

Social network



118 Part Two Understanding the Marketplace and Consumers VIDEO TOMS Shoes Case on how TOMS executes its strategy within the constantly changing marketing environment. After viewing the video featuring TOMS Shoes, answer the following questions about the marketing environment: What trends in the marketing environment have contributed to the success of TOMS Shoes? Did TOMS Shoes first scan the marketing environment in creating its strategy, or did it create its strategy and fit the strategy to the environment? Does this matter? . Is TOMS' strategy more about serving needy children or about creating value for customers? Explain. " Get involved: Changing a life begins with a single step. " This sounds like a mandate from a nonprofit volunteer organization. But in fact, this is the motto of a for-profit shoe company located in Santa Monica, California. In 2006, Tom Mycoskie founded TOMS Shoes because he wanted to do something different. He wanted to run a company that would make a profit while at the same time helping the needy of the world.

Specifically, for every pair of shoes that TOMS sells, it gives a pair of shoes to a needy child somewhere in the world. So far, the company has given away tens of thousands of pairs of shoes and is on track to give away hundreds of thousands. Can TOMS succeed and thrive based on this idealistic concept? That all depends COMPANY Case corporate culture, encouraging pilots to cook breakfast for engineers each quarter to thank them for looking after their aircraft. As CEO, Fernandes ensures that he is accessible to all his staff by giving them his mobile telephone number.

Air travel in Asia is heavily regulated, but. Fernandes has played a crucial role in lobbying for its deregulation. In mid-2003, Fernandes engaged the

support of the former prime minister of Malaysia, Tun Dr. Mahathir Mohamad, to network with neighboring countries in an effort to develop an open-skies agreement. Since then, Indonesia, India, Thailand, and Singapore have granted landing rights to AirAsia. Although it has limited resources, AirAsia has been able to fulfill its customers' needs by collaborating with partners.

For instance, it appoints authorized travel agents to cater to travelers who are uncomfortable with making their bookings over the Internet. Travelers without credit cards can also pay for their tickets by cash at any Alliance Bank branch in Malaysia. With the right partners and a strong marketing strategy focusing on the promise of low fares and good brand experience, AirAsia has evolved from an ailing company into one that netted a profit of \$14.4 million by its third year of operation. AirAsia: The Sky's the Limit

Low-cost carriers (LCCs) provide an alternative for price-sensitive business and leisure travelers to maintain their travel plans at lower costs. AirAsia, Asia's leading airline, was established with the dream of making air travel possible for everyone and it is now one of the world's best low-cost airlines. AirAsia was the first airline in Asia to introduce the budget, no-frills airline concept. It was founded in 2001 by CEO Tony Fernandes and his three partners when their company, Tune Asia Sdn Bhd, bought the fledgling AirAsia, a Malaysian government-linked airline.

Since then, the growth of this LCC has been the envy of many. It started with two old Boeing 737s serving the domestic market in Malaysia. Today it is a publicly listed company boasting a large fleet of aircrafts flying to over 61

domestic and international destinations. It flies 108 routes and operates over 400 flights daily from hubs located in Malaysia, Thailand, and Indonesia. AirAsia is widely known as the “ Ryanair” of the Far East as it focuses on providing convenient and affordable air travel for the mass middle-class market.

In 2001, the domestic market was dominated by the national carrier, Malaysia Airline System (MAS), whose high prices created a pent-up demand for low-cost air travel. AirAsia offered savings of up to 60 percent compared to MAS’ prices, and indeed, the company’s tagline, “ Now everyone can fly,” truly reflects the company’s promise to its customers. The airline launched during a turbulent period when people were hesitant to travel due to the aftermath of the 2001 terrorist attacks. People concerned about long-distance travel started to look for holidays in nearby countries.

The timing worked to the advantage of AirAsia when it started to fly regional routes. Asians were enjoying the benefits of rising incomes and good economic growth and although many could not afford long-distance holidays, they were open to the idea of traveling to nearby countries. In addition, increased media coverage on LCCs helped consumers understand the no-frills concept. The Internet also provided AirAsia with the opportunity to reach more customers through online booking. Fernandes is a strong believer in leading by example. He is often seen working alongside his team as a crew member or baggage handler.

This allows him to get to know his staff better and to listen to customers’ feedback. He insists on a cooperative

ENVIRONMENT The global financial crisis that started in mid-2008 affected many industries, including the aviation industry. Fewer business and leisure travelers were flying due to the economic recession. Corporations and government agencies issued orders, as part of an austerity drive, for less travel or, when absolutely necessary for their senior employees, for economy-class travel. This became an opportunity for LCCs such as AirAsia to grow their market share.

Indeed, the number of passengers choosing AirAsia grew by over 21 percent in the first quarter of 2009, and by 2010 the company was able to turn over a core operating profit margin of 23.2 percent. The cornerstone of AirAsia's success is its constant drive to lower costs. Indeed, AirAsia has the world's lowest unit costs of 2.3 US cents per ASK (Available Seat Kilometer). AirAsia makes profit by keeping costs low while maintaining a high rate of aircraft utilization, quick turnarounds, low distribution costs using online booking, and ancillary income such as its "Supersize" charge for excess baggage.

To keep costs down and ensure a quick aircraft turnaround of Chapter 3 25 minutes, its cabin crew is expected to multitask by serving customers and helping clean. Following AirAsia's success, many other LCCs, such as Indiabased Air Deccan, Philippines' Cebu Pacific, and Singaporebased Tiger Airways followed suit. According to the Center for Asia Pacific Aviation, LCCs in the Asia—Pacific region accounted for 15.7 percent of the total airline seats in 2009 compared to 1.1 percent in 2001. The growth of LCCs has been seen as a threat to full-service carriers.

Some of these carriers have decided that if they cannot beat the low-cost carriers, they will join them. Singapore Airlines and Qantas launched their LCCs, Tiger and Jetstar Airways respectively, in a bid to maintain their market share. These LCCs, with the support of their resource-rich parent companies, were able to invest more and therefore sustain initial losses. The low-price strategy used by LCCs is strongly reflected in their campaigns. For AirAsia, its promotions, such as the recent “ Free Seats” campaign in June 2010, were a hit with travelers.

The promotion offers 1 million free seats to its major destinations with travelers only paying the airport tax. The key challenge facing LCCs in this region is the need to balance competitive low fares with profitability. Rising fuel prices and landing charges are putting pressure on AirAsia’s ability to keep costs low, therefore threatening this balance. To combat this, LCCs are employing fuel hedging and fuel surcharges, and are using fuel-efficient aircrafts. Using secondary airports also helps to reduce landing charges.

Many industry experts have suggested that LCCs should move away from using low fares as the point of differentiation in their campaigns. Perhaps the ban on advertisements that offer zerodollar seats without revealing full charges may force LCCs to finally take different, more creative approaches in their marketing communications. This was evident in AirAsia’s “ Have You Flown AirAsia Lately? ” campaign. The aim of this was to appeal to the emotions of consumers rather than simply using the low-price approach.

The campaign included television commercials and a series of music-themed vignettes featuring VJs from the popular STAR channel to position AirAsia as

a cool, fun brand. This move was seen as encouraging by industry experts. It is also heartening to see LCCs forming alliances to lower operating costs. AirAsia and JetStar have been working together since 2010 in areas such as procuring of aircrafts and inventories. The two airlines also plan to carry each other's passengers stranded by breakdowns and other disruptions. Analyzing the Marketing Environment 119

venue by carrying belly-hold cargo on its flights when the potential for outbound agricultural produce was raised in India. The airline has also set up a team that successfully attracts and manages corporate clients who want low-cost travel. Capitalizing on its success, AirAsia has started to introduce other'-offerings based on the low-cost business model. For example, AirAsia X, an associate company of AirAsia, was launched in 2007 to offer long-haul budget travel to destinations that are between four and eight hours from Kuala Lumpur. AirAsia X complements AirAsia's current route network.

One can fly AirAsia X from London to Kuala Lumpur and then fly AirAsia from Kuala, Lumpur to other Asian destinations. The low-cost business model seems to have worked well for AirAsia. The challenge remains for the company to continue to maintain the balance between cost and profitability using innovations that will attract its target market. Questions for Discussion

What are the micro and macro environmental factors that have contributed to the early success of AirAsia? Discuss the micro and macro factors that would affect AirAsia's performance in the current competitive environment described in the case?

By focusing on low prices, has AirAsia pursued the best strategy? Why or why not? Given AirAsia's current situation with bigger competitors following

its business model, what other recommendations would you make to CEO Tony Fernandes for the future of his company? Sources: [www. airasia. com](http://www.airasia.com) , accessed November 2010; “ Low Cost Takes Off,” South China Morning Post, March 27, 2002, accessed at Dow Jones Factiva, [www. factiva. com](http://www.factiva.com) ; Seelen Sakran, “ Asia Pacific’s Changing Skies,” Malaysian Business, July 16, 2002, accessed at Dow Jones Factiva, [www . factiva. om](http://www.factiva.com); Paul Temporal, *Asia’s Star Brands*, Singapore: John Wiley & Sons, 2006, pp. 17-29; Joshua Kurlantzick, “ More Low-Cost Asia Airlines—and More Risk? ” International Herald Tribune, December 28, 2007, accessed at Dow Jones Factiva, [www. factiva. com](http://www.factiva.com) ; John Moyle, “ Malaysian Low Cost Carrier Bucks the Global Economic Crisis,” Australian Associated Press Financial News Wire, November 9, 2008, accessed at Dow Jones Factiva, [www. factiva. com](http://www.factiva.com) ; “ AirAsia X: Low-Cost Carrier Connects Europe with Asia,” ENP Newswire, December 11, 2008, accessed at Dow Jones Factiva, [www. activa. com](http://www.factiva.com) ; John Burton, “ AirAsia Looks to Build Own Airports,” Financial Times, January 17, 2009, accessed at Dow Jones Factiva, [www. factiva. com](http://www.factiva.com) ; “ Budget Airline AirAsia Teams Up with DHL for Parcel Delivery,” Nikkei Business Daily, July 27, 2009, accessed at Dow Jones Factiva, [www. factiva. com](http://www.factiva.com) ; Geoffrey Thomas, “ AirAsia Spots Success,” Air Transport World, September 1, 2009, vol. 46, no. 9; Rayana Pandey, “ Come Fly with Me: Singapore’s Budget Airlines Battle,” Marketing, September 15, 2009, accessed at [www. marketinginteractive. om](http://www.marketinginteractive.com) ; “ AirAsia Strengthens Operations in India,” Cargo Talk, August 1, 2010, accessed at Dow Jones Factiva, [www. factiva. com](http://www.factiva.com) . “ Air Asia Offers Million Free Seats,” TradeArabia, May 17, 2010, accessed at Dow Jones Factiva, [www. factiva. com](http://www.factiva.com) ; “ Air Asia and Jetstar to Slash Costs by Pooling Resources,” Channel NewsAsia, January 6, 2010, accessed at Dow Jones Factiva, [www. factiva. com](http://www.factiva.com) .

com ; “ Asia’s Budget Airlines Fly High Despite Global Turbulence,” accessed at EarthTimes, [www. earthtimes. org](http://www.earthtimes.org) . FLYING TO GREATER HEIGHTS AirAsia has succeeded in becoming one of the world’s best lowcost airlines.

Apart from revolutionizing prices, it introduced new routes to never-served destinations in order to make flying more convenient for people. In October 2010, AirAsia flew its hundredmillionth passenger. This is by no means an easy feat for an airline that only began a decade ago. AirAsia knows it cannot rest on its laurels; it has to continue to grow through constant innovation to meet the needs of today’s consumers. Besides expanding its network to cover nine cities in India, the company was quick to seize the opportunity to increase its