

The airline industry and the challenges tourism essay

[Environment](#), [Air](#)



Introduction

Today, the involvement of Middle Eastern airlines in extra-regional operations varies, but is already comparably high. Emirates is offering 82% of its seat capacity on extra-regional services. Most other important carriers from the region like Etihad Airways (74%), Qatar Airways (66%) and Gulf Air (54%) also operate more than half of their seats on extra-regional flights (AEA, 2006). Air France (26%) and Lufthansa (23%) show that the share of extra regional offer for European network carriers is considerably less, indicating that these carriers have stronger domestic markets.

It has also projected the following for its financial year outlook. Qatar Airways aims for 40% jump in revenues, says CEO Akbar Al Baker. Defying the global financial downturn, Qatar Airways is expecting to record a 40 per cent increase in its revenues in its current financial year ending March 31, 2011 over the last year, according to the Doha-based airline's chief executive officer." We are targeting a 40 per cent increase in revenues for this year, which is slightly over the increase in the airline's capacity of around 30 per cent. Qatar has also come up with balance marketing Mix to as to shift from competitor of Emirates to main player in the airline industry in the Gulf region.

The Airline Industry and The Challenges

The commercial aviation industry has been characterized by a cyclic nature since its inception. During times of economic prosperity, passenger traffic demand grows and airlines seek to add capacity to meet that demand.

Conversely, during economic downturns, airlines respond to decreased travel demand through cancelling flights, grounding or selling aircraft and generally shrinking capacity.

By 2005, a new wave of brash exuberance was experienced in the airline industry, and aircraft orders skyrocketed fourfold, year over-year, to record levels of more than 2000 units, split fairly evenly between Airbus and Boeing. (See Fig. 1.) A sizable portion of aircraft buying originated with airlines based in the Gulf Region. Traffic growth in that region of the world was strong, and carriers like Emirates, Etihad and Qatar began placing large aircraft orders, often in duals of one-upmanship at various air-shows such as Paris, Farnborough and Dubai.

The airline industry has been bedeviled in the recent times by economic downturn, skyrocketing fuel costs, perceived threat of terrorism, the potential outbreak of the “bird flu” virus and massive insurance premiums the international airline industry faces an uncertain, deregulation that has hit major industrialized nation airlines and challenging future. North America is second largest of the four regions examined, with 2827 orders, but with over 80% of these orders being placed for narrow-body equipment (generally 100-200 seats), most of which are destined to join the fleets of LCC airlines in the United States, Canada and Mexico. Europe is the third largest region, at over 2600 orders, also heavily weighted dedicated to narrow-body purchases (70%), again to a large extent ordered to increase the fleets of growing LCCs such as EasyJet and Ryanair. The Middle East is the fourth largest region examined, and though aircraft orders number just over 400, a key distinction

from the other regions is that more than 60% of these orders are for twin-aisle widebody (200-400 seats) and Very Large Aircraft (greater than 400 seats, such as the Airbus A380), as shown in Fig. 2.

Fig. 1. Aircraft orders of Gulf States: 1995-2007. Source: www.airbus.com, www.boeing.com.

Fig. 3. Airbus A380 orders by region. Source: Airline Monitor, November 2007.

Situation analysis

Company analysis

Qatar Airways is the national airline company of Qatar which one of the fastest growing airlines in the world. Since its re-launch in 1997, Qatar Airways has achieved staggering growth in fleet size and passenger numbers. From only four aircraft in 1997, the airline grew to a fleet size of 28 aircraft by the end of 2003 and a milestone 50 by October 2006. Today, the airline operates 68 Boeing and Airbus aircraft. By 2013, the fleet size will almost double to 110 aircraft. Qatar Airways currently has more than 200 aircraft on order worth over US\$40 billion for delivery over the next few years (www.linkedin.com). Currently, Qatar Airways has a fleet of 87 aircraft serving 92 destinations worldwide. The company employs more than 15, 000 employees across Far East, Middle East, Central Asia, Europe, the Africa, North America, South America and Oceania.

Qatar Airways vision is to invest in and maintain, a growing fleet of young and modern aircraft flying to key business and leisure destinations

worldwide. Furthermore, company's mission includes " safety first", " customer focused", " culturally aware" and " financially strong". Moreover Qatar Airways set up its goal which is to be a world's top airplanes company.

Competitors

Qatar is strategically located in the Gulf States. It has become one of the business hub and stopover. Its airline industry, has come under increasing competition from competitors such as Emirates, Etihad, Bahrain airlines.

Airlines in the Middle East currently account for just 9% of long haul capacity worldwide, but are responsible for about 25% of all global long-haul aircraft deliveries over the next decade (Flanagan, 2006). Dubai-based Emirates Airlines is the largest buyer, with approximately 70% of all new long-haul aircraft orders in the Middle East - the airline is planning to more than double its all-wide body fleet capacity by 2012 (Flanagan, 2006). Once all these aircrafts are in use, Emirates Airlines will be the world's largest long-haul carrier. Other airlines in the region with sizable wide body aircraft orders include Qatar Airways with an order book of about 140 wide-body aircraft and Etihad Airways with about 20 aircrafts pending delivery. Whilst aircraft orders of Gulf carriers represent real fleet expansions, aircraft orders placed by incumbent carriers are mainly used to replace existing capacity (Fig. 1). Overall, aircraft orders by Middle Eastern carriers are valued at 40 billion USD (list prices). Middle Eastern carriers are building their growth strategy on wide-body aircraft that offer expanded range, enhanced passenger comfort, and improved operating economics. These aircrafts will help Middle Eastern carriers to mitigate the likely ongoing slot shortages and congestion

problems experienced at some airports. New-generation aircraft are fundamental to the development of long-haul hubs in the Middle East, allowing the carriers to remain competitive by keeping unit costs low (O'Connell, 2006).

Qatar airways just like other airlines in the Gulf States is part of the government strategy to diversify its revenue base, economies, commerce, tourism and global transport importance. The airline has a rich mission statement which is " Excellence in everything we do." According to a survey carried out by Pearce and David (1987) to analyze the mission contents of airline companies, the mission, it showed that Qatar's mission statement is one of the best in the world. Amongst 9 points, it has 6 points.

Fleet expansion plans of Middle Eastern carriers (as March 2008). Source Journal of Transport Geography 18 (2008) 388-394

Collaborators (worldwide partners, codeshare)

Code sharing or codeshare is an aviation business term for the practice of multiple airlines selling space on the same flights, where a seat can be purchased on one airline but is actually operated by a cooperating airline under a different flight number or code. The term " code" refers to the identifier used in flight schedule, generally the 2-character IATA airline designator code and flight number. Qatar Airways is proud to be codeshare partners with some of the world's premier airlines such Nippon Airways, Asiana Airlines, BMI, Lufthansa, Malaysia Airlines, Philippine Airlines, US Airways and United Airlines which indicated as Star Alliance. (Qatar. com)

Climate

Macro environment (PESTLE analysis)

PESTLE Analysis which is an acronym of Political, Economic, Social, Technological, Legal, is a tool that aids organization make strategies by helping them to understand the external environment in which they operate now and in the near future. Below is a tabulated External analysis in which Qatar air line operates.

Political

Looking at both the demand and the supply side of Middle Eastern aviation growth, it becomes clear that the development has both a demand and a supply side impetus to it. The rise of carriers from the region has become possible due to the overall increase in demand for air travel. Additionally, traffic has already been diverted from the established carriers. However, there is also another side to the growth process: " Induced demand". This is because of political stability in the Gulf region not only in Qatar.

Economic

Domestic demand benefits from the topography of the Gulf countries, which favours travelling by air for intra-regional transport. Furthermore, a high per capita income that is still increasing quickly, offers a base for a strong aviation industry. But there are socio-economic constraints, limiting both domestic leisure and business travel potential. Also, wealth is unevenly distributed, with an estimated proportion of 20% to 45% of the population living below the poverty line (AEA, 2006). The United Arab Emirates, Bahrain and Qatar have a combined 5.5 million people which is only about the

population of the Philadelphia metropolitan area. With more people living above the poverty line, the airline industry has a bright future.

Social

UAE lies in the heart of the Middle East (ME) and is one of the world's fastest growing economies with a per capita income of US\$31, 000 (IMD, 2005).

Worldwide, in 2006, the ME Travel and Tourism economy was ranked number nine in terms of absolute size (US\$150 billion) and is expected to grow to US\$280 billion by 2020 (WTTC, 2007a; Husain, 2007a). UAE ranks 18th in the world and number one in the Arab world, according to the global tourism competitiveness report by the World Economic Forum (Rahman, 2007a, b).

Global Futures and Foresight, a British think tank expects the investment in tourism and infrastructure for the ME to be about US\$3 trillion by 2020, with current investments standing at US\$1 trillion which is much higher than what is considered current global expenditure (Husain, 2007a). Non-oil revenues contribute 63 percent to the GDP (UAE Interact, 2007a). Abu Dhabi contributes 59 percent to the GDP of UAE (56 percent which is oil dependent). Qatar strategy is to feed from the Dubai market.

Technological

Delays, cancellations and diversions are the most visible evidence of the effects of these disruptions on the airlines. Generally, each of these results in aircraft and crews being out of position relative to planned itineraries.

Passengers are inconvenienced as arrivals are delayed and scheduled connections missed. As a result, an airline may become responsible for the cost of alternate transportation, lodging, food and, if the delay is sufficiently

long, a cash payment to compensate the traveler for any inconvenience. Qatar has achieved great technological feat to avoid such delays unless when the flight is at their hub and they are expecting some flights to make do.

Legal

Qatar airways is a signatory of open skies agreements. Between 1990 and 2003, the United States implemented a series of Open Skies Agreements, providing a unique opportunity to assess the effect that a change in the competition regime has on prices. In our sample, Open Skies Agreements reduce air transport costs by 9% and increase by 7% the share of imports arriving by air. Those results hold for developed and upper-middle-income developing countries but for lower-middle-income and low-income developing countries Open Skies Agreements do not reduce air transport costs.

SWOT analysis

SWOT analysis helps to explore the internal and external environmental factors affecting Qatar Airways and hence enable us to make strategic decisions (Aaker, 2005). The recommended strategies that would be adopted in this paper would be based on the on the SWOT analysis of the company.

SWOT analysis for Qatar Airways

STRENGTHS

WEAKNESSESS

The only 5-star ranked middle eastern airline

Over 90 Destinations Worldwide

Codeshare partners with most of the world's premier airlines

Qatar Airways profits from the very low charges at its home airport

High ticket prices

Young airlines which established in 1994

Operation costs is very high due to investments on airport reconstructions and buying high-class aircrafts

OPPORTUNITIES

THREATS

Qatar's favorable location for business

The new airport is scheduled to be operational from the end of 2011

Qatar holds a major asean and international sporting activities, recently

Qatar won bidding to host FIFA World Cup 2022 .

Investing on Environmental Studies (first commercial flight with GTL Jet fuel- without particular emissions in 2009)

Unstable political environment of neighbourhood countries

High risk of terroristic activities

Strong neighbouring state competitors (Emirates Airlines, Gulf Air)

Qatar Airways has over 200 aircraft pending delivery with the orders worth more than US\$40 billion by Boeing.

Company objectives

Marketing objectives

To help drive their expansion in the UK and internationally, Qatar were looking for an opportunity that would deliver the right audience and broad coverage - with year round presence. While Qatar and their agency Starcom were looking at various weather opportunities available in the market, we were convinced that the breadth and depth of our offering via the award winning Sky News would make it a clear winner - they agreed.

The campaign comprised of 5 different viewing platforms - allowing Qatar to reach Sky News' desirable and affluent audience via multiple touch points. Coverage also included Sky News International, driving the brand into over 70 million homes and 1 million hotel rooms worldwide. The relationship has now spanned over 4 years with a new 2 year extension just agreed.

Objectives

Grow brand awareness and perception in the UK and internationally

Raise awareness of Qatar as a premium 5-star airline

Communicate the quality of the Qatar service

Increase share of voice against the competition

<http://www.skymedia.co.uk/Audience-Insight/Case-Studies/qatar-airlines.aspx>

Financial objectives

Qatar Airways aims for 40% jump in revenues, says CEO Akbar Al Baker.

Defying the global financial downturn, Qatar Airways is expecting to record a 40 per cent increase in its revenues in its current financial year ending March 31, 2011 over the last year, according to the Doha-based airline's chief executive officer." We are targeting a 40 per cent increase in revenues for this year, which is slightly over the increase in the airline's capacity of around 30 per cent, Akbar Al Baker, told Emirates Business. He added that the airline will experience a " similar capacity increase" in the following year.

Marketing segmentation and target market

Geographic Segmentation:

Qatar Airways is currently operating in most of the regions of the world. They are presently hoping to expand their routes to include the south pacific routes of Australia and its neighboring countries. Qatar Airways is a dynamic, high service carrier, which utilizes the geographic location of its Middle Eastern hub to link 72 international cities. See the company's website for more information.

Target Market

Product Differentiation:

Akbar Al Baker, Qatar Airways' Chief Executive Officer, stated, " By offering a variety of entertainment options, we are able to differentiate our passenger

<https://assignbuster.com/the-airline-industry-and-the-challenges-tourism-essay/>

service through live entertainment programming while also setting new standards of comfort to ensure we are the airline of choice" (Rockwell Collins, 2005, p. 1).

Some of the features of differentiation are:

Biggest and best business class in the Middle East

Interactive Audio, Video on Demand Entertainment System

Largest personal TV screens in the Middle East

Electronic seat controls

In-seat back massage

First Middle East airline in First Class with flat beds.

Current Marketing Mix (Ansoff product mix & 4P's)

Product Strategy using Ansoff product mix:

Services is defined as involving one party offering something that is essentially intangible and where the interaction does not result in ownership of anything (Kotler, 2008). Applying Ansoff product grid matrix, it can be said that Qatar airlines is still in market penetration. This is because the airline as was shown in the introductory section of the work, has projected the number of aircraft it wish to buy before 2012. The attributes of a company in growth stage of company life cycle is expansionary qualities.

New Products

Existing Products

Existing Market

Market

Penetration

Product

Development

New Market

Market

Development

Diversification

ansoff's product / market matrix

The attributes of market penetration strategy in which Qatar airways are using include:

- Maintain or increase the market share of current products - this can be achieved by a combination of competitive pricing strategies, advertising, sales promotion and perhaps more resources dedicated to personal selling

As part of this growth plan, Qatar Airways will extend its route network to 50 destinations by the end of 2003. It has recently added Manchester and Rome to its increasing route network. It will soon be adding Shanghai, Seoul and Tripoli to its route network. (Airhighways Magazine, 2005, p. 1).

- Secure dominance of growth markets. Qatar airlines have been known to dominate the ever busy African- Middle east air routes. The company always has some flights available from any part of Africa to the Gulf States. The topology of the area has encouraged the airline to operate in product penetration strategy of Ansoff product grid. Its sparsely populated area has encouraged travelling by air for intra-regional transport. Furthermore, a high per capita income that is still increasing quickly, offers a base for a strong aviation industry. But there are socio-economic constraints, limiting both domestic leisure and business travel potential.

- Increase usage by existing customers - for example by introducing loyalty schemes . A market penetration marketing strategy is very much about “ business as usual”. The business is focusing on markets and products it knows well. It is likely to have good information on competitors and on customer needs. It is unlikely, therefore, that this strategy will require much investment in new market research. There is no evidence that Qatar airways is investing on market research because they are not expanding into unknown routes such as Kuala-lumpur - Sydney route.

Pricing Strategy: Going-rate-pricing strategy

Presently Qatar airline practice what is called Going-rate-pricing strategy.

The market leader in the middle- east airline industry remains Emirates.

Qatar charges its fare based on the price of Emirates which is slightly higher.

This is because being the market follower, Qatar does not need to disturb the established market dynamism because it might not be able to compete on the same level with Emirates.

Comparing the price of Qatar and Emirates, on the same route of Kuala-Lumpur (Malaysia) - Johannesburg (South Africa):

Price of Qatar Airways on 21st Nov returning on 23rd Dec from Kuala-Lumpur to Johannesburg

Price of Emirates on 21st Nov returning on 23rd Dec from Kuala-Lumpur to Johannesburg

Promotion Strategy

Qatar airlines are not practicing product differentiation but it is practicing promotion differentiation. According to its chief Executive Officer Akbar Al Baker he said that " Qatar By offering a variety of entertainment options, we are able to differentiate our passenger service through live entertainment programming while also setting new standards of comfort to ensure we are the airline of choice" (Rockwell Collins, 2005, p. 1). Some of their promotion strategies are as listed below and experienced by its passengers are as

Biggest and best business class in the Middle East

Interactive Audio, Video on Demand Entertainment System

Largest personal TV screens in the Middle East

Electronic seat controls

In-seat back massage

First Middle East airline in First Class with flat beds

Qatar has engaged the services of Global media industries to help spread the good news. Such TV, Corporate Videos, BBC Campaign to position it as a premium carrier, CNN testimonials from airline staff, Sky News reports as a sponsor of the weather service and Sponsors a travel show through Al-Jazeera. Qatar is a major sponsor of high profile sporting activities such as World Tourism Day, World Travel and Tourism Council Summit, World Economic Forum, Leading International sports events. Qatar airlines was the official sponsor of 15th Asian Games, Doha 2006. The company has come up with a new product called “ Flying Oryx” Newsletter that it distributes to travel agents. The newsletter is also available through its websites. More links could be established to the newsletter through the Internet. The airlines also give away products to passengers that promote the logo of the Burgundy Oryx and “ Taking you personally,” such as watches, computer “ mouse” and hand towels.

. Place Strategy:

This places a little impact on the business strategy of Qatar. Qatar airways like any other airways have developed a system of getting their ticket. Unlike the normal businesses, whose distribution channel goes from the manufacturer - wholesaler-retailer-consumer. The normal business cycle Qatar airline and other airways are from the airline operators to consumers when online booking is done or through traveler agent.

Airline operator

Airline operator

Manufacturer

Wholesaler

Travelling Agent

Consumer

Retailer

Consumer

Consumer

**Traditional Supply channel Online booking channel
Intermediary booking channel**

Marketing Implementation

Budget (short & long term projections)

Qatar airlines being a government company operates a closed system whereby no one knows their financial projections. But based on Boeing's Economic Overview for the next 20 years, the company predicts an overall economic growth of the international airlines industry will be at 2.9%, the international growth in passenger traffic will be 4.8%, and the largest area of growth will be in cargo at 6.2%. Although the industry will still face highs and lows, which is inherent, the Boeing report says that the long-term outlook is that of positive growth. Part of the factors of positive growth are globalization, increases in international trade, growth of GDP, the liberalizing of regulations in various countries to allow more access and services. World

GDP growth is at 2.9% and this is one of the major factors for the growth in the airlines industry. According to that same report, the GDP growth in the Middle East is 3.6%, and growth in the passenger traffic is estimated at 5.5%. Of course, this growth is higher in regions where the GDP is higher. Other factors affecting increased growth in the Middle East are increasing populations and the belief that oil costs will be sustainable long-term.

Integrated Marketing Plan

Low cost

Qatar Airways have the leverage to engage in more competitive prices than what they are offering presently. They should borrow a leaf from what Qantas did. Qantas came up with a low cost carrier called JETSTAR. The low cost strategy can compete in the low cost flight category of the airline industry while the parent company keeps their normal standard.

Alliances

Qatar Airways have the brand image to form strategic alliances with many similar airlines where they can get the benefits of economies of scale. This might come in the form of choosing one airline company in the continent to form a loop. They might borrow a leaf from what Singapore Airlines did as shown below.

Singapore

Airlines

Air New Zealand

Star Alliance

Diners Club

Avis

Singapore Airlines' alliance network; strategic alliance, follower (Kotler Pg 812, 2008)

Reduction of booking agents

Commissions and other incentives to sales staff add to the operational cost of the company. These costs either passed on to the customers or absorbed by the organization lowers the margins of the company. The company should come up with a structure of appointing GSA (General Sales Agent) in major cities and towns. They might even pass it to the post office to sale for them since they post office has their fixed cost already running.

Web Friendly Site

The company should as a matter of urgency design a friendly user web site. Their current web site is not user friendly. They should borrow a cue at Airasia website. Airasia website is fast, user friendly and updates every minutes. This has greatly encouraged customers to use the web more frequently than physical office space thereby limiting people or place contacts to the barest minimum.

Conclusion

For Middle Eastern players, there are three potential sources of passenger demand. Firstly, domestic demand originating in the Gulf region can add to

fill fleets and airports. Secondly, demand can arise from foreign passengers that are bound for Middle Eastern countries - may they be leisure or business travelers. And thirdly, stop-over travel that is using the Middle Eastern airports as hubs and that is heading for destinations beyond the Gulf countries can be a source of demand. These factors are favorable to Qatar airlines. However, responding to the growth processes in the Middle East only by cutting costs is an insufficient strategy for the incumbent players. Pricing systems, for example, have been developed in decade-long processes and are difficult to copy. Other important fields and assets for reaction are strategic networks and co-operations, frequent flyer programs and booking systems.