

**AN ANALYSIS OF COMPETITIVENESS OF MALAYSIA AIRLINES SYSTEM
BERHAD (MAS): A STRATEGIC MANAGEMENT APPROACH**

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ABSTRACT

The steady growth of the airline industry was temporarily halted during the Asian financial crisis and due to several global events such as SARS outbreak and international terrorism. However, the industry is once again on the upward trend. With gradual economic recovery and development of globalisation in trade and travel, there is an increase confidence and acceptance of air travel now. Malaysia Airline System Berhad (MAS) is no exception and therefore its recent statistics shows sign of recovery and once again is trying to gain its rightful place in the region. This report attempts to evaluate the development strategies of the Malaysian Airlines, its internal strengths and weaknesses, its external opportunities and threats. The final part of this paper will discuss and evaluate the effectiveness of strategies employed, which will evidently provide some recommendations to further strengthen the strategies. The scope of the study is purely based on passenger air travel and not cargo or commodity carriage.

1.0 Introduction

Lord Marshall of Knightsbridge (1994), the Chairman of British Airways, while describing the industry called it “the flywheel for the engine of the world’s industry”, the airline industry has indeed evolved into a very important industry playing a key role in the economic development of a nation, international trade, travel and global tourism. The airline industry is a unique and fascinating industry. It captures the interest of many because of its reach and impact on growing number of consumers and travellers.

Some of the causes expected for an increase in air passenger and cargo demands include growth in population, improved global economy and income. Air passengers include the leisure, business market, senior citizens and students. In a statement issued by the World Tourism Travel Council (WTTC), it has been forecasted that world travel and tourism demand expect to grow at an average annual rate of 4.6% between 2003 and 2013, which was confirmed by MAS senior general manager sales, distributions and marketing, Datuk Rashid Khan. (The Star Business Section, April 30, 2004)

MASkargo a subsidiary of Malaysia Airlines believes that there is future growth of the air cargo business. Cargo growth which depends on the import and export business is subject to the changes in these two sectors. (Excerpt taken from <http://www.maskargo.com/about/?nav=overview>)

2.0 Purpose of study

The purpose of this report is to analyse the external and internal environment of Malaysian Airlines using the Internal Factor Evaluation Matrix and External Factor Evaluation Matrix tools as well as to analyse the intra-industry competition using the Competitive Profile Matrix. The result should provide an insight of MAS’s success or failure rate over the years and to make recommendations of how MAS can retain its status as a top national carrier for passenger air travel through the formulation of strategies.

3.0 Background of Malaysia Airlines – an Overview

In the beginning, Malaysia Airlines was incorporated as Malayan Airways Limited (MAL) on October 12 1937. Initially repairs, spares and staff training were handled by British Overseas Airways Corporation (BOAC - now British Airways). BOAC was also the major shareholder of MAL which help facilitate MAL's entry as a member of IATA. *(This overview has been adapted from Malaysia Airlines Corporate Profile.)*

A year after the Independence of Malaya in 1957, MAL with the participation of BOAC, QANTAS, the government of the Federation of Malaya, Singapore and the Territory of North Borneo was listed as a public limited company. The first international non-stop service for MAL was from Kuala Lumpur to Hong Kong. After this was a series of name changes till it was finalised as Malaysia Airlines as the company is known as today. MAS's vision is to be 'An Airline uniquely renowned for its Personal Touch, Warmth and Efficiency' with the mission 'To provide Air Travel and Transport Service that Ranks among the Best in terms of Safety, Comfort and Punctuality'.

4.0 Changes in Air Travel Demand

4.1 What caused air travel to increase.

The fastest growing form of transport worldwide is air travel and its demand continues to grow at a rapid rate especially in Europe and the United States (US). Fuelled by falling airfares and rising incomes, demand for air travel has soared. The Intergovernmental Panel on Climate Change (IPCC) in its report on Aviation and the Global Atmosphere states that in the past 50 years, the air transport industry has experienced rapid expansion as the world economy has grown and the technology of air transport has developed to its present state. The result has been a steady decline in costs and fares, which has further stimulated traffic growth. As an example of this growth, the output of the industry (measured in terms of tonne-km performed) has increased by a factor of 23 since 1960; total GDP, which is the broadest available measure of world output, increased by a factor of 3.8 over the same period (ICAO, 1997a).

Appendix A contains details of the growth rate of air travel from IPCC which gives a breakdown of global traffic measured in revenue passenger kilometres (RPK).

Air transport is booming for countries such as Indonesia, like many developing countries, lacks fast, expansive roads and railways that vein developed economies (impossible anyway for travel between the country's thousands of islands).

4.2 Recent international events that have changed the industry

Recent global events have gravely affected the air travel industry such as Severe Acute Respiratory Syndrome (SARS) which killed some 800 people in China, Avian Influenza (H5N1), increased competition by foreign airlines whose pricing has been lowered by rapidly growing low-cost carriers in Europe and the uncertainty among international travellers about security in the wake of the September 11 terrorist attacks as well as the war in the Middle East. Everyday, new events arise such as the upcoming parliamentary elections around the world, referendum on reunification such as in Cyprus recently reported by lonelyplanet.com and ongoing political protests in Nepal's city centre. Changes in currency exchange rates also affect the industry.

In view of the international events as discussed above, it has caused security at airports to be heightened and waiting times to be extended especially when there is a bomb threat, non-optimal flight profiles, extra route lengths and possible safety implications. Airlines can also advise their customers to refer to websites such as www.lonelyplanet.com , www.travel.state.gov , www.who.int/en/ for more information on world events that may affect air travel and passengers' safety.

5.0 Competitive Profile Matrix (CPM)*

Table 5.1.

<i>Critical Success Factors</i>	<i>Weight</i>	<i>Malaysia Airlines</i>		<i>AirAsia</i>		<i>Singapore Airlines</i>	
		<i>Rating</i>	<i>Weighted Score</i>	<i>Rating</i>	<i>Weighted Score</i>	<i>Rating</i>	<i>Weighted Score</i>
Advertising	0.10	3	0.30	3	0.30	2	0.20
Product Quality	0.20	4	0.80	2	0.40	3	0.60
Price Competitiveness	0.10	2	0.20	4	0.40	3	0.30
Management	0.15	3	0.45	2	0.30	3	0.45
Financial Position	0.05	2	0.10	1	0.05	4	0.20
Customer Loyalty	0.15	4	0.60	2	0.30	3	0.45
Global Expansion	0.05	3	0.15	1	0.05	3	0.15
Market Share	0.05	3	0.15	2	0.10	4	0.20
Service Quality	0.15	4	0.60	1	0.15	3	0.45
Total	1.00		3.35		2.05		3.00

Indicator

4 = Major strengths

3 = Minor strengths

2 = Minor weaknesses

1 = Major weaknesses

CPM provided above is based on product and service analysis in terms of MAS as an internal airline. The end result shows that MAS still has the competitive edge and is the leader in the regional airline industry as indicated by the total weighted score of 3.35. However, MAS will have to continue in its efforts of having the competitive edge by placing emphasis on reviewing its pricing as well as regain its strength in its financial position.

6.0 External Environment of Malaysia Airlines

The following is an analysis of the airline's external environment at the present time which comprises of opportunities and threats. According to Fred R. David (2003), *opportunities and threats are largely beyond the control of a single organization – thus the word external.*

* This CPM table is constructed based on the available secondary data from various sources such as periodicals and local dailies.

Table 6.1 EXTERNAL FACTOR EVALUATION (EFE) MATRIX*

KEY EXTERNAL FACTORS	WEIGHT	RATING	WEIGHTED SCORE
EXTERNAL OPPORTUNITIES			
1. Growth of online booking	0.04	1	0.04
2. New security laws in the airport	0.03	2	0.06
3. Implementation of Group Management System to evaluate group booking request and monitor confirmed group booking materialisation.	0.05	2	0.10
4. New routes based on the “Open Sky Policy”	0.10	1	0.10
5. Recent signing of MoU with HSBC for loans on air fares	0.03	2	0.06
6. Pegging of “ringgit” to US dollar	0.05	4	0.20
7. Strong government backing to start low cost carrier	0.01	1	0.01
8. Impending partnership with BRAZILIAN aerospace company Empresa Brasileira de Aeronautica S.A. (Embraer) to use family jet for the untapped 70 to 110 seat market	0.04	2	0.08
9. Highly skilled crew famed for hospitality	0.05	2	0.10
10. Untapped markets	0.04	2	0.08
11. Strong government backing for Tourism and M.I.C.E.	0.03	3	0.09

EXTERNAL THREATS			
1. War in the Middle East	0.06	2	0.12
2. Global terrorist attacks	0.04	2	0.08
3. Worldwide political instability	0.04	2	0.08
4. Noise and air pollution related to air travel	0.02	1	0.02
5. Poor consumer demand	0.04	1	0.04

* This EFE Matrix table is constructed based on the available secondary data from various sources such as periodicals and local dailies.

6. Weak corporate spending	0.03	1	0.03
7. Impending proposals on having taxes on fuel and surcharge on tickets	0.08	2	0.16
8. Impending entry of 2 other budget airlines i.e. Valuair and Qantas-backed Jetstar Asia	0.02	2	0.04
9. Violation of regulations	0.10	2	0.20
10. Fear of crew going on strike	0.01	3	0.03
11. Fear of campaigns by MAS Employee Union	0.01	3	0.03
12. Rising costs of fuel and crude oil	0.08	2	0.16
TOTAL	1.00		1.91

EFE Rating Factors:

1= The response is poor

2= The response is average

3= The response is above average

4= The response is superior

6.1. Conclusion of the analysis of MAS's EFE Matrix

The EFE Matrix for MAS shows the total weighted score is at 1.91 which means that it is below average in its efforts to pursue strategies that capitalize on external opportunities and avoid threats.

MAS expects to see a growth in their online booking in view of the constant growth of the ICT industry with more and more people using the internet. With new security laws set, airlines can now assure passengers of their safety whilst on board a flight. The “Open Sky Policy” has also created an avenue for MAS to have new routes to countries never accessed before. Air fares are now “payable friendly” in view of the recent MoU signed with HSBC (Hongkong & Shanghai Banking Corporation) therefore, MAS should see a growth in their passenger statistics.

With the impending partnership with Embraer (Bernama, April 15 2004), MAS can now operate smaller aircrafts when there are not many passengers thus reducing the cost of flying bigger airplane with either less than half or $\frac{3}{4}$ loads. With the implementation of the second module, the Group Management System which will assist in the Inventory Analysts in evaluating group

booking requests and in monitoring confirmed group booking materialisation rates by group types, travel agents and markets.

Fears of staff going on strike and staff going on campaigns against the airline can be avoided with better working environment and attractive pay packages. In fact, a press release confirms this i.e. according to Datuk Ahmad Fuaad Dahalan, managing director of MAS, he is fully aware of the expectations of the 23,000 employees and wants to create a more conducive environment for them to work in and look into the reward and remuneration packages so that each and every one is fairly compensated for their efforts, but not at the expense of burdening the company. (The Star Business Section, April 12 2004)

7.0 Internal Environment of Malaysian Airlines

The following is an analysis of the airline’s internal environment at the present time which comprises of strengths and weaknesses. According to Fred R. David (2003), *internal strengths and weaknesses are an organisation’s controllable activities that performed especially well or poorly. They arise in the management, marketing, finance/accounting, production/operations, research and development and management information systems activities of a business.*

Table 7.1 INTERNAL FACTOR EVALUATION (IFE) MATRIX*

KEY INTERNAL FACTORS	WEIGHT	RATING	WEIGHTED SCORE
INTERNAL STRENGTHS			
1. Excellent service records	0.10	3	0.30
2. Strong brand identity	0.05	3	0.15
3. Conducive working environment for employees	0.05	2	0.10
4. Strong and capable workforce	0.05	3	0.15
5. One hundred well maintained aircraft	0.05	3	0.15
6. More than fifty years in operation	0.10	4	0.40
7. Largest and the only national airline	0.10	2	0.20

* This IFE Matrix table is constructed based on the available secondary data from various sources such as periodicals and local dailies.

8. World's best cabin staff for 2002 & 2003	0.10	3	0.30
9. Efficient revenue management system	0.05	3	0.15
10. Good code share arrangements with other airlines	0.10	3	0.30

<i>INTERNAL WEAKNESSES</i>			
1. Poor language skills of air crew.	0.05	1	0.05
2. Weak financial positioning	0.05	2	0.10
3. High number of "no-show" passengers for a flight	0.05	2	0.10
4. Unavailability of online booking facility	0.05	1	0.05
5. Ground staff not as well trained as cabin crew	0.05	1	0.05
TOTAL	1.00		2.55

IFE Rating Factors:

- 1 = major weaknesses
- 2 = minor weaknesses
- 3 = minor strength
- 4 = major strength

7.1. Conclusion of the analysis of MAS's IFE Matrix

Regardless of how many factors that are included in the IFE Matrix, the total weighted score can range from a low of 1.0 to a high of 4.0 with the average score being 2.5. The total weighted score for MAS shows 2.55 which is an average therefore indicating that MAS has a moderate internal position. For MAS to have a competitive advantage over other airlines, it needs to maximise internal strengths to avoid threats and minimize weaknesses as well as maximise opportunities over threats and weaknesses. After being "rescued" by the Government at a time when they were in the red, all attempts must be made to regain its financial positioning as well to enhance its output, quality of services and overall reliability of the airline.

7.2. TOWS Matrix

Appendix B shows the TOWS of MAS and strategies to overcome their weaknesses and threats by overcoming them with existing strengths and opportunities. MAS has undertaken several important internal events to remain competitive such as:-

- ✦ Offering cheaper air fares such as the KL-Bangkok route up till end of July, 2004 at RM530.00 which is cheaper than AirAsia.
- ✦ Setting up of a team to study the model of low cost carrier operations and its implication on regional travellers.
- ✦ Signing MoU's with more banking institutions for passengers to pay their air fares through loans such as the recent MoU signed with HSBC.
- ✦ Massive refurbishment exercise to upgrade their cabins.
- ✦ Making vegetarian meals a mainstream item.
- ✦ Re-looking at the present revenue management system.

Perhaps the most important event that MAS underwent was the Widespread Asset Unbundling (WAU), which saved them a couple of years ago from being in the 'red'. MAS had recorded losses since the 1997 Asian financial crisis and until March 31st 2002, carried cumulative losses amounting to RM2.78 billion.

8.0 Conclusion and Recommendations

For the global marketing effort to be successful, MAS would need to draw on their strengths and use opportunities to overcome their weaknesses and threats. Continuous assessment of the internal and external environment of a company is a key factor for preparation against global uncertainties. Keeping up with changes is also a key ingredient in making global marketing successful. The company must be aware of the future trends that are going to significantly influence the customer needs and the industry. Some of the trends that will most likely affect businesses in the future are lifestyle, technological, economic and government trends. Keeping up with changes in global marketing is crucial to achieve success in the future.

Global business appears to have recovered from the triple disaster - terrorism, war and the SARS epidemic - with the latest figures predicting strong growth across the board. The airline industry is showing clear signs of recovery whereby passenger traffic is expected to grow. Even

though there are still risks of terrorism, travellers will continue travelling as they are assured that airlines are prioritizing safety and are trying to minimize risks. Although MAS received a severe battering because of unpredicted global events such as SARS epidemic and terrorism, MAS was determinant in pushing forward an agenda for change in order to survive. To survive, MAS would need to revamp and reorganise in order to reduce its cost structure and thereby improve overall efficiency.

MAS has identified the areas of change such as their RMS, new routes, ensuring that its fleet size matches its needs and streamlining of operations. MAS expects these changes to boost its revenue with double digit growth estimates in revenue for both MASkargo and from international routes. MAS would constantly need to assess its strengths and opportunities and use them to overcome their weaknesses and threats. Although their IFE scores of 1.91 and EFE scores of 2.55 and the IE Matrix in Appendix C shows weak positioning nevertheless MAS has the opportunity of harvesting or divesting their product. They are advised not to expand as yet (strengthen their position), make only essential commitments, diversify and improve weaknesses. The risks associated with the recent spate of bad news can be managed as set out above. Given the growth potential of MAS as well as the unique WAU scheme that minimised risks involved in fleet expansion, MAS will be prepared to manage future events.

In order for organisations to stay competitive and viable in the new economy, constant monitoring and evaluation of the competitive advantage as well as constant re-defining and re-inventing of the organisation is essential. The organisation must know when it's the right time to do this. MAS should start by identifying specific changes in the marketplace, even subtle ones. For instance, if one owns a burger joint, and people don't seem to be eating as much beef as they used to, then perhaps it's time to introduce a chicken burger or the vegetarian burger as a regular part of the menu. As changes are made, competitors will follow suit and this is good as it will keep the organisation in question on its toes therefore by the time competitors begin to copy the strategies, the organisation must already be three steps ahead and onto a different approach. In order to stay successful and competitive, one must change and grow along with the industry.

Finally, the organisation must not automatically assume that because they are ahead of the gang now, they always will be. The truth is, just as easily as the business is on top of the world today, it could be wiped off the planet tomorrow if one isn't careful. Remember, one must always be seen by one's customers and competitors as extraordinary. Anything less, and one will have lost the competitive edge one worked so hard to create.

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Appendix A :

Regional Traffic Flow

Regional Traffic Flow	1970 RPK x 10⁹	1995 RPK x 10⁹	1970- 95 Growth Factor	1970 Market Share	1995 Market Share	1970-95 Change in Share
Intra North America	190.897	697.880	3.7	34.6%	27.5%	-7.1%
Intra Europe	61.275	317.099	5.2	11.1%	12.5%	1.4%
North America Europe	72.143	277.909	3.9	13.1%	11.0%	-2.1%
China Domestic/Intra Asia/Intra Oceania	10.234	207.405	20.3	1.9%	8.2%	6.3%
North America Asia/Oceania	14.760	188.799	12.8	2.7%	7.4%	4.8%
Europe Asia	6.732	134.343	20.0	1.2%	5.3%	4.1%
Asia India/Africa/Middle East	13.959	115.204	8.3	2.5%	4.5%	2.0%
North America Latin America	16.087	75.538	4.7	2.9%	3.0%	0.1%
Europe Latin America	7.124	73.090	10.3	1.3%	2.9%	1.6%
Domestic Former Soviet Union	75.496	67.603	0.9	13.7%	2.7%	-11.0%
Japan Domestic	8.181	61.607	7.5	1.5%	2.4%	0.9%
Europe Africa	18.478	61.045	3.3	3.4%	2.4%	-0.9%
Intra/Domestic Latin America	13.432	55.331	4.1	2.4%	2.2%	-0.3%
Europe Middle East	9.838	41.224	4.2	1.8%	1.6%	-0.2%
Intra/Domestic Middle East Africa	5.065	39.213	7.7	0.9%	1.5%	0.6%
International Former Soviet Union	3.677	29.508	8.0	0.7%	1.2%	0.5%
Indian Subcontinent Asia/Middle East/Oceania	3.249	29.500	9.1	0.6%	1.2%	0.6%
Europe Indian Subcontinent	2.333	19.858	8.5	0.4%	0.8%	0.4%
Intra/Domestic Africa	5.826	16.808	2.9	1.1%	0.7%	-0.4%
Intra Indian Subcontinent	3.215	13.218	4.1	0.6%	0.5%	-0.1%
North America Africa/Middle East	1.149	10.777	9.4	0.2%	0.4%	0.2%
U.S. Military Airlift	8.112	3.605	0.4	1.5%	0.1%	-1.3%
Total	551.262	2536.561	4.6	100.0%	100.0%	0.0%

Appendix B : TOWS Matrix

	<p style="text-align: center;">Strengths – S</p> <ol style="list-style-type: none"> 1. Excellent service records 2. Strong brand identity 3. Conducive working environment for employees 4. Strong and capable workforce 5. One hundred well maintained aircraft 6. More than fifty years in operation 7. Largest and the only national airline 8. World’s best cabin staff for 2002 & 2003 9. Efficient revenue management system 10. Good code share arrangements with other airlines 	<p style="text-align: center;">Weaknesses – W</p> <ol style="list-style-type: none"> 1. Poor language skills of air crew. 2. Weak financial positioning 3. High number of “no-show” passengers for a flight 4. Unavailability of online booking facility 5. Ground staff not as well trained as cabin crew
<p style="text-align: center;">Opportunities – O</p> <ol style="list-style-type: none"> 1. Growth of online booking 2. New security laws in the airport 3. Implementation of Group Management System to evaluate group booking request and monitor confirmed group booking materialisation. 4. New routes based on the “Open Sky Policy” 5. Recent signing of MoU with HSBC for loans on air fares 6. Pegging of “ringgit” to US dollar 7. Strong government backing to start low cost carrier 8. Impending partnership with BRAZILIAN aerospace company Empresa Brasileira de Aeronautica S.A. (Embraer) to use family jet for the untapped 70 to 110 seat market 9. Highly skilled crew famed for their hospitality 10. Untapped markets 11. Strong government backing for Tourism and M.I.C.E. 	<p style="text-align: center;">SO Strategies</p> <ol style="list-style-type: none"> 1. Sign up more code share agreements with other airlines to gain access to untapped markets (S10,O10) 2. Motivate staff to clinch World’s Best Cabin Staff award and other hospitality awards for 2004 (O9, S8) 3. Add or modify aircraft to suit smaller passenger loads. (S5, O8) 4. Upgrade revenue management system to manage all bookings. (S9, O3) 5. Utilise existing code share agreements for travel to popular tourist destinations. (S10, O11) 	<p style="text-align: center;">WO Strategies</p> <ol style="list-style-type: none"> 1. Recruit or train staff to be proficient in additional languages (W1) 2. Decrease number of “no-show” passengers with new Group Management System (W3, O3) 3. Introduce online booking for customers to gain access to ticketing (O1) 4. Increase financial stability by working with government for more tourism promotion programs to increase revenue (O11, W2)

Appendix B : TOWS Matrix (continue)

Threats – T	ST Strategies	WT Strategies
<ol style="list-style-type: none"> 1. War in the Middle East 2. Terrorist attacks around the world 3. Worldwide political instability 4. Noise and air pollution related to air travel 5. Poor consumer demand 6. Weak corporate spending 7. Impending proposals on having taxes on fuel and surcharge on tickets 8. Impending entry of 2 other budget airlines i.e. Valuair and Qantas-backed Jetstar Asia 9. Violation of regulations 10. Fear of crew going on strike 11. Fear of campaigns by MAS Employee Union 12. Rising costs of fuel and crude oil 	<ol style="list-style-type: none"> 1. Advertising strong brand identity and excellent service records. (T5, T6, S1, S2) 2. Set up motivational programs to maintain employee loyalty (T10, T11, S4) 3. Decrease or avoid flying to destinations implementing taxes on fuel and surcharge on tickets. (T7) 4. Continue with stringent measures to avoid violating regulations. (T9, S1) 5. Operate aircraft which are compliant to international standards (T4, S5) 	<ol style="list-style-type: none"> 1. Continuous training and recruitment of staff to be well versed in major languages of the world. (W1) 2. More promotions to increase revenue and strengthen financial positioning and encourage flying demand. (W2, T5, T 6) 3. Create conducive working environment and continue with job rotation programs. (W5, T10, T11)

Appendix C : IE Matrix

The IFE Total Weighted Scores

