

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

In Thailand, air transport is a significant part of the infrastructure enabling the country to become the aviation hub of South-East Asia, with its advantageous geographic location. The government tries to support the extension of the transportation to outlying areas so that all parts of the country can benefit in terms of industry, service and tourism.

As the modern world is now changing due to the era of globalization, mass communication in various ways are needed. In particular, many aspects of transportation have to be found in order that people can communicate and keep contact with each other easily and quickly as well. Among the various modes of transportation, traveling by air is one of the fastest modes. Many people would say that air transport is still needed in global societies especially for those who aim at reducing time consumption in dealing with many businesses. Meanwhile, compared to other modes of transportation, air transport has to compete with the other modes in terms of price because traveling by air is considered the most expensive when compared to the others.

Unfortunately, the aviation industry has recently found itself in more intense competition with other modes of transportation due to the aftermath of terrorist attack on 11 September 2001 and the impact of the worst fuel price crisis it has ever known as well. Thailand, moreover, has suffered serious impacts not only from the economic crisis of the world, but also from internal problems. While the aviation industry is beset by many troubles, this strong pressure will push many airlines to re-examine their strategies. At the same time, the industry will become more consumers oriented. As such, low cost airlines play a significant role so as to help the aviation field become as popular as before. It is needed particularly for those who want to save time and prefer to consciously control their travel costs at the same time.

However, the Thai government tries hard to encourage Thailand, in order to become the leading country within this region in terms of tourism, international

business investment and health center so that Thailand can overcome the tough economic problems as smoothly as possible.

By the middle of 1998, many Eastern Asian airlines were facing large losses for the financial year of 1997 which was the year of the economic crisis that originated in Thailand (Thyne Lilavivat, 2005). Japan Airline led the way with a net loss of \$513 million. Other losses were not as high, but were still substantial. Asiana, the Korean Airline lost \$425 million, Korean Airline lost \$424 million and Philippine Airline lost \$253 million. Only Thai Airways and, Cathay Pacific and Singapore Airline and some of the Chinese airlines continued the trend though the first two airlines (Thai Airways and Cathay Pacific) had significantly lower profit than in 1996 (Doganis, 1991).

As the Thai government has continuously supported the idea of maintaining the good trends of air travel, thus the low cost carrier concept came to Thailand. As a matter of fact, the concept of low cost carrier first originated in the U.S before spreading to Europe in the early 1990s and subsequently to much of the rest of the world. The outstanding theory of the carriers is moving the maximum number of passengers with the minimum cost of operation. Options of flying both comfortably and affordably are met. In order to support the idea of LCC operation, liberalization or an open sky policy is greatly related to that concept. The policy was launched for the first time in the US on October 24, 1978 when the Airline Deregulation Act was introduced. Europe also began liberalization or an open sky policy within the Countries of Commission of the European Community in 1980s. In the light of Thai air liberalization, the Civil Aviation Board announced the cancellation of both minimum and maximum air fares calculated per kilometer. This policy effectively lead to the operation of LCC.

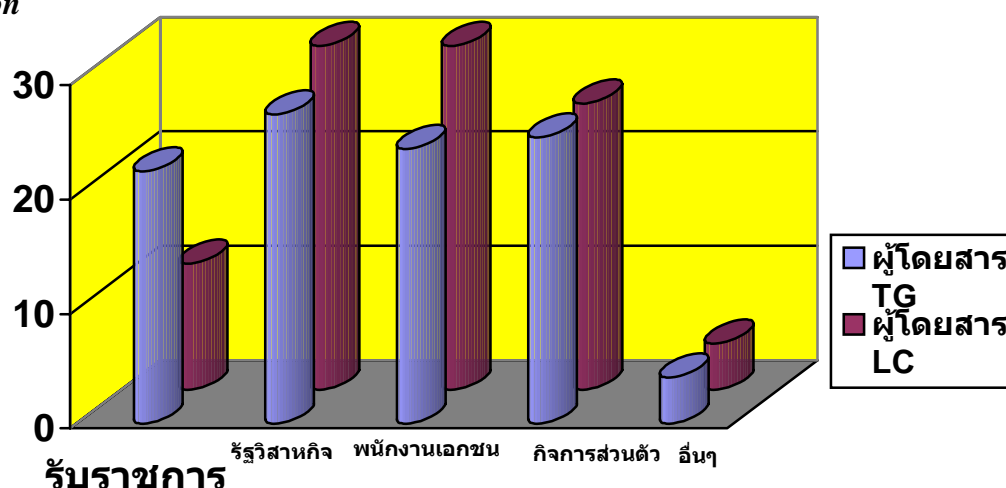
In September 2004 and up until now, there are three low cost carriers as follows:

- One Two-Go Airline, operated by Orient Thai Airlines, first began on December 3, 2003.
- Thai AirAsia, jointly operated between Malaysia's AirAsia and former Thai Prime Minister, Thaksin's family business named Shin Cop. It first began its service on February 3, 2004.

- Nok Air, supported and holding 39% stake in it by Thai Airways, first began on July 23, 2004.

However, this new type of service provided by low cost airlines did not exactly change the trend or popularity of all passengers in all types of occupation. It, thus, means that not only price is the major reason for some passengers to choose how to get fly, but also depends on a diversity of factors. The following table shows the relationship between passengers' decision making and career type.

Figure 1: Proportion of passengers of both TG and LC classified by occupation



Source: *The effect on Thai Airways due to the growth of Low Cost Airlines* by Suraphan chaichana, 2007, King Mongkut's University of Technology North Bangkok. p.46.

Even though some people said that regular or full serviced airlines will likely be replaced by low cost carrier, as a variety of good points are met, figure 1 shows that this assumption might not be totally true as only a particular group of passengers changed their decision by choosing any of the services provided by each airline.

Passengers will gain a lot of advantages from lower fare services. The impact on traditional airlines depends on how much they are able to improve productivity to match the more competitive fare environment. Some airlines might gain from that

enhanced market, but some airlines may not. However, to extend that cost fall, the gain of passengers will outweigh the reductions in profits to the traditional style airlines.

Though the usage of the services provided by the lower fare airlines has been significantly increasing over time, some people might still prefer the traditional regular airlines. On the other hand, some people might choose only the lower fare airlines because they think that price is the major factor in making decision of how to fly. The main questions of this study, thus, are shown as follows:

- What is the major effect of low cost carriers on the Thai aviation industry?
- What do some related executives think about the carriers compared to full service airlines?
- What is the future trend of passengers traveling by air?

1.2 OBJECTIVE OF THE STUDY

The objectives of this study are as follows:

1.2.1 Main Objective

- To study the effects, both positive and negative, of the carrier on the Thai aviation industry in terms of related organizations such as a regulatory body, air operators and an air services provider, according to relevant management's views.

1.2.2 Sub-Objective

- To compare the executives' attitudes towards the carrier and full service airlines.

- To evaluate and compare the passenger satisfaction with both types of airline.

- To investigate the problem that passengers face with the services provided by both types of airline.

1.3 DEFINITION OF TERMS AND VARIABLES

1.3.1 Definitions of Terms are as follows:

“Aviation Industry” is an operation pertaining to the flying of aircraft in which general aviation, air transport aviation, and military aviation are included. It, also, means the activities and organizations related to the overall aspects of airline operations.

“Influence” is a power or situation that affects the progress of regular airlines.

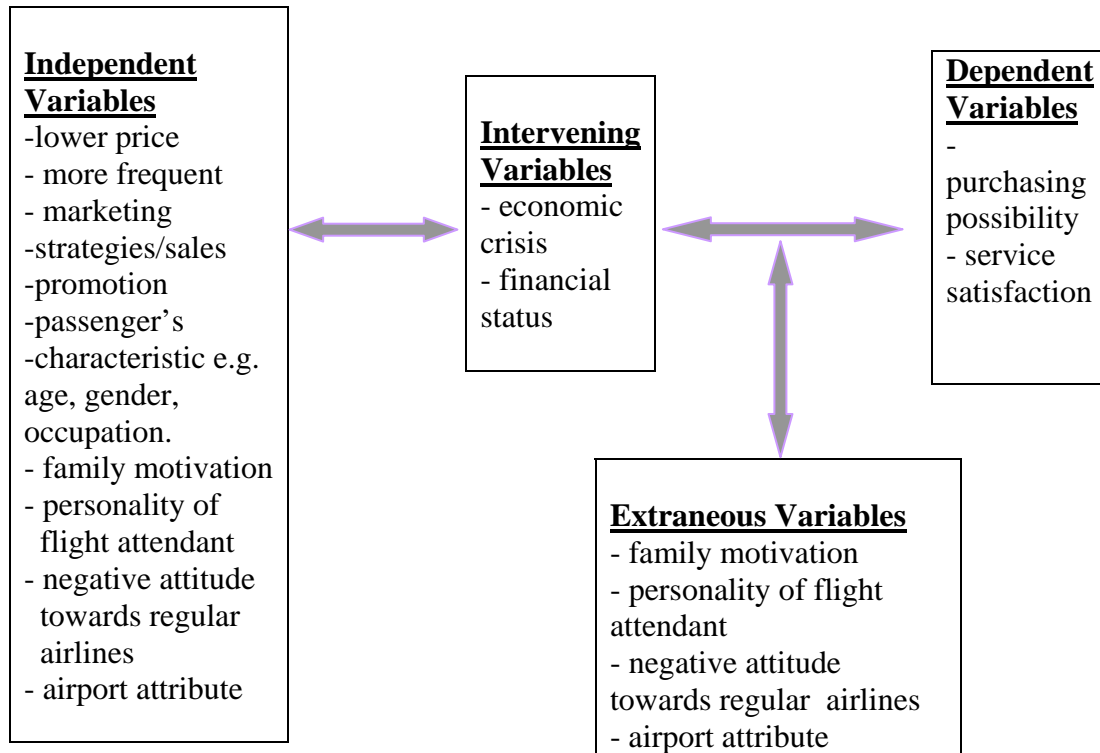
“Liberalization” is the action where some regulations pertaining to aviation are deregulated. Aviation marketing strategy is in line with demand and supply criteria.

“Low Cost Carrier (LCC)” is an airline that offers generally low fares in exchange for eliminating many traditional passenger services.

“Passenger Characteristics” is a typical profile of airline passengers, both low cost airline and regular airline. It also includes specific details of a person who travels from one place to another by airline.

“Satisfaction” is a pleasant feeling towards the good service factors given by the lower fare airlines.

1.3.2 Variables of the study are shown as follows:



1.4 SCOPE OF THE STUDY

The scope of this research is aimed at understanding the attitude regarding the effect of low cost carriers on customer satisfaction compared to traditional full service airlines, are as follows:

1.4.1 Data was collected pertaining to the expected attitudes and the ideas about low cost carriers as well as trends of Thai aviation industries according to the views of various relevant executives.

1.4.2 Due to the limitation of time and resources as well as only a few executives being found, only 150 subjects are involved in the study.

1.4.3 The study is conducted among management team of aviation related organizations located in Bangkok. They are from the regulatory body of aviation in Thailand, international civil aviation organizations, air service providers, airport authority and Thai national airlines as well. In this regard, only executives from Thai national airways are included as it is considered as the Thai national airline. Those who

come from low cost airlines such the Thai AirAsia, Nok Airline and Orient Thai Airline are excluded in this study.

1.5 SIGNIFICANCE OF THE STUDY

1.5.1 The finding of this study will be beneficial to both full service airlines and low cost airlines in terms of establishing the proper strategy and better policy management in order to stimulate competition in the airline industry.

1.5.2 The results from the study will help air passengers get better services from each airline.

1.5.3 It will provide information to both air operators and passengers in terms of trends in passenger consumption in the Bangkok area.

1.5.4 The information will help the airline passengers in making decisions on how to fly.