

## **The competitiveness of Middle East Airline, The impact of Asia hub**

*Ms. Jinatchapim Paoprakit, International College Of Suan Sunandha  
Rajabhat University, Thailand  
E-mail : janjy\_jnchp@hotmail.com*

*Mr. Benjapol Worasuwanarak, International College Of  
Suan Sunandha Rajabhat University, Thailand  
E-mail : benjapol.wo@ssru.ac.th*

### **Abstract**

During the last few decades, The aviation industries have faced unexpected situations which have had negative effects on revenue and development of the airline businesses. To illustrate, the extreme shocks with the September 11 attacks, the SARS epidemic, spiraling fuel costs and the worlds economic slowdown have had direct impacts on demand for air traveling. In addition, the open skies policies in US and EU have been increasing new competitors into the domestic and international markets. Thus, it seems difficult for the airlines to get through a long period of turmoil and high competition in the aviation industry.

The aviation business is a highly competitive business category. Competition can occur from both within the country and outside the country. As well as other forms of travel such as trains, cars, buses etc. The analysis of the aviation business requires a lot of caution because in addition to competitive factors There are still external factors that cannot be controlled. And is a factor that has a significant impact on the profit and loss of the business, such as fuel.

However, The objective of this qualitative research was to study about The competitiveness of Middle East Airline, The impact of Asia hub including studying problems and impacts that will occur both at present and in the future.

*Keywords : “Threat” “Impact” “Competition”*

## **Acknowledgment**

This independent study can be accomplished kindness, good advice from Mr. Benjapol Worasuwanarak, Master of Airline Business at International College Of Suan Sunandha Rajabhat University, That allows assist to be an expert in investigating this research as well as providing research information which makes the research well accomplished. Which provides both knowledge and advice for education Including checking for various defects And would like to thank the news agencies for contributing to all information Including friends which gave encouragement and advice for this research making the research work well accomplished Therefore, Thank you very much for all of you.

Ms. Jinatchapim Paopradit  
Airline Business  
February 2019

# **Introduction**

## **1.1 Background and Rationale**

Major airlines in Southeast Asia That has been known for excellent service for full service airlines whether Thai Airways and Singapore Airlines are encountering threats from two ways and resulting in decreased competitiveness. One threat that has been seen for a long time is Low-cost airlines that take part in the short-term flight market share and squeezing the ticket fare must be reduced from the original the traditional airline solution is to set up your own low-cost airline to compete but the other threat that is getting stronger Is the invasion of the airline from the Middle East (Often referred to as gulf carriers such as Emirates, Etihad, Qatar) took part in the long-haul market routes Especially from Asia to Europe. Middle East Airlines Relying on the geographical superiority that lies between the middle of Asia and Europe and took the position of a hub of aviation from Southeast Asia when combined with service competitiveness and more money making it possible to buy better aircraft and technology for service.

In fact, the aviation business has other business units that generate revenue as well. Such as transportation or selling products on airplanes but the main income is still from the aviation business.

So, what we should have to analyze is the main business. To see a clear trend which is important to watch closely for the cost of the business especially oil costs and loan costs.

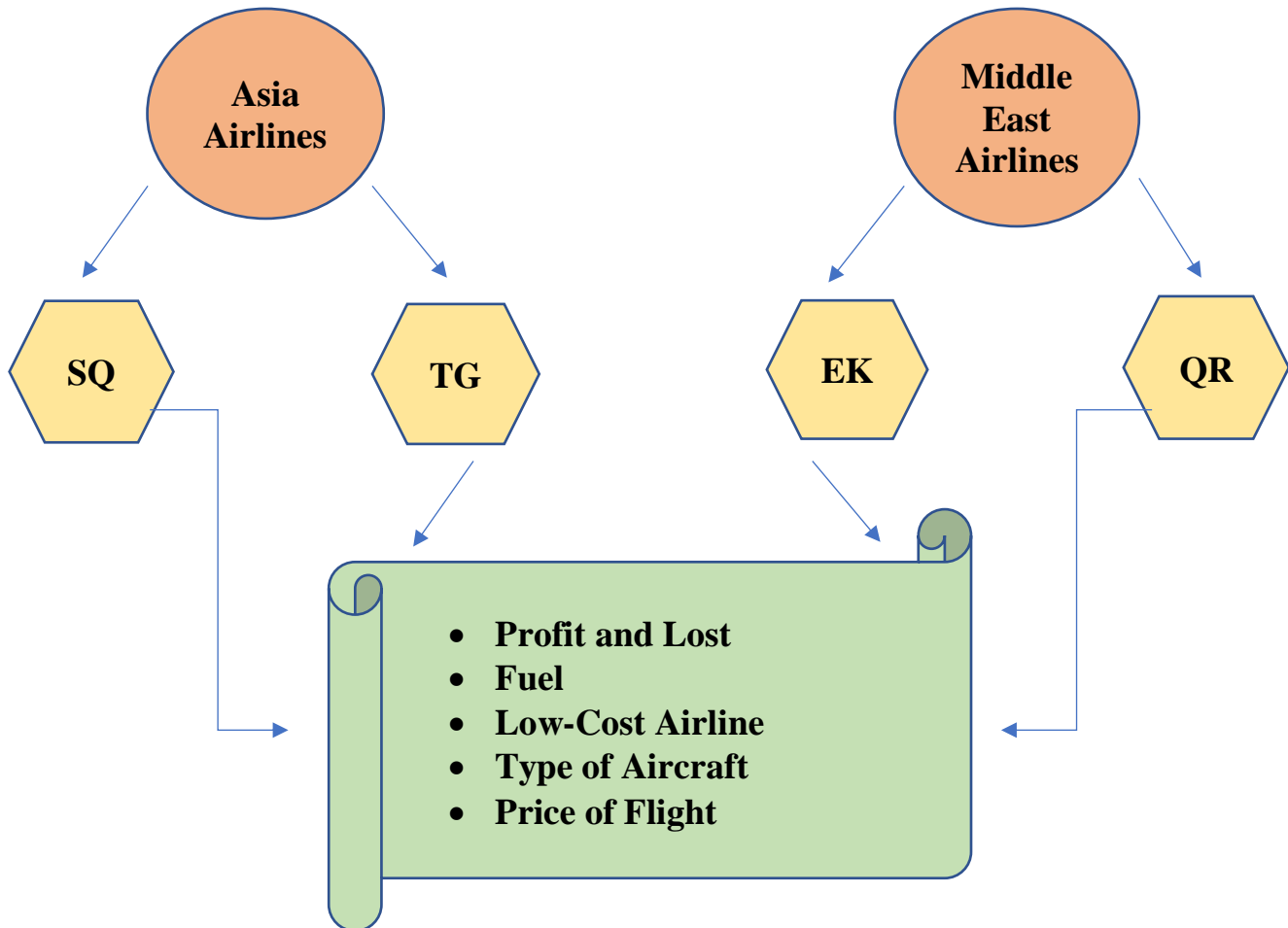
## **1.2 Research Objectives**

1.2.1 To find the threat factors that result in decreased competitiveness for the Airlines in Asia.

1.2.2 To find the effects and solutions from the threat situation of Middle East Airlines.

1.2.3 To analyze the progress and success of airlines organization.

### 1.3 Conceptual Framework



### 1.4 Scope of study

This research was a retrospective analytical study ( Cross-sectional ) methods to link the relationship of variables. With the scope of issues in the study, analyzing the main problems encountered with the current problem solving methods, including in the future.

## **1.5 Definition of research terms**

1.5.1 Threat meaning a statement of an intention to inflict pain, injury, damage, or other hostile action on someone in retribution for something done or not done.

1.5.2 Impact meaning the action of one object coming forcibly into contact with another.

1.5.3 Competition meaning the activity or condition of competing.

## **1.6 Research Hypothesis**

1.6.1 The flight path must be designed efficiently and the number of passengers must be worth the flight.

1.6.2 Continuous technological changes result in various airlines having to develop in order to maintain competitiveness.

1.6.3 Financial costs for buying or renting aircraft.

1.6.4 Oil cost is the top cost of the airline. In particular, countries that need to import oil will have higher costs than countries that are oil producers.

1.6.5 Personnel costs are also the primary cost. Low-cost airlines often have fewer personnel, but the service will also have lower standards as well.

## **Research Methodology**

*This research was a retrospective analytical study ( Cross-sectional ) to find the cause of the problems, effect and solution with the method of conducting research according to the following details.*

### **1. Airlines and Example**

In this study, airlines that target education are Singapore Airlines and Thai Airways and Middle East Airlines.

The scope of this research is a study of market threat analysis only.

### **2. Variables used in research**

*2.1 Independent variable including general information consisting of*

2.1.1 Singapore Airlines and Thai Airways

2.1.2 Middle East Airlines

*2.2 Dependent variable including factors that directly affect*

2.2.1 Profit and Lost

2.2.2 Type of Aircraft

2.2.3 Fuel

2.2.4 Price of Flight

2.2.5 Low-cost Airlines

*2.3 Data Collection*

2.3.1 Ask for advice and ask for opinions from teachers who oversee this research.

2.3.2 Research and collect information on each side of the airline interested from the Internet.

*2.4 Data Analysis*

Use Qualitative Analysis in the form of Cross-sectional to find problems and impacts that will be received and use important figures in aviation business analysis is

2.4.1. Available Seat Kilometer/Miles = Number of Seat for Passengers x Flying Distance

This figure indicates the capacity of passengers in the airline. The higher the value means that the airline has a large capacity and if looking at the trend of this number, it will be found that If increasing means investment in the company fleet and if reduced, means the fleet is smaller.

Which we should expect a higher number of trends in each because it is an indicator that the company is still investing and growing continuously.

2.4.2 Revenue Passenger Kilometers/Miles = Number of Passengers x Flying Distance

This number shows the usage rate, the total number of seats of that airline. The more valuable it means, the more people use the service. But it must also be compared with the Available Seat Kilometers / Miles in order to see the overall picture of how much the airline is using.

2.4.3 Revenue Per Available Seat Kilometers/Miles

It is the average income per seat for airline passengers. The higher the value, the better it means. Means that the company can manage the ticket price effectively. And use the 5 Forces analysis is

➤ **Threat of New Entrants**

Originally, the aviation business had a high difficulty in entering the new competition. Because it is a business that needs to invest heavily in buying planes. In the present, airlines can rent airplanes, making new entrants easier than before.

➤ **Power of Suppliers**

The main supply of the aviation business is aircraft, oil and airports.

➤ **Power of Buyers**

Although the full airline will have a better ticket price. But there is also competition with other airlines overseas. Therefore, the price cannot escape many other players at the same level. Because buyers have the opportunity to use other services as well.

➤ **Available of Substitutes**

Vehicles that can replace aircraft can be cars, buses and trains depending on the distance from the source to the destination. For airlines that travel primarily between countries, there are fewer threats because no other vehicles can be replaced at present. Both in terms of price and convenience.

➤ **Competitive Rivalry**

Competition within the industry is considered very high in Thailand and around the world. May be because the aviation business is a business that has already invested and withdrawn easily if the company does not experience bankruptcy.

So, When unable to withdraw The company must compete in the industry continuously. The price and service are not considered very different because it is something that can be copied. Causing no players to be able to compete much better and use 3 competitive strategy is

<b><u>COST LEADERSHIP</u></b>	<b><u>DIFFERENTIATION</u></b>	<b><u>FOCUS</u></b>
Providing products and/or services at the lowest cost in the industry. คือ การเป็นผู้นำด้านราคา เช่น การขายสินค้าในราคาที่ต่ำกว่าคู่แข่ง	Being unique in the industry คือ ความแตกต่างด้านผลิตภัณฑ์และบริการ ,เป็นหนึ่งในคุณภาพที่เหนือกว่า	Selecting a niche market and achieving cost leadership and/or differentiation. คือ เอาข้อดีด้าน ราคาและคุณภาพมารวมกัน เช่น ขายสินค้าในราคาที่ต่ำกว่าแต่คุณภาพไม่ได้ลดลงแต่อย่างใด

## 1. Differentiation Strategy

Is the product or service that the business produces There must be differences that may not be available from other products of others. Or increasing the potential or efficiency of the product Create a distinctive image that represents the status of the buyer.

Technological excellence Quality leader Service leader Leader of new product offerings And the perceived benefits of consumers and society so that they can set prices that are more expensive than competitors To make a difference from competitors such as The brand with a better image And products with better quality.

## 2. Cost Leadership Strategy

Is the cost leader which can set the price lower than the market Used with large markets If the business has a low cost, then it will be able to stay in the market for a long time. Even though there is a profit margin that will cause other competitors to not want to compete.

Due to not attracting investment or not worth the risk of survival in order to compete in the market Businesses with low production costs themselves, but already before and is the only one in the market But this strategy can only be achieved if there are enough customers so that the net profit is high enough.

### **3. Focus Strategy**

Is that the business focuses on producing products or services for a particular market May be referred to as a niche market with a high income (Niche Market). Having a separate product and service will enable the sales price to be high. Because customers need to buy from that business and do not want to risk buying from others in this competitive advantage Used in small business organizations By limiting the scope of business operations such as limited product lines Limiting target customers Limiting the market in a particular region or limit the type of distribution channels Using limited strategies.

The company must choose the market segment with high profitability potential, with specific requirements that have not been received responses from other manufacturers and create satisfaction and engagement with customers.

- *For the competitive strategy that each airline uses the most to create a unique identity and marketing That is the difference is Differentiation Strategy ( Being unique in the industry)*

However, it is necessary to check the numbers of the industry to compare how much better companies or worse than other players and what is the long-term trend and This figure also indicates the fierce competition in the industry as well. If the numbers of the whole industry tend to decrease That means the racing industry is so intense that every airline has to reduce the price of aircraft tickets.

### **2.5 Benefits that the expects to be**

2.5.1 Know the cause of the problems and can extrapolate the situation of the problems in the future.

2.5.2 Learn the concepts of airline management that are market competitors and can be used to solve problems and adjust to get the most benefits.

## Research Result

At present, the airline business around the world is facing a crisis because of expensive oil. Significantly affecting the aviation business. By the International Air Transport Association (IATA) forecasting that in 2018, airlines around the world have to pay for oil as much as 13,000,000 million baht. Due to rising oil prices, oil prices overtook employee salaries, becoming the highest proportion of aviation business, accounting for 34% of total operating costs compared to 6 years ago. In 2013, oil costs accounted for only 17% of Operating expenses. The above trend has greatly affected the airline business. Causing many airlines to have losses. Especially low cost airlines. Because the fare prices between normal airlines and low-cost airlines are more similar. Since the original cost of most airlines is about employee wages and other expenses. Which low-cost airlines have advantages in the sense that they pay lower wages and welfare. But at present, the main cost has turned into oil. Which both regular airlines and low-cost airlines all have to pay for the fuel at the same price. Have tried to adjust the sample in many ways.

- *First*, increasing the ticket price or setting the fuel charge to push the burden to the consumer. Which in the past was difficult due to high competition. But nowadays, due to many airlines experiencing business problems. Many airlines have to reduce flights or close business. Making the fare increase easier.
- *Second*, instead of focusing on increasing fares. Changed to focus on additional income from fees.
- *Third*, canceling flights to reduce costs. Especially flights with less passengers. Which in academic. Considered a correct strategy. Because it is right-sizing or adjusting the supply to meet the reduced passenger demand. In addition, focusing on selling or terminating old airplanes with high fuel consumption.
- *Fourth*, layoffs to reduce costs.
- *Fifth*, if you want to avoid dismissal of employees so, change method is reduce employee salaries instead.
- *Sixth*, change to use more efficient aircraft. The aircraft that is currently produced will be more fuel efficient than the aircraft produced about 40 years ago, accounting for as much as 70%, most of which is due to the improvement of the aircraft engine both in the combustion process. And the use of new materials in production. To allow the engine to operate at higher temperatures.
- *Seventh*, reduce the weight of the plane. Currently, many airlines do not have a magazine for passengers to read on the plane. Even the magazine of

the airline that publishes itself does not have to read. Which greatly reduces the weight of the plane Moreover Some airlines have also reduced the amount of reserve water for toilets in the aircraft.

- *Eighth*, increasing the efficiency of the aviation radio system At present, the International Air Transport Association (IATA) tries to coordinate with the management of various airports. In order for the aircraft to fly up and down the plane to perform with high efficiency.

Major airlines in Southeast Asia that has been known for excellent service for full service airlines Whether Thai Airways or Singapore Airlines are facing threats from two ways. And resulting in decreased competitiveness.

One threat that has been seen for a long time is Low-cost airlines that take part in the short-term flight market share and squeezing the ticket fare must be reduced from the original The original airline solution is to set up their own low-cost airlines to compete. But the other threat that is getting stronger Is the invasion of the airline from the Middle East (Often referred to as gulf carriers such as Emirates, Etihad, Qatar) take part in the long-haul market routes Especially from Asia to Europe.

In the past, flights from Europe or the Middle East to Far Asia, Japan, Hong Kong, Philippines, Indonesia or Australia Need to stop and stop in South East Asia first Whether Bangkok Kuala Lumpur or Singapore for reasons of distance and geography Resulting in Southeast Asia becoming the "Aviation Hub" of the region and helping to promote the airline's business in this region. But when aviation technology developed, The plane has far more and the growth of Middle Eastern airlines Resulting in routes from the "HUB" in the Middle East Can fly directly to the destination country without having to stop at all.

In addition, Airlines from the Middle East that stop in Thailand Also using cheap ticket selling methods between Bangkok and destinations such as flights from Kuwait to Bangkok And continue to fly to Manila Can sell tickets from Kuwait to Bangkok And Kuwait to Manila with normal price But reduce the ticket price from Bangkok to Manila To throw money from the empty chair The result of this price reduction Causing Thai Airways to compete on difficult prices on routes from Bangkok to Manila as well.

These factors have resulted in Middle East Airlines. Increasing market share by Emirates can occupy 13% share of passengers from Europe - Southeast Asia. Qatar has a 9% share and 6% Etihad (Emirates reveals half-year results for 2015, earnings jump 65 % From lower oil prices) and Two airlines, from Japan, ANA and Japan Airlines, have reduced fuel surcharges due to lower global oil prices. Which, for this reason, will allow airlines to sell plane tickets at a lower price.

The Southeast Asian airline that used to be the market has been hit hard. As for Thai Airways, We already know that losses are continuing and having problems in the industry.

But Singapore Airlines is much stronger was affected as well, 2Baht.com had reported that Singapore Airlines needs to join hands with Lufthansa from Germany to adjust to cope with this change. Including having to turn to direct flights to the US again After the revenue from the flight routes to Europe has decreased considerably. Both airlines will jointly service flights between Singapore. To major cities in Europe, including Frankfurt, Munich and Zurich using code sharing and revenue sharing.

Singapore Airlines will also launch a new flight from Singapore to Dusseldorf with the same alliance style. This flight will use the latest Airbus A350-900 model of Singapore Airlines as well.

In addition, both airlines will continue to expand codeshare services that help Singapore Airlines customers. Connect to major cities in Europe Especially Germany, Austria, Belgium, Switzerland more easily The customers of Lufthansa and Swiss airline companies will also connect to Asia more easily.

## Conclusion

Middle East Airlines Relying on the geographic superiority that lies between the middle of Asia and Europe Take the flight hub from Southeast Asia When combined with service competitiveness And superior power Making it possible to buy better aircraft and technology for service.

Emirates Airlines, a major airline from the Middle East Half year results announced (The 2015-2016 fiscal year) found that profits increased as much as 65% from the previous year.

The reason that Emirates is more profitable Comes from the declining world oil price Originally, the cost of fuel costs accounted for 43% of the total cost. But currently reduced to 28%. In addition, the company reduced the operating expenses from 7.4% last year. However, the major problem in this year is the appreciation of the dollar. (Compared to other currencies around the world) makes less revenue than it should If accepted into the dollar.

In terms of service growth Number of passenger seats - kilometers (ASK - Available Seat Kilometers), which is a measure of the amount of service provided by the airline. Increased by 15.5% from the previous year, 25.7 million passengers increased by 10.3%, Revenue Passenger Kilometers increased by 11%, while passenger load rates decreased slightly to 78.3%

Emirates is a rapidly growing airline in many years and accelerate the expansion of the service potential continuously By purchasing 8 additional Airbus A380 and 5 additional Boeing 777.

As for the risks of Thai Airways, it comes from the volatility of aircraft fuel prices.

### *1. Aviation fuel cost is the main expense for the aviation business*

The company has the cost of jet fuel accounting for approximately 40 percent of the operating expenses. Which the price of aviation fuel is constantly fluctuating The company has prepared a hedge against fuel price hedging in order to reduce the cost of oil price volatility. The company has a policy to manage the price of jet fuel to reduce risk. From fluctuations in oil prices which affects the operation of the company.

### *2. Risk from foreign exchange rates fluctuations*

Since the company has revenues in foreign currencies of more than 50 currencies, representing approximately 70 percent of the total revenue.

The company has managed this risk due to the exchange rate fluctuation to be effective and managed under the Natural Hedging policy, which is to provide the expenditure in the same currency as income. After that, the company runs cash

flow by exchanging the remaining funds in each currency into 4 major currencies and namely currency is euro, yen and baht.

### 3. *Risk from competition in the aviation business*

Increased competition from low-cost carriers (LCC) and newcomers that have invaded the market. Including various airlines Became more and more partners Affecting the company in terms of increasing competition in the route The same as the route the company is providing may result in the company losing the opportunity on that route.

### 4. *Risk from uneven quality of products and services*

Due to the fact that part of the company's aircraft has a long service life. Resulting in products that are old, obsolete, and the quality of products that are provided on the plane, not comparable to competitors The company therefore has provided a new aircraft designed for the cabin. Including installing seats and modern entertainment equipment.

Because if the cost is high Can not determine the low ticket price cannot be flexible in price policy that must be competitive Many people like that Thai Airways sells tickets more expensive than most competitors. Because the cost is higher can not reduce the price Because it will cause loss since not starting to fly (like 4 340-500 A aircraft that had flown to New York and Los Angeles at the price of the ticket sold) In order to have more than 90% load factor passengers still lose every flight. Will not be able to raise prices because there are cheaper competitors. Load Factor will have to be lower again Finally having to leave it alone because of less losses).

Thai Airways International Public Company Limited revealed that in 2017, the company entered the third phase of the organizational reform plan, which is "*Sustainable Growth*" with 6 strategies to operate is

1. develop a competitive aviation network make profits and reduce the complexity of the fleet.
2. Increase competitiveness and strengthen revenue.
3. Create service excellence.
4. Cost competitive and effective operation.
5. Create a corporate culture that supports sustainability and develops personnel to have excellent quality.
6. Manage affiliated companies and business groups and develop new business strategies for sustainability with significant operations.

As for Singapore Airlines, Singapore Airlines also has other plans to improve. Whether adding seats to the Airbus A380, bringing some routes to Scoot, low-cost airlines instead and include the Singapore Airlines financial team with the Silk Air.

Singapore Airlines is one of the world's leading airlines that has to face intense competition from Chinese airlines. And the fate of the airline is similar to that of Cathay Pacific from Hong Kong, where the company will only rely on international aviation revenue.

So, Singapore Airlines needs to join hands with Lufthansa from Germany to adjust to cope with this change. Including having to turn to direct flights to the US again After the revenue from the flight routes to Europe has decreased considerably. Both airlines will jointly service flights between Singapore.

## **Recommendations**

1. Research results obtained can be utilized and can be used to extend or learn more about problems and solutions for each airline, when encountering threats from competitors.
  
2. From the researcher who has done this research Encountered problems during the process There is news about the aviation industry every day. So if you are interested in doing this research, The researcher recommends that keep updating the news every day to get clear and accurate information.
  
3. The researcher sees the major problem in this research is the high oil price problems causing many airlines to have inverse income and expenses. Therefore, the researcher wants those interested in researching this subject and those who want to do it. Have tried to learn more about the problems that each airline encountered.

## Reference

- Penetration of airlines from the Middle East.* (Online). Available at <https://2baht.com/gulf-carriers-southeast-asia/> (2019, February 11)
- Analyze the crisis of the airline business.* (Online). Available at <https://mgronline.com/daily/detail/9510000100910> (2019, February 13)
- Analysis of the basic aviation business.* (Online). Available at <http://investdiary.co/2018/12/15/166/> (2019, February 13)
- Risk factors of Thai Airways.* (Online). Available at (2019, February 15) [http://capital.sec.or.th/webapp/corp\\_fin/datafile/56/20070245T04.DOC](http://capital.sec.or.th/webapp/corp_fin/datafile/56/20070245T04.DOC)
- Singapore Airlines Selects SolArc Solutions for Management Aircrafts fuel.* (Online). Available at (2019, February 16)
- Singapore Airlines to invest to use technology to increase revenue, reduce costs, solve problems of flight delays.* (Online). Available at (2019, February 17) <https://brandinside.asia/singapore-airlines-will-invest-in-technology/>

