

Interview: AirAsia CEO Tony Fernandes

By [Siva Govindasamy](#)

We are stuck inside a busy restaurant called "Taste of Asia" at Kuala Lumpur's low-cost terminal for 20 minutes. A crowd has gathered because a rock star is in the house; his name is Tony Fernandes.

All it takes is for one person to tentatively walk up to the [AirAsia](#) chief executive and ask for a photograph. Fernandes adjusts his trademark red cap, shakes the passenger's hand, puts his arm around him and smiles widely with a thumbs-up as the camera clicks. He then turns to the passenger and says: "Thank you for flying with us."

Within seconds, dozens of AirAsia passengers - on their way to destinations as disparate as Bandung in Indonesia and Brisbane in Australia - leave their food and surround him. They are waiting to have a snapshot taken with the man who made their trip affordable, and possible. The 45-year-old Malaysian happily obliges everyone.



Welcome to the world of Anthony Francis Fernandes. In 2001, the man who spent much of his youth studying in England and playing schoolboy rugby, got out of a great career in the music business to plunge into a dream of running an airline. He mortgaged his house and, together with some friends and investors, bought AirAsia. Back then it was then a moribund Malaysian operation that cost 1 ringgit (\$0.28) and brought with it 40 million ringgit in debt and two [Boeing 737-300](#) aircraft.

He proclaimed that he would start Asia's first proper low-cost operation, and met polite smiles and condescending nods. He was seen as a maverick, who would crash and burn trying to take on the Malaysian and Southeast Asian airline and airport establishment. He has proven everyone wrong.

AirAsia is now the region's largest low-cost operator, with a network of 122 routes covering more than 65 destinations. It has carried over 65 million passengers since its inception and grown its fleet to 80 aircraft. It has gone public, ordered 175 [Airbus A320s](#), [started associates in Indonesia and Thailand](#), and finally secured access to Singapore after overcoming various obstacles. Fernandes and AirAsia have also helped to [start AirAsia X](#), a long-haul, low-cost airline that has 25 Airbus A330s on order and will imminently sign a deal for around 25 Airbus A350s.

"For the first time, in 2009, we really see AirAsia's true potential," he says with a satisfied grin. "I've had a lot more white hair in the process, but it has been worth it." Many still think he is a maverick, but they add the "visionary" tag to that. AirAsia has grown beyond anyone's imagination - except, perhaps, his own - and has arguably done more than any other to unite the 10 members of [the Association of Southeast Asian Nations](#).

He adds: "AirAsia has gone from a sparkle in my eye, to thinking that this could work, and then believing that we have arrived. It affects many lives and economies in a positive sense. We are no longer just a Malaysian carrier; we are an Asean airline."

The evidence is in Kuala Lumpur's low-cost terminal (LCCT), a 20-minute drive from the main Kuala Lumpur International Airport. It does not have flashy restaurants or fountains, but it packs in the crowds.

Imagine Kuala Lumpur's old [Pudu Raya bus station](#) -which in its heyday had hundreds of passengers arriving every hour from all corners of Malaysia, and Singapore and Thailand - and you get the idea. Simply substitute the buses with aircraft and include accents from every Southeast Asian country, with the Chinese, Indian, English and Australian twang thrown in.

"We're the only brand to promote Asean. It is not just about price, we brought points together like never before. Bandung-Singapore, Kuala Lumpur-Banda Aceh; it was not this easy to travel around the region until we started doing it," he says. It involved building the business up, and then doing "a helluva lot of lobbying and presentations" to convince governments it was better to open their doors, instead of protecting their legacy carriers.

"Commerce, rather than governments, drives Asean. Countries will always want more want tourists and traffic. Asean governments realised they had to open up or always play second fiddle to China and India," says Fernandes. "When you're AirAsia, carrying 24 million people, airport chiefs and tourism ministers realise it doesn't help them to protect national airlines after we talk to them."

Singapore, Southeast Asia's main air hub, is a prime example. It did not allow him to start an associate in the country, but he continued to lobby the government and proved the airline's value through its Malaysian, Thai and Indonesian operations. He still does not have a Singapore-based carrier, but finally has access to the country. AirAsia flies to five cities in both Malaysia and Indonesia, two in Thailand, and there are more to come.



Much of the success stems from AirAsia's work culture, which stresses innovation, openness and a never-say-die attitude. Its offices have few physical barriers between desks, there are no titles on name cards and everyone is encouraged to use first names. Cabin crew are pushed to develop their own personality, instead of conforming to preconceived notions about their role, resulting in a relaxed onboard environment. The CEO sets the tone. Anyone can walk up to "Tony", exchange a high-five, and offer a suggestion or just grumble about football. Talk to almost any of the 6,000-strong AirAsia staff, and a strong sense of ownership is evident.

"We're still a small operation, despite growing so fast, and that means everyone is valuable. At the end of the day, I would rather have 6,000 brains working for me instead of just 10. We are always innovating and we never stand still, and that has helped us," says Fernandes. "If there is a good idea, it can be implemented very fast as there is little bureaucracy. If there is a bad idea, we can kill it really fast too. That is how we do things that others may not try."The informal culture also helpskeep costs down, ever-important to a low-cost carrier. There are few personal assistants, the executives do not have drivers and Fernandes does not have a posse when he travels.

AirAsia has made tough calls recently, paying \$115 million to exit fuel hedges last year and unwinding interest rate swaps, related to aircraft term loans. The short-term pain will save money in the longer-run and "we won't have a noose around our necks going forward over

this year", says Fernandes. "We had to think on our feet. People initially criticised us, but we turned out to be right. The company's culture allows us to move fast when it comes to making decisions like those." As a result, Air-Asia had a unit cost of 3.08 cents per ASK in 2008, 10% lower than the previous year. "That is the toughest part of the business and our margins are among the best in the world."

Retaining focus on the key business helps, and that remains serving markets within four hour's flying time of its three hubs. "I'm still scratching the surface in Southeast Asia," he says. "I'm still small in Thailand and Indonesia, relative to their population sizes, and we're eyeing joint-ventures in the Philippines and Vietnam. We've faced obstacles in Vietnam, but we are patient. It took us seven years to get Kuala Lumpur-Singapore, and a lot can change in Vietnam in the next five years."

India and China are next in his sights, but that is in tandem with [AirAsia X](#), which will serve the markets four to eight hours out of Kuala Lumpur. These include destinations in Japan, South Korea, Australia, the United Arab Emirates, Bahrain, India and China.

Fernandes is not involved in AirAsia X's day-to-day operations, even though he gives a lot of input into its strategic direction. Walking up one of the airline's new A330s, which is about to take off for Melbourne, and meeting the passengers, he becomes animated. It is clear that this operation is close to his heart. After all, the long-haul operation was his original plan until former [Ryanair](#) executive Conor McCarthy, who became an AirAsia investor, persuaded him that the short-haul market had better prospects.

He admits it was the right move: "AirAsia X is a wonderful addition; it brings the brand to another level. Look, it is sexier flying to London and Melbourne than Bandung," says Fernandes. "But without AirAsia's short-haul market and the connectivity to Southeast Asia it offers, there would be no AirAsia X. That is why it will be hard for anyone else to emulate it. Look at Oasis Hong Kong - what else did they offer apart from flights to London? Is it any surprise that they had to shut down?"

Keeping AirAsia X as a separate company was a "clever step" that protects AirAsia, which has only a 16% stake in it, he adds. Aero Ventures, which Fernandes started with other prominent Malaysians and Air Canada's Robert Milton, owns 48% of the long-haul operation. The other investors are Richard Branson's Virgin Group (16%), Bahrain's Manara (10%) and Japan's Orix (10%). "We work on lots of things together, but we have not put down any money since we started it up. It is an independent business that derives its own cash and is profitable."

AirAsia itself, which listed on Bursa Malaysia in 2004, posted a net loss last year - but Fernandes says the first quarter of 2009 was profitable. Its shares have had a rough time on the Kuala Lumpur stock exchange and last year, when the price fell to around 0.80 ringgit, Fernandes and the other founders considered taking the airline private. They abandoned that plan after credit became tight. "We saw value in the price at the end of last year, and we still do, but we could not raise the money," he explains. Even if the average Malaysian shareholder may not see value, others could. Branson is mentioned as a possible investor, but when questioned about it Fernandes says with a laugh: "Ask Branson about that one!" Equity partnerships with other airlines, however, are a possibility if they bring tangible benefits.

"The world is a very small place. Will there be combinations between airlines? Sure. Will we consider something? Yes, if it makes sense. [Air France-KLM](#) is a good example of how something like that can work, but the combination must add value to shareholders. The reality

is that many mergers are driven by ego or airline necessity but, truthfully, most have not done a good job of it."

Fernandes concedes he may have to step down if there is a change in ownership, but he insists it may not be too hard. "If someone else feels that they can do a better job, sure. One of the great things is to know your sell-by date. Many people in Asia cannot let go. You are not a good leader unless you have a succession plan." However, he adds with a grin: "I'm not looking to leave any time soon. There's still a lot to do."

Fernandes gets a kick out of overcoming challenges, and there are still plenty of them. The biggest, he says, are airport operators, in particular Malaysian Airports, which runs KLIA and the low-cost terminal. MAB has successfully lobbied the government, [preventing AirAsia from building its own low-cost airport](#) near Kuala Lumpur. Instead, it promised it would expand the LCCT by 2011. A visibly exasperated Fernandes points out that they made similar promises in the past and nothing happened. The existing low-cost terminal is already bursting at its seams.

"Airports are parasites and, in Asia, their pricing is not transparent. Low-cost carriers should not be levied the same fees as the full-service airlines. We bring in a lot more volume, and there is plenty of ancillary income - just look at how crowded the shops and restaurants in our terminal are," he says. "I am an aggressive entrepreneur, but Asian airports are slow to respond. If anything stops our growth, it is the airports. If we have to defer aircraft orders, it is because of them. They curb our potential"

If the airports meet his ambitions, he says the possibilities are mind-boggling. "Southwest Airlines has 400 aircraft and a market of 300 million. On top of that, in America, you can drive from one end to another and they have pretty good train services. We don't have that over here," Fernandes points out. "Air-Asia is in a playground of 600 million people in Asean. If you add India and China, the other key markets we can touch, you can easily add a billion people, maybe more. That is Air-Asia's potential, and we aim to get there."

PLAYING THE GAME

As a young boy, Tony Fernandes dreamt of representing Malaysia in the Olympics. He played rugby, hockey and cricket while studying in England, and now loves squash and football. It is hardly surprising AirAsia is involved in sports sponsorship. It partners the Williams Formula Oneteam and sponsors the shirts of English professional football referees. It also worked with Manchester United and considered shirt sponsorship.

West Ham United fan Fernandes, says: "As a low-cost carrier, we constantly battle the image that we are low-quality. Our involvement in F1 and professional football helps. F1 races take place in the cities that AirAsia X plans to fly to, and English football is popular in Asia and shown all over the world. We won't be able to carry 24 million passengers without marketing." AirAsia gets good value through these deals, says Fernandes, but he is coy on the cost: "Let's just say that those in F1 and football are very good at making money!"

CUSTOMER DIVERSITY

AirAsia's main customers are still those who could not previously afford to fly, but its passenger profile is changing as it adds destinations and increases brand awareness.

"The economically disadvantaged are there, and the main market is still the mass market -that will never change -but we are reaching markets that we never dreamt of," says Fernandes.

"Goldman Sachs executives in Singapore, for example, are very happy that we opened up Singapore-Bandung as it allows them to them to meet clients in the Indonesian city. Our corporate business has gone up 400% because companies want to save money and, once they fly us, they don't want to change."

Fernandes' airline is transforming the perception of low-cost travel, giving rise to a diverse cross-section of passengers. The AirAsia chief executive says: "We show that low-cost does not mean low class. In the Jakarta-Kuala Lumpur flight, you'll find women with diamonds sitting beside maids. You could not see that before. That shows we're reaching everyone."

What does he think AirAsia means to its customers? "Nobody has really asked me that before," he says, pausing for the first time in the hour-long interview. "I think they are really proud to travel in an airline that came out of nowhere and provides a service that they did not have before. AirAsia made air travel possible for millions; it's their airline. Every day that I walk around the terminal, people come up and says thank you. If you run an airline, there is probably little more that will make you more happy."