

Influences on air asia and its evolutio

Environment, Air



Air Asia, the market leader of low cost carriers in Asia, shown on the good record of bringing about innovative idea into the industry. The industry itself, especially in the Asian region, is observing a higher growth rate of passenger and profitability. The report examines the organization's key business structure and operation, products and provides summary analysis of its key revenue lines and strategy. The analysis looks at the impact of external and internal factors on the organization, and evaluate it responses. Essentially SWOT and PESTLE analysis provide a simple framework through which strategic options can be identified in which Air Asia operate. The SWOT process will start by examining the strengths of the Air Asia of today. One of the most dominant strengths possessed by Air Asia is the adding of new Airbus A320 aircraft to its fleet. Airbus A320 gives Air Asia the largest, youngest and most modern fleet in the region. Another strength of Air Asia is the upgrading of the online booking system, in which will offer the ability to passenger to check in online and printing out boarding passes. An opportunity available to Air Asia is fastest growing market in China and India. Both countries give a huge opportunity for Air Asia to expand its business in the region. In the threat part of the analysis is concerned with identifying parts of the Air Asia that might affect its business performance. In recent years a whole class of low cost carriers such as Singapore's Tiger Airways and other airline carrier coming into the market. PESTLE analysis is to conduct an environment analysis in the context of Air Asia international business operations, describing the major variables involved and the impact of the specific threats and opportunities confronted by Air Asia.

The second part of the report is trying to analyze the policies and decision making will be influenced by those human capital and information technology involved. Air Asia has locked a partnership with CAE for mutual benefit where CAE will provide pilot training for all of Air Asia current and future pilot in the region. Air Asia also has locked a partnership with its IT vendor which can constantly improve the system and offer a wide range of distribution channels to make booking and traveling easier for its guests.

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Air Asia has built the Air Asia Academy to develop high quality manpower in ensuring seamless business growth. It operating results underscore two major highlights. The first is how effectively the employee worked to meet customer needs and the second is how well the team manages the robust capacity growth. A number of positions are normally improved to increase its competitive advantages and proficiency, which enables Air Asia to achieve and maintain the business growth. The area of improvement included service, strategic alliance and product improvement.

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INTRODUCTION

Air Asia is most popular and profitability organization since Air Asia introduced its low fare, no frills concept in December 2001. Dato' Tony Fernandes, who introduced the first budget no frills airline, Air Asia, to Malaysian with tagline " Now everyone can fly", Air Asia's philosophy of low fares is aimed to make flying affordable for everyone (AirAsia. com 2008). It

is also aims at making travel easy, convenient and fun for its guests. The airline now flies to over 48 destinations in Malaysia, Vietnam, Myanmar, Cambodia, Thailand, Indonesia, Macau, China and Philippines (AirAsia. com 2008). Air Asia formed two successful joint ventures in Thailand through Thai Air Asia, and Indonesia through Indonesia Air Asia in 2004. Where Air Asia holds 49% stake in both companies. Now, Air Asia expanded its fleet from the original two to twenty eight, and revolutionized air travel in this country by offering incredibly low airfares through its innovative sales channel (AirAsia. com 2008). To date the Air Asia group, has carried over million passengers per year.

In the history of Air Asia, we can identified how diligent and smart of Dato' Tony Fernandes to operate to be ultimately constructed by external and internal factors on strategic planning to ensuring alignment during implementation of organization success. We all know Air Asia, the heavily indebted subsidiary of the Malaysia government owned conglomerate, DRB-Hicom, was losing money big time. Instead of starting from scratch, Prime Minister Tun Dr. Mahathir Mohamad advised Fernandes to buy an existing airline instead (Wikipedia 2008). Fernandes mortgaged his own house and sank his savings to acquire the company, comprising two ageing Boeing 737-300 jets. Air Asia was acquired at RM 1. 00 with liability of over RM 40 million worth of debts, and transformed it into an industry player (Wikipedia 2008).

For what happened on this date in history, coming just after the September 2001, undoubtedly the worst day in the history of commercial aviation when

nobody wanted to fly, everyone scoffed at his idea, predicting that the company would fail miserably.

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Yet, just one year after his takeover, Air Asia had broken even and the debt was paid off. For the year to June 2002, a RM 30 million net profit was recorded on revenue of RM 310 million (Wikipedia 2008). Why it happened? What is well made decision to enables Air Asia to achieve and sustain a competitive advantage?

The world has changed. Organization has had, and is having significant effects on the way how to make better decisions in organization. Policies and decision making are inherently concerned with the future. Because of this the organization is often concerned with assessing in the future as an input to developing organization strategic plans. This is particularly true in the area of environmental analysis in organization planning. The development of strategies inevitably involves choice between alternatives strategies and hence the need for analysis and decision making.

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A. Task 1

INTERNAL INFLUENCES ON AIR ASIA

2. 1 Organization Vision and Mission

Organization vision commonly provides a clear indication of the overall purpose of the organization. It will describe the main activities of the organization and the position or standing that it wishes to achieve in the

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future. Organization vision of the Air Asia is to continue to be the lower cost short haul airline in every market its serve, delivering strong organic growth through offering the lowest airfares at a profit (AirAsia. com 2008). It is important that the vision stretches the organization but it must be realistic.

2. 2 Organizational Structure

The structure of an organization refers to the patterns of relationships among positions in the organization and between individual members of the organization. Its will help to define the tasks that people do, the allocation of the responsibility and authority, the roles that people play and the relationships between them. The organization structure and principal operating of Air Asia include three executive vice presidents, for operations, commercials and people, serve under the CEO and the deputy CEO. The senior manager of the network operations, who contributed most of the information in this article, reports to the executive vice president of operations (Idris, 2007). In general, the organization structure of Air Asia also included flight crews, which people responsible for the operation of the aircraft, such as pilot and flight attendants. Ground crew, people will responsible for operations at airports. They are include gate agents, ticket agents, flight dispatchers, baggage handlers, electric system technicians, passengers' service agents and airframe and power plant technicians.

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2. 3 Organization Policy

The main organization policy of Air Asia is its will provide reliable airlines services to its customers through its various divisions, according to the

requirement of customers and in compliance with statutory regulations and industry norms. Therefore, it's emphasized in leanest cost structure; maximize shareholders' value; safety; passion for guests' satisfaction; transparency and human capital development (AirAsia. com 2008). The various divisions will formulate quality objectives for achievement of his policy and strive to continually improve the quality of service by periodically upgrading the knowledge and skills of its personnel.

2. 4 Business Strengths

One of the best known frameworks done by Air Asia is offering the low airfares in the region. This concept is main focus to lower cost perpetually. As business environments become more competitive and in some cases more volatile, business organization have become more concerned about the " price". No matter how clearly history we know, there will be time again when we have to engage in a price war. Therefore, if the airlines get the passenger to their destination on time at low airfares, people will fly the airlines. That was why Air Asia introduced the first budget no frills airline, to Malaysians with the tagline " Now everyone can fly" (Wikipedia 2008). And that is why it is main focus to lower cost perpetually, so that it can evade and fend off any sort of irrational competition.

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2. 5 SWOT Analysis

SWOT analysis can play a valuable part in any strategic planning, it provide a simple framework and common language through which strategic options can be identified.

Strength

Pioneer in no frills airline services in South East Asia.

Cheap rate of flight.

Convenience of passenger to purchase air ticket online.

Recently purchased Airbus A320s making it largest customer of the type.

World class airport facilitate travel. E. g. Kuala Lumpur International Airport

Weaknesses

Reliance so much on computer for booking and for the storing of information could be risky due to failures and viruses.

Marketing primarily focused on ASEAN market.

Underdeveloped distribution system.

Ineffective use of horizontal distribution alliances.

High fuel prices.

Opportunities

Able to penetrate many ASEAN market and Western market.

Airbus A320s enable Air Asia to carry more passengers.

The coming Beijing Olympic game 2008

Proximity to large and growing Asian markets, such as India and China.

International campaign launch to promoting Malaysia. For example Visit Malaysia 2007.

Threats

Competition from Singapore's Tiger Airways and other airlines carrier in South East Asia.

Changing patterns of buying behavior.

Deteriorating of Air Asia service base on many complaints.

Terrorism threat.

Legislation could impact.

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The strong market share in South East Asia is one of the strategic advantages as it will be the springboard for Air Asia future expansion, growth and profitability. One of the most dominant strengths possessed by Air Asia is its ability to follow the changes in a market that is continually changing. For example, Air Asia seeks to purchase new Airbus A320 aircraft to its fleet. As the number of Airbus A320 aircraft increases, it will be able to cater the largest customer and providing bigger seating capacity, wider aisles, greater comfort and a quieter ride. An opportunity available to Air Asia is fastest growing market in China and India, and the coming Beijing Olympic game 2008. By having a large market it gives a huge opportunity for Air Asia to expand. However, even with the best strategies in place threats can occur from unexpected directions. For example, 9/11/2001 attack on the World

Trade Center. Many people are still reluctant to fly and market swings away from airplanes. Another threat to Air Asia is new competitor emergence in the airline market, such as Singapore's Tiger Airways and other airlines carrier in South East Asia. This might affect the business outcome of Air Asia. Therefore, how the business is performing and copes with the issues is important to the organization move forward.

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EXTERNAL INFLUENCES ON AIR ASIA

3. 1 PESTLE Analysis

3. 1. 1 Political

PESTLE analysis assumes that the success of an organization is dependent on the way in which the organization manages its interaction with its external environment (University of Sunderland, 2005). The environment presents the organization with series of challenges, risks and opportunities. Such a business would clearly be affected by changes in the political environment. One of the most obvious aspects is some governments attempt to control the industry sector and may impose conditions to protect the local industry for barriers to new entrants. Therefore, in order to ensure smooth growing, Air Asia must analysis and aware the local political stability and governmental function.

3. 1. 2 Economic

Economic trends such as changes in net disposable income levels could also influence the business performance. If disposable income declines the clearly the effective demand is likely to go down. Since the economic crisis in ASEAN

on 1997, an individual cannot afford to pay a higher rate had ever traveled in a plane. However, Fernandes believe Malaysian travelers would embrace a low rate air service that will save them time and money, especially in a tight economy. That was why he copied one of the worlds most successful no frills carrier's concepts, Ryan air out of Ireland (Wikipedia 2008). Finally his has to be recognized that one of these strategies will be success in the business as a whole.

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3. 1. 3 Socio-Cultural

Socio-Cultural changes are often long term in the impact but should be monitored all the same. Shift in values may for example affect general attitudes towards traveled in a plane, and changes in business environment with which people can find the best choose of employment in other countries. Attitude changes and demographic changes will change the market as well. Therefore, low airfares promote by Air Asia will delivering strong growth in airline market share.

3. 1. 4 Technological

Technological change may affect the business outcomes in many ways. Simple issues such as the development of internet online booking system launch by Air Asia in recent year. This made Air Asia offer the ability to check in online and print out boarding passes online (Wikipedia 2008). There may influence the size of the potential market and the number of people able to travel to other countries. Increasing access to the internet may change the way in which the customers can booking the air ticket immediately, neither

to wait long queue in the counter. Potential customers may also have changed expectations as a result of experiencing new technology. As a result, improved channel distribution has meant that, increasingly, customers are exposed to, and aware of the products in other parts of the world.

3. 1. 5 Legal

The legal framework of a country influences organization strategy through its laws regarding such areas as industry regulation, employment conditions and so forth. However, in today business world, Air Asia needs to take into the consideration in an environment of complex law and regulation. Similarly any general legislation that affected taxation or employment would affect the business outcomes and could affect profitability. Moreover, government bailouts for competitors may lead to unfair competition.

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3. 1. 6 Environment

Changes in the physical environment, roughly viewed as comprising the natural and man- made environment, affect our daily lives and the functioning of the organizations. In western countries, pollution has become an important political issue and legislators are elected as member of green parties (Media 2008). Indeed, in many countries, the strength of the environmental movement has led to strong legislation affecting organizational production system and products (Media 2008). Air Asia needs to consider the environmental impacts of its strategies and take into account a broader range of interest group. For Example, reduce fuel consumption and

energy. In addition, high utilization of resources is enforced to minimize wastages (AirAsia. com 2008).

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B. Task 2

KNOWLEDGE MANAGEMENT AND THE LEARNING ORGANIZATION

4. 1 Training and Development

Training and development will concerned with the provision of learning, development and training opportunities which ensure that the employee has the skilled, motivated and committed it needs now and in the future. Air Asia stresses the training and development of the staff to keep abreast with changes. The normal one week on the job training is given to new employees. Training is ongoing for three months within the period of probation. Employee skills and knowledge will be upgraded with ongoing course using Air Asia's academy (Idris, 2007). It ensures that the employee has the skilled to handle multiple jobs in the organization. For example, the cabin crews are not only serving passengers on board but do multiple tasks such as ensuring passengers' safety, helping passengers, and ensuring cleanliness of aircraft interior. The training will help the employee to facilitate change in the external and internal environments, in which they are trained to learn new skills and develop new abilities, to respond to these changes in the organization.

4. 1. 1 Decision Making – Developing Human Capital

Air Asia will partners with Canadian Aviation Electronic to build an aviation training centre of excellence and selected Kuala Lumpur as the location for its Southeast Asian training hub. Air Asia has locked a partnership with CAE for mutual benefits where CAE will provide pilot training for all of Air Asia current and future pilot in the region (Mywire. com 2008). These will demonstration of excellence in improving the training quality and human capital development within Air Asia. Partners with CAE will help the organization to develop high quality manpower in ensuring seamless business growth.

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4. 2 Human Resource Management

In order to remain high quality manpower in ensure seamless business growth. Air Asia needs to revamp and rethink conventional recruitment strategies to achieve and sustain a competitive advantage. Attracting the right people has never been harder. Indeed recruiting and retaining talent is organization's biggest challenge. Its all well and good operating in a dynamic economic climate but with high attrition rates, inevitable in such competitive times, many are struggling to find the right people to keep up, let alone get ahead. People management is a strategic priority for Air Asia, especially at a time when the organization is rapidly evolving and expanding horizons. Air Asia needs to have the right people for the role, and then to build those into a strength and knowledge, in which to lead the organization becomes a major market player.

4. 2. 1 Decision Making – Recruitment

Air Asia believes that investing in people ultimately brings the greatest return. It continued to recruit the overwhelming majority of its talent internally. With over 5, 000 employees across eleven countries, Air Asia is blessed with a multi-pool talent and dedicated to hiring and maintaining a workforce of well trained, reliable and safety focused employees at all level of the organization (AirAsia. com 2008). In addition to corporate programs for existing employees, an active recruitment program is in place to attract and retain qualified individuals from all trades and professions. The primary goal is to increase the number of young potentials in the organization and to develop the Air Asia employer brand (AirAsia. com 2008).

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4. 3 Information System

The information system has had a greater impact to display the products that can be seen worldwide especially useful for linking Air Asia with customers or business partners. It provides a worldwide distribution channel for information and ability to link market demand to production planning, and helps the management to communicate quickly with those at lower level. Air Asia have become the first in the world to introduce SMS booking where customers could book their seats, checked flight schedules, and obtain the latest promotional announcements through their mobile phones (Idris, 2007).

4. 3. 1 Decision Making – Technology

Air Asia keeps introducing innovative ways for online booking and ticket sales. It has locked a partnership with its IT vendors for mutual benefits where Air Asia can constantly improve the system while IT vendor learns to create innovative products according to customer requirements. It offers a wide and innovative range of distribution channels to make booking and traveling easier for its guests.

4. 4 Management Policies

Policies are fundamentally statements of an organization's intentions relative to their strategic aims. Air Asia mission is to continue to be the lowest cost short-haul airline in every market its serve, delivering strong organic growth through offering the lowest airfares at a profit (AirAsia. com 2008). In order to strive to achievement of the mission and values, the following core value have been a guide for their action, extracted from (AirAsia. com 2008):

i) Leanest Cost Structure

- Efficient and simple point to point operations
- Attracting and retaining hardworking and smart people
- Passion for continuous cost reduction

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ii) Maximize Shareholders' Value

- Resilient profit growth through our lower cost base

- Expansion of the Air Asia network in a prudent and disciplined manner
- Invest and enhance the Air Asia brand to increase investors' returns

iii) Safety

- Comply with the highest International Aviation Safety Standards and practices
- Keep operations simple and transparent
- Ensure the security of our People and Guests

iv) Passion for Guests' Satisfaction

- Maintain simplicity in every application
- Practice the unique and friendly Air Asia experience at every opportunity
- Recognize the linkage between guests' satisfaction and long-term success

v) Transparency

- Transparency in decision-making and information sharing
- Optimum disclosure - higher than industry norms
- Timeliness in disclosing information

vi) Human Capital Development

- Invest in both hard and soft skills

- Recognize all our People as contributors to our success
- Reward excellence and individual contributions
- Maintaining one brand across the Group

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4. 5 Effectiveness of Chosen Strategy

According to Air Asia Annual Report (2007), Air Asia today has indeed highlighted by robust growth, record profits, industry leading performance and award winning standards. It humble beginning took flight six years ago, and after 24 consecutive profitable quarters later, Air Asia are now the highest profit margin airline in the world. This can be seen in Figure 4. 1. In recent times, the sales of Air Asia excess of RM 1. 6 billion, a presence in eleven countries and more than 5, 000 employees. Earnings continued to improve thanks to robust passenger growth and improved margins in all business areas.

Figure 4. 1: The Most Profitable Airline in the World Air Asia

Source: Air Asia Financial Report 2007

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As shown in Figure 4. 2, Air Asia recorded revenue of RM 633 million for the quarter ended 31 December 2007. These indicate that 43% higher than the revenue of RM 443 million recoded in the quarter ended 31 December 2006.

Its net income improved by 73% to RM 246 million as compared to the net income of RM 142 million achieved in the previous quarter.

Figure 4. 2: The Superior Growth with Expanding Profits

Source: Air Asia Financial Report 2007

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In the past five year, Air Asia has maintained unwavering focus and discipline in the low cost model. In the process, it have invested significantly to build a solid foundation and to create a platform for sustainable growth. Air Asia has built the Air Asia Academy to develop high quality manpower in ensuring seamless business growth (AirAsia. com 2008). It operating results over the past year underscore two major highlights. The first is how effectively the employee worked to meet customer needs during the highest demand for air travel it has ever experienced. The second highlight was how well the team managed the robust capacity growth. Air Asia corporate strategy and strategic investments have yielded positive results. In year 2007, it unit cost is the lowest reported in the world and it profit margins are among the best (AirAsia. com 2008). Just imagine what Air Asia can achieve in the future.

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4. 6 Area of Improvement

Policies and strategies effectiveness is a source of competitive advantage for Air Asia turn into their strength across a range of different product markets.

A number of positions are normally can be improved to increase its

competitive advantages and proficiency, in which enables Air Asia to achieve and maintain the business growth.

4. 6. 1 Service

Organizations depend on their customers and therefore should understand current and future customer needs, should meet customer requirements and strive to exceed customer expectations. How customer expectations are the standard against which service is judge.

That's the mission. Therefore should understanding customer needs and expectations. In recent years, one of the most obvious aspects of Air Asia done is upgrade their online booking system and payment system to improve efficiency. This will enhance customer satisfaction, and achieve continual improvement of its performance in pursuit of organization objectives. But unfortunately, baggage does not always arrive at its intended destination. Or, if it does, it might turn up damaged or with something missing still always happened. So, how to trace the missing baggage in short period and minimize a similar case happened again. It can help Air Asia to improving the quality of products and services provided to the customer.

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4. 6. 2 Strategic Alliance

Air Asia introduced a first direct B2B engine to its agents in Asia, through one of its strategic partners, Citibank. The agents make immediate payment via a virtual Air Asia credit card through the internet based real inventory booking engine (AirAsia. com 2008). The question is why; it's formed up the

strategic alliance between the parties? The popularity is business growth and get in on opportunities.

The strategies adopted in a specific market. A gap emerges between what organization goals would like to achieve and what it can do with available resources and capabilities when comparing the threats and opportunities in the environment with an organization's strengths and weaknesses. The gap can be bridged by the alliance. For example, in order to compete on a global scale and at the same time maintain its independence, Air Asia must make alliances in partnership together with others countries to use facilities, produce components and distribution channels to meet a critical business need.

In year 2004, Air Asia formed two joint ventures in Thailand through Thai Air Asia, and Indonesia through Indonesia Air Asia (AirAsia. com 2008). Why?

Because Air Asia able to extend its marketing reach and build credibility with a particular target market. It's also giving the opportunities to access needed information and greater resources including specialized staff and technology, increase sales in an existing market and enhance technological capabilities through research and development underwritten by more than one party.

Another approach is once business is established it has provided the Air Asia with the opportunity to gain new capacity and expertise.

4. 6. 3 Product Improvement

Product improvement is the result of consistent, deliberate effort to move the developing organization to a higher level of capability. Product improvement entails developing and launching new products for sale in existing markets (Condensed GSAM Handbook, 2003). It also requires a planned and guided path to excellence, reaching various levels of improvement as intermediate goals along the way such as products with additional features, different packaging, different quality levels etc.

For example, Air Asia Go Holiday and Air Asia Tune Hotels which offer travelers a comprehensive package. Many budget travelers prefer to book their airline tickets and hotels together and Air Asia will offer its customers the facility of making room reservations online as they book their flights. In other words, the product will be improved as a natural consequence. So, eventually have hotels in all Air Asia destinations are part of the areas for improvement. This means understanding and responding to customer needs is the key to success in the increasingly competitive advantages. Making our customers happy is important because it translates to an ongoing relationship, whether travel is business or pleasure, which in turn is loyalty.

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5. 0 Conclusion

Since Air Asia entry the market, it is rapidly becoming the most popular airline and profitability organization. Why? Because it focuses the strategic analysis on ways of promoting and developing the product ranges. But no business can consider always sustain a competitive advantage without

carefully analyze the primary internal and external influences to which the business environment is subject. However, Air Asia will need to understand what is currently happening in the operating environment. What strategies are being adopted by competitors? Are new entrants coming into the sector? How are the markets moving? Therefore, PESTLE and SWOT analysis have been the most usefully tools for looking consideration of the business environment. Likewise Air Asia will need forecasts of what is expected to happen in the future and the business strengths that could be exploited. This will bring it's the competitive advantage to the business environment. Therefore how the business is performing and copes with the issues is important to its move forward.

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