

Air Tariff Strategy of Air Asia Indonesia Airlines

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Abstract. Airfares are essentially set by the Government and apply to all airlines. As the decree of the Minister of Transportation of the Republic of Indonesia number KM 72 the year 2019 about passenger limit tariff on economy class service in Indonesian airline. Thus, the background of this writing is the business competition between the airline companies in Indonesia, so it affects the tariff strategy policy on airline Air Asia Indonesia. The purpose of this writing is to know the price management strategy set by Air Asia Indonesia by referring to Regulation KM 72 the year 2019. This writing uses qualitative methods that adhere to data and information obtained from the field by observation. The result of this writing is Air Asia Indonesia's flight fare strategy.

Keywords: tariff, marketing, management strategy

1. Introduction

Air transportation is an important and strategic transportation mode since it provides accessibility and facilitates economic development in countries around the world [1]. According to (Tretheway, 2004) in [2] in the aviation industry, there are 2 categories, first, the FSNC model which stand for Full Service Network Operator and, second, the LCC model for low-cost airlines. Low-cost businesses use the strategy to cut some product attributes to minimize costs than those that can offer products at lower prices [3]. In the past two decades, LCCs have become an increasingly popular alternative by providing cost-effective options for price-sensitive customers [4]. Ticket prices for LCCs, which are usually 40-60% lower than their full service competitors (O'Connell and Williams, 2005; Lawton, 2002), are often the main reason for passengers to choose LCCs over FSCs (Chang and Sun, 2012; Sai et al., 2012; Jung and Yoo, 2014; Ong and Tan, 2010) [5]. After years of their presence, now there are some low-cost airlines that are starting to implement a pricing policy based on a single booking class: only one fare for all customers or it is known as unsegmented pricing [6]. According to Hofer et al. (2005) in [7] also found that the distressed airline fares tend to be lower than the healthy ticket prices of their competitors. AirAsia is one of the results of the opportunity to implement the low-cost airline (LCC) business model in the Asia-Pacific. AirAsia is a group consisting of AirAsia and AsiaX both of which are based in Malaysia, Thai AirAsia based in Thailand and PT Indonesia AirAsia based in Indonesia, Philippines AirAsia, AirAsia Japan, AirAsia India, AirAsia X, and Thai AirAsia X. In 2005, the company had 43 aircraft and has transported more than 4,500,000 passengers per year (AirAsia Annual Report 2005, p.3). Operates 79 aircraft (Airbus 340, Three Airbus A330, Fifty-six Airbus A320 and Nineteen Boeing 737-300s) and has transported more than 90,000,000 passengers [8][9][10].

AirAsia is a low-cost airline (LCC), that uses almost all means to minimize costs, encourage lower rates in turn. Air Asia Indonesia has been very well known by the public with cheap ticket prices, we often hear advertisements on TV and other media, even the internet. The tagline "Now Everyone Can Fly" makes this airline have a special place among the community. The tagline from Air Asia is increasingly attractive when they launched a promo [11]. The Chief Executive Officer, Tony Fernandes, explained the company's strategy is "low rates, no label and no class" and their goal is "we aim for the volume - with more people fly, there will be more flights and greater frequencies. ..." (quoted in Zanina, 2002) [12]. AirAsia is a low-cost airline

(LCC), that uses almost all means to minimize costs, encourage lower rates in turn [11]. Air Asia, in terms of pricing strategy as a new product, has done a pretty good and attractive penetration price with a very low or cheap initial price aiming to build brand loyalty to consumers. The objective of the pricing strategy by Air Asia is to gain market benefits as well as to gain or take the market share of Domestic Low-Cost Carriers. Market share can be interpreted as a part of the market that is controlled by a company, or a sales presentation of a company to the total sales of its biggest competitors at a certain time and place according to (William J.S, 1984) in [13].

Low-Cost Carriers have grown their traditional strategies and expanded the domestic market share. Low-cost and legacy operators do business in substantially different ways, not only in their network organizations but also in commercial strategies and price practices [14].



Source: Departemen Perhubungan [15]

2. Literature review

2.1 Strategy

According to Carrilho (2009), a strategy is a set of plans and resources to achieve this goal. Thus, the definition of goals does not characterize the strategy. This means that the goal is the objective the company decides to achieve, and a strategy means the way to achieve this goal. To create their strategy, it is based on three main topics: their external environment, internal environment and the ability to add value to the services they provide [16].

2.2 Price

According to [17] the term "price" generally means "value". In the modern economy, we often hear the term known as currency. Previous research has suggested that adjusting prices is called a pricing strategy. A pricing strategy aims to set optimal prices in maximizing the current profits, the number of units sold, etc. In addition, prices are the main parameters that significantly affect industry revenue.

2.3 Airfares

Fare is a value or cost that has been set by the seller and buyer in a negotiation or a value set by the seller at one price for all buyers [18]. Flight fares are related to the variable number of passengers using the flight service. There are three things that influence the fare setting; general cost as the lower limit, the competitor's fare and the price of the goods, and the customer's assessment of the product. After acknowledging these factors, the company will solve this pricing problem using the pricing method.

According to Kotler (1997) in [18] states the types of fare setting are as follows:

- a. Marking Up Pricing, this method is the most basic pricing method, namely by adding a standard mark-up to product costs. The amount of mark-up varies greatly among various

- items. Mark-ups are generally higher for seasonal products, special products, slow-selling products and inelastic products.
- b. Pricing Based on Target Returns. The company determines the price based on other costs, or the company determines the price that will result in the desired return on investment (ROI). This price concept uses the principal return chart concept which shows the total cost (addition of fixed costs and variable costs) and the desired amount of income.
 - c. Pricing Based on Perceived Value. This method does not determine product prices based on seller costs, which are sometimes too high or too low, but from consumer perceptions. The key to this method is to accurately determine market perceptions of the bid value. Market research is needed to shape market value perceptions as an effective pricing guide.
 - d. The Value Pricing. In this method, the company sets a fairly low price for high-quality offers. Fare setting states that prices must represent a high-value offer for consumers. Going-Rate Pricing. In this method, the company does not pay attention to its own costs or requests, rather they base its price primarily on competitor prices. The company can charge the same price, higher, or lower than its competitors. This method is quite popular in the cases where the cost is difficult to measure or the competitor's response is uncertain.
 - e. Pricing of Closed Offerings. The company determines its price based on its estimation of how the competitors set prices, instead of based it on rigid relationships with company costs or requests. In this method, competitive pricing is commonly used if a company carries out a closed bid on a project.

2.4 Low Cost Carrier (LCC)

Low-cost airlines are airlines that eliminate services for passengers in order to set the low fares. This concept originated in the United States before it spread to Europe in the early 1990s and then most of the world. This LCC operation is an attractive alternative for price-sensitive customers [19].

2.5 Regulation of fare

Minister of Transportation Regulation Number 20 of 2019 concerning Procedures and Formulations for Fare Calculation of the Upper Limit of Passenger Services for Economy Class Domestic Scheduled Commercial Transport and Ministerial Decree Number 72 of 2019 [20] concerning Upper Limits of Economy Class Passengers for Domestic Scheduled Commercial Air Transport are the basic price reference for airline tickets in 2019. The two regulations above are updates to PM 14 of 2016 [21] About Formulation Mechanisms for Calculation and Determination of Upper and Lower Fare Limit for Passengers of Economy Class on the Scheduled Domestic Commercial Air Transportation.

2.6 Components of airline ticket pricing

1. BASIC FARE
Formula :
 - a. $\text{Seat Km Product} = \text{Seat Available} \times \text{Distance}$
 - b. $\text{Rpks} = \text{Seat sold} \times \text{Distance}$
 - c. $\text{Pax Load Factor} = \text{Rpks} / \text{Avks} \times 100\%$
2. IWJR is stands for Iuran Wajib Jasa Raharja, a.k.a. insurance fee.
3. VAT is Government Tax with a range of 10% basic fare.
4. Passenger Service Charge is the amount of airport tax varies according to the airport in each city.

3. Method

This study was conducted in qualitative research about the analysis of Air Asia Indonesia's ticket fare by considering data from samples on the CGK-DPS route in July 2017 and 2018, also the CGK-SUB in July 2017 and 2018. The above route we took from the price of

departure, return and round-trip tickets. From the obtained data, it shows the changes in ticket prices in 2017 and 2018 by providing data on One Way and Returns ticket prices.

4. Discussion & Result

The data were taken from the observation results by the researcher at the Air Asia Indonesia airline located at Soekarno-Hatta Airport, Tangerang in Terminal 2F Gate 73.

Data Base Description On Economi Class (2017)

Table 1. Fare route CGK-SUB

ROUTE	BASIC FARE	AIR FARE
CGK-SUB	804,545	1,115,000
SUB-CGK	389,545	700,000
CGK-SUB (PP)	1,504,545	1,815,000

Table 2. Fare route CGK-DPS

ROUTE	BASIC FARE	AIR FARE
CGK-DPS	621,000	944,000
DPS-CGK	336,000	659,000
CGK-DPS (PP)	1,280,000	1,603,000

Data Base Description On Economi Class (2018)

Table 3. Fare route CGK-DPS

ROUTE	BASIC FARE	AIR FARE
CGK-SUB	220,000	475,000
SUB-CGK	225,000	480,000
CGK-SUB (PP)	700,000	955,000

Table 4. Fare route CGK-SUB

ROUTE	BASIC FARE	AIR FARE
CGK-DPS	445,999	719,000
DPS-CGK	541,000	834,001
CGK-DPS (PP)	1,208,000	1,553,001

Data Base Description On Economi Class (2019)**Table 5.** Fare route CGK-DPS

ROUTE	BASIC FARE	AIR FARE
CGK-SUB	500,200	640,220
SUB-CGK	580,200	733,220
CGK-SUB (PP)	1,000,400	1,285,440

Table 6. Fare route CGK-SUB

ROUTE	BASIC FARE	AIR FARE
CGK-DPS	793,850	963,235
DPS-CGK	640,800	809,880
CGK-DPS (PP)	1,049,600	1,349,560

Source : Data Air Asia Indonesia

The data is from July 2017 and 2018 the prices are for 1 guest or 1 pax, and the ticket prices do not include discounts. Table 4 shows a significant change in ticket prices from other tables. Regarding table 4, Air Asia explained that high or low ticket prices depending on two factors; Load Factor and Peak Season. Air Asia said that "the more passengers, the higher the ticket price".

This data sample consists of three itinerary. First, flight tickets which are only OD tickets (example: CGK-DPS). Secondly, the return flight with the opposite destination of segment 1 (example: DPS-CGK). Third, the purchase of flight tickets for segment one and segment two (PP).

In segment one and two, tickets are usually purchased by passengers who have not yet determined the return schedule or have other alternative modes of transportation. While in the third segment, the ticket is purchased by passengers who already know their needs such as travellers.

Concrete evidence shows that cheap pricing is based on one-segment travel plans. A passenger pays exactly the amount to buy a round-trip ticket, or a pair of one-way tickets for the same time, date and itinerary. From the table above, airfare is the price after tax which consists of Passenger Service Charge, IWJR, and VAT. The passengers' service charge may vary on each flight depending on the airport of departure.

If we link the data from 2017 and 2018 to PM 14 of 2016 concerning the Formulation Mechanisms for Calculation and Determination of Upper and Lower Fare Limit for Passengers of Economy Class on the Scheduled Domestic Commercial Air Transportation, we see that in the DPS-CGK route, they set a lower limit of IDR 808,000. Meanwhile, the sample data shows the fare for DPS-CGK in 2017 was IDR 561,000 and the fare for DPS-CGK in 2018 was IDR 336,000. The upper limit of DPS-CGK ticket price was IDR 2,692,000, meaning that the ticket fares from the sample route the do not exceed the upper limit set.

For CGK-SUB, the set limit was IDR 557,000, while the sample data show the fare for CGK-SUB in 2017 was IDR 804,545, and the fare for CGK-SUB in 2018 was IDR 220,000. The upper limit of CGK-SUB ticket fare was IDR 1,857,000, meaning that results obtained from the ticket fares from the sample route do not exceed the upper limit set.

By 2019, the Regulations PM 14 of 2016 have been renewed to become KM 72 of 2019. This affects the applicable upper limit and lower limit rates. The ticket price launched by Air Asia Indonesia for the DPS-CGK route in 2019 is IDR 801,000, while the applicable lower limit regulation is IDR 942,000. Also, the ticket price launched by Air Asia Indonesia for the CGK-SUB route is IDR 500,200, while the regulation of the lower limit is IDR 650,000.

5. Conclusion

Air Asia Indonesia does not comply with the regulations regarding the lower limit of ticket prices in 2017, 2018 and 2019 because the prices set are below the lower limit. Regardless, Air Asia Indonesia does not exceed the upper limit of the predetermined tariff. Air Asia Indonesia airlines can still survive by selling tickets at a relatively cheap price. There are 2 factors that strengthen why Air Asia Indonesia still sells tickets at a low price and there is the strategy that has been done by Air Asia Indonesia. The first is the utilization of Indonesian air Asia aircraft for 12 hours per day for one aircraft. Secondly, Air Asia Indonesia has only one type of aircraft, the A320, which makes it easier to manage their human resources, like the pilot and crew.

6. References

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