# Examining the key business strategies of air arabia tourism essay

Environment, Air

Air Arabia is the first low cost carrier in the Middle East and North Africa region. They are the first international airline of the Emirate of Sharjah and the second officially approved national carrier of the United Arab Emirates. An LCC or low-cost airline is an airline which is able to offer generally low flight fares by eliminating many traditional passenger services. The concept was incepted in the United States before spreading to Europe in the early 90's. A low cost carrier's business model is typically based on cost cuts such as a single passenger class, a single type of airplane (commonly the Airbus A 320 or Boeing 737), and the absence of ' free' in-flight catering and other additional services.

The company commenced operations in October 2003 and is modeled after leading American and European low-cost airlines. Initially operating with two new Airbus A320 aircraft, Air Arabia's fleet has increased to 21 Airbus A320 aircraft flying to over 57 destinations with more significant growth planned. Based at Sharjah International Airport, Air Arabia customers enjoy the benefits of access to Sharjah, Dubai and other Emirates, fast check-in processes, low congestion, friendly airport staff, as well as access to other commercial carriers served at the airport. Air Arabia pioneered the LCC model in the Middle East, being the first to introduce it successfully in the region. Air Arabia began with a mission to revolutionize air travel in the region, much in the same way that the introduction of low cost carriers revolutionized travel in the US, Europe and Asia, by offering good value for money, and a safe, reliable operation. Air Arabia, as a business, aims to be known for its low fares, growing business volume and profitability, highest operational standards, a motivated work force and efficient management.

## Organizational Structure

The management of Air Arabia follows a functional structure. The departments are divided up according to different functions like sales, finance, etc. This kind of structure is very efficient due to its flexibility. Each department Head is aware of its subordinates and hence reduces the possibility of burden on workers. Their open-door policy allows any employee to discuss issues with their respective department Heads. Recently, the CEO, Adel A. Ali was awarded the Best CEO in the Airline industry.

## Objectives of Air Arabia:

## Mission of the business

“ To revolutionize air travel in the region through an innovative business approach offering superb value for money and a safe, reliable operation To achieve this we will:

Be known for our low fares

Grow our business profitably

Build motivated multi-functional teams

Demonstrate the highest operational standards

Manage our costs ruthlessly”

## Business Objectives

Fleet expansion of over 50 aircraft by 2015

Establishing at least 1 more hub to link the whole range destinations from the Arab World to Africa and Europe

## Key Business Strategies

Air Arabia has the following 4 business strategies to align growth with its business objectives

## Air Arabia is continuing implementing a continued low cost model by doing the following:

A – Offering the lowest fares in the Middle East region on a profitable basis while staying in a profitable structure.

B- Focusing on lowering the costs.

C-Introducing continued operational efficiencies.

D- Offering point to point service, which maximizes the aircraft utilization model.

2- Maintain the leader position and stay profitable:

A-Increase the flying frequency of existing destinations and add more destination routes for the Indian sub-continent, MENA region and the Eastern Mediterranean region.

B- Expand fleet within the next few years.

C- Expand through new hub(s)

D- Launching the low cost " Centro Rotana" hotel in April 2010 – this hotel will complement Air Arabia's brand as a low cost airline, as it includes low cost standard room and suits.

3- Seeking new strategic acquisition-opportunities by evaluating opportunities in their target regions.

4- Grow complimentary ancillary operations:

In the above-mentioned subsidiary joint ventures, Air Arabia proposes to improve the following:

Expand the operations to have more control on costs.

Enhance profitability.

Improve quality.

Improve reliability of services.

## Stakeholders:

Internal:

Shareholders

Pilots

Cabin Crews

Ticketing Staff

Employees

External:

Customers & the community

Government of Sharjah & Department of Civil Aviation

Suppliers: ABELA Caters

Aircraft Manufacturers

Tools and techniques:

Risk identification processes

## High Oil Prices

As about a third of the cost of company, oil prices represent the largest and most dangerous threat to an LCC. Air Arabia lacks a formal fuel hedging policy, and must be cautious of the implications of only exercising a private policy

## Competitor market share

Nas Air and Al Jazeera pose the most significant competitor threats to Air Arabia, as these are the two comparables that have the most flights to and from the UAE. A leading national airliner, Emirates Airlines, has also announced plans for a low-cost division, which will pose a significant threat in the future.

## Overdependance on Sharjah hub

Since the creation of Air Arabia was in part a response to increase air traffic in SIA, flight schedules depend highly on the Sharjah hub, as well as overall reliance on leniency from the airport itself. Also, the centralized flight structure requires a transit stop at SIA if flying between two foreign locations, which is a major complaint of Air Arabia customers. This is also a limitation for travelers from faraway Emirates. Air Arabia can develop an adequate transport system to accommodate this need.

## Limited capacity of planes

Air Arabia has a fleet of 21 aircraft of a single type: Airbus A320. Due to this absolute reliance, a delay in aircraft deliveries has large impact on operations (Prospectus, 2007).

## Operational delays

Another major customer complaint is the number of flight delays customers' face.

## Lack of formal fuel hedging policy

Air Arabia prefers not to disclose its fuel hedging policy. As discussed in the ' Threats' later, this represents a major weakness and unfavorable exposure for Arabia.

## Highly leveraged

Any airliner will have a substantial segment of their liabilities in lease obligations, as many if not most planes are under lease contracts. Air Arabia leases 18 out of its fleet of 21, resulting in high exposure to the variable components of these lease contracts. This exposure could have very significant implications in adverse macroeconomic conditions on the profitability and operations of Air Arabia.

risk assessment processes

Integration risk management

In Air Arabia integration of risk management is extremely important. The framework of the risk management integration usually scrutinizes the association between the activities of service delivery departments and support functions.

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incorporates the management of risk process into strategic management planning

supports Internal Audit by increasing the effectiveness of the control environment

Improved decision taking and strategic direction.

Established links between the high level aims/objectives and operational activities.

Alignment of strategic and business objectives.

Improved management understanding of the impact of risk on opportunities and practices.