

Alternative Business and Operational Strategies of an Airport Service Company

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Abstract

The main purpose of this research paper is to analyze PT Angkasa Pura II business and operational strategy. The study was conducted based on report data of PT Angkasa Pura II in form of annual report and statistical data. This paper has shown that PT Angkasa Pura II had used multiple strategies in “**11 types of strategies**” in order to keep the company competitive. In this paper the author uses 11 types of strategies which are distinguished by four categories; integration strategies, diversification strategy, intensive strategy, and defensive strategy. This study shows that in order for a company to stay competitive they need to combine one or more strategies depending on the current situation.

Keywords

Strategy, Airport industry, Sustainable company

1. Introduction

Airport is anything related to air transport management and other activities in carrying out the functions of safety, security, smoothness, and orderliness of aircraft, passenger, cargo, and postal traffic flows (Agustiana and Budiastuti 2020). According to The International Air Transport Association (IATA) press release, Indonesia’s aviation potential is huge and by 2034, it is expected to be the sixth largest market for air travel. As of 2018, airport management in Indonesia holds more than 60 operating airlines, serves 122 million passengers and 78 international destinations (IATA 2019). Airports in Indonesia are managed by two major companies, PT Angkasa Pura I (Persero) and PT Angkasa Pura II (Persero). PT Angkasa Pura I (Persero) currently manages 15 airports throughout the east side of Indonesia, while PT Angkasa Pura II (Persero) has managed 19 airports in the west side of Indonesia, including Soekarno-Hatta International Airport. Like most airports around the world, airports managed by PT Angkasa Pura II (Persero) provide both aeronautical and commercial services. Aeronautical services refer to operational and traffic processing services, including aircraft landings and take-offs, cargo processing, ground support services, and airport safety, security, and emergency services (Wang and Song 2020). Commercial services consist of franchise-based business and self-operations, including ground handling for airlines, catering services, duty free, retail shops, restaurants, the leasing of airport space inside and outside the terminals, the provision of goods warehousing, and car parking services (Wang and Song 2020). PT Angkasa Pura II Persero also provides pilgrim flight services which cooperate with relevant agencies, including the Ministry of Religion (Angkasa Pura II 2020).

The air transport industry highly contributes to the development of the economy and society of any country in the world, mainly because it generates jobs and stimulates social and economic activities (Nieto et al. 2021). Airports directly contribute to economies by providing services to airlines, moving passengers, and transporting cargo. The movement of goods and people also benefits governments, consumers, and industries (Twinn et al. 2021). According to the 2020 Annual Report of PT Angkasa Pura II (Persero), the operating revenue earned from 2016 to 2018 increased significantly from 6,645 billion Rupiah to 11,193 billion Rupiah, and resulted in profit for the year around 2,000 billion Rupiah. Meanwhile in 2019, there was a slight decrease in the revenue to 11,048 billion Rupiah, which impacted the profit earned to 1,007 billion Rupiah. According to the International Air Transportation Association, IATA, in 2018, the airline industry in Indonesia carries 122.2 million people, supporting 4.2 million jobs and contributing US\$ 24 billion to the GDP of Indonesia.

As a company that has a core business in the airport services, the revenue earned by PT Angkasa Pura II (Persero) is strongly influenced by passenger and aircraft traffic at Angkasa Pura II airports. For instance, according to the

data which is obtained from the Safety, Risk, and Quality Control Unit - CGK of PT Angkasa Pura II (Persero), passenger and aircraft traffic, especially at Soekarno-Hatta International Airport, experienced ups and downs in terms of quantity. In the last 6 years, (2016, 2017, 2018, 2019, 2020, and 2021) Soekarno-Hatta International Airport recorded a total movement of domestic and international passengers of 58,195,484; 63,015,620; 65,668,776; 54,496,625; 20,546,455; 18,841,556. Meanwhile, the movement of domestic and international aircraft in the last 6 years was 413,781; 431,560; 463,071; 390,648; 212,756; 192,690. In 2020 and 2021, the movement of aircraft and passengers experienced a drastic decline as a result of the Covid-19 pandemic, which is a global pandemic. This has been felt since March 2020 along with the issuance of Presidential Decree 11 of 2020 concerning the Determination of Public Health Emergency CoronaVirus Disease 2019 (Covid-19) and PERMENKUMHAM 11 of 2020 concerning the Temporary Prohibition of Foreigners from Entering the Territory of the Republic of Indonesia.

Although the COVID-19 outbreak has hit the operational of most of the airports in the world including Indonesia, resulting the sharp decrement of revenue to 5,843 billion Rupiah in 2020 and lead to major loss experienced by PT Angkasa Pura II (Persero), air transport market in Indonesia is still forecast to grow by 219% in the next 20 years. This would result in an additional 268 million passenger journeys by 2037 (IATA, 2019). As a result of these conditions, PT Angkasa Pura II (Persero) had to make several strategic decisions in an effort to survive in these uncertain conditions. Environmental uncertainty has a strong correlation and impact to both financial and non-financial performances (Kurniati and Nurcahyo 2018). Plus, Industrialization and globalization affect the world's view of carrying out the economy. Every country in the world competes to become the most competitive economy by increasing its competitiveness to survive in the era of globalization so that, national competitiveness becomes an important point for all countries in the world so the companies cannot conduct business as usual because of the openness of international markets and information (Widodo and Nurcahyo 2020).

1.1 Objectives

PT Angkasa Pura II (Persero) is one of the State-Owned Enterprises (BUMN) which is required to get profit from the results of airport services. In achieving some of its business plans, Angkasa Pura II requires several strategies to survive and succeed in becoming one of the successful SOEs. This study aims to analyze the business strategy carried out by Angkasa Pura II based on 11 Strategies by Fred R. David.

2. Literature Review

2.1 Strategy

In the last few decades, a company is required to be able to adapt quickly, have high flexibility, and be able to survive in the era of disruption. Companies are no longer relevant to use static principles in today's dynamic era. In terms of competing in the Industry 4.0 era, a company should not only think about how to seek a profit in the market, but also strategic planning is needed to be able to compete. Strategy itself comes from the Greek word "strategos" which means an attempt to achieve a victory in a war. At first the word was used in the military world. A good strategy is a strategy that is able to answer 4 questions: 1) Where do we compete?; 2) What unique value do we bring?; 3) What resources/capabilities do we utilize?; 4) How do we sustain unique value?.

To implement strategy into reality, we need a method to manage our strategy to win a competition (in this context business competition). The method is called Strategic Management. According to Fred P. David (2011), Strategic Management is a combination of disciplines between science and art to formulate, implement, and evaluate a comprehensive decision in a company to be able to achieve the goals of the company. Strategic management was better known as strategic planning before, but because it is felt that strategic planning only involves planning (formulation) of a decision without involving implementation and evaluation, the notion of strategic management is more used so that the meaning is wider.

Strategic Management is divided into 3 stages, namely formulation, implementation, and evaluation. The meaning of the three stages is as follows:

- **Strategy formulation:** An activity that develops the vision and mission of an organization, identifying opportunities and threats from external factors, interpreting organizational strengths and weaknesses (internal factors), determining long-term goals, making several alternative strategies, and choosing alternative strategies that have been made according to the current context. In a company, this stage is carried out by the corporate level.

- **Strategy Implementation:** An activity that makes short-term goals, designing policies, managing human resources so that the strategies that have been designed or formulated can be implemented. Strategy Implementation must be in line with the Strategy Formulation that has been made. This stage is also known as the action stage. In a company, this stage is carried out by the division level or strategic business unit.
- **Strategy Evaluation:** An activity in the form of a review of the results of the implementation of the Strategy Formulation by measuring its performance according to predetermined parameters and the most important thing is to take corrective actions against the evaluation results. In a company, this stage is carried out by the functional level or internal auditors.

It's also worth mentioning that good regulation will help companies to accelerate their business operations to a much better position. One of the examples is when there is use of standards ISO 9001 that regulates quality management systems. According to study done by Nurcahyo R. (2020) shows that by the implementation of ISO 9001 on business operational create, successfully had a positive impact on the business performance, by implementing ISO 9001 effectively, it will enhance the business performance and the performance itself

2.2 11 Types of Strategies

11 Types of strategies is a term used to describe types of strategies that are often used by a company to get their objective. Most of the companies used more than one strategy simultaneously in their business operations, all of the strategies that are included in the 11 types of strategies. Although every company uses more than one strategy in their business operations, it's very rare to find that one company uses all of the strategies listed in the 11 types of strategies. The Strategies is divided into 4 big group which is Fred R. David (1988):

1. Integration strategies

Integration strategies group consists of 3 main strategies which the main purpose of this strategy are to integrate another business or company to the main business or company, to gain advantage in the business operational of that company.

- **Forward integration**

This strategy is when one company is trying to gain control over distributors or retailers, this type of strategy usually is done when the present distributors are expensive, and the availability of quality distributors are limited, then the company has a high profit margin. Then they do the forward integration to minimize the problem that can occurred in distributors or the retailer part.

- **Backward integration**

This strategy has the same idea of forward integration, but in this strategy the company is trying to gain control over the supplier. Backward integration is done when the supplier of the company is expensive or unreliable, also the suitable supplier had small capacity and can't keep up with the company demand, company usually done this when they need to quickly acquire needed resource

- **Horizontal integration**

Horizontal integration is when the company is trying to take ownership or increase control over competitors. This strategy is done when the company is believed that they can gain monopolistic characteristics in a particular area or region, usually a company takes control over the competitor when the competitor has lack of managerial expertise, so it can fail the competitor company.

2. Diversification strategies

Diversification strategies consist of 2 main strategies where the main purpose of this strategy is to gain a competitive advantage by doing diversification of the service or product that they produce.

- **Related diversification**

Related diversification strategy is where a company or firm is creating a product or service diversification where the diversification still has the same or similar value than the product or service that already exists. These strategies if done correctly can lower the production costs and can be used to create competitive advantage for the company applying it.

- **Unrelated diversification**

Unrelated diversification strategy is where a company or firm is creating a product or service diversification where the diversification did not have or share a similar value from the product that already exists. This strategy is good to use when the company is moving in the slow-growth type industry, and effective to use when a new product but related products can be offered at more highly and competitive prices.

3. Intensive strategies

Intensive strategies consist of 3 main strategies where the intensive strategies have the main purpose is to increase sales of the company product or create a new potential market for the company or firm.

- Market penetration
This strategy had an objective to increase the market share for current product or company, in the present market by using marketing effort to create demand for the product or company. Market penetration strategy is good to use when the current market is not saturated with particular products or services, and when the market share of the major competitors is declining when the demand for the product or service has been increasing.
- Market development
Market development strategy is where companies introduce their present product or service to new geographic areas. This strategy only works when there are untapped or unsaturated market existed, and current organization or company already has an excess production capacity
- Product development
This strategy is focusing on the product that has been offered, where the company seeks to increase sales by modifying the present product or services. This strategy will succeed when the company competes in a high-growth industry, and the company has a successful product that is in the maturity stage of the product life cycle.

4. Defensive strategies

Defensive strategies consist of 3 main strategies where the defensive strategy has the main purpose to keep production or company still operating while doing some drastic change in the company operational.

- Retrenchment
Retrenchment is where a company has declining sales and profit so the company tries to regroup it through cost and asset reduction in order to regain the loss they already had. This can happen when the company had a low efficiency, low profitability and low morale in the employee itself
- Divestiture
Divestiture is when a company had to sell a division or part of their organization to keep the company stay operated. this strategy is often used to raise capital for further strategic acquisition or future investment
- Liquidation
Liquidation is where the company had to sell all of the company assets, in parts, for their tangible worth. This is considered as a last resort, where the company had already done both of the retrenchment and divestiture to keep operated but turn out still fail to stay afloat, then the only alternative left is bankruptcy. Liquidation is considered last effort with objective to minimize the losses

2.3. Comprehensive Strategic Management Model

The strategic management process is dynamic and continuous. Strategic management starts by completing the formulation of future objectives and how to achieve them, after that the enterprise needs to correct the original strategic plan according to the information feedback in the execution process of each business unit (He and Ma 2021). Figure 1. shows the comprehensive strategic management model developed by Fred R. David (1988).

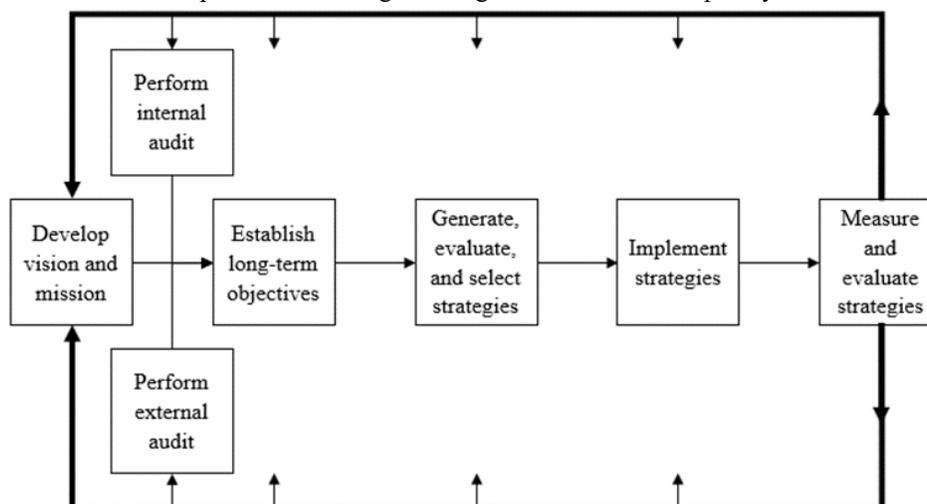


Figure 1. Comprehensive Strategic Management Model

According to Figure 1., developing a vision statement is considered the first step in strategic planning, followed by developing mission statements and determining long-term objectives. Objectives are specific and measurable results that an organization needs to accomplish in pursuing its mission. In order to achieve long-term objectives, strategies are generated and deployed to every part of the organization. The strategic planning evaluation process is the process where an organization evaluates the effectiveness of the strategy. In the evaluation phase, companies need to make strategic revisions based on the assessment results (He and Ma 2021).

3. Methods

3.1. Identification of the Issue

According to the 2020 Sustainability Report of PT. Angkasa Pura II (Persero), strategic issues that are currently faced by PT. Angkasa Pura II (Persero) which is necessary to receive attention in formulating policy directions, strategies, as well program and activity policies are optimizing the implementation of good corporate governance through strengthened infrastructure and maintaining a balance between profit, people, and planet. COVID-19 pandemic which led to major disruption in company operations also forced PT. Angkasa Pura II (Persero) to formulate strategies to survive.

3.2 Data Collection

After looking at the yearly report of PT Angkasa Pura II we had a picture of how the company operated, the strengths, weaknesses, and which strategies that they use in their business operations. Furthermore, we acknowledge the strategies of the airport industry used to stay competitive in the airport and services industry.

3.3 Determine the Strategies

After collecting data on the yearly report of PT Angkasa Pura II, the researcher grouped several strategies that had been carried out by the company with 11 alternative strategies owned by Fred R David. The grouping is based on the Integration, Diversification, and Defensive Strategy groups.

4. Data Collection

The data needed is the strategy that has been carried out by PT Angkasa Pura II based on information obtained in the annual year report, information from internal companies, and information from the internet. The strategies that have been collected are as follows in Table 1:

Table 1. Strategies Implemented by PT. Angkasa Pura II

No	Strategy
1	Railink (Airport Train)
2	The Formation of PT Angkasa Pura Solusi
3	Airport Acquisition
4	The formation of PT Angkasa Pura Kargo
5	The formation of PT Angkasa Pura Propertindo
6	Terminal 1 Shutdown

5. Results and Discussion

5.1 Forward Integration

Forward Integration is trying to gain control over distributors or retailers, this type of strategy is usually done when the present distributors are expensive, and the availability of quality distributors are limited, then the company has a high profit margin. Forward integration carried out by PT Angkasa Pura II is in collaboration with PT KAI to build PT Railink with services in the form of airport trains. This collaboration strategy is taken to make it easier for airplane passengers to get downtown. This strategy also increases profits for the company by exploring the land transportation industry, where previously passengers who got off the air transportation mode only had the option to continue their journey to their destination by Bus, Shuttle, and taxi. Currently, Airport Train (Railink) is the fastest alternative solution for passengers to be able to reach their destination faster via train because they are not stuck in traffic jams. This strategy also increases public interest in choosing the mode of airplane transportation because of the ease of access to the airport without being stuck in traffic and the ease of accessing it.

5.2 Backward Integration

Backward Integration is a strategy that is trying to gain control over the supplier. The backward integration implemented by Angkasa Pura 2 is the acquisition of PT Angkasa Pura Solusi. PT Angkasa Pura Solusi, formerly known as PT Angkasa Pura Schipol is a Foreign Investment (PMA) company which was established on April 8, 1996. PT Angkasa Pura Solusi is a joint venture with 50/50 share ownership between PT Angkasa Pura II (Persero) and Schipol BV Management Services. In 2012, it was a "new start" for PT Angkasa Pura Solusi. Since November 2011, PT Angkasa Pura Solusi's share ownership had been fully transferred to PT Angkasa Pura II (Persero) and changed its name from PT Angkasa Pura Schipol. Business ventures that were initially limited to Airport Consultation, IT and Saphire then amplified to various other businesses, including ICT, lounges, advertising, cargo handling services, car-park, property management, training and support and aviation security. The development of its business ventures affects both changes in the organization and the improvement of human resources. This requires the company to affirm the basic beliefs that become the spirit of the company, internalize it to all employees and become the basic consideration of the partners in collaborating with its Basic Belief: Serving the Best. These beliefs are being translated into Corporate Values, to understand the interests of stakeholders Innovative, Teamwork and Collaborative, (Strategic) Alliance and Agility. Since 2018, PT Angkasa Pura Solusi has focused on five business units: Retail, Passenger Service, Facility Services, Digital and Aviation Security. As we know that in airport operations, several facilities such as digital service, IT support, passenger service, security, and others are important components in the success of airport operations. Seeing some suppliers in the market who are unreliable and do not understand internal business processes, PT Angkasa Pura II tries to acquire PT Angkasa Pura Schipol as a subsidiary so that the supply process of several aspects such as digital service, IT support, passenger service, security can be controlled directly so that according to operational needs

5.3 Horizontal Integration

As we know, horizontal integration is an act of integration where a company try to take control or increase control over company competitors. In this case PT Angkasa Pura II also done the act of Horizontal integration in their

business process, where in this case the act of horizontal integration that Angkasa Pura II done is when they try to take control over government control airport and makes that as an asset of Angkasa Pura II, by doing that way, the company can increase their profit while also reducing competitor in airport industry. Which we knew government controlled airport is usually operated for specific purpose (such as : army, or training ground) but Angkasa Pura II saw an opportunity on that area and recondition the airport to be used by commercial airplane

5.4 Divestiture

Divestiture is an act of a company where they sell or close a part of their organization in order to cut cost and stay competitive during operation. This act was also already done by PT Angkasa Pura II especially when Covid-19 hit Indonesia. Due to Covid-19 restriction making it hard to travel, that restriction makes the airplane and airport industry lose their potential customers and revenue. Due to that condition PT Angkasa Pura II did a thing that our group thinks as an act of divestiture. Angkasa Pura II decided to fully shut down the operation of Terminal 1 in Soekarno-Hatta airport. That act needs to be done in order to cut the operational cost of the company, because there's so few passengers traveling, making the revenue low, and it's deemed that operating Terminal 1 is not an effective way of doing business in Covid-19 era.

5.5. Related Diversification

Related diversification strategy is a strategy where a company or firm is creating a product or service diversification and the diversification still has the same or similar value than the product or service that already exists. These strategies if done correctly can lower the production costs and can be used to create competitive advantage for the company applying it. As stated in PT. Angkasa Pura II (Persero) program and activity policies, one of the major issues is maintaining a balance between profit, people, and planet. Implementing a related diversification strategy will help PT. Angkasa Pura II (Persero) to gain more profit from other related products. Among 6 strategies obtained in data collection, two strategies are identified as related diversification strategies, as shown in Table 2 .

Table 2. Related Diversification Strategies by PT. Angkasa Pura II (Persero)

No.	Strategy	Related Field
1.	Railink (Airport Train)	Transportation (train)
2.	The formation of PT Angkasa Pura Kargo	Transportation (cargo movement)

The establishment of Railink is a strategy to support government policies and programs in finance and national development, especially in the field of transportation. Railink is considered a related diversification strategy because they provide high quality and competitive services that include the business of transporting people by train, maintenance and commercialization of infrastructure.

In accordance with the growth of Indonesia's airport infrastructure and stakeholder's requirements on service excellence that emphasized quality safety and security, PT. Angkasa Pura II (Persero) established a strategic subsidiary namely PT. Angkasa Pura Kargo in 2016 with main services comprising cargo terminal operating services, cargo and airfreight services and development of cargo terminal infrastructure. PT. Angkasa Pura Kargo focuses its services in the airport cargo and logistics located in several airports across Indonesia under the management of PT. Angkasa Pura II. Angkasa Pura Kargo aimed at important factors such as sustainability, safety and security of the logistics chain at the airport. The establishment of PT. Angkasa Pura Kargo is identified as a related diversification strategy as Angkasa Pura Kargo fully supports the business process of PT. Angkasa Pura II (Persero) in terms of cargo movement.

5.6. Unrelated Diversification

Unrelated diversification strategy is where a company or firm is creating a product or service diversification where the diversification did not have or share a similar value from the product that already exists. This strategy is good to use when the company is moving in the slow-growth type industry, and effective to use when a new product but related products can be offered at more highly and competitive prices. Strategy which is identified as an unrelated diversification of PT. Angkasa Pura II (Persero) is the formation of PT. Angkasa Pura Propertindo. The establishment of PT. Angkasa Pura Propertindo is considered an unrelated diversification strategy because the company is engaged

in activities of construction services, security services, parking management, carwash, building management, and hotels. These businesses are in different fields from the main business of PT. Angkasa Pura II (Persero) which mainly engaged in the transportation field.

6. Conclusion

Angkasa Pura II as one of the state-owned companies that moves in airport services turns out using more than 11 types of strategy in their business operations. The company uses integration strategy to integrate their line of business with the objective of reducing obstacles in their business operations and also increasing company profit. By doing integration strategy in their business process Angkasa Pura II can get new lines of revenue stream from new business that they acquire, and reduce competitors in their line of business. The company also uses defensive strategy such as divestiture when Covid-19 pandemic hit Indonesia. By doing defensive strategy in their business operations show that Angkasa Pura II are flexible enough and have a good management that is ready to take risks when times are tough. As expected from the defending strategy the company can survive during Covid-19 pandemic hit airline industries. As we knew at that time there's a lot of restrictions in place, which made travel harder, as a result made profit in travel industries drop drastically.

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