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A Comparative Analysis of Three Major Transfer Airports in Northeast Asia Focusing on Incheon International Airport Using a Conjoint Analysis

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ABSTRACT

Due mainly to the privatization and commercialization of airline companies and deregulation of the aviation rules, the demand for air transport has continuously been increasing. Airport authorities state that transfer passengers, who contribute to the large portion of the airports' profits, are gaining much more importance, particularly in the Northeast Asia region where the air transport industry is very vital. Therefore, this study aims to investigate the competitiveness of IIA (Incheon International Airport) with other major airports located in Northeast Asia in passenger transfers made between Southeast Asia and China to North America using Conjoint Analysis. Results have indicated that airport brand is the most important attribute for the competitiveness of airport, followed by cost, connectivity and duty free shops. In further analysis focusing on brand value of the three airports measured by the use of transfer passengers, it was revealed that IIA needs more effort in developing their brand identity to become the leading transfer hub airport. Based on the results, recommendations for increasing the brand value have also been suggested.

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1. Introduction

As globalization has been accelerating over the last few decades, airline business today plays a pivotal role in transporting business and leisure travelers domestically and internationally. Lately, due mainly to the privatization and commercialization of airline companies and deregulation of the aviation rules, competition in the aviation market has become intensified, resulting in efforts of each airline to construct strategies to maximize the utilization of airports at which their aircrafts station. One of them is to build a globalized hub- and- spoke network system through the connection of many different airports economically, which enable airline

firms to improve route efficiency by increasing the boarding rates and minimizing the demand of seasonal air transport. This strategy will eventually provide the customers great benefits as well since they have more options for choosing the travel routes and consequently pay lower prices.

The passengers who transfer in the airports have different needs from those who terminate at the airport and thus they would switch their connecting airport to an alternative one when offered better options in terms of airline services, airport operations, and transfer type (Barros et al, 2007). Hence, there is a need for an airport to identify the expectations of

transfer passengers to become a competitive hub. Among others to attract more transfer customers, many leading airports highlight the reputation of their own brand as a differentiation tool since higher brand recognition from the customers will bring in the companies increased competitive advantages, customer satisfaction, and ultimately overall revenue (Chung et al, 2013).

It is anticipated that demand of air transport among countries in North Asia including South Korea, China, and Japan will increase much more than any other region in the world due to rapid economic development in the region (John, 2013), high population density, and stabilized political status (Park 2003). On the other hand, the increasing demand trend in the region has brought fierce competition to accommodate transfer demands and strengthen one’s positions as a regional hub among the three major airports in each of the countries; Incheon International Airport (IIA) in South Korea, Shanghai Pudong International Airport (PVG) in China, and Narita International Airport (NRT) in Japan (Figure 1)



Fig. 1. Geographical locations of IIA, PVG, and NRT

Source: Park (2003, p.354)

Geographically, taking the middle place into consideration, IIA might be most suitable as a hub among the three airports. Passengers through IIA can save time and receive cost advantages when departing from Asia to the USA, or vice versa, as compared to NRT and PVG (HMC Investment Securities, 2014). One thing noteworthy with regards to IIA is that number of passengers who travel on the routes of China and Southeast Asia-USA have been gradually increasing in accordance with the growth of incomes in those countries. As is seen in figure 2, IIA is connected to 176 cities globally. Also IIA offers routes to China, Japan, and Southeast Asia more than any other airports as is evidenced in Figure 3.

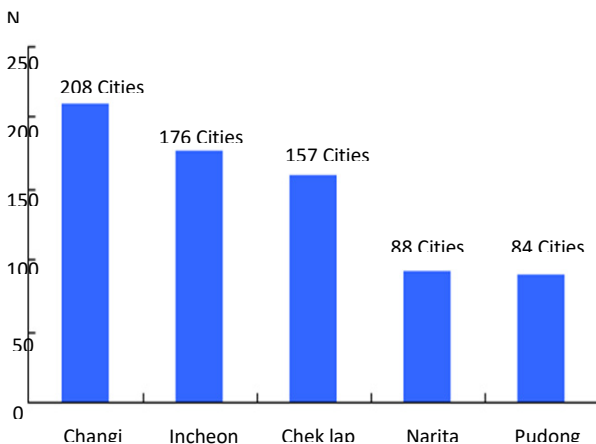


Fig. 2. No. of Destination Cities of Major Airports

Source: Industry Report (HMC Investment Securities, 2014)

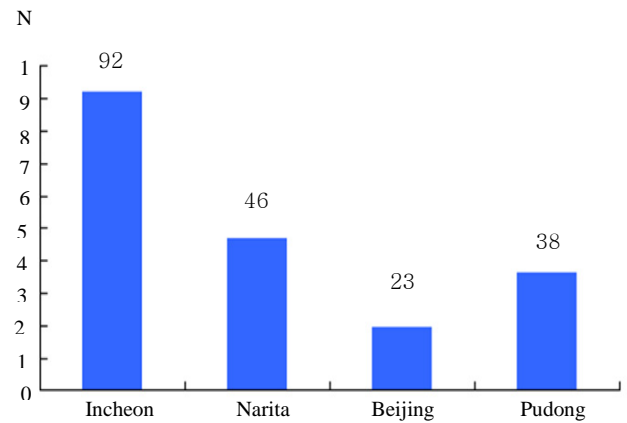


Fig. 3. No. of Routes to China, Japan and Southeast Asia

Source: Industry Report (HMC Investment Securities, 2014)

Moreover, 5,070,000 of total transfers were made by passengers in IIA in 2010, which was far larger than 810,000 occurred in PVG. IIA also leads NRT in the number of transfer passengers in 2012 as well; 6,860,000 in IIA vs. 5,700,000 in NRT (IIA, 2013).

However, the transfer rate of PVG is increasing lately due to the new practice that international passengers transferring to other international flights at PVG within 24 hours are not required to go through double immigration checks. On the other hand, the number of transfer passengers in NRT has declined since Haneda Tokyo airport started to offer international route in 2010 and the earthquake hit Japan in 2011. Nonetheless, NRT marks the shortest route from East Asia to North America and thus is still a critical airport for transfer passengers. To survive in the fierce competition, NRT has begun to expand the terminals on a large scale, strengthen the alliances, and build exclusive LCC(Low Cost carrier) terminals.

According to IIA (2013), transfer passengers of 3,098,336 from Southeast Asia and China accounted for more than 45% of total transfer passengers of 6,829,742 made in IIA and almost 50% of them traveled to North America. Also based on more recent data from ACI (Airport Council International)(2014), the number of international transfer of 7,207,000 represents 17.2% of total number of passengers of 40,786,000 in 2013. The report also indicated that more than 50% of transfers were made on routes between Southeast Asia or China and North America. From the statistics, we can infer that a large portion of passengers from Southeast Asia or China chooses IIA as a necessary transfer airport for the purpose of low cost instead of traveling directly to their final destination of North America. Besides Pudong airport in China and Narita airport in Japan in direct competition aforementioned, Hong Kong, and Beijing airport in China might be good alternatives as transfer places for passengers traveling from Asian countries. However, we will exclude HongKong and Beijing airports since they are not heavily competing with the ones that we chose in the route of Southeast Asia to North America.

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