

CHAPTER I

INTRODUCTION

Chapter one discusses the rationale of studying low cost airlines and the customers' adoption of low cost airlines. This chapter provides information of the overall picture of the report consisting of rationale, statement of problem, research questions, objectives, conceptual model, scope of study, assumption, limitations, significance of study, and definition of terms.

Rationale of the Study

The general idea of low cost airlines in Thailand came from low cost airlines in America which provide the lowest fair for their passengers. The first low cost airline is Southwest airlines which began service in 1971 and has been profitable every year since 1973. With the advent of aviation deregulation, the model spreaded to Europe as well. The most notable success is Ireland's Ryanair, which began low-fares operations in 1991, and EasyJet, formed in 1995. As of 2004, low cost carriers are now edging into Asia, led by operators such as Malaysia's Air Asia, and Australia's Virgin Blue.

The beginning of low-cost airlines in Thailand came from Prime Minister Thaksin Shinawatra's "open sky" policy that leads to high competition of aviation industry, especially for low cost airlines. After that it brought to highly competition that may affect competition of the airline industry in Thailand and Asia Pacific. A report on CNN online 2005 shows the industry analysis that forecast the transportation growth of more than 5% in Malaysia and Indonesia, along with 6% in China. Besides the support policy of low cost airlines growth in Thailand, there is also the new airport in Thailand which is "Suvanabhumi airport" that is expected to operate in September 2006. Therefore the Thai government set as a policy for Thailand to become the "regional aviation hub" or the center of aviation in Southeast Asia.

The statistic below illustrates the operating business of low cost airlines and their impressive growth within 2 years in the Asia Pacific region (see Table1).

Table 1 Low Cost Carriers Currently Operating in Asia-Pacific Rim

Carriers	Bases	Start date	Fleets
AirAsia	Malaysia	Jan 2002	737-300
Air Deccan	India	Aug 2003	A320
Air Do	Japan	Dec 1998	767-300 ER
Cebu Pacific	Philippines	Mar 1996	757-200, DC9
Freedom Air	New Zealand	Dec 1995	737-300
Jetstar	Australia	May 2004	717, A320
Lion Air	Indonesia	Jun 2000	MD- 82/- 83
Nok Air	Thailand	Jun 2004	737-400
One-Two-Go	Thailand	Dec 2003	757-200
One-Two-Go	Thailand	Dec 2003	757-200
Pacific Blue	New Zealand	Jan 2004	737-800
Singapore AirAsia	Singapore	TBA	737-300
Skynet Asia	Japan	Sept 1998	737-400
Skymark	Japan	Sept 1998	767-300 ER
Thai AirAsia	Thailand	Feb 2004	737-300
Tiger Airways	Singapore	July 2004	A320
Valuair	Singapore	May 2004	A320
Virgin Blue	Australia	Aug 2000	737-700/800

Source adapted from O' Connell and Ionides, 2004, unpagged.

1. Business Model of Low cost Airlines

The business model of successful low cost airlines has been discussed in America. The pattern of business model is different from the standard airlines. The typical low-cost carrier business model practices include:

- 1.1 a single passenger class
- 1.2 a single type of airplane, commonly the Airbus A320 or Boeing 737 (reducing training and servicing costs)
- 1.3 a simple fare scheme (typically fares increase as the plane fills up, which rewards early reservations, known as "yield management")
- 1.4 unreserved seating (encouraging passengers to board early and quickly)
- 1.5 flying to cheaper, less congested secondary airports (avoiding air traffic delays and taking advantage of lower landing fees)
- 1.6 short flights and fast turnaround times (allowing maximum utilization of planes)
- 1.7 simplified routes, emphasizing point-to-point transit instead of transfers at hubs (again enhancing aircraft utilization)
- 1.8 emphasis on direct sales of tickets, especially over the Internet (avoiding fees and commissions paid to travel agents and corporate booking systems)
- 1.9 employees working in multiple roles, for instance flight attendants also cleaning the aircraft or working as gate agents (limiting personnel costs)
- 1.10 "Free" in-flight catering and other "complimentary" services are eliminated, and replaced by optional paid-for in-flight food and drink. (Mercers, 2002).

As mentioned above, low cost airlines emphasize on the basic services, which can be referred to as the primary service factors, for example, no meal, no free drink and snack. The low cost carriers do not provide any snacks and meals on board. In case of needed, the airline will sell snacks and meals to passengers.

The narrow seating (greater capacity) is another spot that low-cost carriers try to manage. The implementation is organizing the limited resources for the most effectiveness. So the way to organize the place capacity on the airplane is also important for low-cost airlines. The next feature is no seat reservation, and that means

free seating for the passengers because it wastes time to give and reserve seats. It also saves time for flight scheduling or reducing flight delay because the passengers have to be ready at the gate before flight timing to get the best seat they need.

Low-cost airline product is no-frequent flyer which is one of the additional programs for the passengers for full service airline. This is the kind of promotion that convinces passengers to purchase the product, and positioning tool in the airline marketing. It represents the concept or target market of low-cost airlines. One type of customers of low-cost airlines is non-business passengers who prefer leisure traffic or low price. This group concerns about the price more than the quality service or the luxury service; therefore, the same product and the same standard for every passenger is the main point for low-cost airline. Another group of customers of low-cost airline is business passengers who care more on the price than service. The features of flight are almost short-haul or point to point traffic. The high frequency flyers of short routes are the strategy of low-cost airlines because they will spend less on fuel and other costs than long haul. High turnover of airplane is one benefit of low-cost airlines. The cost-cutting is an aggressive marketing strategy of low-cost airline by marketing the price 50% lower than the full service airlines. Moreover, the secondary airport is one choice that low-cost airlines will select because of the lower expenditure of rent. For instant, Ryanair airline chooses the Gatwick airport because the Heathrow Airport is more expensive.

Furthermore, low cost airline defines its strategy as cost efficiency. That is, low operation cost, low wages and lowest resources are the strategies of low-cost airlines to provide the lowest fair for the passengers. Moreover, only one type of aircrafts is also used in order to keep the following costs the lowest possible, e.g. maintenance cost, cockpit, training and standby crew.

The other issue that low cost airline involves is to increase its productivity on one day basis. That is, the flight schedules are arranged without being stuck in the airport more than twenty minutes. This will make low cost airlines able to generate a higher number of flights in one day for one aircraft. This is because low cost airlines are highly involved in time-saving factor. That is, the more time they spend, the more cost accrued.

In comparison between the business model of low cost airlines and full standard airlines by using the marketing position in short-haul flight, the full service airlines need to drop price to reserve the market share against the low-cost airlines as illustrated in the table below (see Table 2).

Table 2 Airline Industry Market Segmentation

Type of passengers	Travelers	Price-conscious	Quality-conscious
Short-haul routing /domestic flight	- low cost airline/ budget airline	Low-cost airline	Full service airline
	- Charter flight		
Long haul routing	- full service airline	Full service airline	Full service airline
	- Charter flight		

Source adapted from Export Review, 2004, p.10

The table above explains clearly that low-cost airlines affected the full service airlines especially on short haul route. This is because passengers may prefer to pay for lower price. As a result, the full standard airlines may lose some of passengers. Moreover it would be possible that some of the quality conscious passengers may as well choose the low-cost airlines instead of full service airlines due to lower price. The advantages provided by the low-cost airlines are explained in the table below:

Table 3 A Comparison of Main and Minor Advantages of Full Service Airlines

Main advantages	Minor advantages
- Safety	- Good service
- Fast service	- Quality of food
- Frequency of schedule	- Mileage
- Comfortable of airline seat	- Airline network
- Etc.	- Laughs
	- limousine
	- Etc.

Source Adapted from Eaimkanjanalai S., December 2004, p.95

The minor advantages or additional benefits listed in Table 1.3 are provided only by full service airlines. In contrast, the low-cost airlines will offer only the main advantages because they want to reduce passenger service costs. It is the cost of primarily in-flight catering and entertainment expenditure (Williams, 2001). Therefore, the low-cost airline is the operator airline that will concern only the price conscious passengers or low-salary passengers.

2. The impact of low cost airlines

The impact of low cost airlines in Thailand and Southeast Asia can be of both positive and negative. Economic impact is the most prevalent. Thai is, the more tourist arrivals, the more agricultural goods Thailand would be able to sell to tourists. This means a part of Thai agricultural products were not to be exported, as foreign visitors would come to have them here. Thus, the growth of tourism would generate more income for local people and improve the economy, (The Government Public Relations Department, 2003). This statement is supported by low cost airlines that bring tourists to Thailand, while it is a distribution channel for agricultural products to tourists.

Baotonh (2005, unpagged) explained the advantage of low cost airlines to the destination country. The first point is motivating the tourists to travel by air and expanding the tourist destination, especially to Malaysian tourists. This is because of lower fares and expansive routes to other provinces such as Chaing Mai, Phuket, etc.

Low-cost airlines additionally provide a great opportunity for new groups of the tourists who have low salary or the middle class and the foreign tourists to Southeast Asia to travel in Thailand. Therefore, it supports the local airports to become the hub of Asia.

The low cost airlines usually complete their services with local transportation as they needs to adapt their business for customer satisfaction and more quality of service to compete with low-cost airline. Besides, this is an advantage for the customers to pay less but get more quality. Therefore, it increases revenues of the local travel agencies and three star hotels because the tourists will spend less for the transportation, so they may spend more for the accommodation, food and souvenirs, and the middle class will make easier decision for traveling.

3. Marketing Activities of Low cost Airlines

In terms of marketing, Kotler (2004, unpagged) said that new entrants into the markets lead to the more bargaining power of customers in purchasing the product. In relation to the low-cost airlines industry, both the aviation of airlines services, and the local transportation are affected. Therefore, it is necessary for customers to understand and test that new product. As low-cost airlines are considered a new service in Thailand, they will definitely confront the problem in selling their product.

The low-cost airlines are innovative services which are different from the full-standard airlines. According to Roger (1995, unpagged) innovation is a simply an idea, practice, or object that is perceived as new by individuals or other units of adoption. In this case, diffusion is the processes by which an innovation is communicated through certain channels over time among members of a social system and given that decisions are not authoritative or collective, each member of the social system faces his/her own innovation-decision. It leads to the customer searching for information before purchasing any service. Overall, it can be assumed that customers need to adopt the innovation so as to purchase this service (Daily Manager Magazine, 2004).

Hence, it is remarkable to study the process of adoption of low-cost airlines among Thai passengers as they are price conscious. Would they agree to pay more in the case of getting better services? Skytrax (2005)'s article, however, stated that some customers would not be happy with the service and no longer use low-cost airlines.

In this regard, it may be said that some strategies of low-cost airlines have failed. This may be because the airlines do not understand their business trends and the characteristics of their customers, especially customers' needs. These factors affect the company in terms of strategic planning. Therefore, as low-cost airlines are new service provider business, the marketer should make decision to promote the product to the right target market.

Statement of Problems

Roger (1995, unpagged) defined an innovation as "an idea, practice or object that perceived as new by an individual or other unit of adoption." Low cost airlines service can be considered as an innovation based on the nature of service encounter that has been dramatically changed. Moreover, the customers need to adapt their knowledge, ability and attitude to those service options, while they adopt them completely.

A report on the Economist (2004, unpagged) illustrated some low-cost airlines are failure in the aviation industry. It can be said that the reason of failure of low cost airlines in Europe come from the customers' dissatisfaction with their service. It could relate to the low-cost airline business in Thailand, which is considered a new product in the market. This is because customers would not have awareness on the issue, and that may lead to lack of understanding of passengers on the scope of the low-cost airlines' services.

Moreover, there are some discussion about the fuel crisis and the low-cost airlines such as the increase of tax and fuel surcharge for both domestic and international fights and the new strategy to maintain the market share with other low-cost airlines. Therefore, it may increase the price of low-cost airlines. As a result, the price-conscious customers may not choose the low-cost airlines services. It can be explained further that the customers who are quality-conscious may not use the service of airlines.

1. Innovation of Low cost Airlines

Innovation refers to new things and ideas. It is “the act of introducing something new” (American Heritage Dictionary of the English language, 2000). The innovation process involves the generation, adoption and implantation, and incorporation of new idea and practices (Axell et al., 2000; and Van de Ven et al., 1989). In the innovation change process, creativity moves to invention, and the first introduction or implementation of an invention is innovation, which could lead to adoption. Therefore, adoption is the result of the diffusion process. Roger (1999, unpaged) sees the diffusion process as the spread of a new idea from its sources of invention or creation to its ultimate users or adopters. The adoption process is thus the mental process through which an individual passes from the first hearing about an innovation to final adoption, and will be applied to low cost airline by using the innovation change process (see Figure 1).



Figure 1 The Innovation Change Process

Source Adapted from Benjamin E. and Elizabeth B. (2005, unpaged)

Figure 1 highlights the process of innovation idea which can be applied to low cost airlines service. The first stage of the innovation process is creating an idea. The idea of low cost airlines is a management philosophy that seeks to integrate all service functions to focus on meeting customer needs and the organization objectives. That is, the customers get lowest price while the organization gains profit. Low cost airlines focus on volume of passengers rather than the quality of service (Doganis, 2001, p.126).

The second stage of the innovation process is invention. This is the point of development where low-cost airlines begin to differ from traditional airlines. For example, service may be limited to a single class with no designated seat assignment, and no meal. By contrast, the standard airlines provide the multiple classes, seat

assignment and snacks and light beverages. To distribute the idea of low-cost airlines, promotional methods in mass media are used. This is the diffusion process. Ultimately it leads the users to adopt or reject of the service. The successful innovation which these carriers introduced into the market is the provision of easily accessible, scheduled, short-haul service a very low cost, close to those of charter airlines, but with 'no-frills'.

The types of innovation are of three categories which are continuous innovation, dynamically continuous innovation, and discontinuous innovation. There are different characteristics in each type as follows:

The continuous innovation is a kind of person already established idea about new product, so the users typical use the new product in a similar fashion. The dynamically one is the creation of a new product or idea or practice a radical change to existing one, e.g., the dynamically continuous innovation of the compact disc. Discontinuous innovation is the totally new idea, practice or product. It is new and unique and has never been known to use before.

There are five stages of adoption which are awareness, interest, evaluation and adoption. In each stage, the customers may have different characteristics. For example, they may be just interested in the product or service but not use it. So the product cannot be sold to this group of customers. This is a testing practice for the customers or passengers how they feel about the innovation product or service. Finally, there still have questions which refer to whether the passengers or the customers will adopt the innovation or not.

2. Characteristics of Adopter

Regarding to the model of the innovation of low cost airlines, it is important to understand the characteristics of the customers who adopt the innovation. Willian B. (2006, unpagged) stated the characteristics of the adopters would be divided into five groups which are innovators, early adopters, early majority, late majority and late adopters (or laggards). The innovators actively seek new information, are willing to take risk, and have access to information expertise outside the confines of the community. The average percentage of this customer group is about 2.50%. The next group is early adopters which are about 13.50%. They would seek out new information, belong to higher income, are generally younger, and accept risk.

The early majority characteristics are those who receive new ideas and sources of information that are valued by opinion leaders in the early adopter group. This group shares the same characteristics as the late majority. The next group is called late adopters which are complacent, possibly skeptical, while neighbor and mass media are the important source of information. They usually wait to see if others are successful with the innovation. They are older, security minded, lower income.

As mentioned above about the characteristics of the adopters, it is appealing to study the characteristics of low-cost airlines adopters. This may help marketers understand better their customers.

3. The factors that influence adoption

The factors that influence the customer adoption are many reasons such as personality characteristics, social characteristics, and others. Willian B. (2006, unpagged) explained that the factors which affect the customer adopter would be the personality or characteristics of adopters themselves such as personal attribute that is age, gender, education, and personality which are assertiveness, and submissiveness. Moreover, some external factors may affect the adoption as well such as types of media and family's perception of available media.

Furthermore, the characteristics of innovation are one of many factors which affect the customer's decision to adopt. These are culture congruence, complexity or simplicity, benefits perceived, competition or alternative trialability (logistic). For example, the benefit of price may help customers make decision to buy the product. So the study about the factors that influence adopters to use the service of low cost airlines is the key for marketers. This is because the adopters need to identify whether the product or the service matches or fits with them. Finally, the marketer needs to illustrate or present their advantage of their service to the customers. When they feel that the innovation products are good, they will adopt them.

As mentioned above about the innovation of the low-cost airlines, it is very interesting to study about this theory which are consisting of the categories of innovation, the characteristics of adopters (passengers who use the low cost airlines), and the communication process which leads the passengers to accept the product.

In addition to the above problem statement, there is still no research that collects information about the customers' adoption regarding the low-cost airline's service in Asia. Even though some research on this particular topic in the United States of America and Australia has been found, this type of research in Thailand is scarce due to the short history of low-cost airlines in Southeast Asia.

Objectives of study

The problem statement focuses the research on the customers' adoption of the low cost airlines service. There are three main purposes of this research:

1. To identify adoption process of low cost airlines in Thailand,
2. To identify the characteristics of innovation as perceived by passengers,
3. To identify the characteristics of adopters of low-cost airlines.

The first purpose of this research is to analyze the communication process of low cost airlines to generate adoption. This includes reasons for flying with low-cost airlines and how they get the information for decision-making. The step in communication process is conducting customer awareness, knowledge, trial, and adoption (decision-making). After the passengers make decision, they may accept or reject the services.

The second purpose is to identify the characteristics of innovation that include relative advantage, compatibility, complexity, triability, and observability.

The last purpose will discuss the characteristics of adopters that would be classified into: 1) innovators, 2) early adopters, 3) early majority, 4) majority, and 5) laggards.

Research Questions

The main objective of this research is to develop a holistic modeling framework for customers' adoption process in flying with low-cost airlines. The specific purpose of this study is to identify the characteristics of adopters of low cost airlines and to identify the characteristics of low cost airlines as an innovation. The last section will be the study about the communication process of low-cost airlines to generate adoption among the passengers.

The model is tested and evaluated to gain more understanding with respect to three research questions as follows.

Q1. What are the communication process of low cost airlines to generate adoption among the passengers?

Q2. What are the characteristics of low-cost airlines as an innovation?

Q3. What are the characteristics of adopters of low-cost airlines?

Conceptual Model

The conceptual model in this research is divided into 3 parts which are the communication or diffusion process, the characteristics of adopters of low-cost airlines, and the characteristics of low cost airlines as an innovation (see Figure 2).



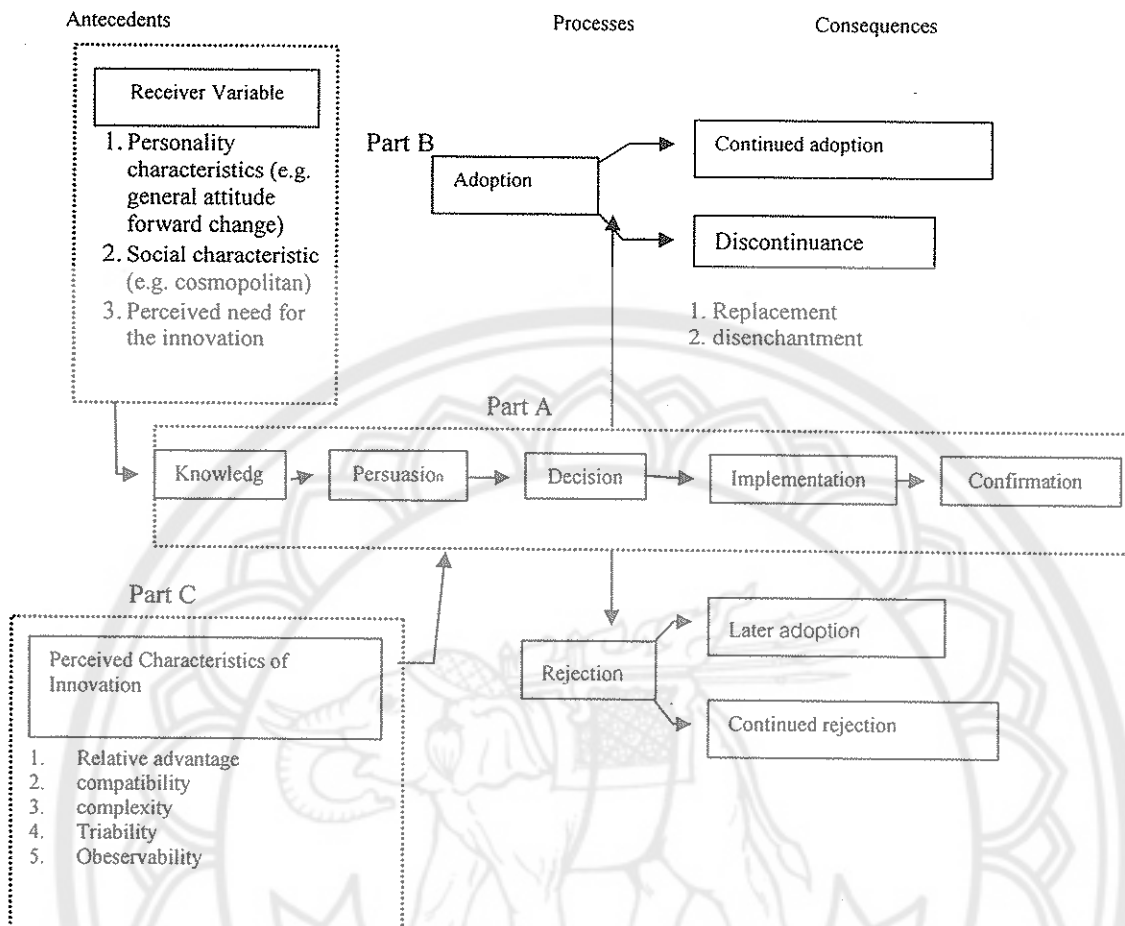


Figure 2 Passenger's Adoption Process

Source Adapted from Roger E., 1995, unpagued.

Figure 2 shows the process of passenger's adoption. Each step is supported by both external and internal factors. At the beginning, the person becomes aware of an innovation and has some idea of how it functions. This is supported by personal characteristics, social characteristics and the perceived need for the innovation. After he/she has knowledge of product, he/she will have a perception about the characteristics of the product and develop attitude toward the decision to adopt or not. The next step is decision-making process. In this step, the customer may reject or accept the product. The customer's adoption would bring more implementation and he/she may use product testing or sampling before they decide to buy. Therefore, the

company may offer the sample product to customers for testing. The last step is confirmation after the customers evaluate the product by themselves.

In addition, the low-cost airlines product is intangible meaning the customer cannot see or test the product before purchase. Therefore, there are some passengers who may use the product once and then never again.

The first part (A) explains the communication process of the passenger's adoption process. The diffusion is the process by which an innovation is communicated through certain channel overtime among the members of a social system. The communication process includes knowledge, persuasion, decision, implementation, and confirmation and that will support the decision-making of the members.

The second part (B) is the characteristics of innovators who will adopt a new product. In this section, the researcher will study about the characteristics of innovators or adopters.

The last section is part C which analyzes the characteristics of the innovation which encourage the customers to test a new product. There are five categories consisting of relative advantage, compatibility, complexity, triability, and observability.

Scope of study

This research is conducted to investigate the diffusion and adoption process of low cost airlines. The area of study covers the analysis factors influencing the passengers in adoption. It will lead to understanding of the characteristics of innovators and low-cost airlines. To collect the data, this research will be confined to the following scope:

1. Passengers who have had experiences with low-cost airlines
2. The area of project will be confined to Bangkok International Airport

Assumptions

According to the framework of the research, it can be assumed that 1) the customers demographics affect their adoption, and 2) the characteristics of low-cost airlines innovation are major influencing factors for customers to adopt the low cost airline services.

In more detail, the first assumption is the demographics of customers, including age, sex, salary, and education that may affect the customers in decision making. Much research is concerned about consumer behavior in choosing services. O'connell and William (2004, unpaged) reported that the young adults are the target market of low-cost airlines.

In the second assumption, the characteristics of the innovation of low-cost airlines are the key that leads to adoption. Figure 1.2 illustrates the characteristics of innovation product that persuade the customer decision to buy or use the service.

Limitation

Several limitations could be illustrated as following;

1. Limitation of time access and barriers in collecting data: it is difficult to reach the samples as most of them are in the strict security areas. Hence, the researcher needs to get permission form the head of the airport to enter.
2. The lack of collaboration of samples in answering the questionnaire: Most passengers usually concentrate on flying and their flight-timing. They may not be willing to answer a questionnaire as they have no idea how this questionnaire is able to make their life better.

Significance of study

1. Airline industry

This project will be useful for the aviation industry. The growth rate of the airline industry in Southeast Asia in general, and the low cost airline in specific, is remarkable. The research will find out how the customers adopt the innovation of the low cost airlines service. This will help the low-cost airline get more valuable information and apply it for effective strategies to compete with the full service airlines.

2. Benefit to the firm

The low cost airline as innovation service in Thailand is a very interesting topic for the firm to study about their target group in more detail. For this research, it will offer the information about factors determining customers' adoption process of low-cost airlines that is useful for low-cost airlines, such as the characteristics of low cost airlines passengers and how they adopt and evaluate the innovation service. Therefore they would form new strategies and improve its service.

3. Benefit to the public in general

The low cost airline is a new kind of airlines service, so there is still no detailed information for research about the passengers who fly with low cost airlines. This research will collect the information about the low cost airlines in Thailand and their customers regarding the use of the new service. This will provide beneficial information for the future research.

Definition of Terms

1. Low-cost airline or no-frills airline is one kind of airline that serves the lowest service with the "first come first serve basis that is popular and successful in the United States of America and Europe. Mercer (2002) suggested the characteristics of low cost airlines are following:

- 1.1 No meals; drinks and snacks for free
- 1.2 Narrow seating (greater capacity)
- 1.3 No seat reservation; free-seating
- 1.4 No frequent-flyer programs

2. Diffusion process is the processes by which an innovation is communicated through certain channels over time among members of a social system and given that decisions are not authoritative or collective, each member of the social system faces his/her own innovation-decision (Roger, E., 2003, online). This research will apply Roger's concept as a frame for analysis.

3. Innovation process is the process through which an individual (or other decision-making unit) passes 1) from the first knowledge of an innovation, 2) to forming an attitude toward the innovation, 3) to a decision to adopt or reject, and 4) to confirmation of this decision (Roger, 1995, unpagged)

4. Innovation characteristics as perceived by individuals help to explain their different rate of adoption. There are as the following:

4.1 Relative advantage is the degree to which an innovation as perceived as better than the idea it supersedes. It may be matured by economic term.

4.2 Compatibility is the degree to which an innovation is perceived as being consistent with the existing values, past experiences, and needs of potential adopters.

4.3 Complexity is the degree to which an innovation is perceived as difficult to understand and use.

4.4 Trialability is the degree to which an innovation may be experimented with on a limited basis.

4.5 Observability is the degree to which the results of an innovation are visible to others. The easier it is for individuals to see the result of an innovation, the more likely they are to adopt it (Roger, 1995, pp.15-16)

5. Characteristic of adopters as differencing groups in their value orientations that would be classified into: 1) innovators, 2) early adopters, 3) early majority, 4) majority, and 5) laggards.

Hypotheses

1. Different types of media will lead passengers to adopt low cost airlines differently.

2. Passengers who perceive low cost airlines as having higher relative advantage will be more likely to adopt low cost airlines.

3. Passengers who perceive low cost airlines as having higher compatibility will be more likely to adopt low cost airlines.

4. Passengers who perceive low cost airlines as having higher complexity will be less likely to adopt low cost airlines.

5. Passengers who perceive low cost airlines as having higher trialability will be more likely to adopt low cost airlines.

6. Passengers who perceive low cost airlines as having higher observability will be more likely to adopt low cost airlines.

7. Passengers with higher education will be more likely to adopt low cost airlines.
8. Passengers with high income will be more likely to adopt low cost airlines.
9. Passengers who are younger will be more likely to adopt low cost airlines.
10. Passengers who concern about brand images will be less likely to adopt low cost airlines.
11. The different lifestyle will lead passengers to adopt low cost airlines differently.
12. Perception of passengers toward brand is related to their adoption of low cost airlines.

