

# **Contractual Issues of Flights Overbooking<sup>1, 2</sup>**

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## **ABSTRACT**

Overbooking is a revenue management measure of airline companies while these years more and more issues show up along with airline companies using this to boost benefits. The author finds three problems which are: the airline contract terms vary among companies and there is no baseline, customer may not know clearly the company responsibility and customers' rights, and the improvement should make towards overbooking terms. To answer these questions, the author used dominance method (Pair Wise Comparison and Additive weighting technique) to analyze, and find out that Air France contract provides the most comprehensive terms regarding overbooking and could become a baseline. Also, another finding is that customers don't really know what is written in the contract because the contract is too long, hard to understand or hard to access. Based on all the findings that we gave some suggestions, this paper aims to help improve all airline companies contract regarding overbooking.

**Key words:** Overbooking, Contract, Terms and Conditions, Contract of carriage, Revenue management, Airline, Oversell

## **INTRODUCTION**

On 9 April 2017, a man was dragged off from a United Airlines which was overbooking and failing to find volunteers willing to go down. Therefore, they choose to kick off the people randomly and forced him to leave. Later, the video disseminated all over internet. This made a huge impact to the brand reputation of United Airlines and ended with United Airlines paying a lot to fix the problem and avoid litigation. This brings overbooking issues back to people's attention and lets people begin to think. Does an airline company have rights to do that? What are costumer rights when this happens? Further, what are written in the airline contract of carriage?

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Overbooking is a revenue management measure of airlines companies, aiming at reducing or eliminate the negative economic impact of customer no shown up (cancel or change flights). It means that the actual number of seats exceeds the actual carrying capacity of the flight, so that it is very frequently for passengers who have purchased tickets but was denied boarding. This oversell method solves the problem of the seat-emptiness in a flight because of customer not shown-up. While at the same time this cause a lot of delays of flights and complains of customer. Severely, as the worst case, company may loss customers forever as what happened to United Airlines. Obviously, it has a critical signification for companies' development and marking strategy.

## **1. Problem definition**

As we can see, numerous problems arise in particular as regard to the problem overbooking. Some people even think flights overbooking as a kind of "contract fraud". Is that true? This paper tries to figure out what is written in airline company's contract, clarifies the specific terms and conditions regarding overbooking. By comparing the different statements about overbooking among the contracts of carriage of United Airlines, Air France and Air China which can represent their located region (USA, France, China) to compare and analyze their terms and conditions on overbooking. This paper will find out the best contract which is more favorable to customers and should become a baseline for other airline companies. In addition, based on the findings of the problems the author will give several suggestions in order to make airline contracts more comprehensive and practical.

This paper tries to answer:

- 1) Which company among United Airlines, Air France and Air China provide best policies to their client and can become the airline contract baseline regarding overbooking?
- 2) Do costumers know what are the airline company's responsibility and know their rights when facing overbooking?
- 3) How to improve the airline companies' general contract of carriage?

## **METHODOLOGY**

In this section, we identified three companies' terms regarding overbooking in general contract of carriage as the alternatives for finding the best baseline. Based on the alternatives, we identified three possible options of outcomes. After, it is going to choose the criteria for the ADDICTIVE WEIGHTING TECHNIQUE of MADM Method. MADM is known as its practicability and convenience faced to subjective attributes, by which we could easily find which contract should become the best airline contracts baseline.

## **2. Identify the feasible alternatives**

- 1) **Alternative 1:** The United Airlines' terms and clauses regarding overbooking/denied boarding and compensation. Governed by the laws of the State of Illinois, U.S.A
- 2) **Alternative 2:** The Air France's terms and clauses regarding overbooking/denied boarding and compensation. Based in France. Governed by the French Law.
- 3) **Alternative 3:** The Air China's terms and clauses regarding overbooking/denied boarding and compensation. Based in China. Governed by the Chinese Law.

### **3. Development of the outcome for alternatives**

The reason to choose these three companies are that they can represent their located region country (USA, France, China), also they are very practical with a lot of years airline experiences.

**Option 1:** United Airlines' contract become the baseline

**Outcome:** Airline companies should make their contract comprehensive as what United Airlines did, including clearly instructions and exceptions when overbooking issues happen. While the contract is favorable to the contractor and maybe hurt the feeling of customers in real life.

**Option 2:** Air France's contract become the baseline

**Outcome:** Airline companies should learn from Air France's contract, which is favorable to clients will bring good company reputation. When overbooking issues happen, the contract offers clearly instructions for company and appoint clearly what customers can get. But it takes you a little time to find the contracts on the website which customers may not have opportunities to read them.

**Option 3:** Air China's contract become the baseline

**Outcome:** Airline companies should learn from Air China's contract that a short version in the passenger announcement will make sure everyone read it. But the missing description of the instructions and the compensation terms will cause problems.

The three contracts all talk about overbooking issues and solutions but there are some differences. To better analyze them, when we do the comparison, we should consider from both customer view and the contractor view to select the criteria.

### **4. Selection of the criteria**

To find the answers we want, here we select seven criteria to help assessing the contract terms and conditions regarding overbooking. And then, using these criteria, the author uses the non-compensatory approach(Dominance) of MADM to have a cursory comparison.

#### **1) Selected seven criteria:**

- **Accessibility:** to see if customer can access the contract information easily

- **Easy to read:** Mostly depends on the Length of the contract. It decides if the customers will spend time to read it, a long contract needs more time to read and will be hard to find the information they want easily.
- **Easy to understand:** To check whether the contract terms are clear and logical.
- **Updated recently:** To see if the company update the contract with time to improve.
- **Clearly instructions for airline company:** To see if the contract clearly point out what the company should do when the overbooking situation happens and describe what rules they should follow.
- **Clearly compensations form and amount:** to check if the contract provides the information of compensations for customer when they are denied boarding and check if it gives instructions to the airline company the form and amount they should pay.
- **Clearly terms of exception and limitation:** to help airline company to avoid some arguments and legal problems.

## 2). Dominance (Pair Wise Comparison)

Here we do a Dominance Pair Wise Comparison of MADM, while we assume that all attributes are equally important.

Dominance (Using PairWise Comparison )			
Selection Attributes	United Airlines VS Air France	United Airlines VS Air China	Air France VS Air China
<b>Accessibility</b>	Better	Equal	Worse
<b>Easy to read (Length)</b>	Worse	Worse	Equal
<b>Easy to understand</b>	Worse	Better	Better
<b>Updated recently</b>	Better	Better	Better
<b>Clearly instructions for airline company</b>	Equal	Better	Better
<b>Clearly compensation form and amount</b>	Worse	Better	Better
<b>Clearly terms of exception and limitation</b>	Equal	Better	Better
<b>Dominance?</b>	No	Yes	Yes

Now we have a result of that **Air France > United Airlines > Air China**. To check if these results make sense, let's move to next step to do a re-check.

## FINDINGS

### 5. Analysis and comparison of the alternatives

After chosen the criteria as mentioned before, in this step, we will use **DOMINANCE METHOD (Additive weighting technique)** to compare the alternative solutions.

Firstly, we decide to grade the 3 alternatives about their general quality with different attributes, and we are going to grade all the criteria we selected following the form below.

Quality ↛	
Excellent ↛	3 ↛
Good ↛	2 ↛
Fair ↛	1 ↛
Poor ↛	0 ↛

Selection Attributes	United Airlines	Air France	Air China
<i>Accessibility</i>	3	1	2
<i>Easy to read (Length)</i>	0	2	2
<i>Easy to understand</i>	1	3	1
<i>Updated recently</i>	3	2	1
<i>Clearly instructions for airline company</i>	2	3	0
<i>Clearly compensation form and amount</i>	1	3	0
<i>Clearly terms of exception and limitation</i>	3	2	0
Average	1.86	2.29	0.86

After the first step scoring, we can find that Air France got better scored but is still not convincing enough; we have to go deeper to add the relative rank of importance to do the analysis.

Terms and conditions regarding overbooking

	Step 1	Step 2			United Airlines		Air France		Air China	
Attribute	Relative Rank	Normalized Weight (A)			(B)	(A)*(B)	(C)	(A)*(C)	(D)	(A)*(D)
<b>Accessibility</b>	5	5/28	=	0.18	3	0.54	1	0.18	2	0.36
<b>Easy to read (Length)</b>	6	3/14	=	0.21	0	0.00	2	0.42	2	0.43
<b>Easy to understand</b>	7	1/4	=	0.25	1	0.25	3	0.75	1	0.25
<b>Updated recently</b>	1	7/28	=	0.04	3	0.11	2	0.08	1	0.04
<b>Clearly instructions for airline company</b>	4	1/7	=	0.14	2	0.29	3	0.42	0	0.00
<b>Clearly compensation form and amount</b>	3	3/28	=	0.11	1	0.11	3	0.33	0	0.00
<b>Clearly terms of exception and limitation</b>	2	1/14		0.07	3	0.21	2	0.14	0	0.00
<b>SUM</b>	28		SUM	1.00	SUM	1.50	SUM	2.32	SUM	1.07

Additive weighting technique chart

As the two tables above show, we can get our final result: **Air France > United Airlines > Air China.**

Alternative 1: As we can see that United Airlines does well in the accessibility, updated recently and having clear terms of exceptions and limitations which contribute a big part. Other criteria show normal. What's more, the worst attribute is the length that makes it is not easy to read.

Alternative 2: Air France wins the best one, with almost all attributes showing quite well but the accessibility is not super good. But the score we got is similar to the one United Airlines has, so actually they can learn from each other.

Alternative 3: Air China got the worst score due to the missing of clear terms of instructions, compensations and terms of exceptions. But it does good that it's easy to access and read.

This result is identical with the Dominance comparison result in step 4 but with data supporting.

## 6. Selection of the preferred alternatives

The preferred alternative is Air France's general contract of carriage regarding terms and conditions of overbooking. This paper was designed to answer the following questions:

- 1) Which company among United Airlines, Air France and Air China provide best policies to their clients and can become an airline contract baseline regarding overbooking?

According to the final result, Air France provides best policies to their client and can become the airline contract baseline regarding overbooking. By comparing with Air France, we can check that if the airline company provides comprehensive and favorable to clients. In Air France's contract overbooking terms, it gives not only what customer can get when issues happen but also rule that what airline company should do to comfort customers. The clearly terms that are easy to understand how much compensation you can have will make it a good contract. By learning this from Air France, it can help all airlines companies to improve their contract towards overbooking and make business more successful.

**2) Do costumers know what the airline company's responsibility and their rights when facing overbooking?**

Looking back at the analysis then you will find that the answer is probably **No, they don't**. United Airlines' contract is really long and hard to understand, Air France's contract is nice but they hide their contract on the website which you need time to find it, finally Air China's contract is easy to read and understand but with a lot of missing terms about the responsibility and customer rights. Obviously, these will all cause that the costumers didn't read it at all or hard to find information or don't know even they have read it because of incomprehensive terms and conditions. The author also did a little test, to go to buy an air ticket on airlines company's website, it's not mandatory to read the contract, just by clicking "I agree" then you will skip all the important information.

**3) How to improve the airline companies' general contract of carriage?**

Now here we list some suggestions to all airline companies to help improve their general contract of carriage based on learn from our baseline and the findings from the analysis we did.

- Make sure the contract is easy to understand, not too long and easy to find it. This decides whether customers will read your contract or not.
- It's a good thing that a contract is favorable to the contractor but it may hurt customers' feeling. As airline companies actually are service companies, so it's better to provide good policies to customers.
- A contract is not only used to inform customers, but also should contain the instruction of what the airlines company should do. When overbooking issues happen, the management team can know what responsibilities they have to take and the customer can monitor the company according to what is written in the contract.
- Contract should update when finding some loophole or imperfection. United Airlines updated their contract regarding overbooking very detailed after the serious event but not all airline companies updated it.

## **7. Performance monitoring and post-evaluation of results**

In real life when overbooking issues happen, it will be more complicated because it heavily relies on the performance team who handle the issues. The author strongly advises that the airline company should record their cases for all successful and failure performing. Not only learn from the baseline company's contract, the company should keep updating themselves towards the best one. Once something like the United Airlines case happen, it actually should become every airline company lesson learnt in case book. They should make more efforts on the monitoring performance and keep adding value to their own contract.

## **CONCLUSIONS**

To make a conclusion, this paper has discovered the contractual issues in three famous airline companies, finding out that there are some issues on missing the important statement or vague to clearly articulate the responsibilities and rights. By using the selected criteria, we used dominance method (Pair Wise Comparison and Additive weighting technique) to find out that Air France contract could become the baseline contract which provides the compressive terms and conditions and make more clearly the company responsibility and customers' rights. Also, another finding is that customer don't really know what is written in the contract because of the contract is too long or hard understanding or hard to access. Based on the findings, we gave some suggestions for all airline companies to improve their contract terms regarding the overbooking issues.

## **FOLLOW ON RESEARCH**

In this paper, the author did a little test to check if customer will read the terms when they are purchasing the air ticket and find that they may not read it and they signed it. What's more because of the missing defined of the instruction for company to select volunteers and how to comfort customers' mentality. This provides opportunities to the author and other authors to think about it and do more research on the management issues and legal issues regarding overbooking.

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