

Airasia berhad strategy analysis

Environment, Air



Introduction

AirAsia Berhad (AirAsia) is the leading low cost airlines in South East Asia, which has expanded rapidly since 2001. The company is based in Kuala Lumpur, Malaysia and has successfully positioned itself in customer's mind through the simple slogan " Now Everyone Can Fly". The company is currently valued at approximately RM2. 7 billion and has a total of 60 aircrafts that fly to over 50 domestic and international destinations with over 400 domestic and international flights daily (Euromonitor International, 2009). The operation for the short and long haul are handled by AirAsia and its sister company, AirAsia X Sdn Bhd (AirAsia X) respectively (AirAsia, 2009).

AirAsia aims to establish itself as a leading low cost carrier in market by valuing its customers through cost advantages created by operational effectiveness and efficiency. More customers are able to fly taking into consideration the low fare charges as AirAsia capture segments of customers that previously could not afford the airlines' fare.

Whether the strategy exploits the company's key resources

Each organisation is unique in terms of it resources and capabilities and the key to success merely depend on its ability to find or create a competence that is distinctive (Teece, Pisano and Shuen, 1997). The Resource Based View (RBV) combines two perspectives, the internal analysis of phenomena within an organisation and an external analysis of the industry and its competitive environment (Eisenhardt and Martin, 2000) and (Collis and Montgomery, 1995). It goes beyond the Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis by integrating internal and

external perspectives. The ability of an organisations resources to present competitive advantages could not be determine without taking into considerations the broader competitive concept. Barney (1995) indicated that organisation's resources and capabilities must be evaluated in terms of value, rarity, inimitability and organisation. Furthermore, Carpenter and Sanders (2009) suggested that in order for a company to gain competitive advantage, they should possess resources and capabilities that are valuable, rare, inimitable, nonsubstitutable and exploitable (VRINE model).

The value of the resources and capabilities interacts with the market sources and will differ based on time and industry. The three fundamental market forces; scarcity, demand and appropriability determines the value of a resources and capabilities (Collis and Montgomery, 1995). In order to answer the question of value, organisation could identify whether the resources and capabilities are able to meet market demand. As for AirAsia, the organisation relies on its human resources and management capabilities wherein these two components have satisfied the value requirement, as it has been able to meet the demand for the Low Cost Carrier (LCC) market.

Resources and capabilities owned by AirAsia are homogenous in the market but aspect such as work culture and innovative routes make it difference from the competitors. For example, any ideas to improve the operations are welcome from all level of employees and in terms of route, AirAsia try penetrate new routes and will go to locations that others given up. In RBV concept, AirAsia can be characterised as a competitive parity company based on its valuable but not rare resources and capabilities.

In airline industry, things like aircraft and fast turnaround time are easily imitated by others. Nevertheless, one of AirAsia's distinct characteristic is path dependency wherein a characteristic of capabilities is developed and accumulated through a series of time (Dess, Lumpkin and Eisner, 2008). AirAsia's work culture of openness between employees as well as the leadership from its Chief Executive Officer is something have been built up over a period of time which is difficult to duplicate. Moreover, the high capital requirement for market entry is another factor that leads to difficulty to imitate the resources and capabilities. It is undeniable that competitors can imitate the said resources and capability, however, it will take time and in the meantime, AirAsia will gain the competitive advantages.

Controlling and exploiting the resources and capabilities provides competitive advantages to the organisations (Carpenter and Sanders, 2009). AirAsia has exploited its resources and capabilities, which is reflected in their financial performance. AirAsia has gradually increased its performance throughout the years. AirAsia's net profit for the 3rd quarter of 2009 totalled RM130 million (\$38.4 million) which is sustained by rising passenger numbers and income from add-on services. The profit achieved was a turnaround from a RM466 million (\$137 million) net loss in the same period last year (www.airasia.com).

The fit of the strategy to current industry conditions

The competitive environment consists of many factors that are particularly relevant to an organisation's strategy. Analysing the external environment particularly the industry is a starting point for firms to develop a strategy.

Porter's five forces include the overall structure rather than focusing to any

one element. However, the forces are not stagnant which tendency to change may occur.

AirAsia operates within the airline industry and forces that are driven in the industry would identify the strength and weaknesses of the organisation.

Rivalry

among
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Risk of
entry by
potential
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Bargaini
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power of
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Substitut
Products

High

High
Due to
market
growth

Full
service
airline
might
want to
consider t.
going
low cost

Low
Price is
at the
cheapes in the
market.

Low
Limited
provider ion train,
bus, car
travel
etc

There is
competit
ion

There is potential market in the Asia for LCC due to the rapid economic and disposable incomes growth. This seems to be a profitable opportunity to tap. Infrastructure such as high-speed trains and highways has yet to meet the high standard level and therefore customers tend to choose the air as mode

of transportation. Hence, threats of substitutes are low as the geographical structure of Asia has made air travel the viable, efficient and convenient mode of transportation. Looking into this scenario, AirAsia entered the airline industry concentrating on the LCC and noted that at the initial stage there were less rivalry but as the industry grows, the rivalry among established firms become higher partly due to price issues. AirAsia's main competitors are Firefly, Tiger Airways and Jetstar Asia. Knowing the increase of competition in the market, AirAsia applied the adaptation process (Hanan & Freeman, 1984) by expanding its operation to long haul services to various destinations. Moreover, AirAsia realise the price is destructive and try to avoid direct price competition and try to create a friendly competition environment.

As there is positive trend in the airline industry, full service airline carriers have refocused its operation related to costs and yields as it is seen as a requirement to maintain profitability (Graham and Vowles, 2006). There is possibility of new entrance of LCC, which creates further competition in the industry. For example, Firefly was set up by Malaysia Airline System Berhad (MAS) is a part of LCC industry in Malaysia that has adapted AirAsia's low cost concept. However, it would not be a threat to AirAsia as Hanan & Freeman (1984) highlighted it is difficult to imitate as tacit amount of knowledge is required on the targeted firm. The government barriers air service agreement and high capital requirement could act as barriers to entry.

Due to significant growth within the industry, demand for additional aircraft has increased and suppliers will be in a powerful position. It was reported that Asia accounts for 40% of new aircraft orders for Boeing and Airbus and seat capacity on LCC worldwide has more than doubled in the past four years (Shameem, 2006). Due to few players, Boeing and Airbus, and lack of competition in the market, the bargaining power of suppliers are low. Consequently, there is not much competition in terms of pricing occurring between the two companies so an airline carrier will have to accept an offer from one of the suppliers. The bargaining power for buyers is low as there is no room to bargain for cheaper tickets as AirAsia provides the lowest price compared to other carriers.

The biggest threats for AirAsia are the rivalry and risk of entry with the existing and potential competitors. LCC business is viable and there is healthy profitability provided AirAsia continuously improves itself and is flexible in the challenging market.

The sustainability of the differentiators

Porter (1996) indicated that to outperform rivals, an organisation need to deliver greater value to customers and build comparative value at a lower cost. The airline industry is at the growing stage and therefore stiff competition from existing and new LCC is expected in the future. In order to sustain its competitive advantage, AirAsia needs to leverage its competency in creating cost advantages. At present, AirAsia differentiates by providing substantially low fares with no frills concept and by offering innovative routes.

Murray (1988) indicated that there is uncertainty for sustainable differentiation to be achieved through product innovation and suggested that the area that could be concentrated for the said differentiation is quality and service. While, Porter (1996) highlighted that positioning are successful based on activity system and simple consistency between each activity aligning with the organisation strategy. AirAsia builds its brand name by providing a good quality service at a low price. Furthermore, AirAsia focuses on branding through campaign and advertisement such as recent sponsorship deal with an American football team, Oakland Raiders.

During inception, AirAsia focused on internal destinations and have further entered the international destinations. AirAsia X is differentiated by its long haul LCC as customers would not need to look at different carriers to reach different destinations at a lowest price. It is based on the same no frills service model wherein the price is 80% lower than its competitor together with additional services that requires customer to pay additional payment such as food, entertainment and others. AirAsia also seek to create excitement amongst their customers with the range of innovative and personalized service such as self check-in. Customer loyalty is build by the differentiation, which could act as a defence against rivalry (Eng, 1994).

Due to AirAsia's success in the industry, competitor might want to adapt the company's business model. However, AirAsia had some advantages over its competitors by the advantage of experience and its brand enjoyed good recognition. AirAsia gain from the first mover advantage in South East Asia which allows it to establish itself before competition perceive further in this

low cost segment, apart from competition that already exists across segments (low cost vs. full service carriers). AirAsia has the strength to lay down the rules and framework in the industry for business and operational suitability.

Whether the elements of the strategy are consistent and aligned with the strategic position

Strategy works as a driver in a firm in achieving goals and objectives (Carpenter and Sanders, 2009). AirAsia's five strategy elements are as follows:

Arenas (where * Low cost airline.

will be active

and with how

much

emphasis)

· specific markets-price

sensitive customers

(including first-time fliers)

* Main base is located at the

Low Cost Carrier Terminal

(LCCT) at Kuala Lumpur

International Airport (KLIA).

Its affiliate airlines, Thai

AirAsia and Indonesia AirAsia

fly from Suvarnabhumi

Airport, Thailand and

Soekarno-Hatta International

Airport, Indonesia,

respectively.

Vehicles (How
to get there?)

* Internal development via
new routes.

* Strategic partnership.

Differentiators
(How to win?)

* Low cost short and long
haul with no-frills. Customers
have the choice of
customizing services without
compromising on quality and
services.

* Create new segment in
airline travel based on value
and service.

Staging and
Pacing (what
will the speed
and sequence
of moves?)

* AirAsia flies to over 60
domestic and international
destinations with 50 routes,
and operates over 400 flights
daily from hubs located in
Malaysia, Thailand and
Indonesia.

* AirAsia has flown over 55
million guests across the
region and continues to

spread its wings to create
 more extensive route
 network through its associate
 companies, Thai AirAsia and
 Indonesia AirAsia.

Economic
 Logic (How do
 returns be
 obtained?)

* Low operation cost through
 flying with one type of
 aircraft, uses secondary
 airport locations etc.

* Low cost incentive with
 various choices of
 destinations.

Porter (1996) presented three generic strategies that an organisation could use to overcome the five forces and achieve competitive advantage. Adopting a suitable strategy depends on the organisation's industry, customer characteristics and capabilities (Murray , 1988) and (Eng , 1993). However. In the LCC segment, cost is the competitive priority and it determines market position. In lieu of this, AirAsia has applied the focused cost leadership strategy wherein it targets on specific markets; price sensitive customers as well as lowering its overall costs (Flouris and Walker, 2005).

Murray (1988) disagrees that cost structure is vital in relation to the output performance compared to the price sensitivity. Factors such as economy of scale and quality of management teams within the organization could be the

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benchmark for cost leadership. Under the cost leadership strategy, level of operation efficiency is vital as it assist in achieving cost advantages than the rivals by searching continuous areas for cost reduction along its value chain that leads to economies of scale (Eng, 1993). AirAsia increases its efficiency through increased route network and its operating activities by adapting cost optimising techniques such as quick turnaround times and maximizing of flight utilisation for its aircrafts (Shari, 2003).

AirAsia took advantage from the existence of e-commerce which is easier technique in providing information. The cost related to web is very low compared to other methods like advertisement on television. AirAsia has taken advantage from this method to reduce the cost of operations. Malaysia government has supported AirAsia through the opening of the LCC terminal in Kuala Lumpur International Airport, which enhanced its competitive edge by reducing costs and better logistic planning (Euromonitor International, 2009).

Competitors tend to know how big the market is and how good the opportunity is in Asia. Therefore, there is threat by competitors, which could imitate AirAsia's low cost base. Most of the competitors have the same concept of no frills and low price strategy and will continuously try to reduce its costs than AirAsia in order to gain sustainability in the market. The challenge for AirAsia is to reduce cost effectively which is difficult for the competitors to copy.

Possible issues associated with implementation

Strategy formulation and implementation are interdependent with the objectives being a coherent set of strategy elements and implement levers (Carpenter and Sanders, 2009). In order to succeed in the LCC segment, AirAsia will need to maintain its low cost elements in their business design, as it is critical to the long-term success. The main reason is because the more gaps arise between the competing airlines, the more flexibility will be available to offer lower price and gain market share. An extended route system will most certainly be a key differentiator and to sustain its competitive advantages, resources and capabilities need to be analysed further.

With the growth in the LCC, it will create opportunity to others to enter the market. Competition between carriers using the same business model will inevitably be intense. There were studies resulting that adapting one or more forms of generic strategy will enable organisation to outperform better (Murray, 1988). However, Eng (1993) indicated that Porter discouraged organisations to combine the said strategies as it is inconsistent as for example differentiation is related to cost. One of the major pitfalls against attempting to differentiate is by trying to combine low cost and differentiation strategy by starting to add frills in its business model. By applying this strategy, carriers have lost their source of competitive advantage by narrowing the strategic cost gap. Every frill or service adds to cost and reduced the strategic cost gap, thus curbing the flexibility to offer innovative price deals. Around the world, it has been observed that low cost

airlines pursuing a generic business design have emerged as the most successful.

Conclusion

AirAsia's success is based on the no-frills, low fare, simple and convenient option air travel. The company has managed to deliver low fares by consistently keeping cost low through high efficiency in every art of the business and maintaining simplicity. The company has indicated that synergies between the internal and external factors could develop a competitive advantage. This has allowed AirAsia to position and be the market leader for LCC in South East Asia.

The brand name is a major strength to AirAsia wherein a lot of effort is being done. For example, initially when considering to enter the UK market, the company has collaborated with Manchester United and later with referees of Football Association of England. At the moment, they also collaborated with a giant American football club, Oakland Raiders to create brand awareness for the local public in order for them to enter the USA market in the future.

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