

Environmental analysis of malaysian airline system

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



Introduction

With the increase in standard of living of people all over the world and improved flying equipment, people have more tendencies to travel across the world. This led to growth of tourism industry. This has also led to stiff competition among airline companies. As for now, some of the largest international airlines are American Airlines, British Airways, Singapore Airlines, Lufthansa, Cathay Pacific etc. Since MAS operates globally, it faces severe competition from these airlines. Especially from Cathay Pacific and Singapore Airlines which are Asian airlines that operate much tightly in MAS target market (Sohail, 2009). This short report concentrates on MAS market, threats they currently face from possible competitors and opportunities they could exploit in the future with the help of a micro environmental analysis tool; the Porters' 5 force model.

MAS market and possible competitors

In general, nature of the airline industry makes it difficult for new firm to enter (because of huge capital, cost of capital regulations etc) and difficult to get out as it would involve huge costs like long term agreements, disposal of aircrafts etc. But airlines have practised mergers to grow and avoid stiff competition (domestic) and enjoy large market share. In the last decade, many airline companies like American and TWA, Delta & Northwest, American West & US Airways etc merged and it can happen anytime (Noel, 2010).

MAS' slice of market is threatened mostly by stiff competition from Singapore airlines and Cathay Pacific and arguably the closest substitute; AirAsia. Currently Cathay Pacific and Singapore Airlines are the players in the MAS market. As per the mid 2010, both SA and PC made huge profits (RM590m and RM2.78b respectively) while MAS faced RM537m losses (Lian, 2010). And in June 2010, AirAsia overran MAS in market cap (thestar, 2010). The players are stronger in brand recognition among frequent travellers which enables them to attract more customers even with higher prices. Due to high competition MAS' Earning per seat is lower than that of Cathay Pacific and Singapore Airlines (mas...).

As per customer choice, the other closest competitors could be Thai Airways (TA). SA, CP and TA have many common destinations as MAS and are ranked higher than MAS in top 10 best airline of this year by Skytrax (Miller, 2010)

Threats faced by MAS

MAS could face threats from action of market players and substitutes.

Frequent routes/destination of MAS like Singapore, Thailand, Indonesia and some parts of China is threatened by AirAsia. There is a rising demand for budget flight (like AirAsia) in these destinations. This pattern of consumer is a threat to five-star airlines like MAS (ref). Analysts say AirAsia has solid management, great business model and they are growing to become largest in their market cap which attracts MAS customers (thestar, 2010). At present, AirAsia is world's best budget airline (Skytrax, 2010)

Moreover, domestic and regional destinations could be driven by car, bus, train or sea. Thus all this modes of transport are substitutes. In fact it becomes a potential threat when more customers look for easy accessible and a low price mode over time and comfort.

There is not much bargaining power of customer as most of them are individual but access to information they have demands for less price differentiation. However, supplier power is higher in major components. MAS have their repair, overhauling services but to buy aircraft there are not many suppliers. While MAS improved performance in many areas, sticking to their fuel policy seems a big problem. MAS depends for fuel supplies (40% – 60%) from WTI (West Texas Intermediate). The negotiated price with them seems too high (thestar, 2010)

Opportunities to MAS

Since MAS is a large company in tourism industry of Malaysia, there are many forecasts that show opportunities that MAS could exploit in the future. Currently, Singapore, Thailand, Indonesia, China and India are important sources of visitors for Malaysia. It is expected that tourist arrivals from these countries will remain important for the coming years. And International students will continue to increase with estimated earnings of RM900m this year and international tourist's expenditure will increase by 7. 2% in coming year.

The expected increase in disposable income (6. 29% per head) of Malaysian is definitely an opportunity for MAS as it is expected that this in turn will increase domestic tourism trips.

When we compare same class seat in Singapore Airline or Cathy Pacific with MAS, a seat is not much differentiated in size (34" standard seat) and comfort (adjustable and 6. 5" screen in front). But Singapore Airline is awarded as best cabin staff and in house service airline in the world (Skytrax, 2010). Thus customers consider its brand loyalty. Actually this is an area MAS can exploit to increase customer satisfaction and reach beyond their expectation with better services like emotional intelligence training to cabin staffs and its 5-star recognition and the national flag carrier-label could help in revenue generation.

Highly competition is never beneficial to the companies in the industry, especially in times of economic recession. Airline industry has faced this situation. September 11, 2001 was a disaster to whole world and MAS too. But now every company in the industry is smiling due to expected growth in revenue (IATA, 2010). It is beneficial to the companies as a whole. However, the new competition is about who can get the bigger share of the new slicing?

Conclusion

Question

Business model suggestion to MAS

Introduction

A business model is how an organisation develops its ideas to generate income at strategic level. This short essay is about a suggestion to include in business model of how MAS could solve earlier identified threats and enjoy opportunities that are around them.

Business model

To address the losses the company faced this year, there could be many plans. One such is re-negotiate oil prices with major oil supplier (WTI) because oil consumption is one huge cost of Airline Company and current negotiation of MAS is comparatively higher. It could be argued that the price could go higher as MAS directors believe, but most of the other forecasts show the oil price will not fluctuate much this year and next year. Hence it seems like MAS need more accurate forecasting in this area and have more beneficial talks and negotiation that could eventually reduce cost and address the issue of low profit per seat.

Sell assets....

There are seasonal travellers to and from MAS destination like international students Chinese tourists. To take advantage of this opportunity MAS could do two things. One thing is to make a flexible scheduling where by variable cost will only be incurred to relevant flights. This could be an extension to recent closure of unprofitable routes. Because such flexible scheduling means more flights to weeks/days where more demand is and less flights if less travellers are. However it should not disturb fixed scheduled travellers

who might book in advance or have two-way tickets. Therefore forecasting should also be correctly integrated. This will not be a difficult task to a company like MAS with advance IT equipments.

The other could help them increase earning per seat is selling last days' unsold ticket at low price. MAS' airline is not a budget airline but it faces difficulty in attracting more business level customer compared with SIA and needs to share customers with Airasia. A lower price (discount) could attract more economic class customers hence reduce unsold seats. But a low price is not an answer to address all. Major competitors of MAS have similar or higher prices. Thus the service counts a lot to have loyal customer.

Customers believe SIA have best in flight, cabin staff. To address this competitor issue, MAS could give more training to its staffs especially on emotional intelligence. Provide larger screen than the current 6.5" for in flight entertainment experience to its customers. Benefits could be greater by competing large companies than targeting small market.

Need to be more flexible to changes in aviation market such as faster recovery by believing in changes instead of sticking to old agreed policies simply. The gains by CP and SIA with an RASK[1] growth of 18% and 15% respectively is of enough prove for need to response sooner. Historically MAS' RASK is higher in the 2nd half which shows their response is late (Cecilia, 2010)

CP and SIA have international hubs for their flights which generates much revenue from business-class passengers. To be stronger in the region MAS

needs to re-think about their current operations places. To attract more of important customer (business class) a better hub than KLIA is important.