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Organizations and Management Assessments

Case Study

The ascendance of AirAsia: Building a successful budget airline in Asia
Executive Summary

Pestle analysis of the AirAsia shows that liberalization in the air market of Asia Pacific countries has improved with the international market access. It has also been found that there has increase in growth of number of airlines operating in this region and also the number of passenger has improved after the market liberalization. Five forces model analysis indicate that this industry is highly competitive and high threat of new competitor in this industry and other substitute of domestic market. SWOT analysis of this AirAsia has shown that company has its strength in the management, operation efficiency and low cost and its weaknesses are highlighted with the poor staffing, no response customer care and other attractive marketing strategy. It is highly recommended to the company to expand its business in the European Countries and Western Asia making the Abu Dhabi as its main hub.
Introduction

Market liberalization in the Asia Pacific countries has vast impact on the Airasia Airline Company, as this company firstly operates in Malaysia and after the virtue of market liberalization Airasia Airline Company got the chance to enter in other countries of Asia Pacific that leads to boom to its on-going journey in the Malaysia. This report is written to investigate the case of “The ascendance of AirAsia: building a successful budget airline in Asia” as written by Thomas Lawton and Jonathan Doh (Shaw, 2012). The case is on the journey of Airasia Airline Company in the Asian Pacific countries before and after the market liberalization. In this report two main tasks will be carried. One is related with conducting of Pestle analysis to know how market liberalization in the Asia-Pacific assisted AirAsia’s growth in the region. Another is related with the conducting of SWOT and porter five forces model analysis to know how the market liberalization trend on the company. AirAsia is the Malaysian low cost air carrier that charges the lowest fares per kilometer in the world (Case Study).

Analysis and Research

PESTEL analysis of Air Asia will help to develop a significant understanding of the impact of Market Liberalization in the Asia-Pacific on the growth and development of Air Asia. PESTEL analysis of the airlines conducted is as follows:

- **Political factors**: Air Asia faces increases challenge while operating is business outside Malaysia due to bilateral agreements. Bilateral agreement is one of the major obstacles for the growth and development of low cost carriers in the Asia-Pacific region. In addition to this, landing charges is also one of eth most significant factor that impedes the
growth and development of Air Asia in country (Subra and Gopal, 2001). However, the market liberalization in the Asia-Pacific region has eliminated the problem of air transport charges and has provided the opportunity for the airline to operate its business outside Malaysia.

- **Economic factors**: Air Asia offers cheap tickets to the customers in Asia-Pacific region that is responsible for increasing customer satisfaction in the region. The low cost fare model of the airline has enabled it to grow and develop in the Asia-Pacific region. Economic recession in the Asia-Pacific region is responsible for the success of low cost fare model of the airline as large number of customers want to air tickets at reduced prices (Subra and Gopal, 2001).

- **Social Factors**: The increasing number of tourists and population across the Asia-Pacific region is also supporting the growth and development of the airline. Air Asia emphasis on ‘Safety First’ and follow all the quality standards for providing best services to the customers in a cost-effective manner (Shaw, 2012).

- **Technological Factors**: Air Asia provides online services for air ticketing so that customers can easily gain access to tickets. In addition to this, airline has recently introduced an airline online program where guests can easily book their holiday packages. Technological factors have increased the efficiency of airline in different countries in the Asia-Pacific region.

- **Environmental Factors**: The Company has implemented several measures for the environmental protection in order to protect the environment from any negative impact of pollution. Airlines pollute the environment and thus it is necessary for the airlines
operating in the Asia-Pacific region to implement proper measures for the environment protection (Shaw, 2012).

- **Legal Factors**: Market liberalization in the Asia-pacific region has provided enormous growth opportunity for the Air Asia airline but has also increased the legal considerations for the airline (Subra and Gopal, 2001). Airline has to fulfill all the legal requirements and policies for conducting their business operations in various countries.

Thus, it can be inferred that Market Liberalization in the Asia-Pacific region has provided huge opportunity to the airline that is driving the present growth and development of the airline. However, the increase of competition in the external market place is one of the serious concerns for the airline in order to sustain its ongoing growth and development.

**SWOT Analysis and Porter Five Forces Analysis**

SWOT and Porter five force analysis of Air Asia airline will help to analyze its present and future competitive state in the global market place. SWOT analysis helps to analyze the strength, weakness, opportunity and threat of the airline as follows:

- **Strengths**: The major strength of airline is its low operational and maintenance cost due to which it is able to adopt a low cost fare model for increasing customer satisfaction. The low operational cost of the company is on account of use of online reservation systems, no frill, quick check that helps the company to reduce its operational cost. Strength of AirAsia can be found in its strong management team and its operation is managed by the ex-Ryanair director who has the experience of reducing the expenses in the low cost environment (Shaw, 2012). This company has good technology
infrastructure that helps in carrying the business in the low cost market. Strength of this company is break even load factor of 52% and world’s low traveling cost of 0.23 per kilometer.

- **Weakness:** The major weakness of the company as analyzed by the given case is implementation of latest technologies that requires huge amount of investment. In addition to this, increasing fuel price also presents a major potential threat for the airline as it will increase the operational cost of the airline. Due to the low cost approach company has less number of staff as compare to other rivalries in this segment. Lessor number of employees creates trouble when there is peak time at the airport and there is very short time available to the employees (Hahua, 2013).

- **Opportunity:** Opportunity can be seen with the increase in the customers in the Asian market sue to low cost approach of the airline companies. Low cost fare model of the airline will prove beneficial for the company in attracting customers from all over the world and thus will helps in enhancing the profitability of the company in order to remain sustainable for future.

- **Threat:** Major threat to the AirAsia Company is the increase in the competitor worldwide especially in the Asia Pacific Countries. Increase of competition in the Asia-Pacific region presents a potential threat that can negatively impact the growth and sustainability of the airline in future (Shaw, 2012).

**Porter Five force Model**

Porter five force model help to gain a proper understanding of the potential profitability of a market and help it form its future strategy accordingly.
• Bargaining Power of Customers: The bargaining power of customers is high due to large number of competitors existing in the market. Thus, customers have high bargaining power as they can select a specific airline that cost them cheaper. The buyer power in the Asian countries in respect of airline industry is weak due to fragmentation of buyers and large number of potential buyers in this industry. In East Asia the propensity of air travel is comparatively low as compared to global average of 2.0 per trip. In India it is 0.1 and with that of China it is 0.3. Buyers in this industry can be segmented into the two main categories business travelers and recreational travelers having different price sensitivity.

• Bargaining power of suppliers: Bargaining power of suppliers is not as high as switching cost for the airline companies is not as high as there is large number of suppliers available for eth airline companies. Supplier in the airline industry is limited and it consists of aircraft manufactures, producers of airports and air fuel. So it can be said that power of these suppliers is moderate and is limited to certain category. The producers of aircraft has moderate bargaining power has it is unfeasible to shift from one supplier to another without nay major alteration caused in the respective company.

• Threat of new Entrant: Threat of new entrant is high as the liberalization of the market has provided opportunities for many foreign airlines to enter into the Asia-Pacific region. It has been estimated that there is very threat of new entry in this market (Asia Pacific Countries). Although the cost of Aircraft are very high but airline companies can enter in this industry with few aircraft as AirAsia has done in 2001. After the liberalization in this market has eliminate the government barriers that decreases the cost of entering in the market of Asia Pacific Countries (Shaw, 2012).
• Threat of Substitutes: Threat of substitutes is also high as consumers re preferring rail and road transport more in the Asia-Pacific region due to low cost involved in these modes of transportation. It has been examined from the data given that there is very high threat of domestic market due to increase in airline companies in Asia Pacific market at relatively very high speed. On looking at overall market it can be said that there is moderate threat of substitute in this market area but in some region is very high such as India and China.

• Competitive Rivalry: Competitive rivalry is high in the industry due to high cost of fixed assets and low switching cost in the industry. Price rivalry is one of the prominent examples of intense competitive rivalry in the airline industry (Pauna, 2011). Customers can easily switch from one airline to another due to price issues and thus airlines faces increasing pressure to adopt and implement a low cost fare model for providing increasing customer satisfaction.

Impact of market liberalization on the AirAsia Company and future strategy of the company

It can be judged from the overall analysis of the pestle, SWOT and five forces model that AirAsia has been very much impacted by the market liberalization both is positive as well as in negative way. On overall success of the AirAsia Airline Company in the East Asia has made this company a successful company in this market. The success of the company can be due to company willingness to take risk through using the innovative strategies that reduces the cost and also provides huge profitability (Case Study).

Conclusion and Recommendations
On complete analysis of AirAsia Airline Company using various models it can be said that future of the company is very bright and company must frame some new strategies to put themselves in new shelf where new entrants to the market cannot reach. Air Asia should expand its market in the intercontinental market of East Asia especially in the Europe with its main hub at Abu Dhabi (Shaw, 2012). In addition to this Company should add some more aircraft in there fleet mainly A320 Airbus at it provides very high at lower cost. It has been that 8% of passengers in the Asia Pacific market are business class, so it is highly recommended to the AirAsia to put its main focus on the recreational segment of this market.
References

Case Study. The ascendance of AirAsia: Building a successful budget airline in Asia.


