CHAPTER I

INTRODUCTION

1.1 Introduction

Logistics involves the movement of products from raw material supplier to final consumer and transportation creates value or place utilities by deliver products to where be demand of customer exist. Furthermore, it is also a factor in the contribution of time utility because it determines how fast and how consistently products move from one point to another. If products are not available at the precise time they are needed, there may be expensive repercussions such as lost sales, customer dissatisfaction and production downtime.[1]

Transportation moves products to places that are often far apart from each other. By doing fast and efficiency, transportation increases customer satisfaction; time-in-transit, market coverage, flexibility, loss and damage performance all of which can be trusted in air transportation.

1.2 Research Problem

Airfreight has unique characteristics. First of all it is speedy than the other modes of transportation. Secondly, it is relatively safer than other mode of shipping that is the reason why airfreight grows rapidly as it can be fulfill these needs. However, a limitation of aircraft size causes the weight capacity and transportation charge definitely reflect to high price of transportation charge and heavily depended on quality of airport services will be concerned factors.

Nowadays, fluctuated economic has affected many industries. The airline and air cargo industry faced with structural problems: limited and even negative growth, over capacity, less margins and fierce competition. It is a difficult situation to overcome this recession of the airline and air cargo industry. The competitive environment where organizations tried to succeed witnesses' changes taking place at an ever-faster pace, and so management strategies must be constantly improved to face the challenges imposed by competition. Under this situation which in turn forces air carrier to make choices that will lead them to differentiate themselves innovate increase efficiency and identify create and maintain competitive advantages. Moreover, a strong indication shows that an improvement in service provides will improve profit due to increasing the customer base through new and repeat purchases from more loyal customer. Research has indicated that companies that offer superior service are able to charge 8% more.[2] A service quality improving is therefore to be considered as a weapon to compete under this market environment.

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[1] James R. Stock and Douglas M. Lambert, Strategic Logistics Management, 4th Ed., McGraw-Hill, p.313, 2001.

[2] Gilbert D. and Wong Robin K.C., Passenger expectations and airline services: a Hong Kong based study, Tourism Management, University of Surrey, Guildford, Surrey, UK, pp. 519-532, 2003.

Furthermore, there is more than a competition in a horizontal level, integrators, for example United Parcel Service (UPS), Federal Express (FedEx) and DHL are stealing a market share in the market and have a great successful because they can contribute service through fast and consistent delivery. Under this circumstance, air carriers have to develop themselves by increasing their ability to meet a consumer requirement which is more than just a basic airfreight service for example to become a part of a shipper's overall marketing program.[*]

Basically, International Air Transport Association (IATA)[**] provides a necessary for airfreight transportation which you can find from IATA rule and IATA rate book which are published three times a year. Generally, there are two categories of commodities transported by air. Firstly, general cargo, and secondly is special commodities.[***] Transport fee and others expenditures are calculated according to IATA Rate which is published in IATA rate book[†] and basically based on IATA area[††].

Look closely in a growth rate of airfreight industry during 2001-2005 was at 3.5% per annum, but a positive forecasting has been announced from Boeing and Airbus. An expected growth between 2006 until 2010 in airfreight sector will be at 5.7% per year. Furthermore, an IATA record shows that there is a significant growth rate of freight sector in every area of the world especially in Asia Pacific with an average growth rate at 6.30%

	Passenger	**Freight**
North Atlantic	5.30%	4.60%
Trans Pacific	5.80%	6.00%
Within Europe	5.10%	4.10%
Within Asia Pacific	6.80%	8.50%
Europe to Asia Pacific	5.90%	5.70%
Europe to Africa	5.70%	4.50%
Middle East to Europe	6.60%	5.10%
Middle East to Asia Pacific	6.70%	8.80%
NorthAmerica to Latin America	4.60%	3.70%
Within Latin America	4.20%	5.00%
All International Routes	**5.60%**	**6.30%**

Table 1-1 : International Air Traffic Growth in 2005 by Key Route Area by IATA

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[*] An example in this case is Fresh Partner program of KLM cargo.

[**] Appendix 1

[***] Ibid.

[†] It is one of TACT book series which is published by IATA 3 times a year effective February 1, June 1 and October 1. TACT has been divided into three volume: TACT Rules, TACT Rates North America and TACT Rates Worldwide. More information of freight calculation please see Appendix 1

[††] Appendix 1

From this attractive number, air carriers put more attention in cargo transportation substantially invest more in new freighter capacities especially in Asia and China market. All carriers completely continued develop their performance and increase capacity to get more market share. Some big carriers founded a cargo alliance and become a threat and challenge to be the leader in the industry. Referring to IATA's record; the top five of air carriers in international schedule air transport (September 2005) are;

1. Air France and KLM (merged in 2005)
2. Korean Air (KE)
3. Lufthansa (LH)
4. Singapore Airline (SA)
5. Cathay Pacific (CX)

Now KE, LH and SA are competing to be the second in the list. Then an assortment of services' range of above carriers and some others air carriers who offer freighters services in Bangkok market; Martin Air (MP), Cargolux (CV) will be considered as competitors of Lufthansa Cargo AG (LCAG). More information about their service offer in Thai market can be found in an Appendix 2 and Appendix 3.

This study aimed to focus on improving service quality and service strategies. In the airfreight industry understanding what cargo agent expect is essential to providing desired service quality. However, service quality research that focused on at cargo transportation has been very limited. This research paper focuses on the link between customer expectations and service quality provided from Lufthansa Cargo AG, Bangkok, and demonstrates how an airline can utilize a measure of different customer's expectations as a diagnostic tool in managing its service quality and improve

Basically, Lufthansa Cargo AG offers a time definite service to the market with 3 basic service levels;

1. td.Pro :An economic and fit with all kinds of shipments,
2. td.X : A high speed for heavy weight freight, and
3. td.Flash : The fastest express service to worldwide destinations.

These three basic services contain different service elements* ; time definite, capacity guarantee, performance guarantee (has been completely removed from service elements from 1st April 2006 onward), tracking and quality assurance/ proactive communication.

Basically, goods which are accepted to be transported under these three basic service levels are general cargo. For example; garment, electronics goods, computer parts and more which require no special handling. From basic service levels, td.Pro, td.X and td.Flash, LCAG offers a "Valued added services" for commodities require special

* Appendix 3

handling and procedure. There are seven solutions offered for customer choices ex BKK; Safe/td.1, Safe/td.2, Care/td., Cool/td., Fresh/td., Live/td., and CD. Solution.[*]

1.3 Purposes of study

1. Identifying service quality indicators for airfreight in an air carrier aspect. (Service provider).
2. Suggesting a service development and areas for improvement for LCAG as a case study.

[*] Ibid., p.3.