

A budget airline in hong kong

[Environment](#), [Air](#)



Budget airlines have become a trend in aviation industry over a few decades all over the world, however, as a Asian cosmopolitan city- Hong Kong hasn't have one yet, therefore a research need to be set up to explore on its feasibility. This project proposal aims to assist to accomplish a research by developing a plan beforehand. Firstly, the background of budget airlines and problem statement would be stated out, then a literature review would be carried out in order to find out its research value, after that, the research aim and objectives could be set up as a research goal, last but not least, research method and project plan could be discussed on how, where and when to carry out this research.

2. Background/ problem statement:

Before Deregulation:

In the United State before 1978, all airline passenger services were regulated and controlled by the Civil Aeronautics Board (CAB). Only 10 trunk airlines were authorized to issue a “ grandfather” certificate by CAB at that time. Underneath this certificate, all major scheduled airlines' route structures and fares were controlled and ruled. For an airline's route structure, stops and intermediate stops were specified and passengers carrying between stops were limited, a new promoted route needed to go through a lengthy procedure and hearings, even a stoppage of a route service was still needed the CAB's approval. For an airline's fare, all fare prices were strictly controlled by the CAB. (John & Clinton, 1984)

After Deregulation:

After passing the Airline Deregulation Act of 1978, CAB no longer had an absolute authority on an airline's entry, exit, routes and fares. Airlines were given freedom on setting up their own fares within a wide range, route applicant would be submitted and passed easily without any restriction when it performed air transportation properly. (John & Clinton, 1984)

First Successful

budget airline:

In 1967, the first successful budget airline was born and started its business in Texas in America, it named itself as Southwest Airlines (SWA). The company began when the US market was deregulated. Its successful model had been influencing a lot of other following budget airlines. It provides low-cost, high rate of short haul flying and this made itself maintain a most profitable airline through years. (Peter, David, Gillen, Otto and Hans, 2005)

What is Budget Airline?

“ A low-cost carrier or low-cost airline (also known as a no-frills, discount or budget carrier or airline) is an airline that generally has lower fares and fewer comforts. To make up for revenue lost in decreased ticket prices, the airline may charge for extras like food, priority boarding, seat allocating, and baggage etc.”

Today's budget airline:

Nowadays, the value for money is a great emphasis placed by travelers. They are willing to buy cheaper tickets to trade off some other aspect such

as leg room during flight. However, to determine whether a budget airline can survive and drive down the cost, it mainly depends on government and major airport's will to open up the skies. Therefore, different areas are in different cases, but every consumer loves a low price ticket and somehow the developments are very similar in nature and continue in varied ways.

As in US, budget airlines have dominated the market as travelers are price driven; in Europe, more local airports are needed to be opened up to let more budget airlines to fly in; in Asia, there are more opportunities to expand the whole market but the path is not easy, since the market is still dominated by the national flag carriers. Besides, they are also supported by the cargo business. (Scott Lee, 2004)

Problems Statement:

As we can see, budget airlines' business not only become a trend over the globe, but also bring out more travelers and so to extend the economy of our own country or region, however, there is no budget airline at all currently in Hong Kong, what are the reasons? Few years ago there was once a low cost carrier- Hong Kong Oasis airway which offered " long haul low fare" was bankrupted after 18 months of operation, why would that happen? An Malaysian budget airline- Air Asia already developed its third home base in Thailand, meanwhile, there still aren't any budget airlines setting up in Hong Kong as a home base, why? What are the success factors for a budget airline to develop? Is there feasibility for a budget airline to set up and form a home base in Hong Kong?

3. Literature Review:

3. 1. Business strategy of Budget Airline:

Markus (2005) once said “ The business strategy of these low cost airlines to save costs is to offer

no frills, have fast turn-rounds, use only a single-type fleet of planes, and to fly mainly to cheap secondary airports..... They also save a huge amount of administration costs by only accepting credit card payments and thus reducing the paperwork to a minimum” (Markus, p. 269, 2005)

In other word, they minimize their cost in management, aircraft maintenance, crew training, landing fee, parking fee, administration work, etc. Any additional cost, they will stay in the air ticket and let the passenger pay for it. This would rise out a question, would the passengers in Hong Kong be willing to pay for a low cost just to get to a destination or a high price to buy a good quality of service?

Budget airline is a trend?

Start from the next two years as announcing in late May, the Singapore airline would establish a subsidiary-a no frill, low cost airline, using wide body aircrafts to serve medium to long haul routes. According to the company after years of markets of extensive review and analysis, they have to admit that there is a large growing demand for low fare travel. The low fare airlines assist to stimulate the growing demand of travel. The company wants to

launch this service to push its single-digit growth to a double-digit growth as this low fare market is growing hugely. (Govindasamy, 2011)

This has showed us which the low fare air travel market

is growing and even an Asian state-owned conventional airline want to join in to gain share, therefore there is lots of room for more new budget airlines to be set up and serve the demand.

Budget airline comparing with conventional airline over the globe:

Graham Dunn (2011) state in the airline magazine, “ Data from four years of the Airline Business low-cost carrier and world airline ranking surveys shows that while the 10 largest network carriers were highly profitable in 2006 and 2007, seven lost money in 2008 and eight were in the red in 2009 at an operating level. Contrast this with the top 10 lost-cost carriers- only two lost money in 2009, three in 2008 and one apieve in 2007 and 2006.” In this case as we know, during the economic crisis between 2008 and 2009, we can see that the low cost carrier is on a steady growth and earn money, but the conventional airlines are greatly affected.

In fact, the magazine also shows that the budget airlines are growing at a double-digit development around the USA and Europe, and there are still more room for them to rise. In South East Asia, the larger low-cost carriers already expand beneath their home market and set up more home base in other country around the region as there has been a great demand for cheap air travel, such as Airasia has also set up a home base in Indonesia and Thailand beyond Malaysia. (Graham Dunn

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, 2011)

Therefore, even Hong Kong set up a budget airline, there are still lots of other competitors around the region, and can it survive?

The Background and Success of Air Asia and the Asia region:

Apparently in the 21st century, if the more preferable demography and economic trend persist, Asia would be well focused by the whole world, in other words, more people would be willing to travel in and out of Asia by plane for business and leisure. (Joseph, 2011)

Air Asia now is one of the largest low cost carriers in South East Asia. It used to be built up by the Malaysia government from 1993 and started its own operation as a flag conventional airline in 1996, however, within those five years, it was a “ cracked airline” which only have two Boeing 747, 250 staffs, four destination and a debt of \$11 million. But in 2001, it was bought by Tune air and turned it and re-launched as a low cost carrier, then it start to become a profitable business. In 2007, Air Asia X was set and launched as a low cost long haul carrier which flies to Europe and Australia. Currently, the whole Air Asia Group has owned 102 aircrafts, flies 150 routes and 68 destinations, it has been still continuing to expand its fleet and market share. In the past two year, it has already accomplished a Double-digit capacity growth. Certainly, there are some advantages that it already fully take, such as

low-price labor, a helpful economical hub at Kuala Lumpur. (Joseph, 2011)

In this case, are there any success factors we can learn from and use in Hong Kong?

The Background and failure of Oasis Hong Kong airway:

Oasis Hong Kong airline claimed to be the first long haul low cost airline based in Hong Kong, Reverend Raymond Lee led a starting capital of \$100 million with several Hong Kong investors. It began its operation and launch to serve passengers from October 2006, but after 18 months of operation, it halted all operation and collapsed as financial liquidation. It used to own 4 Boeing 747 and flew two routes, and three destinations: Hong Kong, Vancouver and London. During the operation period of time, the price of jet fuel has jumped from \$600 a tonne when Oasis started flying to a current level of around \$1, 137 a tonne. Besides, the company did not run as an short haul, no service model but provide a full service such as inflight meal and entertainment. (Robin, 2008)

In this case, a rise of jet fuel price can push a company to fall, are there any other critical threats which exist? Or the whole Hong Kong aviation environment is not suitable for an budget airline to exist?

Disadvantages and advantages of budget airlines:

For traveling with budget airline, there are also some disadvantages that you may want to take account for, such as you

may only have a limited meal with probably peanuts at all for the whole flight, you may not choose your own seat, they have less flexibility which you

can't cancel your flight or get a refund, any extra checked bags will be charged, they often land on remote airports with no bus connection and they are usually booked through internet. (Shewanda, 2011)

However, there are also some advantages you may want to consider, such as the fare with budget airline is relatively small which you can save the money for other things, they often fly to more locations and smaller cities that you may interest, and as money are saved, thus more travels will be encouraged and more people can afford it.

(Jennifer, 2011)

Therefore, when the Hong Kong customers compare the advantages and disadvantages of budget airlines, will they still choose budget airline? What is the low fare travel market like in Hong Kong?

Challenges and Background of the local dominant airline in Hong Kong:

The company began in 1946. It was found by two world-war 2 pilots. They first flew to carry passenger to Manila, Bangkok, Singapore and Shanghai. However in 1948, some of the shares was bought by a UK company, Butterfield & Swire (today known as the Swire Group) which took a 45% share. Therefore John Kidston Swire took the leadership work; Butterfield & Swire became wholly responsible for the management of the airline. And then it has been expanding through time. In 1998, the Cathay City was built, and in 2006, the dragon air was bought to be involved in Cathay Pacific Group. Right now it owns 128 aircrafts and has ordered

more than 100 aircrafts. Its route has covered more than 150 destinations in 41 countries. It ranks as the world's 2nd most profitable airline by net profit and the 7th largest airline in the world by operating profit. Its staffs' number is 19, 850 worldwide. (From Cathay Pacific's Website)

In this case, its customers do not only include leisure and business travelers but also the regional people. If a budget airline was being set up, this airline would be the biggest local competitor.

Potential low cost carrier that will be set in Hong Kong:

There will be two potential budget airlines setting up in Hong Kong- the Hong Kong express and the Jetstar subsidiary. The Hong Kong Express will transform to a low cost carrier in Jul-2012 or Aug-2012, operating under its new low-cost model to cities in mainland China, South Korea, Japan and Southeast Asia. As a Foreign budget airline- Jetstar is also looking forward to establishing a subsidiary in Hong Kong, it may try to co-operate with Hong Kong Airline. (CAPA, 2011)

This case has showed us that many companies are interested in developing a low cost carrier in Hong Kong, therefore in other words, there is feasibility for Hong Kong to set up an low cost carrier.

4. Aim:

Through analyzing all the data collected to determine whether it is possible to set up an budget airline in Hong Kong or not.

5. Objectives:

To explore the background information and business model of budget airline

To explore the operation, cost structure, strategy of low cost carrier in Asia

To carry out a case study: the success story of Airasia and the failure story of Oasis

To set up a survey to ask about Hong Kong frequent flyer's expectations on budget airline's services

To calculate all operating cost and expense to run this business

To compare the price of flying with an existing conventional airline with a hypothetical budget airline to find out the feasibility

6. Research method:

For this research, I will use the inductive method approach, because my aim is explore the feasibility to set up an successful budget airline which could last for a long time in Hong Kong through observing variety of data such as budget airline business model, cost structure, government policy and so to analyze and find out the answers for it. And I will select the survey strategy for gaining Hong Kong people's opinion of service they wish to add in without any additional cost for a budget airline service in order to calculate the operating cost of an hypothetical budget airline and so to set up the best price of a fare to equalize the cost. Then I will pick the memo-method as my unique data collection method, and carry out the cross-sectional study as

the data would give me the result. For data collection, I will use questionnaire and the interview.

6. 1 Questionnaire

For the Questionnaire, I plan to interview 50 people, they are mostly business travelers and leisure travelers, I will approach them through my friends who are frequent flyers.

6. 2 Interview:

For individual interview, I hope that I can make an appointment with some of the staffs who work as an airline accountant and inside the airport authority, and gain financial information of running an airline company.

7. Project Plan:

I would like to spend half a year to complete my project. Here is my work breakdown structure: