

# Macro-environment analysis on airasia and its effect on marketing decision making...

[Business](#), [Decision Making](#)



## 1. 0 Introduction

### 1. 1 Company Background

Air Asia was established in 1993, and started off as one of the subsidiaries for government-owned company, DRB Hicom. In the late 2001, when then executive of Warner Music wanted to establish an airline in Malaysia, he went and met with Tun Dr. Mahathir Mohammed (the fourth prime minister of Malaysia). Tun Dr. Mahathir took the opportunity to offload debt-laden Air Asia to Tony Fernandez. Tony Fernandez via Tune Airways Sdn. Bhd bought over Air Asia with a token sum of RM1 and with a partial debt of 40 million. Then AirAsia had only two Boeing carriers. Then, it was carrying around 200,000 passengers in a year. In 2011 alone, it was carrying almost 18 million passengers.

AirAsia's slogan is "everybody can fly". It highlights the low-cost carrier strategy it employs. It seeks to keep costs low by offering a no-frills experience.

## 2. 0 Macro-Environment Analysis

### 2. 1 Demographic Factor.

AirAsia is situated in the geographic location with over 3 billion population. Which is almost half the world population, majority of them never flew before because of high travel costs. This is AirAsia's competitive advantage. Its strict adherence to its low-cost business model will enable it to tap into this market. Apart from that, the low-cost model has worked in the US and Europe despite the cyclical nature of economic growth.

The diagram above is from IATA which shows that the additional passenger between 2006 and 2011. Asia Pacific, which is home of AirAsia, shows the

highest increase with almost 250 million additional passengers. (AirAsia Annual Report 2007)

Source: Boeing. com

The market outlook from Boeing shows that Asia Pacific region seeks to the highest increase in new airplane demand compared to other region. The demand for new airplanes from Asia pacific which is almost 50% of total demand in the coming twenty years underscores the increase level of growth in the Asia pacific market. This is true testament to AirAsia's potential in the Asia pacific market. This is reflected in AirAsia's aggressive approach in expanding. One of their main strategies in expanding their market is through joint venture in Thailand, Indonesia, Philippines, Japan and possibly India. 2.

## 2 Economic Factor

Economic factors in decision making are undeniable. Kotler thinks that "economic environment effect consumer-buying power and spending patterns." Total buying power depends on current income, prices, savings and credit. The consumer-buying power also will influence the changing of consumer spending patterns. Different areas will have the different affects influenced by the economic factors. The strong and sustained growth in the entire region consisting of South Asia, South East Asia and East Asia compared to the rest of the world especially traditional markets such as North America and Europe puts AirAsia as a AirAsia exist on the need to allow people who otherwise could not fly with traditional carriers to be able to fly. Hence, it targeted the larger lower, middle and upper middle class segment.

In its early stages, it created promotional campaign that revolved around giving away 1million free tickets, and sales promotional campaign involving rock bottom sales. Malaysians was immediately attracted to it. Hundreds of thousands if not millions of Malaysians, who otherwise would not able to travel overseas, begin to travel overseas.

The strict adherence to the low cost model assisted AirAsia to acquire more market share of the aviation industry during the Global Financial Crisis. The global financial crisis is the greatest economic challenge thus far from AirAsia. It resulted the first ever net loss for AirASia Bhd ever since it went public. (AsiaInc Forum, 2009) 2. 3 Natural Factor

#### 2. 3. 1 Oil

Increasing level of fuel price has presented one of the biggest challenges to Airlines. AirAsia is quick to adapt to this by introducing cost cutting measures in other section and also purchase newer aircrafts which are more fuel efficient.

It is currently in the midst of replacing its fleet of Boeing 737-300 to Airbus 320. In fact, AirAsia is currently Airbus biggest client. The new Airbus use 15% less oil then its Boeing predecessor at AirAsia. (AirAsia Financial Report 2011; 2012)

Fuel price will likely to remain to be a huge component of airline cost structure. Hence, in order to compete, AirAsia have to employ cost savings in other areas and enhance revenue from ancillary sources.

Source: (OPEC, 2013)

## 2. 4 Technology

Technology remains the most dominant force that affect the strategy decision making at AirAsia especially in regards to marketing. As a low cost carrier, AirAsia have aggressively and taken huge risk in leveraging on technology advancement in terms of marketing and building a brand. It announces sales for instance mainly through its internet platform. AirAsia was the first airline in the world to have a mobile version of its website. It went ticketless and introduce web booking service, the year after it was taken over by Tony Fernandez. It was a bold move, since they were a new fledgling airline.

### 2. 4. 1 Internet

AirAsia effectively made use of the internet platform in marketing and helping them reduce cost. For instance in 2004, AirAsia recorded almost half of their sale using their internet website.

Apart from that, it was the first to introduce a mobile version of their website which allowed access to mobile phone.

### 2. 4. 2 Social Media

The brand is strengthened when it is underpinned by real life individuals and not a ' monolithic corporate presence'. As CEOs and business leaders, we must use social media ourselves and put ourselves in the front-line of customer engagement. - Azran Osman Rani

Social Media is a recent phenomenon. It allowed more people to be engaged with the world and revolutionized how we communicate. It also an effective platform to truly engage with consumers and create awareness. AirAsia

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Group CEO and AirAsia X executive used social media to their full advantage. They engage with the general public and are responsive. The above quote by AirAsia X CEO, Azran Osman Rani embodies the importance in removing communication barrier between their staff and the broader consumer market and them. Apart them, they try to connect and engage with consumers by talking about sports and other social issues.

One of the channels AirAsia used as part of its social media strategy is Facebook. It been using Facebook since 2006<sup>9</sup>, and it has a several corporate page. It has localized pages for countries like Indonesia, Hong Kong and UK, apart from the general AirAsia Facebook page. Apart from that, it also maintains a presence in Taiwan's Plurk and China's Sina.

Diagram above shows how social media help airlines attain customer centric data. Source: Simplifying. com , 2013

Major sales campaigns are often announced in these pages. And as mentioned above, AirASia effectively used this platform not only to promote and create awareness but to engage effectively with their customer base. They use it as a tool for market research and to gauge respond. Apart from that their CEOs have facebook and twitter presence and effectively use it to solve ground problems and to engage with consumers. For instance, Tony Fernandez, Group CEO recently announce their five business strategy which encompass at least another 2. 4. 2 e-ticket System

AirAsia mainly avenue in ticket booking currently is through its website. It has a centralize booking website at [www. airasia. com](http://www.airasia.com). These allow them to

cross promote routes and promote greater synergy between their subsidiaries. The website was launched in 2002. It also the first airline to go ticketless. In 2004, online sales accounted for 43% but in 2009, online sales were at 76%. In 2006, the website had 1.1 million viewers from 180 different countries and recorded a ticket purchase every 4.5 seconds. It was also the first airline in the world to introduce a mobile website. Which was mobile. airasia.com. It was a pioneering concept which allowed people to book tickets on the go. Few years prior to that, at the early stages AirAsia introduced world's first SMS booking system. It also was initiated collaboration with POS Malaysia in its earlier days to enable consumers to remit ticket money via Pos Malaysia. (AirAsia Annual Financial Report, 2006)

The entire digitalization of sales, which lead to the traditional need to go to the travel agent to book tickets, was removed.

## 2.5 Political /Legal forces.

In South East Asia, political and legal forces play a bigger role. It started in the early stages of AirAsia whereby the anti-competitive legacy airline policy of the Malaysian

2.5.1 Malaysia  
Malaysia's political and legal forces played a huge role in shaping AirAsia. It started with Tony Fernandez being made to acquire AirAsia by Malaysia's then Prime Minister Tun Dr. Mahathir. Apart from that, AirAsia was at a disadvantage position as it has to compete with Malaysian Airline which had preferential treatment by Malaysian government. It took intense public lobbying from AirAsia in getting the government to relax their anti-competitive legacy airline policy that was not commercially viable. The most

recent is Malaysian government's decision to reverse the share swap between its state owned Malaysian Airlines and AirAsia due to political pressure.

However due to this, AirAsia learned to adapt and the emphasize in building relationship with the powers to be.

Apart from that, it works closely and builds strong rapport with Tourism Malaysia. They actively support Tourism Malaysia campaign. AirASia also participated in the recent lab session with the Prime Minister Office's PEMANDU department in drafting out the Economic Transformation Programme which saw them advocating for even more route liberalization. It also actively sponsors Malaysian organizations on the basics of charity and Corporate Social Responsibility.

#### 2. 5. 2 Thailand

Its joint venture in Thailand was a rather smooth sailing. This is in regards it had a rather influential joint venture partner at that time. It Shin Corporation corporation owned by the former influential Thailand Prime Minister.

Although, the Thaksin was later ousted through a military coup and continue to remain in exile. During the civil unrest in Thailand, AirAsia gained a lot of positive coverage when it launched a rescue mission for passengers stranded at the Suvarnabhumi Airport. It also actively launched a regional level campaign to promote tourism in Thailand post - tsunami that adversely affected tourism in Thailand. Thailand's image as a one of the rather liberal country and, country which promises exotic location and experience to



tourist presents an important growth factor to AirAsia. (AirAsia Financial Report 2008)

From October 2012 onwards , AirAsia in a bid to save cost by avoiding high airport taxes shifted from Suvarnabhumi Airport back to Don Mueang International Airport. (AirAsia Financial Report 2012)

### 2. 5. 3 Indonesia

AirAsia Berhad has a 49% share in the airline with Fersindo Nusaperkasa owning 51%. Indonesia's laws disallow majority foreign ownership on domestic civil aviation operations. AirAsia first made its presence in Indonesia by acquiring 49% of Awair with remaining 51% by Fersindon Nesaperkasa. Indonesia laws disallow majority foreign ownership on domestic civil aviation operations. It is a rather common policy frame. In 1st December 2005, Awair changed its name to Indonesia AirAsia as part of a regional level rebranding exercise. This is to enable greater brand exposure and synergy between the various airline subsidiaries of AirASia in the world. In 2012, AirAsia Bhd announced that it will buy-out Indonesia's Batavia Air. Although Indonesia prevents foreign majority stake, it could circumvent the law through joint acquisition with Indonesia AirAsia. However the deal fell apart.

Currently AirAsia is employing a less risky organic growth strategy though Indonesia AirAsia and the presence of the AirASia Group nerve centre AirAsia Asean. (Spreading its wings , 2012) 2. 5. 4 India

The recent hike in airport tax has let AirAsia to suspend flights to certain location such as Delhi, Mumbai.

Apart from that, Indian government recent approval in allowing foreign based airline to acquire up to 49% in an Indian airline has allowed AirAsia to consider expansion by setting up an Indian subsidiary. However as the CEO puts it, they are opting for a wait and see approach and allow time to kill off airlines that are competing very fiercely in India before making a move.

Economist recently reported that AirAsia is in talks with a new joint venture partner in India to set-up India AirAsia. Like Indonesia, India does not allow majority ownership in domestic Airlines. India presents a market of 200-300 middle class families. Nevertheless, AirAsia Bhd enjoys leverage through its scale and also strong presence in ASEAN which gives it an edge in order to compete with India's domestic carriers. (spreading it wings , 2012) 2. 5. 5

#### ASEAN

ASEAN is an economic and geopolitical organization. It consists of ten countries in the South East Asia region. It has a population of 600 million people and a combined GDP of USD 1. 8 trillion. Currently, AirAsia flies to 85 destinations in the world, 55 of them are located in ASEAN. With free visa among ASEAN countries, a huge intra-ASEAN travel occurred and on the right track to establish an ASEAN Community in the years to come. In 2010, 47 percent or 34 million from 73 million tourists were intra-ASEAN travel With the open sky policy of ASEAN kicking in 2015, there be less regional barriers for airlines within the ASEAN region. The scope of the Open Sky policy will remove ownership controls, removing route capacity controls, relaxing

restrictions on gateway, allowing wet lease aircraft within ASEAN and permit multiple designations. (AusAid , 2004) Hence, as part of the marketing strategy, AirAsia have shifted its group headquarters to Jakarta instead. It will also serve as a nerve centre of ASEAN and to further capitalize on the growth potential of Indonesia. Apart from that, such presence will create greater credibility and underscore the importance of Indonesia to AirAsia and leverage on its role as headquarters of ASEAN.

## 2. 5. 6 Europe

The implementation of carbon tax in the Europe for instance was “ nail in the coffin” that caused AirAsia X to suspend flights to London and Paris indefinitely. 2. 6 Cultural factors

### Sporting cultural

Countries in the ASEAN region including Malaysia are deeply passionate about sports especially football. Hence, in the early days of Air Asia, Air Asia made a pivotal decision to sponsor Manchester United. Manchester United is the largest club in the terms of followers and supports in the ASEAN region especially Malaysia. This helped AirAsia to penetrate the Chinese and Indo-China market (AirAsia Financial Report 2005)

### Nationalism

Countries in Asia have strong sense of nationalism. Foreign companies that expand into these markets have appeal to nationalism sense by pursuing localization and promote a localized image. AirASia have been actively promoting itself not just an ASEAN brand , but as a local brand. It has used

every crisis in the region to build a sense of ownership among consumers in its host country. (AirAsia Financial Report 2005) Conclusion

The macro-environment analysis indicates that AirAsia's business model and marketing strategy. They have so far managed to handle the macro-environment forces really well. These forces are evolving, hence constant analysis is required.

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