

# Logistic and transportation industry air asia

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



Based on the research, we have concluded that the most important segment is the economic segment where airlines industry will be affected by the inflation rate. If the economy goes down, consumers will choose not to travel by air since it is more expensive than other transportation like buses.

As for the industry conditions by using Porter's Five Forces Analysis the most essential and to be take care of are the buyer's and suppliers bargaining power. This is because there are fewer suppliers for Air-Asia and the switching cost is high due to this reason. Buyers are the determinants for an airline company as it is providing service to consumers. The profit of Air-Asia depends on customers loyalty and preferable.

Product market stakeholders are stakeholder groups who benefits directly contribute to the profit and revenue for the organization. For product market stakeholder groups, Air-Asia provides cheaper flying tickets than other competitor. Capital market stakeholders are stakeholders group that provide financially to the organization. Shareholders are the most innermost capital market shareholder of Air-Asia because it provides inflow of cash or invest capital which they anticipate to earn positive interest from the investment.

For the recommendation part, Air-Asia was able to identify and distinguish its strengths and weaknesses and implemented effective strategies which are cost-leadership strategy and acquisition strategy.

## **1. 0 Introduction**

### **Objective**

The objective from this report is to study cross functional decisions that enable Air-Asia to achieve and understand the continuous goal of the company and to understand the fundamental concept and skills of strategic management in real-life scenario by Air-Asia.

### **Scope**

Scope includes background and situation strategies of Air-Asia to meet all existing and potential competitors' reaction on the environmental changes of Air-Asia. It involved marketing environment, its industry conditions, descriptions of Key stakeholders and SWOT analysis.

### **Limitation**

The limitation when we doing this assignment are lack of the information of Air-Asia. The information we can obtained are too limited. This assignment is also limited as there isn't any questionnaire, survey or interview on the reactions between current students and employees of Air-Asia. Without an interview was, we fall short on reference from internet.

## **2. 0 Background**

Air-Asia was founded on year 1993 by Tan Sri Dr. Tony Fernandes who currently hold a position as a Group Chief Executive Director. Air-Asia is known as Tune Air Sdn Bhd and purchased by Tony Fernandes with RM1. 00 at 2 December 2001 (Oppapers, 2012) and it has been expanding rapidly since 2001. Air-Asia continues their efforts for low-cost aviation through

innovation solutions, efficient processes, and a passionate approach to business (Air-Asia, 2012). Air-Asia Airline flies to over 61 domestic, 108 international routes and operates over 400 flights from hubs located in Malaysia, Thailand, and Indonesia (P. M. Wong, Cary, 2009). It is claims as Asia's largest low-fare and no-frills airline. In addition, Air-Asia also the first airline that implementing fully ticketless travels in Asia (OpPapers. com, 2012). Air-Asia and its associate companies continue to put their efforts in creating more extensive route networks (Air-Asia 2012). Today, Air-Asia has over eight thousands employees working with them. It is also now one of the listed companies in Malaysia.

### **Vision:**

To be the largest low cost airline in Asia and serving the 3 billion of people who are currently under deserved with poor connectivity and high fares (Air-Asia, 2012).

### **Mission:**

To be the best company where all the employees are treated as a part of big family

Create a globally recognized ASEAN brand

To attain the lowest costs so that everyone can fly with Air-Asia

Maintain the highest quality product, embracing technology to reduce cost and enhance service levels.

### **3. 0 Situation Analysis**

#### **3. 1 General Environment Analysis**

General environment analysis of Air-Asia consists of demographics segment, Socio-culture segment, economic segment, political/legal segment, technological segment and global segment.

##### **Demographic segment**

Air-Asia's target markets are low to middle income group and cost conscious travelers. Air-Asia airlines focus on budget travelers which split into family travelling, business purpose and education purpose. Thus, most of the customers afford to fly to the destination in a cheaper cost due to their budget. Air-Asia provide economic classes with a good service for their customers and fulfill customer needs and wants to satisfy their customers which are stimulate demand by offering the lowest fares.

##### **Socio-culture segment**

Air-Asia also concern about their attitude and cultures of company. The Cabin crews build up their own personality, instead of conforming to preconceived notions about their role, resulting in a relaxed onboard environment. The staff showed friendly attitude to customers. Besides, Air-Asia's Corporate Culture unit mentions that with different cultures and nationality, they will able to promote a cost efficient environment, produce with high quality services and focus safety for their respective customers. This presents an opportunity for all Low Cost Carriers (LCCs) to increase their revenues by offering travelling at a much lower fare as well.

## **Economic segment**

The economics of Air-Asia is able to offer low cost sales and marketing strategies. According to Air-Asia's concepts, it is always based on the assumption that airline traffic grows in line with the economy. Air-Asia until today has flown more than 55 million passengers around Asia. Besides, Air-Asia has also ventured into other market that complements with the airlines business which is franchises. For example, tunes hotels and red box couriers to gain maximum efficiency in and around the airline economic. This will be increase rapidly in the trade and tourism, government investments in their airports, airlines and travel infrastructure.

## **Political/Legal segment**

Government policies play important roles to increase privatization and deregulation of the airline industry in Asia. There are quickly mentions after Malaysia signed an "open-skies" agreement with United States. At 2006, governments' intervention and regulation remained substantial. For example, although Thai Air-Asia successfully launching the services between Thailand and Singapore in 2004 but the company still could not expand beyond the Singapore-Thailand routes, because it does not require the right's to land at elsewhere. Besides, the budget carrier by Air-Asia which brings problems with the fare carried on its website until sued by the Australian Competition and Consumer Commission (ACCC).

## **Technology segment**

Air-Asia's Computer Reservation System (CRS) (Open Skies by Navitaire) has integrated web-based sales and inventory system which includes internet,

airport departure control and call center. The customer data is maintained by Open Skies. It helps Air-Asia to track booking and schedule flight activities in real-time and on-demand reporting feature. This CRS enabled Air-Asia to introduce features such as advanced print boarding pass and for customers who do not have the time for purchasing tickets from counters. Air-Asia has proposed to implement a Wireless Delivery System (WDS) which able their customers book via mobile phones. Air-Asia outsources most of their IT needs based on competitive bids, so that they are able to keep costs low by having consumers purchase directly from the website.

### **Global segment**

For global segment of Air-Asia, Air-Asia X, the Malaysian based on long haul, will increase its flight frequency to Tokyo from its current three flights to six flights per week. Besides, Air-Asia X will operate daily flights from LCCT in Kuala Lumpur to the Japanese capital and Air-Asia X currently adjusted four times weekly to Osaka, Japan. The opportunity to increase in frequency of the airline's readjustment plans is to focus on increasing services to its core markets in China, Taiwan, Japan, and Korea. Thus, with wide network and strong brand affinity in Japan, Air-Asia manages to remain on existing core markets and geared up to capitalize on the continuous increase in demand for air travel to and from Japan.

## **3. 2 Industry conditions (Porter's Five Forces Analysis)**

### **Threats of New Entrants**

The threat of new entrants into airline industry is low due to high start-up capital to enter into airline industry. This is because the costs of building up

the whole building, hiring pilots and other staffs such as air steward, buying or leaving aircrafts and so on required high volume of capital to start-up an airline company (Alone in my own world, 2012). New entrants will be hardly to achieve economic of scale in this situation.

Government legislation also leads to low threats of new entrants into airline industry. It is quite hard to get license and permit to open a new route in this industry. For example, MAS has been protected by Malaysia government on the route to Sydney and Seoul Incheon (Free Online Research Paper, 2012).

Other than that, key inputs such as technological know-how, raw materials and distribution of location also one of the factors that limit the new entrants into airline industry. Most of the distribution channel and raw material in this industry has been controlled by existing player. Air-Asia is the first airline company that offer online booking service in Malaysia providing a website well known of simplicity and user friendly which difficult for new entrant to compete with.

## **Rivalry among Existing Firms**

There are high numbers of rivals who are providing low cost flight to customers in airline industry. Air-Asia is applying cost leadership strategy and this same goes to most of its competitors such as Lion Air, Batavia Air, Srivijaya Air and Mandala Air. There is price competition in airline industry where these airline companies are competing on lower prices they can offer to customers.



Low customer loyalty also one of the factors of high rivalry in this industry. There are low switching costs in which customers can easily switch to another flight companies. Even though there is not much different in prices and services offering, but customers will switch to another flight company when there is suitability of time.

### **Threat of Substitute Product**

The threat of substitute product in airline industry is moderate. There are two types of substitutes in airline industry which are direct and indirect substitute. Indirect substitute consists of buses, ship and train. These substitutes can also bring their customers to their destination but it takes longer time. Direct substitute means that other airline services available. When a customer feels unsatisfied with the price charged and services provided, they will always seek for another alternative. Besides, the prices are determined by the time gap between the booking date and flight date. The longer the date, the cheaper will be the price (Alone in My Own World, 2012). For example, the price of the air tickets that purchased last minutes might almost the same as the price of the premium airlines like MAS. In this situation, customers prefer MAS than Air-Asia.

Even though there are numbers of substitute in this industry, but none of it can be as efficient, convenient and faster as airline services. Thus, most of the time customers will choose airline services rather than buses, trains or ships.

## **Bargaining Power of Buyers**

The bargaining power of buyers in this industry is high. There are two types of buyer power which is customer's price sensitivity and the power of negotiation. Customers with high price sensitivity tend to compare the price of the air tickets from different flight companies. They make purchase decision based on the price. Power of negotiation exists when larger buyers tend to have more leverage with the firm, and can negotiate lower prices (Free Online Research Paper 2012).

The second reason of high bargaining power of buyers in airline industry is low switching cost for customers. Low switching cost leads to low brand loyalty among Air-Asia's customers. Customers will seek for a company that can provide suitability of time and convenient to them with same price and service.

The level of income also affects consumers' bargaining power. The higher the portion, the more the customer look for cheaper price and thus, the stronger the bargaining power of buyers (Alone in My Own World, 2012).

## **Bargaining Power of Suppliers**

The supplier of airline companies is the fuel supplier, foods supplier, merchandise supplier and aircraft supplier (OpPapers, 2012). There is high switching cost for Air-Asia to change their supplier because there is only few aircraft supplier in the airline industry. Air-Asia makes purchase decision based on the price in order to lowest costs. For example, Air-Asia used Boeing models previously but now already switched to Airbus models. If Air-

Asia switches to Boeing models again, it can incur high switching cost where Air-Asia has to spend money to give training to their staffs to suit the functions of the new aircraft.

Besides, the technology provided by Airbus is the latest and most advance than Boeing. Air-Asia has to rely on the engineers of Airbus when they want to seek for maintenance. Thus, there is a high bargaining power of suppliers in this industry.

### **3. 3 Description of key stakeholders**

Stakeholder means that a person, a group or an organization can be direct or indirect stake in organization because it can affect or be affected by the organization's action, policies, objective, and so on. There are three key stakeholders that affect an organization:

#### **Product Market Stakeholder**

Product market stakeholder is who benefits directly contribute to the profit and revenue for the organization. Air-Asia product market stakeholders include customers.

#### **Customers**

Air-Asia is one of the airline service companies. Air-Asia's customers were Malaysian who salary fall in middle and lower income. This is the reason why it use low price strategic to position it is selling the cheaper flying ticket than other competitor. Customers were important stakeholder group for Air-Asia. So, Air-Asia not only satisfy customer with low fare, but also concerned with

the service quality. At the same time Air-Asia also focus with customer needs, satisfaction, and loyalty.

## **Organizational Stakeholder**

Organization stakeholders are stakeholders who provide skills, knowledge, and expertise that organization require in order running the organization smoothly. The organization stakeholders for Air-Asia are employees.

## **Employees**

Employees have to serve and help customer when needed. Air-Asia provides training to invest and believe in brand proposition of “ safety, fun, friendly, caring, and passion”. Besides, Air-Asia treated their employees as part of a big family. Employees must be productive and efficient so that Air-Asia can function efficiently. Air-Asia appreciates their employees and motivates them with bonus, incentive and so on.

## **Capital Market Stakeholder**

Capital market stakeholder is stakeholder group provide financially to the organization. Shareholders are the capital market stakeholder of Air-Asia.

## **Shareholders**

The shareholders are stakeholder group that provide inflow of cash or invest capital which they expect to earn positive interest from the investment.

Shareholders are the main investor of Air-Asia. Shareholders are important for Air-Asia in order to be able to continue their activities. Without shareholders, Air-Asia would suffer from insufficient cash flow and would have problem to continue the business.

### **3. 4 SWOT analysis based on stakeholder groups**

Generally, SWOT is a basic, straightforward model that assesses what an organization can and cannot do as well as its potential opportunities and threats. SWOT analysis is the most renowned tool for audit and analysis of the overall strategic position of the business and its environment. Moreover, SWOT analysis determines what may assist the firm in accomplishing its objectives, and what obstacles must be overcome or minimized to achieve desired results. (Management Study Guide, 2012)

#### **Strength**

Air-Asia has a very strong management team with strong links with governments and airline industry leaders. For example, Shin Corp holds a 50% stake in Thai Air-Asia. This has helped Air-Asia to open up and capture a sizeable market in Thailand.

Low cost carrier (Value for money). Air-Asia is a leading low cost airline in Malaysia which makes Air-Asia the lowest cost airline in Asia. Air-Asia brand are well established in Asia Pacific. Besides media advertising & promotions, Air-Asia also capitalized on promotions through news by being “ media friendly” and freely sharing the latest information of Air-Asia as well as the airline industry.

Air-Asia has an excellent utilization of IT. They have directly contributed to their promotional activities such as email alerts and desktop widget which was jointly developed with Microsoft for new promotions. Moreover, brand

building exercise as well keep the cost low by enabling direct purchase of tickets by consumer thus saving on airline agent fees.

## **Weaknesses**

Air-Asia receives lot complaints from customers on their service such as flight delays, extra charges or difficulty to get refund for certain situations.

Good customer service and management is critical especially when competition is getting intense.

Service resource is limited by lower costs.

Air-Asia has limited human resources. Some of them could not handle irregular situation.

Questionable on time performance. Limited aircraft also means unavailability of standby plane in the event of operational problems.

Heavy reliance on outsourcing.

## **Opportunities**

Increasing of oil price will be a threat for Air-Asia. But being a low cost leader, Air-Asia has an upper hand among all the regional airlines. Thus, Air-Asia has a great opportunity to capture some of the existing customers of full service and other low cost airline's customers.

High growth in the airline traffic presents the opportunity to increase business regionally.

Technology advancements provide opportunities to reduce operation costs.

The existence of a large pool of low income passengers who were no longer able to afford or justify air travel on full-service carriers.

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.

## **Treats**

Killer Competition such as other low cost operators for example as value air, tiger air, and jet air. Most of the full service airlines have or planning to create a low cost subsidiary to compete directly with Air-Asia.

With so many treats these days, accident, terrorist attack, and disaster can affect customer confidence to Air-Asia.

High fuel price decreases yield.

## **3. 5 Summary of situation analysis**

There are four main issues being discussed in situation analysis which are General environment analysis, Industry condition using Porter's Five Forces Analysis, Description of key stakeholders, and SWOT analysis based on stakeholder groups.

General environment analyses are divided into six segments which are Demographic, Socio-culture, Economic, Political/Legal, and Technology and Global segment. Demographic segment discussed about Air-Asia's target market and the reason why it was more preferable; socio-culture segment discussed about attitudes and culture of Air-Asia; economic segment

discussed about Air-Asia's strategy; political/legal segment talks about how government policies affects Air-Asia; technology segment discussed how Air-Asia's IT services brings convenience to customers whereas global segment talks about expansion of Air-Asia to other countries.

Industry conditions by Porter's Five Forces are presenting about Threats of new entrants, Rivalry among existing firms, Threat of substitute products, bargaining power of buyer and seller. Threat of new entrant exists during the entry of a company provides similar services; rivalry refers to other airline companies; threat of substitute products refer to products that can substitute airline services whereas the bargaining power of buyer and supplier depends on the demand and supply of the market.

Next is the description of key stakeholders which contains product market stakeholders like customers and supplier which bring benefits to Air-Asia; organizational stakeholder like employees which helps Air-Asia to operate well and lastly capital market stakeholder like shareholders which provides financial benefits to Air-Asia.

Last but not least, SWOT analysis includes strengths which describes Air-Asia's ability and competitive advantages; weaknesses describes Air-Asia's weaknesses such as customers' complaints; opportunities refers to benefits that Air-Asia will receive; and threats means difficulties that Air-Asia may face present or in the future time.



## **4.0 Strategic options for the organization**

### **Cost Leadership Strategy**

Cost leadership strategy defined as a strategy which reduces costs below those of competitors for a given level of quality. A cost leadership strategy is a vital advantage in highly competitive industries. Organizations who wish to be successful in this strategy have to maintain constant effort aimed at lower their cost which relative to their competitors cost and create value for their beloved customer.

Air-Asia is one of the company successfully adopted cost leadership strategy in their business. Air-Asia target their market like customer who sensitive with the price for domestic service, short-haul flight, and long-haul regional service. Air-Asia selling their flying ticket at below the average industry price to attract and gain the market share.

On the other hand, Air-Asia's associate company Air-Asia X focuses into medium and long haul flight and it serves in long haul low cost courier. With the long haul low cost courier, Air-Asia X successfully attract crowd. (B. K. Sidhu, 2009).

Air-Asia wanted to become the leader in the lower cost carrier in the industries. Air-Asia has two characteristic of low cost business which is operation effectiveness and outstanding efficiency. On the other hand, Air-Asia believes no-frills, low fare, hassle-free, and feels that keeping low cost requires high efficiency in business.

Through the philosophy of Air-Asia “ Now Everyone Can Fly”, they successful to spark a revolution in air travel with more people choose Air-Asia as the priority choice of transport. The benefits of Air-Asia lower price the airline service made them become sustainable growth through the business and achieve something along their competitor.

## **Acquisition**

Recently, Air-Asia is deciding to acquire to expand their business. The CEO of Air-Asia Datuk Sri Tony Fernandes wants acquisition Indonesia Batavia Air to expand its footprint throughout Indonesia.

Air-Asia through acquisition is wanted to increase the market power. At the same time will help Air-Asia to compete against rivals in the region. This strategy was one of a fantastic opportunity for Air-Asia to step up its growth plan in one of the most exciting aviation market in Asia.

On the other hand, through acquisition Air-Asia want to increase tourism in Indonesia and supporting Indonesia business by provide loss cost airline service and enable more Indonesians can fly. (Malaysia Airline Families, 2012).

## **5. 0 Key selection criteria**

Strategy is used to refer to an overall plan of action. The strategic plan of a company will indicate where the organization is going and how different functions fit into the plan. The construct of cost leadership strategy emphasizes on lowest costs. A firm pursuing a cost-leadership strategy needs to gain a competitive advantage primarily by reducing its economic

costs below its competitors. To achieve this, the strategic actions must thus reduce costs and improve productivity.

Air-Asia has conducted a low fixed cost. Air-Asia's ability to acquire low rates for long-term maintenance contracts and aircraft leases led to substantial cost savings. Similarly, its aircraft maintenance contract costs were also reported to be substantially lower than any other airlines. In view of the airline's high safety and maintenance standards, Air-Asia was also able to procure favorable rates on its insurance policies. All these help lower fixed costs.

Air-Asia's intense focus on providing air travel with no frills leads to substantial costs saving. The absence of in-flight services reduced pre-flight preparations such as the loading of food and drinks, cleaning time and the cost of meals and administration. Investment in kitchens and equipment for storing, heating and serving of meals can be avoided all together.

Moreover, Air-Asia implemented flexible work rules and streamlined administrative functions which allowed employees to perform multiple roles. The human resource makes a policy to facilitated Air-Asia in lowering its personnel costs. In 2004, it was reported that Air-Asia had the lowest staff-to-per aircraft ratio and this helps lower staff cost.

Furthermore, with the advance of technology these days, the Internet plays a vital part in the Air-Asia business. And it has proved to be critical to the success of the business. As a low cost operation and controlling the cost of doing business is clearly highly important to the airlines' ability to be

competitive by offering low fares. The Internet provides the most cost effective distribution channel available.

Typically, Air-Asia operates out of secondary airports, which involve lower landing, parking and ground handling fees. These airports were also less busy and had shorter runways, thus helped reduce fuel consumption while aircraft queue for take-off on the ground. In other words, the use of secondary airports can increase sales and help to keep operating costs low.

Lastly, the ability to lower the cost and at the same time widen profit margin through increase productivity works well with Air-Asia's cost leadership strategy. This provides Air-Asia the options to either lower its prices or gain market share and sales from rivals to keep its prices at present market level and make more profit for every unit sold. This factor helps Air-Asia in its defense against strong competitions especially when it comes to price war from strong rivals.

## **6. 0 Recommendations**

Airline industry is an industry which the businesses of transporting paying passengers and freight by air along regularly scheduled routes, typically by airplanes but also by helicopters (encyclopedia, 2012). Air-Asia has a very strong management team with strong links with governments and airline industry leaders and it is a leading low cost airline in Malaysia which makes Air-Asia the lowest cost airline in Asia. Few strategies are proposed are able to help Air-Asia to gain more competitive advantages. There are some

recommendations can be made in order to help Air-Asia to execute the implementation of strategy more effectively.

Throughout the research, should Air-Asia apply the cost-leadership strategy?

In my opinion, the answer is positive. This is because there are too many competitive in Asia offering the same services, and the reason why Air-Asia can stand out of those competitors is because of their low price tickets. This strategy makes Air-Asia the well established brand in Asia Pacific, but the complaints from customers regarding the unknown extra charges seems to be the weaknesses of Air-Asia. There are some improvisations to improve the implementation of this strategy.

First, Air-Asia must state clearly the charges being charged towards customers in order to execute this strategy. For example, enhancement of Air-Asia's IT. Air-Asia must state clearly the total cost that customers need to pay in the website to provide a clearly understanding for the customers.

Secondly, customer services line also need to be improved. The staff must get ready to answer various kind of question from customers' regarding to this issue. The recommendation made here is that Air-Asia must come out with an intensive planning in order to execute this strategy. The extensive planning is to ensure Air-Asia's income and reputations would not be affected by customers' complaints issues.

Although these implementation may works in the future, but it also may brings risks to Air-Asia. Customers may think that Air-Asia providing low cost air tickets with low quality. Many people may think that quality comes

together with the price. Therefore, Air-Asia has to convince consumers that the problem of extra charges and delaying flights will not happen in the future.

Other than that, should Air-Asia apply acquisition strategy? My answer again is a positive answer which means yes. Acquisition will be a good strategy since Air-Asia wish to expand its market out of Malaysia. By applying the acquisition strategy, Air-Asia is able to gain more market power. For example, the current CEO of Air-Asia, Datuk Sri Tony Fernandes wants acquisition Indonesia Batavia Air to expand its footprint throughout Indonesia. This action makes Air-Asia to expand its market until Indonesia.

At the same time, acquisition will help Air-Asia to compete against rivals in the region. This strategy was one of a fantastic opportunity for Air-Asia to step up its growth plan in one of the most exciting aviation market in Asia. Besides that, Air-Asia want to increase tourism in Indonesia and supporting Indonesia business by provide loss cost airline service and enable more Indonesians can fly Malaysia airline families, 2012). This also may increase the tourism of Malaysia since there will be more Indonesians can comes to Malaysia.

## **7. 0 Conclusion**

There are two strategies that Air-Asia can implement in order to increase market power and increase profit. Based on the situation that we have analyzed, these strategies could help Air-Asia to maximize profit on the same time increase company's reputation. With maximize profit, Air-Asia able to

improve its IT facilities like online booking service, provide training for their staffs to provide customers a comfortable feeling, improve its management system and etc. Besides that, with strong management system, Air-Asia will be able to detect its strengths and weaknesses and thus improve it by applying effective strategies like cost-leadership strategy and acquisition strategy. This action enables Air-Asia to stay competitive in Asia's airline industry. As the result, Air-Asia adopted cost-leadership strategy which provides customers same airlines service at a lower price. Lastly, Air-Asia's acquisition strategy is also crucial as this particular strategy have the ability to capture the market out of Malaysia.