

# Environmental scan of the airline industry tourism essay

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



We have defined our relevant market for Flydubai as a low cost carrier within the product form level. Being positioned as a low cost national airline carrier, it's facing a high competition from other national airlines which force the relevant market to be within the product form. (For more information on the relevant market please refer to appendix 2).

This paper will focus on presenting an environmental scan of the airline industry within the Middle East region during the time frame of 3 years (2009-2012). In order to do so, we will identify the significant trends and their consequent implications on Flydubai relevant market. This report will include an in depth review of the macro, micro analysis and its implications of Flydubai relevant market in the next three years.

### **Body:**

In identifying the major key trends in the macro environment of Flydubai, we have addressed several issues that include the political, social and economical trends.

Flydubai was established by His Highness Sheikh Mohammed bin Rashid Al Maktoum, UAE Prime Minister and Vice-President, and Ruler of Dubai orders in march 2008 and started its operation in its first flight to Lebanon on June 1st 2009. Being fully owned by Dubai government and enjoy the full facilities offered in terminal 2 at Dubai International Airport, the company is having a competitive advantage compared to its rivals in the market as it enjoy the full government support and airport services. Furthermore, the current government trend in the labor force is towards emiratization and protecting labors rights. Being a part of the Fly Emirates Group, the organization will

face no problem in emiratization as it will follow Fly Emirates emiratization strategy. The major challenge that Flydubai will face is being able to offer high paid jobs and reduce its operational costs as it is considered a low cost airline company.

Living in the current financial crises era, Flydubai was established in one of the most difficult time the country economy had faced in the last 25 years. “ Falling oil prices, cooling real estate and construction markets, together with a slowdown in the tourism sector, especially in Dubai, means the UAE is expected to post low or possibly negative GDP growth in 2009”, according to analysts (Arabian Business, 2009). This information may be considered negative to many airline companies but it may be positive to a low cost airline like Flydubai as people are now focusing more in reducing their expenses as the incomes are reduced. This means their tendency of consumers focusing more on prices is increasing.

Furthermore, consumer behavior is changing towards low cost airlines especially in the Middle East region as consumers are persuaded by low prices and a better service offered by low cost airlines. According to a study done by Arabian Business website, it was found that 83 percent of the respondents would switch their preferred airline carrier, for a cheaper price, while 17.6 percent believed they would consider alternatives and trade off between the discount and lost air miles. It can thus be inferred that pricing plays a significant role in consumer behaviour and the decision making process especially in the current economic downturn era (Glass, 2008).

According to Dubai department of Tourism and commerce marketing “ 3. 85 million tourists had visited the emirate in the first half of 2009, a five percent increase on the same period of 2008”. This figure strongly shows the current tourism industry market and how attractive it became even though of the current economical downturn. Other figures expect that the number of tourists will fall compared to 2008 figures but most figures have stated that there will be a positive growth in 2010. This figure shows that Flydubai will see a future growth rates in the coming 3 years as terrorism sector restore its high figures after overcoming the current downturn.

As observed by Andrew Cowen, CEO of SAMA Airlines, the market is shifting from the traditional major airlines business travel towards low cost carriers for trips within the GCC. Business travelers are changing their perception of low cost carriers, supported by the current economic downturn and the increase number of foreign businesses within GCC countries entering the UAE. This shows a trend of an increasing demand for low cost carriers in the next three years (High time for low cost carriers, 2008).

(For in depth information on the analysis of the macro environment of the airline industry please refer to Appendix 3)

In identifying the major key trends in the micro environment the following aspects that includes, Customers, Employees, media, shareholders, competitors and suppliers.

Customers who are price conscious are concerned with low cost airlines.

Flydubai has focused on pricing strategy and flexibility because these two

factors play a big role in determining the customer's decision process on which airlines they choose to travel with. Moreover, the number of tourist from around the world including the region will grow more than 40% in the next 3 years in Dubai (www. realtyna. com). This shows that there will be increased number of customers who will use Flydubai airlines within the next three years due its successful use of pricing strategy and flexibility.

The Employees of Flydubai have good experiences and they were carefully selected from twelve different nationalities. According to Kenneth Gile, chief operating officer of Flydubai said: " We are extremely pleased with the talent of the pilots we have on board. On average, they each have more than 4, 000 hours serving as captain in similar aircraft and a total experience of more than 8, 000 flying hours - this is impressive by any standard" (Sambidge, 2009).

Flydubai is fully owned by the government of Dubai and its considered as a part of its mother company the Emirates Group.

The main strategy that Flydubai is willing to use for their marketing strategy is through word of mouth (buzz). This is because Flydubai is a low cost airline; they tend to set low budgets for their advertisements to keep their prices low.

The direct competitors of Flydubai are Air Arabia and Al Jazeera airlines because these two airlines are also low cost airlines in the same country as Flydubai. However, the major competitor of Flydubai is Air Arabia because, first of all, they are the first to claim about low cost airlines in the Middle East

region. Moreover, they hold the highest market share in the relevant market as identified before. Our market share comparing to those two carries are low because Flydubai just recently launched to the market. But, within the next three years we expect rapid growth in the market share because Dubai is a destination for tourists. The major indirect competitor is Fly Emirates which stands as the leader in airline industry in the relevant market and it will keep its performance in the next three years. The second indirect competitor is Etihad Airlines which is growing fast because of the unlimited support from Abu Dhabi government. In addition, those airline carriers make low price offers for the same destination that we have flight lines to.

The supplier of Flydubai is Boeing. Flydubai announced an order of 50 next generation 737 aircraft from Boeing. Sheikh Ahmed bin Saeed al Maktoum said: “ The Boeing Next-Generation 737 is ideally suited to our mission to bring some two billion regional inhabitants affordable, efficient and flexible travel options to and from Dubai.”(For more information on the micro environment analysis, please refer to Appendix 4).

## **Implications:**

### **Primary demand:**

Low cost airlines are focusing on customers who are price conscious. The number of customers using the LCC airlines is increasing and it will continue growing in the next three years ([www.gulf-daily-news.com](http://www.gulf-daily-news.com)). This is because, first of all, the percentage of tourists will increase by 40% within the next three years which shows that the market share of LCC will increase as well. Secondly, because of the economic condition, many people tend to

save money and spend it on low cost airlines to travel more to the desired destinations. Users of Low cost airlines contain all different ages and nationalities. Moreover, cost is one of the main factors that affect customer's ability to buy. The costs of these carriers are low and will continue to remain low in the next three years. This will increase customer's ability and willingness to buy.

### **Selective demand**

We can define the consumer decision making process as an extensive problem solving level, where they are introduced to a complete new brand with low brand knowledge. So, Flydubai should infuse more on their brand identity through the media and other communication types in order to enrich consumer's knowledge. Once Flydubai had increased the level of consumer knowledge, we expect huge increase in market share in the next three years because the decision making process is going to shift from extensive problem solving to routine which is low information search about the company. Therefore, we expect major change within the next three year upon the factors we mentioned above.

### **Segmentation:**

As for segmentation we expect to see a rise in the population of the UAE in the following 3 years. According to the electronic portal of Gulf News the population of UAE is approaching six million as of now and it is expected to escalate even further by the end of this year. An increase in construction in the coming years requires more labor to be imported from foreign countries, thus increasing the number of potential customers (low income and middle-

class lifestyles) who might want to use our services. Moreover, economic boom can also be a factor for businessmen to travel to and from Dubai more frequently. In addition, the number of students travelling to the UAE for education is expected to increase in the near future; this implies that they will most probably select Flydubai as their primary mode of transport to travel to and from the UAE, since the economic condition shows very little signs of improvement in the near future.

More tourists are expected to arrive in the UAE within the near future out of which a section of them are extremely price sensitive travelers.

Another scenario would be that the current economic downturn continues to effect economies world-wide within the coming three years increasing the number of price-sensitive customers in the eight markets we operate in.

To keep up with the projected demand, Flydubai is planning to increase its fleet size from 5 (currently) to 54 aircrafts in the coming years. An increase in fleet size would allow Flydubai not only to accommodate a large number of clients but also expand its reach in terms of destinations.

Conversely, the announcement of the new GCC rail network which is the new transportation class in our relevant market is expected to have a slight negative effect on Flydubai's operations in terms of losing clients that fall in our target segmentation. The GCC rail network and Flydubai have one common destination which is Qatar. Once the GCC rail network begins its operations there is a high possibility of losing out on our current and



potential clients. (For more information on segmentation please refer to appendix 5).

## **Competitor analysis**

Our major competitive in our relative market is Air Arabia and then Al Jazeera Airlines. Air Arabia is holding major market share because they are the first to claim about launching first low cost airlines in Middle East region.

However, Flydubai can compete with those two direct competitors when we focus on our competitive advantage which is price leadership. Also, location is another important factor due the number of travelers that are using Dubai Airport comparing to Sharjah Airport. In addition, being part of the Emirates Group will add more value to Flydubai brand equity which will make it easier to make customers shift toward our company within the next three years.

(For more information on competitor analysis, please refer to Appendix 6)

## **Conclusion:**

In conclusion after analyzing the environmental micro and macro trend for Flydubai, we observed that there are two major changes in our relevant market. First, the increase of the tourism level in Dubai as we expect the current economic downturn era to change its direction towards positive figures in the next three years. Also, the companies' holders and businessmen attitude towards low cost airlines is changing by using it as these airlines are providing business men services aboard such a business class and wireless internet connection. The number of competitors within the low cost airline industry is going to increase in the coming years as new airlines such as Bahrain Airlines starts its operation this year. Secondly, full

service airlines are expanding their market towards low cost airline by introducing low price tickets that attract price sensitive consumers. We expect that within the next ten years a new class level will enter the market in the GCC region which is trains transportation. Also, a new form level will emerge in the relevant market which is a combination between full services and low cost carriers. Finally, within the next three years we expect those changes in the relevant market to be reshaped affecting the primary and selective demand.

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## Appendix 1

### **Back Ground information on Flydubai:**

Flydubai is the UAE second low cost airline that was established in March , 3rd 2008 on the orders of His Highness Sheikh Mohammed bin Rashid Al Maktoum, UAE Prime Minister and Vice-President, and Ruler of Dubai. The company first flight was in June 1, 2009 to Beirut in Lebanon followed by flights to Amman, Jordan, on June 2, Damascus, Syria, on June 8 and Alexandria, Egypt, on June 9, giving the new airline a total of four destinations in just nine days. (Redpath, 2009).

The company had ordered 50 Boeing 737 and is going to receive 10 airplanes each year for the next five years. (Flydubai, 2009) Currently the company runs its operations in Dubai International Airport terminal 2 that was redesigned for the new airline.

Sheikh Ahmed Bin Saeed Al Maktoum, Chairman of Flydubai said: “ This region is very dependent on air transport. It is a great credit to the vision and leadership of Sheikh Mohammed Bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai, that this airline has now taken off, thereby ensuring residents and visitors alike will be able to travel to more places more often.” (Redpath, 2009).

The Flydubai model is simple, with customers only paying for the services they want. The ticket price includes all taxes and one piece of hand baggage, weighing up to 10kg, per passenger. Passengers have the option to purchase checked-in baggage in advance at just 40AED for the first piece and 100AED

for the second, weighing up to 32kgs, subject to availability. Checked baggage is strictly subject to availability and passengers are advised to book early to secure the space, as only pre-purchased baggage can be guaranteed. (Redpath, 2009)

“ Flydubai aims to make travel a little less complex, a little less stressful and a little less expensive,” explained Flydubai CEO Ghaith Al Ghaith. “ Our passengers have the option to customize their travel experience depending on what services they want and how much they want to pay. (Redpath, 2009)

“ We plan to stimulate the markets in which we operate and encourage people to travel to more places more often. Flydubai aim is not to drive traffic away from the other carriers but to help grow these markets. When you consider that low cost travel in this region could be as little as 2% of all air travel, as opposed to more than 20% in Europe and America, it is clear that there is a lot of untapped potential in these markets. (Redpath, 2009)

“ In addition, Flydubai will fly to airports that are currently underserved by the traditional carriers. In a region which is so dependent on air transport, we are looking forward to providing the reality of accessible, low cost, uncomplicated travel” (Redpath, 2009).

## **Appendix 2:**

### **Product Market Structure:**

The above market structure was used to identify Flydubai relevant market within the airline industry in the Middle East region. We started the structure

with the most basic need which is the need to travel in the region. This provided us with three alternatives that include airplanes, buses and cars. The product form is divided between full service carriers and low cost carriers as they differentiate in prices and services being offered to customers. From this structure we can identify Flydubai relevant market within the product form level. This is because the degree of competition and substitutability within the brand suppliers are high, as they all offer low prices with similar routes within the region. This push the relevant market upwards towards the product form level. Furthermore, Flydubai indirect competitors include Fly Emirates, Etihad airlines and Saudi airlines. These full service airlines are competing with Flydubai indirectly by providing low prices with full services. On the other hand our direct competitors include Air Arabia and Al Jazerra airlines that are both low cost airlines that perform within the region. Further explanation on competition will be provided in the Micro analysis in the competitors section.

## **Appendix 3**

### **Macro Environment:**

In studying the external environment of Flydubai in the next three years we will focus on the Macro and Micro environment. This study will help us in finding out the effect of these external factors on the company in the next few years.

The Macro environment factors will include Political, economical, social and technological aspects under which Flydubai will be affected by.

## **1) Political Analysis:**

### **A) Government Regulations:**

Flydubai was established with orders of His Highness Sheikh Mohammed bin Rashid Al Maktoum, UAE Prime Minister and Vice-President, and Ruler of Dubai. Being owned by the Dubai government the company faces no difficulties in laws and regulations as the airline industry in the Emirates is booming through the process of liberalization the airline industry that the United Arab Emirates is adapting.

### **B) Political Analysis:**

In studying the overall political environment of the United Arab Emirates, we find it one of the most stable countries within the region. Such political approach of peace seeking had made the country a trading hub in the region. This will certainly have its positive effect on flydubai operations as to perform in stable political environment.

### **C) Employment Laws:**

Protecting labors rights and Emiratization is considered the main aspect that the UAE government is taking into consideration now a days. Companies are now forced to have a certain percentage that of emirates locals that will increase in the following years as there is more emphasis on employing locals in the private sector. Being a part of Emirates Airlines Group, Flydubai will certainly adapt its mother company in hiring and training locals in suitable jobs. The challenge that Flydubai will going to face is to decrease costs in one hand and provide well paid jobs in the same time .



## **2) Economical Analysis:**

### **A) Inflation Rate:**

“ The inflation rate in the UAE is predicted to fall from last year’s 11. 1 percent level to seven percent in 2010, according to a new report.”

(Sambidge, 2009). This is considered a positive aspect for Flydubai as it will have its positive effects in reducing the company costs in oil and ground operations. High inflation rates reaching to 11 percent last year was a threat to low cost airlines such as Air Arabia and Al Jazerra Airlines that faced a problem of high oil prices. This good news will make Flydubai compete even stronger on prices as inflation rates goes down.

### **B) Economical Analysis:**

“ Falling oil prices, cooling real estate and construction markets, together with a slowdown in the tourism sector, especially in Dubai, means the UAE is expected to post low or possibly negative GDP growth in 2009, according to analysts. (Sambidge, 2009). Living in the current World Financial Economic Crises the UAE economy in general and Dubai in specific faced a hard time in 2009 but analysts forecast that there will be more positive figures in 2010. This information is considered a negative too many airline companies but may be positive to Flydubai as people are now more focus in reducing their expenses as the incomes are reduced. This means their tendency of consumers focusing more on prices which is a positive thing for a low cost airline. Additionally, analysts forecast that the economy will grow in 2010 again and this will certainly have its effect on the company growth.

### **3) Social Analysis:**

#### **A) Demographics:**

More than 300, 000 people will be added to the UAE population this year to record the highest growth of 6. 3 per cent in five years and Dubai would likely emerge as the fastest growing emirate, official figures show. The rise rebuffs reports that the global financial turbulence has triggered a mass exodus of expatriates out of the country, mainly Dubai.

From 4. 75 million in mid 2008, the UAE's population is projected to increase to 5. 066 million in mid 2009, showed the figures by the Ministry of Economy. This figure are going to increase in the next few years which will certainly have its positive effects on the airline industry in UAE considering that expatriates make an approximate percentage of 80. 1 of the above figure in 2009 according to the ministry of economy.

Furthermore, the figures show that the 25-29 year age group was the largest in the UAE in mid 2008, standing at 777, 186. It was followed by the 30-34 age groups, which was estimated at 754, 289 and 35-39 groups of 588, 505. This clearly indicates that most of the population is young and is going to shape the tourism and aviation market in the next couple of years.

#### **B) Consumer Behavior:**

According to a study done by Arabian Business website, it was found that 83 percent of the respondents would switch their preferred airline carrier, for a cheaper price, while 17. 6 percent believed they would consider alternatives and trade off between the discount and lost air miles. It can thus be inferred

that pricing plays a significant role in consumer behaviour and the decision making process especially in the current economic downturn era.

Furthermore, customer loyalty in the low cost carriers is low as it's directly related to price. Flydubai should consider this into account and introduce customer loyalty programs in order to maintain a higher level of customer loyalty. (Glass, 2008).

### **C) Leisure Interests:**

" 3. 85 million tourists had visited the emirate in the first half of 2009, a five percent increase on the same period of 2008" According to Dubai department of Tourism and commerce marketing . This figure strongly shows the current tourism industry market and how attractive it became even though of the current economical downturn. Other figures expect that the number of tourists will fall compared to 2008 figures but most figures have stated that there will be a positive growth in 2010.

### **D) Career Attitude:**

Business travelers are changing their perception of low cost carriers. As observed by Andrew Cowen, CEO of Same, the market is shifting from the traditional major airlines business travel towards low cost carriers for trips within the GCC. This changing attitude, supported by the current economic downturn and the increase number of foreign businesses within GCC countries entering the UAE, shows a trend of an increasing demand for low cost carriers in the next three years. (High time for low cost carriers, 2008).

## **E) Technological Development Analysis:**

Following its mother company Emirates Airlines, we expect that Flydubai become a market leader in providing advanced technological solutions to its passengers by using the large experience that emirates airline have. If such direction was adapted, it will certainly provide the needed strength that Flydubai need in competing with its direct and indirect competitors.

## **Appendix 4**

### **Micro Environment:**

#### **Stakeholder Analysis:**

This means to analyze the micro environment which includes the following factors: the customers, employees, shareholders, media, and the competitors.

#### **A) Customers:**

Customers who are price conscious are concerned with low cost airlines. Flydubai has focused on pricing strategy and flexibility because these two factors play a big role in determining the customer's decision process on which airlines they choose to travel with. Price strategy and flexibility of Flydubai include low pricing strategy and easy booking with increased choices. As Sheikh Ahmed bin Saeed Al-Maktoum, Chairman of Flydubai said: "As a true low cost airline we are geared towards providing our passengers with the best price and increased choice. We will operate efficiently and continually evolve to deliver the best possible product to our customers". ("Flydubai opens for," 2009). The cost of Flydubai from Dubai airport to Doha airport would cost 200DHS, whereas other major airlines such as; Emirates or

Qatar airlines would cost approximately 1000 or more for a one way ticket (“Flydubai home page,” 2009). This shows that Flydubai is much cheaper and has managed to keep prices low due to the successful use of their pricing strategy.

Moreover, the number of tourist from around the world including the region will grow more than 40% in the next 3 years in Dubai (“Number of tourists,” 2009). This shows that there will be increased number of customers who will use Flydubai airlines within the next three years due its successful use of pricing strategy and flexibility.

## **B) Employees:**

Flydubai airline has received more than 11, 500 applications from flight and cabin crew. There are 18 first officers, 61 captains, and almost more than 8000 candidates for pilots were selected from twelve different nationalities (Sambidge, 2009). The staff has good experiences and was carefully selected. According to Kenneth Gile, chief operating officer of Flydubai said: “We are extremely pleased with the talent of the pilots we have on board. On average, they each have more than 4, 000 hours serving as captain in similar aircraft and a total experience of more than 8, 000 flying hours – this is impressive by any standard” (Sambidge, 2009). Furthermore, employee and staff hospitality is very important. This is because the employees and staff were selected from twelve different nationalities and they need to feel comfortable with the new culture they are facing in order to work efficiently.

### **D) Shareholders:**

Flydubai is fully owned by the government of Dubai and its considered as a part of its mother company the Emirates Group. The company has no other shareholders currently as there its 250 million dirham's capital is completely raised by the government.

### **E) The media:**

Obviously, through observations, Flydubai has made many advertisements through publicity such as; Newspapers (e. g. gulf news) and internet websites. However, the main strategy they used or willing to use for their marketing strategy is through word of mouth (buzz). Since Flydubai is a low cost airline, they tend to set low budgets for their advertisements to keep their prices low. So the best way to conduct an advertisement method for low cost carriers is through word of mouth. (This information is based on analysis due to facts and observations).

## **Appendix 5**

### **Primary demand:**

After making the environment analysis for the next three years and studying the current market conditions, we identified Flydubai relevant market at the product form level. This is because there is a high competition within the brand supply level forcing it towards the product form level as they all offer low prices with similar destinations. After the financial crisis, we noticed a shift toward low cost airlines as incomes had decreased. This had its effects on the following primary demand elements that include:

## **Buyer Identification:**

The number of customers using the LCC airlines is recently increasing (www.gulf-daily-news.com). Users of LCC