

China airlines marketing strategy assignment

[Art & Culture](#)



Marketing Strategy China Airlines on Guam CASE SYNOPSIS: This is a case study about how a foreign carrier, China Airlines, adapts its strategy competing in the Guam-based airline industry. The case traces the company's history on Guam from setting up its regular flight schedule between Guam and Taipei, through a pricing competition with its main competitor Continental Micronesia, to today where it occupies the sole market share of flights between these locations.

In addition, the study explains China Airlines approach to its customers through partnerships with hotels and tourism companies in both Taiwan and on Guam; how this business has been affected by immigration regulations; and how it has become a successful carrier on Guam, in spite of failing to reach its initial goal for even being on Guam. Business Background on Guam China Airlines is a foreign aviation corporation with headquarters in Taipei Taiwan. Before 2000, China Airlines only flew charter flights to Guam, with the market here being limited by the requirement that Taiwanese hold American visas to enter Guam.

These charter flights, or irregularly scheduled flights specially arranged according to the needs of customers, were more expensive than normal flights, and were held at peak travel times, such as Chinese New Year (which usually is in January or February and lasts about fifteen days), a golden travel time period throughout Asia. In March 2000, the United States passed a visa waiver policy, allowing Taiwanese to come to Guam directly from Taiwan with only a Taiwanese passport and a Taiwanese identification card.

The stay period was only valid for 15 days. With this policy in place, more Taiwanese came to Guam for vacation. With this growing tourist market in mind, China Airlines set up regularly scheduled flights between Taipei and Guam twice a week with a capacity of about 150 passengers per flight. When China Airlines began regular flights, its goal was to develop its market in the whole Micronesia area, targeting Guam as its hub to fly to the surrounding islands, and keeping flight capacity small, as the airports around these islands did not have the infrastructure that would allow large planes to land. However, its main competitor on Guam, Continental Micronesia Airlines, had established a presence in the Micronesia area from the 1970s onward, making it difficult for China Airlines to open flight routes throughout the region. The way China Airlines operated its business was to contract with a global ground aircraft service group named Aircraft International Service Group, which does airplane maintenance, aircraft cleaning service, refueling and passenger check-in.

In such a way, China Airlines did not need to recruit an entire team to Guam, thus keeping its operational costs low and allowing it to compete with Continental Micronesia, which also had regular flights between Taipei and Guam. A pricing competition between China Airlines and Continental Airlines lasted for about five years to capture the largest share of the Guam market. Both airlines tried to lower their ticket prices to keep their flight routes. As a result, neither of the airlines could make a profit from these flights since they targeted the same group of customers.

As a corporation, Continental Micronesia had to give up the market when it could not make a profit anymore according to current chief executive officer <https://assignbuster.com/china-airlines-marketing-strategy-assignment/>

of Continental Micronesia Charlie Duncan. Thus Continental terminated its regular flights between Taipei and Guam in October 2005, according to Pacific News Daily. To force Continental Micronesia to terminate its three times weekly regular flight routes between Taipei would be China Airlines' first marketing strategic achievement even though it lost money during the competition. But as the last airline standing after a pricing competition, they had more pricing flexibility.

Sometimes China Airlines is able to sell tickets from Guam to Taiwan at a cost almost equal to a flight from the United States to Taiwan. Business Development China Airlines maintains its success by working with tourist agents, which are the biggest air tickets resource for both passengers and airlines company since its vacationing passengers are usually looking for a package deal, to include hotel and air tickets, and even activities. Airline companies can do mass sales to the tourist agents at a lower price, but allowing it to maximize its profits in general. China Airlines works closely with a lot of tourist agents both in Taiwan and Guam. According to China Airlines Guam Branch general manager Norman Wang, flight sales have to be balanced between an outbound and inbound market. When a flight comes in to Guam, which is an inbound flight, its outbound passengers have to reach a certain level of capacity. Otherwise, it will lose money if it flies back to Taiwan below its break-even level. In order to attract more tourists to come to Guam, China Airlines works closely with three tourist companies on Guam, which take care of the arrival passengers while the tourism companies in Taiwan do sales.

Due to languages barriers, customer service at the arrival destination is necessary for most Taiwanese. Thus, these three companies are incorporated to take the passengers to check in at hotels and arrange activities as necessary. Regarding the outbound passengers, China Airlines made more effort to work with eleven local tourism companies on Guam since Taiwan is not a very popular tourism destination for local residents. Therefore, these eleven companies only focus on ticket sales or travel packages sales to local residents.

Besides that, China Airlines cooperates with hotels directly through bundle packages ??? hotel plus air tickets ??? to attract more customers, since most customers want a cheaper rate for both hotel and air tickets. And they even introduced wedding destination catering and Certified Professional Accountant services to Taiwan. Through these partnership engagement activities, China Airlines had been doing well after Continental was out of the competition. Moreover, Guam Visitors Bureau was making an effort to promote Guam in Taiwan, starting around 2007, which did help to get more awareness of Guam as a tourism destination in Taiwan.

For a while, it was hard for Guam residents to get a ticket to Taiwan, especially local Taiwanese. China Airlines noticed the demand of tickets from the Guam end, and that Guam also increased its awareness in Taiwan. In order to ensure its market is ready for expansion; China Airlines conducted marketing research on both areas through working with tourist agents and local government agencies, as well. Tourist agents from both places indicated that there would be an increased trend in the near future and they were capable to help to increase sales in order to expand the market share.

<https://assignbuster.com/china-airlines-marketing-strategy-assignment/>

After several conversations between the governments of both areas, they encouraged and supported China Airlines' expansion challenge. As a result, China Airlines decided to change its 150 passengers capacity airplane to 300 seats per plane in September 2008, while maintaining a twice-a-week schedule. Larger capacity flights were the second achievement for China Airlines. Since then, China Airlines has maintained a schedule of twice weekly flights at a 300- seat capacity. During busy seasons (Chinese New Year and summer time), it adds more flights temporarily.

Business failures Replacement of smaller capacity planes was only one of the methods China Airlines used to increase its market shares and profit margins. China Airlines also tried to increase the frequency of its flights per week in 2008. Its original schedule was only Tuesday and Saturday from Taiwan, and then they changed the schedule to be Monday, Wednesday, Friday and Sunday by adding two more flights a week. When they increased flights, they promoted six days-five nights or five days-four nights bundle packages, hoping to give customers more convenient options.

However, it turned out to be a failure due to customer behavior changes (or group pattern change). The passengers either stayed longer or shorter, as a result, all the passengers chose the same flight while leave the other two schedules more vacant. In the end, they changed the flight schedule back to its twice-weekly schedule. Another way to increase market share is to explore potential markets. China Airlines never forgot its main goal on Guam, which was to set up Guam as a hub to the Micronesian region.

Saipan to Guam and Rota to Guam routes are operated by Cape Airlines, which forged a partnership with Continental Micronesia. China Airlines tried to explore ways to incorporate with Continental Micronesia based on the model of Cape Airlines and Continental Micronesia. However, China Airlines was turned down. Uncertain opportunity A lot of business people are looking at the military buildup on Guam as an opportunity. As for China Airlines, according to Wang, they are not sure if this is going to favor them since the military buildup has been delayed.

He explained that first of all, the military are not going to Taiwan for travel: whenever they have a vacation, they will choose to go home first. And if they want to travel around Asia, Taiwan is usually the last destination they consider, he said. The only possible benefit the military buildup may offer to China Airlines is that it may attract more business investors to come to Guam time to time to do business research while seeking a chance to set up business here. But if it is delayed longer, there will also be fewer investors coming to Guam. Future Challenges

China Airlines is facing some challenges now. According to Wang, the Taiwanese population on Guam has decreased, and these are its main customers on Guam. In order to balance the inbound and outbound passengers, they need to make more of an effort to maintain or even increase Guam's market share. But who they should target and how is still uncertain. China Airlines has tried hard to work with the community on Guam in order to get more public awareness. They have approached Naval Base Guam, Andersen Air Force Base, and the Chinese and Guam chambers of commerce, through social activities.

<https://assignbuster.com/china-airlines-marketing-strategy-assignment/>

But the result of these efforts is not appreciable. In addition, the United States extended its Taiwanese Visa Waiver stay period to 45 days in November 2009, which also allows them to visit the Commonwealth of the Northern Mariana Islands during the time. This policy reduces China Airlines' business, instead of bringing in more customers. Wang explained that under the two-week stay policy, some frequent-flying businessmen could not complete their work in such a limited time period and had to buy another ticket to come in again. But now, they can save one trip at least.

Moreover, even though China Airlines occupies the market between these two destinations, its ticket prices are still expensive for the Taiwanese, who are the main customer resource to China Airlines. Thus it is challenge for China Airlines to set price to maximize profits. SWOT Analysis Strength: Today China Airlines is the only carrier with regular flights between Guam and Taiwan, which gives it more flexibility to set prices. Guam is an American territory with beaches, plus a visa waiver policy to Taiwan, thus attracting many Taiwanese tourists.

Weakness: Guam to Taipei is the only flight route China Airlines has in the region, which limits its market shares and profits margins. Whenever China Airlines tries to increase flights schedule between these two destinations, overhead cost exceeds its profits, which limits China Airlines' expansion. Moreover, with Continentals Micronesia pre-occupancy in Micronesia area, it makes it harder for China Airlines to expand its market. Meanwhile, Guam government needs to improve its public facilities, such as public restrooms, which are locked sometimes, and public transportation, which does not provide comfortable seats or consistent schedules.

<https://assignbuster.com/china-airlines-marketing-strategy-assignment/>

Opportunity: China Airlines hopes the military buildup can bring more Taiwan investors to come to Guam while the investors will commute more frequently between these two destinations. Threat: Guam Visitors Bureau (GVB) usually has a certain of budget for promoting Guam in different countries. Currently, GVB has allocated more of its budget to promote Guam in China and is focusing efforts there. Thus, GVB will decrease its budget to promote Guam in Taiwan. As a result, it affects China Airlines business directly.

Overall, China Airlines made profits between these two destinations even though they failed to expand its market shares in the Micronesia area. However, China Airlines has successfully adjusted its marketing strategies based on its competitors, market demands and political elements between these two destinations. Even though China Airlines is a leader between these two places, they still try to seek more opportunities to realize its initial goal on Guam. Reference Daleno, G. (September 17, 2005). Taiwan flights to be cut, Retrieved on October 26, 2010 from Pacific Daily News