AirAsia: Indeed the Sky’s the Limit!
Rizal Ahmad
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What is This?
This article details the development of AirAsia Malaysia from 2005 to 2008 and builds on a prior case, ‘AirAsia: The Sky’s the Limit’. Within only four years, AirAsia managed to expand its operations into another ten countries. In addition, through its associate company AsiaX, it launched long-haul low-cost air services from Malaysia to Australia and the United Kingdom. The article documents AirAsia's marketing strategy and discusses its approach towards ‘market development’ and ‘product development’. The Blue Ocean Strategy concept is used as a tool to examine AirAsia’s strategic moves.

Keywords: Low-cost airlines, budget airlines, marketing strategy, Asian entrepreneurship

In the case study ‘AirAsia: The Sky's the Limit’, the authors Ahmad and Neal (2006) discussed AirAsia’s comeback from a debt-laden scheduled airline (US$ 10.5 million in December 2001. The airline was bought by Tune Air for a token sum of one ringgit1 or 0.26 US cents) to a profitable low-cost or budget airline that managed to attract US$ 200 million in additional capital through its initial public offering in October 2004. AirAsia Berhad or Malaysia AirAsia (hereafter referred to as AirAsia) was credited for its efforts in enabling Malaysian people to travel by air to destinations in Southeast Asia at relatively low prices. AirAsia's business model was a replication of Southwest Airlines' low-cost model but was spruced with 'local touches' in terms of its marketing management practices. In December 2004, AirAsia formed a joint venture airline in

1 Ringgit is the Malaysian currency. It was pegged to the US dollar at the rate of 3.8 ringgit from September 1998 until July 2005. Since 21 July 2005, Malaysia allowed ringgit to operate on a managed float against several major currencies. In 2008, a US dollar was worth about 3.5 ringgits. MYR is the code for the Malaysian ringgit.

This article was written by Dr Rizal Ahmad, Marketing Department, College of Commerce & Economics, Sultan Qaboos University, Oman.
Indonesia. Since becoming a low-cost airline in January 2002 till December 2008, AirAsia as a group, comprising AirAsia and AsiaX, both based in Malaysia, Thai AirAsia, based in Thailand and PT Indonesia AirAsia, based in Indonesia, had carried over 60 million passengers, operated seventy-nine aircrafts (an Airbus 340, three Airbus A330s, fifty-six Airbus A320s and nineteen Boeing 737-300s), and flown on 110 routes to 62 destinations in fifteen countries. Figure 1 shows AirAsia’s destinations and routes.

Figure 1
AirAsia’s Destinations and Routes

Source: AirAsia’s 4th quarter 2008 analyst presentation (available online at http://www.airasia.com.my).

2 According to the fourth quarter 2008 unaudited financial results reported on 29 February 2009.
After seven years of continuous business expansion and profitability, AirAsia incurred a financial loss of MYR 471.7 million (equivalent to about US$ 135 million) in the 2008 financial year. What had happened to AirAsia and what had affected its financial performance? Was its strategy relevant? We begin by describing AirAsia’s current situation. We will then discuss its marketing strategy and highlight its key practices. We will use the Blue Ocean Strategy concept to examine how AirAsia developed new markets and speculate the direction the airline might be heading towards. Unless otherwise stated, the two major sources of information on AirAsia are AirAsia’s official website and AirAsia’s annual reports.

### AirAsia Today

Table 1 shows AirAsia’s vital statistics. Its business grew in almost all areas except for its profitability in the 2008 financial year.

The airline blamed higher costs of aviation fuel, finance cost (which was largely due to foreign exchange loss amounting close to MYR 193 million or US$ 55.1 million), and exceptional items (largely, though not solely, attributed to the cost of unwinding fuel derivative contracts and losses in investment that resulted from the now defunct Lehman Brothers) for its poor financial performance in 2008. However, Table 1 also shows that AirAsia, despite operating in an environment of high fuel costs, still delivered operating profits (profits from its airline operations) at a level that was enough to cover depreciation and interests on its borrowing, but insufficient to cover losses from foreign exchange and fuel price hedging. We now discuss AirAsia’s achievements.

### AirAsia’s Management Practices

The low-cost carrier (LCC) business model, which AirAsia adopted, was grounded on the principles of creating and delivering passenger air travel solutions to customers

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3 This is calculated at an exchange rate of MYR 3.5 per US dollar.

4 The official website of AirAsia is http://www.airasia.com.my. More information would be available since the author last visited the site, i.e., at the time of writing. Readers are encouraged to browse through it.

5 This was during the time (mid-2007 to mid-2008) when spot price of Brent crude oil stayed above US$ 80 per barrel and briefly touched an all time high of US$ 147.27 per barrel. It was also a period during which many airlines imposed fuel surcharges.

6 According to AirAsia’s annual report for the period ending 31 December 2008, interest costs and bank charges amounted to US$ 69,887,000 or MYR 244,606,000.
### Table 1
AirAsia's Vital Statistics 2004–08

<table>
<thead>
<tr>
<th>Key Financial Figures</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2007*</th>
<th>2008**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue ('000)</td>
<td>392,690</td>
<td>666,036</td>
<td>1,070,955</td>
<td>1,603,261</td>
<td>1,932,756</td>
<td>2,640,260</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passenger seat sales ('000)</td>
<td>347,971</td>
<td>551,034</td>
<td>778,080</td>
<td>1,020,036</td>
<td>1,786,812</td>
<td>2,405,661</td>
</tr>
<tr>
<td>Charter flights and other income (for 2007 &amp; 2008 ending 31 December reported as ancillary income)</td>
<td>44,719</td>
<td>115,002</td>
<td>292,875</td>
<td>583,225</td>
<td>135,900</td>
<td>234,812</td>
</tr>
<tr>
<td>Cost of sales ('000)</td>
<td>(279,119)</td>
<td>(467,625)</td>
<td>(834,435)</td>
<td>(1,160,648)</td>
<td>(1,338,698)</td>
<td>(1,956,208)</td>
</tr>
<tr>
<td>Gross profit from operation ('000)</td>
<td>113,571</td>
<td>198,411</td>
<td>236,520</td>
<td>442,613</td>
<td>594,058</td>
<td>684,053</td>
</tr>
<tr>
<td>Other operating income ('000)</td>
<td>4,563</td>
<td>11,030</td>
<td>4,587</td>
<td>86,565</td>
<td>96,598</td>
<td>97,629</td>
</tr>
<tr>
<td>Other operating expenses ('000)</td>
<td>(13,054)</td>
<td>(36,018)</td>
<td>(72,934)</td>
<td>(176,836)</td>
<td>(83,653)</td>
<td>(107,786)</td>
</tr>
<tr>
<td>Profit from operations ('000)</td>
<td>60,623</td>
<td>133,432</td>
<td>74,146</td>
<td>278,851</td>
<td>607,003</td>
<td>673,895</td>
</tr>
<tr>
<td>Finance (costs)/income (net) ('000)</td>
<td>(2,436)</td>
<td>(2,611)</td>
<td>12,602</td>
<td>3,108</td>
<td>51,460</td>
<td>(416,115)</td>
</tr>
<tr>
<td>Depreciation and write-offs ('000)</td>
<td>(11,493)</td>
<td>(34,100)</td>
<td>(71,943)</td>
<td>(1,160,648)</td>
<td>(1,338,698)</td>
<td>(1,956,208)</td>
</tr>
<tr>
<td>Exceptional items ('000)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>(640,948)</td>
<td>0</td>
</tr>
<tr>
<td>Share of results of jointly controlled entity ('000)</td>
<td>0</td>
<td>(5,335)</td>
<td>(574)</td>
<td>0</td>
<td>(202,045)</td>
<td>(279,189)</td>
</tr>
<tr>
<td>Share of results of associate ('000)</td>
<td>(116)</td>
<td>(86)</td>
<td>0</td>
<td>3,910</td>
<td>9,268</td>
<td>0</td>
</tr>
<tr>
<td>Profit (loss) before taxation ('000)</td>
<td>58,071</td>
<td>125,400</td>
<td>86,174</td>
<td>450,152</td>
<td>(662,357)</td>
<td></td>
</tr>
<tr>
<td>Current taxation ('000)</td>
<td>(439)</td>
<td>(1,804)</td>
<td>(2,175)</td>
<td>(4,244)</td>
<td>(2,179)</td>
<td></td>
</tr>
<tr>
<td>Deferred taxation ('000)</td>
<td>8,613</td>
<td>12,500</td>
<td>117,703</td>
<td>225,126</td>
<td>251,715</td>
<td>192,797</td>
</tr>
<tr>
<td>Profit (loss) after taxation ('000)</td>
<td>49,019</td>
<td>111,096</td>
<td>201,690</td>
<td>498,045</td>
<td>697,623</td>
<td>(471,739)</td>
</tr>
<tr>
<td>Profit (loss) for the year, i.e., after minority interest ('000)</td>
<td>49,069</td>
<td>111,557</td>
<td>201,702</td>
<td>498,057</td>
<td>697,623</td>
<td>(471,739)</td>
</tr>
<tr>
<td>Basic earnings per share (sen)</td>
<td>6.4</td>
<td>5.3</td>
<td>8.6</td>
<td>21.2</td>
<td>29.6</td>
<td>(20.0)</td>
</tr>
<tr>
<td>Diluted earnings per share (sen)</td>
<td>2.8</td>
<td>5.2</td>
<td>8.5</td>
<td>21.0</td>
<td>29.4</td>
<td>(19.9)</td>
</tr>
<tr>
<td>Return on average total assets</td>
<td>14.0%</td>
<td>9.9%</td>
<td>7.8%</td>
<td>10.4</td>
<td>n/p</td>
<td>n/p</td>
</tr>
<tr>
<td>Return on average shareholders fund</td>
<td>32.7%</td>
<td>11.7%</td>
<td>17.6%</td>
<td>30.0%</td>
<td>n/p</td>
<td>n/p</td>
</tr>
<tr>
<td>Sales &amp; marketing expenses ('000)</td>
<td>(9,411)</td>
<td>(3,291)</td>
<td>(23,297)</td>
<td>(25,342)</td>
<td>n/p</td>
<td>n/p</td>
</tr>
<tr>
<td>Admin. expenses ('000)</td>
<td>(35,046)</td>
<td>(36,700)</td>
<td>(70,730)</td>
<td>(46,149)</td>
<td>n/p</td>
<td>n/p</td>
</tr>
</tbody>
</table>

### Key Operating Statistics

**Passenger ('000) carried by AirAsia and its affiliates (Thai AirAsia, Indonesia AirAsia, AirAsia X)**

<table>
<thead>
<tr>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008**</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,868</td>
<td>6,288</td>
<td>12,107</td>
<td>13,992</td>
<td>n/a</td>
</tr>
</tbody>
</table>

**Consolidated number of passenger carried by AirAsia Malaysia (100% Mal. + 49% Thailand + 49% Indonesia only) (year end report)**

<table>
<thead>
<tr>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008**</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,838,822</td>
<td>4,414,069</td>
<td>5,719,411</td>
<td>8,737,939</td>
<td>9,717,480</td>
</tr>
</tbody>
</table>

*Note: n/a = Not Applicable; n/p = Not Provided*
<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>RPK (million)</td>
<td>2,771</td>
<td>4,881</td>
<td>6,702</td>
<td>9,863</td>
<td>11,136</td>
<td>13,485</td>
</tr>
<tr>
<td>ASK (million)</td>
<td>3,592</td>
<td>6,525</td>
<td>8,646</td>
<td>12,391</td>
<td>14,536</td>
<td>18,717</td>
</tr>
<tr>
<td>Average fares (ringgit)</td>
<td>131</td>
<td>143</td>
<td>137</td>
<td>171</td>
<td>184</td>
<td>204</td>
</tr>
<tr>
<td>Passenger load factor</td>
<td>77%</td>
<td>75%</td>
<td>78%</td>
<td>80%</td>
<td>78.6%</td>
<td>75.4%</td>
</tr>
<tr>
<td>Revenue per ASK (sen)</td>
<td>14.2</td>
<td>10.2</td>
<td>12.2</td>
<td>12.9</td>
<td>13.23</td>
<td>14.11</td>
</tr>
<tr>
<td>Cost per ASK (sen)</td>
<td>9.4</td>
<td>8.3</td>
<td>10.9</td>
<td>11.2</td>
<td>10.97</td>
<td>11.66</td>
</tr>
<tr>
<td>Cost, excluding fuel, per ASK</td>
<td>n/a</td>
<td>4.2</td>
<td>6.1</td>
<td>5.6</td>
<td>5.53</td>
<td>4.24</td>
</tr>
<tr>
<td>Revenue per ASK (US cents)</td>
<td>3.74</td>
<td>2.69</td>
<td>3.29</td>
<td>3.29</td>
<td>n/p</td>
<td>4.23</td>
</tr>
<tr>
<td>Cost per ASK (US cents)</td>
<td>2.47</td>
<td>2.19</td>
<td>2.95</td>
<td>2.95</td>
<td>n/p</td>
<td>3.29</td>
</tr>
<tr>
<td>Cost, excluding fuel, per ASK</td>
<td>n/a</td>
<td>1.11</td>
<td>1.63</td>
<td>1.63</td>
<td>n/p</td>
<td>1.27</td>
</tr>
<tr>
<td>No. of destinations (airports/cities)</td>
<td>26</td>
<td>38</td>
<td>45</td>
<td>50</td>
<td>n/p</td>
<td>64</td>
</tr>
<tr>
<td>No. of hubs</td>
<td>4</td>
<td>4</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>No. of routes</td>
<td>26</td>
<td>52</td>
<td>65</td>
<td>75</td>
<td>n/p</td>
<td>110</td>
</tr>
<tr>
<td>Average number of operating aircraft</td>
<td>9.5</td>
<td>16.3</td>
<td>20.5</td>
<td>27.1</td>
<td>29.92</td>
<td>36.56</td>
</tr>
<tr>
<td>(Malaysia only)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total number of aircraft at year end (Malaysia only)</td>
<td>13</td>
<td>19</td>
<td>26</td>
<td>34</td>
<td>n/p</td>
<td>n/a</td>
</tr>
<tr>
<td>Aircraft utilization (hours per day)</td>
<td>12.8</td>
<td>12.1</td>
<td>12</td>
<td>12</td>
<td>n/p</td>
<td>n/a</td>
</tr>
<tr>
<td>Revenue via the Internet (% of total)</td>
<td>43%</td>
<td>47%</td>
<td>60%</td>
<td>65%</td>
<td>n/p</td>
<td>n/a</td>
</tr>
<tr>
<td>On time performance</td>
<td>n/a</td>
<td>n/p</td>
<td>79%</td>
<td>85%</td>
<td>n/p</td>
<td>88%</td>
</tr>
</tbody>
</table>

**Source:** AirAsia Annual Reports 2006, 2007, 2008 and 2009.

**Notes:**
1. Unless otherwise stated, all figures were as they appeared in the respective annual reports of AirAsia (currency in MYR).
2. Figures for 2004, 2006 and 2007, when appropriate, referred to restated figures as they appeared in the subsequent annual reports of AirAsia. In restating its reports, AirAsia had reclassified certain data in order to make it comparable.
3. All figures are for the financial year ending 30 June except its financial year for 2008 that ended on 31 December.
4. The results for 2008 ending 31 December were based on reports that AirAsia submitted to the Kuala Lumpur Stock Exchange, its press release, and a presentation to investment analysts.
5. n/a = not available; n/p = not provided.
6. The number of destinations and routes are not always being reported consistently. The author counted them based on AirAsia route maps provided in its annual reports or latest report as in the case of 2008 figures.
7. *Restated for period ending 31 December.
8. **Ending 31 December based on unaudited results.
at the lowest possible cost without compromising their safety. This was achieved, firstly, by offering its basic or core product (available passenger seats) as single-class, no-frills air travel. Passengers had to pay for additional services or frills (a discussion of AirAsia's products follows later). Secondly, AirAsia maximized the utilization rate of its aircrafts. The airline's aircrafts, on average, flew six and a half sectors or twelve hours everyday. AirAsia continued to strive towards achieving a high level of efficiency. As a result of the higher fuel costs, its cost per available seat per km (cost perASK) increased from about 3.13 US cents (10.97 sen) in 2007 to 3.33 US cents (11.66 sen) in 2008 (6.3 per cent increase). The years 2007 and 2008 were challenging operating years because fuel accounted for about 50 per cent of the airline's cost in providing ASK. However, at 2.95 US cents per ASK, AirAsia's costs were far lower than the 6.35 US cents incurred by other major low-cost operators in 2007. Thirdly, AirAsia kept its fixed costs down by continuing to adopt management practices already discussed by Ahmad and Neal (2006). A key strategy that AirAsia continued to use was to treat some of its fixed costs as variable costs, for example, the crew was paid a proportion of their incomes as commissions that were tied to the actual sale of in-flight products or performance incentives dependant on staff productivity, which among other factors, also took into account their sick leaves. Whenever feasible, AirAsia rented, leased or hired assets (buildings, vehicles, equipment and software) and outsourced or subcontracted some of its activities and services, such as ground services, to third parties. When serving a minor route (a small airport and a sector with non-frequent departures), such as Kuala Lumpur to Chiang Mai in North Thailand, AirAsia took its ground engineer aboard its flights instead of stationing him at Chiang Mai airport and subcontracted all other aircraft ground services at the airport. The fourth strategy was to keep the costs of product distribution to a minimum. AirAsia continued to encourage customers to use the Internet and introduced innovative and user-friendly ways for customers to purchase passenger seats. The fifth strategy that the airline

7 A unit of currency. The Malaysian ringgit is divided into 100 sen.
8 This was published in AirAsia second half 2007 financial results. In the report, AirAsia claims that its cost per available seat remains the lowest among its peer group of other low-cost operators. This peer group includes other prominent low-cost carriers around the world, such as Air Arabia, AirTran, EasyJet, GOL Airways, JetBlue Airways, Virgin Blue, Southwest Airlines, Ryanair and WestJet.
9 The author also met and interviewed a few AirAsia employees in Kuala Lumpur in December 2007 to corroborate the details of this practice. By and large, employees were quite receptive of this practice.
10 The author met and interviewed an AirAsia engineer aboard a flight from Kuala Lumpur to Chiang Mai in December 2007.
employed was to use a single aircraft type. This also had positive results. The new and growing fleet of Airbus 320s contributed to relatively low total aircraft maintenance and operating costs. However, AirAsia’s associate company AirAsiaX\textsuperscript{11} used wide body Airbus A340s and A330-300s on its long-haul flights due to operational reasons. AirAsia, as a group, committed itself to using two types of aircrafts, i.e., the A320s for its regional flights and the A330s for its long-haul flights. It was in the process of phasing out the remaining Boeing 737s and ordering more A320 and A330 aircrafts.

**Its Target Markets**

AirAsia’s target market was no longer dominated by budget travellers from Malaysia. The airline had also attracted business travellers, corporations, government departments in Malaysia as well as travellers from outside Malaysia, and of late, long-haul travellers going to and from the United Kingdom (UK) and Australia.

In 2008, AirAsiaX flew into Hangzhou in Northeast China, the Gold Coast, Perth and Melbourne in Australia, and in 2009 to London Stansted in the UK, all of which were destinations outside the traditional two and a half hours flying time of low-cost carriers and outside AirAsia’s self-imposed four hours of flying time.

**Its Products**

AirAsia’s core products were passenger seats, but it also offered a number of complementary products. AirAsia’s customers were able to add-on to their purchased passenger seats a variety of these complementary products. The end results were customer self-assembled actual products (end products customers finally received or experienced), such as the following:

- Flexible business travel for business persons and/or staff of corporations
- Leisure travel for budget travellers
- Medical travel for foreigners, particularly those who were from countries with high medical costs or inadequate medical facilities\textsuperscript{12}
- Intra-continent long-haul budget travel.

\textsuperscript{11} AirAsia owned 16 per cent share in AsiaX, and the rest (84 per cent) were owned by several companies including those controlled by Tony Fernandes (CEO of AirAsia) and his business associates, and the Virgin Group.

\textsuperscript{12} According to the Ministry of Tourism Malaysia, Malaysia was among the world’s top five medical tourism destinations behind Panama and Brazil. In 2006, 296,687 patients sought treatment in Malaysia, which brought in approximately MYR 203.66 million (US$ 59 million) in revenue. The
The actual products experienced by passengers were basically passenger seats augmented with travel service products, which at the time of writing comprised **goholiday**, **gohostel**, **gocar** and **gomedic** packages. **Goholiday** (now re-branded as **Red2go**)) was a selection of holiday packages that customers could assemble from a combination of passenger seats plus airport transfers, hotel rooms, and activities at destinations such as group tours. **AirAsia** did not provide complementary products single-handedly. **Gohostel** was a complementary product provided by one of **AirAsia**’s partners, **Hostelworld.com**. **Gocar** was a rent-a-car facility for **AirAsia**’s customers provided by internationally renowned companies such as **Hertz** and **Avis**. **Gomedic** services enabled **AirAsia**’s customers to purchase health checks, diagnostic services or even medical treatments from third parties such as **Health Scan Malaysia**, **Life Care Diagnostic Medical Centre, Malaysia**, **Sunway Medical Centre, Malaysia**, and **Vista Vision Specialists, Malaysia**. In partnership with local banks, some of these medical services, such as **Lasik Visual Correction**, were further augmented with easy monthly payments through which customers could avail medical loans. **AirAsia**’s initiatives in informing customers about their forthcoming activities at various destinations were a part of its strategy to generate new demand for air travel. It is to be noted that not all complementary products could be regarded as cheap, relative to the price of passenger seats such as rooms in five star hotels and car rentals, but they were nevertheless competitively priced. Prices were posted online and such a practice made the airline’s offers transparent, which in turn made purchase decisions more convenient for the customers.

Additionally, **AirAsia** in partnership with banks, provided services that not only made it easier for customers to purchase its products but also helped **AirAsia** to earn additional revenue such as sales commissions. In Malaysia, **AirAsia** encouraged the Malaysian people to sign up for the **CitiBank silver and gold Master credit cards**, while in Indonesia the airline persuaded Indonesians to sign up for the **HSBC silver and gold Visa credit cards**. In Thailand, **AirAsia** launched its own **Thai AirAsia Master card**. By signing up for these co-branded/promoted credit cards, cardholders enjoyed a wide range of benefits from free travel insurance to free flights; the offers, however, varied from one country to another. E-gift vouchers, **goinsure**, **express boarding**, **snack attack** and **redmegastore** were additional products that passengers could buy in advance and

Association of Private Hospitals Malaysia projected that the number of foreigners seeking medical treatment in Malaysia will grow at an annual rate of 30 per cent a year until 2010. (The press release was available online at [http://www.tourism.gov.my/corporate/mediacentre.asp](http://www.tourism.gov.my/corporate/mediacentre.asp) and was accessed on 28 March 2009.)
in the case of snack attack (see description later) and redmegastore products, aboard flights. E-gift vouchers were electronic cash vouchers that customers could buy and then e-mail or give away as gifts to loved ones. Holders or beneficiaries of these vouchers could use them to electronically purchase AirAsia’s products. Goinsurance was travel protection insurance against unforeseeable circumstances such as flight cancellations, flight delays, lost luggage and personal accidents. For a small fee, passengers could purchase the express boarding facility that allowed them to board the aircraft ahead of other passengers. Snack attack was an in-flight dining service that gave passengers the option to choose between many local dishes including popular ethnic dishes, such as nasi lemak, a local dish in Malaysia and popular soft and cold drinks such as soyabean and sugarcane drinks.\textsuperscript{13} Shop services provided an opportunity to buy AirAsia merchandise such as T-shirts and baseball caps.

Business persons and corporations could use gocorporate, which was a flexible self-service corporate account that enabled a company to book passenger seats online and make needed changes themselves. The product gocorporate also generated reports which were designed to help a corporate customer monitor the air travel expenses of its staff members. Targeted for corporations, AirAsia also provided aircraft charter services and offered advertising space on the fuselage of its aircrafts, behind the passenger seats, on its ground equipment, in the in-flight magazine and on other devices that may be used or seen by its passengers or the public.

The Prices it Charges

AirAsia facilitated its customers in assembling their desired product but each component was separately priced. The airline priced its passenger seats on a point-to-point sector or journey basis. This was done not only for customers’ ease in planning their journeys but also for AirAsia’s management ease in managing product delivery, particularly in reducing the risks of uncertainty of a continuous multi-sector journey. By selling seats on a point-to-point sector basis, AirAsia did not have to worry about flight connections and onward delays that might occur. The total fare per sector was broken down to three main sub-components: the first was the basic airfare, which

\textsuperscript{13} These are examples of local popular dishes and drinks that the lower market consumes widely unlike scheduled airlines which normally provide restaurant or hotel class food and beverages. Nasi lemak is steamed rice cooked with some coconut milk and splashed with supplements such as anchovies, salted fish or eggs cooked in hot chilli sauce.
comprised fifteen tiers; the second was the disbursable tax or passenger service charge; and the third was the add-on or surcharge that AirAsia claimed was a variable charge depending on the cost of fuel that the airline paid to its suppliers, on how tickets were purchased and the travel style of the passengers. For instance, a ticket would be cheaper if the customer purchased it online. The ticket price would be higher if the customer preferred to board the aircraft ahead of other passengers.

AirAsia collected a booking fee for tickets purchased via its call centres because of booking services rendered. It also charged for the use of wheelchairs, for seating services (through its product pick-a-seat), for all checked-in baggage, excess baggage according to weight (the maximum allowable free-of-charge baggage was only 15 kg) and for supersize baggage. Golf sets, scuba diving equipment and surf boards were charged separately. Flight changes and changes in passengers’ names also called for a processing fee unless that had been waived off in lieu of a higher priced ticket, i.e., higher tier basic airfares. Although the lowest basic airfare was zero airfare, AirAsia still earned income from add-on charges and from the sale of complementary products.

Its Methods of Communicating with Customers

In communicating with its present and potential customers, AirAsia employed a combination of methods that ranged from conventional advertisements, public relations, personal selling and sales promotion to using the Internet and the media. AirAsia put in a lot of creative effort in making its products available to a wide range of customers. Even though the airline continued to use travel and sky agents to sell passenger seats, it emphasized selling tickets directly to customers at airport terminals, through its call centres and online over the Internet.

AirAsia made frequent press statements (106 press releases in 2008 against 48 in 2007) and these initiatives obviously attracted media attention. Following a fall in the price of crude oil, the airline, for instance, announced the abolishment of fuel surcharges ahead of Malaysia Airlines’ announcement. Tony Fernandes, the chief executive of AirAsia, launched new businesses that were grounded on the principle of no-frills and low-cost products that complemented AirAsia such as Tune Hotels and Tune Money. Tune Hotels were budget hotels in Malaysia, while Tune Money was a pre-paid charge card sold in Malaysia. In recognition of Tony Fernandes's contribution to the air travel industry, Aviation Week presented him with the Laureate Award in the Air Transport category—an award that recognizes exceptional strategy, heroism
and leadership in aviation, aerospace and defense. The publicity generated by these complementary businesses and the international recognition awarded to Tony Fernandes, indirectly enhanced AirAsia's brand awareness and offered the airline cross-selling opportunities.

On the international front, AirAsia associated itself with football by working in partnership with the English Premier League, an internationally renowned football competition. The AirAsia brand was prominent in all English league matches. The airline was also featured on the Manchester United Football Club's stadium billboards. Millions of television viewers watched live Manchester United matches that gave AirAsia’s brand a global exposure.

The AirAsia brand also appeared in motor racing (internationally in Formula 1, contracted for three years from 2007, and locally in the 2007 Endurance Race) and sailing events, such as the Monsoon Cup in Malaysia (an annual event). In Malaysia, a credit card co-branding agreement with CitiBank and in Indonesia with HSBC opened up new channels of communication with customers.

**AirAsia’s Marketing Strategy**

AirAsia’s marketing strategies were simple and consisted of the following elements:

1. The airline kept prices of its core product (passenger seats) relatively low and offered various price points that might suit different groups of customers. The average fare increased steadily from MYR 131 (US$ 37.4) to MYR 204 (US$ 58.3) in the last five years (see Table 1), which reflected an increase in the cost per available seat per km as well as an increase in the longer distance sectors that AirAsia had introduced.

2. It filled up its aircrafts early by selling some of the available seats in advance, even at zero prices. AirAsia's average load factor was 75.4 per cent in 2008.

3. Whenever possible, AirAsia mounted high flight frequency on all routes, for example, it mounted twenty flights a day on its Kuala Lumpur–Kota Kinabalu–Kuala Lumpur and Kuala Lumpur–Kuching–Kuala Lumpur routes or ten flights per sector per day.

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14 This was reported in The Star online 2 April 2009. (See http://thestar.com.my/news/story.asp?file=/2009/8/31/merdeka/4543835&sec=merdeka, accessed on 2 April 2009.) The Aviation Week, a division of The McGraw-Hill Companies, was a well-known information and services provider to the global commercial, defence, maintenance/repair/overhaul (MRO), space and business aviation communities, particularly in the US.
4. It charged for baggage discriminately. For example, it imposed additional charges on certain sports equipment checked-in separately by golfers, scuba divers and surfers.

5. Customers paid for other services or goods that were regarded as frills such as express boarding, in-flight meals and beverages, which were customarily provided by scheduled airlines as complimentary services.

6. AirAsia made it easier for customers to purchase air tickets, for example, by using the Internet or calling a telephone number and then going to an Automated Teller Machine (ATM) to pay. The proportion of revenue received via the Internet increased from 43 per cent in 2004 to 65 per cent in 2007 (see Table 1).

7. It identified and flew to new destinations, for instance, Kuala Lumpur to Manado (in North Sulawesi, Indonesia)—a destination which would have required passengers to fly via Jakarta or another major Indonesian airport. Some of these destinations and flight sectors were unique because no other airline flew to/or on them.

8. It publicized its new aircrafts. It banked on the idea that people are, by and large, curious and like new things or technologies. On its short haul or regional services, it used Airbus 320, which incidentally also led to savings in fuel and maintenance costs. At the time of writing this article, the airline was still in the process of restructuring its fleet by selling and replacing the remaining nineteen Boeing 737s with Airbus 320s.15

By pricing its airfare into fifteen tiers, AirAsia was able to maximize income from passenger seat sales and at the same time maximize the load factor. Additionally, it enabled the airline to offer prices that suited both price-sensitive and time-sensitive customers. Business travellers and last minute tourists, who could be regarded as cash-rich but time-poor, for instance, would not mind paying a little more for late bookings while budget travellers, who could be regarded as time-rich but cash-poor, would look for bargain prices and would not mind purchasing tickets many months ahead of their travel dates. AirAsia benefited from differences in customers’ perceptions of ‘customer value’. A passenger travelling on an identical route on two different occasions might use two different criterions of good ‘customer value’—an ‘A’ value when he pays a price at the lower tier several months in advance of travel dates to take his family for

15 It is believed that AirAsia Indonesia may have to continue to operate a small fleet of Boeing 737s to serve certain destinations that cannot be served by Airbus A320 because of short runways, for example, Bandung’s present airport.
a holiday and another ‘A’ value when he attends an urgent business matter despite paying a price at the high tier to secure a seat at the last minute.

The lowest tier was zero airfare, and AirAsia publicized this as free seats—a strategy it used to increase its load factor. Perhaps it was a wise move to give away free seats rather than to fly its aircrafts on a low load factor. Giving free seats was like giving away free samples of products that otherwise would have become obsolete (empty seats) as soon as the aircraft departed. Besides that, free seats gave non-air travellers the opportunity to travel by air for the first time. Free seats also gave first-time visitors the opportunity to see new destinations, and frequent visitors the opportunity to experience travelling on new routes. In any case, free fare passengers still had to pay for compulsory charges such as government taxes, and they most likely would purchase complementary products too. Taxes collected by AirAsia generated a significant amount of cash float (cash collected from passengers on behalf of government authorities which was remitted to the authorities at later dates) that would potentially generate interest income to AirAsia or free it from paying interest charges, if it were to take bank overdrafts to finance its working capital.

Additional charges such as excess baggage fee, special charges for golf bags and checked baggage handling fee were voluntary charges that passengers could avoid if they chose to travel without any checked-in baggage. In any case, one might argue, there was no reason why other baggage-free passengers should subsidize the charges imposed on baggage-laden passengers. Passengers should also not be forced to pay for something that they did not particularly care about such as window seats, meals and beverages; but those who wanted them could purchase them. Customers, by and large, did not mind paying for something that they wanted to have or bear a certain level of inconvenience in return for a cheaper price. However, consumers could choose to defer their consumption or choose a substitute product when they felt that such consumption or product required too much sacrifice or caused them undue inconvenience.

AirAsia unlocked further demand for its products by introducing new destinations and flight sectors\(^\text{16}\) because new routes reduced the level of inconvenience for some

\(^{16}\) We define a destination as a place/city/airport from/to which AirAsia’s aircrafts depart/land. A flight sector is a flying journey from a destination to another destination, for example, from ‘A’ to ‘B’. When a new destination, e.g., ‘C’ is opened, it may only have a point-to-point air service from ‘B’. A flight sector may be added without necessarily having to open a new destination, for example, in addition to from ‘B’ to ‘C’, from ‘A’ to ‘C’ or from other existing destinations to ‘C’. A new flight sector provides an opportunity for residents of existing destinations to go to other existing or new destinations.
customers. For example, a journey from Kuala Lumpur to Jakarta and then to Manado in North Sulawesi, Indonesia, would have taken travellers twice as much time as it took to fly directly from Kuala Lumpur to Manado. Similarly, the higher frequency of flights on a particular sector offered more choices of time and reduced the risks of getting stranded for too long due to delayed or cancelled flights; overall, a high frequency of flights helped to reduce the total travel time.

Arguably, one of the main reasons why Coca Cola and Pepsi became successful brands was their wide product availability—people could buy them almost anywhere in the world. AirAsia saw air travel simply as a mode of transport for people to move from one place to another in the most cost-effective manner. The airline competed not only with other airlines but also with trains, coaches or buses, ferries and private cars. The airline management realized that for the Malaysian people, the alternatives to travelling somewhere new or exotic were either spending their time at local shopping malls or restaurants or *balik kampong*, which means visiting their hometowns, during public holidays. By making their product user-friendly and easily accessible to customers, AirAsia unlocked further demand—demand from those who were initially apprehensive about travelling by air and/or feared the sophistication of travelling through airports, or those who felt too comfortable with their habit of staying at home during the holidays or shrugged off the idea of going to unfamiliar places. AirAsia made some Malaysian people get out of their cocoons and out of their comfort zones. The airline's red and white logo was visible everywhere in Malaysia and the colour theme (also in red and white) of two complementary companies, Tune Hotels and Tune Money, also helped to increase the level of AirAsia's brand awareness.

AirAsia encouraged its customers to use the Internet to obtain information on all its products and to purchase them directly from AirAsia. However, it acknowledged that not everyone had easy access to the Internet or was able to use it. The airline, therefore, helped customers to overcome that challenge by selling air tickets through its telephone call centres, travel agents and also over-the-counter at airport terminals. Although

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17 Malaysian people, by and large, value close personal relationships among members of their extended families and many of them who work and live in the cities tend to take the opportunity to visit their parents during public holidays, in their home towns which in local language is synonymous to the word *kampung* but which literally means ‘village’, in English.

18 Malaysia has fourteen days of official public holidays in a year. Not surprisingly, working Malaysian people prefer to take extended holidays, i.e., taking personal annual leave that coincides with public holidays and weekend holidays.
AirAsia preferred that its customers pay for the tickets online using credit cards, it also facilitated those who wanted to pay through travel agents, post offices, banks, at AirAsia's airport sales counters or through bank ATMs. AirAsia popularized new destinations by promoting them online, issuing regular press releases and advertising their new offers in national newspapers. Among others, these advertisements showed images of attractive places and proposed a ‘to do list’ of activities for visitors that ranged from eating to getting a medical checkup.

Fuel costs accounted for the largest chunk of AirAsia's operating expenses and quite clearly an astute management of fuel purchases was of paramount importance. However, on top of that, an airline also had to contain its high fixed costs in terms of depreciation and mandatory maintenance of its most expensive assets—its aircrafts. AirAsia's strategy of using more Airbus 320s had paid off in the form of lower overall maintenance and operating costs. In the long run, AirAsia should be able to further lower its unit cost of maintaining and operating an aircraft due to the economy of scale from owning a large fleet of Airbus 320s. However, in the future, the airline may have to revise its policy of acquiring only Airbus 320s because they may need to open up more new routes that are unsuitable for Airbus 320s such as long-haul sectors (more than four hours of flying time) or destinations with airports that are too short for Airbus 320 to land and take off.

Product and Market Development

We examine AirAsia's product and market development strategies using the Blue Ocean Strategy concept. In proposing this concept, Kim and Mauborgne argue that the distinction between successful and less successful companies is their strategic move. Dramatic growth in profit, they argue, is dependent on the strategic move and not on any inherent capability within the organization. Kim and Mauborgne use the metaphor of red and blue oceans to describe the market universe. A red ocean refers to the current market space that is very competitive. Less successful companies (organizations), they argue, are always caught in the red ocean. A blue ocean, in contrast, refers to the unknown or unexplored market space, which has the potential for rapid growth, and those companies/organizations that are successful evidently

19 This was reported in a presentation of its 2008 financial performance to investment analysts.
20 Professor W. Chan Kim and R. Mauborgne published their book Blue Ocean Strategy in 2005 and have since then actively popularized their thoughts worldwide. Together with StratX, they have developed a computer simulator that facilitates executives to try out the Blue Ocean Strategy.
create their own blue oceans. The cornerstone of the Blue Ocean Strategy is 'value innovation', which places equal emphasis on 'value' and 'innovation', and this occurs when a company aligns innovation with utility, price and cost position.

Like Southwest Airlines in the United States, AirAsia in Malaysia changed the way the airline industry should be seen. Through the Blue Ocean methodology, Figure 2 shows the landscape of the people transportation industry in Malaysia—two in air transport and one in land transport.

AirAsia reconfigured the people transportation industry in Malaysia by redrawing the competing factors and taking a path that looked across the chain of buyers and users (Path 3). Theoretically, in adopting this path, a company needed to explore who was paying for the product, who was using the product and who was influencing the use of the product. AirAsia, as Southwest Airlines had been doing for many years, and as Kim and Mauborgne (2005: 61) stated, practically challenged an industry's conventional wisdom about which target buyer group could lead to the discovery of the new blue ocean. AirAsia realized that Malaysian people visited neighbouring countries, particularly Thailand in the north and Indonesia in the south, for leisure and travelled frequently within the country to visit extended family members. For convenience, they tended to travel by cars, buses and trains within West Malaysia, to Singapore and to southern Thailand, and by air between East and West Malaysia. Overseas travel to Indonesia and the northern parts of Thailand was predominantly aboard scheduled airlines. In the past, air travellers had to purchase air tickets through travel agents and airline ticket offices. A majority of the Malaysians preferred to visit these three countries because they had close social connections with the Singaporean, Thai and Indonesian people, and also because the Malaysian currency, historically, had greater purchasing power in Thailand and Indonesia than in Malaysia. In addition, the Malaysian people were more familiar with and adaptable to local cultures in these countries. By understanding the needs of the vast majority of potential travellers at the lower end of the market, in terms of affordability, and by giving them the

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21 According to Kim and Mauborgne (2005: 49–79), the paths are as follows: Path 1—Look across alternative industries; Path 2—Look across strategic groups within industries; Path 3—Look across the chain of buyers; Path 4—Look across complementary product and service offerings; Path 5—Look across functional or emotional appeal to buyers; and Path 6—Look across time.

22 This ritual (visiting friends and extended family members) partly explains the very heavy frequency of flights between Kuala Lumpur and Kota Kinabalu and between Kuala Lumpur and Kuching. Kuala Lumpur is in West Malaysia, and Kota Kinabalu and Kuching are in East Malaysia. The flight frequency is about ten per sector per day. Another sector that is expected to demand high frequency is Kuala Lumpur–Singapore, which at the time of writing had nine flights per day.
Figure 2
The Strategy Canvas of AirAsia

Legend:

- Average scheduled airlines
- AirAsia
- Average express buses/coaches

Source: Case writer’s notes.

Note: The various levels of competing factors reflect the judgement of the author based on his observation and knowledge of AirAsia and the airline and express industry in order to illustrate the application of the Blue Ocean Strategy concept. For example, on competing factor 1 (Price) Malaysia Airlines charges about four times the amount that AirAsia and bus companies charge, on an average. In implementing the Blue Ocean Strategy concept, companies have to do a study to establish those levels more accurately.
option of travelling by air, AirAsia enlarged its market substantially to also include passengers from Thailand and Indonesia, who were curious to visit their wealthier neighbour Malaysia. These travellers also comprised more than a million foreign workers in Malaysia who had previously travelled by boats, ferries and buses to and from their countries.

AirAsia raised or reduced the levels of some competing factors and eliminated or created new competing factors. By lowering the price of air tickets, making it easier for people to book flights and purchase air tickets and making air travel less sophisticated to the low-end markets, AirAsia appeared to have unlocked the largest share/block of the previous non-customer type, i.e., individuals who had never flown before and/or had not visited many exciting destinations. AirAsia’s tag line, ‘Now everyone can fly’ was a powerful proposition to such non-customers. Arguably, the airline had also de-segmented the market of business and economy travellers to simply budget travellers, which included those travelling on business and on leisure. In making it easier for corporations to use its services, AirAsia also provided a slightly more flexible arrangement, whereby corporations were allowed to substitute passenger names on the bookings. The commonalities between leisure travellers and business travellers can be summarized by their preferences for low prices, high frequency of flights, more destinations and flight sectors. One of AirAsia’s strengths, which was not obvious to customers, was its partnerships with other organizations that helped the airline to reduce costs and improve services, which in turn created competing factors that were important for the customers, such as lower prices, ease of purchasing and ease of using AirAsia’s products. AirAsia’s achievements are as follows:

1. Its actions seemed to fit in with Path 3, which was looking across the chain of buyers and users.
2. It reconstructed the industry boundaries and opened up avenues to non-customers to not only have easy access to its products but also to easily and conveniently use them.
3. It identified the commonalities across non-customer types—budget-conscious leisure travellers and budget-conscious business travellers who looked for ‘value’.

23 Malaysia is a famous tourist destination and in 2008 recorded 22 million tourist arrivals, which according to the Ministry of Tourism’s estimates, brought into the country MYR 49.6 billion (US$ 14 billion) in foreign exchange currencies. (This report was made available online. See http://www.tourismmalaysia.gov.my, under media centre, accessed on 28 March 2009.)
4. In its four action framework, which is also reflected in Figure 2, AirAsia took the following steps:

a. Elimination of first and business class air travel and their frills or complementary services such as dedicated business class lounges, hub connectivity, special check-in counters, chauffer-driven airport transfers and exquisite and branded meals and beverages aboard its aircrafts. The airline also eliminated customized services associated with classes of service such as special check-in counters, boarding gates, china plates and cups, a selection of in-flight catered meals and beverages and gifts.

b. Reduction in ticket prices. Prices were reduced by a reduction in or elimination of a number of complementary products that scheduled airlines customarily provided, such as travel date flexibility and in-flight catered meals. It reduced the sophistication of air travel such as the ritual of booking and paying through travel agents, checking in early, waiting in lounges, grouping passengers into classes, allowing extra large and more than one piece of luggage, issuing printed tickets and ticket dockets and issuing a variety of boarding passes. All in all, the airline reduced the formality of air travel to a simple process of ordering, paying and showing up at the airport with only limited baggage, and dressing in the same simple attire as one would wear at bus terminals or train stations. Instead of having to queue at the usual check-in counters, AirAsia customers were able to use self check-in kiosks at selected airports or do web check-in on all its flights and then simply leave their luggage at the special counters. The elimination of the usual complementary products and simplification of product use helped to speed up service delivery and aircraft turnaround time to around twenty-five minutes.

c. Reduction of above-the-line marketing activities and luxuries in the cabin made the company appear down-to-earth. Cabin seat covers were normally in dark leather for ease of cleaning and durability. AirAsia portrayed itself as a mode of transport and not a flying five-star hotel.

d. By increasing the number of destinations, sectors or routes, and the flight frequency on its routes, budget conscious Malaysian people could, as of 31 March 2009, visit sixty-four destinations in fifteen countries. At the same time, by opening new routes, AirAsia opened up the possibility of passengers from Thailand, Myanmar, Indonesia, Cambodia, Vietnam, Laos, China, Singapore, Brunei, Philippines, India, Great Britain and Australia to visit Malaysia by flying directly to a number of Malaysian cities. AirAsia's
cooperation with its subsidiaries and associate companies in opening new destinations and routes also enhanced its global connectivity.

e. The airline raised its level of friendliness through staff training, staff performance incentives and an improved work environment.

f. The airline raised the frequency of point-to-point departures and, together with a quick aircraft turnaround time, also raised the overall speed of a journey, i.e., minimum waiting and different choices between flights.

g. By encouraging the use of the Internet, the airline created simpler methods for customers to find information on air travel and purchase of items and services. Partnerships with other organizations increased their customers’ accessibility to their products and reduced the cost of obtaining them. All of these efforts raised the level of ease in planning for travel, buying travel seats, choices of routes and in using AirAsia’s services.

5. AirAsia created a high-value product offering. The AirAsia product was differentiated in terms of low-price, no-frills, high frequency, point-to-point flights, more routes and destinations and ease in creating a variety of the actual products that the customers desired. It was low price relative to other modes of transport and their corresponding level of convenience. For example, a one-way first-class train ticket from Kuala Lumpur Sentral to Singapore (airfare is based on seven-day advance booking rates for travel on 17 March 2009 by the author) would cost MYR 68 (US$ 19.4) and would take about seven and a half hours. The total travel time when using AirAsia, including travel time from Kuala Lumpur Sentral to Kuala Lumpur Low-Cost Carrier Terminal, would be less than half the time taken to travel by train and would cost almost the same, including taxes (MYR 56.50 or US$ 16.2 as the lowest available airfare on the day of travel plus another MYR 10 or US$ 2.9 for a bus ride from Sentral station to the airport). A self-drive journey would have cost more than MYR 150 (US$ 42.9) in fuel and road toll charges. The same seven-day advance ticket on a scheduled airline would cost more than MYR 300 (US$ 85.7).

6. AirAsia unbundled various components of air travel. It kept the core product, i.e., a passenger seat on a particular route low, and charged for all other complementary products that the customers desired. Its available seat per kilometre (ASK) was

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24 In another later attempt, the author booked a flight for travel on 8 April 2009 for a future travel on 20 July 2009. The cheapest ticket on AirAsia was MYR 56.50 (US$ 16.2) versus MYR 201 (US$ 57.4) on the Malaysian Airlines system (a scheduled airline), MYR 30 (US$ 8.6) on a standard coach and MYR 139 (US$ 39.7) on a luxury coach called Royal Airbus.
at the lowest level in the world, i.e., at 3.29 US cents (see Table 1). AirAsia had fifteen tiers of its core product price, the lowest being zero. The ‘right’ strategic price/s had unlocked more demand for air travel from a wider market—budget travellers who agreed to pay at various price levels which suited their travel situation and use context, for example, business versus holiday trips and hurry versus leisure.

7. AirAsia made new strategic moves by (a) looking across complementary products and service offerings (Path 4), (b) looking across the functional and emotional appeal for buyers (Path 5) and (c) looking across alternative industries, which yielded new insights regarding services and delivery, respectively (Path 1). Under Path 4, AirAsia made it easier and cheaper for people to go to the airport, use airport terminals, find budget hotels, eat and have fun, thereby making the total cost of visiting a new place affordable to its customers. AirAsia together with its subsidiaries and associate companies offered new regional destinations as well as low-cost long-haul air travel to Europe and Australia. In the past, AirAsia competed largely on the functionality of products but by taking Path 5, the airline added elements to make its solutions a bit more emotional, for example, through its association with the Manchester United Football Club, it enabled people to buy e-gifts, which could be used by beneficiaries to buy air tickets. In taking Path 1, AirAsia launched AirAsia Corporate, and government warrants in 2008 saw blue chip companies and government departments trade across (switch) from scheduled airlines to AirAsia.

8. In reflecting on the final stage of the Blue Ocean Strategy (developing high value, low-cost service and delivery offerings), AirAsia implemented a number of strategies that, in terms of the Blue Ocean Strategy, created further uncontested market space. It enhanced its services and product delivery and these included the following:

a. At a small charge, AirAsia gave customers the choice of enjoying added benefits such as boarding the aircraft first, ahead of other passengers, ordering their favourite and often local meals in advance and changing flights and passenger names. It also sold travel insurance that would compensate customers for flight delays, lost baggage and accidents, etc.

25 Government warrants were travel warrants used by civil servants, particularly members of the armed forces and the police force, whose costs of annual travel were paid for by the Malaysian government.
b. It continued to encourage the use of the Internet to purchase tickets but also facilitated those who did not have the Internet or those who did not want to use it to buy tickets easily. The airline, for instance, persuaded certain partners such as travel agents, banks and post offices to handle some or all parts of the purchase transaction. Customers, for instance, could use bank ATMs or go to the post office counters to make payments. Other alternatives included allowing someone to purchase e-vouchers that could be given to someone else to purchase air tickets, which effectively was allowing anyone who had a credit card to buy a cash voucher and give it to anyone, for example, a traveller who did not have a credit card could use it to purchase a passenger ticket. Similarly, its related company, Tune Money issued pre-paid debit cards that could be used to pay for air tickets; therefore, those who did not qualify for a credit card could use this pre-paid card facility.

c. AirAsia clearly recognized the potential emotional appeal of its product. It did that by associating itself with the English Premier League Cup Competition and the Manchester United Football Club, which had a large number of football fans in Malaysia.

AirAsia Tomorrow

What is in store for AirAsia? The year 2008 was a year of crisis for most industries and in particular, the airline industry. It was predicted that this crisis would continue through to 2009 and 2010. For the most part of 2007 and 2008, the price of crude oil stayed at above US$ 80 per barrel, and according to AirAsia26 there was a lot of volatility in the price of jet fuel, interest rates, foreign exchange rates and liquidity. These challenges required an airline to be skillful not only in managing its core business operations, which were air services, but also its finance and supply chain management.

In terms of Blue Ocean ‘thinking’, AirAsia still had an enormous market waiting to be tapped both in Malaysia and outside Malaysia. Malaysia was made up of many ethnic groups. Malay, Chinese and Indians, being the three largest groups, would find destinations in Indonesia, China and India, respectively, appealing. Paths 3 and 4 were potentially attractive routes to building new Blue Oceans. New opportunities to

26 According to AirAsia’s presentation to investment analysts, prices of crude oil fluctuated rather wildly (figures are per barrel); from US$ 80 in September 2007 to US$ 110 in January 2008, to US$ 125 in May 2008, to US$ 147 in July 2008 and down to below US$ 70 per barrel in October 2008.
create new demand should come not just from introducing new destinations but also from new routes within existing destinations, for example, Penang (in Malaysia) to Bandung (in Indonesia), instead of only Kuala Lumpur (in Malaysia) to Bandung so that Malaysian people in Penang can go to Bandung directly instead of going via Kuala Lumpur. When AirAsia announced and eventually started flying from Singapore to four Indonesian cities on 24 March 2009, the airline attracted 80,000 forward bookings (reported on 31 March 2009 through AirAsia's press release) and as of that date, AirAsia was the only airline that flew the Singapore–Bandung sector and the only low-cost airline that served the Singapore–Yogyakarta sector.

Figure 2 illustrates the strategy canvass of AirAsia versus average scheduled airlines and average express coaches in Malaysia. The exact levels of each competing factor possessed by each solution provider were debatable but, overall, Figure 2 reflects the reality of the shift in the shape of AirAsia's canvass in which its trend line crossed the path of average scheduled airlines and indicated that it raised the level of certain factors (9, 10, 11, 12, 13, 14, 15, 16 and 17), most of which were its after-sales services. It is not inconceivable that scheduled airlines will, in the future, follow the trend set by AirAsia, at which time AirAsia would have to identify new competing factors. Coach operators, for instance, could easily copy some of AirAsia's strategy, particularly in raising the level of competing factors 10, 12, 13, 14, 15, 16 and 17. It would be notoriously challenging for a scheduled airline to compete with AirAsia on a similar set of competing factors because of its higher cost in keeping competing factors 2, 3, 4, 5, 6, 7 and 9 at a high level.

Economically, Malaysia is a developing country. Being an export-oriented country, it unfortunately also had to bear the brunt of the global banking or credit crunch crisis that began in the US in 2007. In 2008, Malaysia's quarterly gross domestic production growth rate plummeted from 7.4 per cent in the first quarter to 0.1 per cent in the fourth quarter. However, despite the economic slowdown, per capita gross national income for the third quarter was estimated to grow to MYR 27,674 at current prices (an equivalent to about US$ 8,000) or 20 per cent better than in 2007. With 27.73 million inhabitants, a diversified economy (manufactured products accounted for

27 Strategy canvass is a Blue Ocean technique for comparing and mapping out the relative positions of alternative solution providers in terms of competing factors that are considered important by consumers.

28 This data was provided by the Department of Statistics, Malaysia. (The data was available online. See http://www.statistics.gov.my, accessed on 29 March 2009).
53 per cent of the exports in 2008; services accounted for 54 per cent of GDP in 2008; tourism brought in US$ 14 billion of foreign exchange in 2008, and a relatively sizeable foreign exchange reserve of MYR 314 billion (equivalent to about US$ 90.6 billion), Malaysia’s economy was expected to weather the global economic downturn and come out of the crisis better than most countries; that outcome should augur well for the air travel industry in general and AirAsia in particular. The health of the Malaysian economy was an important factor for AirAsia in the light of its plan to expand its air services into other Asian countries. AirAsia had planned to open new routes to Bangladesh, India and also some cities in China. In addition to passengers, AsiaX also expressed its intention to enter the long-haul cargo markets connecting Asia and Europe. It is also to be noted that the Malaysian government continued to support the development of the LCC industry and approved a plan by the Kuala Lumpur International Airport operator to build a new LCC terminal that would double its passenger handling capacity to 30 million passengers. Mr Giovanni Bisignani, the Director General and CEO of the International Air Transport Association (IATA), also acknowledged the supportive role played by the Malaysian government in improving air travel infrastructure in Malaysia.

Given the interest of Sir Richard Branson in AsiaX, one should not discount the possibility of international cooperation between AsiaX and Virgin Blue and possibly Ryan Air. When that happens, we could see a mega low-cost carrier flying around the globe.

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29 This figure was computed by the author based on export statistics provided by the Department of Statistics Malaysia.

30 This news was reported by Bernama—the Malaysian National News Agency. (The news was reported online. See http://www.bernama.com, accessed on 31 March 2009.)

31 As of 13 March 2009, reported by the Central Bank of Malaysia. As an indication of its significance, this amount was sufficient to finance 7.7 months of retained imports and 3.9 times of short-term external debts. (These figures were available online. See http://www.bnm.gov.my, accessed on 29 March 2009.)

32 This story was published in The Star online on Thursday 12 March 2009, ‘New LCCT to handle 30 million passengers’. (This story was published online. See http://biz.thestar.com.my, accessed on 12 March 2009.)

33 Mr Bisignani’s speech was available for a free download from http://www.iata.org. In his speech, he also commended the willingness of the Malaysian government in liberalizing the air industry and leadership of key players (Kuala Lumpur International Airport and Malaysian Airlines Systems) in taking measures to help ease the difficulties faced by IATA members, particularly in coping with the cost of air operations. Some of these efforts included implementing continuous descent approaches by aircrafts, which were expected to reduce the use of fuel, and the granting of a two-year temporary reduction on airport charges.
CHALLENGES AHEAD

The worsening regional and global economic situation was bound to affect the propensity of the Malaysian people to travel, particularly for leisure, to other countries. In August 2008, the Centre for Asia Pacific Aviation & Airlines reported an overall decline in the carrier load factor growth rate among Asia Pacific carriers between –2.2 per cent and –13 per cent over the previous year. Challenges ahead will come from a number of directions. Over capacity in the airline industry, though mainly among scheduled airlines, may lead to price wars. The Malaysian Airlines recognized the threat posed by AirAsia and launched a new low-cost airline called ‘Firefly’, which started its services in April 2007. However, the greatest challenge in the medium term (2009–11), we think, will come from the nervousness of people in spending their money on leisure travel at a time when they will not be certain of their job situation and as to where their future income would come from.

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According to the International Monetary Fund (IMF), the economy of developed countries or economies as a whole are expected to shrink by 0.3 per cent in 2010 and growth in vibrant emerging economies of India and China is expected to slow down to 6.3 per cent and 8.5 per cent, respectively. In November 2008, the IMF predicted that global economies will grow only at 2.2 per cent in 2009. (This report was available online. See BBC online at http://news.bbc.co.uk, accessed on 12 March 2009.)

This information was published in the Daily Travel & Tourism Newsletter. (This report was available online. See http://www.traveldailynews.com, accessed on 12 May 2009.)