



# *Feng Chia University* *Academic Paper by Students*

## **Analyzing Air Asia in Business Competition Era**

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## Abstract

In its dynamic and competitive environment, Air Asia has reaped great benefit by applying low cost advantage in its business model. By the combination of technology advancement in its selling and marketing strategy and also strong recognition of various languages used by its world customers, AirAsia has successfully developed its business into a widely known best performance company in Southeast Asia airlines industry.

**Keyword :** AirAsia, low cost carrier, web design, business model, strategy



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# Analyzing Air Asia in Business Competition Era

## A. Introduction

Doing businesses has become harder in today's competitive era. Businesses are not just facing higher pressure from increasing number of competitors, but they also have to compete in more dynamic and complex environment. The competition wave, that is mostly induced by the digitalization and finding of more advanced technology, has forced every single business to adapt the best business strategy.

The heavy competition is also happening in airlines industry. There are increasing number of new carriers with new business model which has changed the competition pattern in the airlines industry. O'Connell and Williams (2005) said that direct competition between full service airlines and no-frills carriers is intensifying across the world. The old business model of most airlines business focused on the full service, while the new business model focuses on using digital technology to make the business becomes more and more efficient, and thus, leading to cost advantage.

Facing the digitalization era, Air Asia has emerged as one of the best performance company in airlines industry. In a 2007 article, Thomas discussed how, during the external and internal crises, Air Asia owns 51% market share of Malaysian airlines industry. This paper tries to analyze Air Asia as the rising star of today's airlines industry. The analysis included the how Air Asia designs its web, and how it applies E-commerce issues on its business model.

## B. Air Asia Company

AirAsia Berhad which is also known as AirAsia, is an airline company which provides air transportation service. AirAsia was established in 1993 and started operations on 18 November 1996. AirAsia has a very long ownership history. At the very first, AirAsia was founded by a government-owned conglomerate, DRB-Hicom. Later on, it was purchased by Tony Fernandez, former Time Warner executive on 2 December 2001. The company's headquarter is in Sepang, Selangor, Malaysia. Its main base is the Low Cost Carrier Terminal (LCCT) at Kuala Lumpur International Airport. Their operations are carried out in Malaysia, with 3,474 employees. AirAsia is the leading low fare airline in the Asia and AirAsia is the pioneer of low cost flying in Asia.

AirAsia has been experiencing tremendous expansion since 2001 as the largest low cost carrier in Asia. It flies to over 61 domestic and international destinations with 108 routes, and operates over 400 flights daily and their subsidiary companies located in Thailand and Indonesia. In Thailand, AirAsia has hub in Suvarnabhumi Airport and in Indonesia at Soekarno-Hatta International Airport. AirAsia operates scheduled both in domestic and international flight and in Asia, AirAsia is the largest low fare and no frill airline.

AirAsia philosophy, 'Now Everyone Can Fly', is related to their vision, that they want to be the largest low cost airline in Asia and serving 3 billion people who are underserved with poor connectivity and high fares. Their mission is to be the best company to work for whereby employees are treated as part of a big family, to create a globally recognized ASEAN brand, to attain the lowest cost so that everyone can fly with AirAsia, to maintain the highest quality product, embracing technology to reduce cost and enhance service.

AirAsia focuses on several major issues. First, it is partnering with the world's most renowned maintenance providers and to comply with world airline operations to guarantee the passengers' safety. Second, implementing the regions fastest turnaround time at only 25 minutes, to assure lower costs and higher productivity. Third, low fare without compromising on quality and services. Fourth, streamline operations and lean distribution system. Fifth, applying the point-to-point network to keep operations simple and low costs.

Adapting those strategies in its business model, AirAsia have won many awards and recognitions. some lists of awards and recognition in 2008 and 2009. The recent awards are Airline of the Year by Centre Asia Pasific Aviation (CAPA), Best Asia Low-Cost Carrier by TTG Travel Awards 2009, and World's Best Low-cost Airline By Skytrax

In the competitive airline industry, AirAsia keep improving their supportive and constructive management by being supportive and responsive in listening to its employee for any ideas for reducing cost. And as their philosophy "Everyone Can Fly" AirAsia its weapon to corner its other competitor is effect in reducing cost boosted AirAsia to be one of the top in low cost air carrier competition. AirAsia is leading the way for developing low cost airlines and its promises to revolutionize the international market palce. And for now, many low cost airline companies in some country have adopted the strategies inovated by AirAsia succesfully

### C. AirAsia Financial Analysis

The Income Statement Report depicted financial condition of a company. Income Statement data from taken from the company's first quarter report ended March 31, 2009 showed that there was increasing profit compared to last year performance (2008).

**Figure 1**  
**The Unaudited Condensed Consolidated Income Statement of AirAsia**

	Note	INDIVIDUAL QUARTER		CUMULATIVE	
		CURRENT QUARTER ENDED	PRECEDING YEAR CORRESPONDING QUARTER	CURRENT YEAR ENDED	PRECEDING YEAR CORRESPONDING YEAR ENDED
		31/03/2009 RM'000	31/03/2008 RM'000	31/03/2009 RM'000	31/03/2008 RM'000
Revenue		714,178	535,156	714,178	535,156
Cost of Sales		(330,866)	(387,754)	(330,866)	(387,754)
Gross profit from operations		383,312	147,402	383,312	147,402
Other operating expenses		(28,933)	(23,593)	(28,933)	(23,593)
Other income		56,367	5,505	56,367	5,505
Profit from operations		410,746	129,314	410,746	129,314
Finance (costs) / Income (Net)	22	(188,466)	41,601	(188,466)	41,601
Depreciation and amortisation		(98,162)	(60,741)	(98,162)	(60,741)
Share of results of jointly controlled entity	18	-	-	-	-
Share of results of associate	18	-	-	-	-
<b>Profit before taxation</b>		<b>124,118</b>	<b>110,174</b>	<b>124,118</b>	<b>110,174</b>
Current taxation	23	(180)	(443)	(180)	(443)
Deferred taxation	23	79,212	51,546	79,212	51,546
<b>Profit after taxation</b>		<b>203,150</b>	<b>161,277</b>	<b>203,150</b>	<b>161,277</b>

Source: [http://www.airasia.com/storage/bo/aaportal.model.ContentFileUpload/864f116a-7f000010-14ef2390-d427551c/name/AA\\_1Q09\\_Bursa%20Announcement.pdf](http://www.airasia.com/storage/bo/aaportal.model.ContentFileUpload/864f116a-7f000010-14ef2390-d427551c/name/AA_1Q09_Bursa%20Announcement.pdf)

Counting the profit from operation, AirAsia gained 281,432,000 RM, an increase of 217.63% from 2008 data. After deducted with depreciation and all taxes, the

company experienced 25.96% increased of profit after tax in 2009 compared to 2008 data. Based on its impressive growth of financial performance, we can see that AirAsia has implemented the correct business model to win the competition within the industry.

#### D. AirAsia's Web Design

Figure 2 - AirAsia.com Home Page



Source: www.airasia.com

For analyzing the company's web design, we will observe Air Asia's website by using the 7C factors (Context, Content, Community, Communication, Customization,

Connection, Commerce).

### **1. Context**

- Air Asia company has been using internet technology for its marketing and sales.
- Air Asia has registered its domain name as airasia.com, it is quite easy to find or even guess the domain name to get to the air asia website (www.airasia.com).
- The site was dominated by red and white color which represent the color of Air Asia itself and also the site is quite simple and easy to understand (user friendly).

### **2. Content**

- *Airasia.com* provides many languages besides english, there are many different languages but mostly are asian countries because as we know Air Asia's market is in ASIAN.
- The information in this site is complete enough and news always updated.
- We can easily buy or booking ticket using the features on the website, also we can check the schedule of the flight.

### **3. Community**

- This site does not offer a specific feature for community such as forum, but Air Asia has the other social network to provide the community such as Air Asia Blog, Facebook, Twitter as we can see at the bottom page of the website, so people can share their comment about Air Asia services.

### **4. Communication**

- The site all necessary information such as call centre, sales office, actually Air Asia also provides a magazine for their customer ( we can't see magazine in the website)
- The site provides the up to date flight info, special promotion in their home page, it attracts customer to buy a ticket because most of them are in special price(cheap)

### **5. Customization**

- The site is quite simple (user friendly) and provides all necessary information that we need.
- The site offer some languages

### **6. Connection**

- Air Asia has been cooperating with a lot of company but from the website we can only see HSBC Bank in their website, because HSBC is their partner in order to pay the payment.



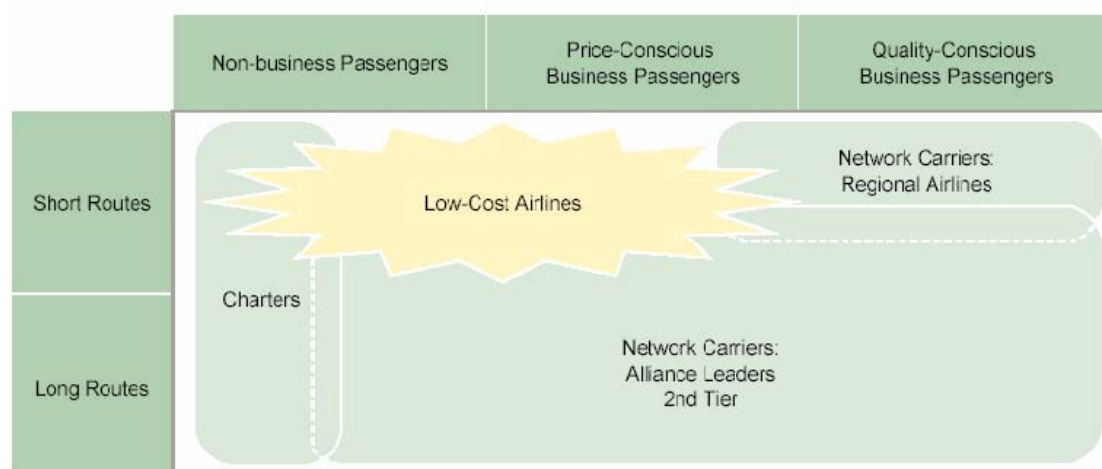
## 7. Commerce

- Online booking, air asia has been cooperating with HSBC for the payment.
- The site does not provides other company’s advertisement which not related to air asia, they are really focusing for their marketing itself for this website. We still can make an advertising in Air Asia through other ways such as in magazine, meat tray table back, flying airboard etc.

## E. Customer Segmentation

As it expands, AirAsia also faces a challenge in filling up capacity as consumer spending slows and competition increases from flag carrier Malaysia Airlines, which recently offered zero fares on surplus seats. The airline companies have meet the increasing consumer demands and also face the demand to be efficient. Peter Harbison, executive chairman of the Center for Asia-Pacific Aviation in Sydney said that the more the companies compete then the more fares needed to go down.

**Figure 3**  
**Distinct Customer Segmentation**



New Markets will be created through distinct customer segmentation. This echoes the vision of AirAsia’s CEO, “We want people who had never boarded a plane or dreamt of flying to fly with us.” Customers will continue to fall into segments with regard to demand for products on offer. Not every airline will be able to satisfy every customer.

- The entrance of low-cost airlines will push customer segmentation
- There will be a sharper focus on customer segments, especially for short routes.

This is because the short routes are a “Dual Market” serviced by airlines for price conscious customers (low cost airlines) and for quality-conscious customers (full

service airlines)

- There will be stiffer competition for non-business passengers and price-conscious business passengers on short routes

### F. VALUE CHAIN ANALYSIS

Value chain analysis for airline industry has been conducted as figure 3 below to model AirAsia as a chain of value creating activities. The value chain analysis was conducted in order to better understand and analyze the specific activities through which AirAsia can create a competitive advantage. The goal of these activities (Inbound logistics, Operations, Outbound logistics, Marketing and Sales, and Service) is to create value that exceeds the cost of providing the product or services, thus generating a profit margin.

**Figure 4**  
**Value Chain Analysis of Airline Industry**



### G. AirAsia SWOT ANALYSIS

As presented in table 1, we use SWOT analysis to analyze the internal factors(strengths and weaknesses) and external factors (opportunities and threats) of AirAsia company.

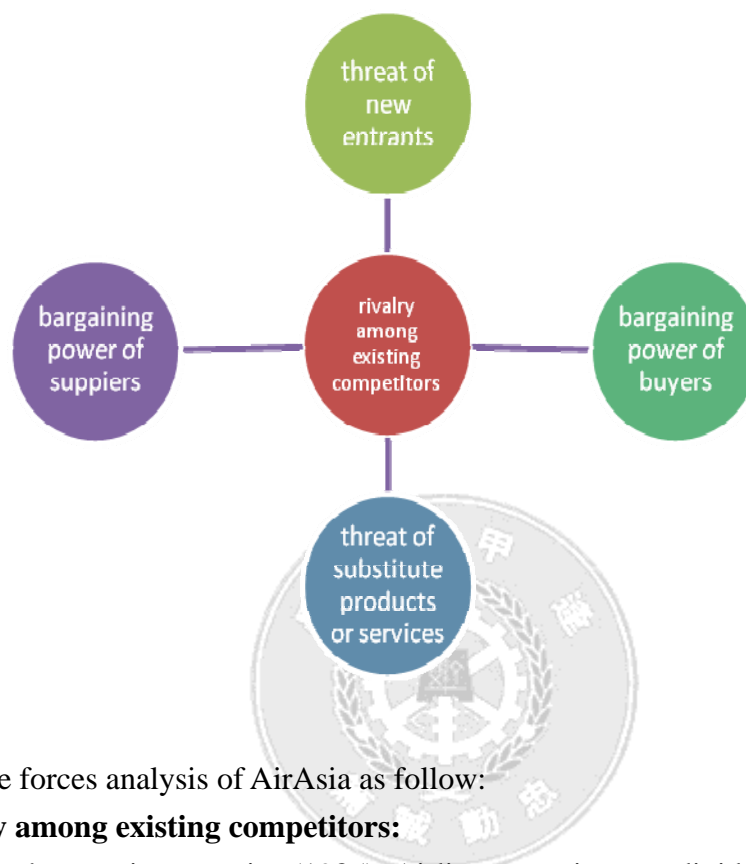
**Table 1**  
**Air Asia SWOT Analysis**

<b>Strength</b>	<b>Weakness</b>
<ul style="list-style-type: none"> <li>• Low cost carrier</li> <li>• First mover advantage (first low cost airline in asia)</li> <li>• More seats per aircraft</li> <li>• Single type fleet minimize maintainance fee</li> <li>• Reduced staff numbers</li> <li>• Brand name</li> </ul>	<ul style="list-style-type: none"> <li>• Service resource is limited by lower costs</li> <li>• Limited human resources</li> <li>• Government interference</li> <li>• Regulation on airport</li> <li>• Complaints from customers (flight delays)</li> </ul>
<b>Opportunity</b>	<b>Threat</b>
<ul style="list-style-type: none"> <li>• Large potential market</li> <li>• Product differentiation</li> <li>• Regional international flight</li> <li>• New routes</li> </ul>	<ul style="list-style-type: none"> <li>• Other airlines start cut costs to compete</li> <li>• Accident, terrorist attack</li> <li>• High fuel price</li> <li>• Government policy</li> <li>• Security charges, landing charges, airport departure</li> </ul>

### H. Porter's five-forces analysis on AirAsia

Porter's five forces are utilized to perform the industrial analysis specific to airline industry.

**Figure 5**  
**Porter's Five Forces**



The five forces analysis of AirAsia as follow:

**1. Rivalry among existing competitors:**

As Porter's generic strategies (1985), Airline operation can divide into two kinds of styles: differentiation and cost leadership. Some airlines will try to provide a well-done service to reach differentiation and the others will attempt to reduce the price and AirAsia is position as them. So industry rivalry is moderately high due to the price competition is really popular in the airline industry.

**2. Threat of new entrants:**

Threat of new entry is moderate. Because it requires high capital to support and government barrier is high such as the air service agreement can build barriers to those new entrants.

**3. Bargaining of suppliers:**

The power of supplier is high due to the airplane manufacturers only Boeing and Airbus. The switching cost for the Boeing and Airbus is pretty low because it can sell same standards to another airline. And making airplane needs high technique and specialist so it is rarely possible for AirAsia to extend and integrate their operation into supplier part.

**4. Bargaining power of buyers:**

The power of buyer is moderately high due to almost no switching cost for customers. Customers can compare each airline by the Internet so the information about the price and service is quite clearly.

**5. Threat of substitute products or service:**

Threat of substitutes is moderately low. Due to the archipelago geographical structure of Asia customers must have to transport by airplane or cruise. And air travel is faster and more convenient than cruise.

**I. Capabilities Analysis**

Once the strategic positioning and direction have been defined, then we are going to view the capability of AirAsia. As the definition from Applegate, Austin and Soule (2009), “capabilities enable a company to execute current strategy while also providing a platform for future growth. They define the resources needed to execute strategy and define the cost model of an organization. Capabilities also define the assets of a firm and the efficiency with those assets are used.” If the capabilities can merge with strategy, it can bring into effect of synergy. AirAsia’s business model capability audit frames analysis in the four areas discussed below:

● **Analyze processes and infrastructure**

AirAsia build up their competitive advantage form providing customer lowest price and omit the unnecessary service. For example, AirAsia install kiosks to speed up check-in. With those innovations, it truly making aviation become more convenient.

The customers and the operations are around Asia. AirAsia use IT to connect and integrate those end-to-end support processes.

● **Evaluate people and partners**

As a member of the AirAsia Team have highly competitive and attractive compensation packages. In order to provide customer excellent service, AirAsia arrange a series of training course to their in-house flight attendant. The training courses include awareness on safety standards, aviation terminology, in flight service procedures, product knowledge and so on.

AirAsia chose many kinds of field partners as their complementors. Their partnership can divide into two main kinds: direct partners and indirect partners. Direct partners have strong relationship with the airline, for example, hotels, travel agencies and so on. And indirect partner included Facebook, Twitter,

Koolred and Youtube. AirAsia is company which rely on Internet a lot so with those communities, AirAsia can build strong connection with their customers.

- **Assess organization and culture**

The vision of AirAsia is “To be the largest low cost airline in Asia and serving the 3 billion people who are currently underserved with poor connectivity and high fares.” So it focuses on trimming and streamlining its organization and trying to use IT to simplify its structure. So that it can reduce the operation and governance cost.

- **Evaluate leadership and governance**

The mission of AirAsia is “To be the best company to work for whereby employees are treated as part of a big family”. In AirAsia, all staff is regarded as contributors so there is no rank and the organization structure is far from hierarchy. Because the remunerations are based on employees’ performance, the leadership tends to supporting employees and gives them incentives.

## Summary

This paper is an exempt to analyze AirAsia company in its effort to win the competition in airlines industry by applying its unique business model. Clearly, the low cost strategy that is being adapted by AirAsia has successfully given AirAsia high profit in 2009. In order to succeed, low cost carriers will need to speedily implement key low cost elements in their business design.

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[www.airasia.com](http://www.airasia.com)

