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ABSTRACT
A relationship of economic osmosis is noticed between an airline and the country whose flag it flies. Economic impact studies prepared by government organisations and airline managements usually point out the economic benefits of setting up a new airline or flying a new route. These benefits arise for the airline’s home base by way of greater connectivity with the world and include a number of tangibles such as growth in tourism, increase in retail revenue from transit passengers, access to cargo transport for importers and exporters, employment opportunities and a host of indirect benefits that the local populace can gain from exposure to other countries and cultures. One also notices two very important intangibles associated with an airline and the nation of origin—national pride and national security. This paper analyses the remarkable success story of mutual growth shared by Emirates, the airline and Dubai, the city, over the past twenty-five years and the opportunities that the success of this duo signifies for others in the region.

INTRODUCTION
Success or failure of a nation’s flag carrier is usually perceived as an issue of national pride. This is perhaps one of the key reasons why many governments in different parts of the world have undertaken government bailout of national flag carriers from financial crisis and near bankruptcy. Coupled with the much publicised national pride exists the underlying issue of self-interest in keeping alive the airline that flies the national flag. Primarily, it is to provide the nation access to global business opportunities and stimulate internal economic growth as well as to prevent foreign airlines from gaining uncontrolled access to one’s home skies. Regardless of these objectives, the airline industry is a rigorously competitive arena where Darwin’s law of survival of the fittest operates with a vengeance and consistent commercial success year after year of operation is never assured.

During the past decade, under competitive pressures, the airline industry witnessed the introduction of budget, no frills airlines in every major continent of the world including the Middle-East. In this competitive scenario, the growth and consistent profitability of Emirates as a full service premium airline is a remarkable success story built on a relationship of osmosis between Dubai, the city, and Emirates, the airline; made possible by the vision of a dedicated management team that continues to work with the airline even after a quarter of a century.1

Today, Emirates is a global airline of repute flying a very young fleet of 1472 aircraft to over 100 destinations in all six continents and Dubai a much visited transit cum tourist destination. The Emirates-Dubai combination represents the growth opportunities for an airline-transit hub osmosis strategy which both Qatar Airways and Etihad Airways in the region are attempting to emulate. The Emirates-Dubai story also represents the many challenges that one faces in the airline industry, especially when one poses a serious competitive threat to other established players on their home territory. This paper analyses the Emirates and Dubai duo as an excellent case study of a small airline and a port city that grew into a global airline-transit hub combine of significance in 25 years. The geographical location of Dubai has helped Emirates create a global air transit hub from where one can fly to all six continents non-stop. The first section of this paper traces the history and rise of Emirates, followed by an analysis of the success factors behind Emirates and the relationship of osmosis with Dubai in section two. The third section discusses some of the challenges that Emirates has encountered followed by the concluding section that briefly touches on what the future may hold for airline-transit hubs in the region.

FORMATION AND RISE OF EMIRATES
It all started when Gulf Air, the then leading airline in the middle-east decided to cut back its services to and from Dubai International Airport where 25 other airlines operated. Gulf Air did this largely because it felt that it was acting as a feeder airline for other rival airlines operating out of Dubai airport to European destinations, thus aiding and benefiting its own competition. Gulf Air was owned by a consortium of four nations, namely, Abu Dhabi, Bahrain (headquarters), Sultanate of Oman and Qatar. Gulf Air’s decision to withdraw its services from Dubai acted as a catalyst for the

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1 Emirates started out in 1985 and still have with them Maurice Flanagan, KBE as founding CEO (now the Executive Vice Chairman), Tim Clark (now President) and HH Sheikh Ahmed Bin Saeed Al Maktoum, Chairman of Emirates.
2 Emirates to hire 700 pilots over next 18 months, Gulf News, 4 June, 2010 at http://gulfnews.com/business/aviation/emirates-to-hire-700-pilots-over-next-18-months-1.636488 accessed on 14/01/11
creation of Emirates as it prompted Dubai’s ruler to back the launching of a Dubai based airline. Emirates, the airline, was thus born in 1985 with a capital of USD 10 million and two wet leased aircraft, namely a Boeing 737, an Airbus 300 B4 leased from Pakistan International Airlines and another two Boeing 727s loaned by Dubai’s royal family from Dubai Air Wing. The airlines’ maiden flight, EK 600 took off on 25th October, 1985 from Dubai to Karachi, Pakistan but Emirates was forced to fly 80 of its staff incognito in order to cover up a dismal sale of tickets and avoid a public relations disaster. The airline initially operated flights to three destinations, namely Karachi, Bombay (now Mumbai) and New Delhi. During its first year of operation, Emirates carried 260,000 passengers and 10,000 tons of freight taking away business from its rival Gulf Air whose revenues dropped by 30%.

Emirates posted a modest profit in its very first year of operations and decided to expand and invest in infrastructure.

The following year, Emirates posted a loss due to investments in infrastructure but grew its flight network to Amman, Colombo, Cairo and Dhaka. In 1987, Emirates took delivery of its first purchased aircraft from Airbus fitted to its own specifications designed to enhance passenger comfort and deliver a superior customer flying experience over its rivals. Consistent increases in revenue, profits, passengers flown and cargo carried, occurred over the next few years. Emirates doubled the number of destinations flown to, every year between the years 1989 and 1991 (Monteiro, 2005:37). Thus, within six years of operation, Emirates was flying via Dubai 25000 passengers per week to 23 destinations and had acquired nine aircraft.

Both Kuwait wars in 1990 and 1991 provided an opportunity for Emirates to go against the industry trend. Every other airline had grounded or reduced flights in the region, while some regional airlines suffered losses as a result. Emirates continued to fly retaining 90% of its services except for a few hours in 1991 when the liberation war for Kuwait began. The airline continued to make profits throughout these times when others suffered losses and expanded by placing orders for seven Boeing 777s (Birtles, 1998:75) in 1991.

Later in 1992, Emirates acquired an exclusive terminal for its use at Dubai International airport and became the first airline to order a USD 20 million full flight simulator from Airbus for training purposes. The airline also introduced some notable industry firsts in the areas of customer service in order to achieve superior service in the field over its rivals. In flight personal video systems for passengers in all classes, telecommunications in all three classes and on flight fax facility were introduced. Perhaps in recognition of superior customer service and innovative facilities provided by Emirates, the airline won the “Executive Travel Airline of the year” award in 1994. This was very encouraging for Emirates as it meant recognition in the business class passenger segment was a landmark achievement as no other Middle-Eastern airline had received this award before.

Celebrating its 10th anniversary in business, Emirates acquired the Emirates Aviation College, previously owned by the Dubai Civil Aviation Authority, and expanded its services to Africa by flying to Johannesburg and Nairobi in addition to 34 other destinations in Europe, Far East and the Middle-East. By 1998, Emirates had flown 3.7 million passengers, increased its capacity by 26% over previous years and carried 200,000 tonnes of cargo, largely using Dubai as the transit point. In recognition of its superior customer service and innovative approach to service delivery, the airline was voted as the ‘World’s Best Airline’ at the OAG awards.

In 2001, Emirates placed the largest order for aircraft in the history of the aviation industry. The airline ordered 58 new aircraft (mix of Airbus and Boeings) at a contract price of USD 15 billion. This was followed in 2005 by the largest ever order for Boeing 777s worth USD 9.7 billion for 42 aircraft and a historic civil aviation order for 120 Airbus A350s, 11 A380s and 12 Boeing 777-300ERs in November 2007 estimated to be worth USD 34.9 billion per list prices.

Simultaneously, the Emirates-Dubai combination sought recognition in global markets not only through the introduction of new destinations via Dubai but also brand associations with high profile international events through sponsorships. Currently, some prominent sponsorship associations are: FIFA World Cup, Rugby Union World Cup 2011, ICC World Cup 2011, Cricket Australia, Emirates Team New Zealand, 15 International Golf Tournaments, equestrian events such as the Melbourne Cup, Singapore Derby and the Dubai World Cup, Auto racing, Tennis, Arts and Culture.
Currently, Emirates flies 1118 flights per week out of Dubai to all six continents and is considered amongst the top ten airlines in the world. The airline has won over 400 awards during the past 25 years and is amongst the most awarded airlines on a number of counts by a range of rating agencies. The airline has a fleet of 147 aircraft flying to over 100 destinations in 60 countries, employing 30,000 people of 100 different nationalities. For the year ended March 31, 2010, Emirates earned a net income of USD 964 million with annual revenues of over USD 6 billion. In 2010, Emirates carried 27.5 million passengers with 78% percent seat load factor. The airline is reported to be the fastest growing airline in the world today and has grown at an average rate of 20% for some years returning profits every year since its inception except for a financial loss in 1986. The global financial crisis appears to have had very little impact on either its ambitions or financial performance beating the global aviation industry trend where a number of international airlines such as Lufthansa and British Airways are losing money and curtailing operations.

**DUBAI AND EMIRATES: A RELATIONSHIP OF ECONOMIC OSMOSIS**

Perhaps national pride prompted Dubai to launch Emirates when Gulf Air withdrew services but this had an economic logic of ensuring that Dubai’s trade links with the world did not suffer. Taking into consideration the relationship between Dubai the city state and Emirates the airline, the success of Emirates as a global and a consistently profitable airline can be attributed to a great extent to its location in Dubai, among other factors. The airline has adopted the hub and spoke strategy with Dubai as the central hub where all flights arrive and disembark passengers and then those passengers catch flights to go their respective destinations or spend a few days exploring Dubai before they again fly out to their actual destination. The hub and spoke strategy, if executed correctly, has the potential to bring in tourism and retail spending at the central hub i.e. Dubai in this case.

The downside to this strategy is the amount of aircraft waiting time for the airline (can lead to increase in airport ground costs and lower aircraft utilization rates as most airports have night restrictions on flying in) due to delay in the arrival of connecting flights. This is a significant disadvantage as aircraft utilization rates can be lower pushing up operational costs as compared to a point to point flight (directly flying to the destination without a change-over to another flight). However, in case of Emirates, the airline also achieved one of the highest aircraft utilization rates in the industry at 18 hours per day as there are no night flight restrictions at Dubai International airport, thus overcoming the only major disadvantage of the hub and spoke strategy. Currently Emirates flies non-stop to all six continents from a single hub, i.e. Dubai demonstrating successful of the hub and spoke strategy to grow the duo of Dubai and Emirates.

Paul Griffiths, CEO of Dubai Airports believes that Dubai has a number of distinct advantages that will ensure Dubai International airport’s growth in the future (and thus the growth of Emirates). According to Griffiths, “Dubai’s location, which puts it just four hours flying time from one-third of the world’s population and 12 hours from 80 per cent of the population; an open skies policy that welcomes competition, top notch infrastructure and compelling tourist attractions” will help both keep growing. Thus, Dubai as the central hub for the airline has undoubtedly helped Emirates expand air services to areas of heavy passenger traffic in Asia, Europe and Africa as well as launch onward connections to United States and far off destinations such as Australia and New Zealand. The phenomenal growth of Emirates has created a relationship of osmosis between the airline and the continuous expansion of airport facilities at Dubai. Brand Emirates is also linked to “brand Dubai” as a tourism destination. Dubai boasts of the world’s largest duty free shopping and an unsurpassable retail experience, among other attractions. In addition, the airline has one of the youngest fleet of wide bodied, long haul aircraft that can carry up to 500 passengers contributing to a lower per passenger-mile costs with a very healthy 78% seat loading factor (seat occupancy). Emirates enjoys access to exclusive parking and maintenance facilities at its own terminals at Dubai Airport. The airline significantly benefits from Dubai being a tax free emirate and a place where trade unionism is not permitted- all of which contribute to the airlines profitability.

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14 http://www.emirates.com/english/about/about_emirates.aspx accessed on 14/01/11
16 A list of all awards that Emirates has received can be accessed at http://www.emirates.com/english/about/awards/awards.aspx (accessed on 17/01/11
17 Emirates to hire 700 pilots over next 18 months, Gulf News, 4 June,2010 at http://gulfnews.com/business/aviation/emirates-to-hire-700-pilots-over-next-18-months-1.636488 accessed on 14/01/11
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19 ‘Rulers of the New Silk Road’, The Economist, 3 June, 2010 from http://www.economist.com/node/16271573 accessed on 12/01/11
20 There are several other airlines who claim to be the fastest growing airlines in the world such as Etihad Airways, Qatar Airways, Easy Jet and Ryan Air.
21 “Dubai International on course to become fastest growing major international airport” http://www.dubaiairport.com/DubaiAirports/English/Media+Center/Press+Release/DANews13Jan10.htm accessed on 13/01/11
Dubai, too, benefits from the presence of Emirates in a big way. In 2008, Dubai International airport was refurbished and a new Terminal was opened for the exclusive use of Emirates. This contributed to 9.2% growth in passenger traffic during 2009 at Dubai International airport contrary to the downturn in passenger traffic elsewhere due to the global financial crisis. The airline’s promotion of Dubai as not just a stopover point but also a holiday destination through its “Discover Dubai” promotions further contributed to this growth. If one reviews growth in passenger capacity of Dubai airport since 1974 to 2010, one notices an unrelenting growth and a positive correlation between the growth of Dubai airport passenger capacity and Emirates’ expansion of services.

In 2010, Dubai opened the first phase of a second international airport i.e. Dubai World Central-Al Maktoum International airport. When both international airports in Dubai start operating by 2012, Dubai will have the capacity to handle more than 90 million passengers. This shall exceed the combined capacities of London’s Heathrow and Paris’s Charles De Gaulle airports. In 2010, Dubai International airport experienced a 15% growth of transit traffic passing through Dubai. The airport authorities expect to receive 4 million passengers every month in 2011. Therefore, Dubai already competes very successfully with rival transit hubs such as Singapore, Bangkok, Kuala Lumpur and Seoul and is likely to challenge other transit hubs in Europe especially in case of travellers flying to USA or Latin America from Asia and Australasia.

THE CHALLENGES

Emirates faced some challenging times after September 11, 2001. With the downturn in global air travel, rising security costs many major airlines faced financial trouble. Swiss Air closed business while three major US airlines (Delta, United and US Airways) reduced staff and faced near bankruptcy. British Airways launched a major cost cutting initiative while Air France and Lufthansa scaled down their growth prospects (Monteiro, 2005: 39). Most airlines started reducing employees, cutting down operational costs and routes; but Emirates decided to do take steps contrary to the norm of announcing redundancies. HH Sheik Ahmed sent out an email to all Emirates employees telling them (as cited in Monteiro, 2005: 39)

“We are a family, and I want to address you as the head of the family. I want to reassure you that your safety and well-being is our paramount concern. My message is that this is the time to prove that Emirates Group really is the best multinational team in the travel business. Show respect to each other, and we will emerge an even stronger team.”

The airline industry had barely emerged from the aftermath of September 11, when it was again hit by a substantial increase in oil prices in 2004 and once again in 2008-9 by the global financial crisis. The last decade has been the most challenging for the airline industry worldwide. It is estimated that post 9/11 worldwide the airline industry has lost around USD 50 billion (Falconer 2010). Contrast this depressing scenario with the phenomenal growth of Emirates, the airline and passenger traffic at Dubai during the same period. Essentially, it speaks of the airline’s ability to overcome challenges thrown by shifting conditions in the global business environment.

Although Emirates has overcome the hurdles experienced by the airline industry in the past decade, it still faces challenges in expanding operations. In recent times Emirates has faced opposition in expanding its network to Canada and obtaining landing slots at the new airport in Berlin, Germany. Canadian newspapers have reported that Emirates was in negotiations with Air Canada during 2006 to fly into Toronto and other Canadian airports but business terms did not work out between the two airlines. Possibly, as a result, the present Canadian government has denied Emirates landing rights for additional flights that Emirates had proposed for Canada. In Germany, Lufthansa has accused Emirates of gaining an unfair advantage in its services to Germany stating that Emirates flies into four German cities while Lufthansa flies to only one city i.e. Dubai. Lufthansa has also approached the German government to deny additional landing slots to Emirates at the new airport in Berlin approaching completion.

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EMIRATES AND DUBAI: FLYING INTO THE FUTURE

The airline industry in the Middle East has two entrants who are working towards emulating the Emirates-Dubai success story, namely Etihad Airways from neighbouring Abu Dhabi as the central hub and Qatar Airways from Doha, Qatar as the central hub. All three airlines have ordered large numbers of aircraft from both Boeing and Airbus at a point in time when most airlines are not placing large orders. In 2008, Abu Dhabi’s Etihad Airways placed a massive order of 205 aircraft worth USD 43 billion at list prices with Boeing and Airbus, while Qatar Airways had 140 aircraft on order in 2007. Etihad also are not lagging behind these two. In June 2010 the airline ordered additional 32 Airbus A 380s at a cost of USD 11.5 billion making it the single largest order ever for that aircraft. Again in July 2010 at the Farnborough Air show, UK, Emirates placed orders for 40 new Boeing 777s at a cost of USD 9 billion. This turned out to be the single largest order at the show where the combined dollar value of all orders amounted to USD 25 billion. Between the three airlines, the next decade will see an addition of substantial number of aircraft. Assuming that some of those will be used to replace old aircraft in case of Emirates, the region will have still added substantial capacity.

Coupled with these massive orders for aircraft, if one reviews the airport expansion plans and developments taking place in Abu Dhabi, Dubai and Qatar, a very interesting picture emerges. For instance, a new airport is being built in Doha to ultimately handle 50 million passengers, two million tonnes of cargo and 320,000 landings and takeoffs each year from 2015 onwards. Add to this the developments at Dubai and Abu Dhabi and one can visualise the Middle-East as the ultimate central hub for all air travellers crossing the date line from either side. As a result, Europe may lose its importance as a transit hub for air travel to North America in particular.

All these developments certainly augur well for the region. However, the outcomes will also depend on how competition evolves in the region and whether each of these three airlines and their respective central hubs reach a certain level of resource similarity. If they do reach similar levels of resources then applying the logic in Chen (1996) firms with high degree of resource similarity will engage in similar competitive actions. Likewise market commonality as defined in Chen (1996) will also apply in this case. It will also have a significant bearing on the intensity of rivalry and therefore the nature of competitive actions these airlines will engage in. Since all three airlines will be catering to common markets at a certain point in time and all three will have similar resource capabilities, it is expected that they will not compete with each other but end up cooperating with each other.

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