

**ECON 428 – Behavioural Economics Project**

**Marketing Via Gift Coupons and Vacation Saving Schemes: An Initiative  
for Air Canada**

People like travel for a plethora of reasons: self-discovery, self-care, pursuit of adventures or even as a hobby. Studies show that in recent times, millennials have become far more interested in travel than previous generations (Machado, 2014). Indeed, travel can now be seen as less of a luxury good; just as much of a want as any other commodity. By classical economic reasoning, this follows that there should be an enormous market demand in the airline industry. Economic theory proposes that the demand for a good reflects a desire to satisfy a need for satisfaction and consumers choose their consumption of that good in order to maximise their utility. It can then be deduced that a lack of demand reflects low preference for that good, all other factors being equal. Given the rise of globalisation, and the various needs for travel, reluctance to book flights however, does not imply low preference for air travel. In reality, consumer demand may sometimes deviate from economic theory. Particularly, in the face of immediate costs and delayed rewards, present biased individuals exhibit self-control problems in performing an action and as a result, procrastinate for as long

as possible. Booking a flight and planning a vacation require huge immediate financial costs and often delayed benefits, therefore one would expect that a time inconsistent individual will hesitate and delay booking their flight causing low turnover experienced in airline companies. This paper provides a behavioral intervention – targeting clients through gift coupons and vacation saving schemes in order to provide a nudge towards booking more flights, thereby increasing sales at Air-Canada.

Flight booking decisions are characterised by high financial costs relative to other generic commodities – food, clothing, entertainment and so on. These financial costs – flight tickets, can often be accompanied by additional costs such as agent's fees, luggage and seating add-on fees as well complementary goods such as hotel costs. Furthermore, in the face of increased economic hardship and economic responsibility, the opportunity cost of booking a flight ahead of time is also high. In addition, the satisfaction associated with planning a trip is not realised till the future. Behavioural economics describes a phenomenon known as time inconsistency whereby consumers tend to place higher value on consumption in current time periods relative to the future (O'Donoghue & Rabin, 1999). Dynamic inconsistency, as well as ignorance of this present bias will lead an individual to highly procrastinate in the face of high immediate costs and delayed

rewards (O'Donoghue & Rabin, 1999). As a result, clients will often tend to procrastinate booking flights when conscious of the high costs regardless of the numerous benefits described earlier.

Current marketing strategies used in airline companies often include email advertising, social media advertising, tv and radio ads as well as loyalty programs such as Air-Miles. These strategies, although effective do not address a key bias that hinders ticket sales. Moreover, some strategies like email advertising and social media ads are often persistent, intrusive and yet oftentimes marginally effective. Other loyalty schemes such as the Air Miles program still fail to provide an adequate nudge to mitigate present bias in clients. I present a new scheme – gift coupons and vacation saving program, based on principles of behavioural economics that will alleviate the problem.

Increasing sales and client base through targeted marketing will be executed in two stages. The first stage will require creating partnerships with other organisations within and outside the airline industry. The second stage will need skilled customer service agents at Air-Canada in order to nudge clients towards redemption of the gift coupon as well as commitment to a voluntary vacation savings plan. Gift coupons will be distributed to partner organisations such as top hotels in the hospitality industry, superstores and departmental

stores in order to reach a wide range of the population. These organisations, as part of their partnership, will be required to occasionally reward their loyal customers with Air Canada gift coupons. In order to redeem these coupons, the recipients will have to connect with an Air Canada client services agent who will provide them with curated information and enrol them in a tailored vacation savings plan if they opt in.

Targeted marketing through coupons and savings schemes work to mitigate present bias in customer decision making while harnessing other behavioural tools – framing, loss aversion and endowment in order to nudge people to fly more. In behavioural economics, studies have shown that the way information is presented known as “framing”, shapes consumers preferences and choices (Ariely, Loewenstein, & Prelec, 2004). Endowment effect describes a situation in which people are more reluctant to let go of items once they have it, due to a newly realised sense of ownership (Lebowitz, 2016). Loss aversion is the phenomenon that explains why losses weigh more heavily than gains to most people (Lebowitz, 2016). Rewarding loyal customers with coupons gives rise to endowment effect and makes them reluctant to miss out on a seemingly great flight deal. More importantly, the way the choice is now being framed – a valuable reward for being a loyal customer makes the coupon holder appreciate

and value the deal more than he ordinarily would. Loss averse shoppers will more likely aim to avoid having losses in this good bargain simply because of the endowment effect. These three principles work together in the first stage to shape the customers preference for flying with Air Canada and nudge them towards redeeming the coupon.

As stated earlier, the main bias that plagues decision making in flight bookings is present bias. This bias is cushioned in the last stage of the program through the vacation saving scheme. Coupon recipients who wish to redeem the coupon contact Air Canada through customer service agents. These agents will provide a commitment device – a vacation savings plan. This will involve making small regular, non-refundable payments to Air Canada towards their desired vacation. This saving plan is predicted to work similarly to a pension savings plans that aim to increase desired savings (Madrian & Shea, 2001). Default in future payments will bring indirect penalties as client will be at risk of forfeiting their vacation and already contributed money. These new incentives fulfil the criteria often prescribed for commitment devices in order mitigate present bias – option of opting in and penalties for default (Rogers, Milkman, & Volpp, 2014). As a result, financial costs are spread out, thereby making clients more willing to pay for flights in current periods.

The benefits of this program are twofold. The scheme directly benefits consumers because they have access to more affordable flights and a savings plan that spreads the cost of travelling over time. The program also benefits Air Canada by increasing flight sales and expansion of client base. These benefits will be measurable through revenue-costs analysis after the program implementation. Furthermore, creation of a network of partnerships will greatly increase business-to-business relationships for Air Canada and possible external economies of scale. Most importantly, this scheme provides a less intrusive, more direct and effective means of reaching potential clients through simple behavioural nudges.

As with every intervention, there is always a chance of failure. With this savings scheme, income loss aversion and “default behaviour” might be created through monthly instalment payments deducted from monthly income towards future vacations (Madrian & Shea, 2001). In addition, contrary to popular belief, it may be the case that most people oddly have no interest travelling and therefore present bias is in fact, not present in the decision structure.

Nevertheless, I believe this scheme has a great chance for success and it presents great odds that can only be explored if this promising strategy is given the chance to be implemented.

In conclusion, marketing through gift coupons and a vacation savings plan is an intervention that can greatly increase flight sales at Air Canada. Present bias prevents naïve, time inconsistent clients from booking flight on time. By leveraging the power of framing, endowment effect and loss aversion, gift coupons help consumers value flight deals more than they would usually. Framing guides initial valuation, endowment effect creates sense of ownership and loss aversion nudges people to exert effort in redeeming coupons. Finally, by spreading financial costs over time and locking clients into a savings contract, a vacation savings scheme acts as a commitment device that by passes present bias in decision making.

### Works Cited

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