

Background information of malaysia airlines marketing essay

[Environment](#), [Air](#)



1.0 Introduction

. The objectives of this report is to present the findings of the strategic analysis conducted for Malaysia Airlines Company and recommend the key strategies that the organization should embark in order to remain competitive in the industry. The airline industry is an enormous business in term of operating capacity and expense. The airline industry is fundamentally a service operation. In other words, it is a business that does not trade tangible goods, but instead trades a service for profit. The industry is responsible for transferring its customers from point A to B along with their belongings. Malaysia Airlines is a national company that offers regular flights. Malaysia Airlines now flies to over 100 destinations across six continents from its primary hub in Kuala Lumpur. The report is analyzing an industry's competitive structure.

The limitations of this report is the incomplete set of financial data that the team had access to and the short duration for the analysis to be completed. Broad in scope, resources cover a spectrum of individual, social and organizational phenomena. In fact, research shows that in some industries, international variables are more important than domestic ones as determinants of strategic competitiveness. Alternatively, an attractive industry has high entry barriers, suppliers and buyer with little bargaining power, few competitive threats from product substitutes and relatively moderate rivalry. Through effective competitive and public policy intelligence, the firm gains the insights needed to make effective strategic decisions about how to compete against its rivals.

This report shall cover the operations of Malaysia Airlines Company in Malaysia. In this report, the information of the report comes from research. The report includes the background information for the company and strategic options for the organization. It display the situation analysis which most firm face external environments that are highly turbulent and global conditions that make interpreting those environment difficult. The report is analyzing the external environment and the challenge to each firm is to scan, monitor, forecast and assess the elements in each segment to determine their effects on the firm. Besides, there are a few key selection criteria that might affect the selection of the strategies for the organization. In order to meet the demanding standards of global competition, firms create value for customers. The firm maintains the high quality product and services offered and these have to be constantly matched to the specific needs for the consumers.

2. 0 Background Information of Malaysia Airlines

Malaysia Airlines System Berhad (MAS) is the holding company for Malaysia's national airline carrier, one of Asia's fastest growing airlines. Through several other subsidiaries, the company manufactures aircraft parts, offers trucking and cargo transportation services, caters food, provides laundry and dry-cleaning services for airlines and other industrial institutions, and oversees a travel agency. Malaysia Airlines (MAS) is a national company that offers regular flights and began in Malaysia in 1947. Its fleet consists of 82 planes which include Airbus and Boeing. Malaysia Airlines believes in the ultimate excellence which flying to over 100 destinations across 6 continents. Dato'

Dr Mohd Munir bin Abdul Majid is the chairman for Malaysia Airlines. Tengku Dato' Azmil Zahrudin is the managing director and chief executive officer for Malaysia Airlines, upon receiving his appointment from the airlines board of directors. Over the past 4 years, Tengku Dato' Azmil Zahrudin and Dato' Sri Idris Jala had work together in steering the airline out of its financial crisis and setting the vision for Malaysia Airlines transformation into “ The World's Five-Star Value Carrier”. <http://www.eturbonews.com/11321/new-ceo-malaysia-airlines>

In the premium market segment, MAS is under tremendous pressure from full service carriers (FSCs) who are striding ahead with first class products, new and modern aircraft, and fast-expanding routes. On the other hand, in the price driven market segment, MAS is also strongly pushed by low cost carriers (LCCs) with low fares. In a nutshell, MAS must reinvent itself to fend off competition from FSCs and LCCs. MAS aspires to become the World's Five Star Value Carrier. MAS believe that they have to reinvent themselves to achieve this vision.

3. 0 Situation Analysis

3. 1 General Environment Analysis

Demographic segment

The demographic segment is about the population size, age structure, geographic distribution, ethnic mix and income distribution. Malaysia is a multiracial country and its population comprises of 28. 6 million of people (Moneyterms. co. uk, n. d.). The government aims for increasing the national population to seventy million by the year 2100. There is 63. 8 percent of the

population lives in urban area while only 36.2 percent of population live in rural area.

The passenger load factor (PLF) of an airline, is a measure of how much of an airline's passenger carrying capacity is used (Moneyterms. co. uk, n. d.). It is passenger-kilometers flown as a percentage of available. The PLF of Malaysia is 67.8, 60.7 for Asia, 74.9 for Europe and Middle East, 73.6 for Australia and New Zealand, 72.6 for Africa and South America, and 60.6 for Orient and North America (Moneyterms. co. uk, n. d.).

Besides, Malaysia is recently introduce a new policy which with the purpose of making the Malaysia to become the high income nation. This significant policy had show the increase of Malaysian income in the future time.

Sociocultural Segment

The labor force in Malaysia has been increased from year 2003 to year 2010. It reached a capacity of 11.38 million of people in the year 2010. (Index Mundi, 2010). It is found that the youths who are in between of the age of 15 to 34 basically make up the largest labor force in Malaysia (Doraisamy, n. d.). It is also found that the women in the workforce have increased. This is due to the reason that a lot of countries have endorsed legislation such as Equal Opportunity for Women in the Workplace Act to protect the women in the workforce. Besides, there are many reasons to explain why the women have increased in the workforce. For example, women are more educated and more skilled (Strategic-Human-Resource. com , 2008).

There are various types of airline careers offer in the airline industry, such as pilot, captain, copilot, second officer or flight engineer, flight attendant, flight dispatcher, and meteorologist (Target Woman, n. d.). Airline industry employs those people with highly diversified skills regardless of the sex. It is proved that the flight attendants like the stewardess or steward symbolize the major job sector in the airline industry. For instance, there are nearly 80000 flight attendants in United States airline industry (Target Woman, n. d.).

However, it is found that the age discrimination cases have been happened in the United States airlines (Target Woman, n. d.). According to the pilot's required retirement policy such as Age 60 Rule, pilots are forced to retire at age 60. This is because the airline industry believed that the pilots are not able to perform the job well at the age of 60. They believed that the pilots are place the airline company and the passengers in danger if they are permit to fly (Target Woman, n. d.).

Global Segment

Airlines have participated in globalization and consolidation. They link their network through the establishment of alliances and partnerships to expand the access to their customers. For example, the world aviation market is shared between the global alliances such as KLM or North West, Atlantic Excellence alliance, STAR, and British Airways or American Airlines alliance (The Airlines Industry, n. d.).

The airlines industry has targeted some relevant new long term global market in order to expand their services such as Asia Pacific and China, South Asia, Northeast Asia, Southeast Asia, and Oceania (Australasia) (The Airlines Industry, n. d.). It is believed that most of the airlines keep the new global market in Asia Pacific and China. This is due to reason that China has grown promptly and the urbanization of China had caused it became the dynamic aviation markets (Boeing, n. d.). It is expected the population will come up to one billion by year 2025. Besides, the domestic passenger traffic is projected to grow on an average rate of 7. 9% in China. Boeing, as the China's leading provider of passenger airplanes, predicts that about 71% of the demand in China is the single-aisle airplanes with the full deliveries of 3090 (Global Intelligence Alliance, 2010).

Physical Environment Segment

The great majority of the airlines have developed their own comprehensive programmed to reduce the environmental footprint and produce a more environmentally product (One World, 2009). Based on the research, the members of alliance in the airline industry have enhance the fuel efficiency of the aircraft and create not as much of greenhouse gases like the old aircraft and are quieter. Basically, there are some international industry bodies like IATA (the International Air Transport Association), Association of European Airlines, the Association of Asia Pacific Airlines, the USA's Air Transport and others are fully support the environmental activities (One World, 2009).

Based on the global perspective, there is fewer than 2 percent of the world's total carbon dioxide which produce by the airline industry being released (U. S. Travel Association, n. d.). The passenger aircraft nowadays are more environmentally friendly as it is 70 percent more fuel efficient than 40 years ago. For example, Airbus A380 and Boeing 787 Dreamliner are more fuel efficient aircraft (U. S. Travel Association, n. d.). According to IATA, airlines are planning to improve the fuel efficiency of the aircraft and carbon dioxide emissions in another 25 percent more (U. S. Travel Association, n. d.). It is also plan that in the coming year 2025, the fuel efficiency of the aircraft will be improved in another 30 percent.

Technological Segment

There are many airlines currently using proprietary check in systems which will convert all its check-counter to the ARINC's MUSE common-use system. City Airport, Logis & Travel (CALT) can make better use of its available counter space because it will help to provide a convenient in town check in. The improvement of the check in counters at CALT is economically feasible. In addition, many of the airlines involved already have experience with ARINC's MUSE technology at Incheon and Gimpo. They will be able to make the transition at CALT with little extra cost.

Besides, technology also can be used to enhance customer relations. It will help to create convenience for consumers. The industry can offer travelers a web interface customized to a specific type of travel. The web interface can direct the customer to services with the desire benefits but cost a little more (B. Hilotin, 2010). Other than that, the automated check in machines is

available in some airlines. Travelers can swipe a credit card through the automated check in machines as identification and print out their tickets instead of checking in with airport staff. The new technology also helps airlines to track lost luggage. There are Radio Frequency Identification (RFID) systems which will help to enhance aircraft unit loading devices and help boost security (B. Hilotin, 2010).

Economic Segment

A low cost airline generally has many features that differentiate it from the traditional carriers. These features include ticketless travel, online ticket sales, no international offices, no frequent flyer points, no free food and beverages, no in-flight magazines, no club lounges and use of secondary city airports (Mola, n. d.). In the early economic regulation of airlines, the government is concerned more on their participation in the airmail system. The Air Mail Act of 1925 allowed the U. S. government to pay airlines for carrying the mails (Mola, n. d.).

Besides that, Air Asia was re-launched in Malaysia as a low fare and low cost domestic airline. Air Asia is promoting low fare of Indonesia Malaysia trip which will help it to open the Indonesia market. It will help Air Asia to rise up the economic growth. Air Asia also provides its services between Singapore and Bangkok by introducing a 2nd daily flight to its existing schedule. Air Asia is offering its guests promotional fares to/from Singapore-Bangkok which is much lower than the lowest fare SGD\$56 offered by full service carrier. It will help Air Asia to open the Singapore market.

Political / Legal Segment

Airline's political action committee is a huge donor when compared it with those big companies in other industries (Daga, n. d.). For example, Singapore Airline is currently facing or might face political strategies in near future. SIA could face problems of entering the new markets like China and increase market share in existing network. It is because many airlines are still government owned and much of the trade in aviation services is still controlled by governments. Besides that, Thai Air Asia is a joint venture which is established by Air Asia with the Shin Corp. Shin Corp is owned by the family of Thailand's Prime Minister, Thaksin Shinawatra (Daga, n. d.). There are about 900 million baht will be invested in Thai Air Asia over a five-year period. Shin Corp oversees the finance and administration of Thai Air Asia while Air Asia shoulders the responsibility for marketing and operations (Daga, n. d.). Shin Corp has financial strength which will help to support Air Asia to grow. Therefore, Air Asia with its politically powerful may well grow up to bite.

Besides, all international airlines, is required to provide the data to the US's Transportation Security Administration (TSA) which is responsible for the screening process, which no more than 72 hours before the departure of the flight (Malaysia Airlines, 2010). This information is required to match against the US government's watch list. Every passenger is required to receive clearance from TSA before the he or she is allowed to board the flight travelling to and from the US country (Malaysia Airlines, 2010).

3. 2 Porter's Five Forces Analysis

Threat of new entrants

As justify form the environment, any new company or organization to entering this airline industry is not easy due to the several kinds of entry barriers may discourage competitors from entering a market. The level of barriers to entry depends on the customer loyalty. For example, customers from Malaysia Airlines who is significant in brand loyalty will result the high switching costs towards other airline company. Exception for the price sensitive customers, they may prefer cheaper price flight tickets (Wikipedia, n. d.). Besides, capital requirements for a new company to start up the airline business are huge. New entrant or infant company has to spend a large capital to compete with existing airlines due to the fail of participate in economies of scale. Several fix cost which creates a high barrier for the new entrants. Infant firm or industry require a long time period to significant their products or services differentiation, such as Full Service Carriers (FSC) in Malaysia Airline (Wikipedia, n. d.). Through government policy, governments can also control new firm to participant in airline industry. Government high level of protection towards the major airline may result many new firm unable to meet the requirements and regulations and enter the industry. Thus, threat of entry towards the airline industry is high.

Bargaining power of suppliers

Power of suppliers is important as it will directly affect the industry. In airline industry, the power of supplier is moderate result from there are only two major supplier which are Airbus and Boeing result most of the firm such as,

Malaysia Airline (MAS), Singapore Airline (SIA) and others need to buy the aircrafts from them (Wikipedia, n. d.). The satisfactory substitute products are low making even the larger of power of suppliers. In addition, industry firms are not a significant customer for supplier group. The suppliers' good is important to the MAS in order to obtain a success in market place.

Power of buyers

Buyers are one of the factors which will impact to industry. Nowadays, price sensitive customers are increase directly. On the other hand, number of customers who is concern the services differentiation is rise and result low cost oriented and full service carrier concern customers. They purchase the only small portion of the industry's output and do not large participate in the company annual sales. Besides, buyer or customers will obtain a high switching cost in terms of loyalty result from the MAS superior services performance. Thus, the bargaining power of buyers low to Malaysia Airline.

Threat of substitute

Threat of substitute is product or service which can replace the original products or service. Not only the others airlines, travelers also can choose others transportation system such as train, bus and ferries but air travel is more convenient and faster compare with other transportation. Businesses which require a faster and safe journey may choose airline cargo as their transportation.

Intensity rivalry among competitors

In this case, the threat of rivalry is high to the Malaysia Airline. This is because various large equally balanced competitors such as Air Asia, Tiger Airway, Singapore Airline and etc are provide almost the similar services. As a result, MAS is in high rivalry because more firms are competing with same margin segments and resources. Malaysia Airlines (MAS) have successfully differentiated their product as full services carrier. Rivalry in slow industry growth becomes more intense as firms battle to increase their market shares. The main competitors of MAS are Asian carrier like Singapore Airlines. So MAS intends to reassess the effectiveness of its route network both international and domestic. This involves reviewing the viability of the existing fare structure and routes and the realigning of its aircraft capacity to markets that offer the greatest opportunities.

Home

<http://www.hicbusiness.org/biz2003proceedings> (journal)

http://en.wikipedia.org/wiki/Malaysia_Airlines

3. 3 Description of key stakeholders

Capital Market Stakeholders

Malaysia Airlines gained their capital from shareholders. This means that they sell their shares and gain their capital. This method is also the common way of how companies gain their capital.

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Product Market Stakeholders

Looking from the product market stakeholders' side, we can see that MAS primary customer is those who looking for quality on flight service, more comfortable and luxury flying experience (Foon & Eurn, 2009). Most of these peoples are from the executive levels of business passengers, or the traveler with higher income, means more budget. On the other hand, MAS airlines had entered into new code-sharing partnership agreement with other airlines (Foon & Eurn, 2009). This partnership relationship widened their business opportunity by having more flying destination, linkage between airlines and so on.

From suppliers' side, MAS had established Supplier's Forum for their supplier relationship management. Any problem occurs could be discussing among suppliers and MAS through this forum, by that the efficiency and chemistry among them could be increase to higher level. From the marketing perspective, MAS using its well known premium airline brand name to attract new customers and keep the loyal old customers (Foon & Eurn, 2009). Over the past decades, MAS had built up their reputation on luxury in-flight facilities and services in the country, so this is their strong point to retain their customers.

Organizational Stakeholders

For the organizational stakeholders, MAS stress on open and honest communications, effective consensus building and teamwork among the employees and upper levels. This includes setting up a formal whistle-blowing policy, cross-functional business committee teams, constant

communication and disclosure of business plans to employees (Foon & Eurn, 2009). The management style applied allow all levels of employees able to work together as a team, all of the problem could be sort out together and this brings a lot of benefits to the company.

The CEO also play a main role on leading the special committee tasked with the responsibility to transform MAS's corporate culture and sends emails to the employees in his effort on communicate his new vision for the company's culture (Foon & Eurn, 2009).

3. 4 SWOT analysis based on stakeholder groups

Capital market stakeholders

Strengths

Based on the market stakeholders, MAS have diversified their revenues stream to avoid uncertainty. It generates revenues from various areas, for example which is deal with freighter flights and aircraft cargo hold (Scribd, n. d.). Moreover, MAS had diversified into related industries such aircraft ground handling, aircraft leasing, aviation engineering, air catering and tour operations. This can lead to MAS to maintain a consistent growth and give a competitive edge.

Next, MAS had improving in yield which can be defined as the revenue per revenue passenger kilometer (RRPK). There are two significant projects which are the Route Profitability Project (RPP) and the Revenue Enhancement Project (REP) had been implemented by MAS in order to increase their revenue (Datamonitor, 2008). Regardless of minor decrease in

load factors, the yield had more improvement as compared to the compensated for the decreases of load factor. This had shown that the Revenue per Available Seat Kilometer (RASK) has also increased by 14 per cent (Datamonitor, 2008). As a result, there is an evidence shown that a strong increase in the profit and the efficiency of MAS.

Weaknesses

Besides, MAS was reporting negative cash flow from the operations in their company over the past couple of years. In 2005, the negative cash flow of MAS was about \$ 157. 2 million (Datamonitor, 2008). However, in the fiscal year of 2006, MAS had reported net cash outflows of estimated \$ 41. 6 million from their operating activities (Datamonitor, 2008). This affect MAS financial health as the cash flow continuous is negative. The negative cash flow will also tightened the cash resources and limit the liquidity of cash for working capital needs.

While many businesses were go through many losses and difficulties in the related industries, MAS still using a huge amount of capital to run its business effectively for providing an excellence services for their customer (Scribd, n. d.). Consequently, the risk that incurred by MAS in the future is very high and the possibility for MAS to having a loss will be increase.

Product market stakeholders

Weaknesses

Even though MAS had its humble beginning in the golden age of travel but this airline will still having some weaknesses in their business. MAS as a 5 star international airline needed higher cost for the maintenance and convenience (Scribd, n. d.). Therefore, customers purchase will be affected due to the effect in the real cost of airline tickets. This can lead to MAS only focus on the market with high income. However, there is not many people can effort to pay for the cost for flying to other country because of this higher price in airline tickets.

Opportunities

MAS had the chances to introduce a new concept of flying with MAS due to the customers' different needs and desires in the term of buying (Scribd, n. d.). The different needs and desires of customers are because of the several factors such as demographic, geographic and psychographic factor. Thus, customers are human beings which can be easily to have a change in their life. For example, MAS had introduce hot meal boxes which offer several favorites such as nasi lemak and nasi goreng kampung to respond the preferences of customer while they are continuing to optimize the aircraft utilization in line (Scribd, n. d.).

Furthermore, MAS had been approved to launch Firefly which was a new low-cost community in the March of 2007 (Datamonitor, 2008). MAS as a parent airline for Firefly allowed Firefly to take over its B737-411s to serve more primarily secondary airports in the country and also within the Indonesia-Malaysia-Thailand Growth Triangle (Emmanuel, 2010). Thus, MAS can regain

their market share which had lost in the recent years on local and regional routes as compared to its low-cost competitors like Air Asia. This is a chance for MAS to look at returning to a path of growth.

Also, MAS has a very strong existence in the Asia. It can cover many regional destinations and various destinations in the country like China, Japan, India and the Middle East where there are higher in demand for air travel (Datamonitor, 2008). The increased in the demand for air travel will drive MAS to emerging in the Asian country like China and India (Datamonitor, 2008). Therefore, the revenues earn by MAS from the Asian region will increased.

Threats

There are some negative elements from the outside of the organization which will affect MAS in the aviation industry. Jet fuel is an important portion of the operating expenditure of all airlines. The increasing in the price of jet fuel will affect the bottom lines of most of the airlines in the world. MAS are also included due to the sharply increased in the price of jet fuel (Datamonitor, 2008). As a result, the margins of MAS will come under pressure.

Organizational market stakeholders

Strengths

MAS have provided several strengths based on the organizational market stakeholders that reflect company's competencies and capabilities of their

core business in the aviation industry. MAS have established a strong brand image which is being highly recognized in the local market and the international market (Miller, 2010). In order to build a strong brand image, MAS had provides excellence services to all of their customers around the globe. With the excellence services provided by MAS, it had won the “ Staff Service Excellence for Asia” award. In the year of 2010, MAS was known as the winner of the World’s Best Economy Class Award at the 2010 World Airline Awards (Miller, 2010).

In addition, MAS have a strong and better designed in their organizational structure. Their management team is talented and plays the significant responsibility in planning and controlling their action in the service system in order to carry out the excellence brand experience (Scribd, n. d.).

Management teams of MAS always have their own strategy to overcome the difficulties and losses. Besides, they also can make sure that they have the ability to improve their service quality.

Weaknesses

The poor management and inefficiency of the management team and network are the weakness to the MAS organizational market stakeholders. Some employees tend to read from the newspapers, media and rumors from their friends when MAS had incurred billions of losses in 2005 (Lian, 2010). The staff of MAS were discussed the issue in the closed room. It is not a healthy environment for MAS because the level of trust and confident between the management and employees are very low.

Opportunities

Moreover, technology developments had led the MAS Company to effectively manage their knowledge in management. As a result, MAS employees will gain rapid learning and greater intelligence that will lead to the generation and sustenance of competitive advantage (Foon & Eurn, 2009). Besides, the advancement in technology can replace several inadequate legacy accounting system and thus it help MAS to enhance their quality and relevance information for management in making decision and important reduction in manpower (Foon & Eurn, 2009).

3. 5 Summary of situation analysis

As refer to the above and potentially grim outlook, we summary that Malaysia Airline System (MAS), a five star value carrier (FVSC) has a great opportunity to forge an alternative path towards a totally different outcome. Due to its unique intrinsic strengths: a strong reputation for excellent products and services, world-class cabin crew, unit labour costs that are amongst the lowest in the region, widely acknowledged technical skills, and located in a region that enjoys robust traffic growth. These strengths are believed able to align with the MAS mission, ' To be consistently profitable airline'. Below is detail some significant strategic option, selection criteria, and implementation details to overcome the weakness of the organization as stated above.

4.0 Strategic options for the organization

Joint venture with luxuries hotels

For the Malaysia Airline (MAS) future strategy, MAS can diversify the business by joint venture with luxuries hotels. For this strategy, MAS not only can earn profit by providing the comfortable accommodation, it also able to raise the company value and reputation. Consumers no need to find the accommodation by own because they can choose the five star hotels that MAS arrange to them with affordable price and package offer. MAS also can provide five star buses to fetch the customers from airport to the hotels and other accommodation. This strategy will make the consumers felt more convenience and secure due to the ease hotel searching before went abroad. From this strategy MAS can enhance their reputation by provide a safe, convenience, and comfortable accommodation and transportation system. Besides, MAS also can enhance their profit margins through this strategy.

Maintain current SITA technology

MAS had issued a competitive tender for a new system which is known as Passenger Services System (PSS) (Airlines, Malaysia, 2009). It is a system which can offer passengers a more convenient, efficient and 'hassle free' travelling experience in a cost effective manner. In addition, MAS had chosen SITA as their preferred partner in providing the PSS solution. SITA is a technology which able to help Asian carrier to achieve remarkable business turnaround (Airlines, Malaysia, 2009). It is now helping to push up Malaysia Airlines (MAS) to do better in their ongoing business.

Moreover, MAS had a clear concept in order to achieve with the PSS programme and several workload had been divided into five streams such as reservations, e-commerce, e-ticketing and Departure Control System (DCS), revenue integrity and fares management (Airlines, Malaysia, 2009). SITA had successfully met the need of MAS by implementing several of horizon solution components to covering the five work streams (Airlines, Malaysia, 2009). For example, apply SITA ticketing, the fare strategy of MAS had been re-engineering, apply revenue integrity and revenue protection, establish passenger self-service and helping MAS to prepare for future membership (Airlines, Malaysia, 2009). Furthermore, SITA has a better understanding about the business' need of MAS and carry on to work hard to provide the best alternative for MAS to reduce the costs and enhance their business. This is a very good strategic option for MAS, therefore MAS should continue to use this strategic in their business and earn more profits.

Five Star Value Carrier

Five Star Value Carrier (FSVC) is a service that MAS provide their customers with significant and worth value services and products compared to their competitors. MAS maintain the high quality services offered and have to constantly match to the specific needs of our customers. For example, customers