Application of garuda's agent incentive program as a channel to gain competitive advantage

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Abstrak

ABSTRACT
Garuda Indonesia (Garuda) is the flag-carrier of Indonesia, that last year (2002) carried 7 million passengers and 134 thousand tons of domestic and international cargo. Following the monetary crisis in 1997, Garuda faced a severe financial problem. This was further exacerbated by government deregulation on airline industry that brought many new entrants mushrooming the domestic sky. With the support of IMF's Letter of Intent (LOI), Garuda went through financial restructuring and turn-around strategy implementation.

Facing fierce competition in its traditional domestic territory, Garuda applied effective marketing mix strategy, particularly in new service culture, brand positioning through intensive media promotion, and dynamic pricing strategy. The three elements of pull strategy have been well-developed, and accordingly customer satisfaction has increased and performance has significantly improved. In addition to pull strategy, Garuda also needs to implement push strategy. It is indeed the current focus of Garuda to stimulate agents to push the products to customers, and to expand to other channels that will deliver more share to it.

The introduction of dynamic pricing h9s considerably affected the ticket selling process from agents to customers, hence, it becomes one of the rationales behind the development of the push strategy. The dynamic pricing attempts to map the right product value to the right consumers at the right price, i.e. a price differentiation/ customisation. Garuda provides high-fare types with high flexibility for time-sensitive consumers like business travelers, and lower-fare types for price-sensitive consumers like leisure travelers. The problem is the objective mismatch between Garuda and its agents. Agents prefer to sell the lower-fare types first because they are easier to sell, which is inconsistent with Garuda's objective to offer the right product value to the right consumers and gaining optimum revenue by doing it. There are three issues to be addressed. Firstly, Garuda needs to identify potential problems with its agents and to resolve it to obtain efficient channel management. Secondly, Garuda needs to evaluate its current channel offering to agents that works as non-financial incentives. Lastly, Garuda needs to incentivise agents through financial incentive program, and bringing their objective to be compatible with Garuda's.

This paper will address the first issue by assessing the channel mix that Garuda has, i.e. justifying the MAKE/BUY decisions of every channel mechanism under Transaction Costs framework, identify several potential conflicts between channels, and offer some means of mitigating them. The latter is applied through clear description of each channel's function, continous communication to all channels, and importantly, centralising all channels management under one department in the Head Office to avoid rampant conflict.

The second issue is approached by analysing current channel offering, i.e. to identify what elements of

operational support (as non-financial incentives) Garuda currently lacks and to offer some methods to improve them. Garuda is suggested to improve system reliability by accelerating the interfacing process of the existing system to the new one, to amend sales methodologies and technical assistance by regular visits and routine in-house training, and to align sales and distribution organisation by setting clear delineation of authority and regional representation in Head Office.

The last issue is addressed by recommending an implementation of sliding-scale financial incentives based on ticket value and total volume, over and above the standard commission, to reflect the alignment of agent's reward to the value and volume created for Garuda. A simulation is run for a sample data with some criteria to get a comprehensive incentive scheme. The result is an increase of 0.4% of domestic net revenue (revenue less total standard commission and incentives payment) and of 1.6% of international net revenue within the sample data. A pilot should be implemented in a branch office to ensure smooth operation and monitoring, before launching it nationwide, then to international regions. Overall, the push strategy is pursued in an attempt to increase Garuda's competitive position.