

E-COMMERCE AT YUNNAN LUCKY AIR



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Introduction

Based in the capital of southwestern China's Yunnan province Kunming, Yunnan Lucky Air is a Chinese low-cost airliner founded in 2004. Hainan Airlines Group which is one of the major airlines in China is the holding group of Yunnan Lucky Air.

The company provides local flights from Yunnan province where it's based and has recently started to operate in international routes. The company had realised a consistent and rapid growth since 2004 when it was founded. According to the company's website, as of 2019 Yunnan Lucky air operates in 106 different routes, in which 91 are local routes and 15 are international routes. Through these routes the company connects 81 different cities which includes both local and some international cities. Moreover, Lucky Air is one of the fastest growing airline enterprises in Asia and the second biggest airline company in Yunnan Province (Lucky Air, 2019).

Industry Overview

China being one the fastest growing economies in the world, has positively benefited the Chinese airline's industry. The Chinese airline industry had realised an excellent growth in the past decade and is still growing well and is expected to grow more in the future. The government's relaxation of the airline industry regulations in recent years and the increase in the economic growth are some of the factors that have significantly contributed to the growth in the industry.

According to (Marketline, 2018), in 2017 the total revenues of the Chinese airlines industry was \$79.4bn, which represents a compound annual growth rate (CAGR) of 11% between 2013 and 2017 (Marketline, 2018). Whereas, industry volume increased with a CAGR of 10% between 2013 and 2017, to reach a total of 516.8 million passengers in 2017 (Marketline, 2018). Furthermore, the industry's volume is expected to increase to 712.5 million passengers by the end of 2022, representing a CAGR of 6.6% for the 2017-2022 (Marketline, 2018).

Table 1: The Volume of China airlines industry: million passengers, 2013–17

Year	million passengers	% Growth
2013	352.8	
2014	390.9	10.8%
2015	436.2	11.6%
2016	488.0	11.9%
2017	516.8	5.9%
CAGR: 2013–17		10.0%

Source: (Marketline, 2018)

Furthermore, (Marketline, 2018) states that domestic routes which is Lucky Air’s main focus and operations was in 2017 the biggest in the Chinese airlines volume industry, with a total of 472.2 million passengers, equivalent to 91.4% of the industry's overall volume. In comparison, in 2017 a volume of 44.6 million passengers was international, equating to 8.6% of the industry total (Marketline, 2018).

Table 2: China airlines industry category segmentation: million passengers, 2017

Category	2017	%
Domestic	472.2	91.4%
International	44.6	8.6%
Total	516.8	100%

SOURCE: MARKETLINE

MARKETLINE

Source: (Marketline, 2018)

Key Success Factors

Companies must know the trends in the environment in which they operate and the needs of their customers for them to succeed. Lucky Air’s ability to understand the trends in the business environment and the needs of its customers in which it operates were its key success factors.

Business Model

Lucky Air’s key success factors were the modeling of its operations on those of Southwest Airlines, which were low-cost and high efficiency. This model enabled Lucky Air to bring down its maintenance costs and the complexity of operations through the use of one model of aircraft and also by reducing its landing fee through the use of routes which are secondary and offering one seat class which enabled the company to use one pricing model (Berenguer, et al., 2008).

The tourist destination routes within Yunnan Province

Lucky Air is based in Yunnan Province. Hence, the company based its routes within Yunnan province tourist destinations. The government's granted operational license to this route was very limited, thus, giving Lucky Air almost a monopoly status within Yunnan. This route contributed to majority of the company's profits and was a key success factors (Berenguer, et al., 2008).

IT Operations

Lucky Air is part of Hainan Airlines Group. Hence, the company's key success factor was that, its IT operations was backed by Hainan Group which had one of the most advanced and best web portals in the Chinese airline industry. This meant that Lucky Air spent a tiny portion of its net income on its IT investments and had a competitive advantage over its competitors (Berenguer, et al., 2008).

E-commerce and Menu of Services

IT operations were Lucky Air's strength. The company was able to attract and maintain its customers through its innovations such as being the first in the Chinese airline industry to come up with online credit card verification and create an online community for its passengers. It also gave its customers the possibility to buy and if needed refund tickets online, paying 5% to 20% less than any other seller. Lucky Air maintained the trust of its customers and reduced the cost of manpower, by enabling its customers to validate their airline tickets online, get flight information, and a detailed description of inside and outside Yunnan province's travel destinations (Berenguer, et al., 2008). They also retained the customers by giving them the opportunity to create blogs and share their experiences and offering them bonus points when they book next time with Lucky Air. (Berenguer, et al., 2008).

Internal Analysis

Value Chain Analysis

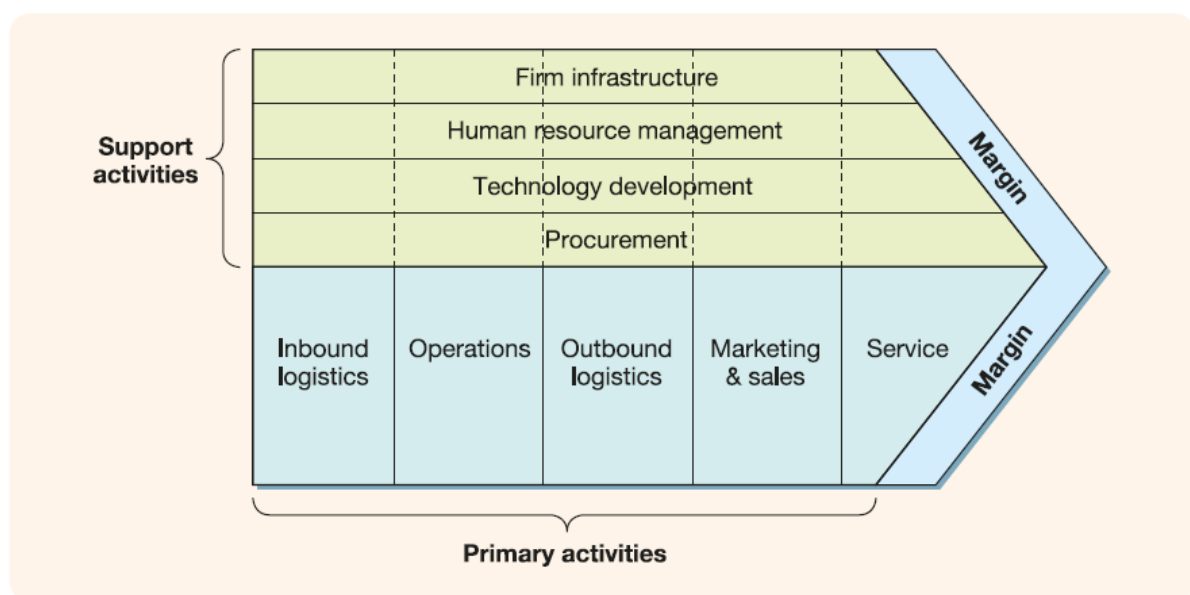
Value chain analysis allows the firm to understand the parts of its operations that create value and those that do not. Understanding these issues is important because the firm earns above average returns only when the value it creates is greater than the costs incurred to create that value (Hitt, et al., 2007).

Value chain is divided into the following two categories:

Primary activity: which is involved with a product's physical creation, its sale and distribution to buyers, and its service after the sale (Hitt, et al., 2007).

Support activities: provide inputs that allow the primary activities to take place. (Hitt, et al., 2007) state that these activities are broken down into four functions: materials management (or logistics), human resources, information systems, and company infrastructure (Hitt, et al., 2007).

Figure 1: Value Chain



Source: (Lynch, 2015)

Primary Activities of Lucky Air

Inbound logistics

With regards to inbound logistics Lucky air has its base in Yunnan and based most its routes within Yunann province's tourist destinations. Moreover, the government's granted operational license to this route was very limited. Hence, giving Lucky Air almost a monopoly status within Yunnan due to which these routes contribute to high proportion of the company's profit.

Lucky air maintains low-cost and high efficiency through its strategy to bring down its costs through the use of one model aircraft which reduces the maintainance and the complexity of operations and also by reducing its landing fee through the use of routes which are secondary and offering one seat class which enabled standard pricing model.

Operations

Lucky Air primarily operated only on short haulage flights. However, in 2015 the company obtained international operations licence and currently operates in 106 different routes, in which 91 are local routes and 15 are international routes. Through these routes the company connects 81 different cities which includes both local and some international cities (Lucky Air, 2019). The company offers a menu of services to its customers through its website luckyair.net. This gives customers the opportunity to buy and if needed refund tickets online and also pay 5% to 20% less than any other seller. Moreover, it mostly operates in cities which are secondary to avoid congestion and avoid the cost of landing. This enables the company to lower its costs.

Outbound logistics

Lucky Air customers have the possibility to buy and if needed refund tickets online. This has enabled the company to eliminate the commission of middlemen such as travel agents and call centers. Hence, it was able to sell its tickets 5% to 20% less than any other airliner.

Marketing and Sales

Lucky Air uses creative marketing and sales strategies. To consistently engage with its customers and create online presence the company gives its customers the opportunity to share their travel experience by creating blogs. Moreover, customers are made to feel that they are part of Lucky Air community by offering them bonus points for returning (Berenguer, et al., 2008).

Initially by paying 2% commission Lucky Air was able to sell about 80% of its airline tickets through agents and the rest on its website. However, with the number of web users increasing and the company's launching credit card verification the company was able to sell more of its tickets online (Berenguer, et al., 2008).

Services

In addition to Lucky Air's flight services the company offered its customers other menu of services such as being the first in the Chinese airline industry to come up with online credit card verification and launching an online community platform for its passengers. It also gave its customers the opportunity to buy and if needed refund tickets online and paying 5% to 20% less than anywhere. Moreover, it enabled its customers to validate their airline tickets online, get flight information, and detailed description of inside and outside Yunnan travel destinations.

Support Activities

Firm infrastructure

(Hitt, et al., 2007) state that firm infrastructure includes activities such as general management, planning, finance, accounting, legal support, and governmental relations that are required to support the work of the entire value chain (Hitt, et al., 2007). Through its infrastructure Lucky Air has been able to identify external opportunities such as the potential of e-commerce and obtaining international operations license by taking advantage of the government's plan to invest \$20.12 billion in opening 50 new airports and upgrading the capacity of existing airports. Furthermore, Lucky Air was able to identify its resources and capabilities such as its IT operations which were well advanced and the creation of credit card verification and which gave its customers the opportunity to buy and if needed refund tickets online, paying 5% to 20% less than any seller.

Human Resource Management

Lucky Air is growing rapidly. Hence, the company will need new staff particularly pilots, hosts and airport front desk staff. Human resources management will enable the company the opportunity to effectively recruit, train and hire competent staff that help achieve the organisational objectives.

Technology development

Lucky Air is aware of the environmental trends of the market in which it operates. Hence, the company has adopted to the e-commerce idea very early on. The advanced web portal held by its parent company and the company's vision to sell its tickets thoroughly online and the service add-ons it provides such as online blogs etc has enabled Lucky Air to get a competitive advantage over its competitors and also to reduce its cost and obtain high efficiency.

Procurement

This is the functions Lucky Air uses to ensure the availability of the materials, for Lucky Air that would be the lease of Aircrafts and purchasing of other inputs such fuel that are used in the value-creation activities.

Resources and Capabilities Analysis for Lucky Air

Lucky Air possesses both tangible and intangible resources that give Lucky Air a competitive advantage over its competitors.

Tangible assets of Lucky Air

According to (Lynch, 2015) tangible resources as the physical resources of the organisation that contribute to its value added (Lynch, 2015). Lucky Air's tangible asset is its location. The company is based in Yunnan province which is one of China's top tourist destinations and famous for the beautiful landscapes it has and its multi-ethnic culture.

Intangible assets of Lucky Air

(Lynch, 2015) defines intangible resources as those resources that have no physical presence but represent real benefit to the organisation (Lynch, 2015). Lucky Air's intangible asset is the license it has on the routes within Yunnan province. The company based its routes within Yunnan province's tourist destinations, and the government's limited grant of license on these routes hence, giving Lucky Air almost a monopoly on these routes and contributing to most of its profits.

Capabilities

According to (Lynch, 2015), Organisational capabilities are the skills, routines, management and leadership of the organisation (Lynch, 2015). Lucky Air's biggest capability lies within its IT operations. The company's IT operations were backed by its holding company, Hainan Group which had one of the best and most advanced web portals in the Chinese airline industry. This meant that Lucky Air spent a tiny portion of its net income on its IT investments and was able to focus on creating other value added services. Thus, the company was the first in the Chinese airline industry to invent online credit card verification and it was also able to create other value added services for example customers could buy and refund if needed tickets online, paying 5% to 20% less than any other seller. These add-on services gave Lucky Air a competitive advantage over its competitors.

External Analysis

Analysis of Porter's Five Forces - Lucky Air

Lucky Air operates mainly in China although it has recently started to fly to 13 international cities. To be successful it is fundamentally essential for every company to understand the industry it operates well.

Figure 2: Lucky Air – Analysis of Porter's five forces



Source: (Lynch, 2015)

1. The Bargaining Power of Suppliers - High

The main supplies to Lucky Air is aircrafts and fuel. Lucky Air doesn't own any aircraft. All its aircrafts are on lease. Airlines in China are prohibited to directly lease aircraft from manufacturer or a third party. All aircraft leasing in China is controlled by the governmental organisation called National Development and Reform Commission (NDRC) (Berenguer, et al., 2008). Hence, airlines like Lucky Air has no power to negotiate about the price of its aircrafts nor can it negotiate about the number of aircrafts it can receives or when it receives.

The second supply to Lucky Air is fuel, which is crucial as it plays a key role in the cost. Airlines operating in China do not have the option to buy fuel from any supplier other than state owned supplier China Aviation Oil, and the prices are set by the governmental organisation (NDRC) (Berenguer, et al., 2008). This has negative impact on the company's profitability as the cost will be high since they cannot negotiate the price and as a small company it must pay the fuel cost up front. Hence, the bargaining power of the supplier is very **high**.

2. The Bargaining Power of Buyers – Medium

Lucky Air is an airline based on low-cost strategy, which means that there is very less customer loyalty. Most low-cost airline customers are not loyal to the brand they value more about the price, thus, whichever airline offers the lowest price attracts them. In addition to that there is switching cost involved, customers can easily switch to any airline which has a better or cheaper offer. However, because of the government restriction on the license in Lucky Air's Yunnan province route, the company has almost monopoly which means that there are limited airliners operating same route. Hence, the buyer's bargaining power is **medium**

3. The threat of Potential new Entrants – Low

Although the Chinese government has eased the regulations in the airline industry and is heavily investing in the capacity of the existing airports whilst opening 50 new ones, it is still not easy for new entrants to easily start an airline business. This is because of the fact that it is not easy to obtain aircrafts as any new entrant will have to apply to the government which is the only one that can lease aircrafts and will have to wait for a long time before they can obtain aircrafts. It is also difficult to get airport slots specially as China has one of the busiest air traffic in the world. Moreover, Lucky air has been in the market for a while now which means that they might be exempted to pay their fuel costs upfront by the time those new entrants come to the market, hence, giving them cost advantage. Thus, the threat posed by new entrants is very **low**.

4. The threat of Substitutes - Low

There are various substitutes to airplanes such as cars, high speed trains, buses etc. However, the prices or the cost involved is not cheap. Moreover, they take more time for customers to reach their destination and also they are not as convenient as an airline. Consequently, the threat of substitute is **low**

5. The extent of Competitive Rivalry – High

There is an intense competition among airlines in China. With the government's ease of airline regulations in China and the development in the infrastructure of the airports, and the increased demand of low-cost airline tickets there are more and more low-cost airlines that are trying to take advantage of the demand. All the biggest Chinese established airlines are competing to create low-cost airline subsidiaries to compete with rivals and dominate the market. Using pricing strategy these airlines are trying to take every opportunity that arises. Thus, the extent of competitive rivalry is very **high**.

PESTEL Analysis of Lucky Air

Political

The people's republic of China is a single-party socialist state governed by the Chinese Communist Party (CCP). The CCP has been in power since 1949 and has the ultimate sole power to control all the activities in the country and there are no substantial political opposition groups that exist. In addition to that there is a high level of internet and media censorship (World Fact Book, 2019). This means that there is a very low public involvement in the politics of the country. Nevertheless, the CCP has maintained a strong economic growth and stable government. The government controls and has strong influence in the economy and is very stable. Hence, the following are some of the political factors that has and will affect Lucky Air.

Government Regulations

The Chinese government heavily regulates the airline industry. Although this has in fact benefited Lucky Air in the early days as it was extremely difficult for new entrants to operate in the routes operated by Lucky Air since the government granted a limited license on that route. Hence, giving Lucky Air almost monopoly status within Yunnan, in the long run tight regulations will negatively affect the company as it grows and explores more opportunities.

Government restrictions

There are some government restrictions imposed on the Chinese airlines industry which affect all airlines operating in China particularly smaller airlines. Some of the restrictions that affect Lucky Air as a small airliner are:

Fuel Purchase Restrictions:

Airlines operating in China do not have the option to buy fuel from any supplier other than state owned supplier China Aviation Oil, and the prices are set by the governmental organisation called National Development and Reform Commission (NDRC). This has negative impact on the company's profitability as the cost will be high since they cannot negotiate the price and as a small company had to pay the fuel cost up front (Berenguer, et al., 2008).

Aircraft Leasing Restriction

The governmental organisation called National Development and Reform Commission (NDRC) controls all aircraft leasing in China. Airlines in China were are prohibited to lease aircraft directly from manufacturer or any third party and their expansion capacity was restricted to 35% per year (Berenguer, et al., 2008). These restrictions were one of the biggest

obstacles that will hinder from smaller company like Lucky Air to grow and respond to market dynamics, particularly as they were at bottom on the list of priority to receive airplanes. These restrictions meant that Lucky Air had no power to negotiate about the price of its aircrafts and its ability to respond to the demand was restricted.

Taxes

On top of the heavy regulations and restrictions, Lucky Air was also affected the several government taxes which were between 2% to 10%. As low-cost airliner the company's prices will be influenced by the tax and strict pricing regulations, which might make it difficult for the company to remain low-cost airliner in the long run.

Economical

In the late 70's China reformed their economy from a economy that was planned to an economy driven by the market. Despite the fact that there is free market economy, it is still controlled by Central Government. Economic reforms have opened doors for foreign companies boosting Foreign Direct Investment, export of products and importing high technology products into China (World Fact Book, 2019).

From 2013 to 2017 China had one of the fastest growing economies in the world, averaging slightly more than 7% real growth per year (World Fact Book, 2019). Measured on a purchasing power parity (PPP) basis that adjusts for price differences, although China became the world's largest exporter in 2010, and the largest trading nation in 2013, in 2017 China stood as the largest economy in the world, surpassing the US in 2014 for the first time in modern history. Yet, China's per capita income is below the world average (World Fact Book, 2019).

China's middle class is expected to significantly grow to more than half the urban households. This will positively benefit Lucky Air as the purchasing power will improve and more people will be able to afford to book ticket and go for holidays.

Social

At the time when Lucky Air was venturing into e-commerce the Chinese population specially Lucky Air's target group did not use e-commerce or do any shopping online at all. Today, according to the World Economic Forum, China leads the world in e-commerce. Up from only 1% about a decade ago today more than 40% of the world's e-commerce transactions take place in China (Fan & Backaler, 2018). The Chinese population are accustomed to online shopping now, hence, Lucky Air as one of the airline e-commerce pioneers in China can greatly benefit from it.

Technological

Lucky Air had started e-commerce at a time when e-commerce was not sophisticated. China's technology infrastructure has rapidly improved ever since, and today China is one of the countries that are shaping the future of technology around the globe. Now there are better online payment systems in place, advanced smart phones and social media which enables companies to engage with customers, thus, people have learned more about online shopping.

According to Pwc's total retail report in 2017, China's e-commerce growth is accelerated by its consumer behaviour which is mobile-first, innovative social commerce model, and a trusted digital payments infrastructure (Birtwhistle, 2017).

A 2016 survey by McKinsey and Company showed that nearly 80 percent of the digital consumers they surveyed have traveled in the past 12 months. These consumers are relying more and more on online travel services. This is evident from their survey which showed that, travel is one of the most popular online to offline (O2O) categories, used by 36 percent of online to offline consumers nationwide. Among the consumers they surveyed, 77 percent reported that their total spending on travel increased after they transitioned more into online shopping (Wang, et al., 2016).

In addition to positive future predictions, the massive improvement in technology and digital shopping will continue to benefit Lucky Air in benefiting from e-commerce if the company engages with its customers and offers them better deals.

Environmental

Today more and more people are aware of the environment. Numerous surveys have indicated that most Chinese consumers are willing to pay a bit more for a product if it benefits the environment.

China is the world's biggest emitter of greenhouse gases. In 2017 China's top governmental bodies gave their approval to plans to launch the world's biggest ever mechanism to reduce carbon, in the form of an emissions trading system (Harvey, 2017).

(Lin, 2013) state that the aviation industry provides products for air transportation that is a major consumer of natural resources and energy. Hence, we can argue that development of green technology in aviation manufacturing will have significant impacts on air transportation (Lin, 2013). Therefore, global aviation manufacturing community is said to be making every effort to reduce emission and develop green aviation, which involves research and development

in various technologies including aerodynamics, noise reduction, more electricity, green fuel, green materials, and green manufacturing etc (Lin, 2013).

Lucky Air leases its aircrafts and has very low influence over the aircrafts it leases and the fuel it uses as they are both controlled by the state. However, the company can initiate environmental awareness programs and try to influence the government through its campaigns. Moreover, they can use green energy such solar panels etc to reduce emissions as a part of their green strategy.

Legal

(World Fact Book, 2019) states that the National People's Congress (NPC) is the highest political and legislative authority within the People's Republic of China (PRC) and has far-reaching powers that include amending and enforcing implementation of the constitution and formulation of policy and laws etc.

There are several agencies under the state council appointed by the NPC. However, some of the most significant agencies under the state council include the following:

- National Development and Reform Commission (NDRC)

NDRC is a macroeconomic management agency under the State Council that formulates policies for economic and social development (World Fact Book, 2019). Thus, it influences Lucky Air as this is the organisation that sets fuel prices for airlines and controls aircraft leasing.

(Liu, 2013) states that there are four levels of general courts in China: the Supreme People's Court at the central government level, the High People's Courts at the provincial level, and the Intermediate and Basic People's Courts at the local level. In addition to these general courts, there are several types of specialized courts (Liu, 2013).

SWOT Analysis and Confrontation Matrix

SWOT, which stands for Strengths, Weaknesses, Opportunities and Threats analysis is a tool used to understand the firm's the internal strengths and weaknesses and external environment opportunities and market threats of the company (Lynch, 2015).

The SWOT Analysis of Lcuky Air

	Strengths	Weaknesses
Internal	✓ Lucky Air is based in Yunnan province which is one of China's top tourist destinations. ✓ Lucky Air based its routes within Yunnan province's tourist destinations. The license granted to these routes is limited hence giving Lucky Air almost monopoly. ✓ Lucky Air's holding group is Hainan Airlines Group which has one of the best and most advanced web portals in the Chinese airline industry. ✓ Lucky Air is one of the early companies to start selling their tickets online directly to customers	✓ Undifferentiated business ✓ High fuel and aircraft lease cost ✓ Not able to offer bundled packages
	Opportunities	Threats
External	✓ Easing of regulations by the government ✓ Heavy investment by the government in opening 50 new airports and upgrading the capacity of existing airports. ✓ Technological developments ✓ Growing market ✓ Growing middle class and growing purchasing power ✓ Social changes in terms of e-commerce adaptation and positive attitude towards e-commerce	✓ Preference of substitute travel methods such as high-speed trains ✓ Potential new taxes ✓ Increase in the demand for long haulage flights than short haulage flights. ✓ Price war from well established companies in the Chinese market

SWOT Analysis Confrontation Matrix

Strengths	Weaknesses
1. Lucky Air is based in Yunnan province which is one of China's top tourist destinations. 2. Lucky Air based its routes within Yunnan province's tourist destinations. The license granted to these routes is limited hence giving Lucky Air almost monopoly. 3. Lucky Air's holding group is Hainan Airlines Group which has one of the best and most advanced web portals in the Chinese airline industry. 4. Lucky Air is one of the early companies to start selling their tickets online directly to customers.	1. Undifferentiated business 2. High fuel and aircraft lease cost 3. Not able to offer bundled packages

Opportunities	S-O Strategies	W-O Strategies
1. Easing of regulations by the government 2. Heavy investment by the government in opening 50 new airports and upgrading the capacity of existing airports. 3. Technological developments 4. Growing market 5. Growing middle class and growing purchasing power 6. Social changes in terms of e-commerce adaptation and positive attitude towards e-commerce	<u>S1, S2, O3, O4, O5</u> Lucky Air has advantage of being based in a tourist attraction city, in which it has almost a monopoly. Hence, it can benefit from this market through the development in technology by creating apps that educate and entertain their target group for instance. In that way they can take advantage of the growing market and the growing middle class which have spare income for holidays. <u>S3, S4, O2, O3, O6</u> Lucky Air uses Hainan Airline's web portal which is one of the best in the Chinese airline industry. It is also one of the earliest airlines to start selling tickets online directly to customers. Hence, it can take advantage of its IT and experience strength by exploring and reaching new markets in the regions that will have new regional airports and also use to	<u>W1, O6</u> With the right marketing strategy Lucky Air can distinguish itself from its competitors through the creation of strong brand using technology such as social media campaigns and selling its tickets online with some value added marketing strategies etc. <u>W3, O2, O4, O3, O5</u> Lucky Air can make its weakness strength by taking advantage of the growing market and striking deals with hotels, entertainment companies etc in those cities that will have new regional airports and thus, attract the growing middle class to travel to those cities. The company can develop its website better and embed those services as travel package with their tickets

	position itself as the leading e-commerce earliner since most of the consumers are accustomed to online shopping now.	W2, O3 By developing and improving its website and creating app, which offers almost all the services of the company, Lucky Air will be able to reduce its ground staff and reducing their cost
Threats	S – T Strategies	W – T Strategies
1. Preference of substitute travel methods such as high-speed trains 2. Potential new taxes 3. Increase in the demand for long haulage flights than short haulage flights. 4. Price war from well established companies in the Chinese market	S1, T1, T2 Create a bundled travel package. In this way the company will be able to encourage consumers to fly and take other add on services such as sight seeing and hotel and also it will reduce its cost, in the event of new tax. S2, S3, S4, T3, T4 Lucky Air has almost monopoly in Yunnan which is a tourist city. The company could encourage consumers to travel more to that city by educating them and showing them its beauty through social media and other advertising means. In addition to that they can use their experience and advanced web portal to creative effective e-commerce travel sit with value added services that attract customers, hence, it can reduce the cost and can comfortably face companies that start price war.	W1, W3, T1, T3 BY differentiating itself and creating a brand awareness, Lucky Air can distinguish itself from its competitors, hence, making also consumers to opt for Lucky Air instead of substitute. By creading attractive bundles of travel package Lucky Air can increase the demand for short haulage travel, if their packages appeal to their target customers. W2, T2 BY improving and creating advance e-commerce hub Lucky Air can reduce their cost through the reduction of staff.

Conclusion

In conclusion Lucky Air is a company that has done great so far. The growing middle class in China and the increase in the purchase power has enabled many people to want to travel. Hence, the industry is growing fast, leading many of the biggest airlines in China to create low-cost airline to take advantage of the rapidly growing market. This has intensified the competition and put more pressure on low-cost airlines which were already running on high cost due to external factors they can not control. Thus, reducing their profit margin as every company struggles to offer the most competitive price. Furthermore, the advanced development in technology such as the increased of smart phones and social media has changed the dynamics of the Chinese travel industry making many of the consumers to want to travel to long haulage destinations outside China. Therefore, the company's management has realised that they can not depend on their strategy of a low-cost airline which provides domestic flights only. Although, the company's management has a good vision of the future and obtained internal license its inevitable for the company to come up with a better strategy to retain its current customers and obtain new ones.

Recommendation

In order to stay a profitable business, Lucky Air has take advantage of the development in technology. The company's low-cost airline strategy online will not work in the long run as the technology enables many customers to explore destinations outside China. Therefore, an appropriate marketing strategy to make Chinese tourist destinations more appealing to customers is needed. Perhaps the company should create travel packages which include hotels and entertainment to retain its customers and get a competitive advantage over its customers.

On the other hand, remain competitive, Lucky Air should take advantage of its international operations license by researching areas that are more interesting to its target customers and add its flights to those destinations.

Finally, due to the intense competition in the low-cost airline industry in China, Lucky Air should find a better strategy to keep its customers and not rely only on price. It's evident that low-cost airline customers are not loyal to a particular brand and care more about the price. Hence, Lucky Air should provide service that give competitive advantage to the company. It should also use its IT capability and create an image which makes its customers as a part of community or family.

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