

Might of Air Asia: Internal Analysis perspective

Strategic Management – Individual Assignment

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10 April, 2005

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Executive Summary

This report was an *internal analysis* of Air Asia (AA). It analyzed how AA managed its *value chain*, resources and how they created value for the firm. It also discussed how AA's capabilities and competencies created competitive advantage. As a conclusion of this report, there were three factors in shaping the firm to its competitive position.

First, it was the decision to utilize only one type of aircraft as its fleets. It was the foundation of AA to create the competitive weapon. Second, it was the synergy between AA's management and its employees (Shari, 2003). Third, it was AA's capabilities in suppressing cost. They were the concrete result from above practices. Various capabilities to decrease cost such as *short-haul flight* and *quick turnaround time* (Fernandes, 2004) were the backbone of AA's practices in exercising their strategy.

I. Air Asia

Founded in 2001, AA started its business journey as a low cost air carrier in Malaysia (Shari, 2003). Over the last four years, AA has experienced a sensational financial growth from RM 86 million debts (March 2000) to RM 161 million credit (September 2004) as shown in company financial report. By the year 2005, AA already had 16 modern Boeing 737 jets. They have been operating in six countries and serving more than five million customers.

II. Inside Air Asia

This chapter analyzed the firm's *value chain* and their organizational strength. It identified the most significant resources and capabilities that formed AA's competitive advantages.

A. Value Chain Analysis

Considering the environment where AA was competing, here are lists of activities, as shown in table 1 and table 2, which were believed to be significant to AA in creating its value as a low cost air carrier. The analysis was based on Porter's *value chain*.

Primary Activities

	Activities	Description
Inbound Logistic	Landing slots acquisition	Landing slots were scarce resources and also possessed critical value in airlines industry (OECD, 1997). AA needs to ensure that it had sufficient landing slots to support its flight schedules.
	Aircraft leasing or purchasing	SEA market's promising growth (Oum et al, 2000) would convince AA to keep extending its fleet to capture more profits.
	Aircraft parts and fuels purchasing	It is important to monitor the budget for this activity, as it affects around 30% to overall cost (Corporate financial report).

Operations	Transporting passenger	These are the main resources to AA for creating profits.
	Aircraft ground maintenance	AA various methods in driving down the cost for this activity showed a great effect in suppressing the cost low.
	Flight scheduling	Tight competition with other competitors in acquiring limited landing slots pushed AA to plan its flight schedule carefully. A well planned schedule and keeping it on time, enable AA to add more value on its brand as an on time delivery air carrier.
Outbound Logistic	AA only provides transportation services; no significant outbound logistic process can be identified.	
Marketing & Sales	Advertising and promotion	Important activities to popularize the brand of AA. Intensive advertising and promotion has brought more than five million customers to use AA services (Corporate website, 2005).
	Computer Reservation System	This is a strategic enabler for AA to compete with other competitor. Online sales through this system captured more than 50 percent of AA revenue (Corporate website, 2005). By optimizing the system, AA can develop more analytical tools in delivering precise and right decisions on time, such as <i>Customer Relationship Management (CRM)</i> or <i>E-business</i> (Taneja, 2002).
Service	Call center system	To tackle problems with customers enquiries.

Table 1 – primary activities in AA

Support Activities

Support Activities	Description
Firm infrastructure	Formulate strategic decision for AA and encourage its employees in supporting the strategy.
HR Management	Provide recruitment and training to employees to keep them highly skilled and efficient
Technology	Develop methods in operating and maintaining aircraft that suppress the cost lower.
Procurement	Search the best quality product among suppliers without driving the cost high.

Table 2 – support activities in AA

To summarize, AA has developed a considerable value chain in its approach to the strategy. The value for these activities really added a significant amount in its pursuit to provide low price air transportation services.

However, there is no evidence whether AA has already implemented further management information system beyond its reservation system. It is recommended that AA should implement more analytical capabilities, such as Customer Relationship Management or Business Intelligence, in its computerized system. By implementing such technologies, AA will be able to bring better decision in proper time at proper place. (Sheehan, 2003)

B. Resources and Capabilities form Competencies

After listing the activities that created value for AA, further analysis was to look on significant resources and capabilities that helped AA in building its competencies.

Significant Resources

1. Constructive and supportive management.

AA was very supportive and responsive in encouraging and listening to its employee for any ideas in reducing cost. This made the employees more productive and creative in doing their performance.

2. Highly skilled employees.

They were the source of all capabilities that AA possessed. The experience and knowledge which they had were hard to imitate by other competitor. It is important for AA management to compensate these people well, as to reduce probability for other competitor to hijack them.

3. Capabilities to reduce cost.

These were the competitive weapon that would be used by AA to corner other competitor. Their effect in reducing cost boosted AA to be one of the top in low cost air carrier competition.

Capabilities

These were the product of AA employees' creativity. All the capability that AA possessed required high skill from its conductor. Without sufficient knowledge, it will only give small benefit to AA.

1. *Quick turnaround time*¹

The longer aircraft on the ground means that the less productive it will be. By shortening the turnaround time, AA was able to gain more profits. It was gained by removing frills service and removing chair booking and extensive crew drilling on performing quick turnaround. (Shari, 2003)

2. *low-cost short haul*

Management also conferred with mechanics on how to coddle spare parts so they can last longer. For example: to extend the landing gear usage time, mechanics advise pilots to take a shallow approach on landing (Shari, 2003). By doing such things, AA was able to lower the cost on short haul. It was because less part would need to be replaced.

3. *high rate aircraft utilization*

Due to above practices, AA then will able to utilize its aircrafts at higher rate. Higher rate of utilization signify that higher profit will be gained by the firm and also lower the cost as the distributed fixed cost get smaller.

Competency

All these capabilities enable AA to perform its competency in providing low cost air transportation services. Table 3 showed us how the capabilities that AA possessed enabled it to lead the air transportation market in providing low cost services.

¹ Turnaround time: aircraft time to prepare itself from landing to takeoff again

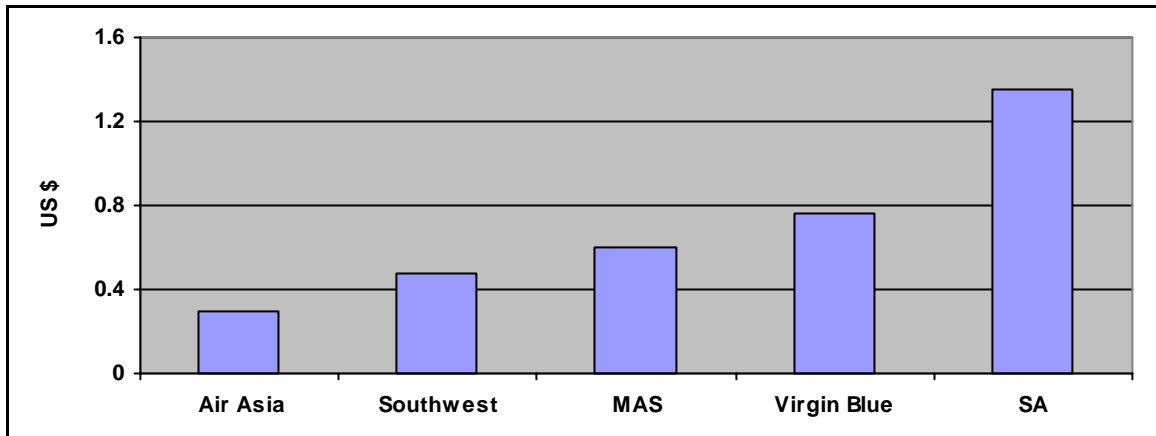


Table 3 – Total cost per ASK² in competition
 (Edited from Air Asia Analyst Presentation, 2005 Second Quarter Results)

III. Competitive Advantages of Air Asia

There were three factors that form the competitive advantage for AA in providing low cost air transportation services.

1. The strategic decision in using one type of aircraft.

It proved to be major strategic decision. It emphasized the meaning of *economies of scale* in significant amount. AA got the essence of smaller inventory, *cube-square rule* and *power of purchasing*. Table 4 showed us that the *cost/ASK* for aircraft can be reduced until 50 percent.

It also cut down the *learning curve*. Since they only handled one type of aircraft, training time can be reduced and eventually reducing cost. Again, table 4 showed us that AA had big advantage in staff cost.

² **ASK**: Available seat kilometers, which is the total number of seats available on scheduled flights multiplied by the number of kilometers these seats were flown.

Cost per ASK: Total operating expenses (excluding finance costs and taxation) divided by ASK. In the airline industry, this is comparable to 'unit cost'.

Operating Expenses	Cost/ASK (US\$)		Description
	AA	Others*	
Staff cost	0.29	1.16	Superior productivity
Fuel and Oil	1.11	1.03	
Maintenance & Overhaul	0.17	0.38	Low-cost short haul reduce cost for maintenance
Cost of aircraft	0.25	0.50	Emphasis on economies of scale
Depreciation & Amortization	0.10	0.18	
Total	1.92	3.25	41 % lower than others

Others: Gol, JetBlue, Southwest, Virgin Blue, EasyJet

Table 4 – Cost per ASK comparison between AA and others
(Edited from Air Asia Analyst Presentation, 2005 Second Quarter Results)

While this strategy was not really scarce, it actually enabled the factors that can realize AA competitive advantage.

2. The synergy between AA management and its employees.

This synergy resulted many capabilities that form AA competitive advantage. Without the support from management, employee will be less motivated in their creation, and eventually will affect the firm's performance. Therefore, the synergy proved to be important for AA and also hard to be imitated by other competitor.

3. The capabilities themselves. These were the most important one. The procedures, methods, tips that have been created by the employees, have helped AA to thrive on the low cost they produced. They were the secret of AA which were hard to

imitate. The “one type of aircraft concept” then amplified their effect which made it more meaningful.

IV. Conclusion

Air Asia (AA) has exposed us an insightful example in showing how a keen and critical strategic movement may drive a company that was almost bankrupt back into shape. While AA management was providing a suitable business environment, its employees demonstrated a highly productive and efficient performance in running the business and reducing cost. AA decision on using uniform aircraft also put into account. It emphasized the principle of *economies of scale* and also it will eventually reduce *learning curve*. However, AA actual main strength was based in its innovative ways to keep the cost low which was hard to imitate.

With those entire factors combined together, AA has shown how synergies between management, employee and its environment can develop a competitive advantage that brought Air Asia to be the contender as market leader in the competition.

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