



GULF AIR IN THE EUROPEAN MARKET

**AN ANALYSIS OF ITS STRENGTHS, WEAKNESSES,
OPPORTUNITIES AND CHALLENGES**

by

AHMED KHALID AL OTAIBI

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طيران الخليج
GULFAIR

ABSTRACT

The European market is extremely important for the Gulf Air if we consider their large number of flights operating between the Gulf area and the European destinations. The evolving economical relationships between the European countries and the Gulf States, coupled with the recent changes taking place in Europe with regard to the E.E.C. and its single market obligations, have important impact on the policies and strategies of the Gulf Air. The recent years have witnessed unprecedented changes in the airline industry throughout the world, and airline carriers have been affected by deregulations, privatizations, socio-political and economic factors. The Gulf Air, therefore, would naturally be concerned about such changes and their implications.

However, there is a lack of research in this area, and the current study addresses an environmental analysis of Gulf Air in relation to the European market position.

This thesis attempts to identify some of the Gulf Air's strengths and weaknesses, as well as the opportunities and threats. Structured questionnaires were used to collect data from 200 passengers, travelling on Gulf Air routes - Gulf-Europe-Gulf; and 100 officials from the Gulf Air, Civil Aviation Authorities in the Gulf States, Travel Agents and the Bahrain Airport Services.

Based on the analysis of the data obtained, certain recommendations have been put forward for the Gulf Air to help developing its strategy.

ACKNOWLEDGEMENT

This thesis was initiated to help evaluate the position of Gulf Air in the European market, and how to develop a European strategy. This study would not have been completed without the help and encouragement of many individuals and organizations.

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CHAPTER ONE

1.1 INTRODUCTION

In 1980 few expected the Berlin Wall to come tumbling down, resulting eventually in the unification of Germany. Few could have predicted that the former U.S.S.R. would have broken into a number of independent states in 1991, as well as a major war in the Arabian Gulf involving many powers. There is no question we live in an increasingly complex and changing world. Recent political and economic upheavals have shaken established systems to their foundations; ease of communication and commercial exchange have transformed us into a Global Society and, for many organizations, environmental concerns have become a number one priority.

Hamel and Prahalad (1993) in a recent Article emphasized the need to have a strategic orientation to survive and thrive in today's competitive world. They wrote about "General Motors versus Toyota, CBS versus CNN, Pan Am versus British Airways, RCA versus Sony. Suppose you had been asked 10 or 20 years ago to choose the victor in each of these battles where would you have placed your bets? With hindsight, the choice would have been easy but at that time, GM, CBS, Pan Am, and RCA all had stronger reputations, deeper pockets, greater technological advantages, bigger market shares, and more powerful distribution channels. Only a dreamer could have predicted that each would be displaced by a competitor with far fewer resources but far greater aspirations." (Harvard Business Review, March - April 1993).

Air carriers from North America and Asia are being forced to reevaluate their European strategies now that the single European Market is there and airline globalization is becoming a reality. European Airlines too are being compelled to rethink their strategies now that the United States megacarriers, American, Delta and United dominate the North Atlantic, (Airline Business, March 1993). For example, British Airways has established ownership in US Air and Qantas. On the other hand, in order to consolidate their position, Swissair, Austrian Airlines, S.A.S. and K.L.M. have recently agreed to merge.

Thus, there has been major changes in the European Airline Industry in particular, and the Global Airline Industry in general. Such evolving environment have important implication for Gulf Air which operates not only in the region, but also in Europe, Far East and other parts of the world, and has a good presence in the European markets through its strong links to those destinations.

The other important factor that need to be considered here in this thesis, is the European market size for Gulf Air.

So far the airline serves six main cities; these are London, Manchester, Paris, Amsterdam, Frankfurt and Athens, and soon will serve other new cities like Rome and Zurich.

In 1992 Gulf Air carried around 327,600 passengers to and from Europe. More importantly is the forecasted growth between Middle East and Europe which will be around 8% per annum.

MIDDLE EAST TRAFFIC

TABLE 1.1

1993		2010	
79.421 RPM (Billions)		175.637 RPM (Billions)	
Domestic	7.31%	Domestic	7.47%
Africa-ME	6.83%	Africa-ME	7.27%
India-ME	11.72%	→ India-ME	12.48%
Intra-ME	13.76%	Intra-ME	13.97%
ME-Oceania	0.29%	ME-Oceania	0.25%
ME-Asia	25.19%	ME-Asia	23.56%
ME-Europe	30.90%	→ ME-Europe	32.37%
ME-Americas	3.98%	ME-Americas	3.52

> Major growth areas -

Middle East - Africa
 - Indian Subcontinent
 - Europe

> Implications to GF strategy/route plans

Source: Boeing Commercial Group, 1993.

At present Middle East-Europe market account for 25.5 billion passenger miles (RPM). Boeing forecasts that by the year 2010 there will be 56.8 billion RPMs between the two regions.

The growing importance of the European market is reflected in Table (1.1) which shows the relative percentage that each region accounts for all Middle East traffic.

What is evident is that in such a turbulent environment, airlines need to have a strategic orientation towards management. One of the essential prerequisites of this orientation is to conduct occasional situation analysis in order to identify the strengths and weaknesses, as well as the opportunities and threats faced by a particular airline company, and this is the theme of this project

1.2. OBJECTIVES OF THE STUDY

The above brief introduction suggests that there should be continuous monitoring and evaluation of changing airline industry. Such an exercise would be useful to Gulf Air for having better insights into their relevant commercial environmental forces with the implication for strategy formulation. Accordingly, the major objectives of this study are:

- i. Assessing the changing airline industry in the Gulf-European market and its implication on Gulf Air.
- ii. Identifying strengths and weaknesses of Gulf Air.
- iii. Identifying opportunities and threats for Gulf Air in the European market.

I hope that the findings of this study will be interesting and useful for strategy formulation by Gulf Air.

1.3. METHODOLOGY OF THIS STUDY

The nature of this study dictates that the data should be collected from different groups of respondents including the passengers, travel agents, executives and managers, as well as officials of Gulf Air, Civil Aviation Authority, and Bahrain Airport Services (B.A.S.). Two separate questionnaires have been structured. The first one is for those passengers who travel to and from European destinations to be interviewed at Bahrain and other airports.

This data was collected from a convenient sample of 200 passengers about the strengths and weaknesses of Gulf Air. (Please see Appendix A. - Questionnaire Part 1.).

Part Two of the Questionnaire was designed to identify the threats and opportunities faced by Gulf Air and we intend to collect data from over 100 respondents representing Gulf Air, Civil Aviation Authority, Bahrain Airport Services Officials as well as local and gulf travel agents. The secondary data was collected from Airline Magazines, Airline Annual Reports, Airline Printouts, local and international newspapers, and Gulf Air and Civil Aviation Authorities in Bahrain, and G.C.C. States publications.

1.4. WHY GULF AIR HAS BEEN CHOSEN FOR THIS STUDY

There are many reasons for choosing Gulf Air for this study, and the main ones are as follows:

- i. Gulf Air has in the past two years or so, especially post-Gulf war, attracted the attention of the Airline's industry's economists both locally and internationally for its turn around strategy adopted by its president and Chief Executive Mr. Salim Bin Nasir Bin Ali Alsiyabi who steered the Airline to a progressing stage with a rapid expansion in terms of new destinations and modern fleet to meet the growing demand on travel industry in the region while, at the same time, large international carriers are facing severe financial problems and seeking consolidations and mergers to survive.

- ii. Gulf Air is the national carrier of Bahrain, Qatar, United Arab Emirates and Oman. This is a unique situation uncommon with airlines world-wide, i.e. they are either owned by one country, a Government or shareholders, but Gulf Air is a multinational Airline as it is owned by four States each having its equal share in every aspect of its operation, (Gulf Air Annual Report 1989).

More importantly, Gulf Air's existence represents the firm determination of common interest and unity in national projects which the Gulf Co-operation Council (G.C.C.) is aiming at. It is pertinent to recall here the statement by the President and Chief Executive of Gulf Air, Mr. Salim Bin Ali Assiyabi while addressing a Marketing Symposium in 1992 in Bahrain, that "Gulf Air is keen to consolidate its domestic network covering the Gulf Co-operation Council (G.C.C.) in order to provide the citizens and residents

with excellent services. This will enable us to achieve the long-aspired objectives of the G.C.C. and live truly up to our motto of being a symbol for Gulf unity and successful joint ventures," (Marketing Symposium 1992).

iii. Gulf Air is considered one of the major airlines in the Arab world in terms of its:

- (a) Financial position, being owned by four economically prosperous States in the Gulf, and this is a corner stone of its strength.
- (b) Owning one of the largest and most modern fleet of aircraft in the Middle East.
- (c) Having a large network both regionally and internationally, linking the Gulf with destinations in the five continents.
- (d) Ground Engineering Support is one of the most efficient and reliable in the Middle East areas through an Abu Dhabi based and owned aircraft maintenance company called "GAMCO" (Gulf Aircraft Maintenance Company) where Gulf Air has joint venture for its fleets' overhaul and other major maintenance work, (Gulf News 24.2.1990).

1.5. BRIEF HISTORY OF GULF AIR

(a) The early beginnings of Gulf Air were:

A humble and challenging origin with an Anset plane of seven seaters, operating between Bahrain and Dhahran, under the name of "Gulf Aviation" between 1950 and 1961.

A number of planes joined the fleet later with larger capacity and, of course, with new destinations such as Qatar, Dubai, Sharjah, Muscat and Kuwait.

1969 was the year of shift from propeller-powered engines to jet Engine Age with the acquisition of the BAC 1-1 3H2 Aircraft. In 1971 the Gulf Aviation was declared the National Airline of Bahrain, Oman, Qatar, and the United Arab Emirates. Three years later the Gulf Aviation became 100% owned by the four States representing their national flags. Subsequently, the Company was renamed Gulf Air, expanding its route beyond the Gulf Region to the interational markets. Today, Gulf Air's modern Jet Liners are a familiar sight on runway of countries in five continents, (Gulf Air News, special issue 1992).

(b) Gulf Air in 1990s:

Gulf Air's modern fleet of 34 Jet Liners is constantly expanding as older aircraft are progressively being phased out. The airline's current fleet (as at April 1993) consists of:

8 Boeing 737 200s.

8 Lockheed L-1011 Tristars.

16 Boeing 767-300 ERS, and

6 Airbus 320s.

(Marketing Symposium November, 1992).

More aircraft will join the fleet during 1994 by the acquisition of 4 Boeing 767-300 ERS and 10 Airbus A320 Aircraft. Gulf Air

places great emphasis on maintenance and for this reason, has formed a joint venture with Abu Dhabi based Gulf Aircraft Maintenance Company (GAMCO), which undertakes major maintenance such as aircraft overhaul, repair and modifications.

The opening of the new simulator centre in Doha in 1993 is a self-sufficiency step in terms of pilots' training and, on this occasion, the President and Chief Executive of Gulf Air, Mr Salim Bin Nasir Bin Ali Asseyabi, stated that "the simulator centre is a remarkable gain for the region and reflects the high standards of knowledge and experience achieved by Gulf management in the field of aviation technology," (Gulf Air News, Issue No 53, 1993).

- (c) Prior to discussing the Gulf Air organization structure, it is worth mentioning the upper layer of this gigantic and unique organizational set up.

As explained earlier in this Chapter, the Gulf Air is uniquely owned by four independent countries and it is, at the same time, a model of industrial and political partnership in the Gulf area.

Hence, Gulf Air can be called Government-owned organization, and for this reason the set up of the Board of Directors is made up of the Transportation Ministers in each owner state. The position of Chairman of the Board and Executive Committee is on a rotation basis for a period of five years. This Executive Committee is the

highest level in the organizational hierarchy. Its role is to discuss and approve all strategic decisions taken for short or long terms.

Next in line of command is the Executives, the Directors. These are also high level Government Officials, but not Ministers.

The position of the President and Chief Executive is occupied by a high ranking person from one of the owner states for a period of five years, subject to renewal, but is also on a rotating basis. His duties are to steer the company to achieve its goals according to the established policies and strategies.

1.6 GULF AIR MANAGEMENT AND ORGANIZATION STRUCTURE:

Organization structure is defined as a system of task, reporting, and authority relationships within which the work of the organization is done. Thus, structure defines the form and function of the organization's activities. Structure also defines how the parts of an organization fit together (as in an organization chart).

The purpose of organization structure is to order and coordinate the actions of staff so as to achieve organizational goals. The promise of organized effort is that people can accommodate more by working together than they can separately. Hence, the structure of an organization is most often described in terms of its organization chart. A complete organization chart shows all people, positions, reporting relationships, and lines of formal communication in the organization, (Moorhead & Griffin, 1989).

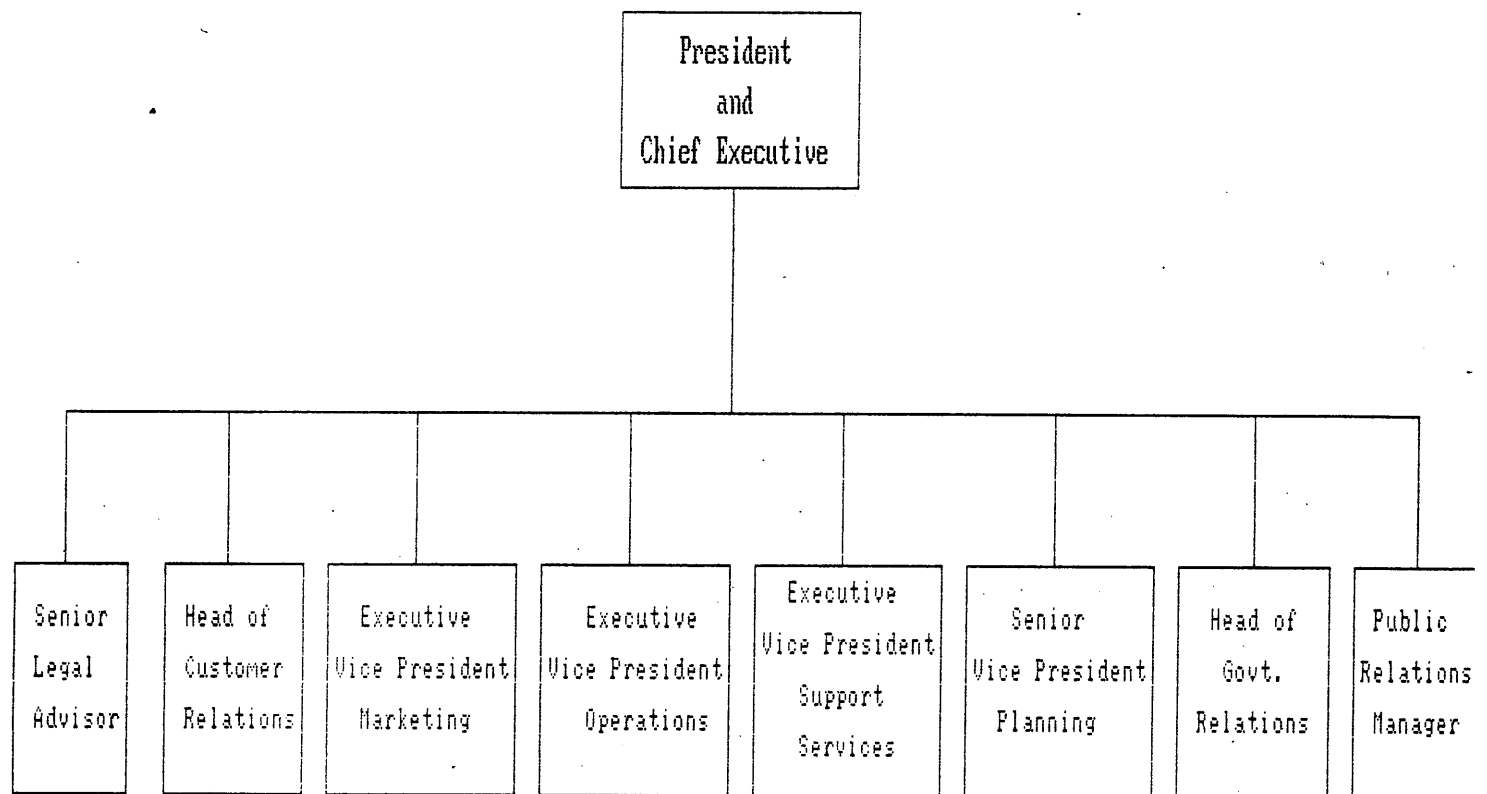
For large organizations such as Gulf Air, several charts may be necessary to show all positions. For example, one chart shows the top Management, including the Board of Directors, the President and Chief Executive, all Senior Vice-presidents, Vice-Presidents, Assistants to Vice-Presidents and important Departmental Managers. Gulf Air's organization structure fits within this design.

Gulf Air's organization structure can be described as an Organic Structure which is structured like a network where its interactions and communications are more lateral and horizontal; knowledge resides wherever it is most useful to the organization, and where membership requires commitment to the task of the organization. This is supported by the theorists "Burns and Stalker" who noted that if the rate of technological change is rapid, the organization needs a structure that provides more flexibility and quicker decision making to react quickly to change; this is in the Organic Structure (Moorhead and Griffin, 1989).

From the above we can establish that Gulf Air has structured itself to be flexible and adopt a market driven strategy. Also, when we look at its various organizational divisions we find how they are intergrated together to be marketing-oriented from top to bottom to be close to the customers and respond to their needs.

A look at the Gulf Air's organization structure (see Chart No.1), we find that there are four main important areas headed by Executive and Senior Vice-Presidents, who report directly to the President and Chief Executive. Those areas are:

GULF AIR - ORGANIZATION CHART



Source: Compiled by the researcher in 1993

CHART NO. (1)

1.6.1. **The Executive Vice-President, Marketing** (see Chart Nos.2 and 3), who has a large span of control over many important Departments headed by Regional Vice-Presidents for G.C.C., Middle East and Africa, Europe and America, Asia Pacific, The Head of Planning and Ground Services, Head of Inflight Services and another layer of Assistant Vice-Presidents for Ground Services, Planning, Cargo, and Pricing and Interline Assessments.

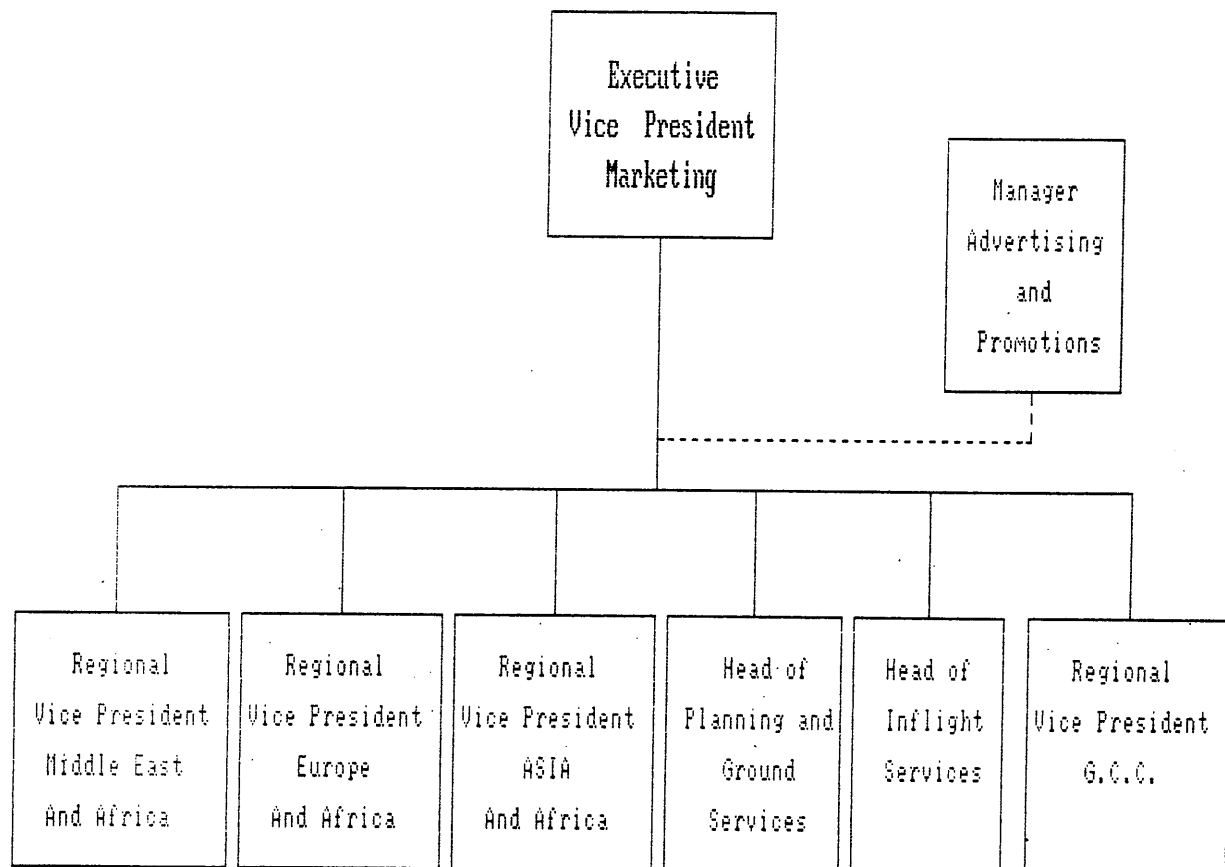
The Marketing Division in Gulf Air is the largest among the Divisions within the Company. This, of course, has a strategic marketing orientation scope, as it reflects the Company's direct interests towards its customers.

1.6.2. **The Division headed by the Executive Vice-President for Operations** (see Chart No.4), also has a large span of control over many departments and Sections, and it is considered the nerve centre of the organization in terms of flying or product presentation. The various sections are as follows:

- i. **The Vice-President for Training** is, at the same time, overall in charge of Crew Training, Line Maintenance, Major Maintenance, Engineering Planning, Quality Control, Special Projects and Materials and Spare Parts.
- ii. **The Head of Flight Operation** is in charge of Crew Planning, Crew Training and Licencing, Flight Standards and Flight Safety.

GULF AIR - ORGANIZATION CHART

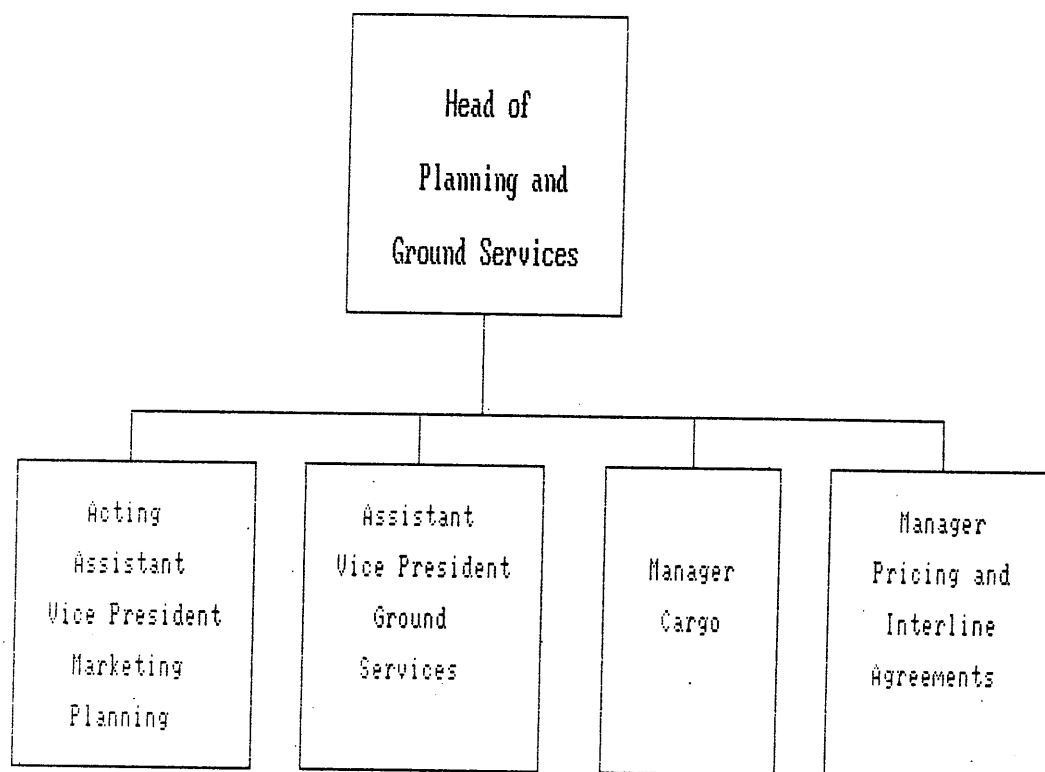
DIVISION LEVEL MARKETING



Source: Compiled by the researcher in 1993

CHART NO. (2)

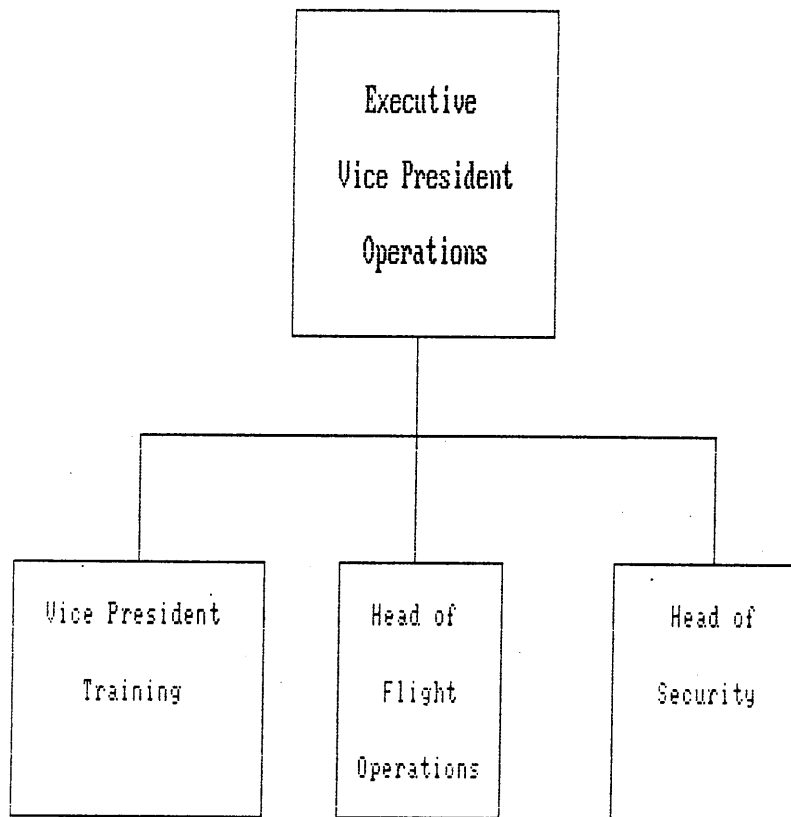
GULF AIR - ORGANIZATION CHART
DIVISION LEVEL (Contd.)



Source: Compiled by the researcher in 1993

CHART NO. (3)

GUL AIR - ORGANIZATION CHART
DIVISION LEVEL



Source: Compiled by the researcher in 1993

CHART NO. (4)

iii. The Head of Security is responsible for all security aspects on the ground as well as in the air.

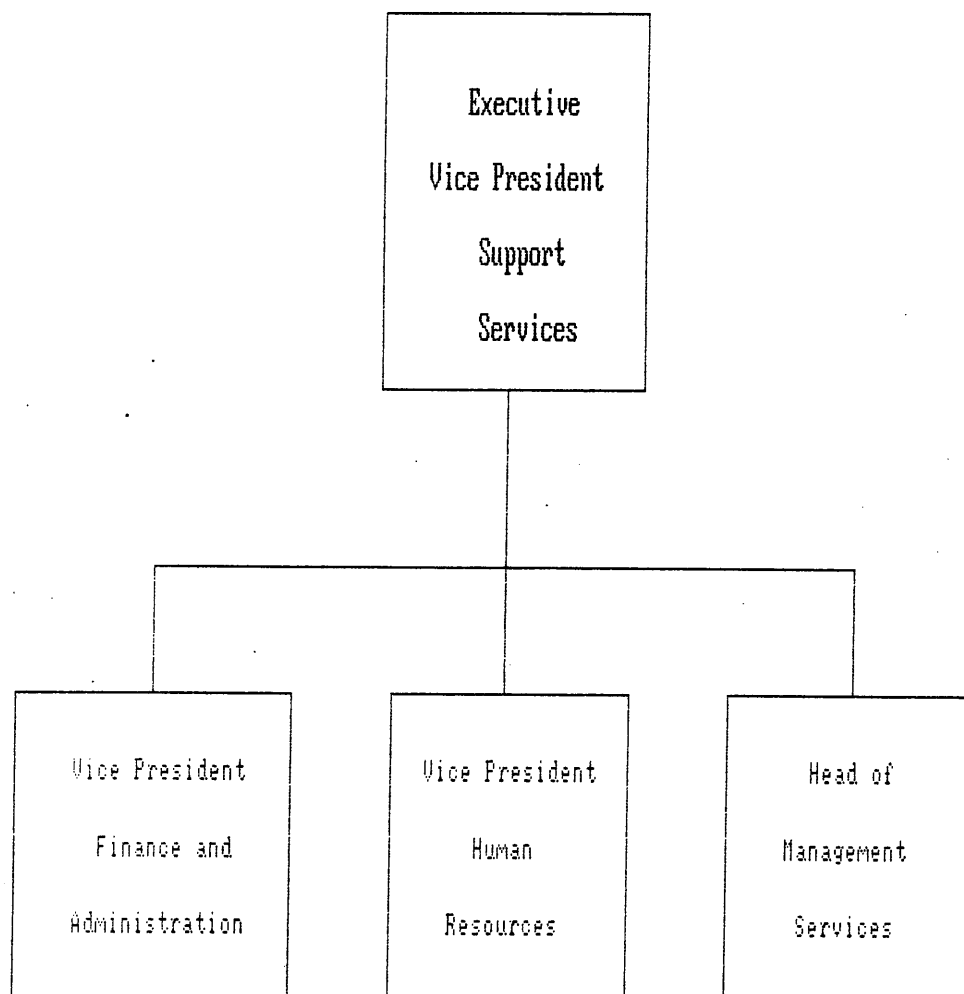
1.6.3. The Executive Vice-President for Support Services (see Chart No.5), is another important Division in the Company and has three main Departments:

- i. The Vice-President for Finance and Administration is responsible for all aspects of revenue and expenditure within the company. He is also responsible for all administrative services.
- ii. The Vice-President for Human Resources, is responsible for all the training and development of the Company's workforce, as a whole, on a short and long-term basis, to ensure that the Company's strategic plans are implemented in terms of human resource supply.
- iii. The Head of Management Services is responsible for the automation systems within the sections of the Company such as Management Information Systems for use by various Departments and the Reservations Systems concerned with flight bookings and release.

1.6.4. Senior Vice-President Planning. This Division is the core of the Company's long-term strategic planning whereby studies are made for:

- i. Strategy, long-term planning.

GULF AIR - ORGANIZATION CHART
DIVISION LEVEL - SUPPORT SERVICES



Source: Compiled by the researcher in 1993

- ii. Market Research, new routes, destinations.
- iii. Fleet Plans in terms of selection and type of new aircraft.
- iv. Performance monitoring.
- v. Product planning.
- vi. Configuration study for each route.
- vii. Manpower requirement in terms of pilots and crew.
- viii. Support traffic rights, (Bilateral Relations).

1.6.5. In addition to the above, there are some other important divisions or sections that have to report direct to the President and Chief Executive, these are:

- i. The Head of Government Relations.
- ii. The Public Relations Manager.
- iii. The Head of Quality Control and Customer Service who is responsible for customer complaints and quality utilization in all Customer Relations areas. This section reports direct to the President and Chief Executive in all aspects of customer satisfaction or complaints through daily reports based on surveys and inspection tours to various outlets of the Company in terms of final product which is the service that Gulf Air provides for its passengers, (Gulf Air Personnel Manual 1992).

We can see from the Gulf Air's Organization Chart the size of the Company is one of the largest carriers in the Middle East, and I hope that, from the information given of the various Divisions and Sections, a clear picture as to how they are inter-

related to meet with all the requirements within the airline business is presented.

1.7 LIMITATIONS OF THE STUDY

In the airline business people are very careful in releasing information to others, especially when it has to do with revenue and how many passengers are carried on a particular route, as this information may get into the hands of a competitor. I faced this situation when I wanted some specific information about the marketing strategy or passengers carried.

I must say that my assurance of neutrality as an Academic Researcher did not help in this regard!! and I could do nothing but accept what was given. A further constraint was the timing which coincided with the beginning of summer rush and distributing the Questionnaire.

1.8 STRUCTURE OF THIS STUDY

This project presents four chapters. Chapter One, is the Introduction. Chapter Two is the Review and Analysis of the Airline Industry as a whole with concentration on European carriers who operate into the Gulf area, their market share, their strengths and weaknesses, their strategy, and where Gulf Air stands in relation to those carriers; how it should face competition to protect its market share, and also to highlight and discuss briefly some topics that are related to the subject matter, such as deregulation, privatisation, merger and alliances, and finally industry analysis in relation to Gulf Air.

Chapter Three presents the findings and discussion on this investigation, while the Summary and Conclusions appear in Chapter Four.

CHAPTER TWO

A REVIEW OF THE GLOBAL AND EUROPEAN AIRLINE INDUSTRY

This chapter presents a review of the airline industry with special emphasis on the European market. It may be mentioned that in view of major changes taking place in Europe, Gulf Air should be concerned and I feel that their strategy for this market need to be reviewed.

But prior to entry into the chapter, it is worth discussing briefly those subjects attributing to the changes in the European airline market. These are: Deregulation, Privatization, Alliances and finally the Industry's Competitive Forces, because these subjects will play a major role in shaping any strategy for competing in such a market. Accordingly, I will discuss in detail all the aspects relating to Global Airline Industry in the 1990's, and how the European Airline Industry with its major carriers compete among themselves in that massive and turbulent market. I will also review the survival strategies of those European major carriers, their strengths and weaknesses which will, in the end, focus on those European carriers which are present in the Gulf area and compete directly with Gulf Air in its home market.

2.1. AIR TRANSPORT DEREGULATION

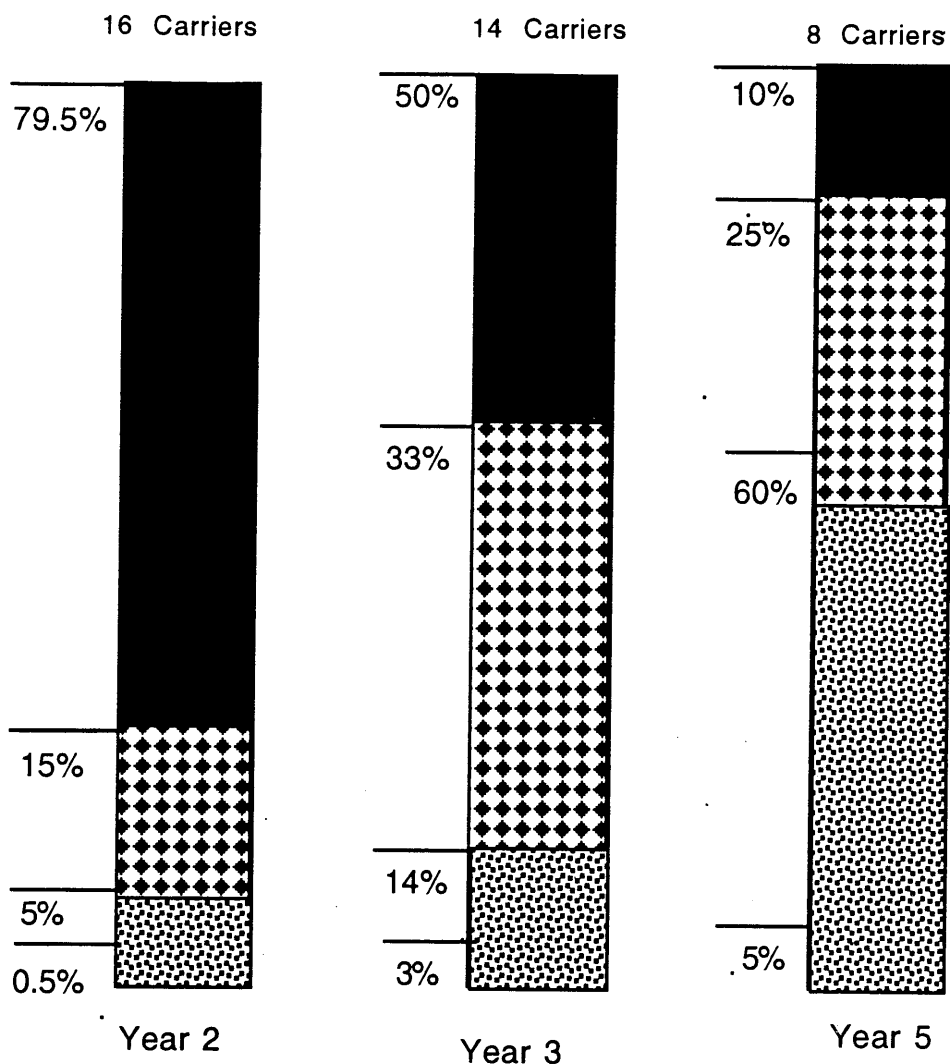
Like other transportation modes, the airline industry has a long history of Government Regulations. Hence the deregulation was viewed

on the assumption that it would serve the public interest and help industrial growth. Both carriers and travellers were expected to benefit, carriers could expand their routes and passengers would enjoy a wider choice of flight and price. Deregulation initially brought about substantial changes to the airline industry, competition increased and prices fell. It must be appreciated that free competition, however, demands very different operating structures and marketing strategies, as the large airlines which could use their superior financial, technological, and managerial resources, were in a commanding position to achieve oligopolistic control of the market, such as British Airways and KLM.

As the foregoing suggests, deregulation became a mixed blessing for the industry and the public. (Airline Business February 1992). In recent years, however, the theoretical and empirical bases for Air Service Regulatory Schemes have been questioned by opponents of such policies. In Western Europe i.e. E.E.C. countries and the single market, there have been pressures for relaxation of regulation of the air transport industry with respect to air fares, service frequency and market access, as a preparation for deregulation. Because changes in such public policies are likely to have major impact, there is a considerable interest in their possible implications, (See figure (2.1). This proves that the regulation of the airline industry involves both restrictions to entry, which prevent new airlines from initiating service in the regulated markets, and restrictions on fares, which discourages price competition between established airlines. In the United States deregulation was introduced in 1978, which resulted

Europe's first deregulated cycle

_____ Type A _____ Type B _____ Type C _____ Type D



As deregulation progresses, there will be a move away from government owned flag carriers (Type A) towards Type C privately owned mega-carriers. Low-cost new entrants (Type D) will have at most 5% of the market share

FIGURE (2.1)

SOURCE: AIRLINE BUSINESS, AUGUST, 1992

in cheaper air travel as competition increased dramatically between the American carriers. In the Gulf, deregulation is viewed from a political perspective. It is seen as a measure to strengthen the unity among the Gulf States. Hence, in their efforts to promote unity and cooperation among themselves, the G.C.C. member states are considering unified measures in the airline industry. These include deregulating this industry and declaring "Open Skies" policy within the Gulf States.

In this case, deregulation means removing all traffic rights restrictions and permitting the G.C.C. airlines (Gulf Air, Saudia, Kuwait Airways and Emirates) to operate freely between the G.C.C. countries, (Gulf News 29.4.1988).

2.2. PRIVATIZATION OF STATE-OWNED CARRIERS AND ITS IMPACT ON COMPETITION

Countries around the world are rushing to sell their government-owned industries to private interests. In 1989 and 1990 alone, governments sold enterprises worth \$90 billion, (The Gulf Executive, Issue No. 6 August 1992). Developing countries in Asia, as well as East European and industrial countries, are considering or implementing privatization programs. In the Middle East, Egypt, Turkey, and Pakistan are actively privatizing, and other countries are moving toward reducing the government's economic dominance.

Industrial countries and international organizations like the World

Bank are urging privatization as a cure for economic problems ranging from poverty to economic inefficiency. Arguments in favour of selling government enterprises are so widely accepted now that they are rarely questioned, (The Gulf Executive, August 1992).

The trend away from government ownership and control of airlines has accelerated sharply over the past two years reflecting a broader trend towards privatization as well as the mounting financial burden of airline ownership, (See figure 2.2).

There are now almost 40 airlines worldwide with plans to privatize completely or sell further shares to private sector. On the other hand, liberalization, mounting competitive pressures, poor financial performance, and the enormous capital expenditure requirements facing airlines are forcing governments to reconsider their ownership position. There are also clear forces driving the present wave of airline privatizations. These include liberalization and competition, efficiency, national debt considerations, and the huge funding needs of national carriers, competing demands for global funds and the increasing difficulty of the lesser credits to access them, the global alliance trend, and the move towards global consolidation, (Airline Business, February 1992).

A number of state-owned carriers have felt the effects of a rapidly changing system in terms of traffic flow. In some key markets privatised airlines have really hurt the state-owned carriers, says Michael Harrington of Consultants Indevo in London, (Airline Business, May 1992). This is very possible if new entrants are allowed in the Gulf states.

Carrier	Government stake (%)	Ownership details
Adria Airways	100	Socially owned, but controlled by Croatian Government.
Aer Lingus	100	
Air France Group	99.38	Banque National de Paris, which is 70% state-owned, is due to take an 8.8% stake.
Air Malta	96.4	
Alitalia	84.9	Publicly listed: 15.1%
Austrian Airlines	51.9	Swissair owns 10%, and All Nippon and Air France hold 9% and 1.5, respectively.
Aviaco	100	Iberia owns 65% and state holding company INI 35%.
Balkan Bulgarian	100	
British Airways	0	Publicly listed since 1987.
CSA Czechoslovakia	100	
Cyprus Airways	80.46	Employees hold 0.85%. Publicly listed: 18.69%
Finnair	70.01	Publicly listed: 20.30%
Iberia	100	Held by state-owned INI.
Icelandair	0	Now fully privatized, the Icelandic Steamship Company holds 34% while employees hold 23%. Publicly traded: 100%
JAT Yugoslav AL	100	Socially owned, but controlled by the Serbian Government. Likely to remain in Serbian control.
KLM	38.2	Balance listed on Amsterdam, Zurich, Brussels and New York stock exchanges.
Linjeflyg	25	State holding through SAS which owns 50%.
LOT Polish ALL	100	
Lufthansa	59.16	The Federal Government owns 51.42%, local governments 4.44%, and other state concerns 2.3%. Publicly listed: 40.84%
Luxair	69.48	The Luxair Group holds the remaining 30.52%
Malev	100	
Olympic Airways	100	
Sabena	88	Private institutions hold the remaining 12%
SAS Group	50	Controlled by three holding companies, ABA (Sweden), DDL (Denmark) and DNL (Norway), each 50% owned by respective governments, with 50% publicly listed. ABA owns 42.9% and DDL and DNL each hold 28.6 %.
Sterling Airways	0	
Swissair	20.4	The state's shares are registered; bearer shares with unidentified owners comprise 39.5%; Data Air Lines owns 5% and SIA has a 2.7% stake.
TAP Air Portugal	100	
Turkish Airlines	98.7	The Public Participation Administration holds 49% as a prelude to full privatization; 1.3% is currently publicly listed.

FIGURE (2.2) SOURCE: AIRLINE BUSINESS, AUGUST 1992

In Europe where the initial full privatization of British Airways and the partial flotations of carriers like KLM, Lufthansa and Austrian Airlines have been followed by a notable lull, observers are confident that liberalization will force the movement to resume. "I think it is competition and liberalization which will tend to force governments to consider privatization, because if they do not, it will be to the detriment of their flag carrier and their economy," says Michael McGhee, a Director of Barclays De Zoete Wedd, (Airline Business, August 1992).

Privatization also encourages liberalization as privatized carriers push for more change. Moreover, there is a mounting belief on the part of many governments that their national economies will benefit more if their flag carriers operated in the private sector. Privatized carriers like British Airways offer tempting models in terms of efficiency and profitability. Private airlines are far ahead of the state sector in terms of productivity and private companies which currently account for 43 percent of the airline sector, and generate around 67 percent of total revenues, according to New York Consultants SH & E. (See Tables 1 and 2, Airline Business, February 1992).

2.3. OVERVIEW OF DEREGULATION/PRIVATIZATION OF EUROPEAN AVIATION INDUSTRY AND ITS IMPACT ON BILATERAL AGREEMENT

Airline privatization, cross-border equity holdings, alliances and more liberal rules on foreign investment in air carriers are changing the face of international aviation. This is a vital issue

with regard to non-E.C. carriers in European market and how they can exercise their power, and on what basis when the bilateral agreements are no longer supported by national governments. Moreover, the changes in airline ownership will affect the bilateral negotiations, competition policy and the structure of the airline industry as a whole.

The restrictions on foreign ownership of airlines is the main stumbling block in the development of a more liberalized air transport industry. Yet we may now be witnessing the beginning of the end of the national flag carrier. At the same time, the concept of the multinational carrier poses a major challenge to the bilateral system, (Aviation Week Space Technology, Vol. 135, Issue 19 November 1991).

These conclusions fired debate at the Airline Business Conference 'The multinational Airline', in London in April, 1992, the first major conference to examine trends in airline ownership and effects on competition.

In his keynote speech, Christopher Chataway, Chairman of the UK Civil Aviation Authority, said that "despite its global ambitions, the airline industry remained rooted in national identities. Until these ties were eroded, he said, airlines would find it difficult to follow the multinational approach of other industries such as shipping and hotels.", (Airline Business, August 1992).

Jeff Shane, Assistant Secretary for Policy and International Affairs at

the US Department of Transportation, picket up the theme that the airlines should no longer be regarded as intrins-ically different from other industries. 'Airlines are (currently) uniquely national in character, and unable to take part in the globalisation which has spread like wildfire through other industries,' he said Shane proposed that the liberalisation of ownership rules would offer the most effective challenge to the bilateral system.

It is ironic that after years of pointing to its inherent differences when challenged by regulators and consumers, a significant section of the industry now appears willing to throw away a large piece of protectionist baggage. The regulators also appear less willing to use this defence available to them.

But has the multinational airline already arrived? Bert Rein, a partner in the Washington Law practice of Wiley, Rein and Fielding, identified four categories of multinationally owned airlines.

1. Consortium carriers such as SAS and Air Afrique, and Gulf Air which act as the flag carrier of more than one country;
2. Carriers established in one country, but owned and controlled by nationals of that country;
3. Carriers operating as nationals of one country, but seeking to use the bilateral rights of a second nation;
4. Joint ventures in which carriers of two or more countries seek to exploit a package of third country rights, (Airline business, February 1992).

Speakers agreed that the existing consortium airlines have provided no challenge to the bilateral system or to the regulatory authorities on ownership or competition grounds. Nor has the status of Britannia and Monarch as UK-based, foreign owned entities, although they operate mainly charter flights. But conference emphasised that a succession of cross-border airline equity stakes and alliances, as well as deregulation - particularly in Europe - have set a new agenda.

Frederick Sorensen, director of air transport at the Commission, said the EC's decision to liberalise ownership between member states (and within EFTA and central European countries) raised fundamental questions for the bilateral system. The new licensing rules - due to come into force in 1993 - permit the right of establishment in any EC country, provided the company is majority owned and controlled by EC nationals.

Sorensen said that all EC airlines would have to be recognised within the Community and considered for the distribution of traffic rights to third countries. He believed carriers would ask for such rights. "It is clearly not acceptable to continue when bilateral agreements which are based on national ownership and control," he said.

2.4. ALLIANCE AND JOINT VENTURES

The global market place is reality. Money and ideas can and do move to any place on this planet in seconds. The reality of a global market place has pushed us along the path of developing a rational world economy. (Kepalas 1990). The traditional multi-nationals have

tried to do everything on their own as they entered each market. They cannot do that any more because the skills and products required to compete worldwide have increased greatly. The future key factor for success for multinationals will be their ability to develop and enhance company-to-company relationships, particularly across national and cultural boundaries." (Kepalas 1990).

Hence the strategic responses that are being tried multinational corporations are completely different from the hostile takeovers or mergers of the past. Strategic alliances include global partnerships, link-ups, joint projects, cross-boarder ties, and collaborative agreements. The aim of all such alliances is to allow multinational corporations to cooperate and compete.

Alliances is being adopted by many airlines worldwide as a growth and survival strategy. Examples of these alliances is the British Airways, US Air, Air France-CSO, and KLM-SAS-Swissair. This trend clearly indicates the need for joint efforts to survive in a very costly and highly competitive environment.

2.4.1 JOINT VENTURES AND STRATEGIC PARTNERSHIP

One of the most dramatic and significant events of recent years has been the internationalization of the world economy. A major force underlying this world trend has been the rapid, sustained growth of international business. In its traditional form of international trade as well as its newer form of multinational business operations, international business has become massive in scale and has come to

exercise a major influence over political, economic, and social development throughout the world.

This growth in business activity across national boundaries has brought with it many changes. The rise of the multinational enterprise has confronted nation states with local business units that are closely linked with operations lying outside the nations' local jurisdiction. As a result, nation states have had to grapple with a wide range of new policy issues that are not satisfactorily covered by the traditional conceptual framework for thinking about the protection of national interests, a framework primarily focused on controlling transfers of goods and money as they cross national borders.

The business enterprise operating internationally has been confronted with new management problems. Methods have had to be developed for operating simultaneously in many different and differently changing environments for dealing with new elements of risk and conflict, and for assessing the impact of the firm on social and economic change. The management task has expanded and changed considerably from that faced within purely domestic operations, although the domestic manager has also had to make many adjustments to meet growing foreign competition in the home market, (Robock and Simmonds 1989).

The reasons for entering into a joint venture generally fall into three categories: (a) government suasion or legislation, (b) need for the other partner's skills, and (c) need for the other partner's attributes or assets. The primary skill required of the local partner is its

knowledge of the local economy, politics, and culture. Assets include such items as patents or finances, while attributes may be the local marketing know-how and managerial skills of an established local enterprise.

2.4.2 Strategic Partnerships

In recent years, a new form of joint venture - labelled strategic partnerships - has been growing in importance. In contrast to the traditional joint venture, which brought together a multi-national firm and a local partner, the strategic alliance is a partnership of two or more multinationals that generally are competitors. A well-publicized example is the General Motors-Toyota partnership (NUMMI) to build small cars in the United States. Numerous other agreements among major competitors from the United States, Europe, and Japan now exist in telecommunications, computers, robots, biotechnology, and aerospace.

Whereas the traditional joint venture is usually a device to secure access to a protected national market, the strategic alliance is designated to aid the partners in serving global markets. These new ventures typically combine the technologies of two or more firms from industrialized countries and have as their motivation increased research capability, cost reduction through joint production, and enlarged market access in order to face global competitors on more equal terms. A good example of this in the airline industry are those joint venture agreements reached among strong European competitors such as Air France with CSA, and Sabena. This is what is called survival strategy.

2.5. FORCES DRIVING INDUSTRY COMPETITION

Michael Porter (1980) stated that competitive strategy examines the way in which a company can compete more effectively to strengthen its market position. (see Figure 2.3) which he named as Forces Driving Industry Competition, is being discussed and related to this subject in this chapter on "European Market."

The essence of formulating competitive strategy is relating a company to its environment. Although the relevant environment is very broad, encompassing social as well as economic forces, the key aspect of the firm's environment is the industry or industries in which it competes. Industry structure has a strong influence in determining the competitive rules of the game as well as the strategies potentially available to the firm. Forces outside the industry are significant primarily in a relative sense; since outside forces usually affect all firms in the industry, the key is found in the differing abilities of firms to deal with them.

The intensity of competition in an industry is neither a matter of coincidence nor bad luck. Rather, competition in an industry is rooted in its underlying economic structure and goes well beyond the behaviour of current competitors. The state of competition in an industry depends on five basic competitive forces, which are shown in (Figure 2-3).

The strength of the competitive forces in an industry determines the degree to which this inflow of investment occurs and drives the

COMPETITIVE STRATEGY

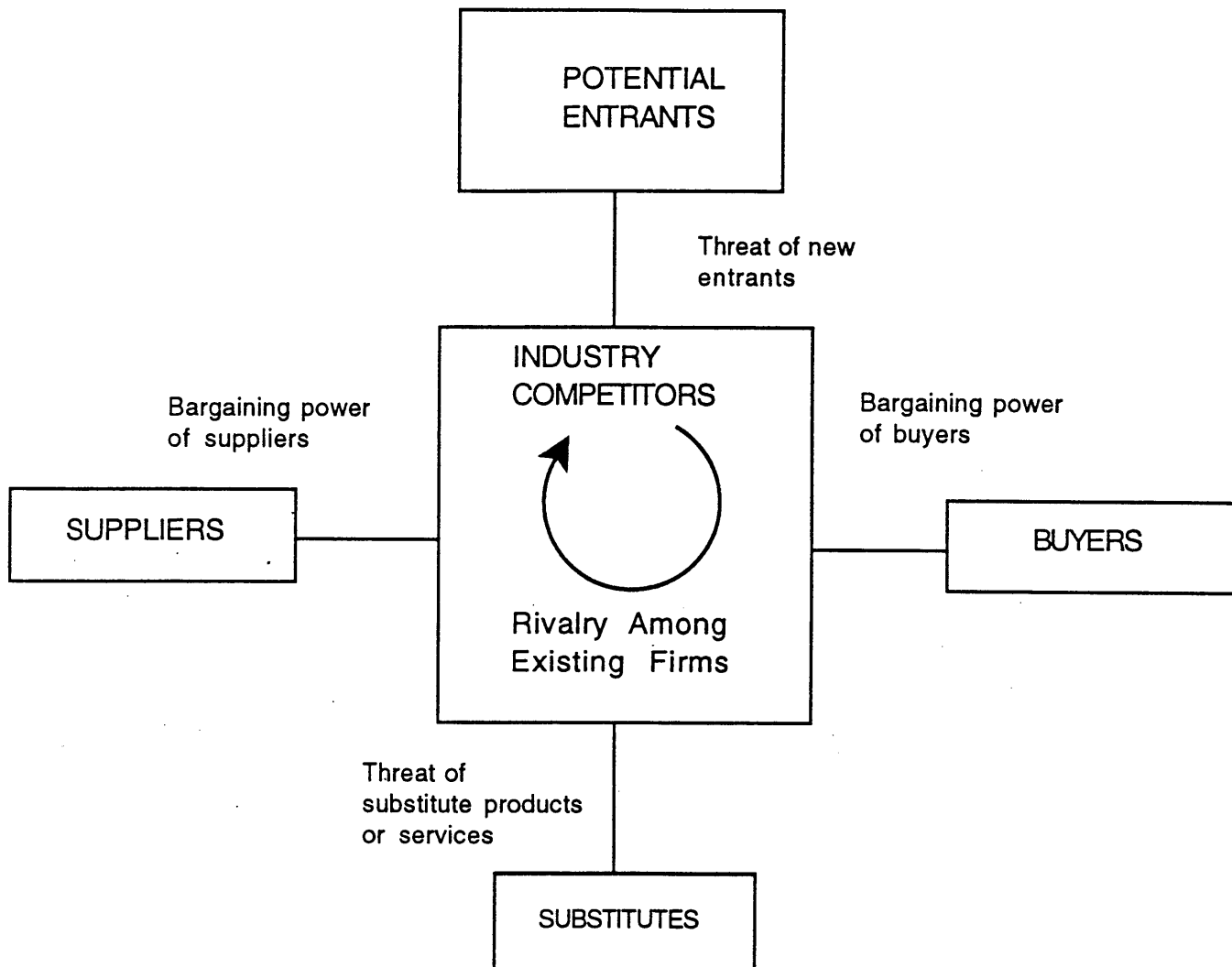


FIGURE 2.3 Forces Driving Industry Competition

**SOURCE: MICHAEL PORTER'S MODEL
'COMPETITIVE STRATEGY', 1980**

return to the free market level, and thus the ability of firms to sustain above-average returns.

The five competitive forces - entry, threat of substitution, bargaining power of buyers, bargaining power of suppliers, and rivalry among current competitors - reflect the fact that competition in an industry goes well beyond the established players. Customers, suppliers, substitutes, and potential entrants are all "competitors" to firms in the industry and may be more or less prominent depending on the particular circumstances. Competition in this broader sense might be termed extended rivalry.

All the five competitive forces jointly determine the intensity of industry, competition and profitability, and the strongest force or forces that are governing and become crucial from the point of view of strategy formulation.

Here, for the purpose of our study, we will be concerned with identifying the key structural features of industries that determine the strength of the competitive forces and hence industry profitability. The goal of competitive strategy for a business unit in an industry is to find a position in the industry where the company can best defend itself against these competitive forces or can influence them in its favor.

2.5.1 THREAT OF ENTRY

New entrants to an industry bring new capacity, the desire to gain

market share, and often substantial resources. Prices can be bid down or incumbents' costs inflated as a result, reducing profitability.

But here in our case in the airline industry, the air travel faces a range of challenges such as the current world economic situation, low growth industry, and the requirement of heavy investment in terms of money in order to establish a new airline in which case nobody would take such a risk. This suggests that there is less likelihood of a potential new entrant. However, because of political or other reasons, these may be unusual developments. For instance, recently Oman Civil Aviation has started operating flights between Muscat and Dubai. This will increase the Government-owned airlines within the area while the world airline industry is going for alliances and mergers.

2.5.2 . PRESSURE FROM SUBSTITUTE PRODUCTS

Identifying substitute products is a matter of searching for other products that can perform the same function as the product of the industry.

All firms in an industry are competing, in a broad sense, with industries producing substitute products. Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge. The more attractive the price-performance alternative offered by substitutes, the firmer the lid on industry profits. There was a time, not so long ago, when air travel was a special experience. But today other means of transport

has been introduced such as fast and convenient high speed rail networks in Europe to telecommunications across the world and, in the Gulf, the Saudi causeway has shortened the distances between G.C.C. countries and made the land travel convenient. However, until high speed train services are established in the region, which is a remote possibility, there is little threat from substitutes in the region.

2.5.3 BARGAINING POWER OF BUYERS

Buyers compete with the industry by forcing down prices, bargaining for higher quality or more services, and playing competitors against each other, all at the expense of industry profitability. The power of each of the industry's important buyer groups depends on a number of characteristics of its market situation and on the relative importance of its purchases from the industry compared with its overall business.

Gulf Air, with its four owner states' financial support, puts it in a strong bargaining position when it comes to purchase of new aircraft. It can dictate its conditions on the seller for price and method of payment etc. This is also applicable to many other Arab carriers in the region.

2.5.4 BARGAINING POWER OF SUPPLIERS

Suppliers can exert bargaining power over participants in an industry by threatening to raise prices or reduce the quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own prices.

The suppliers to the airline industry are Boeing, Lockheed, MacDonald Douglas and Airbus Industries. The gloomy environment and the worldwide economic recession in the aviation business put a lot of pressure on the suppliers and, in this case, we can say that "too many aircraft makers chasing up too few airline companies." This situation puts the airline companies in a strong bargaining power and not the opposite.

2.6. THE GLOBAL AIRLINE INDUSTRY

The airline industry in the early 1990's is experiencing an important period of development. Increased international accord and growing independence, along with new economic freedoms which are not confined by national and regional boundaries have been achieved because the mutual economic interests of nations have pushed development forward, especially in the communication and transportation sectors. Airline companies have been obliged to restate their policies and priorities in operations, marketing, manufacturing and adopting the most sophisticated new technology.

Beginning with the movement towards deregulation during the 1980's, aviation also experienced, especially in later years, a tendency towards mergers and the creation of joint ventures. This tendency, along with cooperation agreements between some of the carriers which transcended geographical and political boundaries, was fuelled by the need to possess "the high ground" in competitiveness to chase an ever-bigger share of the enlarging aviation market, (Gulf Air Annual Report 1989).

In parallel, the industry witnessed major technological advances in airframes, engines instrumentation and navigation systems, computerization in the air and on the ground, and in related marketing activity, investing millions of dollars in improving the automated reservation systems.

These massive and far reaching developments took place against a background of an improving aviation market; the number of passengers and the volume of air cargo both increasing in continental aircraft which can fly with a full payload non-stop from Europe to the Far East to meet the demands of the larger market. It also means that there is no need for such aircraft to make technical stops at Gulf airports for refuelling, (Gulf Air Annual Report 1989).

These developments by leading foreign carriers prompted the inevitable question - "what is the position of the Arab Aviation Industry in the light of such new developments?" Boeing Aircraft Company has predicted a growth of 5.7% per annum in aviation movements in the Arab countries during the next ten years. MacDonald Douglas predicted an increase of 5.1% per year, within the same period, in passenger and cargo movements between Europe and Arab countries, (Gulf Air Annual Report 1989).

In this regard it is worth mentioning that Gulf Air has gained an outstanding position in the airline industry in terms of movements and fleet.

Gulf Air fleet comprises 24 airplanes and carried about 2.8 million passengers, with a load factor of 61% for the year 1989, and has adopted an ambitious scheme aimed at modernizing and enlarging the fleet to reach a total of 40 aircraft by the year 2000 at a projected cost of 2 billion United States Dollars, (Gulf Air Annual Report 1989.)

This scheme will complete the company's expansion plan, affecting both regional and international networks, to link all five continents with its flights and show itself that it is able to compete fully at both the regional and international levels in the airline industry.

Furthermore, the world airline industry is being rapidly transformed by burgeoning network of cooperative marketing agreements, cross-border equity investments, equity swaps, and mergers.

Some industry observers believe that the surge in cross-border financial relationships will result in a network of truly global, interrelated airline operations, making travel across continents on different airlines a seamless, service-oriented journey. However, others are worried that intersecting alliances between carriers may diminish competition, leading to higher air fares and a reduction in potential innovative services. Carriers generally are seeking partners that are complementary, adding strengths where they are weak and filling major gaps in route systems. For example, Delta Airlines, which is strong in the United States but weak in Europe, the Middle East, and Africa, has teamed up with Swissair, which is stronger in

those areas. Other examples are: British Airways + US Air + Qantas, and KLM + Swissair + Austrian + SAS. (Aviation Week Space Technology 25.12.1989).

2.7. REVIEW OF THE EUROPEAN AIRLINE INDUSTRY

This section provides the detailed review and analysis of the European Airline Industry.

2.7.1 THE MARKET ENVIRONMENT

Most industry forecasts projected the European air transport market to grow steadily between 5% and 6% per year to 1990, and about 4% annually to 2000, somewhat better than the 2-4% recorded during the early 1980s, (Airline Business, September 1992).

Although some 60-70% of scheduled air traffic in Europe was for business travel, this market segment was expected to remain stagnant over the next 10 years with the majority of the growth coming from the leisure travel market. Part of this future growth was expected to come from greater freedom to compete as the market was progressively deregulated. This anticipated effect of deregulation was confirmed by the 13% increase in traffic between Great Britain and the Netherlands in the year following the signing of their liberalized bilateral agreement, compared with the 8% increase for all intra-European traffic, (See Table 2.1 for data on size, growth, and share of some of the major international airlines), (Goshal and Ronald 1992).

2.7.2 THE COMPETITION

Traditionally, competition in the highly regulated European market had focused on route negotiations and access to other nations' airports. The largest European carriers were British Airways, Air France, Lufthansa, Iberia, Swissair, Alitalia, and Scandinavian Airlines System (SAS), the first three controlling 40% of the available passenger-kilometres on scheduled intra-European flights, (See Table 2.2 for a comparison of the international route network of SAS with those of some of its competitors).

Table 2.1 - Air Traffic Market Data: Transatlantic and Europe.

Transatlantic scheduled and charter passengers, selected airlines						
	1975 (thousand)	%	1980 (thousand)	%	1985 (thousand)	%
TWA	1736	14	2352	13	3757	16
PanAm	1643	9	2230	12	2631	11
British Airways	1217	10	2201	12	2136	9
Lufthansa	673	5	1052	6	1182	5
KLM	593	5	818	4	1079	5
Air France	613	5	736	4	843	4
Swissair	346	3	536	3	649	3
SAS	401	3	525	3	537	2
British Caledonian	-	-	149	1	430	2
Sabena	243	2	291	2	536	2
Delta	-	-	252	1	374	2
American	-	-	-	-	367	2
Others	4953	-	7633	-	8894	-
Total	12418	100	18775	100	23235	100

Source: Travel and Tourism Analyst, May 1986.

Intra-European scheduled passenger kilometres for selected European carriers				
	1980 (million)	%	1984 (million)	%
British Airways	8066	16	7698	14
Lufthansa	5732	11	6302	12
KLM	2236	4	2542	5
Air France	7397	15	7794	14
Swissair	3736	7	4092	6
SAS	3250	7	3623	7
Sabena	1209	>2	1202	2
British Caledonian	321	<1	396	<1
Others	18053		20860*	
Total	5000	100	54504*	100

*Estimate -

Source Travel and Tourism Analyst, May 1986

Table 2.2 - Comparison of competing airlines' route structures

1987-88 world airline route structures
(Approximate number of major* international destinations served)

Airline	N.America	S.America	Europe	Africa	Austral-Asia
SAS	5	1	40	0	6
Air France	12	16	75	25	33
British Airways	19	7	65	9	33
British Caledonian	5	0	13	13	7
KLM	11	16	55	18	26
Lufthansa	18	10	74	17	28
Pan American	35	13	40	1	5
Sabena	8	0	n/a	26	10
Singapore Airlines	3	0	12	1	32
Swissair	7	4	52	18	21
United Airlines	55+	0	n/a	0	13

Notes:

*The distinction is somewhat arbitrary, and the numbers are intended as an indicator only.

This number does not include smaller Scandinavian destinations.

Source: Company annual reports and routemaps.

A large country with a strong national carrier had a lot of leverage in route negotiations, and could often choose the most profitable time slots for arrivals and departures. The product offered did not vary much among competing airlines, and fares were usually fixed in bilateral agreements that were strictly adhered to. These fixed fares allowed airlines with higher operating costs to remain competitive due to the presence of an artificial price umbrella.

For SAS there was not one major competitor, but rather one in each market it served, e.g. British Airways in the United Kingdom sector and Braathens SAFE on domestic routes in Norway.

In the late 1970s, the impact of the second-oil-shock led to poor financial results for most airlines and the competition for passengers increased. The airlines tried to differentiate their product, and to improve in-flight service by offering free drinks, better meals, and introducing a separate class for business travellers. However, new service elements introduced by one airline were quickly copied by others, so it was difficult to sustain a competitive advantage. (Hendry & Others 1993).

In addition to the obvious threat from the major national carriers, increased competition came from the regional feeder and charter airlines (regional in this context includes international flights and is defined as flights with aircraft capacity of 70 passengers or less). The former category had a fairly small share of the market at less than 5%, but had exhibited high growth. From 1978-86, the number of regional airlines, aircraft, and seat capacity in Europe doubled. This trend was expected to continue, or accelerate, as regulations were relaxed, and as regional carriers were allowed into major traffic hubs. However, the major airlines had not passively watched their markets erode, but had countered by 'expropriating' developed regional routes, or by expanding their own regional traffic. This had been achieved either by operating a separate commuter division, or by partial acquisition of, or a joint venture with, a regional carrier. According to AEA (Association of European Airlines) data, in 1986 SAS offered the highest number of 'regional' seats on international departures in Europe, while in 1978 it was not even among the top 10. However, even if around 10% of total scheduled international departures within Europe were with regional aircrafts, this figure dropped to 3% in terms of passengers, and only 1.5% of passenger-kilometres. (Hendry & Others 1993).

In 1985 charter traffic in Europe accounted for 57% of the world's non-scheduled revenue-passenger-kilometres (RPK), versus only 38% in the mid-1970s. In 1986 around half of the intra-European air traffic was non-scheduled. European charter traffic had grown at an average annual rate of around 5-6% from 1975-85, compared to only 1.7% for the world charter market. Scheduled carriers usually operated charters, or a charter subsidiary, to improve aircraft utilization on weekends and during low demand periods. SAS was no exception, having a charter subsidiary Scanair, which operated eight MacDonald-Douglas DC-8s on long-term lease from the parent company. In addition, Scanair leased extra capacity from SAS during weekends and holiday periods. Although charter traffic accounts for only 1-3% of the major airlines' RPKs, this market segment could be quite important for the smaller and medium-sized carriers (for the Irish flag-carrier Aer Lingus, it represented 18% of revenues in 1986). The major players in the charter market were the independents. The United Kingdom's Britannia Airways, Europe's largest charter operator, carried as many passengers a year as KLM. The trend in the charter market was towards larger aircraft and increased capacity so as to reduce operating costs.

The 'seat-only' concept (when a charter airline offers only basic transport) was a growing threat to the scheduled airlines. On certain routes, seat-only accounted for up to 25% of passengers carried by ACE airlines (Association des Compagnies Aeriennes de la Communaute Europeenne, representing charter airlines in Europe). The demand for seat-only services was expected to grow significantly. Diversification into scheduled services by charter airlines was another trend seen in

the mid-1980s, although in 1987 it represented only about 3% of total RPKs for these airlines. In the future, this proportion is expected to increase, not only to meet the growing demand for seat-only, but also to counter the scheduled carriers' increased presence in the cut-price holiday segment.

The air charter industry had traditionally been much less regulated than the scheduled carriers. An early International Air Transport Association (IATA) provision stating that a package holiday should be priced lower than the lowest scheduled fare kept prices high, but by the mid-1970s several governments had abolished most price and capacity controls. However, in many countries the charter industry remained under quite strict control.

2.7.3 EFFECTS OF REGULATION/DEREGULATION

The European airline industry was entering a period of liberalization as a result of increasing competitive pressures. European consumers were urging their national governments towards deregulation in an effort to bring travel costs down. Some individual countries, notably Great Britain and the Netherlands, had modified their bilateral agreements with other nations to allow more competition on capacity and fares. However, a number of factors made the situation in Europe quite different from that experienced in the United States following deregulation of the airline industry in that country.

The cartel within the IATA had given member airlines a protected market. In addition, bilateral treaties between European nations

allowed their airlines to share the market through pooling arrangements. According to a study by the European Civil Aviation (ECAC), 75-85% of the tonne-km on European scheduled flights were subject to these pooling agreements. These could take several forms, such as agreements to share revenues and capacity (although not always equally), agreements to limit the number of flights between two cities, and agreements by one carrier to pay another not to fly certain routes. A final important feature of these agreements was a commitment to price-setting. The bilateral treaties usually declared that the airlines should, subject to government approval, reach agreement on their air fares and it was often stated that the price-setting machinery of IATA would be used whenever possible.

Through these pooling agreements capacity had been divided up on a 50:50 basis between the respective countries. If, for example, KLM offered 150 seats from Stockholm to Amsterdam, SAS was entitled to offer 150 seats on the same route. A number of proposals had been put forward to modify this procedure. One proposals supported by the European Parliament was to increase the maximum capacity that could be offered by airlines of one country from the present 50% to 75% of the total capacity on the route without the consent of the other country. The AEA/IATA proposal limited this to 55%, and this latter modification had been adopted in some of the new agreements, such as the one between Britain and France. The agreement signed between the United Kingdom and the Netherlands in 1984 was the most competitive in Europe with no limits on route entry or capacity. As a result, a total of seven carriers were flying the London-Amsterdam route, but the average fare

had not decreased significantly although the range of fares and services had expanded considerably. This is illustrated in Table 2.3 which compares fares on this route in 1983 and 1985.

The European market was too fragmented to enable a surge of new competitors with significant fare reductions on major routes as happened in the United States in the late 1970s. The size of the United States market and the presence of the only one regulatory authority allowed rapid deregulation to take place. This led to the entry of new competitors on virtually all markets, and low cost carriers' such as People Express, were formed. These carriers typically employed non-union personnel and operated used aircraft. Consequently, they had lower operating costs compared to the established major carriers, and they used this advantage to undercut the majors on price. They were helped further by falling fuel prices since their older aircraft were not fuel efficient as those of the established carriers. These lower prices could be profitable in the long-term only if traffic bases were increased. The resulting scramble for volume led to shake-out, and seven major carriers came to dominate the United States market after a series of takeovers and mergers: American Airlines; Texas Air Corporation (having acquired Continental, Eastern, and People Express); United Airlines (having acquired Pan-Am's Pacific routes); Northwest (having acquired Republic); Delta (having acquired Western); TWA (having acquired Ozark); and US Air (having acquired Piedmont and Pacific Southwest). These airlines had also forged links with regional carriers to feed more traffic into their respective systems, (Hendry & Others 1993.)

Table 2.3. Example of fare structure: London-Amsterdam

London-Amsterdam Air Fares, 12983 and 1985 (Nominal pounds sterling)		
	1983	1985
British Airways and KLM		
Economy fare	148	162
Eurobudget (any flight)	126	138
Eurobudget (designated flights)	105	115
PEX (stay over one Saturday)	99	109
SuperPEX (more restrictive than PEX)	88	91
Late saver (very restrictive)		55
 British Caledonian		
Peak fare	148	109
Shoulder fare		89
Off-peak fare	98	69
Average	116	104

Source: Travel and Tourism Analyst, March 1986

Although the EEC Commission was urging its members towards greater liberalization, it only represented about half of the countries that made up the mostly conservative ECAC. There were also significant differences within the EEC countries themselves. Great Britain and the Netherlands were the most liberal, followed by Luxembourg, West Germany, and Belgium. They were still outnumbered by the seven other members who remained more conservative.

Deregulation was progressing on a piecemeal basis, with new bilateral agreements being negotiated with individual countries, instead of on a Europe-wide basis, which would be necessary to provide the level of free competition which existed in the United States. The EEC was pressing for a more unified European stance to enable negotiations with the United States on a multi-lateral rather than bilateral basis. A

problem with the piece-meal approach was that single routes themselves did not provide a viable network for new entrants. This factor limited the possibility of a new carrier gaining a major foothold in a more competitive European market in the manner that People's Express did in the United States. Although it was widely believed that deregulation would result in lower overall fares for European travellers, studies of the United States experience do not necessarily confirm this view. In a 1983 study, Britain's Civil Aviation Authority (CAA) concluded that normal fares on the United States routes with limited competition were only 10-15% below United Kingdom-Europe equivalents, although where additional competitors had entered, fares were as much as 33% lower. Much of these differences could be attributed to higher labour, fuel and associated costs of operating in Europe compared with the United States of America. Some of the United Kingdom-Europe routes were found to offer promotional fares which were actually lower than any fare on an equivalent United States route. The Dutch aviation authorities undertook a similar study of deregulation's effect on fares. Applying the result of these studies to European scheduled routes in general suggested possible fare reductions of approximately 10% if service levels were maintained, and up to 20% if service levels were reduced. Actual realization of such reductions, however, depended on the pace of new entry, for which the opportunities, as noted earlier, were not as great in Europe as they had been in the United States.

The current recession will hopefully be the last one of its type for Europe's Airline Industry. Future recessions will be much more

demanding because they will take place in a fully deregulated environment in which government aid for airlines may prove impossible. This is in contrast to the United States, which is going through its second deregulated recession, while carriers in Canada and New Zealand are ending their first deregulated privatised recessions. As a result, there have been several United States carrier bankruptcies, and the United States mega-carriers are gaining strength. The Europeans still have to get many of the cost/revenue relationships and fundamental ratios into order. However, recent spate of new entrants challenge recovery from recession.

There appears to be no major move towards reducing costs which need to fall of 3 to 4 cents per available seat KM; labour and other key costs components have not been reduced. Euro-majors are still trying to play the game of reducing the rate of growth in costs while not making absolute reductions. The only possible exception to this is British Airways, which made cost gains prior to privatization but subsequently has allowed itself to creep back to higher cost levels.

Most Euro-majors are not privatised, meaning that Government funding is still on the cards. Europe did not suffer a single unified economic downturn as there remains a strong differentiated cycle between some economies. Furthermore, the industry had not been deregulated on Pan-European basis. Despite some pockets of deregulation, primarily involving the United Kingdom, most of the Euro-majors were able to adopt a much slower pace of corporate reform due to the lack of any substantial new competition. Simultaneously, most of the foreign

competitors from North America and Asia, were hit by nasty economic downturns of their own, thus reducing their ability to take advantage and to increase market power over European rivals.

A further long-term problem is the lack of substantial competitive pressure during this recession which has led European carriers to make limited gains in reducing their absolute costs and optimizing their organizational structures. European carriers have achieved a great deal by using the generally accepted tactics, such as trying to dominate domestic feed systems and buying up local and regional carriers participating in a Global distribution channel, product enhancements, value-added features and brand building, trying to reduce costs (mostly with limited success), and seeking alliances to strengthen their global traffic feed links. By focusing in on the intra-European market, we can begin to see how the airline industry might develop in the 12 to 18 month period after real deregulation in Europe. Full freedom for market access, as well as an uninhibited distribution system for all players, are the minimum requirements for free-market interaction.

2.7.4 NEW DEVELOPMENTS IN THE EUROPEAN AIRLINE INDUSTRY:

Confronted with these environmental changes, many of the major airlines are expanding their range of services by integrating into related aspects of the travel sector, such as hotels, travel agencies, car rental and financial services. Among the European carriers, seven companies had built substantial interests in hotels: Aer Lingus, Air France, British Caledonian, KLM, Lufthansa, SAS, and Swissair.

Airlines were also considering expanding into the field of credit cards to increase the range of services offered to customers and provide management of corporate travel expenses for business-related travel.

In February 1987, United Airlines was grouped together with Westin and Hilton International Hotels and Hertz car rental under the Allegis corporate name, becoming the world's most vertically integrated travel service company. However, only five months later, Allegis's board rejected the travel supermarket concept. Both the car rental and hotel chains were put up for sale. In spite of the Allegis experience, the trend towards service integration was expected to continue as the industry became more global and competitive.

New areas of co-operation for mutual cost savings and benefits were developing among European carriers. For example, most airlines were under pressure to provide automated ticket and boarding-pass facilities to improve customer service. Prototype machines were purchased jointly by AEA member airlines and testing began in 1987. Worldwide interest in the concept had increased and discussions had been held to develop a common design to supply most of the IATA carriers.

Computer Reservations Systems (CRS) and their implications for the airlines' sales distribution networks had become increasingly important, particularly in the light of developments. These networks were expected to become the primary link between the airlines and the marketplace. The major United States airlines had launched a drive to place their CRS systems in travel agencies outside the United States,

and were focusing on Europe. The retailing of airline tickets in the United States prior to deregulation was relatively straightforward, since distribution was via a cartel system. Deregulation meant that the airlines had to build marketing relationships with individual travel agencies, and the CRS system was a key element in that strategy. The massive investments required to develop these systems made this area a good candidate for co-operative ventures.

2.8 MAJOR CARRIERS IN EUROPE

This is a detailed discussion and analysis of major European carriers. Those who dominate the European market through the domination of the Intra-Europe routes used as hubs to feed their international routes. This is a threat if we look at it from a non-European carrier as the case of Gulf Air.

This discussion will cover in depth each carriers competitive advantage and also its strengths and weaknesses. We will also see how those carriers are fighting hard to achieve the right relationship between costs and revenues, brand image and yields. Needless to say, that a deregulated privatised environment will be a shock to many of those carriers. This will help when we come to our final analysis in Chapter Four of those carriers in relation to their presence in the Gulf area as main competitors of Gulf Air.

- 2.3.1 Lufthansa
- 2.3.2 British Airways
- 2.3.3 Air France
- 2.3.4 S.A.S.

- 2.3.5 K.L.M.
- 2.3.6 Iberia
- 2.3.7 Swissair

2.8.1. Lufthansa

Lufthansa's fleet acquisition plans indicate a strong internally generated growth strategy. The development of Munich and Berlin as hubs to add to Frankfurt provides good growth platforms.

Lufthansa's actions strongly resemble American Airlines in the late 1970s and early 1980s. Many staff have been moved away from bureaucratic Cologne to Frankfurt, the operational and commercial hub. American moved from high cost, low growth New York City to Dallas, with very positive results. Strong culture change at the executive levels continues to permeate Lufthansa, just as Bob Crandall changed his team in the late 1970s. Like American did, Lufthansa is loading up with aircraft to steal share, (Airline Business, August 1992).

However, several key factors may impede Lufthansa. Cost is the biggest negative, but also Lufthansa has a relatively low average intra-European load factor - it achieved only the high 50s in 1990, before the worst of the Gulf War traffic collapse.

Despite an intra-European passenger market share of slightly over 12 per cent (enough to achieve second place), and good average intra-European yields (mid 20s in terms of cents per seat km), Lufthansa's

costs are still relatively high and its average intra-European load factors are low when compared to British Airways or Iberia.

If Lufthansa decides to pursue a growth strategy and pumps of capacity quickly while building up two new hubs, it will undoubtedly cause fare wars that will depress yields. Growth alone will not reduce relative costs substantially. Lufthansa must make some permanent cost reductions, as American did with two-tier wage schemes.

Without pushing costs down to be competitive with British Airways, a major growth spurt by Lufthansa could backfire, driving down profits and reducing the ability to sustain and defend two or three hubs.

2.8.2 British Airways

British Airways has a different set of problems. Its costs are better than most, despite a larger rise than ideal in the last two to three years. In 1990 British Airways was number one in intra-European passenger traffic with a share of 15 per cent, load factors were in the high 60s, and intra-European yield was in the low 20s. After a strong improvement in brand image and product offering over around four years, British Airways has only recently begun to slacken in customer ratings.

British Airways's financial performance confirms the positive impact of a leaner cost structure, especially during recessions. In contrast to Lufthansa, the issue at British Airways is seeking a platform for substantial future intra-European growth and building upon it. Heathrow will not provide that platform, and neither will Manchester.

British Airways needs a continental partner that can give it a strong base in the middle of Europe. British Airways's attempts at Amsterdam with KLM and at Brussels with Sabena have failed so far, but this does not invalidate the strategic approach. Indeed other options would seem few and far between. British Airways alone cannot obtain the 3 or 4 more intra-European traffic share points it needs to retain mega status.

In terms of location Alitalia may present the only other option for British Airways, as a link would allow the two to sandwich most of Europe between them. Alitalia suffers from a poor brand image, but it does share British Airways's yield performance, albeit at a lower average intra-European load factor.

In addition British Airways will be able to shave share off its competitors by cutting fares to high cost places like Switzerland, Austria and Scandinavia. (Airline Business, August 1992)

2.8.3. Air France

Air France enjoys the number three position in intra-European passenger share at just under 10 per cent. When coupled with yield in the mid-20s (cents/seat km) this should produce a fairly healthy picture. But a monopoly in its domestic market, a protective government regulatory apparatus, and recent government subsidies combine to throw into doubt overall viability in the event of a privatised, deregulated air transport market, (see Figure 2.5).

Despite this, some of the basics are present. The central locations of Paris and Nice provide opportunities. The ability to control Air Inter gives domestic dominance and will enable Air France to launch an Orly or Nice hub using its partner. Using Charles de Gaulle as the inter-continental point and evolving Orly as a reliever hub exclusively for intra-European flow, could place Air France at a solid advantage.

The prime area of concern is costs. As with many carriers in continental Europe, labour laws and other social constraints mean that cutting cost, will not be easy. In fact achieving zero cost growth will be a gargantuan task. In this recession the most drastic action taken by Air France was a hiring freeze, which hardly compares with the more serious layoffs undertaken by British Airways, KLM and SAS.

Air France has been able to achieve relatively high intra-European yields. This average yield is not based on brand strength or superiority, but on regulation. A deregulated environment with freely floating prices would have a substantial impact on Air France's yields. However, investment in the product may help.

2.8.4. S.A.S

SAS's managers have shown good strategic foresight. They were accurate in their early realisation that carriers on the fringes of Europe were going to have problems, that high costs posed a challenge, and that a brand repositioning was required to justify SAS's rather high yields.

Adopting a single segment focus by opting for business traffic, becoming a driving force behind the quality alliance concept, and adapting its fleet to market needs through high frequency, all provide to be valid moves. However, there is a downside. Despite layoffs and cost-cutting measures, previously unheard of in socialist Sweden, SAS still has some financial problems.

The total travel concept has taken its toll at SAS. While the Gulf War affected air travel, it had the same impact on hotels and other travel sectors. All of SAS's businesses, core and ancillary, went through the downturn as a unit. While creating a beachhead at Heathrow by buying into British Midland's parent company seemed to be a good idea, Airlines of Britain has been a further cash drain, exacerbating an existing problem created by Continental and other SAS investments.

The European Quality Alliance will work in good economic times, as long as business flyers can be convinced that the price premium of 15 to 20 per cent worth paying.

SAS's high frequency product produces relatively low overall load factors (mid-50s range on intra-Europe in 1990), high yields (mid 20s); and a good share of the intra-European passenger market (just over 9 per cent).

By achieving network growth of quality yield traffic in combination with its EQA partners, SAS could not only survive but prosper modestly. The difficulty will come in the first deregulated recession when the

customer looks for price and only price. Then the high cost structure and peripheral geographic location could become issues.

2.8.5. K.L.M.

A key part of KLM's platform for growth has been its ability to intermingle intercontinental sixth freedom traffic with supporting intra-European feed. KLM serves many European points primarily in order to cross-link non-European traffic.

As a result, the KLM intra-European network is timed to feed intercontinental banks. The key for further growth in Europe will be to capture the traffic flowing in the other four or five daily connection banks that do not connect intercontinental flights.

KLM has not focused on the intra-European origin and destination market to any great extent. It has a minuscule domestic market to support potential future heavy capacity for shorter haul connection complexes and its fleet composition indicates a predilection for the long haul, which after all produces higher absolute revenues.

The problem is that in a deregulated intra-European market KLM could lose not only an edge in intra-European traffic, but also the key intercontinental feed.

KLM has a weakness in intra-European load factor when compared to other carriers with similar yields (low 20s). For example, Aer Lingus enjoys a similar yield but has a load factor 6 percentage points higher than

KLM's and a total intra-European share of 4 per cent, while KLM has 4.5 per cent. KLM is ranked number eight in intra-European passenger share.

KLM is oriented towards intra-European growth via an alliance partner. The proposed British Airways link could have shored up some weakness. KLM has not pursued any other substantial intra-European relationships yet except for Sabena and that is now very unlikely to happen.

KLM's intra-European brand positioning is good, but is not at the same level as the EQA partners, thus removing the option of a high-quality niche approach to growth.

This would indicate that KLM cannot go it alone within Europe. The Air UK link has produced favourable results, but a further alliance with Aer Lingus or Alitalia could be desirable. A KLM/Aer Lingus combination would have more than 8.5 per cent of intra-European passengers, while KLM/Alitalia would be at number three in passenger share. Either Alitalia or Aer Lingus could complement KLM and produce a strong intra-European network. A 'Royal AliLingus' three way alliance could be even stronger.

2.8.6 Iberia

Iberia's fundamentals are extremely low yields, very high passenger road factors, and a position among the top five intra-European carriers. Relatively low yields would indicate a need for low seat-mile costs, but recent negative results indicate a breakdown in these

relationships. In the new Europe, all Iberia has to do is obtain and retain low-costs - among the lowest two of the Euro-flags - and then play the low fare-high volume traffic game.

In order to succeed, Iberia must also acquire a central European platform for growth. Finding a potential partner that shares Iberia's low cost-high volume strategy will be difficult. Central Europe does not produce low cost airlines or infrastructures.

Iberia could work with one or more of the large charter carriers. An independent German charter such as LTU could prove to be a viable low cost partner, especially since LTU's purchase of Thomas Cook. The key here would be to establish strong intra-European flows, enabling the charter carrier to operate narrow-body aircraft at high frequencies. The produce type should be single class, but with a less dense all-economy configuration than the traditional European charter carriers. TAP Air Portugal could become involved. A solid consistent strategy could give this entity up to 10 percent of the intra-European passenger market.

2.8.7 Swissair

At the opposite end of the brand/image spectrum, Swissair suffers from some familiar ailments, high costs, the highest average yield of the top nine Euro-majors, but one of the lowest load factors among the top 12 Euro-flag carriers and a 1990 passenger share of 6 percent. A small domestic market base, very high class costs, and strong unions are among the issues to be dealt with. There is also the question of

Zurich versus Geneva, although Swissair has decided on a hub at Zurich.

Swissair does not have a size or cost structure to play the fare game in order to attract incremental volume. The European quality alliance is designed to create a strong product alternative, alongside other with other carriers with the same needs and cost structures. The problem is that in the absence of strong fare regulation maintaining these high fares, the EQA in general, and Swissair in particular, are vulnerable to protracted attack by a low cost, high volume player.

Substantial future growth for Swissair seems difficult. Growing at Geneva would cannibalise much of Swissair's existing strength at Zurich.

Growth via alliance seems to be the correct strategy, since independent growth would not produce enough mass fast enough to place Swissair among the top five inter-European carriers.

The EQA's combination of hubs at Zurich, Copenhagen and Vienna seems to make the most sense from a network perspective. The addition of another carrier in the Benelux area would solidify the alliance. Having the highest intra-European yield, Luxair may make a good partner.

Swissair also must consider ways to reduce costs without affecting its brand perception.

Despite Alitalia's lower quality brand image, relatively high costs, and inefficiency, from both a carrier and infrastructural perspective, there are some upsides. Milan has strong growth potential if a good terminal were built. Turin also has potential. Rome is probably too far south to service as an adequate intra-European hub, but continues as an intercontinental traffic collection point. An intra-European passenger share of over 6 percent and a yield in the low 20s, coupled with a load factor in the 60s, would seem to present good raw material to work with. Because of its good market share and its location, Alitalia is attractive an alliance partner. British Airways, KLM or Aer Lingus would make possible partners on intra-European markets. The monopolistic domestic market presence held by Alitalia and ATI is also valuable.

Key issues to be resolved are labour problems, may be with a Fiat-style union agreement, relatively high infrastructure costs, and the need for new hub facilities at Milan and possibly Turin.

A strong partner is needed, with its current market profile, infrastructure problems and cost structure, Alitalia will have a hard time surviving alone in the new top five or six after European deregulation. As with France, strong government regulations can provide effective cover only in the short term.

(Airline Business September 1992).

2.9 HOW TO SURVIVE IN A DEREGULATED, PRIVATIZED MARKET

So what is it going to take to keep playing the airline game in a

deregulated privatized, Europe? Carriers aiming for independent growth need:

- (a) Annual capacity increases in 12 to 18 per cent during upturns and peaks, and 2 to 3 percent in troughs, within a high frequency, small-aircraft network.
- (b) Among the five lowest relative cost structures for average or better product brand carriers, or among the lowest one or two for those with lower perceived brands.
- (c) A disparate multi-hub route structure, with one hub strongly dominated and focused on intra-Europe.
- (d) To create and be among the first three to implement a bulk loyalty scheme (frequent flyer program) for intra-European travel.
- (e) To learn how to manage through the business cycle, and under deregulation; and
- (f) Aggressively to pursue charter carriers and leisure traffic directly or through a lower cost subsidiary.

At most, three or four European carriers can contemplate pursuing this line of attack. Once the market is mature - two cycles after deregulation - the combined market share of the top four carriers

should be around 62 per cent. An acquisition or commercial alliance between one of the top two with any other member of the top seven would provide a strong advantage.

2.9.1. Carriers playing the growth via alliance game must:

- (a) Avoid network overlap;
- (b) Jointly create a high frequency, small aircraft network within Europe;
- (c) Have a joint cost structure among the lowest eight for average or better product brand carriers, or among the lowest six for the poorer perceived brands;
- (d) Create a multi-hub network which is well distributed geographically, with one hub strongly dominated and focused on intra-Europe;
- (e) Match any move by the bigger carriers to create a bulk loyalty scheme;
- (f) Learn cyclical and deregulated management skills;
- (g) Aggressively pursue charter carriers and leisure traffic, either directly or through a lower cost subsidiary; and

- (h) Create a strong unified brand perception. Upscale brands will have to show a clear product benefit that would justify higher fares.

Carriers attempting to niche strategy will have to follow very well articulated branded and executed high/high or low/low end product plans. A market share of 5 percent per niche carrier would seem ambitious but achievable. A European version of Southwest Airlines would have a place in the top 20 to 30 European origin and destination markets.

If the EQA were to fall apart, SAS or Swissair could fit this niche strategy, although it would mean a drop in intra-European market share. Austrian is probably the only other carrier that could attempt a high/high niching strategy, but it would result in a maximum of 3 per cent market share.

The Eastern European carriers, including Aeroflot's successors, will probably be rolled into or aligned with one of the top five surviving European majors, Lufthansa, Air France, British Airways and others are already active in this area. There are several fertile future hub sites in central Europe, and low cost labour with two-tier wage schemes could help to reduce the costs of growth for the Euro-majors. Carriers from these areas will probably lose brand identity.

2.10 EVOLVING STRUCTURES

The survivors will evolve from type A government owned carriers to

type B with mixed ownership, or preferably type C privately owned carriers. In the United States, where three generic types emerged, those that moved fastest towards a more efficient and sophisticated structure survived and grew.

Between one and five years after Euro-deregulation, the number of European carriers and their composition will likely change fundamentally. Enhanced market power and share are keys, along with a very competitive cost structure. Being able to survive the inevitable fare wars that will accompany the first deregulated, privatized European recession - may be early next century - will be a critical test.

2.11 SURVIVAL INDEX

The Deregulated Market Survival Index is a tool to show which carriers have an advantage over their main competitors. It combines five key variables - fleet plans, market share, costs, positions in the brand/yield and yield, load factor charts - in a weighted fashion.

Assuming that the top eight intra-European carriers continue with the present policies, this model places them into three groups - those with a high medium and lower chance of survival. The result should not be taken as a concrete indicator of the future, but more as a guide to which carriers have which strengths and where the weaker carriers should concentrate their efforts, (Airline Business, September 1992).

Inevitably, size helps. British Airways has the most balanced mix

between market share costs, brand image and yield, but its relatively modest intra-European capacity growth plan is a weakness. (see Figure 2.4)

Other carriers have high costs or low market shares. High yields are counterbalanced by high costs at several carriers, leaving market share, brand strength and capacity growth as the only differentiators.

Very few carriers have created a well balanced approach to the fundamental relationships that would allow them to thrive.

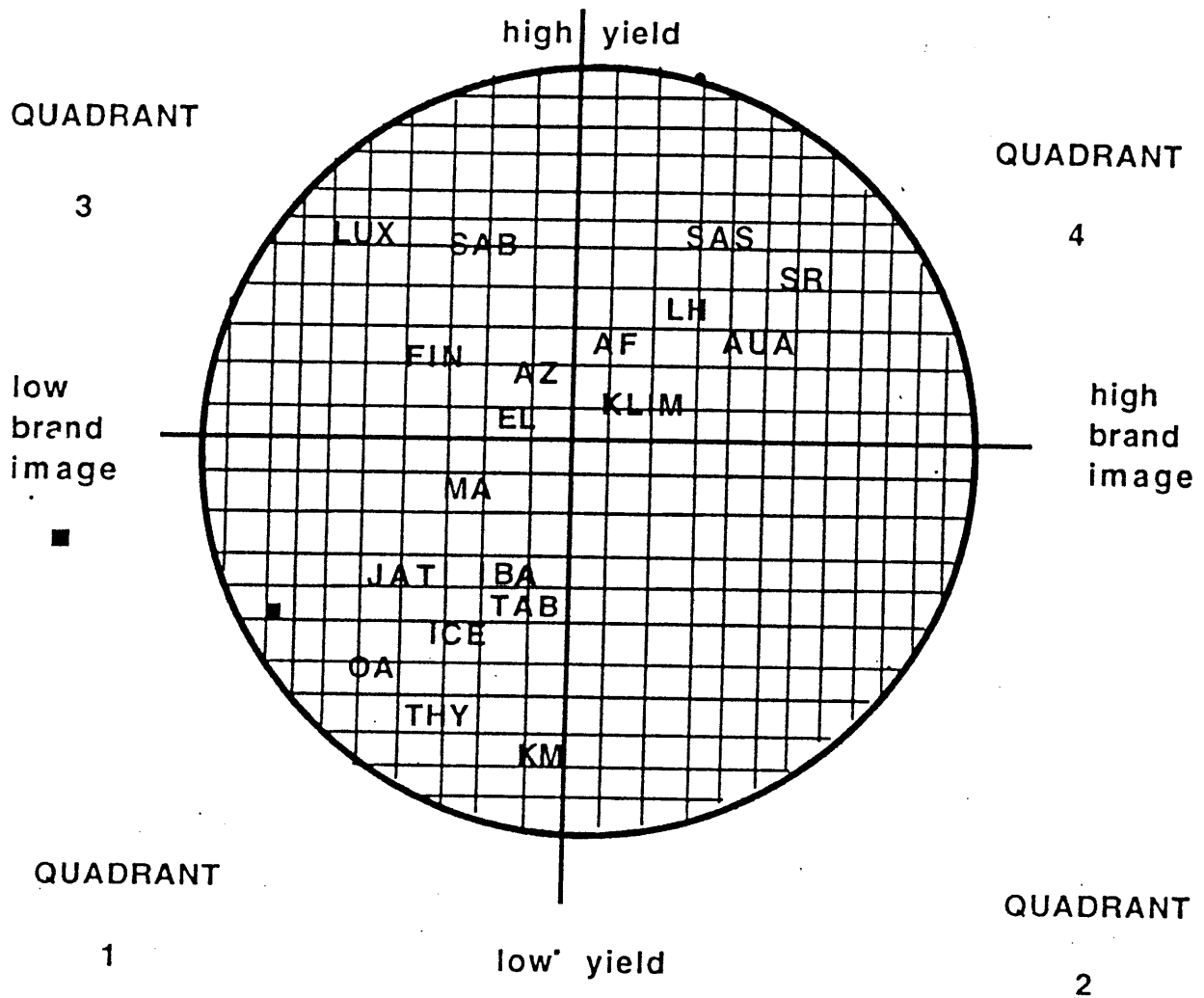
Many have achieved success through a strong showing in a couple of variables, but the way to survive is to be in the top five carriers for all the key indicators, and in the top three for at least a couple.

The key question is how carriers will go about redressing weaknesses, and how quickly they can succeed.

Whilst there will be fewer new entrants than immediately after United States deregulation, there will be several and a couple could survive for some time if they can maintain a distinct competitive advantage and unique selling propositions. As well as taking advantage of growth, these carriers will use low fares to steal market share from established carriers and ground transport modes.

Carriers using government regulation as a key weapon to their marketing arsenals will be easy prey when the regulatory blanket disappears.

Yield and brand image positioning



Normally a high brand image implies high yields, but there are exceptions. Brand image is by definition subjective, depending on the carrier's perceived quality, reliability and how well known it is.

FIGURE (2.4) SOURCE: AIRLINE BUSINESS, AUGUST 1992

High yield carriers must have a superior product and brand image, or their yields will quickly evaporate.

No European carrier has got it all right yet. Every one has an Achilles heel which in five years could cause it to be known as the Eastern or Pan American of Europe. Some of the larger carriers have the choice of growing independently or through alliances. Most of the smaller carriers have no option in a deregulated, privatized intra-European market - they must align themselves with others or perish.

2.12. THE FUTURE INTRA-EUROPEAN MARKET

European carriers have achieved a great deal by using the generally accepted tactics, such as trying to dominate domestic feed systems and buying up local and regional carriers; participating in a global CRS distribution channel; product enhancements, value-added features and brand building; trying to reduce costs (mostly with limited success); and seeking alliances to strengthen their global traffic feed links.

Even if all the Euro-majors rely more on intercontinental traffic than domestic, each of them must achieve some measure of success on intra-European routes, to give them cash flow, traffic flow and market presence and power.

By focusing in on the intra-European market, we can begin to see how the airline industry might develop in the 12 to 18 month period after real deregulation in Europe.

This year, which we will call 199X, will come when there are no more government-owned carriers; no government subsidies (direct or otherwise); and when carrier results are allowed to fluctuate freely between massive profit and bankruptcy. Full freedom for market access, capacity setting and pricing, as well as an uninhibited distribution system for all players, are the minimum requirements for free-market interaction. Real deregulation will have arrived when the first Euro-flat carrier is allowed to go bankrupt because of failure to perform in the market.

2.13 ASSUMPTIONS

We can assume that 1993 intra-European scheduled traffic volumes will be equal to the 1990 total of about 74.0 million passengers (see Figure 2.5). During the next 12 to 18 months, the splits between the Association of European Airlines (AEA) scheduled traffic, non-AEA scheduled, and charter traffic will deviate a little towards the scheduled services, due to the demise of some charter operations and marginal strengthening of the charter affiliates of AEA scheduled airlines.

As a benchmark, there is likely to be one low cost, low price, no frills new entrant in the 12 months after 199X; we can assume that this new entrant has 2 per cent of the scheduled market after two years in operation.

The top 21 Euro-flag carriers are assumed to be still alive at the start of Euro-deregulation. There will be only two longer term

Intra-European
Scheduled passengers
1990

		Passengers millions
Carrier		
1	British Airways	12.2
2	Lufthansa	9.5
3	Air France	7.7
4	SAS	7.3
5	Iberia	5.8
6	Swissair	5.1
7	Alitalia	5.1
8	KLM	3.5
9	Aer Lingus	3.2
10	Sabena	2.1
11	Austrian	2.0
12	Finnair	1.7
13	Olympic	1.6
14	TAP	1.6
15	Malev	1.3
16	JAT	1.3
17	THY	1.2
18	CSA	0.7
19	Air Malta	0.5
20	Luxair	0.4
21	Icelandair	0.2
Total		74.0

FIGURE (2.5)

SOURCE: AIRLINE BUSINESS, AUGUST 1992

strategies available to them, expand faster than the competition and remain as one of the big six Euro-megas; or evolve a very distinct and well protected niche market position that is too specialised to be worth pursuing for the big six. A maximum of two currently large carriers is likely to attempt this niche strategy.

A short-term protectionist blockade may be a suitable but time limited strategy in a deregulated European market place. Furthermore, despite attempts to the contrary. Europeans will not be successful in stopping what is today construed as intra-European fifth freedom carriage by US carriers and others. The market share of non-European carriers on intra-European sectors may amount to a maximum of 0.5 per cent.

We may assume that all Eastern European carriers will be folded into one of the top six survivors, or will have some substantive equity and/or commercial relationship with one of them.

We can see from the discussion in this chapter that the major European carriers in their home market are in the process of developing strategies to secure their market share within the European market, and that is when the single market is formed and the full deregulation is exercised. The only way to survive is by concentrating on the intra-European market through hubbing which can be adopted in two ways, i.e. to feed the inter-continental routes on the one hand, and the domestic routes on the other.

Hence, the non-European carriers such as the Gulf Air must find inter-

line partners for their European traffic as an initial strategy.

It is also anticipated that the current changes in the European airline industry will create new opportunities for alliances with the major European carriers, and offer important and unique advantages that extend well beyond the European market itself, i.e. to North America.

If we look at those European carriers here in the Gulf, we will find that they began to compete with the Gulf Air in its home market, and that is through increasing frequencies, good schedules and a choice of three classes apart from the good inflight service.

CHAPTER THREE

GULF AIR'S STRENGTHS/WEAKNESSES AND OPPORTUNITIES AND THREATS -

EMPIRICAL FINDINGS

This chapter presents the findings and discussion of the project. As has been stated in the introductory chapter, I have attempted to identify some strengths and weaknesses of Gulf Air as perceived by the passengers themselves. Secondly, the threats and opportunities of Gulf Air as realized by the Officials of Gulf Air, Civil Aviation, Travel Agents, Bahrain Airport Services and other related officials, are also presented.

Before I report the findings, it would be useful and desirable to present the composition of samples. Table 3.a, shows the breakdown of 200 passengers interviewed, while Table 3.b reveals respondents from Gulf Air, Travel Agents, Civil Aviation, Bahrain Airport Services and other organizations who have assessed Gulf Air's opportunities and threats.

3.1 GULF AIR'S STRENGTHS AND WEAKNESSES

The designed Questionnaire (Part One and Part Two), was in fact an attitude measurement instrument for the sake of convenience of analysis and presentation. I have assigned a scale of 5. 4. 3. 2. 1. to Excellent, Good, Average, Fair and Poor. According to this scale (quite similar to Lickert Scale), I have computed Average (x) score for each

TABLE 3.a

COMPOSITION OF SAMPLE

DATE OF INTERVIEW	FLIGHT NO.	FROM	TO	PLACE OF INTERVIEW	NO. OF PASSENGERS INTERVIEWED	TOTAL
20.4.93	GF 002	LON	AVH	ON BOARD	9	9
21.4.93	GF 002	LON	BAH	ARRIVAL HALL	7	7
22.4.93	GF 002	LON	BAH	ARRIVAL HALL	14	14
23.4.93	GF 008	LON	AVH	TRANSFER DESK	7	7
23.4.93	GF 002	LON	BAH	ARRIVAL HALL	13	13
23.4.93	GF 042	ATH	BAH	ARRIVAL HALL	5	5
23.4.93	GF 018	CDG	BAH	ARRIVAL HALL	10	10
24.4.93	GF 002	LON	AVH	ON BOARD	14	14
25.4.93	GF 002	LON	AVH/	ON BOARD	19	19
25.4.93	GF 018	CDG	BAH	ARRIVAL HALL	11	11
26.4.93	GF 002	LON	BAH	ARRIVAL HALL	13	13
26.4.93	GF 016	FRA	MCT	ON BOARD	12	12
27.4.93	GF 002	LON	AVH	ON BOARD	19	19
28.4.93	GF 007	MCT	LON	ON BOARD	16	16
29.4.93	GF 017	AVH	FRA	ON BOARD	11	11
30.4.93	GF 007	MCT	LON	ON BOARD	9	9
30.4.93	GF 019	MCT	CDG	ON BOARD	11	11

Source: Compiled by researcher, 1993.

200

TABLE 3.b

COMPOSITION OF RESPONDENTS

AREA	NUMBER OF QUESTIONNAIRES	
	DISTRIBUTED	RECEIVED
Civil Aviation Officials	20	10
Gulf Air Officials	80	50
Bahrain Airport Services Officials	5	3
Travel Agents BAH/AUH/DXB.MCT/DOH	65	37
TOTAL	170	100

Source: Compiled by researcher, 1993.

question and these are presented in the Summary Tables 3.1 and 3.2.

In order to interpret the findings, I realized that an arbitrary 'score' would be advantageous to describe their Major Strengths, Above Average Strengths and Weaknesses. Accordingly, I felt that an average score of 3.8 or above suggests a clear Major Strength, between 3 and 3.7 Above Average Strength, and less than >3 clear Weakness.

3.1a PRE-EMBARKATION SERVICES

Table 3.1 summarizes the findings related to the Pre-Embarkation services provided. A review of this Table reveals that Gulf Air has seven Major Strengths (No. 1-6) which include Courtesy/Efficiency of Reservation Staff in providing information desired (4.04), Courtesy of Ticketing Staff (3.a), Speed of Ticketing Staff in providing extended service (3.84), and Courtesy/Efficiency of Ground Handling Staff (3.84); their other Major Strengths are in handling of baggage, information and assistance given to the passengers as well as promptness in telephone answering by Reservations Staff, (See Table 3.1a).

In addition to the above, you can also see in Table 3.1 that Gulf Air's above-average performance is reflected in their other services offered, e.g., Visa Requirements, Hotel Bookings, etc; Efficiency/Coverage of Gulf Air's Supervision of Check-in Activities; intra-Gulf Schedules and Frequencies; Transfer Passenger Facilities, Information and Care during Delay, and Punctuality in terms of Departure, (See Table 3.1).

The one important weakness identified was the waiting time for check-in with an average score of (2.9). This also indicates that there is a need and scope for improvement in this aspect.

3.1b POST-EMBARKATION SERVICES

Table 3.2 presents summary findings of the respondents' attitude towards Gulf Air's services from the time of their check-in and boarding to their final destination.

The respective results can be viewed with pleasure in the sense that the passengers did not rank any of those services as a weakness. Moreover, out of 15 attributes, 10 were found to be ranked as major strengths with the average score between 4.19-3.8. These include services given by Cabin Staff, Attitude of Cabin Staff, Appearance of Check-in Staff, Attitude of Check-in Staff, Quality of food, Attention and amenities given to children, Audibility of cabin announcements, Quality of in-flight movie, and Availability of newspapers/magazines, (see Table 3.1b).

Other above average strengths of Gulf Air, as seen in Table 3.2, are: Comfort of seating, Orderliness of queue at check-in, Assistance of Ground Staff during delay, Quality of audio program and Attitude of Ground Staff during delay.

3.2. REASONS FOR CHOOSING GULF AIR

Table 3.2 shows the responses of the passengers as to why they travel with Gulf Air. Out of the total sample of 200 passengers, 193

TABLE 3.1a

Summary findings of strengths and weaknesses of Gulf Air's services from the point of passengers' initial contact with the Sales/Reservations Office to the time of entering the Departure/Transit Lounge at the Airport of embarkation.

Rank	Question	Average	N	Non-Response/ Non-Applicable	Strengths/ Weaknesses
1.	Courtesy/efficiency of Reservations Staff in providing information desired	4.04	138	62	
2.	Courtesy of Ticketing Staff	3.90	173	27	
3.	Fast/Speed of Ticketing Staff in providing extended service	3.84	154	46	
	Courtesy/efficiency of Ground Handling Staff	3.78	176	24	Major strengths
5.	Information and assistance given (directions to gate, lounge, assistance to mothers with children, incapacita- ted passengers etc.)				

Rank	Question	Average	N	Non-Response/ Non-Applicable	Strengths/ Weaknesses
6.	Promptness in answering telephone by Reservations Staff	3.75	155	45	Other strengths
7.	Other services requirements, hotel bookings, car rentals, special diet enquiries etc.)	3.74	117	83	
8.	Efficiency/coverage of Gulf Air's supervision of check-in activities	3.73	181	19	
9.	Intra-Gulf schedules and frequencies	3.49	138	62	
10.	Transfer passengers facilities	3.39	148	52	
11.	Information and care during delay	3.32	146	54	
12.	Punctuality in terms of departure	3.25	194	6	
13.	Waiting time for check-in	2.91	198	2	Weakness

Source: Compiled by the researcher in 1993

TABLE 3.1b

Summary findings of strengths and weaknesses of Gulf Air's services from the time of passengers' check-in and boarding the flight to their final destination.

Rank	Question	Average	N	Non-Response/ Non-Applicable	Strengths/ Weaknesses
1.	Service given by Cabin Staff	4.19	198	2	Major strengths
2.	Attitude of Cabin Staff	4.16	199	1	
3.	Appearance of Check-in Staff	4.03	196	4	
4.	Attitude of Check-in Staff	3.88	195	5	
5.	Efficiency of Check-in Staff	3.84	193	7	
6.	Quality of food	3.82	194	6	
	Attention and amenities given to children	3.82	100	100	
7.	Audibility of cabin announcements	3.78	178	24	
	Quality of in-flight movies	3.78	172	28	
8.	Availability of newspapers/magazines	3.77	178	22	

Rank	Question	Average	N	Non-Response/ Non-Applicable	Strengths/ Weaknesses
9.	Comfort of seating	3.65	199	1	
10.	Orderliness of queue at check-in	3.62	190	10	
11.	Assistance of Ground Staff during delay	3.54	127	73	Other Strengths
12.	Quality of audio program	3.48	174	26	
13.	Attitude of Ground Staff during delay	3.41	135	65	

Source: Compiled by the researcher in 1993

responded to this question (No. 16). An examination of Table 3.2 reveals that 59% of these passengers believe that Gulf Air has convenient schedules while about half of them (49%) reported that their reason for travelling with Gulf Air was its high quality of services. We can also see from the same table that the image and reputation (39%) as well as onward connections (35%) are considered to be strengths. Other factors of Gulf Air were considered favorably by passengers when they travel with Gulf Air. Only 18% of these passengers mentioned about ticket price which suggests that Gulf Air's price is perceived to be high by the travellers.

3.3 STRENGTHS AND WEAKNESSES OF GULF AIR AS VIEWED BY THE RESPONDENTS OF QUESTIONNAIRE - PART TWO;

The findings reported in Table 3.2 can also be used to interpret GulfAir's current 'positioning' as perceived by the passengers in the European sectors. We can see that the carrier is clearly positioned as having high quality service with convenient schedules and onward connections available at a high price. This means that the airline is operating in the high quality-high price segment.

In order to have further insights into Gulf Air's strengths and weaknesses, the respondents in Questionnaire, Part Two, were asked two open-ended questions (1 & 2) and were requested to mention some of the strengths and weaknesses of this carrier.

Table 3.3a and 3.3b present the summary of their responses.

Out of a sample of 100, 85 respondents expressed their views on Gulf Air's strengths. We can see in Table 3.3a that they believe the major strengths are its ownership and support by four Gulf states, established network in the region, and high quality of in-flight service. Dominant position in the Gulf market, as well as the possession of modern fleet, including new B-767s and A-320s, are perceived to be Gulf Air's additional strengths.

TABLE 3.2

n = 193

Reasons for flying Gulf Air	No.of scores	%
Image and Reputation	73	37.8
Convenient schedules	114	59.1
Onward connections	67	34.7
Ticket Price	35	18.1
Quality of Service	95	49.2

Source: Compiled by researcher, 1993.

TABLE 3.3a

n = 150

Outsiders view of Gulf Air's strengths	Score	%
Support of Four owner states	69	81
Net work in the Gulf Region	68	80
Modern fleet (B 767's, A 320's)	59	69
Dominations of the Gulf Market	61	72
High quality of in-flight service	68	80

Source: Compiled by researcher, 1993.

A review of Table 3.3b shows some interesting findings. The most important weaknesses reported by 63 respondents who expressed their opinion about Gulf Air's weaknesses, are its poor image in the Gulf area, followed by its high ticket price for intra-Gulf travel. Other reported weaknesses are less frequency to some Gulf destinations, denied boarding of passengers due to overbooking and lack of clear strategy.

TABLE 3.3b

n = 120

Outsiders view of Gulf Air's weaknesses	scorer	%
Poor image in Gulf Area	56	90
Lack of clear strategy	33	53
Denied boarding of passengers (policy over booking)	25	40
High ticket-price for intra-Gulf travel	55	88
Less frequency to some Gulf destinations	35	56

Source: Compiled by researcher, 1993

TABLE 3.4

Summary findings of Gulf Air's Opportunities and Threats.

Rank	Question	Average	N	Non-Response/ Non-Applicable	Opportunities and Threats
1.	Possibility of arranging a partner for intra-Europe travel, (joint- venture or alliance)	4.58	97	3	Major Opportunity
2.	Gulf Air joint- venture with A.A. on transatlantic traffic	4.54	92	8	
3.	Possibility of forming joint- venture with a European partner	4.52	100	-	
4.	Tourism opportunity in the Gulf Region (package travel)	4.48	99	1	
5.	Owner States' support	4.29	95	5	
6.	Image as Gulf National Carrier	4.12	99	1	
7.	Technological development (new bigger fuel efficient aircraft, etc, individual video etc.)	3.84	94	6	
8.	Business prospects between East European countries and Gulf States	3.78	92	8	

Rank	Question	Average	N	Non-Response/ Non-Applicable	Opportunities and Threats
9.	Tourism potential in East Europe	3.64	91	9	Other Opportunity
10.	Growth through alliance and mergers	3.44	97	3	
11.	Newly independent East European States opening up for free market economies	3.12	94	6	
12.	Land travel via Causeway (car/bus etc.)	3.00	88	12	
13.	Open Sky policy	2.96	95	5	Other Threats
14.	Deregulation in E.E.C.	2.63	97	3	
15.	Privatization in E.E.C.	2.55	95	5	
16.	Present world economic situation	2.20	91	9	
17.	Low growth in world airline industry	2.17	94	6	
18.	Threat of new entrant	2.15	91	9	
19.	Recently intro- duced Air France's "Euro-Flyer Pass" for travel from Gulf to Europe.	2.09	97	3	

Rank	Question	Average	N	Non-Response/ Non-Applicable	Opportunities and Threats
20.	East European carriers operating in the Gulf	1.99	98	2	Major Threats
21.	Many international carriers forming alliance (BA+US Air) and joint-venture with Eastern carriers (AF+CSO), (KLM+SAS+SWISSAIR)	1.76	97	3	
22.	Emirate Airline's presence in the Gulf market	1.67	97	3	

Source: Compiled by the researcher in 1993

3.4 GULF AIR'S CURRENT OPPORTUNITIES AND THREATS

In this section I would like to report the findings from Questionnaire, Part Two, which was designed primarily to identify Gulf Air's opportunities and challenges with special reference to the changing European markets. Table 3.4 presents the summary findings.

As I stated previously, an average score of >3.8 in my view represents major opportunities, while a mean score of <2 is a major threat, and the score between 3.7 - 3 and 3 - 2 are other opportunities and other threats respectively.

A review of Table 3.4, shows that Gulf Air may consider a number of major opportunities which include the possibility of finding a partner for intra-Europe travel; Gulf Air's joint agreement with A.A. (American Airlines) on trans-Atlantic traffic, possibly forming a joint venture/alliance with a European partner; exploring the possibility of developing a tourism travel company in the Gulf and support of our owner States, and technological developments and business prospects between East European countries and the the Gulf States. Although this group of respondents suggest Gulf Air's image is a major opportunity, I remember that the passengers actually did not consider it a major strength/factor.

On the other hand, according to this group of sample, the major challenges Gulf Air is faced with is the recent deregulation in the G.C.C. and the approval of traffic rights to the Emirates to most of the regional destinations.

This means that Gulf Air was to compete directly with another reported Arab Airlines both in the regional and international destinations.

Secondly, the trend among international carriers to merge or make alliance is another reported major threat. In recent months British Airways has merged or taken equity interests in US Air and Qantas.

In addition, KLM, Swissair, Austrian Airlines and SAS, have also agreed to merge their airlines to consolidate their operations.

This growing trend indicates that the industry is rapidly consolidating, and it will be very difficult for smaller airlines, e.g. Gulf Air, to compete with those large carriers.

The third major threat, according to the respondents, is the emergence of many European carriers to and from the Gulf destinations. Most of these carriers including Balkan, Aeroflot Tarom, CSO etc., offer substantially reduced fares, and they, are targeting the price-sensitive segment of the market. As I can see in Table 3.3, there are other threats that Gulf Air has to consider. Those are present economic situation and generally low growth in world airline industry, deregulation and privatization in the European Economic Community (E.E.C.) as well as threat of new entrants.

3.5 CURRENT COMPETITIVE SITUATION

The respondents were requested to identify Gulf Air's five major competitors as well as the basis on which they compete with Gulf

Air. Table 3.5 summarizes their responses. The majority of respondents believe that British Airways is the major competitor to Gulf Air in quality of reputation, convenient schedules and availability of onward connections. Second important rival is KLM and they compete with Gulf Air through availability of onward connections, ticket price, convenient schedules and image.

Emirate Airlines is adopting a slow-penetration strategy in competing with Gulf Air using low price and high quality of service. In this context, Philip Kotler stated that "slow- penetration strategy consists of launching the new product at a low price and low level of promotion. The low price will encourage rapid product acceptance, and the company keeps its promotion costs down in order to realize more profit. The company believes that market demand is highly priced elastic but minimal promotion elastic. This strategy makes sense when, (1) the market is large; (2) the market is highly aware of the product; (3) the market is price-sensitive; and (4) there is some potential competition. This is what Emirates is adopting with one difference, that is although it is penetrating the market with a low ticket price, it is spending a lot of money on promoting a service," (Philip Kotler, 1988).

Luthansa competes on ticket price and onward connections, while Air France competes in reputation and price. The East European carriers' only weapon for competition is price.

TABLE 3.5

BASES OF COMPETITION IN THE EUROPEAN ROUTES

COMPETITIVE EDGE	*BA	KL	LH	AF	EK	EAST EUROPEANS
Onward Connections	55	50	38	-	-	-
Convenient Schedules	60	43	-	-	-	-
Innovative and Quality of Service	70	-	-	-	30	-
Image and Reputation	62	41	-	31	25	-
Ticket Price		48	41	37	45	55

*BA = British Airways

KL = KLM

LH = Lufthansa

AF = Air France

EF = Emirates

Source: Compiled by the researcher, 1993.

3.6 MARKET SHARE OF COMPETING AIRLINES

In order to have further insights into the competitive position of competing airlines, we endeavored to analyze their market share based on appropriate figures collected from various sources, such as the airline offices and Civil Aviation Authorities in the Gulf area. The Pie Chart in Figure 3.1 is prepared based on the total figure of passengers carried by the airlines in the European sector in 1992.

Gulf Air is the leading carrier with 36% market share, followed by the nearest rival Emirates having almost one-fourth of the market. The other major carriers having significant market share are British Airways (14.7%), KLM (12.4%) and Lufthansa (10.2%). Eastern European carriers have about 2% of the market but this is likely to increase as they are targeted as the price-sensitive segment, and several new carriers are coming to serve destinations in the region.

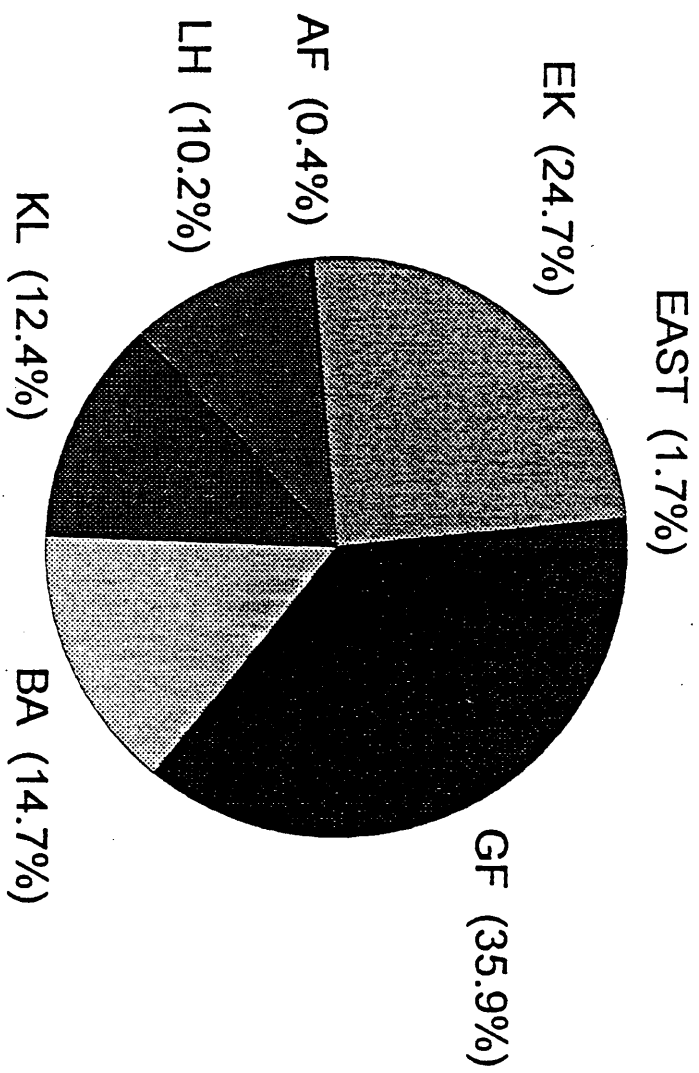


Figure : 3.1 Market share Analysis of the carriers operating on the European Sector, 1992.

Source : Compiled by the researcher in 1993.

CHAPTER FOUR

CONCLUSIONS AND RECOMMENDATIONS

In the preceding chapters I have highlighted the nature and direction of changes in the airline industry and the major issues and challenges facing the Gulf Air. The internal changes related to such trends as liberalization, deregulation, privatization, the increased use of automation and the availability of advanced-technology airplanes. The external changes relate to economic, financial and political policies, as well as the changing nature of demand for air transportation services. One other external trend that is affecting the airline industry is the "internationalization" of world aviation.

Changes in one region are now having an impact on other regions much more quickly, as exemplified by the spread of regulatory liberalization and privatization across continents. And it is this internationalization process that is forcing nations and airlines in all regions of the world to rethink their aviation policies and to review the structure and performance of airlines in response to the changing environment, (Taneja, 1988; Doganis, 1991).

Gulf Air has improved its performance as is indicated by its 1993 first quarter (January-March) profit of BD 3m. Company revenues during this period was BD 79m compared with BD 68.6m earned during the first three months of 1992. In addition, the total earnings in 1992 had increased by BD 41m to BD 350m from BD 309 in 1991 which represents a growth of 12.3%, (Akhbar Al Khaleej, May 15, 1993).

While the airline industry is suffering from recession and many airlines report a stagnant or declining performance in recent years, the Gulf Air's performance appears better. Nevertheless, there should not be any complacency for the Gulf Air. The competition in the region as well as in the European market is becoming fierce. In addition to West European carriers, namely BA, KLM, Lufthansa, Air France, in recent years many East European carriers have started their operations to and from the Gulf. These carriers include Balman, Tarom, Aeroflot, CSA and LOT among others.

Moreover, in their efforts to promote unity and cooperation among themselves, the GCC member states have considered unified measures in the airline industry. These include deregulating this industry and declaring an "open skies" within the Gulf states. Deregulation means removing all traffic rights restrictions and permitting these airlines to operate freely between the GCC countries. There are four airlines in the Gulf today. These are Gulf Air, Saudia, Kuwait Airways and the Emirates.

What is evident is that in this rapidly changing world of airline business, Gulf Air need to continuously monitor the situation and assess its implication for their strategy formulation.

Table 4.1 - A SUMMARY OF SWOT OF GULF AIR

Strengths	Weaknesses
1. Ownership by 4 GCC States 2. Modern fleet 3. Attitude and appearance of Cabin crew 4. Attitude and efficiency of check-in staff 5. Quality of food and other inflight services 6. Strong network in Gulf area	1. Attitude and assistance of ground staff during delay 2. Quality of audio program 3. Orderliness of queue at check-in 4. Comfort of seating 5. Availability of newspapers/ magazines 6. High fares in Gulf area 7. Poor image in the Gulf

Opportunities	Threats
1. Joint venture or alliance with a European carrier 2. Tourism opportunity in the Gulf region (package travel) 3. Owner states support 4. Image as Gulf National Carrier 5. Promoting Gulf as a stopover en route Far East, Asia/Australia	1. Emirate Airline's presence in the Gulf market 2. Many international airlines forming alliance (BA+US Air), (AF+CSA), (KLM+SAS+Swissair+ Austrian) and the industry is consolidating 3. East European carriers Operating in the Gulf 4. Socio-Political situation among owner states in the Gulf 5. Deregulation in EEC and the GCC

Source : Compiled by the Researcher based on the findings of the study, 1993

Table 4.1 is a summary of the Gulf Air's SWOT which has been elaborated in Chapter 3. Obviously, Gulf Air should continuously look for new opportunities that they can seize based on their current strengths. Gulf Air should also try to overcome some of its weaknesses as well as

defend its current position emphasizing its unique advantages and its resources. Following the detail review of its strengths, weaknesses, as well as opportunities and threats, this study has come up with some of the recommended alternative courses of action for Gulf Air's consideration. These are as follows:

1. FORMULATING A EUROPEAN STRATEGY THROUGH AN ALLIANCE/JOINT VENTURE

As Europe enters into the third and most volatile phase of its deregulation, there is an irresistible fascination with the tactical and strategic manoeuvring of the European carriers. The resulting changes in the roles of individual European carriers and gateways is difficult to predict. Without denying the importance of those issues to the non-European carriers, there are a few essential changes which can be predicted at this point, and which are sufficient to begin the development of a European strategy, (Airline Business, May 1993).

In anticipating those changes, it is sensible to look to the experience of the North American industry, where liberalized competition produced a near-total restructuring of the industry, service patterns, and even goals and objectives of the surviving carriers. Much of what we have learned - by trial and error - about the nature of airline economies and competitive strategy in North American will apply in Europe and elsewhere.

Knowing only this about the changes emanating from Europe, what are the appropriate changes in strategy for non-European carriers such as Gulf Air? The most practical approach to re-examining an airline's options involves a systematic review of its distinct submarkets and its realistic objectives

in each of those markets. That sets the stage for a systematic evaluation of new strategies for achieving those objectives.

Most international carriers participate in three distinct arenas - domestic, European, and other international markets. It is important to keep the European market in perspective - for most major non-European international carriers, "other international markets" are significantly more important in terms of capacity and revenues.

Regarding the European market, it will be necessary to develop a clearer understanding of the true origins/destinations of European traffic. For example, about one-fifth of the Trans-Atlantic traffic passes beyond the European gateway, (See Figure 4.1), and a significant part of that could be re-routed in response to changes in the European carriers' service networks.

(a) In view of a rapidly consolidating European market there is a need to find a partner in Europe. This is because the European market is extremely important as a major international market in its own right.

(b) Therefore, any small/medium sized carrier can possibly operate as feeders to and from the Gulf Air's European destinations. Recently KLM, SAS, Swissair and Austrian airlines have merged their operations. Therefore, possibly Sabena, Air France, Iberia and Alitalia are some of the companies they may consider for a possible operational alliance.

(c) Many major European carriers are investing in the small-size aircraft

with high frequency service to carry load on domestic routes to feed intercontinental destinations.

(d) For those carriers, such as Gulf Air, the practical objectives in seeking alliances are:

- i. Managing market entry/capacity - the single most important long-term determinant of airline profitability, and the major problem facing the industry worldwide.
- ii. Maximizing market share through strong promotional campaign concentrating on the excellent inflight service as perceived by many European travellers on Gulf Air. This was the result found from the
- iii. Increasing cost-effectiveness of service - provide a higher level of service at the same (or lower) unit cost. This can be achieved through self-handling and catering service as in London Airport.

Now the practical strategies and tactics for pursuing these objectives in each market segment will clearly be different. Setting aside considerations of domestic markets, the international strategies of the non-European carriers should be focused on: (1) maximizing the protection available to "flag carriers," while (2) developing opportunities for strategic cooperation among those carriers within the European market.

(Maximizing protection for flag carriers is a time-honored art in international aviation. As in the case of Gulf Air, it involves bilateral regulation of markets, ground handling, airport access, and just about any other competitive advantage that any national carrier can extract from its

government to use as a bargaining power. Innovations in this area are unlikely, although pan-regional organizations like the potentially revitalized Arab Civil Aviation Council are under consideration to counteract the greater bargaining power of the EC and US).

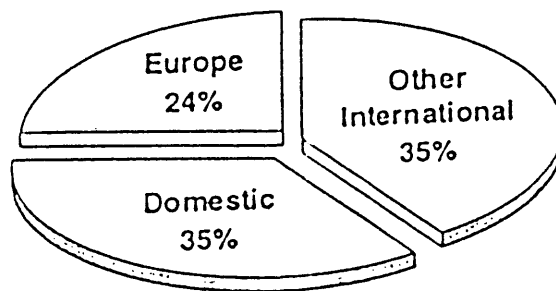
The other alternative is that, Gulf Air may consider to maintain its market share in the European market which will be less cost financially, and this can be achieved in phases. Firstly, to go into an interline agreement with another European carrier, followed by code sharing and/or alliance, and finally the equity partnership if the other three steps prove to be successful.

In this way, Gulf Air will have the time to evaluate the process of each of the above steps rather than going straight into equity partnership. Gulf Air should also consider the North American market through formation of an alliance with a US mega carrier as in the case of the recent EK/UA agreement.

This kind of move will raise the image of Gulf Air as an Arab major carrier, and also a well-known airline in both regions - the Gulf and Europe - for its high quality of service.

An industry analyst commented on the EK/UA marketing alliance as follows: "This alliance is definitely an important happening and will augur well for the air travel industry in the region," (Gulf News, Sunday October 10, 1993.

RELATIVE IMPORTANCE OF MARKET REGIONS



Nearly One in Five North Atlantic Passengers Travels Beyond the Gateway

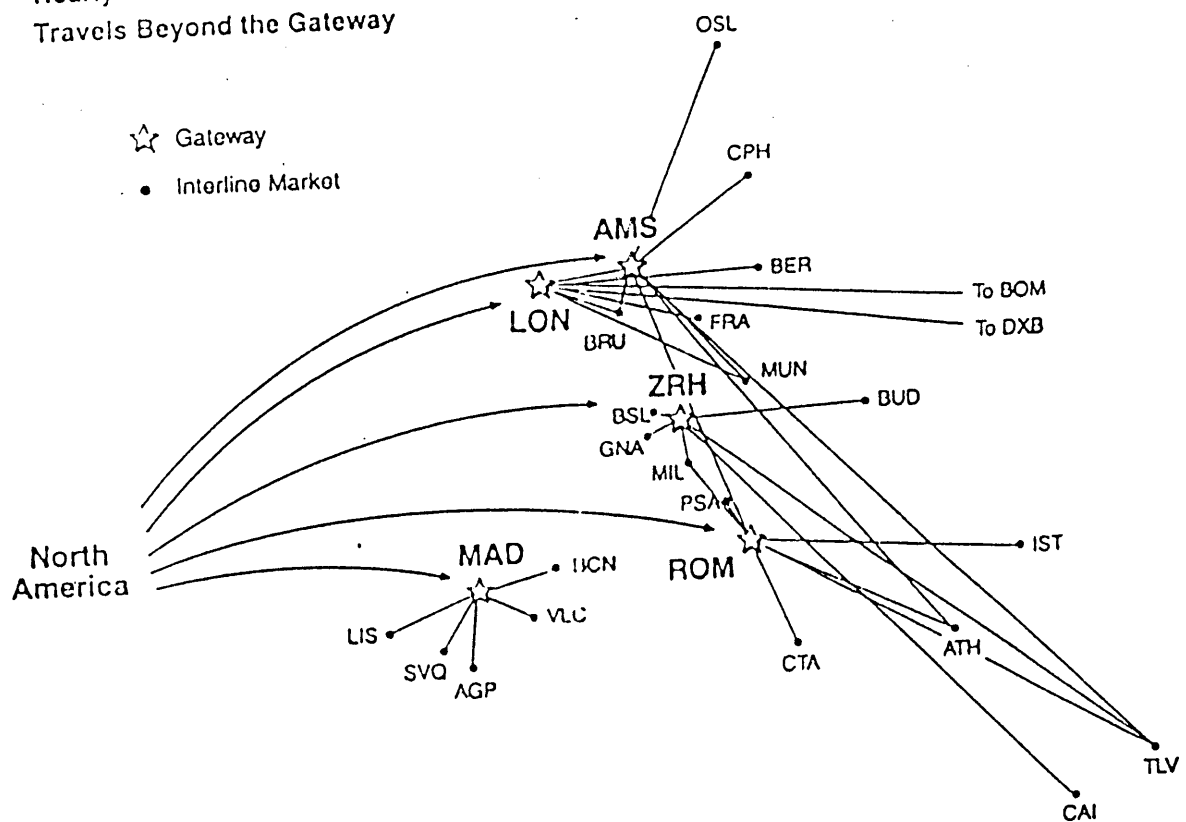


Figure (4.1)
Source: SH & E, Boston 1993

2. TOURISM DEVELOPMENT THROUGH CHARTER SERVICE

Capitalizing on their reputation and good service, Gulf Air may extend its business into tourism in the Gulf region. A new subsidiary may be established and the L1011 aircraft which the company intend to phase out, can be used for this purpose. This new business will generate more revenue and utilize assets at a low cost.

Gulf Air, as one of the largest Arab carriers in terms of its fleet and network, could be as successful as British Airways which has similar charter service - "Caledonian."

A good example of the potential market for tourism in the Gulf region when thousands of people travel during the summer holiday to new destinations in west and east Europe, Asia and also Africa, are those destinations that are not served by Gulf Air's schedule flights which will not affect the revenue from those routes.

3. PROMOTIONAL CAMPAIGN

Although Gulf Air is currently the leading carrier in the region, they should strengthen their promotional efforts. They could emphasize their advantages and strengths in order to have a desired positioning. It need to be mentioned that the emerging main rival Emirates is pretty aggressive in its marketing efforts including promotion, e.g. BBC, CNN and regional television stations.

4. SALES PROMOTION

Although Gulf Air is currently positioned as a high quality and high price

service from time to time, specially during the winter, they can stimulate the market by offering special fares on certain routes such as Jeddah for Omrah. Such an offer may attract new customers who may become loyal in future.

5. INVESTING IN OTHER CARRIERS

In certain areas of the world the airline market is experiencing high growth rate; for example, the South East Asian region. As they have done in the case of Jet Airways in India, if there is any other opportunity for equity participation in any suitable carrier from the region, e.g. East Africa/Tanzania, Gulf Air should actively explore such a possibility to strengthen the market.

6. DIVERSIFICATION

Since Gulf Air is already diversified having interests in Gulf Hotels, Bahrain Airport Services (BAS), Gulf Helicopters and GAMCO, the carrier should continue to follow this policy of core-related diversification. More hotels and tour operator companies, rent-a-car services, may be considered by Gulf Air for diversification not only in the Gulf but also in other places - Europe, South East Asia, for example.

7. EASTERN EUROPEAN MARKET

The Eastern European countries are presently going through a major transition period, and there are socio-political as well as economic instability. Right now, the situation is not suitable for Gulf Air to enter these markets. However, once the Eastern European countries become stable, private enterprise and free market are likely to emerge. With such expected gradual development, opportunity for airlines may be there

in future. However, such developments should be regularly monitored by Gulf Air so that they can make the move to enter this market at the right time in future.

8. IMPROVING INTER-GULF TRAVEL

The Gulf market is the home base for Gulf Air. It is considered to be the cash cow in terms of revenue. But the fares are perceived to be highly priced and, on most routes, the carrier lacks frequencies. To deal with such a situation, some measures can be taken to achieve customer satisfaction and loyalty. These are:

- i. increase in frequencies to destinations like DXB, DOH, AUH and MCT, preferably direct to DXB and MCT; this will help businessmen to achieve their objectives;
- ii. use small size aircraft, i.e. B-737 or DC-9;
- iii. lower the fares based on return with a minimum of one day, especially on week-ends;
- iv. establish a system whereby a passenger can pay at the check-in counter and board straight away with no previous booking.

It is important to remember that the Gulf market, if developed properly and capitalized efficiently, Gulf Air will be the dominator despite the new entrants.

9. COMPETITIVE EDGE OF LOW COST

Gulf Air's strength can be perceived in its national labor force, that is, in terms of technical crew, engineers and its management team. The experience and the lengthy period in the airline industry has given the

company a strong base to operate from. It is strongly recommended that the Gulf Air continue with this policy which will, in the long run, qualify for competing in any market on the basis of low costs and a high quality of service.

10. **PRIVATIZATION**

Privatizing some of the shares of Gulf Air in the future will help the airline to achieve the following:

- i. Raise funds to allow for further expansion.
- ii. Gain business professional management on the Board of Directors.
- iii. Airline becomes more competitive and more efficient.
- iv. Reduce government dominance.

11. **BILATERALS**

Gulf Air must consider the change of bilateral systems taking place in Europe fairly seriously as it will, in the future, affect its market position. This situation can be approached from two angles:

- i. Negotiations should be in the form of block which is GCC countries represented in the GCC carriers. This will balance the power of E.C. required at the Gulf region, or,
- ii. Negotiations should be at an Arab carriers level considering the Middle East as a block.

The above two approaches will help to level out the bilateral arrangements as individual airlines cannot fight on their own.

Although I have mentioned a few suggestions above, it should be emphasized that strategy formulation cannot/should not be done haphazardly or on an ad hoc basis. It should clearly emerge from the company's corporate plan/strategic plan which delineates its business mission, objectives and strategies. Therefore, whatever strategy the company can contemplate should obviously be embodied in its business mission. In addition, before a strategic course of action is adopted, whether it fits in or matches with the company's corporate competence need to be carefully assessed, taking into consideration its feasibility and viability, compatibility with company culture, values and expectations of top management, as well as resource requirements among others.

Although Gulf Air has been showing better performance in recent years, they are faced with many challenges in the 1990s and beyond. Their continued success and growth will depend, to a large extent, on the top management's vision and ability to transform Gulf Air into a truly customer-oriented carrier.

It is important, however, that the corporate thinking of Gulf Air has to become more strategic in nature whereby the company does not only react to the volatility and pressure of the market, but also anticipate and extrapolate strategic changes through proactive mechanism which become a way of corporate life. I recall here the statement made by the President and Chief Executive of Gulf Air to the Press with regard to strategic plans of the company when he said:

- (a) "Transfer of know-how on modern aviation industry to the Gulf region.

- (b) "Achieve a total integration among staff to get the best results and transfer the end product to the people.
- (c) Improve the standard of inflight and ground services and achieve a high standard of reliability to a level that passengers would find it difficult to opt for other airlines.
- (d) Minimize costs and increase staff productivity. Create an atmosphere where the management and staff exchange views regularly and accept criticism from the public as a means to improve services.
- (e) Expand services worldwide and maintain its track record as an airline that cares for its passengers even during times of crisis."

At the end of this analysis, I would like to stress that the corporate survival of Gulf Air will hinge on its ability to compete with those leading airlines such as BA, KLM, LH, AF and Emirates, whether in the Gulf area or in the European market, and monitor their movements closely to be able to react in time.

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QUESTIONNAIRE - PART ONE

(Please complete without prejudice)

We would like to know your opinion about the pre-flight aspects of Gulf Air services from the point of your initial contact with the Sales/Reservations Office to the time of entering the Departure/Transit Lounge at the Airport of embarkation. Please tick (✓) what you think is applicable.

	<u>Excellent</u>	<u>Good</u>	<u>Average</u>	<u>Fair</u>	<u>Poor</u>
1. Promptness in telephone answering by Reservations Staff	☐	☐	☐	☐	☐
2. Courtesy/efficiency of Reservations Staff in providing information desired	☐	☐	☐	☐	☐
3. Other services offered (visa requirements, hotel bookings, car rentals special diet enquiries etc...)	☐	☐	☐	☐	☐
4. Ease/Speed of Ticketing Staff in providing extended service	☐	☐	☐	☐	☐
5. Courtesy of ticketing staff	☐	☐	☐	☐	☐

		<u>Excellent</u>	<u>Good</u>	<u>Average</u>	<u>Fair</u>	<u>Poor</u>
6.	Courtesy-efficiency of ground handling staff	☐	☐	☐	☐	☐
7.	Efficiency/coverage of Gulf Air's supervision of check-in-activities	☐	☐	☐	☐	☐
8.	Waiting time for check in	☐	☐	☐	☐	☐
9.	Handling of baggage	☐	☐	☐	☐	☐
10.	Information and assistance given (directions to gate, lounge, assistance to mothers with children, incapacit- ated passengers etc.)	☐	☐	☐	☐	☐
11.	Information and care during delay	☐	☐	☐	☐	☐
12.	Punctuality in terms of departure	☐	☐	☐	☐	☐
13.	Transfer passengers facilities	☐	☐	☐	☐	☐
14.	Intra-Gulf schedules and frequencies	☐	☐	☐	☐	☐

We would like to know your opinion on Gulf Air service aspects from the time you check-in and board the flight to your final destination.

Please tick () what you think is applicable:

		<u>Excellent</u>	<u>Average</u>	<u>Good</u>	<u>Fair</u>	<u>Poor</u>
1.	Orderliness of queue at check-in	☐	☐	☐	☐	☐
2.	Efficiency of check-in staff	☐	☐	☐	☐	☐
3.	Attitude of check-in staff	☐	☐	☐	☐	☐
4	Appearance of check-in staff	☐	☐	☐	☐	☐
5.	Attitude of ground staff during delay	☐	☐	☐	☐	☐
6.	Assistance of ground staff during delay	☐	☐	☐	☐	☐
7.	Attitude of cabin staff	☐	☐	☐	☐	☐
8.	Service given by cabin staff	☐	☐	☐	☐	☐
9.	Audibility of cabin announcements	☐	☐	☐	☐	☐
10.	Availability of newspapers/magazines	☐	☐	☐	☐	☐

Excellent Average Good Fair Poor

- | | | | | | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 11. Quality of in-flight movie | ☐ | ☐ | ☐ | ☐ | ☐ |
| 12. Quality of audio program | ☐ | ☐ | ☐ | ☐ | ☐ |
| 13. Quality of food | ☐ | ☐ | ☐ | ☐ | ☐ |
| 14. Comfort of seating | ☐ | ☐ | ☐ | ☐ | ☐ |
| 15. Attention and amenities given to children | ☐ | ☐ | ☐ | ☐ | ☐ |

16. Did you choose to fly Gulf Air because of its:

Image & Reputation	Convenient Schedules	Onward Connection	Ticket Price	Quality of Service
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Please tick () one box or more as appropriate.

☐	☐	☐	☐	☐
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Any other reasons?

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Thank you very much for your cooperation.

QUESTIONNAIRE - PART TWO

(Please complete without prejudice)

1. What in your opinion are some of the strengths of Gulf Air?

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2. What in your opinion are some of the weaknesses of Gulf Air?

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3. Please mention those airlines which are competing with Gulf Air
on the European routes.

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4. Based on your answer to question (3), please give your opinion as to how does each of those airlines compete with Gulf Air.

Please tick () one or more boxes as appropriate.

Innovative & Quality of Service	Ticket Price	Onward Connections	Convenient Schedules	Image & Reputation
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.....	☐	☐	☐	☐	☐
.....	☐	☐	☐	☐	☐
.....	☐	☐	☐	☐	☐
.....	☐	☐	☐	☐	☐
.....	☐	☐	☐	☐	☐

5. What is your opinion about the environmental changes (economic or political) in Europe and their impact on Gulf Air? Please tick () only one answer in the following:

Major Opportunity	Minor Opportunity	Neither Opportunity nor Threat	Minor Threat	Major Threat
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- | | | | | | |
|-------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| a) Deregulation
in E.E.C. | ☐ | ☐ | ☐ | ☐ | ☐ |
| b) Privatization
in E.E.C. | ☐ | ☐ | ☐ | ☐ | ☐ |

	Major Opportunity	Minor Opportunity	Neither Opportunity nor Threat	Minor Threat	Major Threat
c) East European carriers operating in the Gulf	☐	☐	☐	☐	☐
d) Newly independent East European States opening up for free market economies	☐	☐	☐	☐	☐
e) Many international carriers forming alliance (BA+US Air) and joint venture with Eastern carriers (AF+CSO), (KLM+SAS+SWISSAIR)	☐	☐	☐	☐	☐
f) Recently introduced Air France's "Euro-Flyer Pass" for travel from Gulf to Europe	☐	☐	☐	☐	☐
g) Possibility of forming joint venture with a European partner	☐	☐	☐	☐	☐
h) Open Sky policy	☐	☐	☐	☐	☐
i) Present world economic situation	☐	☐	☐	☐	☐

Major Opportunity	Minor Opportunity	Neither Opportunity nor Threat	Minor Threat	Major Threat
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|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| j) Technological development
(new bigger fuel efficient aircraft, etc, individual video etc.) | ☐ | ☐ | ☐ | ☐ | ☐ |
| k) Threat of new entrant | ☐ | ☐ | ☐ | ☐ | ☐ |
| l) Image as Gulf National Carrier | ☐ | ☐ | ☐ | ☐ | ☐ |
| m) Low growth in world airline industry | ☐ | ☐ | ☐ | ☐ | ☐ |
| n) Tourism opportunity in the Gulf region (package travel) | ☐ | ☐ | ☐ | ☐ | ☐ |
| o) Possibility of arranging a partner for intra-Europe travel, (joint-venture or alliance) | ☐ | ☐ | ☐ | ☐ | ☐ |
| p) Gulf Air joint-venture with A.A. on transatlantic traffic | ☐ | ☐ | ☐ | ☐ | ☐ |

Major Opportunity	Minor Opportunity	Neither Opportunity nor Threat	Minor Threat	Major Threat
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|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| q) Owner States' support | ☐ | ☐ | ☐ | ☐ | ☐ |
| r) Growth through alliance and mergers | ☐ | ☐ | ☐ | ☐ | ☐ |
| s) Tourism potential in East Europe | ☐ | ☐ | ☐ | ☐ | ☐ |
| t) Emirate Airline's presence in the Gulf market | ☐ | ☐ | ☐ | ☐ | ☐ |
| u) Land travel via Causeway (car/bus etc.) | ☐ | ☐ | ☐ | ☐ | ☐ |
| v) Business prospects between East European countries and Gulf States | ☐ | ☐ | ☐ | ☐ | ☐ |

6. Would you please mention any other specific challenges facing Gulf Air in the European destinations?

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7. Would you please mention any other specific opportunities that Gulf Air has in the European markets?

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8. Would you please give any specific suggestions for Gulf Air to improve its position in the European markets?

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9. Do you think that the East European markets are attractive for Gulf Air?

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Thank you very much for your co-operation.