



## Business Strategy for PT Pelita Air Service to Increase Revenue

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**ABSTRACT:** PT Pelita Air Service (PT PAS) is a subsidiary of PT Pertamina (Persero) which established in 1970 and focuses on air charter services as its core business. PT PAS has long years of experience in operating diverse types of fixed wing and rotary wing aircrafts with well proven safety record and high compliance. In the last six years, PT PAS has encountered problem of a downward trend in air charter revenue. The research analyses the external and internal environment of PT PAS air charter business. The external analysis is conducted using PESTEL Framework, Five Forces Model, Customer Analysis, and Competitor Analysis. The internal analysis is conducted using Resource Based View Model, Value Chain Analysis, STP Model, Marketing Mix 7P, and Business Model Canvas. Interviews are conducted to several participants from its customers and management. To examine PT PAS condition, SWOT Analysis has been used to evaluate the strengths, weaknesses, opportunities, and threats. Root Cause Analysis has been performed to discover the true cause of the problem. Based on the result of the examination, strategies are formulated using Strategy Diamond Model and proposed to PT PAS with implementation plan.

**KEYWORDS:** Air Charter, Aircraft, Business Strategy, Revenue.

### INTRODUCTION

The characteristic of Indonesia's geography with 6,000 inhabited islands makes air transportation a main mode of transport which is more suitable for business and tourist travelers as well as perishable goods [1]. Air transportation is fast, efficient, able to reach areas that are difficult to reach and has high accessibility. It connects the cities throughout Indonesia.

Indonesia National Air Carriers Association (INACA) classifies the commercial air transportation into 3 (three) groups as illustrated in its organizational structure: scheduled airlines, charter (unscheduled) flights, and cargo flights [2]. The charter flight business uses fixed wing (FW) or rotary wing (RW) aircrafts to serve the market. The scheme of charter can be performed by contract of certain period or single use (spot charter). It serves for various missions such as VIP transportation for government and company executives, tourism transport, crew rotation of mining to oil and gas company, medical evacuation (medevac), pioneering air transport for passengers and cargo, or any other missions as requested by customer. Around 80% of the market share of charter flight is rented by foreign companies in long term (mostly from oil and gas industries), with the remaining 10% to 20% using spot charter [2].

In 1963, a division of air transportation services, named Pertamina Air Service was established to support the national petroleum activities of PT Pertamina and PT Permina which was merged later in 1968 to become PT Pertamina. In 1970, Pertamina Air Service became a separate business entity named PT Pelita Air Service (PT PAS) which became a subsidiary of PT Pertamina PT PAS provided air charter services to PT Pertamina, other oil and mining companies, and other sectors of business in Indonesia. PT PAS served the government of Indonesia on VVIP RI-2 flight and transmigration program and participated in the United Nations humanitarian missions.

Revenue of PT PAS comes from 4 (four) business pillars: air charter, maintenance, airport, and aero services. As the oil price declined and its total revenue is dominantly generated by the air charter pillar, PT PAS is facing a condition where the total revenue continue to fluctuate and the air charter revenue as its core business tend to decline from year to year. PT PAS is struggling to compete in tender outside of Pertamina Group. This unfavourable situation is exacerbated by the absence of signs that the COVID-19 pandemic will subside soon.

### METHODOLOGY

This research focuses on the air charter business of PT PAS. Qualitative method is used to explore and understand the problem. Process of the research is composed of 6 (six) steps where the researcher identifies research problem, reviews the literature needed, specifies objective for the research, performs data collection, conducts data analysis and interpretation, and finally reports and



evaluates the research [3]. The research uses data from interview and other media such as reports (internal or external), books, journals, articles, and websites.

Interview was used to collect qualitative data from individuals by asking open-ended questions to explore their views. The number of interview participants was determined based on phenomenology approach which involves a range of three to ten amount [4]. The interviews were conducted in Bahasa Indonesia and transcribed into English using online meeting platform in the period of December 2021 to January 2022 with total of 6 (six) participants: 3 (three) participants from customers and 3 (three) participants from management. The interview questions were designed based on the Marketing Mix 7P elements.

Strategic management is the integrative management area that unites analysis, formulation, and implementation in the search for competitive advantage. It consists of 3 (three) key elements which are called the Analysis, Formulation, Implementation (AFI) Strategy Framework [5]. Data collected from interviews and other media are analyzed into external and internal analysis. The external analysis is performed using PESTEL Framework, Five Forces Model, Customer Analysis, and Competitor Analysis. The internal analysis is performed using Resource Based View Model, Value Chain Analysis, STP Model, Marketing Mix 7P, and Business Model Canvas. SWOT Analysis is used to discovered list of strengths, weaknesses, opportunities, and threats of PT PAS. Moreover, Root Cause Analysis has been performed to identify the true cause of PT PAS problem of air charter revenue decline. Strategy Diamond Model is used to formulate strategies which will be proposed to PT PAS with implementation plan.

## LITERATURE REVIEW

### PESTEL FRAMEWORK

The PESTEL Framework is a framework that categorizes and analyses an important set of external factors (Political, Economic, Sociocultural, Technological, Ecological, and Legal) that might impinge upon a firm. It allows us to scrutinize, observe, and evaluate changes and trends in the firm's macroenvironment. Political factors result from the processes and actions of government bodies that can influence the decisions and behavior of firms. Economic factors in a company's external environment are largely macroeconomic, governing economy-wide phenomena. Sociocultural factors catch on a community's cultures, norms and values. Technological factors catch on the use of knowledge to establish new processes and products. Ecological factors concern wide environmental issues such as the natural environment, global warming, and sustainable economic growth. Legal factors incorporate the formal outcomes of political processes as manifested in laws, mandates, regulations, and court decisions — all of which can have a direct relation on a company's profit potential. In fact, regulatory changes tend to influence entire industries at once [5].

### FIVE FORCES MODEL

To identify more about industry's profit potential, the Five Forces Model will be used It is a framework that recognizes five forces that establish the profit potential of an industry and form a company's competitive strategy. Relying on the company's strategic position, these forces can influence its performance for good or ill. The five forces are threat of entry, power of suppliers, power of buyers, threat of substitutes, and rivalry among existing competitors. As a rule of thumb, if the five forces are getting stronger, the industry's return potential will be lower, causing the industry less interesting for competitors. If the five forces are getting weaker, the industry's return potential will be higher, causing the industry more interesting [5].

The threat of entry represents the risk of potential competitors getting into the industry. The bargaining power of suppliers identifies pressures that industry suppliers can urge on an industry's return potential. This force drops a company's capability to gain superior performance for two causes: powerful suppliers can increase the cost of production by charging higher prices for their inputs or by decreasing the quality of the input factor or service level conveyed; and powerful suppliers are a threat to companies because they lower the industry's return potential by catching on part of the economic value made. The power of buyers who are the customer of an industry associates to the pressure an industry's customers can give on the producers' margins by requesting a lower price or higher product quality. When buyers successfully get price discounts, it subsidizes a company's revenue. When buyers request higher quality and more service, it generally increases production costs. Strong buyers can therefore lower industry return potential and a company's profitability. Substitutes fulfil the same basic customer needs as the industry's product but in another way. The threat of substitutes is the thought that products or services available from outside the given industry will almost the same to fulfilling the needs of current customers. Rivalry among existing competitors reflects the intension with which firms within the same industry take for market share and profitability [5].



## CUSTOMER ANALYSIS

Customers are the most important roles in the company's microenvironment where the entire value is delivered. We need to understand the customers to engage and make strong relationships with them [6].

## COMPETITOR ANALYSIS

Identification and analysis of competitors can give insight about their strengths and weaknesses, so that a company enable to find the opportunities for differentiation and competitive advantage and determine which advantage could be accentuated to which target segments [7].

## RESOURCE BASED VIEW MODEL

Resource Based View (RBV) Model is used to systematically identify resources of the firm to pave a way to superior performance. In the RBV model, a resource is more broadly defined not only assets, but also includes any capabilities and competencies that a company can use when formulating and implementing strategy. There are 2 (two) types of resources: tangible and intangible. Tangible resources have physical characteristics and are visible. Intangible resources have no physical characteristics and thus are invisible. To assess resources whether they support competitive advantages of a firm, they must meet the VRIO criteria: Valuable, Rare, Imitation Costly, and Organized to capture value, which are called the VRIO framework [5]. When a resource satisfies all criteria, then it is a core competency which support a sustainable competitive advantage.

## VALUE CHAIN ANALYSIS

The value chain explains the internal activities of a firm when converting inputs into outputs. Each activity the firm executes along the horizontal chain generates incremental value (V) where raw materials and other inputs are converted into components that are constructed into finished products or services for the end consumer. Each activity the firm executes along the value chain also generates incremental costs (C). When these activities deliver value greater than the costs, the firm acquire a profit margin, assuming that the market price that can be controlled by the firm also greater than the costs. The value chain is classified into primary and support activities. The primary activities are activities which generate value directly from input to output: supply chain management – operations – distribution – marketing and sales – after-sales service. Meanwhile, the support activities are activities which generate value indirectly: research and development (R&D) – information systems – human resources – accounting and finance – firm infrastructure including processes, policies, and procedures. To assist a company achieve a competitive advantage, each distinct activity executed needs to either increase incremental value to the product or service offering or reduce its relative cost [5].

## SEGMENTATION, TARGETING, AND POSITIONING MODEL

Segmentation, Targeting, and Positioning (STP) Model is useful for a firm to recognize a suitable market position and evolve a strategy to achieve it. Segmentation is to split the population of possible customers into groups (segment). A market segment consists of a group of buyers who have common characteristics, needs, purchasing behaviour, and/or consumption patterns. To make it effective, customers in a segment should have as much similarity as possible on the relevant characteristics so that variables of demographic, geographic, psychographic, and behavioural can be used to describe them. Customers in the same segment should have as identical needs as possible, but between segments, their needs should be as distinct as possible. When the customers have been segmented, the attractiveness of each segment must be assessed by the firm to decide which segment(s) that would most likely be interested to its service and focus on how to satisfy them with the service. This is called targeting. Positioning is the unique place that the firm and/or its service settle in the minds of its consumers. To gain this unique position, the firm must first differentiate the service from its competitors [7].

## MARKETING MIX 7P

When developing strategies to services marketing, the traditional 4P of goods marketing (product, price, place, and promotion) are not adequate to deal with and must be adapted and extended by adding 3P related with service delivery (process, physical environment, and people). Collectively, these seven elements are referred to as the 7P of services marketing [7].

## BUSINESS MODEL CANVAS

Business model is needed to portray the reason of how a company creates, delivers, and captures value and to create new strategic options. It consists of 9 (nine) building blocks covering 4 (four) main area of a business: customers, offer, infrastructure, and



financial viability. The 9 (nine) building blocks are customer segments, value proposition, channels, customer relationships, revenue streams, key resources, key activities, key partners, and cost structure [8].

## SWOT ANALYSIS

To examine the firm's condition, SWOT analysis is conducted to evaluate its SWOT: Strengths, Weaknesses, Opportunities, and Threats [6]. The analysis will generate awareness of an internal analysis of the firm's strengths and weaknesses with those from an analysis of external opportunities and threats. After the SWOT is developed, a set of strategic questions are used to link the internal environment to the external environment to generate possible strategic alternatives. Using the SWOT Matrix, strengths and weaknesses in the vertical axis are linked to opportunities and threat in the horizontal axis to develop strategic alternatives [5]. There are four-step process of focus on the SWOT Matrix: Strengths–Opportunities (SO), Strengths–Threats (ST), Weaknesses–Opportunities (WO), and Weaknesses–Threats (WT).

## ROOT CAUSE ANALYSIS

Root cause analysis is a structured way to discover the true cause of a problem and the actions necessary to overcome it. the root cause will be identified using the fault tree analysis. Fault tree analysis is a tool to identify a number of possible causes and especially when these seem to belong to different branches of cause-and-effect chains by being more specific about the connections between causes and the event [9].

## STRATEGY DIAMOND MODEL

Strategy is come from the Greek word of *strategos* which means “the art of the general”. The general is committed for multiple units on multiple fronts and multiple battles over time. A strategy is a central, integrated, externally oriented concept of how the business will achieve its goals. There are five elements of strategy: Arenas – Where will we be active? Vehicles – How will we get there? Differentiators – How will we win in the marketplace? Staging – What will be our speed and sequence of moves? and Economic Logic – How will we obtain our returns? [10].

## RESULT

### ANALYSIS OF EXTERNAL AND INTERNAL ENVIRONMENTS

External environment is the industry in which the company operates and the competitive forces that encircle the company from the outside, from a more macro perspective to a more micro understanding of how the external environment influences a company's search for competitive advantage [5]. By understanding the external environment of PT PAS, it can decide a good strategy to gain a competitive advantage.

Following are summary of the external analysis of PT PAS.

- The opportunities are widened by the Omnibus Law [11] [12] which gives more discretion and flexibility to run the aviation business in Indonesia, especially in minimum aircraft ownership rules [13], simplifying the business licensing system and requirements [14]. The economic growth has started to rebound and projected to be increased in future years [15] and this optimism will affect positively to all industries, including the aviation industry. The need for air charter is still high for various customers due to its prioritization of time, cost, and flexibility to access a location. Due to its high-tech and continuous progress in the development of new technologies, there are options of a more fuel-efficient fleet and improvement in flight and ground operations [16] [17]. The threats are shown in the economic aspects where fluctuation of the USD IDR exchange rate [18] can affect the aviation industry since almost all of transaction using USD and the increase of jet fuel price [19] can affect the profitability of an air charter company [20]. New requirement of ecological issues [21] and regulation might incur more cost for an air operator company. The legal aspects which influenced the aviation industry are regulation from the ICAO and Indonesia Government.
- Aviation is a high capital and high regulated industry for the air operator and its suppliers with sophisticated requirements concerning safety, work experience, aircraft specification, manpower, tools and facilities, time frame from the customers, and the possibility of substitution by land or sea transport. The threat of entry from competitors is low, the power of suppliers is high, the power of buyers is high, the threat of substitutes is medium, so that the nature of rivalry among existing competitors of air charter providers is high.



- The customers need air charter services using either FW aircrafts or helicopters depends on operation area, regional command structure and economic factors. The core product of air charter using fixed wing aircraft is for crew change, meanwhile the supplementary service is for small goods transport. The core product of air charter using helicopter is for medevac and/or crew change offshore, meanwhile the supplementary service is to transport expert or management walk through (MWT) in emergency response situation. The choice of aircraft type and features in it must be based on the need because it related to cost, so it will be cost driven. The customers think that PT PAS is more flexible than other competitors. Customers feel easier and more comfortable to discuss any condition with PT PAS, especially regarding pricing and cost, to achieve win-win solution. But there is a deficiency that need to be corrected by PT PAS. PT PAS is too slow in giving response to customer.
- The OGP segment has become the priority of PT PAS because it has taken the majority portion of PT PAS revenue among other segments and the contracts are usually in long term period. There are 17 (seventeen) AOC 121 companies and 42 (forty-two) AOC 135 companies in Indonesia [22]. From those numbers of competitors, only 3 (three) private companies are considered as competitors of PT PAS in OGP segment. The competitors are not easy to enter Pertamina Group market because of the Pertamina Synergy Program which prioritize to use PT PAS above the other. But for PT PAS, it will not be easy to compete with them when it comes to tender from outside Pertamina Group. They offer competitive price compared to PT PAS.

When companies compete in the same industry and deal with similar external opportunities and threats, the source for some of the visible performance difference must be discovered inside the company. The best firms carefully identify their core competencies, resources, and capabilities to withstand and succeed. Firms then decide how to manage and develop internal strengths to overcome the challenges and opportunities in their external environment [5].

Following are summary of the internal analysis.

- There are 3 (three) tangible and 3 (three) intangible resources of PT PAS. The tangible resources are aircrafts, human resources, and properties. The intangible resources are reputation, captive market, and certification. Properties, reputation, and captive market are classified as sustainable competitive advantages. Meanwhile, aircrafts, human resources, and certification are classified as competitive parities.
- PT PAS has a value chain in big picture to transform the resources and other inputs into various services. Unfortunately, this value chain has not been described more detail in guideline documents, job descriptions, and KPIs.
- There are 4 (four) segments which targeted by PT PAS: OGP, Government, SOE, and Private Companies with priority in the OGP segment. Positioning of PT PAS based on the segments targeted is to provide air charter service for various purposes with high compliance and proven experiences.
- PT PAS provides complete services in aircraft charter, both FW and RW aircrafts. The core product of PT PAS is charter for OGP crew change and medevac 24 hours, usually long-term contract. The supplementary service is short term contract or spot charter such as for firefighting, patrol, rain making, medevac, including new product of cargo (long term potential contract). PT PAS is more flexible to communicate and look for win-win solution with customers while still complying with safety and regulation. The products might be the same with competitors, but the difference is the fleet, performance, and reliability. Some competitors might have newer fleet with unreasonable price, but in term of safety and reliability PT PAS can compete with them. There is communication obstacle in internal PT PAS because of high turnover in PT PAS management. Communication between functions is still minimal. No regular sharing sessions and less coordination meeting are held. People at PT PAS do not know the exact situation in other functions because they reluctant to know or they do not have enough tour of duty. Teamwork awareness needs to be improved.
- The 9 (nine) building blocks of BMC show customer segments, value proposition, channels, customer relationships, revenue streams, key resources, key activities, key partners, and cost structure of PT PAS.

## FORMULATION OF STRATEGIES

### SWOT Analysis

Based on the internal and external analysis that have been performed, the SWOT of PT PAS can be described as the following.





### *Strengths:*

- Experienced in operating FW & RW aircrafts. PT PAS is experienced in operating diverse types of FW and RW aircrafts (RBV). Products or services provided by PT PAS are completed enough in aircraft charter for both FW and RW, especially for OGP operation (Internal Interview). PT PAS prioritizes the OGP segment over the other because of its high potential revenue and long-term period of contract. PT PAS positioned itself to provide air charter service for various purposes with high compliance and proven experiences (STP).
- Qualified and experienced operation and maintenance personnel. Operation and maintenance personnel of PT PAS are qualified and experienced since they must comply with certain requirements based on aviation regulation and OGP standards (RBV). The customers think that personnel of PT PAS are enough in quantity and decent quality of competences. They would like to listen and improve themselves (Customer Interview).
- Supported by diverse types of properties. PT PAS in doing its business is supported by diverse types of properties: hangars, warehouses, workshops, training center, office building (RBV).
- Strong reputation in air charter. Reputation of PT PAS with long journey in providing air charter service since 1970, decades of zero accident record, high compliance, and experienced personnel (RBV). PT PAS still has a high selling value in the eyes of customers (Internal Interview). The impression from the customers is that PT PAS complies with the requirements. They are satisfied with it. Hangar and its facilities are clean and shiny (Customer Interview).
- Captive market from Pertamina Group. PT PAS has captive market from Pertamina group. PT PAS as a subsidiary of PT Pertamina (Persero) has privilege to serve all aviation services needed by Pertamina, Pertamina's subsidiaries, Pertamina affiliated companies, SOEs other than Pertamina, SOE subsidiaries other than Pertamina, and SOE Affiliated Companies other than Pertamina under the Synergy Policy (RBV).
- Acknowledgeable certification. PT PAS has been certified with AOC 121, mandatory certification from Directorate General of Civil Aviation (DGCA) Indonesia to operate aircrafts. Besides that, PT PAS has also gain certification of Sistem Manajemen Keselamatan dan Kesehatan Kerja (SMK3) from Kementerian Ketenagakerjaan Republik Indonesia, ISO 9001:2015 Quality Management System and ISO 45001:2018 Occupational Health and Safety (OH&S) Management System from Pertamina Standard and Certification (PSC), and AQS 9001:2015 Aviation Quality and Safety Management System from The International Institute of Aviation Quality and Safety (RBV).
- Flexible communication with customer. The customers think that PT PAS is more flexible than other competitors. The pricing is quite reasonable. The customers feel easier and more comfortable to discuss any condition with PT PAS, especially regarding pricing and cost, to achieve win-win solution. For customers from Pertamina Group using Synergy Program or K3S companies using gross split mechanism, they can use direct selection to procure air charter service from PT PAS (Customer Interview). PT PAS is more flexible to communicate and look for win-win solution with customers while still complying with safety and regulation (Internal Interview).

### *Weaknesses:*

- Aging aircrafts. PT PAS operates aging aircrafts where the youngest manufacture year of FW passenger aircraft was at 2010, FW cargo aircraft was at 2012, and helicopter was at 2011 (RBV). PT PAS failed in technical phase of several tenders outside of Pertamina Group (Customer Interview).
- Un-utilized aircrafts. PT PAS fleets are not utilized optimally. Only half of FW aircrafts and one third of RW aircrafts are on hire. Other than those are in standby or AOG. Meanwhile, several of the un-utilized fleets are leased aircrafts (RBV).
- Less detail description of value chain. PT PAS has its value chain in a big picture. Unfortunately, this value chain has not been described more detail in guideline documents, job descriptions, and KPIs (Value Chain Analysis).
- High dependency to Pertamina Group. Pertamina Group has taken the biggest portion of revenue to PT PAS. It shows that the level of dependence of PT PAS on Pertamina is quite high (STP Model). PT PAS relies more on Pertamina Group (Customer Interview).
- High pricing compared to competitor. In several tenders outside of Pertamina Group, PT PAS pricing was on second position. DMC of PT PAS is more expensive than other operators, but its labour cost is cheaper (Customer Interview). The price between PT PAS and its competitors is not too different, sometimes it is higher or lower than competitors. But PT PAS price



is usually higher than market price. From 4 (four) ACMI cost structure: Aircraft, Crew, Maintenance, Insurance, almost all of them are high (Internal Interview).

- Slow response to customers. PT PAS as an organization is too slow in giving response to customer. The communication between PT PAS and the customers should be improved (Customer Interview).
- Less aggressive marketing and promotion. PT PAS sales are less aggressive, only waiting for tender, not promoting themselves. PT PAS needs to be more active to update the products and services to customers regularly, not just waiting for the customers to contact first (Customer Interview).
- Outdated website. PT PAS website needs to be updated and improved. There should be a specific team from IT to oversee this job to maintain the website. It will be a media for PT PAS to promote the product and service informatively (Internal Interview).
- Lack sense of belonging in operation and maintenance personnel. Although the operation and maintenance personnel are experienced, they lack sense of belonging, often late in finishing maintenance work. They look exclusive, secluded, and seldomly discuss. They need to gather for sharing session or soft talk regularly (Customer Interview). Special training is needed for maintenance and operation personnel so that they can communicate properly to customers as they are the frontliner to the customers. Cadre system is quite good for pilots, but not for other functions (Internal Interview).
- Internal communication obstacle. There is communication obstacle in internal PT PAS because of high turnover in PT PAS management. Company policies are not well conveyed from top to middle management, even to all employees. Communication between functions is still minimal. No regular sharing sessions and less coordination meeting are held. People at PT PAS do not know the exact situation in other functions because they reluctant to know or they do not have enough tour of duty. Job positioning are not in accordance with the career path that has been prepared. Teamwork awareness needs to be improved (Internal Interview).

#### *Opportunities:*

- More discretion and flexibility to run the aviation business in Indonesia. The Omnibus Law gives more discretion and flexibility to run the aviation business in Indonesia, especially in minimum aircraft ownership rules, simplifying the business licensing system and requirements (PESTEL).
- Optimism of economic growth. The economic growth has started to rebound and projected to be increased in future years. This optimism will affect positively to all industries, including the aviation industry (PESTEL).
- Need of air charter is still high for various customers. When time, cost, and flexibility are priorities, air charter is their option, either FW or RW aircraft. By using air charter, customers can determine their own flight destination, schedule and frequency adapting to operational needs in the field for crew change, supplies transport, and medical evacuation. They can access any remote location that cannot be served by commercial airlines, land, or sea transportation modes (PESTEL). There are places than can only be reached by air transport safely and economically (Five Forces). In pandemic situation, some customers charter dedicated fixed wing aircraft although commercial airline available to control virus spread in their operation (Customer Interview). With COVID-19 condition, the customers are not looking for higher size and specification of aircraft, so that PT PAS still can use the existing fleet to match budget constraint from the customers (Internal Interview).
- New technologies of fuel-efficient fleet and operation improvement. A high-tech industry and continuous progress in the development of new technologies for a sustainable growth of the aviation industry are allowing the basis for a more fuel-efficient fleet and a key factor for improvements in flight and ground operations, for a pleasant passenger experience and for reducing as much as possible the impacts of air transport growth on the environment (PESTEL).
- Limited number of competitors in OGP market. Due to the high capital needed to make sure certain and sophisticated requirements that must be complied by a company who would like to run a commercial air transport business, especially in OGP air charter, not many competitors can enter the air charter market, even it is hard for a new one (Five Forces). OGP industry is very high regulated and required certain years of experience and requirements for an air operator to participate in the tender. Therefore, only a limited number of companies can join an OGP tender (Competitor Analysis). Number of air operators in OGP air charter market decline due to investment certainty in this business decreases (Customer Interview).
- Potential revenue from non OGP market. In pandemic situation, there is additional revenue from cargo charter service, so that revenue from SOE segment increase. Meanwhile, the revenue from OGP segment decline, although it is still the biggest



portion of the total revenue (STP Model). Actually, there are still many potential air charter contracts in Indonesia. PT PAS should be more active and offers alternative solutions to customers (Customer Interview). There is a possibility for air charter contract among industries, such as OGP with hospital, OGP with toll road company, etc. Although it is possible by operation and technical aspects, but there are different rules among the industries that need to be complied. It makes the industries reluctant to explore more even though the collaboration can be potential to give more efficient cost of the air charter (Customer Interview).

- Sinergy Policy of Pertamina Group and SOEs. Pertamina Group has taken the biggest portion of revenue to PT PAS. This is in line with the Synergy Policy where PT PAS has priority to fulfil the need of aviation services at PT Pertamina, Pertamina's subsidiaries, Pertamina affiliated companies, SOEs other than Pertamina, SOE subsidiaries other than Pertamina, and SOE Affiliated Companies other than Pertamina (STP Model). The competitors are not easy to enter Pertamina Group market because of the Pertamina Synergy Program which prioritize to use PT PAS above the other (Competitor Analysis).
- Customers flexibility with air operator. Priority of customers is how the company survive with this decrease operation mode, so they can be flexible with the air operator to have an efficient operation (Customer Interview).
- Usage of social media for promotion. The customers think that website is not too effective for promotion because air charter is specific market. Customers seldom to open the operators' website, except when some operators promote themselves and send their website link. Customers prefer using social media such as Instagram (Customer Interview).

#### *Threats:*

- USD IDR exchange rate fluctuation. The USD IDR exchange rate shows fluctuation and affected aviation industry since almost all of transaction in aviation business using USD (PESTEL).
- Crude oil and jet fuel price increase. Crude oil is the main substance of jet fuel. As jet fuel charge is the second largest operating cost for an air operator, increase and decrease of the price will affect the profitability of the company. The prices continued to rise since economic activity slowly restarted around the world and supply remains tight (PESTEL).
- New requirement of ecological issues. New requirement of ecological issues that will be mandated in the following years might limit the use of old aircraft (PESTEL).
- New regulation by international and/or local regulators. New regulation that might be mandated by international and/or local regulators in the following years will need more cost to comply with (PESTEL).
- Limited choice of suppliers in aviation industry. There are limited choices of suppliers in aviation industry since they have to comply with certain regulation and requirements to guarantee their products supplied to an aircraft (Five Forces).
- High requirement of contract specification and customers need of cost efficiency. Charter customers, especially OGP, require specific requirement concerning safety, work experience, aircraft specification, manpower, tools and facilities, time frame. This can lead to higher cost to fulfil the requirement and reduce the potential profit. Meanwhile, due to economic situation and COVID-19 pandemic, customers ask for a more efficient cost. It depends on the firm's ability to adjust optimum cost to maximize profit by proposing right price. The firm also needs to consider price that would be proposed by other competitors. (Five Forces). OGP industry currently in decrease operation mode and maintaining stable cost. Price is the most important consideration for the customers (Customer Interview).
- Tight competition among air operators. There are not many competitors in air charter for OGP industry, so it makes tighter competition among the operators (Five Forces).
- Customer's requirement of newer age of aircrafts with economical price. Customers want newer age helicopter with economical price for the service (Customer Interview). New fleet means higher cost, but some customers still want the new fleet, but the price is not going higher (Internal Interview).
- More competitive price from competitors. For tender from outside Pertamina Group, competitors of PT PAS offer more competitive price. Therefore, the companies, including PT PAS, who participate in a tender must calculate their cost carefully to make sure they can offer the best price to the customer. (Competitor Analysis). There was a case recently where a competitor can provide new fleet with lower cost than PT PAS and won the tender (Customer Interview and Internal Interview).
- More active competitors in marketing and promotion. Compared to PT PAS, the competitors are more active in marketing. They send their aircraft availability information mentioning their excellence products and services regularly (Customer Interview).





Using the SWOT which have been developed, strengths and weaknesses in the vertical axis are linked to opportunities and threat in the horizontal axis to develop strategic alternatives with a four-step (but not certainly linear) process [5].

The four-step process consists of:

1. Focus on the Strengths–Opportunities (SO) quadrant (top left) to obtain “offensive” alternatives by using an internal strength to make use an external opportunity.
2. Focus on the Weaknesses–Threats (WT) quadrant (bottom right) to obtain “defensive” alternatives by removing or making minimal an internal weakness to lessen an external threat.
3. Focus on the Strengths–Threats (ST) quadrant (top right) to utilize an internal strength to make minimal the effect of an external threat.
4. Focus on the Weaknesses–Opportunities (WO) quadrant (bottom left) to encourage an internal weakness to improve its ability to take advantage of an external opportunity.

The result is shown in the SWOT Matrix (Table 1) which generates Strengths–Opportunities (SO) Alternatives, Weaknesses–Threats (WT) Alternatives, Strengths–Threats (ST) Alternatives, and Weaknesses–Opportunities (WO) Alternatives.

**Table 1.** SWOT Matrix of PT PAS

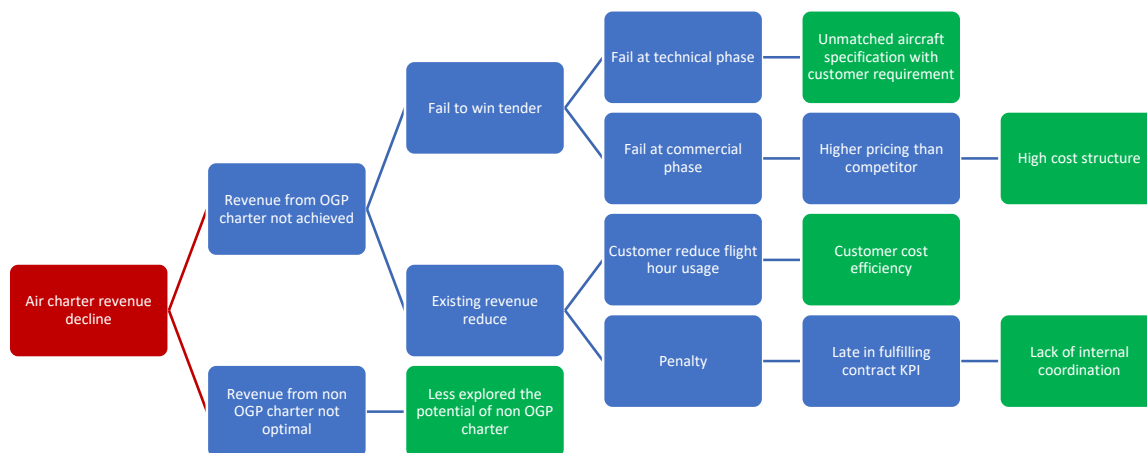
<p><b>External</b></p> <p><b>Internal</b></p>	<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• More discretion and flexibility to run the aviation business in Indonesia</li> <li>• Optimism of economic growth</li> <li>• Need of air charter is still high for various customers</li> <li>• New technologies of fuel-efficient fleet and operation improvement</li> <li>• Limited number of competitors in OGP market</li> <li>• Potential revenue from non OGP market</li> <li>• Sinergy Policy of Pertamina Group and SOEs</li> <li>• Customers flexibility with air operator</li> <li>• Usage of social media for promotion</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• USD IDR exchange rate fluctuation</li> <li>• Crude oil and jet fuel price increase</li> <li>• New requirement of ecological issues</li> <li>• New regulation by international and/or local regulators</li> <li>• Limited choice of suppliers in aviation industry</li> <li>• High requirement of contract specification and customers need of cost efficiency</li> <li>• Tight competition among air operators</li> <li>• Customer’s requirement of newer age of aircrafts with economical price</li> <li>• More competitive price from competitors</li> <li>• More active competitors in marketing and promotion</li> </ul>
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Experienced in operating FW &amp; RW aircrafts</li> <li>• Qualified and experienced operation and maintenance personnel</li> <li>• Supported by diverse types of properties</li> <li>• Strong reputation in air charter</li> <li>• Captive market from Pertamina Group</li> <li>• Acknowledgeable certification</li> <li>• Flexible communication with customer</li> </ul>	<p><b>SO Alternatives</b></p> <p>SO1. Create dedicated team and program to manage non OGP market</p> <p>SO2. Develop system and culture of innovation management</p> <p>SO3. Develop system and culture of knowledge management</p>	<p><b>ST Alternatives</b></p> <p>ST1. Improve after-sales communication with existing customers</p> <p>ST2. Maintain regular communication and promotion with potential customers</p> <p>ST3. Manage the choice of suppliers to get more attractive offer</p> <p>ST4. Improve enterprise risk management per revenue stream</p>



Weaknesses	WO Alternatives	WT Alternatives
<ul style="list-style-type: none"> <li>Aging aircrafts</li> <li>Un-utilized aircrafts</li> <li>Less detail description of value chain</li> <li>High dependency to Pertamina Group</li> <li>High pricing compared to competitor</li> <li>Slow response to customers</li> <li>Less aggressive marketing and promotion</li> <li>Outdated website</li> <li>Lack sense of belonging in operation and maintenance personnel</li> <li>Internal communication obstacle</li> </ul>	<p>WO1. Offer the un-utilized aircrafts to Pertamina Group and SOEs using the Sinergy Policy, and to non OGP market</p> <p>WO2. Rejuvenate aircrafts with newer technologies of fuel-efficient fleet and operation improvement</p> <p>WO3. Update and maintain website and social media</p>	<p>WT1. Review the high pricing and recalculate new pricing</p> <p>WT2. Develop system and culture of effective internal and external communication</p> <p>WT3. Develop system and culture of digitalized business process management</p> <p>WT4. Rejuvenate aircrafts which fit the customer requirements</p>

*Root Cause Analysis*

As the problem stated that the total revenue of PT PAS fluctuates and the air charter revenue as its core business tend to decline from year to year, the root cause will be identified using the fault tree analysis. In Figure 1, there are 5 (five) true causes identified as shown in green color boxes.



**Figure 1.** Fault Tree Analysis of PT PAS Problem

*Unmatched Aircraft Specification with Customer Requirement:* Although some customers are willing to use any aircraft available at PT PAS that fit their need, some other required specific aircraft specification due to the nature of their operation activities. The aircraft specification can be varied from younger year of manufacture (YOM), longer distance range, certain payload capacity, and particular safety features. With those specific aircraft specification requirements, PT PAS cannot use the available fleet to pass the technical phase of the tender.

*High Cost Structure:* In several tenders outside of Pertamina Group, PT PAS offer higher price than competitor which resulted in failure to win the tender. The higher price is due to the high number of PT PAS cost structure when formulating the price. The high cost structure mainly consists of aircraft lease, operation (fuel and crew), maintenance (personnel, spare part, facilities, tools and equipment) and insurance.

*Customer Cost Efficiency:* Due to the economic situation and COVID-19 pandemic, customers ask for a more efficient cost. The OGP industry currently in decrease operation mode and maintaining stable cost, so the customers reducing the flight hour usage of the aircraft. In certain case, they are reducing the number of aircrafts chartered into minimal. It resulted in reducing revenue of PT PAS from flight hour tariff.



*Lack of Internal Coordination:* Lack of internal coordination at PT PAS has resulted delay in fulfilling Contract KPI with further impact in penalty and reducing the revenue. There is communication obstacle in internal PT PAS because of high turnover in PT PAS management. Company policies are not well conveyed from top to middle management, even to all employees. Communication between functions is still minimal. No regular sharing sessions and less coordination meeting are held. Although PT PAS has its value chain in a big picture, this value chain has not been described more detail in guideline documents, job descriptions, and KPIs. PT PAS as an organization is too slow in giving response to customer. The communication between PT PAS and the customers should be improved.

*Less Explored the Potential of Non OGP Charter:* PT PAS has been known as an experienced air operator at OGP segment for decades. The revenue portion dominantly comes from OGP customers, especially Pertamina Group. When it declines, PT PAS fleets are not utilized optimally. Actually, there are still many potential air charter needs in Indonesia for various customers, not only OGP. In pandemic situation, revenue from cargo segment incline, meanwhile revenue from passenger segment decline, although passenger segment is still the highest. There is also a possibility for air charter contract among industries, such as OGP with hospital, OGP with toll road company, etc. Although it is possible by operation and technical aspects, but there are different rules among the industries that need to be complied. It makes the industries reluctant to explore more even though the collaboration can be potential to give more efficient cost of the air charter. PT PAS has not explored more for the potential market of non OGP.

*Strategy Diamond Model*

Based in the result of the examination of its external and internal environments, proposed strategies for PT PAS air charter business are formulated into the five elements of the Strategy Diamond Model and used as the solution of the root causes identified before.

**Table 2.** Formulated Strategies for PT PAS

Arena	
WO1	Offer the un-utilized aircrafts to Pertamina Group and SOEs using the Sinergy Policy, and to non OGP market
WO2	Rejuvenate aircrafts with newer technologies of fuel-efficient fleet and operation improvement
WT4	Rejuvenate aircrafts which fit the customer requirements
Vehicles	
SO2	Develop system and culture of innovation management
SO3	Develop system and culture of knowledge management
WT3	Develop system and culture of digitalized business process management
Differentiators	
ST1	Improve after-sales communication with existing customers
ST2	Maintain regular communication and promotion with potential customers
WO3	Update and maintain website and social media
WT2	Develop system and culture of effective internal and external communication
Staging	
SO1	Create dedicated team and program to manage non OGP market
Economic Logic	
ST3	Manage the choice of suppliers to get more attractive offer
ST4	Improve enterprise risk management per revenue stream
WT1	Review the high pricing and recalculate new pricing

*Arena:* PT PAS is an air operator company who provides air charter services for OGP, Government, SOE, and Private Companies segments. The air charter services are available for passenger, medevac, cargo, and special mission purposes which cover urban and/or remote area in long term or spot charter scheme. The passenger service assist customers for transporting people and usually combine with standby medevac. The cargo service is used for logistic, fuel, or gas transport. The special mission service provides other than those such as rain making, external load, water bombing, aerial photography, and disaster management. Area coverage



of the services is Indonesia and sometimes outside Indonesia as per customer request. PT PAS needs to maintain its OGP market domination and widen the coverage of non OGP market by offering the un-utilized aircrafts to Pertamina Group and SOEs using the Sinergy Policy, and to non OGP market (WO1). PT PAS is using several types of fixed wing and rotary wing aircrafts. The fixed wing aircrafts are ATR72-212A 500 Version (ATR 72-500), ATR42-500, AVRO RJ85, CASA212-200, and AT-802A. The rotary wing aircrafts (helicopters) are S-76A, S-76C++, BO105CB, BELL412EP and BELL430. PT PAS needs to rejuvenate aircrafts with newer technologies of fuel-efficient fleet and operation improvement which fit the customer requirements (WO2 and WT4).

*Vehicles:* PT PAS provides the air charter services through long years of internal development since it was established in 1970 and full supported by the mother company PT Pertamina (Persero). PT PAS collaborates with aircraft manufacturer and lessor in providing the aircrafts, with suppliers of spare part, tools and equipment, and facilities to support the aircraft operation, with regulator and certification bodies for legal compliance and standardization, with training center to train the personnel. PT PAS needs to continuously develop its internal process with digitalized business process management, knowledge management, and innovation management (SO2, SO3, and WT3). The digitalized business process management will be used to make sure that every process has clear guidelines and measured performance.

*Differentiators:* PT PAS provides the air charter services with differentiation of customized service based on customer requirements and high flexibility to communicate with customers for win-win solution. PT PAS has been known as an air operator company with proven experiences, reliability, and safety record in serving various customers since 1970. PT PAS needs to improve after-sales communication with existing customers and maintain regular communication with potential customers by developing system and culture of effective communication (ST1, ST2, and WT2). PT PAS should update and maintain website and social media to promote itself (WO3).

*Staging:* PT PAS has been concentrated in OGP market for the air charter service due to its high potential revenue and long-term period of contract. It will maintain its existing customers while looking for other potential customers. In the meantime, PT PAS will start to explore more in non OGP market by creating dedicated team and program. The non OGP market consists of government and SOEs, cargo, and special mission. PT PAS need to create dedicated team and program to manage the non OGP market (SO1).

*Economic Logic:* PT PAS is providing customized air charter services for customers. The pricing depends on how sophisticated the specification services requested by customers. PT PAS charges the customers for a fixed monthly fee and flight hour usage per month for short-term or long-term contracts and there are minimum flight hours that will be paid by the customers. For spot charter, customers only pay for flight hour per usage. There is also additional handling fee for certain supporting services such as avtur cost, airport tax, lounge services, etc, according to the agreement with the customers. To win a tender, PT PAS needs to review the high pricing and recalculate new pricing pricing which will be offered to customers (WT1). The cost structure which factored into pricing must consider the choice of suppliers and associated risk per revenue stream. PT PAS needs to manage the choice of suppliers to get more attractive offer (ST3). PT PAS also needs to improve enterprise risk management per revenue stream (ST4).

## IMPLEMENTATION OF STRATEGIES

A good strategy needs effective implementation by means of a coherent set of actions [5]. After the strategies are formulated and recommended to be implemented, an implementation plan is needed to monitor the execution of the strategies. The implementation plan consists of stages and schedules of activities for each strategy. The activities are listed in general terms which can be modified according to the exact situation that will be faced in the field. The period of implementation can be varied depends on the fluency level of each activity in the implementation stages.

## CONCLUSION

PT PAS is an air operator company, subsidiary of PT Pertamina (Persero), which established in 1970. From its 4 (four) business pillar, the air charter pillar is the core business which dominantly generate revenue for PT PAS. The air charter revenue comes mostly from the OGP customers, especially Pertamina Group. PT PAS is struggling to compete in tender outside of Pertamina Group. In the period of 2016 to 2021, the total revenue fluctuate and the air charter revenue tend to decline.

The external analysis has discovered list of opportunities and threats for PT PAS. Meanwhile, the internal analysis has revealed the list of strengths and weaknesses of PT PAS. Data collected from both interviews of customers and PT PAS management have added and enriched the SWOT Analysis of PT PAS. Moreover, Root Cause Analysis has been performed to identify the true cause of PT PAS problem of air charter revenue decline. There are 2 (two) direct causes of the problem: unachieved targeted revenue from OGP





charter and suboptimal revenue from on OGP charter. After further analysis, 5 (five) root causes of the problem are revealed: unmatched aircraft specification with customer requirement, high cost structure, customer cost efficiency, lack of internal coordination, and less explored the potential non OGP charter. Based on the SWOT Analysis and Root Cause Analysis as described before, the strategies for the air charter business of PT PAS are formulated using the Strategy Diamond Model. The strategies are proposed to PT PAS with implementation plan and used as the solution to overcome the root causes of the problem.

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