MANAGEMENTINNOVATION STRATEGY TO FACE THE COMPETITION OF DOMESTICCOMMERCIAL FLIGHT BUSINESS IN INDONESIA CASE STUDY: GARUDA INDONESIA AIRLINE

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Abstract- Innovation is an essential part to be done bycompanies in order to survive for the tight competition in business industry. Being innovative does not just creating new product using the expertise of market researchers, and product developers. It also involves using capabilities of everyone in organisation to achieve the process that help new product to reach the market effectively and efficiently. Garuda Indonesiabecomes one of many companies that successfully innovate in their core business. They do a good innovation in their marketing strategy as well as in the company's management structure. In thispaper, a review of selected innovation strategy has been undertaken by Garuda Indonesia that can provide a competitive advantage and sustainability in the global market. Based on the literature review, a framework has been developed with key factors/enablers that determine the resilience and competitiveness of innovation strategy of Garuda Indonesia. This framework has been empirically studied by collecting data from annual report, and data from company. It involves a sample of competitor and provides further insight into the key characteristics associated with resilience and competitiveness of Garuda Indonesia airline that are influenced by advances in operations strategies, technology and globalisation. Finally, a detailed summary of findings and conclusions are presented.

Keywords- Innovation; resilience; competitiveness; strategy.

I. INTRODUCTION

Innovation can be defined as the process of developing, creating, and implementing the new technologies, products and services which results value [1]. Companies should generate innovation to keep its value in global market. Some of them forget the importance of innovation including Garuda Indonesia as Indonesian airline company. Back from eighties, after separated from the KLM Dutch airline company, Garuda Indonesia received benefits from the government to do concession of monopoly in the aviation industry. As a result, in 1982 Garuda Indonesia became the 2nd best airline in Asia afterJapan Airlines as well as being the largest and influential airline in the southern hemisphere. However, since the Indonesian government issued ministerial decree no.11/2011 and particular deregulation about air transportation and initial operational procedures in 1999 [2], the development of commercial aviation industry is becoming increasingly widespread. Garuda Indonesia as national Indonesia airline can no longer dominate the market for aviation services industry. A large number of private airlines companies operating in Indonesia such as Lion Air, Sriwijaya Air, Adam Air and others automatically enter and create a tight competition in commercial flight business sector. Indirectly, this case affected the position of Garuda Indonesia in severe conditions. The situation was getting worse by the Asian crisis that hit Indonesia in the last two decades, a series of accidents suffered by Garuda Indonesia, and the ban on flights to the European Union in 2007. In contrast from the problems experienced by Garuda, the air transport sector in Indonesia recorded growth turn out to be a very promising business. This case then used by the other airline competitors including Lion Air to take advantage of the Garuda Indonesia's bad reputation with a massive expansion plan to get the majority of market share. Based on data from State-owned corporation that provides services operator of airports in Indonesia, PT. Angkasa Pura, the number of air passengers in Indonesia has increased year by year to over 25 million in 2005 and continues to grow [3]. This research will address how is the competitive position of Garuda Indonesia to competitors and whatinnovation strategies are used to make Garuda Indonesia rose again.

II. METHOD

In this study, the data collection system is done using secondary data. The data source comes from corporate and online data. Data collection is done in stages according to the sequence of data which want to process first. For internal data of Garuda Indonesia Airline, the research group prioritizes the internal report source of the company because it will be trusted and valid, while the idea for data related external factors affecting the company derived from the discussion group of researchers. Data obtained from an indirect source is used but sought by its supporting information as an example of another more reliable site to validate the data obtained.

Data processing is done in stages in accordance with the sequence of steps in conducting analysis of corporate strategy include three crucial steps: structural analysis and positioning which consists of five forces analysis of Porter, and TOWS analysis; Innovation strategy implementation which includes “seven S” model, and Innovation on trategy

development which using Ansoff matrix; and Identified the needs of the innovation aims to determine the needs of customers who will serve as the basis for making / designing products. Identified the needs of the design is made to clarify the boundaries in developing management. Strategy applied by the company then processed into Grand Strategy.The analysis given for each step considers quantitative, qualitative and related data to the firm.
The results that have been obtained in the form of data from observation.

III. RESULT

A. The Structural Analysis and Positioning of Garuda Indonesia

To be competitive in the aviation industry bothinside and outside the country, determining weaknesses, strengths, opportunities, threats, and strategies become crucial [4]. At this stage, I use the model of Porter's five forces to analyse the competition of Garuda Indonesia which is a widely used approach to develop a strategy in many industries and TOWS Analysis to identify factor that affecting the company.

1) Five Forces Analysis

The competitive strategy aims to establish the profitable and sustainable position against the forces that determine industry competition [5]. Garuda Indonesia's business strategy in the competitive aviation industry can be analysed using five forces analysis approach. Firstly, competition among existing companies. The increasing number of domestic and international airlines that operate indicating strong competition in this industry. Domestic airlines include Air Asia, Sriwijaya Air, Lion Air, Wings, Merpati. There are also several international airlines, such as Singapore Airlines, Cathay Pacific, JAL, KLM. To respond to competition among airlines Garuda Indonesia carries out operational activities byimplementing standardized only on Full-Service Carrier, but they forget to play in Low-Cost Carrier. Secondly, the threat of new competitors. Newcomers in industries bring new capacity, the desire to seize the market. As a result, prices may be down or inflated costs, thereby reducing profits. New competitors Garuda Indonesia mostly Low-Cost Carrier has caused many changes in the aviation industry in total. At the time, Low-Cost Carrier market share overpowered by Lion Air. As the main competitor of Garuda Indonesia, Lion Air has a market share over 45% in 2011 and 2012. The number of domestic passengers Low-Cost Carrier choosing Lion Air also increased year on year from 28 million in 2008 to 36 million in 2013. Based on that data, we know how attractiveness the performance of Lion Air in domestic market year by year which makes them became the top of Low-Cost Carrier industries in Indonesia. Meanwhile, Garuda Indonesia only able to occupy the second position [6]. Thirdly, the threat of product substitution. Product substitution of Garuda Indonesia is air transport services of sea and land transportation. Customers prefer products replacement like train, car or bus for short-haul routes, while the product replacement like ship chosen by considering lower cost. Fourthly, bargaining power of suppliers. Garuda Indonesia has a variety of suppliers including PT. Angkasa Pura to support operations, Pertamina company for fuel, while the engine used by the fleet of aircraft manufactured by CFM International between Rolls-Royce in the UK, and General Electric in the United States. Lastly, bargaining power of buyers. Garuda Indonesia as the premium airlines will focus on two categories of customers both domestic and international. Garuda Indonesia for its own domestic market focus on middle-class customers by providing Full-Service Company. For international routes, each year Garuda Indonesia earned substantial profits from the Indonesian pilgrimage to middle east.

2) TOWS Analysis

Marketing audit is a systematic, comprehensive, independent and always takes place on a regular basis in a company. Recommendations and solutions to improve the company's performance will be generated through this activity [7]. In this part, I tried to implement Garuda Indonesia’s marketing audit using a TOWS analysis.

TABLEI
TOWS ANALYSIS

	WEAKNESS	**STRENGTHS**
	1. Garuda Indonesia always depends on automatic system to run its business. If something error occurred on the system, business processes will be disturbed. 2. Technical factor such as the limitation of cabin crew which make more delays on flight.	1. Perform continuous promotion in various ways such as social media promotions to increase sales. 2. Improve and expand the role of each individual worker to be able to become a mentor so that productivity can be maintained. 3. Always innovating to produce value added products. 4. Customer relation management becomes the main focus. 5. Implement booking engine features to facilitate customers.
OPPORTUNITIES 1. Develop the new fleet with advanced technology to save fuel so that the company can make an efficiency. 2. International market potential has increased. 3. The prediction of Indonesia's economic growth from the last one decade can directly affect the growth of air services	W-O 1. Recruited many cabin crew in order to avoid delays and as additional human resources in anticipation of global market competition (W2,O2, O3). 2. Updating existing technology systems (W1,O1).	S-O 1. International media promotion (S1,O1). 2. innovations on the new fleet to increase efficiency rate (S3,S5, O1). 3. Provide training and development of individuals among the employees in order to provide excellent service to customers (S2, S4, O3)
THREAT 1. Open sky systems integration has been applied in South East Asia region. 2. The capacity of the operator of low cost carriers has increased. 3. Flight routes can be influenced by the political situation in a country. 4. Other transportation is cheaper. 5. Substantial capital for the development in the aviation industry.	W-T 1. To Make loyal passengers to continue and always use the Garuda Indonesia, so Garuda could still compete with other transport competitors and have competitive advantages (W1,T4,T1) 2. To give satisfaction to the passengers by increasing the number of pilots, cabin crew, and the services provided (W2, T5)	S-T 1. Developing customer relations management to maintain the loyalty of passengers of Garuda Indonesia (S4,T2,T4). 2. Expanding the interesting promotion through collaboration between ASEAN's aviation companies and connecting flight (S1,T1). 3. Shaping customer mindset that service of Garuda Indonesia is the most friendly (S4,S2)

TOWS matrix will identify the factors that will affect the existing potentials factor at company both good and bad factors. These factors will be anticipated as a strategy to develop the company [8].There are four factors that influence: strengths, weaknesses, opportunities and threats. As shown in table below weakness is anything that Garuda Indonesia does not well. Strength is anything that make Garuda Indonesia does well. Opportunities are external conditions that support strength. While the threats are external conditions that are not related to the weaknesses and strengths.

TABLEII
EXTERNAL AND INTERNAL FACTORS

External Factors:	Internal Factors:
Threats 1. Open sky systems integration has been applied in South East Asia region. 2. The capacity of the operator of low cost carriers has increased. 3. Flight routes can be influenced by the political situation in a country. 4. Other transportation is cheaper. 5. Substantial capital for the development in the aviation industry.	*Weakness* 1. Garuda Indonesia always depends on automatic system to run its business. If something error occurred on the system, business processes will be disturbed. 2. Technical factor such as the limitation of cabin crew which make more delays on flight.
Opportunities 1. Develop the new fleet with advanced technology to save fuel so that the company can make an efficiency. 2. International market potential has increased. 3. The prediction of Indonesia's economic growth from the last one decade can directly affect the growth of air services f*)	*Strengths* 1. Perform continuous promotion in various ways such as social media promotions to increase sales. 2. Improve and expand the role of each individual worker to be able to become a mentor so that productivity can be maintained. 3. Always innovating to produce value added products. 4. Customer relation management becomes the main focus. 5. Implement booking engine features to facilitate customers.

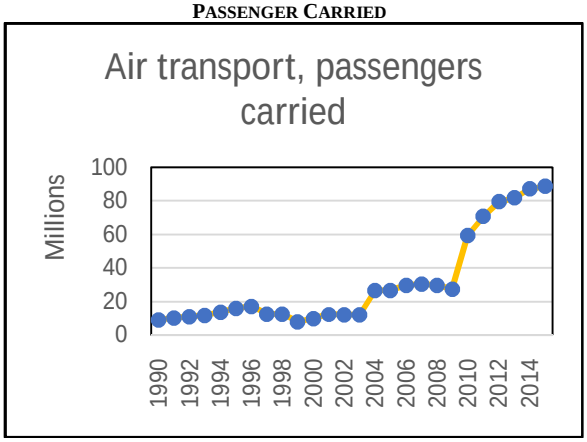
Information on these factors can only be resolved with scanning of Garuda Indonesia's work environment internally through the enterprise information and externally through a collection of events, strength and relationships external environment that may affect the marketing of Garuda Indonesia itself. According to the table 2, from opportunities factor it is found that the growth of Indonesian economic based on GDP which shown in Indonesia GDP automatically affect the growth of air service industry services.

CHARTIII
INDONESIA GDP



As an evidence, there is an increasing number of passenger to travel by plane as seen in chart IV.

CHART IV
PASSENGER CARRIED



Based on the data, Garuda Indonesia can take the opportunities from Indonesia economic growth.

B. Innovation Strategies Implementation

After knowing structural analysis and positioning of Garuda, then next step is implementing the innovation strategies. In this situation, Garuda seems to have a shortage to implement the strategy. Implementation of the strategy needed McKinsey's 7S framework. Garuda Indonesia internal organization and effectiveness can be analyse through 7S model.

1) The 7S model

The 7S model consists of strategy, structure, systems, shared values, style, staff and skills [10]. Those key elements have a main role to make Garuda Indonesia success in term of their organization. 7S can be done by implementing innovation on management structure through Quantum Leap and innovation on strategy development. Innovation in the management structure Garuda Indonesia starts with finding a new leader who has the managerial ability and capacity in putting a responsible member of the working group, delegating the member for other activities in their control and direction. The organisation of industry depends on the intelligence of one person which can be made to coordinate in a general way the mental operations and routine manual of others [11]. In 2009, Emirsyah Satar as new Director of Garuda Indonesia

did significant changes for followers and organisational impact on the company in gaining the trust of customers and stakeholders [12]. Investors more believed to invest in companies that are "healthy" like Garuda. One of the changes to do is "Quantum Leap" that used as a key strategy in facing the aviation industry competition.

Garuda Indonesia performs a variety of ways to maintain a competitive advantage, one of them is to implement a Quantum Leap that consists of seven coherent strategies used to dominate the market. Those strategies are:

a) Increasing the potential for the company in the international market by joining the Global Alliance.

After Garuda Indonesia join the SkyTeam Global (the global airline alliance)they will totally ready to keep continually improving the competitiveness in the Asia-Pacific region.

b) Continually strive to grow and dominate the market for a full-service carrier in Indonesia.

In the domestic market, Garuda Indonesia should try to improve its competitive position by increasing the premium service quality and enlarge market expansion into the low-cost-carrier by developing regional jet aircraft.

c) Fill the Low-Cost Carrier market through Citilink, a subsidiary of Garuda Indonesia Airlines.

The aim of a strategy adopted is to separate the company's management between Garuda and Citilink, maximise aircraft utilisation, focus on short-haul routes, and maximise aircraft maintenance.

d) Expand, simplify and rejuvenate fleet.

Garuda needs to strike a balance between the number of fleets with existing needs. The aim is to achieve fleet availability that can be operated with an efficient and flexible. The strategy used is the synergy between the aircraft utilized by the Indonesian Garuda and Citilink. Garuda also closing the routes that not benefits at all. For instance, international route from Jakarta to Taiwan.

e) Strengthen the branding of Garuda Indonesia.

Garuda provides premium proposition products through four components. The friendliness of the crew, customer service quality, more modern cabin interior and new fleet. For example Garuda became official sponsorship of Liverpool Football Club from 2012-2015.

f) Cost discipline.

Garuda needs to focus on reducing the cost continuously but still provide better service quality. Two strategies are applied, the transition from the indirect sales into direct sales to decrease the cost of sales that is too large (eg. call centre) and the operation of the new fleet to reduce maintenance costs.

g) Human capital.

In this step, Garuda focus on the quality of human resources to give better understanding the culture of Fly-Hi (eFficient and effective, Loyalty, Customer centricitY, Honesty and openness, and Integrity). This step consist of organisation development, improving performance management system and building leadership capability.

C. Innovation on Strategy Development

In the strategy analysis, conducted an assessment of certain types of strategies and whether the strategy adopted by the company. Intensive strategy applied to increase Garuda Indonesia's business growth by using Ansoff matrix [13].

2) Ansoff Matrix

Strategic direction of investment start from market penetration to diversification strategies as can be seen on table V.

CHART V
STRATEGY DIRECTION

	Existing Business	New Business
Existing Market	SkyTeam Global Alliance Airlines	Garuda Maintenance Facility Aero Asia (GMF)
New Market	Citilink	Aerowisata, Abacus Distribution Systems Indonesia, Aero Systems Indonesia

By using Ansoff matrix as strategy development framework, Garuda Indonesia can focus on not only competing in Full-Service and Low-Cost Carrier but also keep remain attractive in the market. There are four steps of Ansoff matrix:

a) Firstly, for market penetration Garuda joined the SkyTeam Global Alliance Airlines to improve competitiveness and unlock the potential in market share international scope.

b) Secondly, for market Development Garuda Indonesia fills the market through Citilink which only focused on short-haul routes to meet the market demand for low-cost carrier.

c) Thirdly, for product development in address to maintain the turbine engine machine, Garuda Indonesia makes GMF which focused on the service and maintenance the aircraft including components and engines.

d) The last step is diversification strategies carried by opening six subsidiary companies were related and unrelated to the core business that each of them has a focus on supporting GarudaIndonesia's business. Those diversifications are: Aerowisata which engaged in the hospitality and tourism such as hotels, tour andtravel agents. Garuda Sentra Medika which focus on supporting and providing services in a professional manner and equipped with a laboratory, Radiology, Pharmacy, Physiotherapy and Medical Check Up. Garuda Indonesia Cargo which focus on handling the cargo transportation service. It also

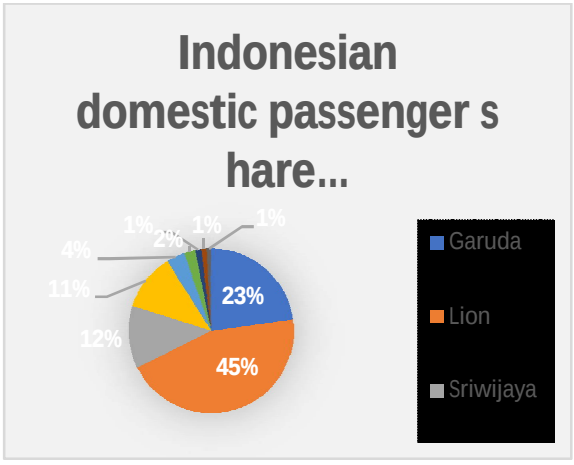
promotes its services through cooperation between flight agent and freight forwarder both domestic and international routes. Garuda Indonesia Training Centre whish engaged to train the new flight attendants before they officially work as a cabin crew. Abacus Distribution System Indonesia which involved in information and communication technology. It provides training facilities for travel agency, renting computer devices for travel agents. Aero Systems Indonesia, engaged in consulting and maintenance services in Airline companies.

e)

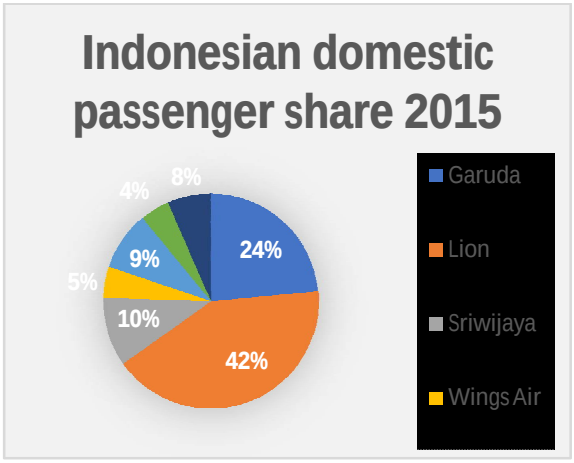
Garuda Indonesia using the horizontal integration by establishing Citilink which aims to reach consumers who are looking for low cost flights. Services which provided by Citilink is also comparable to premium services provided Garuda Indonesia. Garuda Indonesia using this strategy in order to compete with the power of Lion Air which has dominated the Low-Cost Carrier market and domestic after dark period experienced by Garuda. Based chart VI, it can be concluded that Citilink as a Garuda Indonesia's subsidiary has an important role to take over the Low Cost Carrier market and competing with Lion Air.

f)

CHART VI
INDONESIAN DOMESTIC PASSENGER SHARE BEFORE AND AFTER CITILINK JOINED



Before Citilink Join



After Citilink Join

CONCLUSION

Analysis of market situation has provided a solid basis for Garuda Indonesia to rise and compete in the marketplace. Garuda Indonesia still competes in the Full-Service Carrier without having to change direction to compete in the Low-Cost Carrier market and reduce costs. Garuda Indonesia implementing some of the strategies of innovation to continue attractive in the market. Innovation committed begins by analysing the position of the company with competitors and executing the strategy solutions.

Garuda also restructured management through the Quantum Leap strategy. This strategy includes 7-step changes such as the making Citilink as subsidiary company who play in Low-Cost Carrier market to compete with Lion Air, joining SkyTeam, providing service premium quality in every airline, strengthenthe brand image of the company through a media campaign such as advertising and sponsorship, do cost discipline and implementing Fly-Hi culture in every line of the company's organization. Another innovation is to do intensive strategies that focus on the market and new business and existing as well as using a horizontal approach. To maintain market share to remain optimal, Garuda management strategies can be put on market-share. Garuda Indonesia became a successful aviation company to develop an innovation strategy beyond its core business with the maximum use of assets and resources that they have. All the innovations make Garuda Indonesia as one of the progressive improvement airline companies in the world.

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