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Garuda Indonesia: To becoming a distinguished airline

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Garuda Indonesia

To becoming a distinguished airline

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A recession is when you have to tighten your belt; depression is when you have no belt to tighten. When you've lost your trousers – you're in the airline business (Sir Adam Thomson, Founder and Chairman of British Caledonia, one of Britain's most successful independent airlines; www.british-caledonian.com).

In 2010, Limited Liability Company (in Indonesian language: Perseroan Terbatas (PT)) Garuda Indonesia (Garuda) (www.garuda-indonesia.com) commemorates its 61st anniversary. In the capital-intensive industry that is full of regulations and tight competition for a thin margin, this Indonesian State-owned Enterprise (SOE) managed to perform a turn-around, enabling it to change from an unprofitable company to a significant profit maker. In 2009, the net profit of Garuda reached Rp. 1,018 trillion (US\$1 = Rp. 9,400 – as of December 2009), higher than that of 2008, i.e. Rp. 975,049 billion. In addition, as targeted, Garuda also achieved a “four-star rating” for service quality from SKYTRAX (www.airlinequality.com), an independent institution which manages rating of the world airlines. In 2014, Garuda expects to achieve a five-star rating. It means as good as world-class airlines like Singapore Airlines, Cathay Pacific, or Qatar Airways:

This is the result of hard work of all people in Garuda!. Since the first time I joined, I always emphasized team work. One team, one spirit, one goal. It's impossible for me to do it all by myself! And neither for the Board of Directors! (Emirsyah Satar).

Emirsyah Satar, the President and CEO of Garuda in response to various compliments for the extraordinary performance of the company he has led since 2005. The strategy to achieve such exceptional performance was prepared in 2006 and consists of three stages (Exhibit 1). The first stage is survival (2006-2007), followed by turnaround (2008-2009), and then growth (2010 +). In 2010, the stage is where the company capitalizes its former initiatives through privatization program in the form of initial public offering (IPO) in preparation for achieving a sustainable growth in 2010 onwards.

As announced in Air Transport World online media (www.atwonline.com) last October, Emirsyah Satar – born in Minangkabau June 28, 1959 – has many plans for Garuda including higher profit, more aircrafts and routes, more significant role in the region and becoming a member of SkyTeam alliance. A quantum leap strategy (QLS) has been set since 2009 to enlarge the number of aircrafts from 52 in 2008 to 116 in 2014, which will increase the weekly domestic and international flight frequency from 1,671 flights in 2008 to 3,294 flights in 2014 (Exhibit 8). Operating revenues of Rp. 18.1 trillion at the end of 2008 is targeted to become Rp. 57.9 trillion with the net profit of Rp. 3,757 trillion in 2014.

Looking at its achievement, Garuda is now flying. Can it keep flying? Higher?

Disclaimer. This case is written solely for educational purposes and is not intended to represent successful or unsuccessful managerial decision making. The author/s may have disguised names; financial and other recognizable information to protect confidentiality.

History of Garuda

The history of Garuda began in 1940s, where Indonesia was fighting against the Dutch. At that time, the airline was known as Indonesian Airways. The first Garuda's aircraft was Dakota DC-3 (registered RI-001) named *Seulawah* or *Gunung Emas*. The name was taken from a mountain in Aceh (now known as the province of *Nangroe Aceh Darussalam*). During the period of struggling for independence, Garuda Indonesia flew special routes as a part of its support to revolution against the Dutch.

While undergoing maintenance in India, the RI-001 airplane was unable to return to Indonesia because the Dutch army launched the second military aggression. At the same time, the Burmese Government was in need of air transportation and, in order to obtain some fund to employ the airplane crew, it was decided that RI-001 be landed to the Burmese Government. In January 26, 1949, RI-001 was flown from Calcutta to Rangoon and given the name "Indonesian Airways".

The name "Garuda" was given by the first President of the Republic of Indonesia, Soekarno. He reciting a line of a Dutch version poem made by a well-known poet during the Dutch colonialism era, Noto Soeroto, *Ik ben Garuda, Vishnoe's vogel, die zijn vleugels uitslaat hoog boven uw eilanden* ("I am Garuda, Visnu's mount, who spreads my wings over the archipelago"). Thus, on December 28, 1949, the historic flight occurred where the DC-3 aircraft registration code PK-DPD, Dakota RI-001, flew President Soekarno from Yogyakarta to Kemayoran Airport, Jakarta, for his inauguration as the President of the Republic of United States of Indonesia (*Republik Indonesia Serikat* – RIS; in 1950 changed into the Republic of Indonesia). On the body of the aircraft was printed a new logo, Garuda Indonesian Airways.

The development of scheduled airline business in Indonesia

During 1949 until 1962, Garuda served as the only commercial air transport company in Indonesia, taking passengers from one city to another, both domestically and abroad. During this era, Garuda became a respected airline in Asia. In April 1962, the Government of Indonesia established a SOE called Merpati Nusantara (Merpati) as a government-owned airline serving pioneer routes. The main task of Merpati was to establish regional air transportation as well as multipurpose flights, and to promote anything related to air transportation in its broadest sense.

In early April 1969, there came Mandala Airlines which was followed by Bouraq Airlines in April 1970. Despite several "competitors", however, firm regulation of the Indonesian Government has enabled Garuda to walk freely in the scheduled airline industry in Indonesia. For example, until 1990 only Garuda Indonesia was allowed to operate jet aircrafts, while other airlines were permitted to use propeller aircrafts only. Likewise, the ticket pricing policy was fully determined by the government.

In 1986, Garuda Indonesia changed its logo from red-orange color into gradation of blue color, which was then changed a bit more to give fresher and modern impression as shown in Exhibit 2. This marked the change effort of Garuda to refine its image. The company's name was shortened from Garuda Indonesia Airlines into Garuda Indonesia and the flight code was changed from GIA into GA. Unfortunately, such logo modification and image refinement were not followed by consistent service improvement. Even worse, Garuda was often considered as the acronym of Good and Reliable until Delay Announced.

In 1990, domestic airlines have for the first time the opportunity to operate jet aircrafts. This was started by Sempati Air, a chartered airline established in December 1968 by PT. Tri Usaha Bhakti (Truba) of Yayasan Kartika Eka Paksi, which apparently belonged to the highest commanders of Indonesian Army. The aggressive step of Sempati Air, which strived to become a professional private commercial airline, was driven by the incorporation of two Indonesian leading private companies whose owners had a close connection to the ruler of Indonesia, namely Humpuss Group, owned by the youngest child of the second Indonesian President, General (Ret.) Soeharto, and Nusantara Ampere Bhakti (Nusamba Group) owned

by the family and foundation affiliated with the Indonesian President and the President's best friend, Mohamad Bob Hasan.

Sempati Air was initially equipped with F100 having registration code PK-JGA, which flew fat route Jakarta-Medan and then Jakarta-Batam. Recorded in 1993, Sempati Air had five units of turboprop Fokker F27 and seven units of fanjet Fokker F100 plus six units of Boeing B737-200. With this new armada, Sempati Air grew into an airline that promised speed and punctuality and became a respected private airline in Indonesia. However, due to mismanagement, the airline, which was once perceived by consumers as a better business airline than Garuda, was finally declared bankrupt in July 1999.

Despite the presence of several local airlines and tough competitors, Garuda did not show a convincing capability to become a competitive national airline. This company was notorious for delay, unfriendly employees, and inefficiency. Therefore, when US Dollar tragically beat Rupiah (from US\$1 = Rp. 5,700 – in 1997 to US\$1 = Rp. 14,900 – in 1998) and when the oil price skyrocketed, Garuda unsurprisingly suffered from major losses and debts.

In 1998, the government of Indonesia assigned Robby Djohan, a famous banker in Indonesia, to lead Garuda. Within six months, Robby – who is well-known for being disciplined and determined – was able to stop the bleeding and cure the critical cashflow of the company. However, Robby Djohan was then asked by the Indonesian Government to take care of Bank Mandiri which was just established following the merger of four state-owned banks. Based on Robby's suggestions, in 1998, Abdulgani, also a banker, was appointed as his successor. Abdulgani who has been aware of the emergence of low cost carrier (LCC) decided to develop LCC under Garuda's management, which was named Citilink (see Exhibit 3 regarding SBU and subsidiaries of Garuda Indonesia). Citilink homebase is Surabaya and is now serving flight routes to several major cities in Indonesia.

In 2001, the Indonesian Government introduced deregulation to the scheduled airline industry, which allowed the new players to enter the airline industry by having two aircrafts only. Such deregulation was enthusiastically appreciated by all groups of interest. Therefore, the number of commercial airlines increased from only four to more than 25 scheduled airlines. The LCC phenomenon was warmly welcome by the market because at that time Indonesia just came out of the crisis in 1998. Before 2000, the air ticket price for Jakarta-Surabaya reached Rp. 700,000 (in 1999 US\$1 = Rp. 7,810), so that only a small group of people who could afford travelling by plane. With the presence of LCC, there was a company that offered the same route for a price of Rp. 165,000. This price was the same as or even lower than the railway ticket for the same route. Meaning, many passengers who formerly used land transport changed to aeroplane. However, Garuda Indonesia decided not to follow suit in cutting the price. Instead, it focused on customer segments that matched its competency as a full-service airline.

In fact, not all airlines offering a low fare ticket could automatically survive. It is because operationally, they are not consistent in running a low-cost business model. In other words, an airline offering low-fare ticket will get a viable margin if its business model is really low-cost. If there is no competency in low-cost business, it is only a matter of time for the airline to lose the competition and withdraw from the industry.

Still in 2001, Garuda Indonesia communicated a brave message to the public, i.e. "Now Garuda Is Better Off". This is a very elegant way for Garuda Indonesia to admit its weaknesses in the past. This communication is not only slogan because Garuda Indonesia indeed did some real improvement to satisfy the customers.

Although Garuda Indonesia indicated an increasingly good image, it was not that easy to transform the company with a debt of nearly 2 trillion rupiah (in 2001 US\$1 = Rp. 10,265). The option was to file bankruptcy or to continue the operation of the company. However, the third President of Indonesia, BJ Habibie, decided that the government would take over the debts of Garuda Indonesia. Thanks to the hard work of the management, in 2002 Garuda Indonesia recorded a gross profit of Rp. 572 billions and Garuda Indonesia received an award as the best airline from Schipol Airport, The Netherlands.

Furthermore, the tragedy of Bali Bombing I on October 12, 2002 which killed around 202 people and Bali Bombing II which occurred simultaneously in three places on October 1, 2005, interspersed with the fear of severe acute respiratory syndrome (SARS) which was very contagious in the world, hit Garuda hard. By the end of 2004, Garuda suffered from a loss of about Rp. 811 billions (in 2004 US\$1 = Rp. 8,985).

Strategic issues in airline industry

Safety regulation

Airline Industry is a regulation-intensive industry. It is because, there is a great deal of regulations to observe by each airline company. The regulations are generally related to three subjects, namely state's sovereignty, flight safety, and economy.

Regulations pertaining to state's sovereignty mainly affect the flights which serve international routes. Manual on the Regulation of International Air Transport (Doc 9626, Part 4) issued by International Civil Aviation Organization (ICAO) – an institution under UN that adopts aviation standards and recommended practices, prevention of illegal intervention, and facilitation of inter-state flight procedure for international civil aviation – contains nine freedoms to be met by airline companies in conducting their operations (Table I). The nine freedoms will eventually affect the operational cost and freedom of a certain airline in performing its flight plan.

The following regulation pertains to flight safety, which is the prime factor in aircraft operation. Besides, the safety factor mentioned even shall be considered and calculated since the design phase. Standard of aircraft operation, personnel and supporting apparatus have been stipulated in civil aviation safety regulation (CASR), which is actually the civil flight safety regulation applied in Indonesia. The regulation stipulates all works of designs, manufactures, and operation of aircraft as well as its supporting apparatus, maintenance, and other operational definitions, therefore, certain aircraft shall be prepared at a very tight and high level of safety and security, far more intense than any other public transportation modes.

Nevertheless, all those mentioned shall be related parties' accountability to perform as best as possible. Both airlines and authorized party, which is general directorate of air transportation, shall supervise the application. It is also general directorate of air transportation that authorized to issue certificate of airworthiness, a certificate stating certain aircraft is feasible to fly and be prepared or operatable.

Table I Freedoms of the air apply to commercial aviation

<i>Freedom</i>	<i>Description</i>
1st	The right to fly over a foreign country, without landing there
2nd	The right to refuel or carry out maintenance in a foreign country on the way to another country
3rd	The right to fly from one's own country to another
4th	The right to fly from another country to one's own
5th	The right to fly between two foreign countries during flights while the flight originates or ends in one's own country
6th	The right to fly from a foreign country to another one while stopping in one's own country for non-technical reasons
7th	The right to fly between two foreign countries while not offering flights to one's own country
8th	The right to fly between two or more airports in a foreign country while continuing service to one's own country
9th	The right to do traffic within a foreign country without continuing service to one's own country

Note: Carrying paying passengers, transporting cargo or mail

Source: Manual on the regulation of international air transport (Doc 9626, Part 4) www.icao.int/icao/en/freedoms_air.htm

In fact, the air transportation mode is a very safe mode in compared with any other transportation mode. Possibility of one could be dead in certain flight is varied between 1 compared with 7.71 million for 25 airlines which acquired world's best safe airlines, to 1 compared with 558,000 for 25 airlines which acquired world's worst safety airlines (http://en.wikipedia.org/wiki/Air_safety). However, data of Komite Nasional Keselamatan Transportasi (KNKT)/Indonesian Transportation Safety Committee states that in Indonesia – from 2001 through 2006 – there have been flight accidents up to 152 times or average 25.33 accidents a year. It is a very high figure for flight safety criteria.

As presented above, there was a deregulation in airlines industry in Indonesia, which caused an extraordinary growth of national airlines industry. The growth was outstanding so that it has depressed other transportation modes. At the end of 1990s, the number of airlines was not more than ten companies with total passengers of approximately 6.3 millions. However, in mid 2009, the number of airlines for scheduled transportation has been multiplied five times, to more than 50 companies (Exhibit 4). Then, the mentioned airlines companies operated at least 489 aircraft units, with number of domestic passengers exceeds 37 millions people. Nowadays, all big cities in 33 provinces in Indonesia have already been served by flight routes. The rapid growth of air transportation in Indonesia is not coincided with the absence of problems. Numerous problems have frequently arises in line with advance of transportation mode in this sector, and lots of them pertaining with availability of human resources as well as aircrafts maintenance and management.

No wonder, that afterwards there have been a number of accidents; from the tragic incident of the disappearance of Boeing 737-400 PK-KI 574 owned by private operator Adam Air on January 1, 2007 in Majene sea areas, West Sulawesi Province, ablaze of GA 200 Garuda on March 7, 2007 in Yogyakarta to numerous findings on aircraft damages/breakages which were very disgraceful. As a result, in accordance with ICAO recommendation, as of July 6, 2007, all Indonesian airlines companies are banned to make fly to European Community countries.

As a response, Indonesian Government issued a series of regulations which primarily tighten flight safety rules in Indonesia. As a result, Indonesian airlines companies concurrently made serious reformations. Eventually, on July 14, 2009, four national airlines; Garuda Indonesia, Mandala Airlines, Airfast Indonesia, and *Ekspres Transportasi Antabenua* (Premi Air; www.flypremiair.com) have been delisted from the blacklist of flight prohibition to European Community countries.

In 2009, the Government of Indonesia also issued Law No. 1 of 2009 which provides that only an airline having Indonesian legal entity status, which is owned by state-owned enterprise (SOE, BUMN), regional government-owned enterprise (RGOE, BUMD) or a private company, cooperative's legal entity in the form of PT is allowed to establish an airline. This law has to be enforced because in fact, there are some airlines that are not capable of managing the air transport business professionally, whereas such a business requires professional personnel in addition to firm regulation (fully regulated), large capital (capital intensive), high technology, law enforcement.

Based on the Ministerial Decree No. 25 of 2008, to establish a scheduled-service airline requires a minimum of two aircrafts and three controlled aircrafts, while special cargo airline requires a minimum of two controlled aircrafts. Those requirements are deemed insufficient; therefore, Law No.1 of 2009 stipulates that scheduled service airlines shall have at least five aircrafts and control a minimum of five aircrafts which are capable of sustaining the commercial airline business in accordance with the routes being served. On the enforcement of Law No. 1 of 2009, Airlines having scheduled service or non-scheduled service license may continue their businesses pursuant to the permits they own and are obliged to make adjustment with the new regulation not later than three years following the enactment of the law. For legal entities including SOE, RGOE and private companies that will apply for business permit, the law is effective as from January 1, 2009.

ASEAN open sky policy

In 2015, all countries incorporated in ASEAN are expected to own international airports. It is an implementation of "open sky" agreement that has been endorsed by ASEAN leaders in ASEAN declaration in October 2003 at Bali, Indonesia. The implementation of open sky agreement has been conducted gradually. In 2015, all countries in ASEAN region are targeted to be required to apply.

The open sky policy established in ASEAN declaration was an advanced development of cooperation in areas of security, economy, and social-culture among ASEAN states, primarily in airlines industry. This denotes that there would be an open competition among airlines companies of each country in dealing with airlines market within ASEAN region.

Up to year 2008, Indonesia acquires 151 airports which are controlled by Technical Administration Unit of the Ministry of Transportation (125 airports), SOE PT. Angkasa Pura I (13 airports) and SOE PT. Angkasa Pura II (13 airports), of which 26 airports are classified as international airports. Therefore, Indonesia which owns the largest amount of international airports, largest region as well as largest amount of population (more than 230 million people) would be a great opportunity for any other ASEAN states in seizing profits by the concerned policy. In comparison with Singapore, who only has one airport and Malaysia who owns six airports but only two airports already have been liberated, the composition that Indonesia owns, therefore, clearly incomparable with the two countries/states.

Therefore, besides taking into account profit potentials may be acquired by this open sky policy, the Indonesian Government and domestic airlines companies shall be aware of the airlines market share threat within ASEAN region as well as domestic airlines market share. It can be said, that this open sky policy is one of possible means to penetrate airlines market in Indonesia, who acquires large area and lots of airports facilities.

This airlines liberalization policy or ASEAN Open Sky Policy shall not only apply for passenger aircrafts, but also for cargo aircraft. Ministry of Transportation has assigned seven international airports that would serve the traffic of mentioned cargo aircrafts. As for passenger aircrafts, the Indonesian Government planned to assign other five airports to be liberalized in order to comply with this open sky policy. The five airports concerned are; Soekarno-Hatta Airport in Jakarta (DKI Jakarta Province), Kualanamu Airport in Medan (North Sumatera Province), Juanda Airport in Surabaya (East Jawa Province), Ngurah Rai Airport in Denpasar (Bali Province), and Hasanuddin Airport in Makassar (South Sulawesi Province). The Indonesian Government also has authorized five domestic airlines: Garuda Indonesia, Mandala Airlines, Sriwijaya Air, Lion Air, and Batavia to take advantage of the air space without any transporting rights requirements, in order to enhance international airlines market in ASEAN countries.

Essentially, Indonesian Government is not exaggeratedly uneasy on the application of ASEAN open sky policy. It is because, the growth in the number of passengers of domestic flights remains approximately at 10 percent per year. This figure is above the average economic growth of Indonesia during the last three years, which is 4.5 percent of Asian average, 5.1 percent, and represents the third country with fastest economic growth after China and India. Therefore, the domestic airlines may still enjoy profits maximally. By the 10 percent growth per year mentioned, it is predicted that in year 2015, the number of domestic flight passengers may reach 77.6 millions. In addition, by the purchase of lots of new aircrafts, it is believed that nation's airlines may be capable of competing with foreign airlines in seizing domestic airlines market shares either overseas flight routes. Furthermore, concerning domestic airlines, the cabotage principle would remain applied. It is stipulated that any airlines would entered inter-cities routes in Indonesia are required to be modified as Indonesian corporate body. Therefore, the required minimum 51 percent single majority ownership of the concerned company's shares shall be local investor.

Oil price

According to International Air Transportation Association (IATA), airline industry is very susceptible to labor cost, fuel cost, and borrowing cost. Historically, labor cost always serves

as the cost component number 1. However, during IATA economic briefing in February 2010, it was stated that fuel cost is now the cost component that is bigger than labor cost.

In 2008, fuel continued to be the largest single cost item for the global airline industry. Based on a sample of 45 major global passenger airlines, fuel represented about 32.3 percent of the total operating cost, up from 27.4 percent in 2007. These numbers are consistent with global industry fuel share so this sample can be taken to be representative. Table II shows that in 2008, labor's share of airline's operating costs in Asia Pacific was lower than in North America and Europe, reflecting the relatively lower wage level in that region. However, with relatively lower labor costs, fuel accounts for a much higher proportion of total costs (36.7 percent) in Asia Pacific than elsewhere. In May 2010, the fuel oil price ranged from US\$73.9 to US\$74.13 with the fluctuation of fuel prices from 2005 to 2009 as shown in Figure 1.

Technology

There are three technological aspects that affect the scheduled airline industry, namely internet, aircraft technology and air-transport supporting technology. The internet has had a notable affect on the airline business. In the 1980s airline revenues were dependent on travel agents, who primarily took a cutout of every ticket. This was costly for both the airlines and the customer. The industry found itself struggling with a third-party cost it could not effectively control.

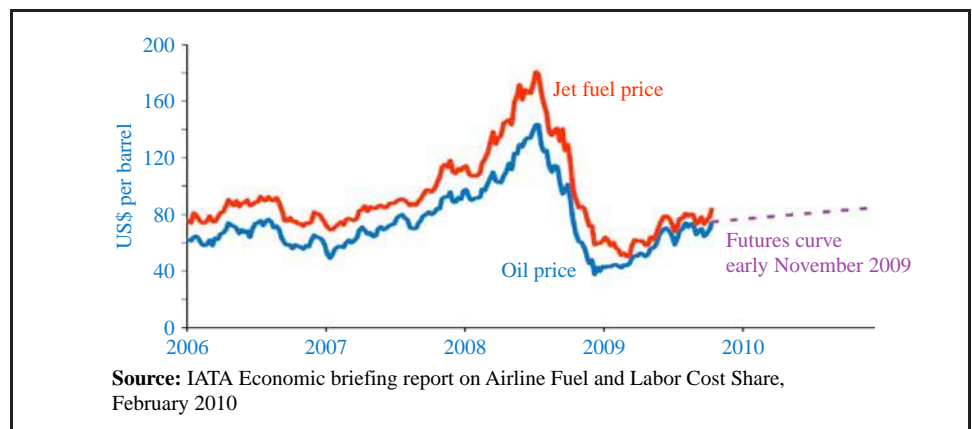
For the customer, the ability to individually research, negotiate and purchase tickets directly has altered the competitive equation between buyer and seller. Before the Internet, ticket choices were primarily limited to the major airlines, and regional airlines were not able to market effectively against the larger carriers. However, once smaller carriers and customers could connect effectively, this synergy created a host of new, cheaper travel options. The rise of participating consumer review content will also throw a large spotlight on product and service standard differences between airlines. Passengers will develop a good knowledge of

Table II Percentage share of airline operating costs, by region of airline registration (%)

	North America		Europe		Asia Pacific		All major airlines	
	2001	2008	2001	2008	2001	2008	2001	2008
Labor	36.2	21.5	27.2	24.8	17.2	14.7	28.3	20.1
Fuel	13.4	34.2	12.2	25.3	15.7	36.7	13.6	32.3
Aircraft rentals	5.5	3.0	2.9	2.5	6.3	4.5	5.0	3.5
Depreciation and amortization	6.0	4.5	7.1	5.7	7.4	7.8	6.7	5.9
Other	38.9	36.9	50.7	41.8	53.4	36.3	46.4	38.2

Source: IATA economic briefing report on airline fuel and labor cost share, February 2010

Figure 1 Oil price and jet fuel price



Source: IATA Economic briefing report on Airline Fuel and Labor Cost Share, February 2010

the service and product to expect of each airline. For example, crew service standards, seat pitch, meals offered, drinks offered and so on. With that knowledge and insight, they will make their choices accordingly. Airlines that treat passengers with indifference will find it much harder to retain existing passengers and to attract new ones.

The following technology comes from the aircraft suppliers. Two aircraft suppliers dominating the world airline industry are Boeing (www.Boeing.com) and Airbus (www.Airbus.com). Boeing is the world largest aircraft manufacturer, not to mention its success after 1997 in acquiring McDonnell Douglas, a company formed from a merger between two aircraft manufactures – McDonnell and Douglas.

Until December 2009, Garuda has 67 aircrafts, ten of which are Airbus A330-300, and the rest includes various types of Boeing (Exhibit 5). Lion Air, the fastest growing domestic airlines company with the largest market share in Indonesia, owns 51 aircrafts including a wide variety of Boeing. Among others are 34 Boeing 737-900ER which are already in operation and parts of 178 Boeing 737-900ER aircrafts ordered for the next two years. Foreign airlines like Singapore Airlines (www.singaporeair.com) operates a fleet of 85 Boeing aircrafts of various types and 23 airbuses, with newer A380s, A330s, and 777-300ERs that carry more passengers at a lower cost replacing their Boeing 747-400s and 777-200s. Meanwhile, Malaysia Airlines (www.malaysiaairlines.com) operates 67 Boeings of different kinds and 14 airbuses.

The development of aircraft manufacturing technology focuses on fuel efficiency and flight safety improvement. The development in aircraft material has enabled the aircraft manufacturers to realize their ambition to produce fuel-efficient aircrafts with farther travel-distance yet reducing carbon emission.

The LCC phenomenon

“Low cost” flight or LCC is also often called as budget airlines or no frills flight or discount carrier. LCC is a unique flight model with lower operating-cost strategy. Through cost efficiency at all aspects, the LCC performs things beyond what common airlines usually do. Airlines in general render additional value-added services by providing catering, newspaper or magazine, in flight entertainment, in flight shop, lounge, free taxis after landing, exclusive frequent flier services, and so forth. On the other hand, LCC eliminates traditional airline services by reducing the catering, minimizing reservation by means of I/T so as to simplify and speed up the service. This minimal (efficient) service results in the cost decrease. However, safety factor is maintained tight to guarantee the passenger safety till the destination. Hence, LCC is a flight business redefinition that provides affordable ticket price with minimum flight services. The bottom line is that the offered product promotes low-cost principle to press and reduce the operational cost so that it can seize broader low market segment.

The beginning of LCC is pioneered by Southwest Airlines that was founded by Rollin King, Lamar Muse, and Herber Kelleher in 1967 in the USA. Southwest phenomenon has become object of flight business study that is very interesting to discuss in numerous business schools around the world. Efficiency covers all aspects including price (cheap), technology, cost structure, route, and various operational equipment in use. The success of Southwest was then adopted by other airlines such as Vanguard, America West, Kiwi Air, and Ryanair incorporated in 1990, Easyjet founded in 1995, Shuttle (subsidiary of United Airlines), MetroJet (subsidiary of US Airways), and Delta Express (subsidiary of Delta), Continental Lite (subsidiary of Continental Airlines). This LCC model was also adopted in Asia, marked by the emergence of Air Asia in 2000 with its headquarter in Malaysia, Virgin Blue in Australia, and Lion Air and Wings Air (subsidiary of Lion Air) in Indonesia. The characteristics of LCC company can be seen in Exhibit 6.

In Indonesia, there is none that implement real LCC business pattern, because operational cost of airlines that reputed as LCC in Indonesia like Lion Air and Wings Air are still above average of LCC airlines in general. Many financial analysts keep stated that the cost per available seat mile still above the threshold of standard operating cost of a real LCC, though its price structure has complied with LCC concept hence it might be more appropriate being

called as low fare carrier (LFC) as it only offer cheap price but not fully agreed with LCC principles where the cost structure and productivity of the airline is still categorized expensive.

With the presence of LFC concept are benefited a lot potential customers, as they provided with choices in utilized air transportation with cheap cost and fast. Often the price is much cheaper than land transportation by bus or train that required longer time. For instance, bus trip from Jakarta to Denpasar for 24 hours required cost for Rp. 350,000 while using plane, for the ticket price offered start from price Rp. 269,000 with traveling time 1.5 hours. Even at certain occasions the Air Asia (Indonesia) offers free seats to Bali by only pay the administration cost for Rp. 199,000 only. This phenomena have "Make People Can Fly" in line with jargon of Lion Air, which aware us that presently everyone can fly with affordable price and no longer as old time where utilization of air transportation being monopolized by middle to upper society.

The development of flight business to the future still faced difficult challenges, considering the fuel price (avtur) that keep increasing that is apparently the biggest cost component of the total operating cost in flight business beside plane maintenance. As consequences by the increasing operating cost, airline is forced to increase the tariff. Therefore, the real LCC business strategy that aggressively able to make saving on fuel consumption is very appropriate to be implemented in Indonesia by considering the potential customers in Indonesia is very price sensitive, hence the customer tend to choose airline that offers cheap price, however, the LCC airline still gain profit from its business. Therefore, to the future it is very possible that only airline applied LCC pattern that will be more able to survive than other airline with traditional service pattern.

However, on April 14, 2010 the government has passed a regulation of new upper tariff threshold where the government categorized airline that operate in Indonesia based on three types of service. Airline that provide maximum standard services is allowed to apply maximum upper tariff threshold up to 100 percent, while for the middle is 90 percent from upper threshold, and those provide minimum services or no frill airline only allowed to apply 85 percent of upper tariff threshold. The amount of upper tariff threshold that allowed to charge is being adjusted with services that provided to the passenger. The government gives deadline until June 2010 to the airlines for adjusting the upper tariff threshold according to the new regulation to its ticket reservation system. Responded to the government regulation, all airlines in Indonesia will increase its tariff, even Sriwijaya Air – one of the new comer private-owned airlines company in Indonesia – reaffirm to prepare it self to enter premium class and become challenger of Garuda.

The airlines alliance

Globalization has forced many countries around the world to implement free trade policy, privatization, and an open market as well as an open sky policy. This has resulted in fierce competition in the commercial airline business between countries. Consolidation and alliances between airlines have become necessary in order to create advantages in route networks which one airline could not absorb single-handedly due to the exorbitant expenses that would be incurred and resources that would be involved. An airline alliance is an agreement between two or more airlines to cooperate on a substantial level. Alliances are formed in order to assist member airlines in their cost synergies which include an increase in bargaining power in cases where there is joint purchasing of spare parts and services, joint reservation and sales offices and joint airport lounge facilities. Alliances provide a network of connectivity and convenience for international passengers and international packages. Alliances also provide convenient marketing branding to facilitate travelers making inter airline code-share connections within countries. This branding goes as far as to even include unified aircraft liveries among member airlines. The three largest passenger alliances are the Star Alliance (www.staralliance.com), SkyTeam (www.skyteam.com), and Oneworld (www.oneworld.com) (Table III).

Table III Airlines alliance

	<i>Star alliance</i>	<i>Sky team</i>	<i>One world</i>	<i>Rest of industry</i>
Founded	1997	2000	1999	–
Member	27	11	11	–
Passengers per year	623.53 million	462 million	328.63 million	489 million
Market share (2008; ^ = %)	29.3	20.6	23.3	26.9

Source: http://en.wikipedia.org/wiki/Airline_alliance

Market

As one of the most cyclical industries, it is not surprising that the financial performance of airlines is closely tied to economic growth in the network areas they serve. But it is unique to this industry that those network areas are tied to local conditions. Although there has been further development of alliance co-operation, joint ventures and some mergers and acquisitions it is the case that airlines are still highly dependent on the traffic generated by their local economies and trade lanes. This is in contrast to many of the companies listed on major stock exchanges that generate their earnings from across the globe; these companies are not restricted by the market and ownership rules that constrain airlines. As a result, the airlines doing well in today's environment are those in Asia and Latin America where economic growth has revived the most. The weakest markets in Figure 3 below are clearly across the North Atlantic and within Europe, where the economic recovery has faltered, under pressure from consumer debt and still weak bank balance sheets.

Travel has diverged dramatically by seat class as well as market. Economy travel is within a few percentage points of its early 2008 peak levels. Premium travel remains 17 percent below. The concern had been that this was a permanent shift by business travelers to cheaper seats. The good news is that the decline in premium appears to be due to the unprecedented cyclical decline in world trade and financial markets, and some upturn is evident, as Figure 4 below indicates. The bad news is that the cyclical upturn is not expected to regain the pre-“Great Recession” trend line, given debt problems in the west. Moreover, yields may have suffered some structural decline. Business travelers still want full service on

Figure 2 Growth in passengers numbers by market

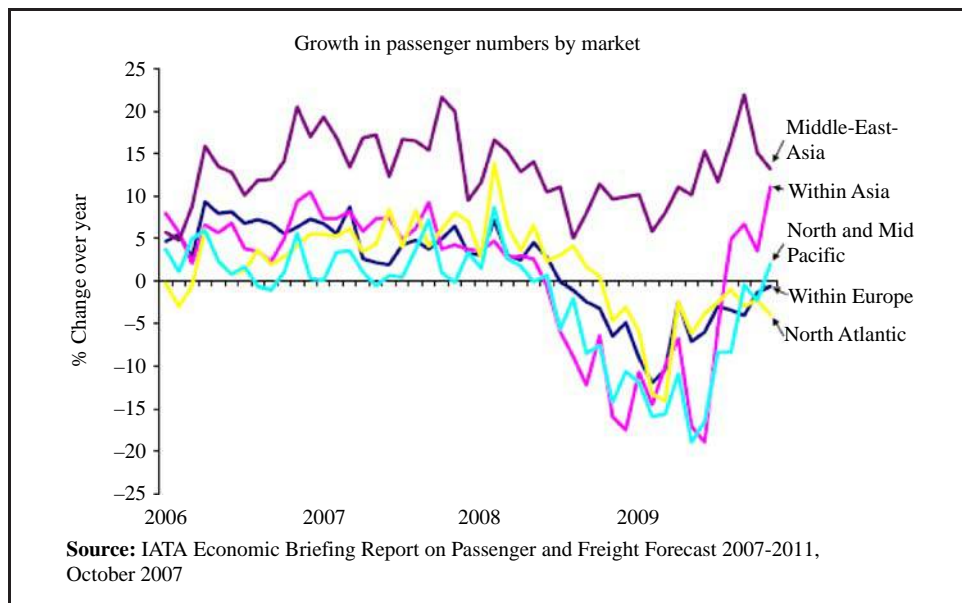
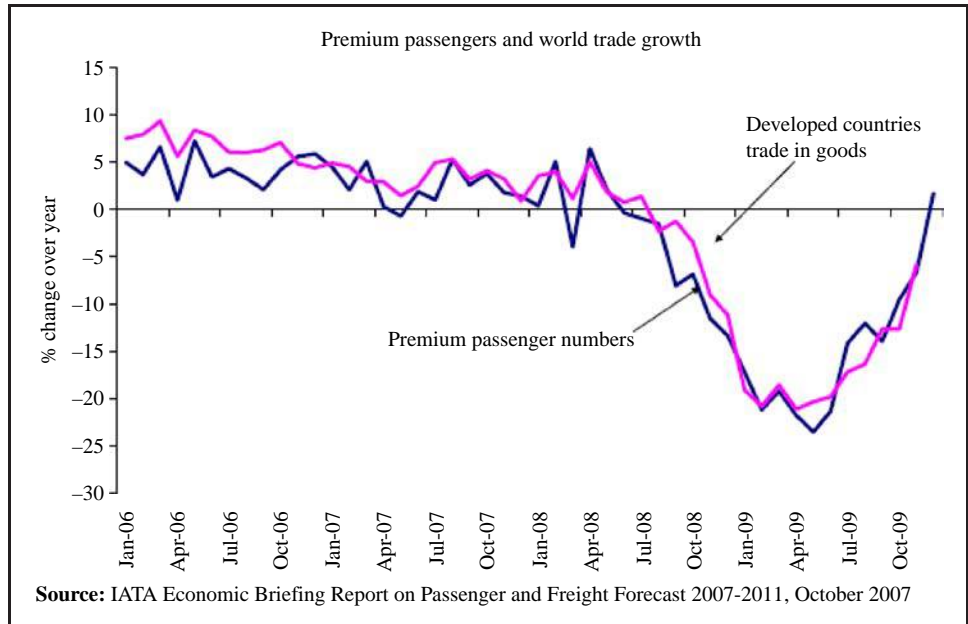


Figure 3 Premium passengers and world trade growth



long-haul, but corporate buyers are not prepared to pay as much. Premium yields have picked up but are still 20 percent below early 2008 levels.

During 2005-mid 2009 period, service performance of Indonesia air transportation keep experienced improvement. Number of national scheduled business air transportation fleets that being operated increasing from 214 units to become 489 units. The amount is predicted will keep experienced significant increase. Up to April 2009, number of domestic passengers reached 41.1 million people (Table IV) and international passengers reached 4.5 million people (Table V), while for cargo services up to April 2009 is reached 372.1 thousand ton and international cargo reached 46.7 thousand tonnes. The increase on International passenger amount mainly caused by the increase of Indonesian citizen that traveling abroad that being motivated by business activities and the freed of fiscal for owner of tax identification number. Moreover, international businessman and tourist factors that return to its country also effected, in line with the increase on international tourist visit to Indonesia. Number of international tourists are reached 6.42 million people with state income reached US\$7.37 billion. Almost 67.5 percent of total those international tourist are utilized air transportation.

The increase in domestic passenger amount is caused by among others, capacity improvement, decreased ticket price, and the increase on numbers of newly open flight

Table IV Domestic passengers' traffic

No	Description	Unit	2004	2005	2006	2007	2008
1	Aircraft KM (000)	(ooo)	201,107	245,350	255,008	289,723	268,333
2	Aircraft Departure	Times	281,824	343,825	339,327	484,128	340,480
3	Aircraft Hours	Hours	356,763	435,251	460,204	510,144	466,745
4	Passenger Carried	Passenger	23,763,950	28,992,019	34,015,981	39,162,430	37,350,688
5	Freight Carried	Ton	208,902	254,860	268,495	288,392	331,265
6	Passenger KM	(ooo)	23,623,779	28,821,011	36,469,337	41,761,157	44,818,953
7	Available Seat	(ooo)	30,377,683	37,060,773	46,541,982	56,764,846	55,574,400
8	Passenger L/F (%)	(%)	77.77	77.77	78.36	73.57	80.65

Source: Transportation statistics 2008 – ministry of transportation, Indonesia

Table V International passengers' traffic

No	Description	Unit	2004	2005	2006	2007	2008
1	Aircraft KM (000)	(ooo)	53,597	59,054	47,523	50,356	67,038
2	Aircraft departure	Times	25,573	28,570	27,767	29,275	37,152
3	Aircraft hours	Hours	79,295	84,734	70,042	74,439	97,326
4	Passenger carried	Passenger	2,757,344	3,022,280	2,963,776	3,188,893	4,099,786
5	Freight carried	Ton	50,429	53,997	77,864	42,322	42,321
6	Passenger KM	(ooo)	7,327,167	9,586,521	7,859,611	8,531,826	10,712,568
7	Available seat	(ooo)	12,064,739	14,654,972	11,501,349	11,313,905	14,545,086
8	Passenger L/F (%)	(%)	60.73	65.41	68.34	75.41	73.65

Source: Transportation statistics 2008 – ministry of transportation, Indonesia

route. Factor of ticket price is considered as the determinant factor, as ticket price ticket more affordable, in particular on market segment that being serviced by low fare and low cost flights.

To the future, for domestic flight Ministry of Transportation set target of passengers amount is: 2010 for 48.18 million, 2011 for 53 million, 2012 for 58.30 million, 2013 for 64.13 million, 2014 for 70.55 million, and 2015 for 77.60 million passengers. While target set for domestic cargo is: 2010 (430.8 kilo ton), 2011 (473.9 kilo ton), 2012 (521.3 kilo ton), 2013 (573.43 kilo ton), 2014 (630.78 kilo ton) and 2015 (693.86 kilo ton).

In the last 2009, Lion Air became airline that flight the most domestic passengers, as Lion Air transported 13.3 million passengers or 30.7 percent of total passengers amount being transported during 2009 (for 43.5 million passengers). Previously in 2008, Lion Air transported 9.21 million passengers. The increase is occurred mainly due to Lion Air keep increase its planes numbers, flight frequency, and number of routes. Recently, it has just brought three units of ATR 72-500 to service flights in Eastern part of Indonesia. Second position is held by Garuda Indonesia that flight 8.39 million passengers or 19.28 percent of the total passengers. Being followed by Batavia Air that flight 6.10 million passengers or 14.02 percent of total. At this first quarter of 2010, Lion Air market share is jumped up to 41.9 percent. While Garuda decrease slightly to 19.1 percent, in the meant time position of Batavia Air is replaced by Sriwijaya Air with market share for 15.9. Though, with different market segments, but it seemed the competition among airlines is focusing on premium and full service segments such as Garuda and other airlines that catch medium segment is unavoidable.

For international flight, during 2009 Air Asia Indonesia is the holder of the biggest market share by transported 406,571 passengers or 46.9 percent. The next position is held by Garuda that able to fly 295,565 passengers or 34.1 percent, the next is Lion Air owned market share 14.2 percent with passenger amount 123,170. Lion Air has started its international route expansion since this February 2010 by increase flight frequency to Jeddah, however, for two years ahead Lion Air is still focused to consolidate its domestic and regional market.

This 2010 is seemed to become a year where many local airlines open international routes. Beside has opened route to popular international destinations such as Singapore, Kuala Lumpur, Bangkok, Hong Kong, Macau, and Jeddah, several local airlines were also managed permits for flights to China, Japan, and Australia at the latest end of this 2010.

Especially, for Hajj, up to date Garuda is still the only local airline that transport regular and plus Hajj passenger in Indonesia. Though the government based on approval from house of people's representative has opened opportunity for private airlines to enter Hajj transportation business, there is no national private airline that interested. Lion Air as one of two Indonesia airlines that possessed permits to land in Saudi Arabia is not yet shown its serious interest to enter the lucrative business. Last year, Garuda transported Hajj pilgrims from embarkation of Banda Aceh, Medan, Padang, Palembang, Solo, Balikpapan, Banjarmasin, Makassar, Surabaya, and Jakarta except West Java. In 2008,

Garuda transported 302 flight groups with number of 259,000 pilgrims. While in 2009, Garuda transported 300 flight groups with number of pilgrims increased to 264,000 persons.

Supply of pilot and other skilled personnel

The rapid increase on number of airlines and planes in Indonesia has caused increase demands for professional personnel such as pilot, technician, steward, and so forth. Currently, in Indonesia there are seven flying school with capacity to graduate 100-150 pilots per year. While demand for national airline pilot either scheduled or chartered are reached 500 pilots per year. That is why since this 2010 Indonesian Government is allowed foreign pilot to work for local airline, not only as instructor refer to the previous regulation, but is also allowed to become flight officer or co-pilot.

Beside pilot personnel, flight industry also required plane technician personnel. Lion Air alone in this 2010 requires about 180 technicians that have just fulfilled 30 personnel. That is why airline in Indonesia, mainly that possessed big market segment is actively create cooperation with various formal education institutions to improve educational quality of technician and increase the capacity of its graduate.

Garuda Indonesia effort

Corporate strategy

Along with its transformation effort that being launched since 2006, Garuda launched new vision, mission, and values (Exhibit 7). To meet its company visions then the three "key words" in the vision are translate into specific and measurable goals that also represent a QLS of Garuda (Exhibit 8). And the agreed corporate goal is to become a leading airline with reputation equal with other world-class airlines. While, corporate objective that would be implemented is to create continue to grow and expand company with everlasting profit.

Corporate goals and objectives is formulated in strategic plan period 2006-2010 + that include stages that must be achieved to reach annual objectives and return to significant growth level (Exhibit 1). First stage is survival in airline industry market that was competitive and aggressive. Garuda believe has succeeded in implementing consolidation strategy in 2006 and rehabilitation strategy in 2007 with satisfied results. In this first stage, operational and management activities were re-managed to prime service quality, while business aspects were re-managed in order to make all flights become positive.

While at the second stage or turnaround that has been started in last 2008, entire organization and management were rebuild to become effective organization through focus on debt restructuring, improvement on product and service aspects as well as preparation toward privatization by means of IPO in stock market, so that Garuda can be expanded equal with other international companies. Even, after three consecutive years experienced losses, since 2007 Garuda Indonesia start to success in gaining profit and place foundations for future company development (see summary of financial performance in Exhibit 9).

At 2009 strategy of the second stage will be continued with focus to competitiveness and expansion to domestic/regional, and privatization effectiveness. At this 2010, actually the third stage must be started, or growth where the center of current implemented strategic efforts is capitalization of previous efforts through privatization program by means of IPO that prepares the company for sustainable growth since 2010 to the fore.

As part of the translation processes of the company strategy from the form of intangible assets to become tangible assets as well as to sketch out the causative relationship among the strategic objectives, therefore, being developed a strategy map that consisted of four perspectives in balanced scorecard: learning and growth perspective, process, customer, and financial (completely described in Exhibit 10). Strategic themes for 2008 are:

- financial restructuring;
- revenue enhancement;
- operational efficiency;

- consistency of product and services; and
- intensify network.

In 2009, Garuda were focusing on two themes:

1. domestic and regional competitiveness and expansion; and
2. privatization effective (Exhibit 1).

Furthermore, to bring into reality strategic objectives as being intended in the strategy map, it was determined company principal programs year 2008 that being called as “Power 8” that consisted of:

- debt restructuring completion;
- balance sheet restructuring;
- organizational and behavior restructuring;
- aircraft reliability and safety;
- aircraft comfortability;
- service quality;
- new concept and enhanced capability of marketing; and
- image recovery.

The Management was integrating dynamic program to give focus to the company management process. This program named “Wildly Important Goals” (WIGs) is intended to improve three objectives that consisted of:

1. Profit;
2. Service level; and
3. On time performance (OTP).

Company’s WIGs are described on Exhibit 11 that include work frame for objectives that need to become priority. With detail description, WIGs are expected drive the creation of culture of execution at entire company levels in achieving the collective purposes. Afterward, from the result of developing strategy map, strategy objective, WIG, and detailing of main program then being determined targets of key performance indicator (KPI) for year 2010. The corporate’s KPIs then cascade into individual KPIs.

As commitment of directors in achieving KPI target, then since 2008 each member of board of directors make statement that being articulated in management contract document that being signed by member of board of commissioners, directors, and shareholders. Within management, contract document is also an indicated statement to give reward or punishment for achieving or not achieving the KPI. Target that is set is 100, which covering operational, financial, and dynamic effect aspects. Score that obtained for year 2008 is 103.5 exceeded the 100 target, while score for 2009 is 91.86. Organization structure of Garuda is in Exhibit 12, while detail of the KPI is described in Exhibit 13.

Marketing

The route strategy is implemented by intensification of the existing flight network. In 2009, Garuda flight network connects 29 domestic cities and 24 international cities, includes nine cities, which are served by company code-share partners (Exhibit 14). The company performs partnerships with a number of foreign airlines (MPA), in forms of code-share and special prorate agreement. Through this kind of partnership, customers may get convenience by using Garuda tickets to reach destination cities which are served by Garuda flights and conducts codes-hare, and for the MPA partners’ customers, conversely. Nowadays, Garuda performs code-share with nine MPA partners. Garuda possessed special prorate agreement with 47 airlines.

The domestic flights frequency has reached 69,644 times of flights, 80.84 percent of the entire flights frequency of Garuda. In 2007, domestic flight frequency reached 80.7 percent, while in 2008 is reaching 79.4 percent. The concerned amount of flights allocation is purported to make the frequency of Garuda flights services in domestic market shall acquire dominant frequency share and has strong competitiveness. Domestic flights frequency is represented in 38 routes (Exhibit 14).

The international flights frequency is at the rate of 19.16 percent, by considering the acquired international flights route network and the number of jumbo-size aircraft which served for long haul routes, such as to Japan, Korea, China, and Middle East. The company serves more than 20 international routes (Exhibit 14). In the beginning of June 2010, Garuda Indonesia reopened flight from Jakarta to Amsterdam through Dubai. Amsterdam is the first city of several other destination city in Europe, which in steps will be serviced by Garuda Indonesia, those are Frankfurt, London, Paris, and Rome. On-Board Immigration services will be given to easier passenger manage its immigration document in terms of giving visa on arrival on board of Garuda Indonesia planes so that the passengers no need to queue at the immigration counter at the arrival.

In the re-flight to Amsterdam, Garuda introduce "Garuda Indonesia Experience" service, a service that being inspired by the hospitality and uniqueness that being characteristic of Indonesian at entire aspects of Garuda Indonesia services start from services of pre journey, preflight, in-flight, post flight, and post journey. This service being inspired by the five senses, those are: sight, sound, smell, taste, and touch, for instance cabin interior with bamboo and batik motifs, music, and food/beverage choices of Indonesian menu, aroma therapy, as well as "Garuda Greeting." Arzyanti, Senior Public Relations of Garuda emphasized the delicious of mini nasi tumpeng (cone formed rice) and martebe juice (passion fruit and Dutch eggplant) that being served by Garuda, "Must be tried, certainly will ask for more" she stated convincingly.

At this flight, Garuda Indonesia also introduced new uniform with batik motif, as creation of Indonesian fashion designer. The new uniform is in the form of modified kebaya that being inspired by batik motif of Parang Gondosuli that possessed philosophy value of "aromatic life radiant", and give beauty and elegant impressions to its wearer. This uniform comprised of three colors of Tosca green with tropical sophisticated and refresh concept, orange that give warm, hospitable but full of energy, as well as blue that give impressions of reliable, trustworthy, enduring, and relaxing.

As an airline that targets the presence of growth and profit in the middle of tighter competition, Garuda Indonesia is not only rely on facilities and plane that are new and more complete, but also through advertisement and conduct exhibition in local media. Like direct flight to Sydney and Melbourne that serviced by Garuda three time a week using Airbus 330-200 plane, with capacity 36 seats of business class and 186 seats economic class. This plan is equipped with flat bed seat that can be adjusted up to 1°, complete with in flight entertainment technology such as audio and video on-demand facilities that provides 25 selected movies, ten television programs, 35 choices music album, and 25 interactive video games.

There are also sponsored events by Garuda such as Indonesian festival, Indonesian Food Festival, and Indonesian Night in various countries. Beside that, it also worked on mailing list networks in Australia (in particular student's mailing list) and social network (facebook, twitter) to promote Garuda. All those efforts are fruitful, which is by the increasing load factor (LF) that initially below 60 percent become 70 percent, the target is beyond 80 percent to be profitable like flight to Bali that always has LF 85 percent.

Moreover, service marketing strategy also implemented with different themes on each stages. It is interested that in year 2007 the theme is let's deliver what we promised. The intended theme is not only for external, but also for internal customers. All units work on to make into reality what they have promised. It is expected that everyone in Garuda organization must think about how to contribute and become more efficient. It is not only responsibility of marketing or sales personnel, but also everyone, from pilot, steward and

other crew employees. Efficiency also applied according to the trend in aviation industry by means of keep pressing operational cost to win the competition and gaining the targeted profit.

Since 2007, as anticipation to increase in numbers the LFC and to win the competition, Garuda Indonesia has implemented a new concept of price regulation system, by implementing several pricing concepts with different application to each segment and channel (different price for different segment or channel). This new price regulation system is conducted to catch segment at lower market segment such as worker, student and switcher, and others (Tables VI and VII). Implementation of the system is also to increase awareness that Garuda Indonesia possessed various level of offering price, so that the currently planted image as airline with high price can be removed. Implementation of many pricing concept is not for lowering price as competitors did, however, by fixing route profitability then customer can get added value with similar price.

Price innovation is also done by Garuda Indonesia by implementing technology in the ticket buying process; for example, by means of internet booking which is easier and cheaper. The new fare development has enabled Garuda Indonesia to control its prices and gain more passengers for operated routes with limited distribution network. Another price innovation under development is the sophisticated bidding price model which has been implemented in new revenue management-origin destination.

The developments of routes and frequency have increased available seat kilometers (ASK) up to 3.97 percent, in compared with the preceded year. ASK is a result of multiplication of the amount of available seats and flight distance. The production capacity of ASK of international flights in 2009 has reached 12.21 billion, or 58.36 percent of the number of ASK 20.91 billion. The international routes of ASK are generally bigger that those of ASK domestic routes, because the international flight distance is longer than those of domestic flights. ASK of

Table VI Pricing concept for different segment

<i>Market segment</i>	<i>Pricing concept</i>
Garuda basic fare	Recommended selling price to end customer
Corporate and institution	Special scheme fare for corporate and institution employees and their family or vendor related
Partnership	Special offer to its partners which are willing to promote GA to their member
Group package	Create in-house package or to help branch office (BO) to boost their traffic together with agent
Labor/trainee/entertainer	Attractive price for worker/trainee/entertainer to MEA, ASIA, Korea and JPN (together with BO to increase middle-low market)
Student, senior citizen, ship crew	Special fare for students, senior citizen, and ship crew
Switcher	Surprising offer fare

Table VII Pricing concept for different season

<i>Season</i>	<i>Pricing concept</i>
High, shoulder, low season	Yearly fare, RSP international
Special fares are avail significantly during low season	Promo fare and <i>ad hoc</i> fare
Price created for educating market to reserve seat earlier, currently apply until 14 days before dept. for domestic and 28 days before departure for international	Advance purchase-Apex Fare
Aiming for gimmick fare for lowest fare Garuda Indonesia using marginal cost concept	Early bird fare
Clearance fare for specific event	Low season

international flights is consisted of ASK of flights to Japan, Korea, and China 21.37 percent, Middle East 16.23 percent, Southwest Pacific 11.58 percent, and Asia 9.17 percent. Capacity of freight available tonne kilometers (FATK) of international flights is 477,763,000, or 65.94 percent of the entire FATK. The FATK is originated from the cargo space of passenger aircraft that is operated. Regarding this cargo capacity, Garuda has not yet operated any freighter aircraft.

Seat load factor (SLF) rate on regular flights was at 77.5 percent in 2007, 76.5 percent in 2008, and 73.5 percent in 2009. The performance of SLF achievement at each service area is varied. SLF of service in Middle East, Japan, Korea, China, and Southwest Pacific are decreased, meanwhile SLF of service in and Asia are increased, in compared with the preceded year. SLF of domestic mainbrand flights and international flights in 2009 are decreased, respectively, at 78.65 percent (from 79.8 percent) and 69.83 percent (from 74.22 percent).

Development of passenger yield was one of goals in WIG. In 2008, Garuda Indonesia successfully reached increase in passenger yield at 22.2 percent from US Cent 7.8 in 2007 to US Cent 9.51 at the wide system scale of main brand flights. However, with full service airline strategy and favorable growth in domestic demand, the domestic passenger yield – passenger fare per average kilometer – is decreased by 14.05 percent from US Cent 10.46 in 2008 to US Cent 8.99 in 2009. For international market, which is generally conceived as experiencing a decrease in demand and threat of tight competition, the passenger yield is lowered by 25.03 percent from US Cent 8.79 in 2008 to US Cent 6.59 in 2009. The above combined price strategy results in a passenger yield of US Cent 7.66 or a decrease of 19.44 percent of US Cent 9.51 in 2008.

The sales volume of revenue passenger kilometers (RPK) of main brand Garuda has improved at 9.1 percent, from 14,039 million in 2007 to 15,395 million in 2008, but slightly declined to 15,373 million in 2009. RPK of international flights at 10.5 percent, which is higher than the growth of RPK of domestic flights, at 8.6 percent. RPK of international and domestic flights in 2008 have recorded, respectively, 8,756 million and 6,639 million.

Market share of domestic customers, concerning those who departed from and to Soekarno-Hatta Airport has reached 30 percent in 2007, 29.6 percent in 2008, and decreased 2.1 point to 27.5 percent in 2009. The market share of international customers, concerning those who departed from and to Soekarno-Hatta and Ngurah Rai airports on flight routes served by Garuda Indonesia, has reached 27.7 percent in 2007, 26.3 percent in 2008, and 23.3 percent in 2009. The decline occurring in both domestic and international markets is due to the increasing flight frequency of both local and international airlines, both full serviced airlines and LCC.

The market share of Garuda Indonesia against total market share (including routes that were actually not served by Garuda Indonesia) is still at low level. This condition indicates that there is still much other potential of routes, both domestic and international, which has not been deployed by Garuda Indonesia. The domestic market share of Garuda Indonesia against total amount of domestic passengers is at 20.3 percent, it is increased 1 percent, in compared with that in 2008. The international market shares of Garuda Indonesia against total amount of international passengers from and to Indonesia is at 13.8 percent, it is declined at 14.29 percent, in compared with that in 2008.

Citilink service includes six new flights routes which were just reopened in September 2008. As of the mid of January 2008, the company has conducted a reformation in order to prepare Citilink as true LCC. In company's business context, Citilink flight usually manages any market of low-cost carrier, consistent with purpose of the SBU establishment in year 2001. This operation reopening was earlier than it has been planned; therefore, the available production capacity for Citilink is still limited. In 2009, the amount of passengers which are served by Citilink was up to 588,000 people, or increased 277.46 percent from 2008. ASK of Citilink flights reached 807.3 millions from only 220.8 millions in 2008. SLF rate of Citilink flights reached 63.16 percent and passenger yield is US Cent 4.29.

Hajj flights

During year 2009, Garuda provided hajj flights which served up to 264,000 passengers, or has improved to 1.71 percent from the amount of that in 2008. The mentioned amount is consisted of 36.55 thousands people during homeward period (phase II) of 1,429 Hijriah in January 2009, and 227.45 thousands people during departure period (phase I) of 1430 Hijriah in October-December 2009 period, which was allocated into 300 flights groups. The amount of embarkation terminals which had been served was ten terminals; Balikpapan, Banjarmasin, Banda Aceh, Jakarta, Makassar, Medan, Padang, Palembang, Solo, and Surabaya.

During the hajj flights season of 2009, the Company hired especially and operated 15 jumbo-size aircrafts, in accordance with specifications defined by Ministry of Religion. The hajj fleet was consisted of eight Boeing – 747 (455 seats capacity), one Boeing – 767 (263-325 seats capacity), and six Airbus 330 (325, 360, and 380 seats capacity). About 91 percent of assigned aircrews were recruited especially at local embarkation regions. The purpose was to enhance the service for hajj pilgrimages, especially in overcoming verbal communications/speaking problems, bearing in mind that some parts of hajj pilgrims were only speaking their own local language.

Other effort required to constantly improve hajj flights service is the implementation of QMS ISO 9001-2000 certification, and the hajj period of 2008-2009 was the seventh year implementation by Hajj Unit of Garuda. The international quality standard certified by SGS includes implementation of surveillance audit and customer satisfaction survey. Other than fulfilling requirements in consumer's protection law, the certification of ISO 9001-2000 lin hajj service also provides guarantee that the hajj service of Garuda Indonesia has already completed international standard in service and security as well as flight safety. OTP of hajj flights during phase-I of 1428 Hijriah (2008) was 91.4 percent, while in 2009 (1430 H) OTP of hajj flights during phase-I was 96 percent.

Operations

Garuda Indonesia manages a fleet of 70 aircrafts in December 31, 2009, which consisted of 67 aircrafts which are operated in main brand (Garuda Indonesia) flights and three aircrafts operated in Citilink flights (Exhibit 5). In average, aircraft utilization in 2009 has reaches 9:00 (9,0) hours per day. This aircraft utilization also decreases from 9:50 (9,8) hours per day in the previous year. This is due to crew shortage following the arrival of new Airbus 330-200 and Boeing 737-800 NG as well as the transition of the pilots of Boeing 737-800 NG, and the decreasing demand in several domestic routes. In addition, this declined was caused by some aircrafts that undergo maintenance (Boeing 747-400). Meanwhile, decline in the aircraft utilization of Boeing 737-400 was caused by the preparation plan to sell the aircraft. Utilization of Boeing 737-500 experienced a drop, as there was crew shortage and its allocation as stand by aircraft for chartered flights. As for Boeing 737-800 NG aircraft, utilization level also decline due to additional number of fleets.

As a result of utilization development and addition of aircrafts, Garuda still manages to improve its capacity of ATK for main brand flights at 7.16 percent. Likewise, ASK and FATK increase at 3.97 and 17.25 percent, respectively, compared to 2008.

The achievement of revenue passenger per kilometers (RPK) in 2009 is 15,373 billions or 85.30 percent of 2009 plan. The RPK for domestic passengers in 2009 is 6,849 billions or 3.27 percent higher than 2008. However, the RPK in business class decreases by 24.06 percent, while RPK in economy class shows improvement. RPK for international passengers is 8,523 million in 2009 or 2.66 percent lower than 2008, and the biggest decrease occurs in business compartment, namely, 25.31 percent compared to the economy class, which shrinks by merely 0.80 percent.

Average OTP in 2009 was at 82.45 percent, it was decreased at 1.4 point in compared with the preceded year, which was at 83.85 percent. Based on the available data, three most influential factors of delay causes in 2009 are the same factors in 2008, which are: airport facilities, engineering/technical, and flight operations. Contribution of flights delay causes

which could be controlled, was at 8.24 percent of the entire flights experiencing delays. Uncontrollable causes are at 8.75 percent of the entire delays.

By a turnaround spirit that emphasizes aircraft reliability and safety as one of main priorities; in 2008 Garuda Indonesia has successfully achieved a milestone in its efforts as one of leading airlines internationally, by achieving IATA Operational Safety Audit (IOSA) certification and be included in the list IOSA operators as of May 14, 2008. IOSA is a certification on flights safety and security, which has been accredited internationally through analysis of eight operational performance aspects, which includes 900 flight operational standards. Garuda Indonesia has become the first airline in Indonesia that has satisfied the very stringent IOSA standards. The success of IOSA Certification achievement has promoted a very positive impact against Garuda Indonesia's reputation. Some international airlines even have planned for reopening the operational cooperation (code-share) with Garuda Indonesia; it is because as an IOSA operator, Garuda Indonesia acquires an equal safety level with other IOSA operators.

During 2008, the incident rate caused by aircrews was at 0.01/1,000 departure, this figure is lower away under the target (0.09/1,000 departure). During 2009, the incident rate was decreased to 0.53/1,000. In addition, as of 2005 Garuda has launched operational hazard report (OHR) system in order to decrease incident and/or serious incident, therefore, any accident may be eliminated (zero accident). The amount of OHR reports in year 2008 was 773 reports, this indicates that culture of reporting in safety and security has been developed progressively.

In addition to the aforementioned efforts and achievements, Garuda is also recorded as one of 15 pioneer/initiator airlines in the carbon offset program of IATA. The carbon offset program is a ready-made tool enabling airlines to offer their passengers (under the coordination of IATA) the ability to compensate for their carbon emissions generated during flight to the point of destination.

Service improvement and added value for customers

Reposition of Garuda Indonesia's focus, from Garuda transportation to Garuda service has been emphasized as of 2007. The launch of FLY-HI behavior directives is purported to change the way of thinking, in order to align awareness towards customers, both external customers; users of airlines services, and also internal customers; those inside operational setting of Garuda Indonesia. A qualified and consistent service through service process and clean relationship morally and legally, has always been the final objective for each Garuda Indonesia's individual.

In facing a very high competition in airlines industry served by numerous global competitors, Garuda Indonesia has always been emphasizing flight safety and service in order to build customers loyalty and to become a chosen airline. Primarily in domestic market, where Garuda's competitive edge is not based on price, the service quality and additional value become standards for customer preferences.

Basically, flights customers demand service which consisted of five phases of service touch points; pre journey, preflight, in-flight, post-flight, and post journey, which include among others; ticket ordering, check-in, lounge facilities, boarding, comfortness during flight and luggage claims. By designing a correct service solution, customers may appreciate various coziness and easiness as reflected in the paid ticket fare.

In order to respond the mentioned inquiry, Garuda Indonesia has always been keeping up its services provided with international best practices conducted by other leading international airlines. International Certification of IOSA has been achieved in 2008 as a proof of flight reliability and safety, as an intensive preparation has been performed in order to be listed as member in Skyteam, which was a working target in 2010. In 2008, Garuda Indonesia also has accomplished service blueprint, which being a basis of reorganization on service aspect and HR management as a follow-up action.

As of year 2009, Garuda Indonesia's service is aligned towards Indonesian hospitality, or called as "Garuda Experience" which acquires following fundamental values:

- *Product* on-time and safety.
- *Process* quick and correct response.
- *Premises* clean and comfort.
- *People* reliable, professional, competent, and helpful.

In addition, Garuda Indonesia also has to improve cooperation with other parties in order to satisfy customers through corporate sales services, e-payment, destinations promotion in excursion program and any other facilities. Garuda Indonesia also has always been awarding honors for loyal customers who already joined in Garuda Frequent Flyer (GFF) program. In 2009, updates have been enacted on regulations, facilities, and product provided for GFF members which is divided into four groups; Blue, Silver, Gold, and Platinum, by presenting various interesting offerings such as free tickets, prizes, and shopping promos.

Other programs are performed to enhance added-value for customers are: extension of customer care online, development of product, and service consistency by applying SQC and service level agreement concepts with service providers, Extension of routes and development of international and domestic flight routes network frequency, as well as decreasing cancel on demand, a transparent pricing based on customers segments' needs, brand communication and product differentiation, Direct selling enhancement to revise distribution portfolio, reformation of complaint management procedures: preparation of standard operation procedure (SOP) draft for claim and complaint management, also customer intimacy program: souvenirs consignment.

In addition, coaching and counseling program have been organized, as well as conduction of a better monitoring upon passengers' complaints. This also impacts the decrease of complaint index in 2008, which was at 0.06/10,000 pax, or decrease at 54 percent from that in 2007 (0.13/10,000 pax). In order to sharpen its competitiveness in facing intense competition in airlines industry in the turnaround business phase, Garuda Indonesia is concentrating on reformation efforts and development of flight safety and service aspects as well as efficiency.

Human resources

In order to acquire excellent employees that capable of conducting effective and optimal role at various key positions, Garuda Indonesia is concentrating on human capital management approach by focusing on personnel as valuable assets for Garuda and not merely as a supporting factor or an available resource. Each employee is required to put an excellence on which includes; knowledge, skill, and working attitude, therefore, they may enhance productivity and performance, either in working environment and individual life generally. To become a human capital shall be a main goal for each employee, likewise an opportunity in achieving a more fundamental long-term goal.

In 2008, human capital management (HCM) approach applied by Garuda Indonesia was emphasizing focus on culture transformation that develops Garuda yang to become not only a good one, but shall be a great one, creating a leadership mentality as well as promoting an integrated learning and development.

Operated within a competitive and dynamic industry, Garuda Indonesia is required to constantly acquire a correct working force composition, in order to maintain its superiority. Besides, developing its development strategy in human capital correctly in line with Garuda dynamics, Garuda has always been regularly reviewing its employee necessity, both in quantity and quality. Up to the end of 2009, the amount of permanent employees of Garuda Indonesia was 4,668 employees, lesser than that in 2008 (5,355 employees), and 2007 (5,322 employees). The numbers of pilots and copilots keep increasing from 553 in 2007 to 547 in 2008, and 539 in 2009. However, the number of air crews is decreasing from 2,354 in 2007 into 2,204 in 2008, and 2,033 in 2009.

Garuda Indonesia's commitment on learning process and development of employees are reflected in the attendance rate at Garuda Indonesia Training Center (GITC), which has been long operated. GITC, which located in West Jakarta, acquires completed learning center facilities, with various programs and learning systems, including electronic learning (e-learning), purported to create an optimal training quality at the entire levels of organization. In order to maintain international standardized training quality, GITC has acquired CASR 121 certification as well as CASR142 and 147, as some of requirements for GITC to be assessed capable of providing training to third party. In addition, ISO 9001 certification and training maintenance aircraft maintenance training organization certification have also been acquired; therefore, competency and quality of instructors and training provided in GITC have been more completed.

Through GITC, Garuda has conducted various mandatory and non-mandatory training program for aircrews and ground staff. Mandatory program includes training in regulation area, flight operations, and safety, in line with corporate strategic objective to fulfill flight safety, comfort, and optimal services. Basically, through the training conducted in special sessions or daily works activities (on the job training), Garuda has always been trying to develop leadership capability, insight, communication skill as well as development of Garuda's culture/values and work ethics.

In Garuda Indonesia, development of competency and competitiveness are not only the line managers' responsibilities, but they shall be delegated to all employees and shall be performed continually and consistent through correct and structured training and development program. This learning management is expected to be capable of building a learning culture through high-impact learning organization. In order to develop employees in accordance with Garuda's strategic objective, learning process is designed as a derivation of Garuda's strategy and business plan, which among others conducting integration of Fly-Hi value order into the syllabus of the existing training program. Afterwards, through the balanced scorecard approach in formulating strategy, a coherent learning process may also be accomplished. Learning needs at corporate level shall be interpreted into each working unit up to individual level of employee, by comparing Garuda needs with skills acquired by the employees. Should there is any gap identified, it shall be a point of learning needs for the concerned employees.

Investment in human capital development has been conducted through a thorough study, including periodic survey on remuneration structure in airlines industry and other sectors. One of survey objections is to ensure that the remuneration package in Garuda Indonesia is still competitive, therefore, Garuda may be remain a chosen one for professionals who have potentials and interested in joining or remain working with Garuda Indonesia. Regularly, Garuda has always been conducting evaluation and monitoring continually upon reference standard of HR development and learning tools. Such efforts are performed in order to constantly enhance human capital quality of Garuda Indonesia as well as adjustment measurements and investment addition upon prerequisites and supporting learning facilities have already built. The application of knowledge management that has been launched already earlier years shall be enhanced in the upcoming years, as well as other initiatives that may contribute learning and a more conducive working environment. Development in 2008 was also a preparation in HCM for year 2009, when Garuda is planned to enhance its employees' skills quality and quantity.

Financial

During year 2009, management of Garuda Indonesia has conducted a number of financial and accountancy programs; such as finalization and completion of debt restructuring, preparation for IPO, funding of new aircraft, cash flow optimization, and increase natural hedging. Steps for finalization and completion of debt restructuring actually have been made since year 2005. This was second restructuring step after period 1999-2001. Condition of both domestic and international scale aviation industry is less profitable since the incident September 11, 2001, which is supposed to become cause for the decrease on company

income. The decrease made company capability in paying debt principal was reduced. As the result, for the second time the management must carry out debt restructuring.

The second restructuring started in 2005, Garuda Indonesia at that time decided only to pay interest and stop paying principal payment. The creditors were group in three main categories, secured, unsecured, and government related debt. The creditor ranges from export credit agencies (ECAs), which finances aircraft and simulator acquisition, to foreign and domestic banks which finances working capital. The restructuring was done using several principles: commercial restructuring, no government support or guarantees, fully consensual, continued full operations during the restructuring process, had been eight tranches of debt, and to be ready for the IPO.

In June 2010, Garuda got most of the creditors to agree on the restructuring terms. It has succeeded to convert the Bank Mandiri mandatory convertible bonds into Garuda shares. It has succeeded in buying parts of the debt at a discount, through an auction, and got agreement to extend the rest of the debt for seven to eight years with low interest. In finalizing its debt restructuring Garuda could reduced the amount of debt from US\$827 million (in 2007), to become US\$516 million (in 2010).

Up to April 2010, the company has finished initial stage of IPO preparation in terms of internal legal due diligence. Also step of IPO requirement identification and obligation of company reporting for go public has been made on annual report year 2008.

In general, company financial performance has shown significant improvement from the previous years, though for several account is shown decline. During year 2009, company has obtain operational revenue for Rp. 16,694.19 billion or decrease 7.19 percent from the previous year. This condition is followed by decrease on operating expenses for 5.43 percent (due to decrease on price fuel until 32 percent). On the other hand, during the current financial year, company has earned other incomes for Rp. 284.01 billion, so that the company's profit increase 18.82 percent to become Rp. 1,009.28 billion. In terms of taxes, during year 2009 company has paid taxes for Rp. 1,779.2 billion or increase 99.4 percent compared with the previous year. From equity point of view, during year 2009, company has experienced decrease on assets value for 4.6 percent compared with the previous year. This achievement is declining if compare to the gain of assets increase for 27.7 percent in year 2008. Information on financial performance in complete can be seen at Exhibit 9.

From financial management perspective, steps for IPO that carried out by Garuda are a quite strategic step. Though, there are several important things that must be communicated to the potential investor. One other thing is improvement on liquidity, solvability, and rentability ratios consistently. Those three ratios are parameter of a company healthy, in the same time as indicator of company capability to the future (after becoming public company).

Future challenge

As mentioned excitedly by Setyo Awibowo, EVP corporate planning Garuda, "These last five years have been very challenging, as so much to be done, so much to be pursued." Garuda's success during 2005-2009 does not necessarily mean that Garuda's future will certainly bright, since there still have been some problems to face. As in the past, as a state-owned company Garuda will still be vulnerable to interventions of the government as the stockholder and to interests of political parties. How can Garuda defend themselves against political attacks only benefiting a few parties?

In addition, Emirsyah Satar's term of office has actually ended on March 17, 2010 and is extended temporarily, since the company has been focusing on go public preparations and he is still required for the company's reform. The government regulations made in order to avoid the practices of corruptions, collusion, and nepotism in the past indeed affirm that a member of direction board of a state-owned company can be in charge only for five years, and can be reappointed for a maximum one term of office. It often happens that success of a company has something to do with a charismatic leadership supported by high competence and a solid management team. It should be admitted that Garuda's extraordinary progress

happens under the leadership of EmirSyah Safar. How can Garuda perpetuate the good practices without overly depending on their leaders?

In other occasion, EmirSyah Satar also reveals his efforts to change the deep rooted, contra-productive working culture into a working culture of FLY HIGH which is market oriented as he has been dreaming of, as it should be. Also due to practices in the past, Garuda's labor union is still suspicious of the managements, so the new management also has their share of the impacts. From question on transparency of net income calculation in 2008, demand on salary increases, criticism on sale of Garuda assets, and so on. Whereas progress of a company could not be reached without full support and trust from their employees. How can the Garuda's management build a firm trust in their company?

Meanwhile, although Garuda Indonesia is being persistent to compete for servicing the premium upper segment as their main market, it should not be ignored that there is an adjusted market, better service with achievable price continuously growing well. It is really an alluring market to enter in order to increase the market share. What more present customers are becoming more demanding and educated to choose an airline? How Garuda respond the development of market characteristics?

In addition to the not-ending-yet problem on IPO, there is another problem of accusation of doing cartel practice while applying fuel surcharge as charged by the committee for supervision of business competition (Komisi Pengawasan Persaingan Usaha (KPPU)) against six airlines in Indonesia. The agreement of fuel surcharge application is regarded as violating the article 5 of Act No. 1999 on forbiddance of monopoly and unfair business competition forbidding business doers to have an agreement with their competitors on the price of goods and/or service have to be paid by the consumers or customers. The six airlines stated as guilty by the committee are Garuda Indonesia, Sriwijaya Air (www.sriwijayaair-online.com), Merpati Nusantara (www.merpati.co.id), Mandala Airlines (www.mandalaair.com), Lion Mentari Airlines (www2.lionair.co.id), and Wings Abadi Airlines (100 percent owned by Lion Air; www2.lionair.co.id). The six airlines are also proved as violating the article 21 of the same act, stating that business doers are not allowed to do fraudulent things in determining production cost and other costs as parts of prices of goods or services that may cause monopoly or unfair business competition. Garuda Indonesia is obliged to pay the highest fine, 25 billions rupiahs, since their overprice is regarded as the highest. Garuda is also punished to pay compensation as much as 162 billion rupiahs. In responding to these, Garuda will appeal to a higher court since they think the decisions are inaccurate.

Those issues above are added by the problem of finishing the restructuring of Garuda's debt to the creditor ECA. At present, Garuda is still finalizing the documentation of its debt restructuring with their creditors. Although all the financial terms has been agreed, but final signature on the agreement is still expected to be done very soon. The IPO is expected to be launch after the debt restructuring has prepared the company very smoothly for a successful IPO.

Among the Garuda's internal problems and challenges coming externally, how can Garuda overcome them? Can they still fly high and confidently affirm to become a distinguished?

Keywords:

Airlines,
Business performance,
Strategic management,
Indonesia

Exhibit 1 2006-2010 + corporate strategy

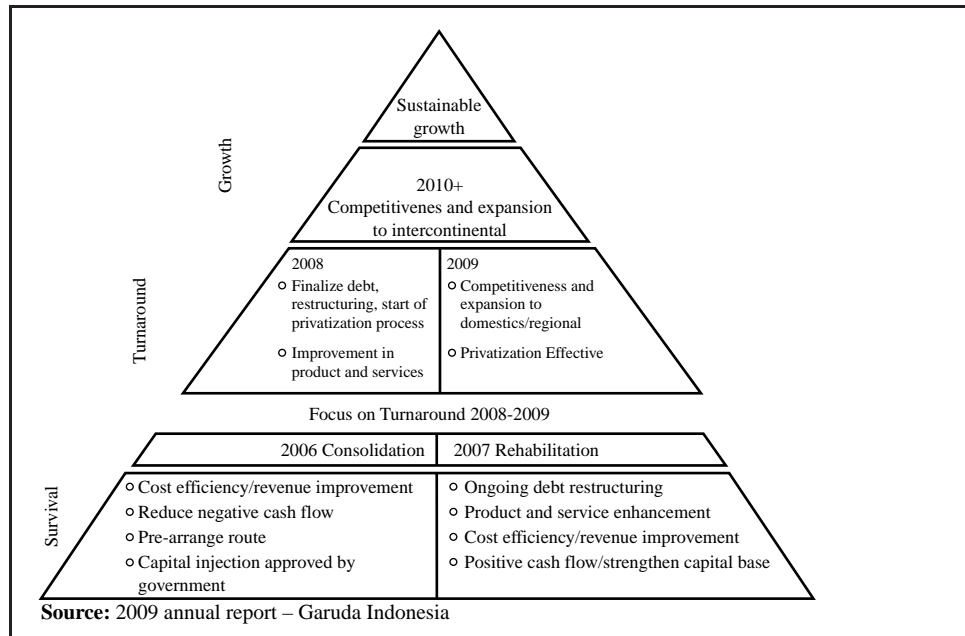


Exhibit 2 Garuda logo



Exhibit 3. Strategic business units and subsidiaries

Strategic business units (SBU)

- *Garuda Sentra Medika (GSM)/Garuda Medical Center (GMC)*. Initially, GSM's objective was to support Garuda Indonesia's business by becoming a leader in aviation medical services and developing a health services business that is related with the airlines business. Currently, GSM's vision is to be the advanced health service provider of choice among airlines and state owned enterprises in Indonesia.
GSM has prepared for this independence as one of the core programs in 2008; through the creation of new company (spin-off) and setting up the internal team that handles its preparation, including organizing a business plan and monitoring a building asset valuation conducted by independent appraiser. GSM also focuses on other core programs, including laying the groundwork for aviation medical center certification. The total revenue of the GSM business was Rp. 87.4 billion in 2008.
- *Cargo*. Currently SBU cargo sells regular air cargo service flights, but has not yet started operating freighters dedicated to transporting cargo. With the increasing level of competition, Cargo SBU continues to improve service quality for its customers by initiating a number of work programs. Also considering the future prospects in the cargo business, a plan is being prepared for a spin-off on the cargo SBU with a strategic partner. The total revenue of the SBU cargo business was Rp. 977.6 billion in 2008.
- *Citilink*. Citilink SBU is a LCC that target low-budget travelers in the domestic market. In early 2008 Citilink services were re-organized and recently started re-operating in September 2008 with a new look and concept. During this re-structuring, preparations were made to make Citilink SBU an independent company.

Subsidiaries

- *PT Aerowisata (Aerowisata)*. Aerowisata's mission is to develop services connected with the tourism and hospitality industry. In line with this mission, Aerowisata has a number of subsidiaries that are engaged in the hotel, catering, land transportation services, agency, and tours and travel business. These subsidiaries include Hotel Development Corporation, PT Senggigi Pratama International, PT Angkasa Citra Sarana Catering Service, PT Mandira Erajasa Wahana, PT Biro Perjalanan Wisata Satriavi, Garuda Orient Holidays Pty. Ltd and PT Aerojasa Perkasa. Aerowisata's operating income was recorded at Rp. 1,150,897 million in 2009, with Rp. 76,724 million in net profits.
- *PT Abacus Distribution Systems Indonesia (Abacus DSI)*. Abacus DSI's vision is to be a leading provider of global distribution systems (GDS), and information technology as well as communications services in Indonesia. Abacus DSI services cover computerized reservations, computer equipment leasing to travel bureaus, training facilities to travel bureau employees, and provision of personnel to resolve challenges encountered by travel bureaus in operating computerized reservation systems. DSI's operating revenues was recorded at Rp. 25,123 million in 2009, with Rp. 1,417 million in net profits.
- *PT Garuda Maintenance Facility Aero Asia (GMFAA)*. GMFAA was established to carry out and support the government's economic and development policies and program in general, especially the repair and maintenance services of aircraft and other fields related to these services, as well as to maintain profits for Garuda Indonesia by including repair of aircraft engines and the components among others services. GMFAA's operating revenues was recorded at Rp. 1,652,413 million in 2009, with Rp. 48,261 million in net profits.
- *PT Aero Systems Indonesia (ASI)*. The scope of ASI's business activities included consultation services and information technology engineering systems, as well as maintenance services to airline companies and other industries. ASI's operating revenues was recorded at Rp. 108,921 million in 2009, with Rp. 8,584 million in net profits.

Exhibit 4. List of Indonesian commercial airlines

- Airfast Indonesia.
- Air Pacific Utama.
- Alfa Trans Dirgantata.
- Asco Nusa Air.
- Asi Pudjiastuti.

- Aviastar Mandiri.
- Batavia Air.
- Cardig Air.
- Dabi Air Nusantara.
- Deraya Air Taxi.
- Derazona Air Service.
- Dirgantara Air Service.
- Eastindo.
- Express Transportasi Antarbenua.
- Garuda Indonesia.
- Gatari Air Service.
- Indonesia Air Asia.
- Indonesia Air Transport.
- Intan Angkasa Air Service.
- Johnlin Air Transport.
- Kal Star.
- Kartika Airlines.
- Kura-Kura Aviation.
- Lion Mentari Airlines.
- Mandala Airlines.
- Manunggal Air Service.
- Megantara.
- Merpati Nusantara Airlines.
- Metro Batavia.
- Mimika Air.
- National Utility Helicopter.
- Nusantara Air Charter.
- Nusantara Buana Air.
- Nyaman Air.
- Pelita Air Service.
- Penerbangan Angkasa Semesta.
- Pura Wisata Baruna.
- Republic Express Airlines.
- Riau Airlines.
- Sampoerna Air Nusantara.
- Sayap Garuda Indah.
- Sky Aviation.
- SMAC.
- Sriwijaya Air.
- Survei Udara Penas.
- Susi Air.

- Transwisata Prima Aviation.
- Travel Express Aviation Service.
- Travira Utama.
- Tri MG Intra Asia Airlines.
- Trigana Air Service.
- UNINDO.
- WING ABADI AIRLINES.

Exhibit 5

Exhibit 5 Garuda's air fleet		
<i>No.</i>	<i>Type</i>	
1	AIRBUS 330-200	Number in fleet: 4 aircraft Seat capacity: 266
2	AIRBUS 330-300	Number in fleet: 6 aircraft Seat capacity: 293
3	BOEING 747-400	Number in fleet: 3 aircraft Seat capacity: 428
4	BOEING 737-300	Number in fleet: 11 aircraft Seat capacity: 110
5	BOEING 737-400	Number in fleet: 19 aircraft Seat capacity: 136
6	BOEING 737-500	Number in fleet: 5 aircraft Seat capacity: 96
7	BOEING 737-800 NG	Number in fleet: 19 aircraft Seat capacity: 156

Exhibit 6. General characteristics of LCCs

- All of their passengers is of economy class, no premium or business class.
- Amount of passengers are more than capacity of the plane which is equipped by traditional services so the passengers are in jostle. This is to increase the plane's revenue considering the very low tariff.
- The airline has planes of one type to make ease trainings and to minimize the costs of maintenance and spare parts procurement. The planes are still new in general to be economical in fuel consumption.
- The airline implements a very simple tariff pattern on one tariff or subclasses tariff with prices begin with up to 90 percent discount tariff.
- They do not provide catering services; it is usually only mineral waters provided on the plane.
- Seats are not provided by booking, passenger firstly entering the plane will be able to choose the seat he/she will sit on firstly.
- The flight is done at very early mornings or nights to avoid high costs for the airport's services during busy hours.
- Routes traveled are very simple ones, usually point to point to avoid misconnection in the transit site and impacts of previous flight delays.
- Implementing a quick ground handling and the plane has a high flying time.
- The airline implements direct sales, usually via call centers and the internet to minimize distribution channel costs. LCCs are sold not via travel agents and not using distribution channel GDS such as Abacus, Galileo, and so on.
- Sales are not done using conventional tickets, only pieces of sheets in form of coupons to reduce the ticket's printing cost.
- The airline often expand promotion massively to strengthen positioning and communication because they implement direct sales strategy.
- Their employees have multi roles in their occupations, the pilots and stewardesses often act as cleaning service operators during ground handling. In addition, the LCC method implement outsourcing and uses contracted employees for handling non-vital jobs, including ground handling in airports.

Exhibit 7. Garuda's vision, mission, and corporate values

Corporate vision

A strong distinguished airline through providing quality services to serve people around the world with Indonesian hospitality (Exhibit 8):

- *A strong distinguished airline.* It denotes that Garuda must become a gainful company, with a better operating profit margin than the average industry. Becoming a distinguished airline also signifies that Garuda must own a good reputation, highly regarded and respected. To gain the reputation, Garuda's safety and quality record must be impressive.
- *Quality services.* Which implies that providing pleasant services is a natural character at Garuda. To actualize it Garuda must achieve five stars in the Skytrax rating.
- *People (and goods) around the World.* This is mirrored from the route coverage served by Garuda. Whether flying on its own as well as through alliances with other airlines, Garuda's route coverage must reach out to the five continents.

Corporate mission

The flag carrier of Indonesia that promotes Indonesia to the world, to support national economic development by delivering professional air travel services.

Corporate values

Corporate value called FLY-HI consisting of efficient and effective, loyalty, customer centricity, honesty and openness, and integrity:

- *Efficient and effective.* Garuda Indonesia personnel must work with diligence and accuracy, in the shortest possible time and show cost- and labor saving efforts, without sacrificing quality, to assure customers of quality services.
- *Loyalty.* Garuda Indonesia personnel must carry out his/her assigned duties with a sense of loyalty, dedication, responsibility and discipline, with a belief that they are united in the effort to ensure consistency high quality services for the customer.

Exhibit 8 Garuda's quantum leap objectives

Distinguished airline	2008	2014	Growth (%)	
Operating revenue	Rp. 18.1 T	Rp. 57.9 T	320	↑
Net profit	Rp. 669 M	Rp. 3,757 M	562	↑
Production – ASK m	20,228	64,638	320	↑
Employee productivity – ASK/staff	3.65 mio	6.48 mio	178	↑
Number of aircraft	52	116	223	↑
Pax carried	10.3 mio	27.6 mio	268	↑
Freight carried (tons)	146,373	377,184	258	↑
Quality service				
Skytrax	3 star	5 star	★ ★	↑
OIP	84%	88%		↑
Around the world				
Domestic departure	1,333/week	2,072/week	155	↑
International departure	338/week	1,222/week	361	↑

- *Customer centricity.* Garuda Indonesia personnel should be attentive and helpful, consistent with Garuda Indonesia's commitment to place the customer as the focus of attention.
- *Honesty and openness.* Garuda Indonesia personnel must uphold honesty and sincerity in every aspect of their activities, and promote transparent and clear two-way communication in a confidential manner. With these characteristics, Garuda Indonesia ensures customers will feel secure, safe, and comfortable.
- *Integrity.* Every Garuda Indonesia personnel must maintain his/her dignity and refrain from any indecency that may tarnish the image of the profession and the company. Garuda Indonesia assures its customers of ethically and legally clean services and relations.

Exhibit 9 Financial performance

	2009	2008	2007	2006	2005
<i>Summary of profit and loss</i>					
For the years 2005-2009 (in million rupiah)					
Operating revenues	16,691,008	18,062,740	13,052,664	11,378,190	11,538,166
Operating expenses	15,983,272	16,906,751	12,339,291	11,943,810	12,432,752
Income (loss) from operations	707,736	1,155,989	713,374	(565,620)	(894,586)
Other income (expenses)	(26,942)	(390,705)	(604,101)	265,866	(39,584.8)
Tax benefits (expenses)	69,009	46,468	(93,733)	(36,072)	35,548
Net income (loss)	1,018,616	975,049	152,735	(197,077)	(688,466)
<i>Summary of income statements</i>					
For the years 2008-2009 (in million rupiah)					
Account				2009	2008
Assets:					
Current assets				3,501,170	3,780,684
Non current assets				10,880,654	11,005,636.1
Total assets				14,381,825	14,786,319
Liabilities and equities (capital deficiency)					
Total liabilities				11,167,755	13,419,785
Equities (capital deficiency)				3,214,071	1,366,535
Total liabilities and equities (capital deficiency)				14,381,825	14,786,320

Source: Management Report 2009

Exhibit 10 Strategy map of Garuda

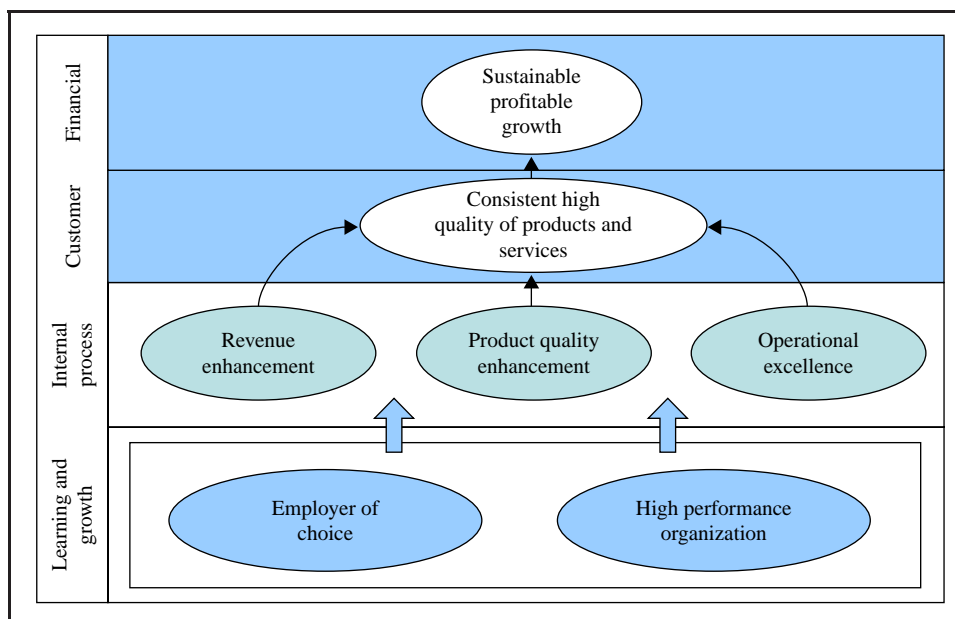


Exhibit 11 Corporate wildly important goals

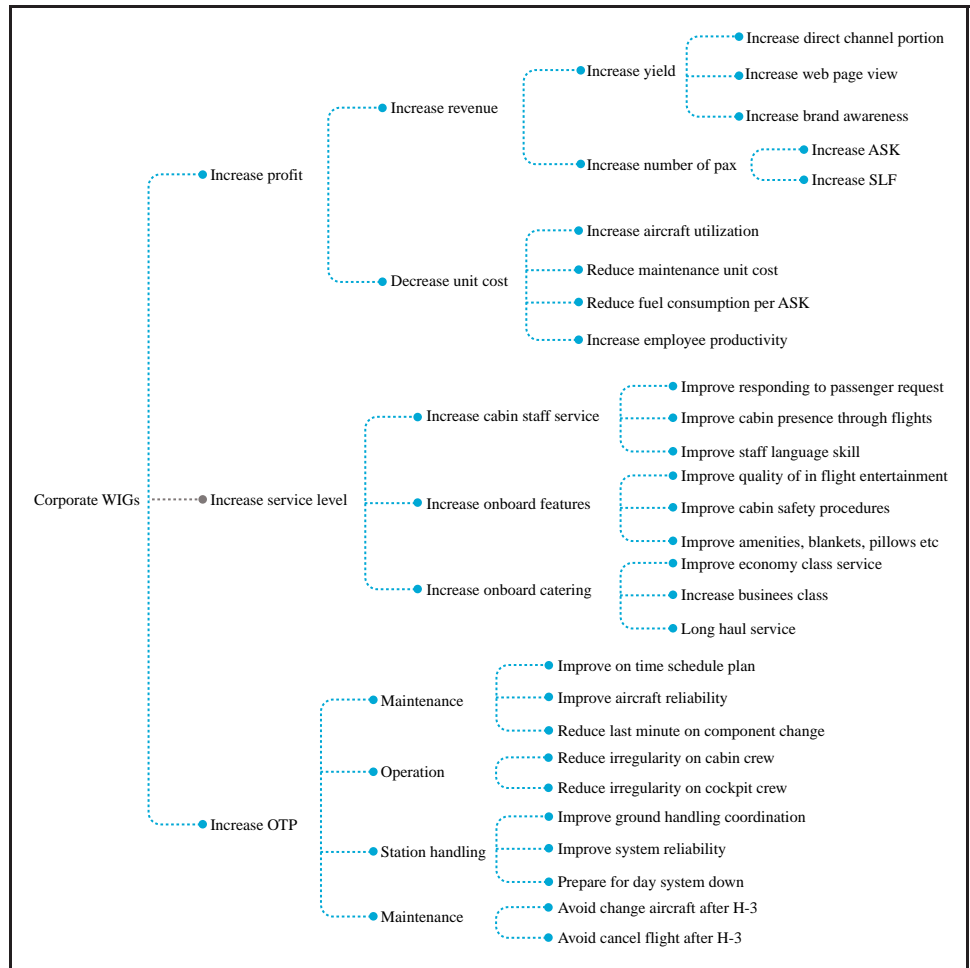


Exhibit 12 Organization structure

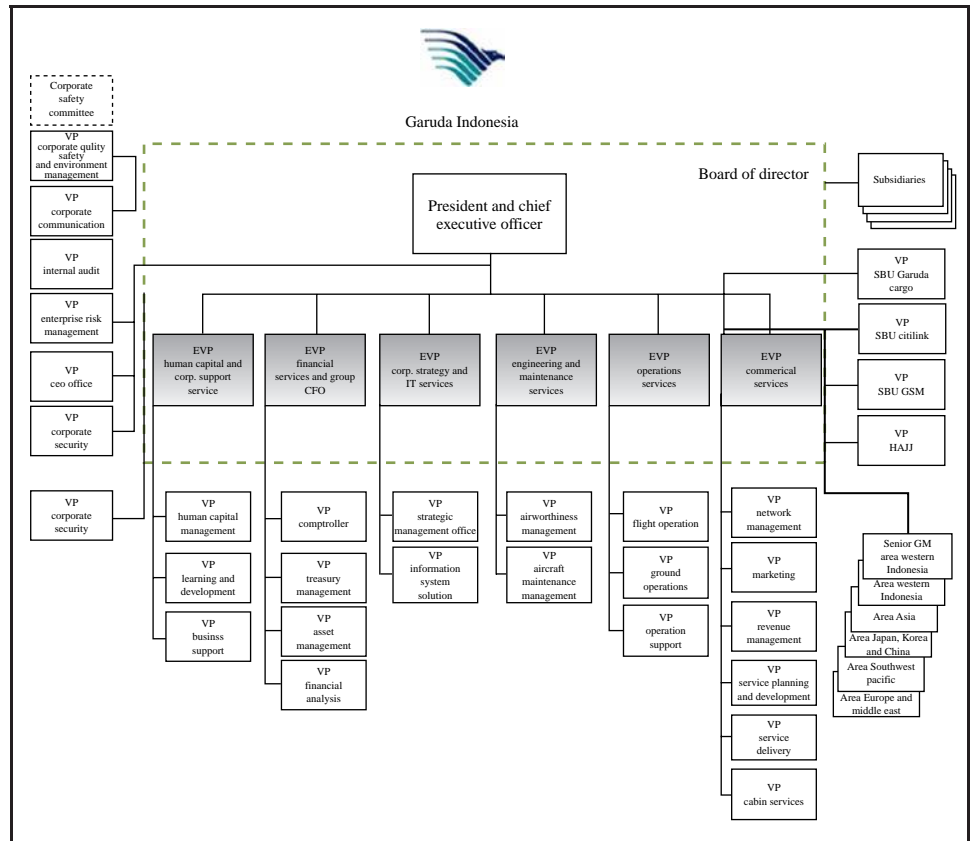


Exhibit 13. Management contract indicators

1. Operational aspects:

- SLF – international.
- SLF – domestic.
- Cargo load factor.
- On time performance.
- Market Share – international.
- Market Share – domestic.
- Mo. of FFP (frequent flyer program) membership.
- Reliability index.
- Fleet utilization.
- Customer satisfaction index.
- IOSA certification.
- SKYTRAX rating.
- No. of new aircraft.

2. Financial aspects:

- Operating profit.
- Net profit.
- EBITDA.

- Operating profit subsidiaries.
 - Margin per ASK (Available seat kilometer).
 - Revenue from cargo.
3. Dynamic effect aspects:
- Accomplishment of employee development program.
 - Employee satisfaction index.
 - Employee productivity index.
 - Leadership development.
 - Information capital readiness index.
 - Percentage of project accomplishment.
 - Global alliance.

Exhibit 14 Domestic and international route (Including code share partner)

<i>Rute</i>	<i>Rute</i>
<i>Domestic routes</i>	
Denpasar – Makassar vv	Jakarta – Pontianak vv
Jakarta – Balikpapan vv	Jakarta – Semarang vv
Jakarta – Banda Aceh vv	Jakarta – Solo vv
Jakarta – Banjarmasin vv	Jakarta – Surabaya vv
Jakarta – Batam vv	Jakarta – Yogyakarta vv
Jakarta – Denpasar vv	Surabaya – Denpasar vv
Jakarta – Denpasar – Timika – Jayapura vv	Surabaya – Balikpapan vv
Jakarta – Manado vv	Surabaya – Makassar vv
Jakarta – Makassar vv	Yogyakarta – Denpasar vv
Jakarta – Makassar – Biak – Jayapura vv	Denpasar – Mataram vv
Jakarta – Makassar – Manado vv	Jakarta – Denpasar – Kupang vv
Jakarta – Mataram vv	Jakarta – Jambi vv
Jakarta – Medan vv	Jakarta – Makassar – Kendari vv
Jakarta – Medan vv	Jakarta – Malang vv
Jakarta – Medan – Banda Aceh vv	Jakarta – Pangkal Pinang vv
Jakarta – Padang vv	Jakarta – Tanjung Karang vv
Jakarta – Palangkaraya vv	
Jakarta – Palembang vv	
Jakarta – Pekanbaru vv	
<i>International routes</i>	
Service Asia	Service Southwest Pacific
Denpasar – Hong Kong vv	Jakarta – Denpasar – Perth vv
Denpasar – Singapura vv	Jakarta – Melbourne vv
Jakarta – Bangkok vv	Jakarta – Sydney vv
Jakarta – Hong Kong vv	Denpasar – Melbourne vv
Jakarta – Kuala Lumpur vv	Denpasar – Perth vv
Jakarta – Singapura vv	Denpasar – Sydney vv
Mataram – Jakarta – Kuala Lumpur vv	Service Middle East
Surabaya – Hong Kong vv	Jakarta – Ryadh – Dammam – Jakarta
Service Japan Korea and China	Jakarta – Jeddah – Jakarta vv
Denpasar – Shanghai vv	
Jakarta – Denpasar – Tokyo vv	

(Continued)

Exhibit 14

<i>Rute</i>	<i>Rute</i>
Jakarta – Seoul vv	
Jakarta – Singapura vv	
Denpasar – Nagoya vv	
Denpasar – Osaka vv	
Denpasar – Seoul vv	
Denpasar – Tokyo vv	
Jakarta – Guangzhou vv	
Jakarta – Singapura – Beijing vv	
<i>Code share partner</i>	
No.	Airline name
1	CI (China Airlines)
	Route
	TPE-DPS-TPE
	TPE-JKT-TPE
	TPE-SIN-SUB-SIN-TPE
2	CZ (China Southern)
	CAN-JKT-CAN
	JKT-CAN-JKT
3	MI (Silk Air)
	SIN-BPN-SIN
	SIN-PLM-SIN
	SIN-SOC-SIN
	SIN-AMI-SIN
	SIN-MES-SIN
	SIN-MDC-SIN
4	SQ (Singapore Airlines)
	SIN-DPS-SIN
5	KE (Korean Air)
	ICN-JKT-ICN
	ICN-DPS-ICN
6	MH (Malaysia Airlines)
	KUL-CGK-KUL
	KUL-JOG-KUL
	KUL-DPS-KUL
	KUL-FRA-KUL
	KUL-SUB-KUL
	KUL-LHR-KUL
	KUL-MES-KUL
	KUL-CDG-KUL
7	PR (Philippine Airlines)
	MNL-x/SIN-JKT-x/SIN-MNL
	MNL-JKT-MNL
8	VN (Vietnam Airlines)
	SGN-SIN-JKT-SIN-SGN
9	QR (Qatar Airways)
	DOH-JKT-DOH

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