

## **5 popular misconceptions about MAS**

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Running an airline is a whole different ball game to let's say, electricity generation, coincidentally CEO Jauhari Yahya's last duty post. To get everyone's priorities on the right track, Tiger put on his MythBusters lab coat to debunk a few armchair CEO judgements on Malaysia Airlines.

Malaysia Airlines or MAS has been misunderstood. It isn't broken; just badly managed. Despite its years of financial losses it's still a five-star airline as rated by Skytrax.

Then again it's not a walk in the park running an airline. And because Malaysia Airlines is the flag carrier and a government-owned one to boot, it's got more responsibility than most.

KiniBiz last year volunteered a solution that could help the airline: A smarter pricing strategy, or to use the more technical definition, yield/revenue management. It's a strategy that proved successful during former CEO Idris Jala's tenure.

But the current CEO Ahmad Jauhari Yahya is flying in the opposite direction. In the past year he has added almost 20% more seat capacity and priced down airfares to compete with AirAsia.

Before we get to fixing the airline, it may help to clear up some popular misconceptions. Here's a list prepared by your trusty jungle cat.

### **The misconceptions:**

#### **1. MAS is perilously close to bankruptcy**

False rumours of impending bankruptcy spread like a horrible rash last month after the government ruled out using taxpayer funds to rescue the airline.

There were many variants of the bankruptcy rumours. The most curious went something like this: Malaysia Airlines closes for a day, May 28 to be exact, “reboots” and starts over on a clean slate free of debt.

Just one minor but glaring hole in this grand “reboot” plan. Which daft lender would allow an airline with RM3.4 billion in the bank at last count to go back on its loan obligations? Err...

Tiger suspects the rumours were planted (of course). Ever watched Inception? Tiger clears his throat: “An idea is like a virus. Resilient; highly contagious... Even the smallest seed can grow. Once it has taken hold it’s almost impossible to eradicate.”

Alright, that should be enough to make a point. Let Tiger add, the airline’s head of commercial operations Hugh Dunleavy went on record last week to rule out bankruptcy for the company’s yet to be unveiled corporate restructuring.

What’s true is that the airline is fast running out of time and options to try out new strategies. It has just over a year at current rates of spending before money gets tight.

## **2. MH370 hurt Malaysia Airlines’ chances at a turnaround.**

No airline goes belly up as a result of a plane disaster. Even after something as unthinkable as a plane going missing in one location before “ending” in one of the most desolate parts of the world.

But according to head honcho Jauhari, “Two months on, negative sentiment and perception still outweigh, and this has impacted our company. Our turnaround plan for profitability by end of 2014 is probably now not achievable.”

Why sound so grim? All airlines prepare for the worst eventualities and Malaysia Airlines is no different, having bought more than enough insurance coverage.

Tiger just doesn’t buy that MH370 has hurt turnaround plans for the airline. Major Airlines Singapore Airlines, Air France and South Korea’s Asiana have had to deal with horrible plane disasters but eventually they pull through.

True, Malaysia Airlines saw a 60% decline in sales in the China market in the aftermath of the incident. But other markets are doing just fine, and the drop in passengers originating from China has been dealt with by cutting KL-Beijing flights by half and making ad-hoc cancellations to other Chinese cities.

To sum up, management should not use the MH370 incident as an excuse for not making a deadline already pushed back once.

### **3. MAS needs to cut costs to turn a profit**

Some cost cutting never hurt anyone, just like losing some weight around the waist is good for your heart.

For some odd reason – perhaps this is another idea planted Inception style – the media and the man on the street alike seem to think Malaysia Airlines suffers from high costs.

Jauhari seems to think so. He has on several occasions promised a “relentless cost focus” despite neglecting to make any drastic cuts.

But Malaysia Airline’s costs aren’t high in the first place! Let’s take a look at the numbers. Pulling up an Asian airlines cost ranking report from the Centre for Aviation (CAPA), Tiger sees Malaysia Airlines operating at cost levels just a smidgen higher than Singapore Airlines and Thai Airways, its closest competitors. Practically all other Asian full-service carriers operate under higher cost structures except for Philippine Airlines.

It’s an unfair comparison, but AirAsia, together with its long haul and regional affiliates have far lower costs than Malaysia Airlines, by almost a half.

This shouldn’t matter too much, because Malaysia Airlines and AirAsia, for the most part, do not compete for the same passengers. AirAsia, being a budget carrier, targets price-sensitive flyers.

The danger would be for Malaysia Airlines trying to price itself like AirAsia while operating as a full-service airline. This was exactly what it has done over the past year, a strategy that was doomed from the beginning.

To wrap up, cost-cutting can help, but it really isn’t the source of Malaysia Airlines’ troubles.

### **4. Brahim’s catering contract is sucking MAS dry**

Ah, the very Malaysian tradition of keeping it in the family. Malaysia Airlines in 2003 signed an insane 25-year exclusive catering contract with a company headed by the brother of the then Prime Minister Abdullah Ahmad Badawi.

That company is Brahim's Airline Catering Sdn Bhd (formerly LSG Sky Chef – Brahim's Sdn Bhd). MAS holds a 30% stake in the company.

It's no surprise, given the circumstances of the deal, that it's been controversial. In 2006 an MP claimed in Parliament the meals supplied by the caterer are grossly overpriced, by as much as RM60 for a serving of nasi lemak.

But can a catering contract make or break Malaysia Airlines? Simple answer: No.

Payments to Brahim's made up only 1.9% of operating expenses in 2013. This is minimal. For some real cost-cutting management would have to go for the elephant in the room: Staff costs, which make up close to a fifth of operating expenses.

## **5. Tony Fernandes should take over MAS**

This one takes the cake. Just like you don't hand the keys to your price Porsche to your business competitor, AirAsia should never ever be allowed to run Malaysia Airlines. It would be a nightmare come true for Tiger.

A marriage between the two was brokered in 2012. Through a share swap exercise, Fernandes (and partners) controlled Tune Air took a 20.5% stake in Malaysia Airlines in return for Khazanah Nasional, which owns 69% of MAS, getting a 10% stake in AirAsia. It was short lived.

It was only later that the real repercussions of the deal became evident. Both airlines were investigated by the Malaysia Competition Commission (MyCC) and found to have violated the Competition Act 2010.

What do we get when both airlines are put under the same management? A monopoly. That would put Malaysian aviation back to square one. Years ago when we had just one airline and flying was a luxury, not something taken for granted.

Competition was the best thing for Malaysian flyers. Let's keep it that way.

GRRRRR!

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