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EXPANSION STRATEGIES TO ACHIEVE COMPETITIVENESS

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Abstract---*The aim of this study is to examine the strategies that are adopted by the airlines in the Malaysian territory. Air Asia was incorporated as a private limited company in Malaysia in 1993 and became Malaysia's second national carrier in 1996 and officially commenced operations as a full-service domestic airline with only two aircrafts. The company was facing losses most of the time and eventually on December 8, 2001 the company was taken over by Datuk Tony Fernandez, a visionary leader who has no related experience in airline at all. He changed the business model and re-launched Air Asia as a low-cost carrier. Air Asia became the first low-cost carrier to take to the skies in the region. Since the takeover in 2001 with only 2 aircrafts, Air Asia has revolutionized air travel in the region to become a leading low fare airline in South East Asia. It has achieved remarkable growth in all aspects of its business such as fleet grown to 28 now, recorded strong revenue growth from good passenger seat sales, as well as achieved strong profit growth and financial position. This case study would attempt to look at Air Asia's key success factors and challenges faced and to propose suitable strategies for Air Asia to maintain its dominance. Some of tools employed include Ratio Analysis, PEST Analysis, Porter's 5 Forces, Competitive Profile Matrix (CPM), SWOT Analysis, Internal/External Factor Evaluation Matrix, Stakeholders' Analysis, BCG Matrix and TOWS Matrix.*

Keywords: *competitiveness, airline industry, Air Asia, web optimization, Porter's five forces model*

I. Introduction

In December 2001, Air Asia was acquired by Tune Air from DRB-Hicom and was then turned into the first low cost airline in Southeast Asia. Air Asia has made a remarkable achievement with first mover advantage and became the leading low-cost airline in Southeast Asia by revolutionizing the air travel industry in Malaysia and the region, at the same time establishing Air Asia into a superb brand. From a losing company in 2001, Air Asia has achieved significant reduction of losses in 2002 and become an increasing profit making company for year 2003 to 2005 amidst aggressive expansion and the pressure of rising fuel cost and insurance premium. The successful achievement of low-cost model in Malaysia is being replicated in Thailand and Indonesia to capture the Southeast Asian and the Asian Market including China and India in its long-term expansion plan (Lawton, 1999; De Silva et al., 2018a; De Silva et al., 2018b; Nikhashemi et al., 2013).

In order to accurately assess the current scenario within Air Asia, it is essential to have an understanding of its background and history. In understanding the current situation within Air Asia, the starting point was its corporate values. The corporate values were used to supply information related to management and leadership principles, business principles, as well as corporate governance principles. This was then followed by looking at its recent to medium-term operational and financial performances (Blanchard & Muet, 1993; Dewi et al., 2019; Pambreni et al., 2019; Tarofder et al., 2017). These two parameters were useful in helping to gauge how capable Air Asia would be in undertaking new strategic initiatives.

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Information regarding Air Asia's organisational structure and associate companies were also compiled as these helped in understanding its current focus areas. The understanding of Air Asia's current areas of business and expansion exercise was further strengthened by the gathering of information regarding its services area and related revenue streams. The above four factors and five forces have a huge bearing upon Air Asia's current and future performances. In addition to the above two analyses, a Competitor Profile Matrix (CPM) was also constructed. The CPM basically pitched Air Asia against its major competitors in several critical areas such as Price Competitiveness, Marketing/Branding, Regional Expansion, Customer Service, Maintenance and Safety Standard, Cost per ASK, Route Coverage, Flight Frequency, Management Leadership, and Aircraft utilization. However, Tun Dr. Mahathir, who would rather have them buy an existing airline than to start a new one, probably would like to realize his vision of turning companies around as opposed to starting new ones. From then Datuk Tony and his partners have made many greatest things happened besides the fact that, Air Asia already had a strong brand. He just changed the strategy to a low cost airline and revolutionized the air travel industry in the region and continuously bringing Air Asia to the greatest height (Li & Ling, 2013; Doa et al., 2019; Maghfuriyah et al., 2019; Nguyen et al., 2019).

II. Literature Review

Since taking over the reins at Air Asia in 2001, with his dynamic and charismatic leadership he has revolutionized the air travel industry in the region and "CEO of the Year 2003", and the "25 Stars of Asia" honoree listing by Business Week. Apart from that he was awarded the "Emerging Entrepreneur of the Year 2003" in Ernst & Young Entrepreneur of The Year Award, the "International Herald Tribute" award for the Visionaries and Leadership Series in 2003, and the "Asia Pacific Aviation Executive of the Year 2004" (Gorynia, Nowak, & Wolniak, 2005; Pathiratne et al., 2018; Rachmawati et al., 2019; Seneviratne et al., 2019; Sudari et al., 2019; Tarofder et al., 2019). Recently in July 2005, he has been conferred Datukship due to his visionary leadership in revolutionizing the airline industry and his great contribution to the economy and low-cost airline industry in the region (Tracey, Vonderembse, & Lim, 1999).

Its expansion's strategies includes increase of frequency on existing routes, opening new routes which are underserved with high potential as well as replicating its successful models via joint ventures in Thailand and Indonesia and at the same time further lowering its operating cost. Thai Air Asia is a joint venture between Malaysia's Air Asia via its subsidiary company, AA International Limited (AAIL) and Thailand's Shin Corp. PCL (SHIN.TH) with shareholding of 49% and 51% respectively. Operation in Thailand started in February 2004. Apart from that Air Asia also flies to the Philippines and serves the region of China through Thai Air Asia. Trade liabilities from major creditors at the point of takeover amounting to RM40 million have been repaid. Air Asia has enjoyed an impressive growth profile since it launched its first flight in January 2002 with just two aircrafts. At the end of FY03 (June) it had made an income of RM 18.8 million, which jumped 160% to RM 49 million in 2004 and is forecasted to grow another 200% to RM 153 million in 2005 and about 50% to M$226 million in 2006. As of the 3rd quarter unaudited financial performance report to Bursa Malaysia for fiscal year 2005, Air Asia's first 9 months' revenue totaled to RM 466.7 million while its net income for the first 9 months surged to RM 95.14 million.

The fleet enlargement is essential as it expands to more destinations across Asia. In fact Air Asia's short fall in its forecasted net income growth for 2005 was mainly due to the delay in the delivery of its ordered aircrafts. Air Asia wishes to establish its goal to be the leading low-cost carrier in Asia with the strategies in stimulating demand by offering low fares, expand within Asia (Dwyer & Kim, 2003).

Air Asia's competitive differentiations are:

- First mover advantage in Southeast Asian region
- An effective dynamic low cost carrier (LCC) brand in Asia
- Largest low cost carrier (LCC) in Southeast Asia
- Able to maintain the lowest cost per ASK[(1)] globally
- Track record of passenger growth
- Able to achieve success especially during an extraordinary difficult period for the airline industry
- Experienced and dynamic senior management team led by good leadership's GCEO Datuk Tony Fernandez since January 2002.
- Proven business model and profitable operations
- High maintenance and safety standards
- Award-winning company and award-winning GCEO
- Revolutionized the air travel industry in the region

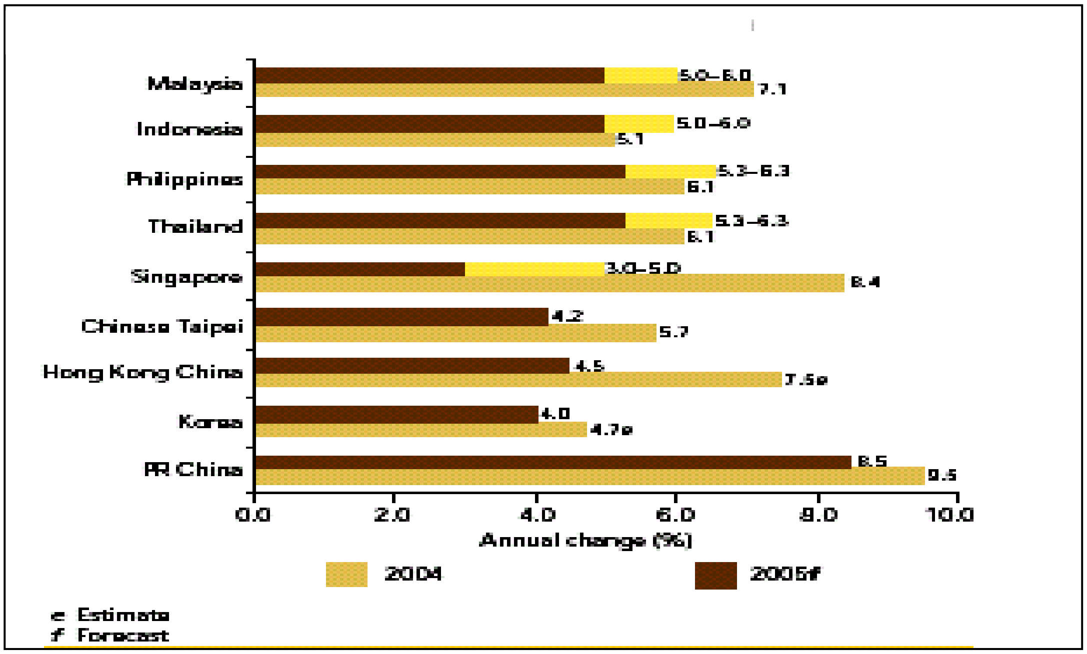
Air Asia is facing stiff competition from the emerging low-cost carriers and full-service carriers operating in the same routes. In term of low-cost carrier market share; Air Asia made up 25% in domestic activity while Air Asia and Lion Air made up 5% of the international activity in Malaysia; 21% of the domestic activity belonged to Lion Air while 8% of the international activity belonged to Air Asia, Lion Air and Val air in Indonesia; 20% of the domestic activity controlled by Orient Thai (operating as One-Two-Go) and Thai Air Asia while 2% of the international activity controlled by Air Asia, Thai Air Asia and Val air in Thailand; Cebu Pacific Air captured 33% of the domestic activity in Philippines; and Thai Air Asia, Lion Air and Val air made up 2% of the international activity in Singapore (Wu, Sinkovics, Cavusgil, & Roath, 2007).

The travel industry is very much a regulated industry as described in the topic "Governmental Regulation in The Airline Industry" in Section 5.5 on page 70. Apart from complying with the regulation, the potential of the aviation industry is driven by the policies of the government in term of the liberalization of bilateral aviation agreement with other countries, relaxation of travel permit, and developing of new airport capacity to accommodate the increasing demand. Southeast Asian is unlike the aviation industry of America and Europe which are highly liberalized. Although countries in the Southeast Asian countries are beginning to broadly liberalize the international bilateral agreements to increase air travel, however, Air Asia faced difficulty in its recent plan to expand to Singapore (Di Gregorio, Musteen, & Thomas, 2009; Nikhashemi et al., 2017; Tarofder et al., 2019; Ulfah et al., 2019; Tarofder et al., 2016; Udriyah et al., 2019). However, Thailand has liberated its domestic markets in 2000 and recently signed an "open skies" agreement with China that allows nearly unrestricted operation between the 2 countries. At the same time China also encourages its citizen to travel by increasing the number of exits visas it issues to independent and group travel. Moreover, China is keen to build more liberal air framework with other ASEAN countries.

The Singapore government started moving ahead to build a US$26.4 million terminal for low-cost carriers to be in operation by 2006 to handle 2.6 million annual passengers (MAP[8]) to cater to Southeast Asia's growing number of budget airlines (Esterhuizen & Van Rooyen, 2006). The terminal will be at the Singapore's Changi International Airport, one of the Asian region's busiest hubs. If Air Asia was allowed to use the Subang Airport for its operation hub, Air Asia would be able to further lower cost and increase its load factor given the cheaper airport costs and strategic location to the city center, for instance to cut fares by up to 15% and airport costs can go down 30% (The Star, December 22, 2004). However, Air Asia failed in its pursue with the Malaysian government for the use of Subang Airport when the Malaysian government decided on February 23, 2005 to build an additional low cost airport at KLIA costing RM 98.8 million to be operational in the first half of 2006 (The Edge, February 23, 2005). This second dedicated low-cost carrier terminal in Asia after Singapore will be equipped with some 40 parking bays for aircraft would be able to handle 10 to 12 MAP, and ensure a quick aircraft turnaround time of 20 minutes (Zhang, Cavusgil, & Roath, 2003). In view of the good tourism infrastructure and close proximity to take advantage of the fast expanding China economy, the Thai government will be opening its Bangkok's new.

Based on The Canadian Commercial Corporation[9] (CCC), Southeast Asia that has ten member countries such as Brunei (population of 372,225[10]), Cambodia (13,630,382[10]), Indonesia (241,890,922[10]), Laos (6,213,585[10]), Malaysia (26.13 million[11]), Myanmar (46,988,399[10]), the Philippines (87,816,883[10]), Singapore (4,425,495[10]), Thailand (64,175,743[10]), and Vietnam (83,515,024[10]) are amongst the fastest growing economies in the world. However, the airline business is a very unpredictable industry. Airline industry is very much affected by occurrences like social unrest in Thailand and Indonesia, war in Afghanistan and in Iraq, the Severe Acute Respiratory Syndrome (SARS) and bird flu outbreaks, oil wars and natural disasters earth quake and tsunami. For instance occupancy rates for hotels fell to as low as 30 per cent while airline bookings were down 40 per cent due to the outbreak of the severe acute respiratory syndrome (SARS) (The Edge, April 8, 2003). Barring all the uncertainties above which are uncontrollable, the growth of per capital GDP in the region is the most significant factors driving the tourism and airline business (Hussain, Mosa, & Omran, 2017). The Malaysian economy is blessed with sound fundamentals as depicted by sustained strong economic growth, a low unemployment rate, prudent fiscal management and relatively low debt levels. The economy has been achieving real GDP growth since 1999 at modest inflation rates. Based on the real GDP growth in the Bank Negara 2004 report[12], the 2005 economy outlook in the region is positive as shown in the Figure 4. In Malaysia, the economy is growing at a national average rate of between 5% and 6%, according to the central bank of Malaysia, business activity in city areas should be at least twice. An analyst said the higher growth rate in Malaysia, compared with its neighbors, partly because the country is rich in oil and gas (Hussain, Mosa, & Omran, 2018).

Figure 1: Regional Countries: Real GDP Growth



The business travelers demand more comfort and prestige apart from all of the above. Some business travelers are comparing the standard of business class that the airline can offer as their exposure are more due to their more frequent business travels and experiences with other airline traveling. Travelers, presently are very concern on convenience of travel, whereby, they can book their air travel ticket online, make payment online without going out from their offices or homes. The introduction of internet and call center booking by airlines, flexibility of various payment outlets and online payment using the credit cards through the internet are some of the facilities that meeting the changing customer demand. Besides that, the SMS booking and payment, and ticketless air travel provides further convenience to the customer as the travelers do not have to pickup their air ticket from the sales counters. All they need to produce is the book number and payment slip upon check in at the airport. Customers also expect the concept of one stop centre where they can book their leisure or business travel online which give them the flexibility of packaging their own choice of traveling time, accommodation, cab transportation to and from the airport or hotel. Because of the widely use of internet technology in the daily and working life style, travelers are demanding internet access facility not only in the airport terminal but also in the airplane while they are traveling (Hussain, Musa, & Omran, 2019).

The use of technology in the airline industry significantly contributed to the reduction of cost and increase competitiveness and profitability. With the reduction in cost, its fare will be much lower compared to the industry standard. Information communications technology is one of the areas that help to reduce cost substantially such as website hosting and advertising. Website hosting enables airline companies to reach a broad market of potential customers with very cost effective mean (Hussain et al., 2012). Advertising and promotion activities can be implemented very quickly by updating the content of the websites and able to cover various geographical areas by incorporating the languages used in the region into the company's website. Airline companies worldwide are incorporating internet technology as the internet sales plays a significant portion of the total sales. It is a tool that helps customer to book and pay online. With convergence of information technology and telecommunication, centralized call center and centralized data base can be shared by all the business operation in the region. Calls can be distributed or routed automatically to different geographical area and time zone according to the time, day and needs of operation efficiency. With telecommunication networks available, the critical database of customer information and business operation can be backed up from another location for the sake of disaster recovery in order to ensure business continuity. Centralized Interactive Voice Response (IVR) enables SMS booking and payment from mobile phone or fixed line SMS phone. With all the enquiry and booking records in the database, airline operator is able to analyze the needs and trend of its customer, thereby implement certain fare and promotion to stimulate more traffic. While the low cost carrier continue to grow in the region, the air-traffic control (ATC) must keep pace with capacity by introducing a number of new technological innovation including Reduced Vertical Separation Minima, which utilizes the increasing accuracy of altimeters to allow for smaller gaps between airborne aircraft (Nawaz, Afzal, & Shehzadi, 2013).

On the other hand the advance of internet broadband technology and telecommunication technology in mobile and 3G, VOIP and convergence of voice, data and multimedia images will provide the avenue to avoid air travel as people are closer, easily and as frequently able to communicate with each other via internet, audio conferencing and video conferencing which replaces physical meeting. Most importantly it save all the traveling cost of meeting[15]. This section describes Air Asia's marketing and sales activities in relation to the marketing mix or the 4 Ps of marketing; Product, Price, Place and Promotion.

It aims to become the profitable first truly no frills, low cost operator in Asia, modeled after the very successful Southwest Airlines[16] from the US and RyanAir[17] and Easyjet[18] from Europe but with added emphasize on technology and the human touch, this is the formula of Air Asia's visionary leadership that makes Air Asia so successful. Air Asia always strives to encourage tourism and to stimulate the air travel by serving routes which are not served and underserved, and target to the main bulk of population in the region who have never flown or seldom flown due to cost factor and not to compete with other air full-service carriers. Therefore, it sticks to its special tagline 'NOW EVERYONE CAN FLY' and had revolutionized the air travel industry in the region by introducing an efficient, egalitarian and attractive travel service that has the concept of "Easy to Book, Easy to Pay, Easy to Fly". Since then, Air Asia has continuously added convenience to its customer with call center booking, online booking and payment, ticketless travel, SMS booking and payment that make traveling is fun, exciting, besides the convenience and cost saving of flying with Air Asia (Nawaz, Azam, & Bhatti, 2019).

Though Air Asia is targeting to increase its sales revenue from online booking and call center booking which are very cost effective, Air Asia still depends on other channels of sales such as airport sales station, sales center and travel agents. Sales stations are located in the airport terminal where Air Asia has its operations, while sales center are additional to sales station in selected location in the cities or town outside the airport terminals to provide more convenience to its walk-in customers to reservation and settle payments. In order to save cost there are only limited number of preferred travel agents are being maintained. However, there are quite a substantial number of sky agents employed everywhere. Such arrangement enables Air Asia to increase sales without incurring additional costs because Air Asia needs not pay any commission to the preferred travel agents and sky agents. However these agents are allowed to charge a service fee with a condition that such service fees are openly disclosed to their clients. These sorts of services provided by these agents are instrumental to Air Asia in increasing sales on those customers who do not have internet access and/or credit cards particularly customers in the rural remote area.

Air Asia allocates 3% of its revenue for its marketing campaigns and activities every year. Air Asia is usually very selective in its advertising medium and preferably advertises its services and promotion prices on its website, newspaper and selected magazines and supported by radio and outdoor advertising. Occasionally television advertising will be used. There were issues raised by MAS on Air Asia's openly advertising very low prices but the issues were eventually settled in January 2004 because Air Asia was being considered as an exceptional case as low cost leadership. Occasionally it advertises special promotion price on anniversary celebrations and launching of new flights to new location. Sometimes it also advertises cut-out coupon promotion in the dailies such as New Straits Times, Berita Harian, Malaysia Nan Ban, China Press, and Kwong Wah Jit Poh where customers can get free or special fare apart from its usual low fare. Occasionally there will be more discounted promotion fare apart from its usual low fare, for instance promotional fare like S$0.29 one way from Singapore to Bangkok, or RM 1.99 from Kuala Lumpur to Penang (Nawaz & Hassan, 2016).

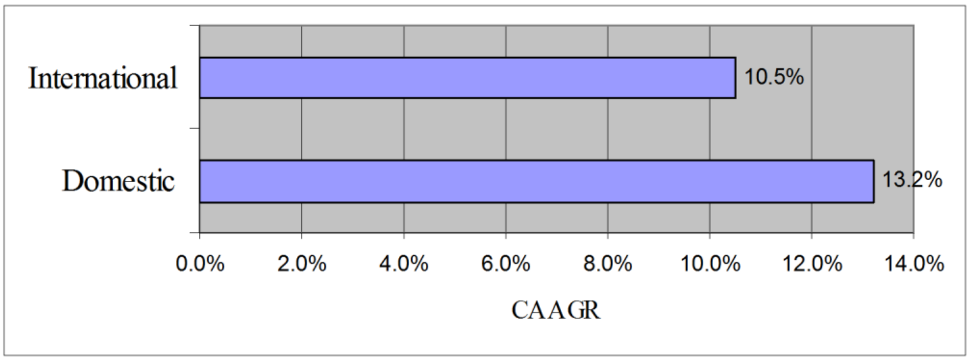
Air Asia Go Corporate described as a retention program where corporations and business organizations can sign up to take advantage of the benefits of time and cost saving besides being a long term customer to Air Asia. Since corporate and big organization would find it easier to manage and monitor its travel plans effectively, and gain access to comprehensive reports over its staff movements besides empowering them to set their own corporate travel policies, therefore it will be a powerful tool for customer retention. Moreover, Air Asia Go Corporate website will keep the profiling on information related to the travel needs of the respective organizations for more control over its' travel planning. The special DBS and RHB co-branded card also retain those customers from the customer base of these co-branded bank as these card users are able claim free travel ticket from Air Asia on the points earned. Apart from all other facilities in the Air Asia's website such as packaged holiday under Go Holiday, Go Car, Go Hotel, etc., Air Asia's customers are also enjoying special fares on special occasion.

On top of that, these loyal customers will get free information when they subscribe to it free of charge, whereby, any promotion or development will be automatically emailed to them, thus keep them always with and alert of Air Asia.

Analysis

From 1985 to 2003, domestic passenger movement at Jarkarta's Soekarno Hatta International Airport (Indonesia's busiest airport and national gateway) grew at a compounded average annual growth rate of 9.6%, while the international passenger movements grew at an average rate of 7.6% per year. For the period from 2000 to 2003, the compounded average annual growth rates were 36.9% and 1.6% for domestic and international passengers respectively. The forecasts for the domestic and international (only to/from Southeast Asia, China and India) passenger growth rates are summarized in the following Figure 2.

Figure 2: Passenger Growth Forecasts in Indonesia (2003 to 2008)



Passenger activity in term of revenue passenger kilometer within the region grew at an average annual rate of 7.5% from 1985 to 2000, one of the highest rates in the world. Growth is expected to continue with intra-regional passenger volume forecast of 8.6% on an annualized basis from 2003 to 2008. There are 5 main factors that will continue to spur the aviation activity growth such as; large demographic area with good per capital income growth, liberalization of the aviation industry, geography, increasing number of business travelers, and increasing urbanization. Apart from the ASL, there is a requirement to any Malaysian aircraft where the operator of the aircraft must hold an AOC[28] granted by the DCA. The AOC is granted by DCA on the basis of the fulfillment of certain criteria among others includes the competency of the operator, its equipment, staff, maintenance as well as other related arrangements. The AOC issued to Air Asia is for the period of one year and will be expired by September 28, 2005. The approval type is "Authorized to operate as an Air Operator" and conduct "Scheduled Journeys". The extension of subsequent period after the expiry period will not be an issue to Air Asia as it has no problem of complying with those criteria.

No Malaysian aircraft can fly without the certificate of airworthiness issued by the DCA. This certificate can only be issued when the aircraft satisfied condition to be fit to fly with regards to various factors. Another requirement is that any Malaysian aircraft will not be allowed to fly unless the aircraft is maintained in accordance with the maintenance schedule approved by the DCA. On top of the above domestic traffic rights and international traffic rights, the operators are subject to allocation of slots in the airport, be it domestically and internationally. Flagship carrier in a particular country is responsible for the allocation of slots. Prior to each season, the airline planning to operate internationally has to apply for slots allocations, which are currently allocated by MAS for the case of KLIA airports in Malaysia, based on terminal limitations, runway capabilities and availability of apron parking. For Thailand, THAI is responsible for the allocation of slots at DMA. As such the flagship carriers will enjoy the competitive advantage of such favorable allocation of slots to their advantage.

The airlines are trying to emulate the success of Southeast Airlines Co, Ryanair Holdings Plc and other budget carriers in the United States and Europe, which have captured about a fifth of their markets for air travel. The company has Europe's biggest no frills airline, Ryannair as one of its partners, besides Singapore Airlines and the Singapore government investment arm, Temasek Holdings. Tiger Airways is the first low fare airline to get rights to fly into Vietnam and has opened an office in Hanoi, which signals the start of its second phase of expansion into South East Asian destinations.

Figure 3: Tiger Airways Flight Route Map

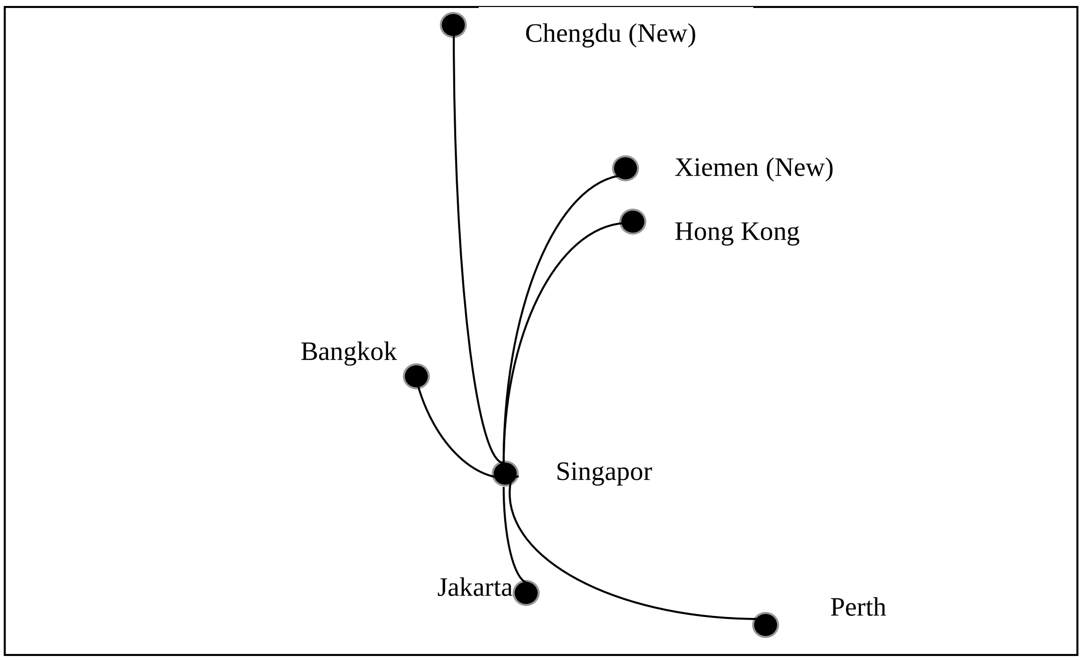
Source: Tiger Airways Website

The airline wants to fly into other parts of Indochina, which are not served well from Singapore and several destinations in the Philippines. The airline has several aircraft which are leased. It has arrangements with three leasing companies currently and would announce more leases soon.

In December 2004, Tiger Airways' recorded load factor of 76%. It would see a slight dip due to the Dec 26 tsunami effect in January. On a sustainable basis the airline is aiming a load factor to be in excess of 80%. The management of this airline had committed to triple its fleet eventually from four to twelve by placing an order for additional eight aircrafts.

Its fares are 20% to 30% cheaper (from that of full-fledged carriers) and are not for the bargain hunter. This concept of mid frills airline has been chosen because the managements feel there is a huge market segment for mid frills. Malaysia's Star Cruises has a 20% stake in this airline. The management would like

Figure 4: Valuair Flight Route Map



Source: Valuair Website

to push for growth and to achieve higher level although currently enjoying about 65% load factor and during peak periods 82% for all its sectors. When Valuair began operations in 2004, it was perceived as a no frills airline. But the management wants to change the perception to a mid frills carrier. Mid frill is a hybrid model which is still low in its cost structure but have features or services that are important to customers. This is to cater for when people fly, they want to pay low fares and want some frills. Future destinations under review include Beijing and cities in Japan, India, Taiwan and Australia. Its strategy is not to concentrate solely on tourist spots, it prefers the ones that offer both business and tourism aspects as these are the routes that command higher traffic. For its operations, the airline has four aircraft and would lease two more soon. Valuair leases its planes as it wants to remain an asset "light" company. The airline does not compromise on reliability, its on-time departure stands at 99.5% which is one of the highest in the industry. However, Valuair is still struggling to get out of its negative balance sheet and many due diligences have been currently undertaken for feasible acquisition or merger. One of the possible partners in the merger will be Jetstar Asia, Singapore-based second budget airlines.

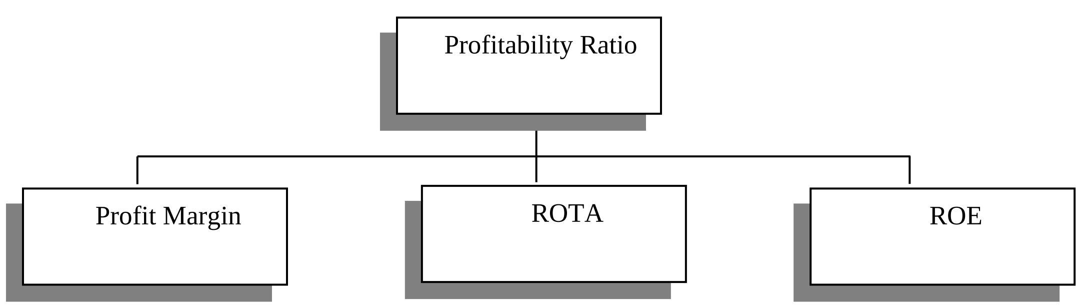
Lion Air has come a long way from their humble beginnings as a small domestic airline after having spent thirteen years in the travel business. In October 1999, PT Lion Mentari Airlines (Lion Air) proposed a license of private air carrier to the government of Indonesia. In June 2000, Lion Air began its first flight (Jakarta – Pontianak) and turned out to be one of the players in the context of nation-wide air transportation competition that have a tendency to be a huge field for the real open market of Indonesian economy. Actually, the first flight gives considerable momentous for Lion Air having control over the future of air transportation competition, parallel with Indonesia's position as archipelago countries. Since its first flight, Lion Air has been shifting entire aura of air transportation, and further created a reconfigured phase for whole sectors of national transportation toward efficient business.

It gives most attractiveness for everyone's unprecedented with aircraft to fly throughout archipelago, and then to the regional air transportation. The incredible reason triggering the shifting entire aura of air transportation is Lion Air's assertive pronouncement to come together both professionalism in services and offering rational fare. Lion Air fulfills the civil aircraft rule of conduct according to Air Operator Certificate (AOC), and put passengers in certain place as customers that are sovereign. Year-around 2000, Lion Air operated four B737-200 aircraft. In 2003, Lion Air sprints approximately 20 MD-82 aircrafts. Today, in the context of Indonesia air transportation, Lion Air is noticeable expanded that focusing to middle-low social class. Along with progressively increasing of middle-up class enthusiasm to enjoy air transport by Lion Air, so emerge new requirement in order of services in the level of executive class that must be created by Lion Air. Hence for that, Lion Air opens business class since November 2003, eight seats to every aircraft.

As vanguard of cheap price, presently Lion Air succeeds as barometer for other airlines. By year-end 2003 it owned 30 type MD aircrafts and owning 53 MD aircraft type presently. Furthermore, since January 2004 Lion Air is having the airplane hangar for heavy maintenance and in March 2004 Lion Air already owned a simulator in Curug, West Java. Lion Air has made a training center for 21.000 people for commercial, technical, and operational department. In the near future, Lion Air will open Lion Air Academic Aviation equivalent by D-3 (bachelor degree). In reaching broader regional area, that was why in the year 2004 Lion Air started to use the wide body aircraft for the air transport, targeting Asia Pacific region.

Profitability analysis is used to asses a company's profit performance during the operating year. The potential of profit from a company is important to long term-term creditors and shareholders as in the long run, the company must operate at a satisfactory profit to survive besides enhancing shareholders' values. Moreover, profit potential is also an important criterion to new supplier and existing suppliers who are interested in maintaining a continuing relationship with a financially sound organization. The profitability ratio analysis covers profit margin, return on total assets, and return on owners' equity.

Figure 5: Profitability Ratios



(a) Profit Margin on Sales = (Profit after Tax / Sales) * 100

Profit margin on Sales is a measure on the quantum and extension of the pricing policy of AirAsia. It also shows how much of each RM of sales represents its net operating profit.

Table 1: Calculation for Profit Margin on Sales

YEAR	WORKING (RM '000)	PROFIT MARGIN (%)
2000	(-31,328 / 149,285) * 100	-0.21
2001	(-19,138 / 167,749) * 100	-11.41
2002	(-1,663 / 217,421) * 100	-0.77
2003	(18,836 / 330,040) * 100	5.71
2004	(49,019 / 392,690) * 100	12.48
2005	(95,140 / 466,742) * 100	20.38

Based on the above table, Air Asia had incurred losses for in 2000, 2001, and 2002 with each dollar of sales incurred 21 cents, 11.41 cents and 0.77 cents of losses respectively. However, Air Asia had made a gain of 5.71 cents, 12.48 cents and 20.38 cents in 2003, 2004 and 2005 respectively for each dollar of sales. This shows an uptrend of its profit margin from 5.71 % in 2003 to 20.38 % in 2005. ROTA is the measure of the efficiency of Air Asia in utilization of asset to earn a profit

Table 2: Calculation for Return on Total Assets (ROTA)

YEAR	WORKING (RM '000)	ROTA (%)
2000	(-31,328 / 26,755) * 100	-117.09
2001	(-19,138 / 49,263) * 100	-38.85
2002	(-1,663 / 51,436) * 100	-3.23
2003	(18,838 / 124,322) * 100	15.15
2004	(49,067 / 350,003) * 100	14.02
2005	(40,611 / 1,080,146) * 100	3.76

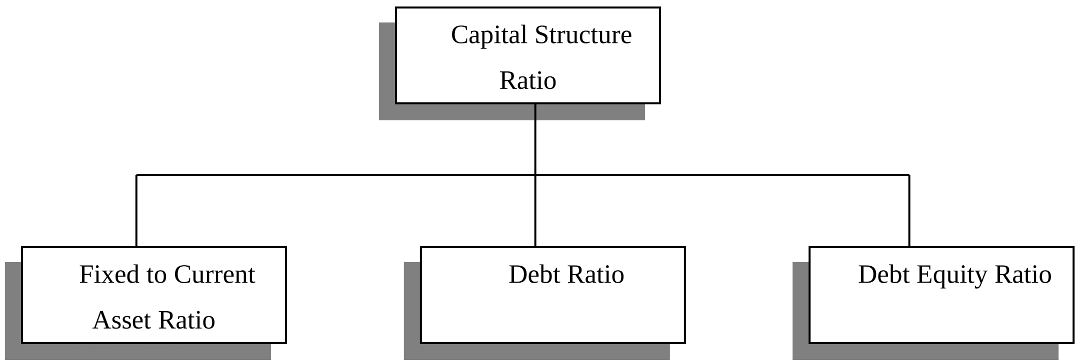
According to the table above, Air Asia had incurred a very bad negative return on total assets in 2000, 2001 and 2002 but the negative return declined sharply during the period of these three years. However, Air Asia achieved a positive ROTA in 2003 shows that the management through its operating activities produced 15.15 cents in profit after tax for every dollar invested in its resources. But the ROTA in 2004 declined slightly from 2003 to 14.02 cents, and further declined to 3.76 in 2005 mainly due to its expansion exercise in its investment in aircrafts and aircraft spares within the group. Return on Equity is the measure of the return on shareholders investment.

Table 3: Calculation for Return on Equity (ROE)

YEAR	WORKING (RM '000)	ROE (%)
2000	(-31,328 / -85,840) * 100	36.50
2001	(-19,138 / -104,978) * 100	18.23
2002	(-1,663 / 2,575) * 100	-64.58
2003	(18,838 / 49,078) * 100	38.38
2004	(49,067 / 150,280) * 100	32.65
2005	(40,611 / 937,994) * 100	4.33

For the year 2002, Air Asia incurred a loss of 64.58 cents for every dollar invested by shareholders. However, the Company profit had increased and gave a good return on shareholders in 2003 and 2005. Because of the greater increase of shareholder fund in 2005 due to successful IPO listing of Air Asia into the Malaysian Stock Exchange in November 2004, the ROE decreased tremendously to only 4.33 cents despite the increase of profit in 2005. The low return was partly due to the new venture of the 2 sister companies in the year 2004 in Thailand and Indonesia which had not actually achieved the breakeven point in their operation. Capital structure ratio is to analyze the performance of the Air Asia's capital structure, which includes the ratio of fixed to current assets, debt ratio, and debt equity ratio.

Figure 6: Capital Structure Ratios



(a) Fixed to Current Assets Ratio = Fixed Assets / Current Assets

Fixed to Current Assets Ratio (FTC) is used to reveal the assets structure of AirAsia.

Table 4: Calculation for Fixed to Current Assets Ratio

YEAR	WORKING (RM '000)	FTC (%)
2000	1,451 / 25,304	5.73
2001	1,463 / 47,800	3.06
2002	13,142 / 38,294	34.32
2003	41,501 / 82,821	50.11
2004	163,019 / 186,984	87.18
2005	231,926 / 848,220	27.34

According to the calculation above, the Fixed to Current Ratio indicates that Air Asia invested in fixed assets is always lower than its current assets. The allocation of investment fund into fixed asset is healthy in the case of Air Asia as it increases its aircrafts and related spares for its expansion strategies. The ratio for fixed asset is on the rise every year and is almost equal to its current assets in 2004. However, this ratio has lowered to 27.34 in 2005 because of the significant increase of current asset especially in cash and bank deposit.

III. Conclusion

Airline earnings are highly cyclical and the biggest in industry risk with respect to the economic cycle. The airline industry is also highly competitive in nature. Other risks facing the airline industry include war, labor disruption, pension expenses, weather, natural calamities, threats of terrorist attacks, foreign currency exposure, fuel prices, insurance premium, government action, antitrust and travel agents litigation, and other negative impediments to demand including geographical health issues such as SARS and bird flu. However, well-run airlines such as Air Asia will continue to enjoy healthy profit margins growth with its continuous expansion. Based on Air Asia 2005's 3rd Quarter Analyst Presentation, Air Asia ranked number 1 in both the Net Income Margin and EBIT Margin, and number 2 in the EBITDAR Margin as compared to other world most profitable low-cost airlines such as Ryanair, Easy Jet, Virgin Blue, Jet Blue and Southwest airline.

The regional low-cost carrier competitors are quite far behind to really challenge the market dominance and expansion strategies of Air Asia in Southeast Asia. For instance, although the Singapore government has been very supportive to its low-cost airline industry and creating blockage for other low-cost carriers to land in Singapore, the three Singapore-based low-cost carriers are not doing well especially Valuair, Singapore 1st low-cost airline is having difficulty to sustain with its continuous financial losses. Jetstar Asia is also not in the greatest of shapes which primarily stems from a lack of quality routes. As such these two airlines are merging in order to improve their competitiveness. The position is better for Tiger Airways; SIA's low-cost baby has tripled its network to nine destinations, including Chiangmai, Macau and the Philippines, over the past six months. Moreover, it has confirmed to triple its current fleet of four to twelve and successfully securing the air rights to fly into both of Vietnam's major airports, lucrative Ho Chih Minh City and Hanoi. The other low-cost airlines such as Nok Air, Lion Air and Cebu Pacific Air are more domestically focused in Thailand, Indonesia and Philippines respectively.

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