

# Air asia overview

[Parts of the World](#), [Asia](#)



## **1. 0 Executive Summary**

This study examines the extensive strategic analysis of AirAsia Berhad that has enabled it to sustain its competitive advantage as Asia's leading low cost carrier (LCC). The study demonstrates the diverse business-level, corporate level and competitive strategies of AirAsia Berhad, played crucial roles in the LCC to successfully penetrate the under-served market segment of the airline industry within the ASEAN region. An in-depth analysis using a wide array of academic resources, relevant financial, legal and management resources and authorized websites, including face-to-face interviews were used to provide a more consequential comprehension on the varied business and international strategies that were implemented by AirAsia Berhad.

This research exhibits critical analysis pertaining to the current macroenvironment of the aviation industry which includes the PEST framework and Porter's Industry Analysis. The competitive environment analysis for AirAsia Berhad is thoroughly scrutinized to examine the driving determinants that attributed to the organization's competitive advantage in the industry. Further analysis using the BCG Matrix, lends evidence to the successful growth of the organization. Additionally, the international strategies that were implemented exhibit the foresight of the airline. The study concludes by adopting the balance scorecard framework to evaluate the organization from four pertinent perspectives of an organization which includes financial performance, customer knowledge, internal business process and learning and growth.

## **2. 0 Introduction of AirAsia**

### **2. 1 Company Overview**

AirAsia Berhad (AirAsia) is a leading Low-Cost Carrier (LCC) in the Association of Southeast Asian Nations (ASEAN) region. The Group focuses on providing high-frequency services on short-haul, point-to-point domestic and international routes. The Group implemented the low-cost carrier business model in the ASEAN region when it acquired the then loss making AirAsia from its Malaysian owner DRB-HICOM Berhad for a token of RM1 (USD0. 25 cents), and agreed to assume the debts of the company. AirAsia was resurrected, re-branded and re-launched as a low-cost carrier following the acquisition of the Company by Tune Air Sdn Bhd in December 2001. With the drive and determination by Dato' Sri Dr Tony Fernandes and with the support of his partners, the AirAsia Group (including its Thailand and Indonesian affiliates) operates a fleet of 90 aircraft and flies to more than 60 destinations from hubs in Malaysia, Thailand, Indonesia and in the upcoming future, Vietnam. AirAsia operates more than 3, 500 flights a week and in its short history, has ferried more than 90 million guests. AirAsia offers a simple service at fares lower than those offered by other full-service airlines. Read also introduction for online reservation system

It was modelled on U. S.-based Southwest Airlines and Dublin-based Ryanair. AirAsia was established to create a new aviation product in Malaysia, revolutionize air travel, and grow the local aviation market by providing low fares so more people can fly. AirAsia now flies to over 60 destinations in Malaysia, Thailand, Indonesia, Singapore, China, Philippines, Brunei, Cambodia, Laos, Vietnam and Myanmar. It also formed 2 successful joint

ventures in Thailand through Thai AirAsia, and Indonesia through Indonesia AirAsia, expanded its fleet from the two to twenty eight. To date the AirAsia group, has carried over 35 million guests. By serving the underserved market segment has propelled AirAsia's popularity with the masses. With over 130 routes linking three continents, Asia's largest low-cost carrier is proud to be a truly ASEAN carrier, linking communities, cultures and cities across this diverse region by enabling affordable and convenient travel, stimulating regional and local economies and realising the ASEAN dream of integration. The Company and Group CEO Dato' Sri Tony Fernandes have won numerous local, regional and international awards (including the CBE Award by Queen Elizabeth II) and have earned plaudits from varied organizations globally, due to its culture of innovation and its dedication to exemplary service in the aviation industry.

## **2. 2 Vision**

AirAsia's vision is ' 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.' As we can see, the new vision statement that formed is still within its scope, AirAsia remain emphasizing that it wanted to be the largest low-cost airline company in the Asia. When the company grows larger, it will direct more people to recognize AirAsia easily, in other words it brings strong brand identity to the customers. Besides that, in the new vision statement AirAsia interpreted as becoming the leader in flight industry in Asia, and obviously the original vision statement of AirAsia does not including this. Furthermore, in the new vision statement states that AirAsia wants to delivers the best flying experience to the customers, in fact this is

another new direction that AirAsia can look into as customers today are concern about the services more than the features that the company can provider.

### **2.3 Mission**

To be the best company to work for whereby employees are treated as part of a bigfamily  
Create a globally recognized ASEAN brand

To attain the lowest cost so that everyone can fly with Air Asia  
Maintain the highest quality product, embracing technology to reduce cost and enhance service levels  
The new mission statement has come out to have a productive and motivated workforce in AirAsia. This simply means that AirAsia needed to keep providing trainings and empower among the employees to make sure the work flow is carrying efficiently and productivity. While building well relationships between employees and top management can be done by organizing team building and applying good working policy to the AirAsia workforce. This mission statement helps guiding AirAsia for shaping its whole organization structure well and flat.

### **2.4 Objectives:**

As the others airline, the main objectives of AirAsia is to carry as much passenger as they can. Since 2004, AirAsia proposed to have an average of 70 million passengers a year and also wishes to turn their budget terminal to the region hub for the entire low cost carrier in Southeast Asia. Other than that, AirAsia also wished to develop in its service such as opening more routes and as a result it could be able to add more frequencies. (AirAsia Annual Report, 2010).

<b>3.</b>	<b>0</b>	<b>External</b>	<b>Analysis</b>
<b>3.</b>	<b>1</b>	<b>PEST</b>	<b>Analysis</b>
<b>3. 1. 1 Political Factors</b>			

Flying outside Malaysia is difficult. Bilateral agreement is one of the main obstacles in the way of low cost carriers. Landing charges is also another big influencing factor on costing of low fare airlines. The low- cost airline industry in south-east Asia has been underdeveloped because the aviation market is tightly regulated by bilateral air rights agreements. Privatization and deregulation of governments presented opportunities for new routes and airport deals through open-skies agreements between countries, or the permission of the entry of private airlines, reducing the constraints for international airlines. For instance, in 1997, Malaysia signed an “ open-skies” agreement with the United States such deregulation present new airlines with the opportunity to access domestic routes. Having domestic routes could lead Air Asia to the trial of long haul flight to attain the penetrate an undeveloped market share. Globalization can also result in global uncertainty, something that Air Asia come avoid and preventing. For example like accidents, terrorist attacks and disaster this may happen suddenly.

These kinds of matters will strongly affect the customer confidence and they may able to choose others airlines as their consumer target. It will intense affecting the threat of losing its profitability or even bankrupt. As Air Asia is subjected to government interference and regulation on airport deals and passenger compensation, Air Asia can only minimize its negative impacts by selecting routes that are favorable. Noise pollution is being created by Air Asia airports, for those people who are living near the airport might constantly

hear the airplanes departing and arriving sound. Other than that the airplane emission of AirAsia is composed of about 70% carbon footprint. This carbon footprint will lead to greenhouse effect therefore the cause of global warming. Beside that if people absorb too much of carbon footprint it might be linked to heart disease, breathing difficulties and cancer along with other health issues. So as a country government, supposed to control the situation through political or regulation to minimize the usage of carbon footprint.

It becomes the treat for Air Asia to control their carbon footprint. The adjustment in government monetary policy and fiscal policy also may affect the operation of the airlines, it brings opportunity and threat at the same time for the Air Asia, depend on how the government decision. Monetary policy influence shifts in aggregate demand of goods and services by increasing money supply to reduce the equilibrium interest rate and stimulating investment spending or decreasing money supply to increase the equilibrium interest rate and lowering investment spending. Fiscal policy is by controlling the taxes and the government spending, depend on the economic situation. This 2 policy had significantly impact on airlines industry. Policy on excise and fees levied on air carriers directly affected Air Asia airline industry. Through fiscal policy, the taxes that accumulate from the public, sometimes the government will be used for improving airports and providing security and purchasing oil for airline company as subsidiaries. These fees represent around 26% of a ticket, as a result of the introduction of this fees, air ticket price went up. In present economic scenario when

airline industry is struggling, such fiscal policy impacted airline industry negatively.

Threat occur and it may result thousands of job cut in the social, therefore many of the carriers can go bankrupt as consumers will react heavily to the increase in ticket price and demand will come down significantly. In other side monetary policy reflect positive effect on airline industry. Government increase money supply to the market therefore interest rates will going down some near to zero and tax burden is being decreased as well. Monetary policy help airlines to stabilize itself, however this policy gave not shown any significant change in the spending habits of the consumer to travel via air, but the economic situation will turn good. More people will think to travel as vacation to relax themselves. Thus the demand for airlines will increase at the same time.

### **3. 1. 2 Economic Factors**

Although, global financial crisis appear that might bring result in a downturn in the industry, but in this situation it can prove to be an opportunity for Air Asia. For example, during global economic downturn, aircraft leasing costs were reduce by about 40%, this situation creating an opportunity for Air Asia to lease their aircraft at a cheaper ticket price with lesser competition. During economics crisis, firms and individual are experiencing large losses and with this situation where spending has to be cut down , therefore the higher demand for low budget airline (Air Asia) will be increasing at that period if compare with its largest competitor Malaysia Airline. Other than that, in spite of strong competition from Malaysia Airline(MAS), Air Asia low-cost carriers offering a cheaper prices ticket and few in-flight ticket services



are gaining more attraction in region when economic downturn, more people will think to enjoy its cheap tickets. The unsterilized changes in oil prices would bring an impact on operating cost when the oil prices are getting higher. The yield and profitability will obviously decline for Air Asia if oil prices become too high. Recession, forcing airlines to reduce their cost by cutting down the salaries of the airlines staff or job cuts, this situation may cause them go on strike. This may cause some of the department absence of services. Air Asia airlines can be brought down with economics crisis, if they didn't manage it well. By the way, recession mean the economy of the country turning bad, so in the sight of foreigner investor will think that there is not worth to be invested since all trading even spending of people significantly decreasing. Foreigner investor may withdraw their money from our country as a short period to prevent losing.

So this might handicap some project that had been planned earlier by Air Asia airline. The changes in economics interest rate have brought impact to the airlines industry operations. The expenses for a airlines is quiet high, normally the companies had no so much cash to cover therefore, they have to make loan from the central bank. If interest rates keep rising, there will be a trouble for the Air Asia airline about the payment of loan. For instance, Air Asia have a loan amount of 40million at actual interest rate of 5%, there they only have to pay 2million per years. If interest rates grow to 10%, Air Asia has to double pass up the loan interest payment to 4million. Therefore this will becomes the threat that might affect the total revenue return of the Air Asia companies.

### **3. 1. 3 Social Factors**

Air Asia recently have rapid economic growth resulted in a burgeoning middle class within Asia's larger population. Other than that the increasing in trade and tourism within and into Asia, demand for Air Asia increased as well, more people willing to compromise on food and other services in exchange for lower prices. Air Asia is a budget airline and become the attractiveness to pursued clients to purchase their flight tickers with low prices, which can be as low as 10-20% of those charged by full-services airlines. This given opportunity for Air Asia to differentiate themselves with others competitors by adding customer services or operating as full service airline with low fare, giving it a competitive advantage. Air Asia provided sufficient services that satisfy their customers need for example like provision of in-flight food and beverages, online sales, check in, hotel, car and holiday reservation, as well as travel insurance and corporate travel services with its own branded credit card, further increasing brand awareness and value for customers. Air Asia is a low fares airlines, so their targeting customers main are poor or middle standard family.

For those who got the higher living standard family properly will not choose Air Asia as their choices. So they will lose a part of profit from the high consumption clients. Outbreak of the Severe Acute Respiratory Syndrome (SARS) has scare people to fly. AirAsia commit to " Safety First"; comply with all regulatory agencies, set and maintain consistently high standards; ensure the security of staff and guests. Other than that, it is hard for a company to prevent rumors, some Perpetrators would like to spreads fake news to the public to spoil their image and reputation. This may affect the customer's

confidence. The nature of its workforce also the main threat causing the demand of their flight ticket. If some of the staff of the Air Asia showing the bad attitude and services to their clients, it will disrupt the impression of the Air Asia airline and change their idea next time to choose other airlines.

### **3. 1. 4 Technology Factors**

Technology factors in one of the major reason of the growth of AirAsia. Well managed ticketing system and e-ticketing has lowered distribution costs thus, eliminating travel agent fees. AirAsia has used the full potential of the technology by connecting to the customers via internet. The major sale made by AirAsia is via internet. This can be seen from the AirAsia's 2009 financial statement 76% of sales are made via internet well use of networking has been a successful factor on managing the sales, more over advertising their airline has made a difference in the Asian Airlines. Due to major growth in technology recently airline industry has develop ways on how to reduce the cost of travelling by introducing Airbus. AirAsia has the youngest fleet in Asia with the new Airbus A320 and A330, improved fuel efficiency, extra capacity, and innovations means better performance and reliability. Economical fuel burn and simpler maintenance result in lower costs, effecting cost optimization to enable AirAsia to enjoy considerable cost savings thus providing low fares all-year round, besides of course a much better quality service in air. These airlines will replace the pervious Boeing 737 which has served AirAsia well. Information and communication technology (ICT) has allowed AirAsia to reduce operating costs and provide fast, effective service in areas including; checking fight schedules, book seats, electronic check in and pre order meals. Furthermore information regarding

AirAsia, they have no. 1 Travel Website in Asia and the biggest e-commerce website in Asia; Monthly average of 20 million unique visitors and 210 million page views in 2009.

This shows the effectiveness of AirAsia connecting with technology. Regarding on connecting with technology, AirAsia also ranked as no. 1 Facebook corporate account in the transportation field in the region. Connecting through social media such as Facebook; AirAsia has a huge advantage over the other competitors due to the growth of Facebook to 500 million active users. By utilizing information technology able to help Air Asia to increase their sales, AirAsia is the 1st airline in Southeast Asia utilize e-ticketing and bypass traditional travel agents. This high technology advantages bring opportunity for Air Asia to save on the cost of issuing physical ticket. Other than that AirAsia can save some maintenance cost for the booking and reservation system and also agent's commission. All go through internet is the most efficiency ways to save cost. We know that internet is very useful for us and it is relatively important in our life now because internet provides us a convenient and comfortable life as we can easily get information through internet and we can use it as our communication channel as well. In business, not only easy to get information, but internet can also helps to maximize the earnings of a firm by the faster process of operation, give a greater flexibility by accumulate and control up to 36million of tariff records (Carlton, 2009).

In this day and age, most of companies which are already been listed have their own websites and provide more information and details to customers about their products or services. As example, in our case, which is airline

industry, all of the companies in airline industry have their own websites. The purpose of creating website is that customers are able to know the information about the flight which they desire. With the advance of technology, people can save their times and cost in order to purchase the product by using internet. In the airline industry, people are able to obtain ticket from anywhere because they are able to purchase flight ticket through internet and also cost-saving for not buying tickets from travel agents. If we see the perspective from the company, the company can cut off indirect cost such as travel agents, labor cost, operational cost and generate revenue margin of the company at the same time. This factor gives a positive impact to the airline industry itself and to the public as well, even though it required cost in order to create the website. Thus, internet brings an opportunity to airline industry. From the graph and table above, we can see that the number of internet users in Malaysia increased rapidly from year 2000 to 2008. In 2009, there was a low decline in term of internet users, but in year 2010, it climbed back to 15, 705, 762. 401 (which is not shown in the graph and table). This figure represent that internet has become popular and common for people in Malaysia.

Nowadays smart phone become commercial for businesses to launch their product as advertising through apps. Air Asia also providing this kind of technology for smart phone user to search, purchase and check in their flight ticket. This technology provided the most convenient ways, for clients to make a deal rapidly. Other than that high technology enable Air Asia to make advertising through internet for example like Facebook, Twitter and Instragram. Save cost, save time and it's a 24hours operation services.

Customers can get information anytime from the Internet. Air Asia by using the advanced technology to set up few system implementations that Air Asia have done in its marketing and sales activities as well as operation activity. They are Yield Management System (YMS), Computer Reservation System (CRS) and Enterprise Resources planning System (ERP) through IT. Yield Management System (YMS):

This system understands, anticipates and reacts to the behavior of customer to maximize revenue for the organization. This system giving opportunity for Air Asia airlines optimize price and allocate capacity to maximize expected revenue. The optimization is done on two levels in Air Asia there were "Seat" and "Route". Seat is considered as an opportunity to maximize revenue. It is because the price of every seat is flexible it can change anytime due to the different points of time. if people booking earlier than the prices of seat will be lower, if the reservation done at a later date will be charged more than the people book earlier. Next is about route, Air Asia airline got the opportunity to adjusting prices for routes or destinations that have a higher demand when compared to others routes. Thus, is system is mainly to help me airlines to maximize their revenue through IT. Anticipates and reacts to the behavior of customers to maximize the revenue - taking into account the operating cost and aids AirAsia to optimize prices and allocate capacity to maximize the expected revenues by 2 levels: i. Seat - Seats are available at various prices in different points of time. A reservation done at a later date will be charged more than the one done earlier for the same seat ii. Route - By adjusting prices for routes / destinations that have a higher demand when compared to others. Results increased revenue (3-4%)

by taking advantage of the forecast of the high / low demand patterns, lower prices as YMS has aided AirAsia to increase the revenue by offering higher discounts, more frequently during off-peak times while raising prices only marginally for peak times.

### **Computer Reservation System (CRS):**

An integrated web-enabled reservation and inventory system suite powered by Navitaire's Open Skies technology that includes Internet, call center, and airport departure control functionality. Satisfy the unique needs of AirAsia implementing a low-cost business model to transform the business process to efficiently streamline operations. Helps AirAsia to grow at a dramatic pace in the past few years as stated below: " Navitaire's Open Skies technology has truly enabled AirAsia's growth from 2 million passengers to 7.7 million passengers in less than two years. Open Skies scaled easily to accommodate our growth." - Tony Fernandes, CEO, AirAsia CRS is an integrated web-based reservation and inventory system. This system includes internet, call center, airport departure control and more through the advanced technology, it actually given opportunity for Air Asia to simplify their job. CRS is a direct sales engine that effectively eliminates the middleman or agents and the sales commissions that need to pay to them. CRS also help to centralized customer data by Open Skies and this help Air Asia to track booking and schedule flight activities with real-time, on demand reporting future. The vast booking information provided online to the customer, therefore internet provided a more convenient channel for customers to use the website thus reducing the customer support costs. This CRS enable Air Asia to introduce the first ticket less travel option and also provides features such as advanced

boarding passes in addition to online booking that enable the growth of Air Asia. This bring opportunity for Air Asia to attract more customers, it is because of this system provide less time consuming features to purchase a ticket by queuing. Nowadays Air Asia had did some improvement on it by implement a Wireless Delivery System too to expand it reach via smart phone. This strategic move for growth as the Asia-Pacific region has a larger population of mobile phone users rather than Internet user.

### **Enterprise Resource Planning System (ERP):**

Air Asia had recently implement ERP on May 2005, this system help Air Asia to be successful maintain process integrity, reduce financial month-end closing processing times, and speed up reporting and data retrieval processes. This show that the IT strategy are aligned to for Air Asia to operate on a low-cost model consider as a great opportunity. There are four models to Strategic Alignment Perspective, there were, Strategic Execution, Technology Transformation, Competitive Potential and Service Level. These four models enable Air Asia to reduce the cost of operation and maximize revenue. The business strategy acts as the driver in this perspective. ? An integrated ERP solution powered by Microsoft Business Solutions (MBS) on Microsoft technology platform which is implemented by Avanade consultants in Ma 2005. With the robust ERP technology platform, AirAsia is able to successfully maintain process integrity, reduce financial month-end closing processing time, speeds up reporting and data retrieval process. If the department didn't handled properly for their backup systems and maintenance, there would be risk of system disruption due to heavily reliance on online sales. System disruption would pose to be a threat if Air



Asia didn't manage well their technology system. Other than that, some important information will be stole by the hackers, therefore prefect securities system is needed to prevent this kind of matters happened.

### **3. 2 Port's five force analysis**

#### **3. 2. 1 Threat of new entrance--Low**

The barrier to entry the airlines market is depending on the customers little brandloyalty. If the customers of Air Asia without brand loyalty, then the strength of the threat of new entrants is high. If the number of airlines competitors increasing might affect the customer loyalty. New competitors which want to entry airlines industry have to spend little to compete with Air Asia, because most of the people prefer low cost travel. The another barrier for others competitors to entry airlines industry is high capital is required to set up everything, for instance like the cost of setting up offices, buying or leasing aircraft, hiring different department of staff and pilot. It purposely need a high start-up cost most of the people will not considering to join the airlines industry if they don't have enough capital to cover. Thus, the threat is low for Air Asia offering a different product to their customers if compare to other airlines in Asia. Other than the passenger sales ticket, Air Asia also include holidays packages which is affordable, they has good connection with hotels and tourism companies around Asia. So for new entrance competitors they have to spend a lot of time build set up or build up this relationship with other industry and packages, therefore low threat for Air Asia among frequent travelers it is because they are the first airlines offering enable customers to purchase air tickets from internet online in Malaysia. Air Asia has a well management on moderate access to distribution channel. Air Asia can be so famous. Although new competitors can create a new form of

website for their airlines, but it is still difficult for them to compete with Air Asia's website. It is because the Air Asia is known of its simplicity and friendly user. Thus, new competitors are difficult to make known their websites to travelers. Lastly, the government regulation is one of the barriers for entering airlines industry. For instance Malaysia Airline has been protected by the government on the route to Sydney and Seoul Incheon. So for Air Asia airlines, they are difficult to get new route from the government, therefore this might affect the timeline set by the Air Asia but also influence their profit. In obtaining a new license and permit to operate a new airline company is quite difficult and restricted. This is because the Malaysia government want to protect the interest of its national airlines, MAS which is operating on losses a few years back. Nevertheless, the government is limited the new entrance of airlines therefore the threat of entry is low for Air Asia.

### **3. 2. 2 Rivalry among existing firms--High**

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. However, in airline industry, the growth rate is really low due to limited customers. Thus, in order to expand, AirAsia has to steal the market share from its competitors. (Roy L. Simerly) Secondly, AirAsia leads the main battlefield in price among competitors due to 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, Air Asia 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. High numbers of competitors will definitely influence profitability of Air Asia. There are almost 59 low fares and no frills airlines compete with Air Asia among the Asia. For example like Jet Star Airways, Tiger Airways and etc. some airlines compete indirectly through route that Air Asia does not fly, therefore, the more competitors, the fiercer the competition. High fixed cost is needed for airline industry in which consists of finance cost, hire purchase, and staff cost that required a huge number of capital. Air Asia being force to gain more market share to cover the fixed costs, therefore if competitors keep increasing they have to control their fare prices as well to compete with others. Thus the rivalry is strong. Customers have no much loyalty mean that all of them are actually look at the prices and flight schedule that suits them the best when buying their air ticket. So that customers will easily switch to other airline if Air Asia didn't provided a services that they need. The change in customers makes the airline industry become so competitive. For airlines industry, generally their product and services are similar. And the purpose for people to using airline is to reach the destination they want. So if Air Asia has to be more attractive to convince customers to choose their airline. They have to add some extra services to satisfy the travelers needed for example like hotel booking and tour packages; it is the subject of customer's choices. An industry with similar product offered is highly competitive. An airline companies is hard for them to exit when they losing at a long period. It is because the cost is high in paying loans, staff retrenchment and flight cancellation refunds. Even making losses, the airline companies have to keep going operate to cope with fixed cost. Airline enable to solve this

problem through market share either looking for new foreigner investor to help on recovering the situation of the airline. Therefore this makes the industry very competitive.

### **3. 2. 3 Bargaining power of buyers--High**

Buyers are one of the factors which will bring impact to the airline industry whether making profit or losses. Nowadays most of the people are much knowledgeable and with higher educated. They know what is more worth to purchase, especially the price gap of any product and services. Even buyers know that Air Asia is a low budgeting airline but sometimes they still will compare the price ticket with others airline. If the price is higher than others airline than will switch their mind to choose other airline in Malaysia for example, MAS, Firefly and Tiger Airway. If Air Asia flight always delay or under maintenance it will influence buyer trust to the airline. Therefore they will choose another airline to instead Air Asia. The power of buyer is quiet high to Air Asia. Next is about the portion of expenditure on airline is moderate. This factor depend on portion of low income individual earns. Low income buyer wills generally looking for low price ticket, thus the stronger the bargaining power of buyers to Air Asia. Since 20th century, the IT industry become more and more advanced, successful airlines indeed to use IT and e-commerce to operate their companies more efficiency and effectiveness. Without IT, a business had boundaries and international business will be prohibited as well. Through internet, buyer can find the information they needed on one click only, it is simple and quick. Internet provided 24 hour services, even during midnight the current airline market information is easy and available all the time. Thus, this show that customer

had strong bargaining power. Air Asia has created a system called Yield Management System also known as Revenue Management system. In order to understand, anticipate and react to the behavior of customers to maximize the revenue of their companies, Air Asia has done two levels of optimization that is through seat and routes. Every seat is considered an opportunity for airlines to earn maximum profit, it is because every seat is sold at various prices, it depends on the time period. A reservation done at a later date will be charged a higher price than the one done earlier. How about routes? Route is the adjustment of price through demand when the demand is higher compared to others. This is the most effective method even though it is to combine these two levels for all flights, all routes so that both the seat and the route are effectively priced for all the flights. So this system generally helps Air Asia more understand about the customer's behavior, thus they are able to offer the most effective and efficient strategy for their customers and satisfy their needs. Other than that, Air Asia can allocate capacity to maximize the expected return. The bargaining power of the buyer is strong.

### **3. 2. 4 Bargaining Power of suppliers--High**

Suppliers also play an important role that might affect the airline industry; there are only 2 major suppliers in the Malaysia airline industry which are Airbus and Boeing. Due to the economic crisis, it has limited the new entrance of suppliers and also limited the upgrade of airplanes in the immediate future. Other than aircraft suppliers, there is fuel supplier, food suppliers and merchandise supplier, which are purposely needed by Air Asia airlines, in terms of the supply must be based on the marketing condition. The supplier cannot

increase too much of its price or risk losing long term business with the aircraft business. Air Asia had ordered out of 200 aircraft from Airbus and so far only 54 aircraft had been delivered. This shows that, Air Asia is not the most important buyer from the Asia. Airbus is a UK based Aviation Company; therefore the total ordered aircraft from whole Asia is uncountable. Thus, the bargaining power of suppliers is strong over Air Asia. High switching cost is required if Air Asia want to switch Airbus models to Boeing Models. It is because training cost for employees to suit the aircraft features must be provided. Other than that, the technology used by Airbus is the most advanced, thus Air Asia must rely to the Airbus engineers to do maintenance of the aircrafts and seek advices. Thus, bargaining power of suppliers is actually at medium level. Next is about the oil supplier, the oil price in the market is too flexible, changing over time.

### **3. 2. 5 Threat of substitute product--Low**

Substitute means that those product and services can be replace by other brand with identical product and service that can give the same level of satisfaction for the customers. In airline services it can be divided into 2 types of substitute, they are direct and indirect substitute. Indirect substitute include bus, train and taxi. How come an airline will be affected by that indirect public transportation? It is because for local travel for example to Johor, Penang either Singapore, people will think which more worth is and prefer low cost travel. For those people who living at Johor Baru planning to go Singapore, Normally they will think to go by bus either by car, the cost is more cheaper if compare to travel by airplane, even though they have to spend 1 hours or more than that to reach there. Other than that if they go by

plane, they have to depart from Air Asia airport (LCCT) somewhere around Negeri Sembilan. It is quite far away and it spends more time to drive from their home to airport. This might strongly affect the revenue of the Air Asia airline company. By the way the geographical structure of Asia has made air travel an efficient, viable and convenient mode of transportation, thus the threat of indirect substitute is considered as low. Direct substitute is about the substitution between the airline competitors, for instance, MAS, Firefly and Jetstar. Nowadays everything goes through internet, so customer can easily compare the price among the few local airlines through accessing internet. So when others airline launching any attractive promotion or big sales, therefore Air Asia will immediately be replaced. Thus, to prevent it Air Asia Strategy department have to come out some idea to pull back their customers even making the same strategy. The performance of an airline is important to avoid being substituted. Performance of airline normally consists of the accuracy of take off time, aircraft performance and staff services. So far, Air Asia had constantly reviewed its performance and improves its services. Therefore the threat of substitute is moderately low. Next is about the prices, price always decide everything this is the reality of the social and the customer mentality. Generally the prices of substitutes are about the same with Air Asia. The prices of air ticket offered depend on the time gap between the booking date and flight ticket. The longer the date, the cheaper the price, if the ticket is purchase in last minutes, the prices of ticket will generally same with the premium airlines. So in this situation customers will switch to premium airline since the price is almost the same, and the facilities of aircraft and services is much more better if compare with Air

Asia. In this situation the threat of substitute still remain low, because most of the people will book their ticket earlier, and this situation just will happen only for urgent businessman.

## **4. Internal Analysis**

### **4.1 Marketing**

Nowadays, everyone can buy their flight ticket more easily and convenience due to the various number of the operating airlines around. The market is becoming more and more competitive to the particular airline especially the low cost carrier (LCC) AirAsia to cope with the challenges from the industry. So as to build a strong brand and carry more passengers, marketing and sale strategies will play a vital role in the order to add more profit to the firm. By doing so, AirAsia should have a proper and well manage marketing strategy and therefore they could be able to compete with their rivals. As an effective marketing strategy, it always focuses on the different elements according to the concept of four Ps in basic theory of marketing.

#### **4.1.1 Price Analysis**

Definition of price refers to the value of a product that attracts the buys to exchange their money or something which is value for it. AirAsia provides the low fare, no frills service which indicates that the price which is offered by AirAsia significantly lower than other airline operators. There is no a meal or even drinks for the journey offered. Despite of providing no frills, AirAsia recently launch the " Snack Attack" tactic which brings to the passengers a number of delicious snacks and drinks on board at a affordable price and therefore the passengers have the choice of purchasing food and drinks on board. In the Malaysia market, the price war is currently an issue between Malaysian Airline (MAS) and AirAsia with the form of giving the free seat



within the travel period. According to Wong (2007), the customers were about to receive the most profit from the war pricing between MAS and AirAsia in 2007. MAS offered RM9 fare for the route from Kuala Lumpur - Kuantan and Penang - Langkawa while AirAsia's 99sen offer is for most of the routes between Kuala Lumpur and state capitals. MAS offered 250, 000 tickers for its 23 destinations whereas AirAsia had offered 500, 000 seats at discounted fares of up to 99% for all destinations which is departed from its four Malaysian hubs that is located at Low Cost Carrier Terminal KLIA, Johor Baru, Kota Kinabalu and Kuching. Over the travel period, when the price is set at regular price, we can observe that taking a flight from MAS is almost two times more expensive than taking flight from AirAsia at the same booking date (Appendix 1) where MAS offered the two ways fare from Kuala Lumpur International Airport (KLIA) to Kota Kinabalu at the total sum of RM1038. 00 meanwhile AirAsia charged each of its passenger RM538. 00 for the same route. Although Ahmetoglu, Fried, Dawes and Furnham (2010 pp 8 -35) mention about the compulsory drips in pricing which can be understood as the Taxes & Fees charged in MAS ticket and the fuel charge plus airport tax in AirAsia ticket. These kind of extra charge will immediately be re-acted according to the customer's behaviour where most of them will look for the service that offer the same kind of services at lower price. Through the comparison of air ticket price between AirAsia and Firefly which could bring us a clearer view of the denomination of AirAsia in the domestic flight. For instance the two-way flight tickets from Kuala Lumpur to Langkawi which are offered by Firefly and AirAsia at price of RM552. 90 and RM331. 00 respectively (Appendix 2). The price which is offered from AirAsia is

considered almost two times cheaper than its rival. Therefore we conclude that the successful pricing strategy is one of the best tools for AirAsia to generate higher sales and profits.

#### **4. 1. 2 Distribution Analysis**

Placing products in the hand of the ultimate customers is the marketing function known as " distribution" or " place". Distribution requires a chain or network of organisation and individuals. The chain exists between the producers and consumers are defined as the distribution channel. According to AirAsia (n. d), AirAsia differs itself from the full service carrier (FSC) by simplifying its distribution channel in the order to minimize the cost of operation due the commission that will directly reflect in the fares. Internet booking has seen as the most effective channel where it is approved that the tickets will be delivered from the operators to the customers directly as the diagram below.

By using the internet booking, it is recorded that the bulk of sales ( $\pm 65\%$ ) are done via the airline's website whereby the fares are paid by using a credit card (AirAsia, n. d). AirAsia does not limit itself at providing the internet booking but also providing other channel of distribution which are sale office, call centres, and the minority of the travel agents. The sale office is located at every terminal hub of AirAsia and also at the center of town in the various countries such as Malaysia, Thailand, Indonesia, Vietnam, India, Cambodia, Singapore and etc. All of those sale offices are fully under controlled of AirAsia BHD. Moreover, AirAsia provides the call centre as one the distribution which is to be the alternative aid for some of the customers who could not buy the air tickets through internet and also is to help

someone who has some disability. In this text, we conclude that AirAsia is really succeeded with an effective channel of distribution which minimise the operating cost and also to generate higher profit to the firm.

#### **4. 1. 3 Product Analysis**

AirAsia's core products were passengers' seats but it also offered a number of complementary products thus AirAsia's customers could be able to add on their purchased fares. The final fares that have been attached with the option will be the actual products that customers deemed to receive. The actual products can be categorised into different groups. For instance, leisure and budget travellers will be attracted by package named goholiday or gocar. If a customer purchases the goholiday package, the fare price will be charge including the passenger's seat, airport taxes, airport transers, hotel rooms and activities at destination such as the group tours. All the extras packages of AirAsia is merely not from AirAsia because these services is provided by a third parties which is currently doing partnership with AirAsia. Hertz and Avis are the most popular companies which is providing car rental service, meanwhile the Health Scan Malaysia, Life Care Dianogstic Medical Centre, Sunway Medical Centre are the partner of AirAsia in the gomedic package which is able for the passengers who seek for the medical service in Malaysia. In addition, partnership the local banks is not only bringing the convenience to the customers and also giving AirAsia additional revenue such as sale commissions (Ahmad 2010), for example ThaiAsia had promoted its own credit card to as the advancement. The enhancement in-flight optional service such as express boarding, snack attack and redmegastore are meant to strike the customer's desire. With the express

boarding, the customers are given the priority to get in the aeroplane earlier compare with the customers did not purchased the service. Customers can enjoy the meals and other the snacks if they purchase the package or else they will have to pay higher price if they just purchase during the flight, furthermore customers can also buy the souvenirs like the airasia t-shirt and baseball caps.

#### **4. 1. 4 Market segment analysis**

As the expansion of the firm, AirAsia also needs to face a challenge of filling up the seat capacity as consumer spending slows and competition increases from other competitors. For instance, Malaysia airlines offered zero fares on the number of surplus seats therefore it forced AirAsia to come up with the suitable strategy in the order to cope with such situation. Since the takeover of AirAsia from Tony Fernandes, the company was successful in creating the new market where it tended to serve the group customers who had never ever boarded a plane or dreamt of flying to fly over. Due to the high competitive in the low cost industry, it will directly push the customer segmentation. In the short routes segment, there are three types of customers which are non-business passengers (the budget travellers), price-conscious business passengers (low cost carriers) and quality-conscious business passengers (full service airlines).

#### **4. 1. 5 Promotion Analysis**

This promotion strategy can be split into advertising and also sale promotion to the market. For the advertising strategy, AirAsia decided to be the sponsor of Manchester United in 2005 and 2009 respectively (Stone 2009). From the deal with one of the most reputable football all over the world, the company

is able to advertise its brand worldwide because the name of the company will be pasted on the jersey of the club and also the AirAsia's aircraft are painted with the picture of the football players of Manchester United, for instance they are Wayne Rooney, Ryan Giggs and also Rio Ferdinand. Not only being the sponsor of a football club, Dato' Tony Fernandes also said that " We want to be a global brand, this partnership with William can take AirAsia to another level" (Guan 2007). From the deal with the formula one team AT&T Williams, AirAsia once again successfully advertise its brand name to the world and it is showed that AirAsia have a strong marketing strategy in order to built the company's reputation. According to Hergaty (2011), in the financial year 2011 the CEO of AirAsia had brought up 66 percent of the football club which is playing in English Premier League (EPL), the most popular football league all over the world. By holding the most portions of stakes in the club, Tony Fernandes agreed to share the advertisement to Malaysia Airline (MAS) as well as take it as the company advantages to do advertisement. Talking about the promotion of the company, AirAsia made it become an traditional of its own by offering the ZERO FARE campaign for these several years.

In 2009, AirAsia was giving AirAsia Zero Fare promotion to all of its routes. Through the continuous promotion and great sale in the fares activities, AirAsia is always successful to catch the attention of the customers. Normally, the promotion period will be expected in mid-May or mid - November and the valid of travel period will be estimated around 6 to 8 months after the bookings. AirAsia was having a greatest boost in profit via this effective promotion because usually the promotion comes with

restrictions of no change of name, date and destination and therefore the customers cannot claim back the fund that they already purchased. In conclusion, with the simple and effective marketing strategies, AirAsia has magnificently ranked at the top as the airline gain the most profit through its marketing campaign.

#### **4. 2 Human Resource Management**

Human resources refer to employees that working for the company. AirAsia's are still capable to keep its employees motivated because AirAsia is extremely supportive and responsive in encouraging and listening to its employee all the time. This made the employees more productive and creative in performing their responsibility. Instead of offering high and attractive salary to its competitors, AirAsia recommend its own policy which are more motivated. For example, AirAsia offered a broad range of incentives that

includes productivity and performance-based bonuses, shares and stocks option. In addition, AirAsia implement a sector pay policy rather than hourly pay scale for its pilots. This policy adopted to encourage pilot to enhance flight efficiencies by keeping flight and operating times to a minimum and to cover as much flight sectors as possible daily. All those hard work that AirAsia take not only helped in increase productivity buy also to further strengthen employees' relationships day by day. Moreover, highly skilled employees are also the source of capabilities that AirAsia has that is hardly to intimate by others competitors. Hence, human resources are one of AirAsia strength to match the key success factors.

### 4.3 Operation Analysis

#### 4.3.1 Reservation

Airasia operation is in airline services field, it has fostered a dependency on Internet technology for its operational and strategic management, and provides an online ticket booking services to traveler online. The following shows the home page of AirAsia. com as the company key channel of marketing and sales

To book a flight with Airasia, customers can either choose the following channels or simply visit the AirAsia. com home page and follow the below 5 steps.

1. Call centre
2. Sales office and airport sales counter
3. Authorized travel agents
4. Mobile booking via mobile. airasia. com or
5. Online ([http://www. airasia. com](http://www.airasia.com)) in 5 easy steps as shown below. Step 1 -

Search

Step 2 - Select

Step 3 - Guest ; Contact

Step 4 - Payment

Step 5 - Itinerary

The following diagram shows the online electronic ticket ordering process

Passengers have to check-in in order to be allocated seats. During the check-in, passengers need to show the flight ticket or booking code to the crew. The crew will verify passengers' information. Thereafter, crew will issue boarding pass to passengers. In early year 2010, Airasia encouraged

<https://assignbuster.com/air-asia-overview/>

passengers to use visual online application to check-in via smart phone, computer or Kiosk rather than over the counter check-in. currently, in some of the airport who check-in via over the counter will be charge extra RM 10. Viewpoint of Airasia in Online check-in, it means that Airasia could cut the labor costs who serve on over the counter. Airasia only paid for Developing initial costs Online check-in function and lesser running costs which Airasia only hires lesser crews in Office. Relatively, over the counter check-in, Airasia has to pay the salaries that are in serving over the counters. Those crews served in over the counter are many.

#### **4. 3. 2 Boarding gate / waiting hall**

Airasia crew will stand at boarding gate to serve passengers who attempt to go into waiting hall. This crew will verify passengers boarding pass. While passengers are setting at the boarding hall, those crew also will standby provision of inquiry. During the boarding to the flight, that crew will guide these passengers to flight on the right way. 4. 3. 3 Departure, on board, arrival

According to the law and regulation for airline service companies, before flight departure, all of the airline service companies must provide instruction of escape and use escape equipments flow. Those crews on board also have to check and ensure passengers tie the safe belt and window cover are opening. On boarding, it is main operation and services which Airasia provided. Pilots will drive safely and ensure all of the functions are work. Those crews will provide services on board which including beverage and foods and other ceded services by passengers. For those who do not order



early the beverage and foods, they can purchase on board. Before arrival, those crews also have to repeat checking the same manner as departure.

#### **4.3.4 Collecting luggage**

Airasia crew will transport the luggage from aircraft to airport in order to let passengers get back their luggage without any damages. However, some of the passengers did not have consigned any luggage to the Airasia, so that, they no need go through this step. Those international passengers can straight go to immigration checkpoint for stamping passport while domestic passengers automatically get the exception of this process.

#### **4.3.5 Low Cost Carrier (LCC) Business Model**

Airasia follows the Low-Cost-Carrier (LCC) business model in the airline industry, which can be characterized as below:

Airasia is able to outstanding from the airline market players, because it has utilized d perfectly the low cost carrier model. Those market competitors are hard to achieve this model, it need a substantial customers based and various route to operation. However, Airasia has achieved this competitive advantage. Airasia offer simple product, operate in low cost and innovate business position. However, other competitors also try to copy this strategy for their business, but they failed doing so since Airasia has built the goodwill over years. Getting new destination in Malaysia could be considered policy barrier, so that, Airasia could still sustain in airline industry with low cost carrier model. In Airline service industry, the manpower is vital importance. Because it is main factor to assist airline service companies in operation. Even other factors also important such as tangible equipments (aircraft), but these factors can be purchases from the sellers. Airasia train their staffs to

become specialists and professional in order to provide quality low cost carrier service. If Airasia staffs is representing Airasia to serve their customers. Unlike selling tangible product companies, the companies will more concern about the product quality. If markets do not accept the product, it implies that the revenue would fail. It is same meaning back to airline service companies, if those staffs do not serve their customers well, and its revenue would fail too. 4. 4 Financial Analysis

#### **4. 4. 1 Financial performance analysis**

Before we analyse the internal firm, there is one important thing that we need to mention: For the income statement, the figures for the year 2006 and 2007 are calculated based on our own assumption, due to the annual report of these two years ended on 30 June while year 2008 to 2010 ended on 31 December. We calculated figures in 2007 by added up the 6 months financial period ended in the 31 December 2007 with the 6 months financial period ended 30 June 2007 (1 year financial period ended 30 June 2007 divided by 2). For the year 2006, we calculated by added up the 1 year financial period ended 30 June 2006 with the 1 year financial period ended 30 June 2007 and then divided by two to get the average. For the balance sheet, we only calculated the figures in year 2006 as it ended on 30 June whereas the year 2007 ended on 31 December provided in the annual report of the year 2008. Therefore, we calculated the figures of balance sheet using the same method as stated above in the income statement.

##### **i. Horizontal Analysis**

The horizontal analysis compares the specific items (revenue, gross profit and etc.) of the current period with the past period to analyse the financial

performance of the company over a certain period of time. This analysis carried out by dividing each of the specific items of a given period by the same item in the base year and the evaluation of differences in the relative importance of specific items and notified the reasons in changing of the specific items. The analyst will use his or her discretion when choosing a particular timeline; however, the decision is often based on the investing time horizon under consideration. (a) Income Statement (Air Asia)

(RM'000)

	(base	year)
2006		
2007		
2008		
2009		
2010		
Revenue		
1,	337,	108
1,	896,	008
2,	854,	970
3,	132,	901
3,	948,	095
Operating		expenses
1,	160,	609
1,	537,	470
3,	206,	628
2,	220,	147
2,	881,	134

Operating		profit/loss
176,		499
358,		538
-351,		658
912,		754
1,	066,	961
Profit	before	taxation
182,		112
415,		740
-869,		198
622,		288
1,	098,	856
Taxation		
-167,		768
-258,		989
-372,		635
116,		021
37,		445
Net		profit/loss
349,		880
674,		729
-496,		563
506,		267
1, 061, 411		

2006	(base	year)
2007		(%)
2008		(%)
2009		(%)
2010		(%)
Revenue		
41.		80
113.		52
134.		30
195.		27
Operating expenses		
32.		47
176.		29
91.		29
148.		24
Operating profit/loss		
103.		14
-299.		24
417.		15
504.		52
Profit before taxation		
128.		29
-577.		29
241.		71

503.	40
Taxation	
54.	37
122.	11
-169.	16
-122.	32
Net profit/loss	
92.	85
-241.	92
44.	70
203.	36

From the horizontal analysis for income statement, we used the year 2006 as the base year. As we can see that, the Air Asia has faced loss in the year 2008 thereafter continue to increase its profit in the year 2009 and 2010. In the year 2008, the company faced big losses compared to the base year due to the economic crisis occurred. However, after that, the company able to recover and increased its profit in the year 2009 and 2010. For the year 2010, the company has achieved 2 times of the net profit compared to the base year which mean that the company perform well in that year. At the same time, there was also an increased in the revenue for these four years as compared to the base year. Another factor that affects the net profit is the operating expenses. From the table, we observed that the Air Asia had higher operating expenses in the year 2008 as compare to the base year. Therefore, the company faced the operating loss and net loss. This is because there was an increase in the aircraft fuel expenses in the year 2008

and economic was downturn. Moreover, the figure for the taxation in the year 2006 until year 2008 is negative mean that the Air Asia has experienced tax saving. This is because the company has been granted a great amount of tax incentive from government for its CAPEX in purchasing aircrafts. (b) Balance Sheet (Air Asia)

(RM'000)

2006	(base	year)		
2007				
2008				
2009				
2010				
Property,	Plant	and	Equipment	(PPE)
2,	110,		905	
4,	352,		770	
6,	594,		299	
7,	942,		188	
9,	318,		041	
Inventories				
10,			045	
17,			567	
20,			684	
20,			864	
17,			553	
Cash	;	Cash	Equivalents	
510,		442		

425,		195	
153,		762	
746,		312	
1,	504,		617
Total		Assets	
3,	676,		749
6,	430,		462
9,	405,		933
11,	398,		420
13,	240,		300
Total		Liabilities	
2,	271,		607
4,	331,		245
7,	800,		397
8,	777,		400
9,	599,		340
Share		Capital	
235,		363	
237,		154	
237,		421	
275,		774	
277,		344	
Retained		Earnings	
453,		973	
1,	128,		734



632,		171	
1,	138,		438
2,	102,		571
Shareholders'			equity
1,	405,		142
2,	099,		217
1,	605,		536
2,	621,		020
3, 640, 960			
2006	(base		year)
2007		(%)	
2008		(%)	
2009		(%)	
2010		(%)	
PPE			
106.		20	
212.		39	
276.		25	
341.		42	
Inventories			
74.		88	
105.		91	
107.		71	
74.		74	
Cash & Cash Equivalent			

-16.	70
-69.	88
46.	21
194.	77
Total Assets	
74.	90
155.	82
210.	01
260.	11
Total Liabilities	
90.	67
243.	39
286.	40
322.	58
Share Capital	