

## Restoring Customer Trust and Loyalty: A Case Study of AirAsia

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### ABSTRACT

*Aviation industry was among the most affected by the COVID-19 pandemic. One of the players in this industry, the Capital A Berhad or better known as AirAsia was famous for its innovative approach to airline travel by offering low-cost flights and unique customer service experience. Based in Malaysia, AirAsia is the largest airline company by fleet size with 165 destinations spanning 25 countries. When the pandemic hit, AirAsia suspended its operations in March 2020 which triggered a series of major challenge faced by the company. Specifically, AirAsia's customer service has been criticised for its ineffective chatbot as well as inadequate responses to customer complaints regarding refunds, flights cancellations and flight delays amid the COVID-19 pandemic. This case study delves into the factors contributing to AirAsia's customer service issues and their impact on the company's reputation and customer perception.*

**Keywords:** AirAsia, airline company, COVID-19 pandemic, customer service, strategic management

### Introduction

AirAsia is one of the most well-known and successful low-cost airlines in Southeast Asia, known for its innovative business model and competitive pricing. Now, AirAsia is known as a brand under Capital A Berhad, formerly known as AirAsia Berhad. This change was made in 2022. According to the CEO of Capital A Berhad, Tony Fernandes, the main reason to change the name is to introduce a new corporate identity for AirAsia where Capital A Berhad is to be known as an investment company as well as the company's transformation from an airline into a one-stop digital travel and lifestyle company (AirAsia, 2022). To this date, AirAsia is one of the top three online travel agents (OTAs) in ASEAN, and this case focuses on the AirAsia services that are operated in Malaysia.

### Company Background

AirAsia has a huge history behind it. It was established in 1993 by a government owned company, DRB-Hicom. It began its operations in the year 1996. Unfortunately, in the year 2001, the airline drowned in heavy debt which constituted to US\$11 million. This is when Tony Fernandes and Datuk Kamarudin Meranun came into the picture and purchased AirAsia for just RM1 or equal to approximately US\$0.25 (AirAsia, n.d.). Despite the huge debt, both the founders had turned around AirAsia to be one of the most successful low-cost airlines in the southeast Asia. In 2002, AirAsia introduced its new fares and new destinations with a

tagline of “Now Everyone Can Fly”. They introduced online booking system via their website the [www.airasia.com](http://www.airasia.com) and became the first airline to enable credit card payments for telephone bookings and to go ticketless. Surely, Tony and Kamarudin were able to make the airline better and in 2003, they opened a new hub at the Senai Airport, Malaysia and launched their first international flight to Phuket, Thailand (AirAsia, n.d.).

Since then, they never looked back and continued to expand the airline destinations to Singapore, Indonesia, and Macau in 2004, to China, Cambodia, Vietnam, Brunei, and Myanmar in 2005. Moreover, in 2005, AirAsia became the first airline in the world to offer mobile and short message service (SMS) bookings for their customers including the first AirAsia fleet arrived from France to Kuala Lumpur in the same year. Two years after that, the Airline launched AirAsia X, which is a long-haul, low-cost airline under AirAsia with the tagline of “Now Everyone Can Fly Xtra Long”. In the same year, AirAsia received their first award as the Asia’s Best Low-Cost Airline award by Skytrax (AirAsia, n.d.).

For the duration of 20 years, AirAsia has been flying high and higher each year. The airline company received recognitions (among others) as the Most Innovative Company, Asia’s Leading Low-Cost Airline, Asia’s Leading Low-Cost Airline Cabin Crew, and the World’s Best Low-Cost Airline by Skytrax for 13 consecutive years. This was an incredible achievement for the AirAsia team considering their far than modest start-up.

### **Customer is Always Right**

The “Customer is Always Right” is a saying which encourages (or pressures) service-based industry to give a high priority to customer satisfaction. As the focus of this case is on AirAsia’s customer service level, it is important to look into how airlines are being evaluated in the industry in order to understand the contextual of the issue.

According to the International Air Transport Association (IATA), the general Key Performance Indicators (KPI) for evaluating an air transport company include revenue and profitability of the airline, fleets size and utilisation, on-time performance, safety record, customer satisfaction, market share and environment sustainability (IATA, n.d.). As for AirAsia, the evaluation method used by Skytrax for the World Airline Awards is slightly different from the IATA. Based on the Skytrax’s World Airline Awards website at [www.worldairlineawards.com](http://www.worldairlineawards.com), the awards methodology is conducted annually through a survey-based ranking and the best airline in the world is voted by the airline customers. This survey is primarily based on airline passengers’ perceptions based on their experiences with the airlines, and passengers are asked to rate airlines on a variety of factors, such as check-in and boarding procedures, onboard comfort, cabin cleanliness, food and beverage quality, and customer service standards. The most recent survey was participated by 14.3 million customers across 100 nationalities (AirAsia, 2022). Overall, AirAsia used to be within the top 30 airline in the world. In 2023, AirAsia is ranked 31 out of 100 top world airlines and maintained to be the number one winner for the World’s Best Low-Cost Airline award.

The AirAsia customers have ‘spoken’ by voting the airline as the world best low-cost airline. The underlying success factors for AirAsia are mainly attributed to their low-cost carrier (LCC) business model that is based on the idea that people would fly more often if it was more affordable. The LCC model can be 40% to 60% cheaper than full-service carriers (Capital A, n.d.). Their target market is price-sensitive customers who are looking for affordable travel options and values convenience and efficiency. As of 2022, AirAsia covers 294 routes, 22 markets and 128 destinations (Annual Report, 2022). Adopting a low-cost

strategy, there are seven (7) plans that AirAsia implemented to make sure that they could deliver a low-cost flight service to its customers.

- i. High Aircraft Utilisation - AirAsia focuses on keeping its aircraft flying as much as possible to generate maximum revenue. To achieve this, the airline aims for a fast turnaround time of 25 minutes, which helps to minimise the time spent on the ground. Moreover, AirAsia's aircraft utilisation per day is higher than the average for full-service carriers, with an average of 12 block hours per day compared to approximately eight (8) block hours per day for full-service carriers (Capital A, n.d.).
- ii. No Frills - The principle of LCC model is to provide a means of transportation from point A to point B. To keep costs low, AirAsia has excluded many amenities or "frills" that are considered standard by full-service airlines. These include free food and beverages, assigned seating and refunds for missed flights. Guests can purchase food and drinks at an affordable price, choose their seats by paying a small fee and check-in online to reduce waiting time at the airport. AirAsia also operates as a ticketless airline, saving costs on paper, printing, and distribution.
- iii. Streamline Operations - Simplicity is key to the success of an LCC and AirAsia operates only two types of aircrafts, which reduces the need for costly re-training, stocking parts for different types of planes and maintaining knowledge and skills for multiple aircraft types. Moreover, AirAsia offers only one class seating with the option for customers to choose their seat for a fee. Even though it is one class seating, the location of certain seats offers different levels of comfort, and the fee may vary accordingly.
- iv. Secondary Airports - LLCs like AirAsia tend to fly to secondary airports. This is because they are less busy and cheaper to operate from. These airports also have shorter turnaround times for aircraft, which contributes to cost savings. For examples, in Malaysia, AirAsia flies from KLIA 2 instead of KLIA.
- v. Point to Point Network - AirAsia operates a simple point to point network with short-haul flights of four (4) hours or less. They generally do not have agreements with other airlines for connecting flights, flight transfers or luggage transfers.
- vi. Lean Distribution System - Compared to LLC model, full-service airlines often rely on travel agents and their sales offices. AirAsia has a simple distribution channel that is through their website and it able to cater diverse range of customers via internet and credit card sales even in a remote location like Myanmar (Capital A, n.d.).
- vii. Digital Innovations - Air Asia is known for their digital innovations being integrated into their services that they offer to their customers. They were the first in the world to offer Mobile and SMS bookings for their customers (AirAsia, n.d.). AirAsia has been working on several digital innovations to provide safer and more convenient travel experienced while reducing costs. One of their key developments is the extension of their facial biometric technology, FACES, for use throughout the customer's journey including digital health passport, check-in, baggage drop off, boarding and ordering and paying for travel and lifestyle offerings on the AirAsia Super (Annual Report, 2022). AirAsia has also launched contactless payment options using electronic data capture (EDC) machines and self-check-in counters.

### Current Situation

AirAsia, like many other airlines around the world, was hit hard by the Covid-19 pandemic. In March 2020, the airline was forced to ground most of its fleet and suspend flights due to the travel restrictions and border closures imposed in Malaysia as well as other governments around the world. As seen in their operational statistics (Table1), the passengers carried has been decreased by 74% in 2020 compared to 2019 (Air Asia, n.d.). The low performance did not only result in decreased amount of revenue, but it also resulted in a lot of flights being cancelled and customers demanded refunds which in return, caused a financial crisis for AirAsia.

Table 1: Operating statistics of AirAsia from 2018 to 2021.

OPERATING STATISTICS	2018	2019	2020	2021
Passengers carried	44,437,381	51,559,070	13,309,353	4,812,364
Capacity	52,536,954	60,884,616	17,941,988	6,500,182
Load factor (%)	85	85	74	74
RPK (million)	55,962	63,382	14,268	4,149
ASK (million)	66,261	74,642	19,121	5,723
Aircraft utilisation (hours per day)	13.3	13	9.6	6.2
Average fare (RM)	173	178	175	160
Revenue per ASK (sen)	14.71	15.6	15.06	16.67
Cost per ASK (sen)*	14.8	15.02	35.24	69.62
Cost per ASK - excluding fuel (sen)*	8.9	9.39	24.96	62.68
Revenue per ASK (USc)	3.64	3.77	3.61	4
Cost per ASK (USc)*	3.67	3.62	8.45	16.69
Cost per ASK - excluding fuel (USc)*	2.2	2.27	5.98	15.03
Number of stages	290,461	335,399	98,259	35,350
Average stage length (km)	1,253	1,225	1,070	882
Size of fleet at year end (Group)	226	246	247	213
Number of employees at year end (Group)	18,122	21,059	18,848	14,778
RM-USD average exchange rate	4.04	4.14	4.21	4.17

\*Excluding one-off items.

Source: Data from Capital A (2022).

In response to the Covid-19 pandemic, AirAsia had to implement several cost-cutting measures which affected hundreds of its employees. AirAsia had to terminate the services of 111 cabin crew members, 50 engineers as well as 170 pilots (Astro Awani, 2020). Moreover, due to the financial issues faced by AirAsia, they had also sought financial assistance from the government (Reuters, 2020). In November 2021, AirAsia won shareholder approval for a rights issue to raise RM1 billion as well as RM336.5 million ringgits through a share placement in December 2021 (Reuters, 2020).

It was amidst the Covid-19 pandemic when AirAsia changed its name and branding to Capital A Berhad in January 2022. In efforts to tackle the financial issues faced by the company, they had diversified their business beyond an airline and had changed its core business strategy to an investment holding company with a portfolio of synergistic travel and lifestyle businesses

including financial services (Capital A, 2022). Despite all these efforts, AirAsia was classified as Practice Note 17 (PN17) by Bursa Malaysia Securities (Reuters, 2022). PN17 is a classification gives to companies that are financially distressed. Failure to regularise the finances within a given time frame may result in the company being de-listed by the exchange. A snapshot of AirAsia revenue from fiscal year 2014 to 2022 is shown in Figure 1.

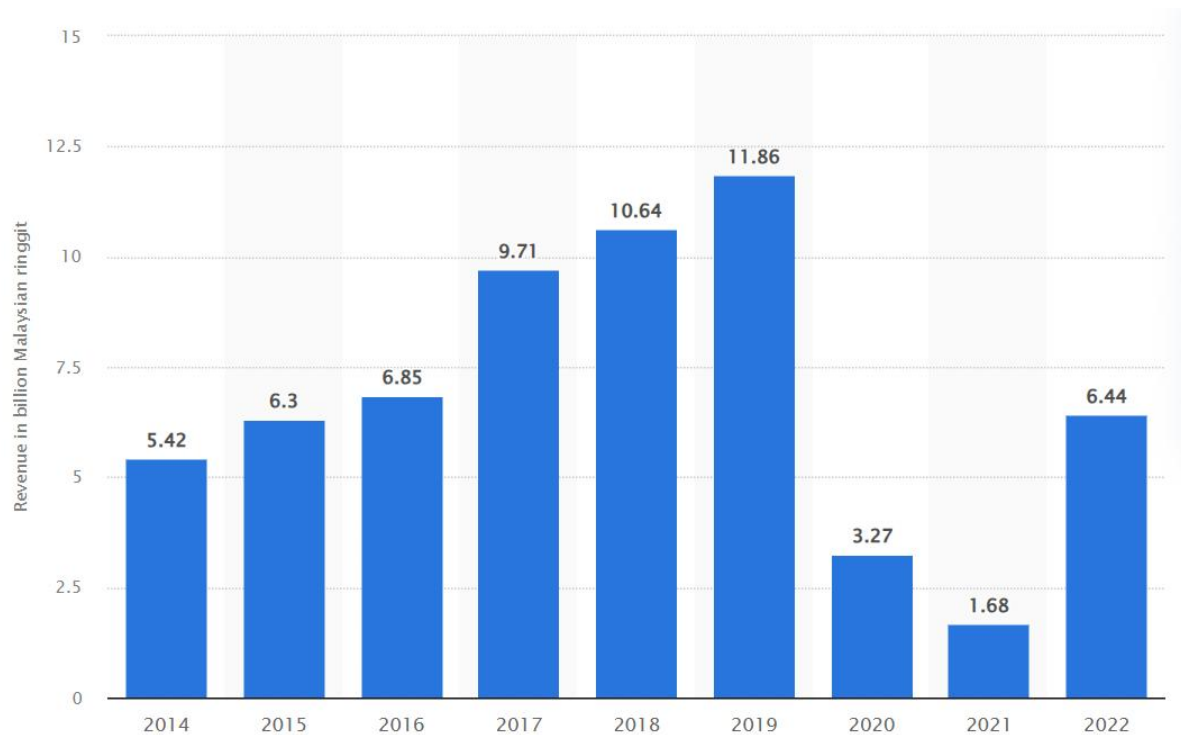


Figure 1: AirAsia revenue from fiscal year 2014 to 2022 (in billion Malaysian ringgit).

Source: <https://www.statista.com/statistics/1030523/airasia-revenue/>

Apart from the financial issues, AirAsia faced other major issues as well. As stated above, the Covid-19 pandemic had resulted in AirAsia having to cancel a lot of flights that were already booked and paid by its customers. More than 3 million customers were affected and had demanded for refunds in the year 2020 (Malaysia Now, 2021). Some customers received their refund as AirAsia points, which was not the method that the customers had used to pay for the tickets. Despite the assurance given by Tony Fernandes three (3) years ago, there are still more than thousands of customers who are waiting to get back their refunds until today.

Moreover, the customers have also been complaining about the customer service provided by AirAsia. Since 2019, all customer queries and complaints were attended by their Chat Bot AVA, now known as “Ask Bo”. This is the only form of customer service provided by AirAsia to its customers. Thousands of frustrated customers have been complaining about the Chat bot because the replies that they get regarding any inquiry is just an automated response which does not solve their issues (Malaysia Now, 2021).

In the recent years, AirAsia’s success and the market position as the leading low-cost airline in Malaysia seems to be fading due to lack of importance being given to its customers and the technological innovations introduced by AirAsia which seems to be ineffective in providing the services required by its customers. As a business that relies solely in its customers, these issues have caused irreversible reputational damage to the airline which has resulted in a loss

of trust from the customers who were once loyal to AirAsia. This damage is significant, and it will definitely be a challenge to restore the trust of these customers. Therefore, the mechanism to be adapted in order for AirAsia to be able to restore the customer trust and loyalty becomes the main question in this case study.

In addition, a data sourced from Malaysian Aviation Commission (MAVCOM) regarding consumer complaints for AirAsia, Batik Air, Firefly as well as Malaysia Airlines is shown in Table 2.

Table 2: Customer complaints by airline for the period of January to June 2022.

	<b>AirAsia</b>		<b>Batik Air</b>		<b>Firefly</b>		<b>Malaysia Airlines</b>	
	Jan - Jun		Jan - Jun		Jan - Jun		Jan - Jun	
	2022	2021	2022	2021	2022	2021	2022	2021
<b>Communication of change in flight status</b>	21	2	2	-	-	1	16	1
<b>Customer service</b>	11	2	4	6	-	-	30	2
<b>Denied Boarding</b>	10	-	1	1	-	-	-	-
<b>Facilities/inflight services</b>	7	-	1	1	1	-	9	1
<b>Flight cancellation</b>	77	6	16	17	-	-	113	5
<b>Flight delays</b>	74	1	4	2	3	2	14	1
<b>Flight rescheduling</b>	151	1	10	2	2	-	69	4
<b>Frequent flyer program</b>	39	12	1	1	-	-	14	3
<b>Lounge</b>	-	-	-	-	-	-	1	-
<b>Mishandled baggage</b>	10	3	-	4	2	-	70	-
<b>Offloaded</b>	21	3	5	1	2	-	43	4
<b>Online booking</b>	63	6	18	3	7	-	42	3
<b>Others</b>	1	-	21	1	-	-	28	1
<b>Price of tickets</b>	7	3	-	-	-	-	8	2
<b>Refunds</b>	33	25	16	16	1	1	47	18
<b>Safety and Security</b>	-	-	-	-	-	-	3	-
<b>Special Assistance</b>	2	1	-	1	-	-	2	-
<b>TOTAL</b>	<b>527</b>	<b>65</b>	<b>99</b>	<b>56</b>	<b>18</b>	<b>4</b>	<b>509</b>	<b>45</b>

Source: Malaysian Aviation Commission (2022).

Based on the above data, AirAsia had received a total of 527 complaints (42.1%) followed by 40.7% against Malaysia Airlines. Meanwhile, Batik Air, formerly known as Malindo Air, received 99 complaints or 7.9% and Firefly, among all has received the least complaints with 18 complaints (MAVCOM, 2022). Data extracted from AirAsia's official Instagram page by the username @flyairasia generally indicated negative comments on the airline services. Passive analysis was used to obtain qualitative data regarding customer response to AirAsia's customer service experience. The data was collected by obtaining user generated comments posted @flyaiaraia between 8th September 2022 until 1st March 2023. A total of 14 posts were analysed and 488 comments were extracted from these posts.

From all the comments, it was clear that all the users who had commented were customers who had already used the AirAsia services. The users were complaining about them not having received their refund for months and even years for some people. The lack of customer service in providing information regarding their refund status was also a major concern. The reason why they had to opt for commenting on the posts of AirAsia was because their concerns were not attended by AirAsia on the actual customer service platforms. An example of the comment posted was by a customer under the username of *gemmasoric* (2022) regarding the refund issue stating:

“My flights were cancelled in 2020 by air Asia and they refuse to engage with me. Ignore emails, closing online cases without correspondence and refusing to engage with consumer protection. Air Asia is a SCAM who just steal your money. I will continue to post this everywhere every day until I receive my money back.”

Based on the analysis of comments made on the posts of @flyairasia, AirAsia customers have expressed dissatisfaction with the airline's customer service experience, particularly in the areas of refund issues, the use of the Chat Bot and flight delays/cancellations/rescheduling issues. With regards to the refund issues, customers reported waiting months or even years for refunds for cancelled flights, and some have accused the airline of being unresponsive or deceptive. This has led to frustration and distrust among customers.

Customers also expressed frustration regarding flight delays, cancellations, and rescheduling issues, citing a lack of clear communication and poor handling of these situations by AirAsia's staff. Customers who had to pay for alternate flights have experienced inconvenience and additional costs as a result. The use of the Chat Bot which is the main channel of Customer Service provided by AirAsia to its customers has found it unhelpful and frustrating to use. Customers complained about the lack of personalised customer service and the Chat Bot's inability to provide accurate information or resolutions.

Overall, the analysis indicates that AirAsia has severe issues with customer service and reliability, resulting in a loss of customer trust. The airline that was once a beloved choice among travellers has now become so unappalling that many people would rather pay more to travel with another airline so that they do not have to travel with AirAsia at all. To support these issues, customers' comments to AirAsia services were collected from its official social media Instagram account. The data was collected by obtaining user generated comments to the posts posted by @flyaiaraisa between 8<sup>th</sup> September 2022 until 1<sup>st</sup> March 2023. A total of 14 posts were analysed and 488 comments were extracted from these posts. A passive analysis was conducted to observe pattern of interactions (Franz et al., 2019) among customers based on their comments that were categorised as in Table 3 below.

Table 3: Customers' comments to the AirAsia post.

Categories	Number of Comments	%
Refund Issues	147	30%
Chat Bot	105	21.5%
Delay/Cancellation/Reschedule	35	7%
Reply from AirAsia	103	21.1%
Others (frustrated customers)	68	14%

Source: Hussain (2023).



It can be concluded that all the social media users who had commented on these posts were customers who had already used the AirAsia services. The users were complaining about them not having received their refund for months and even years for some people (Dalily, 2021). The lack of customer service in providing information regarding their refund status was also a major concern. The reason why they had to opt for commenting on the posts of AirAsia was because their concerns were not attended by AirAsia on the customer service platforms.

## DISCUSSION QUESTIONS

1. Based on the case, discuss the strengths and weaknesses of AirAsia.
2. Considering the post-pandemic era, the tourism industry is recovering and artificial intelligence technology is advancing. Suggest few strategies that AirAsia could adopt for its business sustainability.
3. If AirAsia decided to revive back their position by restoring customer trust, provide recommendations for AirAsia to fully focus on improving their customer service.
4. Discuss the importance of customer relationships management in service-based business.

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