

Analyzing the Strategies of LCCs and FSCs in Southeast Asia

This paper firstly seeks to analyze the contemporary developing environment of the airline industry in the Southeast Asia, particularly addressing to the issue of competition between Low-Cost Carriers (LCCs) and Full Service Carriers (FSCs). Second, it discusses and compares the differentiation of their strategies adopted in achieving customer satisfaction through maintaining customer relationship by adopting proper customer relationship management (CRM) customer value management (CVM). Finally, the paper provides a conceptual framework for airline managers in considering their winning strategies for the next battle in running their airline business.

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The entry of low cost carriers (LCCs) in the region of Southeast Asia has dramatically changed the aviation market in recent years. In the region of Southeast Asia geographically is different from the single continent of US and EU. It also currently is not a union and politically fragmentary at the moment. Therefore, it can be realized that the development of LCCs in Asia comes to birth of late comparing to those in US and EU. Nevertheless the entry of low cost carriers (LCCs) in the region of Southeast Asia has dramatically changed the aviation market in recent years. And now, as the headline said in Asia Pacific Low Cost Airline Symposium 2006: "It is crunch time for low cost carriers ... Get ROI now!" The entry of LCCs in this region has caused the established premium carriers to sharply lower their fares to hold up against competition. It made the civil regulators think

about developing terminals meant for the LCCs. It made the usual ground passengers think about flying. It brought about the development of even more cost-saving software programmes meant for the LCCs. It certainly made the consumer more internet-savvy.

Analyzing the Current Environment of Airline Industry in Southeast Asia

Major LCCs Players in Southeast Asia

There are ten countries in the region of Southeast Asia which has formed the Association of Southeast Asia Nations (ASEAN) in 1990, they are: Brunei Darussalam, Cambodia, Indonesia, Lao, Malaysia, Myanmar, The Philippines, Singapore, Thailand and Viet Nam. Lawton and Solomko (2005) categorized the market growth potential for LCCs in Asia as three

levels of high, medium and low. For those Southeast Asia countries, Singapore and Malaysia are expected as high potential for LCCs emergence and growth. Thailand, Indonesia and Philippines are categorized as the medium level. The rest of ASEAN countries are still under developing and waiting for further market investment and liberalization as well. From this point of view, the current market development for LCCs in Southeast Asia can be generally classified as two different worlds, one is fast-growing district as those five countries with potential emergence and growth, and another world is un-developing territory (the rest of five) or can be considered as "a virgin land" for LCCs to discover in the future.

By the end of 2005, there are seven major established LCCs operating with both domestic and international route networks within the region. There are some other smaller LCCs which only operate domestic routes and some of them even only operate cross-island route, such as Phuket Airlines and Nok Air based in Thailand, Asian Spirit based in Philippines and Indonesian Citilink based in Indonesia. Table 2 shows the company profiles of seven major established LCC in Southeast Asia.

For those seven major LCCs, not all of them are wholly owned by a single nationality. Malaysia based AirAsia originally founded by government-owned conglomerate DRB-Hicom,

Country	Capital	Land area (Sq.km)	Population (thousand)	GDP (US\$ million)	LCCs growth
Malaysia	Kuala Lumpur	330,257	23,671	103,737	High
Singapore	Singapore	697.1	4,198	106,818	High
Thailand	Bangkok	513,254	64,470	143,303	Medium
Indonesia	Jakarta	1,890,000	215,960	208,625	Medium
Philippines	Manila		82,664	86,123	Medium
Brunei	Bandar Seri B.	5,765	357	54,626	-
Cambodia	Phnom Penh	181,035	14,131	4,215	-
Lao	Vientiane	236,800	5,758	12	-
Myanmar	Yangon	676,577	54,745	9,605	-
Vietnam	Hanoi	330,363	82,222	39,021	-

Table 1: Country profiles of ASEAN (2004). Source: Compiled www.aseansec.org

the heavily indebted airline was purchased by former Time Warner executive Tony Fernandes's company Tune air Sdn Bhd for the symbolic sum of one ringgit on December 2nd, 2001. The ownership structure of AirAsia is partially 41.74% owned by foreign and the rest of 58.26% owned by Malaysian. Until 2005, four years time since it's officially launched, it has carried over 13 millions passengers and delivered substantial profits and industry leading margins, with net income increasing significantly (127%) to RM 112 million. According to AirAsia's annual report 2005, the successful operating result was achieved by carrying 55% more passengers than in FY2004 and improving company's unit cost by 11%.

Singapore based Jetstar Asia is another clear sample for joint venture by different nationalities. The carrier itself is a Singapore-based partnership between Qantas (49%), local businessmen Tony Chew (22%) and FF Wong (10%) and Temasek Holdings (19%). It is regional extension of the Jetstar brand, which was launched by Qantas as a low cost airline in the Australian domestic market. In mid 2005, Jetstar Asia and Valueair announced a merging action plan to operate joint flights to some destinations. Another recent launched Singapore based LCCs is Tiger Airways. The ownership of Tiger Airways is jointly owned by Singapore airlines and the people who started Ryanair which is the first LCCs launched in 1991 in Europe. Currently Singapore Airlines owns it shares of 49% and regarded as its parent company.

Thailand is another terrific home land for LCCs to set up and enrich itself. Not only for its long established image of sun, sea and sand tourist spot, but also due to the capital city of Bangkok has its unique hub transportation function. So far, Malaysia based AirAsia has set up a branch name called Thai AirAsia based in Bangkok International Airport. Several LCCs wholly owned by Thai are already on their way to fly such as Nok Air, joint invested by Thai Royal International Airways, now flies domestic flights in Thailand. Orient

Country	LCCs	Date launched	A/C Type (No. Fleet)	City Pair (Int'l route)
Malaysia	AirAsia	Dec. 2001	B737 (35) A320 (4)	19
Singapore	Jetstar Asia	Dec. 2004	A320 (4)	10
	Tiger Airways	Dec. 2003	A320 (12)	16
	ValuAir	May 2004		3
Thailand	Orient Thai (One-Two-Go)	Dec. 2003 (1996)	B747 (6) B757 (3) MD82 (4)	3
	Bangkok Airways	1968	A320 (3)	6
Indonesia	Lion Air	Jun. 2000	MD80 (20) MD90 (5) B737 (6) DHC8 (3)	4
Philippines	Cebu Pacific Air	Mar. 1996	A320s A319s	1

Table 2: LCCs Company profiles in Southeast Asia (2006). Source: Compiled from airline's websites

Thai, who also use the brand One-Two-Go, also flies domestic flights in Thailand but as well as international flights to Guangzhou, Hong Kong and Seoul from both Bangkok and Phuket. Phuket Airlines now is only serving Bangkok and Ranong in Thailand and Rangoon in Burma.

Competitive Relationship Between LCCs and FSCs in Southeast Asia

Many previous researches have been done on this topic for many years. The competition between FSCs and LCCs even just right began from the beginning stage of LCCs. Several studies have been conducted by different authors when they were trying to find out factors on influencing business travellers' behaviour in selecting flights between FSCs and LCCs. Mason's series studies (1999, 2000, 2001) were a series pioneer researches on this issue. Mason (2000) indicates that low-cost airlines are more likely to be successful in attracting business travellers from small and medium sized companies. Fourie and Lubbe (2006) recently completed a similar research based on Mason's model in South Africa. Their study concluded the differences on influential variables such as price and flight frequency on comparison of Mason's previous study. Franke (2004) took another study regarding the competition issue between network carriers and low-cost carriers. This article drew a finding that on continental

travel routes, LCCs are able to deliver 80% of the service quality at less than 50% of the cost of network carriers.

Based on the concept of Franke's study, this article takes a serious consideration in comparing and contrasting those internet websites of Asia's major air carriers of both FSCs and LCCs business models. The aspects of comparison and contrast of this paper concerned are: on-line air fare offered and route schedule (product features), item and content of service delivered (service features), customer relationship management and customer value programme (CRM & CVM). Among these three main aspects, this article would like to present a conceptual framework model for airline managers to consider their winning strategy of achieving customer satisfaction through maintaining a good sense of CRM and CVM. The conceptual framework model would be looked as Figure 1 (see next page).

In Southeast Asia, the competition between FSCs and LCCs is unavoidable and foreseeable for the following reasons:

- > Strong economic growth and intensive business interaction within the region.
- > Politically internal concretion between nations in the region, e.g. the foundation of ASEAN and its active operation recently.
- > Travellers' awareness on taking

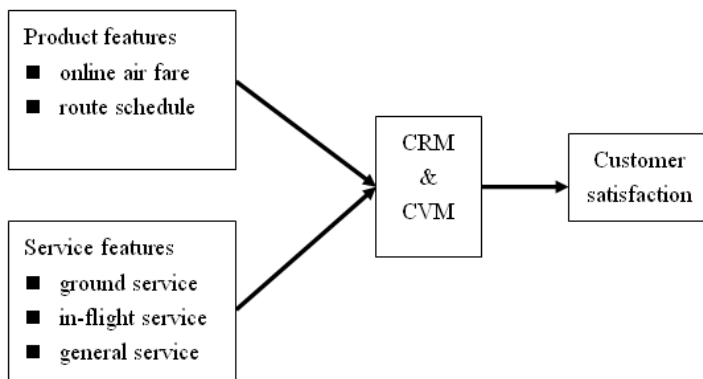


Figure 1: Conceptual framework model of achieving Customer satisfaction

flight to travel abroad.

> Aggressive marketing strategy adopting by LCCs

A couple of traditional full-service carriers in the region have adopted their managerial strategies to respond such stepped-up competition. Singapore Airlines has set up its own subsidiary company named Tiger Airways to compete with Jetstar Asia which is 49% shares owned by Qantas Air and Valueair, the first LCCs in Singapore. Malaysian Airlines is another historic Asian traditional airline which was formed in 1947 under the name Malaysian Airways Limited (MAL) Until almost fifty-five years later, faces new entrant competition of AirAsia which was a loss-making venture operating in Malaysia's domestic market, before it was restructured as low-cost airline by its new owners. (Hopper, 2005) So far, not many responses have been taken by Malaysia Airlines in terms of facing the new competition generated from AirAsia. It only focuses on its internal management improvement and the enhancement of its product and service. Thailand is now another newly fast-growing terrain for the establishment of LCCs's. By the end of 2005, up to five LCCs has been established in Thailand including the long established history of Bangkok Airways which originally can be traced back to 1968, when it was known as Sahakol Air. Orient Thai, Thai AirAsia, Phuket Airlines and Nok Air are all new to the industry. Thai Airways International (THAI), would not be willing to recognize the phenomena of LCCs's emergence until the entry of AirAsia into Thailand's already crowded domestic market. It built up its own subsidiary

LCC, Nok Air in July, 2004.

Comparing and Contrasting the Competition

Comparing Product Features

In terms of carrying passengers, air fare for frequent individual travellers (FIT), package tour product and group inclusive tour (GIT) are three major product categories to be priced. To compare product features between airlines, air fare and route schedule are the most vital criteria which need to figure out first. This part of the study examines those flight routes in these three countries coincided with direct competition by carefully review each airline's website. The situation of competition is classified as three models:

Routes	Full-service carriers			Low-cost carriers			
	SQ	MH	TG	3K	TR	AK	FD
SIN/KUL (v.v.)	94.21 (188.42)	132.64 (264.65)	--	--	--	--	--
SIN/BKK (v.v.)	154.95 (198.34)	--	428 (173.54)	35.95	24.78	--	25.77
SIN/MNL (v.v.)	247.92 (309.90)	--	--	104.75	61.97	--	--
SIN/HKT	--	--	--	20.45	37.18	--	--
MNL/SIN (v.v.)	141.31 (197.10)	--	--	79.33	49.57	--	--
HKT/SIN	--	--	--	20.45	21.68	--	--
KUL/BKK	--	196.71 (242.63)	277.41 (209.21)	--	--	40.75	65.25
KUL/SIN (v.v.)	60.32 (120.63)	95.91 (192.91)	--	--	--	--	--
BKK/KUL	--	155.45 (210.92)	164.73 (152.48)	--	--	40.75	46.67
BKK/SIN (v.v.)	269.48 (263.16)	--	241.23 (205.24)	20.45	24.78	--	41.28

Table 3: Fare comparison of competitive routing among carriers. Source: Compiled from each airline's website

- > Full-service carriers compete with full-service carriers. (FSCs v.s. FSCs)
- > Full-service carriers compete with low-cost carriers and vice versa. (FSCs v.s. LCCs v.v.)
- > Low-cost carriers compete with low-cost carriers. (LCCs v.s. LCCs)

In this comparison study, we select major FSCs and LCCs of each three countries to complete the study, they are: Singapore Airlines (SQ), Tiger Airways (TR) and Jetstar Asia (3K) from Singapore; Malaysian Airlines (MH) and AirAsia (AK) from Malaysia; Thai Airways International (TG), Thai AirAsia (FD) from Thailand. This study will focus on the competition within the region, therefore only international intra-region routes are selected.

Comparing Service Features

Based on several previous related studies, such as Fourie and Lubbe (2006), O'Connell and Williams (2005), Evangelho et. al. (2005), Alamdari and Fagan (2005), this paper proposes a list of airline service features to be evaluated as expecting comparative advantage between FSCs and LCCs. These service features contain airport ground service and in-flight cabin service which including pre-seating assignment, priority

Service features (Free of Charge)	Full-service carriers			Low-cost carriers			
	SQ	MH	TG	3K	TR	AK	FD
Pre-seating assignment	*	*	*				
Priority check-in	*	*	*				
Airport lounge	*	*	*				
Extra baggage allowance		*				*	*
Seating configuration		*	*				
In-flight meals and drinks	*	*	*				
In-flight entertainment	*	*	*				
Duty-free goods shopping	*	*		*	*	*	*
Call centre		*	*	*	*	*	*
Frequent Flyer Program			*				

Table 4: Service features comparison among carriers. Source: Compiled from airline's websites

check-in, airport lounge, extra baggage allowance, seating configuration, in-flight meals and drinks, in-flight entertainment and duty-free goods shopping.

Product service features among carriers differ from one to another, even within the same mode of business model said, FSCs and LCCs. In general, full-service carriers provide their customers with luxury and mostly complimentary product service, such as pre-seating assignment, in-flight meals and drinks, cabin entertainment, and free joining membership of FFPs. Most FSCs offer business class passengers or above with curtesy premium product service free of charge like priority check-in, airport lounge, extra baggage allowance and extra bonus earning from FFPs. Comparatively, owing to the concept of simple product design applying by LCCs, majority of low-cost carriers charge to those extra service but flying itself. Some of LCCs even do not provide certain product service items before or during their flight. Pre-seating assignment, priority check-in, extra baggage allowance and FFPs are the most popular product service items that LCCs do not even provide to their customers during the travelling.

Some of the special product service features provided by an individual airline can promote and enhance airline's service image no matter if they are FSCs or LCCs. SIA also launches their Boarding Pass Privileges to their

customers so passengers who are flying with SIA can enjoy discounts at leading hotels, shops, restaurants, and lifestyle and leisure outlets simply by presenting their Singapore Airlines boarding pass within 7 days of their flight.

Related to airport check-in service, Malaysia Airlines (MH) offer their First Class, Golden Club Class and Enrich Gold Members a telephone check-in service. Those qualified passengers can call in advance of their arrival at the airport. Upon arrival, their boarding pass will be ready for collection. MH also specially designed a courtesy airport departure service called "Kerb-side Drop-off" that is meant for passengers dropped-off by their drivers, family members or friends. MH's new "Kerb-Side Drop-off" facility offers customers a designated drop-off point at Kuala Lumpur International Airport (KLIA) on the inner lane of the departure level. In addition, a premier porter service is available at the Kerb-side to provide personalized service to its Enrich Gold members and First Class passengers on international flights. The porter will assist with the luggage and trolley handling as well as accompanying passengers to the newly refurbished Front-end Check-in area.

Thai Airways International (THAI), as the home carrier of Bangkok, Thailand's capital, knowing very well the worse traffic situation within the metropolitan area of Bangkok, provides its premium passengers exclu-

sively a door-to-door service so as to save all the hassles in commuting to and from Don Muang Airport. The brand new Royal Transfer Services commence when a chauffeur-driven deluxe limousine arrives at customer's door step. Transfer of passenger baggage can be promptly handled with care. THAI also specially arrange their customer service agent and baggage staff to give warm welcome and courteous greeting to the "valued customer".

Comparing those FSCs special product service features, low-cost carriers replace some luxury and expensive product service items with simple airport ground and in-flight service features in order to reduce their operating cost. For example, AirAsia particularly establishes a sixty well-trained employee team to handle approximately eight thousand calls daily. AirAsia's Call Centre Customer Service Team is trained to quickly assess the current seat availabilities and fare information. AirAsia also designed a web-based guest support system as an important channel for its customers to reflect all the enquiries, suggestions and give feedback about the service provided.

Tiger Airways takes quite a different approach, compared to AirAsia, because it takes advantage of local reservation call centers to provide their customers with useful travel information prior to traveling. Once upon arrival, the carrier encourages their customers to write any of their queries to their Commercial Service Department by post mail instead of electronic mail. The reason of doing in this way as Tiger Airways wants to provide quality service to their customers through meaningful correspondence instead of casual e-mail responses.

Constructing the Winning Strategy Through Building up CRM and CVM

So, this part of study examines traditional customer relationship management (CRM) and discusses customer value management (CVM), a broader strategy that enables the airlines to better understand their customers and to develop profitable lifetime relationships based on mutual value creation.

In particular, when intensive direct competition is unavoidable among airlines within the same geographic region, it is interesting to know how they are constructing their winning strategy and gain customer satisfaction through building up CRM and CVM between the two different airline business models of FSCs and LCCs. The following section of this paper starts from theoretical review of CRM and CVM, and then searches for updated information about them of each sample airlines through their official internet websites so as to compare and contrast the differentiation between the two business models.

Customer Relationship Management

Customer relationship management (CRM) describes the methodologies, strategies, and software that help a company manage customer relationships. With a customer contact system as its foundation, CRM helps to leverage the return on investments in sales, marketing, call centres, billing, credit and collection, and to capture interactions between the company and its customers. CRM enables companies to gather and access information about customer orders, complaints, preferences, and participation in sales and marketing campaigns. This information can then be used to better react to customer needs, automate some operations, and capture customer feedback to improve products and service.

In the airline industry, establishing a call centre and launching a frequent flyer program are two fundamental tactics to communicate with their customers and gather useful customer information, as well as maintain customer relationship in terms of managerial perspective. For the reason of cost-effective concern, it is realizable that two different airline business models of FSCs and LCCs have indi-

vidually distinctive strategic concept in building up their CRM system.

Customer Value Management

Customer Value Management (CVM) is a predictive modelling approach that focuses on individual customers to maximize their lifetime value. CVM solutions provide the institution with all the tools to know its customers, recognize their value, develop profitable relationships, and deliver better service. It ties together customer segmentation, relationship pricing, customer loyalty, customer lifetime value, and relationship marketing. In short, CVM is a comprehensive

Customer Relationship Management (CRM) includes the methodologies, strategies, software, and web-based capabilities that help an enterprise organize and manage customer relationships. (www.wikipedia.org) Therefore, the task for airline marketers is to design certain proper methodologies and strategies, or invest in powerful software and web-based capabilities in order to organize and manage their better customer relationships. However, Kolter (1994) described that customer delivered value is the difference between total customer value and total customer cost. And total customer value is the bundle of benefits customers expect from a given product or service. Kolter also defines customer satisfaction is the level of a person's felt state resulting from comparing a product's perceived performance in relation to the person's expectation.

In the region of Southeast Asia, traditional FSCs have their long established corporate image in high quality of service delivered to their customers both ground and in-flight. Although the economic downturn and terrorist attacks during the past few years might negatively influence their operating profit. However due to the recovery of the air travel market across the region and their comparatively low operating cost in relation to those of FSCs in US and Europe, full-service carriers in Southeast Asia still grow strongly and financially perform well. Under this market situation, competition between FSCs and LCCs in this region becomes even more straightly. FSCs on the one hand invest heavily on improving passenger handling facilities and the replacing of aging aircrafts by modern aircraft types such as Boeing 777 and Airbus 330/340. On the other hand they frequently announce cheaper internet air fare on their website at certain selected routes, especially for those heavily competed by LCCs. Despite the competitive strategies employed by LCCs, full-service carriers in this region may continue to win

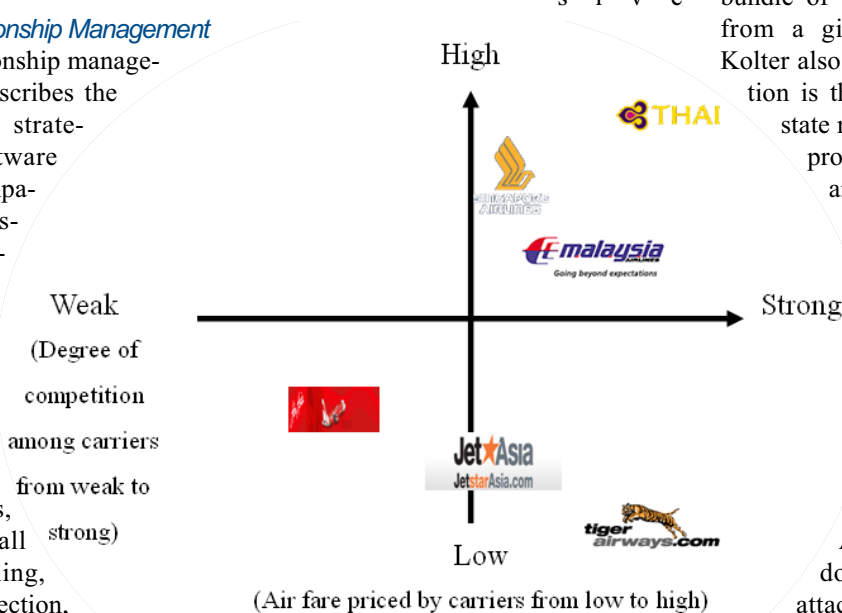


Figure 2: Degree of competition and fare level priced by different carriers

approach to wealth management that treats customers as living entities, rather than details associated with products. It enables the institution to move from tactical to strategic decision-making and to rapidly achieve measurable results.

Discussion and Conclusion

Discussion

The purpose of this study focuses on finding their individual characteristic difference in how each of the airline is constructing their winning strategy by building up their better customer relationship and achieving the total customer satisfaction. By definition,

customer loyalty of high value customers due to their premium service offered. Facing the increasing strong competition from LCCs, they may apply more flexible marketing strategies such as product design, differential pricing, joint venture promotion campaign and multi sales channel in the future.

On the contrary, LCCs simply keep their air fare at the lowest possible fare level in order to attract wider market segmentation. In the study of this paper, Singapore, Malaysia and Thailand are the three most competitive air travel markets in Southeast Asia. Major flight routes from and to these markets are all less than three hour flying time so as these routes are expected as ideally suitable for LCCs to compete their simple business model with FSCs. As shown in previous Table 4, among these routes, Bangkok (BKK) to and from Singapore (SIN) is the most heavily competed currently, followed by Kuala Lumpur (KUL) to and from Bangkok, and Singapore to and from Kuala Lumpur. The degree of competition and fare level priced by different carriers for the air travel market in this region can be shown as Figure 2.

Conclusion

In conclusion, several major low-cost carriers in the region have been discussed in detail in terms of their basic company profiles and distinguished product and service features. The corporate information can provide a good comparison study between carriers at the first sight. Thirdly, this paper also contributes to the analysis of competitive relationship between LCCs and FSCs with the region. Based the study of those previous literatures on this topic, this paper proposes an original conceptual framework model of achieving customer satisfaction by adopting proper strategies of CRM and CVM through analyzing carrier's competitive product and service features, including online air fare, route schedule, ground and in-flight service, and general service items.

This study is also particularly interested in analyzing the competition between the two different airline business models (FSCs and LCCs). From

the analysis and observation of the current market situation, the authors of this paper categorize three different modes of competition, they are: FSCs v.s. FSCs, FSCs v.s. LCCs v.v. and LCCs v.s. LCCs. From the analysis, which represents those three modes of competition, all exist at moment, but they have different strength's and weaknesses in different routes in terms of competition. Therefore, the product and service features provided by different carriers have something unique among them but also something in common.

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