

# Airasia case study report

Business



SOOT analysis, Porter's five forces Model.

Key to the success of Eurasia has been their ability to capitalize on the liberalization of the Asian airline industry, this has significantly helped the airline grow. Eurasia needs to also address their threats and delve into new opportunities if it wishes to still remain profitable. Eurasia was initially launched in 1996 as a full-service regional airline offering slightly cheaper fares than its main competitor, Malaysia Airlines.

Before 2001, Eurasia failed to either sufficiently stimulate the market or attract enough passengers from Malaysia Airlines to establish its own niche market. The turnaround point of Eurasia is in 2001, when it was up for sale and bought by Tony Fernando.

Tony Fernando then enrolled some of the leading low-cost airline experts to restructure Eurasia's business model. He invited Connors McCarthy, the former director of group operations of Garuda, to join the executive team.

In late 2001, Eurasia was re-launched in Malaysia as a trendy, no-frills operation with three 737 aircraft as a low-fare, low-cost domestic airline. Phobia, 2010) This paper will examine the external Political, Economic, Social, Technological and Legal factors influencing the airline. Carry out a SOOT analysis to evaluate the internal potential and identify areas that may contribute to future success.

Conduct a Porter's five forces analysis to understand the attractiveness of the industry and potential for long lasting profitability.

The market liberation's of Asia will also be discussed, and look at how this impacted upon the growth of the airline. PESTLE Analysis Political Flying outside Malaysia is difficult. Bilateral agreement is one of the obstacles in the way of Asian budget carriers. Landing charges at so-called gateway & airports; and aviation charges are often prohibitively expensive, and in key destinations like Nanking, Beijing, Hong Kong and Singapore there are no cheaper, secondary airports.

Threat of terrorism, people are afraid to fly after the September 11 terrorist attacks Incident.

Economic In spite of stiff competition from Malaysian Airline (MAS), Raising's low-cost carriers offer cheap tickets and few in-flight services are gaining attraction in the region. In theory, Asia has most of the ingredients for making a budget airline work which has a huge and dense population base, the emergence of underused regional airports, a growing propensity among some upwardly mobile people to travel, and relatively high Internet usage. Rising incomes and economic growth are empowering more Asians to board aircraft.

With the economy slowing down, more people will want to enjoy its cheap tickets. Social Passengers are reluctant to board a no-frills airline for a long-haul flight.

The longer the route, the less price-sensitive the passenger becomes. They don't want to be crammed into a plane for six or eight hours. Especially, when there are limited or no In-flight services. Airasia wanted to become a company that worked on the basis of the average man in the street being  
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able to afford our air fares, and people who would not have considered flying, or would not fly as often as they do now.

Technology Eurasia provides online service that combines air ticketing with hotel bookings, car hire and travel insurance. To help keep costs in check, Air Asia has pushed internet booking services.

Particularly in parts of the region that are poorly served by road and rail infrastructure, people will prefer to travel by airplane. Eurasia has bought in 2820 to replace Boeing 737. The Airbus A320neo's improved fuel efficiency and extra capacity which leads to better performance and reliability. Eurasia and its subsidiaries need to take an awareness of environmental factors.

The companies through the nature of these influences are inextricably linked to social, legal and political factors. For Air Asia, it is subject to intense regulatory scrutiny by Environmental Protection. Green issues have also been a concern for Air Asia, it now routes its aircraft to a general boarding area, saving the huge amount of electricity used to operate an air bridge while minimizing taxiing time, which significantly reduces fuel burn. Legal considerations are again more a concern directly for Air Asia in terms of the regulatory.

As their ticket booking are transacted through internet, Air Asia is concerned about the consumer privacy right.

Therefore Air Asia pledges to be responsible on gathering and protecting its consumer privacy, even though it does not create legal right to the customers. As an air operator, Air Asia is concerned is the air Northerners to it

airplane. Any civil aviation authorities to the country ban their legal right to operate from their air space/airport will impact on their business operation. Hence Air Asia has to ensure that all its air plane was given the approval to operate.

**SOOT Analysts Strengths** Air Asia has a very strong management team with strong links with governments and airline industry leaders. With their strong working relationship with Airbus, they managed to get big discount for aircraft purchase which is also more fuel efficient compared to Boeing 737 planes which is being used by many other airlines.

The management team is also very good in strategy formulation and execution. The strategy that they have formulated at the beginnings was a clever blend of proven trainees by other low cost airlines in US and Europe.

Raisin's brand name is well established in Asia Pacific. Air Sais's local presence in few countries such as Indonesia (Indonesia Eurasia) and Thailand (Thai Eurasia) have successfully "elevated" the brand to become a regional brand beyond Just Malaysia Eurasia is the low cost leader in Asia. The workforce is very flexible and high committed and very critical in making Eurasia the lowest cost airline in Asia. Insaneness Air Asia does not have its own maintenance, repair and overhaul facility (MR.

). It may be a good strategy when they first started with only Malaysia as the hub and few lanes to maintain.

But now, with few hubs (Malaysia, Thailand and Indonesia) and over 100 planes currently owned, Eurasia have to ensure proper and continuous

maintenance of the planes which will also help to keep the overall costs low. Eurasia receives a lot complaints from customers on their service. Good customer service and management is critical especially when competition is getting intense. Opportunities ere increasing oil price at the first glance may appear like a threat for Eurasia.

But being a low cost leader, Eurasia an upper hand because its cost will be still the lowest among all the regional airlines.

Thus, Eurasia has a great opportunity to capture some of the existing customers of full service and other low cost airline's customers. There is also some opportunity to partner with other low cost airlines as Virgin to tap into their existing strengths or competitive advantages such as brand name, landing rights and landing slots. Threats Certain rates like airport departure, security charges and landing charges are beyond the control of airline operators and this is a threat to all airlines especially low cost airlines which tries to keep their cost as low as possible.

Raisin's profit margin is bout 30% and this has already attracted many competitors.

Most of the full service airlines have or planning to create a low cost subsidiary to compete directly with Eurasia. For example, Singapore Airlines has created a low cost carrier Tiger Airways. Users' perception that budget airlines may compromise safety to keep costs low. Porters Five Forces Model Analysis Threat of Entry There is a high barrier entering airlines industry since it requires high capital to set up everything such as purchase or lease

air carat, set up office, and hire staff. Therefore, this has reduced the threat to Air Asia.

Moreover, brand awareness is quite important in this industry. Consumers always choose the product or service they really trust.

Thus, instead of creating brand awareness, new entry has to create brand loyalty as well. (Sings et al. 2010) However, the government legislation is one of the barriers for entering airlines industry. For example, MAS has been protected by Malaysia government on the route to Sydney and Seoul. Therefore Eurasia will find it very difficult getting a new route from the government.

Nevertheless, this has limited the new entrance due to the government policy. Overall, the threat of entry is owed to Air Asia. Power of suppliers Every industry has someone to play the role as suppliers. Power of the suppliers is important as it will affect the industry. In an airline industry, the power of suppliers is quite high since there are only two major suppliers which are Airbus and Boeing hence there are not many choices to airline industry.

Nevertheless, the global economic crisis has limited the new entrant and also reducing the upgrade of planes in the immediate future. (Penn, 2006)

However, both suppliers provide almost same standard aircrafts and hence the switching to Eurasia is low. Generally, the power of supply is moderate low to Eurasia. Power of buyers Buyers are one of the factors which will give influence the industry whether making profit or loss. Nowadays, those buyers are much more knowledgeable and high educated. Thus, they are very sensitive to the price no matter in what product or service.

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In this case, even Air Asia always provide lowest price to customers, but they still will make comparison between airlines.

Secondly, to switch to other service is 'ere simple because Air Asia is not the only one who provides airline service, customers still can choose MASS, Tiger Airway, Firefly and etc. (Cheek & Harris, 2008) Moreover, Air Asia always leaves customers an image as they always delay the flight. Hence, as an investor or business man, they will choose more reliable airlines instead of Eurasia. In this case, the power of buyers is quite high to Air Asia. Threat of substitutes Substitutes are products or services which can replace the original products or services and give almost same satisfaction to the consumers.

In airline industry, there are two types of substitutes, indirect and direct substitutes. Indirect substitutes include train, bus, cruise and etc. On the other hand, direct substitutes indicate the other airline. Consumers usually prefer low cost. For example, from Koala Lump to Singapore, there are few transports that consumers can choose such as bus, train and air travel. If the customer is going for a budgeted trip, definitely he will choose bus which is the lowest price among the three.

However, the technology now make information much more easily to assess.

Customers can easily compare the price among few airlines Just by assessing internet as internet make information more transparency. Nevertheless, the archipelago geographical structure in Malaysia make air travel is the most viable, efficient and convenient mode to transportation. (Penn, 2006)

However, air plane are much more convenient and also lesser time

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consuming compare with taking bus to Bangkok. Thus, the threat of substitutes is moderate to Air Asia.

Rivalry among existing competitors In every industry, there is positive or negative trend to industry growth rate.

If there is positive trend, then the firms have not to steal the market share among them. (Sings et al. 2010) However, in airline industry, the growth rate is really low due to emitted customers. Thus, in order to expand, Air Asia has to steal the market share from its competitors. Secondly, Air Asia leads the main battlefield in price among competitors due to its low operating costs.

However, there are more competitors enter to airline industry who have major carriers as their backers or owners which may lead to unreasonable' price war in the future.

Moreover, Eurasia is not the only one who provides airline service. There are few low cost carriers such as Firefly, Tiger Airway and etc which makes their services provided weak differentiation. Thus, it becomes a threat to Air Asia. In this case, the rivalry among existing competitors is quite high to Air Asia. Market Liberation's and the impact on Eurasia ere Malaysian government supported the establishment of Eurasia in 2001 to help boost the under-used Koala Lump International Airport.

(Moonshine 2010) The growth of low cost airlines in south-east Asia has a significant effect on which airports Nil dominate the regional aviation market. Low cost airlines are seen as helping funnel more passengers to airport hubs. Therefore, there is a realization among congenial governments that they

need smashing airports and feisty carriers or they are going to miss out big time. Therefore, these governments are more willing to support low cost airlines. The liberalization of aviation sector of India is another contributing factor for the growth in Asia.

The Indian government has liberalized the aviation sector long dominated by the national carriers.

Now, only a few low cost airlines, e. G. Air Decca, have launched their services there. Moreover, the national carriers, Indian Airlines or Air India, despite their domination of the Indian skies, do not seem to be much interested in operating low-cost services. Therefore, it is a good chance for Air Asia to open up the Indian market. Conclusion Air Asia has clearly highlighted how a keen and critical strategic movement may drive company towards phenomenal success.

Its focus on innovation, cost efficiencies, safety, technology and superior quality customer service and employee satisfaction has allowed it to add value to its offerings and activities undertaken in its pursuit of establishing itself as a low-fare, no-frills airline. With these factors combined, Air Asia has displayed how synergies between management, employees and its environment can develop a competitive advantage that has over the past few years brought phenomenal success to the company and has allowed it to be the market leader amongst its competition.

The liberalization of many airline industries has allowed Air Asia to continue to grow and move into new countries and develop new routes and relationships. Air Asia has created a strong brand with a loyal customer base, although the <https://assignbuster.com/airasia-case-study-report/>

airline needs to continually identify new opportunities and try to eliminate or reduce any new threats it may encounter, if it wants to remain viable in an extremely competitive environment.