

# Turning around malaysia airlines

Countries



Due to fuel price hiking, inefficient management, global economic crisis, government intervention, and low load factor, MAS suffers a substantial loss which peaks during 2005. Afterward, Tan Sri Idris Jala was brought into MAS strategizing for a turnaround program to bring MAS back to profit. The main target for Business Turnaround 1 (BTP1) is a for-profit turnaround of 1.1 Billion improvements in 2006 Exhibit. MAS proposes a plan to tackle the financial aspect, as well as non-financial aspects such as operational, enriching stakeholders bonding, increasing customer value as well as for people. Several decision made includes selling off headquarters, increasing fares, cutting-off unprofitable routes (Exhibit 1. 9) and Mutual Separation Scheme to enhance its financial. Firefly and MasWings are launched to cater to domestic flights. BTP1 proved to be a success and subsequently, BTP2 follows. BTP2 focuses on detailed project and procedure to carry on the success of BTP

### **Introduction to Case Study**

This report will discuss and analyze the positioning of Malaysia Airlines. The key objectives are to identify the current market situation as well as analyzing the Business Turnaround Plan 1 and Business Turnaround Plan 2 and its success or failure as well as providing some recommendations for future sustainability.

### **Assessment on Business Turnaround Plan 1 (BTP1)**

#### **Financial Analysis**

During the implementation of BTP1 (2006 & 2007), the operating profit recorded high. Based on the computation of the MAS' ratio as shown in

Exhibit 1. 2, the BTP1 period shows a favorable ratio as compared to other years. Based on the efficiency ratio, there is a remarkable increase in the ratio in 2006. It measures how effectively the firm is managing its assets in generating sales, and it is due to an increase in operating profit. The gearing ratio as per Exhibit 1. 5 shows a slight dipped in 2006, however, recovers in 2007 due to the sale of the headquarters building. Exhibit 1. 7 favors greatly to MAS as the cash flows increase in 2006 and 2007 show near 4 million of cash flows due to issues of shares and selling off the building. Overall, financial analysis during the BTP1 period shows a favorable impact financially to MAS, however, does not improves continuously during the period in which BTP2 commences.

#### **SWOT Analysis (BTP1)**

**Strength** By initiating Mutual Separation Scheme, its emphasis on increasing staff efficiency, cutting down routes leads to a focus on services and network structures that were profitable. The intention to diversify with MasWings and Firefly promotes a larger scope for the market. **Weaknesses** The BTP1 initiative focuses on the financial aspect since they have to recover from massive losses previously. The extreme cost reduction might impact the service indirectly, or being too financial-focus, BTP1 merely recognized the non-financial aspect. The decision also largely attributed to gaining quick cash to solve the liquidity problems; ie; from the selling off the building. Whilst it can become their advantage, but by diversifying, because MAS itself in a shaky state, thus by diversifying, it lacks focus as well as imposing larger operating costs for MAS as a whole. Opportunity Connell (2006) comments that medical tourism has been a success in Asia especially and has prompted

global interest, with the increase in GDP worldwide including Malaysia, as well as emerging worldwide fascination with traveling, thus it can be taken as a tool for Malaysia Airlines to expand their customer. This BTP1 plan can become the turnaround aspect financially and non-financially. Threat Even AirAsia is seen as Mas biggest threat, however, seeing that how both of these airlines promote entirely different packages and offerings, Mas deemed these few obstacles as their main threat, which is the volatility of fuel price due to the Iraq invasion by the US, staff resistance of given plan and government intervention in setting up boundaries for the CEO to act accordingly to what they think fit.

### **BTP1 Turnaround Analysis**

BTP1 Turnaround Analysis will be done based on the core strategies in which BTP1 proposed (in which two important aspects are further elaborated). First is by financing and aligning the business on the Income Statement. As per the financial analysis above mentioned, MAS shows remarkable transformation during this phase. Based on Exhibit 1. 1 the actual performance supersedes the projected plan projected a year ahead of time. This is a success due to fares increment, elimination of unprofitable routes, and increase inefficiency. Another core strategy is flying to win customers and by observing and studying the non-financial aspect during the implementation of BTP1, they succeed in maintaining the customers' value. This resulted in MAS receiving 11 non-financial-awards during this phase including 5-Star Airline Award, 2006 and 2007 from Skytrax, Best Airline to Asia, 2006, Travel Weekly Globe Award, and numerous cabin service awards from Skytrax, Readers Digest, and so on. They also encourage mastering

operational excellence by increasing employees' value and efficiency, Unleashing Talents & Capabilities, and winning coalition. While it is based on value judgment and rather subjective, however, it is proven to be a success referring to relevant articles, audited financial statements and to some extent word of mouth by a former and existing employee. The efficiency increases as well and can be observed by some of the decisions made by Tan Sri Idris Jala which by reducing unprofitable routes, selling of the building in Jalan Raja Chulan, and drastic cost reduction scheme.

#### Assessment on Business Turnaround Plan 2 (BTP2)

As per the financial analysis, most analysis shows an unfavorable financial state during the implementation of BTP2. BTP2 is a more comprehensive, step to step planning in conjunction with the success of BTP1. Referring to Exhibit 1. 10, BTP2 strategizes on Breaking New Ground (BNG), Gaining New Business (GNB), and Making The Most (MTM). With the current state of Malaysia Airlines and from the analysis gathered financially and non-financially, BTP2 make a slight downturn from the success of its previous predecessor.

#### Bottlenecks & Recommendation

There are many bottlenecks that lead to a diminution of momentum for BTP2 including competition with AirAsia, stepping down of Tan Sri Idris Jala as CEO, the diversification effects, MAS internal culture, and strategies gone awry. In order to gain sustainability, the first is how to capture customers. MAS has been underperforming financially due to stagnant and average load factors which in turn affect RRPK & RASK; for example exhibit 1. 8. Thus, in order to

capture the market, MAS have to strategically plan for its marketing approach to attract broader customer and thus larger scale promotion need to be made. They also should assess the manpower requirement and sell unnecessary assets.

## Reference

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