



**FROM TWO PLANES AND RM40 MILLION DEBT  
HOW AIRASIA MADE FLYING POSSIBLE FOR EVERYONE  
AND IS NOW ASIA'S LARGEST LCC GROUP**

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Sit tight, and enjoy.

*Pei Ling*  
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# INTRODUCTION

Mention “AirAsia” and you are likely to draw a lot of reaction from many people. Perhaps that is the reason why you have selected this book among the myriad of other books on the shelf. Such reaction is hardly surprising, since AirAsia has revolutionised not only the Malaysian aviation industry but also Asia’s by leaps and bounds. As one of Asia’s leading low-cost airline, AirAsia is now a global brand with many prestigious international awards under its belt.

With so much attention on Malaysia’s home-grown brand, our first book on AirAsia, *The AirAsia Story*, was published in 2008, six years after AirAsia’s launch. Needless to say, *The AirAsia Story* went on to be a bestseller in major bookstores nationwide until today.

In *The AirAsia Story*, we looked at AirAsia’s journey beginning with its birth in 2002 as Malaysia’s first low-cost carrier (LCC) or airline. We followed the story by including in-depth research and statistics that reveal AirAsia’s rock-solid business model, challenges, and milestones to success. Some fascinating topics in *The AirAsia Story* include the long-standing love-



hate relationship with Malaysian Airlines (MAS), the hard route to receive landing rights in Singapore (can you imagine not being able to fly AirAsia to and from Singapore now?), AirAsia's five-point success factors, its powerful branding activities, flying long-haul via AirAsia X and a brief but vivid biography of Tan Sri Dr. Tony Fernandes, Group CEO of AirAsia Berhad. We ended *The AirAsia Story* with a hint that AirAsia's future plans may include route expansion to the U.S. and Europe.

Today, six years after our first book in 2008, and 12 years after AirAsia's launch in 2002, sceptics of AirAsia's success would be disappointed to find that they were wrong about AirAsia's staying power. AirAsia has indeed come a real, long way. In fact, the sceptics who expected AirAsia to crumble soon after its milestones (in 2008 when we first published *The AirAsia Story*) would be ashamed to note that beginning in 2009, AirAsia has been the proud recipient of the 'World's Best Low Cost Airline' award at the *World Airline Awards* for FIVE consecutive years to date (as at 2014)! That speaks volumes about its staying power and global confidence.

For the benefit of those who are not familiar with this global brand that we have been talking about, AirAsia made headlines when its iconic founder, Tan Sri Dr. Tony Fernandes bought over the company for only RM1 and turned the airline into an astounding multi-million-Ringgit, low-cost airline business and an overnight star. Mind you, AirAsia had only two aircraft then with nearly RM40 million in debts. That was precisely why Tony's name would be etched forever in Malaysia's history for generating RM113 million in revenue and RM19.4 million in profit with all AirAsia's debts settled – ONLY within seven months of operation!

Twelve years later since its launch in 2002, AirAsia now boasts 150 aircraft and flies more than 40 million people each year. It has transformed the flying habits of numerous Malaysians what with its now-historic tagline, "Now everyone can fly". They were not kidding. At its launch, only 6% of Malaysians flew. In 2011, according to a report by *Oxford Economics*, 19 million Malaysians flew! That is a remarkable 67.13% out of the 28.3 million Malaysian population in 2011 and an over tenfold increase from the 6% in 2002. Suffice to say, the number would have increased even more by now! The remarkable increase must be



attributed greatly to AirAsia's budget flights which made it possible for everyone to fly, although other subsequent low-cost airlines that came into the picture must be given credit, too. In an interview with *Bloomberg Businessweek* in 2004, Fernandes admitted that he was proud of what he set in motion. "It was the popularity of low-cost carriers like AirAsia that forced them to move toward more open skies," Fernandes said, even though more low-cost carriers in the region meant more competition to AirAsia.

This book is a tribute to AirAsia's activities and progress in the past six years since the publication of our first book in 2008, and also continues to highlight key factors of its continued success as it matures into a player of low-cost carriers worldwide.

**Chapter 1** looks at the past six years (as at 2014) and traces AirAsia's journey thus far. It also explores AirAsia's tenacity and resilience in the face of constant criticism and challenges a decade later.

**Chapter 2** is for those who are all for learning the successful business practices that contributed to AirAsia being named the world's number one low-cost

airline. Surely it isn't an easy journey, and a tremendous milestone for a Malaysian airline to make it top of the world.

Gracing the break between Chapter 2 and 3 is a special section on AirAsia's CEO, Aireen Omar whom we label the 'Iron Lady'. In **Highlight A**, you will find out more about her early days, the strength behind this iron lady and her leadership style that demands natural respect from others.

**Chapter 3** is the beginning of many chapters looking at different subsidiaries of AirAsia, and in this chapter we look at AirAsia X – AirAsia's low-cost long-haul affiliate carrier. Find out its strategies in conquering the market, why it is one of the most profitable airlines in the world and its future plans.

**Highlight B** features AirAsia X CEO, Azran Osman-Rani. It is a close-up on his personality, character and journey in AirAsia X so far. Read on to find out about this charming, strong-willed persona behind AirAsia's long-haul affiliate carrier.

**Chapter 4** looks at AirAsia’s efforts beyond Malaysia – its other subsidiaries through joint ventures (JV) such as AirAsia Indonesia, Thai AirAsia, Philippines’ AirAsia with AirAsia Zest, AirAsia India, followed by AirAsia’s failed JV in Japan. Each a tale of its own, discover how these ventures started, the challenges they faced, the falls they had and their triumph through storms that came their way.

**Highlight C** is our little investigative corner to explore why AirAsia decided to set up a new regional office in Jakarta, Indonesia in 2012. Aptly named ‘Why Jakarta?’, learn why Jakarta is AirAsia’s second choice after Kuala Lumpur – including Tony and Kamarudin’s surprise return to Malaysia a year later from Jakarta.

**Highlight D** looks at AirAsia India’s young and budding 32-year-old CEO Mittu Chandilya whom Tony described as a “very smart boy from the south, Madras. An amazing CV. Will impress all...” Find out how Mittu sets to prove his critics wrong, despite his age.

Beyond flying, we explore other subsidiaries under the Tune Group and find out more about them in **Chapter 5**. From Tune Hotels to Tune Talk, Tune Money,

Tune Sport and more – find out the entrepreneurial side of Tony.

In our last **Highlight E**, we take a brief look at the exciting friendship between friends-cum-business-partners – Tan Sri Dr. Tony Fernandes and the flamboyant British tycoon, Sir Richard Branson. Read on to learn more!

Finally, after such a page-turning journey through AirAsia's first decade of operations, we look at the larger picture in **Chapter 6: The ASEAN Economic Community (AEC) and the Open Skies agreement set to shake the global aviation industry in 2015.**

Without further ado, join us on this thrilling, page-turning journey. The journey, we assure you, will be spectacular. Come on-board!



# CHAPTER 1

## OVER A DECADE LATER: DEFYING ALL ODDS

*"Many of life's failures are people who did not realise how close they were to success when they gave up."*

*Thomas Edison*

If you were asked to describe AirAsia in one word, what would it be?

For us, that word has to be 'tenacity'. Throughout the past 12 years since its launch in 2002, AirAsia has gone through *so* much, sometimes through more downs than ups. What most people see on the outside are its 150 aircraft, millions of people flown, sales climbs and steady stock prices most of the time. What most people aren't aware of are the ferocious battles AirAsia have fought and won. In some cases, they've lost. But again and again, they kept fighting and stood



up again from their setbacks. If that's not tenacity, we don't know what is.

In our first book, *The AirAsia Story*, we wrote about the challenges AirAsia had to face since its launch. We ended the book with a high note with the launch of AirAsia X and looked forward to unimaginable heights that AirAsia was going to soar.

Since then, obviously, much has changed. The journey, as expected, was not always strewn with roses. Overcoming tremendous hurdles and challenges between 2008 to 2013 that included the global oil price hike, slowing passenger demands and influenza pandemic – AirAsia Founder and Group Chief Executive Officer, Tan Sri Dr. Tony Fernandes remains a “super believer” and is sure that AirAsia is still at the top of its game.

“It's hard to compete with us. I (have) always said in 12 years of press conferences, (that) lowest cost will always win. We are 100% low-cost. We will continue to grow and increase market share despite competition and be very profitable,” Tony said at a press conference at the Global Entrepreneur Summit in October 2013.

## **From RM40 million debts to World's Best Low-Cost Airline**

AirAsia's first challenge, of course, was its now-famous RM1 history. In 2001, Tony (under the company Tune Air) bought over AirAsia for only RM1 but with nearly RM40 million in debts. The rest, as they say, is history, but the challenges that follow were real and worth retelling.

After making RM19.4 million in profit within seven months of operation (yes, with all its debts off, too!) since its launch in January 2012, AirAsia continued its gruelling battle to fight for a low-cost-carrier terminal (LCCT). Unlike today, AirAsia had earlier operated from the Sultan Abdul Aziz Shah Airport in Subang, Selangor – its preferred choice for a LCCT. Later, it was forced to shift operations to KLIA which did not suit its low-cost business model. The long-standing battle with the government and MAS was recorded in detail in our first book, *The AirAsia Story*. It wasn't until four years later in March 2006 that the LCCT was finally fully-operational after what seemed like years of battle for AirAsia. Throughout the four battle-scarred years, AirAsia has fought, argued and defended its stand on having a separate airport for

low-cost carriers.

Today, we are beneficiaries of AirAsia's tenacity and resilience in pushing for a LCCT. Who would have thought that this debt-ridden airline in 2001 would turn out to be the five-year reigning champion of the World's Best Low-Cost Airline award at the World Airline Awards? Very few did, but AirAsia's tenacity shone through from its early days.

### **AirAsia vs. Singapore: The battle for landing rights**

Another huge battle that AirAsia overcame was its fight for landing rights in Singapore. Showing interest in Singapore only a year after its operations began, Singapore was clearly a lucrative market for AirAsia. At that time, Singaporeans account for at least 54 per cent of monthly arrivals in Malaysia according to statistics from the Malaysian Immigration Department. Part of this battle included the Singapore government's unwillingness to allow AirAsia to fly into Singapore, on top of the Malaysian government's policy of not opening Kuala Lumpur to LCCs from Singapore. The feud kept growing until in 2005, Tony accused the Singapore government of discrimination when

it allowed landing rights to AdamAir, an Indonesian budget airline. Finally, in 2007, AirAsia got what it was lobbying for. The Malaysian Cabinet had finally agreed to liberalise the KL-Singapore route, allowing AirAsia to operate the lucrative air service, thus breaking the duopoly shared by MAS and SIA. The Singapore government too had a change of mind eventually, and allowed AirAsia to fly to Singapore in 2008 after years of bickering. (More details can be found in our first book, *The AirAsia Story*.)

### **Flying Xtra Long**

Always the forerunner in various aspects, AirAsia rode on its successes and steady profits by launching its low-cost long-haul airline, AirAsia X on 5<sup>th</sup> January 2007. The airline is an affiliate carrier of the AirAsia Group. AirAsia X made 2007 a historic year for AirAsia. The newly-launched AirAsia X then sports the tagline, “Now, Everyone Can Fly Xtra Long”. More than just making flying economical for every Malaysian, AirAsia X now aims to bring low-cost long-haul flights to the masses. As of February 2014, the airline serves 17 destinations namely Tokyo, Osaka, Seoul,

Busan, Taipei, Beijing, Hangzhou, Chengdu, Shanghai, Kathmandu, Colombo, Sydney, Melbourne, Perth, Adelaide, Gold Coast and Jeddah. It operates a fleet of 15 Airbus A330-300, each with a seat configuration of 12 Premium Flatbeds and 365 Economy seats. When we last looked at AirAsia X in our first book, the success of the low-cost long-haul airline was not yet apparent. Today, AirAsia X has proven its critics wrong by flying 10 million guests since its launch in 2007.

### **Lighting candles rather than cursing darkness**

All these efforts were taken between years 2002 to 2007. In FY2008, AirAsia hit a real low when it reported an exceptional loss totalling RM1.069 billion because of unwinding fuel derivative, interest rate swaps and the loss of collateral which were earlier held by the now-bankrupt Lehman Brothers.

Throughout the turbulent year of 2008 when the global financial meltdown and soaring fuel prices caused many airlines to cut back, ground planes and shed jobs, AirAsia did the exact opposite: it increased flights, added more routes and boosted its capital investment. Of course, AirAsia pursued all these

without expecting its exceptional losses mentioned earlier. Tony's justification for AirAsia's action was that he did not want to sacrifice long-term growth for short-term profits and he remained undaunted.

In AirAsia Group's 2008 Annual Report, Tony admitted that he was a firm believer of lighting a candle rather than cursing the darkness – which was why AirAsia made painful decisions in 2008 to deliver long-term value to its customers, shareholders and all other stakeholders. Amid this gloom of exceptional losses, AirAsia Group as a whole carried 22% more passengers and produced a core operating profit of RM171 million. Tony believed that AirAsia's tenacity is contributed by his fantastic staff, AirAsia's uncompromising discipline with the low-cost business model, the quality of its assets and its dedication to meet and exceed customers' expectations. It is no wonder then, that in April 2008, AirAsia was recognised as one of the world's most innovative companies by *Fast Company* magazine – the only ASEAN brand and the only airline to have ever made the "Fast 50" list. Later in November 2008, AirAsia was recognised as the 'top brand to watch' in the *UK Trade & Investment's New World Brands* annual report. It was the only Southeast Asian company to make the list of top ten brands from emerging markets

across Brazil, Russia, India and China.

Before the 2008 exceptional losses were reported, the International Air Transport Association had forecasted a \$5.2 billion loss for the global airline industry in 2008. With at least two dozen airlines worldwide closing down because of soaring fuel prices and slowing passenger demand growth, any hopes for AirAsia to thrive immediately in the global downturn seemed slim.

True enough, AirAsia did report a tremendous loss at the end of FY2008. What critics and investors did not expect is for AirAsia to turn around its losses as quickly as the next quarter. An analyst was reported to have predicted AirAsia's losses to stretch into 2009 because he believed that AirAsia's rapid expansion and aggressive pricing policy would bite into its revenue. AirAsia proved its critics wrong when it reported a net profit of RM203 million in 1Q2009.

Expecting yields to keep improving, Tony confessed in an article from the Centre of Aviation that AirAsia is not concerned if oil prices rise because "fuel price is fake price. Eventually it will settle on real demand." That said, Tony added that AirAsia is prepared if oil prices reach USD100 per barrel. While all these were happening, the carrier saw a sales increase of



over 60% following its 'Low Fare Madness' promotion in the same year. AirAsia's confidence was founded on real, solid sales. Tenacity, not timidity, defines AirAsia – even in the face of the darkest storms for the global aviation industry.

### **Thriving in the worst year for aviation**

By the end of FY2009, Tony revealed that AirAsia is now in a "better position" after reporting an astounding 148% increase in its core operating profit to RM447 million for the full year 2009 despite what was said to be the worst year in aviation history. When global passenger demand fell by 3.5% largely due to the A(H1N1) influenza pandemic, the reverse was happening in AirAsia. AirAsia's passenger numbers were up (21%) for the Malaysian operation, ancillary income continued to rise, and the carrier was obtaining rights to fly to many new destinations.

"We have successfully grown market share in every market we serve, opened up four new bases (Penang, Bandung, Phuket and Surabaya), launched new routes and amassed RM748 million cash in the balance sheet as a bulwark against any contingencies



that may arise,” the ecstatic Tony said in a press release in 2009.

One of AirAsia’s greatest milestone in 2009 had to be its efforts to be a truly recognised ASEAN brand through its operational bases. It integrated its Malaysian, Indonesian and Thai operations to create a single, seamless structure. The four new regional hubs mentioned earlier (Penang, Bandung, Phuket and Surabaya) were aimed to result in major cost savings and efficiency enhancements.

### **Record-breaking RM1.07 billion operating profit**

AirAsia continued to make history when it recorded profits of more than RM1 billion in 2010. It was also a historic year when AirAsia paid dividends to shareholders for the first time – demonstrating the company’s strong financial performance. In just under a decade, AirAsia has achieved a record of more than 100 million guests on its fleet.

In the same year, AirAsia established a new partnership to set up a venture in the Philippines aptly named ‘Philippines’ AirAsia’. This was in tandem with its promise to be a ‘Truly ASEAN’ airline.

Other noteworthy efforts in 2010 include its increased global brand visibility by assuming two key title sponsorships for high profile sports such as football, motor racing and basketball. These sponsorships are for the 2010 AirAsia British Grand Prix at Silverstone and for the ASEAN Basketball League's 2010/2011 season.

### **10 awesome years**

AirAsia celebrated its 10th anniversary in 2011 with an increase of 9% operating profit from RM1.07 billion to RM1.16 billion even though there was a substantial 36% increase in oil prices. AirAsia prides in its efficiency to counter rising fuel costs by tightening its focus on innovative solutions, increasing productivity and efficiency.

2011 also marked the Group's operation of 100% Airbus fleet when it retired its four Boeing B737 aircraft in 2010. As at 2011, the Group owns 100 Airbus A320 in total – the biggest fleet among all LCCs in the region at that time. Having a 100% Airbus fleet meant having a higher capacity, yet more fuel-efficient, reliable and cost-efficient fleet.

## Failed joint venture in Japan

Despite AirAsia's winning strategies in most of its attempts, Tony admitted that AirAsia failed in its joint venture in Japan which was founded in August 2011. The north Asian venture with All Nippon Airways (ANA) was named AirAsia Japan. When AirAsia Japan began operations in August 2012, Tony was extremely bullish on the venture because Japan represents a very underserved market which at the same time was booming with wealth.

Unfortunately, after less than two years of partnership, AirAsia parted ways with ANA when it sold its 49% stake in AirAsia Japan to ANA in June 2013. ANA has since rebranded the budget airline to 'Vanilla Air' as of August 2013 which focuses on international flights connecting Narita airport with tourist destinations overseas.

"Japan was a disaster. Our partner didn't understand what we wanted," Tony said to *The Malaysian Insider* in October 2013. Both ANA and AirAsia clashed over management and operational differences which were followed by total losses of RM113 million. ANA, on the other hand, blamed the poor performance of AirAsia Japan on ineffective

marketing and a booking website which was user-unfriendly.

Even with such discouragement in the Japanese venture, Tony remained positive on the Japanese market and believes that there is tremendous opportunity in the Japanese market. Never one to give up when faced with failures, Tony had publicly said that he is interested to have AirAsia re-enter the Japanese market and is on the lookout for the right financial partners.

### **Adjacency Businesses**

Seeking further ways to offer its customers a wholesome experience and to increase revenue, AirAsia formed its first Adjacency Business in March 2011 by entering into a joint venture with Expedia, Inc, the world's largest online travel company. The new company seeks to offer AirAsia's customers a complete range of great value flights, hotels and holiday packages within the Asia-Pacific region.

Three months later, AirAsia launched its second Adjacency Business with CAE Inc, a Canada-based global leader in civil aviation training, to set



up a world-class aviation training centre. The new Asian Aviation Centre of Excellence (AACOE) based in Sepang, Malaysia, claims to offer state-of-the-art training facilities and is the largest pilot training centre in Asean.

If these are not enough, a few more months later in November 2011, AirAsia continued pursuing its Adjacency Business venture by partnering with Tune Money Sdn Bhd to launch its very own global loyalty programme under the brand 'BIG'. Under 'BIG', members will collect points when they make purchases from AirAsia including its ancillary and adjacency businesses.

### **New AirAsia CEO and the Indian sky**

The year 2012 proved to be another historic year for AirAsia when all eyes turned to Aireen Omar, its newly-appointed Chief Executive Officer in replacement of AirAsia's founder and unmistakable icon, Tan Sri Dr. Tony Fernandes. Ms. Aireen Omar assumed responsibilities as CEO on July 1, 2012. This move was to free up Tony to focus more closely on his role as Group Head. Aireen's appointment was a pleasant addition to the Group's women CEOs – the

other one being Marianne Hontiveros of Philippines' AirAsia. A special section on Aireen can be found in **Highlight A**. Tony and his partner, Dato' Kamarudin Meranun were redesignated as Non-Independent Directors of AirAsia Berhad effective July 1, 2012.

The year also saw AirAsia going off the beaten track by expanding their routes to exotic destinations such as Lombok, Semarang, Surat Thani, Kunming and Nanning. Flight frequencies for popular routes such as Yangon, Hanoi, Vientiane and Yogyakarta had also been increased. At the end of May 2012, Thai AirAsia was listed – contributing greatly to AirAsia's net profit for Q2. By the end of FY2012, AirAsia reported an encouraging net operating profit of RM729 million.

The most significant and exciting milestone of 2012 must be AirAsia's set-up of AirAsia India in a market of 1.2 billion people – the second-most populous country in the world. The partnership is with Tata Group and the Bhatia family in the huge subcontinent. Globally, excitement is rave as all eyes are set on AirAsia India's newly appointed CEO, a 32-year-old young man then, Mittu Chandilya. While many were sceptical about Mittu's leadership and potential, Tony knew after ten minutes of interview with Mittu that he was the right man for AirAsia India.

After meeting Mittu, Tony announced on Twitter that he had found their man for AirAsia India, “I have selected our CEO for AirAsia India. Very smart boy from the south, Madras. An amazing CV. Will impress all...”

When he was only 20 years old, Mittu made \$1.2 million with three partners when he sold his own start-up, a fluid detection maker, to a cola major. Prior to joining AirAsia, Mittu spent eight years running a \$2 billion Profit & Loss for American MNC Ingersoll Rand in the P&L management. A special section on Mittu can be found in **Highlight D**.

To date, Mittu has assembled the management and had been vigorously hiring employees for AirAsia India. Tony claimed that AirAsia India is just waiting to “open the sale” of its tickets pending the government’s flying permit with Chennai as its headquarters, according to *Business Today* in January 2014. Tony also shared that the failing numbers of domestic Indian flyers show that airlines haven’t got it right. He believes that AirAsia India can change the way Indians fly and replicate its Malaysian and Thailand success.

### **KLIA2 completion delays**

After 12 strong years since its launch in 2002,



AirAsia continues to face challenges that threaten its expansion plans and growth. One such challenge is the persistent delay from Malaysia Airport Holdings Berhad (MAHB) regarding the opening of KLIA2, Malaysia's new low-cost carrier terminal which will replace the current LCCT. The completion date for KLIA2 has been reviewed a few times. In January 2013, the Prime Minister announced that KLIA2 would be launched on June 28, 2013 to coincide with the launch date of the KL International Airport (KLIA) in 1998. By June 2013, MAHB revised the target date and announced that the new completion date for KLIA2 would be April 30, 2014 and operations would begin on May 2, 2014 – 11 months later than the earlier date given.

Clearly upset by the repeated delays, AirAsia CEO Aireen Omar told the press that she had predicted the delay and was not surprised. At the same time, although AirAsia was the largest airline to utilise KLIA2, it has not received any official notification from MAHB on the new date for completion and operations.

“We’re disappointed – MAHB should have been more transparent and honest about it (the delay) from the beginning. We hope the April 30, 2014 airport completion deadline is the final one. We cannot afford to defer our expansion plans any further,” Aireen said in *The Star Online*, June 2013.

Developments in the KLIA2 scenario has been quite the drama – its scheduled completion was delayed several times and has also changed from a low-cost air terminal into a mixed air terminal. From the original RM1.9 billion tabled, the project cost has soared to RM4 billion. The MAHB also said that AirAsia had requested to install a fully-automated baggage handling system (BHS) and wanted to raise passenger capacity from 30 million per annum to 45 million. Nonetheless, AirAsia has denied all the accusations.

In a later development closer to the KLIA2's slated launch date (May 2, 2014), it appears that the new airport will be able to meet its latest deadline, after all. Contractors and MAHB have been working hard to ensure that the RM4bil airport opens on schedule, according to a report on *The Star Online* on 17-April-2014.

“In terms of readiness, KLIA2 is 99% ready. We are ready to start and on May 2, we will move, with five airlines – Malindo Air, Cebu Pacific Air, Tiger Airways Singapore, Lion Air and Indonesia's Mandala Airlines. They have lower flight frequency, so we can test the systems further with real airport operations. By May 9, everyone else will join us including the Air Asia family,” MAHB Senior General Manager for Operation, Datuk

Azmi Murad said in the same report.

This came after a series of tussles between the MAHB and AirAsia over AirAsia's decision to stay put in the LCCT until KLIA2 addresses some unresolved pressing issues.

In its statement dated 1-April-2014, AirAsia had said that although AirAsia is prepared to move to KLIA2, the transfer will only be carried out after all the issues are addressed. AirAsia is referring to the recent Ikram Premier Consulting's (Ikram) findings on the readiness of KLIA2. The findings revealed that there are "depressions on the taxiway/apron and runway which will necessitate periodic remedial measures to be undertaken on relevant areas", according to a report in *The Sun Daily*.

"It's not that we don't want to move. We are asking for a delay to ensure everything is tip-top, safe and secure," Tony tweeted. "We want to move. LCCT is getting crowded and we should have moved three years ago."

According to *The Sun Daily's* report on 6-April-2014, Prime Minister Datuk Seri Najib Abdul Razak had said that AirAsia must move to KLIA2 as scheduled on May 9, but the government, through

MAHB was ready to listen and discuss with AirAsia over any transfer problems.

Finally, a week later on 15-April-2014, AirAsia revealed in a joint statement with AirAsia X that it will move to KLIA2 by May 9 even though there were still some outstanding commercial issues. They revealed that ongoing discussions with relevant authorities were in progress and the move will go on as scheduled. In the statement, AirAsia had stated that they looked forward to operating from KLIA2.

### **The rise of other LCCs**

After years of budget air travel domination in Asia, AirAsia is struggling to boost earnings in its biggest market, Malaysia where its rivals Malaysian Airline System (MAS) and Malindo Airways are cutting fares. Earlier in 2012 when Malindo Airways was first launched, Tony confidently claimed that Malindo Airways will affect MAS more than AirAsia. “No impact to us,” Tony said in an interview with *The Malaysian Insider* in September 2012.

He noted that the new joint venture was good for the industry as it promoted the concept of

cross-Asean ventures.

The results proved otherwise the following year in 2013. AirAsia posted a 77.5% slump in Q3 FY2013 profits to RM35.8 million from a year ago. Competition has also affected AirAsia Indonesia and Philippines' AirAsia.

Taking aggressive moves after realising its complacency, AirAsia Berhad executive chairman Dato' Kamarudin Meranun conceded that AirAsia had taken the competition for granted – according to *The Star Online* in November 2013. However, he added that the lower yield in Q2 FY2013 was manageable. Tony had earlier tweeted that “AirAsia 2014 ancillary income machine is going to be big.”

Kamarudin assured that AirAsia is coming back with more promotions, cost reductions and new ancillary income avenues. He did not name any airlines but confessed to under-estimating the competition in the skies.

### **In the face of constant criticism**

In August 2012, Tony and Kamarudin had

moved on to Jakarta, Indonesia to spearhead its regional headquarters, AirAsia Asean. During the period, Tony and Kamarudin were redesignated as Non-Independent Directors of AirAsia Berhad. Since the office has achieved its objective of providing focused leadership and guiding expansion within the group, Tony has again been redesignated as Group CEO of AirAsia. Tony will provide overall leadership for the group in driving brand value, reducing cost and driving efficiencies to improve airline performance including other affiliates in Thailand, Indonesia, India and the Philippines.

After his return from Jakarta, Kamarudin was conducting a series of interviews with the media to communicate the image of AirAsia as a Malaysian airline.

In an interview with *Sin Chew Daily* in November 2013, Kamarudin claimed that AirAsia has been misunderstood by the government and the people recently.

“This is very bad for us. One of my main tasks is to take the lead in engaging with the government while conveying the right messages to the people,” Kamarudin said. He explained that the AirAsia Asean

headquarters was not meant to “run away” but to form a cooperative relation with the Asean Secretariat which was paramount to its business association and integration.

### **The future of AirAsia**

When Kamarudin was asked to comment on AirAsia’s future, he said that KLIA2 will unquestionably be AirAsia’s operational headquarters. He also hopes to have international flight transfer stations outside of Kuala Lumpur so that passengers from other states would not be inconvenienced as they are usually required to travel to Kuala Lumpur to board their flights.

“The biggest challenge for AirAsia is how to maintain its cost and it is our worst nightmare. Tiger Airways has failed to survive and it is believed that Jet Star’s market share is also shrinking. It is not an easy task to survive and expand while providing low-cost air tickets,” he added in the interview with *Sin Chew Daily*.

For AirAsia CEO Aireen Omar, meeting the changing behaviour of consumers with more sophisticated needs is definitely challenging.



“Passengers today are definitely more sophisticated and more used to (taking) the plane. Basic needs to buy a ticket and fly are fulfilled those days. But due certainly to the influence of social media, we have to deal now with more demanding, more knowledgeable crowds. Passengers still want value for money but they also have higher expectations. This is why we added more à la carte services to our ground and in-flight products,” Aireen said in an interview with *TravelNewsDaily* in 2014.

While its future remain challenging, one thing is for sure – tenacity will define AirAsia’s journey as it did for the past 12 years since 2002.



“ It’s hard to compete with us. I (have) always said in 12 years of press conferences, (that) lowest cost will always win. We are 100% low-cost. We will continue to grow and increase market share despite competition and be very profitable. ”

**Tan Sri Dr. Tony Fernandes,  
Founder of AirAsia**

*The Star Online, 2013*



# CHAPTER 5

## TUNE GROUP: TONY FERNANDES'S ENTREPRENEURIAL FEATS

*Tony Fernandes's businesses have a simple mission –  
to serve the underserved.*

*Fast Company  
Most Creative People 2011*

While AirAsia *is* phenomenal, it still isn't the end of Tan Sri Dr. Tony Fernandes's entrepreneurial feats.

AirAsia itself, is a subsidiary of Tune Group Sdn Bhd and operates under the company Tune Air which is part of the Tune Group of Companies.

Tune Group is founded by Tony and Dato' Kamarudin Meranun which is a parent company of

many subsidiaries in the airline, hotel, telecommunication, financial services, sports, media and creative industries in Malaysia.

All of these subsidiaries have a single mission – to serve the underserved. In essence, Tony and Kamarudin’s vision is to deliver services at prices that everyone can afford. Tune Group does this through its various companies namely Tune Air, Tune Hotels, Tune Talk, Tune Money, Tune Sports and Tune Tones – all of which seek to innovate and revolutionise services and employ efficient Web-based technologies to reach and engage their customers.

### **Tune Hotels**

While AirAsia allowed “everyone” to fly, accommodation remains a problem. Good accommodation is expensive, and cheaper accommodation is usually less than good. Hence, travellers are caught paying a small sum for air tickets but a hefty sum for their hotel stay – which defeats the purpose of flying low-cost. Recognising the problem, the genius duo – Tony and Kamarudin launched Tune Hotels in 2001 which complements AirAsia perfectly.

Tune Hotels is a limited service hotel chain that offers “5-star beds at 1-star prices”. It believes that the basic essentials are most necessary for the traveller: 5-star quality beds, power showers, central locations, clean environment and 24-hour security.

As of March 2014, Tune Hotels can be found in multiple central locations across eight countries: Malaysia, Indonesia, Thailand, Philippines, India, Japan, Australia and United Kingdom.



Tune Hotel in Downtown Penang

## **Tune Talk**

Telecommunication too is a daily necessity. As such, Tune Group launched Tune Talk in 2009 – the youngest Mobile Virtual Network Operator (MVNO) in Malaysia in partnership with Celcom (Malaysia) Berhad. Its target is to provide extremely low calling rates and great incentives to, again, the underserved segment of the market. The incentives would include other companies in Tune Group such as Tune Hotels and Tune Money. Customers could also stand a chance to win AirAsia flight vouchers, free insurance from ETIQA, and more.

Even better, Tune Talk users would automatically receive “super low flat rates nationwide to any number, anytime”, “free RM100,000 Personal Accident Insurance Coverage” with a minimal monthly phone usage of RM50, and the option to change their number anytime.

## **Tune Money**

Tune Money is the financial services arm of the

Tune Group. It is obviously a genius idea to operate one's own insurance company when an airline is in the picture and travel insurance a necessity. That way, AirAsia is not paying a hefty sum to a third party and is benefiting its own sister company.

Tune Money offers affordable prepaid and loyalty cards ('BIG cards'), as well as life and general insurance products ('AirAsia Insure'). BIG is a global loyalty programme that offers free AirAsia flights upon accumulation of a certain amount of points. With AirAsia Insure, Tune Money thus becomes the appointed Insurance Manager for AirAsia's Direct Insurance Business and manages AirAsia INSURE Lifestyle Protection programme, as well as supports operationally AirAsia's INSURE Travel Protection programme to AirAsia guests.

### **Tune Sport**

You can say that Tune Sport is like a dream come true for Tony. After all, he once dreamt of running an airline, and owning an English football club and owning a Formula One racing team. Amazingly, he did

all three with Tune Group! As Tony would always say, “Dream the impossible!” He really walked his talk.

His dream of owning a Formula One racing team was realised in 2009 when Tune Sport’s application of entering the 2010 FIA Formula One World Championship had been accepted. The Caterham F1 Team, as it is called, finished 10th and 11<sup>th</sup> place in the 2012 and 2013 championships respectively – a truly incredible feat for a young team like Caterham F1.

Tune Sport also founded the AirAsia ASEAN Basketball League (ABL) and it became the first international professional basketball league in Southeast Asia. With support from the Southeast Asian Basketball Association (SEABA) and the International Basketball Federation (FIBA), ABL prides in its diverse team participation from Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand.

## **Tune Tones**

Tune Tones is probably close to Tony’s heart with his background in Virgin Records and Warner Music before he founded AirAsia. Tune Tones is involved in

investments into media and creative industries, as well as promoting local and international talent through concerts, movie productions and event management. *CUCI*, a film by Tune Tones, won the Best Screen Play Award at the Malaysian Film Festival 2008/2009 and was nominated in the World Comedy Film Festival in 2009, as well as the Melbourne Malaysian Film Festival 2009.

Tony is truly an epitome of a visionary entrepreneur – beginning with his low-cost airline followed by his various companies under the Tune Group which is branded to cater to the underserved market – a lucrative, and truly underserved – opening windows of opportunities for Tune Group.



“ *In AirAsia we consider ourselves basically a dream factory. I am living my dream. My partner, Dato' Kamarudin and I are living our dreams, so we want to make sure that everybody gets to live their dream, as well.* ”

***Tan Sri Dr. Tony Fernandes,  
Founder of AirAsia***

*www.chrisfharvey.com, 2012*



## ABOUT THE AUTHOR



### PEI LING, CHIN

Quite the nomad, Pei Ling writes and edits everywhere from quaint cafés to her dear home. She founded *Word Express*, her very own business offering editorial services in 2013 when she was 25. She has a Diploma in Journalism and a B.A. (Hons.) in English Language. She left full-time employment when she was 24 and has since been writing and editing for leading Malaysian media, publishing houses and corporate organisations. Her forte is in profiling people in feature stories. Her portfolio can be found at [www.wordespress.net](http://www.wordespress.net).