PASSENGERS' PERCEPTIONS OF LOW COST AIRLINES AND FULL SERVICE CARRIERS: A CASE STUDY OF FLY540 AND KENYA AIRWAYS

BY

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DECLARATION

This research project is my original work and has not been submitted in this or any other university.

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D61/8339/2006

This research project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

To all of you who made me what I am today

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ABSTRACT

The low cost experience is a relatively new phenomenon in the African region with much of the necessary management experience brought it from outside the region. African low cost carriers are in the initial growth phase of their development, while many of their American and European counterparts are approaching or have reached maturity. Due to this, little data is available about low cost operations in Africa and specifically in Kenya. The study was therefore designed to determine passenger perception of low cost and full service carriers and also to establish the factors that influence passenger perception of airlines in Kenya.

A cross-sectional survey design was employed. The population of interest was the passengers flying Kenya Airways (network carrier) and Fly540 (a low-cost carrier). All the passengers travelling from Nairobi (JKIA) to their various destinations flying the two carriers on a particular day formed the population of study. Both groups were travelling to the same city destination, but not necessarily to the same airport. A sample of 120 passengers was selected for the survey using simple random sampling technique. Sixty passengers were selected from each of the airlines' passengers on the particular day of data collection. Data was collected using primary sources. The data collection tool was questionnaires. Data was analysed using descriptive and inferential statistics.

Passengers perceive low cost carriers to offer very low fares in the market. This is exhibited by the fact that most of those travelling in Fly540 did so solely because of the fares charged and they also thought that the flight charges less fares as compared to Kenya airways. It is for this reason that most of them would be switching to full carriers if KQ reduced its fares. Even those that were travelling with KQ asserted that the fares were high but chose to travel with the flight because of other reasons like comfort and quality rather than due to its fares. The study established that age had the largest influence on passenger perception of airlines with a correlation value of 0.919. This is followed by reason for travel with a correlation coefficient of 0.681 then gender with correlation coefficient of 0.648. The study recommends that instead of airlines using one business model, a combination can be done so as to capture a larger share of the market as concerns those sensitive to prices and those who need quality services rather than

consider fares when booking flights. The study also recommends that airlines consider marketing to individuals different from group bookings. It seems that most of those travelling as groups used the low cost carrier. Thus, the full service carriers can devise strategies to attract group bookings in order not to lose business to low cost carriers.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

1.1.1 Consumer perception

Consumer perception provides the means by which consumers are able to give meaning to their interactions with the 'lived-world'. Through it, we are able to gain some insight, and hence describe ways in which we are relational to the 'lived-world'. It is an interpretation of that which is made 'known' to us by our senses. Perception is, therefore, dependent on the capability of that within which we are embodied to, accurately, detect sensation external to our central nervous system (Wertz, 1987).

Little sensation is thought to arise from within the central nervous system, (i.e. the cerebral cortex and spinal cord do not seem to be aware of pain in the same way as the skin for instance). Merleau-Ponty (1962) has catalogue the ways in which we become aware of our embodiment, and stresses how we pay attention to different aspects of our body to varying degrees. So for instance, if asked to draw a picture of ourselves we characteristically tend to apply more detail to the face, and upper regions of our body, and less detail to the outer limbs, and lower abdomen. It is argued that the detail applied when drawing the face, is indicative of the amount of attention we pay to this region of ours bodies, and how observant we are of the face's 'defining features'. But this drawing is, merely, a representation of how we have perceived ourselves in our mind's eye.

Wertz (1987) identified two different ways of perceiving, (i.e. the 'appreciative', and the 'pragmatic'), and argued that perception seems to be "functional"; it performs a 'role'. Perception that is 'appreciative' seems to fulfil the 'role' within our mind's eye which seems it be indicative of the extent to which that, which is sensed has some intrinsic value. Perception that is 'pragmatic' tends to provide a means by which that objects/subjects can be characterised according to their ability to enable us to carry out a task. In the latter, perception does not seem to enable the perceiver to appreciate that, which is sensed for its intrinsic value; perhaps there is none. But it does enable the 'perceiver' to carry out specific functions with out confusing the issue with concerns

about possible loss/destruction of the apportioned intrinsic value. So, appreciative perception, arguably, seems to enable us to relate in the 'lived-world' in ways, which that might be indicative of our appreciation of an object or person's intrinsic value, whilst pragmatic perception enables us to relate to the 'lived-world' in ways which might be construed as being more "functional". Clearly, each individual will perceived objects external to self in different ways, and that which might be perceived by some, appreciatively, may not be perceived in quite the same ways as others.

Perception that results in the experience of 'angst', or 'doubt', as to the extent to which an object may be appreciated for it's intrinsic value, may result in the decision-making that is more reflective of a person's evaluation of that object. This may be explored with the aim of determining that object's 'functional' value. Perhaps, we 'distance' ourselves from those objects that are do not seem to have enough intrinsic, and/or functional value? In any case, such reflective ability would seem to rely on some prior comparison with knowledge we, already, hold about the essence of object being perceived. Where that which is perceived conflicts, highly, with that which is 'known' about a particular object or person, and/or holds negative connotations in relation to the said object, or person, we might conclude that this object/person might best be 'kept at a distance'. The word 'distance' is used to describe the space between self, and other, and to include both mental space, and physical space (Hall, 1959; 1966).

Consumer Perception Theory (CPT) illustrates and explains one method through which advertising is effective. There are two basic concepts that need to be accepted in order for CPT to be understood: cultural filtration, perceptual reality. Cultural filtration is simply the reason that people perceive day to day life differently from one another. Each person is unique and has had a unique set of life events that shape the way they experience.

The process of CPT starts with the consumer: an individual toward which the message is directed. The consumer must first have a perceived need or want, then actively experience an advertisement in the product category where the need or want exists. It is a catalyst for the model if this advertisement occurs at strategic timing in the process. After exposure, the consumer forms an opinion about the product. This perception becomes the reality of that product to the consumer. It is possible that this truth could change with

exposure to competitive messages from a wide variety of sources (other media, friends, advice columns etc). If, however, the product is perceived, and therefore assigned the truth, of being positive it is then evaluated as to whether or not it fills the need or want. If it does indeed fit the need, it is likely that the consumer will proceed to the purchase stage of the model. In the purchase stage the consumer decides to purchase or not to purchase the product. Again, there are a number of variables surrounding this decision, as surround each step and decision in the model.

1.1.2 Low Cost Carriers vs. Network/Legacy Carriers

A low-cost airline business model is typically a niche strategy. It is aimed at getting benefit from offer vacuums and from the service for pariah customers, starting from visiting friends and relatives, ethnic and leisure based movements and later climbing up to reach cost-conscious business travellers (Jarach, 2004). The emphasis on costs makes the distinction between full-service and no-frills. Jarach explained that the low-fare, lowcost operations require a much more radically deeper reengineering of the entire value proposition and are not definitively sensitive only to one shot actions.

If an airline is classified as a low-cost carrier, then it must pursue a low-cost operational structure. This means offering fares lower than the full-service scheduled airlines' ticket prices (Gilbert, Child & Bennett, 2001). Combining comparative tables about full-fare and low-fare airlines (Gilbert, Child & Bennett, 2001; Lawton, 2003) noted that no-frills carriers were distinguished by few if any amenities and point-to-point transportation.

A low-cost carrier will take market share from an incumbent at market entry in addition to carving out a new market space (Jarach, 2004; Lawton, 2003). However, pursuing a low price strategy has the potential to put the company at risk (Garda & Marn, 1993). Thus, low-cost carriers' marketing strategies include advertising and promotions concentrated in secondary airports' catchment areas to building a corporate culture that is fun and exciting for passengers (Gilbert, Child & Bennett, 2001).

Low ticket prices do not preclude no-frills carriers being concerned about value propositions that satisfy passengers' needs and wants (Lawton, 2003). Regular industry surveys question whether people are willing to fly with a low-cost airline. They focus on

efficiency factors such as punctuality, scheduling, seating, and routes (Gilbert, Child & Bennett, 2001). Measuring willingness to fly alternately addresses the uncertainty felt by the public when choosing to travel by air (Lawton, 2003).

Beyond the basic efficiency factors, Bruning (1997) identified that customers' choice was also affected by country of origin and national loyalty. The traditional one carrier, one flag carrier model (Jarach, 2004) identified that an airline's country-of-origin cued passenger expectations which in turn contributed to the carrier's reputation. Bruning (1997) explained that national loyalty stemmed from ethnocentrism and reference group manifestations that linked to in-group identity. Country of origin was the cue held globally whereas national loyalty stemmed from the felt identity of those who lived in the country or those who were born to the country.

Low cost carriers have reshaped the competitive environment within liberalised markets and have made significant impacts in the world's domestic passenger markets, which had previously been largely controlled by full service network carriers. For instance in Europe, 14% of the available seat miles are now provided by low cost airlines (O'Connell and Williams, 2005). These carriers have pursued simplicity, efficiency, productivity and high utilization of assets to offer low prices.

There was no significant low cost scheduled carrier operating in Kenya prior to the entry of Flight 540 in the market. The initial slow development was in part due to the perception that the low cost model adopted in the United States and Europe could not be replicated in Kenya, because of longer aircraft stage lengths, lack of secondary airports and regulatory restrictions preventing access to international markets. The latter being particularly relevant given that the bulk of traffic and revenues are drawn from international markets in Kenya.

Success in the airline industry remains elusive. The good news is that passenger demand is up and several major carriers have now completed their restructuring efforts. While the economic situation is far worse today than it was in the early 1990s, profitability is possible for both network and low-cost carriers. The key is to build strategies that don't compromise successful, unique points of differentiation (Deloitte & Touche, 2008).

Both network and low-cost carriers are converging on a "middle ground," which, over time, will result in a game of commodities. To prevent this, careful consideration of competitive advantages is needed across all parts of the business, in particular, channels to the consumer, service model and operations. Targeting the right consumers with the best business model is paramount for a successful, long-haul journey (Deloitte & Touche, 2008).

1.1.3 Kenya Airways

Kenya Airways Limited is the Kenyan National carrier operating scheduled flights throughout Africa, Europe and Asia. Its hub is Jomo Kenyatta International Airport in Nairobi. It was established in 1977 after the break up of the East African Community and subsequent disbanding of the jointly owned East African Airways. Its IATA designator code is KQ – a designator the airline has had to change from KA in line with informal recognition of the airline as KQ globally. The Kenya Airways Group consists of Kenya Airfreight Handling Limited (KAHL), Africa Cargo Handling Limited (ACHL), and Ken cargo Airlines International Limited (Gichira, 2007).

The airline has faced a number of challenges since its inception, most of which have been intensified by the impact of globalization. These challenges are both internal and external. In the midst of all these challenges, customer expectations have been shifting upwards, further complicating the already competitive scenario (Gichira, 2007).

1.1.4 Fly540

Fly540 (Five Forty Aviation) is a low-cost airline based in Nairobi, Kenya. It operates domestic passenger and freight services. The airline started operations between Nairobi and Mombasa on November 24, 2006. The service initially operated twice daily using 48-seat ATR 42 aircraft. The airline's name refers to its price of Sh5,540 per adult return fare between the above-mentioned cities.

Lonrho Africa is a major investor in the company, paying US $1.5 million for a 49% stake. In May 2007 the airline introduced two Bombardier Dash 8 Q100 aircraft to increase the airline's capacity, allowing it to develop new domestic routes to Lokichokio,

Wajir and Mandera. It has since expanded to international destinations to include at least four other regional destinations in East Africa.

The original scheduled flights included – except for freight flights – scheduled passenger traffic between Nairobi and Mombasa. Kisumu became a destination in January 2007. Daily flights on the Nairobi-Malindi-Lamu route were added in February 2007. It has since commenced international operations by flying to Juba in Sudan and Goma in DR Congo.

1.2 Statement of the Problem

Perception is the process of receiving information about and making sense of the world around us. It involves deciding which information to notice, how to categorise this information and how to interpret it within the framework of existing knowledge. It is a process by which individuals organize and interpret their sensory impressions in order to give meaning to their environment. A number of factors operate to shape or sometimes distort perception. These factors can reside in the perceiver, in the object or the target being perceived or in the context of the situation in which the perception is made. When customers have a positive perception about a product or a company, this may translate to improved turnover hence improve the company's bottom-line.

The low cost experience is a relatively new phenomenon in the African region with much of the necessary management experience brought it from outside the region. African low cost carriers are in the initial growth phase of their development, while many of their American and European counterparts are approaching or have reached maturity. Due to this, little data is available about low cost operations in Africa and specifically in Kenya. The aim of this study is to compare passengers' selection criteria between a full service airline and a low cost carrier in a growing African market.

Kenya Airways has been operating in Kenya as a network carrier while Fly540 has been operating as a low cost carrier. These are two contrasting business models in the same geographical area and in the same domestic market. Consumers will perceive the two flights differently given their pricing strategies which focus on two diverse groups of customers. Given that consumer perception of quality is a very important contrast for

such organisations, it is important that the perception of customers on the quality of service provided by the two flights be studied.

At the time of this study, no other study had been done on passenger perception in Kenya in the airline industry. There are few studies that have focused on Kenya Airways but they have been tackling different issues such as globalization (Gichira, 2007) while there exists no study in Kenya on Fly540. Studies on consumer perception are also few. For instance, Onyango (2007) studied consumer perception of repositioning strategy adopted by Nation TV. On the other hand, Gitari (2006) studied consumer perception of tariff plans offered by mobile telephone service providers in Nairobi. These are the only available studies on consumer perception. As such, there exists a gap in literature that the present study seeks to fill. The study will therefore help document how passengers that perceive the two different business models as practiced by Kenya Airways and Fly540. This can be of great significance to the players in the industry as well as those who wish to enter the market on the implications of the business model they intend to use.

1.3 Research Objectives

The objectives of this study were:

i. To determine passenger perception of low cost and full service carriers.

ii. To establish the factors that influence passenger perception of airlines.

1.4 Importance of the Study

The management of both Kenya Airways and Fly540 can find the results of this study invaluable as a source of information on the customers' perception of their service quality, and in a broader sense, their business models. This information can be helpful in aiding them in developing better strategies geared towards their focus customers. Other airlines can also benefit from such information.

This study contributes to the literature by examining the differences in passengers' perceptions between two airline models in a domestic market. The researchers and other academicians can therefore find this study a useful guide for such studies in the future.

CHAPTER TWO

LITERATURE REVIEW

2.1 Consumer perception

Consumer perception is one of the objects studied by the science of consumer behaviour. According to Mowen (1987), consumer behaviour defines the actions of people, seeking to satisfy their wishes and needs while purchasing and consuming goods and services. Analyzing the works of scientists studying consumer behaviour, it is possible to make a conclusion that perception is presented as one of personal factors, determining consumer behaviour. Personal factors mean the closest environment of a human, including everything what is inside the person, his head and soul, characterizing him as a personality. Using his sensory receptors and being influenced by external factors, the person receives information, accepts and adapts it, forms his personal attitude, opinion, and motive, which can be defined as factors that will influence his further activity and behaviour.

Perception within this context is considered as one of the principal personal factors, conditioning the nature and direction of remaining variables. Mowen (1987), Loudon and Bitta (1993) determine perception as a phase of information processing, while Walters and Bergiel (1989), Crane and Klarke (1994), Harrell and Frazier (1998), Solomon (1999), Dubois (2000) define perception as a separate variable of consumer behaviour having features of the process and including separate phases of the process.

Walters and Bergiel (1989) characterize perception as a solid process during which an individual acquires knowledge about the environment and interprets the information according to his/her needs, requirements and attitudes. The works of Crane and Klarke (1994), Harrell and Frazier (1998), Solomon (1999), Dubois (2000) present perception as a more complicated process, during which sensory receptors of a consumer capture a message sent by external signals and the information received is interpreted, organized and saved, providing a meaning for it and using it in a decision making process.

Summarizing the studies of the perception concept provided in the scientific literature, it can be concluded that perception has characteristics of a process and is constituted by

separate complementary elements with an appropriate sequence. This process is influenced by subjective features of an individual and has distinctive individual characteristics. Analyzing classifications proposed by marketing specialists, it can be stated that sensation, attention, interpretation and retention are the dominating elements of the perceptual process.

Crane and Klarke (1994) introduce the theory of perceptual filters, based on the statement that the perceptual process is a set of filters, used for sorting and modification of a stimulus, the result of which is perception, finally stored in the memory of consumers. According to the authors, the consumer cannot feel all the stimuli in the phase of sensation. Besides, consumers do not react to every stimulus sent in the phase of attention, or they do not understand the meaning of a stimulus properly while interpreting it and finally they do not remember everything they have understood. The theory reflects the importance of evaluation and recognition of the elements of the perceptual process, seeking to activate and affect the consumer's perception. Every phase makes the consumer feel differently as the intensity of his reactions and the importance of external influence change.

2.1.1 Sensation

Mowen (1987) presents a definition of sensation in his studies claiming that sensation is a stimulation of a consumer's sensory receptors and transmission of the information to the brain and the spinal cord with a help of nerve cells. In theoretical works on consumer behaviour sensation is usually considered as a physiological mechanism that helps a human, using his sensory receptors (eyes, ears, nose, mouth and skin) to react to external stimuli (image, sound, scent, taste and texture).) The studies of A. Statt (2003) present a wider range of stimuli effecting sensory receptors (Bayte at al, 2007). They could be classified as skin affecting stimuli such as pressure, cold, heat, pain; four types of taste receptors reacting to sweet, salty, sour and bitter food; visual senses such as colored and black and white. All the functions of sensory receptors can be activated separately or simultaneously.

Sensation, activated by external stimuli, can be of three types: passive, active and selective (Crane and Klarke, 1994). The intensity of sensory input depends on the sensitivity of receptors and the intensity of signals that are limited by the absolute threshold that refers to the minimum amount of stimulation that can be detected on a sensory channel (Solomon, 1999) and the ability of an individual to adapt the margin, depending on circumstances (Mowen, 1987). In addition to this, every sensation is conditioned by the variation of environmental energy, defined by the differential threshold. It refers to the ability of a sensory system to detect changes of differences between two stimuli (Solomon, 1999)

2.1.2 Attention

Another element of the perceptual process is attention. Loudon and Bitta (1993), characterize attention as a filtering mechanism of the information provided by a stimulus. The researchers claim that attention is expressed as a processing scope of the quantity of stimulus information. The bigger the scope of the stimulus processing, the more of the stimulus information a consumer realizes and conceives. Attention is a direction and focus of a mental activity to particular objects.

Mowen (1987) distinguishes two types of attention: voluntary and involuntary. Voluntary attention occurs in such circumstances when a stimulus absolutely meets a consumer's demand and situation. Involuntary attention appears when a consumer faces a new and unexpected stimulus, interesting and attractive, though irrelevant at the time being. The literature of Dubois (2000), Solomon (1999), Urbanskienė et al. (2000) distinguishes two principal variables influencing attention that are individual features of signals and personal features of a consumer as the recipient of the signal.

2.1.3 Interpretation

Loudon and Bitta (1993) define the interpretation of the element of the perceptual process as a process of sensation decoding. The authors note that during this process feelings are turned into symbols such as words, numbers or images and other. Symbols are also used for information storage and further analysis.

The interpretation is rendering of a meaning for the signal received. The understanding and decoding of a stimulus depends on several factors such as sensibility of an individual, his motivation and opportunities (time and other). Consequently, the interpretation of a stimulus is an especially individual process during which the stimulus is provided with a subjective and personal meaning. Two people hearing or seeing the same thing interpret the signal received differently due to their expectations of the signal.

Loudon and Bitta (1993) distinguish two stages for a stimulus interpretation: the analysis of stimulus features, where a consumer identifies the main features of a stimulus and evaluates the peculiarities of a feature set; the stage of synthesis, where the evaluated elements of a stimulus are combined with available external and internal information. For example, a consumer watching the illustration of Toyota Corolla assesses the shape, color and other external characteristics of the car first of all. The characteristics are integrated and unified in the mind of the consumer as an integral vehicle, without identifying it separately as glass, steel or rubber. Even if during the analysis of characteristic features consumers unified the vehicle similarly, the information would be interpreted differently, depending on personal experience and subjective features. While interpreting a consumer uses the information stored in his mind and compares the stimulus with the previously received, interpreted and retained. This process in the mind of an individual is usually automatic and unconscious. Marketing specialists define this process as categorization. Dubois (2000) describes three principal mechanisms of categorization. Consumers group categories according to the level (for example, prices), associations (for example, a high price signifies high quality) and comparisons (for example, brands, packages and colours).

2.1.4 Retention

Britt (1978) places a significant emphasis on the last element of the perceptual process known as retention in his works. He notes in his studies that the consumer memorizes better and retains those signals and their meanings that are close to his attitudes. The author presents several principles of retention.

The performed analysis of theoretical attitudes on the perceptual process supports the statements, presenting the idea that perception as a variable, determining consumer behaviour, is characterized by the features of the process and consists of separate, following a particular sequence and complementary elements such as sensation, attention, interpretation and retention.

2.2 Competitive Strategies

A firm positions itself by leveraging its strengths. Porter (1996) has argued that a firm's strengths ultimately fall into one of two headings: cost advantage and differentiation.

Table 1: Porter's Generic Strategies

Target scope	**Advantage**	
	Low cost	**Product uniqueness**
Broad (Industry Wide)	Cost leadership strategy	Differentiation strategy
Narrow (Market Segment)	Focus strategy (Low Cost)	Focus Strategy (Differentiation)

By applying these strengths in either a broad or narrow scope, three generic strategies result: cost leadership, differentiation, and focus. These strategies are applied at the business unit level. They are called generic strategies because they are not firm or industry dependent. Table 1 above illustrates Porter's (1986) generic strategies.

2.2.1 Cost Leadership Strategy

Another of Porter's generic strategies is cost leadership (Malburg, 2000). This strategy focuses on gaining competitive advantage by having the lowest cost in the industry (Porter, 1986; Bauer and Colgan, 2001; Hyatt, 2001; Davidson, 2001). In order to achieve a low-cost advantage, an organization must have a low-cost leadership strategy, low-cost

manufacturing, and a workforce committed to the low-cost strategy (Malburg, 2000). The organization must be willing to discontinue any activities in which they do not have a cost advantage and should consider outsourcing activities to other organizations with a cost advantage (Malburg, 2000). For an effective cost leadership strategy, a firm must have a large market share (Hyatt, 2001). There are many areas to achieve cost leadership such as mass production, mass distribution, economies of scale, technology, product design, input cost, capacity utilization of resources, and access to raw materials (Malburg, 2000; Venu, 2001; Davidson, 2001). Porter (1985) purports only one firm in an industry can be the cost leader (Venu, 2001) and if this is the only difference between a firm and competitors, the best strategic choice is the low cost leadership role (Malburg, 2000).

Lower costs and cost advantages result from process innovations, learning curve benefits, economics of scale, product designs reducing manufacturing time and costs, and reengineering activities. A low-cost or cost leadership strategy is effectively implemented when the business designs, produces, and markets a comparable product more efficiently than its competitors. The firm may have access to raw materials or superior proprietary technology which helps to lower costs.

Firms do not have to sacrifice revenue to be the cost leader since high revenue is achieved through obtaining a large market share (Porter, 1979, 1987, 1996; Bauer and Colgan, 2001). Lower prices lead to higher demand and, therefore, to a larger market share (Helms et al., 1997). As a low cost leader, an organization can present barriers against new market entrants who would need large amounts of capital to enter the market (Hyatt, 2001). The leader then is somewhat insulated from industry wide price reductions (Porter, 1986; Hlavacka et al., 2001; Malburg, 2000). The cost leadership strategy does have disadvantages. It creates little customer loyalty and if a firm lowers prices too much, it may lose revenues (Cross, 1999).

2.2.2 Differentiation Strategy

Differentiation is one of Porter's key business strategies (Reilly, 2002). When using this strategy, a company focuses its efforts on providing a unique product or service (Porter,

1986; Bauer and Colgan, 2001; Hlavacka et al., 2001). Since, the product or service is unique, this strategy provides high customer loyalty (Porter, 1985; Hlavacka et al., 2001).

Product differentiation fulfills a customer need and involves tailoring the product or service to the customer. This allows organizations to charge a premium price to capture market share. The differentiation strategy is effectively implemented when the business provides unique or superior value to the customer through product quality, features, or after-sale support. Firms following a differentiation strategy can charge a higher price for their products based on the product characteristics, the delivery system, the quality of service, or the distribution channels. The quality may be real or perceived based on fashion, brand name, or image. The differentiation strategy appeals to a sophisticated or knowledgeable consumer interested in a unique or quality product and willing to pay a higher price.

The key step in devising a differentiation strategy is to determine what makes a company different from a competitor's (McCracken, 2002; Reilly, 2002). Factors including market sector quality of work, the size of the firm, the image, graphical reach, involvement in client organizations, product, delivery system, and the marketing approach have been suggested to differentiate a firm (McCracken, 2002; Davidson, 2001). To be effective, the message of differentiation must reach the clients (McCracken, 2002), as the customer's perceptions of the company are important (Berthoff, 2002).

When using differentiation, firms must be prepared to add a premium to the cost (Hyatt, 2001). This is not to suggest costs and prices are not considered; only it is not the main focus (Hlavacka et al., 2001). However, since customers perceive the product or service as unique, they are loyal to the company and willing to pay the higher price for its products (Hlavacka et al., 2001; Venu, 2001).

Some key concepts for establishing differentiation include: speaking about the product to select panels (McCracken, 2002), writing on key topics affecting the company in the association's magazine or newsletter (McCracken, 2002), becoming involved in the community (McCracken, 2002), being creative when composing the company's portfolio (Tuminello, 2002), offering something the competitor does not or cannot offer (Rajecki,

2002), adding flair and drama to the store layout (Differentiation will be key, 2002), providing e-commerce (Chakravarthy, 2000), making access to company information and products both quick and easy (Chakravarthy, 2000), using company size as an advantage (Darrow et al., 2001), training employees with in-depth product and service knowledge (Darrow et al., 2001), offering improved or innovative products (Helms et al., 1997), emphasizing the company's state-of-the-art technology, quality service, and unique products/services (Hlavacka et al., 2001), using photos and renderings in brochures (McCracken, 2002), and selecting products and services for which there is a strong local need (Darrow et al., 2001).

2.2.3 Focus Strategies

In the focus strategy, a firm targets a specific segment of the market (Davidson, 2001; Porter, 1986; Bauer and Colgan, 2001; Hlavacka et al., 2001; Hyatt, 2001). The firm can choose to focus on a select customer group, product range, geographical area, or service line (Hyatt, 2001; Venu, 2001; Darrow et al., 2001; McCracken, 2002). For example, some European firms focus solely on the European market (Stone, 1995). Focus also is based on adopting a narrow competitive scope within an industry. Focus aims at growing market share through operating in a niche market or in markets either not attractive to, or overlooked by, larger competitors. These niches arise from a number of factors including geography, buyer characteristics, and product specifications or requirements.

A successful focus strategy (Porter, 1986) depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors. Market penetration or market development can be an important focus strategy. Midsize and large firms use focus-based strategies but only in conjunction with differentiation or cost leadership generic strategies. But, focus strategies are most effective when consumers have distinct preferences and when the niche has not been pursued by rival firms (David, 2000).

2.2.4 Differentiation-Focus Strategy

In the differentiation focus strategy, a business aims to differentiate within just one or a small number of target market segments (Porter, 1986). The special customer needs of

the segment mean that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader group of customers. The important issue for any business adopting this strategy is to ensure that customers really do have different needs and wants - in other words that there is a valid basis for differentiation - and that existing competitor products are not meeting those needs and wants.

2.2.5 Combination

An organization may also choose a combination strategy by mixing of the aforementioned generic strategies. For example, a firm may choose to have a focused differentiation strategy. This means the organization has a unique product offered to a targeted market segment. An organization may also choose to have a focused cost-leadership strategy. In this instance, an organization would use a cost leadership strategy targeted to a specific market segment.

There is much debate as to whether or not a company can have a differentiation and low-cost leadership strategy at the same time (Helms et al., 1997). Porter felt differentiation and cost-leadership were mutually exclusive (Helms et al., 1997). However, research shows this is not the case (Hlavacka et al., 2001).

Kumar et al. (1997) in their study of generic strategies used in the hospital industry found when hospitals follow a focused cost leadership hybrid strategy they exhibit higher performance than those following either cost leadership or differentiation alone. Similarly in their research on the UK wine industry, Richardson and Dennis (2003) found the hybrid focused differentiation approach was best for niche segments. Spanos et al. (2004) studied the Greek manufacturing industry and found hybrid strategies were preferable to pure strategies.

According to Porter (Argyres and McGaha, 2002), lower cost and differentiation are directly connected with profitability. As research addressed the relationship between strategy and performance, some studies concluded only "pure" strategies (i.e. generic strategies of cost leadership or differentiation) resulted in superior performance, while

other research found combination strategies (i.e. low-cost and differentiation) were optimal. This debate continues in the literature.

2.3 Air Transport Business Models

The business models explored here are network carriers and low-cost carriers. These are the models available in the air transport industry. Network carriers refer to those airlines that offer full service to passengers on board. They compete on offering more quality services and usually charge higher prices for the services they offer. Low-cost carriers, as the name suggests, are those airlines that compete on offering lower prices in the market. Most of the time there are certain services that are not offered to passengers on board as would be the case with the network carriers.

2.3.1 Network Carriers

In decades past, the aviation industry displayed a healthy growth rate of some 4–6%, due to overall rises in GDP and a greater demand for travel resulting from globalization (Franke, 2004). As air travel became more and more of a commodity, this trend was reflected in a long-term yield decline a gap that could more or less be closed by standard efforts to increase efficiency.

However, there has always been a fundamentally precarious balance within the industry between profit generation and loss. And in the sphere of value creation, this balance has proved to be particularly delicate: very few airlines over very limited periods of time have ever been able to gain their capital cost. Some economists claim that, in the long run, aviation is a stalemate industry that does not allow its players to substantially create value (Associated Press, 2008).

One of the biggest exceptions to this rule occurred during the 90s, when global economic upturn boosted travel demand and the readiness especially by business passengers to pay these high charges. Furthermore, major airlines capitalized on the progress of computer technology and optimization models, developing the concept of ''network management''. Sophisticated quantitative analyses helped to optimize the match between (expected) demand and offered capacity, embedded in highly efficient route patterns. Encouraged by deregulation and liberalization, major carriers built up global networks, around large hubs

(Cunningham et al., 2004). At this time, network carriers tried to draw more and more traffic to their hubs, since they could create a disproportional increase in connections at incremental cost. The predominant optimization targets were: a coverage of as many demand categories as possible (in terms of O&D and customer segment), and connectivity in the hub.

With no alternative business model, airline clients had no choice but to comply with the operational model the network carriers had created, paying for this inherent complexity (Franke, 2004). The high fares, especially of first and business class passengers, subsidized the costly transfer of low-yield travellers. The product differentiation they received in return was—and still is—, rather poor on continental routes. The main focus of product differentiation is on booking restrictions (-e.g., rebooking flexibility) and on the in-flight product; landside processes were seldom addressed. In effect, carriers had built their complex operational model around the needs of their least valuable clients (low-yield connecting passengers), whom they forced to connect at hubs in order to maximize the airlines' overall destination portfolio: a situation paid for by their own premium clients. A crisis soon developed during the second half of 2000 when, faced with an economic downturn, these high-value passengers, showed a growing reluctance to pay premium prices (Deloite and Touche, 2008).

Major network carriers (NCs) became trapped in a vicious cycle: as long as their competitors optimized their destination portfolio and hub connectivity at the expense of productivity and client convenience, they were forced to act likewise. Any deviation from this logic could quickly prove fatal. This is because the ruling logic of computer reservation systems (CRS) penalizes reduced connectivity with a loss of bookings and revenue. Being forced to pay operational as well as capital costs for their—partly oversized—fleets, it would take only a short-term dip in income to potentially ruin at least mid-sized carriers (Franke, 2004).

The only remaining business innovations open to network airlines were alliances and partner ships which boomed in the second half of the 90s. Major carriers organized themselves in a variety of partnerships, and three main global alliances developed. A certain value for the client (e.g., seamless global travel) as well as some low hanging

fruits for the carriers (e.g., scale effects in procurement, aligned IT systems) made these alliances quite successful. However, the deregulation efforts of the last 20 years have failed to change restrictive ownership clauses and bilateral traffic right agreements (with some exceptions such as ''Open Sky''). Thus, the inevitably limited scope of these alliances together with a lack of will to further integrate meant that major cost reduction potentials were not fully realized. Alliances, while still an important strategic lever (esp. between competing NCs), failed to prepare their members for the low-cost challenge (Gilbert at al, 2001).

In the last quarter of 2000, the unprecedented gap between revenue and cost (per available seat kilometre) was not only closed, but turned into negative. The crisis was initially a revenue crisis, followed by the cost impact of growing overcapacity. Similar to 1991, for example, in the aftermath of the first Iraq war, the crisis was deepened by the fact that exit hurdles were still very high in global aviation (e.g., governments support NCs with extra loans or subsidies), keeping overcapacities in the market (Jarach, 2004).

2.3.2 Low-cost Carriers

This paper defines the low-cost carrier to be an airline that operates a point-to-point network, pays employees below the industry average wage, and offers no frills service. The two most prominent low-cost carriers, JetBlue and Southwest, both have labor costs 30% to 40% lower than the mainline carriers (Jarach, 2004). A traditional major carrier often has a number of tools at its disposal, which it can use to deter entry or lessen the competitiveness of recent entrants. These tools include predatory pricing, loyalty programs, and congestion at the nation's most popular airports. Yet, these tools are not effective against low-cost carriers with point-to-point networks. A low-cost airline can engage in Bertrand competition, with a high-cost competitor, without pricing at its own marginal cost. The low-cost carrier can successfully neutralize the dominance of its competitors, by competing on price.

The lower cost structure can be quantified by aggregating the cost savings of point-to-point networks, wage savings, and savings from not providing numerous add-on services. While labor costs are the largest single cost item for airlines, there are many other costs.

The pie chart in Figure 1 illustrates the composition of costs for the aggregate airline industry in 2000. The cost differential between the low-cost and major carriers is not only attributable to the wage differential. Although, the primary cost for any carrier is labor related. Controlling labor costs can improve the bottom line. The operating cost distribution below suggests that lowering labor costs by 10% can lower the average airline's total cost by 3.68% (Gilbert et al, 2001).

The lower cost structure of a point-to-point network is a consequence of a number of factors. They include: Airport congestion, which causes costly delays at hubs and is not as prevalent at airports used by point-to-point carriers (O'Connell and Williams, 2005). For every major metropolitan airport there are often two to three secondary airports. Low-cost carriers can achieve fast turnarounds and pay less for leasing airport facilities at secondary airports like TF Green airport outside Providence, Rhode Island. Low airport lease rates and gate costs also contribute to the lower cost structure of low-cost carriers. Under utilized secondary airports often levy lower charges for the use of their facilities.

The two most prominent low-cost carriers, JetBlue and Southwest, both have lower labor costs than the large incumbent carriers. Analysts estimate that Low-cost carriers such as Southwest and JetBlue have labor costs 30% to 40% lower than the mainline carriers. For example, United Airlines, American Airlines, Northwest Airlines, and Continental Airlines all have costs at least 40% higher than Southwest. Although, Delta Air Lines and Alaska Airlines have the lowest costs of the majors, each of them has unit costs 30% higher than Southwest's (Wall Street Journal, 2002).

The third and perhaps the most obvious attribute of the low-cost carrier is the no frills service that these carriers provide passengers. Instead of providing passengers with a menu of product choices priced within a range, the low-cost carriers offer a single type of product, coach service. Low-cost carriers do not provide meals on flights, which results in a savings of 5 to 10 dollars per coach passenger. No meals equates to a savings of up to 3.2% from the average carrier's operating cost. These airlines lack elaborate loyalty programs, which necessitate extra employees, to provide more personalized service, and expensive facilities, like airport clubs. Low-cost airlines do not provide costly services, which are only profits enhancing for a hub-and-spoke carrier able to extract a high level

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of rents from customers with a high willingness to pay, business travelers. The main advantage of the low-cost carrier is that it can compete on price, with the high-cost traditional carriers. The functional structure of the low-cost carrier is perceptible; moreover, this paper argues that the impact of this unique structure on the airline market is just as evident.

2.4 Service Quality in Airline Industry

In the 1970's the Civil Aeronautics Board (Douglas & Miller, 1974) developed the initial tools of service quality measurement in the airline industry in the U.S.A. These studies were based on economic variables, and pre-deregulation, developed as service quality assessments from the perspective of the airline consumer. Kearney (1986) was the first one to conduct service quality assessments from the perspective of the airline consumer in his doctoral dissertation work, which examined service quality from the perspective of industry-based economic and marketing measures.

Many researchers and marketers have focused their attention on customer evaluations of services in an effort to find ways to improve service quality (Fisk, Brown, & Bitner, 1993). Extensive research has been conducted in the field of service quality. Parasuraman et al. (1991; 1985, 1988) developed a service quality measure, called SERVQUAL, which states that the customer's assessment of overall service quality is determined by the degree and direction of the gap between their expectations and perceptions of actual performance levels. They also identified five essentials for service quality: tangibles, reliability, responsiveness, assurance, and empathy. They proposed that perceived service quality could be estimated by calculating the difference between expectations and perceptions of actual service performance. The SERVQUAL scale has been criticized for its validity and reliability. Buttle (1996) pointed out that including all 44 items (22 items of service expectations and a duplicate of 22 items of service performance) in one study often makes the survey task too difficult for respondents. Cronin and Taylor (1992, 1994) have empirically proved that the measures of service performance or SERVPERF, is more effective than SERVQUAL, which includes expectations as well as performance. SERVPERF is now widely used in measuring customer evaluations of service quality (Cunningham and Young, 2004).

Cunningham and Young (2004) used SERVPERF in measuring the airline service quality. Fick & Ritchie were the first to apply the service quality gap model to the airline industry in 1991. Fick and Ritchie (1991) used the SERVQUAL scale to measure perceived service quality within several service industries including the airline industry. They found the mean scores of consumer expectation and perception of service performance measures and failed to determine the relative impact of various SERVQUAL items on overall service quailty and satisfaction (Cunningham etal 2004).

Measurement and management of service quality is the fundamental issue for the survival and growth of airline companies (Cunningham, Young, and Lee 2002). Cunningham, Young, and Lee (2002) conducted studies on perceptions of airline service quality of U.S. and Korean customers based on SERVPERF and industry-based measures, as well as their perceptions of risks involved in the airline choice. The results suggested that U.S. customers consider service reliability, inflight comfort, and connections as the key factors determining satisfaction with airline service, whereas Korean passengers generally regard reliability, assurance, and risk factors as predictors of satisfaction. This study conducted by Cunningham, Young, and Lee (2002) is interesting as it has measured service quality based on SERVPERF which is a set of multi-dimensional measures of customer evaluations of service quality (Cunningham, Young, and Lee 2002).

Wen Li and Chen (1998) studied the quality evaluation of domestic airline industry using modified Taguchi loss function with different weights and target values. By using Taguchi loss function one can quantify quality and thus compare service quality objectively. According to Wen Li and Chen (1998), the process of traveling a domestic airline can be described as follows: Ticket— Check –in—boarding—departure—flying—arrival—baggage claim

Three quality categories with ten identified variables are proposed by Wen Li and Chen (1998) and service quality of domestic airline is quantified accordingly. Taguchi loss function requires industry measures to measure airline service quality.

Airline traffic in Africa has picked up only recently. However, competition has brought to surface, industry issues such as insufficient number of pilots, airport facilities and

trained personnel. When the objective of low-cost carriers is to convert railway passengers to airline travellers at a very low-fare, the focus of the service provider may not be on the service quality but in providing the basic service product. In comparison, America's budget airlines have started to increase service quality in spite of the low fare offers. Southwest and Jet Blue have strong brand presence and offer well defined service rather than just low prices (Economist, 2004). On the other hand, airline service quality across the world have reached new heights where in international airlines such as Virgin Atlantic Airways have introduced double suites, in-flight beauty therapy treatments and massages, free limousines to and from the airport and many more.

As a result of low fares, there is an expected increase in the volume of domestic airline travelers in Africa which has accelerated competition in the air travel market. While certain segments in choosing an airline, consider price advantages, service quality cannot be absent. According to Zeithaml and Bitner (1996), the concept of satisfaction is influenced by five variables viz. 1) service quality 2) product quality 3) price 4) situation and 5) personality.

Natalisa and Subroto (2003) combine the variables of product quality and service quality into variable of service quality and studied the customers' perception of service quality in the domestic airline services of Indonesia. In short, service quality of airlines have been studied based on industry measures, SERVQUAL, SERVPERF, Taguchi loss function and Zeithaml and Bitner Model.

A recent study has shown that low-cost carriers topped the rankings of U.S. airlines for being on-time and uniting bags with passengers, while the big guys such as American Airlines brought up the rear, according to a new study of airline quality (AP, 2008).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology of the study. Presented herein are the research design used, the population of interest and the sample size. Further, the chapter presents the data collection method and data analysis that was used in the study.

3.2 Research Design

The study is a cross-sectional survey design. In cross-sectional surveys, data are collected at one point in time from a sample selected to represent a larger population. This method was deemed appropriate for the study given that the study intended to determine the views of passengers flying the two carriers at the same time. Given that the same information was collected from each of the respondent, the method offered the advantage of standardization of measurement. Further, since such a study had not been done in Kenya thus there existed no information about this, the survey method was appropriate to gather such information which was not available anywhere else.

3.3 Population

The population of interest was the passengers flying Kenya Airways (network carrier) and Fly540 (a low-cost carrier). All the passengers travelling from Nairobi (JKIA) to their various destinations flying the two carriers on a particular day formed the population of study. Both groups were travelling to the same city destination, but not necessarily to the same airport.

3.4 Sample

A sample of 120 passengers was selected for the survey using simple random sampling technique. Sixty passengers were selected from each of the airlines' passengers on the particular day of data collection.

This number is justified given that for research findings to be applicable to the general population of interest, a sample size of at least 30 respondents is deemed fit (Mugenda

and Mugenda, 2003). This sample size of 60 passengers from each of the carriers was therefore deemed appropriate and sufficient.

3.5 Data collection

Data was collected using primary sources. The data collection tool was questionnaire (attached as appendices 1and 2). There were two questionnaires, each set differently for passengers travelling with a specific airline. The respondents for the questionnaires were the passengers of the two respective flights. The questionnaires were self-administered. The passengers were surveyed in the relaxed open landside public area of the airport. The airport where permission was sought to undertake the surveys was the Jomo Kenyatta International Airport (JKIA).

Small teams of personnel were involved in capturing the data so that all questions are understood and fully answered. The personnel also assisted with language barriers and in answering any issues raised regarding the open-ended questions, in which each respondent gave a personal response in his or her own words.

The questionnaires sought to collection general information on the passengers and their perception about the two airlines. The interview guide helped collect data on the challenges affecting the two airlines under study and the measures being taken to respond to the challenges. The interviewees were the managers in charge of strategy in the respective airlines. An interview with the managers was scheduled at an appropriate time. Face-to-face method of interview was used. Tape recorders as well as notes were used to collect the information.

3.6 Data analysis

The data collected from the questionnaires was sorted, coded and entered into the Statistical Package for Social Sciences (SPSS version 11.5) and excel spreadsheets for analysis. Descriptive statistics, especially percentages and mean scores, were used to analyse data. In a similar study by O'Connell and Williams (2005), perception was measured using percentages. The views of the passengers (respondents) on various issues were analysed using percentages. Correlations were also used to establish the factors that influence passenger perception of airlines.

Thus, the study used the same statistics that were used in order to interpret the results. In addition, for questions with a 5-point Likert scale, mean scores and standard deviations were used to interpret the results. For the interview, the analysis was done using qualitative analysis method. Results were summarised according to the themes sought and presented in a narrative form.

The quantitative results from the questionnaires were summarised and presented in tables and charts for interpretation. The findings of the study was presented in chapter four while a summary of the findings, conclusions of the study and the recommendations for implementation and for research was unveiled in chapter five of the study.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Sample Characteristics

4.1.1 Gender of respondents

The study found that 60% of those travelling with Fly540 were male while 40% were female. In the case of those flying KQ, the same case applied. This is presented in Figure 1 below.

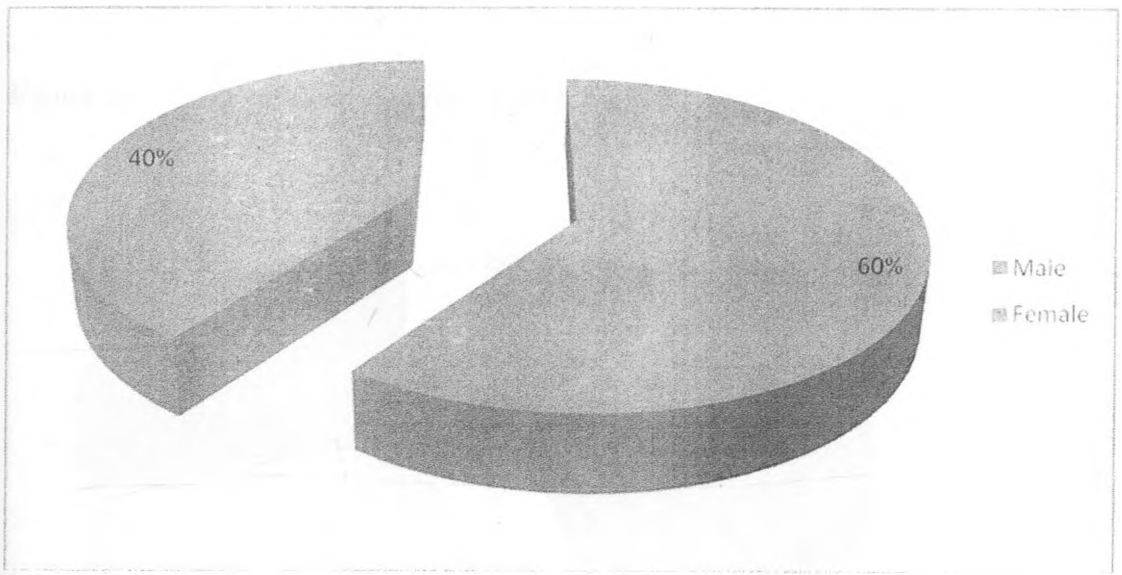

Figure 1: Gender of Respondents

4.1.2 Age of passengers

The study revealed that 40% of those who travelled with Fly540 were aged between 31 and 40 years while 33% were aged below 31 years old. Only 27% were aged over 40 years old. For those travelling in KQ, 37% were aged between 26-30 years, 23% between 31 and 40 years, 30% over 40 years while the remaining 10% below 26 years.

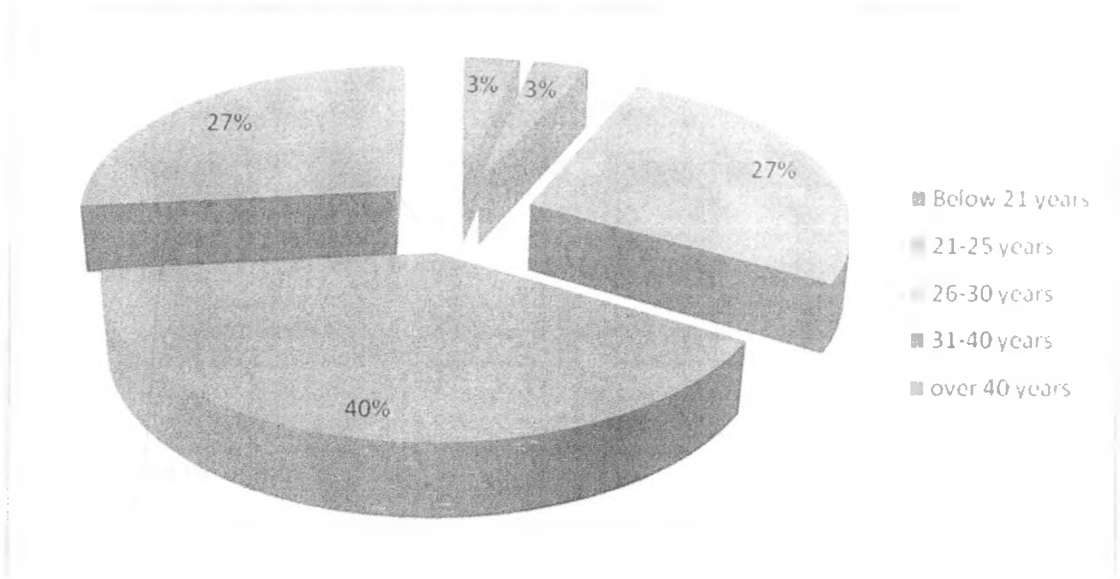

Figure 2: Age of those Travelling with Fly540

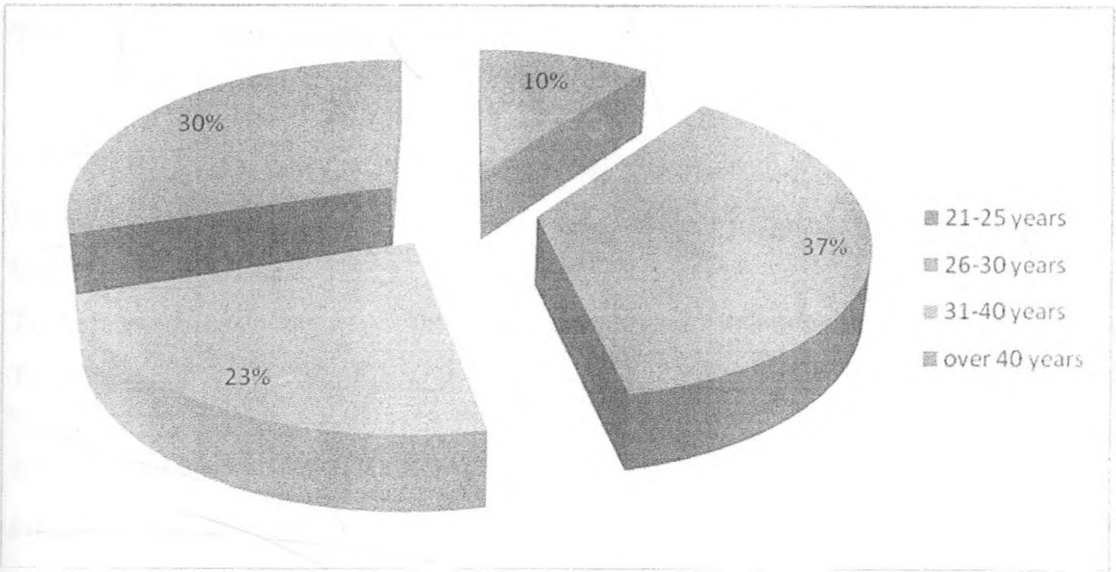

Figure 3: Age of those Travelling with KQ

4.1.3 Purpose of Travel

The study further revealed that 30% of those travelling in Fly540 did so for business purposes. The remaining 70% were going for non-business activities. For those travelling in KQ, 63% were travelling for business purposes while 37% for non-business purposes.

Table 2: Purpose of travel

	Fly540		Kenya Airways	
Travel purpose	**Frequency**	**Percentage**	**Frequency**	**Percentage**
Business	9	30	19	63
Non-business	21	70	11	37
Total	**30**	**100**	**30**	**100**

4.1.4 Kind of Business Travel

The business activities for those flying Fly540 included conferences (56%) and trade fairs (44%). For those in KQ, the business purposes included conferences (53%), training (21%), trade fairs (21%) and meetings (5%).

Table 3: Kind of business travel

	Fly540 (%)	Kenya Airways (%)
Meeting	-	5
Conference	56	53
Trade fairs	44	21
Training	-	21

4.1.5 Kind of Non-business Travel

For those who were travelling for other purposes other than business using Fly540, the study found that 24% were going for sports, 29% were going for weekend breaks, 14% for holidays while 24% for studying. The remaining 10% were going for religious purposes. The non-business purposes for those travelling in KQ included holiday (55%), studying (36%) and religious functions (9%).

Table 4: Kind of non-business travel

Kind of non-business Travel	Fly540 (%)	Kenya Airways (%)
Sports	23	-
Weekend break	27	-
Holiday	14	55
Studying	24	36
Religious	10	9

4.1.6 Person Paying for Fares

43% of those travelling with Fly540 paid for their own fares while 37% were paid for by their companies. The study also revealed that 20% of those travelling with Fly540 were paid for by their parents. As regards those travelling using KQ, the study found that 57% paid their own fares, 20% were paid for by their parents while 23% were paid for by their companies.

Table 5: Person paying for fares

	Fly540		Kenya Airways	
	Frequency	**Percentage**	**Frequency**	**Percentage**
Self	13	43	17	57
Parent	6	20	6	20
Company	11	37	7	23
Total	**30**	**100**	**30**	**100**

4.1.7 Type of Travel

Further, 57% of those travelling with Fly540 were travelling as individuals while the remaining 43% were travelling as a group. On the other hand, 77% of those travelling in KQ did so as individuals while 23% as groups.

Table 6: Type of Travel

	Fly540		Kenya Airways	
	Frequency	**Percentage**	**Frequency**	**Percentage**
Individual	17	57	23	77
Group	13	43	7	23
Total	**30**	**100**	**30**	**100**

4.1.8 Means to Airport

On what means they used to get to the airport, 43% of those travelling in Fly540 used taxis/cabs, 30% used buses while the remaining 27% used their personal cars. As regards those travelling KQ, 63% made it to the airport using taxis/cabs while the remaining 37% used their own personal cars.

Table 7: Means to airport

	Fly540		Kenya Airways	
	Frequency	**Percentage**	**Frequency**	**Percentage**
Via a taxi/cab	13	43	19	63
Via a bus	9	30	-	-
Via personal car	8	27	11	37
Total	**30**	**100**	**30**	**100**

4.1.9 Where Passengers Intend to Stay

The study also found that 33% of those travelling in Fly540 would be staying in hostels once they reached their destinations, 23% would be staying in guest houses, another 23% in inns while 20% in hotels. For those travelling in KQ, the study found that 37% would be spending in hotels, 40% in inns while the remaining 23% in guest houses.

Table 8: Where passengers intend to stay once at destination

	Fly540		Kenya Airways	
	Frequency	**Percentage**	**Frequency**	**Percentage**
Hotel	6	20	11	37
inn	7	23	12	40
Guest house	7	23	7	23
Hostel	10	33	-	-
Total	**30**	**100**	**30**	**100**

4.1.10 Passengers' company size

The study also found that 27% of the respondents were from small companies with employees less than 25, 50% were coming from organisations with up to 99 employees while 17% from organisations of up to 999 employees. Only 10% of the travellers in Fly540 were from large organisations with over 1000 employees. The other 23% did not work for any company. For those travelling in KQ, the study revealed that 47% were coming from large companies with up to 999 employees, 10% with employees over 1000 employees, 13% from firms with up to 99 employees while 3% from firms with less than 25 employees. The remaining 27% did not work for any companies.

Table 9: Passengers' company size

	Fly540		Kenya Airways	
	Frequency	**Percentage**	**Frequency**	**Percentage**
1-24	8	27	1	3
25-99	7	23	4	13
100-999	5	17	14	47
1000-5000	3	10	3	10
N/A	7	10	8	27
Total	**30**	**100**	**30**	**100**

4.1.11 Method of Booking

The study also found that 50% of those travelling in Fly540 booked their tickets from travel agents, 40% booked from their offices while 10% used their families and friends to book the tickets. Further, 30% of those using KQ booked online, 50% used travel agents while 20% booked from office.

Table 10: Method of booking

	Fly540		Kenya Airways	
	Frequency	**Percentage**	**Frequency**	**Percentage**
Website	-	-	**9**	**30**
Travel agents	15	50	15	50
Office booked	12	40	6	20
Family/friends	3	10	-	-
Total	**30**	**100**	**30**	**100**

4.2 Passenger Perception of Airlines

4.2.1 Whether Fare is Main Reason for Choosing Fly540

The study found that 83% of those who chose to travel in Fly540 did so solely because of the fares while 17% denied that as a sole reason.

Table 11: Whether Fare is Main Reason for Choosing Fly540

	Frequency	**Percent**
Yes	25	83.3
No	5	16.7
Total	**30**	**100.0**

4.2.2 Whether Fares Offered by Fly540 are Cheaper

Further, 70% of those travelling in Fly540 believed that the fares were cheaper to a very large extent while 30% said so to a large extent.

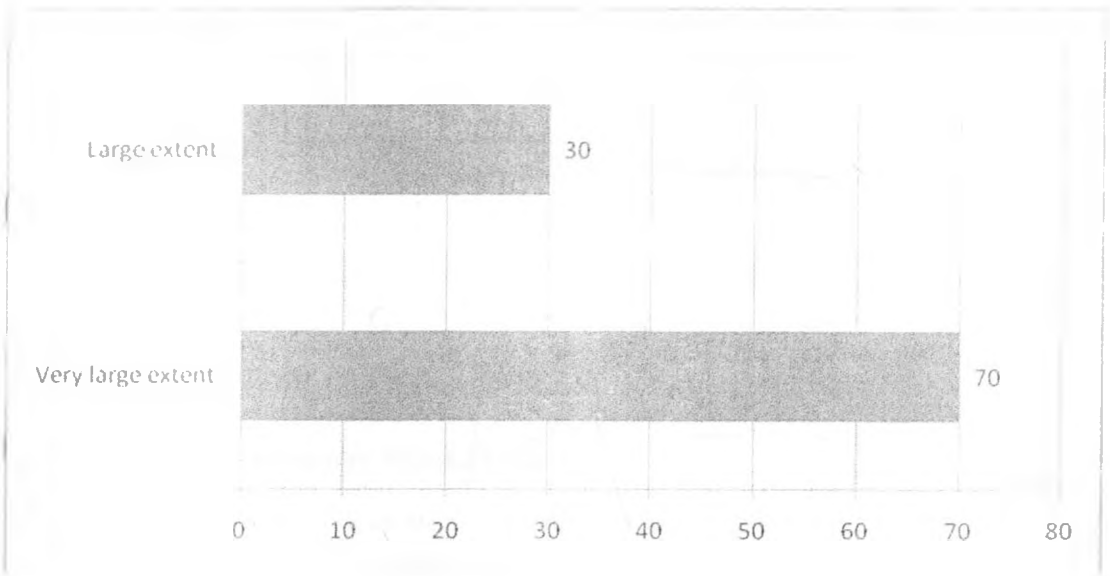

Figure 4: Whether fly540 fares are cheaper

4.2.3 Opinions on Fares Charged by KQ

From the findings, the study found that 37% of those travelling in KQ thought that the fares were moderate, 80% thought they were high while 20% thought they were very high.

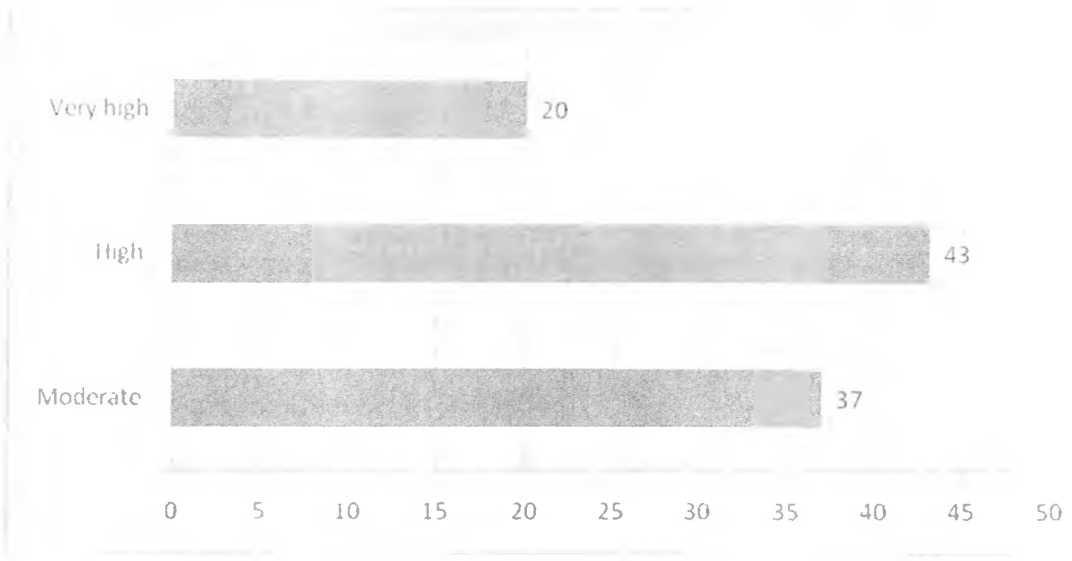

Figure 5: Opinions on Fares Charged by KQ

4.2.4 Whether Passengers Would Switch

It was also noted that 67% of those travelling with Fly540 would switch to KQ if the fares were reduced by 10%, 77% if the reduction was 20% and 83% if the reduction was 30%.

Table 12: Whether Fly540 passengers would switch to KQ

	Yes (%)	No (%)
Reduction by 10%	67	33
Reduction by 20%	77	23
Reduction by 30%	83	17

On the other hand, the study found that if Fly540 increased its fares by 10%, only 7% of KQ clients would switch over to Fly540, another 7% if it increased by 20% and 23% if it increased by 30%.

Table 13: Whether KQ passengers would switch to Fly540

	Yes (%)	No (%)
Increased by 10%	7	93
Increased by 20%	7	93
Increased by 30%	23	77

4.2.5 Attributes for Choosing the Airline

Asked on what attributes made them travel with their specific flights, 83% of those travelling in Fly540 said fare, 33% to comfort, 27% to reliability and 23% to flight schedules and connectivity respectively. Only 3% attributed it to quality.

Table 14: Attributes for Using Fly540

	Low extent (%)	Moderate extent (%)	Large extent (%)
Reliability	53	20	27
Fare	0	13	87
Flight schedule	60	17	23
Connections	50	27	23
Quality	74	23	3
Comfort	44	23	33

On the other hand, 87% of those travelling with KQ attributed their choice of flight to quality, 70% to comfort, 57% to connections, 53% to flight schedule, 40% to reliability and 26% to fair.

Table 15: Attributes for Using KQ

	Low extent (%)	Moderate extent (%)	Large extent (%)
Reliability	30	30	40
Fare	43	30	26
Flight schedule	30	17	53
Connections	17	27	57
Quality	0	13	87
Comfort	7	23	70

Generally, those travelling with Fly540 believed that the fares charged were low as shown by the mean score of 4.3. Further, it was clear from the analysis that those travelling with Fly540 chose to do so because of fare (mean score of 4.27) as opposed to those travelling in KQ who's main reasons were quality (mean score of 4.27) and comfort (mean score of 3.97).

Table 16: Descriptive Statistics

	Fly540 Mean	Kenya Airways Mean	Difference
Reliability	2.6667	3.1667	-0.5
Fair	4.2667	2.8333	1.4334
Flight schedule	2.3667	3.4333	-1.0666
Connections	2.6000	3.5667	-0.9667
Quality	2.0333	4.2667	-2.2334
Comfort	2.8667	3.9667	-1.1
Grand mean	2.8000	3.5389	-0.7388

4.3 Factors affecting perception of airlines

The study sought to establish the factors that influence passenger perception of airlines in Kenya. To achieve this objective, a correlation analysis was performed.

From the results presented in 17 below, the study established that age had the largest influence on passenger perception of airlines with a correlation value of 0.919. This is followed by reason for travel with a correlation coefficient of 0.681 then gender with correlation coefficient of 0.648.

Table 17: Factors affecting passenger perception of airlines

Factor	Correlation	Significance
Age	0.919	0.678
Gender	0.648	0.598
Reasons for travel	0.681	0.004

CHAPTER FIVE

SUMMARY, DISCUSSIONS AND CONCLUSIONS

5.1 Summary, Discussions and Conclusions

Group travel is particularly significant to airline revenues. Business travellers usually tend to travel singularly but leisure travellers often journey in small groups. Low cost airlines carry more passengers who travel as part of a group than do the full service carriers. In this study, 57% of those travelling with Fly540 travelling as individuals while the remaining 43% were travelling as a group. On the other hand, 77% of those travelling in KQ did so as individuals while 23% as groups. The number of group travellers is more for those in Fly540. This shows that majority of group travellers tend to go for low cost carriers than full service carriers.

Business passengers travelling on incumbent airlines tend to come from larger companies that employ over 100 people. These companies would generally have larger travel budgets and would opt for corporate travel policies. Mason (2001) states that 73% of business passengers he surveyed at Heathrow had a company corporate travel policy, as opposed to 55% of the travellers using a low cost carrier at Luton airport. The present study revealed that 30% of those travelling in Fly540 did so for business purposes which included conferences and trade fares. 43% of them paid for their own fares while 37% were paid for by their companies. For those travelling in KQ, 63% were travelling for business purposes which included conferences, training, trade fairs and meetings. Further, 57% of them paid their own fares while 23% were paid for by their companies. On the size of company and choice of carrier, the present study findings deviate from those of Mason (2001) since most of the passengers on KQ were coming from large companies as opposed to those flying Fly540.

On what means they used to get to the airport, 43% of those travelling in Fly540 used taxis/cabs, 30% used buses while the remaining 27% used their personal cars. As regards those travelling KQ, 63% made it to the airport using taxis/cabs while the remaining 37%

used their own personal cars. The study also found that 33% of those travelling in Fly540 would be staying in hostels once they reached their destinations, 23% would be staying in guest houses, another 23% in inns while 20% in hotels. For those travelling in KQ, the study found that 37% would be spending in hotels, 40% in inns while the remaining 23% in guest houses.

The study also found that 50% of those travelling in Fly540 booked their tickets from travel agents while the other 50% online using a combination of methods (40% booked from their offices while 10% used their families and friends to book the tickets). This would seem to confirm the findings of Gillan and Lall (2002), as the majority of tickets purchased were via travel agents. Further, 50% of those using KQ booked online (30% from websites, 20% booked from office) 50% used travel agents while. The popularity of online booking can be attributed to the development of ICT in Kenya with majority of Kenyans having access to computers and internet being relatively affordable. Low cost airlines are forcing change through the competitive advantage of online distribution and it is predicted that 25–30% of all Asian airline ticket sales will be online by 2005 (Ionides, 2001).

Lawton (2002) pointed out that the average fares of no frills carriers were some 40–60% lower than their full service competitors. The study found that 83% of those who chose to travel in Fly540 did so solely because of the fares while 17% denied that as a sole reason. Further, 70% of those travelling in Fly540 believed that the fares were cheaper to a very large extent while 30% said so to a large extent. From the findings, the study found that 37% of those travelling in KQ thought that the fares were moderate, 80% thought they were high while 20% thought they were very high.

It was also noted that 67% of those travelling with Fly540 would switch to KQ if the fares were reduced by 10%, 77% if the reduction was 20% and 83% if the reduction was 30%. On the other hand, the study found that if Fly540 increased its fares by 10%, only 7% of KQ clients would switch over to Fly540, another 7% if it increased by 20% and 23% if it increased by 30%.

A study undertaken by Proussaloglou and Koppleman (1995) on the demand for air carrier services concluded that carrier selection was based on a combination of factors that included the airline's market presence, schedule convenience, low fares, on time performance, reliability and the availability of frequent flier programs. Asked on what reasons made them travel with their specific flights, 83% of those travelling in Fly540 said fare, 33% to comfort, 27% to reliability and 23% to flight schedules and connectivity respectively. Only 3% attributed it to quality. Turner (2003) also showed that passengers travelling on a low cost carrier selected fare as their principle reason for carrier choice, while passengers travelling on an incumbent carrier indicated flight timings. On the other hand, 87% of those travelling with KQ attributed their choice of flight to quality, 70% to comfort, 57% to connections, 53% to flight schedule, 40% to reliability and 26% to fair. Generally, those travelling with Fly540 believed that the fares charged were low as shown by the mean score of 4.3. Further, it was clear from the analysis that those travelling with Fly540 chose to do so because of fare (mean score of 4.27) as opposed to those travelling in KQ who's main reasons were quality (mean score of 4.27) and comfort (mean score of 3.97).

The study sought to determine passenger perception of low cost and full service carriers. From the findings, it is concluded that passengers perceive low cost carriers to offer very low fares in the market. This is exhibited by the fact that most of those travelling in Fly540 did so solely because of the fares charged and they also thought that the flight charges less fares as compared to Kenya airways. It is for this reason that most of them would be switching to full carriers if KQ reduced its fares. Even those that were travelling with KQ asserted that the fares were high but chose to travel with the flight because of other reasons like comfort and quality rather than due to its fares.

The study also sought to establish the factors that influence passenger perception of airline. As the study revealed, the factors influencing perception of airlines were found to be fares, quality, comfort, and connections. For the low cost carriers, the significant factor is fares charged while for full carriers; the factors are quality, comfort, connections, flight schedules and reliability. Generally, the factors that influenced passenger perceptions of airlines were purpose of travel, age and finally gender.

5.3 Limitations of the Study

The major limitation was the process the researcher had to go through in order to be allowed to administer the questionnaires to the passengers. The clearance process from the administration to the security personnel threatened to derail the whole data collection process.

But with the help of University of Nairobi administration, formal letters that authorised the researcher to carry out the research were written specifically to the administration of the two airlines.

5.4 Recommendations for Further Research

This is a first study of this kind in the airline industry in Kenya. The study therefore recommends that further studies be done in this area in terms of ascertaining the extent to which such business models have influenced performance of airlines.

5.5 Recommendations for Policy and Practice

The study recommends that instead of airlines using one business model, a combination can be done so as to capture a larger share of the market as concerns those sensitive to prices and those who need quality services rather than consider fares when booking flights.

The study also recommends that airlines consider marketing to individuals different from group bookings. It seems that most of those travelling as groups used the low cost carrier. Thus, the full service carriers can devise strategies to attract group bookings in order not to lose business to low cost carriers.

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APPENDICES

Appendix 1: Research Questionnaire for Fly540 Travelers

This survey intends to establish the perception of passengers on flying Fly540. Kindly fill in the information as applies. Your responses shall be solely for purposes of research and they shall be kept confidential.

Section A: General Information

1. What is your gender?

   Male ( )

   Female( )

2. What age bracket do you belong to?

   Below 21 year ( )

   21-25 years ( )

   26-30 years ( )

   31-35 years ( )

   36-40 years ( )

   Over 40 years ( )

3. What is the purpose of your travel? (Tick appropriately)

   Business ( ) Non-Business ( )

4. If business, what kind of business?

   Meeting ( )

   Conference ( )

   Training ( )

   Trade-fair ( )

Employment ( )

Other (specify) ( )

.....

5. If non-business, specify.

Sports ( )

Shopping ( )

Weekend break ( )

Holiday ( )

Studying ( )

Religious ( )

Other (specify) ( )

.....

6. Who is paying for the fares?

Self ( )

Parent(s) ( )

Company ( )

Other (specify) ( )

.....

7. Are you travelling as an individual or as a group?

Individual ( )

Group ( )

8. How did you make it to the airport?

Via a taxi/cab ( )

Via a bus ( )

Via personal car ( )

Other (specify) ( )

.....

9. Where do you intend to stay once you reach your destination?

Hotel ( )

Inn ( )

Guest house ( )

Hostel ( )

Other (specify) ( )

.....

10. How many employees are there in the company you work for?

1-24 ( )

25-99 ( )

100-999 ( )

1000-5000 ( )

Over 5000 ( )

N/A ( )

11. What method of booking did you use?

Website ( )

Travel agent ( )

Call centre ( )

Office booked ( )

Family/friends ( )

Purchased today ( )

Other website ( )

Section B: Passenger Perception of Airlines

12. Did you choose to travel with the airline solely because of its fare?

Yes ( ) No ( )

13. To what extent do you believe that the fares offered by the airline are cheaper?

Very large extent ( )

Large extent ( )

Moderate extent ( )

Low extent ( )

Very low extent ( )

14. Would you switch and travel with Kenya Airways if it reduced it fares by:

	Yes	No
10%	( )	( )
20%	( )	( )

30% ( ) ( )

15. To what extent would you consider to fly Fly540 and not Kenya Airways to be characterised by the following attributes?

Key:

1=very low extent, 2= low extent, 3= moderate extent, 4= large extent, 5= very large extent

	1	2	3	4	5
Reliability	( )	( )	( )	( )	( )
Fare	( )	( )	( )	( )	( )
Flight schedule	( )	( )	( )	( )	( )
Connections	( )	( )	( )	( )	( )
Quality	( )	( )	( )	( )	( )
Comfort	( )	( )	( )	( )	( )

Other (specify)

.....

.....

.....

Appendix 2: Research Questionnaire for KQ Travellers

This survey intends to establish the perception of passengers on flying Kenya Airways. Kindly fill in the information as applies. Your responses shall be solely for purposes of research and they shall be kept confidential.

Section A: General Information

1. What is your gender?

   Male ( )

   Female( )

2. What age bracket do you belong to?

   Below 21 year ( )

   21-25 years ( )

   26-30 years ( )

   31-35 years ( )

   36-40 years ( )

   Over 40 years ( )

3. What is the purpose of your travel? (Tick appropriately)

   Business ( ) Non-Business ( )

4. If business, what kind of business?

   Meeting ( )

   Conference ( )

   Training ( )

   Trade-fair ( )

Employment ( )

Other (specify) ( )

.....

5. If non-business, specify.

Sports ( )

Shopping ( )

Weekend break ( )

Holiday ( )

Studying ( )

Religious ( )

Other (specify) ( )

.....

6. Who is paying for the fares?

Self ( )

Parent(s) ( )

Company ( )

Other (specify) ( )

.....

7. Are you travelling as an individual or as a group?

Individual ( )

Group ( )

8. How did you make it to the airport?

Via a taxi/cab ( )

Via a bus ( )

Via personal car ( )

Other (specify) ( )

.....

9. Where do you intend to stay once you reach your destination?

Hotel ( )

Inn ( )

Guest house ( )

Hostel ( )

Other (specify) ( )

.....

10. How many employees are there in the company you work for?

1-24 ( )

25-99 ( )

100-999 ( )

1000-5000 ( )

Over 5000 ( )

N/A ( )

11. What method of booking did you use?

Website ( )

Travel agent ( )

Call centre ( )

Office booked ( )

Family/friends ( )

Purchased today ( )

Other website ( )

Section B: Passenger Perception of Airlines

12. What is your opinion on the fares charged by the airline?

Very high ( )

High ( )

Moderate ( )

Low ( )

Very low ( )

13. Would you switch and travel with Fly540 if it increased its fares by:

	Yes	No
10%	( )	( )
20%	( )	( )
30%	( )	( )

14. To what extent would you consider to fly Kenya Airways and not Fly540 to be characterised by the following attributes?

Key:

1=very low extent, 2= low extent, 3= moderate extent, 4= large extent, 5= very large extent

	1	2	3	4	5
Reliability	( )	( )	( )	( )	( )
Fare	( )	( )	( )	( )	( )
Flight schedule	( )	( )	( )	( )	( )
Connections	( )	( )	( )	( )	( )
Quality	( )	( )	( )	( )	( )
Comfort	( )	( )	( )	( )	( )

Other (specify)

.....

.....

.....