

# Analysis for Cost Leadership Strategy and Core Competitiveness Points of Air Asia

**Arya Ibrahim Aji, Kynanda Ivandi Ramadhan, and Lutfie Hidayatullah**

Industrial Engineering Department  
Faculty of Engineering, Universitas Indonesia  
Kampus UI Depok, Depok 16424

[aryaibrahim46@gmail.com](mailto:aryaibrahim46@gmail.com), [lutfiehidayatullah@gmail.com](mailto:lutfiehidayatullah@gmail.com), [kynanda.ivandi@gmail.com](mailto:kynanda.ivandi@gmail.com)

## Abstract

Much literature considers the important role of airports and air traffic as a country's economic activity. AirAsia Airline As the best low-cost passenger. AirAsia connects visitors and destinations via 293 routes; 90 of them were categorized as unique routes - routes only operated by the AirAsia Group. This Research conducted to find strategy that implemented at company especially Air Asia as role model for another company. This research uses a descriptive case study method which aims to describe the Cost Leadership strategy adopted by Air Asia and how the company can make efforts to minimize risk so that the company can maintain a competitive advantage. The AirAsia Group's business model rests on a low fare philosophy that emphasizes streamlined, simple and efficient operations. AirAsia implemented a few key strategies to achieve this, such as: high aircraft utilization, low fares, no frills and a direct flight network. Air Asia has two core competitiveness points: it has lower fares compared to other airlines and has auto baggage facilities to make it easier for passengers without having to long queue . Even during the COVID-19 pandemic, AirAsia was still able to sell travel tickets at low prices. Not only that, but Air Asia has also issued the AirAsia Unlimited Pass program. AirAsia Unlimited Pass is a program for unlimited flights on some AirAsia networks.

## Keywords

Cost Leadership, Core Competitiveness, Strategy

## 1. Introduction

Much literature considers the important role of airports and air traffic as a country's economic activity. The International Air Transport Association surveyed that the growth of the aviation industry is around 6.6% annually and has grown more than 5% from 2000 – 2010 ( Michael, 2013). Looking at the current industrial development, the ASEAN Airline AirAsia region is no stranger. As the best low-cost passenger, AirAsia connects visitors and destinations via 293 routes; 90 of them were categorized as unique routes - routes only operated by the AirAsia Group. In 2017, the AirAsia Group, including the AirAsia Berhad Group (Combined Airline Group of AirAsia Malaysia, AirAsia Indonesia, AirAsia Philippines, AirAsia Thailand, AirAsia India and AirAsia Japan), cemented its position as a leader in the aviation industry through two milestones: flying 435 million passengers and doubled its fleet from 2 aircrafts in 2001 to 205 aircrafts by the end of 2017. Nonetheless, Air Asia producing high quality products at low prices due to competitive cost methods. The study of Air Asia cost leadership strategy, with a simple, efficient concept and a core competitiveness point will have a significant effect on the foundations and development of modern industries.

## History of Air Asia

The story of AirAsia begins as an airline with two aircrafts serving six routes in Malaysia in January 2002. Sixteen years later, AirAsia skyrocketed to become an airline serving more than 119 destinations in 21 countries. Now, AirAsia has more than 20,000 employees with a market capitalization of more than RM14.6 billion or around IDR 52 trillion (as of February 28, 2018). As the sole airline that is Truly ASEAN, AirAsia reaches 3.3 billion people through 23 hubs in six countries - Kuala Lumpur, Kota Kinabalu, Kuching, Penang, Johor Bahru, and Langkawi in Malaysia; Bangkok, Phuket, Chiang Mai, Krabi, U-Tapao (Pattaya), and Hat Yai in Thailand; Jakarta, Bali, Medan and Surabaya in Indonesia; Manila, Kalibo (Boracay), and Cebu in the Philippines; Bengaluru, Delhi and Kolkata in India; and Nagoya in Japan.

## Recent Achievements

Air Asia has made several achievements in the last few years, namely:

Asia's Leading Low-Cost Airline & Asia's Leading Low-Cost Airline Cabin Crew 2019. AirAsia continues its winning streak, taking top honors at the 2019 World Travel Awards Asia and Oceania for the seventh consecutive year.

AirAsia's Best Low-Cost Airline. Air Asia bagged the award for the 11th year in a row at the 2019 Skytrax World Airline Awards

Top Airline by Absolute Passenger Growth (Southeast Asia). At the 2019 Changi Airline Awards Singapore, because a 4.1% increase in passengers transported to and from Singapore in 2019.

### 1.1. Objectives

This Research conducted to find strategy that implemented at company especially Air Asia as role model for another company.

## 2. Literature Review

### 2.1. Cost Leadership Strategy

For a company to be able to precisely and immediately crisis the competition successfully, it requires a well-defined market-oriented strategy (Mburu, 2009). According to Porter (1985), such a strategy could enable a company to create value for its buyers and establish a profitable market position in a sustainable manner. The strategies for delivering this superior performance cost leadership, differentiation or focus strategy. (Porter, 1985) typology seem to be the most popular paradigm and has received much more research attention than any other typologies (Kumar, Subramanian & Strandholm, 2001). It is further acknowledged that Porter's framework of generic strategies is also inherently tied to firm performance (Powell, 1995).

Companies under a cost leadership strategy emphasize standardized products and low unit costs. Serving price sensitive customers, the cost leaders compete lower prices, thereby striving to maximize market share and push competitors out of the market. Two types of cost leadership can be defined: Type-1) Low-Cost Strategy aims to produce goods and services at the lowest prices available in the market. Type-2) Best Value Strategy offers the best value products and services available on the market. When cost leaders employ the best value strategy, they aim to provide better quality at the lowest price compared to competing products with similar features (Doyran, 2020).

Cost Leadership Strategy: Cost leadership involves being a low-cost company in an activity and can be operationalized as low input costs, economies of scale, experience, product / process design, and low prices. Johnson et al, (2011) Firms implementing a cost leadership strategy appear to have average performance compared to all other (but not the lowest) clusters. The implication of these findings is the possibility that cost leadership, in a competitive environment, has average performance because they are not focused on acquiring new markets or customers (Atikiya, 2015)

The low cost strategy reflects the demands of a consumer base who want low costs for service but require highly personalized service because of using a lower level of technology (Gorondutse et al., 2017).

The cost leadership strategy considers the ways in which companies deliver products and services at a lower cost compared to competitors in their industry. It requires companies to scale that help reduce costs, for example, through tight operating costs, years of experience, minimizing entry costs for marketing and advertising, sales force, and research and development (R&D) (Firoz et al., 2019). In a company that has opted for a low-price strategy, one should not expect high salaries or the best customer service and the highest prices, to be paid to its suppliers, as such a company must be oriented towards low costs in every area. That is why savings are made at the expense of supplier employees and employees (Stankevičiūtė et al., 2012)

Grant (2005) argues that common to the success of Japanese companies in consumer goods industries such as cars, motorcycles, consumer electronics, and musical instruments has been the ability to reconcile low cost with high quality and technological progressiveness.

This position is further supplemented by Barney and Hesterley (2006) who affirm that few layers in the reporting structure; simple reporting relationships, small corporate staff, and focus on narrow range of business functions are elements of organizational structure that allow firms to realize the full potential of cost leadership

strategies. It is important to note however, that a company might be a cost leader but that does not necessarily imply that the company's products would have a low price.

The most important capability when developing a manufacturing strategy is the production/operations dimension. In each strategic area, including flexibility, product delivery, quality, and cost reduction, production/operations impact strongly on strategy development. In addition, other capabilities have a middle level impact on strategy development (Nurcahyo et al., 2019).

## 2.2. Competitiveness

The advantages of a competition are the results of implementing a strategy which make use of various resources that belongs to a company. Special and unique asset were viewed as the source of competitive benefits. Unique special is an ability possessed by a company to include their workers as an important part to reach an advantage in a competition (Bharadwaj et al. 1993,p83-84). The competition's advantage is the centre of a company's performance to face a direct competition. Competition's advantage can be defined as a beneficial strategy for a company who establishes cooperation to create more effective competition benefits. This strategy should be designed to create continuous benefits so that a company could dominate both in old and newer markets. Competition's advantage basically grows from values or benefits a company can create for its consumers (Porter 1990, p.3).

Several indicators used to measure these advantages are uniqueness, rarity, harder to get plagiarized, harder to swap, and the competing price. A product's uniqueness is the characteristic of a product which combined aesthetic values and buyer's taste. Competing price is a company's ability to correspond its product's price with the general price in the market. Rarity means the product's existence is hard to come by in today's competition. Harder to plagiarized means other competitors might be able to copy the product but not with the same quality. Harder to swap means there are not much similar product in existence that can be a substitute ( Rifzaldi et al. 2016).

International competitiveness means the ability of the producers to compete successfully in competing for world markets and with imports in its own domestic market (Capobianco-Uriarte, et al., 2019).

The concept of competitive advantage for nation porters is better known as the Diamond Framework which uses approaches including (1) Factor Conditions namely where the role of the state in mastering human resources, infrastructure, knowledge and capital resources and also natural resources, (2) Demand Conditions refer to conditions of domestic demand from an industry where if demand from consumers increases will make the industry develop which makes industry investment increase, the industry can adopt technological changes more quickly and can also make national products of international quality so that international markets can be achieved, (3) Related and supporting industries, which are industries depend on other industries alliance to get added value for consumers and become more competitive, (4) Firm, strategy, structure, rivalry is about how the country creates, manages and organizes industries in increasing competitiveness (Porter, 1990).

The concept of competitiveness can be used as a policy strategy in building the strength of the national economy through the integration of macroeconomic policies that are very instrumental in strengthening national competitiveness (Wibowo & Nurcahyo, 2020).

## 3. Methods

This research uses a descriptive case study method which aims to describe the Cost Leadership strategy adopted by Air Asia and how the company can make efforts to minimize risk so that the company can maintain a competitive advantage.

The focus of a case study is the specification of a case in an event, whether it includes an individual, a cultural group or a portrait of life (Creswell, 1998:37-38). There are several forms of data collection in case studies, namely: (1) documentation consisting of letters, memoranda, agendas, reports of events, proposals, research results, evaluation results, clippings, articles; (2) archival records consisting of service records, maps, survey data, lists of names, personal records such as diaries, calendars and so on; (3) interviews are usually open-ended type; (4) direct observation; (5) participant observation and (6) physical or cultural devices, namely technological equipment, tools or instruments, artistic work and so on. There are three principles that, if done, can maximize the benefits of the six sources of evidence, namely using multi-source evidence, creating basic case study data such as case study notes, case study documents, tabulation materials, narratives and maintaining an evidence (Yin, 1989: 103-108).

The data analysis steps were carried out by the researcher, namely identifying the Cost Leadership strategy implemented by Air Asia and the efforts made by the company in minimizing risk so that the company could maintain a competitive advantage and draw conclusions (Khusna, 2015).

#### 4. Data Collection

Based on the official data listed in Air Asia's 2019 annual report, in the last ten years (2010-2019) it is shown in Figure 1.: the company's total annual revenue has continued to increase; the average total annual income is approximately 6,926.9 RM Million; the average annual growth rate is around 10.5%. According to modern economic theory, for retail, an average annual growth rate in the range of 3% to 5% means that the company's total annual sales are growing rapidly. So Air Asia's total annual sales has grown rapidly in the last ten years.

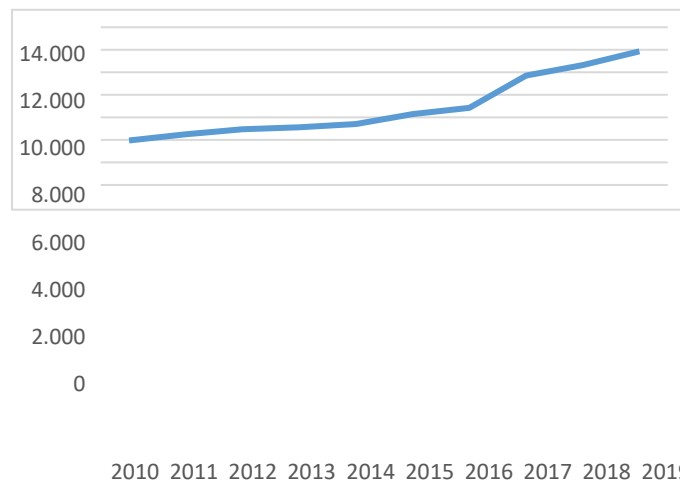


Figure 1. Variation in Air Asia's total annual sales in the last ten years (2010-2019).

Air Asia's total annual sales has increased in the last ten years due to the company's good strategy in gaining competitive advantage. However, in 2020 Air Asia experienced bad losses because the low cost strategy that was implemented could not adapt to the conditions during the Covid 19 pandemic.



Figure 2: AirAsia's dwindling performance in contrast to last year

It was found that one of the most important challenges facing AirAsia is the Covid 19 global pandemic which has had the effect of crippling international airlines and travel across the world. The analysis showed that AirAsia has suffered very bad losses due to the Covid 19 pandemic (Aviation Tribune, 2020).

## 5. Results and Discussion

### Cost Leadership Strategy

The cost leadership strategy is also called a low cost strategy, although this theory has been proposed long before, each company must make its own innovation. There are several LCC airlines in Southeast Asia that are competitors to AirAsia such as NOK Air, Lion Air, Jetstar and others. (Table 1).

**Table 1.** Low-cost airlines in Southeast Asia

Airline Name	Country	Fleet Size/Age (Yrs.)	Fleet Model	Route
AirAsia	Malaysia	66 / 4.6	Airbus320-200	Domestic, International
NOK Air	Thailand	16 / 12.5	Boeing737-800	Domestic
Tiger Airways	Singapore	23 / 2.6	Airbus320-200	International
Jetstar Asia	Singapore	18 / 3.6	Airbus320-200	International
Lion Air	Indonesia	93 / 4.9	Boeing737-400	Domestic, International
Cebu Pacific	Philippine	46 / 4	Airbus319-100	Domestic, International
Fire Fly	Malaysia	14 / 4.7	ATR42/72	Domestic, International
Batavia Air	Indonesia	20 / 25.2	Boeing737-300	Domestic, International
Citilink	Indonesia	28 / 7.2	Boeing737-300	Domestic, International

The AirAsia Group's business model rests on a low fare philosophy that emphasizes streamlined, simple and efficient operations. AirAsia implemented a key strategies to achieve this, such as: high aircraft utilization, low fares, no frills and a direct flight network.

**High Aircraft Utilization.** AirAsia focuses on high number of flights and fast turnaround times. Increase passenger comfort and maximize cost efficiency. Our turnaround time is only 25 minutes - the fastest in Southeast Asia.

**Low Fare, No Frills.** AirAsia does not offer a loyalty program or an airport lounge for low fares. Passengers can purchase food, snacks or drinks on board.

**Direct Aviation Network.** All AirAsia short haul (travel time four hours or less) and AirAsia X medium and long haul flights are non-stop. By doing so, it can reduce the use of ground crew, physical infrastructure, and facilities at the transit airport.

The COVID-19 pandemic has had a huge impact on AirAsia's net profit and can be proven in (Figure 2). To cover losses during the Covid 19 pandemic, AirAsia opened a new business unit, namely online motorcycle taxis. Previously, AirAsia entering a new business other than aviation. Since late last year, for example, AirAsia has opened a food delivery service called AirAsia Food in Malaysia and Singapore. They are also testing food delivery services via drones in Malaysia (Kumaran, 2021).

### Core Competitiveness

Low cost is not the only secret of survival, a well-developed company must have its own advantages to shape its core competitiveness so that other companies are difficult to imitate. As a pioneer of low cost airlines who was awarded the 2019 Skytrax World Airline Awards, AirAsia offers several innovative products and services according to aviation standards. The range of products offered includes mobile applications, various self-service services, in-flight wifi, interactive travel guides, delicious in-cabin meals, duty-free products that can be purchased online, premium Flex and Fly-Thru services, services insurance that can protect passengers exploring Asia Pacific, namely Tune Protect AirAsia Travel Insurance and the launch of a new facility called Auto Baggage Drop. Auto Baggage is a kind of automatic baggage machine at the airport and the first in Indonesia. The launch of the Auto Baggage Drop facility was carried out at the AirAsia operation office (FLOPS) on the 2nd floor of the International Terminal at Ngurah Rai Airport, Bali. This facility is a commitment from AirAsia to make it easier for passengers without having to long queue .

Even during the COVID-19 pandemic, AirAsia was still able to sell travel tickets at low prices. Not only that, but Air Asia also issued the AirAsia Unlimited Pass program. AirAsia Unlimited Pass is a program for unlimited flights on some AirAsia networks. This program is similar with the SJ Travel Pass which was held several years ago from Sriwijaya Air. AirAsia has also held similar programs in several countries such as AirAsia X for long-distance international routes and Thai AirAsia domestic routes (pinterpoin, 2020).

## 6. Conclusion

AirAsia is one of the airlines using a cost leadership strategy in the ASEAN Region. As the best low-cost airline, AirAsia connects visitors and destinations via 293 routes; 90 and cement its position as a leader in the aviation industry through two milestones: flying 435 million passengers and doubling its fleet from 2 aircraft in 2001 to 205 aircraft by the end of 2017. AirAsia implements key strategies to achieve this, such as: high aircraft utilization, low fares, no frills

and a direct flight network. To cover losses during the Covid 19 pandemic, AirAsia opened a new business unit, namely online motorcycle taxis. Air Asia has two core competitiveness points: it has lower fares compared to other airlines and has auto baggage facilities to make it easier for passengers without having to queue long. During the COVID-19 pandemic, Air Asia has issued the AirAsia Unlimited Pass program. AirAsia Unlimited Pass is a program for unlimited flights on some AirAsia networks.

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## Biography

**Arya Ibrahim Aji** is a graduate student in the industrial engineering department of the Universitas Indonesia. He earned an S.Pd. in Mechanical Engineering Education from the Universitas Negeri Jakarta. Arya has completed his thesis on the characteristics of composite brake canvas made from wood dust, coconut fiber and green shells on an electric motorcycle.

**Kynanda Ivandi Ramadhan** is an undergraduate student in the Industrial Engineering Department of Universitas Indonesia. He currently acts as the chairman of Student's Consulting Club Universitas Indonesia and a fellow assistant in the Systems Engineering Modelling and Simulation laboratory.

**Lutfie Hidayatullah** is a graduate student in Industrial Engineering Department of Universitas Indonesia, He earned Bachelor of Industrial Engineering from Industrial Engineering Universitas Islam Indonesia and graduate on 2016, he ever work at PT Indonesia Epson Industry Cikarang as Staff Total Quality Assurance.