Low Cost Business Model in Airlines Industry (A Study on Airasia)

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1. Project Background

Choosing a business model when starting a business is a stage that needs cautious thought, when beginning a business your business model helps you choose how you need to increase the value of your organization, it is the means how you want to make profit. Building creative items doesn't always bring prosperity to your organization, it requires a business model that expands income additional time and maintaining a strategic distance from cost increment, a business model that has the accurate pricing, the accurate delivery channel to the exact right targeted customer to keep your business developing. It takes more than one to assemble a successful business, with one concentrating on details and the other building a reasonable business model remembering that both of these mission should be in paralleled.

In this project we are proposing the Low Cost Model particularly to Airlines. Low cost Model is a business strategy where organizations offer lower costs for their services or products to attract high demand and increase their market share. This model can be adopted by any company and it is typically applied when the product has few or no value that helps the organization survive the monetary conditions. We trust that in seasons like the holidays, tickets costs rise fundamentally because of high demand, everybody is going back home and everybody has booked an holiday destination across the globe. This change in price is basic among airlines; this project is suggesting the Low Cost Model during peak seasons and to keep up their standard costs or increment it throughout the year to compensate for loss caused by the low fare. This study attempts to study the impacts of adopting this business model in airlines.

2. Objectives

Customer favor to choose to travel by airlines that offer the best service , standard of comfort, in-flight entertainment services, variety of food and drinks. This would be even better with lesser price charged to tickets. Hence in this study we attempted:
- To identify the reasons behind the rise and fall in ticket prices during holidays.
- To study alternatives for increasing revenue.

- To suggest that the Low Cost Model increases sales volumes and maintaining the same services and comfort level
- Services and comfort level

3. Methodology

This study will be using qualitative approach whereby we use secondary sources, in-depth interview and content analysis (Holsti, 1969) as a method of investigation. Considering this type of analysis, the data is exposed to a comprehensive analysis to explain the issues highlighted in the study.

Saris-Gallhofer, Saris & Morton (1978) defined content analysis as any technique for making inferences by objectively and systematically identifying specified characteristics of messages. According (Krippendor, 2004) content analysis is a research technique for making replicable and valid inferences from data to their context.

Content analysis is a technique of gathering and analyzing the content of text (Neuman, 2003). The content refers to words, meanings, pictures, symbols, ideas, themes, or any messages that can be communicated (Neuman, 2003). A number of analysis attempts to relate certain characteristics of the score of a given body of message content to the characteristics of the messages that are produced. This form is used in many studies that test hypotheses of form (Wimmer & Dominick, 2010)

For This paper, a total number of six interviewees were interviewed through Email. Due to the fact that it will be very difficult to find managers working at the AirAsia, the interviewees will be limited to the customers who use these airlines when travelling whom also from IIUM. This paper attempts to analyze the cause and effects in the rise and fall of ticket prices during peak seasons and throughout the year.

The aim of this study is to bring to light how adopting the Low Cost Model in airlines will benefit the airlines and whether or not their sales volume will drop or skyrockets, keeping in mind that the comfort level and information systems in AirAsia such as YMS and CRS will be highlighted and analyzed at the same time.

4. Project Limitations

- The interviews were restricted to IIUM students, the six interviewees were from Asia, Africa and the Middle East.
- Another, limitation was we couldn't find any top level employees at any of the airlines who can provide us with legitimate information due to information being classified according to what they said.

The information in this project is mainly based on the opinions of the customers of these airlines, their responses paved the way for the project and we depended on additional information we found from online resources.

5. AirAsia current practices and design

AirAsia is an award winning Low Cost Carrier (LCC) in Asia Pacific area. The way to conveying low charges is to reliably keep cost low. Achieving minimal effort requires high efficiency in all aspects of the business and looking after straightforwardness. In this manner each framework procedure must fuse best industry rehearses. The utilization of information system assumes an essential part in the strategic and operation administration of airlines, and encourages the effective airlines for the future. Air Asia makes the low fare business model and creates values through the usage of the following key methodologies:

- **Safety first:** safety is the absolute most imperative criteria in each part of the operations, a range that AirAsia will never compromise on. AirAsia consents to the conditions set by controllers in every one of the countries where the airline operate.Joining forces with the world's most famous maintenance provider and conforming to world aircraft directions.
- **High aircraft utilization:** AirAsia's high recurrence flights have made it more helpful for visitors to go as the carrier executes a brisk turnaround of 25 minutes, which is the speediest in the region. This is the cause of high aircraft usage, bring down expenses and more prominent aircraft and staff efficiency.
- **Low charge, no frills**: giving visitors the decision of tweaking administrations without bargaining on quality and administrations.AirAsia targets visitors who are set up to get rid of ornamentations, for example, dinners, preferred customer credits or airplane terminal parlors in return for admissions lower than those right now without including on quality and administration. Visitors have the decision of purchasing solely arranged suppers, snacks and beverages from in-flight benefit at an affordable cost.
- **Streamline operations:** ensuring that procedures are as basic as could reasonably be expected. Making the procedure as basic as conceivable is the way to AirAsia's prosperity. Making the procedure as basic as conceivable is the way to AirAsia's prosperity.
- **Lean distribution system:** AirAsia offers a wide and inventive scope of appropriation channels to make booking and voyaging less demanding for its visitors. AirAsia's ticketless administration gives a minimal effort contrasting option to issuing printed tickets. Straightforward Distribution System Simple is great, basic

is the thing that we need and basic is the thing that we as a whole need.
- **Point to point network:** applying the indicate point organize keeps operations basic and expenses low.

6. Interview analysis

6.1 Findings

In this paper six students from IIUM were interviewed about the airlines they fly into usually, the questions were directed to find out whether the low cost carrier model affect the airlines industry negatively if applied and whether they believe the change in ticket prices during seasons is a successful strategy and whether they think if the airlines adopted the low cost model would it mean that their comfort level is low as well.

Two of the respondents stated that if full serviced airlines changed to low cost carrier would be benefit them financially due to increase in sales volumes because customers are attracted to cheap prices and knowing they can enjoy the same level of comfort as well the competition will increase so creating promotions and opportunities can increase demand. When asked about the quality one of the respondents said that she believes that low cost carriers in general are less comfortable and limited options, she added that she will consider taking it only to neighboring countries. Another respondent disagreed and stated that level of comfort is same as other normal carriers. Interviewees suggested that low cost carriers can increase their revenue through charging for baggage, food and other services while issuing cheaper tickets.

We can conclude from this is model has been successful model for airline industry so far and it has the customers' acceptance because they get to pay less. For Saudi airlines would be even better because they will get to fully enjoy the services offered by them at lesser price.

6.2 Other related concepts

6.2.1 Information System in airlines industry
Information system has significantly evolved in the airline industry since 90% of their business is based on technology systems. Looking closely at airline business we can see that they have numerous services that calls for utilizing Information system such as:
- Pricing and management revenue system
- Air cargo system
- Sales and marketing system
- Airport marketing system
- Flight operation system
- Reservation system
- Crew management system

This system provides information to employees to help them serve their customers better. They use this information to make decisions regarding fares and schedule and to assign on-board crew and fleet maintenance. Systems like information and communications system allows airlines to be efficient in responding to the changing environment.

6.2.2 Knowledge management in airline business

Knowledge management is a strategy where companies gather, manage and use the knowledge it acquires in the most useful way. Knowledge management helped airlines to improve their operations effectiveness by setting procedures and adopting best practices. Technology plays a vital role in managing knowledge because only those businesses that keep up with the technological developments can maintain a competitive advantage in the market. ICT remains to be the central element I the implementation of knowledge management, through the integration of knowledge management system and customer relationship management ICT will assist airlines in improving their data processes to help and facilitate the decision making process hence add value to customized products and services. ICT helps in personalizing knowledge management strategy through the creation of instant messaging, chat room to disseminate knowledge to the authorized parties.

6.2.3 Customer Relationship Management (CRM)

In whole deal, customer relationship should be urged for Air Asia to keep up upper hand and efficiency. At whatever point arranging and executing CRM application, organization is endorsed the going with tenets:

1) Customer division – mileage-based division is lacking, rather should focus on esteem based and needs-based techniques can oversee wander decisions and drive more conspicuous learning into the necessities of high esteem customers.
2) CRM movement headway – to isolate from various contenders, Air Asia should not to get the "snappy lover" approach to manage CRM action change, i.e. picking up from other contenders' approach (e.g. presenting remains for fast enrollment). Air Asia should realize CRM program for placing assets into exercises.
3) Definitive blueprint and organization – Air Asia needs to set up the agents, empowering them with an aggregate point of view of the customer and doubtlessly articulating the laborer's part in the CRM system.

To legitimize the wander and utilization degree of the CRM program, AirAsia is recommended to research the arrival for cash contributed and budgetary impact to shareholder esteem driven by each of the CRM exercises. The followings exhibit a couple instances of return for capital contributed and the money related assessment of picked CRM exercises.

7. Conclusion

Low cost model has been successful for the airline industry under the right circumstances, for a full serviced airlines we believe they could continue to be so after doing some necessary adjustments. As for code sharing , the disadvantages of this model is more than the advantages it can offer especially for the passengers, and in airline industry customer service and satisfaction plays a vital role in the company's success. Hence, if full serviced airlines can eliminate or even minimize the harmful effects of this model and ensure the good experience that the passengers are expecting we believe would be beneficial for the industry.