Name: **Enrolment No:**	UPES UNIVERSITY WITH A PURPOSE

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
Online End Semester Examination, May/June 2021

Course: Marketing Management	**Semester: II**
Program: BBA (AVM)	**Time 03 hrs.**
Course Code: MKTG2001	**Marks: 100**

SECTION A
(30 marks)

1. There are SIX MCQs in this section. All are compulsory.
2. Instruction: Choose the correct answer.

Q.No	Question	Marks	CO
1	Four competing philosophies strongly influence the role of marketing and marketing activities with an organization. Which of the following is not a component of market orientation? a. Customer orientation b. Profitability orientation c. Marketing orientation d. Competitor orientation	5	1
2	Customer's evaluation of the difference between all the benefits and all the costs of a marketing offer relative to those of competing offers refers to which of the following options? a. Customer perceived value b. Marketing myopia c. Customer relationship management d. Customer satisfaction	5	2
3	__________ Marketing has the aim of building mutually satisfying long-term relations with key parties such as customers, suppliers, distributors, and other marketing partners to earn and retain their business. a. Holistic b. Demand-based c. Direct d. Relationship	5	3

4	Marketing is defined by the American Marketing Association as the activity, set of institutions, and processes for ______, ________, ________, and __________ offerings that have value for customers, clients, partners, and society at large. a. Making, Arranging, Maintaining, and Selling b. Creating, Communicating, Delivering, and Exchanging c. Creating, Advertising, Selling, and Transferring d. Performing, Displaying, Offering, and Exchanging	5	1
5	Which of the following is NOT consistent with a manager having a marketing orientation? a. Inventory levels are set with customer requirements and costs in mind b. Customer relationship focuses on customer satisfaction before and after the sale, leading to a profitable long-run relationship c. The focus of advertising is on product features and how products are made d. Packaging is designed for customer convenience and as a selling tool	5	2
6	Vijay Teja called several airlines to compare rates and chose a flight on Cathay Pacific Airways as it had a better reputation for service and competitive prices. The airline ticket is an example of which type of product? a. Convenience b. Shopping c. Specialty d. Unsought	5	3

SECTION B

(70 Marks)

1. **There is <u>ONE</u> Case Study in this section.**
2. **It is compulsory.**

Q.No	Discuss the given Case Study as per the following steps		**CO**
7.	a. Introduction: give a brief introduction of the case.	10 marks	4
	b. Statement of the problem: State the business problems being faced by the key officials in the case. Also, differentiate the short-term and long-term problems.	15 marks	
	c. Causes of the problem: provide a detailed analysis of the problems identified in the statement of the problem. Also apply relevant theories and models, if applicable, from the text and/or readings.	15 marks	
	d. Decision criteria and alternative solutions: Identify criteria against which you evaluate alternative solutions. Include two or more possible alternative solutions along with the appropriate pros and cons of each alternative.	15 marks	
	e. Recommended solution, implementation, and justification: Identify who, what, when, and how in your recommended plan of action. Provide the solution and implementation of the problems and causes identified in the previous section. Also, explain why your recommended plan of action is the best and why it would work.	15 marks	

<u>CASE STUDY</u>

WDI PUBLISHING

Etihad Airways: Rethinking Internationalization and Growth

Tony Douglas reviewed Etihad Airways' recent strategy and performance. He knew the company needed to make changes. It was February 6, 2020, and Douglas had initiated numerous strategies to turn around years of lost profits since taking charge as Etihad chief executive officer in January 2018. Douglas, an MBA from England's Lancaster University, had restructured Etihad's asset base, persuaded Airbus and Boeing to sell the airline fewer planes than ordered, eliminated unprofitable routes, augmented revenues by creating new ticket selling partnerships, opened Etihad's premium lounges to economy class passengers for a fee, and reduced the company's workforce base to streamline costs.

Etihad, headquartered in Abu Dhabi, United Arab Emirates (UAE), saw its losses decline from $1.52 billion in 2017 to $1.28 billion in 2018. However, the airline carried 18.6 million passengers in 2017 and only 17.8 million in 2018. The largest air carrier in UAE, Emirates Airline, reported annual revenues of $26.7 billion in the fiscal year from 2018 to 2019, making a profit of $237 million and carrying 58.6 million passengers.[1]

Douglas knew he had to do more to assure a sustainable future for Etihad in the changing worldwide aviation sector. But the company needed a comprehensive strategic review before launching new measures or modifying existing initiatives.

Launched in 2003 as a full-service luxury airline, Etihad had established a fleet strength that included a mix of wide-bodied and narrow planes and an aggressively-built international route network through code sharing arrangements and international joint ventures. Etihad earned net profits of $14 million on revenues of $4.1 billion in 2011.[2] Profits increased in the next year to $103 million.[3] But rising costs, partner failure, international tourist traffic declines, and low-cost carrier (LCC) competition quickly began to erode profits. In 2016, Etihad lost $1.95 billion on revenues of $5.9 billion. James Hogan, the airline's first CEO, left the organization on July 1, 2017, and chief people and performance officer Ray Gammell took over as interim CEO.[4] Douglas took charge at the start of the next year.[5]

Published by WDI Publishing, a division of the William Davidson Institute (WDI) at the University of Michigan.

UAE and Abu Dhabi

Seven emirates—Abu Dhabi, Dubai, Ajman, Sharjah, Fujairah, Umm al-Quwain, and Ras al Khaimah—made up UAE, with Abu Dhabi as its capital. Ras al Khaimah entered the federation in 1972, several months after it was founded in December 1971. Each emirate was led by its own emir and regional government, courts, and police force. UAE's federal government was led by the Federal Supreme Council, including the chief of every emirate, a Council of Ministers, and the Federal National Council. UAE's population was 9,771,000 in 2019, of which 87.9% were immigrants.[6] The UAE Federal National Council included a group of 40 representatives from across the country. Twenty people were chosen by an electoral college; 20 were chosen by the emirs. The council, UAE's most powerful authority, prepared general policies and sanctioned federal legislation. The UAE Supreme Council made the ruler of Abu Dhabi and Dubai the country's president and vice-president/prime minister, respectively. The Council of Ministers were chosen by the prime minister and approved by the president. The Abu Dhabi and Dubai emirs had veto power over council decisions. Each emirate contributed to the federal budget. At 75% of the budget, Abu Dhabi was the highest contributor, followed by Dubai. Abu Dhabi Emir Sheikh Khalifa bin Zayed Al Nahyan had been president since 2006 when Douglas took the helm at Etihad, and Dubai Emir Mohammed Bin Rashid Maktoum had been vice president/prime minister during the same period. The World Bank ranked UAE first in the Arab world and 11th globally for "ease of doing business" in 2018,[7] when the country's unemployment rate was 2.2%.

Fishing and pearl collection had been UAE's two major economic activities before oil exploration started in the 1950s. The country began exporting oil in 1962 and was the world's fourth biggest producer at four million barrels per day by 2018.[8] UAE's Middle Eastern neighbor Saudi Arabia produced 12 million barrels daily in the same year. Oil and gas contributed 30% of UAE's GDP at the time. With declining oil fortunes, however, UAE attempted to diversify into international trade, entertainment, financial and engineering services, and tourism. UAE historically did not levy taxes on earned income[9] but imposed corporate and indirect taxes. Oil exploration firms paid income taxes of 55%, while global banks operating in the country paid 20%. On January 1, 2018, UAE introduced new taxes, including a 5% value-added tax.

The increased economic activities of the 1950s created opportunities for aviation infrastructure and airlines. The Dubai government established Emirates Airline in 1958. In 2003, Abu Dhabi launched Etihad and Sharjah created Air Arab. With 84% of the region's landmass, Abu Dhabi was the largest emirate in the country.[10] It possessed 95% of UAE's proven oil reserves and 92% of the country's gas reserves.[11] With a per capita GDP 1.8 times the national average in 2015, it contributed 60% to the country's GDP. In August 2007, the Abu Dhabi government prepared its "Abu Dhabi Economic Vision 2030" plan, with the infrastructure, energy, financial, knowledge, industrial, and tourism sectors highlighted as critical for development.[12] The plan envisioned a total population of 3.1 million by 2030.

By 2018, the oil sector contributed about 41.6% to UAE's GDP.[13] Major non-oil sector activities included manufacturing, construction, and services. Manufacturing contributed $13.4 billion and accounted for 5.9% of Abu Dhabi's GDP in 2018.[14] At the time, the state planned to provide permanent resident status to expatriates and reduce the cost of business licenses.[15] Abu Dhabi had developed cultural attractions like the Abu Dhabi Golf Championship, Formula One Abu Dhabi Grand Prix, Zayed National Museum, and Louvre Abu Dhabi. International universities from the United States and Europe had opened campuses in the state. Abu Dhabi International Airport, set up in 1968, was the second largest airport in UAE after Dubai International Airport, opened in 1959. The two airports were located 115 kilometers apart.

Understanding Etihad

Abu Dhabi Emir and UAE President Al Nahyan believed starting an airline would establish the state as a business and tourism hub.[16] He created Etihad Airways by royal decree in July 2003 as a wholly-owned Abu Dhabi government company with a mandate to operate safely, commercially and profitably. *Etihad* was the Arabic word for "union." Al Nahyan was also chairman of the Abu Dhabi Investment Authority, a sovereign wealth fund used on behalf of the government. The fund's value was about $696.7 billion in 2019.[17]

The Abu Dhabi government previously had invested in Gulf Air, started in 1950 by the Kingdom of Bahrain and one of the oldest airlines in the Middle East. Bahrain, Abu Dhabi, Oman, and Qatar each held a 25% stake in the airline.[18] Dubai launched Emirates Airline in 1985, and Qatar withdrew from the Gulf Air alliance to concentrate on its national carrier, Qatar Airways, in 2002. Abu Dhabi withdrew from Gulf Air when it launched Etihad Airways. Sharjah became the third UAE emirate to launch an airline in 2003, creating Air Arabia.

Around the time Etihad entered the airline sector, global passenger numbers and confidence had declined due to the September 11 terrorist attacks in 2001. Two international airlines, Swissair and Sabena, had closed. Worldwide airline revenues fell by 7.5% in 2002.[19] The sector had reached the mature stage, supported by two dominant global aircraft suppliers, Airbus and Boeing; multiple independent and in-house academies offering pilot and crew training programs; financial institutions experienced in providing aircraft fleet funding; outsourced services for recruitment and training, financial accounting, maintenance, and overhaul services; and a base of accumulated experience.

Etihad officially launched commercial services in November 2003 with the backing of state resources, talent hired from across the globe, outsourced accounting and data management services, and two leased Airbus A330-200s. Al Nahyan, a member of Abu Dhabi's ruling family, executed the establishment process and later became the airline's chairman. Hogan, at the time Gulf Air CEO, joined Etihad as president and CEO in September 2006.[20] Hogan was a fellow of the Royal Aerospace Society in London and had held senior executive positions at airline British Midland International, car rental firm Hertz, and Forte Hotels. When he took charge, he committed to strengthening Etihad as a leader in the local and international market.

To be competitive, Etihad focused on high customer service standards.[21] Unlike many full service airlines, Etihad offered three guest zones: Diamond, Pearl, and Coral. By using large Boeing and Airbus planes, it positioned itself as a luxurious, full-service carrier treating passengers as guests.[22] The staff uniform was designed by Ettore Bilotta, an independent Italian designer.[23]

Etihad placed an order with Airbus for 29 aircraft valued at $8 billion in July 2004. The fleet mix included A330s, A340s, and A380s.[24] The A380 was the widest model and offered 555 seats. In December 2004, the company ordered five Boeing 777-300ERs.[25] Earlier that year, the organization had started the Etihad Holidays program, offering passengers accommodations at more than 170 hotels in 35 destinations across 14 countries.[26] In August 2006, the company launched Etihad Guest, which gave members a chance to earn miles redeemable on more than 2,900 flights and non-flight awards from 200 partners, covering hotel stays, car rentals, and retail merchandise purchases.[27] Also in 2006, Etihad began offering training to UAE residents interested in becoming cadet pilots, aviation engineers, and management personnel.[28]

The global aviation sector was hit hard by the financial crisis of 2008, losing $5.2 billion.[29] Emirates Airline profits declined from $1.3 billion to $186 million. But because Abu Dhabi's economy was insulated from the global crisis by oil-related economic activities, Etihad withstood the shock and committed to a fleet expansion plan. In July 2008, the company placed an order for 205 wide-body and narrow-body Airbus and Boeing aircraft valued at $43 billion.[30]

In August 2009, Etihad reconfigured its services. It introduced an additional first-class suite, Diamond First Class, on its three-class aircraft.[31] Amenities included leather seats that converted to flatbeds, wood-finished tables, sliding doors, 23-inch television screens, and personal mini bars. The company appointed first-class chefs and offered boutique wines. In the Pearl business class, Etihad offered larger meals than in economy class, leather headrests, and in-flight entertainment with 15.4-inch televisions. The new economy class offered an updated interior arrangement, with each seat featuring a footrest, deep recline, handheld controller, plug-in power socket, and 10.4-inch personal television screen. Chefs customized food menus to routes, usually with one recipe from the destination, one from Arabia, and one from the West. Etihad supplemented its in-flight services with airport offerings like complimentary chauffeur pick-up, premium lounges, spa treatments, champagne bars, cigar lounges, international buffets, entertainment options, and prayer rooms. Alternatively, Etihad introduced all-economy flights on its Airbus A320 planes.

Etihad received the World's Leading Airline Award at the World Travel Awards for the third consecutive time in 2011.[32] In 2013, the company ordered 87 more Airbus planes, including 26 A321neos, 40 A350-900s, and 10 A350-1000s.[33] A350 deliveries were scheduled to commence in 2020. From Boeing, Etihad ordered 17, 777-9xs and 8, 777-8xsas which were all part of an agreement for 56 planes valued at more than $25 billion. And, in 2014, Etihad launched "The Residence," a three-room concept offering a shower, bedroom, and living space on select routes from Abu Dhabi to London, New York, Sydney, Paris, and Seoul.[34]

Going International

In 2010, Etihad embarked on an aggressive expansion strategy to strengthen its global travel. The company avoided existing partnerships like Star Alliance, One World, and Sky Team,[35] which used each airlines' routes to expand member networks. Instead, Etihad entered into code sharing agreements with various airlines in the Middle East, Asia, Europe, Africa, Australia, and North America to sell tickets (see **Exhibit 1**).

Exhibit 1

Etihad Airways Code Sharing Agreements

Region	Code Sharing Airlines
Middle East	Middle East Airlines, Saudi Airways, Saudi Arabian Airlines, Yemenia, Kuwait Airways
Europe	Air Astana, Air Berlin, Air Malta, Alitalia, BMI, Flybe, Czech Airlines, Turkish Airlines, Brussels Airlines, Ukraine International, Olympic Air, Cyprus Airways, Niki, Tap Portugal, S7 Airlines, Swiss, SNCF
Asia	ANA, Asiana Airlines, Bangkok Airways, Hainan Airlines, Jet Airways, Malaysia Airlines, Philippines Airlines, Sri Lankan Airlines, Vietnam Airlines, Azerbaijan Airlines
Australia	Virgin Australia, Air New Zealand
Africa	Royal Air Maroc, Air Seychelles
America	American Airlines

Source: "Code share partner airlines." *Etihad Airways*. https://www.etihad.com/en-in/fly-etihad/our-partners.

In 2011, Etihad bought about 29% equity in Air Berlin. The deal helped Etihad access the European market and strengthened Air Berlin financially. Etihad planned to combine its long-haul services with shorter Air Berlin services into single routes. In 2012, Etihad bought a 5% stake in Virgin Australia and had increased its ownership to 21.4% by 2014. The same year Etihad invested $20 million for 40% of Air Seychelles' equity. It also offered the airline a loan of $25 million and signed a five-year contract to run the company. Also in 2012, Etihad bought a 3% stake in Irish carrier Aer Lingus for $15 million. The moves were followed in 2013 by an investment, along with the Serbian government, in a 49% stake in Jat Airways. Etihad accepted a contract to manage the airline, which it renamed Air Serbia. Etihad later increased its equity in Aer Lingus to 5% and sold the shares in 2015 for $67 million to International Airlines Group, the British Airways holding company. Etihad earned $32 million on the sale.

In November 2013, Etihad purchased 33.3% of Swiss regional carrier Darwin Airline as part of an equity deal. Etihad re-branded the carrier as Etihad Regional, which served destinations in Spain, France, Italy, and Greece from its bases in Geneva and Lugano. In 2014, Etihad invested $2.35 billion in 49% of Alitalia's equity, which allowed the company access to additional Italian markets.

In 2017, Etihad purchased its way into the Indian market via Jet Airways, the country's largest private carrier operating about 100 aircraft connecting to 1,000 destinations with a market share of about 18%. Etihad acquired a 24% stake of Jet Airways for $3.79 billion in 2013. The collaboration helped both airlines expand their operations and network. Etihad connected to new destinations in India, and Jet Airways strengthened its financial position. See **Exhibit 2** for details on Etihad's equity partners.

Exhibit 2

Etihad Airways Equity Partners

Equity Partner	Country of Origin	Airline Type	Ownership	Market Entry	Share	Purchase Year
Air Berlin	Germany	Low-cost	Private	Late	29.21%	2011
Aer Lingus	Ireland	Hybrid	National carrier	Early	3%	2012
Alitalia	Italy	Full-service	National carrier	Early	49%	2014
Air Serbia	Republic of Serbia	Full-service	National carrier	Early	49%	2013
Air Seychelles	Republic of Seychelles	Full-service	National carrier	Early	40%	2012
Darwin Airline	Switzerland	Regional	Private	Late	33.3%	2013
Jet Airways	India	Full-service	Private	Early	24%	2013
Virgin Australia	Australia	Full-service	Private	Late	20.94%	2010

Source: "Fast Facts and Figures Q2/2014." *Etihad Aviation Group*. https://www.etihadaviationgroup.com/content/dam/eag/corporate/etihadaviation/en-ae/pdfs/Fast_Facts_and_Figures/Fast_Facts_Figures_Jun_2014_EN.pdf.

Through its air passenger activities in the Middle East, Europe, and Asia-Pacific, Etihad contributed about $3.3 billion to Abu Dhabi's GDP in 2013 and played a pivotal tourism role by carrying 11.5 million travelers through Abu Dhabi. In 2014, the company contributed $6.4 million to the state's economy. The Etihad Aviation Group, including Etihad's partner airlines, had a total workforce in 2015 of 26,522, of which 3,052 were Emiratis. The group was responsible for a core economic contribution of $7.4 billion and tourism contribution of $2.2 billion in 2016.

Etihad had grown from operating 10 aircraft in 2005 to 121 in 2015. Its passengers had grown from 1 million to 17.6 million, and total revenues had grown from $800 million in 2006 to $9 billion in 2015. Profits grew to $103 million by 2015. But difficult times were ahead.

Etihad's Downturn: 2016-2019

Etihad's investment in international joint ventures led to mostly poor results. Air Seychelles incurred a loss for two years after Etihad's investment but reported profits of $3.2 million in March 2015. Etihad had offered the carrier $34 million in 2017 and $30 million in 2018 as part of a transformation plan.[36] Etihad sold its Darwin Airline shares in July 2017 to Adria Airways, the national airline of Slovenia. In August 2017, Air Berlin filed for insolvency. In the six years it supported the German airline, Etihad lost $3.2 billion.

Etihad wanted to fully control Alitalia and turn the carrier around. However, it could not implement its rescue plan due to stakeholder objections. Europe's airline industry was highly unionized at the time, and workers voted the rescue plan down, as it would have led to significant job losses. In May 2017, Etihad withdrew funding and Alitalia filed for bankruptcy.[37]

Jet Airways faced issues due to a surge in oil prices. Throughout 2018, airlines in India suffered from rising aviation turbine fuel costs and rupee depreciation. Crude oil prices hit $80 per barrel, and the Indian currency dropped nearly 20% versus the dollar. Jet Airways had faced stiff competition in the domestic market from LCCs like Indigo, SpiceJet, and Go Air. Etihad had shown interest in taking full control of Jet Airways, but chairman Naresh Goyal, who owned 52% of the firm, was reluctant, and India may have prevented a foreign airline from taking complete control. A consortium of investors led by the State Bank of India acquired the airline in March 2019 after Goyal stepped down. Etihad and Hinduja Group were the two major bidders, and Etihad again attempted to take control of the airline. The company's terms were not accepted, and Jet Airways temporarily shut down on April 17, 2019. Lenders eventually assigned the airline to the National Company Law Tribunal for bankruptcy procedures with a debt of $1.2 billion.[38]

Air Serbia had been one of Etihad's code sharing members since 2013 and had earned profits since 2014.[39] In 2018, it earned profits of $12.3 million. Virgin Australia struggled after Etihad's investment. It faced competition from Qantas Airways and began posting losses after 2015. In 2017-18, Virgin Australia suffered a loss of $186 million.[40] Etihad's management believed unprofitable routes, high costs, air traffic slowdowns, competition from LCCs, and insolvency of two joint venture partners, Alitalia and Air Berlin, had been the primary drivers of the company's declining performance. Indeed, the losses were significant—$1.95 billion in 2016 and $1.52 billion in 2017.[41]

Douglas Takes Charge

Hogan stepped down as Etihad's CEO in July 2017, and former chief people and performance officer Ray Gammell became interim CEO. Hogan's aggressive expansion efforts, Etihad's positioning as a luxurious full-service airline, and the international joint venture strategies all came under serious examination by the company's board. The stakeholders contemplated a five-year revival plan to turn the company around and return to profitability.

Douglas, 57, succeeded Gammell in January 2018.[42] (See **Exhibit 3** for details on Etihad's performance between 2005 and 2018.) He had been CEO of the UK's Defence Equipment and Support Department, accountable for obtaining and supporting all British Armed Forces tools and services and managing a budget of $20 billion a year. Douglas had worked as CEO of Abu Dhabi Airports Company and played a critical role in developing Abu Dhabi's flagship Khalifa port. He had held various senior positions in the British Airports Authority, including managing director of Heathrow Airport Terminal 5 and group supply chain director, group technical director, and CEO of Heathrow Airport.

Exhibit 3

Etihad Airways Growth and Contraction, 2005-2018

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Aircraft	10	22	37	42	53	57	64	70	89	110	121	119	115	108
Destinations	-	43	50	59	69	79	81	86	102	111	116	112	100	84
Passengers (millions)	1	2.8	4.6	6.0	6.6	7.4	8.7	10.7	12.1	14.0	17.6	18.5	18.6	17.8
Revenue (billions)	-	$0.8	$1.6	$2.5	$2.3	$3.0	$4.1	$4.8	$6.1	$7.6	$9.0	$8.36	-	-
Seat Load Factor (%)	-	60	69	75	74	74	76	78	78	79	79	79	78.5	76.4
Profits/Loss (millions)	-	-	-	-	-	-	$12	$42	$62	$73	$103	($1950)	($1520)	($1280)

Source: Compiled by the authors from various Etihad Airways annual reports.

After taking charge, Douglas initiated multiple measures, such as discounting unprofitable routes, utilizing cost-efficient eco-aircraft, reducing workforce, unbundling services, and adding a new economy class. He focused on offering point-to-point services from Abu Dhabi. He collaborated with Air Arabia, an LCC in Sharjah, to set up Abu Dhabi's first LCC. He reorganized Etihad into seven business divisions to improve operational performance: finance, human resources, operations, maintenance, repair and overhaul, commercial and support services, and transformation.[43]

Repositioning Etihad

Etihad had long invested in first-class, luxury suites and expanded its long-haul network to position itself as a "boutique airline." In 2018, Douglas repositioned it as "an airline of choice."[44] Etihad was to focus on point-to-point flights from its base instead of transferring passengers between continents.[45] The airline launched smart seating on the short-haul A320 and A321 in the second quarter of 2019. Douglas decided to exit unprofitable partnerships, including with Jet Airways, and forge new alliances. In 2018, Etihad entered into partnerships with Swiss International Air Lines, Saudi Arabian Airlines, and Azerbaijan Airlines, adding to its growing list of 54 code sharing partners. On January 14, 2020, Etihad announced a partnership with EasyJet, a London-based LCC, opening new routes between Europe, Africa, the Azores, and UAE.

Fleet rationalization

Etihad had begun fleet rationalization to reduce maintenance costs in 2017, replacing older jets with more fuel-efficient planes. The company replaced its Airbus A340s, A330s, and A319s with two Airbus A380s and nine Boeing 787-9 Dreamliners, reducing its average fleet age to six years. In November 2019, Etihad announced an eco-partnership to buy the Boeing 787 Dreamliner, an environmentally-friendly aircraft intended to emit less carbon[46] via electrical systems that reduced fuel reliance and increased operational efficiency. The company sold 38 aircraft worth $1 billion to an investment firm and Altavair Air Finance and leased 16 back for operations. Etihad cancelled an order for 40 A350-900 jets and two A350-1000s.[47] It downsized another order of 20 A350-1000s to five. The total value of the company's cancelled orders in 2018 was about $22.5 billion.[48]

Eliminating unprofitable routes

Douglas discontinued unprofitable routes to Jaipur, Dallas, Dhaka, Ho Chi Minh City, Edinburgh, Dar es Salaam, Perth, Entebbe, and Tehran in 2018. Etihad increased route frequency to profitable destinations Toronto, Amman, Rome, and Malé in the Maldives. It introduced the Boeing 787-9 aircraft on routes to Kuala Lumpur, Rome, Rabat, Jeddah, Cairo, Geneva, and Casablanca and the 787-10 on routes to Nagoya, Jeddah, Beijing, and Seoul.

Downsizing the workforce

Etihad had reduced costs by $416 million (about 5.5%) in 2018 by downsizing its workforce by 5% to 21,855 employees. The company had employed 26,635 in 2016. In January 2018, Etihad offered workers unpaid temporary leave for up to 18 months.[49] The arrangement allowed employees to work for Emirates Airline, which faced pilot shortages, then return to Etihad. The company had employed about 2,200 pilots to that point.

Unbundling services

Etihad launched a new policy in 2018 allowing economy class passengers to buy lower-priced tickets if they did not have checked baggage.[50] The fare structure was similar to the luggage policy of LCCs, where passengers received a complimentary carry-on luggage allowance of 7-10 kilograms and paid for other luggage. Etihad also discontinued its complimentary chauffeur services to many customers and replaced them with cars at negotiated rates.[51] The change did not affect the Abu Dhabi hub, however, where Etihad maintained a fleet of cars. Etihad started offering its premium lounges in some cities to economy passengers for a fee. Additionally, the company introduced a “Neighbor-Free Seat” choice in economy class, allowing passengers to bid for unoccupied seats next to them for up to 30 hours prior to departure.

Adding economy class

The new economy class launched under Douglas featured smarter, ergonomic seating and streaming technology on the short-haul Airbus A320 and A321 jets. The class included fewer seats but improved technology for in-flight entertainment. In 2018, Douglas launched the “Choose Well” advertising campaign, encouraging passengers to exercise flexibility and select from tailored services. The campaign gave passengers an option to buy what they wanted, such as selecting seats with extra legroom or adding business-class meals.

Leading Into the Future[52]

As he reviewed Etihad’s latest initiatives and their implications for future strategy, Douglas was mindful of critical developments in the region and within the global aviation sector.

UAE’s GDP in 2019 was $427.9 billion, with a growth rate of about 2.8%. The country had 6% of the world’s oil reserves and seven of the largest natural gas reserves. Its petroleum exports were valued at $138.8 billion in 2017. Oil and gas accounted for two-thirds of exports and government revenue sources. However, the country had taken steps toward economic diversification, moving into tourism, hospitality, and renewable energy, and about 70% of its revenue would be generated by non-oil and gas sectors by 2020. UAE ranked one spot below Germany, at 21st, in the World Bank’s Ease of Doing Business Report for 2018.

The UAE population was about 10.4 million in 2018. The year before, its workforce was composed of about 88% expatriates. The UAE government had heightened spending on job creation and infrastructure development, including hosting the World Expo in Dubai in 2020. The UAE government designated many free trade zones that offered complete company ownership with no taxes, in order to attract foreign investors.

Abu Dhabi had made significant investments in the aerospace, nuclear power, defense, information technology, petrochemical, and clean-tech industries. It had created a zero-carbon city, Masdar. Abu Dhabi had made substantial investments in education by inviting foreign universities to open campuses, and top global schools from the United States, Australia, and Europe had come to the emirate.

Dubai had diversified its economy into information and communications technology, re-exporting, real estate, and finance. It had created luxury hotels, extensive port facilities, and trade zones to attract manufacturing and service business. The emirate had a driverless metro system. It had invested large sums in solar energy, and most of the city was blanketed with free wireless internet. By 2020, Dubai was expecting to attract about 25 million visitors from 180 countries and was home to Etihad's largest domestic competitor, Emirates Airline.

Emirates Airline

Founded in 1985 by the royal family of Dubai, Emirates was UAE's first airline.[53] It positioned itself as a luxury full-service carrier. Starting with a leased Airbus 300 from Pakistan International Airlines, the company carried 260,000 travelers within its first nine months of operation. The company extended its network in 1990 by connecting Bangkok, Manila, and Singapore. It added European destinations in 1992. It then launched the "Finest in the Sky" campaign and began focusing on long-haul flights. Emirates partnered with Cyprus Airlines and US Airlines in 1993. It was the first carrier to introduce individual video systems in each passenger seat. Cabin crew observed special events with in-flight cakes and Polaroid cameras. First class travelers were offered six course meals served on Royal Doulton pottery.

In May 1998, Emirates paid the Sri Lankan government $70 million for a 40% stake in Air Lanka.[54] By 2018-2019, it had carried 59 million passengers and entered code sharing agreements with 23 partners. The company operated 270 aircraft, served 159 destinations and employed 47,808 in 2019. It made profits of $237 million in 2018 (see **Exhibit 4**).[55]

Exhibit 4

Emirates Airline Financial Performance, 2016-2019

	2016-17	2017-18	2018-19
Total Revenues (billions)	$23.2	$25.2	$26.7
Profits(billions)	$0.340	$0.762	$0.237
Passengers (millions)	56.1	58.5	58.6
Seat Load Factor (%)	75.1	77.5	76.8
Total Aircraft	259	268	270
Total Employees	40,978	47,740	47,808

Source: Compiled by the authors from various Emirates Airline annual reports.

Gulf Air

Etihad's other significant regional competitor was Gulf Air, which started as a private company in 1950.[56] In 1951, British Overseas Airways Corporation bought a 22% share in the business. In 1973, the governments of Abu Dhabi, Bahrain, Oman, and Qatar purchased the British company's stakes and renamed the airline Gulf Air. The airline operated Boeing B767s, and in 1987, the Gulf Aircraft Maintenance Company opened in Abu Dhabi.

Gulf Air became the first airline in the region to start flights to Australia in 1992. In 1993, it connected flights to Europe, India, and other Asian countries. In 1994, it entered an agreement with American Airlines. Hogan joined as company president and CEO in May 2002 and launched a turnaround plan in response to declining profits and growing debt. Qatar withdrew from Gulf Air in August 2002. In 2003, Gulf Air founded Gulf Traveller, an all-economy, full-service carrier, and the airline group was profitable again by 2004. In September 2005, the Abu Dhabi government withdrew from Gulf Air and established Etihad. Gulf Air later withdrew its hub from Abu Dhabi. In 2007, the Bahrain government took ownership of Gulf Air, while Oman withdrew from the partnership.[57]

Gulf Air again began to struggle and underwent a restructuring process in 2010, introducing a premium cabin merging its business- and first-class. In 2013, Gulf Air downsized its fleet, route network, and workforce. In 2019, it repositioned itself as a boutique airline.[58]

Low-Cost Carriers (LCCs)

UAE's first LCC was launched in 2003. By 2018, LCCs accounted for 17% of air travel to and from the Middle East, compared to 8% in 2009.[59] The large number of LCCs increased air travel demand by low-income workers to destinations in India, Pakistan, and the Philippines. Air Arabia and flydubai were early UAE-based LCCs; Europe-based Wizz Air announced it would began operations in the region in late 2019.[60] Indian LCC SpiceJet also announced plans to enter the Middle East market in late 2019, at a time when the region appeared to have more growth opportunities for LCCs than any other part of the world. Globally, 33% of short-haul traffic was on no-frills carriers, driven by Southeast Asia where 62% of traffic went to LCCs, according to a Boeing report.[61] In the Middle East, only 13% of short-haul traffic was on LCCs.

Air Arabia was founded in 2003 by the ruler of Sharjah, a member of the UAE Supreme Council, making it the region's first LCC. Air Arabia, which served 170 destinations across the Middle East, North Africa, Asia, and Europe by 2019, was profitable from its first year of operation. The company built subsidiary airlines through joint ventures in Egypt, Jordan, Morocco, and Nepal. The Dubai government established the LCC flydubai in 2008. The Emirates Airline Group supported its establishment. The LCC, which used primarily extended range Boeing 737-900ERs, started scheduled service in June 2009. In June 2013, flydubai added business class service to flights,[62] offering 12 seats, three-course meals, 12-inch televisions, a business class lounge, and Italian leather seats. Working with Emirates Airline to expand its network, it was connected to 90 destinations in 48 countries by 2018. However, the airline began incurring losses in 2012 and lost $86.3 million in the first half of 2018.[63]

In October 2019, Etihad announced plans to launch a new LCC in collaboration with Air Arabia.[64]

Global Tourism and Worldwide Benchmarking

The global tourism arrival rate was growing at 5% annually by 2018 and had reached 1.4 billion. Douglas knew he had to be patient with the Etihad turnaround, but he certainly saw the opportunity to be profitable.

Export incomes from tourism had reached $1.7 trillion by 2018 (see **Exhibit 5**), according to the International Tourist Arrival and Tourism Receipt 2018**.** Airfares were about 60% cheaper in 2018 than they were in 1998, and international travel was dominated by air at about 58% (see **Exhibit 6**). By 2019, major international air travel conglomerate Star Alliance had 26 members; Sky Team had 19 members, and One World counted 13 airlines among its ranks.

Exhibit 5

International Tourist Arrival and Tourism Receipts, 2018

	Americas	Europe	Asia/Pacific	Africa	Middle East
Arrivals (millions)	216	710	348	67	60
Arrival Growth	2%	5%	7%	7%	5%
Revenues (billions)	$334	$570	$435	$38	$73
Departure Growth	0%	5%	7%	2%	4%

Source: "International Tourism Highlights 2019 Edition." *World Tourism Organization*. https://www.e-unwto.org/doi/pdf/10.18111/9789284421152.

Exhibit 6

International Travel Modes of Transport, 2018

Mode	Share
Air	58%
Road	37%
Water	4%
Train	2%

Source: "International Tourism Highlights 2019 Edition." *World Tourism Organization*. https://www.e-unwto.org/doi/pdf/10.18111/9789284421152.

Beyond the global alliances and Emirates Airline, Douglas believed he could look at competitors Singapore Airlines and Air New Zealand as possible models for how to turn Etihad around.

Singapore Airlines[65]

Singapore Airlines began operations in 1947 as part of Malayan Airways Limited and became an independent carrier in 1972. The airline operated Boeing 727s, Boeing 747s, and Douglas DC-10s, focusing on international routes primarily to the Indian Subcontinent and Asia. By 1980, the airline had connected to destinations in Asia, Europe, Canada, and the United States. Singapore Airlines started a subsidiary, Tradewinds, in 1989 and later renamed the carrier Silk Air, which was positioned as a premium short- and medium-haul airline.

Singapore Airlines started operating from Singapore Changi Airport in November 1990. In September 1998, it began offering a three-class configuration (first, business, and economy), new cuisine, and in-flight entertainment. The company launched a frequent flyer program in 1999, permitting passengers to earn mileage credits. In 2003, Singapore Airlines launched Tigerair, a budget carrier operating short-haul flights within Southeast Asia. The company further upgraded its cabins in 2006, introducing suites and a premium economy class. Singapore Suites was offered only on A380-800 aircraft. In October 2006, the airline upgraded its first and business class services and added a new economy class with in-flight entertainment. In 2007, the airline began operating the A380 aircraft, and in May 2008, it became the first carrier offering all-business class nonstop flights from Singapore to New York. In August that year, Singapore Airlines began providing an all-business class nonstop flight to Los Angeles.

Singapore Airlines launched an LCC known as Scoot in 2012. Scoot offered medium- and long-haul, low-cost flights to China and India. In 2017, Tigerair merged with Scoot.[66] Singapore Airlines had established code sharing agreements with about 40 airlines to expand its network by 2019. It also held equity in various airlines, including Air New Zealand, Virgin Atlantic Airways, Tiger Airways, Virgin Australia, and Vistara.

Singapore Airlines had been profitable since its establishment. In 2018, the group had revenues of $16.3 billion, with profits of $1,067 million. **Exhibit 7** provides financial performance details for Singapore Airlines from 2016 to 2019.

Exhibit 7

Singapore Airlines Group Financial Performance, 2016-2019

	2016-17	2017-18	2018-19
Total Revenues (billions)	$14,868.5	$15,806.1	$16.323
Profits(billions)	$622.8	$1,057.3	$1.061
Passengers (millions)	31.6	33.660	36.1
Seat Load Factor (%)	79.0	81.4	83
Total Aircraft	171	179	195
Total Employees	14,423	14,765	15,943

Source: "Financial Results." *Singapore Airlines*. https://www.singaporeair.com/en_UK/sg/about-us/information-for-investors/financial-results/.

Air New Zealand[67]

Air New Zealand began operations in 1940 as Tasman Empire Airways Limited and offered flights between New Zealand and Australia. The New Zealand and Australian governments purchased 50% stakes in the airline in 1965 and renamed it Air New Zealand. The company continued offering long-haul international flights and connected to destinations like Singapore, Hong Kong, Europe, and the United States. In 1965, the New Zealand government bought the Australian government's stake in the airline. In 1978, the government combined New Zealand National Airways Corporation with Air New Zealand to expand operations. The new company incurred losses of $15.4 million and $30.8 million in the fiscal years from 1979-1980 and 1980-1981 due to increased costs.

Air New Zealand went private in 1989, a year after buying 50% of regional carrier Air Nelson, with the government selling the airline to an association of companies headed by Brierley Investments Ltd. Brierley purchased 65%, Australia's Qantas Airlines held 19.9%, Japan Airlines bought 7.5%, and American Airlines purchased 7.5%. Air New Zealand established a code sharing agreement with Qantas in 1989. In 1991, the airline implemented a new organizational structure with six functional units. On December 1, 1993, Air New Zealand purchased domestic airline Eagle Airways; domestic airline services continued under the name Air New Zealand National, and regional operations used the name Air New Zealand Link.

Air New Zealand began earning profits after privatization. In 1995-1996, the company incurred net profits of $225.2 million. On December 31, 1995, it acquired 100% of Air Nelson, and it won "Best Airline to the Pacific" in the Travel Weekly Global Awards in 1994, 1995, and 1996. In 1996, Air New Zealand acquired 50% of Australian carrier Ansett Australia for about $320 million. The company continued operating 17 Ansett routes and by that time had code sharing agreements with Qantas Airlines, Canadian Airlines, American Airlines, Cathay Pacific, Japan Airlines, and United Airlines. It joined Star Alliance in 1999[68] and purchased the remaining 50% of Ansett Holdings Limited for about $370 million. In 2001, Air New Zealand announced a net loss of about $860 million due to Ansett's troubles.

The United States closed its airspace after the terrorist attack on September 11, 2001, and Ansett Group losses reached $1.3 million per day. Qantas declined Air New Zealand's proposal to sell the group, and it was placed into voluntary administration. Australian trade unions retaliated by blockading Air New Zealand aircraft in the country. Air New Zealand was on the verge of collapse, and Singapore Airlines and Qantas were in talks to acquire it. But in October 2001, the New Zealand government recapitalized the airline with

$885 million in two phases. Air New Zealand launched new domestic fares under the Express Class brand, with 50% reductions on key routes and 20% off provincial routes. The lowest ticket prices were online only. On January 15, 2003, Air New Zealand recorded more than $1 million in online bookings in a single day.

Air New Zealand had cut international routes by 8% by September 2003 and reported net profits of $165.7 million in 2003-2004. In its first 12 months, the domestic Express Class took on more than 1.1 million new travelers. In 2004, Air New Zealand appointed leading New Zealand fashion designer Zambesi to create new staff uniforms and, in June that year, unveiled a new long-haul product with flatbeds, direct aisle access, and on-demand video in its premium class, as well as a new super economy class with slim line seats and in-flight entertainment. In December 2004, the company opened a full flight simulator facility for pilot training in Auckland. The New Zealand government decreased its stake in the airline from 73% to 53% in November 2013.[69] By 2019, Air New Zealand had code sharing agreements with 23 airlines. And in 2018, the company reported profits of $390 million. **Exhibit 8** provides financial performance details for Air New Zealand between 2016 and 2019.

Exhibit 8

Air New Zealand Financial Performance, 2016-2019

	2016-17	2017-18	2018-19
Total Revenues (billions)	$5.2	$5.1	$5.5
Net Profits (billions)	$0.463	$0.382	$0.390
Passengers (millions)	15.161	15.952	16.966
Seat Load Factor (%)	82.9	82.6	82.8
Total Aircraft	104	103	114
Total Employees	10,527	11,700	11,900

Source: "Previous Reports." *Air New Zealand*. https://www.airnewzealand.co.nz/previous-reports.

What Would Douglas Do?

Douglas knew he had to re-imagine Etihad's path for the future. His initiatives to reduce costs and turn the company around had already modified the airline's initial positioning. Adding a new economy class, providing point-to-point services from Abu Dhabi, and unbundling services were strategies more common to LCCs than premium carriers.

Etihad was no more a boutique airline, but Douglas didn't want to dilute Etihad's image when choosing from his options. Should the company continue contracting with others and focus on being a regional carrier? Should it reshape itself as an LCC, while continuing to operate as a full-service international airline? Etihad and Air Arabia were already planning to set up Abu Dhabi's first LCC. Alternatively, Etihad could move toward collaboration with Emirates Airline, which had indicated it was open to sharing facilities.

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WILLIAM DAVIDSON INSTITUTE
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