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Overview

Simon Lee – Senior Marketing Manager – experienced manager but first post in the airline industry- steep learning curve but must learn fast !

Carried out market research into industry sector and trends.

15/6/01 – future plans for the company –marketing plan !

Malaysia – modern, prosperous nation.

MAS mirrors this image. National airline with HQ in KL.

111 Destinations –5 Continents. International and domestic.

History – useful background information.-traces development from 1947 –2001.

Products and services

MAS – innovative, record breaking, setting industry standards.

- in seat touch screen
- business centre in the sky
- ground to air retail transaction service
- among top 5 in the world for product development and service delivery (out of 150 airlines)
- market research carried out by British market research company – inflight research services (IRS).

Outstanding in flight service

MAS = Gold in Malay.

Airline company has gone for a 'gold standard' of in flight service. Marketing theme – golden smile, golden service, and golden lounge.

MAS has won many awards for outstanding service. KL airport is rated as one of the best in the world.

Global marketing issues

Deregulation

2 key events initiated move towards deregulation in the USA.

- widebodied aircraft
- middle east oil embargo in 1973.

Business falling in the face of capacity and fuel prices rising = double whammy !

Capacity constraint in the 70's.

Airline Deregulation Act (1978.) U.S. Civil Aviation Board disbanded.

U.S.deregulation followed by BA and other European airlines.

Deregulation led to tighter squeeze on profit margins – more and more difficult for airlines to make a profit. Some U.S. airlines run at a loss.

Strategic alliances – K.L.M. and Northwest Airlines.

Many airlines still owned by State Governments.

Table 1 – MAS – 25% State owned.

What remains regulated

International

1990's U.S. made a concerted effort to liberalise its international aviation markets. April 2000 – U.S. concluded 45 'open skies' agreements – anything goes!

New carriers

Deregulation has opened airline business to newcomers !

1978 –43 carriers certified for scheduled service.

2001- 86

By 1998, new airlines offering direct, no frills low cost service began to emerge – EASY JET,GO etc. Low prices for used aircraft and availability of pilots (cf. Tony Underwood –ex RAF pilot joined EASYJET.)

Increased Competition

Unprecedented competition today! Biggest increase in competition – small and medium sized markets.

Pricing

Complex business – price depends on first/economy/business, length of stay, when ticket bought, open and flexible ticket or fixed flight (no changes allowed),Airlines can charge premiums for better service(Do MAS exploit their superb service?) *

Many fares now discounted in real terms- prices of air tickets have fallen 35% since deregulation in 1978.!!

Growth in air travel

Figure 1 – Market life cycle

Middle East and Latin America – poised for growth.

Figure 2 – GDP – linked to propensity to travel by air. Logical!

Trends

Growth in one parent families, multiple structure families- in developed world could exert increase in air travel (*opp.)Leisure travel growing faster than business travel (*opp). 80/20 – leisure /business – global trend !

However, business class travel is more profitable.!

e.g. B.A. Club World – 25% revenue from 8% of passengers

75% revenue from 95% of passengers

Table 2

MAS – ranked 35th in world.(valued by sales). Yet they are in the top 5 for service- mismatch – should be selling more ! (*Opportunity) Less than 8% of its employees involved with airline sales

Distribution

Computer reservation system (CRS)

System –vital for tracking millions of passengers who fly every day! CRS have a powerful impact on travel agents and the travel industry.

Jan 2001- CRS –shareholding turmoil due to AA takeover of TWA. Causes disruption – AA have

to divest TWA's share in Worldspan.

Competition and strategic alliances

Table 3 – 1994 –280 alliances – 1998 –502 alliances.

Equity stakes declining – marketing and technical co-operation is the name of the game.

Airline business moving from regulation and state ownership to global consolidation and possibly cartels which can charge consumers high prices for tickets.

(Should MAS form a strategic alliance with another airline to lower its unit cost and take advantage of additional capacity and traffic, thereby cushioning itself from the impact of a global downturn?)

Frequent flyer programmes (FFP)

Growing in popularity –linked to air miles (well documented)

Code sharing

Code sharing agreements allow 2 different airlines to offer better co-ordinated services to their consumers. Also ties in marketing and FFP's. Codesharing=expanding global reach.

E-distribution.

MAS – 85% comes from travel agents. MAS –keen to develop loyalty –already offers FFP. With e-ticketing – charge to credit card over the internet.- eliminates booking fee which is currently \$3.80 x 50% of MAS's bookings – an expensive and avoidable cost !

Spinoffs – extra insurance sold by IFA's.- very lucrative.

Figure 5

Future= creating new portals vs using old CRS's with new internet face. Important thing is to ensure new e-business is captured effectively!!

Strategic positioning issues for MAS

1998 –Malaysia suffered currency crisis. MAS suffered a heavy loss- US\$69.8million (7th worst in world)

Asian airlines –cheap in terms of costs-low cost of living in the region, low salary levels in Asia etc.

Malaysia –corporate debt restructuring- improvement but not out of the woods yet. Share price has recovered.

MAS –25% revenue from 40% passengers carried, therefore need to increase fares and also need to increase international flights as they are more profitable 75% revenue from 60% passengers carried.

MAS –increasing international flights to India but Indian government is protectionist-difficulty in obtaining landing rights!

Within Malaysia-MAS preferred carrier-national pride! MAS –selling strategy is price driven yet this is a mismatch due to their superior service.

Opportunities for student travel from Indonesia. Malaysia –education centre –British Univs have presence there .Nottingham univ. has a campus there.

Green issues

Growth in air traffic-dichotomy-pollution/noise. Aircraft –2-3% of carbon dioxide emissions globally. KL airport built 50kms out of town-ecological issues.

High speed rail link –reduces car pollution. Good strategy to reduce pollution and be environmentally friendly.

Marketing communications

Logos redesigned to reflect changes (page21). MAS work with Leo Burnett BUT spend 3.5%-4% below the industry average.

*MAS must build a consistent image for its brand. Thematic advertising concentrates on the ‘future of travel’ -futuristic-e-commerce, technology driven,leisure driven etc.

Mismatch-perceived as a second tier airline rather than a premier airline such as Cathay Pacific, yet it has won so many service awards!

MAS needs to communicate this to the general global consumer. Mirror advertising from Cathay Pacific-strapline and good advertising campaign needed. (Communications Plan).

Link with football Premier League –Chelsea and Man.Utd- global brand. Halo effect. Very big in Asia. MAS already sponsors sporting events but needs to think big! (Possibilities exist – be creative)

Footnote about Malaysia

Malaysia-multi racial and multi cultural society. Modelled on U.K. Government.

Vision 2020-Malaysia to be a fully developed and prosperous nation by then. MAS –ambassador for the new Malaysia. Malaysian economy-dynamic and export oriented. Per capita income is high. High standard of living in Malaysia.Good for micro electronics, consumer goods, appliances, micro chips, and computer accessories. Good hotels have mushroomed –tourism. Double digit growth.Malaysian ringgit depreciated 40% against USdollar but 85% of MAS loans are in US dollars!(Need to charge in dollars wherever possible , otherwise prohibitively expensive)World oil price has increased to US\$ 30 per barrel.* Spiralling costs –yet they do not charge enough – will have to improve branding to signify a premium service and charge a premium price.!

SUMMARY

MAS –poor financial performance.YET :-

- company poised for growth
- opportunities for growth in a dynamic country and region
- opportunities for tourism/leisure –Golden Holidays
- international flights –internet distribution will lower costs. At the moment –relies too heavily on travel agents
- India-great market.200m. Indians now in high income bracket
- 1.6m indigenous Indians in Malaysia –have to travel back ‘home’for weddings, see friends and relatives etc.
- airline industry will become more concentrated
- by 2010, top 20 airlines will carry 66% of the world’s traffic. Therefore MAS has 9 years to be in the top 20 –strategic imperative.
- Malaysia –KL airport must expand to win bigger share of the increased business
- Malaysian government needs to continue to invest and back MAS

APPENDICES

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2 articles about MAS. P.35 – customer service –largely excellent. Won many awards.B747 AND B777 aircraft are equipped with first class and business class seats.

P.36 –article re Australian market. Sydney, Melbourne flights (popular route). Using B747 and B777 – up market flights to capture the Australian market.

MAS positioning themselves upmarket to win a greater share of the Australian market.

*This is the way forward for other routes/countries too!

P.37 –India. Flights to India have increased with agreement from Indian Govt. This is good news.

MAS has more destinations to India than any other international airline.

Has increased fares to India – welcome news. Note however that MAS has not increased fares in the domestic market since 1982!!

Why is this so ? Fares need to be revised upwards carefully – communication plan !*

P.38 e-booking

Nervousness caused by dot.com failures. Speed of response, ease of navigation of websites are vital for e-booking to be successfully implemented.e-booking has reached a plateau. Integrated system – online booking with telephone conversations –reassurance factor –important when booking flights! The need for reassurance is high in airline travel. B.A. has seen a 40% rise in internet bookings this year. 40% of what ?? Still represents only a small percentage of airline industry business.

Delta airlines – 5% of all sales are online. In future – move to online booking will develop gradually.

FINANCIAL RATIOS

Ratios have been calculated for the group as a whole. However, those based on the company indicate a similar picture.

Liquidity	1999/00	1998/9
Current ratio = CA : CL	0.62 : 1	0.64 :1

Efficient in that the company is not tying up capital in working capital. Cash flow allows us to carry high creditors.

Profitability

Return on shareholder funds = profit after tax shareholder funds	(7.9%)	(1.2%)
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Not good and not sustainable. Operating loss even worse and this needs to be remedied for long term financial health. Dividends have been maintained in 2000. Dividends in both 1999 and 2000 have been paid out of reserves ie. Profit generated in previous years.This, too is unsustainable.

Gearing	1999/00	1998/9
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Debt		
Equity	291%	294%

Highly geared. Debt capacity could be full now which may make future borrowing difficult. In addition, a future share issue would also be difficult due to operating losses and the consequent negative earnings per share.

Efficiency

Return on assets =		
Operating profit		
Total assets	(8.3%)	(6.7%)

Again not good news due to the losses in each year.

Consolidated cash flow

The business is generating cash – the losses have occurred because of the amount of necessary accounting write-offs (e.g. £1.1m depreciation) and the cost of financing the business.(eg. £563,000 interest).

The cash generation from operations has fallen from £1m in 1999 to £429,004 in 2000. This will not even cover next year's interest charge *, let alone the depreciation. However, the overall cash balance has increased in 2000 due to huge sale of assets £3.3m (in addition to nearly £1m last year) How sustainable is this ?

* Both fuel costs and interest costs rose as a result of the depreciation of the Malaysian ringgit.

Segmental information/performance highlight/other analyses

This is largely common sense. A lot of the operating statistics show growth, but no profit. All 5 segments of business activity made a loss in 2000 eg. Cargo services increased turnover 3 times but doubled its loss. The company has improved efficiency in that overall turnover has increased by 9% whilst assets have decreased by 7.5%

Possible questions

- 1. Prepare a Communications Plan to optimise MAS's superior customer service, thereby increasing sales and profitability.**
2. By forming a strategic alliance with another airline, how would this secure

the long term future of MAS ?

3. Develop a strategic plan to maximise opportunities from the expanding leisure and tourism sector.
4. A key strategic imperative is for MAS to be within the world's top 20 airlines by 2010. Prepare a strategic plan to ensure this becomes a reality.
5. How can MAS capitalise on the emerging growth markets for leisure/business travel.
6. Develop an e-distribution strategy to reduce reliance on travel agents.
7. Prepare a relationship marketing campaign which will effectively increase customer loyalty and their lifetime value to MAS.
8. What branding and positioning strategy should MAS adopt to improve sales and profitability?
9. What pricing strategy should MAS adopt to increase profitability in the light of the devaluation of the ringgit against the USdollar.
10. Design a development plan for KL airport over the next decade to increase MAS passenger revenues.

David Kilburn