



## Airlines and Profitability Case of Saudi Arabian Airlines

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**ABSTRACT:** This particular research study deals with exploring and uncovering ways which could augment profitability and competitiveness of the airline players with special reference to Saudi Arabian Airlines. The report also deals with data analysis and then only put forwards various recommendations to fortify strengths and mitigate weaknesses. This report will be beneficial for all the stakeholders of the airline industry who in some or other way are associated with this particular sector. The airline has also commenced the facility of e-ticketing for domestic flights which is supposed to render a super competitive advantage to the airline player. Even on board services in terms of food as well as entertainment has improved significantly. The airline management also is in practice of sending almost a million SMSs on a monthly basis to remind passengers about ticket time limits, to confirm reservations and render information with respect to departure times. This has rendered airline a sustainable competitive advantage in today's marketplace.

Saudia believes that completion among various airline players in quintessential if demands of air travelers have to be catered in an effective manner. In this case the airline player in consideration renders regular schemes for travelers if they are flying to select European destinations. If we consider UK then the airline in consideration has a total of almost a dozen flights to London Heathrow. Apart from London connection, airline offers flights to various international destinations such as Athens, Manchester, Munich and Vienna. New routes which will augment coverage of European Continent- one more notable fact in this case is that residents and nationals of Saudi are highly inclined towards international tourism and thereby there are ever increasing number of tourists from this pace which ultimately renders huge benefits to the airline players especially Saudi Arabian Airlines.

### I. INTRODUCTION

Even in case of airlines, privatization, open competition have brought a turnaround in which business is being carried out in this segment. This has not only influenced private carriers but also nationalized carriers. The first airline operations in Saudi Arabia commenced in the year 1945. In the next six decades, airline became the biggest in its segment across the globe. It has a fleet of almost 91 carriers which have the capacity of carrying 16 million passengers annually. It flies to almost 70 domestic and international destinations across the globe. Now with advent of 21<sup>st</sup> century, air travel in Saudi Arabia is into a new era of coming up with low cost service airlines.

As compared to other airline players across the globe, this particular player is in quite good shape and its profits double between the years 2003 and 2005. The figures totaled to somewhere around \$133 million. Volume of passengers also augmented by nearly half a million in the year 2006 and is predicted to rise by 15% annually. The airline player has prepared itself in a manner so that it is quite capable of challenges and demands of booming economy and amplified volume of traffic. The airline has differential service offerings to cater to needs of different classes of travelers traveling through this airline. Thereby it is able to record sustainable growth for such a long period. Though airline player is all set for sustainable growth, but it still faces challenge in form of exploring the best way out to cater to the increasing demand. (Karen, 2004)

The airline was quite fast in recognizing the fact that if it had to better its overall competitive position, then it has to amplify the level of customer service it renders to its customers. This led to development of successful growth strategy under the dynamic leadership of Khalid Almolhem who was responsible for successful privatization of Saudi Arabian Airlines.

The strengthening of customer service was the signal for airline undergoing a major reform in the form of privatization. In this case privatization began with sale of almost 49% stake in catering unit for almost \$373.3 million. The catering business of the airline commenced its operations in the year 1981 and had the capacity to

render 15 million meals in first nine months in the year 2005 itself. This accounted for almost a revenue of \$171.5 million in the year 2005 and in this case net profit amounted to an amount of \$38 million and net operating margin of 25% which made it a very lucrative business with respect to investments and returns.

The catering division was first out of the five divisions to undergo transition in the form of privatization. Then cargo, ground handling, maintenance, and flight academy followed in sequence which underwent privatization. The strategy in this case for the airlines has been to adhere to strategic planning of approaching strategic partners. The airlines is very confident that it will be able to form independent organizations to augment its growth trajectory which will be helpful in carving out customer oriented mentality and aid the process of fighting and sustaining in the marketplace in the 21<sup>st</sup> century. (Paauwe, 2009)

## II. OBJECTIVES OF THE RESEARCH STUDY

The various research objectives of this particular research study are as follows-

1. To explore ways to be competitive in airline industry
2. To uncover various measures taken by Saudi Arabian Airline to stay competitive
3. To suggest recommendations and areas of improvement with respect to staying competitive with special reference to Saudi Arabian Airlines

## III. LITERATURE REVIEW

### Competitive Advantage

The competitive advantage can be attained by giving great value to the customers. This value can be provided by lowering the price of products or service and give benefits to the consumers so that they can satisfy.

**Competitive Strategies:** On the basis of his studies and research, Michel Porter suggested 4 generic business strategies that will be helpful to get competitive advantage over its competitors. These business strategies are dependent upon the scope of business i.e. narrow versus broad and the degree of differentiation in the product is narrow or strong.

**Strategy – Differentiation:** The differentiation strategy will be useful to get competitive edge but the uniqueness in product will come with the increase in price of that product. To provide value –added services to the client and make product differentiated from the competitors increase its cost. So in differentiation strategy the premium price is charged form the consumer. So generally this strategy will cater the people who are premium class. This will give the clear reason to the consumer to why they will purchase this particular product because people generally think that good things come with the good price. Ultimately this strategy is helpful to attract the clients.(Michael, 2006)

**Strategy - Cost Leadership:** The cost leadership can be attained by provide low cost product than the competitors and the quality of the product remains the same. The public will be very attracted towards the low price things. To achieve the cost leadership generally companies will get the material in lower prices from the suppliers. Then only companies will be able to provide products at comparatively lower prices than the competitors. This strategy is used by generally large businesses who can suppress their suppliers otherwise the suppliers will not provide materials to small business units. The companies that uses low cost leadership also able to provide good discounts and arranges too much of sale to sell the products. Even in the sale also these companies will generate good amount of money.

**Strategy - Differentiation Focus:** In this strategy, the business is differentiated in one or small number of target market segments. This segment has specific consumers and their needs so according to this strategy differentiated product is provided to this consumer that makes an ultimate difference from the other competitors. Because this kind of strategy is helpful in satisfying the needs of that customer group. The main thing which is to be considered over here is that businesses must ensure that there will be different needs of consumers must occur. If there will be no consumer with different needs; this strategy will not be useful. (Gartner, 2009)

**Strategy - Cost Focus:** This strategy is applicable at small market segment where a low cost similar product is made to the high priced product. The features of both the products are same and accepted by the group of consumers. These products are often called "me-too's".

## IV. RESOURCE BASED COMPETITIVE STRATEGY

The **resource-based view (RBV)** will be helpful in determining the strategic resources for the company. The resource based competitive strategy is dependent upon the disposal of important resources of the company. To get the competitive advantage over the competitors in very short time can be achieved when the resources are heterogeneous and not same. They must have to be mobile. This will also be helpful in attaining long term competitive edge. In this condition the group of firms resources will be helpful in getting competitive edge. The VRIO model also constitutes a part of RBV. The key points of the theory are:

1. Determine the potential resources of the business.
2. Evaluate whether these resources fulfill the following criteria (referred to as *VRIN*):
  - *Valuable* – The value creating strategy will be applicable when business wants to get an edge over the competitors and it will be efficient enough to decrease the weakness. Relevant in this perspective is that the transaction costs associated with the investment in the resource cannot be higher than the discounted future rents that flow out of the value-creating strategy.
  - *Rare* – The value can be created when the resource is available in rare quantity. And in a perfectly competitive market, the cost of the product will give the information about the discounted future returns above average returns.
  - *In-imitable* – A single company will get the competitive edge when the resource is in control of that firm only. This advantage will be converted in long term competitive advantage when competitors will not be able to make copies or substitute of that product. The term isolating mechanism was coined by Rumelt, this helped to give information about why the companies are not able to copy the product on the basis of that one it will be able to get competitive edge. One of the most important factors responsible for inimitability of competitive advantage is causal ambiguity which happens when the source or root cause of competitive advantage with the organization is not known and cannot be made out. In this case if the resource in consideration is based on knowledge or is socially complex, then there are more chances of social ambiguity to take place. In the viewpoint of Conner and Prahalad, knowledge based resources are the prime essence of concept of resource based perspective.
  - *Non-Substitutable*- For a resource it is equally important to be rare, imperfectly imitable as well as should have lack of substitutability for its long term high sustainable value. In case when competitors in the market place are able to counter competitive advantage of the organization with a counter policy or product feature, then parent organization has to lower down the prices to that point where price offered is almost equal to discounted future rents which results in zero economic profits for the organization.
3. One should care as well as protect the prime resources as this act can foster overall performance level of the organization for long run of time in a sustainable manner.

The VRIN characteristics mentioned are individually necessary, but not sufficient conditions for a sustained competitive advantage. Within the framework of the resource-based view, the chain is as strong as its weakest link and therefore requires the resource to display each of the four characteristics to be a possible source of a sustainable competitive advantage.

**LOW COST LEADERSHIP** Under low cost strategy, the quality products are provided to the clients at lower prices than the competitors. The cost leadership strategy is not only concerned with lower cost its more than that. It is also important in improvement and development of the efficiency of the company and plays a vital role in strategic planning. The companies are also able to protect its consumers and markets by the competitors by forming in-roads market place by decreasing the price. Such reactive response may make a company predominantly inward focused. (Thomas 2009)

**Positioning - low cost strategy:** The company can get the cost leadership by not only providing the low cost to its consumers but also it has to be a low cost supplier in the market. This transformation is very necessary to achieve all the aspects of low cost leadership. With this business will transform cost advantage into price advantage to enhance the market share. With the low cost strategy, the company is able to get economies of scale and low cost products and plans to implement. If company is capturing more market, it means that it is achieving more economies of scale in an effective way and that will lead to reduce cost and give low cost products to the clients. The low cost leadership strategy can be attained by converting cost reduction into cost advantage for consumers.

**Supplier and partner relationships drive low cost strategy:** The low cost leadership is based on relationship with supplier and most of the companies use this trick. The company has too much of control over the suppliers and logistics. The cost effective products can be available if the relationship with suppliers is good. The major cost of a product is related to the inbound supply chain. We can take the example of Toyota in this case because its relationship with the suppliers is ultimate.

**Know your customers:** The companies that are using cost leadership are dealing with one or two major concerns. They have to give quality product at comparatively lower prices and have to pass this savings to the consumers. The costing and pricing strategy is very important for them than the value proposition of the consumers. With this potential the businesses have another major opportunity to reduce cost and grab the profitable consumers of niche market. A company when it compares the value proposition that it offers against the attributes that customers really value, new insights and opportunities may open up. This study will be helpful

to get to know about the factors on the basis of company has certain expenses and still clients do not care about the particular problem of this. When we work for this process it will help to improve quality. These frills cutting are based on the thrust on factors where business units are providing below the quality of consumer's expectation. It gives a great opportunity to decrease cost and provide value to the customers that will be able to attract consumer from the market which we are not catering. The Southwest Airlines strategy is based on no frills so the services that are provided to the clients are mostly depends upon the cheap fares and prompt schedules. The strategy to satisfy consumers is mostly dependent upon this. There are several roles that can be played by HR in developing knowledge management system.

**First**, the human resource department is responsible for describing the knowledge management system. The clear understanding of knowledge management is required before its execution in the office. The organizations are very much interested to adopt those technologies that are used for problem solving in the company. Once the error is identified its become very difficult to reach the correct solution and for that data collection and resources related to this is difficult to explore. To get the real success of knowledge management it is very important to decide the course of action but first of all the framing of issue is important.

**Secondly**, one fact that should be given due consideration is the fact that HRM also render its functionality as a knowledge facilitator, thereby we can understand the fact that it is the responsibility of HRM designer to design this function in proper synchronization with business ethics as well as organizational policies simultaneously. All the former factors mentioned should aim to carve out an environment which fosters knowledge sharing as well as utilizing it to deliver the desired advantage for the organization. It is the responsibility of human resource management function to maintain a good culture in the organization so that seamless and streamlined communication is possible at all the levels in the organization.

**Thirdly**, it is a vital fact that associates working in HR department should understand that it is their duty to make sure that they have mechanisms in place which pave way for cordial relation between associates working in the organization. This can be accomplished through transfer of tactical knowledge and then converting the same into explicit knowledge referred to as education. This all is possible or feasible only in those cases where in proper learning mechanisms are in place and is alignment with vision and mission of the organization inconsideration.

**Fourthly**, associates working in HR business function should synchronize their work in a manner so that sharing of knowledge takes place in the desired manner. All such positive activities must be recognized as well as recognized within the organization to help organization progress faster and in an easy manner. It is vital that there is mechanism for ensuring effective knowledge management to be in proper shape within the organization and in this case there should be coaches and mentors to take proper care of everything in place. The various sub-functions which form HRM as a complete business function involve recruitment, appraisal, remuneration, designing etc.

**Fifth**, HRM must relax controls and permit (even foster) such kinds of behaviors that augment the organizational efficiency round the clock. Today, everyone including individuals as well as businesses are living in a world which is referred as knowledge economy and thereby the people working in this world are referred as knowledge workers.

It is quintessential for organizations to realize one fact that they should simultaneously selectively recognize as well as reward, rather than only discouraging and punishing the above mentioned behaviors. The emphasis should be on building a conversation that is productive as well as constructive. It is also an already established fact that human resource management will have to accommodate both the perspectives into picture for desired fruitful results.

**Sixth**, it is very essential for HRM to work as per strategic direction chosen for overall organization to aid organization manage all the communication technologies such as e-mail, instant messenger, surfing and related mechanisms in a better way. Thus one thing that is very clear from above discussion is that internet has a very vital role to play in transfer of knowledge in the intended manner. Thus, we can say that internet acts as a messenger in case of knowledge management. There has to be obviously some control that has to be exerted so that internet delivers intended results and organization is saved from bad impacts associated with internet.

## **V. RESEARCH METHODOLOGY**

**PRIMARY RESEARCH:** The research study is done over here is related to the aviation industry so all the aspects are done according to it. It is done on the basis of how the whole process is carried out here. Therefore both kinds of research are done for carry this study i.e. quantitative and qualitative both researches are helpful. The presentation of data that is collected was done by various statistical tools like graphs, diagrams, charts, etc. without charts and graphs the research paper is appears as incomplete. If there are any charts and graphs are available in the dissertation, it should be arranged in the proper fashion. The usage of such analytical

tools brings out more clarity and understanding of the data. Also, a point noteworthy in this case is that pictures are very attractive, thereby they further add to the thesis clarity and understanding. (Boland, 2009)

### **Process of Research**

In order to gain a relatively deeper understanding of the circumstances which will be encountered during the process, it is very important to lay down a plan, design and carry out procedural objective oriented research. The procedure is referred to as research process. The research process so devised has several steps which are as follows-

1. Establishing the research problem
2. Establishing the research objective
3. Carving out an effective research plan
4. Assessing collected data and related information
5. Presenting the conclusions so derived in a systematic procedure
6. Selecting the right step and executing the same

### **Data Collection**

The data is collected in very good way so that it's counted by the researcher very easily. The data is collected in a way so that it can be very useful to validate the research hypothesis in very accurate way. This emphasizes the need for appropriate data collection methods..

#### **Primary Data Sources**

The data that is collected by the researcher himself by qualitative and quantitative research methods is called as primary data. The primary data is unique because it is collected by the researcher to solve a particular problem and it becomes unique till it is published anywhere.

### **Questionnaires**

It is a complex task to derive exact questionnaire. The responses derived with the help of questionnaire can be really helpful in devising and uncovering real facts which may lead to solid findings and recommendation in relation to the research topic under consideration. There are various benefits that researcher can yield with the help of questionnaire which are as follows-

1. Questionnaires have the capability to derive quick responses from the respondents
2. Researcher in this case need not directly go in person to fetch the required data
3. Cost effective method of gathering the required data for the research topic
4. Anonymous responses can also be gathered
5. Biasness can be minimized to the lowest possible extent in this particular case

The clear deadlines are given to the respondent so that they will fill the questionnaire on time and return it to the researcher, so it becomes easy for the researcher to make out the results on time. So that the research can be done on the given time period. The researcher should be in contact with the respondent so that he will provide any support to the respondent if required during filling the questionnaires. The questionnaire should also be sent to the HR department and the technical team too. Tables below illustrate the questionnaires (draft and provisional).

The guidelines for filling the questionnaires are also sent to the respondents so that they can fill it with ease.

### **Secondary Data Sources**

The secondary data is gathered for different purpose and that purpose is to collect the data that supports the research study and give an in-depth knowledge about it. For the formation of hypothesis a thorough review of data is required.

The secondary data is helpful in forming the literature review of this research study. The data is collected through various secondary sources like magazines, brochures, company papers, books etc. The list of other secondary data sources that the researcher proposes to refer to are listed as below (but not limited to):

- Paper based material/data sources on CRM across the globe, (and its associated subjects and topics) such as books, journals, newspaper articles, periodicals, magazines, research reports, etc.
- The data available on internet in forms of ebooks, journals and other forms are helpful in this research study.
- The data is also present in forms of videos. In addition to the secondary data sources mentioned above, the researcher will seek to refer to official data sources and any other institution's work.

## VI. DATA ANALYSIS

Questionnaire was floated to a sample of almost 100 respondents as stated earlier in the report. The questionnaire had various questions such as-

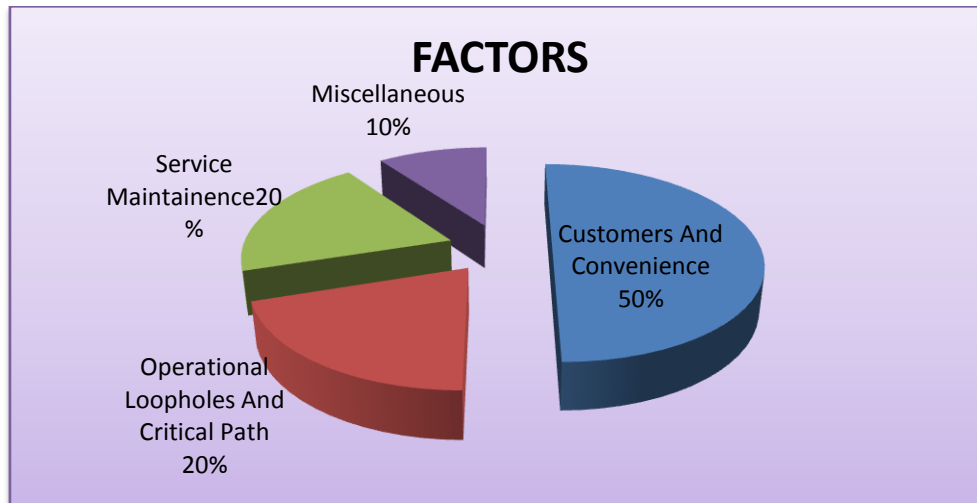
1. What are the factors that should be considered for developing the services blueprint for the airline industry?

Out of 100 respondents-

50 said customers and their convenience should be considered as now-a-days customer is king

20 said operational loopholes and critical path should be given high priority

20 said service maintenance should be taken into consideration 10 opted for other miscellaneous options



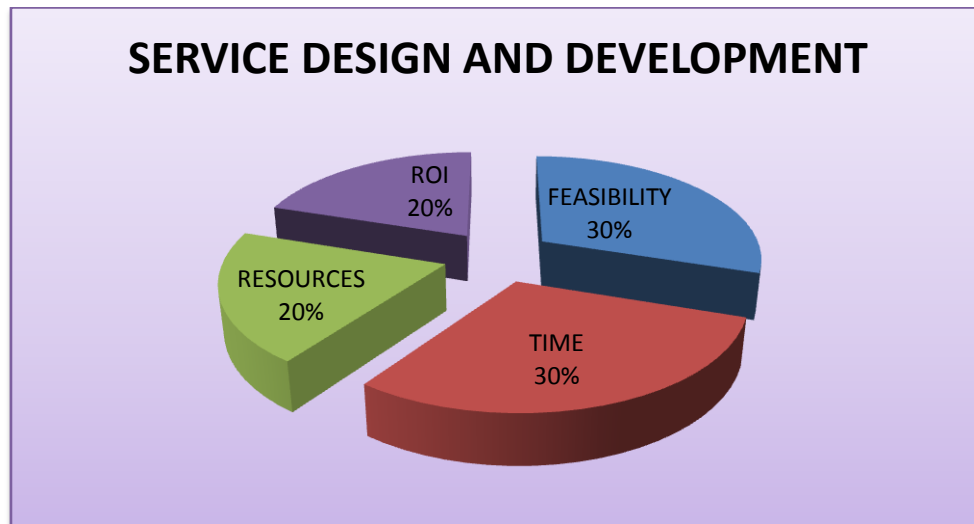
2. What are factors generally for the services design and development of airline industry?

30 said Feasibility (Technical and Economical) is most critical

30 said Time is most critical

20 said Resources are the most critical

20 said Return on investments is most critical



3. How do airlines perceive the impact of alliances on their operation in general and on passenger traffic in particular?

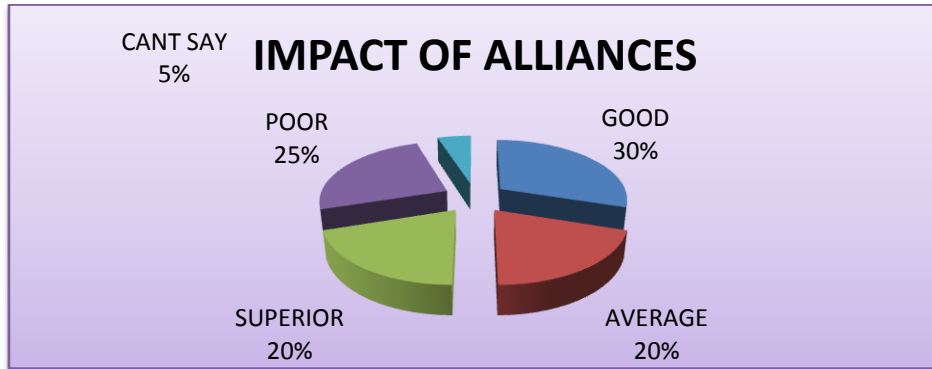
Good (30)

Average (20)

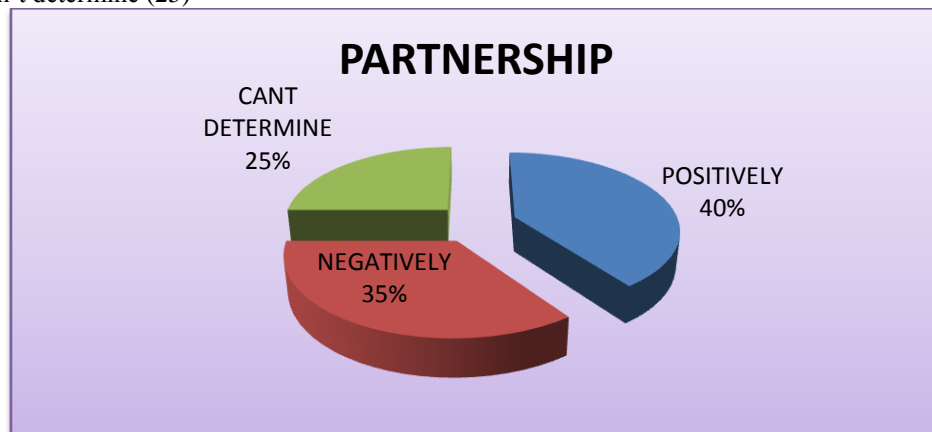
Superior (20)

Poor (25)

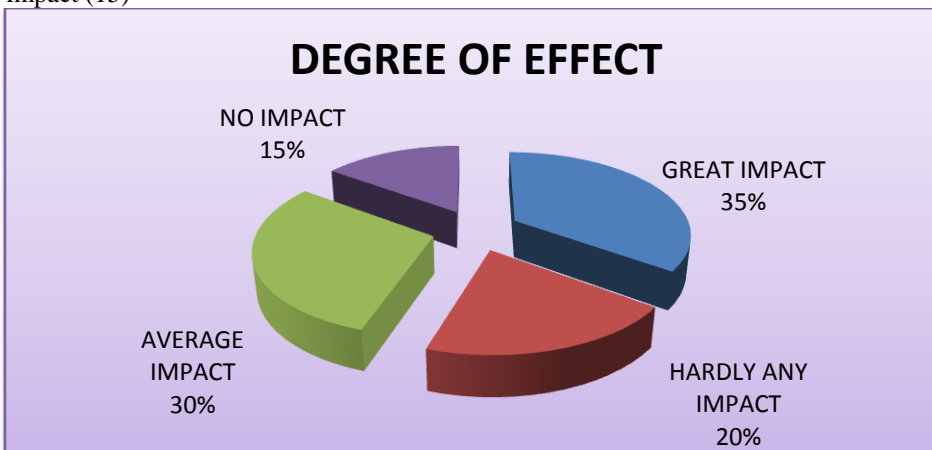
Can't Say (5)



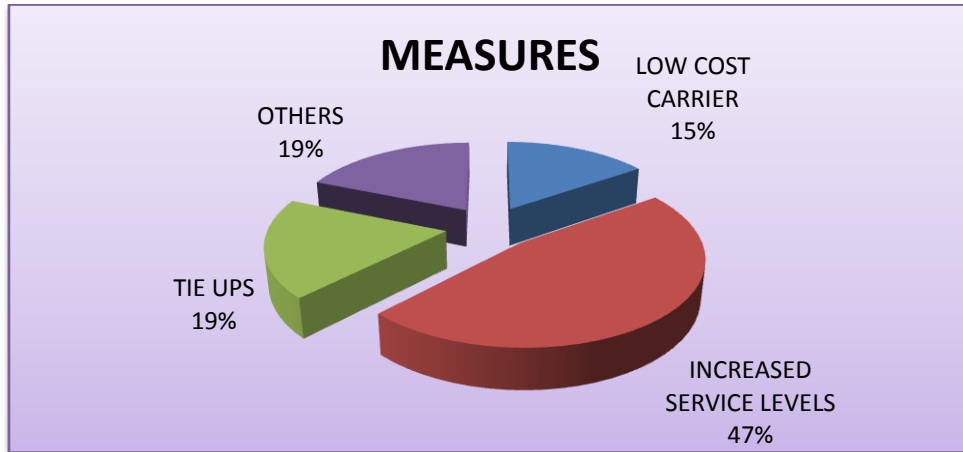
4. How partnership agreements and different types of routes have affected the results?  
 Positively (40)  
 Negatively (35)  
 Can't determine (25)



5. Have airlines of different size, operating from a different region and belonging to different alliance grouping been affected differently.  
 Great impact (35)  
 Hardly any impact (20)  
 Average (30)  
 No impact (15)

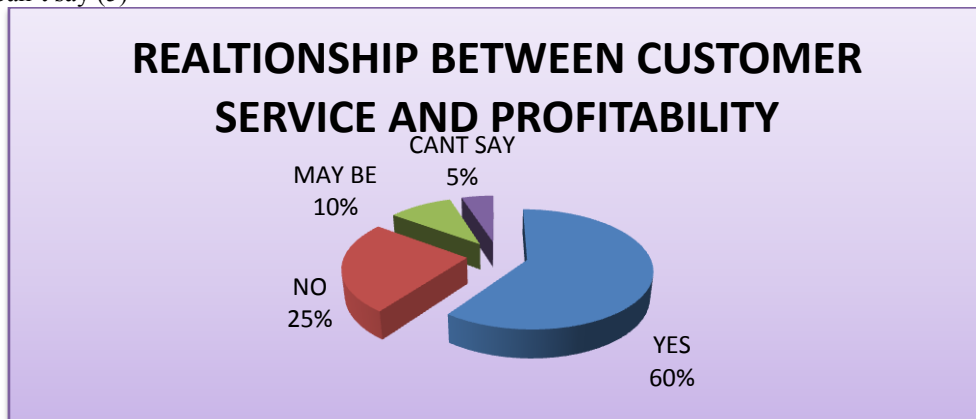


6. What are the various measures that can be taken to augment profitability of airline player in consideration?  
 Low cost carrier (55)  
 Increased Service Levels (25)  
 Tie ups (10)  
 Others (10)



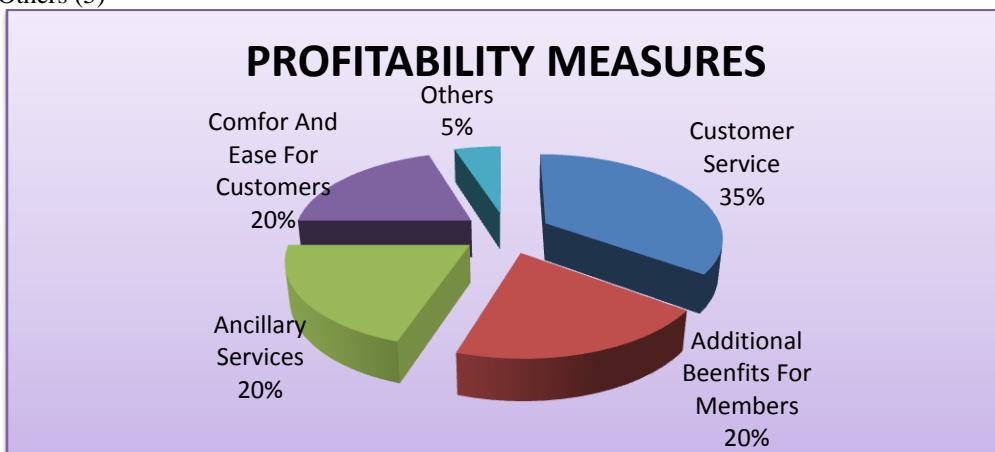
7. Do you think increased consumer service level can augment profitability of airlines given the fact that it will bring in costs in form of training as well as manpower?

- Yes (60)
- No (25)
- May be (10)
- Can't say (5)



8. Apart from low cost carrier do you think that there are some measures which can be incorporated to augment profitability?

- Customer Service (35)
- Other additional benefits for members (20)
- Ancillary services (20)
- Comfort and ease in travel with respect to traveler (20)
- Others (5)





## **VII. SUGGESTIONS**

There are some suggestions which could improve the conditions of airline players which are as follows  
No add on charges- if we consider present market conditions, then we come to realize the fact that they all resort to charging 15% extra for first piece for checked luggage. This is not going to do any good to the airline players. Airlines have to get delayed due to additional baggages on board. Flights will be further delayed trying to get all those extra bags on board. That's a lot of hassles just so the airlines collect a measly 15 bucks. Most passengers would probably be willing to pay a little more for their ticket to avoid added headaches.

Simple structure with respect to pricing will do a lot of good to the airline player as customers will know for what service they are paying what amount and will lead to loyal customers. This will do good for airline player.

Extra array of services-There should be more classes rather than just economy and first class. This will provide room for additional services and will open a window for earning more. This would increase loyal customer base as well as pull in new customers as well.

Re-regulation- It was long back in the year 1978 when this industry (airline industry) was deregulated and was open to competition as well. Thereby regulations remained same so it is time for re-regulation to take place.

### **Tasks That Can Augment Organizational Efficiency**

With respect to HR, there is a need for streamlining the overall business operations and augmenting the overall efficiency as well. As per the viewpoint of Cascio, HR of any organization has to be very efficient in case of following competencies parameters-

1. Aiding the organization's business model in order that it is capable to compete for gaining the share with respect to its product or service offering in the market segment in which it has its operations running
2. Knowing basic fundamental terms with respect to corporate finance, marketing, finance, technology and other related areas with respect to business
3. Various functional areas and functions within the HR umbrella such as recruiting, staffing, training and development, performance management, remuneration, industrial relations, occupational safety and health standards etc.
4. Listening skills and having the capability to raise serious issues in front of management
5. Augmenting skill set pertaining to selecting and nurturing the right talent and having in place the right HR strategy with respect to aligning process, people and systems.

As per the viewpoint of Cascio (2005), IT is the basic fundamental with respect to overall strategy for improvement in human resources management. (Rebore 2011)

## **VIII. CONCLUSION**

Thus according to the research conducted by Curtis and Wright (2007), it is explained that if any one form the company is being replaced by the new one, the company incur a huge loss that is up to 150% of the annual salary of the employee who is replaced by the new one. With this fact an another fact is also revealed that if organization is gaining more profits than also employees thinks that something fishy is going out there. So that if company is investing a lot for the retention of the employees they also have to invest in good management of the employees in the Human resource department so no problems will be raised.

According to the research study work of Tsai and Tai and its findings, the training programs play an important role for the development of the employees and to get new talented employees in the organization. Employees feel if they will work in this company for a long they will gain benefits in terms of their personal development. This process is very necessary to motivate employees in the company so that they will ready to work for a long. So this research study is dedicated to find out the importance and aims of implementing good training modules in the organization and its long term effects. So that organization will able to maintain the profitability in the market through its workforce. Good training is also beneficial for the employees as well as the organization because employee retention is possible for these practices.

As per the above research study with respect to role of IT in HRM at Saudi Arabian Airways, it is very clear that HRM have an increased pressure from management of becoming all the more productive. Technology should be utilized by Saudi Arabian Airways in a manner which is beneficial for the organization. Technology plays a central role with respect to HRM in today's organizations and their strategic plans. There should be a dedicated platform as well as resources with respect to technology for proper and effective management of HRM. Technology is incorporated into today's business operations to make the overall decision making process very effective. Thus if Saudi Arabian Airways is able to deploy technology with respect to its business operations, it can derive exponential growth for the organization in consideration as well.

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