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THAI AIRWAYS INTERNATIONAL: THE ECONOMY CRISIS RESOLUTIONS

This study reviews the crisis causes, strategic planning and risk management of Thai Airways International. The conflict resolution fell into 3 main missions (those were stop bleeding, strength building and sustainable growth) and 6 strategies, including: network strategy, fleet strategy, commercial strategy, operation and cost strategy, organization strategy and portfolio strategy respectively.

Keyword: crisis management; strategic planning; risk management; Thai Airways International.

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ШЛЯХИ ВИХОДУ КОМПАНІЇ З ЕКОНОМІЧНОЇ КРИЗИ: НА ПРИКЛАДІ МІЖНАРОДНИХ ТАЙСЬКИХ АВІАЛІНІЙ

У статті описано причини кризи Міжнародних тайських авіаліній, а також стратегічне планування та управління ризиками, пов'язаними з виходом компанії з кризи. Проаналізовано три ключові місії авіакомпанії – «зупинка кровотечі», укріплення позицій та стійке зростання, а також 6 відповідних стратегій: мережеву, укріплення флоту, комерційну, операційну, цінову, організаційну та портфельну.

Ключові слова: кризове управління; стратегічне планування; управління ризиками; Міжнародні тайські авіалінії.

Табл. 1. Літ. 13.

Каннапат Канкаєв

ПУТИ ВИХОДА КОМПАНІЇ ІЗ ЕКОНОМІЧЕСКОГО КРИЗИСА: НА ПРИМЕРЕ МЕЖДУНАРОДНЫХ ТАЙСКИХ АВИАЛИНИЙ

В статье описаны причины кризиса Международных тайских авиалиний, а также стратегическое планирование и управление рисками, связанными с выходом компании из кризиса. Проанализированы три ключевые миссии авиакомпания – «остановка кровотечения», укрепление позиций и устойчивый рост, а также 6 соответствующих стратегий: сетевая, укрепление флота, коммерческая, операционная, ценовая, организационная и портфельная.

Ключевые слова: кризисное управление; стратегическое планирование; управление рисками; Международные тайские авиалинии.

Introduction. The national flag carrier of Thailand, Thai Airways International Public Company Limited (TG), was founded in 1960 with its hub in Suvarnabhumi airport. TG is a state-own enterprise with 53.16% shares held by the Ministry of Finance and Government Saving Bank. The company was overseen by the Ministry of Transportation. TG operates commercial air transport services on both domestic and international routes. Its core business are passenger air transportation, cargo and mail delivery. TG also run related business including warehousing, ground passenger services, ground equipment services, catering and maintenance services. Since 2014 TG operates its subsidiary called "Thai Smile Airways" awing 100% of its shares. TG's vision is to be the first choice carrier with Thai touch. There are three core values of the company: focus on the creation of customer satisfaction, to be able to control cost efficiency and to be highly dynamic. And the missions are to provide integrated air

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transportation with the focus on safety standards, convenience, and quality service to make a good impression and relationship with customers, to provide a good corporate governance under international standards to ensure sustainable growth and high return on investments to shareholders, to strengthen itself as a learning organization aware of customers importance, enhancing employees' capabilities, skills, responsibilities and commitment to corporation so as to work at their full capacity, and to assist, support and express responsibilities to society and environment as the key national airline (Thai Annual Report, 2014).

Analysis of crisis factors. The Five Forces and PEST were used to analyze the aviation industry. The first threat is new entrants to the industry with new capacity that pressure on cost, prices and profit. However, the threat of new entrants depends on the "height" of barrier and the reaction of incumbents. Another force is bargaining power of buyers, who are powerful when they have negotiating vitality, for instance, products are common, price is sensitive and there is low switching cost. The threat of substituting products (services) is another force which can limit profits, if a company could not provide a unique set of products or services. The latter force is the bargaining power of suppliers; this force is powerful if the industry has fewer suppliers. The last force is rivalry among the existing competitors; it could be in various forms such as price, product, promotion and service improvement (Porter, 2008). Meanwhile, PEST is a macroanalysis of the environment referring to political, economic, social, technological, and environment issues.

The Five Forces tool allows organizations understand the structure that drives their profitability and competence. M. Porter (2008) applied Five Forces in the airline industry and revealed that airlines are among the least profitable industries, because rivalry is intense, product is quite common and barrier to entry are low. Moreover, the industry has powerful suppliers such as airport, labor, aircraft etc. the bargaining power of buyers is also high due to low switching cost and there are other types of transportation for substitution. This is in accordance with (Brian, 2013; Heracleous, Wirtz and Pangarkar, 2009; Shaw, 2007) as summarized in Table 1.

Table 1. The assessment of five forces for airlines and the key elements relevant to each force, adapted from (Heracleous, Wirtz and Pangarkar, 2009)

Competitive rivalry – High	Threat of new entrants – Medium	Buyer power – High	Threat of substitutes – Low	Supplier power – Medium/High
Industry overcapacity	Deregulation	Information availability	Substitute's cost/benefit ratio weak	Main airports: high power
High fixed costs restrict the exit	Relatively easy access to most inputs	Indirect buyer concentration	Low switching costs to most alternatives	Pilots' and crew unions: Medium/High power
Commoditized offering	High growth at emerging markets	Commoditized offering	ICTs can substitute for some business travel	Airplane makers: Medium power
Low switching costs within industry	Low switching costs within industry	Low switching costs within industry	Low propensity to substitute	Oil suppliers: High power
Information availability	Low absolute cost advantages	Substitute limited	Multiculturalism reduces the attractiveness of substitutes	Engineering, catering: Low unless integrated

On the other hand, environment has crucial impact on the airline industry, for example, political instability, deregulation, economic growth that arouse the demand in air transportation, changing structure of society, e.g. family structure, aging population; terrorism, technological advances make communicating more easy (video-conferences etc.) (Heracleous, Wirtz and Pangarkar, 2009; Shaw, 2007).

And according to H. Harteveltdt (2012) travelers use the Internet more often. They navigate around 22 websites before booking. This author forecasts the strong growth of booking through digital devices. Hence, airlines should adopt their distribution channel to capture the online booking demand, understanding customer behavior and mindset.

Through bad and good times; economic fluctuations, political instability, globalization, terrorism, environmental impact, TG stands for 55 years because of its strong brand and services with numerous rewards, e.g., Best Asia-Pacific Airlines, Best First Class in 2005 (publicinfo.thaiairways.com). However, in 2008 it was the first time of the TG profit lost 21,314 mln THB since 1960. Last two years, 2013–2014, the airline lost 12,929 and 16,738 mln THB respectively. The president of the company disclosed the causes were high operating costs (fuel & administrative), impairment loss of asset & aircraft and exchange rate fluctuations. Nevertheless, the majority of inefficiencies were because TG's aircrafts are older than other airlines within its region, that cause high maintenance expenses. The managing team tried to acquire new fleet but without a proper strategic plan which made the situation even worst. Former Board Director of TG, Mr. Banyong Pongpanich divided the airline's problems into 7 main issues. Those were the lack of information technologies for strategic decision-making, losing geographical advantages since new aircraft can operate longer routes without transiting, political sanction, structure inertia, inefficient management team, lack of strategic tools to assess the information for planning, and lastly, the cost of available seat kilometer is higher than at its rivals (Thairath economic team, 2014). Besides TG, as one of Thailand airlines unavoidably affected by the news released by Japan Civil Aviation Bureau (JCAB) (www.thairath.co.th) regarding Thai poor safety standards. The International Civil Aviation Organization (ICAO) also found (www.komchadluek.net) that Thailand's civil aviation has neglected international safety standards. Currently, ICAO imposed red flag on Thailand due to failing to country's manage significant safety concerns (SSC) on aviation standards in June 2015 (Amornrat, 2015).

TG itself grouped its risks into 7 factors which have significant impact on the company; jet fuel price fluctuations; foreign currency exchange fluctuation risk; competition in airline business; external crisis and natural disaster risk; human resource quality and efficiency risk; product and service inconsistency risk; and shareholders' rights risk. After that, TG has set up a Strategy and Transformation Committee to plan strategies and organize reforms to be carried out during 2015–2016. The plan consist of 3 steps as follows:

Step 1. Stop bleeding – means ceasing the routes that suffered from losses for long time. Change aircraft size or reduce the frequency of such flights.

Step 2. Strength building – refers to evaluating strategies and defining own business position; improving revenue generation; cost reduction and consistent supervision.

Step 3. Sustainable growth – refers to business expansion once the company will reach Step 2.

The later part of the transformation plan includes 6 strategies to support the three steps mentioned earlier:

1. Network strategy is to stop losing routes and generate profit on competitive routes.
2. Fleet strategy is to decrease fleet types and increase fleet efficiency.
3. Commercial strategy is to increase sales through various distribution channels.
4. Operating and cost strategy concerning operating efficiency, service quality and lower operating costs.
5. Organization strategy is to restructure the organization into the one with appropriate size, simple structure, and to define key performance indicators and returns in order to increase employees' efficiency.
6. Portfolio strategy is to manage business affiliate groups practice the same as core businesses.

Conclusion and recommendations. It can be seen clearly that the airline industry is really vulnerable to changing circumstances. TG was heavily by politics, lack of technologies and product/services innovation investments, slow adaptation to external environment due to organizational inertia. These caused the airline lose its competitive advantages and slumped down. Therefore, the urgent reform plan was initiated to resolve the problem. The plan included with 3S (Stop, Strength, Sustainable) and 6 strategies to support the three major steps.

However, consistent and clear strategies are required further to provide world-class customer service (to exceed customer expectations), using customer data in innovating new services. Top-management and line managers' decisions should be clear, grounded and talent-oriented on performance assessment, training, enhancing and engaging employees to meet new challenges and commit to innovations. Sophisticated technologies should be employed to overcome the volatile environment (Overholt et al., 2007) as well as to analyze passengers' requirement in each segment of services. Since today, social technologies allows passenger get tremendously full and accurate information online; they expect to get better travel experience, and receive more personalize services (Taneja, 2011). While providing truly impressive experience, TG should administer both technological and unique human services by offering Thai traditional hospitality throughout the whole air travel chain. In the airline industry, most airlines offer quite the same products and services the only issue that makes an airline different is people (Branson, 2013).

According to IATA (2010), there are 5 phases of air journey where customers interact with the service provider. Those are pre-journey, at origin airport, en-route, at destination airport, and post journey. Thus, if an airline could focus in each phase closely, it would provide more memorable experiences.

Whether the transformation plan of Thai Airways will succeed or not – depends on everyone in the organization, their dedication, using the utmost of skills, knowledge, and engagement to reach organization's objectives and values; how well the airline could minimize its operating costs, and become free from political sanction. Moreover, the Thai's civil aviation authority should earliest claim back Thailand's

aviation safety standard from ICAO imposed in order to assure passengers fly with the airlines registered in the country.

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