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AirAsia Berhad: Strategic analysis of a leading low cost carrier in the Asian region

Yasmin Yashodha

Taylor's University Lakeside Campus, No. 1 Jalan Taylor's, 47500 Subang Jaya, Selangor Darul Ehsan, Malaysia.

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ABSTRACT

This study examines the extensive strategic analysis of AirAsia Berhad that has enabled it to sustain its competitive advantage as Asia's leading low cost carrier (LCC). The study demonstrates the diverse business-level, corporate level and competitive strategies of AirAsia Berhad, played crucial roles in the LCC to successfully penetrate the under-served market segment of the airline industry within the ASEAN region. An in-depth analysis using a wide array of academic resources, relevant financial, legal and management resources and authorized websites, including face-to-face interviews were used to provide a more consequential comprehension on the varied business and international strategies that were implemented by AirAsia Berhad. This research exhibits critical analysis pertaining to the current macro environment of the aviation industry which includes the PESTEL framework and Porter's Industry Analysis. The competitive environment analysis for AirAsia Berhad is thoroughly scrutinised to examine the driving determinants that attributed to the organisation's competitive advantage in the industry. Further analysis using the Ansoff Matrix, lends evidence to the successful growth of the organization. Additionally, the international strategies that were implemented exhibit the foresight of the airline. The study concludes by adopting the balance scorecard framework to evaluate the organization from four pertinent perspectives of an organization which includes financial performance, customer knowledge, internal business process and learning and growth.

Introduction

.AirAsia Berhad (AirAsia) is a leading Low-Cost Carrier (LCC) in the Association of Southeast Asian Nations (ASEAN) region. The Group focuses on providing high-frequency services on short-haul, point-to-point domestic and international routes. The Group implemented the low-cost carrier business model in the ASEAN region when it acquired the then loss making AirAsia from its Malaysian owner DRB-HICOM Berhad for a token of RM1 (USD0.25 cents), and agreed to assume the debts of the company.

AirAsia was resurrected, re-branded and re-launched as a low-cost carrier following the acquisition of the Company by Tune Air Sdn Bhd in December 2001. With the drive and determination by Dato' Sri Dr Tony Fernandes and with the support of his partners, the AirAsia Group (including its Thailand and Indonesian affiliates) operates a fleet of 90 aircraft and flies to more than 60 destinations from hubs in Malaysia, Thailand, Indonesia and in the upcoming future, Vietnam. AirAsia operates more than 3,500 flights a week and in its short history, has ferried more than 90 million guests.

By serving the underserved market segment has propelled AirAsia's popularity with the masses. With over 130 routes linking three continents, Asia's largest low-cost carrier is proud to be a truly ASEAN carrier, linking communities, cultures and cities across this diverse region by enabling affordable and convenient travel, stimulating regional and local economies and realising the ASEAN dream of integration. The Company and Group CEO Dato' Sri Tony Fernandes have won numerous local, regional and international awards (including the CBE Award by Queen Elizabeth II) and have earned plaudits from varied organisations globally, due to its culture of innovation and its dedication to exemplary service in the aviation industry.

Macro Environment Analysis

In order to obtain a holistic view on the aviation industry, managers and strategic analysts are required to analyse the macro environment to anticipate and influence specific business challenges and threats, to ensure the organisation's competitive advantage is maintained (David, 2009).

The PESTEL framework illustrates a comprehensive list of influences on the success and failures of an organisation's business strategies. By analysing the Political, Economic, Social, Technological, Environmental and Legal aspects of the macro environment, managers will be able to draw the relevant implications of these influences on the organisation (Johnson, Scholes & Whittington, 2008). The PESTEL framework for the airlines industry within the ASEAN region will be discussed in greater detail in the upcoming paragraphs.

The political influence on the aviation industry is instrumental towards the growth of the airline, specifically, in the Asia-Pacific and the ASEAN region. Government support for national carriers and minimal restrictions on migration is pertinent for the growth of an airline. Additionally, security controls should always be maintained to reflect the integrity of the airline. On the economic front, the increasing regional urbanisation is expected to lead the development of new urban centres, creating new destinations for regional travel. The increasing economic growth rates of the ASEAN region would propel the aviation industry to greater heights. The GDP of the

Tele:
E-mail addresses: YasminYashodha.Narandaran@taylors.edu.my

ASEAN economies measured an impressive USD 1.5 trillion as at 15 March 2010 (AirAsia, Annual Report 2009). As such, the aggressive promotion of the regional tourism industry would further boost economic growth and encourages regional travel. Cottage industries thrive as low fares and route connectivity break down national barriers and lower the costs of distribution and travel (AirAsia, Annual Report 2009).

AirAsia clearly was able to distinguish the potential of the underserved market segment within the ASEAN region. More than 50% of the world's population lives within a six hour flying radius from Kuala Lumpur and a five-hour flying radius from Bangkok, which highlights the potential size of the regional aviation market. The introduction of widely available low air fares in Southeast Asia greatly reduces the cost barrier to air travel and creates a competitive transport substitute for the ASEAN population. The best medical care and educational institutions are placed within easy reach, helping nurture the bodies and mind of a burgeoning population (AirAsia Berhad, Annual Report 2009). Families are strengthened as get-togethers become more common and an ASEAN ethos is inculcated due to the knitting of diverse cultures into a colourful regional tapestry (AirAsia Berhad, Annual Report 2009). AirAsia's success in generating revenue from ancillary products and services lies in harnessing the power of its e-business strategy and web-based Customer Relationship Management (Air Asia Berhad, Annual Report 2009). Additionally, AirAsia provides online booking system such as "Go Holiday" and "Get A Room" that enables AA to derive its revenue by incorporating a service fee into the hotel rates (Air Asia Berhad, Annual Report 2009). AirAsia believes that by harnessing the power of cyberspace, the social media provides a channel of communication for low fare promotions, new route launches, contests, flight schedules updates and guest support services. Additionally, it creates a platform to ensure the brand image of the group remains relevant through its website and varied social media networks.

Environmental efforts by organisations have constantly been key issues that require to be addressed constantly. AirAsia believes investment in the latest technology and efficient use of aircraft which are more fuel efficient increases substantial savings with group-wide operations. Collaboration with airports to adapt and develop existing facilities is required to minimise airport capital expenditure and reducing the environmental impact. The "No Frills Service" is designed to reduce waste in all aspects of its operations. However, issues pertaining to noise pollution controls and carbon emissions are issues that need to be addressed by the aviation industry.

"The Five Competitive Forces that Shape Strategy" is pertinent to comprehend large and sustained differences in the average profitability of industries and the implications for strategy (Porter, 2008). Porter's five forces diagnostics, consisting of the bargaining power of buyers, the bargaining power of suppliers, the threat of new entry, the threat of substitutes and the intensity of rivalry is analysed to understand AirAsia's strategic positioning and competitive advantage within the industry. The global financial crisis and recession has impacted tremendously on the airline industry. With the threat of bankruptcy with most airlines in the Asia-Pacific region and globally, merger and acquisitions are becoming prominent to remain cost-effective in the industry.

Presently, with the continuous growth of online booking sites, consumers have varied options to compare and contrast services that are presently available in the market. As the industry is price sensitive, consumers constantly seek cheap deals which invariably lead to intense price competition between the industry players (Datamonitor, 2009). As brand loyalty is low, there are low inherent switching costs in this industry. However, in an attempt to increase their power, legacy airlines have introduced loyalty schemes to attract customers to their service and ensure loyalty. A customer who uses the service of a competitor will lose the benefits of the loyalty scheme, which is equivalent to the incurred switching cost (Datamonitor, 2009). Presently, tough economic conditions has enabled AirAsia to attract a new segment of customers, specifically business travellers seeking cost reductions, as rising unemployment and lack of job security may lead to customers avoiding expensive leisure flights. Price sensitivity serves to increase buyer power. However, the consistent growth and the expanding route network of AirAsia over the years, indicates the bargaining power of buyers to be moderate.

With respect to the duopoly that presently exists in aircraft manufacturing and no viable substitute for jet fuel has been discovered, AirAsia is very much reliant on the supply of Boeing and Airbus. The substantial costs that are presently incurred by AirAsia include fuel, aircraft and staffing costs. At 31 December 2009, the fleet composition of AirAsia amounted to 84; Boeing 737 – 14 aircrafts and Airbus A320 – 70 aircrafts. AirAsia is currently forming alliances with its ASEAN counterparts, and the latest collaboration was an acquisition of a 30% equity stake in VietJet Aviation Joint Stock Company (VietJet Air) to establish a Vietnam-based joint venture low-cost airline which will carry the name Vietjet AirAsia. The formation of Vietjet AirAsia makes Vietnam AirAsia's fourth country base, following Malaysia, Thailand and Indonesia and would enable the airline to achieve network size economies through code sharing, attain scale economies in the purchase of fuel and aircraft (Datamonitor, 2009). Although these collaborations may serve to increase the industry player's buying power, the supply of aircraft, aviation fuel and a sufficient workforce is pertinent to the airline industry. As such, the bargaining power of the supplier is assessed to be strong.

The airline industries in most countries globally, specifically in the ASEAN region have been deregulated which has caused entry barriers for new entrants to be low. AirAsia has been able to negotiate operating arrangements with varied airports, such as enter and exit routes, and set fares and flight volumes according to market conditions. This may prove to be enticing for new LCCs to penetrate the market. Nevertheless, there is a large amount of bureaucracy involved in setting up a new airline. The lengthy process of obtaining the aircraft operating license would defer the generation of revenue for prospective airlines. Additionally, sufficient resources are required for staffing costs and fleet procurement. Due to the growth in air traffic in recent years, congestion at many airports is inevitable, specifically in major hubs (Datamonitor, 2009).

However, AirAsia has surpassed expectations and thrived in all the challenges on becoming the lowest cost LCC in the region. As an established LCC airline, AirAsia would hold the monopoly over prime time slots at certain airports, which makes it harder for new airlines to infiltrate, as these new entrants would be restricted to offer flights at off-peak times or further away from popular destinations (Datamonitor, 2009). As customers seek convenient alternatives, this would prove to be deterrent to new airlines and the danger of low profitability may dissuade new entrants. As most LCCs within the ASEAN region are backed by the sister Airlines and the Asia-Pacific airlines industry generating total revenues of $101.1 billion in 2008, representing a compound annual growth rate (CAGR) of 11.6%

for the period spanning 2004-2008 (Datamonitor, 2009), the likelihood of new entrants to this industry is moderate.

In most countries within the ASEAN region, domestic air travel may not be that viable, and rail and road transportation becomes more attractive alternatives. However, consumers are likely to not only take into account the cost of travel, but also the length of time it takes to reach their respective destinations. As such, to entice consumers towards domestic air travel, AirAsia should continue to sustain its low air fares and reduce travel time, which includes the time to check in, compared to rail travels. As consumers become aware of the environmental impact of air travel, they would opt for rail travel instead. Malaysia and Singapore has bus services which offers travel to all large cities for low cost prices. Additionally, there is a subway system that provides frequent and efficient services for customers at inexpensive rates. Singapore is the southern terminus of Malaysia's rail system, and three trains go to Kuala Lumpur each day. Although ferry services run between Malaysia, Singapore and the Indonesian islands, these services are time consuming and serve limited destinations. Furthermore, video-conferencing is often suggested to pose a threat to business air travel, as it provides a lower-cost means of conducting meetings amongst business partners abroad (Datamonitor, 2009). However, there is no sufficient data to substantiate the level of threat posed by this present technology. The threat of substitutes for the airlines industry is considered to be moderate.

The airline industry in Malaysia is fairly concentrated with large incumbents such as Malaysian Airlines and AirAsia dominating the market. However, the airlines industry within the ASEAN region is relatively fragmented, although AirAsia is attempting to hold a significant industry share by collaborating with the local partners within the region. In recent years, the growth of new budget airlines has intensified rivalry as buyers are seeking lower-cost alternatives to legacy airlines. The increasing threat of bankruptcy amongst leading airlines, could prove disconcerting to new entrants, and therefore reduce rivalry within the industry. Furthermore, exit barriers are high in this industry, as divestment of specialised assets would be required, as implemented by Malaysian Airlines in its Business Turnaround Plan in 2005. AirAsia has been able to mitigate high

fixed costs such as salaries, maintenance and "storage costs"[1] that increase rivalry by successfully generating revenue from ancillary products and services. This is attributed to the harnessing power of AirAsia's e-business strategy and web-based Customer Relationship Management (AirAsia Berhad, Annual Report, 2009). By being less reliant on passenger airline ticket sales, this reduces rivalry amongst the prominent players within the industry. However, there is a strong degree of rivalry in this industry.

Competitive Environment Analysis

In *Competitive Strategy* (The Free Press, 1985) Porter introduced the concept of generic strategies, i.e. cost leadership, differentiation and focus which symbolize the alternative strategic positions in an industry. Additionally, strategic competition can be thought of as the process of perceiving new positions or draw new customers into the market (Porter, 2008). Air Asia's business strategy was focused on serving the underdeveloped LCC market in Asia. The LCC business model offers short-haul, low-cost, point-to-point service between midsize cities and secondary airports in large cities within the ASEAN region.

The following paragraphs will illustrate Porter's Generic strategies that have been adopted by AirAsia on becoming one of the most successful LCCs in the world. This overall cost leadership strategy is related to AirAsia as the business growth is focused on the vigorous pursuit of cost reductions in pertinent areas of the business and it is the central theme of the company's strategy. Additionally, AirAsia currently dominates the low cost airlines industry within the ASEAN region and have revolutionised the airline industry, as their competitors are ill-prepared economically to mitigate issues pertaining to cost minimization (Porter, 2008).

AirAsia operates a single-class service with no amenities such as complimentary in-flight meals and entertainment, loyalty programs and airport lounges. AirAsia's high frequency flights have made it more convenient for guests to travel as the airline implements a quick turnaround of 25 minutes, which is the fastest in the ASEAN region. This has resulted in high aircraft utilisation, lower costs and greater airline and staff productivity (AirAsia, Annual Report 2009). AirAsia offers a wide and innovative range of distribution channels to make booking and travelling amongst customers feasible for its guests. Its ticketless service provides a low cost alternative to issuing printed tickets. AirAsia streamlines administrative functions by hiring employees who are able to perform various roles.

Additionally, the carrier is working towards a single aircraft fleet, as this reduces duplicating manpower requirements drastically and stocking of maintenance parts. By launching promotional fares of RM0.99 since its first day of operations, AirAsia has been able to dominate the market and had created difficulties of imitation amongst legacy airlines such as Malaysian Airlines System (MAS).

Based on the differentiation strategy, AirAsia developed new revenue streams within the group, to maintain its low cost fares and withstand the effects of the global financial crisis by expanding its range of services and products offered through its ancillary income. Additionally, as AirAsia has successfully implemented the low-cost carrier model within the ASEAN region, it receives regular coverage from regional media outlets. The carrier utilises such opportunities to promote and increase its brand awareness without incurring additional sales and marketing expenses. AirAsia uses a revenue management system to optimize revenue from passenger seat sales, which constantly monitors and adjusts its fares based on the date of flight and the forecasted and actual demand of the flight.

This enables the carrier to optimize its revenue from passenger seat sales while continuously offering fares that are lower than its competitors on similar routes. AirAsia has been expanding its ancillary income by capitalising on its strong, dynamic brand. The combined traditional and new wings of ancillary products and services generated revenue of RM413 million in 2009, growing by 34.4 % over 2008. The Ancillary Income per Passenger in 2009 was RM29.1, a 46% increase from 2008 of RM19.9. The ancillary income contributes to the bottom line of the company and also provides a buffer against rising fuel prices which enables Air Asia to maintain the low fares (AirAsia Berhad, Annual Report 2009).

AirAsia believes that its ability to generate publicity as well as marketing and public relations activities have been successful in establishing a high level of brand awareness within the ASEAN region as well as new markets such as India and China. The strategy includes developing Air Asia as a preferred low

[1] Storage costs in a manufacturing industry represent unsold products. In the airlines industry, storage costs represents flying a plane with empty seats that reduces the profitability of the flight.

cost airline that provides high quality service. Additionally, the carrier also organizes and participates in events and promotions with celebrities to enhance its brand image and continues to refine its branding strategy to increase its customer base while entering new markets. Although many new LCCs have emerged since the inception of AirAsia, at the financial year of 2006, AirAsia was the only LCC in Asia that was making profits for 5 years consecutively and obtained the lowest cost on all measures compared to other global LCCs.

The focus strategy of AirAsia is very much reliant on the lagging growth of the LCC market in Asia between 2001- 2006) and was built around serving the underserved market within the ASEAN region. AirAsia's corporate slogan "Now Everyone Can Fly" embodied on providing affordable air travel to everyone, especially to first-time flyers and fare-conscious leisure and business travellers who may have used alternative modes of transportation. Additionally, the carrier believes that certain segments of this market have been underserved historically and the Group's low fares have stimulated travel within these market segments. By 30 June 2004 (in less than 2 years after the re-launch of the airline) AirAsia's share of domestic departing passenger movements for airports in Malaysia increased to 23.1% from 10.1% for the year ended 31 December 2002.

The low-cost carrier model was more attractive than other inexpensive modes of transportation within the ASEAN region as it comprised countries that are separated by sea and/or difficult terrain to travel by means of ground transportation (AirAsia Berhad, Annual Report 2009). Furthermore, AirAsia has used its experience and expertise in Malaysia to expand into Thailand, Indonesia and presently to Vietnam, as the Management believed that the proven business model employed in Malaysia could be replicated in other countries within the region and would offer strategic market positioning for AirAsia outside Asia.

To sustain its competitive advantage amongst its rivals, the first-mover advantage of AirAsia has enabled the Group to gain a foothold in neighbouring countries such as Thailand, Indonesia and recently with Vietnam. Although this has inspired many other budget airlines to flourish within the region, the strategic cost structure of Asia and the growth of the Asian market would enable AirAsia to maintain its strategic position. Additionally, AirAsia X (the sister airline of AirAsia focusing on the low cost, long haul model) achieved its first year of profitability in 2009. The combined short-haul and long-haul networks feeds each other with passengers using the Kuala Lumpur hub to connect to a wide range of routes. Through the AirAsia X trunk routes, the Group attracts guests from markets such as Australia, North Asia and Europe who visits varied destinations within the ASEAN region and travels using AirAsia's short-haul network (AirAsia Berhad, Annual Report 2009). Presently, AirAsia has been able to dominate the short-haul network within the ASEAN region. However, with the underserved potential customer base from AirAsia X, the Group has created a major competitive advantage over other low-cost carriers within the region that are limited by only having short-haul services.

Strategic Analysis

Peter Drucker once said, "When you see a successful business, someone once made a courageous decision." Despite facing challenging obstacles, AirAsia has prospered with its deeply held values and the ability to achieve tangible results. By using the Ansoff matrix, we would be able to analyse that different strategic options which are implemented in companies operating in varied industries and markets (Pearce & Robinson, 2009). The business environment and competitive activities, plays an instrumental role in determining which strategic choice is most appropriate for a company and its impact on the selected choice of a firm's strategic options.

Market Penetration and Consolidation

Market penetration occurs when a company penetrates a market with its existing product range and strategic capabilities and obtains increased market share (David, 2009). For example, AirAsia, with its relatively low market share, succeeded at attacking MAS's market share in the domestic airline industry. This strategy begins with the existing customers of the organisation and is used by companies to increase sales without drifting from the original product-market strategy (Ansoff, 1989). AirAsia penetrated the aviation industry by gaining the competitors' customers, improving the product quality and its level of service, attracting non-users of the products or convincing current customers to use more of the company's products through its RM0.99 promotions and obtaining substantial media coverage due to its fairytale success. This strategy was important for AirAsia because retaining existing customers is cheaper than attracting new ones and engaging in relationship marketing activities is pertinent to retain its high lifetime value customers (Pearce & Robinson, 2009).

Product Development

The product development strategy is implemented when an organization delivers modified or new products or services to an existing market (Johnson, Scholes & Whittington, 2008). However, an organization needs to be wary on new strategic capabilities such as mastering new technologies and project management risks (delays of aircraft orders) before employing this strategy. As maximising revenue is the core objective of AirAsia, the organization recognised that passenger seat revenue was not sufficient to sustain and grow the business. With characteristic zeal and innovative thinking, the organization unearthed new revenue streams through its varied ancillary products and services (Refer to Table 6, Appendix 1). With the execution of this strategy, AirAsia was able to counter competitive entry, maintain the company's reputation as a product innovator, exploit new technology, and to protect overall market share (David, 2009).

Market development

The market development strategy involves offering existing products to new segments, new users and new geographies (Johnson, Scholes & Whittington, 2008). By strictly adhering to a proven business model, AirAsia maintained profitability in its Malaysian operations, despite limited operations and financial resources. AirAsia used its expertise and experience in Malaysia to expand into Thailand and Indonesia, and now, presently to Vietnam. Moreover, the enormous potential for growth of AirAsia based on its years of operation exceeds global LCCs such as Southwest Airlines and Ryanair (Refer to Figure 6, Appendix 1). This further entails exploration of new segments of a market, new users for the company's products and services, or new geographical areas in order to entice new customers (Pearce & Robinson, 2009).

Diversification

Diversification strategy is distinct as an organization essentially moves out of its current products and markets into new areas. AirAsia's related diversification strategy was mainly in the form of backward, forward, and horizontal integration. The airline's backward integration strategy was executed as the company extended its operations towards its growth of its ancillary products and services.

STRATEGY MAP	PERFORMANCE MEASURES	TARGETS	INITIATIVES
Productivity Strategy: *Improve cost structure.* *Increase asset utilisation.*	Plane Lease Cost	5% per year	Reduce cash expenses. Eliminate defects. Improve yields. Manage capacity from existing assets. Make incremental investments to eliminate bottlenecks.
Growth Strategy: *Expand revenue opportunities.* *Enhance customer value.*	Market value Seat Revenue	50% per year 45% per year	New sources of revenue streams (new products, market and partners) Improve profitability of existing customers.

STRATEGY MAP	PERFORMANCE MEASURES	TARGETS	INITIATIVES
Customer Retention and Increasing Market Share: *Attract and retain more customers*	Number of repeat customers. Number of new customers	75% annual target. Increase 10% annually.	Implement Customer Relationship Management (CRM) system. Provide sustainable promotions to attract new customers. Enhance the branding image of AirAsia by leveraging on regional media and foreign partnership.
Customer satisfaction and customer profitability	Flights are on time. (On-time performance) Lowest prices.	On-time arrival rating: #1 Customer ranking: #1	Implementation of customer loyalty program and quality management. Monitor the changes in consumer trends to increase the ancillary income.

STRATEGY MAP	PERFORMANCE MEASURES	TARGETS	INITIATIVES
Operations management processes: *Day-to-day processes by which companies produce their existing products and services and deliver them to customers.*	On-ground time On-time departure	30 minutes 90%	Cycle-time optimisation. Achieve HR process excellence. Maintain a reliable IT infrastructure. Achieve financial process excellence. Develop Innovative Marketing Communication Program.
Customer Management processes: *This process expands and deepens relationships with targeted customers.*	Reduction in customer complaints and grievances	Minimise customer grievances by 25% annually.	To provide rapid responses to dissatisfied customers and ensure the operations are handled effectively. Build strategic employee competencies. Develop effective decision support system. Develop effective CRM.
Innovation processes: *Developing new products, processes and services to enable the company to penetrate new markets and customer segments.*	Growth of ancillary products and services	Growth rate of ancillary products and service should increase 20% annually.	Drive organisational performance. Propose and deliver transformational applications. Develop Financial Information for improved decision making. Develop Marketing Business Intelligence.
Regulatory and social processes: *These processes helps organisations continually earn the right to operate in the respective countries.*	To ensure the safety standards of all aircrafts are maintained. To reduce carbon emissions by purchasing aircraft similar to easyJet, that has proven to minimise its carbon emission drastically.	Zero aircraft accidents. Creating clean development mechanism projects, with the potential of selling emission rights in the market.	Ensure Compliance with regulatory requirements. Accelerate new product development ideas. Implement good environmental policies.

STRATEGY MAP	PERFORMANCE MEASURES	TARGETS	INITIATIVES
Human Capital: *The availability of skills, talent and know-how required to support the strategy.*	Strategic job readiness	Year 1: 65% Year 3: 85% Year 5: 100%	Ground crew training Develop strategic and functional finance, marketing, human resource and information technology competencies.
Organisation Capital: *The ability of the organisation to mobilise and sustain the process of change required to execute this strategy.*	Strategic brand awareness Percentage of ground crew stockholders	100% within the next 5 years. 40% within the next 5 years.	Communications Program Employee stock ownership. Building the learning culture. Continue to promote the customer-focused culture. Foster creative thinking and innovative solutions.
Information Capital: *The availability of information systems, networks and infrastructure required to support the strategy.*	Availability of information system.	100% within the next 5 years.	Crew scheduling system rollout. Expand capabilities with technology Use technology to improve financial information delivery. Enhance IT tools for marketing and IT functions.

Additionally, with online booking system such as “Go Holiday” and “Get A Room”, this forward integration strategy enables the carrier to derive its revenue by incorporating a service fee into the hotel rates (AirAsia Berhad, Annual Report, 2009). Furthermore, AirAsia is expanding on its freight services on its scheduled flights, which includes, cargo, courier and mail services. The execution of the horizontal integration strategy enables AirAsia to venture into businesses that are related to its existing operations and optimize its revenue streams (David, 2009).

Many scholars have argued that related diversification is generally more profitable than unrelated diversification strategies (Pearce & Robinson, 2009). Although the diversification strategy involves venturing into unknown territories and parameters for an organization, the risks of diversification can be minimised by moving into related markets (Ansoff, 1989) as executed by AirAsia.

George Yip’s drivers of globalisation framework which includes market drivers, cost drivers, government drivers and competitive drivers, highlight the implementation of AirAsia’s international strategy with respect to the organisation’s increasing growth. Additionally, Porter’s Diamond framework suggests that there are four interacting determinants, which includes factor conditions, home demand conditions, related and supporting industries and firm strategy, industry structure and rivalry, on why certain nations are more competitive than others and why certain industries within nations are more competitive than others (Johnson, Scholes & Whittington, 2008).

The effective firm strategy and efficient industry structure are the key market driver for the aviation industry as it is driven by the economic growth within the Asian region. AirAsia used its experience and expertise in Malaysia to expand into Thailand, Indonesia and presently to Vietnam, as the Management believed that the proven business model employed in Malaysia could be replicated in other countries within the region and offer strategic market positioning for AirAsia outside Asia. The underserved market segment within Malaysia was clearly evident in the other two markets and the presence of similar customer needs was addressed by AirAsia’s business model. Additionally, the airline’s transferable marketing promotions were successfully marketed in Indonesia and Thailand.

By establishing joint ventures in Thailand and Indonesia, the three-hour radius business model was effective as AirAsia obtained footholds in a larger expansion radius to countries such as India and China and achieved economies of scale. The carrier could not have reached these emerging markets from the Malaysian hub as the flights would have taken longer than three hours. For instance, by holding 49 per cent of the controlling stake and management rights in Thai AirAsia, the carrier is able to control the airlines operations and channel profits into the public listed entity in Malaysia. The home demand conditions that arises, due to the separation of many parts of Southeast Asia by bodies of water and the lack of competitive sea or land transport substitutes provided an ideal market for air travel within the region. Therefore, the introduction of widely available low air fares by AirAsia greatly reduced the cost barrier to air travel and created a competitive transport substitute for the ASEAN population.

The development of new urban centres and the thriving tourism industry within the region has contributed to the rise of regional travel. The demand for flights that do not serve the region’s capital cities will likely come as a result of the growth of secondary cities which would eventually leads to the growth of many related and supporting industries. Additionally, airports in secondary cities are usually less congested than national gateway airports and may offer near-term aeronautical charge incentives to attract new air service.

The rapid air passenger growth that AirAsia has generated has encouraged some government and airports to liberalize bilateral aviation agreements and develop new airport capacity to accommodate the increased demand. Additionally, travel restrictions have been relaxed, particularly in China, encouraging its citizens to travel by increasing the number of exit visas it issues for independent and group travel (AirAsia, Annual Report, 2009).

To maintain its competitive position within the region, the AirAsia Group uses it hubs as platforms to operate high-volume, short-haul routes to cities within a three-and-a-half hour flight time. Additionally, the Group focused on routes that were underserved or not served by other airlines. Furthermore, the key driver for AirAsia to be competitive within the ASEAN region is by offering domestic and international air travel services in other Asian markets, such as Thailand, Indonesia and Vietnam, and by identifying suitable local partners and forming joint ventures (AirAsia, Annual Report, 2009). The business strategy implemented by AirAsia was by forming strategic alliances with local partners in the respective country.

By identifying suitable local partners and forming joint ventures within the region, AirAsia was able to share its investment risk with its chosen partner, leverage on the combined resources and know-how of its partner and fulfilled the respective governmental conditions to expand the growth of its airlines (Johnson, Scholes & Whittington, 2008). However, AirAsia needs to be mindful on identifying and managing relationship with future partners, as it could lead to a loss of competitive advantage through imitation and it could limit its ability to integrate and coordinate activities across national boundaries.

Recommendations And Conclusions

The balanced scorecard is a set of measures that are directly linked to the company’s strategy. Developed by Robert S. Kaplan and David P. Norton, it directs a company to link its own long-term strategy with tangible goals and actions. The scorecard allows managers to evaluate the company from four perspectives: financial performance, customer knowledge, internal business processes and learning and growth.

An organisation’s strategy highlights the development process for creating value for its shareholders, customers and citizens. With the implementation of Kaplan and Norton’s Balance Scorecard, I would be measuring a few critical parameters for AirAsia that would represent its strategy for long-term value creation. The targets and initiatives highlighted in the respective perspectives should be implemented in the next five years to maintain its current status as the leading low cost carrier in the region and globally.

Financial Perspective

To ensure long-term shareholder value is achieved, AirAsia should ensure the following initiatives are implemented to achieve the stipulated targets in the next five years.

Customer Perspective

In the customer perspective of the strategy map, the organisation should identify the targeted customer segments in which the business unit operates and measure its performance.

Internal Perspective

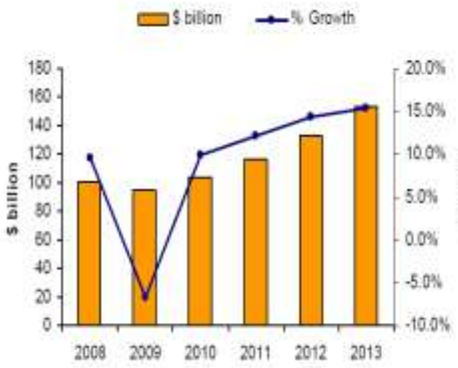
The internal perspective examines the methods of executing the relevant strategies for the organisation. The internal process accomplishes two vital components of an organisations strategy which includes delivering the value proposition for its customers and improving processes and reducing costs to enhance the productivity of the organisation (Kaplan and Norton, 2004).

Learning and Growth Perspective

This perspective reflects the capability that a company should obtain to sustain its competitive advantage, namely, human capital, organization capital and information capital. Additionally, this perspective highlights that good human resource development system, organizational system and information system forms a solid foundation for improving an organization's performance.

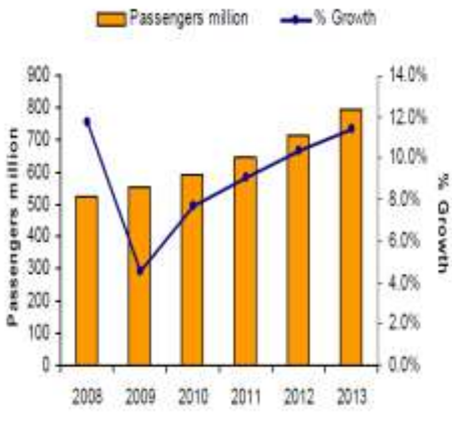
AirAsia should capture the opportunities offered by growth in emerging markets by retooling its existing business models and reconfiguring the organisation's price/value equations. Furthermore, the forecasted growth in value and volume (Datamonitor, 2009) indicates the potential growth of the aviation industry in the next five years.(please refer Figure 1 and Figure 2 below)

Figure 1



Source: AirAsia Annual Report 2010

Figure 2



Source: AirAsia Annual Report 2010

To sustain its market position, as a leading airline within the Asia-Pacific region, risk management is crucial due to the geopolitical instability and market volatility in the emerging market, and strategies should be formulated to address these conditions to sustain its competitive advantage. Technology will continue to materially reshape consumer awareness, choice and interactivity models, and AirAsia should strive to tap the power of technology to improve their competitive advantage in the industry. In addressing environmental issues, AirAsia should emulate easyJet's competency in the environmental field. Additionally, the organisation should be proactive to introduce environmental management schemes to remain relevant in the aviation industry. Mapping costs against business units and geographies will reveal both opportunities for cost reductions and areas in which the organisation should increase its investments to capitalise on growth opportunities. Identifying, measuring and controlling the organisations key drivers would increase transparency and eliminates all data disputes within the organisation. In addition to its present service-oriented corporate culture, AirAsia should also nurture a strong project culture by making product development and innovative thinking a priority within the organisation. This would further encourage employees to constantly increase productivity within the organisation.

In line with the Malaysian's government objective of strengthening air links with the Middle East, AirAsia should focus on expanding its range of destinations in the Middle East and capitalise on the enormous economic potential of the Middle Eastern countries. Within the next five years, AirAsia should also focus on strengthening its country base in Vietnam, due to its close proximity to China by obtaining liberal traffic rights, no restrictions on passenger capacity and increase its flight frequencies between the two countries. Furthermore, AirAsia should strive on becoming the partner of choice by building relationship with other brands. Additionally, the organisation should get the support staff to be involved in the sales channel, and actively involved through branding and merchandising. Furthermore, in the next five years, AirAsia should strive to become a partner of choice through education, training centres and with the possibility of building an AirAsia University.

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