

## **MH370 not the main factor in MAS turnaround**

**Kinibiz.com**

**May 16, 2014**

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Tiger sympathises with Malaysia Airlines (MAS) and the disappearance of MH370 which puts added pressure on the airline as forward bookings plummet. That will go away but the airline will still be faced with the same persistent problem: Plummeting yield, the amount that it gets for flying a passenger one km. MAS has to sort that out if it really wants to firmly turn around.

Unarguably it is a tough time for airlines and unfortunately it is far tougher for Malaysia Airlines or MAS which had to put up with the loss on March 8 of an aircraft and all the passengers on it.

This has already impacted MAS' first quarter earnings for this year with a deeper loss of RM442 million compared with RM279 million a year ago although it is difficult to say how much the disappearance of MH370 affected the airline as it happened only in the last month of the first quarter.

Things are likely to get worse before they get better as the full impact of the loss of forward bookings and cancellations along with any other costs associated with MH370 will be increasingly felt in the coming months of the year.

But these will be transient — most major airlines have had crashes and subsequently recovered. Industry experts reckon it would take about six months and then there is a slow move back to normalcy as the incident fades from people's minds.

And then MAS will again be faced with the same old problem of trying to get better fares for the level of service it provides and its on-time performance which rate pretty highly, although its hitherto high safety record is bound to be tarnished by MH370.

One must remember that Malaysia Airlines is a 5-star airline under Skytrax rankings and has been there for most of the past few years along with a only a handful of other carriers. That's an achievement that one hopes the carrier will be able to maintain.

If its service levels and overall operating efficiency are among the best in the world, then the focus should be on trying to get a good price for that instead of competing with the low-cost airlines of the world, and in particular homegrown AirAsia, which has been voted best low-cost airline of the year for more times than Tiger can remember.

Ah, Malaysians! They can be world beaters in each of their segments — MAS in full-service carriers and AirAsia in low-cost but they end up trying to massacre each other instead of making their mark universally.

Tiger says it's bad hunting when a full service carrier competes with a low-cost carrier on cost of all things — the latter may suffer but the former will get, well, massacred.

That's what MAS needs to realise: A full service carrier does not compete primarily on price.

If MAS can command better fares (despite all that is commonly said, MAS' costs are low), it will be in a much better position. Better fares are indicated by what is known in industry parlance as yield — which breaks down to the average amount an airline earns for flying a passenger one km. (Actually there is also cargo yield but for the sake of the argument we can ignore that — the principle is the same but we use tonnes instead of persons.)

But yield is not the only factor of course. It is also how much you fill your plane: That's known as load factor.

To take an illustration, let's say MAS' fares are high but the plane is only half full. The airline could do better if the load factor rises to 75% when fares drop by 10%. Fifty per cent more passengers with a 10% drop in yield (fares) is a powerful reason for cutting fares as overall revenue increases 35%, as calculations show. Also, if a seat is empty, it earns no revenue. So there is an incentive to fill seat but not at just any price.

It is easy to appreciate that playing around with fares — and the load factors associated with a fare increase or decrease as well as the impact they have on revenue — is a rather delicate, complicated and risky operation which makes all the difference between profit and loss for all large airlines and into which they put lots of effort.

KiniBiz have written on these issues before in some detail [here](#), [here](#) and [here](#) but it bears repeating that MAS has simply not found the right balance as far as this is concerned. It is obviously following what is called a load-active, yield-passive strategy which means it is dropping yield (fares) in favour of increasing loads

because of its current excess capacity (see yield chart for comparison with regional airlines).

However it is clear that MAS has gone overboard with this strategy. At current yields, it is really not difficult to estimate the load factor needed to achieve breakeven for MAS. RHB Research Institute estimates this at 98% load factor!

In practice that is simply impossible to achieve because it implies that all aircraft would have to be flying at effective full capacity. Even then MAS would only be breaking even — it won't be making money commensurate with the billions it has invested in planes etc. and the billions the government has poured into it over the years.

If MAS had no doubts that it's load-active, yield-passive strategy was the right thing before, by now it should have realised the folly of its ways and be thinking of getting a fair fare from its passengers, which includes this Tiger, which has benefited from its low fares if you book early enough. In many cases the fares are lower than AirAsia's.

Tiger knows it is really tough to do this now because of MH370 but a start has to be made soon and MAS' revenue management turned around to focus on yield. Really, that's about the only way that MAS can make profits — MH370 or no MH370.

GRRRRR!

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