

Development and history of airasia

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



AIRASIA is one among the top International brand in the low cost Airline Industry. Airasia brand came into existence in 1993, it was a joint public-private sector enterprise, however in 2001 current CEO Mr. Tony Fernandes purchased it and It was under him the Airasia brand got global recognition and unimaginable growth which started right from 2002 and continues till date, AirAsia started moving up the ladder under Tony's leadership from 2002 onwards by launching new routes from its main hub the capital of Malaysia till then the national carrier of Malaysia ruled the sky in and around Malaysia.

In 2007, Airasia announced the birth of Airasia X the long haul budget flights, the first AirAsia X flight was from Kuala Lumpur International airport to Gold coast in Australia thus began the journey from south east Asia to capturing routes in major cities around the world.

In 2007, Virgin Airline chief had 20% stake in AirAsia X and had announced code sharing between Virgin Blue and AirAsia in and around Australian subcontinent.

Profile of AirAsia:

AIRASIA, is Asia's largest and one among the top 10 international brand in the low cost segment having physical base in three countries; Malaysia, Thailand and Indonesia.

AirAsia has four subsidiaries: AirAsia, Indonesia AirAsia, ThaiAirAsia and VeitJet Airasia. The company has a strength of around 3000 staffs and It flies to around 65 destinations worldwide using the 97 aircrafts and another 125 on order will be added to it's fleet and it operates over 400 domestic and

International flights, The total number of passengers that flew Airasia numbered 16, 000, 000 per year at a rate of 51000 per day for the year 2007.

STRATEGIC CORPORATE PLANNING OF AIRASIA:

By September 2008, Airasia had 60 routes and was voted as ' Worlds best New Airline for 2008' at ' World low cost Airline Congress in London' inspire of tough competition it faced over Asian skies by brand which had committed fan following, global recession and increased air fuel prices. Airasia managed to survive and grow against the odd solely based on their distinctive model and new strategies.

AIRASIA MODEL AND STRATEGIES:

To position itself as the top airline brand in the low-cost, short haul based on no frills model.

Opening of new hubs at airports and new routes outside their dominated Asian zone.

Expanding into the Cargo transportation market.

Marketing as a Go Green brand.

User being able to access bookings and Online Information on Airasia through Blackberry.

Fuel efficiency which helps in the overall reduction of travel cost.

The slogan of Airasia is ' Now Everyone Can FLY', to attract customers both old and new one's with flying on time and having attractive and competitive price and tour packages as airasia management have their own hotel division having star hotels around many destinations plus having wide range of meal option on the In-flight purchase menu.

The model which AirAsia under Mr. Tony Fernandes adopted for long haul flight was to choose airport where airport charges was low hence instead of Sydney airport Gold coast airport was considered for airasia link between Malaysia and Australia.

To achieve Reduction in travel fuel cost Airasia concentrated on optimizing the air fuel consumption and with majority of the asset within the fleet being new Airbus planes, it's more easier said than done. Airasia management based its model around latest technology including having access to its service [online booking, online checking and e-ticketing] through computers and blackberries.

Successive growth of Airasia since it's re-birth in 2001 can be put on following main strategies which they adopted:

Cost reduction strategy of Airasia :

Airasia vision is be a leader in the low cost airline segment by targeting the 3 billions people who are still under-served with the poor connectivity & facing the high fares.

AirAsia managements key strategies on cost reduction are:-

- High point concentration on Passenger Safety and maintenance of its fleet to be in best of the condition as per the set standards of regulators and its partners.
- To achieve High Aircraft Utilization by trying to get the quick turnaround by 25 minutes and by increasing staff productivity.
- Low fare, no Frills like added facilities of baggage transfer, preference on meals and seat arrangement etc. which adds to the customer satisfaction.
- Streamline Operations by working with single aircraft fleet to reduce manpower and stocking of maintenance parts.
- Using Latest Lean Distribution System to reduce labour and material utilization like usage of E-ticket.
- Point to point network.

Summarised in a Table format below:

Cost Category

Cost Item

Levers for reducing costs

Costs

-Aircraft Utilisation.

-Reduce turnaround times. -Reduce maintenance downtime

Fuel Costs

- Route Efficiency

-Weight Reduction

-Shorter en-route and approach times.

-High standard of fleet maintenance.

-Use of fuel hedging strategy.

Handling Costs

- Service Level
- In sourcing.
- Reduce Handling Fees
- Pre-cleaning activities by cabin crew
- Loading/unloading support from crew
- Global contracts with key suppliers
- Off-peak pricing

Catering

Costs

- Reduce unit costs
- Reduce volumes
- Simplification of meal choice. - Reduce logistics costs for delivery. -
Monitor passengers vs. available meals.

Lean Distribution management.

- Ticketing
- Sales Channels

- Sales Commissions
- Development of E-ticketing
- Self-service check-ins
- Divert customers to on-line channels.

Maintenance

-Fleet. -Service Costs

-Fleet harmonisation. -Reduce average fleet age. -Joint purchasing of some work. optimise maintenance activities

Porter's Generic Strategies:

AirAsia follows Porter's strategies to focus on cost leadership to align with its business strategy and mission statement by targeting specific segment of price sensitive customers and the first time fliers looking at value for price and short haul flights.

Porter's Generic strategies talks of three different generic strategies that any business can focus for a overall edge over competitors, sustainability and growth as shown in above figure, the three strategies include Cost leadership, Differentiation strategy and market segmentation (Focused differentiation) (Johnson & Scholes 1997).

Cost leadership strategy: This strategy allows a business to become the lowest cost producer of a product within an industry by organising and managing its value- adding activities. Cost advantage may be achieved in terms of how qualitatively a product or services is designed.

Differentiation strategy: This strategy is adopted by persuading customers that a product is superior to that offered by competitors (Campbell, 2002). The value added by the uniqueness of the product or services may allow the company to charge a premium price for it. However, the threat to this differentiation may include copying of the product by competitors and changes in customer tastes.

Focus-differentiation strategy: is aimed at a segment of the market from a product rather than at the whole market or many markets (Campbell, 2002). The successful way using focus strategy is to tailor a broad of product or service development strengths to a relatively narrow market segment that they know very well. This strategy may also face the threat of imitation and changes in the target segments.

AirAsia business strategy is built around above defined three Porters generic strategies on two of the above strategies it follows Broader approach and on focus-differentiation strategy AirAsia follows narrow approach to sustains its competitive advantage.

AirAsia mission statement was to be the leader in the low cost segment and it follows the porters strategy to the book on cost leadership by providing services at a price that is simply lower than competitors' price and by effective and efficient operational management.

Airasia uses Porters cost leadership strategies to be on path of its motto ' Now everyone can fly' to achieve this it markets and manages itself as airline with hassle-free, no-frills, luxury at low fare travel by efficiently

managing its policy of cost reduction to the micro level in the value chain so that the saving can be passed on to the price sensitive passengers so as to be the leader in the low cost segment.

SWOT ANALYSIS

SWOT analysis is a strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a business venture.

SWOT analysis points to the Internal (strength and weakness) and External (opportunities and threats) factors that would affect in the growth and sustainability of a business venture in our case Airasia to sustain its top position in the low cost carrier segment.

Strengths

A Low cost operations which has made AirAsia brand a leader in the low cost carrier segment.

Airasia management is made of fewer level which helps in faster and effective, focused and aggressive management and with management consisting of members having strong links with Government in south pacific Asia, it makes it easy for their business development with least government interference and more concessions.

Airasia Staffs is made up of workforce which are Multi-skilled and efficient, Airasia follows the model of incentives for the hardworking and smart workforce, this model helps to return talent and to grow along with the company.

Management strong focus on cost reduction to position AirAsia Groups as industry's lowest cost producer.

Airasia group have strong balance sheet and cash flow this helps to weather short-terms unforeseen difficulties.

Airasia management decision to move to a Single type fleet paid well it helps in minimising maintenance fees.

IT Utilization to the maximum has enabled Airasia to increase efficiency helping it track its fleet, staffs and seat management in case of no-show customers on ASAP basis. IT also helps in promotional activities and in lean management based on e-ticketing model and online checking.

Fuel Burn & Emissions: Single type fleet of Airbus A320 helps Airasia stick to it's efficient fuel usage police to go by their GO Green and cost reduction strategy. Airbus A320's low noise level improves operational flexibility and lowers surcharges for airports with noise constraints.

Ancillary Services: In the current year from January to April, Airasia achieved ancillary income of RM45 per passenger. AirAsia's ancillary service includes products and services such as baggage supersize, in-flight food and beverage, merchandising and duty-free, courier, airspace advertising and AirAsia RedTix.

AirAsia RedTix is a unique Ancillary income system which is related with non-airline ticketing system focusing on tickets to events, sports and music.

Ancillary income not only contributes to the airline's bottom line, but it also provides a buffer against rising fuel prices.

Weakness

Airasia do not have their own MRO (maintenance, Repair and Overhaul) facilities.

Being a young fleet with young staff at times makes it difficult to handle unforeseen situation at both physical location and over the customer service management mainly related with change of flight and over refunds.

AirAsia have faced difficulties with government interference mainly at level where Airasia's main competition happens to be directly with the national carrier.

Being a young brand makes it a challenge to catch the attention of frequent and first time fliers for Branding is vital for market position.

Airasia depends on service based on outsourcing which at times can lead to delivery delays and hindrance of long duration on two segment IT and MRO.

Young fleet at times shows lack of contingency plan on irregular situations.

Opportunities

AirAsia after making a mark for its brand in short haul low cost carrier sector is targeting the Long haul flight domain as an trial phase to tap share of that market as well.

After having tasted success in Asia-Pacific region, AirAsia is targeting new routes and destinations on a global level.

AirAsia by having tie up with other established low cost carriers on Existing, new routes and destinations untapped by AirAsia brand for example Airasia have tie up with Virgin Airline on landing rights and landing slots.

AirAsia have tied with various new Airports outside of Malaysia for setting up for new AirAsia hub at these Airports.

AirAsia management through its RedTix subsidiary can enhance it's brand growth by having Service related Industry-wide mutual cooperation.

AirAsia being in a Dominant/monopoly position in many routes in and around the Asia-Pacific zone will give them bargaining power on the pricing front.

Threats

Established carriers both private and national carriers if start bringing down their prices to attract the cost sensitive customers will directly affect AirAsia which is based on low cost, no frills, no hassle model.

Global uncertainty on Business and Political front directly causes fuel prices to increase and High Fuel prices decreases revenue and hurts more for a low cost carrier.

IT Utilization to maximum can also have a side effect on growth for heavy reliance on online sales is risky as system can breakdown anytime.

New form of taxes for example Environmental taxes adds on to disruption on the cost equation.

With terrorism being a global evil airline Industry is the always under threat, Accidents due to human and natural disaster is always a threat.

Uncertainties' on Aviation regulations and government policies.

PEST ANALYSIS

POLITICAL:

Political Uncertainties in Asia-pacific region be it Malaysia, Indonesia and the wide unrest in Thailand.

Malaysian Government Regulation played a vital role at the initial stages.

There existed a heavy restriction on competition in this industry imposed by the individual countries mainly Malaysia trying to protect their national airlines.

The bilateral agreement between the countries led to the deregulation of the industry.

Terrorism is one of the factor which plays behind the mind of the traveler wishing to take a vacation in the Asia-pacific zone specially after Bali bombing which is one of the dominating region for AirAsia brand.

ECONOMIC:

The terrorist attacks, wars, epidemics like SARS, played a very crucial role in the airline industries.

Uncertainty in fuel and energy costs

Uncertainties on the economical Recession front can highly affect the AirAsia growth.

SOCIAL:

The Growth in the Middle class population in Asia where AirAsia has a dominating presence.

Attractive Travel and tourism package by government initiated tourism Ministry and private tour operators attracted large number of fliers.

Exclusive prices provided by AirAsia helped in the growth of its brand among price conscious fliers.

TECHNOLOGICAL:

Being a Young fleet, AirAsia had the Advantage to invest and use latest technology and concepts as their business model. AirAsia along with using World Wide Web for online services are internally using -Yield Management system, computer reservation system and latest Microsoft's Enterprise Resource Planning System.

All these have helped AirAsia to reduce operating costs and provide fast, efficient service like checking of flight schedules, booking seats, online check-in, and pre-order meals, Supersize my baggage

FINANCIAL HIGHLIGHTS upto 2nd Quarter of 2010.

Table below shows the positive growth of AirAsia brand in last 3 years with strong profit after tax performance of RM 549 million