



AirAsia X  
CEO Azran  
Osman-Rani

# The X factor

Finding the right formula for low cost long-haul flights is a challenge many operators have failed to overcome. AirAsia X is the latest airline to enter the market and attempt to reverse this legacy. CEO **Azran Osman-Rani** tells Phin Foster why success will always be dependent on an ability to break the rules and do things differently.

**A**irAsia X's named its first aircraft Semangat Sir Freddie to honour the pioneer of low cost long-haul air travel, Sir Freddie Laker. The late entrepreneur and founder of Skytrain launched a no frills service between London and New York in the late-70s, only to be priced out of the market by British Airways and Pan Am. It has become a familiar story.

In the intervening years, others have tried and failed to make the budget long-haul model work. In 2004, Aerlingus

little as \$150 in 2006, but ceased operations after two years with reported losses close to \$1 billion.

Every rule needs an exception, however, and AirAsia X's somewhat ironic wink at this legacy of failure is indicative of a company that has never seemed anything but confident since its inception in 2007. Operating from its central hub of Kuala Lumpur International Airport, the airline serves three destinations in Australia and three in China, as well as Taiwan and London.

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introduced transatlantic flights for a little over €100. They did not last long and company's very future has recently been in doubt. Zoom Airlines started selling transatlantic flights between the UK and Canada for £89 at around the same time and declared bankruptcy four years later. Oasis Hong Kong was offering flights to London Gatwick for as

Despite recently announcing the cessation of flights to Abu Dhabi for the foreseeable future, this is apparently only so that the company can focus on its impending services to Mumbai in May and Delhi in August.

AirAsia X CEO Azran Osman-Rani puts such success down to 'a willingness to break rules' and is certainly the

## Azran Osman-Rani

Azran Osman-Rani is CEO of AirAsia X. Prior to this, he was a senior director of business development at Astro All Asia Networks, a Southeast Asian digital satellite television and radio broadcaster and content producer. He previously held positions at McKinsey & Company.

personification of that principle. A keen surfer, marathon runner and ultimate Frisbee enthusiast, Azran is a former associate partner of McKinsey & Company and more recently worked in a senior role at a Malaysian television firm. It is not the typical resume for an airline chief executive.

“We take great pride in disproving established truisms,” he tells me. “It was never a question of starting with the AirAsia short-haul model and looking to extend it. Nor did we ever ask ourselves how long-haul carriers did business and attempt to alter their practises. It was literally a question of looking at a blank piece of paper and starting from scratch. Some of those things we introduced at the very beginning – assigned seats, pre-purchased meals, multiple baggage tiers – certainly went against the Ryanair dogma, but we've seen other operators adopt them since.”

It is where Azran feels others have failed in the past: taking operating framework legacies as their starting points and looking to make variations from there. In this light, his relative lack of experience in the aviation industry reads as a distinct advantage. "I think others have arrived with too much baggage," he agrees. "Ultimately, you have to look at the business from a unit cost level. That's a challenge when you only have a small number of planes – we had just one in our first 12 months – and you're coming up against some really big players. It's a massive scale disadvantage and unless you can counter that with a significant cost benefit they'll price you out of the market."

"Many of the previous efforts managed maybe a 20% to 30% cost saving, but even that will never be enough to sustain the model. I'm pretty sure we're the lowest unit cost operator in the world: 1.6 cents excluding and 2.7 cents including fuel. Compare that to Singapore Airlines at 5.8, Malaysia at seven and BA on eight.

It's a massive difference and allows us to immediately extract the cost position.'

**Simple formula**

Simplicity has been fundamental in getting there. From the outset, Azran laid down the basis for making it work in an extremely straightforward formula: \$1 billion within five years, plus two cents per available seat kilometre, plus filling three out of every four seats, plus each plane spending three of every four hours in the air, equals success. It certainly doesn't sound complicated.

"It's a focus on scale and cost efficiency," he explains, "but it's also easy to remember and something everyone within the organisation can articulate."

The model was anchored by a firm order from Airbus: 25 A330s in the first five years and then ten A350s beyond that. This still puts them at a significant numerical disadvantage to the established long-haul operators routed in the Asia Pacific region, but has only helped engender a focused and entrepreneurial spirit within the company.

"A key feature of this model is being very focused on sticking to one type of aircraft and picking and choosing routes that match the planes," Azran reveals. "When you bring in too many aircraft and mix the fleet it only adds complexity and that is to be avoided at all costs."

The numbers demonstrate that Azran and his team have chosen wisely thus far. In what has been an extremely difficult time for the industry, traffic on all routes serviced by both AirAsia X and Malaysia's national carrier increased significantly during 2009. The Gold Coast more than doubled and Perth saw a rise of 75%. Contrast that with Sydney, a route Malaysian Airlines has to itself but saw a drop of 27%, and it is clear that this new low-cost model must be doing something right.

Such figures are also likely to have airports beating a path to the CEO's door. Azran does not dismiss the suggestion, although he is quick to warn any potential partners that his



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priorities might be quite different to those of the competition.

“One of the things we realised quite early on was that airport cost, while still important, is not the single greatest determinant of an airport’s attractiveness,” he reveals. “If Frankfurt came to us and said they’d waive any fees for the first five years we still wouldn’t necessarily jump at the chance. When you’re travelling long-haul with a wide-bodied plane holding 380 seats, the single most important consideration is how you’re going to fill it. Rather than point-to-point you have to think about network feed.

“It’s similar in a sense to how the legacy carriers did it, but they came up with very complex models, coach sharing, interlining, scheduling. In our case, we can tap into the model without incurring any extra costs.”

London Stanstead offers a fine example of this philosophy at work. Despite having no firm operating partnership with any European low cost carriers, 30% of AirAsia X’s passengers landing at the airport catch a connecting flight and travel elsewhere. “We could have flown to Manchester for half the price,” Azran reveals, “but it just

“We’re stripping out premium economy and introducing seats that would be the same as you’d find in business class on a Singapore or Malaysian Airlines flight.”

didn’t have the network feed. We’ve found that you don’t need to forge those formal partnerships of yesteryear in order to create the network; passengers can now do all of that stuff for themselves with the help of the internet.”

### Virtual reality

The potential for creating this “virtual network” is vital to the success of any new route the airline might open. While the model will always be developed more by passenger behaviour than airport activity, Azran is a firm believer that there must also be chemistry between airline and airport in order to maximise the benefits.

“When I look at all of our successful partners, each is underpinned by very strong, in most cases personal,



AirAsia X is taking low-cost long-haul in a new direction.

relationships,” he explains. “Having a carrier like us is a new experience and creates a learning curve for both sides. They have to adapt their operating model to cater for us and it means a lot of problem solving. Some airports will offer you a great deal to get you in, but once the contract is signed it’s very difficult to get hold of them again. We want partners committed to fostering close bonds.”

That does not apply exclusively to airlines. “How airports conduct themselves with other stakeholders is something we keep a close eye on,” says Azran. “That

[including India] and a similar number in 2011. We took delivery of two planes in 2008, three in 2009, the same number this year and four next. It’s been an intentional effort on our part not to take on too much too quickly, but those planes need routes.’

And they will soon be breaking yet another low cost commandment when AirAsia X introduces lie-flat bed seats later this year. It is an experiment that, if successful, may see some established long-haul operators seriously reviewing their business models.

“We’re stripping out premium economy and introducing seats that would be the same as you’d find in business class on a Singapore or Malaysian Airlines flight,” Azran announces excitedly. “Because of our high aircraft utilisation model, we can offer those seats at a price comparable to those of an economy ticket with one of the big guys. That’s a very compelling trade-off: buy a normal ticket with us and save 40-50% or save a few thousand dollars and get a first class seat. We believe there are quite a few leisure and business travellers who will take us up on the offer.”

While Azran acknowledges that this offer will come minus the free flowing champagne and exclusive airside lounge, it is the commonsensical and straightforward nature of thinking underpinning the idea that impresses. Following a global economic crisis so severe as to prompt suggestions that we are now entering an age of austerity, are people even still interested in those high-cost, low-value added extras?

Time will tell, but many within the industry are keeping a close eye on AirAsia X’s progress for answers. You can be sure that Sir Freddie would approve of how things have gone thus far. ■

might be local tourism or government bodies, but we want to see the operator doing its best to get everybody onboard. Those with the ability to rally around the broader community are a lot more successful with us than those that don’t.”

In the quest for such partners, the operator has already announced flights to Mumbai and Delhi from later this year. Steady but ambitious growth forecasts indicate that further announcements are also on the horizon, but the CEO is keeping his cards close to his chest for now.

“One thing we learnt in 2009 is that you can have great plans but they never materialise,” he chuckles. “That means being nimble and reacting quickly as and when opportunities arise. This year we are probably looking at five new destinations