

*PROBLEMS & CHALLENGES
IN INTERNATIONAL MARKET*

'A CASE STUDY OF AIR CHINA'

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ABSTRACT

This study intends to understand a marketing planning process in the airline industry. It will firstly examine both of macro and micro market environments related to Air China.

A SWOT analysis will be developed in order to identify potential threats and opportunities. This research investigated how passengers judge airline's quality and their criteria for selecting carriers.

In addition, the researches also try to find out passengers' perceptions of Air China in terms of market 4Ps issues. This was completed by questionnaire and an in depth focus group interviews who were assumed as economic and business passengers.

The environment researches showed that Air China now is facing serious threats come from both domestic and overseas competitors. On the other hand, Air China also has extreme market opportunities as a result of China's economic growth and its accession of WTO.

The primary data showed that quality is the most important criteria when passengers choose carrier. In addition, most of passengers consider Air China's quality is not out standing and its prices are higher than they expect.

It is concluded that Air China should continually use differentiate strategy to compete in the market. In order to achieve competitive advantages, Air China should decrease its fares levels, as well as improve its service quality in terms of on-time performance, Safety. In addition, it should make effects to design attractive Frequent Fly.

CHAPTER – 1 : INTRODUCTION

A decade ago, many senior managers and most of marketers improperly defined marketing. In that period, marketing was only considered as selling and advertising issues and marketing department were isolated with other departments (Wilson and Gilligan 2003).

However, along with the changing of business environment, the ways people do business was dramatically change. Marketing now is playing a more important role in business. Companies are facing the real challenge in terms of developing sustainable and Long-term marketing strategies in market place.

In order to meet this challenge, companies are required to understand the nature of customers and marketplace they operate in and also examine the environmental context within and outside the organization.

The process of analyzing the environments and organizations' capabilities is encapsulated in marketing planning, a key element to the success and survival of organizations.

Marketing planning enables managers to specify the firm's direction for the future and the strategies over the medium to long term. In addition, it helps organizations to understand external and internal factors and allocate resources efficiently and reasonably.

The aim of this study is to establish a marketing plan for Air China, one of the biggest airline carriers of China, to ensure that the its capabilities are matched to the competitive aviation market environment in which it operates, not just for today but also for the foreseeable future.

The objectives of the research study and the subsequent market plan are:

- (i) Itemize and analyze external environment factors related to Air China. The will involves a range of aspects such as political, economy and technology issues.
- (ii) Itemize and analyze internal factors. It is expected that there may be internal weakness in Air China. In addition, it enables Air China to identify its own strengths and decide which strengths could be used to meet market opportunities and to face up to any possible threats.
- (iii) Collect both of primary and secondary data, such as passengers' attitudes with regard to Air China's marketing 4Ps and Air China's operating performance. These

data could help company to understand market and competition environment. In addition, it helps Air China to modify the marketing mix.

- (iv) Design marketing mix strategies. It involves price, product, promotion and place aspects. This project will examine both of external and internal factors and make appropriate strategies.

1.1 Background of China's Aviation Industry

China's civil aviation industry enjoys a great reputation and with 56 years of history. Since the founding of People's Republic of China in 1949, the government has applied itself to establishing a comprehensive air transportation system. Between the period from 1949 to 1978,

The Chinese government injected huge investment into its aviation industry and expanded numbers of airport (133). In the 1990s, as a result of 'open door' policy, China's economy experienced a fast expansion and Civil Aviation Administration of China (CAAC) needs to develop aviation industry to satisfy the increasing Needs of air transportation.

The government tried to reform the management of discrete airlines and airports and reorganize aviation companies into joint stock companies. The restructuring brought profound changes and rapid development to China.

In 2004, the total transport mileage of China's aviation reached 17.1 billion tons km. The outstanding performance enabled China's aviation industry to leap from 37th in 1978 to the 5th in 2003 in the world. In 2004, the volume of passenger traffic reached 241.9 million and the volume of cargo transport reached 5.52 million tons (caac.gov.cn 2005).

1.2 Impacts of WTO on China's Aviation Industry

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in the parliaments (WTO.org 2005).

The members of WTO obtain a series of benefits in terms of free trade, the Accession of global markets and economic growth. In 1986, China appreciated the Need for a closer relationship with the outside business world. The government also appreciated for the need for wider market to support its sustaining economic Growth. Therefore, China began to apply for joining WTO from 1986.

After a long way negotiation, it finally entered into WTO in 2001. China's accession of WTO in 2001 has shaken up all sectors of domestic economy, especially the air Transportation industry.

Firstly, the accession has brought a wide range of opportunities for China's airlines. It enables domestic airlines to access to international market broadly and the new open market will generate huge traffic volume in both passenger and cargo transportation.

On the other hand, serious challenges would accompany with these opportunities. According to WTO regulations, member countries would be forced to eliminate the barriers of International trade.

Therefore, the accession would eventually lead to an opening of the market for service sectors. The challenge for China is that local airlines have to compete with overseas industry giants without political protection.

Since China's WTO accession, in order to against competition and the further development, CAAC has made effects to deepen reform of airline industry. CAAC has reorganized nine aviation enterprises and four service guarantee enterprises into three service guarantee enterprises and three aviation enterprises that include Air China, Southern Airline and Eastern Airline.

Each aviation enterprise is consisted of a group of Regional airlines and one leading airline. And so the result of this is that Air China is now the dominant airline carrier in China.

1.3 Background of Air China.

The Air China was established on July 1, 1988. With the headquarters located in Beijing, Air China has several branch companies such as Southwest, Zhejiang Province, Chongqing, Inner Mongolia, Tianjin, Guizhou Province, Tibet and bases in Shanghai and Southern China. The airline has enjoyed an outstanding reputation and historic performance in the domestic market.

The airline corporation holds majority shares in Shandong Airline and was recently absorbed China Southwest Airline and Zhejiang Airline. As the top-three airline, the new corporation has total 23,000 employees and 5.17 billion tons of handling capacity.

As a result of industry reforms, Air China has had more abilities to capture market opportunities that come with China's accession of WTO and its rapid economic growth. On the other hand, China's attractive market prospect will bring many new competitors.

Therefore, in order to meet those new challenges, it requires Air China to design a proper strategic plan, which includes 7 stages. That will discuss in turn in following paragraphs.

1.4 Elements of Strategic Planning

Strategic planning is a systemic and analytical approach to consider future environmental forces in the industry. The central question in the management of planning concerns what decision should be made and the reasons why makes these decisions.

This study is intended to deal with both two issues by a sequence of five stages that shown in Figure 1. Stage

1.4.1 Mission Statement

A strategic plan should start up with a mission statement that is appropriate at organization level (Wilson and Gilligan 2003). It is a common problem in many business organizations that different departments follow different direction. Even sometime in the same department, different group have diverse purposes.

This is because that the organization does not define the purpose that is fundamental to the business. Jobber indicated (2003) that there are three elements that should be covered in the statement.

Firstly, it should describe the role of contribution, for example, profit, seeking opportunity or improving service. Secondly, it should define preferably what benefits the company provides and what kind of needs you will satisfy with. Thirdly, the statement should draw the big picture for the future development.

1.4.2 The Marketing Audit

The purpose of an external marketing audit is to identify the Environments related to a business, which involves a combination of political, Economic, social and technologic issues. This helps management to select a potential business segmentation and strategy based on known information. This study will develop two parts audit both in external and internal aspects.

The former aspect will look at business and economic environment processed by PEST and Five Forces model analysis. In addition, the research will analyze market and competition situations. In this sector will examine a series of questions such as market size, market characteristics and major competitors.

As for internal audit, it will focus on analyzing company own situations in terms of market shares, marketing mix and marketing procedures for instance. Company's operation and resources will be also considered as an important issue.

1.4.3 SWOT Analysis

A SWOT is a summary of the internal audit analysis. It seeks to identify the most significant factors that could affect organization and its markets. In this stage, internal strengths and weaknesses are related to external opportunities and threats. As a result, organizations will be aware of where its strengths could be deployed, as well as where its weaknesses exit.

1.4.4 Marketing Strategies

The Strategies made in this stage will involve both organization and practical level. In organization level, it indicates the direction of Air China's future development (e.g. to be the flag airline in China's market or expand overseas market?).

In practical level, it concerns more about designing marketing mix strategies. In addition, the plan also assumes the expected results in the near future, which could include percentage of market share, volume of sale or profit.

1.4.5 Implementation and Control

Maciariello (1984) indicated that management control is the process of ensuring that the human, physical, and technological resources are allocated so as to achieve the overall purposes of an organization. The function of this stage is to ensure that company could obtain desired marketing objectives when the plan completes.

In order to fulfil marketing plan, it requires manager to process audits and set detailed working procedures and rules.

In conclusion, a good marketing plan should consist of a series of elements including mission statement, external/internal environment analysis, strategy designs & develop a marketing plan for Air China based on factors listed above. Each part will be discussed in depth in turn in this study.

CHAPTER – 2 : BACKGROUND OF CHINA'S AVIATION INDUSTRY AND AIR CHINA

2.1 The Development of the World Civil Aviation Industry

The World War I (WW1) and the generation of surplus airplanes promoted the start up of today's aviation industry. After the WW1, most of military planes were converted to civilian use, resulting in over twenty small new airlines were composed by Military airplanes.

In 1919, Lignes Aériennes Farman opened the first regular international route between Paris and Brussels. The airplanes they used were ameliorated from old Farman bombers.

By 1920's, European governments began to establish their national airlines. The British government formed Imperial Airways through combining a number of private airlines.

In the period of 1920's, the development of aviation industry was relatively slow in America due to air transportation being seen as dangerous.

By the 1930s, the airline industry had a fast and sustained growth, as most governments (including the American Government) realized the potential prospects for air transportation.

The Development of technology was another reason for the growth in global aviation Industry. The introduction of radios, radar and new aircraft (DC-3 with 21 Seats) enabled airlines to make profits, a vital factor contribute to the Sustained growth. By 1938, 3.5 million passengers travelled by airlines. Over a Million of them were Americans.

After the Second World War, the world aviation industry stepped into the jet age. Aviation technology had a dramatic growth as a result of military advantages.

Plane became larger and more efficient. The first wide body jet 'Boeing 747' was introduced in 1969. It contained 450 passengers, more than 20 times larger than DC-3.

Today the aviation industry plays an important role in many economies; an example being the UK where 154,000 people are employed in this sector contributes £6.1 billion revenue, which was equivalent to 0.7 per cent of its GDP. (monbiot 2005)

Compared with development in the world, airline industry in China grew slowly in the beginning period. After 50 years development, China's airline industry also plays as a significant role in the national economies.

2.2 The fast development of China's aviation industry

In November 1949, China's government established its civil aviation industry separate from the Military Commission Bureau. By the end of next year, there were only 12 airplanes served for 4 domestic routes (Beijing—Tianjin, Beijing—Hankou, Hankou—Chongqing and Hankou—Guangzhou) and three international routes (Beijing—Chita, Beijing—Yekusike and Beijing—Alamutu) (People's Daily.com.cn 2005).

When compared with European countries and America, the start-up of China's aviation industry was slow. This is because of long duration of World War I and China's civil war. However, China's aviation industry experienced a rapid growth in both total tonne-kilometres and revenue passenger-kilometers in the period from 1950 to 1994.

The figures in Figure 2-1 show the performance of China's aviation industry.

Figure 2-1 : Traffic volumes in China's airline industry

<u>Year</u>	<u>Revenue Passenger s (Million)</u>	<u>Cargo / Mail (Tonnes)</u>	<u>Revenue Passenger s- Km (Million)</u>	<u>Cargo / Mail (Tonnes)</u>	<u>Total Tonne – KM (Million)</u>
1950	0.01	767	9.78	0.82	1.57
1955	0.05	4711	56.85	5.14	10.12
1960	0.21	31788	161.88	25.10	46.42
1965	0.27	27163	248.35	25.10	46.42
1970	0.22	36891	179.24	35.20	48.22
1975	1.39	46555	1538.54	60.16	171.81
1978	2.31	63815	2791.91	97.05	298.66
1980	3.43	88866	3955.52	140.60	429.35
1985	7.47	195059	11671.63	415.12	1271.02
1987	13.10	298758	18877.09	652.36	2028.33
1990	16.60	369721	23047.98	818.24	2499.50
1992	28.86	575269	40612.04	1342.40	4284.56
1994	40.39	829434	55158.05	1857.66	5841.22

Source: Insight China's Aviation by Statistic (1985-95)

The number of revenue passenger leap from 10,000 in 1950 to more than 40 million in 1994. The total number of city-pair routes reached 727 pairs in 1994, compared with 7 pairs in 1950 (Shown in Figure 2-2).

Figure 2-2 : The development of City-pair routes in the China's aviation Industry

<u>Year</u>	<u>Domestic</u>	<u>Regional*</u>	<u>International</u>	<u>Total</u>
1950	7	0	3	10
1955	15	0	3	18
1960	12	0	5	17
1965	51	0	6	57
1970	67	0	4	71
1975	128	0	7	135
1980	159	3	18	180
1987	277	7	39	323
1990	385	8	44	437
1992	492	13	58	563
1994	630	13	84	727

Source: Insight China's Aviation by Statistic (1985-95)

In addition, the ranking of China's aviation industry leaped from 37th in 1978 to 5th in 2003 in terms of total Tones / kilometres. Its domestic passenger-kilometres ranked at 4th in 1994, which was just behind the U.S., Russia and Japan (Yang 2005). This dramatic growth could be attributed to three main reasons.:

- a) The increase of disposable income
- b) The increase of leisure time
- c) The reforms of national aviation industry

2.3 The Reform of China's Aviation Industry

The successful reform of domestic aviation industry is one the main reasons why China's airline industry could develop in high pace. There are three stages of reform highlighted by CAAC in 1980s, 1990s and 2000s respectively.

In the former two stages, the CAAC focused on easing government control and intervention in the civil aviation industry. Airlines were still owned by China's government. CAAC controlled all flights, all airports, and the national air traffic service. In the third stage, China's regrouped three big airline groups and three service and supporting enterprises.

2.3.1 The first stage

The first stage was from 1987 to 1994. In the period to 1987, China's aviation sector worked under a mechanism that mixed up with the government and the enterprise functions. This situation led to the slow development of the Sector and huge financial losses.

In 1987, the industry lost 2 billion Yuan (\$250 million) (eobserver.com.cn). In order to stimulate competition, the government established six regional civil aviation bureaus that became six basic units to record profit and loss.

The government gave these bureaus freedom in making market decisions, such as route selecting, purchasing aircraft and setting price.

After first reform, airlines still could not make decision independently, as the government did not release its control. However, the reform brought competition into the market, which forced state-owned airlines to operate more efficiently.

2.3.2 Second stage

The second stage that began in 1994 and lasted 4 years concentrated on encouraging enterprise's independency and separating airport operation from airline operations.

The CAAC relaxed government monopoly. As a result government Functions were separated from enterprises. The role of the CAAC was to Co-ordinate and regulate of the industry.

In addition, the CAAC released market and route entry barriers and encouraged local carriers operated by provincial or municipal governments or large organizations to enter the sector. As a result, by 1997, there were 34 airlines in China's civil air transportation market.

However, all airlines remained small in terms of company size and number of Aircrafts, when compared with giant airlines in the worldwide market. For Example, Eastern Airlines have 168 airplanes, compared with 700 airplanes for United Airways,

In 1994, the total number of airplanes possessed by top three Chinese airlines, which included Air China, Southern Airline and Eastern Airline, were just 228 (CAAC 2004).

2.3.3 Third stage

In order to strengthen industry competitiveness, the CAAC began to launch its third reform from 2000. In this stage, the CAAC still continued to reform the administration System of the industry along with the airport management systems.

In addition, the CAAC recombined assets and optimized resources. The major purpose of this reform was to form three big aviation groups. The three aviation groups were to keep the title and the mark of the parent companies. The three groups, however, cut ties with CAAC and worked as independent enterprises.

The three major group corporations are:

- (i) Air China group: combined with old Air China, China National Aviation Corporation, Zhejiang Airline and China Southwest Airline.
- (ii) China Eastern Airlines Group: combined with old China Eastern Airlines, China Northwest Airlines and China Yunnan Airlines.
- (iii) China Southern Airlines: combined with old China Southern Airlines, China Northern Airlines and Xinjiang Airlines.

2.4 Three Major Players in the Market

It has been shown how did the third aviation industry reform. The CAAC recombined assets and optimized resource collocation to strengthen airlines' competitiveness. As a result, there were three new airlines groups in the China's civil aviation market. Each new airline group is combined of one parent airline and a series of small or regional airlines.

All groups will continue to use parent airlines' logo and title as a same company.

(i) Air China Group

The new Air China has total assets of RMB 51.74 billion and more than 23,000 employees. Its handling capacity reached 5.17 billion tons in 2003.

The groups possess 42 large airplanes that range from B747s to B777s and Airbus 340. At present, it operates in 322 air routes including 56 domestic routes and 266 overseas air routes and builds business office in 29 domestic cities and 48 overseas cities. In 2002, the new group carried 18.174 million passengers and generated business volume of RMB 23.19 billion (air china.com.cn).

Air China is the only the airlines that can carry China's flag on every airplane and it is also the only airline that provides special planes for state leaders. This franchise has contributed to its outstanding record in terms of safety and high quality service performance. Air China holds the longest safety record of the country, which is 47 years (Air China 2005).

The group is working together with many successful partner airlines, for instance, Lufthansa Airlines, United Airlines, and SAS Airlines. The current level of cooperation with those giant airlines is relative low, just code-share. However, the group is applying to joint the top airline alliance team, such as 'Star' alliance (Fei 2005).

(ii) Eastern Airlines Group

Eastern Airlines Group has total assets of 52 billion RMB and 35,000 employees. The group possesses 168 airplanes excluding 22 general airplanes. In 2005, the total handling capacity reached 4.6 billion tons and total passenger capacity reached 22.5 million people. The group operates 450 international and domestic routes.

(iii) Southern Airline Group

Southern Airline possesses 108 aircrafts fleet and 12,800 employees. It operates 320 routes including 260 domestic routes and 39 international routes and 20 Hong Kong routes. The organization has the most extensive domestic route network in the China's aviation market. There are more than 2900 scheduled flights per week, which connect 85 domestic cities.

In 1998, Southern Airline had a high volume of revenue passengers in 14.9 million and the total turnover reached 1.9 billion tonne-km (carnoc.com 2001). In 2004, the Group ranked first of all Chinese airlines in terms of volume of passenger, numbers of scheduled flight, and number of route and size of the fleet (cs-air.com 2005).

2.5 The New Competition and Threat in the Market

Airline organizations based in China are facing high levels of competition from overseas. The market is facing new competition. Air China, a traditional airline providing full-frill services to passengers, has to face the threat of low-cost airlines in the short haul market.

Low-cost airlines provide simple point-to-point air transportation service, using secondary airports to reduce airport expenses and offering flight tickets at low prices.

As a result of the CAAC easing industry control, it is easier for enterprises to enter the Chinese aviation industry. In April 2005, Asia Airlines (Thailand) became the first low-cost

airline operated in China, operating between Bangkok and Xiamen (a city in south China). Furthermore, several additional local low-cost airlines have applied for licenses from CAAC.

In the past, because of the high restriction on ticket price, low-cost airlines could not survive in the Chinese market. However, all traditional airlines including Air China now have to face the low-price challenge. For example, Asia Airline offers RMB 400 from Bangkok to Xiamen, compared with RMB 3000 for traditional airlines. Therefore, how to maintain passenger and load factor is a biggest issue for Air China.

Furthermore, the accession of WTO will bring the severe competition into China's Civil aviation industry. According to the WTO regulations, China has to open its Economic service sector to the world, which covers civil aviation industry. As a result, overseas investment may access to certain areas including air transportation and ticket reservation systems. Foreign companies may invest in domestic airlines with relaxing restriction in terms of shareholding. The maximum shareholding of domestic airlines for overseas holders loosens from 35 per cent to 49 per cent.

Entry into the WTO will enable China's airlines to access broader international Market. However, it also brings a series of threats.

Firstly, the lack of management will affect China's airlines' future development. Compared with big airlines in the world market, China's airlines are still in the developing stage, which means that the management skills in terms of air safety management, service quality and operational management are not perfect. For instance, in 1999, all flights provided by China's airlines between China and American were non-profit or lost money. Once the door is open, management skills will be a vital issue for China's airlines.

Secondly, the small size of Chinese airlines will restrict their growth. Overseas airlines are much larger than China's airlines in terms of number of aircraft and total assets. The large size could enable overseas airline to achieve cost efficiency and obtain more market share. These are the key factors to determine ticket price in airline industry.

From the long term view, if China's airlines may not have cost advantages, their survival will be increasingly difficult.

In addition, the 'open sky' will directly lead to a dramatic increase of flight frequency. China's airlines must have the required number of airplanes to satisfy this aircraft demand. Therefore, China's airlines should enlarge their size of fleets to compete with rivals.

Although Chinese aviation sector is under difficult conditions, the market is still attractive.

2.6 The Passenger Trend and Analysis

The today's market environment has totally changed in the last three decades.

Firstly, Chinese people's incomes have increased sharply since 30 years ago. The national economy has maintained a good growth in recent years, despite pressure from the world economic slowdown. The GNP in 2001 reached RMB 9,593.3 billion, which is 3 per cent higher than the previous year. As a result, the national fiscal revenue reached RMB 1,637.1 billion in the same year (chinataiwan.org 2003).

In 2002, the China's GDP reached RMB 10.2 trillion and resulted in the huge increase of disposable income, which exceeded RMB 7,500 per capital. His is up 10 per cent increase than last year, compared with RMB 2,470 per capital for farmers with 4 per cent rise (china-embassy.org 2003).

Secondly, Chinese people have more leisure time. In to order to stimulate travel volume, China's government introduced 'Golden Week' policy, which enabled people to have two 5-day holidays each year.

Therefore, Chinese people could have 114 days holidays including weekends. A passenger survey (In Figure 2-3) produced by the CAAC showed that the volume of tourists accounted for 26 per cent total volume of air transportation in 2000. This figure was 7.03 per cent larger than that of the previous year. However, the volume of business traveller decreased from 6.47 per cent in 1999.

CHAPTER – 3 : LITERATURE REVIEW

3.1 PEST Analysis

PEST analysis is a marketing approach that examines five relevant macro environmental factors: Political, Economic, Social, Technological and Environmental factors. This model is very powerful in the airline industry, as those factors could deeply impact airline business. For example, the fluctuation of economy could have a substantially impact on the industry. When the GDP increase 3 per cent, the forecast of air traffic growth will reaches 16.1 per cent (Shearman 2003). Technology issues such as invention of new airplane may bring great opportunities for airlines.

3.1.1 Political Factors

(i) Political stability

Political stability is a basic factor contributing to the airline industry's continuing development. Unstable political environment offers serious threats in the airline industry. For example, the events of September 11 2001 caused unparalleled crisis and negative Impact on the industry. According to European Commission report 2002, the Security spent by European airlines and airports rose to 3 Euros in the wake of 11 September attacks (airline business 2005 p22).

(ii) Political Decisions: Deregulation and 'Open Skies'

Historically, governments have controlled airlines in many aspects, from safety standard to intervening price war, from ownership to route entry. A good example of high-regulated domestic market is Australia.

In the prior of 1990s, Australia government tried to establish a 'Two Airline'

Frame work. Only two airlines, Ansett Airlines and Trans-Australia Airlines, were allowed to operate domestic trunk routes (inland marketing 2001).

The government also regulated price level and restricted entrant. Therefore, political policies have played an undeniably powerful role in the development of airline industry. In recent years, regulatory reforms have taken place in many countries. Airline carriers have been given more independence.

The USA airline industry deregulation in 1978 allowed more freedom to airlines in terms of route entry, price decision. The USA deregulation has been introduced into many countries, especially in European countries (aptn.org 2004).

'Open Skies' is extreme case of political intervening. In 1990s, the US government thus signed 'Open Skies' agreement with many countries. The agreement allowed that each side country could allocate airlines to fly to numbers of gateway points without limitation (Buchan 2003). As a result, airlines in each side of countries could access to bigger market and have less regulatory restrictions.

(iii) Other Political Factors

There are numbers of other political factors that can affect airlines business. In addition, Airlines should be aware of additional factors, such as taxes, protectionism, trade barriers, travel restrictions and tourism policy.

3.1.2 Economic Factors

Air transportation industry has a very close relationship with world economy (Shearman 2003). The continuing economic growth generates enormous opportunities for airline industry, as through world economy growth, the demands for air Transportation will increase correspondingly (Shearman 2003). These demands come from wide range of purposes.

Firstly, the fast growth economy will result in high goods-flow. This will directly enlarge the needs for transportation.

In addition, the growth of economic will increase people's incomes and then the needs for business travel purposes will grow (nbta.org 2002). In contrast, when economic stagnation, the air travels market will experience a slow down. For instance, since 2001, the economy has been weaker prompting companies to restrict travel, purchase much lower fares, and develop technological alternatives (nbta.org 2002).

The increase of globalization will affect airline business positively (Alamdari 2005). It is because that the freedom of movement of people and goods will enlarge demands of transportation services. Therefore, in introducing a marketing strategy there is a need to be aware of economic factors. Airlines can enlarge carry capacity and the size of fleet during prosperous periods, and reduce investment during stagnant period.

3.1.3 Social Factors

The trends in social factors can affect airline markets in three aspects (Shaw 2004):

- (i) Aging population
- (ii) Changing of family structure
- (iii) Changing of holiday taste.

(i) Aging Population

An aging population may affect the airline industry seriously. Currently, the average age of the population is increasing steadily. The World Health Organization predicted that the population of over 60 years old people will reach 1 billion by 2025 and this figure will raise to 2 billion by 2050 (UN.org 2004).

A survey showed that older passengers prefer to choose the incumbent airlines that can offer additional airline products, such as medical service and wheel chair O'Comell, Willians 2005). As a result, how to provide helpful services for older people may play increasing important role in the future of airline business.

(ii) Changing Family Structure

In many Western countries, the traditional family structure is changing. There are increasing numbers of divorce and one-parent families. Traditionally, when airlines design holiday package, they consider a family of a man, a woman and two children. Therefore, airline should establish new sub-segment of this group of travellers.

(iii) Changing Holiday Tastes

With the changing of education, growing experience of air travel and economic development, people's taste of holiday is much differ from past. In 1960s when air travel began to become popular, people maybe just wanted to sunbathe by a hotel swimming pool in different cities.

Nowadays, holidays must reflect individual lifestyle. People can choose skiing, golf, history tour and many other things. The changing tread in the holiday market is quite often. Airlines should take this factor into account when make strategies.

3.1.4 Technological Factors

(i) Impacts of Internet

The use of Internet has impacted airline industry so far. IATA announced that 100% e-ticketing by 2007 is one of its four major projects as parts of its simplifying the business initiative (airline business 2005).

The popularity of Internet in airline industry is because it can bring great opportunities for the airline industry. Internet is also a cheap distribution channel. Internet ticketing allows airline to bypass this obstacle and save huge money.

Almost all major airlines use websites to promote products and communicate with customers, such as British Airways that provides online sales, new product promotes and customer service on its web site.

On the other hand, technology advantage also generated a series of threats. Web conferencing and teleconference technology now provides a reasonable and affordable alternative for business meetings (nbta.org 2002). For example, Video-conferencing is an outcome of Internet, which can affect growth rates of business air travel.

3.2 'Five Forces' Analysis and their Applications to the Airline Industry

The 'Five Forces' model offer a very popular external analysis framework Porter (1980) indicated that industry attractiveness was a function of five forces: the threat of entry of new competitors; the threat of substitutes; the bargaining power of suppliers; the Bargaining power of buyers; and the rivalry between existing competitors (p74).

These factors may therefore be considered in relation to the airline sector.

They are issues that Air China may specifically need to consider.

3.2.1 Rivalry between existing competitors

As discussed in previous paragraphs, governments are trying to release their control on airline industry. Deregulation first in USA and then in European Union has resulted in severe competition environment in the industry. Airlines in these two markets have to face head-to-head competition in terms of similar timing, aircraft, frequency and price.

3.2.2 Threat of substitutes

There are a number of substitutes that could affect air transportation, such as surface transport, especially rail. In many countries, such UK, USA, railway companies provide multiple service options to compete with airlines. The service quality of rail transport is increasing steadily.

Secondly, the development of electronic communication methods is an unavoidable challenge to airlines. The increasing use of video-conferencing, teleconferencing and email may divert business travellers.

3.2.3 Threat of New Entry

The first entry barrier in the airline industry is regulatory restrictions. Although airline industry deregulation has been introduced into many countries, there are still a series of regulatory barriers existing in international market, for instance most of countries issue strict restrictions in terms of airline ownership.

The overseas investment normally cannot hold over 50 per cent of domestic airline's vote shares. Resource is another kind of barrier to entry. In the airline industry, airport slot is a difficulty for entrants. When new airlines start up into a new route, probably there is no excess airport slot available for them. In main airports, the best airport slots are controlled by trunk airlines. This provides existing airlines great advantages in terms of good timing, sufficient frequency

3.2.4 Power of Customer

Porter indicated that: "the power of their customers will be a crucial determinant of profitability for the firms in any industry" (p278). If a company has many customers with limited alternative choices and high level of loyalty, the bargaining power of customer will be weak. On the other hand, if a firm only has few customers and its businesses are being lost, customers will have extreme bargaining power.

In current airline industry, certain airlines lost their businesses. This situation has resulted from two reasons.

Firstly, business travellers have tried to use corporate deals to strive for bargaining power. Therefore, airlines had to give substantial price discounts to maintain the level of customer loyalty. The situation trends to be worse, when there is a small number of finance people who work for negotiating corporate deals in the big organizations.

Secondly, in the leisure traveller market, Tour operators have challenged the airline industry. When a tour operator grows bigger and bigger, it may purchase its own aircraft to transfer customer or give its customers to charter airlines Alternatively.

Jobber and Fahy argued (2003) the customers' bargaining power may increase when the switching cost to another supplier is low. In airline industry, the cost for passengers switching to other carriers is zero. This issue may enlarge passengers' bargaining power potentially.

3.2.5 Power of Supplier

Jobber and Fahy (2003) indicated that: “the bargaining power of suppliers will be high when there are many buyers and few dominate suppliers” (p279). Within airline Sector, there are a number of suppliers who have monopoly power, such as the Suppliers of Air Traffic Control (ATC) and Airport Services. Both of these Suppliers offer vital services for airlines. As a result, there is no alternative.

Aircraft suppliers may affect airlines. Nowadays, there are only two aircraft manufactories; Boeing and Airbus who dominate the airplane supply market. The rich Experience of technology and sufficient support of funds enable these two firms to maintain monopoly situation.

The Boeing 747 was introduced in 1970 and dominates the market for up to now. In the future, probably Airbus’s new model A380 will hold the leader position, which was introduced in 2005.

In the ticket reservation market, the Global Distribution Systems (GDSs) has played as an Indispensable and magisterial role since 1980s. The GDS is a system that provides information for travel agents to make reservations for different airlines, hotels, car rental companies and tour operators.

There are only four suppliers, SABRE, World span, European-originating Galileo and Amadeus, in the market because GDS business requires extreme capital cost to star-up.

3.3 Market Segmentation in Air Passenger Market

3.3.1 What is Market Segmentation?

Jobber and Fahy (2003) defined that “market segmentation is the identification of individuals or organizations with similar characteristics that have significant implications for the determination of marketing strategy” (P104).

Market segmentation allows a firm to divide whole market into a numbers of smaller submarkets that have similar features. It can help a company to enhance their profits, as many consumers like to pay a premium for additional service. Companies may analyze the characteristics of potential customer segment and design suitable services to maximize profits.

Whit in the airline industry, marketing segmentation has played an important role that will be explored further in the following section

3.3.2 Segmentation in the Air Passenger Market

In all industries, correctly identifying and targeting 'customers' is the cornerstone of a successful business. Every industry has its own special features. Therefore, when a marketer processes customer segmentation, he/she must appropriately consider this industry's characteristics.

Traditionally, airline marketers segment the air passenger market in three ways:

- (i) The purpose of the passenger's journey
- (ii) The length of the journey.
- (iii) Passenger's original country and culture (Shaw 2004).

(i) Journey Purpose

The journey purpose is the most important segmentation approach in the air passenger market. It divides customers into business and leisure traveller groups (Shaw 2004). By using such division, there are still certain customers who are in neither business nor leisure groups. Fox example, many airlines have an important market that consists of pilgrims who travel to Islam's holiest places in Saudi Arabia. It is hard to say that they are business travellers or leisure travellers.

Despite the fact that business-and-leisure approach cannot cover all purposes of trips, it is still the most valuable measure in airline marketing as high proportion of trips could be included in these two segments (Shaw 2004).

Business Traveller Segment

The business travellers play a significant role in the airline business. In 2002, business travellers represented 14.8 per cent of all air travellers, but they contributed 28.1 per cent of airlines' total revenues (IATA 2003). The reasons why business segment can contribute high proportion of airlines' revenues are that many business travellers require frequent flights for such proposes as consulting or sales (Long, Clark, Schiffman and McMellon 2003), and fare levels of business classes are much higher than economy class. For example, a business traveller will pay (on average) 3.5 times the amount of an economy class ticket (Mason 2005).

One of the most vital characteristics of business travellers is that they do not have the ability to pre-plan trips (Mason 2005). Therefore, business travellers will require very high frequent flights between key destinations to ensure they are able to attend commercial meetings and conferences in time. In order to satisfy this requirement, airlines had to introduce various price policies for business travellers. For example, British Airways provides 11 flight services on the route from Heathrow to Paris (British Airways 2005).

Another important characteristic of business travellers is the requirement of punctuality (Upton 2005), as the flight delay may mean missed appointments and the potential loss of customers. Therefore, in order to attract business travellers, airlines are required to pay attention to their on-time performance.

Lastly, most of passengers in the business travel market are affluent individuals. These people tend to have a higher than average income and enjoy a comfortable lifestyle. They expect that the airline they fly with could reflect their lifestyle (Shaw 2004).

This phenomenon may impact airlines on their product design. A special and unique service may therefore be seen to attract more business travellers. This includes the airport lounge, food and seats. For example, a frequent flyer programme may make business travellers feel special and its psychological and emotional rewards play an important role in customer satisfaction (Long, Clark, Schiffman and McMellon 2003).

In practice, airline marketers also divide business travel market into several sub-segments:

- a) Corporate and independent groups.
- b) Demographic segments of business travellers.

In business travellers sector, airline marketers could also separate travellers into corporate and independent business travellers (nhta.org 2002). The former travellers are people who work for a company. Their companies pay the expenses of air ticket. Therefore, passengers in this segment will be less price-sensitive.

On the other hand, independent travellers are self-employed people or those who work for small companies. They are usually to pay more prices sensitive than corporate business travellers. A survey of short-haul business travellers found 40 per cent of the market was price elastic (Mason 1995).

Therefore, in order to target at these different business travellers, airlines may use various price strategies. Take British Airways' London-to-Paris route as example again; it introduces lowest-business and flexible-business prices on this route, £130 and £360 respectively

With regard to the demographics of the business travel market, business travellers tend to be seen as male and middle-aged. The U.S. Travel Statistic showed that 60 per cent of business travellers are male and the average age is 42 years old (sfsu.edu 2003). The implication for airlines is that they need to consider male business travellers' preferences and tastes when designing services, such meals, and in-flight entertainment and advertising.

Leisure Travel Segment Unlike the business travel segment, the leisure market consists of equal proportion of male and female travellers. In terms of age profiles, leisure travellers involve all ages (Shaw 2004). This feature has significant implication for airlines' marketing promotion management, especially for advertising.

When airlines design the styles of advertisings, they may consider their target audience as an integrated group, not emphasizing any particular group, such as male travellers or young travellers. In this market, the dominant criteria for passengers to choose carrier is the fare (nbta.org 35 2002).

Firstly, it is because leisure travellers spend their own money to purchase tickets, not their companies'.

Secondly, most of leisure travellers prefer to spend their money at the destinations, such as hotel and foods, as people only stay on the aircraft for a few hours, but probably they will spend weeks of time at destination (Shaw 2004).

Therefore, the price level is the most effective measure to compete in the leisure air travel market, as passengers in the leisure segment are more prices elastic. In this segment, there are also two important sub-segments – holiday travellers and Visiting-Friends and Relatives (VFR) travellers (Shaw 2004). For example, a survey showed that holiday and VFR travellers consist of a high proportion of total passengers in the leisure market for both differentiation and low cost airlines (Figure 3-2).

Figure 3-2 Proportion of journey purpose in the leisure air travel market

	Aer Lings Airlines (Differentiation airlines)	Ryan air (Low cost airlines)
Journey purpose	%	%
Holiday	24.2	24.8

VFR	250.5	27.7
Sports	10.3	13.1
Studying	6.6	5.5

Source: O'Connell, Williams: Passengers' perceptions of low cost airlines and full service carriers (2005)

The first difference between two groups is that holiday travellers are people who travel for holiday and they have to pay meals and accommodations, but VFR travellers will have free accommodations and meals. From the airlines' point of view, holiday travellers may offer airlines additional opportunities in terms of providing supplementary services, such as car rent and hotel bookings. Many differentiation airlines have introduced these kinds of services when passengers purchase tickets on their web sites (i.e. British Airways, United Airlines and Scandinavian Airlines).

The convenient services may also add value for these airlines. Holiday group consist of large number of family travellers. In this sector, children will play an important role to influence parents' purchase decision. For such families that have infants, parents may choose an airline that could provide baby-care facility. For families that have young children, parents may purchase from an airline that have better in-flight entertainment system, such as video games.

(ii) Length of Journey

Based on the length of the trip, airlines separate customer into two segments: long haul and short-haul travellers. There are distinct differences between two groups. On short-haul journey, airport experience, such as airport environment, clear signs, and easy to access, has more significant impacts on passengers (Shaw 2004). It is because those short-haul passengers spend longer in airport than their flying time.

On the other hand, on long-haul journeys in-flight experience, such as seating comfort and food plays the most important role to satisfy passengers, long-haul travellers have to stay in the flight for a significant number of hours (Aeece 2005). Most airlines, such British Airways, Air China and United Airlines, provide in-flight entertainment in their long-haul routes.

(iii) Country / Culture of the Traveller

Air travel can also be segmented by customer's cultural background and origin. This issue has become more significant in the airline industry as a result of the concept of 'seamless service' (Lagarhus2001).

Seamless service is when passengers will receive comparable and one-stop service whatever where he/she come from and wherever he/she flies to. In order to provide this element of seamless service, it is required that many airline groups joint together by global alliances.

Therefore, these alliance groups are made up of wide range of airlines that come from different regions, such as The Star Alliance composed by Air Canada, Span air, United Airlines, U.S Airways and other thirteen airlines, and The One world Alliance composed by eight airlines.

Market segmentation may aid managers to target potential customer more effectively when considering marketing strategies. Once target segments have been set, a firm must focuses on how its objectives can be achieved. This would require company to establish competitive advantages.

3.4 Competitive Positioning Strategy in Airline

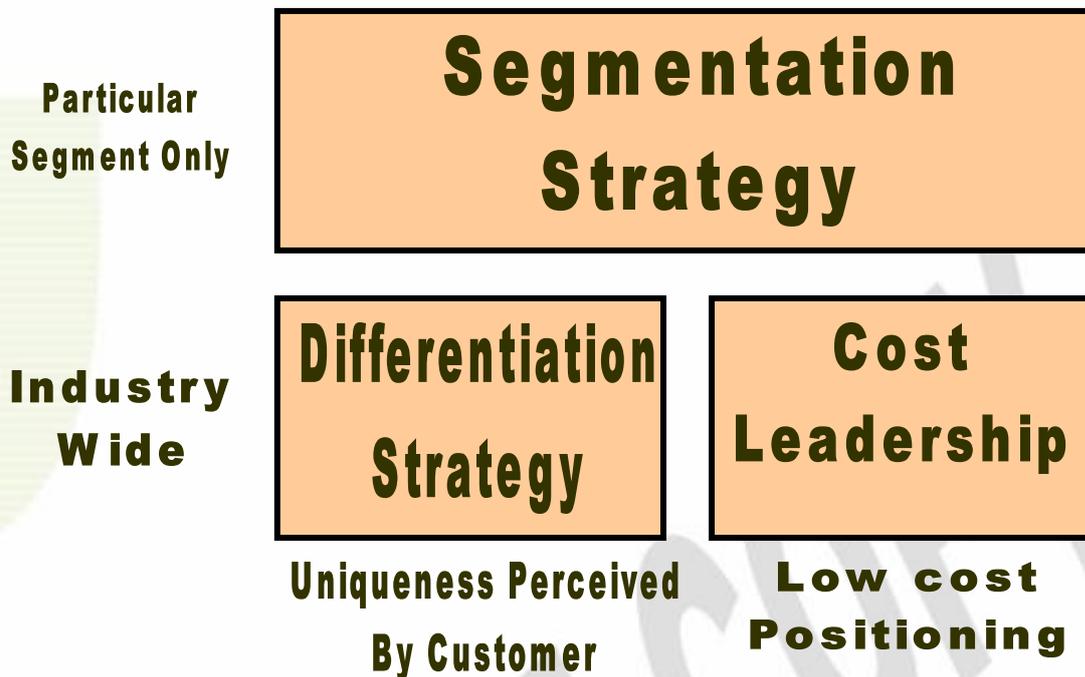
Industry In today's high competitive marketing environment, the positioning concept is one of the most important elements of marketing management (Arnott1992).

It affects the company's long-term survival and financial success (McAlexander, Vecker andKaldenberg, 1993).

After the September 11 terrorist attack, the positioning approach played more significant role in the airline Industry, as a well-positioned airline may likely to survive in the tough Situation. (Gursoy, Chen, Kim 2005).

Figure 3-3 shows Porter's 'Competitive Strategy' theory. Porter argued that: "some firms achieve success from Cost Leadership position, or a strategy based on Differentiation alternatively" (p213).

Figure 3-3 Porter's Strategy Advantage



Source: M. Porter (1980): *Competitive Strategy*

Jobber and Fahy argued (2003) "the cost leadership approach involves the achievement of the lowest cost position in an industry. Many segments in an industry are served and great important is placed on minimizing cost an all fronts" (p284). Therefore, a Cost-leader firm must achieve lower operating costs than its rivals. In addition, the product quality offered by cost-leader Company should maintain at acceptable level.

This will require that the cost-leader company must correctly identify who are their target customers and what are they expect to.

Product differentiation seeks to increase the value of the product or service on offer to the customer (G. Hooley, J. Saunders and N. Piercy 2004). It allows a firm to differentiate its products within a small number of customers. Therefore, company could achieve advantage by offering differentiated products when if compete with rivals who target on massive base of customers. In order to differ from broad-targeting companies, a differentiated firm must clearly understand the needs and requirements of their target customers.

3.4.1 Differentiation Strategy in Airline industry

In today's airline industry, there are a large number of airlines that compete by differentiation strategies, i.e. British Airways, United Airlines and Canada Airlines. These airlines provide 'value-for-money' products for a wide range of customers (staralliance.com 2002). This kind of business model requires carriers to be well represented in each of major market segments including business travels and Leisure travels (Shaw 2004).

The business market may give differentiation airlines high profits, as the high fare levels for business classes. The leisure markets support airlines' high load factor. The strategy for these airlines is to pursue innovative and high quality services to create competitive advantages.

Most of them are long established. For example, British Airways offers a Combination of first, business and economic class services. Its target customers consist of both business and leisure travellers.

In the dimension of differentiation airlines, the products offered by each airline are homogeneous (Lee, Luengo-Prado 2004). They all concentrate on long haul and short-haul route with same range of cabin classes.

However, in order to be successful in the differentiation sector, it is vital and necessary for airlines to be innovative (Shaw 2004). For example, Emirates and Singapore Airlines are an extreme case in terms of 'First Move Advantage'. Both successful airlines purchase Airbus A380 aircraft and make efforts in providing new services, such as cabin comfort, in-flight services and in-flight entertainment.

Shaw (2004) also argued that from a differentiation airline's point of view, the importance of quality and brand building has remained today. A survey that can support Shaw's idea showed that quality is most crucial criteria when passengers choose differentiation airlines (shown in figure 3-4 O'Comell and Williams 2005).

Therefore, if an airline uses differentiation strategy to compete with other airlines, it must pay attention to its quality improvements, continually offering innovative services to maintain the point of differentiation.

In recent years, Cost-leadership carriers that take away large proportion of point-to-point traffic Volume have challenged the business model of the differentiation airline. The success of those cost-leadership airlines has led to more severe competition in airline industry.

3.4.2 Cost-leadership in Airline Industry

Southwest Airlines introduced the concept of cost-leadership strategies in airline industry in 1973. After a slow growth, it has become popular in 1990s. Almost all cost leader airlines operate on short-haul routes, because the costs for operating long-haul routes are far greater, i.e. large aircraft, establishing network and ticket distribution through GDS.

The fundamental of the low cost carrier's business model is simplicity that helps to get costs down to 40-50 per cent of airline costs (Doganis 2001). There are two key factors that enable the low cost airlines to differentiate from differentiation airlines: point-to-point services and single class flights with few frills and some frills charged for separately (Morrell 2005). In addition, the Airline Annual report also shows that the low cost airlines achieve cost advantages by enhancing other areas such as staff costs, fuel, and maintenance (Figure 3-5)

Figure 3-5 Unit cost comparison: Low cost airlines vs. Differentiation airlines

US cents (2002)	Southwest (Low cost Airlines)	US Airways (Differentiation Airlines)
Staff costs	2.73	5.06
Fuel	0.69	0.86
Maintenance	0.35	0.45
Sales commission	86.71	271.45
Landing	0.31	0.47
Aircraft rent	0.49	0.90
Other	0.92	2.37
Total operating costs	4.61	8.79

Source: Airline annual reports (<http://www.aci-na.org/2005>)

As a result of low operation costs, low cost airlines may offer extremely competitive ticket prices. For example, a ticket from London to Paris may cost £39 if a passenger buys it from Easy Jet Airlines (<http://www.easyjet.co.uk/2005>), compared with £159 for British Airways (<http://www.british-airways.com/2005>).

Therefore, the price advantage of low cost airlines may help them to attract leisure travellers and people who seek for low price tickets. For example, the Ryan air and Air Asia, which are both low cost carriers, have respectively 10 per cent and 22 per cent higher proportions of leisure travellers than their differentiation counterparts (O'Commell and Williams 2005).

The growth of low-cost carriers has offered leisure travellers the opportunities to travel at more times. A research launched by Credit Suisse First Boston showed that the low cost carrier market has represented 20 per cent of all European airline passengers and this market will continue to expand (Clark 2004).

The low cost airlines have also impacted on business travel market recently. For example, in order to serve business travel market, Easy Jet has increased the flight frequency on business oriented routes, such as London-to-Berlin (Clark 2002).

One of the reasons why business travellers have begun to switch away from business class products is the increasing gap between business class fares and low fares (Mason 2005). With the appearance of low cost airlines, the industry has been seen to face the fact that a large proportion of business passengers have chosen price over service. Mason (2004) showed that 14.3 per cent of business travellers flew with low cost airline in the USA. This clearly demonstrates the previous point.

3.4.3 Cost Focusing Strategies in Airline Industry

Cost focusing strategy means that a carrier maintains its competitive advantages by focusing on cost reduction. Unlike cost leader airlines; this business model does not require the lowest operating costs. A cost-focusing airline will obtain competitive advantages just by reducing cost in certain areas.

'Charter airlines' are a good example of this concept. All charter airlines rent aircraft from lease companies. They do not retail seats directly to the public. Instead, they will sell seats to tour operators. Those tour operators then add the accommodation to make up package holiday offers. As a result, charter airlines could save distribution fees.

In addition, charter airline could have better aircraft utilization. During the summer peak, aircrafts often fly throughout the nights and the days, because many package holiday passengers could accept night flights. On the other hand, during the winter low season, charter airlines can sub-rent aircrafts to other carriers.

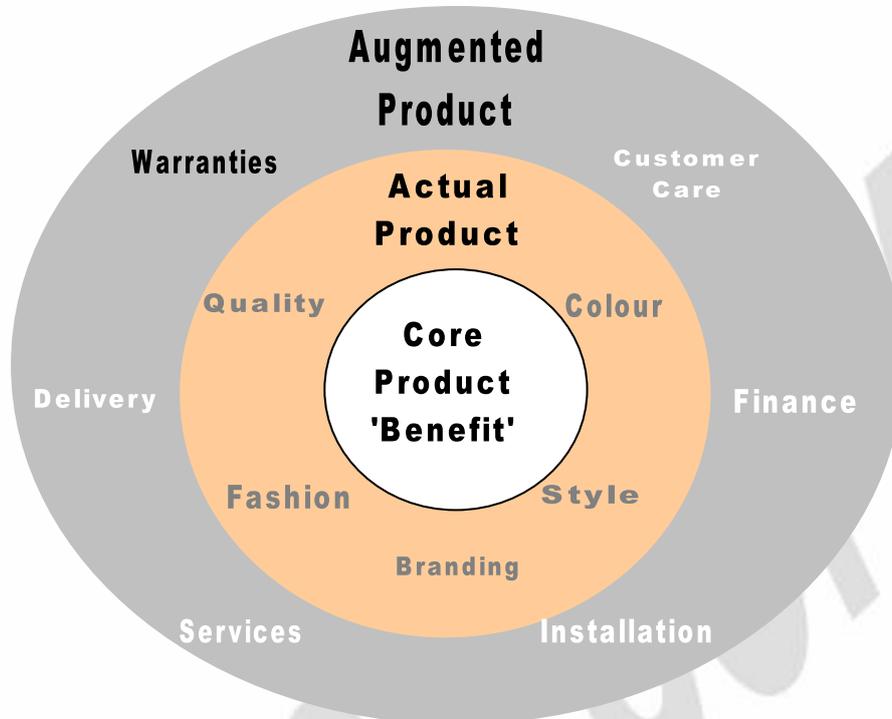
3.5 Marketing 4Ps analysis in Airline Market

3.5.1 What is the Airline Product?

'A product is a good or service offered or performed by an organization or individual, which is capable of satisfying customer needs' (Jobber, Fahy 2003). Jobber and Fahy (2003) also

indicated that there are three different levels of product, which include core product, actual product and augmented product (Shown in Figure 3-6).

Figure 3-6 The Three levels of Product



Source: D. Jobber, J. Fahy (2003): Foundations of Marketing P130

The core product in airline business is air transport service that is an intangible service and cannot be stored. The core products, transferring people from point A to point B, offered by two airlines are not too much different. Therefore, in airline industry, actual and augmented products contribute more values. For example, figure 3-3 shows that quality is the most significant criteria when passengers choose airlines.

Bowen and Headley (1991) summarized there were four key factors that are important to consumers when judging the quality of airline service, which include on-time arrivals, denied boarding, mishandling baggage and customer complaints. Punctuality is important to all purposes of travellers, as flight delays will cause extreme inconvenience for customers. This point is more crucial in business travel market (Upton 2005).

3.5.2 Price Management in Airline Industry

Price is the agreed value placed on the exchange by a buyer and seller (Jobber, Fahy 2003 p164). It differs from other three elements of marketing mix. The other three elements are

how company spends money out, but price is how company can earn money back and make profits.

In the international market, most Air Services Agreements (ASA) requires that the level of fares must submit to each government's regulations at each end of the route when airlines set fares. Today's pricing in the airline industry is characterized by Discounting. All airlines try to find ways to attract passengers by a mix of fare discounts (Rose, Hensher and Greene 2005).

Airlines do not follow government-approved price and use various methods to make discounting. For example, in order to attract passengers, airlines launch price-off, frequent flyer programme. This is caused by different efficiency levels of cost, severe competition and different levels of management skills.

Within airlines, the price management trends have become more complex as a result of industry deregulation and the development of Global Distribution Systems (GDS).

Firstly, many domestic markets have been completely deregulated in terms of freedom of Pricing. In the current international market, (e.g. Single Aviation Market in European Union), deregulation of pricing has taken place. In these markets, airlines have freedom to use their own price strategies.

Secondly, the development of GDS has enabled travel agents to efficiently access to main airline fare databases allowing fare information to be spread to all corners worldwide. In addition, airlines now can issue price information through their web sites. Airline's price managers have to challenge with millions of fares in the industry's main fares databases.

Basic Methods of Setting Prices in Airline Industry

Shapiro and Jackson (1998) identified three methods to set prices: Cost-based pricing, Marketing-orientated pricing and Competitor-orientated pricing. The former two methods can also be applied to the airline business.

(i) Cost-Based Pricing

A series of 'no-frill' airlines, such as Easy Jet, Ryan air, are typical cost-based airlines. Those airlines apply themselves to reduce operation costs. As a result, their operation costs are much lower than traditional airlines. This cost advantage enables 'no-frill' airlines to operate at low fares attracting leisure passengers in the main.

(ii) Market-Based Pricing

It is a marketing approach that price setting is based on a product's value to customer. In airline industry, the level of fares is normally not based on competitor's price. Airlines analyze what are the customers' true needs and then decide fares. This will be discussed in following section.

Price Determinants

The following three factors may influence airline pricing levels:

- (i) Market demand.
- (ii) Degree of competition
- (iii) Quality of service (Shearman 2003)

(i) Market Demand

The size of market will affect ticket price. High volumes of traffic on one route will lead to more fare types and lower fares. The fare will differ by different seasons, by day of week or by time of day. This is because in different time the demand of air travel will fluctuate. In leisure market, low season will decrease traffic volume and result in fare discounting. In business market, the demand of air travel will relatively low during weekends.

(ii) Degree of Competition

The more carriers served on one route, the lower fare level will appear. If the supply exceeds demand in a route, airlines have to use price as a tool to attract passenger from rivals.

(iii) Quality of Services

The different quality of services will determine an airline's cost structure. For example, firstly class passengers could have comfortable seat and Exciting foods. This will result in higher costs and hence higher fares.

3.5.3 Distribution of Product in Airline Industry

Distribution channels link the customer and the product. In the airline industry, airlines use various types of channels including Direct Channel and Travel Agent Channel. Different channel can help airline to reach different target customers.

Direct Channel Distribution

In airline industry, the direct distribution channel is composed of by three elements: telephone sales, web site sales and sales shop. This kind of distribution model can bring a series of advantages for airlines.

Firstly, direct distribution allows airlines to control marketing activities efficiently.

For instance, discount ticket is one of the most important marketing promotion tools in airline industry. These discount tickets are always issued with strict restrictions that sometimes will be changed frequently. Therefore, direct sales enable airlines to control ticket policies efficiently.

Secondly, airlines can save on the commission fees paid to channel intermediaries, such as travel agency and tour operators. This advantage help airlines to achieve huge cost saving. Figure 3-7 shows the percentage of commission fees of British Airways from 1986 to 1996. It is clear that commission cost is becoming an increasing burden to airlines.

Figure 3-7 British Airways: Commission Fees from 1986 to 1996

	Total Operating cost £ million	Commission fees £ million	%
1986	2,644	223	8.43
1987	2,947	269	9.12
1988	3,559	332	9.32
1989	4,029	391	9.70
1990	4,373	467	10.67
1991	4,444	506	11.38
1992	4,772	563	11.79
1993	5,289	650	12.28
1994	5,580	768	13.76
1995	5,878	821	13.97
1996	6,612	916	13.85

Source: Stephen Shaw (2004): Airline Marketing and Management

The Travel Agency Distribution Channel

In airline industry, travel agency distribution channel has played the most important role for years in terms of ticket sales. It has brought significant benefits for airlines. Without travel agent, it is impossible for an airline to establish its own sales shops in every high street and shopping mall around the world. A travel agent not only provides ticket-issuing service, but

also offers additional service in terms of hotel, car rental and theatre booking. These services will make air travel more convenient and simple for passengers.

A second advantage of agency relationship is that agents could share a part of costly administrative works related to air travel. For example, an agent can issue tickets, help passengers to make visa applications and deal with flight information enquiries.

Despite agency relationship has obvious advantages; it has brought serious trouble for airlines industry. Figure 3-6 presents commission fees of British Airways paid to travel Agents. In 1996, its amount of commission cost reached 13.85 per cent of total operation costs. This kind of problem almost exists in all traditional airlines.

The travel agency distribution system brought airline both of important advantages and disadvantages. Therefore, the key issue for airlines is how the system could be developed. At the one time, the advantages are retained, whilst the problems are alleviated.

In recent, a revolutionary reform between airline and travel agency has commenced.

Firstly, some of airlines are trying to reduce commission fees. In 2002, Delta Airlines began to cut travel agency commission fees in USA domestic ticket sales. The maximum payments of commission were limited in \$50 per ticket.

Secondly, the importance of travel agent has been challenged by the development of Internet distribution channels. Nowadays, the number of people who use Internet is increasing (Doganis 2001).

Passengers who fly with low cost airlines seem to more like using Internet when they process ticket booking. For example, a survey showed that there were 77.9 per cent of total Ryan air's passenger brought ticket on website, compared with 58.1 per cent For Aer Lingus Airlines which is a differentiation airline in the European market (O'Connell and Williams 2005).

This is probably because Internet is more convenient and cheaper. From the airline's point of view, Internet is an effective way to reduce cost as discussed in previous paragraphs.

In addition, the success of low-cost airline brought new concept of on-line distribution. Most of low-cost airline choose complete on-line sales method to reduce cost, such as Easy Jet Airlines.

Promotion Mix in Airline Industry

Lamb, Hair and McDaniel (2004) indicated that 'most promotional strategies use several Ingredients, which may include advertising, public relations, sales promotion and personal selling, to reach a target market. That combination is called the promotional mix' Each of techniques will have different advantages and Disadvantages. The task for an airline is to consider the ways that each tool could be used the most effectively and appropriately.

(i) Sponsorship in Airline

Industry Mercer (1996) indicated that sponsorship could be very productive for those organizations that have limited access to the media, or have more complex Objectives (such as arranging events in order to meet customers)

In Airline industry, it is valuable for the start up of a new airline, or an operator that opens a new route. Sponsorship also can help an airline in building and reinforcing firm's brand values and in creating widely awareness (Shaw 2004). Sometime, it could dramatic increase new business when an airline is nominated as the 'Official Carrier' for an event, such Olympic games.

There are two issues that airlines should be careful when they deal with sponsorship.

Firstly, the cornerstone of an airline's brand is safety. Therefore, all events or organizations that it sponsors must follow this rule. A bad example of this principle is Air Canada and Qantas that sponsor Formula One motor racing that could directly relate to accident and danger.

Secondly, airline should be care of its promotion budget. Free-of-ticket is the most common model associated with airline's sponsorship. The potential problem is that when an airline signs a sponsorship agreement and gives free tickets. The numbers of seats available for revenue customers will be reduced. This will be directly result a loss in revenue. Therefore, such free-ticket must be considered as a form of currency when airlines deal with sponsorship promotion.

(ii) Frequent Flyer Programmers (FFPs) —A Special Sales Promotion Tool

The FFPs have a long history in airline industry, which was first introduced by American Airlines in 1981. FFP allows passengers to add up their mileage points and finally they could exchange those mileage points into free travel or other rewards.

In 1991, the success of American Airlines, United Airlines and Delta Airlines in North Atlantic market is because of its competitive and powerful FFP. Soon, a series of European airlines, such as British Airways and Lufthansa, launched their own programmers.

Today, almost all airlines have their own FFPs and it has become the heart of marketing in the airline industry. In order to stimulate customers, airlines sign agreements with Numbers of partnership airlines.

Therefore, when passengers achieve free-trip-reward, they could spend free tickets on the routes that first carrier does not serve. In some programmers, mileage points can be obtained when passengers purchase in partner shops, such clothes, petrol and groceries.

The implication for airlines is that FFP has significant influence on business Travellers. Air travel is the most preferred method of travel for business travellers, with nearly three-quarters of business people traveling by air (Euro monitor International, 2002).

Therefore, a well-designed FFP may attract more business travellers, as It allow business travellers achieves benefits from these programmers not only Free tickets, but other awards they prefer, such as free seat upgrades, priority Seating n (Lon, Clark, Schiffman and Mc Mellon 2003).

In addition, the market environment is another important factor that marketers should consider before making marketing strategies. In order to understand both of macro and microenvironments related to airline industry and to introduce PESTE Analysis and Five Forces model in following paragraphs.

CHAPTER - 4 : METHODOLOGY

4.1 Identify Research objectives

The basic research philosophic is positivistic and phenomenological. Positivistic philosophies are based on natural sciences and social reality, which is less subjective.

This process is always connected with direct measurement by statistical and Mathematical techniques.

Therefore quantitative philosophy is an alternative term for positivistic philosophies (Collis and Hussey 2003)

This study focuses on strategic marketing planning topic and relates it to Air China's marketing management practice. Based on analysis in literature review section, it is clear that as one of the biggest Asia airlines, the fundamental strategy for Air China is to improve service innovations and developing 'value-for-money' concept.

Therefore, the basic questions for this research are where and how Air China can achieve these two areas better. In order to answer these questions, this research is divided into three categories:

- (i) Where and how Air China can improve its 4Ps?
- (ii) Where and how Air China can improve innovation services, especially in Business Class service sector?
- (iii) Identify threats and opportunities in the near future?

4.2 Research Strategy

In this study will use multi-methods including focus group interviews, secondary analysis and questionnaires. Saunders, Lewis and Thornhill (2003) argued that: "the research approaches and strategies do not exist in isolation and therefore can be mixed and matched"

It is important for a researcher to use a combination of research methods, as each research method has its unique advantages and disadvantages. Using multi-methods enables triangulation to take place. (Saunders, Lewis and Thorn hill 2003 p99). For example, group focus interviews may be a valuable source for supplement data collected by other methods

such as questionnaire. The approach of multi-methods may give researcher an in-depth insight of the questions.

4.2.1 Group Focus Interviews

Parasupaman, Grewal and Krishnan (2004) argued that: *“focus group interview is a research technique by which an objective discussion leader or moderator introduces a topic to a group of respondents and directs their discussion of that topic in a non-structured and natural fashion (p66).*

By introducing this strategy, We expects to gain insights into the airlines’ marketing system, what are the acceptable and desired services models that Air China’s customers expect. In order to obtain relevant information, it is required interviewees can have an informal style talking with interviewers. The flexible model of focus group interview allows additional information to emerge during the interviews. This may be seen as a source of additional information.

Considering time efficiency, we will also use telephone interviews to discuss issue with Air China's management departments. It is expected this effective method can allow to collect additional information that cannot be obtain from secondary data and other primary data, as it will involve Air China employees

4.2.2 Secondary Data

“Secondary date is data that is used to a research project that were originally collected for some other purpose. It can provide a useful source from which to answer or to begin to answer your research question and include both raw date and published summaries”

(Saunders, Lewis and Thornhill 2003). It is a fast and valuable way to explore research, especially when some of the designed data is not available for researchers in their primary data collection. For example, many Chinese firms do not release financial data. In this situation, individual researchers have to collect those data from third parties. The use of secondary data can supplement group focus interviews.

Advantages of Using Secondary Data :

Saunders, Lewis and Thornhill (2003) argued that there are three main advantages and two disadvantages in terms of using secondary data.

Many have fewer resource requirements: the use of secondary may save time and money (Ghauri and Gronhaugh 2002). For example,

- (i) It would require a mass of time to collecting data through a questionnaire. If researchers use an agency to process the survey, the expenses will be consideration. In contrast to this many forms of available secondary data is free via government publications and the Internet.
- (ii) Unobtrusive: using secondary data will enable research to access results quickly. Again the processing of a questionnaire will take researchers a long Period, compared with using secondary data, researchers can use it immediately.
- (iii) Can provide comparative and contextual data: Using secondary data enables researchers to compare their own findings with secondary data. As a result, the final result will be more accurate.

Disadvantages of Using Secondary Data

- (i) May be collected for a purpose that does not match your need: secondary data will have been collected for a specific purpose that differs from your research question(s) or objectives (Denscomebe 1998). In many cases, the secondary data just can answer your objective partially. Furthermore, the data may not have been updated.
- (ii) Access may be difficult or costly: Data, such as market research reports, are only released when researchers complete payments. This will potentially increase research expenses. Alternatively, if researchers find that it is too expensive or hard to access, they should consider use other resources or process their own researches.

4.2.3 Questionnaires

The questionnaire is another significant method of collecting primary data. Chisnall (2001) stated, "a questionnaire is an important element of the total research design, and its preparation and administration demand considerable professional expertise".

There are several types of questionnaire. The principal advantage of questioning is that it can collect a great deal of data about an individual respondent at one time. (Aaker, umar and Day 1995) When a large amount of information is required and the questions are complex, the questionnaire may be administrated personally (Aaker, Kumar and Day 1995).

The design of a questionnaire differs according to how it is administered, and in particular the amount of contact you have with the respondents. (Sanunders, Lewis and Thorn hill 2003)

Aaker, Kumar and Day (1995) stated that the choice of the surveys is numerous. A survey cannot be developed or properly interpreted without knowledge of the errors that may intrude into the data during its collection, e.g. bias.

The questionnaire method is also disadvantaged due to the time lag as the researcher has to wait for the result, which will cost more time and expense. (Parasuraman, Grewal and Krishnan 2004)

The objective of the questionnaire in this study is to explore how consumers perceive the service of "Air China" in their mind and what kind of service they would prefer. Palmer (2000) stated, "Quantitative research is used to measure consumers' attitudes and behavior where the nature of the research has been defined and described".

The questionnaire will be used because the research intends to know how consumers perceive Air China. The process of the research will connect measurement by statistical and mathematical techniques and is also there for quantitative. (Collis and Hussey 2003)

Bourque & Fielder (2003) argues that there are three types of data that will be collected through questionnaire: personal information, experiences or status and thoughts or feelings (p287). In this study, to collect information based on experience, personal information and personal feelings in terms of Air China's products and services.

A 250-questionnaire sample completed by using multiple methods including Internet and face-to-face interview questionnaires. The target email-based interviewees were Chinese community in China Market (Dragon Mart). Responses from e-mail may be seen as less credible, as interviewees may complete the questionnaire unconcernedly, or may seek additional information before completing their answers.

Compared with Internet outlet, face-to-face questionnaire completion is more credible, as interviewees have to answer the questions by themselves and at the time of asking. The researcher is able to procure in depth information, (Denscombe M. 1998). In addition, it is easier to avoid confusion, as the whole process of the questionnaire administration is taken place interactively.

4.3 Focus group

With regard to focus group interviews - to act as a facilitator during the interview process. The topics will concentrate on what kind of service interviewees expect to find on Air China.

In the use of focus groups, there is likely to be associated with a higher level of interviewer-led structure and intervention when group interviews are being used for a specific purpose (Saunders, Lewis and Thorn hill 2003).

As a result, potential research bias may occur. In order to achieve reliability and validity, it will require interviewer to control quality of the focus group.

Firstly, the question should concentrate on airline marketing planning issues that are discussed in previous chapter, such as what kind of service may attract passengers to choose.

Secondly, the third party to record interview information & will divide interviewees into two groups. One group consists of Low-income class who are considered as leisure travellers (Economy Class)

Therefore, they are more similar like passengers in leisure travel segment. Another group will consist of Businessman. In addition most businessman work at management level in their organizations. Therefore, they will be considered as business travellers.

The telephone interview will invite Air China's department managers who relate to marketing management. Considering interview efficiency, before processing interview, a brief of questions will be fax to interviewees. This may allow interviewees to understand topics and make preparation.

4.4 Types and Collection of Secondary Data

Secondary data include both quantitative and qualitative data, and they can be used in both descriptive and explanatory research (Saunders, Lewis and Thorn hill 2003). Saunders, Lewis and Thorn hill (2003) also suggested three main forms of secondary data:

- (i) Documentary data: written materials and non-written materials
- (ii) Survey-based data: censuses, continuous and regular surveys and Ad hoc surveys
- (iii) Multiple sources: area based and time series based.

In this study, the mainly use documentary data and multiple sources. With regards to the former, as we expects to use it to answer following questions:

- 1) What is the market environment related to Air China's future development?
- 2) The performance of Air China in terms of flight operation and services.

The Internet is the most valuable and efficient measure to collect secondary data. By using Internet, a researcher can easily and efficiently process research and access to Information. In addition, most information on the Internet is free to download. Researchers can obtain free articles and relevant data through scan web sites.

However, the Internet is not a reliable resource. In some cases, it is hard for Researchers to find out credibility of the web site being used. Therefore, choosing an appropriate web site and considering its content are a vital issue when collect data through the Internet. All web sites used by this study are Government managed, well reputed and long established.

However, from an academic angle, the Internet is limited to use, as it is not a reliable resource. As a result, it is required to access to journals based literatures, such as Journal of Air Transport Management and Journal of Transport Geography.

The second way to collect secondary data is publication sources, such as newspapers and specialist magazines. The advantages of publication sources are relevant and credible. Such specialist magazines as Airline Business and Financial Times can offer an in-depth insight of airlines business. They allow having a good understanding of the topic.

The third source of secondary data research is library databases, which include textbooks and online databases. Plenty of textbooks and journals will give the academic understanding in terms of marketing planning management. These textbooks can be the guidelines of this study. In addition, Metal library provides links with a list of e-journals.

4.5 Primary Data Collection

This study introduces focus group interviews for collecting primary data. The interview question consists of four issues:

- (i) Service innovation;
- (ii) Shortages;
- (iii) Expectation of future service;

(iv) Desired price levels

To prepare a series of questions as open-door topics: The main purpose of this interview is to explore where Air China can improve and innovate its products and service models. In addition, bring multiple documentary data to triangulate information. Lastly, in order to avoid confusion, whole process of interview will be recorded by tape with permission of the interviewees

As for telephone interviews, the process will be more complicated. The first step is to contact with interviewees by telephone and email. In this stage, it only requires to send the list of questions and highlight scope of discussion.

The second step during the discussion spread topics from Air China's internal marketing issues to external environments. The key questions may include how Air China will respond market threats, such as overseas rivals and low-cost carriers.

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CHAPTER – 5 : ENVIRONMENT ANALYSIS

In this chapter will develop environment analysis related to Air China's marketing management through 'PESTE' and 'Five Forces' models. In the end, a 'SWOT' analysis will be developed to identify Air China's potential strengths and weakness.

The data used in this chapter are from secondary data collected from various sources including government web sites, relevant publications and articles, such as <http://www.caac.gov.cn/> and Airline Business magazine.

5.1 PEST Analysis

First of all will examine the external environment focused by Air China by analysis four factors, the political, economic, and social and technologic aspects.

5.1.1 Political factors analysis

The main political impacts that may affect Air China's marketing strategy come from two forces:

- Reform of China's aviation industry.
- Accession to the WTO.

The former factor has influenced Air China in terms of domestic market operation. The later one has impacted Air China's international market operations.

Impacts of China's Aviation Industry Reform

As discussed in Chapter two, China's aviation industry has experienced three industry reforms. The purposes of these reforms have been to reduce Government intervention on China's airline industry.

As a result of the reforms, the CAAC regrouped China's airline enterprises into three airline groups and relaxed industry regulations with regards to price control and entry restrictions. These political decisions have significant implications to Air China and will discuss them in turn.

Regrouping China's Airline Enterprise

In the third of China's aviation reforms, the CAAC regrouped certain Chinese airlines into three groups—Air China, Eastern Airlines and Southern Airlines groups. As a result, Air China has to compete with two other strong rivals within the same country who possess similar size of fleet and competitive ability.

From Air China's point of view, it has become increasingly difficult to defend market share when competing with two major rivals, especially in its home market-Beijing.

Southern Airline, for example, added new routes via Beijing airport. As a result, Southern had 33 routes service via Beijing airport including 9 international routes. The total flights reached 612 flights per weeks (stock star 2004). In order to compete with Southern Airlines, Air China had to increase flight frequency and adjust price levels. This situation is evident not just in the Beijing market, but also cross China.

Releasing Price Control and Entry Restrictions

According to 'Price Regulations of China's Aviation Industry Reformation' issued by National Development and Reform Commission (NDRC) in 2004, Airlines are allowed to increase ticket prices up to 25 per cent higher than published prices, as well as reduce fares by 45 per cent lower.

The first implication of price regulation relaxation is that airlines are able to adjust its fares depend on market demands. In the past, The CAAC strictly restricted domestic flight fares. All China's airlines had to compete with other competitive measures, such as flight frequency and in-flight food.

After issuing new price regulation, the governments have provided Air China with ability to differentiate via its prices structure. On the routes with high travel volume, fare levels may be increased to maximize profits.

On the other hand, on the routes with low travel density, it could use promotion Policy to attract passengers.

The second implication is that low-cost carrier will be permitted to operate in China's domestic market as a result of price relaxation. The first low-cost carrier Spring Airlines was established in May 2004.

The average Chinese income reached \$1000 in 2003 (rednet.com 2004). Air travel is still an expensive transportation measure for most of Chinese people. For example, if a passenger buys a single ticket from Shanghai to Guilin, it will cost him/her £ 60 (11.3 percent of China's average income).

In contrast, the price of Spring Airlines is just £20 on the same route (china-sss.com 2005). The low-cost airline will divert large number of leisure and business travellers from differentiation airlines including Air China.

Consequently competition in China's domestic air travel market will be more serious. Air China has to face serious challenges that come from both of differentiation airlines and low-cost airlines, each of these pressures being brought about through political measures.

Impacts of China's Accession of WTO

The accession to the WTO will bring both threats and opportunities for Air China. In terms of threats, the WTO regulations will force China's government to open its airline industry allowing overseas airlines to enter China's airline industry. Most these airlines have long-established management experience far beyond the likes of Air China who until recent has been sheltered from the highly competitive world market.

This gap will bring serious pressure for Air China. For instance, in 2004, China's flight on-time rate was 74.6 per cent (iolaw.com 2005), compared with 90.8 per cent for Southwest Airlines, 89.5 per cent for Delta Airlines (FAA 2003) and 78 per cent for British Airways (guardian.co.uk 2005). As one of the most important criteria when business travellers select airlines, poor punctuality will affect Air China in business travel segment.

In addition, most of overseas international airlines have joined airline alliances that enable group members to provide seamless service for their customers. Up to now, Air China has not joined any airline alliance group. It is impossible for Air China to offer one-stop service.

This disadvantage may result in the loss of international consumers, as most international travellers prefer a one-stop flight service. As for benefits of joining WTO, it enables Air China to access to wider international market. According to Air Service Agreement, once one state opens its international air travel market to another state, the latter state has to open its market to the former in the same level. The broader market access may generate new business opportunities for Air China.

5.1.2 Economic factors analysis

(i) Growth of China's

GDP The rapid growth of China's economy has significant implications for Air

China. In 2004, China had an outstanding economic performance with 9.0 per cent Growth rate (bpk-kos.org 2004).

Firstly, the growth of GDP will directly raise people's income and result in higher demand of leisure travels.

Secondly, it may generate more demands in business travel. A survey made by Shenzhen province government showed that China's annual expenditure on business travel reached £13.3 billion in 2003 including £2.2 billion for international business travels and £11.1 for domestic business travels (Shenzhen.gov 2004).

This level of growth demonstrates how China's economic prospect may have a beneficial impact for Air China.

A survey made by CAAC showed that business travellers have played as a dominant role for all China's differentiation airlines including Air China (shown in Figure5-1). 70.38 per cent of Air China's customers travel for business purposes. Therefore, this confirms that the business travel market will bring great opportunities for Air China.

Figure 5-1 Proportion of Travel Purpose in China's Civil Aviation Industry

<u>Airlines</u>	<u>Travel Purpose</u>		
	<u>Business</u>	<u>Leisure</u>	<u>VFR</u>
Xinjiang Airlines	77.63	11.84	10.53
Northern Airlines	73.08	21.40	5.52
Northwest Airlines	71.92	20.86	7.22
Xiamen Airlines	71.48	22.09	6.43
Air China	70.38	18.23	11.38
Southern Airlines	70.07	14.29	15.65
Yunnan Airlines	65.56	25.06	6.38
Shanghai Airlines	68.39	23.01	8.60
Northwest Airlines	67.78	22.78	9.44
Sichuan Airlines	64.69	25.63	9.68
Eastern Airlines	62.69	24.43	12.88
Shenzhen Airlines	61.10	26.85	12.05
Shandong Airlines	47.01	43.48	9.51
Xinhua Airlines	45.81	44.67	9.51
Hainan Airlines	45.02	45.48	9.49
Average	64.38	26.01	9.62

Source: CAAC:Report of Civil Aviation Market 2001 [ww.carnoc.com/txtm/article/594.html](http://www.carnoc.com/txtm/article/594.html)

(ii) Effects of 'World's Factory'

As a result of low labor cost and a strong economy, China has become one of the most attractive foreign investment destinations. According to a recent estimate by the World Bank and International Monetary Fund using Purchasing Power Parity (PPP), China is now the third largest economy in the world, after the U.S.A and Japan (World Bank, 1994).

In 2003, there were foreign firms investing 41,081 new projects and the total amount reached £38.3 billion (Invest in China 2005). Up to 2003, there were totally 465,277 foreign invested firms (Invest in China 2005).

The growth of foreign may result in high demands of international business travels. Those international business travellers are come from different regions. The implication for Air

China is that, in order to attract those potential customers, Air China should satisfy their various requirements. As discussed in chapter three, air travel passengers may be segmented by their origins and cultures. In addition, Air China should consider special requirements of business travellers, such as on-time rate and frequency.

5.1.3 Social factor analysis

(i) Increase of leisure time

Compared with 10 years ago, Chinese people now have more leisure time. They have two 'Golden Weeks' introduced in 1995. Golden Weeks allows Chinese people to enjoy two 7-days holidays each year. This policy and subsequent increase in leisure have led to an increase in tourism potential in China. In 2004, for example 3.6 million tourists visited Beijing from 1st to 9th of May (people 2004).

As a result of Chinese people's increasing income, more and more people choose airplane when they go to holiday. In 2005, Beijing airport transferred 600 thousand passengers during 1st of May to 5th of May (163.com 2005).

A survey made by CAAC showed that business travellers make up a high proportion of Air China's customer with 70.38 per cent (CAAC 2001), compared with 18.23 per cent of leisure purpose and 11.38 per cent of VFR purpose. The number of leisure passengers is still relatively small, Air China should be aware of this trend toward increasing leisure passengers.

(ii) Impacts of aging population

The increasing size of an aging population may have important implications for Air China. According to World Bank report, China's over 60 years old population will reach 0.3 billion by 2030 (World Bank 1994). Without regard to population expansion, aging people will account for 25 per cent of China's total population.

For the long-term view, the problem of aging population may change Chinese airlines' customer structure. As a result, the China's airline industry may have to face the problem in terms of reducing demand in air travel. Elder people would not use air travel service frequently, as they do not have sufficient income and their difficulty of movement.

According to Civil Aviation Industry report developed by CAAC, it showed that elder passengers (over 60 years old) only accounted for 1.5 per cent of China's air travellers in

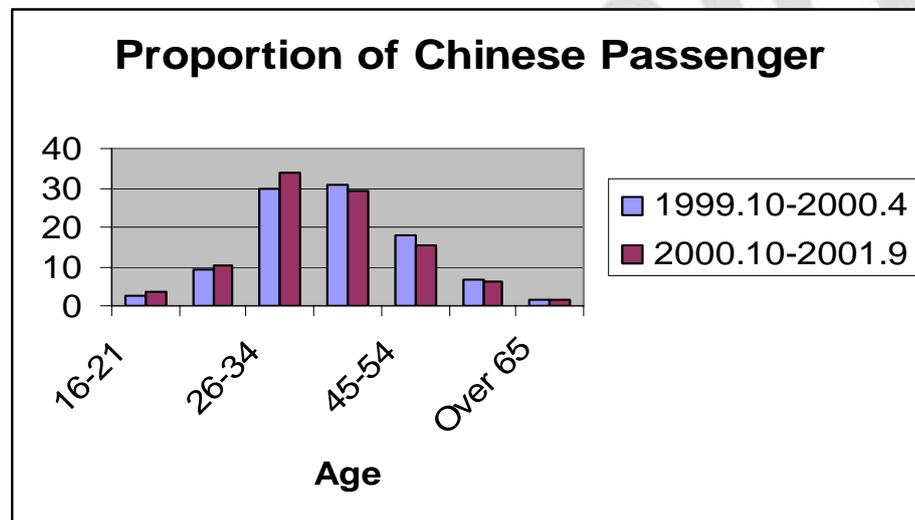
2001 (Shown in Figure 5-2). Therefore, the increase of elder Population may decrease the total demand of air travel service.

Otherwise, increase of elder population may affect airline business in many ways.

Firstly, airlines will have to add additional services to satisfy this group of Passengers, such as wheel-chair service, medical aids and special insurance.

Secondly, when airlines promote their products, they should consider styles of Advertisement, media and even sales distribution channel, in order to appeal to this over 60s age group.

Figure 5-2 Proportion of Chinese Passenger



Source: Civil Aviation Industry report in 2001 (CAAC)

5.1.4 Technology factors analysis

(i) The use of Internet

The use of Internet for airlines industry has been well developed worldwide, especially in the North American and European markets. Most airlines have established their own web site using of as a distribution channel and offering customer services, such as order particular meal options. In contrast, Internet measures have not been widely introduced in China's airline industry. Air China is an extreme case of inefficient use of Internet, as it still relies on travel agents for ticket sales.

Air China should be aware that there is great potential in this area.

Firstly, it is because Chinese people have diffusely accepted the use of Internet. In 2005, the number of people who use Internet reached 98 million (Xinhuanet 2005).

Secondly, Internet is one of the most efficient methods for passengers to purchase tickets. A survey showed that 70 per cent of passenger prefer to convenience method when they purchase ticket (people 2003). In addition to this those passengers who are able to afford airline tickets tend to be Internet literate, willing to use such technologies.

Briefly, Air China is facing both of external threats and opportunities in this period. Politically, accession to the WTO will bring new competition, as well as an opportunity for wider market access. The price relaxation policy may cause severe competition in

(ii) The leisure travel market.

Economically, the rapid growth of China's GDP will strongly support both of business and leisure travel markets.

Socially, the increase of leisure time may result in expanding demand of leisure travels. Technologically, the use of Internet distribution may bring great opportunity for Air China.

In the next section will use 'Five Force' model to examine Air China's competitive environment. The research will develop an analysis in five aspects including suppliers, customers, substitutes, new entrants and density of competition.

5.2 'Five Forces' analysis

5.2.1 New entrant analysis

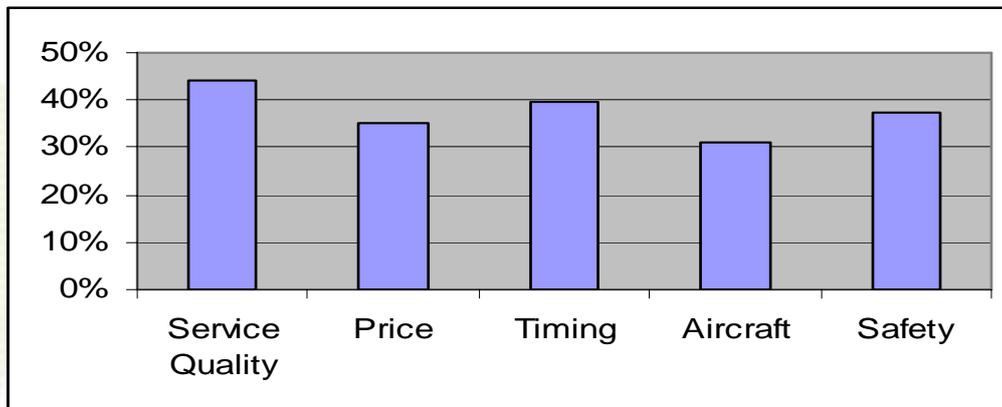
From Air China's point of view, the new entrants consist of low-cost airlines and overseas international airlines. Both of two new entrants will bring a severe threat to Air China.

Firstly, the appearance of low-cost airlines may take significant market share from Air China in the leisure travel market. Although China's average income level has increasing speed, flight services are still an expensive travel method. Compared price level, the cost of differentiation airlines' tickets is much higher than low-cost airline, see Shanghai-Guilin example in 4.1.1.

As for new international entrants, they come with China's accession to the WTO. The main threat is that most of overseas airlines have higher standards of service quality, and managerial experience. According to China's Aviation Industry analysis shown in figure 5-3, service quality is the most important criteria when passengers choose airlines (people net 2002). Therefore, the gap of service quality may cause Air China lose international market.

Figure 5-3 Criteria for choose airlines

Criteria



Source: China's Aviation Industry analysis: <http://www.people.com.cn/>(2002)

5.2.2 Threat of substitute analysis

In China's airline industry, the main substitutes for air travel are surface transportation and telecommunication. Recently, the technological progress in the information transportation sector is slowing the growth of aviation consumption.

The revolution in information technology, especially with the Internet, means that a vast number of transactions and communications can be made without face-to-face meeting. In addition, many firms' have been made aware that telecommunication is a cost-efficient method, especially for large organizations. For example, a survey by Denstadli (2004) Showed that telecommunications take 2.5-3.5 per cent of business air travels Away from airline industry.

Furthermore, surface transportation has become more advanced in China's travel market. China has added over 3,500 kilometers of new lines into its express railway network, as well as raising the speeds on its major lines to 160 kilometer per hour. After this speed increase, China will have a total of 7,700 kilometers of railway that can provide 160 kilometer per hour speeds service (people's daily 2004).

This could shorten the travel time between some major cities. For example, it only takes 10 hours from Beijing to Shanghai by the high-speed line, offering a value alternative to airplane travel.

On short-haul routes, the competition between surface transportation and airplane will be especially severe. This is because that on short-haul route, passengers maybe will spend same time whatever they fly or use railway service. For instance, a passenger will travel to another city that is 300 kilometers away. It will take 1 hour if he/she flies to there. However, he/she has to spend at least 3 hours to travel to airport and complete check-in.

The faster speed and its cheaper cost will enable railway operators to effectively compete with airlines in leisure travel market. In resent, China's railway operators have upgraded their facilities. Special designed trains are more comfortable and clean. This could make them to potentially attract business travellers.

5.2.3 Bargaining power of customer analysis

In the China's airline industry, the bargaining power of customer is enlarging.

Firstly, it is because of plenty of choices are available for customers when they choose flights. There is no monopoly supplier in the market. As a result of relaxation of entry barriers in China's domestic airline market, the number of Chinese airline enterprises increase steadily. In 2002, there are more than 30 airlines competing within China's domestic market (China 2002).

Otherwise, China's opener market will bring new competitions into its international air travel markets. As a result, consumers may have more choice when they purchase tickets. For example, after China signed 'open skies' agreement with the USA, the flight frequency between two countries will increase from 54 flights per week to 249 flights per week (Hu 2002).

Secondly, people could choose other substitute, such as coach and train. Passengers have extremely bargaining power on the short-haul routes. As discussed in previous paragraphs, China's government has made strong effects to improve its railway system.

The advantage of train and coach services in terms of convenient will give passengers more bargaining power.

Thirdly, the use of GDS allows customer to achieve comprehensive information, before they purchase ticket. It is easier for customers to compare each airline's prices. If passengers find cheaper price, they can easily switch to other carriers, there is no switch cost.

5.2.4 Bargaining power of suppliers analysis

In China's airline industry, the suppliers of Air Traffic Control and airport services possess monopoly power. As discussed in literature review, the monopoly power may enable suppliers to achieve bargaining power. The situation of GDS suppliers is serious for Air China as well.

There are only a few numbers of suppliers available for airlines. Although Chinese has established their own GDS, this system could not satisfy high standard requirements, i.e. global access and additional service. As a result, Air China has to choose from few suppliers, such as SABRE, World span, European-originating Galileo and Amadeus. Oil suppliers hold extreme bargaining power in China's airline industry.

Air China's oil supplies are mainly come from Middle-East countries that supply over 50 per cent of global demands. There is no alternative resource could replace oil. In addition, in the oil market, the number of buyer is much higher than that of suppliers. In other words, oil demands exceed supplies.

5.2.5 Rivalry between existing competitors

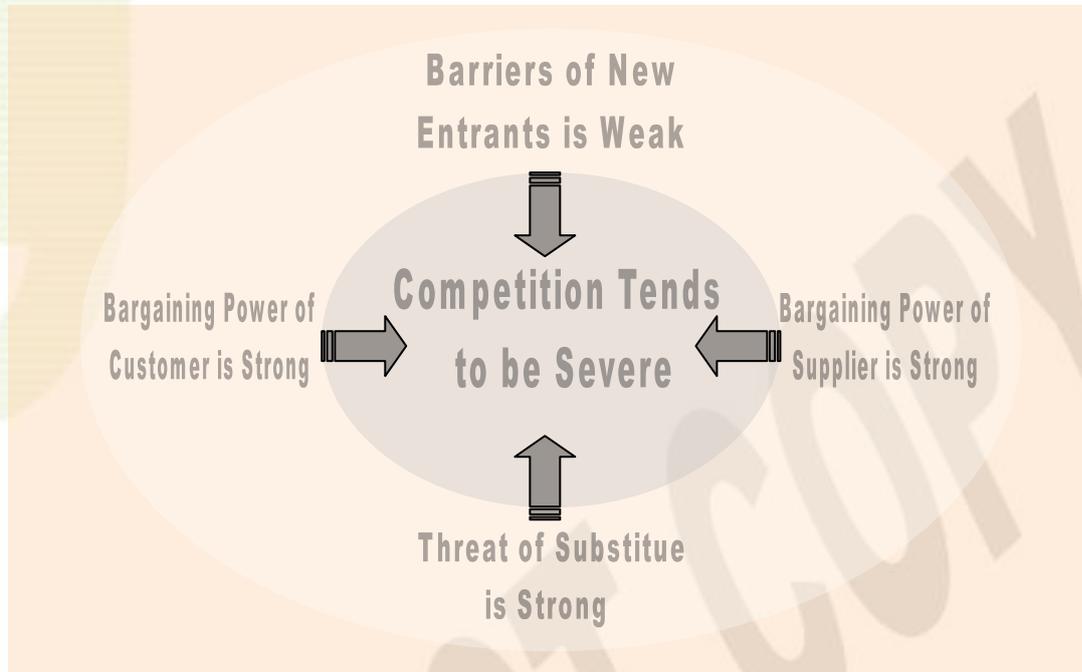
In the dimension of domestic market, although China's aviation reforms have eliminated a number of middle and small size airlines, the situation for Air China is still not optimistic. This is because that as a result of Chinese airlines' re-grouping, Air China has to compete with other two major airlines, Eastern Airlines and Southern Airlines. Each airline has similar market power in terms of fleet size and cost structure. There is no strong competitive advantage for Air China. Therefore, the competition in China's domestic market is severe.

As for international market, the numbers of overseas airlines will increase as a result of China's accession of WTO. In the past, foreign airlines could not entry China's market because of government restrictions. After Joining in WTO, China has to open its airline industry to the world. The competition, therefore, tend to be intensive. In brief, the 'five forces' model may help firms to analyze external environments. In the case of Air China, the China's airline industry seems hard to compete as the following reasons (Figure 5-4).

1. The barrier for new entry is weak as a result of China's accession of WTO
2. The threats of substitutes tend to increase as a result of development of surface Transportation and telecommunication.
3. The bargaining power of customers is strong, because there are sufficient of supplier and substitute and the switch cost is small.

4. The bargaining power of suppliers, such as airport services, ATC and oil, is strong, as there is no substitute source.
5. The competition in the China's aviation market tends to be severe.

Figure 5-4 'Five Forces' analysis of China's aviation industry



Source: Self

5.3 SWOT Analysis of Air China

After examine the external/internal market environments, a SWOT analysis may help firms to clear find out potential market opportunities and threats. It enables Air China to develop a strategic plan to meet market opportunities through its strengths.

<p>Strength</p> <ul style="list-style-type: none"> • High safety record • Rich of history • Rich of reputation 	<p>Weakness</p> <ul style="list-style-type: none"> • Poor quality perception • Higher fares levels • Cannot provide 'seamless service'
<p>Opportunity</p> <ul style="list-style-type: none"> • Increasing incomes level in China as a result of growth of GDP • Increasing of leisure times for 	<p>Threat</p> <ul style="list-style-type: none"> • New competitors come from Overseas & domestic • Increasing expenses for oil supply

<p>Chinese people</p> <ul style="list-style-type: none"> • World Factory' will raise potential demands in business travels. • Internet distribution may reduce Operational costs 	<ul style="list-style-type: none"> • Threats come from surface Transportation substitutes • Threats come from Telecommunication Substitutes • Aging population will Reduce demands of air travel • The entry of Low cost airlines
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CHAPTER – 6 : FINDINGS

In this chapter will summarize results of questionnaires and group focus interviews in turn. In order to gather primary data and sent 250 questionnaires. The target receivers consist of 200 Chinese people in China market-Dubai (Dragon mart) and 50 random selected people on the street. There were 120 completed questionnaires.

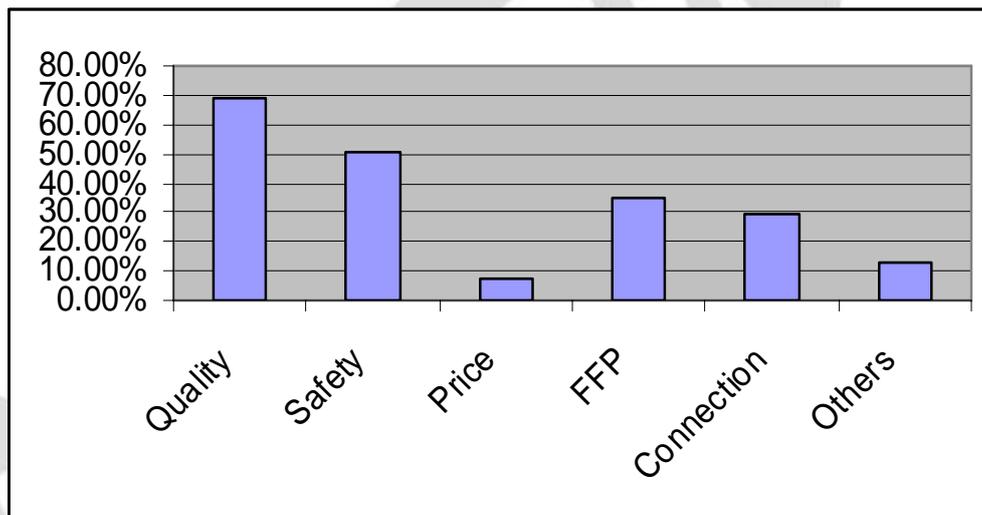
6.1 Questionnaire Results

(i) Passengers 'Choosing' Criteria

According to the results shown in figure 6-1, 69.2 per cent of respondents consider respondents' perception of airline's quality as preferential criteria when they choose airlines. Perception of airline's safety plays second role with 50.8 per cent of respondents. 17.5 per cent of respondents consider price as criteria when they purchase a ticket.

Figure 6-1 Criteria when passengers choose carriers

Criteria



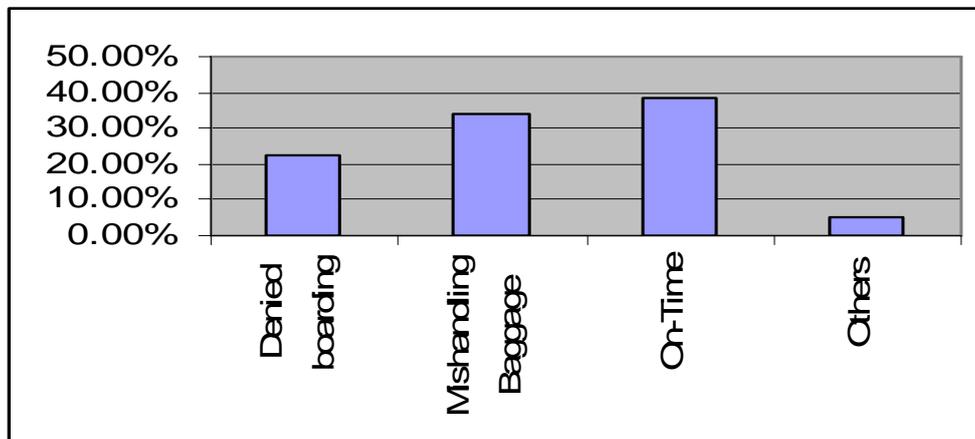
Source: Questionnaire

(ii) Judging criteria of airline quality

According to idea of Bowen and Headley (1991): there are four key factors that are important to consumers when judging the quality of airline service, which include on-time arrivals, denied boarding, mishandling baggage and customer complaints. After examining how respondents judge each factor as highlighted by Bowen and Headley in the questionnaire research.

The results show that 38.3 per cent of respondents consider on-time performance as the most important factor when they judge airlines' quality (shown in figure 6-2). Therefore, in order to improve service quality, Air China may wish to consider this issue.

Figure 6-2 Passengers' judging criteria for airlines



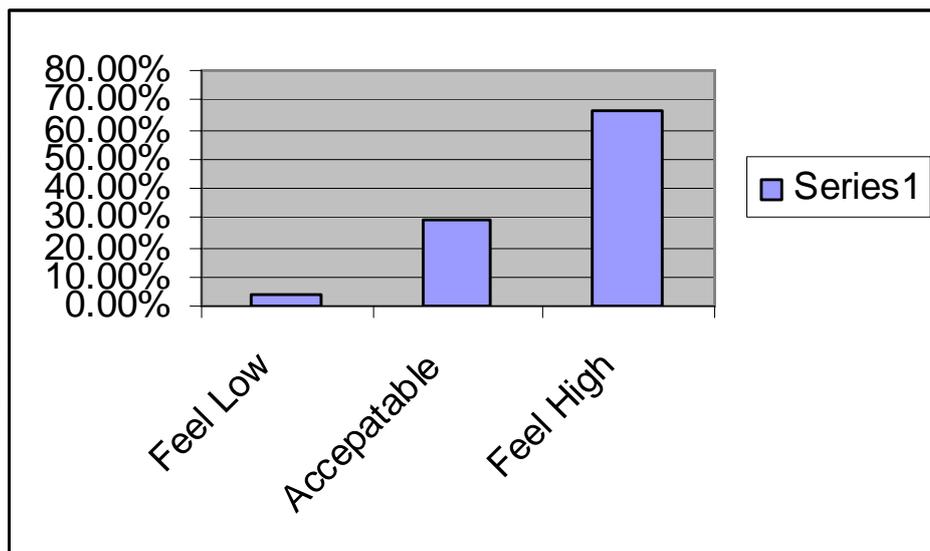
Source: the questionnaire research

This research found that most of respondents prefer to purchase ticket through Internet. The result shows that 60.8 per cent of respondents use the Internet to buy tickets. In addition, the result also indicates that 14.2 per cent of respondents prefer traditional ticket agents because of the worries of on-line payment security. It is expected that if Air China could guarantee its safety purchase on its web site, this convenient measure may attract more passengers.

(iii) Passengers' perceptions of Air China's

66.7 per cent of respondents feel that the current fare levels of Air China are higher than what they expect, compared with 29.2 per cent respondents feel the fares are acceptable and 4.2 per cent respondent feel the fares levels are relative low (shown in figure 6-3). The high proportion of respondents who feel prices are too high may reflect the problem of CAAC's intervention on airline fares. The implication, therefore, for Air China is that the China's air travel market is a more like a price elastic market. In other words, the lower prices may divert large amount of passengers from competitors.

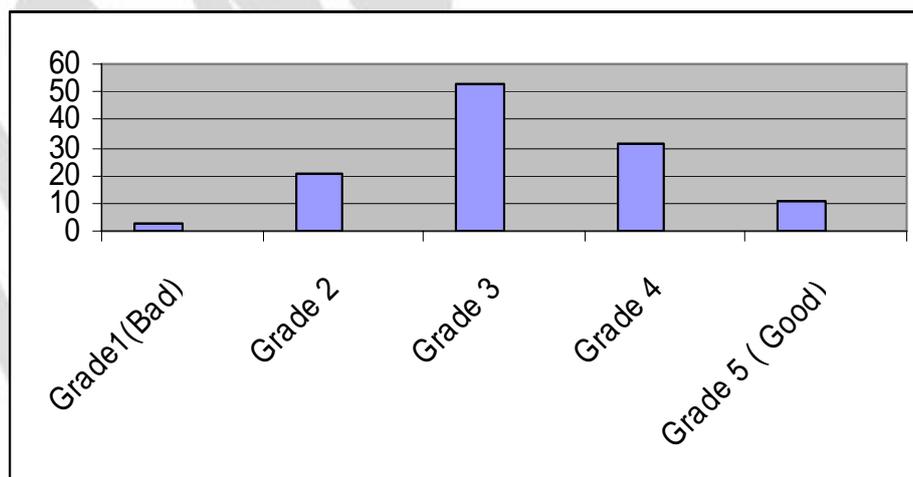
Figure 6-3 Passengers' perception of current China's fare level



Source: Questionnaire research

As for Air China's quality, 53 of respondent gave Air China 3 grades when they evaluate its quality, compared with 32 people mark 4 grades (Shown in Figure 6-4). Not many respondents think Air China's quality is too bad or extreme outstanding. It is clear that Air China do not possess positive customers' perception in terms of quality, as nearly half of respondents gave a 3 grade. Air China should be aware of this perception, as it has been proved quality is the most important criteria when passengers choose carriers.

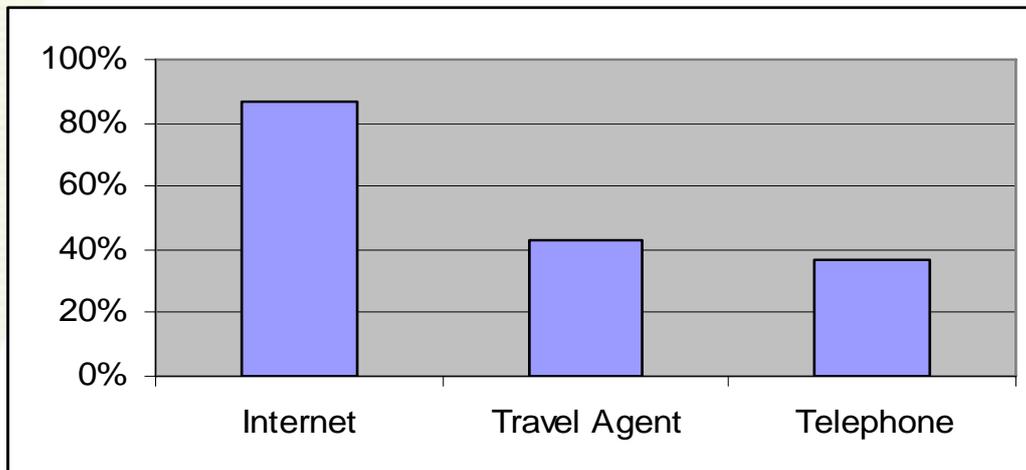
Figure 6-4 Customer perception of Air China's quality



Source: Questionnaire

Preference of booking method 87 of respondents consider they would like to use internet booking method, compared with 43 respondents for travel Agents and 37 for telephone booking (Figure 6-5).

Figure 6-5 Preference of booking method



Source: Questionnaire

6.2 Focus group interview analysis

As far as group focus interview separates interviewees into two groups: Group A consists of Labor Categories (assumed as leisure travellers) and Group B consists of Businessman (assumed as business travellers). Each group consists of 6 people.

Question: the perception of Air China's quality

One respondent said that 'punctuality is quite important for them, as the delays of flight may lead to loss business or missing Meetings'. Two of respondents complain their bad experiences with Air China with Regard to flight delays. They said that 'in the past Air China is their first choice when they travel for business purposed. However, now they have switch to other airlines as a result of two delay experiences in every short period.

Question: the perception of Air China's price

According to one respondent in group A, 'if the price gap between Air China and low cost airlines is too big, he will consider travel with low cost carrier, although the use secondary airport could bring inconveniencies'.

In addition, another respondent in group A indicates that 'he does not matter he has to pay for foods and drinks when flying with low cost airlines, as there is only couple of hours stay in

the flights. In addition, compared with Air China's fares level, although he buy foods and drink in the flight, the total expenses on low cost flights are still much cheaper'.

Most of respondent's in-group B felt the price acceptable, as their companies afford expenses. One respondent in-group B said he would compare each airline's because he is a self-employed people. He has to pay ticket himself.

Question: the perception of Air China's FFP

Most of respondents report some type of problems with regard to Air China's FFP. They indicate that the current Air China's FFP is too monotone. One said 'I can redeem my mileage points to get awards, such as free hotel accommodations and tickets. The problem is that there is no much choice. For example, there are only six hotels I can choose. Most of time this service means useless to me'.

Question: the perception of Air China's

Distribution system Most of respondents said they would try Internet booking. One said: 'I like to buy ticket from Internet, as it is convenient. I can save lots of time'. There is one respondent talked about why he does not choose Internet booking. He said: 'he is quite worried about security issues when he buys ticket from Internet'.

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CHAPTER – 7 : CONCLUSION

In the first part will develop an analysis of customers' perception of Air China in terms of product, price, and distribution and promotion issues. The information that supports this analysis is based on questionnaire research. Then will look at the group focus discussion and try to find potential innovative services for its first class service.

7.3 Questionnaire Results Analysis

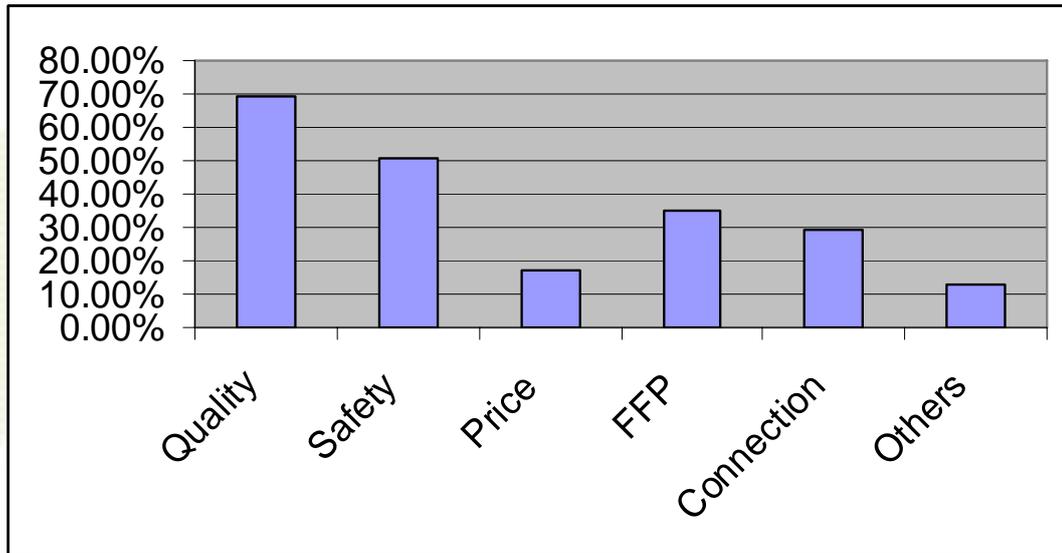
Passengers' choosing criteria analysis

This result proves that airline's quality is the most important criteria when Chinese passengers choose differentiation airlines, such as Air China. This result supports the idea of Shaw (2004): from a differentiation airlines point of view, the importance of quality and brand building has remained today.

The result also indicates perception of safety plays as a secondary role in the process of customers' purchasing decisions. Air China enjoys the best safety record in the Chinese airlines. It should be aware of this result and consider safety as a powerful competitive method.

As it believes that the impacts of prices on passengers will rise steadily in the near future. It was discussed in the previous chapters that China's government regulated ticket prices in its domestic air travel market. As a result prices offered by each of China's airlines were quite similar. Price, therefore, played a less important role when passengers choose airlines in the past. However, with China's aviation reforms, China's airlines are able to adjust their fares independently. As a result various prices will be available in the market and the result maybe increased importance of ticket price in the China's air travel market.

Figure 7-1 Criteria when passengers choose carriers

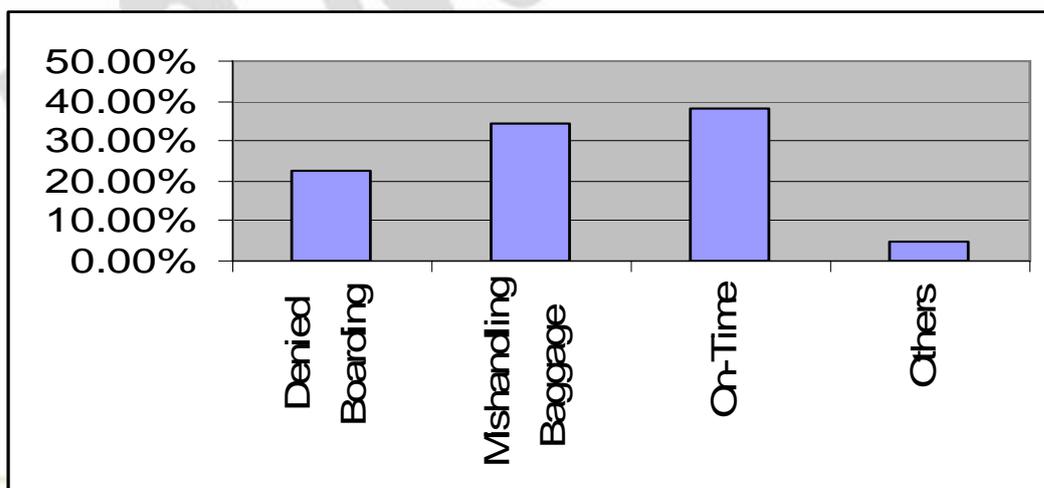


Source: Questionnaire

Judging criteria of airline quality

According to idea of Bowen and Headley (1991): there are four key factors that are important to consumers when judging the quality of airline service, which include on-time arrivals, denied boarding, mishandling baggage and customer complaints. The results show that on time and mishandling baggage are the most important factors when passengers judge airline quality. Therefore, in order to improve service quality, Air China May wish to consider this issue.

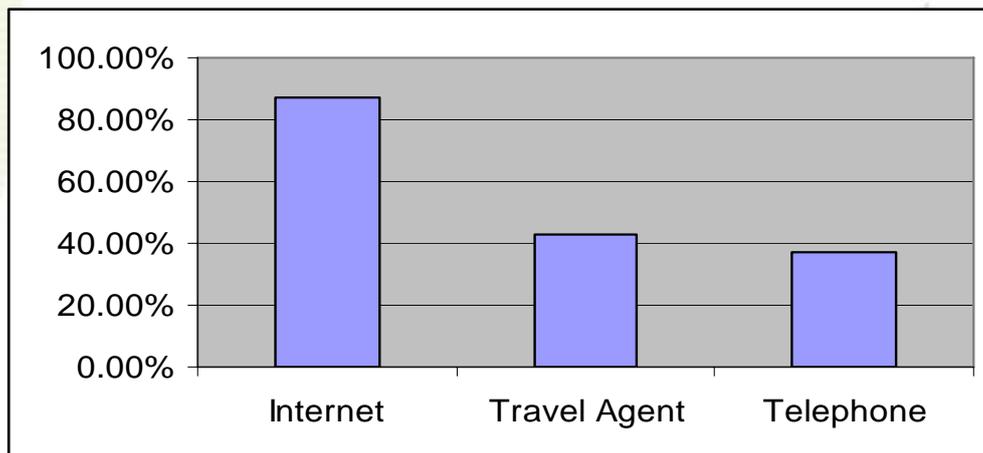
Figure 7-2 Passengers' judging criteria for airline's quality



Source: the questionnaire research

Preference of booking method With reference to literature, the future role of the Internet is its use as a distribution channel in the field of airline marketing (Shaw 2004). The result could support this point. Most of passengers prefer Internet booking in the research. It is expected that if Air China could guarantee its safety purchase on its web site, this convenient measure may attract more passengers.

Figure 7-3 Preference of booking method



Source: Questionnaire

Based on questionnaire results, it can be concluded that most of theories introduced in Literature chapter appear to be reflected in Air China. Firstly, quality is the Principal criteria when passengers choose airlines. Secondly, on-time rate, Denied boarding and mishandling baggage are fundamental factors in terms of Airline's quality. Lastly, the use of online ticketing has significant potential in the China's airlines market. In the next part will analyze the Research result of group focus interviews.

7.4 Analysis of focus group interviews

Perception of Air China's product

With reference to literature review, on-time performance is the most important criteria for business travellers. This result may reflect the shortage of Air China in on-time performance, as discussed in environment analysis chapter. In addition, the implication for Air China is that the poor on-time performance may seriously damage its reputation in business traveller segment.

Perception of Air

China's price as discussed in the literature review chapter, low cost carrier may bring serious threats to Air China, especially in the leisure air travel market. In addition, Air China's high fares will make situation worse in the near future. Leisure travellers will first consider ticket prices when they choose airlines.

As discussed in literature review chapter, business travellers could be divided to corporate and independent business travellers.

The fundamental difference between two groups is that independent business travellers are more price-sensitive. Air China should be aware of this difference and establish multiple price structure in business class, like British Airways that offer both basic and flexible price for business travellers.

Perception of Air China's promotion

As discussed in literature review, an attractive FFP may play as a competitive measure to compete in business traveller segment. However, Air China's FFP seems to be not attractive for passengers. The awards cannot meet customers 'requirements

CHAPTER – 8

Market Segmentation and Positioning of Air China

In this chapter will firstly develop an analysis of Air China's current Market segmentation strategies. And then, based on macro and micro environments analysis in the previous chapters provides recommendations for Air China in terms of future market segmentation operations. Secondly, to suggest how Air China positions itself to against competitors.

8.1 Market segmentation analysis of Air China

With reference to literature review, differentiation airlines should be well represented in each of major market segments including business travels and leisure travels (Shaw 2004).

Therefore, suggests that Air China should segment markets through traditional segment theories including travel of purposes and length of journal. The target for Air China is to identify features in each segment depending on current market environments and situations.

In terms of travel of purposes, Air China segmented the market into business travel and leisure travel groups. It offers business and economic class services for two groups respectively. As reported in chapter five, business and leisure travellers consisted of 70.38 and 35.62 per cent of total passengers respectively in 2001. However, there is no evidence shows that Air China further segment business travel markets. Up to now, Air China still uses same fares for its business class.

According to Shaw (2004), business travellers may be divided into corporate and independent business travellers. Compared with corporate business travellers, independent business travellers are more price-sensitive. It is believes that Air China has not identified this point. Air China's simple fare structure in business class does not adapt to different requirements of corporate and independent business travellers.

Therefore, suggests that Air China should segment business air travel markets deeply. Using various fare structures, such as basic prices and flexible prices, may help Air China to efficiently attract passengers in each segment.

Another reason Air China should pay attention to this segment is that Chinese independent business travellers is Playing more important role in the China's airline business. A survey (CAAC 2001) of China's aviation industry showed that the number of corporate business travellers in decreasing steadily (shown in figure 8-1). In addition, this survey also showed

that the proportion of independent business travellers reached 6 per cent of total passengers in 2001. Therefore, Air China should pay more attention to focus on this market segment.

In the leisure air travel sector, with reference to Shaw's work (2004), leisure air travel markets could be segmented into holiday traveller and VFR groups. Therefore, suggests that Air China should apply this theory to practical.

As reported in Chapter five, the combination of fast growth of China's GDP and increasing leisure times will enlarge holiday demands in China. The proportion of holiday travellers is expected to increase. Therefore, suggests that Air China should separate leisure markets into holiday travellers and VFR markets, as two markets have different requirements. If Air China treats all leisure passengers as same, it may loss both markets.

After decide how to segment markets, the next objective for Air China is to design its positioning strategy. In the following sector will discuss positioning Issues based on information from both secondary and primary data.

8.2 Positioning strategies for Air China

As discussed in literature review part, airlines may achieve competitive advantages thought differentiation and cost leadership strategies. In the case of Air China, The suggestion is, it should use differentiation strategies to compete with other airlines, the cost leadership strategy requires airlines to use same uniform aircraft and only serve on Point-to-point routes. It is too costly for Air China to change its operating model.

Perceptual maps is a powerful tool to help service firms to built positioning strategies, which are created based on a series of factors considered as important criteria by customers (Lovelock, Wright 2001). Based on research of O'Comell and. Williams (In Figure 3-3), quality is the most important criteria for passengers choosing airlines, Therefore, selects service quality as the basic components to create positioning map for Air China.

Considering current market environment, the main potential rivals for Air China include low cost airlines and other differentiating airlines. In order to help Air China create positioning strategies will compares these two elements with Air China and then develop a perceptual map.

Positioning of any product or company is based on consumer's perceptions (Brooks bank 1994). As figures summarized in Chapter six, passengers consider Air China's fares levels are relative higher (66.7%).

As for service quality, the perception of performance is in the middle position. Therefore, Air China will be allocated at position A in the perceptual map shown in figure 7-2. Low cost carriers are allocated position C, as they provide low quality service with cheap prices. Position B consists of other differentiation airlines that are assumed as overseas and other domestic airlines that have higher quality Performance with lower prices. Those airlines bring serious challenges that Air China has to face up.

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CHAPTER – 9 : RECCOMENDATIONS FOR AIR CHINA

In this chapter will provide recommendations for Air China and explain reasons in terms of marketing product, price, place and promotion issues. A business assumption will be developed in order to forecast competitors' reactions.

9.1 Recommendations for product

The core product for each airline is similar, providing transportation service between two points. As discussed in literature, quality in terms of on-time rate is the most important factor when passengers choose airlines. In addition, researches showed that passengers' perception of Air China's quality is not outstanding. There fore, it is suggested that Air China should improve its service quality and try to create leadership in the industry.

Otherwise, there is also a need for Air China to hold its safety leadership in the market, as the research result showed that safety is the second vital factor for judging airline's quality. Air China should make effects to seek innovative services, as products provided by each airline are similar (Lee, Luengo- Prado 2004). Therefore, it requires Air China to understand what are passengers expect before design services.

9.2 Recommendations for Prices

Firstly, Air China should reduce its price levels. According to primary data, passengers' perception of Air China's fares levels is higher than they expect. However, it is suggested that Air China do not need to reduce its fares levels dramatically, as the most important criteria for passenger selecting carriers is perception of quality. A undervalue price structure will not just damage firm's brand, but also make potential profit losses.

Otherwise, Air China should be aware of fundamental difference between corporate and independent business travellers, which is sensitivity in terms of prices. In order to attract both types of business travellers, Air China should use basic and flexible prices. A good sample for this policy is British Airways.

The former price will be less flexible. There is an additional charge for changing departure times. The later price policy will allow passengers change departure time frequently without charge.

As for economic prices, Air China should consider the threat of low cost carriers that use very low price to compete with differentiation airlines. Therefore, Air China should adjust economic price as low as possible, especially on the short haul Routes

9.3 Recommendations for distribution system

Air China should be aware of the advantages of the Internet related to the airline industry.

Firstly, the use of Internet distribution may allow airlines reduce huge cost. In addition, the Internet has become more popular in the China. Air China, therefore, should develop Internet booking via its web site. One important issue for Internet distribution is the security, as primary data showed that security is the most significant concern for passengers.

In addition, Air China should utilize its web site resource to improve customer services. The objective is to build web site as a powerful tool to communicate with customer. The functions of the web site may involve customer services, dealing with complaints, creating long-term relationship and promotion tool.

9.4 Recommendations for promotion

The first objective of promotion is to establish an attractive FFP. An appropriate FFP may allow Air China hold sustaining competitiveness in the business air travel market that contributes great profits.

Firstly, Air China should join in an airline alliance that offers Air China a global network. As a result, passengers may have more destinations when they gain free tickets.

Secondly, Air China designs multiple awards options, such as free accommodation, shopping credits and car rental. Air China should be aware of passengers' need. In other words, awards should be appropriate for majority of passengers and provide real benefits.

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Appendix 1 Questionnaire

I am a student studying in Columbus University through Master Education Institute in Dubai and now is carrying out a marketing survey for a marketing plan of a Chinese airlines—Air China.

There is no 'right' or 'wrong' answer. Please complete questions with your true feeling and opinions. I will appreciate your Co-operations.

1. Are you:

- Male
- Female

2. You age

- 10-19
- 20-35
- 36-59
- 60-over

3. Please tick the criteria when you choose an airline

- Quality
- Safety
- Frequent Flyer Programme
- Prices
- Connection
- Others _____

4. Please tick the most important judging criteria for airline quality

- On-time
- Mishandling baggage
- Denied boarding
- Others _____

5. Please tick your favourite booking methods

- Internet booking

- Travel agents
- Telephone booking

6. What is your consideration of Air China's quality?

Very poor [1] [2] [3] [4] [5] Outstanding

7. What is your consideration of Air China's price level?

Very low [1] [2] [3] [4] [5] Extremely high

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Appendix 2 - Dissertation proposal

Introduction

When most of people consider branding strategy, they will think firm's fancy identities and logos. However, this is only a small part of branding activities. As one of the most powerful marketing tools, a branding program could include loyalty management, company identity, and brand image. A brand has an existence that is more than an actual

Product or service: it has a life of its own that feeds on the original product, but can also carry its values and identity into new product areas (Randall 2000). In contrast, organizations have introduced branding as a strategy measure increasingly in today's business environment. Although brands and branding are not new ideas, firms are applying them to more diverse settings where the role of branding is becoming increasingly important (Wentz and Suchard, 1993).

The traditional role for brands is also experiencing rejuvenated interest. Market Analysts generally agree that this trend will continue and be part of a formula for successful firms in the future (Norris, 1992). Brand can generate great Advantages for organizations. The longevity of successful brands and profits they have earned over their lifetimes are not accidental (Randall 2000). The Following table shows the brand value for top companies. Branding also can enable companies to obtain profitability. Brands with a market share of 40 per cent generate three times the return on investment of those with a share of only 10 per cent (Doyle 1989).

Figure 1 Brand value for top 5 companies

Company	2001 brand value \$ billion
Coca-cola	68.95
Microsoft	65.07
IBM	52.75
GE	42.40
Nokia	35.04

Source: Khermouch, Holmes and M. Lhlwan (2001) The best global brands

A successful brand performs five main functions including identity, shorthand summary, security, differentiation and added value (Randall 2000). In different products, these five elements vary in importance, but they should all be there.

The fundamental objective of this dissertation is to examine the factors, which determine the success of a brand and how to create a brand planning. Air China is the company to be analyzed with regard to new challenges of China's open sky and globalization in the new business environment after China's accession of WTO.

According to WTO regulations, China's government has to open up its aviation industry. In order to compete with foreign rivals, Civil Aviation Administration of China (CAAC) reformed its three top airline groups. The urgent issue for new Air China group is to create proper brand to compete. Otherwise, the airline industry is becoming more international, which is featured by numbers of Alliances and all kinds of cooperation. Air China should build a reasonable brand strategy to avoid brand-disappearance in huge alliance system.

The dissertation will try to find out solutions for the following research Question:

What are external and internal requirements of establishing and promoting a brand? What the factors are with regards to create successful brand in airline industry. How does branding affect consumer-purchasing decisions in airline industry?

Background material

China's civil aviation industry was established in 1978 after government focused on policies of national economic construction. Hence, the industry has experienced a rapid increase, especially in the recent years.

In 2003, the total transportation mileage of China's civil aviation achieved 17.1 billion tons km and volume of passenger traffic reached 87.59 million, a respective increase of 54 and 36 times compared with those figure in 1978(English 2004).

The accession of WTO in 2001 has forced China government to open the civil aviation industry. In order to meet the challenges from foreign competitors, Civil Aviation Administration of China (CAAC) had to reform its airline industry construction. As a result, the CAAC merged other five regional airlines with Air China. The new Air China Limited is one of the top three airlines in China, which possesses 136 aircrafts and 69 domestic Destinations and 34 international destinations (Air China 2005).

The name and logo of old Air China has retained due to the outstanding reputation in the industry. It is the only airline that can fly China's national flag on the aircrafts and also provide special plane for national leaders, which profit from its best safety record in the industry. Otherwise, Air China is trying to transform itself to more international airline by join

in world top airline alliance and develop new destination. In present, Air China has cooperated with US United and Lufthansa airline by Code Share agreement.

However, the emerging problem is that although the Code Share with big airlines can enable Air China to improve its quality and obtain more market power, it could damage company's brand potentially. It is because the smaller partner will loss independence and own company identity when they stay with giant partners.

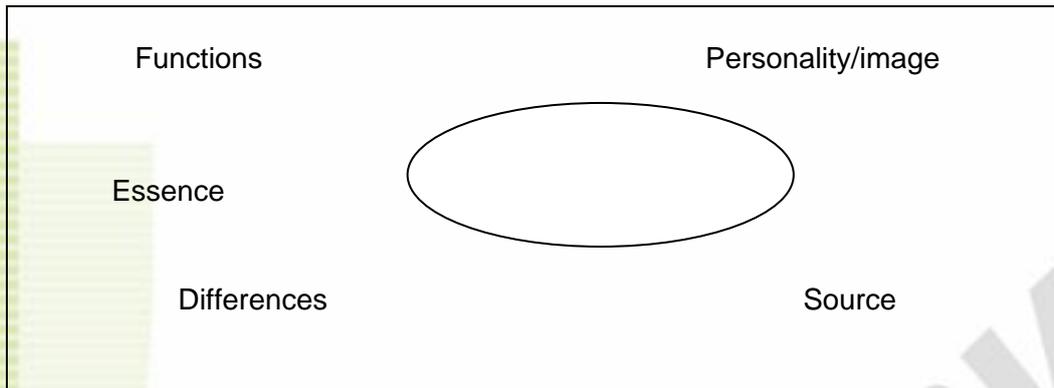
Literature review

Literature review will provide a basic background of research related to the topic and proper theoretical frameworks that support this dissertation. As for this study, the literature review will conduct an investigation into such areas shown as below:

Theoretical framework area:

The dimension of the branding: Leo Burnett (2000) summarized that the dimensions of branding are functions, personality/image, source and differences (in figure 2)

Figure 2 Burnett models of brand dimensions



Source: G. Randall (2000): *Branding, a practical guide to planning your strategy*

The challenges to brands: Berry (1993a) suggests three challenges for branding today. First, branders must understand the price elasticity for their product. Next, adequate price controls must be in place.

Finally, the organization must have effective and efficient brand building activities.

Planning and organizing for branding: this section includes market analysis, brand analysis, positioning, and portfolio management.

Industry acknowledges area:

The impact of customer behaviour in airline industry: understanding criteria for customer choices

The features of airline industry with regards to operation and marketing issues Electronic databases and Internet will be the main source of data collection, which include performance data of Air China and its main competitors and industry data. In addition, this research of this section will also centre on China's political, economic and legal issues. The literature researching will depend on printed book and material in the Aviation Collage library. It is expected that it could build up a primary framework of brand theories and basic understanding of China's airline industry.

The research will reach globalization of airline industry in world wide dimension, especial in the last two decades. Therefore it will consider the economic and political impacts on airline operation. This is because the development of airline industry is largely depended on these

two factors. For example, the deregulations of Europe skies enable airlines to spread their service into other country easily. As a result,

Methodology

The methods and procedures section is really important in the process of research. It will use exploratory method to approach questions in the project and do not introduce a hypothesis method. As for data collection, the research will focus on economic, legal, industry aspects in China and Air China. The accession of data will mainly through the search of websites and interviews questionnaire. The sample questions of questionnaire are shown as below. In addition, the questionnaire will be designed in very short base due to the survey will conducted at airport.

1. What are your criteria for choosing airline?

- A. Price B. reputation C. direct flight

2. How do you purchase ticket?

- A. Travel agent B. online booking through agent C. through airline website

3. The reason why you choose current flight?

(The interview is in the airport)

The process of search data through China's official websites seems difficult, as China's governments are not used to publish sufficient information and data to public. Therefore one will try to use telephone interview to obtain data directly from relative government and company departments.

Recourse

The research will not require a mass data resource such as financial data and productivity performance. Basically, the research will mainly centre on theoretical analysis to build a brand-planning framework and most of recourse will collect from literature reading.

As a result it does not need to visit in different countries to gather relevant information. The facilities required for processing the research will be the computers that can also support literature preparation.

Therefore will use interview method to collect information, which probably is a Difficulty for this study. The interviews with companies are divided into two Parts including airline companies and travel agents.

Otherwise will Interview large number of passengers in the airport area. This part is the most difficult work because it will take time and is required to engage in questionnaire.

Timetable and chapter review

Basically, the preparation work, which includes books, articles and Internet resources. In the mean time, a database will be created to collect relevant information and data.

The work of methodology and data collection is expected to be completed by the same time with literature review. Then, will concentrate on data analysis and selection and those work. During the period of preparation and writing, the meeting and electronic mail is another useful measure to keep in touch with personal tutor.

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