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Strategic Cost Management and Differentiation Strategy in Enhancing Competitive Advantage in the Indonesian Airline Industry

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Abstract. The Indonesian airline industry faces increasing pressure to manage complex operating costs while maintaining service attributes that differentiate airlines in an increasingly competitive market. This study examines how Strategic Cost Management (SCM) and Differentiation Strategy can be integrated to strengthen Competitive Advantage. An integrative literature review was conducted by analyzing peer-reviewed studies published primarily between 2020 and 2024, focusing on strategic management accounting, airline digital transformation, service quality, customer satisfaction, and data analytics. The findings indicate that SCM contributes to competitiveness when cost information is strategically connected with value-chain activities, resource optimization, operational efficiency, and long-term business positioning rather than merely focusing on short-term cost reduction. Meanwhile, Differentiation Strategy enhances customer value through service reliability, digital innovation, customer trust, convenience, and data-driven personalization. The study highlights that competitive advantage is achieved when cost efficiency and differentiation are developed as complementary capabilities. Cost savings generated from non-value-added activities can be redirected toward improving high-value services, while digital technologies support process optimization and enhanced customer experiences. This study proposes an integrated framework combining efficiency, customer value creation, and sustainable competitive positioning for Indonesian airlines in a dynamic aviation environment.

Keywords: Airline Industry; Competitive Advantage; Digital Service; Differentiation Strategy; Strategic Cost Management.

1. INTRODUCTION

The Indonesian airline industry has a strategic role in connecting geographically dispersed regions, supporting tourism, facilitating logistics, and strengthening national mobility. However, airlines operate under a demanding business structure characterized by high fixed costs, fuel-price volatility, aircraft maintenance expenditure, airport and navigation charges, strict safety requirements, and intense competition. These conditions create a managerial challenge: airlines must continuously improve cost efficiency without weakening reliability, service quality, and the customer experience that sustain market attractiveness.

Strategic Cost Management (SCM) is relevant to this challenge because it treats cost information as part of strategic decision-making rather than as a narrow accounting-control mechanism. Strategic management accounting literature shows that cost analysis becomes more useful when it incorporates customers, competitors, the value chain, and long-term business positioning (Rashid et al., 2021; Abdullah et al., 2022). In an airline context, this logic can guide route planning, fleet utilization, maintenance policies, distribution channels, workforce productivity, and technology investment.

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At the same time, Differentiation Strategy remains essential because the core airline service transportation from one location to another is relatively similar across competitors. Airlines therefore create value through punctuality, service reliability, cabin comfort, digital convenience, customer support, loyalty programs, and brand trust. Research on airline digital service quality identifies reliability, digital interaction, digital trust, and customer-centricity as important dimensions of perceived service value (Büyüközkan et al., 2020).

Digital transformation increasingly links the two strategic domains. Automation, self-service, integrated data, mobile applications, predictive analytics, and digital customer interfaces can reduce processing costs while improving accessibility and service responsiveness. Kıyıklık et al. (2022) emphasize that airlines require structured digital maturity, while Büyüközkan et al. (2021) show that digital transformation strategies should be aligned with internal capabilities and external competitive conditions. Digitalization can therefore function simultaneously as a cost-efficiency instrument and a basis for differentiation.

Although cost management, digital transformation, and service quality have been widely discussed, the relationship between SCM and differentiation is often treated separately. This article addresses that gap by examining how the two strategies can operate as complementary capabilities in creating Competitive Advantage. The study aims to develop an integrated strategic interpretation for the Indonesian airline industry in which cost efficiency supports, rather than undermines, customer value and service differentiation.

2. LITERATURE REVIEW

Strategic Cost Management extends conventional cost control by connecting cost information with strategic objectives, market positioning, and value creation. The approach directs management attention to cost drivers, value-chain activities, competitor conditions, and customer-related costs. Abdullah et al. (2022) identify strategic costing, competitor accounting, customer accounting, and strategic planning and control as recurring practices in strategic management accounting. These practices provide a basis for evaluating whether spending contributes to long-term competitive positioning.

For airlines, strategic costing implies that management should distinguish between expenditures that merely consume resources and expenditures that support reliability, safety, convenience, and customer value. A reduction in maintenance quality, service responsiveness, or digital reliability may lower short-term expenditure but create failure costs, delays, dissatisfaction, and reputational damage. SCM therefore requires cost optimization rather than indiscriminate cost minimization.

A value-chain perspective reinforces this argument. Prevention, appraisal, and failure-related expenditures should be evaluated together because stronger prevention and process reliability can reduce costly service failures. In aviation, this logic is relevant to maintenance quality, operational reliability, baggage handling, disruption management, and passenger-facing processes. Cost efficiency is therefore sustainable only when it does not create larger downstream costs or weaken service performance.

Differentiation Strategy refers to the creation of attributes or experiences that customers perceive as distinctive and valuable. In service industries, differentiation is not limited to physical features; it is also produced through reliability, responsiveness, convenience, trust, communication, and the consistency of customer interactions. For airlines, differentiation can therefore be embedded throughout the travel journey, from booking and check-in to boarding, in-flight service, arrival, and post-flight support.

Digital service quality has become an increasingly important source of differentiation. Büyüközkan et al. (2020) propose a digital service quality framework for aviation that includes digital tangibles, reliability, digital interaction, digital trust, and customer-centricity. These dimensions indicate that digital differentiation is meaningful only when technology creates a dependable, easy, and trusted customer experience rather than merely adding technological features.

Customer responses provide another strategic perspective. Law et al. (2022) show that airline service quality is associated with customer satisfaction and repurchase intention. Li et al. (2024), using a data-mining approach, identify several travel-experience factors that contribute to airline satisfaction, including seat comfort, online booking, online support, and in-flight entertainment. These findings support targeted differentiation based on customer priorities rather than uniform service expansion.

Competitive Advantage is achieved when a company creates superior value and sustains a position that competitors cannot easily replicate. In the airline industry, advantage may derive from an efficient operating structure, strong network design, service reliability, brand reputation, digital capability, or a combination of these elements. The relevant strategic issue is not whether an airline pursues efficiency or differentiation, but how effectively resources are configured to support the chosen customer value proposition.

SCM and Differentiation Strategy can therefore be viewed as complementary. SCM provides discipline in deciding where resources should be reduced, retained, or increased, whereas differentiation identifies the attributes on which customers place greater value. The interaction of the two strategies creates a resource-allocation logic in which savings from non-value-added activities can be redirected toward high-value service elements.

Based on this theoretical synthesis, the proposed framework places SCM and Differentiation Strategy as strategic capabilities that jointly strengthen Competitive Advantage. Digital transformation operates as an enabling mechanism because it can improve process efficiency, increase information quality, personalize customer interaction, and support faster managerial decisions. The framework is particularly relevant to airlines facing simultaneous pressure for affordable prices and consistently high service standards.

3. RESEARCH METHOD

This study uses an integrative literature review because the original manuscript does not yet contain completed primary data or statistical outputs. The review synthesizes peer-reviewed studies published mainly between 2020 and 2024 that address strategic management accounting, airline digital transformation, digital service quality, customer satisfaction, and travel-experience analytics. Evidence was grouped into three themes: cost efficiency, service differentiation, and strategic integration. The resulting synthesis was then interpreted for the Indonesian airline industry.

4. RESULTS AND DISCUSSION

Strategic Cost Management and Value-Oriented Efficiency

The literature indicates that SCM creates competitive value when cost information supports strategic decisions. Rashid & Abdullah (2022) emphasize competitor information, customer accounting, external orientation, and long-term planning. In airlines, route economics, fleet utilization, maintenance, distribution, labor, and technology costs should therefore be evaluated according to their contribution to customer value and market position. The objective is strategic cost optimization: removing non-value-added expenditure while protecting resources that sustain safety, reliability, and passenger confidence.

Differentiation through Service Quality and Digital Experience

Differentiation is strongest when service attributes correspond to customer priorities. Büyüközkan et al. (2020) identify digital reliability, interaction, trust, and customer-centricity as important dimensions of airline digital service quality. Law et al. (2022) associate service quality with satisfaction and repurchase intention, while Li et al. (2024) show that online booking, online support, seat comfort, and in-flight entertainment can influence travel satisfaction. These findings support selective, evidence-based service differentiation.

Strategic Cost Optimization

a. Value-Oriented Efficiency

Process simplification, digital ticketing, self-service, capacity planning, and better asset utilization can reduce unnecessary expenditure. Savings can then be redirected toward service attributes that influence reliability and customer satisfaction. SCM therefore creates financial space for differentiation rather than competing with it.

Digital Differentiation

Digital differentiation is effective when technological capability improves both process efficiency and the passenger experience.

Digital Service Quality and Maturity

Kıyıklık et al. (2022) emphasize organizational digital maturity, while Büyüközkan et al. (2021) show that digital-transformation priorities should reflect internal and external conditions. Mobile applications, automated service, integrated passenger information, and personalization can improve convenience while reducing manual processing costs.

Customer-Value Alignment

Customer-value alignment requires two supporting managerial elements, namely passenger data and segmentation, as well as cross-functional coordination. For Indonesian airlines, cost information should be integrated with customer data to identify which services generate the highest perceived value for different passenger segments.

The finance, operations, marketing, information technology, and customer experience functions should utilize shared performance indicators, including cost per passenger, load factor, punctuality, service reliability, digital adoption, complaint rates, customer satisfaction, and retention. This approach enables management to distinguish between costs that can be reduced without affecting customer value and costs that are essential for maintaining safety, service reliability, and customer trust. Therefore, Strategic Cost Management (SCM) can serve as a strategic approach to support the development of a distinctive and sustainable competitive position within the airline industry.

5. CONCLUSION

Strategic Cost Management and Differentiation Strategy are complementary strategic capabilities in the airline industry. SCM strengthens efficiency by identifying cost drivers, value-chain activities, quality costs, and opportunities to eliminate non-value-added expenditure. Differentiation strengthens perceived customer value through reliability, convenience, digital experience, trust, and selected service attributes. The synthesis indicates that sustainable advantage is more likely when airlines use efficiency gains to protect or enhance the service elements that customers value rather than applying broad cost reductions that weaken the travel experience.

Indonesian airlines are therefore encouraged to integrate cost, operational, and customer indicators within one strategic performance system; prioritize digital initiatives that simultaneously improve process efficiency and customer experience; and evaluate differentiation by route and passenger segment. Future studies should empirically test this framework using primary data from airline managers and employees or operational panel data, allowing the direct and joint effects of SCM and Differentiation Strategy on Competitive Advantage to be assessed through regression, SEM-PLS, or longitudinal analysis.

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