

Air asia marketing analysis

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



Airlines offer air transport services for passengers or cargo, normally with a recognized operating license. Airlines have leased or owned aircraft with which to supply these services. Airlines may form partnerships or alliances with other airlines for common benefit. Airlines differ from those with a single aircraft carrying mail or freight, through full-service international airlines operating hundreds of aircraft. Airlines can be classified as being intercontinental, intra continental, domestic, or international and may be operated as planned services or charters.

Many countries have national airlines that are owned and operated by the government. Private airlines are under government regulation for economic, political, and safety issues. For example, governments often interfere to stop airline labor actions in order to guard the free flow of people, communications, and goods between different regions without compromising safety.

Some countries have deregulated or start deregulating their Airlines, for example The United States, Australia, and to a smaller extent Brazil, Mexico, the United Kingdom and Japan. Because of deregulation, airlines have been largely free to negotiate their own operating arrangements with different airports, enter and exit routes easily, and to levy airfares and supply flights according to market demand.

In a deregulated market, the entry barriers for new airlines are lower, so it creates greater competition and average fares tend to drop 20% or more. The competition, together with pricing freedom, means that new entrants often take market share with highly cheap rates that, to a limited degree, full

service airlines must match. This is a main limitation on profitability for established carriers, which tend to have a higher cost base.

Consequently profitability in a deregulated market is irregular for most airlines. These factors have caused some key airlines to go out of business, in addition to most of the poorly established new entrants.

INTRODUCTION TO AIRASIA

The world leading low fare airline in the Asia, Air Asia has been growing rapidly since 2001, to become an award winning and the major low cost carrier in Asia. AirAsia was founded by a government-owned conglomerate DRB-Hicom in 1993. On 2 December 2001, former Time Warner executive Tony Fernandes's company Tune Air Sdn Bhd purchased the heavily-indebted airline for the token sum of one ringgit. Fernandes advanced to engineer an outstanding spin, turning a profit in 2002 and introducing new routes from its hub in Kuala Lumpur International Airport.

Air Asia believes in the no-frills, hassle-free, low fare business idea and feels that keeping costs low needs high efficiency in every part of the business. Efficiency generates savings which are then passed on to customers so that inexpensive air travel can become a reality. Through its idea of 'Now Everyone Can Fly', Air Asia has introduced a revolution in air travel with more and more people around the region choosing Air Asia as their preferred choice of transport.

The total AirAsia fleet (including Thai AirAsia, AirAsia X and Indonesia AirAsia) consists of the following aircraft as of 14 July 2010

STRATEGIC DEVELOPMENTS

AirAsia opened a 2nd hub in 2003 at Senai International Airport in Johor Bahru near Singapore and started its 1st international flight to Bangkok .

In January 2004, airasia began its first international service from KL to Phuket in Thailand.

In 2006 A new budget terminals, the 1st of its kind in Asia was opened in Kuala Lumpur International Airport.

AirAsia is presently the largest customer of the Airbus A320.[4] The company has placed an order of 175 units of the Airbus A320 plane to service its routes and at least 50 of these will be ready by 2013.

Tony Fernandes (CEO) announced a five-year plan on 27 December 2006, to further improve its existence in Asia.[5] In the plan, AirAsia will build up and improve its route network by linking all the existing cities in the region and expanding further into Indochina, Indonesia, Southern China (Kun Ming, Xiamen, Shenzen) and India.

AirAsia declared a three-year partnership on 5 April 2007, with the British Formula One team AT&T Williams. The airline brand is displayed on the helmets of Nico Rosberg and Alexander Wurz, and on the bargeboards and nose of the cars.[6]

On 27 September 2008, AirAsia has on its list 106 new routes to be added to its current list of 60 over the next few years [7]

SUBSIDIARIES

Notes

Thai AirAsia

Established on 8 December 2003 as joint venture with Shin Corporation

Indonesia AirAsia

AirAsia acquired the then Non-operational AirAsia in 2004 with a 49% stake in the airline. Full rebranding to Indonesia AirAsia was completed on 1 December 2005.

VietJet AirAsia

AirAsia announced On February 2010 that it has purchased a 30% stake in VietJet and changed the name to VietJet AirAsia.

AirAsia RedTix

AirAsia launched their new event ticketing system called AirAsia RedTix On March 20, 2010, targeting on non-airline flight tickets such as events, sports, and music.

Associate Companies

AirAsia X:

It is a service operated by AirAsia X Sdn. Bhd. as a franchise of AirAsia. It offers long-haul services from Kuala Lumpur to Australia and China using an Airbus A330-300.

Tune Hotels:

Tune Hotels. com is a hotel chain established by AirAsia CEO Tony Fernandes. Presently it has hotels in operation in Kuala Lumpur, Kota Kinabalu, Kuching, Penang, Sepang and Bali.

Tune Money:

It is Asia's first " no-frills" online financial services portal. Same as Virgin Money, it includes life, home and motor vehicle insurance as well as prepaid credit cards.

PORTER'S FIVE FORCES

To assess the attractiveness and identifying the sources of competition for Airline industry we use porter's five forces model.

1. Threat of new Entrants in Airline Industry

The extent of barriers to entry depends on following factors:-

Deregulation:

Some countries have deregulated or start deregulating their Airlines, for example The United States, Australia, and to a smaller extent Brazil, Mexico, the United Kingdom and Japan. In a deregulated market the entry barriers for new entrants are lower.

Capital Requirement:

Setting up airline business requires huge investment. The cost of setting up of offices, leasing or buying aircraft, hiring pilots and other staffs incur a high cost. Thus, the threat is low for the industry.

Switching costs:

In airline industry customers do not need to spend more on switching to another airline. The price would not be extremely significant in differences, which it depends on the accessibility of competitor's services and suitability of the flight time that prompts them to switch. So low switching cost attracts new entrants.

2. Rivalry among existing firms**Fixed cost:**

In airline industry fixed cost are high, for example finance cost, lease cost, and staff costs. To cover these fixed costs airline companies have to gain more market share. In doing that, constant price reduction is done by them to compete with others. Thus, the rivalry is strong.

Customers easily switch:

In airline industry customer's priority is to look at price and flight schedule that suits them the best when buying air tickets. The main purpose of using the services is to get to the destination planned. Customers can switch to other airline easily that makes the industry competitive.

Similar Products:

As discussed earlier, the main purpose of using airline services is to reach the destination. Every airline is providing similar services to customers. So it makes the industry highly competitive.

Excess Capacity: presently there has been excess capacity on many routes; as a result, airlines have to participate in price wars in order to attract customers at all costs.

3. Threat of Substitute products

No doubt Airline is the fastest way to travel from one destination to another thus there is no Perfect Substitute available. However, taking into consideration Domestic Airlines, there are options available to the customers like by-road and train arrangements but again time consumption and convenience are the reasons which discourage customers to adopt any one of these two options. Price of Air Travel however is a hurdle which let customers to think to take other available options. International Airlines have a very less or no threat regarding other options.

4. Bargaining power of buyers

Internet technology resulted in increasing the bargaining power of buyer. Because the buyers are now able to compare the prices more easily and in view of no switching costs, they could choose whichever airline offers a low price. Thus the buyers may be able to influence the airlines to reduce their prices.

5. Bargaining Power of Suppliers

Number of suppliers:

The suppliers for airlines are fuel suppliers, foods suppliers, merchandise suppliers, and aircraft suppliers. There are few suppliers in the market for aircrafts; the companies are either Airbus or Boeing. So the power of supplier is strong.

High switching costs:

AirAsia use Airbus models aircraft. In the past it was using Boeing models, which they lease it and later they replaced Boeing models with Airbus. If Airasia change to Boeing again, then the cost will be high, because training cost for staff to go well with the aircraft features must be offered. Other than that, the technology used by Airbus is the most advanced, so Airasia have to rely on the Airbus model. Thus, bargaining power of suppliers is strong.

SWOT ANALYSIS

The purpose of this analysis is identifying external factors (opportunities and threats) and internal factors (strengths and weakness) that AirAsia needs to consider in achieving its goals and objectives to be low cost carrier in the airline industry. The strengths, weakness, opportunities and threats for AirAsia are as follow:

– Strengths**Single aircraft type:**

AirAsia operates a single type of aircraft, the airbus model. (It switched from Boeing 737s in 2005) A single aircraft type offers economies in purchasing, pilot training, maintenance and aircraft utilization.

Direct Sales:

AirAsia engages in direct sales through its web site and call center. As a result it avoids paying commissions to middlemen. A direct sale has reduced AirAsia's dependency on outside resources for its revenue. Direct contact with customers provides an opportunity to keep up to date of their expectations and solve their problems on time.

Strong management team:

This is the strength of AirAsia that it has a very strong management team that consists of industry experts and ex-government officials. For example, Shin Corporation (formerly owned by the family of former Thai Prime Minister- Thaksin Shinawatra) holds a 50% stake in Thai AirAsia. This has facilitated AirAsia to start up and capture significant market share in Thailand.

Well established Brand:

AirAsia's partnership with other service providers such as hotels, hospitals (medical tourism), car rental firms, Citibank (AirAsia Citibank card) has created a very unique picture among travelers.

AirAsia's local presence in countries such as Indonesia (Indonesia AirAsia) and Thailand (Thai AirAsia) has effectively elevated the brand to become a regional brand. Their links with AT&T Williams Formula One team and Manchester United (one of the world's most famous football teams) have further improved their image to a greater extend beyond just Asia.

– Weaknesses

At start, it may be a good strategy for AirAsia not to have its own maintenance, repair and overhaul facilities. But now with hubs in Malaysia, Thailand and Indonesia and 97 planes currently owned and over 100 planes to be received in the next few years, AirAsia have to make sure proper and continuous maintenance of the planes which will also help to keep the overall costs low. It is becoming disadvantage not to have its own repair & maintenance facilities.

– Opportunities

Increase in oil price:

Increase in oil price may become an opportunity for AirAsia, being a low cost carrier; AirAsia has an upper hand because its cost will be still the lowest among others. Thus it has a great opportunity to capture some of the existing customers of full service and other low cost airline's customers.

Partnership with other LCC:

AirAsia can partnership with other low cost operators such as virgin to tap into their existing strengths or competitive advantages like brand name, landing rights and landing slots.

Population:

Population of Asian middle class is increasing. It will be 700 million by the end of 2010. This creates an excellent opportunity and huge market for all low cost carriers in this region including AirAsia.

New destinations:

AirAsia has strong presence in Asian region. Currently they are operating from three countries Malaysia, Thailand, Indonesia and covering several destinations in China, India, Sri-lanka etc. but still most parts of these countries are under served. So AirAsia can add more destinations.

– Threats

Uncontrollable costs:

Certain charges like landing charges, security charges and departure charges are beyond the control of airline operators. This is a threat to all

airlines especially low cost airlines that tries to keep their cost as low as possible.

New entrants:

AirAsia's profit margin has attracted many competitors. A good number of the full service airlines have or planning to create a low cost subsidiary to compete with AirAsia and other low cost carriers. For example, Singapore Airlines has created a low cost carrier Tiger Airways.

Terrorism:

Terrorism is affecting tourism and confidence in the airlines. It might happen in many ways of terrorism either in certain countries or it might happen in the plane itself. If there is terrorism happen in the area where AirAsia operates, it results in stopping their flights to ensure safety of passengers as well as the plane.

Negative perceptions:

Passengers have some negative perception about low cost carriers. One common perception is that they may compromise safety to keep costs low.

AVAILABLE STRATEGIES FOR AIRASIA

There are three strategies that Air Asia can follow in order to be a major player in the Low Cost Carrier market. These strategies are Diversification (substantive growth strategy), market penetration and market development (limited growth strategies).

Diversification

There are kinds of diversification such as horizontal, vertical integration, and conglomeration.

Ansoff Matrix source: wikipedia. com

In horizontal diversification, the company developed activities that are directly complementary to a company's present activities. AirAsia has done horizontal diversification when entering into Indonesian market by partnering with Awair, which is an Indonesian airline. The partnering with Awair helps AirAsia to understand the condition of local market, so the company will have direction on how to enter and survive in the market by the help of an experienced partner (Awair).

AirAsia has done vertical diversification as well, for example it is selling flight tickets without the help of agents through its own website and call centre.

Through unrelated diversification (conglomeration), AirAsia might spread risk if suddenly airline industry is having difficulties and have elevated profit opportunity from the new business. But, to establish new business, open up a new company, strong management and financial ability is required to make it successful, but if it is not successful, it might create unbalanced circumstances for Air Asia because of loss of money and resources.

Market Penetration

In Market Penetration company will not introduce new products. It will go with the same products in the same market. The way to gain more market

share with the same product is to attract competitor's customers and get more loyal customers by marketing.

Market Penetration will not cost as much as Diversification. AirAsia can peruse this strategy by using marketing budget and using the existing marketing department.

Market Development

Another strategy that AirAsia can pursue is Market Development. Market development is the strategy to sell the same product in new market. For example Air Asia can open up new routes to other places than the existing routes.

Opening up more routes is going to be advantages, but it costs more than doing market penetration because more aircrafts and pilots will be needed.

AIRASIA RESOURCES EVALUATION

In order to implement a strategy AirAsia has to evaluate the resources because if the resources are not enough, the implementation will not be maximized and there will be possibility that the strategy will fail. There are resources to be evaluated before choosing a strategy, such as budgets, human resources, and network analysis.

For diversification huge investment is required, because the company might have to build a factory or buy/rent new premises. The company might have to recruit new employees who have knowledge about the new business.

Market penetration and market development strategies require less money as compared to diversification strategy. Market penetration and market development strategies only grow existing resources to get more profit or bigger market share, and usually the budget for these strategies are mostly taken from marketing budget.

Now a days LCC market is becoming very competitive. Its profit margins attract many new competitors. As I discussed above, a good number of the full service airlines have or planning to create a low cost subsidiary to compete with Air Asia. In this situation AirAsia should not think about diversification. It should only focus on airline business. So strategies like market development and market penetration will be preferred at the moment.

POSSIBLE FUTURE STRATEGIES FOR AIRASIA

AirAsia have to pursue limited growth strategies such as market penetration and market development in the future. These strategies work a lot for AirAsia in order stay competitive in LCC market. Many new competitors like Tiger Airways directly threatening its market share. So at present AirAsia needs to increase its brand image and get more loyal customers.

Air Asia can increase its brand image by promoting low-priced, on time and safe traveling experience campaign. As I discussed above people have negative perception about LCC. People think that LCC may compromise safety to keep cost low. So in promotions AirAsia should try to change these negative perceptions.

Advertisements on television are expensive but effective to increase the brand image, so Air Asia may advertise on the television. Ads on Channels like BBC, National Geographic will work a lot. To help reduce the cost, advertisement time may be made shorter and advertisements may not be aired very frequently. The best time for AirAsia Ads is during holidays when people are thinking to go on traveling.

There are upcoming sports events like 2011 Cricket World Cup in India, Sri Lanka, Bangladesh, and 2012 Olympics in London. By sponsoring these events AirAsia can further improve its image.

AirAsia has strong presence in Asian region as compared to other low cost carriers. Currently they are operating from three countries Malaysia, Thailand, and Indonesia and covering several destinations in China, India, Sri-Lanka etc. but still most parts of these countries are under served.

AirAsia alone don't have capacity to cover this whole region. So partnership with some other airlines is required at this stage. Partnership with Virgin Airline will provide great opportunity to expand its business in Asia as well as in other parts of the world.

RECOMMENATIONS

AirAsia has strong position in Asian market. Now a day Asian low cost carrier market is becoming very competitive. To keep stronger position in the market AirAsia has to adopt combination of market penetration and market development strategies. As we know AirAsia has strong management team, which will surly make these strategies successful.

AirAsia has some weaknesses but these do not seem to be very dangerous. Rising fuel prices have made operational costs high for the whole industry. However these high operational costs means companies with fewer profit margins than AirAsia may become unneeded in the future thus, opening up customer bases previously not available to AirAsia. Middle income earners are increasing specially in china and India; there is much talent for AirAsia to expand its routes. AirAsia engages in direct sale through web site and call center. It should be very careful that problems with internet can seriously damage their business.

REFERENCES

“ Orders, Deliveries and Operational – Asia Pacific”. January 2010.

http://www.airbus.com/fileadmin/backstage/documents/od/January_2010.xls. Retrieved 9 February 2010.

<http://biz.thestar.com.my/news/story.asp?file=/2009/7/9/business/4284964&sec=business>

http://www.airbus.com/en/presscentre/pressreleases/pressreleases_items/09_06_16_a350xwb_airasiacx.html

<http://www.tiags.com.vn:8080/?idx=newsdetail&mod=news&act=detail&id=92&type=2>

Leong Hung Yee (27 December 2006). “ AirAsia embarks on 2nd chapter”.

The Star. <http://biz.thestar.com.my/news/story.asp?file=/2006/12/27/business/16419327&sec=business>

<https://assignbuster.com/air-asia-marketing-analysis/>

AirAsia sponsors the Formula One team Williams

AirAsia unleashes its X-factor