



## The Strategic Environment of the Aviation Industry in UAE: A Case Study on Etihad Airways

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**Abstract:** UAE is one of the most dynamic aviation markets in the world, with three world class airports, including the busiest airport of the world; millions of passengers travelling through these airports and many highly competitive local and international airlines operating from here. Etihad Airways is one of the frontrunners among them. The intense competition has forced all the airlines operating from UAE to continuously become more innovative and best in service delivery. Etihad is also encountering some challenges since its inception and still has emerged as one of the most profitable and fastest growing airlines in the world. The present paper has taken Etihad as a case study and analyzed the same with relevant strategic model such as PESTLE model. Different recommendations have been developed at the end of the discussion and those can be further used in future.

Key words: Etihad Airways, aviation market, competitive analysis, strategic analysis, case study

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### INTRODUCTION

Strategic management involves a major aspect applied by companies in the formulation and implementation of its initiatives and goals. Etihad Airways is Abu Dhabi's national carrier and it is one of the airlines that are growing exponentially across the globe with an advantage of UAE's attractive strategic location between all the continents of the world and the support from the government of the United Arab Emirates (Nataraja & Al-Aali, 2011). The strategic analysis report is written based on the Etihad Airways as the selected company from the listed companies. According to the strategic management theory, strategic analysis is the science and art that deals with the formulation, implementation evaluation of cross-functional decisions that enable a company to realize its objectives. This paper is mainly focused on integrating finance, marketing, management, information technology, operations, research, and development to analyze the position of Etihad Airways in the airline transport industry of the United Arab Emirates.

#### *Strategic environment of aviation industry in UAE:*

##### *A review from Etihad Airways' perspective*

Etihad Airways is one of the major air transport companies in the United Arab Emirates and it is the major carrier based in Abu Dhabi. It is a multinational company that aims at competing with other existing international airlines in the United Arab Emirates. Such competition is enough to explain its marketing strategy for widening of its market beyond the existing markets. Massive promotional and publicity campaigns have been undertaken by the company in this regard. Campaigns like 'Hello Tomorrow' and 'Keep

Discovering' have become the global identity for Etihad airways; those have contributed towards a creation of valuable brand image of the company (Khalifa, 2011). The main target of the company in the market is to be more competitive against the incoming low-cost companies that are actually its main rivals in the United Arab Emirates as of today. Other airlines such as Fly Dubai and Air Arabia are providing lower flight charges that have significantly posed challenges to the Etihad Airway, since last few years on some of its traditional profitable routes in Asia, Europe and Americas.

Therefore, it can be said that Etihad has faced serious market related challenges in recent times, though it has tried harder to remain in the market and to improve its current market positioning in the air transport service sector. Etihad Airways was inaugurated in 2007 by the Abu Dhabi ruling family and it is fully owned by the government of Abu Dhabi. The company is currently serving in over 116 destinations while making more than 25,200 flights per week and it currently has 120 aircraft (Rodrigues, 2010). Etihad Airways was founded by the Sheikh AHammed Bin Zayed Al Nahyan in partnership with other entrepreneurs with a vision to reflect the considerate, cultured, generous and warm Arabian hospitality and enhance the prestigious position of the city of Abu Dhabi. It is well known and has been statistically found that the airline companies have played significant role in the economic growth of the United Arab Emirates. These airlines companies have not only connected the entire world to UAE, but also brought valuable foreign exchanges in billions through direct and indirect promotion of tourism, trade and commerce etc. Etihad Airways as the flagship carrier of Abu Dhabi has remained a major player also in this regard. It has served on an average 209 passengers per flight and it has virtually flown millions of passengers since inception from every nook and corner of the world.

The great success the Etihad Airways has accomplished till date can be linked to continuous persuasive advertisements, publicities and adoption of all possible marketing strategies, including market expansion, market sustainability and international collaboration strategy (Khalifa, 2011). The operating expenses have remained a major problem of Etihad airways, whereas the low cost airlines companies operating from UAE have been able to restrict the same at a much lower level (Papatheodorou, 2006). An estimate has shown that the operating cost of the immediate competitors of Etihad has remained almost 20%-27% less since last few decades. Even, another full service airline from UAE, i.e., Emirates has been able to restrict its operational cost much lower than Etihad (Ethos Consultancy, 2010). In spite of these developments, Etihad Airways has emerged as one of the leading airlines not only from the Middle East, but also globally. The report of 2016 shows that the major strategies of the company include expansion of its market by making the strategic alliance, building strong brand equity among its customers, investing in large carriers and expanding its new destinations (Nataraja & Al-Aali, 2011).

In addition, the Etihad Airways is strategic in developing sustainable business by maintaining social and corporate responsibility, hiring professional employees and contributing to international development through foreign direct investment in specific countries where it is operating (Nataraja & Al-Aali, 2011). Therefore, the strategic management in the context of Etihad Airways situation calls for a considerable measure of attention. External analysis reveals that there is minimal attention in the form of dynamics as well as trade-offs that have been applied in theoretical and practical

performance. As such the airlines performance has remained in the state of static positioning with additional characterization of being fragmented and backwards. This has led to outcomes that are adverse at which point there is needs to apply a systematic perspective within a holistic approach for performance measurement integration with multiple dimensions, functions and time horizons as spread in the field of performance. This systematic approach to performance measurement can take into account the functionary interdependencies and the dynamic influence for individual and organizational performance on the whole.

The external analysis of the macroeconomic environment in which the Etihad Airways operate, can be made by the application of multi-dimensional PESTLE (Political, Economic, Social, Technological, Legal and Environmental) model. A PESTLE analysis and subsequently the PESTLE model is a framework to analyse the key factors influencing an organisation from the outside. In application of such a comprehensive PESTLE model in analysing the strategic environment and the initiatives by the Etihad Airways, following observations can be made. For example, politically, UAE government in general and Abu Dhabi government in specific have sincerely attempted to establish better political connectivity across the globe; those could enhance all possible business growth, including the impacts on the aviation industries of UAE. The government of the United Arab Emirates has signed business agreements with other Asian, European and American countries. Such agreements have proliferated the opportunities for all the emirates to strengthen the political integration and maintain favourable trade exchange between countries with an improvement in the aviation industry (Kraus & Koch, 2006). Such strong agreements have strengthened the airlines of the United Arab Emirates to broaden its network across the globe.

Economically, the airlines has initiated following initiatives under the support of the government of Abu Dhabi. The government of Abu Dhabi supports the growth and development of the Etihad Airways by improving the airline infrastructure to make the transport sector favourable for the passengers (Nataraja & Al-Aali, 2011). The Etihad Airways have already established an exclusive terminal for all its carriers in the Dubai and Abu Dhabi airports while serving its passengers at low charges compared to other firms. Similar opportunities have advanced the growth of the Etihad Airways because of the open skies policy of the UAE, the easy to issue visit visa policy, the no taxation policy and the work permits for expatriates to fulfil the labour market demands and the employment requirement of the Abu Dhabi government. However, disregard of such opportunities, the challenge of political insurgencies in the Middle East region continues to put the operations of the company at stake in such countries like Syria, Yemen, and other MENA (Middle East and North Africa) countries and this limits the forecasted growth of the company in the coming years.

Environmentally, the Etihad Airways is eco-friendly and suitable for all the operation it undertakes. Socially and scientifically, the company has taken initiatives, those can also be highlighted. The goal of the company is to ensure that it has reduced the carbon print and the Gaseous emission following the United Arab Emirates environmental policy. Being friendly to the ecosystem implies that the company is committed to reducing expenses and operational costs with a reduction in environmental pollution (Nataraja & Al-Aali, 2011). Technology is one of the most effective components in the UAE airline industry and its significance for the success of the newly recently established

companies in the competitive market. Technological advancement assists the UAE airline industry in providing high-quality services at fewer costs by minimizing the fuel usage and reduced the sound pollution. The newly established information systems such as E-Ticketing system will in future reduce the customer service expenses and the time taken to by a customer to obtain a ticket thus enabling the Etihad Airways to provide better services to its customers.

Etihad Airways is one of the profitable airlines in the United Arab Emirates. In 2014, the company recorded full-year EBIT of 137 Billion US dollars which contributed to a 36% growth of the company's revenue. However, there are some capability factors that currently hinder its effective operations in the airline industry (Arab News, 2014). The company is operating in a high rival market both domestically and internationally. The entrance of new competitors with low-cost airlines such as Fly Dubai in Abu Dhabi and Air Arabia in Sharjah as well as Gulf Air and Qatar airlines in GCC (Gulf Cooperation Council) and other global British and Lufthansa Airways are likely to impede its market expansion strategy and increase the operational costs of the Etihad Airways in some countries (Lin & Hong, 2006). In addition, the airline industry in the Middle East is disturbed by unfavorable economic crises and other economic changes such as variations in the exchanges rates that have caused many airlines to enter greater losses or run bankrupt and God forbids such situation should never affect the progress of the Etihad Airways in the UAE airline industry.

In addition, fluctuations in the oil prices and exchange rates affect the operations of the company and if the trend continues, the company is likely to find itself in a tragic moment of economic bankruptcy in the next five years since oil is one of the main portions of the company's operational expenses (Lin & Hong, 2006). More so, natural disasters such as floods and earthquakes and the acute diseases such as yellow fever and Hepatitis B in some parts of the world such as Africa, Eastern Europe, and Australia are currently affecting travelling and tourism in different parts of the world and such unpredicted circumstances are likely to hamper the operations of the company in the near future (Nataraja & Al-Aali, 2011). The strategic position of the Etihad Airways was analyzed using Porters value chain analysis to determine the competitive advantage of the company against the existing airlines. Etihad Airways gain a reasonable benefit by creating strong relationships with suppliers of specialized training services and advanced access control systems.

Currently, the company has a workforce of expert engineers, cabin crew, airline maintenance personnel, flight deck crew and aircraft controllers in addition to sufficient pilots and airlines across the United Arab Emirates. This helps the company to effectively manage the flight time hence ensuring better and reliable services to the customers (Dubai Chronicle, 2014). In addition, the Etihad Airways is giving excellent customer services through offering a variety of airline types in the Abu Dhabi International Airport. The company airlines operate various fleets of Boeing and Airbus airplanes and such airplanes are very rare airlines that can be used for all-wide-body aircraft fleet (Rodrigues, 2010). However, the company has a plan to increase its invaluable flight services in various destinations. More so, the company gather its aircraft and other equipment required in the possible time and offer emergency services to specific clients to maintain its outbound logistics very effective in the UAE airline industry. One of the greatest financial positioning of the company is to maintain its

business supervision by reporting its audit, settlements, and EDI. The customers are picked suitably and the company maintains its flight schedules according to the stipulated time. In sales and marketing, the company implements the vertical relationship with its business arrangements through technology implementation, Marketing, and production operations. So far, the company has diversified its airline investment by offering a variety of transport services to the airport in addition to improving its infrastructure in the operational destinations. Therefore, the Etihad Airways is growing every day and its service is becoming appropriate to suit the needs and desires of their customers (Dubai Chronicle, 2014).

Amidst all the strengths and prosperity that Etihad Airways has obtained in the market, there is a need for the company to invest a lot in electronic commerce with greater security so that the existing market position can be strengthened by the Information technology infrastructure, lessen cyber threats and minimise the operational expenses hence capturing more passengers per flight (Squalli, 2014). In addition, there is a need to work hard and ensure that fuel supplies have been fixed for a certain duration of time for purposes of mitigating the threat of the incoming oil crises in the United Arab Emirates (Squalli, 2014). One of the corporate strategies of the Etihad Airways is to be the leading airlines in the entire world, to become more profitable and appropriately suit the 2030 plan of Abu Dhabi (Rodrigues, 2010). The 2030 plan of Abu Dhabi is planned and created by the Abu Dhabi urban planning council under the chairmanship of the His Highness Sheikh Mohamed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and the Chairman of the Abu Dhabi Executive Council.

The “2030 Plan Abu Dhabi”, is the Urban Structure Framework Plan, is designed to help Abu Dhabi filter and respond to current and future development needs, establish a planning culture and introduce strong guiding principles for new development in terms of economic, environmental, social and scientific parameters. (The National Business, 2014). In 2010 the executive leaders of the top management of Etihad Airways were focused on growing and achieving a large-scale operation and developed a suitable business process under the broader principle of the 2030 plan. As of today, that company has successfully delivered to the vision (Dubai Chronicle, 2014). However, the implementation phase of such strategies is likely to be hampered by a number of limitations that will end up complicating the ability of its airlines to reach the desired profitability. One of the challenges that the company is likely to face is the issue of buyer response to substitutes (Bitelmal, 2010). Because of various companies in the airline market, the risk of substitute services is likely to remain high because of three customer perceptions namely luxury, low cost and competition’s issues that are likely to cause profit variations especially when customers decide to buy lower cost tickets in shorter distance flights (Zeithaml, 1998). Secondly, because there are only two suppliers of the airline equipment and machinery i.e. Airbus and Boeing, it is very expensive for the Etihad Airways to change and switch to any other suppliers, because of supplier rigidity, it becomes easier to remain exploited by the monopolies.

## **CONCLUSIONS**

Etihad Airways is considered as at the cross-road. In spite of its formidable growth story and excellence in accomplishment of sustainable objectives, the company still faces some of the biggest challenges for its survival and growth. Changing national and international business environment issues and factors have not only facilitated its growth story, but also posed many challenges, those are needed to be tackled through appropriate strategies.

## **END NOTES**

To address the above-identified strategic issues, the company needs to maximize its profitability in various geographical areas of its operations. It is imperative for the company to enter the code-share alliances with other airlines especially in places where its profitability is now becoming weaker (Koch, 2007). By undertaking the strategic alliance option, Etihad Airways will minimize its operational costs and gain more market benefits because of having a sizable network of partners and this will also save the company from the massive competition in duopolistic destinations (Koch, 2007). Secondly, the company has to strategize in price competitions for purposes of widening the market coverage, especially in the low-cost markets. Customers are more sensitive to price and the airline industry is currently drifting drastically in the United Arab Emirates (Papatheodorou, 2006). The expansion strategy of the company must continue by establishing unique and new destinations. The most productive geographic location of the United Arab Emirates is closer to Asia and Europe, Pacific and Africa, such positioning offers a greater opportunity for the Etihad Airways to widen its market in such locations by establishing new destinations (Kraus and Koch, 2006). There is a need to keep up the same strategy of investing in research and development to come up with unique and attractive luxurious services and offer better onboard experience to its customers. Since one of the major concerns of the company is the massive operational costs, the company has to diversify its investments and start low-cost divisions for purposes of obtaining a large market share.

## **DISCUSSION QUESTIONS**

1. Identify the strategic environment that the aviation industry is facing in UAE in particular and in the Middle East.
2. Evaluate the strategic environment of Etihad Airways as a major aviation player from UAE.
3. Based on the above strategic recommendations, evaluate the futuristic prospects of Etihad Airways and their validities.
4. Prepare a strategic map for Etihad Airways in the context of future challenges and opportunities.

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