

Competition Analysis of Low Cost Carriers and Full Service Carriers of South Korean Airline Industry: A Lotka-Volterra approach for Jeju Island Travelers

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Abstract

Since the global emergence of low cost carriers (LCC) in airline industry, shift of business is observed. LCC are gaining more market share as compared to conventional airlines known as full service carriers (FSC). LCC manage to cut costs by cutting extra services and make it possible for passengers to travel on much lower cost. Introduction of LCC has brought change in airline industry throughout the world; similarly it has emerged in South Korea as well. This paper performs competition analysis on South Korean Airlines using Lotka-Volterra (LV) model, examines and discusses the effect of emergence of LCC on FSC. LV model is also used for forecast.

Keywords

Low Cost Carriers, Lotka-Volterra, Competition Analysis, Airline Industry

1. Introduction

Since the global emergence of low cost carriers (LCC) in airline industry, shift of business is observed. LCC are gaining more market share as compared to conventional airlines. Conventional airlines also called Full service carriers (FSC) are service focused, on the other hand low cost carriers focus on low cost. LCC manage to cut costs by cutting extra services and make it possible for passengers to travel on much lower cost. FSC provide customized services like routes, class of cabins, infant services, and airports while LCC has standardized the services like routes, cabin class, airports and even aircrafts. Introduction of LCC has brought change in airline industry throughout the world; similarly it has emerged in South Korea as well. Previously, South Korean airline industry was ruled by two major airlines; however, there operate about eight different airlines now. This paper tries to analyze the competition between FSC and LCC of South Korea. South Korean air industry has grown up immensely and there are several domestic routes, but this paper intends to consider a competition analysis on just one route between Seoul, the capital of South Korea, and Jeju Island. Korean Air (KAL) and Asiana Airlines (AAR) are operating since 1962 and 1988 respectively and are considered to be the giants of South Korean airline industry. After the emergence of AAR in 1988, T'way Airlines was the first airline entered in South Korean airline industry in 2004 with a gap of sixteen years. From 2004 to 2016, five more airlines Jin Air (JNA), Jeju Air (JJA), Easter Jet (ESR), Air Seoul (ASV) and Air Busan (ABL) have entered the industry, as presented in Table.1. This paper performs competition analysis on

