

Low Cost Carrier in Airlines: In Terms of Cost Perspective

Elsya Panduwinasari*, Aang Afandi, Hesti Wahyuni

Accounting Department
 Politeknik Negeri Malang
 Malang, Indonesia

*elsyawina4@gmail.com, aang_95@yahoo.co.id, wahyunihesti@yahoo.com

Abstract—This study aims to determine the implementation of the LCC airline in reducing and minimizing costs accrued by the company and the impact of the implementation of LCC. In order to achieve this goal, the data were collected using interview techniques with key informants and secondary data analysis. The type of research used is descriptive exploratory method aimed to explore the implementation of LCC on airlines. Data sources used primary data obtained through interviews with informants from employees of PT. Citilink and PT. Garuda Indonesia, while secondary data were collected from information presented on the website and other related information and reports of LCC on the internet. The results of this study indicated that there are at least 3 forms of reduction / minimization of flight costs, namely the first minimization at operational per service / per flight. Second, cost minimization in the overall operations of the company. Third, minimization with government policy facilities related to the rules regarding flights and fixed rates. These results are evidence by Cost per unit for production (cost per Available Seat Kilometer/CASK) of FSC airline was 6.16 US\$, meanwhile the cost of LCC airline was just 0.06 US\$ for easyJet, Air Asia had 3.07 US\$ and Citilink had the highest position compared to easyJet and Air Asia for 4.71 US\$. Therefore, the implementation of LCC has the effect on the opening opportunities for the middle and lower classes to choose flights as a mode of transportation and the presence of LCC can have a positive impact on the economy, especially in the tourism sector.

Keywords: *low cost carrier, airline, cost*

I. INTRODUCTION

Business and industrial world is the trigger of the economy that continues to run. Of course, this is shown by the number of companies that continue to develop to achieve the goals of the company. The main goal of a company is profit orientation by minimizing the costs incurred in the company's operations. Given these goals, the company must be able to think critically to find ways to achieve these goals. In the other hand, the existence of intense business competition makes the company must be able to compete and survive in the business environment both internal and external. The competition makes the company must have several strategies to be able to face competitors while achieving optimal profit by minimizing existing costs.

Such conditions also occur in airline companies. In the current era, the world of aviation is no longer a special thing anymore. Air transportation has now become the transportation

of choice for people traveling far and near both between regions and between countries. The choice of the community made the airline companies competing to make the airline the people's choice. They will offer a price that is enough to attract the attention of the public by providing several facilities in accordance with the price of airline tickets. Alamsjah et.al. [1] states that quality, cost, shipping and flexibility are the keys to success in the aviation world, so companies must really choose the right strategy and in accordance with the conditions of intense competition between companies offering the same product.

According to Alamsjah [1], in general there are 2 main strategies that can be chosen by the airline company that is either in the form of services or costs. Indirectly refer to 2 general aviation services namely Full Service Carrier (FSC) and Lower Cost Carrier (LCC). Flight with Full Service Carrier (FSC) which means full service airlines, according to Handoyo [2] in their business activities of flying passengers from one destination city to another by providing full services to their passengers, both before the flight (pre-flight), during flight (in-flight) and after flight (post-flight). Their quality best service, full service carrier offering price on Flight tickets wishful higher / more expensive which is a Garuda Indonesia. Middle to upper market niches whose main needs are quality services, not cheap flight fares.

Different again from Low Cost Carrier (here in after referred to as LCC) or low-cost airlines, where in their business activities fly passengers from point to point by utilizing the middle market niche down. LCC has become the center of attention for prospective passengers who want to travel by air. The aviation world has become more popular since the presence of several airlines with the concept of low cost carrier, so there are several airlines that have claimed (declared) to be low cost airlines. Hutapea [3] states that several airline service companies that implement LCC in Indonesia include Air Asia, Lion Air, Batavia Air, and others. In addition, the Citilink airline has been flapping its wings since 2011 as an effort by Garuda Group to compete more aggressively in the budget traveler segment [4]. Not only in Indonesia, but overseas airlines that apply the LCC concept are also diverse. In Korea, for example, there are several LCC airlines including Jeju Air, Jin Air (Subsidiary from Korean Air), and Eastar Jet [5]. In addition, according to Dziedzic and Smith [6] there are 3 biggest LCC airlines in Europe, namely Ryanair, EasyJet, and Norwegian.

The existence of LCC can overcome several problems faced by consumers related to expensive flight ticket prices. The wider community can also use aviation services at affordable prices and shift the mindset that people who use flight services are only from the upper middle class. In addition, various studies have shown that LCC has a positive impact and contribution to other sectors, especially in the tourism sector. The arrival of low-cost airlines (LCC), with cheaper air costs, greatly leverage the flow of tourists around the world [7]. In addition, some literature states that LCC is a major driver of tourism development in a country or city and provides benefits for domestic tourism demand and regional economies [5,8,9].

If observed, ticket prices on LCC airlines with airlines that are Full Service Carriers have a significant difference. For example, the price of a plane ticket from Malang (MLG) to Jakarta (CKG) using LCC, in this case the Citilink airline, is priced at Rp 657,225.00. Whereas if you use the Full Service Carrier airline in this case is why Garuda Indonesia with a price of Rp 1,568,300.00 [10,11]. This shows a significant difference between LCC and FSC airlines, so it becomes a question of what differences are caused by the two to bring up different flight ticket prices. Logically, the price of an airplane ticket comes from a series of costs incurred / incurred by the airline which is charged to the passenger.

In general, the writings on LCC that have been done by some researchers are limited to the influence of LCC on consumer satisfaction, the impact on regional economies in a country and on the tourism sector [5,7-9,12]. The difference / renewal in this research is the implementation of LCC which is reviewed in a cost perspective. Writing related to cost accounting about LCC is something that has never been discussed in detail, so it is necessary to do research on the composition in the preparation of LCC with the facilities and quality offered in several airlines.

The study aims to determine the identification of costs in aviation (cost of airlines) in a full service carrier, the preparation and reduction of costs in the application of LCC and determine the impact that is incurred in the implementation of LCC by airlines.

According to Assegaf [13] Service companies do not produce a product and also do not buy goods to be resold. This company activity is a service (service) to consumers. The service is not in the form of tangible products, but in the form of services needed by consumers. Costs incurred are costs required to be able to provide services to consumers. This type of company does not have inventory for its products because there is no real (concrete) product that can be stored. Examples of service companies are television stations or flight services.

Based on the Law of the Republic of Indonesia No. 1 Year 2009 on Aviation Article 97 paragraph 1C that the Low Cost Carrier often also known as a no frills , dis-count or budget carrier is commercial air transport scheduled that in carrying out its activities grouped - right in service with the minimum standards (no frills).

According to Manurung [14], the concept of full service is better known as the traditional aviation business model (legacy

carriers). In this concept, what is emphasized is a complete and quality service at a premium price. The services provided are comprehensive, flexible flight frequencies, lounge facilities, food and beverage facilities, loose seating with television facilities, and so on. To support quality services, the airport used is also the main airport.

According to Nasution [15], the operating cost structure is divided into 5 groups that cover flight costs which are direct operating costs, operating costs on land or administrative costs (system administrative expense), operating systems which are direct operating costs, total costs operations, and non-operating system costs.

II. METHODS

In this research, the object chosen was the airline company that implemented the Low Cost Carrier and one of the Full Service Carrier airlines, Garuda Indonesia. The selected airlines include Citilink (Indonesia), Air Asia (Indonesia), and EasyJet (Europe) which implement Low Cost Carriers (LCC) in the company's operations.

This type of research is a descriptive study. Sugiyono [16] states, "Descriptive method is a method used to describe or analyze a research result but is not used to make broader conclusions" (p.21). This research is also an exploratory research (exploratory research). Explorative studies are needed to get a deeper understanding of the phenomenon under study.

Data sources used are secondary and primary data. The secondary data needed is documentation (printed / electronic) data on Garuda Indonesia, Citilink, Air Asia and easyJet airlines. While the primary data used by researchers in this study were data from interviews with key informants / informants from the LCC airline, Citilink, and the FSC airline, Garuda Indonesia. This study uses the key informant technique method by interviewing key informants on the airline who can provide relevant information regarding the application of LCC. Furthermore, the secondary data analysis method is used to obtain various information or information regarding the application of LCC by collecting data from existing / already published data. To analyze the data to be obtained from research, qualitative data analysis methods are used.

III. RESULTS AND DISCUSSION

Low Cost Carrier (LCC) or what is often called a low-cost airline has been implemented by several airlines both in Indonesia and abroad. The presence of LCC is a new aviation business model with a low price offer when compared to conventional airlines (Full Service Carrier). This is certainly supported by the existence of forms of cost optimization, the provision of facilities in accordance with flight rates both during pre-flight, in-flight, and post-flight. Although the cost of critical operations or fares this low, but the requirements associated with aspects of the flight safety (flight safety) applied at both LCC and Full Service Carrier.

In its application, LCC airlines have several characteristics differences with Full Service Carriers. Of course, LCC airlines have several strategies and efforts to reduce costs that are not required in carrying out these low-cost flight operations.

Efforts to minimize these costs by reducing and eliminating the costs that exist in the Full Service Carrier or legacy carrier. As it is known that premium services provided by Full Service Carriers such as Garuda Indonesia are very complex and require a lot of workers and also the costs incurred for providing these services.

If observed, there are several things that differentiate between Full Service Carrier (FSC) and Low Cost Carrier (LCC) presented in the following table.

TABLE I. COMPARISON BETWEEN FSC AND LCC AIRLINES

	FSC	LCC
Aircraft type	Many variants of aircraft types	One type of aircraft
Number of seats	162 seats	180 seats
Class type	Economic class Business class	All economic class
Amenities	Eat and drink In-flight entertainment Newspaper, magazine	No frills * In-flight wifi **
Luggage	30 kg free	7 kg free for Air Asia 20 kg free for Citilink (more than that gets extra charges)
Ground handling	45 minutes	25-27 minutes
Network / Route Pattern	Hub and spoke Long hauls Transfer / transit	Point-to-point Short routes Direct flight
Landing	Main airport (ultimate)	Second airport (secondary airport) ***
Choose a seat	Free seat	Choosing a seat must be paid in accordance with the row seat
Ticket sales (channel distribution)	Travel agent Sales office Global Distribution System (GDS), Abacus, galileo, Website B to B	The website Call center B to B
Form of pre-flight services	Premium check-in Baggage priority Longue	No pre flight service Online Check-in
Ticket & Boarding pass	Conventional ticket	Plain paper / coupon form Airline application
Cabin crew	Pilot 1 co-pilot 1 Cabin crew / 6 Flight attendance (FA)	Pilot 1co-pilot 1 Cabin crew / 4 Flight attendance (FA)
HR	Focus per section	Multi role employee

* No frills, food and drinks are not provided free of charge, passengers can buy their own food and drinks in the plane pre book meals.

** wifi provided free of charge is at Citilink, but different from Air Asia which provides paid ROKKI wifi services.

*** Secondary airports that still pay attention to runway lengths in accordance with aircraft landing standards, Citilink has standards that require at least 1900 m runway length.

In the description of the data above shows that there are several different things between the FSC and LCC airlines. Every difference indicates a difference in the costs incurred for each of the activities / components mentioned above. At least in streamlining operational costs at LCC airlines, there are some components which are reduced, or even eliminated. Indirectly the cost efficiency is carried out at each level of cost. It can be categorized into reductions in per-service operations,

a decrease in the operational companies, and could be a decrease in costs by government policy facilities. The following are some of the things that LCC airlines do in terms of efficiency / cost reduction which has been categorized at the level of reduction effort.

A. Reduction / Minimization of Operations Per Service

1) *No frills service (service without "frills")*, The purpose of no frills itself is there is no food and drink (catering) service. As mentioned previously, LCC airline passengers will not get eat and drink services for free. If passengers want to enjoy food and drink on the plane, passengers must buy before taking off. As is the case with the airline Citilink and Air Asia. Citilink provides pre book meals (PBM) services for passengers who want to buy food and drinks on board. In addition, in the in-flight service on the FSC airline there is also a galley which is the provision of snacks and baverage during the trip by flight attendance (stewardess / steward) for free at certain destinations. Services while in the plane that are not provided on the LCC airline are in-flight entertainment. The LCC airline does not have an Audio Video on Demand (AVOD) facility which is an LCD touch screen behind the passenger seat that can be used to play music or movies that can be played by passengers during the trip as owned by the FSC airline.

2) *Baggage availability*, The determination of the cargo baggage facility is also an indication of the difference in ticket prices between the FSC airline and the LCC airline. airline's decision in determining luggage capacity per passenger is also considering a pay load on a flight. Not only that, in an airline in determining the main plan of production also consider the flight distance and volume.

3) *Ground handling*, Ground handling or handling on the ground of the aircraft before taking off (take off) on departure and also handling on the ground when the plane landed (landing) on arrival. A shopping - passage of time and service in ground handling is also an indication of the reduction / minimize the cost of ground handling. Costs / ground handling rates also vary at airports in each region. For ground handling time on LCC airlines is 25 minutes to 27 minutes. Unlike the ground handling time on FSC airlines, such as Garuda Indonesia which has a ground handling time of up to 45 minutes.

4) *Flight network / route pattern*, The flights pattern of LCC airline are point-to-point, where the flight is from one city to the destination directly, without being connected to other destinations. In contrast to the hub and spoke system which is a network of flight routes, where there is a point (airport / destination city) acting as a hub (hub), which is connected with other points (airport or destination city) as spokes (spoke). The choices of network patterns / flight routes with a point-to-point system to minimize aircraft operating costs associated with ground handling, parking, and even aircraft fuel.

5) *Landing*, Minimize fees charged in passengers, the airline LCC choose both airports (secondary airports) in the landing. LCC choose to operate at both airports (secondary airports) cheaper operating costs with using facilities Ground handling is simple and it indirectly costs Ground handling can be reduced as well as air traffic were not so crowded and busy.

6) *Seat selection*, The seat selection on the LCC airline is different from the FSC. Seat selection in LCC, like Citilink does not give passengers the flexibility in choosing a seat for free. Passengers who will occupy certain seats selected must be paid and there is a tariff on each row / row of the seat.

In Air Asia the selection of seats both regular and hot seat has a different tariff, for the regular additional costs reach 16,900.00 IDR to 36,900.00 IDR at the time of initial booking. As for the hot seats themselves, the price is 76,900.00 IDR to 106,900.00 IDR at the time of initial order. As with Citilink which has a green zone, it is a program to choose chairs with complimentary soft drinks and complimentary drinks. The green zone area is seats from rows 1, 12 & 14 at a price of 135,000.00 IDR and rows 2 and 5 at a price of 105,000.00 IDR.

7) *Ticket / boarding pass*, Efforts to save on the LCC are also shown on airline tickets or passenger boarding passes. If the FSC airlines use conventional tickets. Unlike the LCC airlines that use a piece of paper on their boarding passes. Even Air Asia states that Air Asia is a Ticketless airline, passengers do not need to collect tickets before traveling. This of course reduces costs at Air Asia including less paper, low printing and distribution costs). Ticketless airline is also implemented by LCC airlines from Europe namely EasyJet where prospective passengers can download boarding passes through the free easyJet mobile application or can choose to print them. With this strategy, the cost of providing boarding passes, printing costs for boarding passes can be minimized.

8) *Cabin crew*, Cabin crew or flight attendance (FA) and the airline is the crew serve passengers during a flight. The crew itself consists of pilots, co-pilots, and crew cabin. The number of crew members also influences the salary and allowance costs for the crew, both pilots and co-pilots and crew cabin. At FSC airline, Garuda Indonesia number of crew that is the one pilot, one co-pilot and six cabins for the aircraft types Boeing 737 Max 8 and Boeing 737-800s. In addition, the crew on the Airbus A320-300 and Airbus A320-200 consists of 1 pilot, 1 co-pilot and 12 crew cabin. Unlike the LCC airlines which have fewer crews than the FSC airlines, Citilink has a crew consisting of 1 pilot, 1 co-pilot, and 4 crew cabin for aircraft types namely Airbus A320-200.

9) *Form of pre-flight services*, Service pre-flight provided on the FSC in this case the airline Garuda Indonesia is very diverse with premium quality such as premium check-in with the help of staff from the airline, facilities lounge where passengers wait the departure at the airport with eating and drinking facilities. At check-in at the Premium Check-In counter, specifically for business class passengers, the entire check-in process will be assisted by PSA (Premium Service

Assistant) from checking the completeness of documents to baggage profiling. In contrast to LCC airlines, such as Citilink and Air Asia, which do not provide premium preflight services. Passengers can check-in online themselves and also check-in at the check-in counter without premium services. This indicates that LCC does not involve too many airline staff to serve passengers before the flight (pre-flight). Indirectly employee costs are also reduced and there are no costs for maintenance and procurement of existing facilities at the airport lounge.

B. Reduction / Minimization of the Operating Company

1) *Type of aircraft operated as a whole*, Efforts to save costs or minimize costs on LCC airline companies are to use aircraft with one type / type of aircraft. Conversely, if the FSC airline uses various types of aircraft / many aircraft variants (various aircraft). This is evidenced that Garuda Indonesia (FSC) has various types / types of aircraft including the Boeing 777-300ER, Boeing 747-400, Airbus A 330-300, Airbus A330-200, Boeing 737-800 NG, Boeing 737 Max 8. While the LCC airline only uses one type of aircraft, the Airbus A320-200.

The purpose of using one type of aircraft on an LCC airline is to minimize the cost of repairs and maintenance with various types of spare parts needed in each type of aircraft. In addition, the use of one type of aircraft can also minimize training costs in aircraft maintenance and aircraft operations by pilots and co-pilots.

2) *Ticket sales (channel distribution)*, LCC conducts a ticket sales system with practical and cost-effective operational methods. Most 85% of ticket sales are made through the airline's website (www.airasia.com), where tickets purchased by prospective passengers are paid through credit cards, debit cards, and through online banking (internet banking, M-banking, and ATM). In addition, LCC avoids dependence on travel agents as much as possible. This means that airlines do not incur any commission fees for travel agents. Because LCC does not use a travel agent, airasia (LCC) does not use / participate in a worldwide reservation system, and this can save costs. This is very different from Full Service Carrier airlines that still depend on travel agents (travel agents) and sales offices in selling plane tickets. FSC airlines tend to have their distribution channels by integrating their systems with Global Distribution Systems (GDS), Abacus, and Galileo.

3) *Human resources*, In connection with the efforts of airline companies in minimizing the cost of human resources, the company seeks to make its employees capable in all matters (multi-role employees). Form of savings by LCC in salaries and employee benefits itself when compared with the airline FSC on which the operations of the reduction of the crew, the maintenance by the reduction technicians due to using only one type of aircraft, on ticket sales and reservations with a reduction in employee because lack of sales offices in various regions, and costs on administration and general with

a reduction in the number of employees in each branch office that is spread in several areas.

C. Decrease Costs by Facility Policy Government

In implementing low-cost airlines, of course the government has a role in it. The government acts as a regulator, as well as granting permits and stopping airline operations. The government policy itself is used as a reference for LCC airline companies in carrying out their flight activities. Government support for the existence of LCC airlines is also shown in Law number 1 of 2009 article 97 paragraph 1c relating to the grouping of services on airlines, one of which is airlines with services with minimum standards (no frills).

In addition to Law number 1 of 2009 on flights, there are also regulations regarding airline tariff policies through upper and lower tariffs, namely the Minister of Transportation Regulation of the Republic of Indonesia Number PM 14 of 2016. In these regulations, the upper and lower limit tariffs have been set forth. For airlines (attachment). Article 5 paragraph 2c explains that the application of tariffs is a maximum of 85% (eighty-five) of the maximum tariff, for services with a minimum standard (no frills services).

In 2018, the Ministry of Transportation of the Republic of Indonesia will support the development of LCC flights by providing a number of intensive. Based on the statement of Minister of Transportation [17] explain the Minister of Transportation will expand the broadest network and operations throughout Indonesia so that the flexibility of LCC airlines to various regions increases and runs well. Furthermore, they also stated that the Minister of Transportation will soon meet with PT Pertamina in an effort to reduce the price of aviation fuel which is currently selling 20% more expensive compared to International.

Based on the above it shows that the government as a regulator supports the existence of low-cost airlines with all the laws and regulations attached to LCC airlines and other incentive efforts so that in cost cutting and tariff setting, airlines can use government regulations as a reference so that LCC is able to boost country income.

Based on the 3 forms of savings available, there are some differences in the composition of costs for each flight service (FSC and LCC) both from operational and non-operational costs presented in the following table.

TABLE II. COMPARISON OF FSC AND LCC COSTS (2017)

	FSC		LCC	
	<i>Garuda Indonesia</i>	<i>Air Asia</i>	<i>easyJet</i>	
Total operational costs	84.7%	87.3%	90%	
Total non-operational costs	15.3%	12.7%	10%	
Total cost	100%	100%	100%	

From the table II shows the percentage of consumption costs both operational and non operational costs of the FSC and LCC airlines. From the above data shows that the operational cost on Garuda Indonesia amounted to 84.7% of the total costs for the year 2 017, then to Air Asia indicate operational costs

amounted to 87.3% of the total cost and EasyJet with the total operating costs reached 90% of total costs during the year 2 017. As for non-operating expense for the year 2 017 Garuda Indonesia 15.3%, then to Air Asia at 12, 7%, and for operational costs EasyJet spend only 10% of the total cost of the flight.

This percentage can also illustrate the difference in costs for each airline both FSC and LCC. The following is a comparison of the cost per Available Seat Kilometer / CASK (Cost per Available Seat Kilometer) presented in the following table.

TABLE III. CASK (COST PER AVAILABLE SEAT KILOMETER) COMPARISON OF AIRLINES

	FSC		LCC	
	<i>Garuda Indonesia</i>	<i>Air Asia</i>	<i>Citilink</i>	<i>easyJet</i>
total passenger	23,962,930	4,634,001	12,274,744	80,200,000
Frequency	198,722	30,822	82,363	516,902
Number of fleets	144	15	58	279
Load Factor	73.38%	84 %	79.78 %	92.6%
CASK (US €)	6.16	3.07	4.71	0.06

Source: data processed from airline annual report, 2018.

The presence of LCC also has a positive impact on economic growth, especially in the tourism sector. The availability of cheap flight tickets in tourist destination areas makes it easier for tourists to travel from one destination to another because of the ease of access to tourist destinations. Afandi and Burhamtoro [18] stated that there were 10 priority tourism destinations in the national tourism master plan. At these priority tourist destinations most of the accommodations (LCC air transportation) have already been reached by landing at the nearest airport.

As an LCC airline, it is fitting to comply with regulations relating to aviation air, including the lower limit and upper limit tariff rules and despite having its own rules, the LCC airline company must still set flight rates from the set limits, because in addition to the government as a regulator in the world of aviation but also for the sake of implementation of security and safety in flight because of the covered costs of safety and security of the flight.

We recommend that the government's support in order to develop infrastructure on a *low cost carrier terminal* (LCCT) which is a lower-cost airports to support the cost efficiency of airport tax and landing fees for airlines LCC, so as to support the concept of LCC on airlines.

The limitation of this study is the unavailability of airline cost data in nominal form and in this study only discusses the form of operational cost reduction/ minimization. It is recommended for further research in order to conduct research on the cost efficiency of airlines quantitatively, so that it can be seen how much cost efficiency is reduced by LCC airlines.

IV. CONCLUSIONS

There are several forms of reduction / minimization of flight operating costs that can be divided into 3 forms of

reduction levels, namely the first reduction / minimization of costs on operational per service / per *flight* by minimizing on *no frill service*, baggage availability, *ground handling*, network / route patterns, *landing*, seat selection, ticket / *boarding pass* forms, number of cabin crew, and *pre-flight* service forms. Second, reducing costs in overall company operations by minimizing the type of aircraft used as a whole, ticket sales, and human resources. Third is the reduction / minimization of costs with government policy facilities that have been regulated in Law no. 1 of 2009 on flights [19], PM 14 of 2016 on lower and upper limits, as well as intensive amounts provided by the ministry of transportation to support airline operations LCC.

The highest CASK (*Cost per Available Seat Kilometer*) or cost per unit for production (ASK) is 6.16 US ¢. For LCC airlines, the lowest CASK among the three airlines was easyJet which reached 0.06 US ¢, for Air Asia was 3.07 US ¢, and Citilink was still in a higher position compared to easyjet and air asia which was 4.71 US ¢. This clearly proves that the cost for FSC is higher than for LCC.

There is also the impact caused by LCC airlines, which is to open up opportunities for all people in choosing flights as a mode of transportation, including those in the lower middle class because ticket prices are easily accessible. In addition, the presence of LCC can have a positive impact on the economy, especially in the tourism sector because of the ease of access to access tourist destinations.

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