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ENHANCES OF STRATEGY IMPROVEMENT OF SCHEDULED LION AIR COMPETITIVE TRANSPORTATION AIR SERVICES IN THE INDONESIAN BUSINESS COMPETITION.

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Abstract

Currently, Lion is in big trouble. This research aims to analyze the application competitive strategy of Low-Cost Carrier (LCC) taken by Lion in the business competition of scheduled commercial air transport services in Indonesia. Through measurement of market concentration: Concentration Ratio (CR), Index (HHI), and several equal sellers Lion have won the competition as the largest market shareholder since 2007 until now. Its success is because Lion can successfully cope with five competitive forces (Porter) : (1) buyer, (2) suppliers, (3) substitution, (4) newcomers, (5) rivalries, with LCC strategy. LCC can last long but not forever. The evolution of the value industry of the LCC strategy of excellence declined, pushing a heavy burden for Lion. Urgent need of strategy or another new business model, with strategic partners (domestic and foreign) to maintain and even improve company performance in the framework of Sustainable Competitive Advantage (SCA).

Keywords: Market Concentration, Low-Cost Carrier (LCC), Competition.

INTRODUCTION

Therefore, on November 18, 2011, President Director of Lion, Rusdi Kirana has signed a purchase contract of 230 units of B737 aircraft worth US.$21.7 billion or equivalent to 195 trillion rupiahs. Then in March 2013 also signed another contract to purchase 234 Airbus aircraft worth US.$24 billion or 230.4 trillion rupiahs. It is planned that by 2027 the number of Lion's fleets will reach 770 aircraft (Indonesiareview.com) PT. Lion Mentari Air, hereinafter abbreviated Lion, is the first airline company in Indonesia to declare itself as a Low-Cost Carrier (LCC). Through vision "We Make People Fly" wants to give the image to the public that anyone can fly with Lion at affordable (www. Lionair, co. id).

Lion's initial business capital has only 1 (one) aircraft, approximately seven years later since 1999 has been able to dominate the aviation business in Indonesia. (Peter F. Drucker n.d.) defines business as an organization that adds value and creates wealth.

The results of the study (Indra S. et. Al., 2015) in the Journal of Transportation and Logistics Management (JMTRANSLOG) STMT Trisakti, concluded that airlines deregulation led to the emergence of low-cost new airlines. Previously by (Kuntjoroadi, Wibowo, Safitri, Nurul;, 2009) in Journal of Business & Bureaucracy University of Indonesia, stated that based on

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analysis of BCG matrix (Boston Consulting Group), Garuda's competitive position was in the "star" position until 2007, which means that Garuda has a relative high market share in the growth of the airlines industry market in Indonesia.

Table 1. Market Share (MS) of Domestic Air Transport Passengers Based on the National Air Transport Agency Year 2012-2016 (tens of thousands)

No	Airline	Year 2012-2016									
		2012	MS	2013	MS	2014	MS	2015	MS	2016	MS
1.	PT. Batavia	697	9,8%	-	-	-		-	-	-	-
2	PT. Mandala	13	0,1%	80	1%	15	0,2%	-	0%	-	-
3.	**PT. Garuda**	**1530**	**21%**	**1673**	**22%**	**1829**	**24%**	**1997**	**26%**	**1997**	**22%**
4.	PT. Merpati	252	3,5%	136	1,8%	-	-	-	-	-	0%
5.	PT. I. A. A.	217	3.0%	302	3,9%	311	4%	207	2%	133	1,5%
6.	PT. Pelita	0,6	0,0%	1	0,0%	0,1	0%	-	0%	-	0%
7.	**PT. Lion**	**2944**	**41%**	**3261**	**43%**	**3113**	**41%**	**2649**	**35%**	**3093**	**35%**
8.	PT. Sriwijaya	810	11%	867	11%	784	10%	714	9%	840	9,4%
9	PT. Travel E.	34	0,5%	68	0,8%	61	0,8%	41	0,5%	46	0,5%
10	PT. Wings A.	259	3,6%	342	4,5%	343	4%	343	4,5%	490	5,5%
11	PT. Trigana	1	1,3%	80	1%	68	0%	51	0,6%	50	0,5%
12	PT. I. A.T.	2	0,0%	6	0%	-	-	-	-	-	-

According to the Head of PPM Consulting Division (Aruan K. (2015), there are only two prevailing general options: an extra service or a price competition (LCC) strategy. Garuda prefers to use an extra service strategy, while Lion tends to price competition strategy LCC. LCC or no-frills is a competitive strategy of overall cost advantage that is more specific to the aviation business. The tendency of passengers to choose LCC flights encourages more airlines to compete to offer LCC. As a result, they are worried about losing a customer if they continue to run only one strategy. When the strategy changed, Lion holding LCC flights as well as full-service flights, and vice versa, Garuda instead of full-service flights also penetrated the LCC flight. They are also forming strategic alliances with their partners. Garuda with its subsidiary Citilink, the same thing is also known by Lion with his subsidiary Batik Air. If Citilink is set up to compete against the Lion in its low-cost competition strategy (LCC), Batik Air to compete against Garuda in terms of premium price (full service). The same thing was done by Sriwijaya Air with its subsidiary Nam Air, as well as Indonesia Air Asia with Indonesia Air Asia Extra.

Now almost all airlines run the same strategy. The reason for the flexibility of organization is as if the division of tasks or roles - Lion for LCC air travelers, while Batik Air has a role in running a full-service strategy. Therefore, Lion, Garuda, Sriwijaya, and other airlines doing the same thing did not present anything. As (Magretta, 2012): *"When you change strategy with flexibility, your organization will never represent anything or be good in anything"*. This is because the airlines in question at the same time serve the same customers and meet the same needs and sell the price with the same relative price. This means Lion has not had a strategy, because the Lion is now run the same as other airlines.

Also, the LCC's superiority exerts a heavy burden on Lion to maintain its position, which means reinvestment of capital for modern equipment, the unquestionable disposal of the wealth of old aircraft that has been worn. Therefore in 2011 and 2013 Lion has ordered 464 aircraft from Boeing and Airbus. Now the aircraft began to arrive and it was difficult for delivery to be postponed. To make money, the planes must fly. To be able to fly there must be a permit to fly.

Flight approval covers the need for hard and soft infrastructures. Hard infrastructure on domestic flights is the problem of airport density, the depletion of aircraft parking at airports in Indonesia. While the infrastructure is primarily the right to fly (traffic right). The number of passengers transported has risen more than 10 times than before the deregulation, but since the economic crisis there is no new airport development (beritatransnews.co.id, 2015). This means Lion must focus on foreign flights, but this too many obstacles.

To utilize the aircraft and the development of market share Lion is trying to establish cooperation with foreign partners : Malaysia, Thailand, Sri Lanka, Vietnam, Australia and so on but only interested Malindo Airways from Malaysia (Gerryonline.blogspot.co.id, 2015). The many problems make great difficulty for Lion (Rosyid 1999).

METHOD OF RESEARCH

This research uses approach of conception of building/constructivism approach (Haula R, 2011). This is an industrial economic policy study focused on the use of five industrial structural strength evaluations by Porter (2008). Data were extracted and obtained through literature studies, in-depth interviews and intense discussions with practitioners in the field of aviation. Data and information obtained from several institutions.

In the instant the government is conducted at the Directorate of Air Transportation, Directorate General of Civil Aviation, at non government institutions such as INACA (Indonesian National Air Carrier Association) and KPPU (Business Competition Supervisory Commission). As key informant General Director of Air Transportation. The analyzed policies cover several aspects in the field of air transport operations in Indonesia contained in : Flight Laws No. 15/1992 and its successor no. : 1/2009).

Tables 2. Market Concentration : (Consentration/CR and Herfindahl-Hiersman Index/HHI) Market Share Domestic Scheduled Commercial Air Transpot Service (2007-2016)

No	Airline	Year 2007-2016									
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1.	PT. Batavia Air	171	163	194	171	126	95	1	0,4	-	-
2	PT. Mandala Airlines	20	85	66	21	-	-	-	-	-	-
3.	PT. Garuda Indonsia	**637**	**420**	**367**	**372**	**518**	**459**	**488**	**572**	**677**	**500**
4.	PT. Merpati	46	44	26	12	13	14	3	-	-	-
5.	PT. Indonesia. A. A.	20	16	11	4	5	12	20	16	7	2

6.	PT. Pelita Air Servic	0	0	0	0	0	9	0	0	0	-
7.	PT. Lion Air	**816**	**607**	**933**	**1448**	**1721**	**1699**	**1852**	**1656**	**1195**	**1200**

According to Porter (2008), there are five competitive forces namely

(1) buyer,
(2) suppliers
(3) replacements/substitution,
(4) newcomers and
(5) rivalries.

The collective strength of the five forces determines the industry's average profitability through its impact on prices, costs, and investment in purchasing new aircraft needed to compete. A good strategy generates better returns than other airlines in general. For any organization that tries to review or formulate a strategy, a 5 (five) strength framework is the place to start, as (Porter 2008).

ANALYZE AND RESULT.

Based on the analysis of market structure (number and size of buyer distributions (Table 1), Lion's market share since 2007 is always the largest in the aviation business market part of Indonesia. The number of passengers transported during the last five years from 2012 to 2016, 41.2%, 43%, 41%, 35%, 35% respectively, while Garuda's second-largest rival was 21%, 22%, 24%, 26% and 22.4%. Previous research, from since the flight in Indonesia until 2005 the biggest market share is always dominated by Garuda state-owned incumbent airlines, 2006 Garuda and Lion market share equals 20% each. Not surprising if the market share of Lion is great, because the number of fleets is owned by most other airlines (Erwansyah S. 2017).

This opinion is true when the number of fleets is the only measure of success. However, considering Lion's growth achievement at the beginning of operation in 1999/2000 had only one aircraft with a market share of 0.6% (Mufti A, 2007). Only seven years later can match the dominant position of Garuda to 20%, and since 2007 as the largest market shareholder, it seems difficult to argue that Lion does have superior performance. As Magretta J. (2012) points out: "*competitive advantage is not how to beat rivals, it's about creating superior value. Business competition is about the struggle for profit"*. Lion excelled not only in terms of the size of the market he achieved but also excelled in the value chain created in-between the LCC's business strategy.

Based on the analysis of market concentration (Ratio Concentration/CR, HHI Index, and number competing companies are as follow (Table 2).CR4 is the concentration ratio in the 4 (four) largest companies. CR4 always shows high above 0,90 (90%), meaning that the market is concentrated in the 4 (four) large airlines. It also shows that the national aviation industry belongs to the oligopoly market category since few companies are in the market. Likewise, HHI shows an average above >1800, meaning that the market is classified with high concentration.

Next column B table 2, is the number of companies that can compete. This figure is obtained from 1 divided by HHI. For example in 2016 amounted to 4,8 (rounded 5), meaning the number of airlines that can compete for as many as 5 airlines. The data above shows that airlines that can compete for show decrease, meaning that can compete to be a little because it is concentrated on the dominant players, The results show Lion's biggest market share from 2007 until now. This shows that Lion's competitive strategy is superior to competitors. According to the author's description analysis, it is influenced by price competition strategy (LCC). As a newcomer to overcome barriers to entry cheaper than competitors. Lion approaches: (1) reducing product costs, always trying to find ways to produce products at a lower cost than competitors. (2) entering the market by selecting fat routes at an affordable price. Sacrificing short-term profits to compel competitors to market for airlines Garuda, Merpati, Bouraq, Mandala, etc.

Lion undertakes strategic alliances with partners (domestic and overseas) and in particular with Wing Abadi and Batik Air not only in efforts to develop market markets, as well as to avoid allegations of monopolistic practices and unfair business competition. This is because the Lion competing position has been in the approximate market share (50% and/or 75%) as meant in Article 27 paragraphs 1 and 2 of Law No. 5 of 1999.

The lion started his business with Michael E. Porter's (2008) approach with 5 (five) competitive forces. To cope successfully with the five competitive forces and thereby get a high return on investment for the company, the strategy or business model Lion runs as follows. :

1) Newcomers (threat of newcomers). At the beginning of deregulation, the terms of setting up a scheduled airline are very easy, enough to master two aircraft (1 owned and 1 leased base on KM11/2001), from the previous 5 to 73 airlines listed. So newcomers are always there and become a permanent threat. Lion's luck was also attributed to the September 11 tragedy of 2001, earning a very cheap airfare.

2) Purchaser (buyer bargaining power), Since the beginning of the operation Lion build motto “we make people fly” as a supporter of the LCC strategy. Through this vision, it gives an image to the consumer that anyone can fly with Lion. Even poor people who are poor even dream of flying with Lion through the lottery advertised on television. Inexpensive imagery has imprinted on the psyche of consumers, even though the price of their purchased tickets is not necessarily cheap. This means that Lion's value proposition is unique, considered a god helper for consumers who want to use airlines at low prices, making air travel consumers switch to the Lion. Not only

from fellow competitors of air transport services but also from other modes of transportation, land, and sea.

3) Supplier (Supplier Bargaining Power). Union labor particularly in aviation, in particular, have high bargaining power. They demanded a very high salary because of the difficulty and scarcity of getting a pilot in Indonesia at that time. The pilot salary in Indonesia can be 20-25 times compared to ordinary administrative personnel with the same qualifications. Lion, however, preferred the human resources of retired Air Force aviators, contracted under a cheaper salary standard. The two take advantage of the exertion of foreign aviators. Foreign pilots can sometimes be cheaper, especially from a socialist country (Russia, Czechoslovakia, etc.), through an after-sales services engagement. Foreign pilots and mechanics are willing to be paid cheaply to simply turn on their License. The bargaining power of suppliers from aircraft makers/tenants also has great strength. Lion still has a better strategy than a competitor. For example, if at the beginning of deregulation Lion would prefer an old aircraft rental with the lessor for the type of aircraft that is generally no longer used in Europe and America but still feasible operated in Indonesia so that it can get a very cheap aircraft rental to be able to set rates lower than competitors.

The decline is not only due to the declining consumer confidence as well as the increasing number of airlines that run the same LCC strategy. Initially the airline running LCC in Indonesia only Lion. Then the Garuda group with it Citilink, next Sriwijaya Air with Nam Air and followed by other airlines. Another big difficulty Lion since 2011 and 2013 has ordered 462 fleets. The planes had arrived and had to be flown. Lion saw that its growth in Indonesia would be limited and slow due to infra-structure problems (airport and flight navigation). Rapid growth can only be done outside Indonesia. Because Lion has long planned to build cooperation with foreign parties, but seems not to bring the results as expected (Ringkang Gumiwang, 2016). There are constraints that need to be manifested well and correctly (gerryonline.blogspot.co.id).

CONCLUSION

Based on the market structure analysis Lion has managed to dominate the airline business in Indonesia, with the largest market share since 2007 until now. Its success is because it can successfully cope with five competitive forces: (1) buyer, (2) suppliers, (3) replacements, (4) newcomers and (5) rivalry. All five create competitive competitiveness in the implementation of LCC's flight strategy. LCC can survive long lasting but not forever. The evolution of the LCC's value industry declined, pushing a heavy burden on Lion, as almost all airlines run the LCC, which means Lion has no strategy. Lion is now in big trouble. Urgent need another new strategy to maintain and even improve the company's performance.

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