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What Policies Airlines in Malaysia Adopt do to Achieve Competitiveness?

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ABSTRACT
The purpose associated this work is to examine the adopted polices and measures by the Airlines in Malaysia. The rebirth of this carrier was in the aftermath of September 11, 2001 tragedy crisis and terrorist attack in New York. Air Asia has succeeded in turning around in the airline industry from a losing airline into a strong growth and profitable airline, especially in having a track record of achieving success during an extraordinary difficult period for the airline industry, that was caused by the adverse effect of terrorist attacks, the wars in Afghanistan and Iraq, the Severe Acute Respiratory Syndrome (SARS), tsunami incidence and rising fuel prices and insurance premiums. The Air Asia group strategically focuses on providing high frequency services on point-to-point short-haul routes within a three-and-half hour flight time from its domestic and international hubs. All these have been made available with the use of technology to meet its commitment for "Easy to Book, Easy to Pay, Easy to Fly" while reducing cost and increasing customers and market share. With that Air Asia cost per ASK1 is reducing every year and its cost per ASK is the lowest globally. Air Asia adopted the models of the very successful Southwest Airlines from the US and Ryan Air and Easy jet from Europe but with added emphasize on technology. Its successful and proven low-cost model in Malaysia was replicated across boarder. In 2004, Air Asia formed two successful joint ventures in Thailand and Indonesia as low fare airline. To date, the Air Asia Group has carried over 11 million passengers and currently operates over 100 domestic and international daily flights from its hubs.

Keywords: airlines, competences, strategies

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INTRODUCTION
This case study of Air Asia Berhad was conducted entirely through secondary research. There was no primary research conducted because the necessary information was readily available in the public domain such as Air Asia's website, press release, media publication, IPO listing prospectus, annual report and publication by the press and online information from the internet. Moreover, other information was gathered from Air Asia's competitors and the airline industry sources. Some journals and books are also referred to for statistical and theoretical support and presentation of the arguments (Nawaz & Hassan, 2016; De Silva et al., 2018a; De Silva et al., 2018b; Nikhashemi et al., 2013).

This case study consists of two core parts as follows:

I. Case Writing

II. Case Analysis

Case writing being the first segment is made up of; the background of Air Asia and the industry it was operating in. Hence, these steps in the case study will provide a comprehensive understanding of Air Asia as the company being studied, and the necessary grasp of the nature of the airline and travel industry. There are four major areas of interest as depicted in Figure 1 below in the case writing, namely the background and history, current scenario Air Asia is facing, its services and alliances, and the aviation industry (Blanchard & Muet, 1993; Dewi et al., 2019; Pambreni et al., 2019; Tarofder et al., 2017).

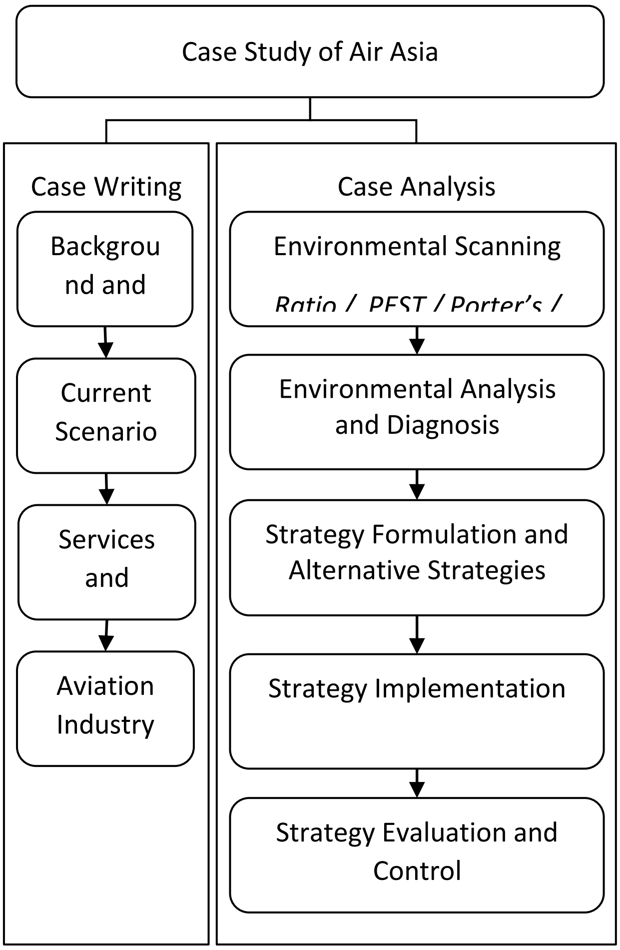


Figure 1: Steps in the Case Study and Case Analysis Tools Employed.

While examining Air Asia's background and history, special attention was given to its growth strategies: how Air Asia was able to grow from a loss company in 2001 to its current stature of profitable position with fast expansion, and a leader of low-cost airlines in the region. This understanding was important as the case study sought to determine whether the same strategy or strategies that Air Asia had employed all these while were still relevant in its pursuit to extend its leadership position. The information gathered during the scanning of the environment was analyzed and diagnosed in the portion of Environmental Analysis and Diagnosis. Once these were determined, the reasons for Weaknesses and Threats were then identified. This will be followed by the Strategy Formulation of Alternative Strategies. The objectives of this step were to formulate suitable strategies for Air Asia and to investigate alternative strategies that could be considered by Air Asia (Dwyer & Kim, 2003; Doa et al., 2019; Maghfuriyah et al., 2019; Nguyen et al., 2019). The first sub-step was to establish Air Asia's Vision, Mission, and Objectives. While some companies stated these items clearly in their official publications, some, such as Air Asia, did not. As a result, Air Asia's Vision, Mission, and Objectives were extracted and deduced from various sources. The second sub-step was to conduct an Analysis of the Stakeholders' expectations and powers. All stakeholders, be it internal and external were identified with regards to their expectations of and influence upon Air Asia. The next sub-step was the BCG (Boston Consulting Group) Matrix. The BCG Matrix is typically used to analyses a company's market growth and market share for its product offerings, in this case study, it was also used to analyses Air Asia's market growth and market share on its passenger seat sales for different geographical areas where Air Asia is operating (Di Gregorio, Musteen, & Thomas, 2009).

LITERATURE REVIEW

Subsequently the actual strategy generation was carried out using the TOWS Matrix. The TOWS matrix is essentially an extension of the SWOT analysis. The output was a list of strategies in four different combinations of the Threats, Opportunities, Weaknesses, and Strengths. The seventh and final sub-step was the presentation of alternative strategies. There were two sources: scholarly journals and actual strategies adopted by at least two of Air Asia's key competitors. The next step is the Strategy Implementation. In this step, the seven key building blocks of successful strategy implementation were briefly mentioned. The significance of these seven elements was that companies wanting to be successful – be it at strategic initiatives or at tactical maneuvers – need to identify and develop at all business levels. Finally, the Case Analysis was subjected to Strategy Evaluation and Control. This was the practical steps in evaluating and controlling the progress of the strategic initiatives. Additionally, special propositions had been put forward to cater for the inevitable changes in the internal and external environments (Esterhuizen & Van Rooyen, 2006; Pathiratne et al., 2018; Rachmawati et al., 2019; Seneviratne et al., 2019; Sudari et al., 2019; Tarofder et al., 2019).

Air Asia Berhad was incorporated as a private limited company in Malaysia in 1993 where 75% of its interest was held by Hicom Berhad and the rest of 25% interest held by Mofaz Air. As Mofaz Air did not participate in the number of subsequent cash calls by the company, Hicom Berhad's shareholding increased to 99.25% and Mofaz Air's shareholding shrank to 0.75%. The entire shareholding of the company was transferred to Hicom on August 18, 1999. The entire DRB-Hicom's shareholding of 99.25 per cent equity of 51.68 million shares was acquired by Tune Air at RM1 with a condition to inherit some RM50 million in current liabilities. Tune Air was a company started by Datuk Tony Fernandes in partnership with Chairman Subsequently, Ryanair's former director of operations, Connor McCarthy, served as advisor to Datuk Tony Fernandes. On June 27, 2003 Air Asia Sdn. Bhd. completed a private equity placement on three foreign partners. On November 22, 2004, Air Asia completed its IPO involving 700.51 million of 10 cents shares (Gorynia, Nowak, & Wolniak, 2005).

After the acquisition by Tune Air on December 8, 2001, Air Asia was re-launched as a low-cost carrier in its business model. Air Asia became the first low-cost carrier to take to the skies in the region and has been a leading low-cost carrier in Southeast Asia; its cost per ASK1 is the lowest in the world and is one of the world's most profitable airlines. Air Asia's tagline 'NOW EVERYONE CAN FLY' is instrumental in providing opportunity for those who never flew before, in encouraging local tourism and stimulating the national economy. Since then CEO Datuk Tony Fernandes and Air Asia has revolutionized the air travel industry in the region. The first airline to enable their customers to pay for their bookings by credit card for purchases over the telephone at the Air Asia nationwide Call Centre, the world's first airline booking and payment by SMS from mobile phones (Hussain, Mosa, & Omran, 2017; Nikhashemi et al., 2017; Tarofder et al., 2019; Ulfah et al., 2019; Tarofder et al., 2016; Udriyah et al., 2019). All these have been made available with the use of technology to meet its commitment for "Easy to Book, Easy to Pay, Easy to Fly" while reducing cost and increasing customers and market share. Air Asia is the airline for everybody with the motto "Now Everybody Can Fly". The heart of Air Asia thrives on the values in Figure 2 as follows:

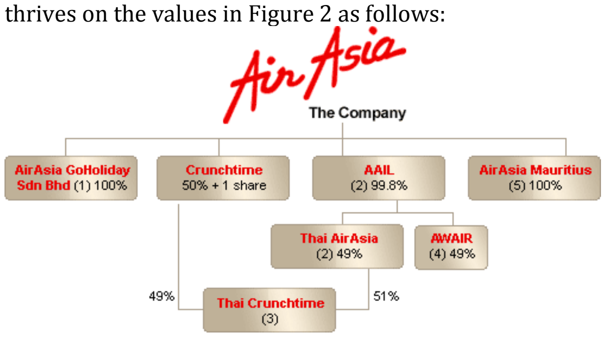


Figure 2: Corporate Structure of Air Asia Berhad.

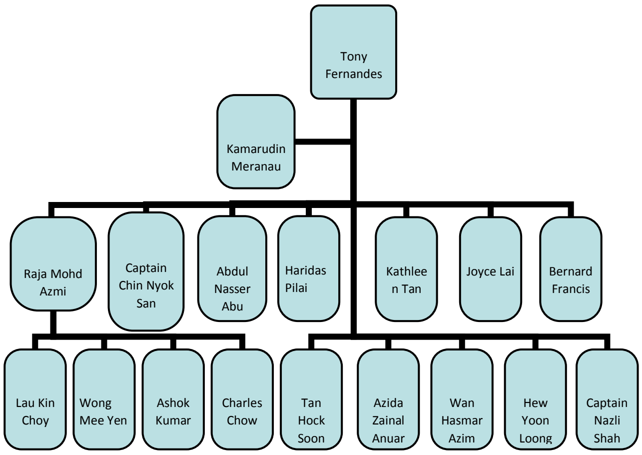


Figure 3: Organizational Chart of Air Asia

Table 1: Operational Performance

FISCAL YEAR	2000	2001	2002[1]	2003	2004	2005[2]
RPK[4] (RM in Million)	339	363	672	1539	2,771	1,187
ASK[5] (RM in Million)	547	586	1,018	2,086	3,592	1,650
Cost per ASK (RM)	0.189	0.16	0.128	0.109	0.094	0.081
Passenger Load factor (%)	62	62	66	74	77	72
Revenue per RPK (RM)	0.205	0.204	0.184	0.151	0.142	0.138
Passenger Volume (Million)	0.27	0.29	0.61	1.48	2.8	1.1
Passenger seat sales Revenue (RM in Million)	41.2	44.0	87.9	195.9	348.0	157.3[6]
Average Fare (RM)	207	203	183	147	131	143
No. of aircraft at period/year end	NA	2	3	7	13	20
Aircraft utilization (Block hours per day)	NA	NA	11.2	12.5	12.8	NA
Average fuel price (US Dollar per gallon)	NA	NA	NA	0.71	0.74	NA

Table 2: Financial Performance

FISCAL YEAR	2000	2001	2002[1]	2003	2004	2005[3]
Revenue (RM in Million)	149.3	167.8	217.4	330.0	392.7	466.7
Cost of sales (RM in Million)	172	176.5	208.1	288.5	279.1	317.4
PBT (RM in Million)	(31.29)	(19.12)	(1.61)	11.46	58.07	99.29
PAT (RM in Million)	(31.33)	(19.14)	(1.66)	18.84	49.01	95.14
Diluted Earning per Share (Sen)	60.2	36.8	2.8	11.7	28.1	6.38

Source: Compilation from Air Asia's Listing Prospectus and Website (Table 1 & 2)

Raising RM 864.01 million from its public offer of 700.51 million 10 cents shares. Of that, 116.75 million shares were for the public and 560.41 million shares for local and foreign institutional investors. Air Asia, with a market capitalization of RM 4.15 billion as at February 14, 2005 was one of the eight companies from around the world to be included in the global index, MSCI7 Standard Index (The Edge, February 15, 2005 & The Star, February 16, 2005). According to the Asian Development Bank (The Star, April 30, 2005), However, the Thai economy continues to face numerous challenges in the second quarter of 2005 (Hussain, Mosa, & Omran, 2018). Skyrocketing oil prices, the bird flu epidemic, drought and the tsunami disaster have given rise to concerns over economic growth as most pundits do not expect domestic investments to play a key role as growth driver. The Bank of Thailand has forecast that core inflation is likely to surpass the target ceiling of 3.5% in the third quarter of 2006. According to Anusorn Tamajai, (The Star, April 30, 2005) a prominent economist that the economy will grow around 4%-5% in the second quarter, better than the first quarter largely due to higher tourism income. In addition, there is expectation that international rating agencies may also raise the country's sovereign rating. The Asian Development Bank expects the Philippine economy to grow by only 5% in 2005, from a 15-year high growth rate of 6.1% last year, and settle at that rate in the next two years. This is in view of the projected weakening of global demand and a decrease in agricultural output, the bank said in its annual publication. The Philippine government's medium-term development plan forecasts growth of 5.3% to 6.3% in 2005, 6.3% to

7.3% the following year and 6.5% to 7.5% in 2007. After weak start to the year, Singapore's economy is poised to pick up speed again in the second half of the 2005. The Monetary Authority of Singapore still maintains its projection that economic growth for 2005 will be in the lower half of the official forecast of between 3% and 5%.

The economy of China (population of 1, 306, 135, and 123910) has a significant impact on the economy of Southeast Asian countries. Fixed asset investment is expected to grow 20% year-on-year during the January-March period. (The Star, April 30, 2005). As quoted by the China Securities Journal on the report of the Chinese cabinet's Development Research Centre (DRC), boosting per capita GDP to US$1,700 (The Star, March 22, 2005). Therefore, the Southeast Asian region will be able to benefit from the spillover effect of the fast growing Chinese economy. With real GDP growth, subsequently more spending power and cheaper air fares, a new trend can be seen developing in terms of how people are now traveling more often than before. A research by AC Nielsen back in 2002 showed that only 6% of Malaysians fly once a year (The Star, June 17, 2005). However, fast forward to today, the market has grown significantly with the emergence of Air Asia. Study13 has demonstrated that residents of countries with high per capital levels of GDP tend to travel more. Therefore, there is a vast potential size of the aviation market in the region because of its low GDP per capital but is expected to grow and correlate with the affordability of air transportation (Hussain, Musa, & Omran, 2019).

The Pacific Asia Travel Association (PATA14) recently in Macau released its 2005-2007 tourism forecast, which predicts 10.6% annual growth in international visitor arrivals for the 40 countries in the region. As at May 26, 2005, Early 2005 international arrivals data for Asia Pacific destinations (Table 4) are available for 32 individual countries/destinations and collectively they show a year-on-year increase of close to 12%, year-to-date. South Asia is the only sub-region to record a decline so far this year, but that is not surprising given the lingering effects of the Dec-26 tsunami in 2004 (Hussain et al., 2012).

Table 3: International Visitor Arrivals to Asia Pacific Sub-Regions 2004 & 2005.

International Arrivals To: (Year-to-Date)	Country Count	2004	2005	% Change
The Americas	n=4	13,383,168	14,564,272	8.8
South Asia	n=4	1,077,954	996,375	-7.6
Northeast Asia	n=6	36,482,228	42,245,756	15.8
Southeast Asia	n=8	11,504,598	12,192,583	6.0
The Pacific	n=10	4,428,389	4,841,675	9.3
Total (including Hawaii)	n=32	66,876,337	74,840,661	11.9

Source: PATA Website (http://www.pata.org/patasite/index.php?id=111)

As the population in the region is becoming more educated and more affluent, people are more affordable for travel at the same time demanding for better service and efficiency. The customer expectation would be in term of safety, reliability, flexibility and punctuality where they expect not only comfort but also the highest level of safety when they travel in the air. Airline that meets the highest safety maintenance criteria and track record will be able to provide the safety and reliability in their business operation and win the confidence of the customers, a factor which is very essential for long term business profitability and customer loyalty. Generally all travelers will be looking at flexibility on their time of travel in term of frequency of flights available a day and various destinations they can choose from. The low-cost carrier operating as short haul low capacity point-to-point is better able to serve this flexibility with more frequencies than the full-fledged carrier, thereby able to meet the flexibility of changing demand by the customers. On top that, customer is demanding cost factor where they pay the lowest fare and enjoy better value for their travel. As most of the population in the Southeast Asian region are relying on road transportation and sea transportation due to unable to afford air travel, therefore the emergence of low-cost carrier changes the demand of this group of people and provides the opportunity for them to travel more especially to those who could not afford to fly frequently before (Lawton, 1999). The low cost carrier really opens up opportunity and stimulates the demands in the travel industry in the region.

Its pricing follows the guide line that its highest fare and cheapest fares are approximately 80% and 20 respectively of the published fare offered by full-service airline. Air Asia has a multiple fare structures for each of its route which made up of 12 tiers. On top of that, more discounted fare than the already low fare will be offered occasionally for new route launching or off-peak period. Air Asia as a pioneer in the region to implement low-cost airline has the first mover advantage and therefore its brand's name has established into a very dynamic brand. Moreover, Air Asia is a universal name that can be adopted by the whole Asian region and can be perceived as an airline for Asia.

Because of its proven track record of success and credible leadership of its group CEO Datuk Tony Fernandes, Air Asia uses to get good publicity in the media and press. Moreover, its logo and tagline, "Now Everyone Can Fly", is well received in the region as the people's airline. Because of Air Asia, many have not been flown before have the experience to fly and fly more frequently now. In addition, Air Asia also gets very good publicity in the oversea front due to the coverage by the various press and magazine writing on the success of Air Asia and its GCEO in Business Times, Asia Week, The New York Press, Financial Time, Far East Economic Review, and the Financial Times. Besides that, Air Asia has always tries to promote it brand in association with music, artist, fitness and social responsibility (Li & Ling, 2013). There will be always music accompany a new flight launching such as:

- Participation in presenting the prestigious Anugerah Industri Muzik (AIM2002) live on Era. With Air Asia.com strongly supports the music industry's fight against piracy in April 2002.
- Packaged flight ticket to KL to include concert to Chinese Pop Queen A-Mei World Tour 2002.
- Air Asia flew health and fitness queens to Penang for Miss Fitness 2003.

Air Asia sometimes conducts road shows in crowded public areas such as City Square, Johor Bahru, Bintang

Walk, Kuala Lumpur and other locations from time to time to bring the fantastic deals along with irresistible low fares during the length of the road shows to the general public. The road shows will come along when Air Asia carries out new service launchings or opens up its new flight or new destination both domestically and internationally such as on April 11, 2004. Below are the two associate companies of Air Asia Berhad.

PT AWAIR International was established in September 1999 and later entirely bought over by the Harris family (Nawaz, Afzal, & Shehzadi, 2013).

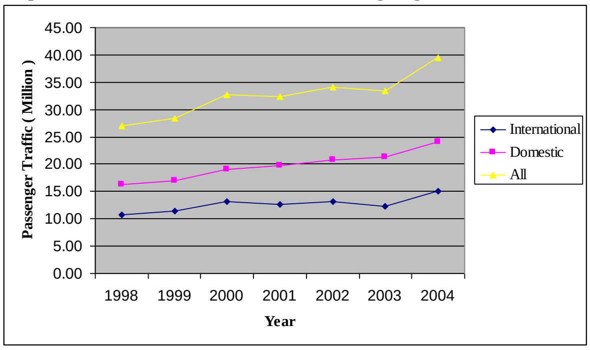
The replication of Air Asia's model by AWAIR works well in Indonesia. AWAIR has been a fast grower which was getting a load factor of more than 80% in a very competitive market. With a 56% as the break-even level, the 80% load factor achieved by AWAIR is very high even though is competing with 10 airlines on the Jakarta-Surabaya route. However, PT AWAir's growth plans hit a roadblock after it failed to secure landing rights to Singapore. According to Air Asia, the Civil Aviation Authority of Singapore (CAAS) played hardball when it delayed AWAir's application for landing slots in Changi Airport. Finally In a statement on February 4, 2005, this Indonesia-based budget airline dropped plans for flights between Indonesia and Singapore after having waited for more than two weeks after it filed the additional documents requested by the regulator of Singapore (The Edge, February 4, 2005). Thus, Air Asia will now focus on Malaysia, Thailand and Indonesia for its Market expansion. Air Asia indeed makes traveling is so much easier for its customers. Besides getting a good deal out of the low air fare, good saving on hotel rooms and traveling expenses, Air Asia provides more affordable and even more convenient by its online Go Car service at www.Air Asia.com. It is a service made online in partnership with Asian Rent-A-Car Sdn. Bhd., a subsidiary of Scomi Group Berhad. Scomi Group Berhad was added into the global indices by MORGAN Stanley Capital International (MSCI) in its annual review (The Star, 14 May 2005). Air Asia's Go Car works just like a car rental program. For the beginning, Go Car is just offered at KL International Airport (KLIA), Senai International Airport (Johor Bahru), Penang and Kuantan, and this service will be extended to other locations as well later on. Air Asia offers this service in meeting today's busy lifestyle (Nawaz, Azam, & Bhatti, 2019).

Although Air Asia operates as no frills airline, with no amenities such as complimentary in-flight meals and entertainment, however, Air Asia provides the convenience and option to its passengers who opted to pay additional for food, beverages and duty free merchandise sold in-flight. This was made possible beginning October 2003 by forming Crunhtime with SkyHigh Culinary Services Sdn. Bhd. where Air Asia is the majority interest. Most of the food and beverages sold by Crunchtime is under its own brand name, "SnackAttack". These sorts of services are expanded to all airports where Air Asia operates by gaining exclusive and more advantages concessions, especially in those airports where Air Asia contributes more than 50% of the traffic of the airport. Limited freight service is being offered on its scheduled flights including courier and mail services. Although passenger air travel services will be Air Asia's core business, but Air Asia also capitalizes its additional space in the aircraft for additional revenue. In June 2004, Air Asia entered into a three-year contract with Cargo Counts pursuant to which Air Asia will provide unutilized aircraft cargo space to Cargo Counts, which in the contract Cargo Counts will undertake cargo management for Air Asia (Nawaz & Hassan, 2016). Such revenues arriving from handling Cargo Counts' cargo will be shared by Air Asia and Cargo Counts where freight services can generate a substantial amount of revenue as Air Asia expands its operation.

Apart from flying its planes in the usual business, chartered service made up part of the Air Asia's ancillary revenues. The charter services on a contract basis to the government as well as on contract and an ad hoc basis to the various tour operators involving the leasing of an aircraft to and from a particular destination (Wu, Sinkovics, Cavusgil, & Roath, 2007). Air Asia used to have a two-year contract with Borneo Tours Sdn. Bhd. for the charter of an aircraft at least four times a month to Subic Bay of Philippines. Currently the charter service to Borneo Tours Sdn. Bhd. is on an ad hoc basis. The three-year charter service contract with the government from 2001 to August 2004 contributed 5.1% of Air Asia's total revenue for fiscal year ended June 30, 2004, to provide Angkatan Tentera Malaysia (the Malaysian armed forces) for a specified number of seats on specified routes where Air Asia also obliged to provide meals on board the flights for which fare-paying passenger would otherwise has to pay. The government is still using this service for its armed forces from Air Asia (Tracey, Vonderembse, & Lim, 1999)

ANALYSIS

Another new shop and fly credit card by RHB Bank Berhad ("RHB Bank") and Air Asia was unveiled on August 10, 2004. With this latest co-branded product collaboration, it makes traveling even more affordable for Malaysians who love to travel. This collaboration can be offered to the RHB Bank's more than 4.5 million customers. Air Asia will own 19% of GE engine services facility as part of the service package agreement. GE's stake in GE Engine would be diluted to 51% from 70%, while Malaysia Airlines' shareholding would remain at 30 %. The domestic and international passenger movements at Malaysian airports grew strongly at a compounded average annual growth rate of 11.2 % and 8% respectively for the period from 1985 to 2003 (Air Asia Listing Prospectus, 2004). International passenger movement at KL International Airport grew 23.9% to 13,019,272 in 2004 as compared to 10,509,142 in 2003. Domestic passenger movement also grew 15.7 % from 6,945,422 in 2003 to 8,039,300 in 2004. At the same period the growing trend also achieved by other airports in Malaysia, there was 37 % growth from 1,737,896 (2003) to 2,380,435 (2004) for international passenger movement, and 15.7% growth from 14,294,939 (2003) to 15,991,639 (2004) for domestic passenger movement. (MAHB23 Annual Report, 2004). The trend and statistics of passenger movements in Malaysian airports are as shown in the following Figure 4.



Year	1998	1999	2000	2001	2002	2003	2004
International (Million)	10.73	11.39	13.07	12.71	13.21	12.25	15.00
Domestic (Million)	16.28	16.93	19.00	19.65	20.80	21.24	24.03
All (Million)	27.01	28.32	32.66	32.36	34.01	33.49	39.43

Figure 4: Passenger Movements for Year 1998 to 2004 for Airports in Malaysia

Air Asia's market share in Malaysia is in the uptrend since 2002 with only 10.1%, its market share increased to 17.1% in 2003. The chart shows the Cumulative Average Annual Growth Rate (CAAGR) versus the types of traffic.

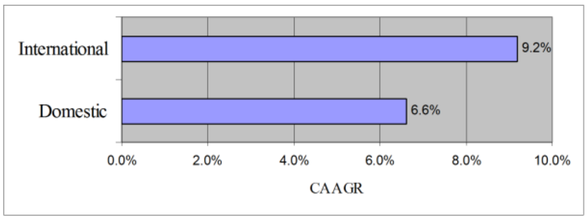


Figure 5: Passenger Growth Forecasts in Malaysia (2003 to 2008)

The domestic and international passenger movements at Thailand's major airports (those located in Bangkok, Phuket, Chiang Mai, Chiang Rai, and Hat Yai) grew strongly at a compounded average annual growth rate of 10.6% and 7.9% respectively for the period from 1985 to 2003. Average growth rates from 2000 to 2003 were low due to substantial concerns relating to SARS in 2003. Figure 6 summarizes the forecasts for the domestic and International (only to/from Southeast Asia, China and India) passenger growth rates for Thailand. Case analysis is aimed to identify the opportunity or opportunities that can be used to resolve Air Asia's problems by way of a Strategic Management Process. The Strategic Management Process consists of the 5 distinct steps as in following Figure.

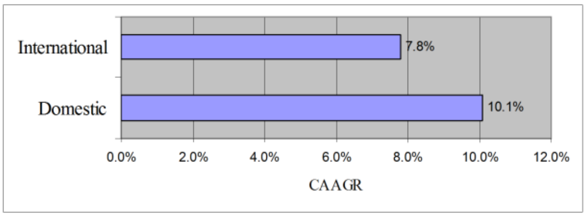


Figure 6: Passenger Growth Forecasts in Thailand (2003 to 2008)

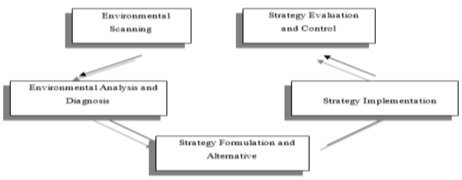


Figure 7: Strategic Management Process

This analysis is made up of internal environmental scanning and external environmental scanning. The internal environment scanning process is using the Ratio Analysis which will gauge the financial health as well as the financial performance of Air Asia. The external environment analysis enables Air Asia to recognize the opportunities and threats arising from changes in the Political-Legal-Regulatory Factors, Economic Factors, Socio-Cultural Factors, and Technological Factors ("PEST") segments. Tools used for external environment analysis are as follow:

- PEST Analysis
- Porter's Five Forces model – A model used to analyze the industry forces that affect competitive environment.
- CPM – Competitor Profile Matrix, a tool that allows Air Asia to evaluate the company against its major competitors on the key success factors in the competitive airline industry.

Ratio Analysis is used as a tool to analyze the financial position of Air Asia. From the results of the financial analysis, useful conclusion, assessment and judgment can be reached on Air Asia's financial health and performance. Deficiencies will be identified and corrective action to be recommended to improve the performance. Among the analysis includes liquidity ratios, profitability ratios, capital structure ratios, efficiency ratios, growth ratios, and marketability ratios. Ratios are expressed in percentage, days or times and are used to gauge the financial health of the company.

All the subsequent detailed ratio analysis will be based on the financial data taken from Air Asia's listing prospectus 2004 for fiscal year 2000 to 2004, data for fiscal year 2005 will be based the unaudited consolidated 3rd Quarterly announcement by Air Asia Berhad to the Bursa Malaysia Securities Berhad (Refer to Appendix A, B, C & D). The fiscal year period for Air Asia Berhad will be as follows:

- 2000 & 2001 – 12 months period ended March 31 of the year.
- 2002 – 15 months period ended June 30 of the year.
- 2003 & 2004 - Normalized to 12 months period ended June 30 of the year.

2005 – 3rd Quarter cumulative, up to 9 months only ended March 31 of 2005.

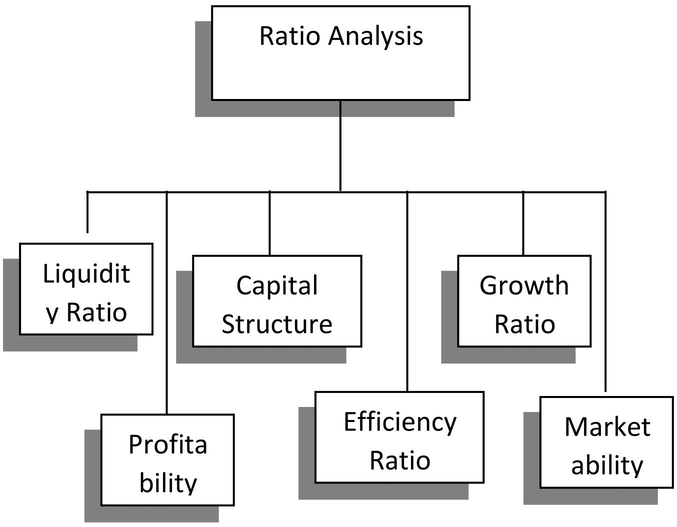


Figure 8: Ratio Analysis

i. Liquidity Ratios

In order for any company to be able to sustain and operate in the long run, it must meet its short-term obligation and not be forced into liquidation. Therefore, the ability to meet short-term obligation is essential for meeting long term obligation. As such liquidity is an important factor in ratio analysis to determine the opportunity of the company to operate in the long run. The liquidity ratios consist of current ratio and acid test ratio.

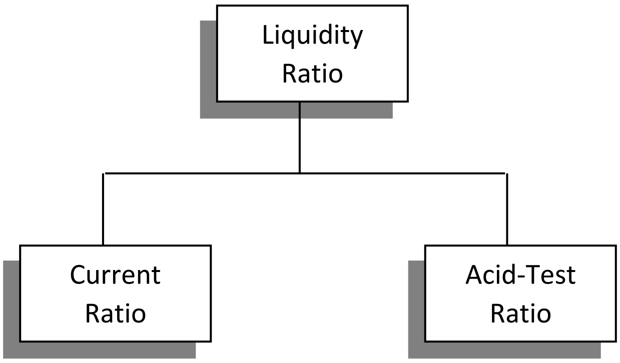


Figure 9: Liquidity Ratios

(a) Current Ratio (Times) = Current Assets (CA) / Current liabilities (CL)

Current ratio indicates how well Air Asia in meeting its short-term obligation out of its current assets. The net working capital will be a surplus if current ratio is more than one time.

Table 4: Calculation for Current Ratio

YEAR	WORKING (IN THOUSAND)	CURRENT
2000	25,304 / 48,447	0.52
2001	47,800 / 61,490	0.78
2002	38,294 / 48,861	0.78
2003	82,821 / 74,896	1.11
2004	186,984 / 150,643	1.24
2005	848,220 / 137,853	6.15

According to the above table, Air Asia had a low current ratio in 2000, 2001 and 2002 but was showing a better position all the time from year to year. However, in year 2003 and 2004 Air Asia moved up to a healthier current ratio which was able to meet its current obligation within the group. For the first 9 months of 2005, Air Asia group's ability to meet its current obligation improved to 6 times.

(b) Acid-Test Ratio = (Current Assets – Inventories) / Current Liabilities

This is a ratio used to measure the ability of Air Asia to meet its immediate and quick obligation.

Table 5: Calculation for Acid-Test Ratio

YEAR	WORKING (RM '000)	ACID-TEST RATIO (TIMES)
2000	(25,304 – 2,644) /	0.47
2001	(47,800 – 2,765) /	0.73
2002	(38,294 – 1,949) /	0.74
2003	(82,821 – 2,193) /	1.08
2004	(186,984 – 3,947) /	1.22
2005	(848,220 – 4,640) /	6.12

From the calculation on the table 6, Air Asia had a low acid-test ratio in 2000, 2001 and 2002 but again also showing a better position all the time from year to year. However, in year 2003 and 2004 Air Asia turned into a healthier position with 1.08 and 1.21 times respectively, which was able to meet its immediate and quick current obligations within the group. Again for the first 9 months of 2005, Air Asia group's ability to meet its immediate and quick obligation improved to 6 times.

CONCLUSIONS

From the various analysis conducted and the recommended strategies, Air Asia's present strategies are suitable in its expansion plan to maintain its market leadership and dominance in Southeast Asia and to be a global player in Asia Pacific region in time to come. Air Asia will be able to increase its competitiveness and further reduce cost in its Cost Leadership Strategy as its cost per ASK has been declining every year. Air Asia still lays claim to being the airline with the lowest cost in the world with a cost per ASK of 2.1 US cents, although the airline's mettle continues to be tested by the persistently high cost of fuel. Air Asia's visionary GCEO had once said there are "hundreds of ways to cut corners" (The Star, May 7, 2005) for cost savings and he is constantly looking into productivity improvements and cost management. In fact, Air Asia achieved superior cost containment despite fuel prices being 48% more expensive than a year ago. This has become the biggest advantage for Air Asia because with the lowest cost structure, Air Asia is able to continue offering low fares to its customers.

In terms of regional expansion with the Market Penetration Strategy and Market Development Strategy, Air Asia is definitely on the right track with its commitment to switch to higher single configuration of 180 seats A320 aircraft with the first aircraft delivery in December 2005 and subsequently one each every month to reach a fleet of 100 single type aircraft by 2011. Air Asia has the core competencies that are difficult for other low-cost competitors in the region to imitate because Air Asia is the only low-cost that has moved out of the box of bilateral agreement and regulatory barriers by its Joint Venture Strategy to form operating bases in Thailand and Indonesia. Air Asia will continue to adopt these strategies or even Horizontal Integration Strategy or other acquisition strategies to expand further in view of its growing financial strength. Air Asia is the only low-cost carrier in this region to have the core competency of having domestic and international bases in three countries that enables it to earn above-average returns. Besides that, Air Asia's brand name "Air Asia" is an equity brand with first mover advantage and is a name that is universally accepted by Asians because of its association with Asia. Moreover, its tagline "Now Everyone Can Fly" truly reflects a revolutionized airline with truly cheap fares for everyone to fly especially those who have never flown before.

Many airlines in this region still stay in their own box due to bilateral agreement issues. Air Asia had already moved out of the box a year ago (The Edge, July 12, 2005). With this greatest strategy of moving out, Air Asia is regarded as the fast-growing airline which has carried 11 million passengers and currently operates over 100 domestic and international daily flights from its hubs to 52 destinations. Now it is moving into the next phase of expansion to tackle air-services agreements. Air Asia's other markets include China, Macau, and the Philippines. Currently, Air Asia flies to Xiamen from Bangkok and will be flying to four other Chinese cities from Kota Kinabalu and Bangkok later this year. Air Asia is on the verge of clinching a deal which will make Hong Kong's Chek Lap Kok airport the fourth leg in its web of hubs to further penetrate the fast growing China market share after Xiamen. In the pipeline are flights to Guangzhou, Shenzhen, Kunming, Chongqing, Guilin, Nanning and Wuhan of China. Plans are also under way to venture into the Indo-Chinese market via Vietnam and Laos, and the huge Indian market

Apart from the regulatory barriers, the biggest challenge for Air Asia is the rising fuel cost where fuel expenses made up 56% of its operating costs in the third quarter ended March 31. However, Air Asia has managed it well by constantly improving other cost structures and reducing fuel risk by hedging, and the airline has hedged 63% of its fuel needs until June 2006 (The Star, July 28, 2005). For long term measures, Air Asia has opted to completely change its fleet to Airbus eventually because the new A320 will reduce aircraft related expenses (jet fuel consumption and maintenance) by 30-35%, partly due to its 25-year advantage in technology advancement vis-à-vis the current Boeing 737 fleet. Another cost saving factor to Air Asia, a 10% rise in the ringgit, would translate into a 6% to 7% reduction in Air Asia's costs. Therefore, Air Asia will be a clear beneficiary of the recent lifting of the Ringgit fixed peg to the USD. As such the present fuel price around USD60/bbl or even if it goes up to USD70/bbl is still comfortable to Air Asia. Many airlines are facing losses or even out of business as fuel costs continue to rise as compared to only about USD30/bbl less than three years ago. If the Ringgit continues to strengthen, Air Asia might be removing its surcharge imposed a week ago on July 14, 2005 due to rising fuel costs.

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