ORIGINAL ARTICLES

Competitive Market of Air Industry and Competitive Advantages for Customer Satisfaction through Pricing Strategy of Air-Asia

Mohammad SumannSarker and Rabiul Islam

School of Economics, Finance and Banking, UUM College of Business, University Utara Malaysia, 06010 Sintok, Kedah, Malaysia

ABSTRACT

The paper analyzed the competitive market and competitive advantages for customer satisfaction through pricing strategy of Air-Asia. Data took from literatures on competitive market and customer satisfaction. The expositions of problems that may impact the customer satisfaction through pricing strategy of Air-Asia form the conceptual basis for the design of the research instrument used for this study. Therefore, in order to capture the information relating to research objectives and ensure that they will propose customers an acceptable value, the cost leader should not leave the base of differentiation and value to customers who are willing to pay a premium. The finding of this paper is that the Air Asia is very successful with its outstanding performance by providing low cost passage through excellent service despite its challenges and competition in the low cost Airline market.

Key words: Competitive advantage, Air industry, Customer satisfaction, Pricing strategy, Competitive market

Introduction

The first-low cost carrier in this region is Air Asia, and it works in 21 countries and over 75 destinations on scheduled domestic and international flights such as Air Asia X, Malaysia Air Asia, Thai Air Asia and Indonesia Air Asia. Air Asia has been engineered (reengineered) and an extraordinary turnaround in 2002 has become generally profitable industry. In 2006, the airline was selected among the best three in the category of Best Regional flights of low cost airlines World Airline Awards by Skytrax. For 2009 and 2010, from the same organization airline has granted World's Best Low Cost Airline.

The airline industry is highly competitive with existing airlines to compete with each other and with new players from time to time. The Malaysian aviation industries are controlled through Malaysia Airlines and Air Asia. Through operational effectiveness and efficiency Air Asia successfully has been taken the cost leadership. Founded on December 12, 2001, Air Asia has become such a huge event in the aviation industry, particularly in Asia and second national airline in Malaysia. Through the powerful slogan of Air Asia "Now Everyone Can Fly", Air Asia placed in customers mind. Air Asia has become the first low cost carrier, ticketless service airline in Asia. Air Asia engages a simple "no frills" service such as meals, frequent flyer miles or airport lounges in exchange for fares lower than those offered by full service airlines.

Airs Wars are hitting-up in the skies over Asia, with some of the world's largest airlines are engaged in intense competition. The last ten years have witnessed the emergence of about twenty low cost carriers in the Asia Pacific region such as Lion Air and Tiger Airways from Singapore; Air Deccan, Air One, Kingfisher Airlines, Air India Express, Alliance Air and Spice Jet from India; Adam Air from Indonesia; One-to-go and Nok Air from Thailand; Ozjet and Virgin Blue from Australia; Viva Macau from Macau and Jeju Air from South Korea. Arguably, the most successful in the region is Malaysia’s AirAsia.

O’Connell and Williams (2005), there are different customer’s perception on Malaysia Airlines and Air Asia. So that, it will suggest there are also different customer’s satisfaction on Malaysia Airlines and Air Asia. Several airlines in Asia operate the low model and more will be launched in the near future. Many Asian carriers already have established the world's lowest cost units (Doganis, 2002). There are 3.1 million passengers had flown in 2003 and 98% were on time (Ze and Ng, 2008). To survive in a hostile environment, Air Asia to create a low-cost carrier terminal (Ze and Ng, 2008) highlighted the low-cost airline to focus on operational efficiencies.

Low-cost sometimes means the perception of poor quality of services; however, the market infiltration gives further indication that market has challenged established ideas by developing low-cost that fare and facilities required to satisfy the customer (Conrad et al., 2004). Low-cost Airlines not only have increased competition but also to know how to deal with airport low cost airlines.
Low cost airlines have increased domestic market share of 7 percent in 1990 to 23.7 percent in 2003 in United States. World Airport report in 2008 stated the Asian low-cost carriers have been effective for sustaining the growth of airport in Delhi, Mumbai, Sydney and Kuala Lumpur (Buyck, 2008).

2. Business Strategy and Competition in the Airline Industry:

2.1 Competitive Strategies:

For competition Asian flights to provide better service and response by offering their better service, take advantage and differentiate themselves in their Asian charms and hospitality services by undertaking various cost cutting measures and lower the price of living competitive. According to Kloppenborg and Gourdin, (1988); Shostack (1977) Air aviation industry has categorized intangible service industry.

According to Porter (1980) to build four prominent business strategies: cost leadership, differentiation, focused low-cost and focused differentiation, there are two kinds of competitive advantages that can be combined with either a broad competitive scope or limited competitive scope.

![Competitive Strategies](image)

Fig. 1: Competitive Strategies

Attempts to explain and classify competitive strategy that firm uses, Porter (1980) argued to build four prominent business strategies: cost leadership, differentiation, focused low-cost and focused differentiation, there are two kinds of competitive advantages that can be combined with either a broad competitive scope or limited competitive scope (figure 1).

To be continued by the company in consumer electronics or compact car industry, cost leadership is one of the common business strategies. Each of the leaders in the value chain activities to be operated in the most efficient way to lower price of the new product and service those will generate a profit margin. Instead, differentiation is the institution's business strategy offering customer service products look as different and which they are willing to pay higher prices. Choosing the differentiation and characteristics of their products and services recommended or method in which it is delivered and developing organizational capabilities required to achieve the fundamental difference is a big challenge for companies. Interestingly, in order to ensure that they will propose customers an acceptable value, the cost leader should not leave the base of differentiation and value to customers who are willing to pay a premium.

However, no cost leader must try to offer the features of different products or service process, for fear of becoming trapped in the middle. In the late 1970s this is exactly what happened to Laker Airways, according to Porter (1980). British Airline proposed no frill / low fare successful service but eventually began to add more destinations and creator of aviation services. To the point where tourists felt that they had more value for money when flying with traditional airlines, Laker had to raise their fares in order to maintain profitability. Who stuck in the centre is a recipe for strategic mediocrity and below average performance as it is at the same time pursuing all strategies means that the firm is unable to follow any of them due to their inherent contradictions, according to Porter.

2.2 Air Industry:

The Airline industry has been developed very fast since the world wars, and a number of issues have influenced the airline industry evolution during this time. According to Clemes et al., (2008), the aviation industry has been distinguished as one of the more significant service industries and Tiernan et al., (2008) plays a vital role in the world’s economy. According to Lee and Cunningham, (1996), the aviation industry will try to differentiate their services through the use of computerized booking system is also designed to create customer loyalty in the distribution channel.
Saha and Theingi (2009) view that, it is imperative that the measures and monitors of companies quality service and satisfaction to influence behavioral intentions to their customers. In 2009 and 2008 airline industry has hardly hit by economic downturn and rise in oil prices respectively. Now a day, air travel demand has improved with the recovery of economy.

In 2008 and 2009 airline industry had lost $ 16 billion and $ 9.9 billion respectively. After a turnaround, International Air Transport Association (IATA) expected aviation industry will get profit $ 1.5 million in 2010. However, most of U.S. carriers are affected again in the month of December with travelers being snowed throughout the United States and Western Europe. Most of the companies bound to get hurt fourth-quarter profit and revenue due to cancel flights during the month. The effect of loss of flight cancellations are expected through 2011. Employees are needed train to recognize and respond to various situations during interpersonal exchange between them and the buyers suggested by Lorenzoni and Lewis (2004).

![Fig. 2: Airlines Business Strategies](image)

This is the first research design will involve the introduction of the airline's business strategy is really catching up. As mentioned before, Porter's competitive strategy introduced typology that can be used to compare how competition in the industrial sector that is given to their position. Therefore, it would be relevant to use this tool to find out the position of the sample airlines compete on the same routes (some traditional and others that can be called low-cost airlines).

Financial performance and strategic measure to enable the difference between an airline successfully integrated cost leadership / differentiation strategy and carriers trapped in the middle and do not work better than a lie in the lower left quadrant of the scatter gram airline business strategy. To determine how the company can manage to implement an integrated strategy leadership / successful cost differences, secondary data can be collected to compare airline after successfully implement the best strategy and supplier cost airlines seem stuck in the middle. It should be noted that the framework proposed research priorities airlines including assumptions about the factors that explain the success of the strategy of leadership / integrated cost difference. They suggest that researchers compare airline, openly, any airline implementing different business strategies and achieve different levels of financial performance and business. This can lead to some flight demonstrations that exist between the strategic choice model of traditional airlines and low cost. Currently the airline industry is looking for new strategic channel, airline aims to compare the performance and results of operation may be the most valuable.

2.3 Pricing Strategy:

According to Rhoades, (2006), in the early 1970s Southwest Airlines in the United States started low-cost business model. This business model became motivation to other low-cost carriers after its success to all over the world, such as Easy jet in the UK, Ryan Air and Air Asia, Cebu Pacific, Jetstar Airways, Asian and Pegasus Airlines, and Air Qantas Jetstar, Virgin Blue, freedom Air in Oceania. According to Tierman et al, (2008); Wen and Yeh, (2010), low cost airlines focus on price leadership. Malaysia Airlines and Air Asia are dominated in Malaysian aviation industry. Full-service airline consider as Malaysia Airlines on the other hand low-cost airline consider as Air Asia (O'Connell and Williams, 2005).

Malaysia Airlines refused allegations by Air Asia that it had used financing subsidies "Everyday Low Fares" campaign as it was established a campaign of zero-fare as well as to Southeast Asia destinations in May
Predatory pricing practices have been made against Malaysia Airlines. The campaign "Everyday Low Fares" has created a new market for the airline said IdrisJala of Malaysia Airlines.

The Air Asia is very successful with its outstanding performance by providing low cost passage through excellent service despite its challenges and competition in the low cost Airline market. According to Porter (1980), Day and Wensley (1988) a service organization can get a competitive advantage by offering lower prices to customers over competitors or by delivering more benefits that justify higher prices. Similarly, Air Asia is positioned itself as a low cost carrier with no frill service with value for money.

The value of a business can be a strong pricing tool. Price is one of the tools in marketing mix which gains profit to the firm. They pointed out "price management is an important component in the marketing and competitive strategy and the main determinant efficiency." In addition to outstanding operational effectiveness and efficiency of the company's most important determinant of survival is the pricing strategy. According to Poała et al.(2007) low-cost business model to conclude that companies implement optimization strategy of low-cost airfare tickets using dynamic pricing strategies tend to change depending on the demand curve. The concept of low-cost airlines has promoted the lowest fares it offers beyond the date of departure and the price increases as the day of departure as the ability of the current approach taken has shown by Mason (2001).Bilotkach et al (2007) has also been supported this finding andstudies which identified offered speed up the growth rate as the departure date approaches.

Air Asia and Malaysia airlines in Malaysia can be classified through the pricing strategy. According to Button (2007), the cost leadership strategy applied by the airline that in situation where the market leader sets the price and competitors feel compelled to match the price. Pricing strategy is a strong element that can generate revenue for the firm.According to Franke (2004) and Doganis (2006) focused specifically on the benefits of low cost airlines can be derived from a selection of their operations. Their research shows that there is no element that is responsible for driving competitive advantage. Instead, all of the choices made to contribute to the production cost benefits. The essential of various strategic choices created by the airline proposes to investigate other elements of the low-cost business model. In fact, income generation is one of the distinctive aspects that distinguish low-cost airlines' policy of full cost.Piga and Filippi (2002) were analyzed in comparison based on the price of low-cost business model with the airline pricing strategy in full cost.

2.4 Customer Satsisfaction:

The key objective in the services operation is customer satisfaction because it brings benefit to the organization (Ranaweera and Prabhu, 2003).Customer satisfaction in service industry has become very important and Dennett, et al. (2000) suggested the air quality of service in the aviation industry has received more attention due to the competition. According to Fornellet et al. (1996); Spreng et al.(1995) in many organizations, customer satisfaction has also meant that the organization had received fewer complaints, thereby reducing the cost of dealing with failure.

Price is an important factor for user satisfaction (Anderson et al. 1994). Customer satisfaction is greater than the assessment of service quality and is subject to a number of factors, such as quality of service, product quality, price, terms and condition, and personal characteristics (Zeithaml and Bitner, 1996). The sheer quality of service is not a sufficient condition for the establishment of customer loyalty because customers are always aware of the cost / benefit trade-off relationship (Lee and Cunningham, 1996).

Athanassopoulos et al. (2001) studied the effect of customer satisfaction on customer behavioral responses and report that customer satisfaction has a direct impact on the three variables (the decision to stay with the existing service providers, participation in the communication of word-of-mouth, and the intention to change service providers). According to Anderson et al (1994) customer satisfaction or dissatisfaction with the service experience is required, and is influenced by the perceived quality and value of service.

According to Attilgan et al. (2008), in most customer service settings may not be received the level of expected service before the actual service experience. Either under or above client’s expectations fails performance of services. Exceeded expectations, while the high quality of service and the service is considered to be a surprise.Establish quality of service measured with actual service performance in terms of service features, particularly in certain contexts, while satisfaction measured by overall customer service experience (Oliver, 1993). In general, the quality of service literature identifies expectations as an instrumental influence in consumer evaluations of service quality (Parasuraman et al., 1985; Sultan & Simpson, 2000).

These findings have given more valuable information to aviation industries for customer service to measure and manage flow and profitability. Price is an important influence on the perception of consumer satisfaction. Different price perception dimensions and can potentially be leaded to customer satisfaction in addition to ease product price level. Customers hope to gain low cost carriers. If the product performs well either to or above the customers' expectations, then their satisfaction of the product improves. Customer will repeat purchase intention on Air Asia. On the contrary, if a product is below the customers' expectations, then customer satisfaction decreases. This will directly lead to the competitive advantage on Air Asia.
When investigating customers’ decision making include customer service expectation and satisfaction among the key variables those are usually considered (Park et al. 2004). Most of the literature shows the quality of service as a multi-dimensional variables those are focused by aircraft passengers, which is consistent with Parasuraman et al. (1988) concept of service quality called SERVQUAL. SERVQUAL measured base on the five dimensions of service quality such as reliability, assurance, tangibles, empathy, and responsiveness. Usually, the quality of service expectations as the influence of literary recognition plays an important role in consumer evaluation of service quality (Parasuraman et al., 1985; Sultan & Simpson, 2000).

Parasumaran et al. (1991) there are five service dimensions to categorize the level of customer service expectations: those are reliability, tangibles, responsiveness, assurance and empathy. Reliability is concerned with the revenue from the remaining dimensions are concerned with the services. Author remember that while reliability is an important in meeting customer expectations (i.e. provide results as promised, such as a clean room or a flight on time to the destination), the dimension of the process is important in exceeding customer expectations. Here, can be concluded that while airlines such as Ryanair and Finnair deliver the same service (air transport) and expected the same results (customers arrive to the final destination), the process of delivering a completely different service.

**Service Quality:**

Quality is a driving force for improved competitiveness, customer satisfaction and profitability (Edvardsson, 1992). As for service quality, e.g. American Marketing Organization defines it in two ways: first, it is an area of study that defines and describes how services are delivered so that the service recipient is satisfied; second, high quality service is a delivery of service that meets and exceeds the expectations of the customers.

<table>
<thead>
<tr>
<th>Service quality aspects</th>
<th>Researcher(s)</th>
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<tbody>
<tr>
<td>Price, safety, timelines, baggage transportation, food quality, seat comfort, check-in process and on-board services</td>
<td>Gourdin (1998); Elliot and Roach (1993)</td>
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<td>Seat comfort, safety, courtesy of staff</td>
<td>Tsaur et al. (2002)</td>
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<td>Airlines reliability (safety)</td>
<td>Fick &amp; Ritchie (1991)</td>
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<td>Aircraft type</td>
<td>Truitt &amp; Haynes (1994)</td>
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<tr>
<td>First customer contact / interaction with contact employees</td>
<td>Carlzon (1987); Bitner et al. (1990)</td>
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<td>Airline brand, price, sleep comfort</td>
<td>Boetsch et al. (2011)</td>
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<tr>
<td>Employee’s service, safety &amp; reliability, on board service, schedule, on time performance, frequent flyer program</td>
<td>Liou&amp;Tzeng (2007)</td>
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<tr>
<td>Flight schedule, total fare, flexibility, frequent flyer program, punctuality, catering, ground services</td>
<td>Teichert et al. (2008)</td>
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<td>Level of concern and civility, listening and understanding, individual attention, cheerfulness, friendliness, courtesy</td>
<td>Babbar&amp;Koufteros (2008)</td>
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<td>Willingness to correct errors, task proficiency, courtesy, friendliness, tolerance</td>
<td>Mersha&amp;Adlakha (1992)</td>
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<tr>
<td>On-time performance, overbooking, mishandled baggage, customer complaints</td>
<td>Tiernan et al. (2008)</td>
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Parasumaran et al. (1985) stated that the equality of service is defined by the assessment of customer service outcome and service process as well as comparison customer expectations with the performance of services. Hence, the quality of service can be considered as fit between current service level and customer expectations. Park et al. (2004) define the quality of service as a customers’ overall impression of an organizational efficiency and its services. Thus, customer satisfaction is a made of judgment based on a certain service encounter.Chen & Chang (2005) suggest that service quality is a process, and in case of airline industry, the authors divide the process into ground and in-flight services and state that passengers’ expectations are different for each of the processes.
Parasumaran et al. (1985) identifies there are 10 key determinants for quality for service, which impact both expected and perceived services, and through those, perceived service quality (Figure 3). Expected service is also encouraged by word of mouth, personal needs as well as past experience.

Price is only the factor that can be distinguished between the Malaysia Airlines and Air Asia. With the slogan "Now Everyone Can Fly" Air Asia has been aggressively promoting itself. Long-known Malaysia Airlines has challenged the branding position for this. There are different customer base and offer different services experience served by both airlines. However, where service differentiation is quite minimal, this may not be true in the case of domestic flights and some of international flights. So, it can be concluded that the level of customer satisfaction and customer’s perceptions of full-service airlines and low-cost airlines are different (O’Connell and Williams, 2005).

**Fig. 3: Determinants of perceived service quality**

*Source: Parasumaran et al., 1985*

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**Fig. 4: Customer satisfaction conceptual model in the air travel industry**
Conclusions:

Airline industry has seen a major change in the trend in 1990 when low-cost airlines increased in the market rate. It plays an important role for moving people and goods from one place to another domestically or internationally, especially when the distance is remote. Due to the current price competition consumers are getting benefits because they pay low fares between Malaysia Airlines and Air Asia. Without burning their pockets now everyone really can fly.

To get customer loyalty higher customer satisfaction can be expected and also expected to reduce price elasticity, protect market share from competitors, net of transaction costs, reducing the cost of attracting new customers, and increase the firm’s reputation in the marketplace (Anderson et al., 1994).

Reputation can be contaminated easily if service fails which can cause customer dissatisfaction. Although Saha and Theingi (2009) discovered even customers are not satisfied by low cost airlines, they prefer to switch carriers without complaining; Air Asia keep proceed to be one of the company's short-haul low-cost carrier in each market and gain strong organic growth through profit objectives.

Air Asia is positioning itself as a market leader of low cost airlines. Therefore, compete for the position, Air Asia needs to guarantee its ticket prices should be maintained at an average ticket prices sold by the airlines. It is an important for getting more customers over competitors, but retaining existing customers even more important. Since it is known that customer satisfaction makes customer loyalty, Air Asia is a more efficient management of the essential factors that affect customer satisfaction.

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