**A Study on the Effects of Low Cost Carriers Model on Tourism Industry**

**Ms. Rojanard Waramontri**

Airline Business, Suan Sunandha Rajbhat University, International College 1 U Thong Nok Road, Dusit, Bangkok 10300Thailand

Email: rojanardw@gmail.com

**Abstract:** Low-cost airlines have been in business for some years now and are growing even more rapidly. It was the company South-West Airlines that was the first to start with a new form of services; providing less services but offering cheaper prices to its customers. Becoming a successful competitor on the air transportation market in the US, South-West Airlines settled the basics for what nowadays is called the low-cost airline. This so called South-West model has been an example for low-cost operations and is often referred to as “The low-cost model”. This research will focus on the concept of low-cost carriers model and its relation to Tourism Industry. The researcher carried out with the aim of identifying if, and how, low-cost airline services have their effects on Tourism Industry. The paper presents strategies adopted by Low Cost Carriers (LCC), which results in Low-cost airlines have set new trends in the travel market and induced air travel demands without competition with established airlines. The researcher uses descriptive method, existing studies, research, reports and data. Furthermore, the case studies illustrated that low-cost services attract passengers from larger distances and therewith have a more spread out effect to the greater region instead of what is often expected to be to the benefit for the locality. That is also why the trend and travel behavior changed. Then, explanations for the differences in Low Cost Carriers impact on airports were suggested.

**Keywords:** Low Cost Carriers, Destination, Travel Behaviour, Tourism

**Introduction**

Air transport in the world in recent years is the fastest growing sector of transport. It is one of the major sectors of the global economy, which generates annually about 413 billion dollars in revenue (IATA, 2006). At the same time one could observe significant and major changes in the air transport market in the world. One of the major changes in the market was the emergence and rapid development of low-cost airlines. This article presents the basic principles of the “low-cost carriers business model”, then analyzes their effects on the tourism industry, particularly the effects on travel behavior and choice of destination.

Taking the above as a starting point, the main objective of the present study is to analyse the effects of a low-cost carriers on choice of tourist destination, concretely tourists flying from Don mueng airport (Thailand) and spending their holidays in Thailand. Data used for the analysis was obtained from a survey conducted in Don mueng Airport. One hundred and five passengers on 5 flights operated by low cost airlines were interviewed in the Don mueng airport immediately before their flights were scheduled to leave for their destinations.

**Literature review**

Tourism is one of the economic activities to benefit from low-cost carrier development, opening new tourist markets (Bieger and Wittmer, 2006) and also explaining the increase in international tourism in several European Mediterranean regions, as noted by Martínez et al. (2005), Quintiliani (2009), Graham and Dennis (2010) and Donzelli (2010), among others. Low-cost carriers have played an important role in the revitalization and modernization of some regional airports generating the development of new routes (Vera Rebollo and Ivars, 2009), raising the number of flights as well as passengers and enlarging their catchment area (Pantazis and Liefner, 2006). The basic characteristics and the philosophy of how low-cost carriers operate can be encapsulated into the following points (Callaghan, 2006):

- focus on minimizing costs and maximizing efficiency,

- low costs are transferred to low tariffs for consumers,

- primarily a *point-to-point* service as opposed to the *hub and spoke* model,

- direct flights between regions,

- using mostly secondary and regional airports,

- operation of newer, cleaner and more efficient aircraft

Furthermore, the existence of the low-cost route increases the probability of visiting a destination because it adds another way get to it. This increase is defined as the difference between the probability that a potential visitor will come to a destination because of the availability of a low-cost flight and the probability that the visit would have been made anyway if the low-cost flight did not exist. Hess, Adler at al. (2007) and Hess and Polak (2006) who studied choice of airport along with airline also considered factors like access time, in-vehicle access time, walk time to access mode, access cost, and airport reputation when making a decision about an airport. Few authors who researched choice between low-cost and full-fare carriers indicated that the most influential factors that support the low-cost choice were the price followed by on-time performance, regardless if it was the case of business or leisure travelers. Most authors had a tendency to conclude that travelers selected low-cost option only because of an airfare (O’Connell and Williams 2005; Huse and Evangelho 2007; Ha 2010). Seddighi and Theocharous (2002) studied tourism destination choice and suggested a model that combines the important characteristics of the tourism product that not only affect the traveler choice, but also form a feeling about the destination in traveler’s mind. They suggest cost of living at the destination, price of tourist package, facilities, cost of transportation, quality of promotion & advertising, quality of services, and political instability to be the most important factors that determine choice of destination.

Consumer behavior in general, as well as in tourism, includes a decision making process when a potential customer feels the need to travel, chooses where and when to travel keeping in mind certain factors that may or may not affect traveler’s final decision, prepares and experiences the process of travelling, and finally evaluates those experiences based on his/her own unique set of expectations (Peter and Olson 2010). There are quite a few studies looking into students’ consumer behavior. Gallarza and Saura (2006) investigated university students’ travel behavior in terms of perceived value. Field (1999) conducted a research comparing differences in travel behaviors between international and domestic students of major southeastern university in the United States. One of conclusions was the fact that domestic students tend to travel a lot more than international ones, and that “college market” may be important and profitable for leisure travel industry if positioned properly, since a lot of students travel during spring and summer breaks.

 Given the setting and the benefits of Low Cost Carriers model found, the researcher created a study which aimed to investigate the effects on the tourism industry, particularly the effects on travel behavior and choice of destination.

**Methodology**

Analysis has been performed by means of the Causal Chain Approach (Young et al., 2004, 2005 and 2007). This is a causal probabilistic method that allows analysing if exposure to a certain product or information has an effect on the decision to consume such product. The key questions in order to calculate the increase in probability (Dp) created by the availability of low-cost flights from Don mueng airport are defined as follows:

a)  On a scale of 0 to 10, how true is it to say that you came to the destination because of the low-cost flights to Bangkok?
b)  On a scale of 0 to 10, how true is it to say that you would have come to the destination even if there were no low-cost flights to Bangkok?

The first of these questions is designed to elicit the probability of the visit being made given the existence of the low-cost flights or the probability in causality (ki in equation 1). The second elicits the probability that without the low-cost flights the visitor would have come to the destination anyway, or the background probability of the visit being made (1- ci). Then, ci (equation 1) is the probability that without the availability of low-cost flights no visit would have been made (probability in causation).

Dpi =ki\*ci (1)

The extremes of the range of responses are: visitors saying the availability of low- cost flights has played no influence at all and that they would definitely have visited the destination anyway (c and k values equal to 0), and visitors saying they would not have picked the destination if low-cost flights had not been available, so they decided to book their visit because of the availability of low-cost flights (c and k values equal to 1). In the first group, low-cost flight availability does nothing at all to make the visit more likely, while in the second group the availability of the low-cost flights raises the probability of this visit from 0 to 1.

So, Dpi (equation 1) is the fraction of the individual visit that can be ascribed to the availability of low-cost flights. This allows measuring the contribution of all passengers (Dp in equation 2) rather than performing a binary classification of visitors. The effect of the low-cost flights on any group of visitors would be missed in case of the individual contribution was not sought.

Dp=∑Ni=1 (ki \*ci)/N (2)

**Results and Findings**

According to the sample profile, More than 70% of the respondents were families with children under 13 years old, followed by relative adults above 35 years old (26%) and families with children between 13 and 17 years old (12%). Taking into account the locations where the tourists stayed, Chiang mai received the highest number (68%). Hotels was the most frequent type of accommodation chosen by 58% of respondents followed by those staying at friends’ or relatives’ lodging (15.2%), rented apartments (13.8%), their own lodging (7.9%), campsites (3.1%), and others (2%). The most frequent length of stay was 7 nights (57% of respondents), followed by those answering 14 nights (15%). This could be related to low-cost route flight frequency .

Answers to the question regarding the main reason for deciding to fly the low-cost route from Don Mueang airport show that 67.9% did so because of the price. While 32% did so because of the flight availability. The existence of the low-cost flights to Chiang mai was the reason why 36.7% of the passengers had decided to come to the destination, while 7.2% were not influenced by this at all (10 and 0 to question 18, respectively). On the other hand, 18.3% answered that they would have come to the destination even if there were no low-cost flights to Chiang mai and 4.5% would not have come to the destination in the event that low-cost flight routes had not been available (10 and 0 to question 19, respectively). The most common response to question 18 was 10, while for number 19 it was 5.

So, if applying causal chain analysis to the whole sample, the results show a strong k value (probability of the visit being made given the existence of the low-cost flight route) of 71%. Availability of the low-cost route clearly influenced their decision. However, the background probability (1-c) that respondents would have come to the tourist destination irrespective of the low-cost route is 63.3%. So, the equivalent of 28.4% of the respondents (calculated from the fractional responses) travelled there only because the low-cost route from Bangkok airport to Chiang mai airport was available. It is the increase probability (ck).

**Conclusion**

In general, the results of our research support the results of the study conducted by O’Connell and Williams, as Norwegian students, who mostly choose low-cost airlines, focus on price, as well as on quality of service and flight availability, Proussaloglou and Koppelman (1999) found out that carrier market presence, quality of service, and frequent-flyer program membership have positive impact on carrier choice. It is hard to compare these results to our results directly, but we can say that in our research quality of service is definitely very significant, and contributes to a selection of low-cost carrier.

In an airline, consumers buy a service (going from one point to another); in fact they want an intangible product (Brueckner, 2002; Lee and Luengo, 2002). So their main goal is to get to their destinations safe, on time and as cheap as possible. These points can carry us to the main reasons of low cost carriers‘ succeed. Over the last three decades, Low Cost Airlines (which are famous as Low Cost Carriers (LCCs) in aviation industry) have emerged as an industry phenomenon that has fundamentally altered the market structure and competitive landscape of the airline industry (CAPA, 2002; Boguslaski, Ito and Lee, 2002; Mayer and Sinai, 2002) The growth of LCCs was a product of the successful application of an innovative business model, taking advantage of opportunities which were made possible by the deregulation in aviation market (Morrison, 2001; ELFAA, 2007) The most perfect and complete.

**Recommendation**

There is no doubt the introduction of low-cost flights has brought new tourists to the mature destination as well as the mature destination is well supported by ‘captive’ tourists who would still come there even if the low-cost flights were not available. Accommodation and hospitality providers would be well advised to build up a loyal clientele who are less dependent on the presence of the low-cost flights for their attraction to the destination. Therefore, in the light of this case study, similar research could be done in other regional airports to test whether that we have found in Don Mueng airport is being replicated in other destinations where low- cost flights have been introduced.

**Reference**

Bailey, E.R., Graham, D.R., & Kaplan, D. (1985). *Deregulating the Airlines*, MIT Press Series on Regulation of Economic Activity, Cambridge, MA: MIT Press.

Barrett, S., D. How do the demands for airport services differ between full-service carriers and low-cost carriers? *Journal of Air Transport Management*, 2004, 10, 33-39.

Castillo-Manzno, J., I. Determinants of commercial revenues at airports: Lessons learned from Spanish regional airports, *Tourism Management*, 2010, 31, 788-796.

Chang, T.Z., & Chen, S.J. (1998). Market orientation, service quality and business profitability: a conceptual model and empirical evidence. Journal of Marketing, 49 (31):41-50.

David Mc. Service Quality and Customer Satisfaction in the Airline Industry: A Comparison between Legacy Airlines and Low-Cost Airlines. *American Journal of Tourism Research*, Vol.2(2013), 67-77.

Francis, G., Fidato, A., Humphreys, I. Airport-airline interaction: the impact of low-cost carriers on two European airports, *Journal of Air Transport Management*, 2003, 9, 267-273.

Graham, A., Dennis N. Airport traffic and financial performance: a UK and Ireland case study, *Journal of Transport Geography*, 2007, 15, 161-171.

Huang, Y. K. and Feng, C. M. (2009) Why Customers Stay: An Analysis of Service Quality and Switching Cost on Choice Behavior by Catastrophe Model, *International Journal of Services Operations and Informatics*, Vol. 4, No. 2, 107-122.

Lei, Z., Papatheodorou, A. Measuring the effect of low-cost carriers on regional airports’ commercial revenue, *Research in Transportation Economics*, 2010, 26, 37-43.

O’Connell, J.F.& Williams, G. Passengers’ perception of low cost airlines and full service carriers: A case study involving Ryanair, Aer Lingus, Air Asia and Malaysia Airlines. Air Transport Management 11 (2005) 259-272.

Papatheodorou, A., lei, Z. Leisure trvel in Europe and airline business models: A study of regional airports in Great Britain, *Journal of Air Transport Management*, 2006, 12, 47-52.

Saha G.C., and Theingi. (2009). “Service quality, satisfaction, and behavioral intentions: A study of low cost airline carriers in Thailand”, Managerial Service Quality, Vol.19 (3), pp.350-372.

Yang, Hsieh, li & Chyan. Assessing how service quality, airline image and customer value affect the intentions of passengers regarding low cost carriers. *Journal of Air Transport Management*, 20 (2012), 52-53**.**

Internet Sources: [www.southwest.com](http://www.southwest.com), www.airtran.com