Performing Strategic Analysis

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Airline Business Models and Strategic Management
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Performing Strategic Analysis

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December 2016
Outline

- Current Traffic and Cargo Indicators
- Porters Diamond (achieving competitive advantage in home markets)
- Porter’s five forces for business strategy (Airline operating environment is also influenced by the Macro (PESTEL) and Micro environment)
- An examination of an airlines strategic capabilities (SWOT and TOWS)
- Strategic tools for decision making (BCG and Ansoff)
- Conclusion
Total International Passenger Traffic Growth by Region
May 2016 vs May 2015

Source: IATA Air Passenger Market Analysis
Passenger and Air Freight trends
2007 - 2016

Air travel and cargo volumes

Passenger RPKs
Cargo FTKs

Sources: IATA and ICAO
Porter’s Diamond

Porter identifies 4 attributes in a company’s home market which will promote or impede a firm’s ability to achieve competitive advantage in global markets.

- **Factor Conditions**
- **Demand Conditions**
- **Related and Supporting Industries**
- **Strategy, Structure and Rivalry**

### Innovation triggers demand:
- Some airports (e.g., Malaysia and Bordeaux) have opened low cost terminals which attracted different passenger segmentation.

### Advantage on a national level:
- Ireland corporate tax 12.5%
- France corporate tax 33.3%
- Japan has the highest number of engineering graduates per capita (leader in electronics)

Germany well known for Engineering:
Thus Lufthansa Technik have taken advantage by creating 4 major related units: Maintenance, overhaul, engines and landing gear.

Source: Adapted from Porter
The Operating Environment

• PESTEL (important) ….. See earlier presentation
• Micro Environment (important) …. See earlier presentation
• Porters 5 Forces (important)
• Porters Value Chain
• Strategic Choices
Porter’s five force framework

- It was developed as a way of accessing the profit potential of a specific industry
- Competitive rivalry is the degree to which companies respond to competition

Source: Porter, Harvard Business School
1....Potential Entrants

Network Airlines for example will need to access the threat posed by entrants

From:
- Low cost carriers
- All business class airlines
- Long haul low cost airlines
- Regional airlines
- Charter airlines
- Cargo carriers
- Middle East carriers

The level of threat posed by new entrants will be affected by:

Legislative framework of market access (Deregulation / Open Skies)
Ability to gain access to airport slots
Capital requirements
Market share, Network and Brand strength of domiciled incumbent
Economies of scale and scope (Scale: Cost per unit falls as output increases. Scope: cost advantages that result when firms provide a variety of products rather than specialising in a single output)
Access to distribution channels
# Emirates Weekly Departures from Dubai – Relentless Push

**Weekly frequencies (1 – 7th August)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>25</td>
<td>45</td>
<td>152</td>
<td>171</td>
<td>184</td>
</tr>
<tr>
<td>UK</td>
<td>35</td>
<td>64</td>
<td>98</td>
<td>105</td>
<td>112</td>
</tr>
<tr>
<td>Africa</td>
<td>0</td>
<td>56</td>
<td>122</td>
<td>149</td>
<td>206</td>
</tr>
<tr>
<td>Germany</td>
<td>14</td>
<td>35</td>
<td>49</td>
<td>63</td>
<td>63</td>
</tr>
<tr>
<td>US</td>
<td>0</td>
<td>0</td>
<td>27</td>
<td>49</td>
<td>63</td>
</tr>
</tbody>
</table>

Source: OAG
Air Asia X
Long Haul Low Cost
2015 data

Air Asia X Current long-haul
• Currently operates 17 A330s

Air Asia X aircraft on order
• 71 A330
• 10 A350s
Air Asia X is strong out of Malaysia
July 2015 to July 2016 data

Departing seats
12 month period July 2015 to July 2016

Source: O’Connell, OAG analysis November 2016
Air Asia X will return to Europe this October 2016

Will Air Asia X return to Europe again?

- Istanbul
- Barcelona
- More to come!!

Air Asia X also has subsidiaries: Indonesia AirAsia X and Thai AirAsia X

Aspirations to add Air Asia X outposts in India & Japan and operate to the USA
### Snapshot of the long haul routes operated by today’s Long Haul LCCs

<table>
<thead>
<tr>
<th>LCC / LCC Group</th>
<th>Longest Route</th>
<th>Flight Time</th>
<th>Aircraft Type</th>
<th>Seats</th>
<th>Seat Configuration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eurowings</td>
<td>Cologne - Phuket</td>
<td>12 hours</td>
<td>A330-200</td>
<td>330</td>
<td>21B, 48 PE, 261E</td>
</tr>
<tr>
<td>Norwegian</td>
<td>Copenhagen - Los Angeles</td>
<td>10.5 hours</td>
<td>787-8</td>
<td>291</td>
<td>32PE, 259E</td>
</tr>
<tr>
<td>Jetstar Airways</td>
<td>Melbourne-Honolulu</td>
<td>10 hours</td>
<td>787-8</td>
<td>335</td>
<td>21PE, 314E</td>
</tr>
<tr>
<td>Air Canada rouge</td>
<td>Toronto - Athens</td>
<td>9.5 hours</td>
<td>767-300ER</td>
<td>280</td>
<td>24PE, 35E+, 221E</td>
</tr>
<tr>
<td>Azul</td>
<td>Sao Paulo - Lisbon</td>
<td>10 hours</td>
<td>A330-200</td>
<td>271</td>
<td>21B, 100E+, 151E</td>
</tr>
<tr>
<td>Cebu Pacific</td>
<td>Manila - Riyadh</td>
<td>10 hours</td>
<td>A330-300</td>
<td>436</td>
<td>436E with 30' pitch</td>
</tr>
<tr>
<td>WestJet</td>
<td>Vancouver - London</td>
<td>10 hours</td>
<td>767-300ER</td>
<td>262</td>
<td>24PE, 238E</td>
</tr>
<tr>
<td>Scoot</td>
<td>Singapore - Jeddah</td>
<td>9 hours</td>
<td>787-8</td>
<td>375</td>
<td>35B, 45E+, 295E</td>
</tr>
<tr>
<td>AirAsia X</td>
<td>Kuala Lumpur - Jeddah</td>
<td>9.5 hours</td>
<td>A330-300</td>
<td>377</td>
<td>12B, 365E</td>
</tr>
</tbody>
</table>

- Scoot will operate to Athens in 2017
- Talks circulating that JetStar may also operate flights to Europe
2.....Buyer Power

- The buyer market is comprised of all the firms or individuals that purchase the product or service.

- In the airline industry there are a large number of buyers (passengers) and a specific number of airlines. Nevertheless, Alliances (reciprocal FFP) has reduced this choice. However on many markets there are lots of LCCs which increases the buyer power of the consumers. Many carriers on the N. Atlantic operate through 5th freedom traffic rights like SIA, ANZ, EK, PIA, KU

Customer buying power is likely to be high due to some of the following conditions

- Customers can easily switch (low switching costs) between airlines as the fare between airlines has become highly transparent as well as the in-flight products

- Corporations (e.g. IBM, Shell Oil) use bargaining power to negotiate discounts for volume. For example Lufthansa’s corporate contracts accounts for around 38.6% of its total passenger revenues. For Alitalia its 25%
The Buying power of Corporates

Shell Oil spends around $500 million on corporate travel each year which includes airlines, hotels, ground transport, food & beverage.
3......Supplier Power

The supplier market is comprised of all the companies that provide service to the airline industry

Supplier power is likely to be high when:

There is a concentration of suppliers (e.g. Airbus and Boeing)

However airlines can influence aircraft prices by: purchasing during a recession; bulk purchasing; or playing one manufacturer against another.

Therefore the switching costs from supplier to supplier are high as the airlines’ operation are dependent on these specialised products. To switch from an all Boeing to an all Airbus fleet for example would be very costly. easyJet did this as Airbus wanted to get into the LCC market which was dominated by Boeing 737s.

Monopolies or near monopolies may exist in supplier markets such as ground handling (McKinsey), DNATA in Dubai, fuel (Air BP), catering (LSG Sky Chefs), etc
4......Threat of Substitutes

Substitutes reduce the demand for a particular product or service as customers switch to an alternate that provides the same end result.

**Business travel**
- Video conferencing, internet, phone
- Surface modes (particularly high speed rail)
- Company concerns about their carbon footprint

**Leisure travel**
- Surface modes – ferry, high speed rail (becoming a major problem for carriers)
- Internet, phone, facebook, twitter, instagram
High Speed Rail network in the Spanish Market

Source: Spanish government; Transport Ministry; Adif
Impact of High Speed rail between Barcelona to Madrid

Weekly airline seat capacity (August)

- Barcelona to Madrid high speed line was opened after 2007
- Airline Traffic collapsed – fares fell to boost traffic
- Airline traffic continues to fall

Note: Barcelona airports include: Barcelona (BCN); Girona; Reus. Only Madrid Airport (MAD) was included for Madrid.
Passenger traffic by Air between London and Paris
Annual airline passengers in millions

Source: UK CAA and Anna.aero
Strategic Choices
Strategic choices are concerned with decisions about a firm's future and the way that it needs to respond to the pressures of the marketplace

Business level competitive strategy
(About how to compete better)

Corporate and International Strategy
(Decisions about the Scope of the business)

- Product/market diversity
  - WIFI
- International diversity & strategy
  - Increase traffic feed to Hub
  - Equity investment in other carriers
- Creating value (achieve more returns)
  - Selling FFPs to Banks
- Seeking markets with potential
  - African markets
- Managing the business model
  - Adopting analytical tools (e.g. BCG)

Direction & Planning
(Identified through 5 categories)
1) Retain profitable core competencies
2) Protect & Build
3) Product development
4) Market development
  - Create brand awareness
5) Diversification thru:
  - Internal development
  - Mergers/acquisitions
  - Strategic alliances
  - Develop niche markets

Source: Adapted from Johnson, Scholes and Whittington - Exploring Corporate Strategy
Pursue strategies to defend/influence/exploit position

- **Raise** barriers
- Select suppliers with **less power**
- **Build** switching costs with buyers (loyalty schemes)
- **Recognise** potential substitutes
- Strengthen **Brand** Position
- **Build** Product **differentiation** to reduce direct rivalry
Capabilities

• SWOT (important)

• Value Innovation Analysis

• PUV

• TOWS (important)
SWOT Analysis

SWOT analysis summarises the key issues from the business environment and the strategic capability of an organisation that are most likely to impact on strategy development.

The aim is to identify the extent to which the current strengths & weaknesses are relevant & capable of dealing with the changes occurring in the business environment.

SWOT is very useful when it is used as a comparative study. For example the average age of Ryanair’s fleet (5.5 years) compared to BA (12.8 years) or compare the total unit cost of BA is €0.43.6/ATK verses €0.26/ATK for Emirates.

The analysis should identify critical success factors e.g. TAP’s long haul network to Brazil; Virgin Blue code sharing arrangements with Intl carriers; Jet Airway’s superior passenger service in the Indian market; Emirates hub and spoke network of long-haul to long-haul flights; Saudi Arabian Airline Hajj flights; Korean Air cargo operations, etc.

Identify around 6-7 key issues in the organisation’s environment about each attribute and be ‘specific’ rather than ‘general’ as stating ‘poor management’ (means very little).
What is the SWOT for TK?
SWOT Analysis - Airline

Organisational
- Visionary leadership
- Dedicated employees
- Leadership stability
- Responsive

Operational
- Productivity (aircraft + employee)
- Interlining
- Out-sourcing
- Aircraft turnaround time
- Backup aircraft
- Simplified performance
- Or-time performance
- Strategic plan
- Core competences
- Financial robustness
- Profitability
- Cash reserves
- Service reputation
- R&D and innovation
- Quality reputation
- Regional
- Advertising
- Brand
- Fare

Financial
- Financial stability
- Critical
- Full Service

Marketing

LCC
- Full Service

Source: O’Connell, 2007
Product Strength  Value Innovation

Source: Boeing
Identifying and assessing Opportunities and Threats

Opportunities and Threats are external and the company has little control over them. It is important to analyse the marketplace at a Macro level to determine the extent of the Threats facing the industry and any potential Opportunities.

Access or measure the impacts

Sources of Opportunities for carriers
- Untapped international markets
- Void left by other carriers (Failure of Malev)
- Unfulfilled customer needs (Pax wanting WIFI)
- Arrival of new technologies (e.g. 3G phones)
- Favourable demographic conditions
- Loosening of regulatory policy
- Acquisition of rival firms (BA + Aer Lingus)
- Changes to international trade barriers (e.g. foreign ownership - India)

Sources of Threats for carriers
- Economic downturn
- High unemployment
- Periods of high inflation
- New government regulations (travel tax)
- Substitute products
- Infringing International competition
- Supplier has increased prices
- Shifts in consumers tastes away from the firm’s products
- New innovations that render existing products obsolete
Lufthansa purchased 19% equity in Jetblue in 2008 for $309 million
Sold entire stake (reduced to 15.2%) in 2015 for €503 million due to its ongoing issues:

- Pension contributions
- Pilot strikes
- Germanwings accident
- Severe competition from LCCs and Gulf Carriers

This sale enabled Lufthansa to produce a Net profit of €425 million for Q1 of 2015
JetBlue Airways Partners

- Largest International US gateway

- It brought over **10.2 million passengers** to/from JFK from the rest of the United States & Caribbean in 2012 (PaxIS)

- It brought around **6.3 million passengers** to/from Boston from the rest of the United States & Caribbean in 2012 (PaxIS)

- Currently offers 78 destinations (85% in US and 15% Intl)

- It has 6,000 flights per week

- Jetblue has a valuable slot portfolio at JFK - 330 slots

- Its now located at the new T5 at JFK (cost $743 million)

- Jetblue’s low unit costs 7.2 cents CASM (ex fuel); compared to 9.1 for Delta; American Airlines is 8.8 (2014 data)
Air Cargo Weakness

What’s happening here?
Air Cargo Revenues are no higher now than they were 10 years ago.
Rating Threats for network airlines (Short-haul)

### Probability of occurrence

<table>
<thead>
<tr>
<th>Seriousness</th>
<th>Probability of occurrence</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>4</td>
</tr>
</tbody>
</table>

1. - Major LCC sets up base in neighbouring airport
   - Airport charges at home base increase
2. - Competing carrier sets up a new base at domiciled base
   - Regional carrier that feeds domiciled carrier dropping contract (Air Dolomiti)
3. - Competitor does a major advertising campaign in local market
   - Government increases tax on passengers ticket by 2%
4. - Competing carriers re-introducing a failed strategy
Ryanair operating to the US? Threat to Long Haul market?
**TOWS**

Tool used to enhance a company's competitiveness

Manage the **Threats**, Capitalise on **Opportunities**; Circumvent the **Weaknesses**; Make the most of the firm's **Strengths**

<table>
<thead>
<tr>
<th>Internal Strengths (S)</th>
<th>External Opportunities (O)</th>
<th>External Threats (T)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>S-O : Max – Max strategy</td>
<td>S – T : Max – Min strategy</td>
</tr>
<tr>
<td>2)</td>
<td>Strategies that use strengths to maximise opportunities</td>
<td>Strategies that use strengths to minimise threats</td>
</tr>
<tr>
<td>3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Internal Weaknesses (W)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>W – O : Min – Max strategy</td>
<td>W – T : Min – Min strategy</td>
</tr>
<tr>
<td>2)</td>
<td>Strategies that minimise weaknesses by taking advantage of opportunities</td>
<td>Strategies that minimise weaknesses and avoid threats</td>
</tr>
<tr>
<td>3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Strategic Management Tools

- BCG (important)
- ANSOFF (important)
Stars
Are products (services) where a company has a market share greater than your most relevant (largest) competitor and where the market is growing ‘above average’. Stars represent an investment priority - as the market is maturing and you can maintain a greater market share than your nearest competitor – then Star becomes a ‘Cash Cow’
### Boston Consulting Group Matrix Analysis

BCG is a good indicator of a company’s competitive position.

<table>
<thead>
<tr>
<th>Market Growth Rate</th>
<th>Relative Market Share</th>
<th>Stars</th>
<th>Question Marks</th>
<th>Cash Cows</th>
<th>Dogs</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>More than 1</td>
<td>An airline is a leader in a high growth market.</td>
<td>An airline in a growing market but has a low market share</td>
<td>An airline with a high market share in a mature market</td>
<td>An airline with a low market share in a static or declining market</td>
</tr>
<tr>
<td></td>
<td>1.0</td>
<td>However investment is still required to maintain growth and defend the leadership position</td>
<td>The airline may have to spend heavily to gain market share</td>
<td>The need for heavy marketing is significantly reduced</td>
<td>These airlines burn through cash and are the worst of all combinations</td>
</tr>
<tr>
<td></td>
<td>Low</td>
<td>As an industry matures and its growth slows, all business units become either cash cows or dogs.</td>
<td>It will be difficult for the airline to achieve a sufficient cost reduction to offset such an investment</td>
<td>The carrier should be able to maintain unit cost levels similar to competitors</td>
<td></td>
</tr>
</tbody>
</table>

1.0 is the industry average.
BCG for Emirates – Measuring its positioning in the market
Regional Growth Rates for the Middle East

<table>
<thead>
<tr>
<th>Region</th>
<th>Market Growth Rate 2014 – 2034</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intra Middle East</td>
<td>5.0%</td>
</tr>
<tr>
<td>Middle East - Europe</td>
<td>5.4%</td>
</tr>
<tr>
<td>Middle East – N. America</td>
<td>6.1%</td>
</tr>
<tr>
<td>Middle East - Africa</td>
<td>7.3%</td>
</tr>
<tr>
<td>Middle East – S.E. Asia</td>
<td>5.6%</td>
</tr>
<tr>
<td>S.E Asia – S.E. Asia*</td>
<td>8.9%</td>
</tr>
</tbody>
</table>

* Highest growth rate in Boeing Forecast

Source: Boeing Market Forecast, 2015
Emirates positioning in the Intra- Middle East market

This involves using the OAG database

**Intra-Middle East data** (one way)

<table>
<thead>
<tr>
<th>Top Airlines</th>
<th>ASKs/week</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudia</td>
<td>359,939,397</td>
<td>20.9%</td>
</tr>
<tr>
<td>Emirates</td>
<td>187,314,826</td>
<td>10.9%</td>
</tr>
<tr>
<td>Flydubai</td>
<td>168,926,034</td>
<td>9.8%</td>
</tr>
<tr>
<td>Qatar Airways</td>
<td>118,561,601</td>
<td>6.9%</td>
</tr>
<tr>
<td>Flynas</td>
<td>100,390,800</td>
<td>5.8%</td>
</tr>
<tr>
<td>Air Arabia</td>
<td>88,886,916</td>
<td>5.2%</td>
</tr>
<tr>
<td>Iraqi Airways</td>
<td>86,946,907</td>
<td>5%</td>
</tr>
<tr>
<td>Oman Air</td>
<td>79,395,876</td>
<td>4.6%</td>
</tr>
<tr>
<td>Etihad Airways</td>
<td>75,757,952</td>
<td>4.4%</td>
</tr>
<tr>
<td>Royal Jordanian</td>
<td>62,948,435</td>
<td>3.7%</td>
</tr>
<tr>
<td><strong>Total ASKs</strong></td>
<td><strong>1,724,095,791</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

**Emirates Relative positioning**

<table>
<thead>
<tr>
<th>Region</th>
<th>Emirates (ASKs/week)</th>
<th>Strongest Competitor in Region</th>
<th>Saudia (ASKs/week)</th>
<th>Emirates’ Relative share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intra Middle East</td>
<td>187,314,826</td>
<td>Saudia</td>
<td>359,939,397</td>
<td>0.52</td>
</tr>
</tbody>
</table>

Weekly Seats were calculated from 1–7 August, 2015, includes Iran
BCG Matrix for Emirates - August 2015
Emirates positioning in the Intra Middle East market

Market growth rates

<table>
<thead>
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<th>Market Growth Rate 2014 – 2034</th>
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<td>Middle East – S.E. Asia</td>
<td>5.6%</td>
</tr>
<tr>
<td>S.E. Asia – S.E. Asia</td>
<td>8.9%</td>
</tr>
</tbody>
</table>

Source: Boeing Market Forecast, 2015

Emirates Relative market is 0.52

Size of circle refers to the number of seats by Emirates in that market.
### Emirates positioning in the Middle East- S.E. Asia market

This involves using the OAG database

#### Middle East – S.E. Asia data (one way)

<table>
<thead>
<tr>
<th>Top Airlines</th>
<th>ASKs/week</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emirates</td>
<td>333,802,137</td>
<td>26.9%</td>
</tr>
<tr>
<td>Qatar Airways</td>
<td>277,698,475</td>
<td>22.4%</td>
</tr>
<tr>
<td>Etihad Airways</td>
<td>176,602,220</td>
<td>14.3%</td>
</tr>
<tr>
<td>Saudia</td>
<td>118,759,241</td>
<td>9.6%</td>
</tr>
<tr>
<td>Cebu Pacific</td>
<td>50,838,908</td>
<td>4.1%</td>
</tr>
<tr>
<td>Philippine Airlines</td>
<td>46,036,578</td>
<td>3.7%</td>
</tr>
<tr>
<td>Oman Air</td>
<td>43,419,693</td>
<td>3.5%</td>
</tr>
<tr>
<td>Singapore Airlines</td>
<td>16,369,044</td>
<td>1.3%</td>
</tr>
<tr>
<td><strong>Total Middle East – S.E. Asia</strong></td>
<td><strong>1,238,831,556</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

* Weekly Seats were calculated from 1–7 August, 2015, includes Iran

#### Emirates Relative positioning

<table>
<thead>
<tr>
<th>Region</th>
<th>Emirates (ASKs /week)</th>
<th>Next Strongest Competitor in Region</th>
<th>Qatar Airways (ASKs /week)</th>
<th>Emirates’ Relative share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middle East to S.E. Asia</td>
<td>333,802,137</td>
<td>Qatar Airways</td>
<td>277,698,475</td>
<td>1.2</td>
</tr>
</tbody>
</table>
Emirates positioning in the Middle East – S.E. Asia market

**Stars**
- Middle East – S.E. Asia

**Cash Cows**

**Question Marks**

**Dogs**

Market growth rates

<table>
<thead>
<tr>
<th>Region</th>
<th>Market Growth Rate 2014 – 2034</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intra Middle East</td>
<td>5.0%</td>
</tr>
<tr>
<td>Middle East - Europe</td>
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<td>5.6%</td>
</tr>
<tr>
<td>S.E. Asia – S.E. Asia</td>
<td>8.9%</td>
</tr>
</tbody>
</table>

Source: Boeing Market Forecast, 2015

Emirates Relative market is 1.2

Size of circle refers to the number of seats by Emirates in that market
## Emirates Global Market position from the Middle East

### Forming the BCG Matrix

<table>
<thead>
<tr>
<th>Region</th>
<th>Emirates ASKs/Week</th>
<th>Next Strongest Competitor</th>
<th>Next Strongest Competitor (ASKs /week)</th>
<th>Emirates’ Relative share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intra Middle East</td>
<td>187,314,826</td>
<td>Saudia</td>
<td>359,939,397</td>
<td>0.52</td>
</tr>
<tr>
<td>Middle East – S.E. Asia</td>
<td>333,802,137</td>
<td>Qatar Airways</td>
<td>277,698,475</td>
<td>1.2</td>
</tr>
<tr>
<td>Middle East - Europe</td>
<td>911,488,149</td>
<td>Qatar Airways</td>
<td>404,981,545</td>
<td>2.3</td>
</tr>
<tr>
<td>Middle East - Africa</td>
<td>358,602,695</td>
<td>Qatar Airways</td>
<td>129,297,261</td>
<td>2.8</td>
</tr>
<tr>
<td>Middle East – North America</td>
<td>463,000,934</td>
<td>Etihad Airways</td>
<td>210,443,699</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Source: O’Connell
Emirates Global positioning from the Middle market
August 2015 data

What about Middle East to Europe?

Source: O’Connell

Market growth rates

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Source: Boeing Market Forecast, 2015
The BCG could also look like this - illustrative!!

Market Growth Rate (Year over Year)

Relative Share (Total Revenues)

- Stars
- Question Marks
- Cash Cows
- Dogs

- Passenger Revenues
- Cargo Revenues
- Ancillary Revenues
- Revenues from Holiday Division
- Revenues from Regional Affiliate
- Revenues from 3rd party Maintenance

Source: O'Connell
The BCG can also look like this - Indian Domestic Market illustrative

Note: Circle size is proportional to traffic

Source: O’Connell
Ansoff Matrix

This is used for identifying directions for strategic development.

The development directions are the strategic options available to a firm in terms of products and market coverage, taking into account the strategic capability of the company and the expectations of shareholders.

Products/Services

<table>
<thead>
<tr>
<th>Existing Markets</th>
<th>Existing Products/Services</th>
<th>New Products/Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing</td>
<td>Market penetration</td>
<td>Product development</td>
</tr>
<tr>
<td>Protect/Build</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New</td>
<td>Market development</td>
<td>Diversification</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Risk</td>
</tr>
</tbody>
</table>

Source: Ansoff
# Ansoff Matrix (Incumbent airlines - short haul example)

## Products/services

<table>
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<tr>
<th>Existing Markets</th>
<th>New Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market penetration</td>
<td>Product/service development</td>
</tr>
<tr>
<td>- Remain the Fare Leader</td>
<td></td>
</tr>
<tr>
<td>- Frequency</td>
<td></td>
</tr>
<tr>
<td>- Punctuality</td>
<td></td>
</tr>
<tr>
<td>- Connections</td>
<td></td>
</tr>
<tr>
<td>- Primary airport</td>
<td></td>
</tr>
<tr>
<td>- In-Flight frills</td>
<td></td>
</tr>
<tr>
<td>- FFPs</td>
<td></td>
</tr>
<tr>
<td>- Corporate agreements</td>
<td></td>
</tr>
<tr>
<td>- Strong Advertising/Sponsorship</td>
<td></td>
</tr>
</tbody>
</table>

## Marketers

<table>
<thead>
<tr>
<th>Existing Products/services</th>
<th>New Products/services</th>
</tr>
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<tbody>
<tr>
<td>Market extension/development</td>
<td></td>
</tr>
<tr>
<td>- Focus on niche market (good yield)</td>
<td></td>
</tr>
<tr>
<td>- Regional affiliate ??</td>
<td></td>
</tr>
<tr>
<td>- Low cost subsidiary ??</td>
<td></td>
</tr>
<tr>
<td>- Charter operations (night)</td>
<td></td>
</tr>
<tr>
<td>- Subsidiary industries (Holiday division)</td>
<td></td>
</tr>
<tr>
<td>- ACMI operations to alleviate seasonality</td>
<td></td>
</tr>
<tr>
<td>- Premium Economy class</td>
<td></td>
</tr>
<tr>
<td>- Trial new things (assigned seating – LCCs)</td>
<td></td>
</tr>
<tr>
<td>- Create a standalone Ground Handling facility (e.g. DNATA)</td>
<td></td>
</tr>
</tbody>
</table>
Conclusion

- The market is picking up – the industry could finally be entering into an Up-cycle
- Competitive advantage is Key
- The Operating Environment for an Airline is influenced by Porters 5 forces as well as the Macro (PESTEL) and Micro environment, which all have a direct impact on airline strategy
- The carriers’ strategic capabilities are a very important indicator (SWOT and TOWS)
- The strategic decision making tools such as BCG and Ansoff are important analytical tools which underpin the core competencies of a company
Thank you all very much
Porter’s Value Chain
Aids in differentiation and competitive advantage
An example from Emirates Catering

Firm Infrastructure (General Management)

Human Resource Management

Technology Development

Procurement

Inbound Logistics
- Incoming Food products to produce 115,000 meals/day
- (70% for EK)
- Require multiple beverage types

Operations
- $120m building
- 5,400 employees
- 34 in/outbound docks
- 400 variations of menu
- 23 special meal types
- Special Request (70%)
- 160% ratio for 1st Class
- Quality control
- Assembly of table wear
- 4.5 ton added to aircraft

Outbound Logistics
- Provides services to 110 airlines
- 98 catering trucks
- Load Catering
- Food hot & moist
- On-time Aircraft

Sales & Marketing
- Catering is part of Quality standard
- Product mix – IFE
- Meeting Customer Expectation
- Advertise 5 Star product

Service and Support
- Cabin crew service
- Standards

Source: Adapted from Porter - Competitive Advantage: Creating and Sustaining Superior Performance, The Free Press
# The Strength of an Airport

## Why passengers and airlines choose airports

### Passengers

- Destination of flights
- Image of airport
- Fare
- Frequency of service
- Flight availability and timings
- Image and reliability of the airline
- Airline alliance policy and FFP
- Duty free shopping facilities
- Ambiance of Airport
- Range and quality of shops, catering
- Ease of access to airport, surface access cost and/or car parking cost

### Airlines

- Slot availability
- Network availability
- Airport fees & availability of discounts
- Other airport costs (e.g. fuel, ground handling)
- Competition
- Marketing support
- Range and quality of services
- Ease of transfer connections
- Maintenance facilities
- Environmental restrictions
- Curfews
- Ability to deal with severe weather

Source: Anne Graham, Managing Airports - An International Perspective.