



AirAsia's Application of the 'Thirty-Six Stratagems'

WONG WEI MEI

nicole_wwm@hotmail.com

**CENTRAL CHINA NORMAL UNIVERSITY
WUHAN, CHINA**

Abstract

Based on the '36 Stratagems' (三十六计) - a compilation of strategies from the China Warring States Era, this paper analyzes the transfer of military strategies into the corporate setting of AirAsia. The '36 Stratagems' offers new perspectives about how to form creative strategies in today's dynamic business landscape with similar characteristics to ancient Chinese warfare, particularly the aviation industry surrounding AirAsia in South-East Asia. The article illuminates the different ways AirAsia utilized one of the stratagems during the global economic crisis in 2008 and how the low-cost carrier adapted the stratagem to the business model and market conditions.

Strategy: 'The 36 Stratagems'

Introduction

Corporate Strategy is defined as a long-term plan of action designed to achieve a certain goal for the whole organization (Stimpson and Farquharson, 2010). The '36 Stratagems' though unconventional, is the perfect guide to executing unique and aggressive corporate strategies. The '36 Stratagems' is an ageless compilation of Chinese strategies from hundreds of years of experience. The '36 Stratagems' is a unique collection of lessons, proverbs and aphorisms that captures the fundamentals of Chinese strategies (Sengar, 2006). In the West, Sun Tzu's 'Art of War' is more popular compared to the '36 Stratagems.' It is a complete playbook compiled from more than twenty generations and yet it is as short as only one hundred and thirty-eight Chinese characters. It is compact and can be interpreted creatively to fit into any business landscape (Krippendorff, 2003).

Sun Tzu's Art of War is a military text more focused on the philosophy and set of rules surrounding military organization battlefield tactics. It was the work of only one man while many created the '36 Stratagems'. In fact, they are stories passed down from generation to generation, refined to a point where only the bare fundamentals remain. The '36 Stratagems' is usually applied subtly in politics and diplomacy, it also targets psychological warfare (Verstappen, 1999).

Brief History

The '36 Stratagems' is hugely influenced by a turbulent time in China's history known as the China Warring States Era (403-221 BC). This period of time was characterized by war and taking over territories. The seven states: Qin, Han, Wei, Zhao, Qi, Chu and Yan dominated the smaller separate states as all of them battled each other to surge to power. The Seven Warring States and the smaller states engaged in brilliantly planned battles, shifting alliances and political manipulation (Krippendorff, 2003). Brilliant scholars and generals have used geographical, political and most importantly psychological warfare to achieve their numerous goals. The various states fielded massive armies of infantry, cavalry, and chariots. Complex logistical systems maintained by efficient government bureaucracies were needed to supply, train, and

control such large forces. The size of the armies ranged from tens of thousands to several hundred thousand men. (Ebrey et al, 2006). Consequently, the leaders and scholars of this period work under extreme circumstances to come up with workable strategies and for the western readers, these strategies show ageless representation of the mechanics of human nature under severely stressful situations. Many of the proverbs in the '36 Stratagems' stemmed from events occurring in this era (Verstappen, 1999).

Content's Overview

There are 6 strategies in the book and each of the 6 strategies is comprised of 6 stratagems. They are: Stratagems when in a superior position; Stratagems for confrontation; Stratagems for attack; Stratagems for confused situations; Stratagems for gaining ground; and Stratagems for desperate situations (Sengar, 2006). There is an afterword that is incomplete. Generally, the first three strategies are used when facing more advantageous situations while the last three is usually executed in a more disadvantageous environment. Classical Chinese is characterized by briefness. Every proverb in the strategy has a short and concise explanation attached to it. Battle scenarios and folklore usually accompany the strategies to further explain the source and history behind it. This also gives a better understanding as to how to execute them.

While at first glance, the '36 Stratagems' looks like it is primarily used for military purposes. But in reality, the '36 Stratagems' has been used as an aggressive and comprehensive bible for the business world. In fact, many global companies like Nintendo, British Airways, Epson etc (Krippendorff, 2003) have been utilizing the '36 Stratagems,' some unknowingly. The '36 Stratagems' contains strategies that are very different from the more direct business strategies developed in the West and requires a little bit of creativity in execution. It offers and expands options where other strategies limit you to stringent concepts (Krippendorff & Rivera, 2004). Even if one is not comfortable with using the '36 Stratagems,' we still have to be aware of such stratagems in case rival businesses use it against us.

AirAsia Overview

Low-cost Carriers

The aviation industry has been rapidly changing for the past 15 years. Flying has been revolutionized and it has been established as a staple method of travelling long distances over a short amount of time. A spike in emergence of low cost, no-frill carrier accompanied this development. The low-cost carrier runs on a very different business model compared to the mainstream air-carrier businesses. It is increasingly imperative for air-carrier businesses to distinguish themselves in their markets pools. Deyes' (2008) research revealed that a significant 30 percent of passengers and customers pick an airline based on pricing.

A common feature of low-cost carriers is they avoid providing hub-and-spoke networks and usually offer point-to point services (Tretheway, 2004). Their price structure also greatly differentiates them from conventional airlines. Low-cost carriers mostly start by offering services at the lowest cost possible while providing only basic services. Their low fares and services can be reflected by Porter's generic business strategy to set low-cost carriers apart (Hooper, 2004). Minimal services to customer help low-cost carriers reduce costs dramatically.

AirAsia Introduction

AirAsia is a highly successful low-cost airline in South East Asia. Initially, AirAsia was a sister airliner to the national carrier Malaysian Airlines (MAS). Both of them were government-owned. The Malaysian government was more focused on Malaysian Airlines and this affected the performance of AirAsia. At the time, AirAsia did not fare well (Shari, 2003) and was having difficulty retaining profits even though AirAsia flew domestic routes not covered by Malaysian Airlines.

Dato' Tony Fernandes wanted to run a low-cost carrier in South-East Asia. He arranged for a meeting with Conor McCarthy, Ryanair's former operations director (Conor McCarthy later became Dato' Tony Fernandes adviser). Both of them developed a plan for a low-cost airline based in South-East Asia (Grant, 2010). Fernandes registered a company in Malaysia called TuneAir in May 2001. Fernandes wanted government support and arranged for a meeting with Prime Minister Mahathir Mohammad. Fernandes wanted to get an official endorsement from the prime minister to be operating in the aviation industry but Prime Minister Mahathir Mohammad suggested that Fernandes acquire AirAsia, which was then a shell of a company with a massive debt of USD \$37 million instead of issuing a new license (Economist, 2009). Pesek (2003) and Ranawana (2001) stipulated that the Prime Minister used this meeting as an opportunity to offload this struggling government-owned airline, an ongoing attempt for the past two years.

Fernandes agreed and they drew up an agreement. For a token sum of MYR 1, AirAsia was bought by TuneAir (Prystay, 2001). AirAsia was in a lot of debt so Fernandes remodeled it into a short-haul low-cost carrier. Today, AirAsia is the single largest low-cost carrier in Asia. This award winning airline now flies both domestic and international routes and has plans to continue expanding their routes and the company itself.

Stratagem: Seize the Opportunity to Lead the Sheep Away (顺手牵羊)

Polarity (阴阳) and Wu Wei (无为)

Polarity. The Stratagem 'Seize the Opportunity to Lead the Sheep Away' stems from two very important ideas, one of them is polarity. In Taoist teachings, there is no concept of good or bad but merely two sides of the same coin. This correlates with a strong advocacy of Yin and Yang, otherwise known as polarity. Chinese philosophy places a lot of emphasis on polarity (Miller, 2003; Watts, 1999). Contrary to the Eastern belief, the West has cultivated an environment that encourages us to pursue the good without the bad that we have to overcome our competitors instead of

maintaining the harmony between adversaries, to turn in a profit without making losses. Giving leeway reflects weakness, letting other companies survive is a sign of cowardice.

Ironically, all these Western lessons are far from the scenarios in reality. While running a business, there are bound to be profits, as there are losses. There will always be competitors and there will almost be inevitably ups and downs. To actively seek for only the good seems folly. Understanding and utilizing Polarity can benefit businesses in striving to strike a balance, this can be more beneficial for a company compared to completely destroying your competitors. This way, a business can learn from another company. At the same time, this scenario motivates employees and prevents the entry of more competitors. The classic case example is of the ongoing war between Coca-Cola and Pepsi (Krippendorff & Rivera, 2004).

When companies accept the complexity of their situation, they will have a better control of the environment. The environment can include market, consumers, competitors etc. With such understanding, companies can gain more clarity and form more interdependent plans. New strategic possibilities often surface as a result of such clarity.

2500 years ago, Lao Tzu introduced Taoism. He advocated the study of the pattern of nature such as markings of shells, patterns of running water in order to understand and better influence our environment. Once one identifies a system's pattern, it will be easier to manipulate the system. Successful companies such as Microsoft, Virgin and Sony have implemented polarity as part of their corporate strategy and this is because they have a holistic understanding of their surrounding and have a firm belief that both yin and yang have to coexist (Jaeger, 2012).

Wu Wei (Go with the grain). Wu Wei is very closely related to polarity and many of the concepts involved intertwine. Lao Tzu introduced the concept of Wu Wei. A very easy way to look at this is the common phrase, 'Going with the flow'. In the West, people tend to look at things in a more rigid, orderly manner. Most scenarios already come with a supposedly tried and tested measure to handle them and those that act against this system are considered reckless and bound for failure. In Taoism, the Chinese believe that learning the pattern of nature means being able to manipulate the pattern while going with the flow of matters. Forcing an action against the situation requires too much effort. Thus, we should strive to exert our influence efficiently with minimal effort, molding it after the flow of events. Sun Tzu from the Art of War believed that a proficient fighter does not only win, but is skilled at winning with ease (Krippendorff, 2003).

Seize the Opportunity to Lead the Sheep Away (顺手牵羊)

This is the 12th stratagem of the '36 stratagems'. It is the stratagem for confrontation. This stratagem is derived from two general concepts-Polarity and Wu Wei (Go with the grain). This stratagem came from an old Chinese folk tale about a bereft traveler that wandered and came upon a flock of sheep. The shepherd was distracted so the traveler used this opportunity to snatch a sheep. He then strutted away so calmly that

the shepherd did not notice the loss of one of his sheep until it was too late. This stratagem fundamentally means to take advantage of opportunities no matter how negligible to attain profit (Verstappen, 1999). There is no definite definition to the stratagem and it is largely up to interpretation. It is important for a business to focus on current goals while keeping a keen eye out for any threats or opportunities, as these are the times to take full advantage of them.

Opportunities are often only available for a limited amount of time, so flexibility is key. This way, one can immerse and utilize the possibilities at any moment's notice. The best time to move in and act is when your enemy or competitor fail to react or retreat. Most companies retreat due to structural reasons or a lack of keenness to the situation around them. A good businessman will be able to dive in when others pull out. It is also important to create opportunities or value especially undetected by an unsuspecting or unlikely competitor. In ancient times, a good general often wait for enemies to make a mistake. The general also observes weather and geometrical standing as well; treating all of these as opportunities while others may dismiss or cower from them.

Being attentive and understanding of one's surrounding as mentioned in the explanation of polarity help us to take even small opportunities and small gains. This is because small opportunities and gains often lead to a long-term and more solid return. Actively searching and seizing opportunities is a basic requirement for the continuum of a successful company. As such, many established businesses like Microsoft or Home Depot follow this strategy. A good example is when Home Depot unsuspecting to contractors swooped in to encourage consumers to do their own home renovation and projects instead of hiring independent contractors (Kim & Mauborgne, 1999). This was because contractors had a hard time viewing a parts supplier as a direct competitor and Home Depot did not hesitate to take this opportunity to lure customers away from professional contractors.

Application for 'Seize the Opportunity to Lead the Sheep Away' (顺手牵羊) on

AirAsia

Low-cost carriers are having trouble to sustain themselves. This is largely due to the decrease in profit margins, regulated markets, increase in fuel price, economic condition, difficulty in establishing unique business image and bankruptcy (Hardy, 2009). Despite that, AirAsia, a low-cost airline based in Malaysia (Alloway, 2008) grew steadily while combatting the above factors. When fuel prices soar, most airlines clamored to cut back on flights, employees and purchases. During the global economic downturn in 2008, several budget carrier struggled during the worst of the downturn and an estimated of two dozen airlines worldwide have declared bankruptcy. Despite the industry slump, AirAsia increased flights, added routes, and boosted capital investments.

AirAsia increased efforts during the global economic downturn as AirAsia's fellow competitors shrank back and cut down on flight routes. As the stratagem of 'Seize the

Opportunity to Lead the Sheep Away' (顺手牵羊) implies, AirAsia seized the opportunity of further promoting itself while others cowered in face of the economic crisis. AirAsia gave away a million free seats and increased advertising. While others are wary of AirAsia's seemingly reckless move, AirAsia planned to fill up the vacuum left in the industry and use this as an opportunity to poach customers from other airlines. The decrease in flights from fellow competitors meant a huge amount of passengers were scrambling for alternate flights. One huge untapped market in the budget aviation industry is the business travelers or travelers previously flying on conventional airlines. AirAsia responded by increasing flights and flight routes. In light of the struggling economy, many travelers do not hesitate to switch down to AirAsia. Some might see this as a short-term plan but in reality, AirAsia used this opportunity to casually lead regular customers from other network carriers to AirAsia. This plan was executed without much resistance as other airlines had failed to cater to their existing customers due to their company's rigid policy of dealing with the economic crisis. The free seats giveaways and increase in flights might make a slight dent on AirAsia in terms of losses, but in exchange they tapped onto a market that they could not before - the conventional flight regular customers. This encouraged and convinced many conventional flight regular customers after trying out AirAsia to continue frequenting AirAsia even after the economy improved. While other airlines are struggling to keep their companies alive, AirAsia took an aggressive move and captured more market share, causing AirAsia's competitors to struggle to catch up and regain their losses even after the economy improved.

The travelling industry took a big setback but to everyone's disbelief, AirAsia increased advertising. AirAsia was attentive to the opportunity that was presented, an opportunity that was oblivious to AirAsia's competitors. The marketing and advertisement cost which were cheaper in light of the global economic downturn were fully utilised by AirAsia while others pulled out, this in turn brought more attention to AirAsia and helped AirAsia stand out among fellow competitors. Another example is when AirAsia utilized the cheaper advertising cost to exchange for more brand recognition, taking the chance to monopolize when others hid was during the SARS outbreak in 2003. During the SARS scare, AirAsia tripled spending on advertising while other airlines cut back (Economist, 2009). In fact, there was a surge of 400 percent growth in passenger volume compared to the corresponding period the year before. The increase in marketing ensured that people remember AirAsia, building a brand following. Branding is a vital source of competitive advantage and shows the authentic value a company represents (Fombrun, 1996) and AirAsia used the economic slump to build its brand into a stronger one, and strong brands will help with higher long-term and short-term results for AirAsia. This became a crucial goal of AirAsia's management (Keller, 2002). AirAsia's pursuit of branding during a time where the industry took a back seat magnified AirAsia's ability to set the company apart from the rest. It reflected the strengths of AirAsia glaringly, especially when AirAsia showed commitment beyond the task of moving a passenger from one point to another. AirAsia exploited the competitors' lapses and seized the advantages to the company's side. The negligence of the competitor was turned into a benefit to AirAsia. Thus, AirAsia managed to innovate and improve based on the dire situation to stay relevant to the market at 2008. A good example was the sponsorship of the English Premier

League Referees. Despite the decrease in business in the industry, AirAsia experienced a spike in passengers. In the long run, this builds consumer loyalty. In this case, it is clear how AirAsia used the stratagem wisely and made the most out of the economic crisis.

Usually, convincing consumers to switch brands is an expensive feat but in a situation where almost all of AirAsia's competitors pulled out and focused on sustaining operations and reducing loss, AirAsia did not follow the incumbents and did the opposite. With the increase of marketing, increase of availability and the attractive low fare, many frequent travelers tried or switched to AirAsia, building trust that even in a global economic downturn, AirAsia is still reliable. Reliability in flight industry is very important and can distinguish a company from the others. Trust of a brand by consumer is hard to obtain and is very valuable. Many businesses don't recognize the value of the trust of a consumer simply because there is no number attached to it, but consumers' trust benefit a company in the long run. A good review or word of mouth is more convincing than a commercial. It is vital to retain existing customers but it is equally important to attract new customers (Westcott, 2005). With trust, AirAsia built a pool of loyal followers that attract more and more passengers to switch to AirAsia till today, all of these without any aggressive response or comeback from AirAsia's struggling competitors.

AirAsia also took this opportunity to showcase the volatility and aggressiveness of the aviation industry. This prevented others from entering the market, preventing further competition (Global Travel Industry News, 2008). AirAsia also bought 25 of the A330-300 aircraft from Airbus. Airbus delivered three A330-300 in 2009, they also fast-forwarded an aircraft scheduled to be bought in 2011. As fuel prices rise, other airline companies opted to lease planes or use existing planes of an older model. Aviation companies like UK-Canadian carrier Zoom and Hong Kong-based Oasis (Oprea, 2010) declared bankruptcy mainly because they were still using old planes. Being a low-cost airline, maintaining a low cost of operations is imperative. Using the new ordered planes will not only reduce fuel consumption but also reduce maintenance and personnel costs (Ringbeck & Franke, 2003). The bulk aircraft order also resulted in lower capital costs (Vidović, Štimac & Vince, 2013). In short, AirAsia strongly utilized the stratagem 'Seize the Opportunity to Lead the Sheep Away' (顺手牵羊) and came out strong during and after the global economic crisis.

Conclusion

The '36 Stratagems' is used by successful businesses all around us. Most of them did not even realize they were utilizing the '36 Stratagems.' This is because the '36 Stratagems' are the fundamental basics when it comes to strategies. Up to interpretation, they could be used in the most basic manner or even a more complex version of them. AirAsia is one of the companies that had successfully executed the '36 Stratagems.' Other than using 'Seize the Opportunity to Lead the Sheep Away' (顺手牵羊), AirAsia also used 'Exchange a Brick for a Jade' (抛砖引玉), 'Befriend the Distant Enemy to Attack One Nearby' (远交近攻) and 'Feign Madness But Keep Your

Balance' (假痴不颠). AirAsia is able to achieve success over competitors despite being a relatively young aviation company due to AirAsia's ability to utilize the surrounding situation to benefit it. AirAsia will continue to thrive as long as the company continues to believe in conquering the market and competitors with strategic implementation of the '36 Stratagems.'

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