

E-commerce at Yunnan Lucky Air

Strategic analysis



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CONTENTS

BRIEF	3
EXTERNAL ENVIRONMENT	
<i>Asia-Pacific Low-Cost Carrier Market</i>	4
<i>China's PESTLE</i>	5
<i>Porter's Five Forces</i>	8
INTERNAL vs EXTERNAL ENVIRONMENTS	
<i>Yunnan Lucky Air SWOT</i>	9
COMPETITORS	
<i>International Competitors</i>	11
<i>National Competitors</i>	12
YUNNAN LUCKY AIR'S COMPETITIVE ADVANTAGE	
<i>Value Chain</i>	13
<i>Sustainable Competitive Advantage</i>	14
CONCLUSION	15
REFERENCES	16

Brief

This report analyses the current situation of Low-Cost Carrier sector, analysing International and national perspectives, focusing on the Chinese company Lucky Air. Exploiting the general overview, it tries to suggest new strategies, to develop awareness, profitability and efficiency.

Lucky Air was founded in 2004 and become soon as one of China's most popular low-cost companies, also thanks to its first competitive advantage in reducing operating costs through using one single type of aircraft (Boeing 737-700) and one-way seat class. The main flights destinations are concerted around *Yunnan*, province was seeing significant growth in terms of business tourism (especially considering Dalie and Xishuanbanna). The incredible growth between 2007 - 2008, within a predicted increase from 21 mln to over 24 mln, allowed the company to expand flights out of the region, by 87 new routes during its 150 weekly flights. After three years it was founded, the company increased three times its revenues until 104.3 mln. The financial statement in 2014 has registered a growth up 21% from the previous years, achieving 5,7 mln of passengers: during 2015 Lucky Air started on improving its services, launching new livery, new logo and uniforms. The logo has changed with an old seal featuring its name in chinese characters: the original one was straightly referred to the China culture, so it has been supported by a strong local awareness. This aspect could be an issue in expanding the business globally, but the company exploited that characterise in strength, giving to the local government a feeling of ownership. Currently the company has 1.8% share of the domestic seat capacity in China (CAPA 2015), included along with other airlines whom are the company's competitors.

Local government regulations have influenced the company operating costs, especially for:

- *Fuel*: China Aviation Oil was the sole fuel supplier for Chinese Airlines and the fuel price was set by the National Development and Reform Commission (NDRC). A small airline like Lucky Air had to pay for its fuel in advance until it proved itself as an established airline, adding to the firm's financial burdens;
- *Landing fees*: in China late development of the aviation industry caused that most cities had only one airport, so the landing fees for major airports were set by the government. Even for the few cities with more than one airport, airlines were required to pay the same landing fee regardless of the location and capacity. At the same time small cities (less than 1 mln inhabitants) offered lower fees, but not enough passengers to cover the costs;
- *Aircraft leasing*: aircraft leasing was controlled by the aviation bureau of the NDRC and single companies were not allowed to lease aircraft directly from a manufacturer, especially small companies, which were lower on the priority list to receive airplanes.

External Environment

Asia-Pacific Low-Cost Carrier Market

The global sector Low-Cost Carrier (LCC) has grown since the beginning of the past decade: at the moment there more than 100 LCCs operating a combined fleet of 6,000 aircraft. According to CAPA Fleet Database, in 2009 it was composed by just 2.900 aircraft, with Asia Pacific the world's largest market, accounting for nearly 600 million seats, or 35% of the global LCC seats in 2018 and expanding from a fleet of only 400 aircraft at the end of 2009 to 1,900 aircraft currently. The gain in LCC penetration rate to/from Asia Pacific was a more modest 4ppts, from 4% in 2009 to 8% in 2018, means that Asia Pacific LCCs have so far been used on routes within the vast region.

Twenty years ago there were only two LCCs operating in Asia Pacific – *Cebu Pacific* from the Philippines and *Freedom Air* from New Zealand. *Cebu Pacific* launched operations in 1996 and is now the largest airline in the Philippines. *Freedom* launched its operations in 1995 as a subsidiary of Air New Zealand, but suspended operations in 2008. *AirAsia* and *Lion* are now the two largest LCC groups in Asia, but *Lion* did not start operating until 2000 and *AirAsia* until 2001, however, the LCC penetration rate in Asia Pacific varies significantly, depending on the market. Some markets in Asia now have among the highest LCC penetration rates in the world, whereas others still have relatively low LCC penetration rates.

China has a relatively weak LCC presence and drags down the overall average as it is Asia's largest market. In 2018 LCCs accounted for only 10% of seat capacity in the Chinese domestic market, because regulatory constraints limit the rate of LCC growth. This country has a stronger presence in the international market, reaching 14% share of international seat capacity in 2018, compared to only 3% in 2008.

Japan, Asia's second largest market, also has a relatively strong international LCC penetration rate of 26%., but also a domestic penetration rate, at 17%, is also well below the global average. Seven Asian markets now have domestic LCC penetration rates above 50%: India, Indonesia, Malaysia, the Philippines, South Korea, Thailand and Vietnam: of the 20 largest markets in Asia Pacific, 16 have LCC international penetration rates above the global (international) average of 13%.

LCCs in Asia Pacific are already punching above the global average, f example, of the 20 largest international markets in Asia Pacific, 16 are above the global international average.

External Environment

China's PESTLE

Political Factors

A) China's new tourism policy 2013-2020

The new agenda focused on: *national tourism and leisure*, ensure to the employees sufficient time about flexibility for annual paid leave; *accessible environment*, attractions free for the public; *infrastructures*, improving recreation areas in metropolitan cities; *product development*, encouraging rural vacancy through services as bicycle tourism, self-drive tourism; *public services*, improving public tourism websites and building tourism information centres in public spaces such as airports, railway stations, bus stations, ports, expressway service areas, and commercial areas.

B) International Trades

China has been a member of the World Trade Organisation since 11 December 2001 and to date, the country has concluded 17 FTAs with 25 countries. Since 2017, the US had initiated several investigations targeting China, even through the imposition of tariffs by the US Government on various products from China. In 2019 the conflict was identified as war, but for the costs and loss brought by that process the two countries negotiated;

C) Nationality Restrictions

Under the *Negative List* (management model of foreign investment established in China and legalized by the Foreign Investment Law of the People's Republic of China), foreign investors are prohibited from investing in certain services, such as social surveys, legal affairs, press agencies, editing and publishing, radio and TV;

D) Safeguard measures investigations

A natural person, legal person or relevant organisation related to a domestic industry can request the to start an investigation. A domestic industry refers to all domestic producers of similar products or directly competitive products in China, or producers whose total outputs represent a major part of the total domestic output of such products;

E) Development and Reforms

The Country encourages the import of technologies, equipment, parts and so on, and encourages the world's biggest companies and investors to develop their strategies. In November 2019, China successfully held the second China International Import Expo (CIIE) in Shanghai, to the integration of trade, investment, culture, tourism and industry with a broader scope of spillover effects.

Economic Factors

F) Labor costs

Until 2015, China was the fastest growing economy in the world, but has since witnessed a decline in growth rates. In 2018 government reforms introduce 50 percent unemployment insurance refunds for companies that did not lay off staff.

G) Special economic zones

SEZs contributed to China's development, as reforms and resources experimentation. There are six types of them: administrative areas, geographical areas international cooperation, local industrial parks, industry clusters, corporate SZE. In 2014, there were also 14 open coastal cities, 4 pilot free trade areas and five financial reform pilot areas, 114 national high-tech development parks, 164 national agricultural technology parks, 85 national eco-industrial parks, 55 national ecological civilization demonstration areas.

H) Private sector

According to All-China Federation of Industry and Commerce (ACFIC), in 2020 sales revenue of the top

500 private firms reached 30.17 trillion yuan (\$4.46 trillion). The 94.6 percent of these companies took the initiative to invest in transformation toward high-quality development (Huawei, for example).

I) Energy supply

China's oil reserves of 24 billion barrels (bb) constitute just 2.3% of the world total for a country with 22% of the world's population; also the demand for nuclear energy is projected to grow at an average annual rate of 9.2% between 1996 and 2020.

J) Globally

China has started to globalise economically by buying up foreign companies in North America and Europe particularly. In fact, in 2010 China invested \$56bn in outward Foreign Direct Investment. With inward FDI averaging some \$60bn per year, China had, by 2015, converted from a net recipient to a net investor in FDI, a marker of its economic maturity in many respects. According to China Global Investment Tracker, The value of China's overseas investment and construction combined since 2005 exceeds \$2 trillion. In 2019, Chinese construction held roughly steady while investment fell.

Social Factors

K) Population predictions

Recent studies estimate that China's population will peak at 1.6 billion in 2040, compared with 1.2 billion in 1995. It is expected to fall below 1.4 billion by 2100, increasing issues concerning food, jobs, urbanisation and ageing.

L) Class structure

China is divided into five classes: *upper class* for the 0.2% of population, including *elite* as people who have assets from 10 million USD above; *upper middle class* for the the 5% of population, with annual income of 50 to 500k USD, assets above 1 million USD, known as products of modern education; *lower middle class* , 25% of population and with monthly incomes ranging from 500 USD to 5k USD; *grassroots* for the 60% of population and including low-income manual workers who account for more than half of China's population and with salary between 300 USD to 1k USD per month; *bottom*, 10% of population as unemployed people.

M) Attitudes

According to McKinsey Report 2018, Chinese population is taking care of itself amid the stress, congestion, and pollution of urban living, they are expecting to increase their spending mainly on categories related to health and lifestyle, especially about food choices. Attitudes toward gender roles have always been influenced by tradition, especially since Communist government initiated the one-child policy, considering men ahead of women in the social hierarchy. However, under Communism, women become independent, particularly in working on greater roles in professional and public life and being able to inherit property. According to World Religion Database 2020, 31.8% of Chinese population identify itself as agnostic, followed by 30.8% of Chinese folk-religionist.

Technological factors

N) Made in China 2025

Made in China (MIC) 2025 is a document in 2015, pushing for leadership in robotics, information technology, and clean energy, as a opportunity for a shift from being a low-end manufacturer to becoming a high-end producer of goods and service. Exploiting the experience of the Asian Tiger nations - South Korea, Taiwan, Singapore and Hong Kong -, MIC25 aims to move more sophisticated parts of the value chain and high-caliber research and development into China, spurring local companies to seek leadership in own sector.

Legal factors

O) Digital law

China's first e-commerce law officially took effect on January 1st, 2019. The law aims to protect the legal rights and interests of all parties involved in e-commerce transactions while maintaining market order. The law is toward not only consumer protections like data privacy and cybersecurity, but it also repairs China's reputation as a source of knock-off and counterfeit merchandise by zeroing in on false advertising.

P) Tourism law

Tourism administration laws and regulations are one of the main forms of tourism environmental protection law, mainly refer to the "Regulations" or the "Provisional Regulations", such as "the people's Republic of China for the conservation of nature area. That area includes also Ecological tourism law, to ensure the quality of environmental protection and establish a strict industry access mechanism, develop a suitable ecological tourism certification standard.

Environmental factors

Q) Environmental crisis

That crisis is one of the most pressing challenge from the industrialisation: life expectancy is 76.6 years in 2020. The country's energy consumption has ballooned; in 2013, Beijing experienced a prolonged bout of smog known as *airpocalypse* period, with a concentration of hazardous particles was forty times the level deemed safe by the World Health Organization. Coal is largely to blame for the degradation of air quality, in fact China is the world's largest coal producer and accounts for about half of global consumption. China is home to 20% of the world's population but only 7% of its fresh water sources. Overuse and contamination have produced severe shortages, with nearly 70% of the country's water supplies dedicated to agriculture and and 20 percent of supplies used in the coal industry. According to Choke Point: China, an environmental NGO initiative. In 2010 China's Ministry of Environmental Protection estimated the cost of pollution at around 1.5 trillion RMB (\$227 billion), or roughly 3.5% GDP. Air pollution contributes to an estimated 1.2 million premature deaths in China annually. Epidemiological studies conducted since the 1980s in northern China suggest that poor air quality in Chinese cities causes significant health complications, including respiratory, cardiovascular, and cerebrovascular diseases.

External Environment

Porter's Five Forces

A) Threat of new entrants: *High*

The entry and exit barriers are high for the airline industry, needing a high infusion of capital, sophisticated knowledge and expertise. The airline industry exploits the efficiencies and the synergies from the economies of scale and consequently, the entry barriers are hindered, while regulations could not let airlines exit the market easily.

B) Bargaining power of suppliers: *High*

Airline sector depends by suppliers for three inputs, that include fuel, aircraft, and labor, highly influenced by external environment. For example, fuel's price is subject to the fluctuations in the global market, depending on geopolitical and other kind of factors. Also, the need of aircraft means that the industry is straightly connected to Airbus and Boeing and labor force, which is still affected by the power of the unions. Regional Airports have little bargaining power as they are heavily dependant on one airline.

That force could building an efficient supply chain model, focused on multiple suppliers, and different materials. The main goal should be the creation of a third part, as suppliers, whose business depends upon the firm.

C) Threat of substitutes products or services: *Low*

Flying is considered as phenomenon status for the consumers and consequently, the substitutes in terms of the train and bus are minimal in their impact. For complementarities, offering services like free Wi-Fi, meals, and passenger amenities offered by the airlines does not really translate into more passengers.

D) Bargaining power of buyers: *High*

The entry of LCC and the resultant price wars has greatly benefited the fliers, but the regulation on the demand side of the airline industry meaning that passengers and fliers have been protected by the regulators means that the balance of power is tipped in their side. Also, thanks to the improvement of online ticketing and distribution systems, fliers don't have longer to be subject at the agents, intermediaries, and airlines.

The improvement of the force could be the building of a large base of customers, will reduce the power of the buyers and could get to the firm the opportunity to make lighter the sales and production process. Also a possible strategy should be coming up with new services and promotions.

E) Industry rivalry

Airline industry is driven on the supply side more than the demand side, which means that instead of choose in which markets operate and which segments to target, it is fliers who get to be pampered by the regulators. For this reason LCCs are still winning against full services, characterised by competitive tickets price, through distribution and the strategic to choice for focus on secondary airports.

Internal vs External Environments

Yunnan Lucky Air SWOT

Strengths:

- Brand awareness: the company is known as one of the main low cost airlines , even through is high efficiency in management;
- Profit;
- Customer experience; investments in development IT strategies represents the introduction of new strengths by customer prospective, as ad value for revenues. LuckyAir.net was the first in the industry to enable online credit card verification and create an online community for its passengers.

Weaknesses:

- LCC: as Low-Cost Carriers, the company is following a separation budget, cutting services to condensate operational costs. Weaknesses depend also on a single type of aircraft and only one class of seating;
- Taxes: high costs components (fuel, landing fees, aircraft leasing and other taxes) influence the company proficiency;
- Ticket Distribution System: in China customers can buy online tickets through airline company, travel agents and online distributor. Drivers for that transaction could be airline's call centres, ticket counter or, more frequently, company websites. In the case of websites, the company should pay the Global Distribution System fee to government-owned TravelSky, into a monopoly market.

Opportunities:

- New areas: unexplored regions as Dalie and Xishuanbanna could take part for the growth strategies;
- Purchase decision: operating in according to point-to-point network, LCC avoid hub-and-spoke network so the can reduce complexity costs, decreasing prices for tickets and taking part in the customers top of mind;
- Travel restart: according to McKinsey 2020, after the pandemic Covid-19 in China customers confidence in travel is growing, particularly for domestic travels since when border are still closed.

Threats:

- Competitors: according to The Civil Aviation Administration of China (CAAC), it will be an increase about the average annual growth, up until 15% for air traffic up through the year 2020.

Data registered 11.076 mn regional passengers in 2019, a decrease from the previous number of 11.271 mn for 2018 and 74.254 mn for international travels. Thanks to relaxation for regulation, airlines industry started to increase competitor numbers, particularly for LCC. In 2007 China counted 25 airlines, national and international, and three biggest ones (Air China, China Eastern Airlines, and China Southern Airlines) dominated the market with 83.7% share. Also, Government regulations restricted airlines' ability to reduce ticket prices, yet the sheer abundance of low-cost airlines pressured each to lower its ticket prices as much as possible;

- Fuel price: the fuel price is set by the National Development and Reform Commission (NDRC), and China Aviation Oil is the fuel supplier for Chinese Airlines;

- Railway networks: China State Railway is planning a huge expansion of its high-speed railway network as project of its post-Covid-19 infrastructure investments, letting grow demand for road and aviation fuel. This plan targeted 45,000km of high-speed rail lines by 2030, as part of a 59,000km expansion of China's total rail network to 200,000km;
- Regulation: some regulations could impact the company in avoiding cross-over from regions to other ones.

Competitors

International Competitors

After Asia Pacific the region that has experienced the largest gains in intra-regional LCC penetration rates this decade is Latin America, with for 36% in 2018, compared to 25% in 2009: LCCs are well established in the three main domestic markets of Brazil, Colombia and Mexico. Over the past couple of years LCCs have started to penetrate the domestic markets in Argentina, Chile and Peru. There strength of Latin America is shown also in the cooperation between North America and Europe, offering limited service as couple-countries.

Europe has the highest LCC penetration rate in the world, LCCs accounted for 41% of seats within Europe in 2018, compared to an already high 34% in 2009. The introduction of new generation narrow body aircraft, which have a potential game-changing impact on six- to eight-hour routes, could particularly have a major impact on the LCC penetration rate to/from Europe.

In the United States, LCCs hold above 30 percent of the domestic market, within *Southwest* was ranked second among the leading airlines in the U.S., with a market share of 16.5 in 2020, just behind legacy carriers *Delta Air Lines* and *American Airlines*. Of particular interest is the emergence of the ultra-low cost carriers (ULLCs), like Spirit Airlines, Frontier Airlines or Allegiant Air in the U.S. domestic market, all of which are benefiting from the low jet fuel prices. The new business model is based on provide unbundled base fares with the option of booking other ancillary air-related products.

Ryanair

Ryanair uplifted some 148.6 million travelers, making it the largest in Europe, even in 2019 registered 27% loss in net profit, caused by strikes, staff shortage and a surge in fuel and oil price and a budget of 7.3 billion euros in spending on operations. In March 2020, Ryanair was employer to 17,268 people, the largest number ever employed by the Irish airline. Following the SouthWest airline model, Ryan Air;s strategy is cost focused, flying point to point to mid-sized cities using secondary airports. The company uses full page ads to promote itself offering bargain prices and often accused of hidden costs. Ryan Air reached good safety record, and good efforts in noise level control and Green House Gas carbon emissions.

JetBlue Airways

Ranked by passenger traffic, JetBlue is among the leading low-cost carriers worldwide as well as the fifth largest domestic airline in the United States, accounting for a 5.5 percent share of the domestic market in 2019, serving over 100 destinations in the U.S., Mexico, as well as across South and Central America. In 2019 JetBlue's operating revenue amounted to eight billion U.S. dollars while its net income for that year stood at approximately 569 million U.S. dollars. The number of paying passengers that boarded a JetBlue flight in 2019 grew to around 42.73 million revenue passengers. Its strategy is a combination between cost-leadership and differentiation: cost-leadership has been achieved reducing maintenance and fuel costs, thanks to the introduction of new type of aircraft (Airbus 320); reservation agents work at home, this reduces the need for physical infrastructure, and their commission has been minimized by offering online tickets. Differentiation is based on various features such as DirectTV with choice of channel for every passenger at each seat, more legroom, efficient check-in, leather seats, and direct routes at affordable prices, taking the travel's quality as main driver in its competitive advantage.

Competitors

National Competitors

China deregulated its domestic airlines since 1987 and that aspect led to fast development in the industry: the airports as well increased from 73 to 193 in few years between 1978 and 2014. In 2002 the Civil Aviation Administration of China (CAAC) recognised nine central state-hold airlines. Later CAAC opened civil aviation sectors to private and foreign capitals, so 14 new airlines were presented as domestic passenger flights during 2005-2007. Companies have been through different changes in terms of seats and services, depending on geographic and social factors which influenced Country's air traffic, that is distributed unequal across the four regions as Eastern, Central, Western and Northeast: for instance, in 2014 the Eastern one showed the higher value serving 461 mn of passengers, instead of 83 million for Central, 237 mn for Western, and 51 mn for Northeast. The difference between geographical areas is also related to the airlines located in each of them: in the east they are on medium or long routes, while the airlines in the west developed short or medium routes, caused by the impact of High-Speed Railway, as Lucky Air, China Eastern Airlines, Kunming Airlines, and Ruili Airlines. The impact of HSR in Western area is limited, then airlines are mainly directed to the second tier cities located in the eastern coastal, with one-stop over at major cities connected with HSR.

China Eastern Airlines

China Eastern Airlines (CEA) is one of the three major firms in China, awarded as the Top 10 Corporate Social Responsibility companies in the Chinese edition of Fortune (2016), through its strategy in changing traditional air passenger carrier into a modern air service provider. The Chinese Government is the main shareholder, that investing in the company wanted to send a message about the constantly modernisation of the Country. Fighting in the global market, the state-owned enterprise recently released about \$2.25 billion in shares and approved a nearly \$2 billion bid for 5% ownership by another Shanghai-based carrier, Juneyao Airlines (2018). CEA developed its strategy keeping the focus on the expansions about its fleet range between Boeing and Airbus, planning investments for the future aircrafts, and introducing 61 new planes in 2020. Main goals for the Company include satisfy domestic demand, contributing to the GDP growth, even through its international network. The constant cooperation with the government is considered a strength, as the benefit from the large range of investors and partnerships. The company is also known like one of the most safety, winning the Five-Star Flight Safety Award by the Civil Aviation Administration of China. This kind of cooperation will be a strength until the government will remain stable; meantime it is creating a hybrid form of control. That means an opportunity for the company to increase CSR, improving the economy, workforces, and productivity and at the same time decreasing the poverty of the Country.

Ruili Airlines

The company has launched like startup in 2014, in the Yunnan region of China, and at the end of June 2020 it has 20 aircrafts, flying 74 routes, covering 43 domestic and foreign cities. The main shareholder is Yunnan Jincheng Group, owning 70% of the Company. The main Company's goal is still to become China's most national featured airlines with Yunnan's rich ethnic cultural resources. During its first month it counted 16,595 revenue passenger and the numbers grew to 72,655 passengers after six months and 106,880 on its first anniversary. Weaknesses for the company have been across pilots and crew members, since when there is complicated bureaucracy and a five million yuan (\$764,000) for intra-carrier transfers. Then part of the strategy it has been the looking for Yunnan partners to build its own flight training school and establish a cadet pilot program. Also as the one of latest Chinese companies in airlines industry, Ruili Airlines is straightly focused on IT, particularly regarding data collection and cloud, as drivers for the strategy, to increase flexibility and automation. On this direction, it has been fundamental the cooperation with Huawei in the building of Cloud Data Centre, to save costs in managing resources (reducing the rollout time for new services by 50%).

Yunnan Lucky Air's Competitive Advantages

Value Chain



Primary Activities

- Inbound Logistics: the company depends on its suppliers particularly for fuel (the main cost) as well as food, drinks. Even the company is following the strategy to cover secondary airports, that driver is not helping in reducing costs for fuel. Lucky Air is the second-largest airline at Kunming Airport after China Eastern, and is also developing a presence in Lijiang (LJG on the chart below), a popular tourist spot in Yunnan, as well as in Chengdu in western China, potentially good for business.
- Operations & Outbound Logistics: the strategy is focused on reduce the costs on all fronts, ensuring a fleet composed by standard Boeing 737 and A320, to minimise costs for training, maintenance, and storage of parts. Also the quick turn around times of this kind of aircrafts, allows high utilisation of point-to-point flights to offer direct no-stop journeys. At the end of 2020 Lucky Air owned almost 70 aircraft and it's planning to introduce unspecified variants in about three years, like the first choice to move to riskier *widebody* deployment, but it needs narrow-body discipline and efficiency, because *widebody* aircraft are bigger, and so too can be the losses. Regarding the outbound logistics should be mentioned the e-commerce as purchase of the service, call centre, online and offline checkout, and also the distribution system, particularly for tickets, which is depending on Chinese Ticket Distribution System.
- Marketing and Sales: the blackness in marketing and promotions is characterised by a low investment in that part, focused the attention just on website and main social media platforms, with 0.2% of total costs.

- Service: customer services are simple and basic, following the LCCs business model in reducing costs, so the include in-flight services, as food and magazines. The company tried also to ensure out-flight services as car hire, hotels, and insurance.

Support Activities

- Firm Infrastructure: Byron Ding is the current President of Lucky Air, thanks to the company has introduced the long-haul aircraft, becoming a mixed low-cost carrier model, and expanding market plan on South Asia and East Asia, and some European routes as well. Under his drive the company seat load factor increased by 10% and our ticket prices decreased by 20%, with good standards of internal management and revenue management. In the future lucky Air will become a low-cost airline based in the southwest and embracing domestic and international market with excellent quality and an industry benchmarking status.
- Human Resource Management: through 9-year development, there is more than 1,400 staff working for Lucky Air. With the annual planning of 10 aircrafts introduction and extensive network construction, the company has become a new prominent airline in China.
- Technology Development: e-commerce has been the main drivers in this direction, considering the statistic about airline e-commerce in China. IT investment is supported by company's parent *Hainan Airlines*, particularly for its website, luckyair.net, the first in the industry to enable online credit card verification and create an online community for its passengers. The main goal of the website is to reach more customers directly, and build more brand recognition and a loyal customer base, through different services: tickets online, flights information, online and SMS updates, it is also an opportunity to create blog's experience and networking between customers.
- Procurement: the fleet composed by Boeing 737 and A320, means different types of suppliers, providing discounts for the price. The company needs of fuel is still influencing the revenue, as the cost is the main large that affects its profit.

Sustainable Competitive Advantage

Guided by the 13th Five-Year Plan for Civil Aviation Energy Conservation and Emission Reduction launched by the Civil Aviation Administration, Lucky Air has always adhered to the sustainability strategy, to facilitate ecological progress and pursue low-carbon economy, and adopted various measures to implement energy conservation and environmental protection and conduct eco-friendly operations. Route optimisation is still the focus in saving fuel oil and reduce carbon emissions; at the same time, Lucky Air actively introduced temporary routes X and V series of the Civil Aviation Bureau to save operating costs; also maintaining cleans the engine airflow passage to improve engine efficiency.

Though the cooperation with *Mobike*, the company improves the intelligent shared bicycle platform, organising brand riding day (that in 2017 attracted 840 participants and the event coverage reached about 520,000), low-carbon travel reward program, and joint exclusive parking area, with the theme of *green and low carbon and civilized travel*.

In 2017, Lucky AIR *Route Optimization Project* saved 2,186.06 tons of jet fuel, saving the fuel gradually. By reducing the weight of dining cars and applying the ordinary aluminum dining car to substitute a composite dining car, Lucky Air saved fuel consumption of 54.697 tons in 2017 and reduced carbon emissions by 253.768 tons.

Conclusion

In according Porter's Five Forces analysis, Yunnan Lucky Air is following a cost-leadership strategy, selling no-frills services to markets average/ middle-class customers because they are the company's largest target segment. Its core competencies are the source of its competitive advantage: with the objective to establish itself as China's leading low-fares scheduled passenger airline through continued improvements and expanding offerings of its low-fares routes. The best option for Yunnan Lucky Air is keeping the cost-leadership, focusing its attention in a more large customer base.

At the moment one of the most important characteristic of the Chinese airlines market is based on young travellers: 2019 marked the first year when post-90s target surpassed post-80s target on OTA Ctrip, making up 36% of total users compared to 35% post-80s. The student segment is also relevant for international routes, since when has decided to expanded destination oversea. UK, U.S., and Canada are the main destinations for Chinese students, respectively for 26%, 30%, and 25%. They are also important for regional travels, and the company should invest in their attitude as long-term ambassadors, maybe through loyalty programs or encouraging partnership with main Universities for school trips.

According to CBNDData, Post-90s Chinese are more likely to be influenced by social media than online travel websites, compared to other generations. The meaning of the travel is to learn about the world, and express themselves, influenced by KOLs (key opinion leaders) and trends. The company could reduce the already low marketing and promotion costs, exploiting the power of Chinese microblogging and vlogging platform by 0 costs, as WeChat, Sina Weibo, and Douyin. Through this strategy Yunnan Lucky Air could improve its awareness, making large its customer base, to start a long-term relation with the target, that it will be translated into an increase in terms profit.

For the operating cost, the company's financial statements registered cost of the in-flight food as 1.5% from the total costs, so Lucky Air could not provide free lunch for all customers and should provide the chance for people to pay extra fees to receive food. Also regarding the managing of its fleet, it could consider as new supply Sustainable Aviation Fuel, produced from sustainable feedstocks and is very similar in its chemistry to traditional fossil jet fuel. The goal that would be reached, will improve company's CSR, beyond reduce operating costs. Regarding personnel management, the company could remove some physical departments, promoting smart and flexible working.

Exploiting its competitors experience, Yunnan Lucky Air could improve its margin profit, reducing costs around customer service, focusing the attention just in online-channel, supported by Hainan Airlines which had one of the most advanced web portals in the Chinese airline industry; personnel expenses, for example in RyanAir employees are not allowed to receive any discount for ticket and they need, aslo, provide uniforms for themselves. The new possible customer experience could more mobile, through any app and the acquisition of a holistic marketing concept, could create an interdependence between the same customer self service and the implementation oc customer relationship management, tracking needs and preferences, as promotional channel.

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