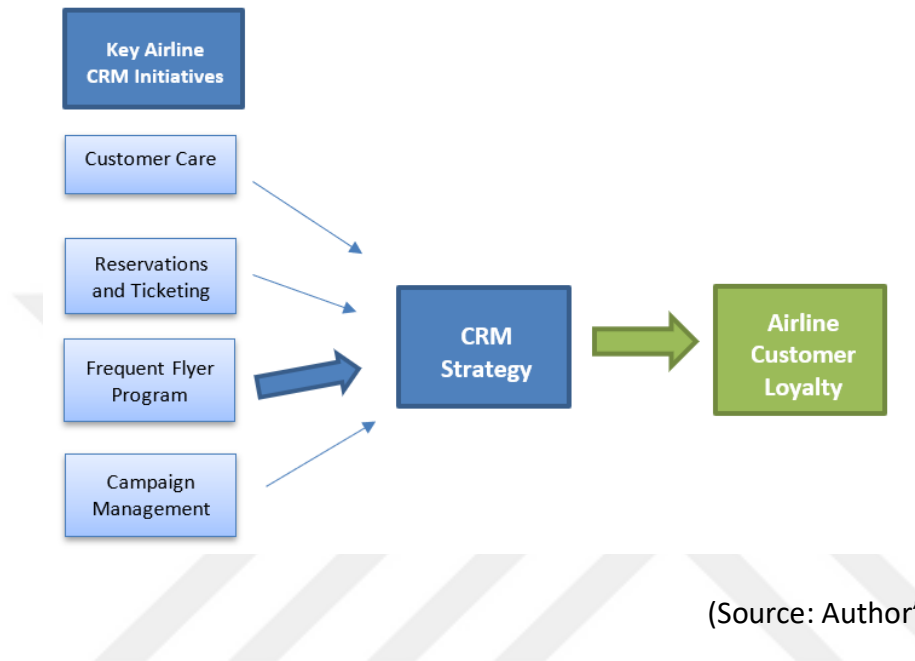
As a result, airlines necessitate to diverge from the competition-driven, reactive CRM strategy and focus on the relationship-building characteristics of CRM. They necessitate to have in-depth knowledge on the returns of investing in certain CRM initiatives and to gain deeper understanding how their high-value customers react to these specific CRM initiatives. In this regard, this research aims to analyze the key CRM initiatives that drive airline customer loyalty and determine the major leverage points of effective CRM for airlines. It is believed that the findings of this research can support better management of airline-customer relationship and assist in improving airline customer loyalty through such CRM initiatives.

#### **2.4. The Research Model**

Consistent with the discussion of the literature, the research model can be developed for the study. Our model suggests that the key CRM initiatives airlines invest in are customer care, reservations and ticketing, FFP, and campaign management. We hypothesize that while all of these CRM initiatives leverage customers, FFP is the

ultimate leverage point of airline CRM as it offers the highest return in terms of increased customer loyalty.

7. Figure 7: Our Research Model



## CHAPTER 3

### RESEARCH METHODOLOGY

#### 3.1. Introduction to Research Methodology

The methodology chapter is a core part of the whole research as it presents the selection of appropriate methods and the choice of suitable techniques for the study (White, 2003). In this regard, this chapter reflects on the research process by discussing the research philosophy, approach, method, strategy, population and sampling, data collection and analysis, the research ethics, in addition to the limitations of the study.

#### 3.2. Research Process

##### 3.2.1. Research Philosophy

Carson et al. (2005) described that the initial step in the research process is to identify the adequate research philosophy as it assists with the development and nature of knowledge to be involved in the study. They explained that a continuum of research philosophies exists between the two opposing positions of positivism and interpretivism such as realism, constructivism, humanism, or natural inquiry. Yet, the two most typically used philosophies in academic studies are positivism and interpretivism. While positivism is preferred for quantitative or mixed studies as it develops knowledge grounded on factual sources, interpretivism is favored for qualitative research because it bases the knowledge development on the beliefs and opinions of the researcher (Saunders et al., 2009).

Based on this, the research philosophy adequate for this research is positivism. This is because this study follows the quantitative method by developing the knowledge based on quantitative factual sources derived from the questionnaire results. Interpretivism would not be suitable in this study because the development of knowledge is done objectively (i.e. through statistical analysis) and not based on the beliefs or opinions of the author. Furthermore, the study does not involve qualitative elements, such as interviews, making interpretivism unsuitable for this research.

### **3.2.2. Research Approach**

Partington (2002) described that another critical element of the research process is the research approach as it determines the method of reasoning by reflecting on the connection between logic and observations within the study. The two key approaches in academic context are induction and deduction. In induction, the researcher develops the theory based on the certain patterns identified through making observations, whereas in deduction the existing theories serve the basis to construct a hypothesis and then test this hypothesis with observations.

Based on this, the research approach for this study is deduction. The major reason for this is that a hypothesis was created in this study consistent with the initial review of theoretical grounding, then tested with statistical observations based on the data collection results. Also, it is linked to the philosophy of positivism (Partington, 2002), which was already selected by the author as the philosophy for this research. The inductive approach would not be appropriate for this dissertation, since it generates

the theory by collecting qualitative data (Partington, 2002), however in this research no primary qualitative data is gathered.

### **3.2.3. Research Method**

The research method refers to the way the author addresses the objectives established for the study. The two major methods are the quantitative and the qualitative method. These methods differ in what research philosophy and research approach they follow. Quantitative studies follow positivism as their philosophy to guarantee the objectivity of the researcher and have the deductive approach to test the hypothesis they established in line with the existing theoretical grounding. Contrarywise, qualitative studies follow interpretivism as their philosophy to reflect on the beliefs and opinions of the researcher and have the inductive approach to generate the theory based on observations of patterns (Saunders et al., 2009).

Consistent to this, our method is the quantitative method. As discussed previously, this study follows positivism and has the deductive approach, which supports the choice of the quantitative method. In fact, within the course of the primary data collection only quantitative data were collected via the questionnaire. The author believes that the quantitative method satisfies the objectives of the dissertation as in order to determine which major driver of customer loyalty is the most effective for the CRM strategy, statistical observations are the most suitable as it generates objective results.

### **3.2.4. Research Strategy**

The research strategy selected for this dissertation is survey. As explained by Punch (2003), this strategy collects data from a sample of individuals through their responses to questions. Within this study the data is also gathered from the sample of individuals via an online questionnaire. Also, survey strategy usually uses the deductive approach as it tests a hypothesis with the help of the answers given by the respondents to the constructed questions (Punch, 2003). In this dissertation the deduction is selected as the method of reasoning to test the hypothesis, thus supporting the choice of the survey strategy. Furthermore, this strategy is typically used to analyze human behavior (Punch, 2003), and in this research we also study human behavior by assessing the drivers of customer loyalty of Turkish Airlines' passengers.

The benefits of the survey strategy include its low cost, easy access to data, and easy data comparison via statistical or mathematical techniques (Punch, 2003). The author therefore also benefits from such advantages within the primary data collection by gathering data from the sample of individuals through an online survey and analyzing the results in MS Excel.

Other research strategies would not be suitable for this study. The strategy of ethnography is inappropriate, since it deals with anthropological matters (Saunders et al., 2009), yet in this research no such issues are touched upon. Experiment strategy is also inadequate, because it uses control groups and experimental groups to collect data (Thomas, 2004), however, in this study no such groups are involved to gather information. The archival strategy is also inappropriate, since it collects data from archives or databases such as financial statements, yet this research utilized

primary data gathered through the questionnaire and not from such archives. Last, action research was found inappropriate too, since it usually reflects on organizational issues within firms where the author is personally involved (Thomas, 2004), yet in this study no personal involvement is present between the author and Turkish Airlines.

### **3.2.5. Population and Sampling**

The research population involves all Turkish Airlines customers within the North American geographic segment. Based on the latest, publicly accessible 2017 Annual Report of Turkish Airlines, in 2017 the number of passengers carried by the carrier reached 68.6 million. The share of international passengers in the North American market of Turkish Airlines accounted for 9% in 2017 (Turkish Airlines, 2018), therefore, our population is approximately 6,174,000 customers. However, it is challenging if not impossible to involve the whole population in this research. Thus, the author had to select a sample. The sample size identified by the author to be reachable is 300 participants, which is 0,005% of the population. Since the sample size is relatively small, the observations are not utilized to generalize them to the overall population, but instead, to empirically support the existing literature.

In order to reach the desired sample, the self-selection sampling technique was used. This is a non-probability technique that enables individuals to make the decision whether they want to take part in the research. As with this technique, the participants voluntarily participate in the study, it is believed that they have bigger

motivation and willingness to support the research with their experiences and views (Dhivyadeepa, 2015).

### **3.2.6. Data Collection**

#### **3.2.6.1. Secondary Data**

The secondary data assortment focused on giving an overview of CRM in the commercial aviation sector and its connection to customer loyalty and presenting the key trends of Turkish Airlines in the North American market segment and the airline's current CRM strategy. The key sources that were used gather secondary data included books, journal articles, as well as the website of Turkish Airlines, the website of the CAPA Center for Aviation, or the website of SITA Air Transport.

#### **3.2.6.2. Primary Data**

The primary quantitative data were gathered with the constructed questionnaire. The questionnaire was run online and was developed with Google Survey. The link of the questionnaire was shared on the Facebook page of Turkish Airlines. Turkish Airlines on Facebook at the time of the writing had approximately 10.7 million followers. While it is believed that the followers of Turkish Airlines on Facebook follow the airline as they had experience with the carrier previously or aim to use its services in the future, it should be recognized, however, that not all of the 10.7 million followers are believed to belong to the group of international passengers in the North American market of Turkish Airlines. In order to ensure that only those followers fill out the questionnaire, who are in the North American geographic

segment, two key measures were taken by the author. First, when sharing the link, the author highlighted that only those followers are encouraged to fill out the questionnaire, who reside in North America (i.e. USA or Canada). Second, the questionnaire starts by asking the respondents to indicate the region they belong to. Responses given by those not belonging to North America were eliminated from the questionnaire.

The questionnaire was constructed in line with prior literature in the field of drivers of airline customer loyalty and CRM initiatives (Boland et al., 2002; Dolnicar et al., 2011). The blank questionnaire is in Appendix A. The questionnaire was divided into three parts:

- Part 1: The introductory questions collected data about the demographics (geographical location, gender, age group) and travel purposes (i.e. business or leisure) of the respondents.
- Part 2: The second part of the questionnaire focused on the respondents' behavioral loyalty towards Turkish Airlines. This was the dependent variable in the study as it meant a self-valuation of flights flown with Turkish Airlines compared to the total frequency of their international flight habits. Therefore, the respondents were asked first to indicate how often they fly each year internationally, and then to indicate how often they fly with Turkish Airlines. The variable of behavioral loyalty was crucial to be measured this way as customer loyalty necessitates a sequence of choices of the airline instead of flying with it only once (Dolnicar et al., 2011).

- Part 3: This part focused on the key CRM initiatives that contribute to CRM effectiveness and drive airline loyalty as the independent variables. The four predictor constructs (i.e. CRM initiatives) that were included in this part were the frequent flyer program, customer care, campaign management, and reservations and ticketing as they were found in previous studies to be the key CRM initiatives driving airline loyalty (Boland et al., 2002; Dolnicar et al., 2011). The customer care elements came from the Customer Service Plan of Turkish Airlines (Turkish Airlines, 2019), the frequent flyer program related questions were based on the study of Dolnicar et al. (2011) and the elements of campaign management and reservations and ticketing were based on the work of Boland et al. (2002).

It should be noted that despite the continuous efforts of the author to perform interviews with managers at the CRM department of Turkish Airlines, his attempts were rejected, and no interview or other primary qualitative data collection could be performed with the support given from Turkish Airlines. Therefore, the primary data collection solely involved gathering quantitative information via questionnaire.

### **3.2.7. Data Analysis**

The secondary data scrutiny was based on following a systemic approach as proposed by Johnston (2014). It was done in three steps: 1) the development of the research question and objectives that serves the grounding to determine the nature of the secondary data to be collected; 2) determining the related and existing data on the topic that can be utilized to address the objectives; 3) evaluating the collected

dataset for its appropriateness and quality. Thus, these steps were also considered by the author when analyzing the secondary data.

Regarding the analysis of the questionnaire results, the following should be considered. The results were transferred from Google Survey to MS Excel. After this, descriptive statistics were utilized to designate the responses given to the introductory questions. Afterwards, the correlation of the four drivers (frequent flyer programs, customer care, campaign management, and reservations and ticketing) were statistically measured with behavioral loyalty by using a multiple regression analysis. The core benefits of the multiple regression technique are that it is easily interpretable and that it straightforwardly determines the impact of the independent (predictor) variables on the dependent variable (Weedmark, 2018). Consistent with the regression results, we could see which CRM initiative correlates the most with those customers who expressed the highest level of behavioral loyalty towards Turkish Airlines. Based on this, it could be identified which initiative is the most effective for the airline's CRM strategy to improve customer loyalty in its North American segment. In the last step of the analysis, the observations were compared to the evidence from previous literature and it was evaluated whether the hypothesis can be rejected or confirmed.

### **3.3. Research Ethics**

Fisher (2007) highlighted that in quantitative studies the ethical considerations include the confidentiality and anonymity, informed consent and the author's possible impact on the study. Regarding confidentiality and anonymity, the ethical

grounding was ensured by making sure that no personal or sensitive information was gathered from the questionnaire participants and that they were provided anonymity. With regards to informed consent, the goal of the research was clarified to the questionnaire participants when they opened the link to fill out the questionnaire. Also, their consent was asked to proceed to the questions. Last, concerning the author's possible impact the author ensured that he remained objective, impartial, and refrained from distortions coming from any favoritism or beliefs at all stages of the research process.

### **3.4. Limitations**

The study faces three key limitations that are vital to be reflected on. First, due to the fact that the questionnaire was circulated in English language, it can occur that the respondents lack satisfactory English language proficiency to answer the questions with completely true opinions. However, it is believed by the author that as respondents are selected with the help of the self-selection sampling method, meaning that they voluntarily participate, only those respondents are motivated enough to participate, who have adequate level of English to complete the questionnaire.

Second, Punch (2003) explained that using questionnaire as a source of primary data also has limitations. This is because questionnaires are limited in a way that they do not enable the researcher to follow-up or clarify issues with the respondents. To minimize this limitation, the questionnaire was constructed in line with prior

literature in the field of drivers of airline customer loyalty (Dolnicar et al., 2011; Espino et al., 2008; Hess et al., 2007).

Third, the generalizability of the observations also faces limitations. This is because while the research focuses on identifying the key drivers of airline customer loyalty and placing them into the context to CRM, the study only focused on the North American segment of Turkish Airlines, impacting negatively the generalizability of the observations. Thus, it should be emphasized that the findings should not be generalized beyond the scope of the North American segment of Turkish Airlines. However, other airlines having similar CRM strategy or CRM-related issues as Turkish Airlines might benefit from the observations made in the course of this study.

## **CHAPTER 4**

### **RESULTS**

#### **4.1. Introduction to Results**

This part describes the results of the secondary and primary data gathering. The secondary data concerns the key trends of Turkish Airlines in the North American market segment and the airline's current CRM strategy. The results of the primary data collection concern the questionnaire results in detail along with the multiple regression analysis.

#### **4.2. Secondary Data Collection Results**

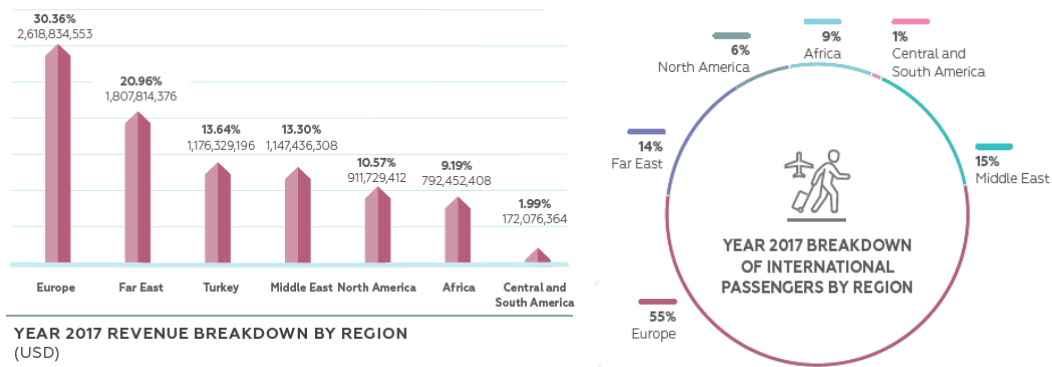
##### **4.2.1. Key Trends of Turkish Airlines in the North American Segment**

As highlighted previously, the North American segment was chosen by the researcher to be suitable to assess the implications of CRM on the success of Turkish Airlines. Therefore, it is vital to describe this segment in brief with regards to the key trends impacting the expansion of Turkish Airlines in the region.

According to Turkish Airlines (2018), the carrier operates in six segments, being Europe, North America, Central and South America, Middle East, Far East, and Africa. As shown in the below figures, the North American segment is of relatively small proportion compared to the airline's overall network as in 2017 it accounted for 11% of the overall revenue of Turkish Airlines and 6% of its international passengers. Indeed, out of the 252 international destinations, Turkish Airlines flies to 11 North

American cities: New York, San Francisco, Los Angeles, Chicago, Houston, Washington DC, Boston, Miami, Atlanta, Toronto and Montreal.

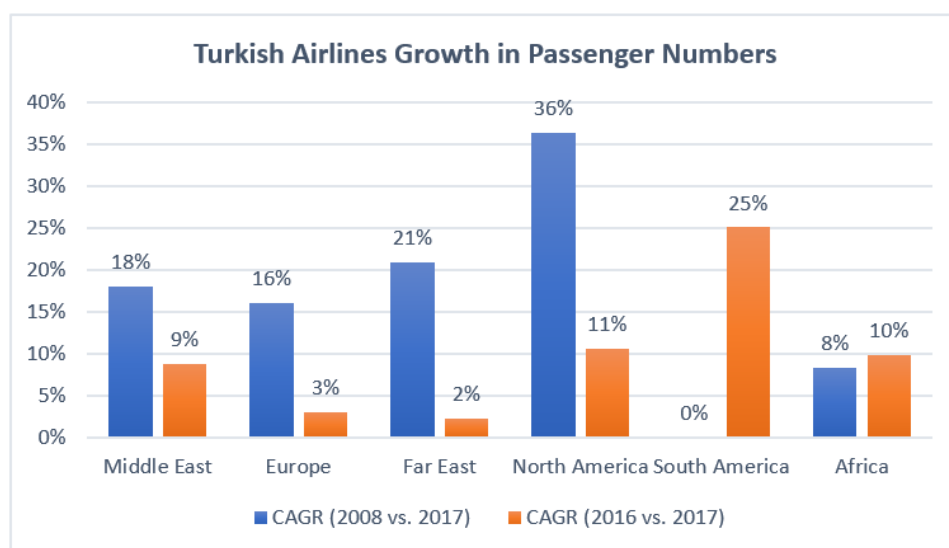
8. Figure 8: Turkish Airlines Revenue and Passenger Breakdown by Region 2017



(Source: Turkish Airlines, 2018)

Regarding growth, North America is the carrier's fastest growing segment. While Turkish Airlines only launched its first flights to North America in 2008, as of 2018 it contributed to 7 of the carrier's top 10 global destinations, in fact the New York-Istanbul route is the number 1 international route for the carrier. The region also had highest growth rate in passenger numbers (CAGR of 36% between 2008 and 2017), higher than any other region Turkish Airlines flies to, including its domestic segment (see figure below). When looking at the broader picture, the expansion of Turkish Airlines is primarily thanks to the transfer traffic connecting cross-country flights outside Turkey as this area achieved a CAGR of 28% between 2008 and 2017. The other share of intercontinental flights, so between Istanbul and cities worldwide, had a CAGR of 13% in the same period (CAPA, 2018).

9. Figure 9: CAGR of Turkish Airlines by Region 2008-2017



\*CAGR: Compound Annual Growth Rate

Turkish Airlines started its routes to South America in 2009 thus its CAGR for the period 2008/2017 is not applicable

(Source: CAPA, 2018, Turkish Airlines, 2018)

One important factor to consider is the competition for Turkish Airlines in the North American segment. As per CAPA (2018), Turkish Airlines is the sole carrier on the routes between Istanbul and its North American destinations, which leads to strong positions for the airline in its global strategy. Nevertheless, super-connectors have emerged in the last years offering flights from the Gulf-region to the same North American destinations, particularly Emirates, Qatar Airways, and Etihad. In fact, at the time of the writing, Turkish Airlines came only third after Emirates and Qatar Airways with regards to the number of seats offered to the 11 destinations Turkish Airlines serves. Also, even though Turkey has a geographical advantage compared to these GCC operators by being located closer to North America, as the carrier targets international traffic flows, it is still facing competition by these GCC-based airlines, especially that all three rivals operate routes to more North American destinations than Turkish Airlines with very strong expansion strategies (Emirates: 13, Qatar Airways: 15, Etihad:13 destinations to North America).

#### **4.2.2. The CRM Strategy of Turkish Airlines**

Regarding the CRM strategy of Turkish Airlines, the secondary data available is limited in nature. Dirican (2010) highlighted that Turkish Airlines followed a reactive approach by using the FFP and additional customer input data to detect functional defections and then directly follow-up with the passenger to avoid permanent defection. In fact, the airline combined CRM with Disaster Recovery Management by attempting to contact each of its stranded passengers waiting at specific European airports and directly informing them about the ongoing situation or assisting them with rebooking. Nevertheless, as the airline has grown quickly in the last decade, such reactive approach became inefficient to maintain or generate the desired returns and therefore the airline took a proactive approach towards CRM.

As explained by Kerem Kiziltunç, the Senior Vice President and CIO of Turkish Airlines, the carrier is among the longest established airlines on a global scale, existing since the beginning of the 1930s. Yet, the most radical changes for the airline occurred in the last decade as while in 2004 Turkish Airlines flew only to 73 cities and had 10 million passengers, by 2014 it reached 60 million yearly passengers with routes to more than 260 destinations (SITA, 2019). In this regard, Kerem Kiziltunç further added that Turkish Airlines is coping with its growth by initiating a transformation program in 2017 that covers rethinking and renewing its current CRM model besides transforming its IT structure.

The transformation for Turkish Airlines meant the expansion of its back-office IT department with about 500 people joining in the last 5 years. With regard to

analytical CRM or back-office CRM, Kerem Kiziltunç explained that Turkish Airlines is building a new data center and the carrier is currently utilizing about 300 applications of many sizes, 100 technology partners, and business intelligence. Concerning collaborative CRM, he highlighted on the importance of a shared services group that works with a standard infrastructure and operations team on a 7x24x365 basis. Regarding operational CRM, the transformation meant the alteration of customer offers and personalization of passenger experience for example by replacing its in-house Passenger Services System, enhancing its mobile applications, and further overhauling its website (SITA, 2019).

One important aspect to highlight on about the CRM framework at Turkish Airlines is that the current model is based on FFP. As highlighted by Kerem Kiziltunç, the current CRM infrastructure at the carrier is based on its in-house loyalty program called 'Miles & Smiles'. Nevertheless, the airline is planning to invest in additional CRM initiatives such as in a complex campaign management approach that involves e-mail marketing and direct marketing. Furthermore, Turkish Airlines would initiate two large-scale projects including the so-called Web 3.0 that utilizes a single personalization engine, single user experience design, and single vendor approach, and a project that enhances the functionality of the customer touchpoints via mobile (SITA, 2019).

#### **4.2.3. The CRM Practices of Turkish Airlines vs. Key Competitors**

In the Literature review it was highlighted that as a result of the technological advancements, most airlines now can access the same technologies, thereby eroding

their prospects to develop services with sustainable differentiation (Boland et al., 2002). In this regard, the author believes it is important to collect secondary data on the current CRM practices of Turkish Airlines and its key rivals so as to be able to discuss later on in the Discussion section whether sustainable differentiation for the carrier in North America is limited due to the utilization of similar CRM initiatives.

It should be highlighted that all four airlines have an FFP with 4 membership tiers: Miles & Smiles, Emirates Skywards, Qatar Privilege Club, and Etihad Guest. Regarding the touchpoints on different platforms, all four airlines have worldwide ticket offices, websites, mobile apps (both for Apple and Android), they are present on all key social media platforms from Facebook to Instagram, as well as provide call center services 24/7. Regarding the before flight practices, all four airlines offer check-in (website, mobile, roving agent), baggage handling, travel update, travel insurance, visa handling, and special assistance services for handicapped people or minors traveling alone. Qatar Airways has a special 'My Q-tag' online baggage check-in that ensures a hassle-free airport experience (Qatar Airways, 2019).

Furthermore, all four airlines have their own lounges at their respective hub airport with hostess assistance. Qatar Airways and Emirates also offer personalized meet and greet in their premium lounge experience. In terms of in-flight experience, all carriers put emphasis on their professional crews, their advanced in-flight connectivity, dining experience, and in-flight entertainment, and transfer assistance. Regarding promotion, all airlines have subscription letter for email promotions, as well as in-flight advertising. Emirates, Turkish Airlines and Qatar Airways also offer SMS promotions. All airlines list on their website chauffer drive, car rental assistance,

while Qatar Airways also offers transit tours with free transit visa (Emirates, 2019; Qatar Airways, 2019; Etihad, 2019; Turkish Airlines, 2019).

Overall, it can be observed that while Qatar Airways and Emirates seem to offer particular customer experiences that Etihad and Turkish Airlines do not provide, such elements are rather limited in number and the overall picture indicates that indeed the carriers have almost identical CRM practices within their CRM strategy. However, one key point to highlight is that while their CRM practices are highly similar in nature, their level of service might differ, which is assumed to impact the overall customer satisfaction and customer loyalty.

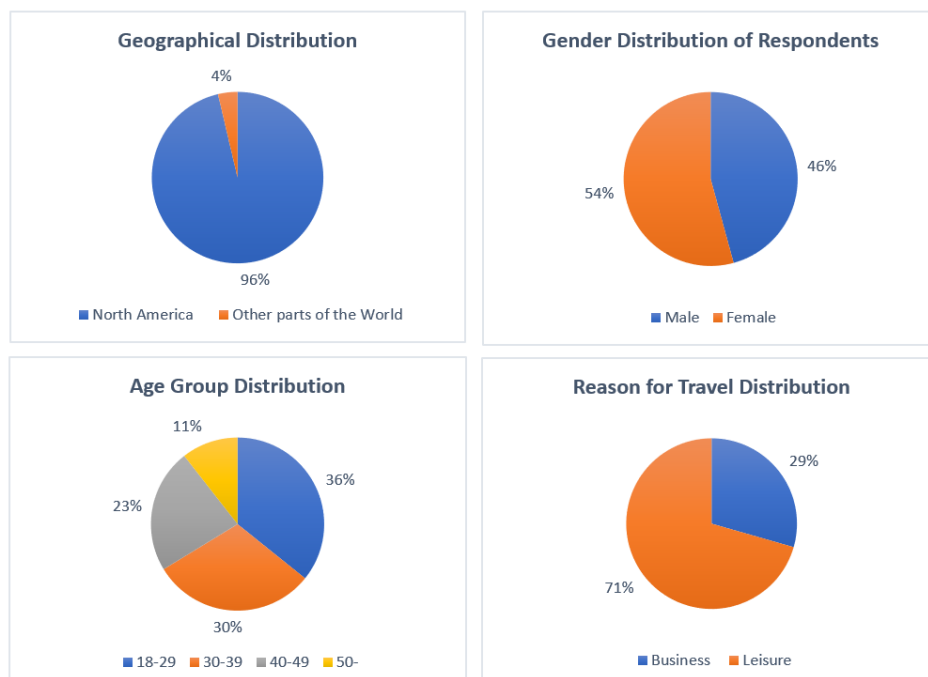
### **4.3. Primary Data Collection Results – Questionnaire Results**

Previously it was highlighted that the constructed questionnaire was shared on the Facebook page of Turkish Airlines to gather quantitative data on the drivers of customer loyalty of Turkish Airlines' passengers in the North American segment. It was discussed that the sample size identified by the author to be reachable is 300 participants. Eventually, 341 participants completed the questionnaire, which is slightly higher than our sample size. In this section the results of the questionnaire are discussed in detail by focusing on the outcome of the introductory questions, questions on behavior loyalty towards Turkish Airlines, and questions on CRM practices driving customer loyalty. Also, the regression analysis is carried out and its outcomes are deliberated as well.

#### **4.3.1. Introductory Questions**

The introductory questions collected data about the demographics (geographical location, gender, age group) and travel purposes (i.e. business or leisure) of the respondents. As shown in the below figure, altogether 354 participants filled out the questionnaire, however, 341 participants belonged to the North American segment and the other 13 to other parts of the World, thus the responses of those 13 respondents were excluded from the analysis. The gender distribution of the respondents is relatively balanced with 46% male and 54% female participants. Regarding the age group distribution, most respondents were below the age 39 (36% between 18-29 and 30% between 30-39). The group with the lowest participants in terms of age was the respondents above the age of 50 with 11%. Lastly, it was found that a higher ratio of participants travels for leisure purposes (71%) than for business purposes (29%).

10. Figure 10: Demographic Distribution of the Respondents and Their Reason for Travel

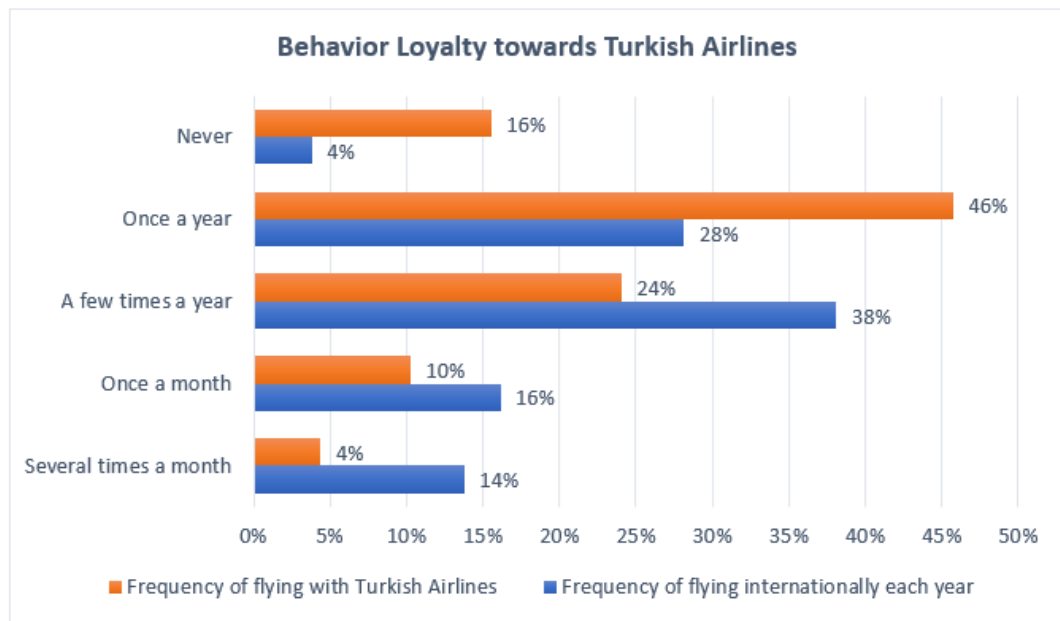


#### 4.3.2. Questions on Behavior Loyalty Towards Turkish Airlines

The second part of the questionnaire measured the behavior loyalty of the respondents towards Turkish Airlines. This was the dependent variable in the study as it meant a self-validated ration of flights flew with Turkish Airlines compared to the total frequency of their international flight habits. Based on the questions in this part, we could measure loyalty towards Turkish Airlines as the ratio of the flights taken with the carrier among all international flights taken yearly indicates a sequence of choices of the airline instead of flying with it only once (Dolnicar et al.,2011).

The below figure indicates that while 30% of the respondents fly internationally at least once a month, the ratio of individuals flying with Turkish Airlines at least once a month is only 14%. It is vital to highlight that these groups are made up of 86% and 94% of business travelers. Most of the leisure travelers travel a few times a year (38%), once a year (28%) or never (4%) internationally. The ratio for travelers choosing Turkish Airlines is the highest for the once a year frequency with 46%, followed by a few times a year (24%) and never (16%). The results in this regard imply that business travelers travel the most frequently internationally and for their trips half of them chooses Turkish Airlines to fly with. Leisure travelers fly mostly once or a few times a year internationally and most of them chooses Turkish Airlines once a year for their trips.

11. Figure 11: Responses to Behavior Loyalty towards Turkish Airlines



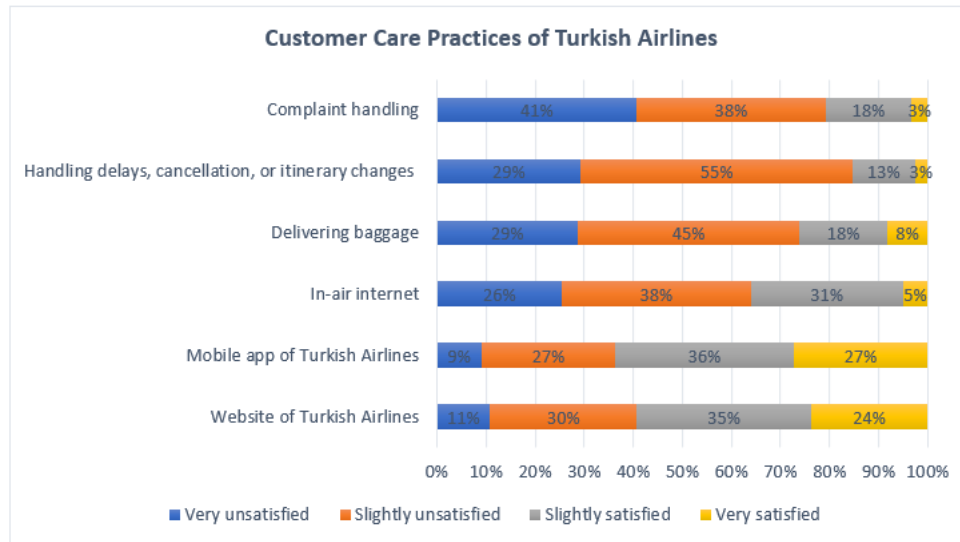
#### 4.3.3. Questions on CRM Practices Driving Customer Loyalty

This part focused on the key CRM initiatives that contribute to CRM effectiveness and drive airline loyalty as the independent variables. The four predictor constructs (i.e. CRM initiatives) that were included in this part were the frequent flyer program, customer care, campaign management, and reservations and ticketing.

Regarding customer care, the below figure indicates that most customers are satisfied with the mobile app and website of Turkish Airlines as these elements of CRM received a 63% and 59% satisfaction rate from respondents (slightly satisfied and very satisfied answers combined). However, in all other elements of customer care-related CRM, the responses showed dissatisfaction with Turkish Airlines. It was found that 85% of the participants are dissatisfied with handling delays and cancellation, 79% and 74% are dissatisfied with regards to complaint handling and

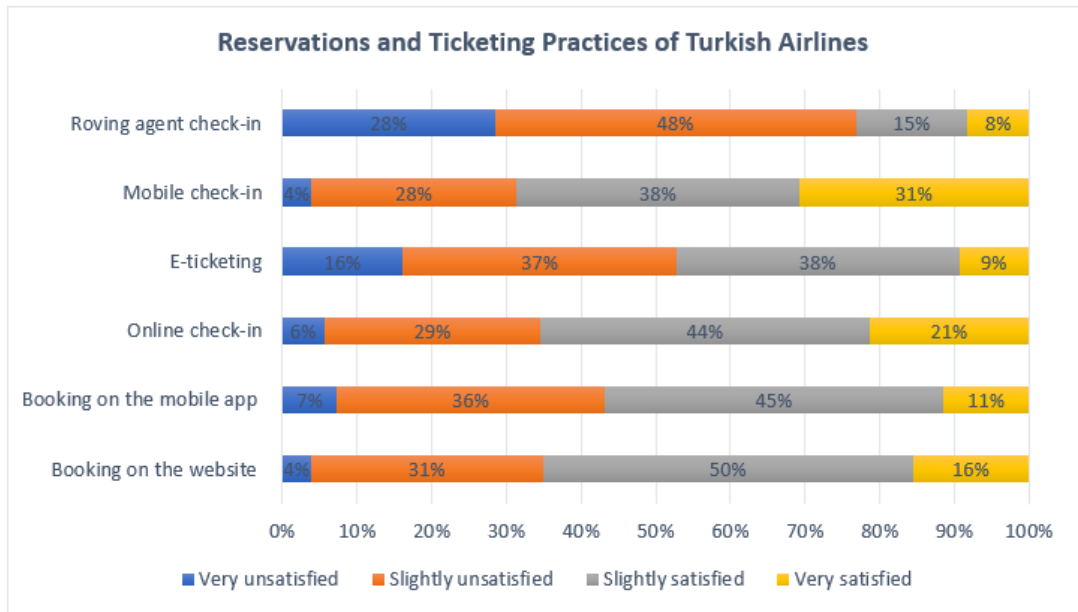
delivering baggage, and 64% are not satisfied with in-air internet (very dissatisfied and slightly dissatisfied responses combined).

12. Figure 12: Responses to Customer Care Practices



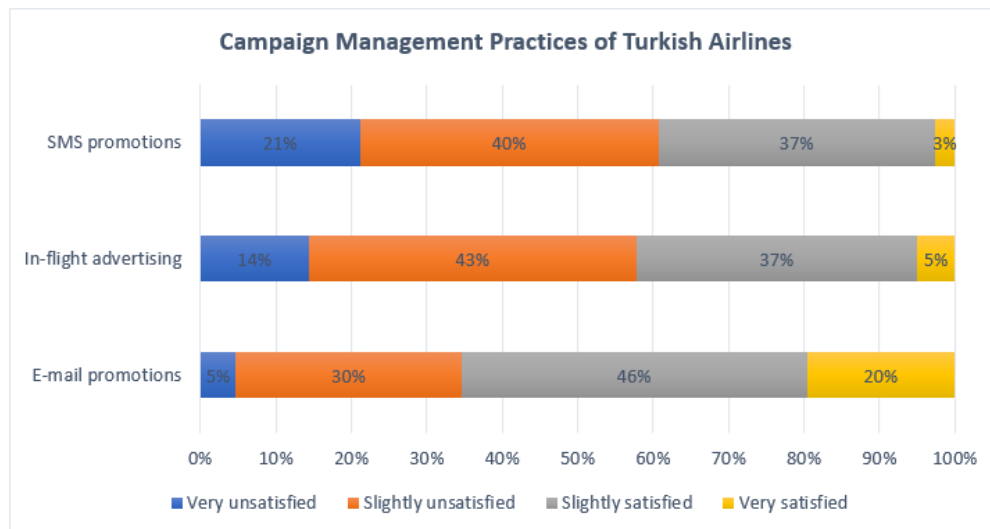
Concerning reservations and ticketing, respondents were found to be relatively satisfied with website-related activities including booking on the website and online check-in (around 65% of the satisfied answers for both practices, slightly and very satisfied responses combined). Furthermore, they were fairly satisfied with the mobile of Turkish Airlines as 69% and 57% rated the mobile check-in and mobile app bookings satisfactory. Nevertheless, in the practices of e-ticketing and roving agent check-in 53% and 77% of the respondents rated these elements dissatisfactory.

13. Figure 13: Responses to Reservations and Ticketing Practices



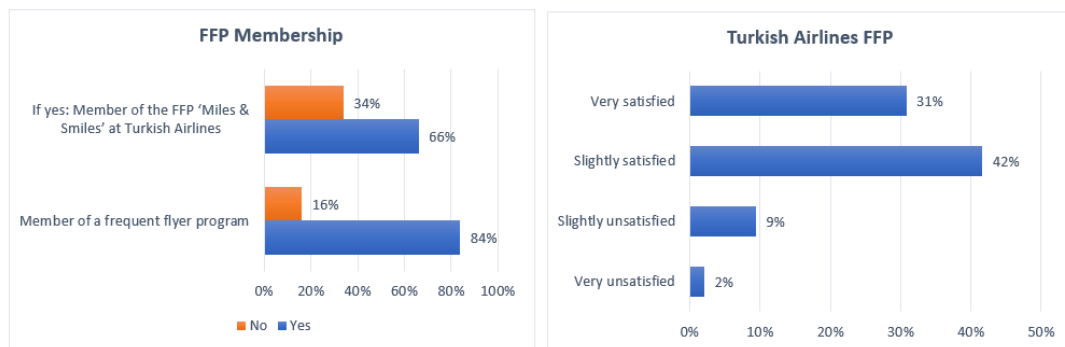
Regarding the campaign management CRM practices, the results indicate the following. Most of the respondents are satisfied with the e-mail promotions received from Turkish Airlines (65% satisfied answers with slightly and very satisfied responses combined). However, 58% and 61% of the participants showed dissatisfaction towards in-flight advertising and SMS promotions of the carrier.

14. Figure 14: Responses to Campaign Management Practices



The last key CRM initiative scrutinized in the course of the questionnaire was the Frequent Flyer Program of Turkish Airlines. As shown below, 84% of the respondents are members of an FFP and out of these respondents 66% have membership with the Miles & Smiles FFP at Turkish Airlines. The respondents marked the FFP at the carrier with the highest level of satisfaction compared to all other elements of the questionnaire, receiving a combined 72% satisfaction from the respondents (slightly and very satisfied answers combined).

15. Figure 15: FFP Membership of Participants and Satisfaction with 'Miles & Smiles'



#### 4.3.4. Multiple Regression Analysis

The final step regarding the questionnaire results was to perform a multiple regression analysis in order to statistically measure if there is correlation between the four CRM initiatives (frequent flyer programs, customer care, campaign management, and reservations and ticketing) and behavioral loyalty of those customers who expressed the highest level of loyalty towards Turkish Airlines. Therefore, when performing the regression, only those data from the questionnaire

results were included in the regression analysis, which belonged to those individuals, who flew with Turkish Airlines at least once a year.

To carry out the regression, values had to be assigned to the elements of the four CRM initiatives. To perform the regression analysis, values had to be assigned to the answers given to all statements. Such values were between 1 to 4 (1 = 'very unsatisfied' and 4 = 'very satisfied'). The values assigned to behavior loyalty were also 1 to 4 (1 = once a year and 4 = several times a month). The regression was carried out at 95% confidence level. The outcome of the multiple regression analysis was the following:

#### I. Table I: Multiple Regression Analysis

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0,999487939
<b>R Square</b>	<b>0,99897614</b>
Adjusted R Square	0,994880699
Standard Error	328,0781112
Observations	6

ANOVA					
	df	SS	MS	F	Significance F
Regression	4	105019,268	2625,482	243,924	0,048
Residual	1	107635,247	107635,247		
Total	5	10512,690			

	<b>Coefficients</b>	Standard Error	t Stat	<b>P-value</b>	Lower 95%	Upper 95%	Lower 95,0%	Upper 95,0%
Intercept	130,283	403,257	0,323	0,8011	-4993,579	5254,144	-4993,579	5254,144
FFP	<b>11,024</b>	0,855	12,887	<b>0,0002</b>	8,649	13,399	8,649	13,399
Campaign Management	<b>3,955</b>	0,177	22,308	<b>0,0285</b>	1,702	6,207	1,702	6,207
Reservations and Ticketing	<b>3,926</b>	0,436	9,000	<b>0,0404</b>	-1,617	9,469	-1,617	9,469
Customer Care	<b>0,604</b>	0,227	2,663	<b>0,2287</b>	-2,280	3,488	-2,280	3,488

The Regression function of the MS Excel gives a broad range of statistical figures for the dataset, however for our analysis we should focus on three particular figures, being the p-value, the coefficient, and the R square that are marked with blue in the table (Chatterjee and Hadi, 2006).

The coefficient refers to the nature of the correlation among the dependent variable and the independent variables (Chatterjee and Hadi, 2006). Taking a look at the table we can observe that the coefficients are positive values for each CRM initiative, implying that positive correlation is present between the customer loyalty and the effect of the CRM initiatives, i.e. the higher the effect of the initiative, the higher the loyalty.

The second factor to look at is the p-value, because this figure shows if the connection amongst the dependent variable and the independent variables is statistically significant (Chatterjee and Hadi, 2006). As our confidence level was 95%, the p-values less than 0,05 indicate statistically significant connection. Based on the table, we can see that the CRM initiatives of FFP (0,002), campaign management (0,028), and ticketing and reservations (0,040) satisfy this criterion, therefore they have statistically significant positive correlation with customer loyalty. Indeed, FFP had the lowest p-value, which shows the strongest statistical correlation to loyalty. Yet, the relationship between customer care and loyalty is statistically insignificant.

The last aspect to scrutinize is the R square, because it demonstrates if the regression has a satisfying overall fit. The common assumption is that the closer this value to 1, the stronger the overall fit of the model (Chatterjee and Hadi, 2006). Our regression output shows an R square of 0,99, implying that it has a strong overall fit.

## **CHAPTER 5**

### **DISCUSSION**

#### **5.1. Chapter Overview**

In the Discussion part the observations made in the course of the data analysis are discussed and placed into the theoretical context. In line with this, the discussion focuses on two areas, being the key CRM initiatives driving airline customer loyalty and the enhancement of CRM strategy effectiveness for Turkish Airlines. Based on the observations, it is evaluated whether the hypothesis can be rejected or confirmed.

#### **5.2. Discussion on the Relationship of CRM Initiatives and Airline Loyalty**

##### **5.2.1. Our Empirical Evidence**

The Literature Review revealed that an extensive range number of academics have observed empirical evidence about the connection of CRM and customer loyalty and therefore argue that customer loyalty is the key of benefit of CRM as a well-formulated CRM strategy increases the level of customer loyalty by changing the quality of the services offered and creating value beyond the value of the products. In fact, most of these authors claim that successful CRM execution increases customer loyalty through which sustainable profitability is achieved and competitive advantage is generated for the firm (Battacharya, 2011; Buttle, 2004; Faed, 2010; Khalight et al., 2012; Verhoef, 2003; Zhang et al, 2011; Zikmund et al., 2003; Zineldin, 2006).

In this regard, it should be highlighted that our questionnaire results supported the assumptions of these authors. The multiple regression analysis run on the questionnaire results showed that the CRM initiatives of FFP, campaign management, and ticketing and reservations have a statistically significant positive correlation with airline loyalty among Turkish Airlines passengers in the North American segment. Therefore, based on the questionnaire results, we can claim that certain CRM initiatives (i.e. FFP, campaign management, and ticketing and reservations) drive airline customer loyalty, thus supporting the findings of the previously mentioned authors.

On the other hand, the fact that based on the regression analysis results no statistically significant correlation between the CRM initiative of customer care and airline loyalty could be found indicates that the elements within this initiative (e.g. delivering baggage, complaint handling, offering services on website and mobile apps) are rather regarded as hygiene factors by the passengers than drivers of their loyalty. This means that these aspects do not lead to higher customer loyalty, yet their absence would cause dissatisfaction among passengers.

It is important to highlight that while previous research found connection between the CRM initiatives and boosting competitiveness or reaching sustainable profitability, based on our regression results we could not measure whether the positive impact of these CRM initiatives on customer loyalty would generate sustainable profitability or competitive advantage for Turkish Airlines in the North American segment. In order to evaluate such correlation, the author would have needed actual figures of a cost-benefit analysis regarding the mentioned CRM

initiatives of Turkish Airlines, most importantly in terms of their implementation costs, associated risks, and expected rate of return.

Unfortunately, as such data is not disclosed to the public by Turkish Airlines, nor the author could acquire by personally contacting the carrier's CRM department, we can only rely in this regard on the evidence found by industry experts such as Boland et al. (2002). They found that regarding the rate of return, FFP offers the highest return for the airline with a drive of 1.62% in operating margin and the greatest impact on customer loyalty, while elements of campaign management increase the operating margin by 0.11%, and elements of ticketing and reservations have an 0.04% impact on the operating margin of the airline. However, their study was carried out almost two decades ago, thus it is believed that such ROI figures might have changed as the airline industry developed and the competition became increasingly fierce among carriers.

Therefore, with regards to the empirical evidence presented in this study, we can claim that our evidence backs to existing literature in the area of airline CRM by providing further evidence for the statistically significant positive correlation among the CRM initiatives of FFP, campaign management, and ticketing and reservations driving airline customer loyalty. While this study could not access supporting data to take the findings further in the support that the elevated customer loyalty generates sustained profitability and competitive advantage for Turkish Airlines, based on the cost-benefit analysis provided by industry experts the author assumes that such relationship indeed exists.

### **5.2.2. The Role of the FFP-based CRM Model**

In the hypothesis developed for this study it was argued that the Frequent Flyer Program-based CRM model offers the highest return for Turkish Airlines in terms of increased customer loyalty in North America. Therefore, in the discussion section it is vital to reflect on the FFP-based CRM model in line with our findings.

Recent literature on FFP-based CRM emphasized that FFP is regarded as the leverage point for airlines as the more extensive their FFP data, the easier for the airline is to execute effective CRM. Academics claimed that a proactive FFP-based CRM model allows for more accurate tracking and improved predictive capability in addition to facilitating the creation of personalized service offerings to be delivered to high-value flyers (Coombs and McMullan, 2011). Indeed, FFPs are recognized as the key drivers of airline loyalty as in their nature they are loyalty programs to reward and thereby motivate loyal purchasing behavior (Tnooz, 2013).

The results of the questionnaire supported such findings. It was observed that 84% of the respondents were members of an FFP and out of these respondents 66% had membership with the Miles & Smiles FFP at Turkish Airlines, thereby leading to the assumption that FFPs are highly popular among passengers. Moreover, the respondents marked the FFP at Turkish airlines with the highest level of satisfaction compared to all other elements of the questionnaire, receiving a 72% satisfaction rate (slightly and very satisfied answers combined). This further supports the assumption that the loyalty program offered by Turkish Airlines is highly popular and generates the highest level of customer satisfaction among the CRM elements

scrutinized. Also, based on the multiple regression analysis, as FFP had the strongest statistically significant positive correlation to customer loyalty, we can further support the statement that FFP brings the greatest leverage in CRM. Moreover, the secondary data gathered implied that the current CRM model at Turkish Airlines is FFP-based (SITA, 2019), which further implies that the carrier regards FFP as having the highest leverage point and bringing the most benefits for the airline in its CRM. Therefore, the findings in recent publications as well as our hypothesis can be supported as we can claim that our results suggest that FFP-based CRM model offers the highest return for Turkish Airlines in terms of increased customer loyalty in North America.

Nevertheless, in the Literature Review it was discussed that the power of FFPs has eroded in the last decades as frequent flyers tend to join to several FFP schemes. As of today, FFPs are getting more and more challenging to be used a tool of differentiation (Tnooz, 2013). Such aspects could be observed within this research as well as in line with the questionnaire results minimum 18% of the respondents have multiple FFP affiliations, and that differentiation for Turkish Airlines is challenging as all of its key competitors (Emirates, Qatar Airways and Etihad) offer very similar, 4-membership tier-based FFPs.

Therefore, one important consideration to be highlighted on is the increasing importance of CRM initiatives other than the FFP. Recent literature emphasized the increasing importance of other CRM initiatives to enhance CRM effectiveness, such as customer care, campaign management, and ticketing and reservations ((Coombs and McMullan, 2011; Tnooz, 2013). Regarding Turkish Airlines, the addition of new

elements to the FFP-based CRM model could be also observed as it was found that while the current CRM infrastructure at the carrier is based on its in-house loyalty program called, the airline is planning to invest in additional CRM initiatives such as in a multistep campaign management and two large-scale projects including the so-called Web 3.0 that utilizes a single personalization engine and a project that enhances the functionality of the customer touchpoints via mobile (SITA, 2019). Therefore, we can argue that while at present the FFP-based CRM model is the highest leverage point for airlines, the current trends indicate that in the future such CRM models will be transformed into more integrated frameworks that rely on diverse CRM initiatives to assist the differentiation efforts of the airlines and address the eroding power of the FFPs in CRM.

### **5.3. Discussion on Enhancing CRM Strategy Effectiveness for Turkish Airlines**

#### **5.3.1. Investments in CRM**

In the Literature Review it was revealed that the CRM model relies on the three dimensions of collaborative, operational, and analytical activities so as to deliver an enhanced, personalized customer experience and thereby boost customer loyalty (Goodhue, 2002; Tan, 2007). Our secondary data about Turkish Airlines supported the reliance on these three dimensions by the carrier. Indeed, it was found that Turkish Airlines is investing heavily in all three CRM dimensions. Regarding analytical CRM the carrier is building a new data center and is currently utilizing about 300 applications of many sizes, 100 technology partners, and business intelligence. Concerning collaborative CRM, the airline offers a shared services group and

operations team working on a 7x24x356 basis. Regarding operational CRM, the transformation involves the alteration of customer offers and personalization of passenger experience especially on online and mobile platforms as well as in terms of FFP (SITA, 2019). Therefore, we can observe that by investing heavily in the three dimension of CRM, Turkish Airlines aims to be among the first-movers in CRM to gain competitive advantage in the increasingly fierce competitive marketplace.

### **5.3.2. CRM-related Issues for Turkish Airlines**

It is important to highlight that despite the heavy investments, Turkish Airlines faces particular CRM-related issues. It was explained in the course of the Literature Review that airlines face issues in their CRM development from two key standpoints: differentiation and employees. The former refers to the issue that as a result of the technological advancements, most airlines now can access the same technologies, thereby eroding their prospects to develop services with sustainable differentiation. The latter issue concerns that airline employees lack the tools to ensure consistent service level at all touchpoints, thereby restricting the benefits of CRM for both the passengers and the airline (Boland et al., 2002). Thus, as part of the discussion, it is important to reflect on these two key issues from the standpoint of Turkish Airlines.

With regards to the issues in the differentiation, it was found that the investments in CRM by airlines is competition-driven and not customer-driven. Turkish Airlines and its key competitors imitate and copy each other in the provision of CRM touchpoints. For instance, they offer almost identical 4-tier membership loyalty programs, similar website and mobile features, utilize same platforms to connect with their customers,

offer almost the practices for before flight, transit, and after-flight experience, and use similar promotional channels. This implies that through the provision of similar service offerings, the competitive differentiation that could be realized through CRM is eroded for them. This raises the issue that while the objective of CRM is to personalize the service offering and thereby assist in the differentiation, however, for airlines CRM is rather a commodity with many initiatives that are indistinguishable between them.

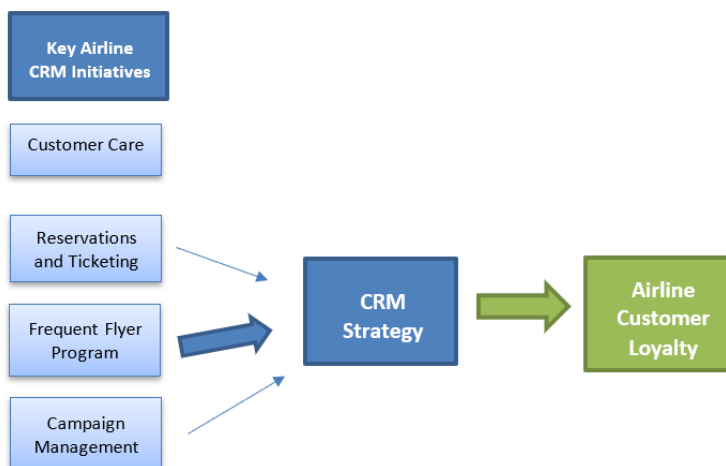
Regarding the second issue that airline employees lack the tools to ensure consistent service level at all touchpoints, we could observe that Turkish Airlines indeed faces the same issue. The questionnaire results indicated that while with the automatized platforms such as the mobile app and the website of the airline the passengers are relatively satisfied, on the other hand those CRM-related activities received the highest rate of dissatisfaction among the questionnaire respondents that involved touchpoints with the actual employees of Turkish Airlines, such as handling delays and cancellation, delivering baggage, and roving agent check-in.

Overall, these observations imply that Turkish Airlines necessitates to diverge from the competition-driven, reactive CRM strategy and focus on the relationship-building characteristics of CRM with its high-value customers. This could imply the provision of intensive trainings for its employees to be able to deliver the same, high level service at all touchpoints with the customers as well as the shift from the approach of imitating competitors' CRM practices and instead recognizing the real needs of its passengers based on which a highly advanced, personalized CRM system could be developed that Turkish Airlines' passengers can enjoy.

#### 5.4. Evaluation of the Hypothesis and the Research Model

In line with the Literature Review, the research model developed for the study suggested that the key CRM initiatives airlines invest in are customer care, reservations and ticketing, FFP, and campaign management. It was hypothesized that while all of these CRM initiatives leverage customers, FFP is the ultimate leverage point of airline CRM as it offers the highest return in terms of increased customer loyalty. Based on our findings, it should be emphasized that the hypothesis was confirmed. Our analysis supported that FFP has the strongest statistically significant correlation to customer loyalty. It was also found that the CRM initiatives of campaign management and reservations and ticketing are also positively correlated to customer loyalty, yet not as strongly as that of FFP. The connection amongst customer care and airline loyalty was found to be statistically insignificant. In line with these results, our research model should be modified as per below:

16. Figure 16: Our Modified Research Model



(Source: Author's own construct)

## CHAPTER 6

### CONCLUSIONS AND RECOMMENDATIONS

#### 6.1. Conclusions

This study deliberated the implications of CRM on the success of Turkish Airlines by analyzing the key CRM initiative in enhancing airline customer loyalty and identifying the major leverage points of effective CRM for the firm. The research question addressed was the following: What are the major leverage points of effective Customer Relationship Management for Turkish Airlines to increase customer loyalty in its North American market?

The hypothesis supported in this research stated that the Frequent Flyer Program-based CRM model offers the highest return for Turkish Airlines in terms of increased customer loyalty in North America. The testing of the hypothesis was done by 1) giving an overview of CRM in the commercial aviation sector and its connection to customer loyalty, 2) presenting the key trends of Turkish Airlines in the North American market segment and the airline's current CRM strategy; 3) measuring and comparing the key CRM initiatives of frequent flyer programs, customer care, campaign management, and reservations and ticketing driving customer loyalty for Turkish Airlines and identifying the most effective driver to base its CRM strategy on

It can be concluded that the evidence presented in this study backs the existing literature in the area of airline CRM by providing further evidence for the statistically significant positive correlation among the CRM initiatives of FFP, campaign

management, and ticketing and reservations driving airline customer loyalty. In fact, the analysis supported that FFP has the strongest statistically significant correlation to customer loyalty. It was also found that the CRM initiatives of campaign management and reservations and ticketing are also positively correlated to customer loyalty, yet not as strongly as that of FFP. The relationship between customer care and airline loyalty was found to be statistically insignificant. The findings further revealed that while at present the FFP-based CRM model is the highest leverage point for airlines, the current trends indicate that in the future such CRM models will be transformed into a more integrated frameworks that rely on diverse CRM initiatives such as campaign management to assist the differentiation efforts of the airlines and address the eroding power of the FFPs in CRM.

It was also observed in the course of this study that Turkish Airlines invests heavily in the analytical, collaborative, and operational dimensions of CRM to gain competitive advantage in the increasingly fierce competitive marketplace. Nevertheless, despite the heavy investments of Turkish Airlines in its CRM systems, the airline faces issues in developing CRM services with sustainable differentiation and also faces problems with ensuring consistent service level at all touchpoints. Indeed, the findings suggest that airline employees lack the tools to ensure consistent service level at all touchpoints, as while with the automatized platforms such as the mobile app and the website of the airline the passengers are relatively satisfied, on the other hand those CRM-related activities have the highest rate of dissatisfaction among customers that involved touchpoints with the actual employees of Turkish Airlines, such as handling delays and cancellation, and roving agent check-in.

In order to address these issues and thereby gain competitive advantage, Turkish Airlines necessitates to diverge from the competition-driven, reactive CRM strategy and focus on the relationship-building characteristics of CRM with its high-value customers. This implies that Turkish Airlines necessitates a dual-way development of its CRM strategy, namely in terms of the IT and the staff personalization areas. As a recommendation for improvement in these issues, Turkish Airlines is advised to provide intensive trainings for its employees to be able to deliver the same, high level service at all touchpoints with the customers as well as the shift from the approach of imitating competitors' CRM practices and instead recognizing the real needs of its passengers based on which a highly advanced, personalized CRM system could be developed that Turkish Airlines' passengers can enjoy.

## **6.2. Areas for Future Research**

The last area to reflect on is the recommended areas for future research. The author identified four key recommendations that shall be highlighted for such studies. First, future studies could expand the current research by assessing the key CRM practices driving customer loyalty in other geographical segments of Turkish Airlines and then compare their findings to the outcome of this study. It was revealed in this research that especially the South American geographical segment of Turkish Airlines is generating high growth rates and in fact it had the highest growth rate between 2016 and 2017 with a CAGR of 25%. Thus, as this geographical segment also hides substantial expansion and growth potentials for Turkish Airlines, it would be exciting

for future studies to focus on this geographic segment as well by analyzing the key CRM practices in the region that drive customer loyalty.

The second recommendation for future studies would be to add qualitative elements to this research, particularly by carrying out interviews with CRM specialists at Turkish Airlines. Unfortunately, for this research the author could not schedule interviews with such experts despite his continuous attempts. Nevertheless, it is believed by the author that such qualitative data could contribute to the findings of the study, as they could give a broader picture on the effectiveness of CRM practices of the carrier through the personal experiences and insights of such professionals. If possible, it would be also of great assistance to this study, if such experts could share the actual ROI figures for the CRM practices of Turkish Airlines as data is not available online but could be useful to make comparison with the ROI figures measured by academics (Ang and Buttle, 2002).

The third recommendation would be to analyze the newly launched CRM practices and initiatives of Turkish Airlines. At the time of the writing, it was found that the current CRM model at Turkish Airlines is based on FFP, yet the carrier had been investing in large-scale CRM projects related to campaign management, the enhancement of mobile touchpoint functionality and the Web 3.0 personalization engine (SITA, 2019). Thus, future research could have more data on the outcome and effectiveness of such projects on the CRM strategy of Turkish Airlines.

The last recommendation for future research is to explore new areas of CRM and their applicability or usefulness for airlines. For example, an emerging new area that

could be explored is e-CRM. e-CRM is an Internet-based CRM model through the application of Internet technologies and structured automated online processes of marketing, sales and customer service (Fjermestad and Robertson, 2015). According to Coombs and McMullan (2011), there are a broad range of advantages that outweigh its incremental costs for airlines to move from an FFP-based CRM model to an e-CRM model. Indeed e-CRM, if properly carried out, could enhance to the greatest extent the critical functions of customer behavior tracking and defection prevention. Nevertheless, as the potentials of this model have not been realized yet, future research could focus on evaluating its costs and benefits for airlines.

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## **APPENDIX A: BLANK QUESTIONNAIRE**

### Part 1: Introductory questions

1. Indicate the geographical area you belong to.
  - a. North America
  - b. Other parts of the World (i.e. Africa, Europe, Central and south America, Middle East, Far East)
2. Indicate your gender.
  - a. Male
  - b. Female
3. Indicate your age group.
  - a. 18-29
  - b. 30-39
  - c. 40-49
  - d. 50-
4. Do you usually travel for business or leisure?
  - a. Business
  - b. Leisure

### Part 2: Behavioural loyalty questions

5. How often do you fly each year internationally?
  - a. Several times a month
  - b. Once a month
  - c. A few times a year
  - d. Once a year
  - e. Never
6. How often do you fly with Turkish Airlines?
  - a. Several times a month
  - b. Once a month
  - c. A few times a year
  - d. Once a year
  - e. Never

### Part 3: Questions on CRM Initiatives

#### Customer Care

7. Customer care: Provided that you experienced the following services, please rate them (1- very unsatisfied, 2-slightly unsatisfied, 3-slightly satisfied, 4-very satisfied)
  - a. Website of Turkish Airlines

- b. Mobile app of Turkish Airlines
- c. In-air internet
- d. Delivering baggage
- e. Handling delays, cancellation, or itinerary changes
- f. Complaint handling

#### Reservations and Ticketing

8. Provided that you experienced the following services, please rate them (1-very unsatisfied, 2-slightly unsatisfied, 3-slightly satisfied, 4-very satisfied)
- a. Booking on the website
  - b. Booking on the mobile app
  - c. Online check-in
  - d. E-ticketing
  - e. Mobile check-in
  - f. Roving agent check-in

#### Campaign Management

9. Provided that you experienced the following services, please rate them (1-very unsatisfied, 2-slightly unsatisfied, 3-slightly satisfied, 4-very satisfied)
- a. E-mail promotions
  - b. In-flight advertising
  - c. SMS promotions

#### Frequent Flyer Program

10. Are you a member of a frequent flyer program?
- a. Yes
  - b. No
11. If yes, are you a member of the Frequent Flyer Program 'Miles & Smiles' at Turkish Airlines?
- a. Yes
  - b. No
12. Provided that you are a Frequent Flyer Program member, please rate your experience with it (1- very unsatisfied, 2-slightly unsatisfied, 3-slightly satisfied, 4-very satisfied)