Implementation of Porter’s Generic Strategies in Indonesian Airlines Industry During Covid-19 Pandemic (Case Study: Garuda Indonesia and AirAsia)

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Abstract

The airline industry in Indonesia has shown smooth but steady growth. Moreover, the Indonesian government has begun to focus more on tourism exploration and building air infrastructure to attract domestic and foreign tourists. Garuda Indonesia and AirAsia are the airlines currently operating and own quite a big market share in Indonesia. The two airlines apply different strategies where one chooses differentiation and the other chooses cost leadership. This article will discuss how the two airlines have implemented their strategies to compete including responding to the conditions of the Covid-19 pandemic and how it affects their performance.

Keywords

1. Introduction

Being an archipelagic country, air transportation is one of the main types of transportation used by the people of Indonesia. Long distances and difficult terrain that the country had was able to be conquered by air transportation, a convenience that no other type of transportation could offer. These conditions offer a huge market for airlines. This large market is not only influenced by the size of the area and population, but also by the title of Indonesia as a tourist destination. The number of tourist arrivals from abroad continues to grow from year to year and it was reported that the average growth in these visits from 2015 to 2019 reached 13.6 percent (INACA Annual Report, 2019). In 2019, the number of foreign tourists visiting Indonesia reached 16.1 million, of which 9.83 million came using air transportation.

There are 12 Indonesian airlines that have been operating in 2019. These airlines have implemented different strategies, such as providing cheap tickets, providing premium services, and serving unique routes. Regardless of the large potential of the existing market, existing airlines must have the right management and strategies in order to become the airline of choice for consumers. The wrong move will lead to bankruptcy, as happened to Batavia Air, apart from being a zero accidents airline. The good move will lead to the largest market share ownership such as that of Garuda Indonesia and AirAsia in the international market in 2018 and 2019.

Year of 2020 has been a difficult year for the entire industry and the airline industry is one of the hardest hit. In Q1 2020, at four major airports in Indonesia, namely in Jakarta, Bali, Medan and Surabaya, there was a decrease in domestic passengers by 44 and 45 percent for international passengers. Losses suffered by airlines from the four major airports, when compared to Q1 2018, reached around US $ 812 million. Airlines must be able to rack their brains to survive despite the decline in consumer demand for flight and government restrictions or bans on aircraft operations.

This study will discuss how the Indonesian aviation industry grows and how airlines design strategies to be competitive. The object of this research is two Indonesian airlines, namely Garuda Indonesia and AirAsia. This research will not only discuss Porter's generic strategies that were applied but also how airlines react to Covid-19 and the innovation they do.
1.1 Objectives

1. To study Porter’s generic strategies of cost leadership and differentiation.
2. To study Garuda Indonesia and AirAsia Porter’s business strategies implementation.

2. Literature Review

2.1 The Importance of Strategy

Competition or business strategy describes how business units compete within the industry itself (Parnell, 2008). A company is said to have a competitive advantage if it is able to generate a better economic value than their competitors (Barney, 2007). Competitive advantage is the result of strategies in navigating, building and configuring a wide range of external and internal competencies of the company to create growth or wealth from time to time (Aji, 2015). To realize a sustainable competitive advantage, the company needs to fulfill 4 competency criteria, among others: The primary ability criteria is efficacious, specifically the excellence of the corporate to be able to neutralize and opportunities threats from the external surroundings so as to extend the value of the customer. The second one is unique (mindfulness), that is greatness where relatively few competitors have similarities with the organization. Third, imitability is a benefit where competitors can't create or duplicate exactly the same thing the organization has. The last competency criteria is hard to replace or substitutability which is an advantage where there is no strategic ability that is the same as that of competitors itself (Barney, 1991). A successfully characterized strategy should empower the organization to operate in a single-wide direction through the integration of the plans, objectives, policies and programs of the organization (Dobson, Starkey, & Richards, 2004). The performance of a company refers to the power of an organization to attain such huge product quality, a big market share, profits, sensible financial results, and also the continuity of the corporate at any given time, and to create it, it wants relevant strategies (Koontz and Donnel, 1993). How far an organization was able to meet the needs of stakeholders and its own needs for survival reflected from how an organization performs (Ricky and Griffin, 2003).

2.2 Porter’s Generic Strategy

The company can obtain a competitive advantage by implementing 3 basic strategies which are called generic strategies, consisting of: Cost Leadership, Differentiation, and Focus as shown in Figure 1 (Porter, 1980). This study will focus on two strategies implemented by Garuda Indonesia and AirAsia.
2.2.1 Cost Leadership
Cost leadership is headed at large markets and requires that "aggressively build efficient scale facilities, reduce prices, control tight costs and costs, avoid marginal customers, and minimize other costs" (Hunger and Wheelen, 2003). Once an organization is ready to form a good strategy of cost leadership, the corporate will be able to become a low-cost producer, this is often characterised by costs that are in line with customer's expectations so the buyer is pleased with the worth the corporate gives. By implementing the cost leadership strategy, the corporation additionally can offer high benefit advantages to clients regardless of controlling expenses (Pearce & Robinson, 2009).

Companies implementing cost leadership strategies will in general practice on specific items of services or products, they steadfastly invest in cutting-edge equipment and technology, they have skills in design and redesign process, and they utilize distribution channels that by and large add to diminish their expenses. Moreover, their organization and structure guarantee strict value management, the existence of elaborate reports and frequent, the classification of highly structured responsibilities, and generally, incentive packages supporting the performance of quantitative (Ketelhohn et al., 2012 and Porter, 1980, 1985).

2.2.2 Differentiation
The differentiation strategy of Porter’s generic strategy is able to be brought by different means that non-exclusive general criteria also assist to success (Porter, 1980, 1985). Signal or use can be the criterias from this strategy. Price, time, brand image, and packaging quality in business strategy are covered by signal criteria (Sporleder & Liu, 2007). The product price for an organization that determines to contend through a strategy of differentiation ought to be over that of its competitors. Price indicates that the service or product is actually differentiated by whatever the company. Customers who try the service or product and are not pleased will not use it any longer. That is why price is well-thought-of as a signal factor which must be maintained over time to competitive advantages (Porter, 1980, 1985).

The differentiation strategy is the occurrence of planning a group of substantive variations to differentiate the company offerings from another company as competitors’ offerings (Amstrong & Kotler, 2003). This strategy sustains corporations to change a higher price to capture a portion of market share. The differentiation strategy is correctly pursued when the firm provides a novel or better benefit to the customer through quality, characteristics of product and value or customer services during after-sale activities (Akan et al, 2006). A company can separate itself differently in several ways, such as providing innovative features, doing effective promotions, providing excellent service, developing a strong brand name, and so forth (Li & Zhou, 2010). The Companies that use a differentiation strategy consider first entry into the market as a top priority. Being the greatest in the market, the company has the discretion to set prices and exploit the wide segment market in the pursuit of achieving high profit and growth. Advantages competition through differentiation strategy can be accomplished through great product quality and accentuation on innovation as the lead of the company. Porter (1990) mentions that innovation is the only way for companies to gain a sustainable competitive advantage and improve performance. The most important of innovation are creativity in making changes and commercial value. Creativity will be required to make use of existing products as well as in creating an innovative new product. However, in order to be called innovation, a new discovery or product also needs commercial value.

3. Methodology
Authors were attracted to explore implementation of cost leadership and differentiation strategies in the airline industry as it is one of the most competitive industries currently running. This research was conducted using a case study approach, choosing Garuda Indonesia and AirAsia Indonesia. Authors collected qualitative data about the pandemic, before and after it hits the peak in 2020. One of the important data collected is regulation and operational impacts in the Airlines industry. Besides that, this research is also based on secondary information in the form of reviews of academic journals especially about cost leadership and differentiation strategy, website, headline news about pandemic in 2020, and performance reports from Garuda Indonesia and AirAsia company starting from 2015 to 2020. Authors use a qualitative approach in analyzing and identifying the strategy that was used in Garuda Indonesia and AirAsia Indonesia. Authors discuss trends and comparisons of strategies used by each airline.
4. Data Collection

4.1 Indonesian Aviation Industry Growth

INACA (Indonesia National Air Carriers Association) expects Indonesia’s economy to be able to grow from 2020 onwards because of Indonesian demographic as one of the driving factors. This is supported by the statement from the Director General of Air Transportation of the Ministry of Transportation which said that the Ministry has a grand plan for air infrastructure development which is known to be inseparable from Indonesia's geographical position which provides domestic and international connectivity in the air sector. This connectivity consists of area connectivity, logistical connectivity, and tourism connectivity. For this reason, air infrastructure development must be carried out.

The projects stated in the grand plan are said to be realized soon in 2020: special development of 37 air connectivity routes in Papua; construction of 21 new airports throughout Indonesia; renovation and development at 175 airports; construction of 5 seaplane airports to support domestic tourism. This infrastructure development is expected to be able to encourage economic growth.

In line with the government trying to advance airport infrastructure, market demand is also showing a good direction. It was noted that the growth in the number of filled passengers was 34% percent for 5 years (see Figure 2), despite the drastic decline in domestic passengers due to the massive development of land infrastructure and the high price wars that have occurred between airlines in that year of 2019. The previous 5 years market growth can be a main reason for the airline to improve its services and capabilities, with additional fleets or opening new routes as an option.

![Figure 2. Growth of Flight Passengers through 2014 - 2020](Source: Badan Pusat Statistik Indonesia)

4.2 Garuda Indonesia Differentiation Strategy

Garuda Indonesia is Indonesia's best full-service flag carrier airline serving around 90 destinations worldwide, with flights reaching 600 flights per day. For the survival of the airline and the competitiveness of the airline industry itself, the role of customers is becoming increasingly highlighted in the aviation industry due to the high-quality service of the airline industry (Nurcahyo et al, 2019). They have a strong brand in a positive image and the domestic market in its market segment. Garuda Indonesia received an award as the best airline in Indonesia by the "Trip Advisor 2019 Travelers Choice Awards" by Trip Advisor organizer, which became one of the leading travel sites in the world. Garuda Indonesia owned the total fleet with 142 fleets, consisting of 105 narrow-body aircrafts and 37 wide-body aircrafts, with an average age of 7.54 years. Beside the fleet size and brand, Garuda Indonesia also has strengths in several features, such as priority for customers and the point of selling price of Garuda Indonesia which serve positive performance, related to the IOSA (IATA Operational Safety Audit) and Organization (Management Team). Garuda Indonesia has a principal certificate from IOSA supporting Indonesia as the best airline business.
entity system. Moreover, cooperation between units is improving, qualified employees and competencies will bring Garuda Indonesia to achieve the company purpose. For the service, local brands from Garuda Indonesia airlines closely affiliated with service attributes, especially on Indonesian hospitality. This best star image in Indonesian Garuda Indonesia can be utilized to greatly manage differentiation strategies to accept domestic and international market services.

Table 1. Numbers of Passengers of Garuda Indonesia

<table>
<thead>
<tr>
<th>Year</th>
<th>Passenger Carried</th>
<th>Cash Receipts from Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020 (Q1-Q3)</td>
<td>15.782.660</td>
<td>Rp 2.275.696.817</td>
</tr>
<tr>
<td>2019</td>
<td>31.894.383</td>
<td>Rp 4.598.841.042</td>
</tr>
<tr>
<td>2018</td>
<td>38.444.358</td>
<td>Rp 4.327.388.678</td>
</tr>
<tr>
<td>2017</td>
<td>36.237.704</td>
<td>Rp 4.108.864.583</td>
</tr>
<tr>
<td>2016</td>
<td>34.999.847</td>
<td>Rp 3.868.012.178</td>
</tr>
<tr>
<td>2015</td>
<td>32.961.027</td>
<td>Rp 3.769.410.803</td>
</tr>
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Table 1 shows a decrease of the number of passengers in 2020 to flight domestic and international. This was due to the Covid-19 pandemic that hit the world so that several flights in accordance with government policies were temporarily suspended. The Covid-19 pandemic has a notable effect on business and corporate survival.

The 2020 strategy of Garuda for catching opportunities from business prospects still apply differentiation strategies in order to improve the performance of customer experience (pre-journey, pre/in/post flight, post-journey). Their strategy of giving premium service with large seats and multimedia player, kindly cabin crew services, and providing food flight meals which offer advantages such as cashless transactions and include-in flight fare, can be adjusted with customer needs or their special request, save time and hygiene assurance.

4.3 AirAsia Cost Leadership Strategy

As one of the airlines that are called the best in Indonesia, AirAsia implements a cost leadership strategy, becoming a low-cost airline that connects visitors and destinations through 293 routes. AirAsia is the first long distance and low-cost flight in Indonesia and a fellowship of AirAsia Group Indonesia. Air Asia serves 90 unique routes that are only operated by the AirAsia Group. As a low-cost airline, AirAsia does not mean compromising quality, but rather provides the flexibility to provide the best experience to all customers. Showing its seriousness, Air Asia succeeded in managing to increase their fleet from 2 aircraft in 2001 to 205 aircraft at the end of 2017 and serves 16 domestic destinations and in 18 countries with 53 international destinations, by April 2021. For eleven consecutive years from 2009 to 2019, AirAsia was voted as the World's Best Low-Cost Airline. The appreciation is from Skytrax, representing the opinion of approximately 20 million London-based aviation consultant travelers who have visited around the world.

Table 2. Growth of International Flight Passengers from 2018 to 2019

<table>
<thead>
<tr>
<th>Airlines</th>
<th>Indonesia AirAsia</th>
<th>Garuda Indonesia</th>
<th>Lion Air</th>
<th>Batik Air</th>
<th>Sriwijaya</th>
<th>Citilink</th>
<th>Wings Air</th>
<th>Nam Air</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth (%)</td>
<td>7.6%</td>
<td>0.5%</td>
<td>-7.5%</td>
<td>-1.3%</td>
<td>-0.5%</td>
<td>1.4%</td>
<td>-0.1%</td>
<td>-0.1%</td>
</tr>
</tbody>
</table>

Source: Indonesia National Air Carriers Association (INACA)

Based on information in Table 2, AirAsia serves the highest number of airline passengers in Indonesia with a 7.6% higher percentage of passenger growth from 2018 to 2019. AirAsia’s business model rests on a low fare philosophy.
that emphasizes streamlined, simple and efficient operations. AirAsia implements several strategies, such as (http://ir.aaid.co.id/):

1. **High Aircraft Utilization**
   AirAsia focuses on a high number of flights and fast turnaround times. Both of these increase passenger comfort and are able to maximize cost efficiency. Their turnaround time is only 25 minutes - the fastest in Southeast Asia.

2. **Low Fare, No Frills**
   AirAsia does not offer loyalty programs or airport lounges for low fares. Our passengers can purchase food, snacks or drinks on board.

3. **Direct Aviation Network**
   All AirAsia short transport (travel time four hours or less) and AirAsia X medium and long transport flights are non-stop. That way, AirAsia can reduce the use of ground crew, infrastructure and physical facilities at transit airports.

Air Asia is also known for its flight punctuality and high security, making it one of the best in Indonesia. Through the above description, it clearly said that AirAsia applies a cost leadership strategy, which prioritizes flights at the lowest cost but still the quality and safety of flights. As such, operational safety is the highest priority and AirAsia complies with the provisions set by the country's regulatory authorities.

### 4.4 Indonesian Airlines Industry Condition: Covid-19 Effects

The rate of economic growth of a country affects the growth in the number of passengers using aircraft services with a growth of two to three times the economic growth (INACA, 2019). Unfortunately, under the conditions of Covid-19 that hit the whole world, Indonesia's economic conditions, which in the previous two years were able to grow by 5%, became minus in 2020 by around 2%. Minus economic growth and the prohibition of mobility caused the number of passengers to experience a very drastic decline (see Figure 2). Known through, The IATA (International Air Transport Association) released its first financial forecast for 2020 in June and stated that the aviation industry suffered a loss of $ 84.3 billion and a 50% decline in airlines revenue. Annual report finance losses in 2020 are expected to be $ 118.5 billion. To solve this, in addition to receiving financial assistance from the government, the IATA reference airlines industry must also actively seek ways to restore their financial condition.

Garuda Indonesia monitors situation of covid-19 pandemic and is study the following options in order to face sharp drop in the number of passengers:

1. **Rightsizing capacity passenger.**
2. **Promotion discounts on selected flight routes and maintaining base price without aiming to become low cost airlines.**
3. **Optimising capacity cargo and charter services.** Garuda Indonesia carries out cargo only flights to compensate for decreased revenues such as cooperating with local governments (Bali, South Sulawesi and North Sulawesi) in the form of export of sea catches.
4. **Maintain close coherency with the Government, especially regarding TBA evaluation (upper limit rates) and TBB (lower limit rates) as an effect of the imposition of restrictions on aircraft capacity due to social distancing of a maximum of 70%.**
5. **Maintaining cash flow by doing cost efficiency and renegotiating costs with the Group’s vendors about reducing price and delaying payment.**
6. **Negotiating with the aircraft lessor to terminate the contract in early time for less productive aircraft.**

To accelerate recovery, Garuda Indonesia strives to gain the trust and interest of the community through consistent application of flight health protocols to return to using air transportation.

On the other hand, being a low-cost airlines, Air Asia approach similar yet different strategies as following (AirAsia Annual Report):

1. **Suspend scheduled flights from 1 April to 18 June 2020 for domestic and international routes to lower company loss.**
2. **Serving 12 charter cargo flights and repatriation missions using several aircraft that have been taken over.**
3. **Discussion in the form of negotiations with tenants, vendors, and funding institutions in order to restructure terms of payment, delay aircraft acceptance, and delay capital expenditures.**
4. **Reducing marketing expenses and social events.**
5. Results and Discussion

5.1 Garuda Indonesia

The research took the company's financial data based on 2015 to the third quarter 2020, ignoring data on quarter 2 because of a full flight prohibition that was set up by the government. Garuda Indonesia services apply a differentiation strategy by prioritizing the affability of the cabin crew. The cabin crew is reflected in being more sincere in serving passengers by prioritizing Indonesian affability through the Garuda Indonesia Experience. The spirit is the excellence and strength for all of the cabin crew.

![Figure 3. Profitability of Garuda Indonesia](source: Financial Report GAA 2019-2020)

Figure 3 shows the steady pace of Garuda Indonesia business. In 2019 revenue was increased 5.26% due to the increment in passenger fares, especially on domestic flight customers. However, during the pandemic from December 2019 to Q3-2020, several policy changes forced an increase of profitability. To overcome this, Garuda Indonesia has continuously implemented the following measures such as international flight, definitely scheduled passenger revenues from both domestic, increased scheduled cargo revenue and dynamic pricing strategy one of which is service operational cargo only flights during the pandemic period with applicable regulations to compensate for the decrease in passenger revenue.

Through some of the services provided, the differentiation strategy is attached to the Garuda Indonesia brand which ensures safety and comfort during the flight. During the pandemic they still continue to increase their profitability. It is known that Garuda Indonesia is the best airline that can be witnessed by passengers with the politest staff among the airlines. Although first class has a high cost of $2,842, then continued with AirAsia for $1,423 to a flight from Jakarta to London. However, Garuda Indonesia remains the best airline in Indonesia both in service and facilities like seats can be remodeled into lie flatbeds about 73 inches in pitch and 21 inches wide with a large moving tray. In order to maintain availability on every flight, the aircraft's business class seats represent the operator or airline in terms of brand image and service. Proper maintenance activities with the right method and consistency with the right time estimate in predicting and maintaining the performance of electrical and mechanical constituents in business class seats are required (Nurcahyo et al, 2017). In addition, headphones and USB sockets also include their facilities. The passengers are also provided with a 15 inches wide entertainment screen with more than 73 movies, amenities kit, blanket, and slippers to assure comfort.

5.2 AirAsia Indonesia

From Table 3, it can be seen that the growth of passengers on AirAsia has increased from 2017 to 2019. However, 2020 was a bad year for all existing industries due to the emergence of Covid-19 which affected all existing industries. The decrease in the number of passengers can be seen in Table 4.
It is a normal condition for the industry to be difficult to move due to limited financial conditions and income during a pandemic. However, in the long run if the move is not anticipated in advance, the long-term income is also not obtained. By still providing the best quality of service and competitive costs, as one of the airlines with the lowest operating cost units, AirAsia provides more value to commodities or assistance brought in. As one of the airlines that operate under cost leadership strategy, a good cost drivers control is really important. Their lowest cost is their main key to compete in this highly competitive industry of airlines and AirAsia has made sure that the total cost overall is lower than competitors. Due to government regulations regarding scheduled commercial flight restrictions, AirAsia Indonesia will temporarily focus its services on charter flights for the delivery of logistical goods and assistance for recovery from coronavirus or Covid-19. In addition, AirAsia also focuses on other needs that have obtained permission from local governments and relevant authorities, in addition to assisting repatriation missions.

AirAsia is implementing two strategies in an effort to maintain their business continuity in the midst of the Covid-19 pandemic. Corporate Secretary of AirAsia Indonesia explained that initial efforts have been made as a proactive mitigation to limit the impact of the decrease in performance from Coronavirus. First, the airline has been actively managing its capacity since the beginning of February 2020. Second, it is supported by strict internal cost controls such as temporary stops to hire new employees. The airline has also laid off 9 employees, housed 873 employees and cut salaries and other 328 employees starting from January 2020. Then, there is no extension of the lease of the aircraft that will expire and negotiate with the lessor of the aircraft to reduce the cost of rent, reducing wages, reducing events, sponsorship, and marketing costs (kontan.co.id). AirAsia is optimistic that it can continue the positive growth achieved last year through a number of strategies as the industry enters a recovery period after the coronavirus pandemic ends as it maintains the lowest cost airlines. There are many ways to reach cost leadership strategy, AirAsia has applied this during the pandemic to continue any activities for cost saving with strict internal cost control.

6. Conclusion

The aviation industry in Indonesia makes a major contribution to the country's economy and gives quite high competitiveness advantages for Indonesian airlines such as Garuda Indonesia and Air Asia. These two airlines have their respective advantages, both in terms of corporate strategy or corporate planning to achieve their goals, applying Porter’s generic strategy of differentiation and cost leadership. In the case of Garuda Indonesia, they prioritized the best quality and service for its passengers while charging the highest price among several airlines in Indonesia. On the other hand, Air Asia prioritizes low cost above services and quality acceptance level and it has proven as AirAsia
were World's Best Low Cost Airline for eleven consecutive years, in 2009 until 2019. Regarding the number of passengers, AirAsia serves the highest number of them.

Facing Covid-19 pandemic conditions in 2020, airlines have a huge loss of demand and profit. Both airlines in this study, Garuda Indonesia and AirAsia, should change and update their strategy. Garuda Indonesia improves strategy for customer experience performance, such as digitalization or online check-in, and optimizes flight routes with network connectivity, notably on international routes, with the improvement of the execution of marketing and sales. On the other hand, AirAsia is trying to develop new strategies in the recovery of this pandemic period. Some of the efforts made by AirAsia include actively managing its capacity since the beginning of February 2020. Then, perform strict internal cost controls such as temporary dismissals to hire new employees. AirAsia applying cost leadership strategy strives to continuously adopt cost saving measures. In this effort, AirAsia still upholds its commitment to be the lowest cost airline, but still prioritizes passenger service and safety. It has proven that Garuda Indonesia and AirAsia’s quick action based on their core strategies, whether it is differentiation or cost leadership, could quite recover their huge loss.

References
PT. Hokkan Deltapack Industry as a Procurement Staff. She was monitoring and controlling all the branches and did the negotiation with suppliers. She has the determination and passion to be able to learn and improve her skills professionally.