

Airasia's business model: low cost carrier

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



AirAsia's business model is Low Cost Carrier (LCC) that showed as above.

There are 3 attributes that contribute to LCC business model, which are simple product, positioning, and low operating cost.

Simple Product attribute for AirAsia Company is referring to the plane seating that is narrow and with only one class. So that, there is no seat assignment offered. Catering is not included on the bills unless there is special demand extra payment must be made. As it is simple product, so frequent flyer programmes is omitted.

Positioning attribute is mean about targeting on special target market or on certain activities that helps the company to grow. AirAsia is targeting on non-business passengers, especially leisure traffic and price-conscious business passengers. In order to reduce the maintenance cost for plane per day per trip, short-haul point to point traffic with high frequencies is applied.

Aggressive marketing is conducted on its own website and also on newsletter to stimulate the market to increase revenue. AirAsia is locating on secondary airports as it helps to reduce the cost, and also this is the way AirAsia to compete with all transport carriers.

Low Operating Costs is mainly to keep the costs low but still maintain the productivity or even provide high resource productivity. The costs are wages, airport fees, maintenance, cockpit training and standby crews due to homogenous fleet. In such case, simple boarding processes are applied such as short ground waits for clients. To increase the efficiency on work of staff, no air freight is offered to reduce stop time, no hub services, on board

cleaning times is shorten and high percentage of online sales is encourage to increase sales and reduce amount of first line worker.

The Value Chain of AirAsia is showed at appendix. The Value Chain is briefly explain about the primary activities are carry out in sequence, start from inbound logistic, operating outbound logistic, marketing and sales and finally services. Each of the primary activities cannot stand alone, so support activities are put into practice to assist primary activities, those support activities are firm infrastructure, human resource management, technology development and procurement. Every activity must practise well as if one of the activities is fail will put the company into trouble.

Four Components of a Business Model

Core Strategy

Vision

To be the largest low cost airline in Asia and serving the 3 billion people who are currently underserved with poor connectivity and high fares.

Mission

To be the best company to work for whereby employees are treated as part of a big family.

Create a globally recognized ASEAN brand.

To attain the lowest cost so that everyone can fly with AirAsia.

Maintain the highest quality product, embracing technology to reduce cost and enhance service levels.

Product/Market Scope

AirAsia product is providing client with the choice of customizing services without compromising on quality and services. Thus, the market scope will be leisure traffic and price-conscious business passenger, or non-business passenger. The products can be short-haul flight, long-haul flight, hotel and tours, courier, cargo, entertainment and online shopping.

Basis of Differentiation

AirAsia able to provide low fare and no frill services for customer as all others airline companies couldn't make it. AirAsia is also able to maintain the operating cost low while gives the high resource productivity.

Strategic Resources

Core Competencies

AirAsia's core competency is having little management level, effective, focused and aggressive management. Dato' Abdel Aziz @ Abdul Aziz bin Abu Bakar is one of the key employees of the Company. He is appointed as Non-Executive Director of the Company on 20 April 2005 and on 16 June 2008, he was re-designated to Non-Executive Chairman. His position is mainly to give support and consultation to Group Chief Executive Officer Dato' Sri Dr Tony Fernandes and Group Deputy Chief Executive officer Dato' Kamarudin Meranun of the business strategy. With the teamwork and integrity of both

CEO and Deputy CEO, Dato' Sri Dr Tony Fernandes and Dato' Kamarudin Meranun have driven the financial and operational success for the Company. Their outstanding leadership has brought them undergoing the challenges of global economic slowdown and the threat of the A_H1N1) pandemic. As a result, AirAsia is now a recognized ASEAN brand through its operational bases, through the diversity of its 7, 500-strong staff and through its commitment to the region. No doubt, with such a proud achievement, AirAsia is awarded with “ World’s Best Low-cost Airline 2010” by SKYTRAX, the specialist Research Advisors to the air transport industry.

Strategic Assets

The Strategic Assets of AirAsia owned are the efficient and incentive workforce, for all level of management and also distinctive partnerships. Those workforce is multi-skilled staffs that others airline company didn't have. Their working scope is always changing from time to time and this make them feel fresh to the work and do not feel bored, thus efficiency of work is increased, and do not need extra workforce to carry out only a single work.

The distinctive partnerships can be in supplier network or in mutual beneficial network.

The supplier network partners are International Society of Transport Aircraft Trading (ISTAT), Avitas, Airfax, Boeing, Airbus, and General Electrics Aircraft Engines. The mutual beneficial network partners are Jetstar, Tune Talk, F1 Lotus Racing and MOFAZFortec Motorsport. Partnership is making benefits

for AirAsia from a particular field, mostly are used as marketing strategy to stimulate the flight sales market or to make sure continuous supply of parts or services for maintenance matter.

Partnership Network

Suppliers

ISTAT, Avitas and Airfax are the consulting firm for AirAsia. ISTAT is the organization that accredits all the aircraft appraisers, controls the entire commercial transport aircraft secondary marketplace and establishes and promotes purchase or sale of commercial transport aircraft. Avitas is a full-service aviation consulting firm for all facets of the aviation industry and is one of the leading advisor to airlines, financial institutions, maintenance facilities, manufacturers, government agencies and law firms. Airfax is an aviation market letter provides up-to-date, accurate and comprehensive information on the worldwide availability of commercial transport aircraft. Airfax produces two market letters, “ Jet Transport Aircraft” and “ regional & commuter Aircraft” which provides information for turboprop and regional jet aircraft.

Boeing, Airbus and General Electrics Aircraft Engines are the aircraft manufacturer. Airbus is the market leader for commercial aircraft manufacturing and Boeing is the second largest aircraft manufacturer of the world. By the way, General Electrics Aircraft Engines is the world’s leading producer of large and small jet engines for commercial and military aircraft. The current fleet of AirAsia having is Boeing 737-300 and the future fleet is

latest Airbus A320 while Boeing 737-300 utilizes engines are supply from General Electrics.

Other key Relationships

Strategic Alliance

AirAsia is having strategic alliance partnership with Jetstar, Australia low cost airline on 6 of January 2010. This alliance will enable both companies to get resources and expertise, purchase new aircraft and revenue-sharing deals which could lead to significant cost savings. They also able to negotiate on purchase the fuel in bulk for needs of both carriers in market as to save cost.

Consortia

AirAsia is partner consortia with Tune Talk Sdn Bhd on 29 of July 2009 with the purpose of gain extra revenue and further boosting AirAsia Brand. Tune Talk basically owned by tune ventures Sdn Bhd at 35. 75% share while Group Chief Executive Officer Dato' Sri Dr Tony Fernandes and Group Deputy Chief Executive officer Dato' Kamarudin Meranun are substantial shareholders. Tune Talk is a telecommunication company and only provides other related services and AirAsia is just want to generate extra revenue through sales of Tune Talk SIM cards and Top Up voucher.

Sponsorship

AirAsia is a sponsor to MOFAZFortec Motorsport while AirAsia X is sponsor partnership to F1 Lotus Racing. This kind of sponsorships is an essential way in order to expand flight route network and build the global platform as this

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is one of the marketing strategy to stimulate the market by following the racing schedule. Besides, this is another way to demonstrate the AirAsia commitment to boosting Malaysian sports and burnishing “ Brand Malaysia” across the globe.

Customer Interface

Target Market

AirAsia is targeting on the leisure traffic and price-conscious business passenger, or non-business passenger. Their ultimate aim is only to save money while travelling with low cost flight. In fact, this group of people is getting bigger and bigger as AirAsia can provide low fare carrier with Five Star service. The most important thing is, the AirAsia slogan “ Everyone Can Fly” is attracting lots of low income and moderate income citizen to travel using its low fare carrier.

Fulfilment and Support

AirAsia is fulfilling the client with various products such as hotel and tour, courier, cargo, online shopping, and entertainment. Besides, for the ease of customer, AirAsia has its own homepage to let people interest to check on the flight info, arrange their own schedule of travelling and booking air thicket. Any enquiries about the booking, they can find the frequently ask question on the homepage, or contact the AirAsia with particular location and phone call. They can also do the Web Check-In or Mobile Check-In as they can save the time for queuing at the airport counter. For customer comfort, they can even choose their seat, increase the baggage size and

booking or buy meals on board. Of course, they need to pay more for their special demand. Now, AirAsia website is available for mobile usage such as BlackBerry, Android and iPhone, the service is so called AirAsia Mobile. AirAsia is also provided the ambulifts and aisle chair for wheelchair-bound passenger or disable passenger as to suit to the slogan “ Everyone Can Fly” with no cost added into the fare.

Pricing Structure

AirAsia is using randomized pricing strategy to increase the market demand and profit maximize. This strategy enable AirAsia varies its price from time to time, even more accurately is from day to day. Indirectly, this strategy is giving surprise for customer for each time of promotion, and the customer cannot learn from experience on the lowest price charge in the market. As a result, this influence the customer to pay attention on the price every minute, just to get the desired price they want.

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