

Budget Airline Industry in Hong Kong

Chau Man Sze, Lai Wai In, Lee Ngai, and Or Wing Yan

Abstract—The aim of the research is to understand the current demand for budget airlines in Hong Kong and analyze their potential development. Recommendations were then provided based on the research results. Information was collected through public opinion survey, news report, journals, in-depth interview and online survey. An analysis on the strengths, weaknesses, opportunities and threats of the industry was done based on the secondary data. The major and obvious strength of budget airlines is their low cost whereas most of them has an unfavorable schedule and limited choice of destination. Meanwhile, there were plenty of uncontrollable factors which may be favorable or detrimental to the development of the industry, including the infrastructure, market demand, government policies and competition of traditional airline. We have then come up with five consumer insights on the budget airline industry in Hong Kong. It can be concluded based on our online survey that there is a generally low awareness towards Budget Airlines in Hong Kong. Yet, for those who has tried the service has a generally positive attitude towards budget airlines. It is also found from the research that low cost can compensate the less preferable schedule. Thus, it is proposed that low-cost airline can make use of Word of Mouth and value-added service to strike a balance between drawing new trials and retaining old customers in a long run.

Index Terms—Demand, Hong Kong International Airport ("HKIA"), low cost, low price.

I. INTRODUCTION

A. Objectives

Our main objective is to understand the current demand for budget airlines in Hong Kong and analyze their potential development. We would then provide concrete suggestion for the airline companies to expand their market share and to capture more demand. We would not focus on a particular airline in Hong Kong. Instead, we would analyze the whole industry and provide recommendation that can be applied to most budget airlines targeting on the Hong Kong market. In some case, however, we would take Hong Kong express or other budget airlines as example to provide more details of the suggestions.

B. What Is Budget Airline?

Also known as low-cost carrier ("LLC") or no-frill carrier, budget airline generally offers lower fares and fewer comforts. Most of them only provide short-haul flights to places within five-hour flight time. They usually use single aircraft type. For example, according to Hong Kong Express only uses single type of narrow-bodied aircraft – Airbus 320.

In addition, there is usually only single type of cabin in order to keep the cost low. As for the service, budget airline generally do not offer frill services, meaning meals or checked packages are not included unless the passengers pay an extra amount. For cities which have more than one airports, budget airline often opt for the secondary one so as to keep the operation cost low. For instance, low cost carriers would choose to take their passengers to London Stansted Airport instead of Heathrow.

C. Budget Airline Industry in Asia and Hong Kong

The development of the budget airline industry can actually be traced back to the 1940s when the Pacific Southwest Airlines first established in the USA.

Yet, the concept of budget airline was not brought to Hong Kong until the early 21st century. There has been two budget airline ever in Hong Kong — Oasis Hong Kong Airline ("Oasis") and Hong Kong Express Airway Limited ("Hong Kong Express").

Established in 2005, Oasis was generally perceived as Hong Kong's first budget airline. The airline offered low fares, which was similar to the operation principle of a low-cost airline. The company has also been awarded as one of the Best Low Cost Airlines in Asia. Yet, due to the stiff competition and its unsustainable and unviable revenue model, Oasis was liquidated in April 2008.

Used to be a helicopter service provider, Hong Kong Express Airway Limited stepped into the civil aviation industry in 2004. It was later renamed into Hong Kong Express Airways in 2008 and announced its transformation into a budget airline in 2013 [1].

According to the Transport and Housing Bureau, there are 16 low cost carriers operating locally, among which only one is based in Hong Kong – Hong Kong Express. Other budget airlines that operate flights to Hong Kong such as Vanilla Air and Peach from Japan, Jeju Air from Korea, Scoot from Singapore, Spring Airlines from China and AirAsia from Malaysia and a lot more. All these budget airline has taken only 5% of the Hong Kong airline market, lagging far behind other Asian countries. With reference to the report published by the Department of Logistics and Maritime Studies of the Hong Kong Polytechnic University, there are approximately 47 low cost airlines in the Asia-Pacific region. South Asia and Singapore take the highest market share at 27% and 25 % respectively [2].

D. SWOT Analysis

In order to understand more about the airline market, we have used a SWOT analysis.

1) Strength

a) Low operating cost

As budget airlines try to eliminate their service as much as

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possible, their operational cost is much lower than the traditional airlines. They can, thus, provide a more competitive fare which can attract more customers who are price-oriented. According to a study by Doganis [3], the operational cost of a low-cost carrier is only 49 percent of a full service carrier's operational costs.

2) *Weakness*

a) *Limited choices of destinations*

To keep the cost low, budget airlines usually operates only short-haul flights within five-hour flight time. In the Hong Kong International Airport ("HKIA"), therefore, low cost flights are only found arriving from or departing to some popular cities in the South East Asia, East Asia and in the Mainland China. For example, Hong Kong Express, as the only budget airline based locally, only offers flights to 13 countries in the aforementioned 3 areas [4].

b) *Unfavourable schedule*

To ensure the flight capacity is fully utilized, there are usually fewer choices of flight schedule comparing traditional airline. In addition, given their limited choices of flights, they usually have a higher proportion of red-eye flights, which may be unfavorable for some customers.

3) *Opportunity*

a) *Expansion of infrastructure*

In 2010, HKIA has officially introduced the North Satellite Concourse, which is equipped with 10 bridge-served frontal stands - gate numbers 501 to 510 - for narrow-bodied aircrafts. This has benefited the budget airline industry as most of them use this type of aircraft [5]. Furthermore, in spite of the controversies, the Airport Authority has been planning to expand HKIA into a three-runway system ("3RS"). Under the 3RS plan, Terminal 2 will become a full-service terminal capable of handling arrivals, departures and transfers [6]. This can increase the capacity of the airport, allows more flights to Hong Kong and, thus, provide good opportunities for the expansion of the budget airline industry.

b) *Increasing demand of budget airline*

According to a research conducted by the Public Opinion Programme at the University of Hong Kong on behalf of Jetstar Hong Kong, near 70% of Hong Kong residents surveyed recently said they intended to travel on a low cost carrier in the next 12 months. In addition, 79% of Hong Kong people said they will fly more if the fares are lower whereas 84% welcome more home-based LCC airlines [7]. These results have indicated the huge potential growth of Hong Kong's budget airline industry.

c) *Competitive geographic location*

Budget airline targeted location within five hours flying hours. According to the HKIA website, HKIA is located less than five flying hours from half of the world's population, including India and China, which accounts for more than 36% of world's population [8]. This has made Hong Kong an extremely competitive in the budget airline industry.

4) *Threat*

a) *Keen competition with traditional airline in the low-price market*

Local traditional airlines, including Cathay Pacific and

Hong Kong Airline, stepped into the low price market last year through different promotion campaigns, such as Cathay Pacific's Fanfare and Popu&go, as well as Hong Kong Airline's Pack & Go Specials. Although the fare may not be as cheap as budget airline, given their service and reputation, people may opt for the traditional airline rather than the budget ones.

b) *Limitation of Hong Kong International Airport and its policies*

Daniel Tsang, founder of Aspire Aviation, an aviation consulting firm, has mentioned that Hong Kong was a difficult market for budget carriers as it has high costs and is significantly more constrained [9]. As Hong Kong do not have any secondary airport, any airlines, be them budgeted ones or traditional ones, which fly to Hong Kong, have to use HKIA, costing a high landing fees. Moreover, the airport does not give any discount on landing fees to budget airlines, unlike, for example, Singapore [10]. Having no secondary airport has led to two problems — expensive landing fees and stiff competition for slots, and this would hinder the development of the industry.

II. METHODOLOGY

We have taken different approaches to collect the first-hand and secondary data.

For the secondary data, we took reference to the reports of public opinion survey, news articles, and journals. The secondary data was used as the preliminary research to provide insights on the subsequent design of primary data collection approaches. From these researches, we learned about the development and the operation of budget airline. We also had a brief understanding on public's attitude towards budget airlines.

For the primary data, we have taken two approaches – In-depth interview and Online Survey. Not having sufficient secondary data about the demand of budget airline and Hong Kong people's general perception on budget airline, our main focus of both the interview and the online survey are to address the critical factors affecting people's choice of airline and have a more comprehensive understanding on people's perception towards budget airline.

We have conducted three in-depth interviews with people from different backgrounds in order to obtain more qualitative information on people's attitude towards budget airline. These results are also used to as the preliminary research to help design the questionnaire.

We also conducted an online survey for the quantitative results. The purpose of the questionnaire is to analyze people's perception on budget airline, to segment the market and to select suitable target customers. We have sent out 150 questionnaires and collected 122 back. The respond rate is 81%. We have adopted a stratified sampling method. We grouped our target customers into three groups: university students, fresh graduates with basic economic power and middle-aged group. We then used convenience sampling to select samples for each strata.

III. INSIGHTS

After checking for the p-value of all of our 122 respondents' data, we concluded that our data are significant and we have derived five consumer insights from these data.

A. Insight 1: Low Awareness to Budget Airline

In order to know how popular budget airline is and how much people are aware of it, we asked our respondents to write down an example of a budget airline in the questionnaire. From Fig. 1, we can see that about 30% of them failed to do so, they do not really know what budget airline is. Among this percentage, 12% of them gave us wrong answer of budget airline, all of them misunderstood that Hong Kong Airline is a budget airline; 9% of them could not think of any example of budget airline; and 7% of them had never heard of budget airline.

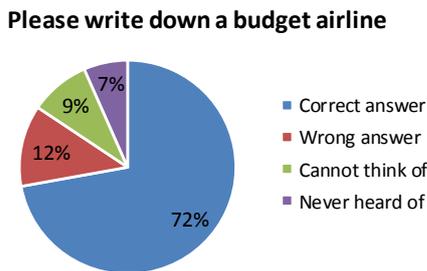


Fig. 1. Awareness to budget airline.

Have you ever tried any budget airline?

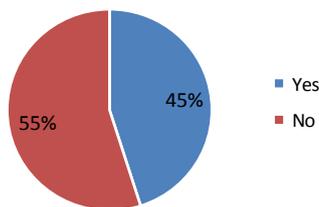


Fig. 2. Experience on budget airline.

B. Insight 2: More Positive Ratings to Budget Airline if They Have Tried before

We would like to investigate if there is any difference on the ratings and attitudes of budget airline between those who have tried and have not tried before. 45% of our respondents have tried budget airline before, while 55% of them have never tried (see Fig. 2). All of them had to rate seven attributes (namely price, service, reputation, schedule (timeslot), safety, ways to get information and destination) for budget airline respectively, where 5 is the best and 1 is the worst.

By our definition, favorable attitude means the overall average rating for budget airline is higher or equal to 2.5, whereas unfavorable attitude means the overall average rating is lower than 2.5.

We also discovered that for those who have tried budget airline before, 85% of them have a favorable attitude towards budget airline, which is 15% higher than those who have not tried before.

C. Insight 3: Low Price Can Compensate Less Preferable Schedule

In order to better understand people's satisfaction in budget airlines, respondents were asked to rate seven attributes for

budget airlines respectively. To analyze the questionnaire findings, an average score is calculated for each attribute and further comparison is made.

TABLE I: RATINGS ON DIFFERENT ATTRIBUTES

Attributes	Mean score
Price	4.4016393
Service	2.7704918
Reputation	2.8852459
Schedule (Timeslot)	2.49180328
Safety	2.83606557
Ways to get information	3.16393443
Destination	2.8442623

From Table I, it is clear that "schedule (timeslot)" scores the lowest mark and represents an overall negative impression as the mean score is lower than 2.5, this indicates most people are not satisfied with the timeslot of budget airline, probably due to less timeslot available compared with the traditional airlines.

Therefore, given that the price become cheaper, we would like to investigate to what extend will people choose their less preferable timeslot.

In Fig. 3, only 47% of the respondents said they would consider taking budget airline to a short haul trip under normal situation. However, in Fig. 4, this percentage increases to 79% if budget airline offers \$1 ticket. Many people who replied "may take budget airline" in Fig. 5 decided to get the \$1 ticket offer.

If there is a budget airline offering \$1 ticket, will you choose to take this flight to a short-haul trip?

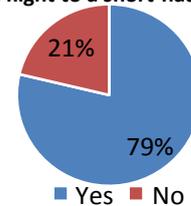


Fig. 3. Willingness to take budget airlines.

Will you take budget airline to a short haul trip?

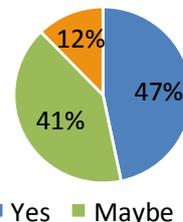


Fig. 4. Willingness to take budget airline with \$1 ticket.

Next, respondents who are willing to try budget airline are required to rank their preferences on the departure timeslot (morning, afternoon, evening and midnight). In Fig. 5, it shows that schedule is somehow important to a small extent of people (i.e. 3 of them), however, most of them can be compensated by a cheaper price to choose a less preferable timeslot, and even 59% of them can be fully compensated,

which means they are willing to choose their least preferable timeslot.

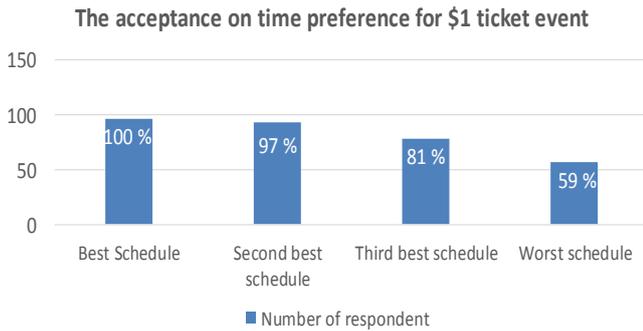


Fig. 5. Acceptance on time preference for \$1 ticket.

D. Insight 4: Value-Adding for Budget Airlines

As mentioned above, respondents were asked to rate seven attributes of budget airlines in order to better understand their satisfaction.

Table I shows that “price” scores the highest marks (i.e. 4.4 out of 5), meaning that people generally have a good impression on the low price setting offered by budget airlines. It reflects that budget airlines have spent an effort on promoting their “lowest price”. However, other attributes do not perform as well as “price” as they score merely above 2.5. As budget airlines have fair performance in other attributes, they have room of improvement in these attributes instead of focusing the attention on “price” only.

On the other hand, there has been intense price competition in the industry. Some traditional airlines start providing low-price air tickets as their promotion strategies. For instance, Cathay Pacific Airways is currently launching a promotion campaign called “popup&go”, offering cheaper air tickets to university students.

Based on the above analysis, there is an urgent need for budget airlines to add value to their services in order to maintain their competitiveness in the market. They should not only continue to position themselves as “low price airlines”, but also improve and promote other attributes.

E. Insight 5: Word of Mouth among People

“Word of mouth” means the recommendations from a satisfied customer to other potential customers. It is believed that word of mouth is an important factor which determines people’s willingness towards budget airlines. Therefore, the following question was designed to measure the effectiveness.

“Suppose you will have a short-journey trip with your friends or relatives. They recommend a budget airline company that they tried before, but you have never heard about the brand. Are you willing to try that company for the coming trip?”

This question examines how people react to others’ recommendations on an unfamiliar budget airline company. In response to this question, over 75% of the respondents are willing to try.

It can be concluded that with recommendations from others whom they are close to, people tend to have confidence on that unfamiliar budget airline company. As a result, there will be a higher chance for them to choose that company for their future trip.

IV. CONCLUSION

To conclude, the sustainability of the ‘low-price’ position of budget airline in Hong Kong is still questionable with the emergence of price promotion from traditional airlines. Therefore, apart from budget airline’s existing price promotion, it is suggested that more resources should be allocated to ‘building positive brand image’ and ‘establish customer loyalty’ with our proposed internet marketing strategy and membership scheme. After all, striking a balance between drawing new trials and retaining old customers is the key to the success of budget airline in the long run.

The SI unit for magnetic field strength H is A/m. However, if you wish to use units of T, either refer to magnetic flux density B or magnetic field strength symbolized as $\mu_0 H$. Use the center dot to separate compound units, e.g., “A·m².”

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