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**MASSEY UNIVERSITY**

**Exploring the Development Potential of Saudi Arabian  
Airlines, the National Flag Carrier of Saudi Arabia**

A Thesis

By

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## **ABSTRACT**

This thesis will examine the possible factors that could greatly influence the future development of the legacy carrier of Saudi Arabia: Saudi Arabian Airlines. Furthermore, this thesis delved into the feasibility of a new route from Jeddah to Auckland and how this route could impact the growth of Saudi Arabian Airlines.

The research questions were answered through the use of a mixed method approach. The research was carried out in two phases. The first phase involved environmental scanning through the process of strengths, weaknesses, opportunities and threats (SWOT) analysis, where the strengths and weaknesses of the internal environment of Saudi Arabian Airlines were appraised. It also examined the possible opportunities and threats of the external environment (i.e. the Middle East region), where Saudi Arabian Airlines is situated. The second phase involved a survey where the feasibility of a new route (i.e. Jeddah–Bali–Auckland) was examined and evaluated.

The results suggested that the exponential growth of the aviation industry in the Middle East can be capitalized by Saudi Arabian Airlines by using its recognized strengths and addressing the concerns that have emerged in this study. A possible strategy by which these concerns can be addressed is through establishing a new route that Saudi Arabian Airlines can take advantage of in the future to fulfil its ambitions of becoming one of the top airlines in the aviation industry. One specific route that the thesis examines is the Jeddah–Bali–Auckland route, where there is a substantial market which will yield an increased profit margin and therefore impact the growth of Saudi Arabian Airlines.

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# **CHAPTER 1: Introduction**

## **1.1 Background of the Study**

In this era of advanced aviation industry systems (NASA, 2014; Saunders & Wiseman, 2011), competition among airlines for revenue passenger kilometres (RPKs) is fierce (Wang, Bonilla & Banister, 2016). It keeps many airlines on the edge of a precipice in a struggle for survival so as not to sink into debt (Robbins, 2012; Stucke, 2013). This is because the aviation industry is constantly experiencing rapid changes which force most airlines to be on their toes, to be quick in reading trends, to foresee market developments and to rapidly adapt to these known market variables (International Air Transport Association (IATA), 2014a; International Civil Aviation Organization (ICAO), 2006; Porter, 1979). Reading the market efficiently enables airlines to put the right strategic plans in place in order to adapt successfully to the changes in an agile manner (Saaty & Vargas, 2006). Furthermore, airlines are able to create opportunities that will allow them to sustain their existence (Ladki & Misk, 2009). For example, the supply of flight services is the foundation of any airline, which is a demand-driven factor (O'Connor, 2000). Airlines need to be dynamic in order to improve their business profit and their policy of conducting operations in order to be practical and competitive in the aviation market (Ardahaey, 2011; Delbari, Ng, AbdulAziz & Ho, 2016; Ko, 2016).

Among the many airlines that are constantly on their toes in terms of meeting market demands is the national flag carrier of Saudi Arabia, Saudi Arabian Airlines. Saudi Arabian Airlines was one of the first airlines in the Middle East and it is one of the biggest airlines in the region. Management errors in the past led to a loss of revenue by Saudi Arabian Airlines for many years. For example, Saudi Arabian Airlines recorded its biggest financial loss in 2009 (Aldaghmi, 2014). However, it has recently

dedicated all its strength and resources to get back onto a growth path and to exploit its full potential (Taneja, 2008). In the region, Emirates Airlines is a good model for Saudi Arabian Airlines to emulate (Rezvani, Dehkordi & Shamsollahi, 2012) and Emirates is operating in the same context of a deregulated aviation market. Furthermore, the United Arab Emirates (UAE) government has given support by providing generous funds to the airline (O'Connell, 2011). This has enabled Emirates Airlines to be an example as one of the most successful airlines and a perfect business model throughout the world in the commercial air transportation industry (Al-Sayeh, 2014).

The UAE government has also positively contributed towards branding Emirates Airlines, which has enabled it to become one of the leading air transport companies in the region and to become a global key player (Tang, 2015). Emirates Airlines strives to provide a joyful flying experience to passengers with above average service, as it is able to provide services that can be paired with luxury (Nataraja & Al-Aali, 2011). Saudi Arabian Airlines could employ the same strategy to earn the loyalty of its passengers, as this will help the airline expedite its operations' expansion and leave its footprint on the global aviation market (Teikake, 2012). This will help the airline's management to formulate a better management strategy to develop a future vision and earn the loyalty of its employees (Baker, 2013). Saudi Arabian Airlines may also benefit by emulating the strategic management policies of successful airlines. Such plans are essential for smooth operations in order to execute the strategic tasks of becoming one of the top airlines in the region (Rezvani, Dehkordi & Shamsollahi, 2012).

This thesis lays out the background of Saudi Arabian Airlines' potential for growth; it also provides a discussion of the topic by giving an overview of recent developments

in the Saudi Arabian aviation market and an update on developments within Saudi Arabian Airlines. The topics covered in this thesis include the viability and the opportunity to improve, as well as increased flight operations for Saudi Arabian Airlines (Airbus, 2015b; Button, Brugnoli, Martini & Scotti, 2015; Kolker & Lutjens, 2015). Furthermore, the introduction of a new route in regards to Saudi Arabian Airlines' potential for expansion is suggested in this thesis; the new route development strategy plans to establish profitable flight services from Jeddah in the Kingdom of Saudi Arabia via Bali in Indonesia and then further onward to Auckland in New Zealand (Bowen, 2016; Kolker & Lutjens, 2015; Lin & Ban, 2014; Silva, Verhoef & Van den Berg, 2014). Some routes are considered to be the backbone of the airline network system, and this new route from Jeddah to Bali and Auckland has the potential to also be one. Its many advantages are discussed in this thesis, one of which is the significant role of completing the Saudi Arabian Airlines' network by filling in the gap so as to avert traveller leakages to other airlines due to the limitations of the airline network in the Australasian market (Bowen, 2016; Delbari, Ng, AbdulAziz & Ho, 2016; Ko, 2016; Lin & Ban, 2014).

## **1.2 Research Questions**

There are two research questions which need to be investigated in order to achieve the purpose of this thesis as follows:

Firstly, what are the factors that can influence the future development of Saudi Arabian Airlines? Specifically, what are the:

- a) strengths of Saudi Arabian Airlines?
- b) weaknesses of Saudi Arabian Airlines?

c) opportunities for Saudi Arabian Airlines?

d) threats to Saudi Arabian Airlines?

Secondly, what is the feasibility of adding a new route from Jeddah, or from another suitable international airport in the Kingdom of Saudi Arabia, to Auckland, which will enable the business of Saudi Arabian Airlines to expand?

### **1.3 Research Objectives**

In order to answer the research questions, the method used must fit the objectives of the thesis, which are to look into the developmental potential of Saudi Arabian Airlines, as well as the feasibility of establishing a new route from Jeddah, Saudi Arabia to Auckland, New Zealand.

The main aim of this thesis is to investigate the past and present operational strategies of Saudi Arabian Airlines, and to examine how to optimize the operation's output to its maximum potential. The thesis will collect, analyse and present its findings to Saudi Arabian Airlines, so that it can develop its potential by taking advantage of its strengths and the opportunities available in the internal and external environment at present that could have an impact on its operations in the near future. This will also enable Saudi Arabian Airlines to address its weaknesses and develop strategies that could eliminate the threats in its environment. This is in line with the main objective of the government of Saudi Arabia, which is to increase revenue in the non-oil business sectors (Ministry of Finance Saudi Arabia, 2015).

Furthermore, another goal of this thesis is to recognize the Saudi Arabian civil aviation market's size and potential, which consists of key players such as Emirates and Qatar airlines as well as Etihad Airways. All these key players will be included in this thesis in answering the research questions. Thus the research objective of this

thesis is to provide an insight into and a holistic view of the aviation industry in the Middle East, with a special focus on Saudi Arabian Airlines. This approach is necessary to achieve the purpose of this thesis, which is to make the findings presented valuable and useful to the decision makers of the said airline, as well as to understand the overall opportunities in the aviation industry in the Middle East.

Lastly, this thesis aims to provide useful information about the potential of the aviation market in the Kingdom of Saudi Arabia, specifically focusing on the potential of Saudi Arabian Airlines. In addition, strategic goals will be formulated for the future such as expanding the route network. The recommended new route from Jeddah to Auckland, which will be operated by Saudi Arabian Airlines, will be examined and if the route proposal is found to be an applicable and feasible strategy, essential steps toward spreading out in the aviation market will be discussed further in the thesis. However, this thesis will only focus on identifying areas of concern and seeking solutions for the improvement of Saudi Arabian Airlines rather than trying to provide the correct method or strategy for Saudi Arabian Airlines' potential for expansion.

## **1.4 Significance of the Study**

Given the great potential of the Middle Eastern aviation industry, it further follows that Saudi Arabian Airlines is on the verge of a great opportunity and challenge. Will Saudi Arabian Airlines succeed in this upcoming development of the regional aviation industry? This thesis explores that question.

The first part of this thesis will investigate the potential of Saudi Arabian Airlines. The literature review will be based on materials from multiple sources to outline the potential of Saudi Arabian Airlines. Another research objective is to identify Saudi Arabian Airlines' potential for growth, as well as to assess the viability and potential

of commercial air services from Jeddah to Auckland (Airbus, 2015b; Button, Brugnoli, Martini & Scotti, 2015). In the process of expanding Saudi Arabian Airlines' network, a possible new route will be brought to attention. The second research question will focus on the potential of the new route and will analyse its feasibility from different perspectives (Lin & Ban, 2014).

This thesis will also recommend practical measures, which Saudi Arabian Airlines could embrace in the future to take advantage of its strengths and avail itself of all the available opportunities (Aldaghmi, 2014; Delbari, Ng, AbdulAziz & Ho, 2016). Additionally, the recommendations of this thesis will enable Saudi Arabian Airlines to be in a position where it can identify and overcome its weaknesses, as well as any threats to its operations. It will definitely be able to face threats in a competitive manner through better management practices and sound policies (Porter, 1979). This thesis also discusses the increasing demand for air travel to the Kingdom of Saudi Arabia (Abed, Ba-Fail & Sajjad, 2001; Ba-Fail & Jasimuddin, 2000) and its impact on competition in the Saudi Arabian aviation market by attracting new airlines to enter the Saudi aviation market (Airbus, 2015b). Furthermore, this paper will look into the need to expand the operations of Saudi Arabian Airlines in order for it to increase its value in the aviation market (World Tourism Organization, 2012). For example, the travel product options which Saudi Arabian Airlines offers include non-stop flights to numerous key international destinations, such as Los Angeles, London and the Far East. However, there is the potential to cover new destinations in order to fulfil its growth ambitions, such as the Australasian aviation market (Belobaba, Odoni & Barnhart, 2016; Button, Brugnoli, Martini & Scotti, 2015; Kolker & Lutjens, 2015; Lin & Ban, 2014). The airline must not neglect the opportunity to grow in such a dynamic market, specifically in Australia and New Zealand, as this will increase

coverage to the Asian and European regional hubs in the future (Bombardier Commercial Aircraft, 2014; Bowen, 2016).

The outcome of this thesis will help Saudi Arabian Airlines to develop an effective competitive strategy plan which is hopefully on par with the successful business model that Emirates Airlines is following (Belobaba, Odoni & Barnhart, 2016; Lin & Ban, 2014). This thesis is intended as an aid to develop an improved business model for Saudi Arabian Airlines (Delbari, Ng, AbdulAziz & Ho, 2016). Specifically, this research study aims to look into the potential of Saudi Arabian Airlines for introducing new destinations, particularly Auckland in New Zealand and Bali in the Republic of Indonesia (Malanowski & Zweck, 2007; Silva, Verhoef & Van den Berg, 2014).

In order to understand more about Saudi Arabian Airlines and its future potential, it is necessary to explore the aviation market in the Middle East to get a holistic view of the industry. This thesis will also review and highlight the potential and size of the Middle East aviation industry, as this will give a superior understanding of the Saudi Arabian aviation industry's environment, as well as the performance of Saudi Arabian Airlines (Airbus, 2015b; O'Connell, 2011).

Therefore, this thesis will inspect the potential for expanding operations and improving Saudi Arabian Airlines in general (Button, Brugnoli, Martini & Scotti, 2015). This aspect will be examined in this thesis and appropriate recommendations will be presented to Saudi Arabian Airlines' management. The classic example of a successful airline from the Middle East, Emirates Airlines, is an effective business model amongst leading global airlines (O'Connell, 2011), which could be followed by Saudi Arabian Airlines. Emirates Airlines' accomplishment is a result of cautiously established strategic plans, and accurately conducted procedures and programmes that

have allowed the airline to achieve remarkable progress in the aviation market (Ladki and Misk, 2009). They have been using the finest management systems, and employing loyal and competent employees, as well as adopting competitive methods of operation (Delbari, Ng, AbdulAziz, & Ho, 2016). Consequently, Emirates Airlines has been able to achieve its goals and constantly increase its profit margin, using all the available resources to sustain its position in the aviation industry (Al-Sayeh, 2014). This example shows that there is a door of opportunity for Saudi Arabian Airlines to develop a successful business strategy, which will help the airline provide better services, implement an appropriate human resource policy and to exploit the existing limited resources in achieving their full potential to grow in a new and lucrative direction (Lawton, Rajwani & O'Kane, 2011).

Finally, suggestions and recommendations are given to assist in formulating effective strategies for Saudi Arabian Airlines in the final part of this thesis, specifically looking into the question of what Saudi Arabian Airlines should do to realize the best development potential possible (World Tourism Organization, 2012). The significance of this thesis is to direct the Saudi Arabian Airlines' management in expanding and supplying new services to new destinations so as to optimize profits (Rahman, Azad & Sabnam, 2015).

## **1.5 Organization of the Study**

The format of this thesis has been structured as follows:

Chapter 1 is an introduction to the thesis. It will explain the background and the objectives of the thesis. It introduces the reader to the framework of this study by explaining the research problem and an overview of how it will be solved.

Chapter 2 contains a literature review of the performance and the potential of Saudi Arabian Airlines, the aviation industry in the Kingdom of Saudi Arabia, the aviation industry in the Middle East and the key players in the Saudi Arabian aviation market.

Chapter 3 describes the research methodology; this is related to the various methods adopted to collect information for this thesis. It deals with research design, data collection methods and the ethical considerations of this research.

Chapter 4 analyses Saudi Arabian Airlines by examining the four key areas of strengths, weaknesses, opportunities and threats (SWOT). The strengths and weaknesses look at the internal environment, whereas the opportunities and threats analyse the external environment.

Chapter 5 examines the demand for starting a new route through a survey and interviews. An analysis of the survey data is also attempted to justify the reason for the new route opportunities.

Chapter 6 looks into the strategy for the new route, which is recommended based on the findings of this thesis. The details regarding the new route, its infrastructure, the justification and the expected benefits will be discussed.

Chapter 7 is a summary of this thesis; it also offers recommended steps that need to be examined by Saudi Arabian Airlines to achieve its full potential so that it can support the Kingdom of Saudi Arabia in relation to the recent budget deficit.

## **CHAPTER 2: Literature Review**

### **2.1 Introduction**

In this chapter, a picture of the general development of the aviation industry in the Middle East will be examined. Furthermore, this chapter will also look at the growth trajectory of Saudi Arabian Airlines by examining its past, present and future development. Lastly, the environmental context of where Saudi Arabian Airlines operates is also considered in relation to how this could affect the airline's potential growth in the future.

### **2.2 Background of the Growth of the Aviation Industry in the Middle East**

The aviation industry in the Middle East is on the rise (Vespermann, Wald & Gleich, 2008). As of 2008, the passenger growth rate (in terms of RPKs) for the Gulf region was 7%, which is more than four times the global average (O'Connell, 2011). Furthermore, it has been projected that the aviation industry in the Middle East will increase by about 4.9% per annum. The predicted size of the overall commercial aviation industry in the Gulf Corporation Council (GCC) will be 383 million passengers by 2034 (IATA, 2014a). These passengers mostly avail themselves of aviation services from the 'Big Four' airlines operating in the Gulf region, namely Saudi Arabian Airlines, Emirates Airlines, Etihad Airways and Qatar Airlines (O'Connell, 2011). Overall, this indicates a high growth trend in the aviation industry in the Middle East, which points to the optimal future growth potential for Saudi Arabian Airlines. However, there is a caveat: the demand forecast by Adler and Hashai (2005) is based on the assumption that the current political situation in the Middle East is set to improve in the future, based on learning from the experience of

Western European countries after World War II. Similarly, in the Middle East, it is expected that once peace sets in, it will act as a catalyst to boost the demand for air travel in leisure as well as in the business segment (Adler & Hashai, 2005). This predicted pattern is supported by an increase in international and regional tourism rates around the first half of the 1990s when the Middle East was experiencing peaceful times and is also based on estimates of substantial growth (e.g. Hashai, 2004; Hirsch and Hashai, 2000) in Israeli–Arab trade if peace ensues in the region (Adler & Hashai, 2005).

To further emphasize this projected growth, Majali and Weston (2007) have suggested that the GCC’s aviation industry has already overtaken most of the other regional markets, which indicates a positive sign for potential growth to come. For example, the seating capacity provided by the GCC airlines rose from 4.7 million in 2002 to 13 million in 2008. This means that in the span of 6 years, the seating capacity of GCC airlines has more than doubled (O’Connell, 2011). This growth is attributed to many factors, such as the region’s rising population and increasing income, the strong presence of expatriates who travel frequently to their native countries, its favourable geographic location, a flourishing tourism sector, the underdeveloped railway network in the region and the rapid expansion of Middle Eastern airlines, as well as the potential for foreign investments coming into the region, which could create new jobs that will result in a higher demand for air travel (e.g. Delbari, Ng, AbdulAziz & Ho, 2016; IECONOMICS, 2015; Lin & Ban, 2014; Majali & Weston, 2007; Oxford Economics, 2012). This is further supported by Vespermann, Wald & Gleich (2008), who identified three potential sources of passenger demand in the region: domestic demand, foreign passengers who are travelling to the Middle East either for leisure or business, and stopover travel that

uses Middle Eastern airports as hubs for those who are heading for locations beyond the region.

Another possible factor that has increased travel demand for Middle Eastern airlines are the accolades and awards garnered in the past few years in the World Airlines Awards (Skytrax, 2015). Three GCC airlines made it to the top 10 airlines for the yearly passenger's choice award of 2014. The second in the list was Qatar Airlines. Emirates Airlines was number four and Etihad Airlines was in ninth place (World Airline Awards, 2015). Furthermore, in 2016, Emirates Airlines became the number one airline in the list of Skytrax Awards, followed by Qatar Airlines; Etihad placed sixth overall. It is apparent that providing good customer service is imperative for the workforce of Middle Eastern airlines. Therefore, this gives Saudi Arabian Airlines a chance to make it to the list in the future if the right customer service policies are adopted (Rezvani, Dehkordi & Shamsollahi, 2012). Furthermore, the major key players in the global aviation industry, such as Boeing, have viewed the Middle East as having a tremendous potential in the market (Hooper, Moore & Al Zubaidi, 2011). This has prompted the GCC countries to expand their flight networks to the global market, keeping in mind Boeing's tremendous influence on the aviation industry as well as the strategic economic gains that will be achieved (Adler & Hashai, 2005). Furthermore, the aviation industry's key players are taking advantage of the strategic geographical location of the Middle East, from where they can expand their routes to destinations like Europe, Asia, Africa, Oceania, and North and South America. The projected strong future growth of the Middle East aviation market requires state-of-the-art aircraft that have the latest technology and are more fuel-efficient. Numerically, the Middle East will need five times the number of airplanes that the region has had in the past six decades (Boeing, 2013).

Airbus, the second largest airplane manufacturer in the world, has also forecasted that the Middle East will have an annual growth potential of 6% in the next 20 years. Airbus' management further predicted that air traffic will double in the Middle East over the next 10 years (Airbus, 2015a). Furthermore, Airbus (2015b) has also estimated that the Middle East will need to acquire about 2361 new passenger aircraft by the end of 2034. As of 2014, the Middle East already had a total of 650 commercial Airbus aircraft (Airbus, 2015b). However, a total of 1711 Airbus planes are still needed in the region. Based on these figures, there is a burgeoning demand for Airbus aircraft in the Middle East due to the increasing travel demand. For instance, Saudi Arabia Airlines has already announced that it will be adding more than 80 planes to its fleet by 2020, expanding its size by over two-thirds (Saudi Airlines, 2013).

In addition, the lack of convenient alternative transportation such as high-speed trains in the region has fuelled the demand for air travel in Saudi Arabia (Baroom, 2010). This will change in the near future, since over 6000 km of tracks are already under construction and \$44.8bn is being invested in the development of high-speed rail in Saudi Arabia, specifically connecting the holy cities of Mecca and Medina via Jeddah (Terrapinn, 2013). Another factor that has led to an increase in air passenger traffic (i.e. international air passenger traffic) is the deregulation of the commercial aviation industry: liberal policy commitments have been ushered in, which have led to a strengthening of the multilateral agreement among Arab states. These agreements have already resulted in a 30% increase in intraregional passenger traffic (Cristea, Hillberry, & Mattoo, 2014).

## **2.3 The Past, Present and the Future of Saudi Arabian Airlines**

As discussed above, there is an increasing demand for air travel in the Middle East. Due to the increasing demand for air travel in emerging aviation markets (e.g. China, India, Russia, South America and the Middle East), the aviation industry in the Middle East has a significant opportunity to achieve growth potential; this includes Saudi Arabian Airlines (Airbus, 2015b). A lot of research has suggested that there is strong potential for growth for the aviation industry in the Middle East, specifically emphasizing the remarkable growth potential of Saudi Arabian Airlines and the Saudi Arabian aviation industry (e.g. Abed, Ba-Fail & Sajjad, 2001; Al-Medabesh & Ali, 2014; Ansari & Qadri, 2014; Ba-Fail & Jasimuddin, 2000; Cristea, Hillberry & Mattoo, 2014; Hooper, Moore & Al Zubaidi, 2011; Jasmuddin, 2001; Mishra, 2013; O'Connell, 2011; Oxford Economics, 2011).

This is an unforeseen and extraordinary development of Saudi Arabian Airlines, considering that this airline started with just one Douglas DC-3 Dakota, acquired in 1945 as a gift from the United States government (Alahdal, 2010). In September 1946, Saudi Arabian Airlines was formed as a fully-owned government agency, becoming a legacy airline under the Ministry of Defence and Aviation, with Trans-World Airlines operating the airline under a management contract with a small fleet of three DC-3s (Hooper, Moore & Al Zubaidi, 2011). In the same year, Saudi Arabian Airlines flew its first international route to London (Saudi Airlines, 2013). In 1963, it became an autonomous entity by royal decree, and was established as a corporation run by a Board of Directors and chaired by the Minister of Defence and Aviation. In 1967, Saudi Arabian Airlines joined IATA and acquired three more Douglas DC-9 twinjets. As its fleet grew, the number of its domestic and international destinations

increased. By 2004, it had become the largest airline in the Middle East by seats, with 19% of the total market share in the region (Al-Sayeh, 2014). Saudi Arabian Airlines remained the only airline in the Saudi Arabian aviation market until 2007, when the Saudi Arabian government finally allowed foreign carriers to operate within the country by granting them air transport rights to operate in the Kingdom of Saudi Arabia (Alahdal, 2010). When liberalization happened, Saudi Arabian Airlines dropped from first place to third in terms of market seats, with a 10% market share in 2013 (Al-Sayeh, 2014). After a period of adjustment, Saudi Arabian Airlines achieved 27% growth in a span of a year, increasing the number of passengers to 1,787,714 by 2012.

Another major consequence of the Saudi Arabian government's effort in liberalizing their aviation industry was the splitting of Saudi Arabia Airlines into several business units, such as catering and ground handling. These business units were then privatized one by one, starting with the catering unit. Eventually, this led to the modernizing of Saudi Arabian Airlines itself by updating its information and telecommunication systems, upgrading its in-flight experience and overhauling the fleet. These steps were undertaken not only to modernize the airline but also to acquire membership in one of the three global airline alliances. As Saudi Airlines continued to modernize and grow in strength, the flag carrier decided to increase its fleet size by 100 new aircraft from 2015 to 2020 (Saudi Airlines, 2013). This was to strengthen the airline's operational efficiency to meet the growing demand in the domestic market and expand its international operations. In May 2012, Saudia became the 16<sup>th</sup> member of the SkyTeam Alliance and the first SkyTeam member in the Middle East (Al-Sayeh, 2014).

Despite the liberalization of the aviation industry in Saudi Arabia and the ongoing privatization of the national flag carrier, Saudi Arabian Airlines is still being generously supported by the Saudi government through fuel subsidies (Al-Sayeh, 2014), which is obviously advantageous to the airline in terms of operating costs.

However, there are other external factors (macro-environment factors) that could influence the future growth trajectory of Saudi Arabian Airlines, which are considered in the literature review (Abed, Ba-Fail & Jasimuddin, 2001). These include tourism, political and social changes, and airline competition. Shoult (2006) mentioned two prominent factors that have had a significant influence on Saudi Arabian Airlines' decision making policy. These are economic and socio-political changes. In the next section, these changes are discussed in relation to Saudi Arabian Airlines.

## **2.4 Socio-Political Changes that Affect Saudi Arabian Airlines**

Under the leadership of King Salman Al-Saud, all the necessary steps were taken to diversify and develop alternative sources of income other than petroleum and petrochemicals (Ministry of Finance Saudi Arabia, 2015). As a consequence, other industries and companies in Saudi Arabia are being gradually modernized, including Saudi Arabian Airlines, agriculture, industrial production and tourism; these sectors have great potential for lucrative revenues on a sustainable basis.

In addition, many mega-projects have been undertaken to expand the infrastructure of the cities with the two most holy mosques. This was done in order to increase the Kingdom's capabilities to accommodate and serve millions of pilgrims (Henderson, 2011). The increased number of high-rise buildings in the holy city of Mecca and the

complete makeover of the city to accommodate the enormous number of Hajj and Omrah visitors for religious tourism are significant reasons for the increased number of visitors to the Kingdom of Saudi Arabia (Henderson, 2011; O'Connell, 2011).

This increasing demand for air passengers has led Saudi Arabian Airlines to significantly contribute to the economy of the Kingdom of Saudi Arabia (Oxford Economics, 2011). This economic contribution is reflected in the growth of the Saudi Arabian national gross domestic product (GDP), which is calculated by the contribution of Saudi Arabian Airlines and other industries, increased workforce productivity, tax collection and supply chain efficiency (Air Transport Action Group (ATAG), 2014; Bowen, 2016; Button, Brugnoli, Martini, & Scotti, 2015; Department of Industrial Relations Malaysia, 2014; Ministry of Finance Saudi Arabia, 2015). In this context, Saudi Arabian Airlines contributed almost Saudi Arabian riyal (SAR)30 billion (around US\$8 billion) to GDP through ground services, tourism, supply chain and employee spending. Furthermore, nearly 152,000 jobs were created by Saudi Arabian Airlines and SAR2.6 billion have been paid in taxes. The total benefits derived by Saudi citizens from the aviation sector are estimated at approximately SAR46 billion every year and an increase of 10% improvement in flight connectivity could bring SAR1073 million more to the GDP (Oxford Economics, 2011). This shows Saudi Arabian Airlines' significant and vital contribution to the economy of the Kingdom of Saudi Arabia (ATAG, 2014).

## **2.5 Economic Changes that Affect Saudi Arabian Airlines**

The major strategic changes for Saudi Arabian Airlines over the past few years have been brought about by the Kingdom's policy shift towards liberalizing the aviation market in order to follow the global aviation industry (O'Connell, 2011; Zuhairy, 2014). This massive shift has led Saudi Arabian Airlines to expand and contribute

positively to the total non-oil sector revenue of the Kingdom of Saudi Arabia (Civil Aviation Authority Qatar, 2015, SAGIA, 2016).

This expansion has been further influenced by recent social changes in Saudi Arabia and the region, particularly the increasing population in the Kingdom. The growing number of residents, workers and visitors to the Kingdom of Saudi Arabia and to the GCC has resulted in an increased GDP (Delbari, Ng, AbdulAziz & Ho, 2016; IECONOMICS, 2015; Ministry of Finance Saudi Arabia, 2015; O'Connell, 2011; Pearce, 2015). In addition, there is an increasing percentage of expatriates and domestic helpers who now fly regularly on business trips and/or to their home countries. However, the majority of air travellers in the Saudi Arabian aviation market are still local passengers, labourers, teachers, doctors, nurses and year-round pilgrims to the holy city (Hooper, Moore & Al Zubaidi, 2011). These pilgrims to the holy city are part of the travel and tourism industry which have directly contributed SAR43.7 billion to the GDP of Saudi Arabia, plus SAR36.2 billion indirectly through the output throughout the supply chain and a further SAR18.7 billion through the induced effects of consumer spending (Oxford Economics, 2011).

## **2.6 Other Factors that can Affect Saudi Arabian Airlines' RPKs**

### ***Improved Customer Service Experience***

Another significant commercial aviation industry trend driving growth is the fulfilment of passenger expectations regarding the services provided by Saudi Arabian Airlines (Ansari and Qadri, 2014). Saudi Arabian Airlines has adopted a series of measures and programmes that have vastly improved customer services and passenger flight experience (Al-Medabesh and Ali 2014). These measures include the use of the

latest technology to improve in-flight entertainment and increasing access to the VIP lounges for business class passengers and the loyalty programme of the airline (Aldaghmi, 2014; Fadag, 2012; SkyTeam, 2015). In a study conducted by Al-Medabesh & Ali (2014), which looked into the strategic focus on the delivery of customer services by Saudi Arabian Airlines, it was revealed that the airline seems not to only sell travel tickets but also better quality services that include reservations, entertainment and check-in services (Algethmi, 2014; Al-Medabesh & Ali, 2014; Alshaya, 2014; Yaseen, 2014). The study of Al-Medabesh & Ali (2014) showed that Saudi Arabian Airlines seems to have understood the significance of customer satisfaction as a key strategic element in increasing its RPKs (Ansari & Qadri, 2014; Salamah, 2012). Customer feedback reveals that passengers had high satisfaction with various services provided by the airline. The study of Al-Medabesh & Ali (2014) was quite comprehensive, involving various segments of the travelling population. The survey conducted by Al-Medabesh & Ali (2014) further revealed that Saudi Arabian Airlines is fully aware of its focus and priority in the right order, which is the importance of services, better routes and modern aircraft as strategies for higher RPKs (Kolker & Lutjens, 2015). All of these indicate that there is a good potential for Saudi Arabian Airlines to expand and offer its high-quality services to the whole world (Al-Medabesh & Ali, 2014). Aside from infrastructure and improved customer experience, it is undeniable that competition plays a huge role in Saudi Arabia Airlines' RPKs.

## **2.7 Competitors in the Saudi Arabian Aviation Market**

### ***International Market***

Although the open skies agreement among Middle Eastern countries may lead to a 30% increase in intraregional passenger traffic (Cristea, Hillberry & Mattoo, 2014), this also means that Saudi Arabian Airlines could face some tough competition from award-winning airlines (i.e. Emirates, Etihad and Qatar Airlines). For example, current research by Vespermann, Wald & Gleichh (2008) has suggested that these airlines are quite assertive in regard to extra-regional operations, with Emirates offering 82% of its seat capacity on extra-regional services, Etihad Airways offering 74% and Qatar Airways offering 66% of its seat capacity. Although Saudi Arabian Airlines has not provided data as to how much they are offering in terms of seating capacity in extra-regional services, this illustrates the nature of the competition that Saudi Arabian Airlines is facing with the open skies agreement in place. Notwithstanding, Saudi Arabian Airlines had addressed this threat by entering into a codeshare alliance with the SkyTeam global airline alliance (Saudi Airlines, 2013). This means that Saudi Arabian Airlines can jointly market their seating capacity with 19 other international partner airlines by assigning the same designator to a common flight. This enables the airline to broaden its product portfolio without using extra resources, as well as to acquire additional passengers into its network and increase demand on major routes. Furthermore, codesharing has enabled Saudi Arabian Airlines to access new markets without increasing its resources and investments (Garlach, Cleophas & Kleiwer, 2013).

### ***Domestic Market***

On the other hand, Saudi Arabian Airlines still remains the dominant player on the domestic front and enjoys the benefit of having only two domestic airlines as competitors. A major key player in the Saudi Arabian aviation market is Flynas Airlines, a low-cost carrier (LCC) launched in 2009. Flynas recently expanded its services by offering business class services on its LCC flights, adapting a new segmentation strategy to increase revenue similar to other LCC airlines, for example, JetStar and Virgin Australia in Australia (Qatar Civil Aviation Authority, 2014).

Furthermore, the Saudi Arabian aviation market has just welcomed the entry of a second commercial passenger carrier called Saudi Gulf, which operates domestically. Saudi Gulf began its operations in the first quarter of 2016 out of Dammam, Riyadh and Jeddah. The entry of the new player in the market has led to an increase in the industry's operational capacity (Airbus, 2014). This increases the potential for strong competition in the Saudi Arabian domestic markets. However, the intention of the Saudi Arabian government is quite clear: the facilitation of competition in order to improve the growth of the domestic aviation sector and meet the increasing demand for air travel. It is expected that the new carriers are expected to fill the gap in the local Saudi Arabian aviation market (Ko, 2016).

To ensure the healthy growth of the domestic aviation market, it appears that the Saudi Arabian aviation industry is going through a correction period, with many adjustments to be made along the way. One of the key features of this growth is the challenge to meet the rising demand at present and in future (Abed, Ba-Fail & Sajjad, 2001). This challenge is being met by the Saudi Arabian government's permission for overseas airlines to operate in the Saudi Arabian domestic market. Despite this initiative, many LCCs have been unsuccessful and have had to be closed (e.g. SAMA Airlines). However, there are still several new LCCs (e.g. Flyadeal, a subsidiary of

Saudi Arabian Airlines) who are attempting to penetrate the market. For example, Flyadeal are focusing their target to a specific market: the religious tourism segment. There is a lot of potential in both the domestic and international markets, which the Saudi Arabian government is examining and trying to expand (Albeladi, 2014). It is quite obvious that the Saudi Arabian government plays a huge role in the facilitation of successful airline operations in its aviation market through the liberalization of the aviation industry (Adler & Hashai, 2005; Al-Otaibi, 2012).

## **2.8 The Role of the General Authority of Civil Aviation**

The General Authority of Civil Aviation (GACA) has undeniably played a key role in the development of Saudi Arabian Airlines in its long history since 1944. This key role has included encouraging airlines through proper investment avenues, providing excellent services, maintaining proper operation and maintenance standards, developing quality procedures, implementing policies for the safety and security of customers and airlines, keeping technology up to date and providing an excellent work environment for every employee to excel in (Pakkiasamy, 2015). All these have helped Saudi Arabian Airlines to serve their multitude of passengers well. Furthermore, this has resulted in a 10% increase in Saudi Arabian Airlines' performance in business and a 4.2% increase in its operational performance in 2013 (GACA, 2014). During the fiscal year of 2013–2014, the overall flight performance in Saudi Arabia increased from 462,773 to 475,973 flights. If these figures are further examined by segmenting them into international, domestic and general aviation, a better picture emerges. Domestic business showed an increase from 179,127 flights in 2013 to 196,198 flights in 2014. General aviation has also increased from 43,727 flights in 2013 to 44,773 flights in 2014. However, there has been a slight decrease in

the number of international flights from 239,919 in 2013 to 235,050 in 2014 (GACA, 2014).

In conclusion, due to the unprecedented growth in the Middle Eastern aviation industry, it is certain that Saudi Arabian Airlines is poised to grow significantly. However, this will only happen if it continues to implement effective expansion plans and handle the challenges in a strategic manner. Thus this chapter offers insights by examining the factors that affect the past, present and future growth trajectory of Saudi Arabian Airlines. Furthermore, in Chapter 4, SWOT analysis will be used to look into Saudi Arabian Airlines' internal strengths and weaknesses, possible opportunities for growth and further development, and the threats that are present in its immediate external environment. The feasibility of a new route (i.e. Jeddah–Bali–Auckland), which could possibly lead to future gains in profit is also thoroughly examined and investigated in Chapter 5.

## **CHAPTER 3: Research Methodology**

### **3.1 Introduction**

In this chapter, the rationale behind the method choice, as well as how the data have been extracted, is described in detail. There is also an attempt to discuss the ethical considerations of the study. At its fundamental core, research is basically conducted to acquire and approximate the current reality of a situation. In this research, a mixed method was used because the research environment (i.e. the aviation industry) is very complex and dynamic. Therefore, it was necessary to make use of more than one approach to investigate the problem (Taneja, 1971).

#### ***Research Approach: Qualitative and Quantitative Approach***

Using both qualitative and quantitative approaches to research can provide a holistic perspective of the research problem that this dissertation is trying to address (Cohen & Manion, 2000). This approach allows researchers to provide a more holistic outlook to further understand the assumptions underlying the study (Sofaer, 2002). This is because the context of the aviation industry is quite complex and fast-paced. Furthermore, it is a global industry that is highly dynamic and competitive. This study specifically investigates the growth potential of Saudi Arabian Airlines. Its performance has to be investigated not only from the perspective of its domestic operations but also its performance in the international arena. Hence the approach in this thesis is to adopt a mixed method using the two paradigms of the positivist and interpretivist perspectives (Lee, 1991; Prahalad & Hamel, 1994; Sismanidou, Tarradellas, Bel & Fageda, 2013).

The positivist approach is necessary because there is a need to understand Saudi Arabian Airlines' performance, based on primary data collection that was objective

and quantitative in nature. The positivist approach is based on the idea that everything known can be understood through a scientific and empirical approach, and that reasonable predictions can be made based on data collected on the field (Cohen & Manion, 2000). The investigation also involves some qualitative aspects, namely questions that involved service criteria such as reservations, food and beverage quality standards, check-in quality, on-board crew service standards and many others. These subjective factors involve multiple dimensions of interpretation. Therefore, to get the best answers to the research question, the positivist and interpretivist methods will be applied, whichever is more appropriate (Lee, 1991).

Furthermore, the research approach in this thesis has been constructed around the potential of Saudi Arabian Airlines and therefore, it will cover areas such as the introduction of a new route by Saudi Arabian Airlines for creating future expansion growth opportunities as well as business profit growth (Button, Brugnoli, Martini & Scotti, 2015). The investigation has been designed around acquiring both primary and secondary research data, as well as the intention to consider the qualitative and quantitative approach in this investigation into the nature of Saudi Arabian Airlines (Olsen, 2004). Using these two approaches will ensure that the research questions have been examined through different worldviews, thus providing a better analysis of the results (Collis & Hussey, 2009).

### **3.2 Research Design**

The research design followed for this thesis is a mixed method design using exploratory and descriptive designs. This is exploratory in nature because there is a need to do an in-depth study of Saudi Arabian Airlines in relation to the research question on the basis of the research done in the past, so that future potential can be identified. It is also descriptive in nature because the research methods used here aim

to understand Saudi Arabian Airlines in all its dimensions; these cover its history, expansion, operations, profitability, competition and many other relevant aspects.

### **3.3 Data Collection Methods**

The two most common types of data are primary and secondary sources. Both of these sources can be used either qualitatively or quantitatively, or may be combined as a joint method for research (Peersman, 2014). For example, primary data are more suitable when used to solve a specific problem in the future, whereas the secondary method can be applied to a situation which has happened in the past (Collis & Hussey, 2009). Each of these data collection methods is explained in more detail below:

#### ***Primary Data***

Primary research data are applied where a new topic or area is to be researched, mostly relating to the future when not much information or material is available without getting first-hand information from people and their experiences (Cohen & Manion, 2000). The information is gathered by the researcher through questionnaires, surveys, interviews, observations and many other methods (Cohen & Manion, 2000). In this specific research, useful information is collected mainly from the top management or customers, as they are aware of the situation and have had first-hand experience of the situation. Furthermore, in this research customers of Saudi Arabian Airlines were given survey questions about the airline to look into the viability of the Jeddah–Bali–Auckland route. The participants of this survey were Saudi Arabian students, embassy employees and New Zealand permanent residents who have availed themselves of the services of Saudi Arabian Airlines; this was done in order to assess whether there is a need to establish a new route (Hill & Jones, 2012).

However, in this study, not all the information necessary was collected from primary sources. It may not be possible to collect all the data from primary sources for a

number of reasons. For example, it may not be practical, it may be expensive or it may be possible but too time-consuming. Therefore, in this investigation, the researcher also relied on secondary sources.

### *Secondary Data*

Secondary sources (i.e. existing data related to Saudi Arabian Airlines) were collated and examined. The Saudi Arabian digital library has access to many online libraries such as Wiley Library, ProQuest, Emerald, GALE, Science Direct and Springer Link; these were used as the main sources for the secondary data, since much research has been conducted on the subject of the Saudi Arabian aviation industry and Saudi Arabian Airlines. These have been written by recently graduated Saudi Arabian students from the best ranked universities in the world (e.g. MIT, Massey University). However, there has not been much published research about Saudi Arabian Airlines specifically. Most of the published journal articles and business reports were too broad and focused on investigating the Saudi Arabian aviation industry; not many delved deeper into Saudi Arabian Airlines (e.g. Salamah, 2012; Vespermann, Wald & Gleich, 2008; Wensveen, 2010) Therefore, there is an inherent limitation on the collection of secondary resources about Saudi Arabian Airlines. This implies that some elements that may influence the growth of Saudi Arabian Airlines might not have been explored further. Furthermore, existing data on the airline of focus (Saudi Arabian Airlines) were difficult to find because this airline does not provide business performance reports to the public and therefore, this study relied on external sources coming from different sectors (e.g. Oxford Economics, Boeing, GACA) for data regarding Saudi Arabian Airlines. However, this also means that this thesis will be able to fill that particular gap of knowledge in the current and existing literature.

### **3.4 Instruments Applied to Investigate Saudi Arabian Airlines' Potential**

In this section, the tools for analysis are further discussed. These are: SWOT analysis (a qualitative approach) and a survey, which is a quantitative and descriptive approach. SWOT analysis is perceived to be a qualitative approach because although it is based on archival data, it is analysed through the lens of the researcher, which is considered to be a subjective lens. Thus the interpretation of data is influenced by personal experiences and biases (Cohen & Manion, 2000). A survey, on the other hand, although descriptive, is later converted into numerical data and statistically analysed; this is considered quite objective or positivist (Cohen & Manion, 2000). Thus the use of the two methods together makes it a mixed method research (Cohen & Manion, 2000). In the follow paragraphs, SWOT analysis and the survey are discussed further.

The strategic management tool used to explore the internal and external factors impacting the growth potential of Saudi Arabian Airlines was done through a SWOT analysis, where a scan of the business environment (both internal and external) that Saudi Arabian Airlines operates in was examined (Button, Brugnoli, Martini & Scotti, 2015; Hill & Jones, 2012; Kolker & Lutjens, 2015). This tool presents an analysis of the secondary data (the internal and external factors). Furthermore, since this research also aims to look into the feasibility of establishing a new route (i.e. Jeddah–Bali–Auckland), a survey method was also used to investigate its potential. These two instruments are further discussed below.

#### ***SWOT Analysis of Saudi Arabian Airlines***

SWOT analysis is applied as a strategic management tool in this thesis to evaluate the potential of Saudi Arabian Airlines and its standing within the Middle Eastern

aviation market as well as its future potential in the global context. The SWOT analysis will be used as a tool to identify and evaluate Saudi Arabian Airlines' strengths, opportunities, weaknesses and threats (Flouris & Oswald, 2006; Harrison, 2010). The SWOT analysis looked into the external and internal environment of Saudi Arabian Airlines, as well as the aviation industry in the Kingdom of Saudi Arabia and in the Middle East. The strengths and weaknesses relate to internal factors which are present in the airline; opportunities and threats are external factors which affect the airline.

These factors have been evaluated and analysed in detail in the next chapter to enable Saudi Arabian Airlines' authorities to understand their core strengths for future improvements and then enable them to take advantage of the external opportunities which will help them grow faster. The SWOT analysis also focused on the internal weaknesses of Saudi Arabian Airlines to raise awareness of any threats which may be present in the external environment and which they need to avoid. Through the SWOT analysis, the holistic and microscopic view of the problem, in addition to the growth potential of the Saudi Arabian Airlines, is made more evident for making precise strategic decisions. SWOT analysis can lead to discovery of the pros and cons that can determine the direction of Saudi Arabian Airlines' expansion potential so that it reaches a leadership level in the global market. Furthermore, the evaluation of opportunities and threats will not only answer Research Question 1 in this dissertation, but it will also lead to a microscopic and macroscopic awareness of the internal and external context in which Saudi Arabian Airlines operates (Malanowski & Zweck, 2007). Thus the result will be a more efficient and effective use of the potential for Saudi Arabian Airlines, which, hopefully, in the near future, will make it the first Middle Eastern airline of choice for international travel.

### ***Why Use SWOT Analysis in this Research?***

SWOT analysis was used in this research because of its known simplicity and flexibility (Free Management Ebooks (FME), 2013). It is relatively uncomplicated and easy to understand. Furthermore, the implementation of the analysis does not need any specialized training (FME, 2013). In addition, the SWOT method of analysis allows the researcher to compress a vast array of situational factors into a manageable number, although this encourages the researcher to oversimplify the situation, which can be a weakness of the method (FME, 2013). Another weakness in the method is that there are no clear limits on what is and what is not relevant; therefore, there is a need for the researcher to be mindful of this and identify what is a priority and what is not (FME, 2013). Despite its weaknesses and limitations, SWOT analysis still plays a very important role in identifying unusual and undetected issues to be acknowledged and discussed (Wang & Hong, 2011). It can also be useful in developing on-point and strategic business plans that are useful to the company. Furthermore, it can lead to better strategic management, where the collection of decisions and actions are taken from determining the opportunities and challenges in all levels of the company, which will lead to long-term profit growth (Houben, Lenie & Vanhoof, 1999). In addition, the SWOT matrix enables the researcher to give a weighted rank to each factor in the SWOT that can be considered strengths, weaknesses, opportunities or threats (Ommani, 2011). The rank provided is based on the perceived judgment of the researcher in terms of a factor's importance and significance to Saudi Arabian Airlines' development. This is the interpretivist lens of the research, where the researcher's personal and extensive experience in the aviation field and bias play a huge role in the interpretation of the results. It may be considered invalid in the positivist lens but there is validity and reliability in personal experience if one looks at this through interpretivist lenses (Cohen and Manion, 2000). Furthermore, the SWOT

matrix will visually illustrate and reflect the results of the SWOT analysis. It will also show the performance of Saudi Arabian Airlines in relation to the regional aviation industry context. Furthermore, it will also point to the strategies that Saudi Arabian Airlines will need to adopt in order to remain competitive in the aviation industry (Ommani, 2011). Thus, in this case, the results of the SWOT analysis in this thesis will be practical and beneficial to the management of Saudi Arabian Airlines (FME, 2013).

### ***The Survey: A New Route from Jeddah to Auckland***

In addition to the SWOT analysis, a survey was also conducted as a second tool, in order to assess the need for a new commercial route from Jeddah to Auckland via Bali. (Halpern & Graham, 2015). This is a possible strategy that could expand the potential growth of Saudi Arabian Airlines. The survey will eventually yield a set of recommendations that will be discussed further in this thesis. The survey was used as a tool for gathering primary data for this thesis such as in the study of airport route development conducted by Halpern and Graham (2015) that has applied survey as a method for airline route development. Analysis of the findings has led to recommendations that will enable Saudi Arabian Airlines to compete with its strongest competitors, such as Emirates Airlines, and other key players in the proposed route and in the region. As mentioned earlier, Saudi Arabia Airlines may be required to apply a number of tools that will possibly emerge in this study in order to develop successful strategies that could lead to its success in its future operations (Hill & Jones, 2012).

### ***Why Use the Survey Method?***

Surveys are used in this research because they allow generalizability or universality (Cohen & Manion, 2000). Therefore, this thesis is able to establish a certain degree of confidence in the findings of the research because of the inherent statistical measures and analysis in the study (Cohen & Manion, 2000). Although, there are certain limitations of the survey, namely coverage and sampling errors, non-response errors and measurement errors, the research question required the use of a survey method (Couper, 2001).

### ***Participants***

The survey was conducted randomly over a representative sample in Auckland City. The selected participants were provided with questionnaires and guided interviews for clarification and for in-depth analysis. The guided interview, combined with the questionnaire method, was used to collect data not only from the customers of the airline but also from airline employees (B. Abdulrazak, B. Aldameh and S. Zobear, personal communication, 15 November 2015). The respondents were Saudi students, as well as passengers who may have an interest in travelling to Saudi Arabia, such as Muslims living in New Zealand. The survey also examined the potential of the need for a new route to Saudi Arabia from Auckland. This research also focused on a group comprising New Zealand Muslims who are specifically interested in flying from Auckland to Saudi Arabia to meet their family members, friends and relatives, as well as to visit Mecca, the holy city. The focus of the survey research also included Saudi nationals, such as Saudi students, employees of the Saudi Arabian embassy and those belonging to the cultural mission. The sampling also included businesspeople, entrepreneurs and investors, since these individuals may be interested in going to

Saudi Arabia, and they are able to stimulate economic growth for Saudi Arabian Airlines and the Saudi Arabian economy in the future.

This research is applicable to passengers going to Saudi Arabia for religious purposes and Saudi nationals wanting to return to Saudi Arabia. The findings will be of interest to Saudi Arabian Airlines to evaluate the potential of the new destination, which could result in a direct flight to Auckland and other new destinations.

### *Type of Survey and Justification*

Since the primary tool for collecting the information needed for assessing the potential of the airline in the market required a funnel-type approach, it was necessary to go into the generalities of the research question before narrowing it down to the specifics of the study (Cohen & Manion, 2000). To be specific, the research question centred on the need and the importance of a new route from Jeddah, Saudi Arabia to Auckland, New Zealand. In order to establish this need, two types of surveys were used, which were guided and structured interviews, as well as the self-completed and assisted questionnaires.

## **3.5 The Data Analysis Process**

Due to the nature of the research question in this study and the categorical variables collected, the statistical analyses used to examine the data used a table of contingencies, which is a non-parametric analysis. The tables of contingencies show the frequency distribution amongst the different variables used in the study. Aside from the descriptive analysis, Pearson's Chi-Square test was used for further analysis in the SPSS software package. Despite all these analysis tools being used in the study, this study does not aim to replace professional judgment, but should be used as a guide for informed and intelligent decision making to take place. The data gathered

in this report can provide a sufficient framework for future planning needs (Bernstein, 2002).

The research involved seven variables, which were made tangible through the survey questionnaire. These variables were nominal and categorical variables, most of which had two categories, but one variable had five categories.

For the secondary data, SWOT analysis was used for data analysis; this was discussed in the previous section.

### **3.6 Ethical Considerations**

Before the data collection was conducted, the research proposal was sent to the University Institutional Review Board for an ethical review (Massey University, 2015). It was evaluated that the paper had no ethical implications, since the research is focused on destination preference for flights operated by Saudi Arabian Airlines. It is always inherent that in any kind of survey, there are the issues of confidentiality and informed consent. The confidentiality and trust of the participants were respected throughout this research investigation. The informed consent of the participants was taken into account and was acquired to ensure that they understood what kind of research study they were participating in and that it was clear to them that they had the right to withdraw from the investigation any time they wished. Hence the ethical implications of this research investigation have been addressed and taken care of in a proper manner (Ramos, 1989). Therefore, no issues of confidentiality, violation of consent, harm and deception took place. Any raw data acquired remained confidential and were disposed of in a safe manner that protected the identity of the survey research participants.

### **3.7 Summary**

To recapitulate, this research investigation used a mixed method approach, in which both quantitative and qualitative research was conducted to ensure that the weaknesses of each method were addressed by the other, as well as to ensure that a method of triangulation took place. Furthermore, SWOT analysis and the survey were used to collect primary and secondary data.

## **CHAPTER 4: Saudi Arabian Airlines SWOT Analysis**

### **4.1 Introduction**

In this section, a SWOT analysis was conducted, which involved examining the profile of Saudi Arabian Airlines. Internal and external operational environments were also analysed. These analyses looked into the significant factors that have contributed and will contribute to the potential growth of Saudi Arabia Airlines in the global aviation industry. The SWOT analysis will serve as an initial basis for setting business strategies for the future, which includes the expansion plan and how best to achieve it (Harrison, 2010). This analysis will lead to the recognition of present opportunities that could translate into the future growth of Saudi Arabia Airlines. The SWOT analysis will also serve as a guide to develop strategies that can ensure optimal growth for Saudi Arabian Airlines in the aviation industry.

In order to get a clear idea about the future of Saudi Arabian Airlines, it is necessary to understand its internal and external capabilities, and their impact on the airline's performance. The most appropriate tool which can be used for this purpose is SWOT analysis (FME, 2013). The SWOT technique classifies the environment into four categories: strengths, weaknesses, opportunities and threats. The strengths and weaknesses relate to its internal environment; the opportunities and threats relate to the external environment. Both the internal and external environments reflect the company's potential to stay alive in the future by keeping its competitive advantage and operational edge. This research investigation gathered information about Saudi Arabian Airlines relating to the four categories, which are explained below. Weighted scores were given to the identified factors, then tabulated and converted into a SWOT matrix that can translate into the right strategy. This is most appropriate in the case of Saudi Arabian Airlines, which operates in the context of uncertainties about future

events and the challenging environment in the Middle East. This is a dynamic industry where knowing one's competitive advantage plays a key role in deciding the future competencies of the company and the direction of its short- and long-term policies (Adler & Hashai, 2005; Al-Otaibi, 2012; Ommani, 2011; Vespermann, Wald & Gleich, 2008)

The objective of the SWOT analysis attempts to answer the following sub-questions:

- How can Saudi Arabian Airlines use its strengths to take advantage of the opportunities available and, at the same time, reduce the threats in the environment?
- How can Saudi Arabian Airlines deal with its weaknesses and overcome them?

As discussed earlier, the aviation industry in the Middle East is in a rapid and promising state of development (Adler & Hashai, 2005; Al-Otaibi, 2012; Vespermann, Wald & Gleich, 2008). Saudi Arabian Airlines is considered to be the third largest airline after Emirates and Qatar Airlines. Saudi Arabian Airlines is one of the key players in the region and has great potential to rise up as one of the market leaders, not only in the region but also of the world. At the same time, it is also facing many challenges, which are discussed in detail below. To recapitulate, in this chapter, an evaluation of Saudi Arabian airlines is constructed, assessing both internal and external factors that can affect its growth and survival. This SWOT analysis will give the airline an accurate analysis of its position and performance in the aviation industry, which will enable the management to become aware of what action needs to be taken to improve its competitiveness in the aviation market (Flouris & Oswald, 2006).

## 4.2 Strengths

Saudi Arabian Airlines has a myriad of inherent strengths. Understanding these strengths could provide great guidance to its management for its further improvement. In the past, the Saudi Arabian government has shown an inclination towards opening up the domestic air transport market to other airlines. To start with, two foreign airlines, Qatar Airways and Gulf Air, were granted licences (Almlohai, 2013). Research shows tremendous potential for growth in both the domestic and international markets of the aviation industry. This growth can have a very positive impact on the aviation industry in general and therefore becomes an important strength for Saudi Arabian Airlines.

Several strengths were identified and are explained further below.

### *Religious Tourism in Saudi Arabia*

All Muslims are required to visit Mecca and Medina at least once in their lifetime. Thus, during the Hajj season, a large number of Muslims from 183 countries gather in the Kingdom to form the largest gathering of people for the annual Hajj. The Hajj, meaning “pilgrimage” in English, usually occurs for five days and takes place during the ninth day of the last month in the Hijri calendar, which is a lunar calendar. The Hajj is a one-time religious duty performed by all devout Muslims (Bowron & Maalim, 2016). Furthermore, Muslims are also required to visit the holy places during the Hajj. Another required religious duty is the Omrah, which is a less demanding ritual compared to the Hajj and is not restricted to a specific timeframe as to when it is performed. However, the numbers of visitors are strictly measured and controlled due to the limited capacity of the holy sites (Henderson, 2011).

The Saudi Arabian government prides itself in serving all the Muslims in the world, as this increases goodwill as well as translating into revenue influx for the economy. This gives Saudi Arabian Airlines a competitive advantage in serving religious tourists via air from all around the globe (Delbari, Ng, AbdulAziz & Ho, 2016).

Saudi Arabian Airlines has also provided praying areas in most of the airplanes. The airlines have done this by reducing the area by the equivalent of 12 economy seats. Moreover, the added the praying area facility will have a positive impact on Saudi Arabian Airline's brand image, as Muslims from around the world will prefer to travel by Saudi Arabian Airlines for this added amenity that most mainstream airlines, including Emirates Airlines, have been unable to provide to their Muslim passengers. Therefore, it is most likely that Muslims who are travelling to the holy cities would prefer Saudi Arabian Airlines because of the convenience, which easily translates to increased income for the said airline. The cities of Mecca and Medina are the two most important and holy places for Islam, which means they attract Muslims from all around the world. Worldwide, there are around 1.6 billion Muslims and it is compulsory for them to travel to Mecca once in their lifetime, if they are physically fit to travel and can afford it financially (Ministry of Haj and Umra, 2016).

### ***Plenty of Noteworthy Buildings, Attractions and Accommodation***

The Kingdom of Saudi Arabia is expanding construction to accommodate and provide facilities to the largest possible number of visitors to the holy cities. The city of Mecca is being rebuilt around the mountains surrounding the holy campus of the holy Kaaba to easily accommodate the increasing numbers of religious visitors who are fulfilling their duties. The expansions are expected to increase capacity from 12 million visitors to almost 17 million by 2025 (Gronfula, 2014). New housing units and hotels are also being constructed next to the world-renowned Mecca clock tower.

Another form of support that increases the ease of travel is equipping Jeddah Airport's operations with state-of-the-art facilities and systems that allow it to serve the increasing number of visitors as a result of the organized expansion plan.

There are also many external factors which are available to the Kingdom which help indirectly in the growth of the aviation sector. For example, Jeddah, the biggest economic and commercial hub in the country, is located in the western region of the country. In the future, it will be home to the tallest building in the world, Jeddah Tower, otherwise known as the Kingdom Tower, construction of which is already underway. This will assist in the growth of the economy, as well as encouraging travellers moving in and out of Jeddah (Alharthi, 2014). The Saudi Arabian government has planned to invest more than \$30 billion for both airport and railway infrastructure before 2020 (Ministry of Finance Saudi Arabia, 2015). There is also another city, Rabigh, which is also an economic city that has recently been established. It is located only 1-hour north of Jeddah and is expected to bring considerable foreign investments and also more air traffic to the western part of the Kingdom. With all these developments, Jeddah will house one of the largest, newest and most well-equipped airports not only in the region but perhaps in the world, once King Abdul-Aziz International Airport is completed. The airport will have the advantage of hosting commercial as well as religious visitors, since it will serve business travellers to Jeddah and Rabigh, as well as religious travellers to Mecca and Medina. The new airport terminal in Jeddah is important for the success of the airline, since it is an operational marvel in customer service and experience (Alharthi, 2014).

In addition to these developments, Saudi Arabian Airlines has made Jeddah the perfect location for a hub for long-haul connection flights to the Asia-Pacific region, Europe and the rest of the world. This takes advantage of the strong relationship

between Islam and the aviation industry due to pilgrimage tourism (Hamira & Henderson, 2010). This has made it possible for transiting passengers who would also like to visit Mecca. This visit to Mecca from Jeddah airport and back has been made possible for pilgrims and can be done in 5 hours or less. Such moves are good strategic decisions that can benefit the Saudi aviation market and Saudi Arabian Airlines.

### ***Passengers' Loyalty towards the Airline***

Saudi Arabian Airlines has always striven to keep strong marketing relationships with customers. Hence, it takes pride in offering local and international award-winning services to its customers. Al-Fursan is a loyalty programme and is exclusive to frequent flyers; its key attraction is rewarding loyal passengers with extra care and benefits, such as priority boarding and complementary entrance to the Al-Fursan lounge (SkyTeam, 2015). This allows passengers to enjoy elite privileges and can lead to an increase in customer loyalty toward Saudi Arabian Airlines as a preferred airline and provides a high rate of customer satisfaction (Albeladi, 2014). This has enabled Saudi Arabian Airlines to win many global awards. Al-Fursan has become the second most rewarding airline loyalty programme in the Middle East, Asia and Oceania (Annual Freddie Awards, 2015). It has also made Saudi Arabian Airlines distinctive in terms of its services compared to other airlines. As a consequence, this has created a distinctive brand image and brand name. Saudi Arabian Airlines has been successful in creating a very well-known brand image, which is considered to be a strength of the company (Ansari & Qadri, 2014). One of the key strengths that Saudi Arabian Airlines must consider is customer satisfaction; this could be its most important strategic plan for commercial airline growth (Salamah, 2012). Customer satisfaction is, in fact, considered to be the backbone of the commercial aviation industry.

Therefore, Saudi Arabian Airlines must strive to provide the best quality services in order to retain the trust and loyalty of its customers (Alshaya, 2014).

### ***Saudi Arabian Airlines' Collaboration with Other Airlines***

Saudi Arabian Airlines has joined the SkyTeam Alliance and has been incorporated as the 16<sup>th</sup> global member; it is the first airline from the Middle East to do so (Saudi Airlines, 2013). This has translated into Saudi Arabian Airlines' exclusive privileges such as an extra baggage allowance and access to VIP lounges before the flight. As part of the Al-Fursan loyalty programme, members are also able to enjoy the same privileges as any of the other worldwide SkyTeam members. Members of the SkyTeam loyalty programme can also earn more reward miles to redeem with the other SkyTeam members (SkyTeam, 2015). This has been made possible by upgrading its system to align with the SkyTeam Alliance, which has extended its marketing advantage.

Another advantage is in route development for Saudi Arabian Airlines. This has pushed the airline to use all its resources to expand and generate more revenue, such as effectively competing by building up competitive strength for the traffic share of the aviation market and using strategic alliances in the case of capacity restriction situations for some aviation markets (ICAO, 2006).

Furthermore, Saudi Arabian Airlines flies to over 80 cities in Asia, Europe, Africa and North America from its hubs in Jeddah, Riyadh, Dammam and Medina. On the one hand, it has established a strong network connecting the Kingdom to the most important hubs around the world. This strong network availability gives it a significant competitive advantage over other competitive airlines in the region (Al-

Maghrabi, Dennis & Halliday, 2011). On the other hand, the network is not complete until it is optimized to reach Saudi Arabian Airline's strategic goals.

### ***Advanced Airline Systems and Strong Brand Image***

Saudi aviation and Saudi Arabian Airlines have one of the most well-developed airline systems (Alharthi, 2014). As a highly ranked airline globally, Saudi Arabian Airlines has strong global positioning, with a modern, large state-of-the-art fleet (e.g. Boeing 787s and 777s) equipped with the latest technology (O'Connell, 2011). These are the core strengths that have been developed by the airline over many decades. Such well-developed airline systems will ensure that safety measures are complied with as well as securing the comfort and convenience of the passengers (Lin & Ban, 2014).

Furthermore, the whole airline's image has been developed to reflect its unique service. From its logo design to its crew uniform, it has been well thought out, giving it a professional image. It reflects elegance with a luxurious, privileged service (Alamri, 2013). This is especially appealing to travellers who wish to enjoy a new Middle Eastern hub. Given the choices between a standard airline and the distinctive Saudi Arabian Airlines, travellers are likely to choose the latter, simply due to the new and exciting experience that Saudi Arabian Airlines can provide (Alshaya, 2014). Saudi Arabian Airlines will be able to enjoy great advantages over less non-iconic airlines. Saudi Arabian Airlines has a well perceived image around the world for the services it provides to Muslims who visit the Kingdom annually for religious tourism (Albeladi, 2014).

### ***Latest Technology and Modern Fleet***

New and innovative technologies provided for travellers, such as online booking, self-check-ins and upgraded entertainment systems, have changed the overall experience of commercial aviation (Alamri, 2013). Newer planes are more fuel-efficient and lighter, and able to travel for longer distances. One of the ways to stay ahead of the game in this market is to be up to date in technology. Saudi Arabian Airlines has already adopted much advanced technology. Technology such as providing e-ticketing for domestic and international flights has helped Saudi Arabian Airlines cut out the middle man, and reduce human interactions and dependency on travel agents (Fadag, 2012). As a consequence, this has led to cheaper airfares, which is quite advantageous for Saudi Arabian Airlines.

Another known competitive advantage is that Saudi Arabian Airlines uses the latest online information communication technology to support the interactions between customers and service providers (Yaseen, 2014). This enables the airline to stay closer to users and strengthens their competitive position among the players in the aviation market because it will significantly improve the ticket sales of Saudi Arabian Airlines. Therefore, it is very likely that the managers will consider automated smart applications in their plans to achieve a larger market share as a result of adopting the emerging new technologies (Algethmi, 2014). Travellers are increasingly using portable devices such as smartphones and tablets to interact with the airline system to manage bookings, acquire important information about future flights and compare prices, in addition to many other online services. These fast-growing technologies easily allow passengers to manage their bookings through online applications in their preferred language to improve their customer experience (Yaseen, 2014). For

example, a million SMSs and emails are sent every month to confirm reservations and remind passengers of departure flights of Saudi Arabian Airlines (Mishra, 2013).

Furthermore, fleet development is key to achieving a competitive advantage in the aviation industry. The Saudi government has ordered nearly 90 new aircraft, which will add to the latest narrow-bodied aircraft in its fleet and which will definitely give a competitive advantage to the airline in the region (Delbari, Ng, AbdulAziz & Ho, 2016). Saudi Arabian Airlines has made a significant fleet development to accommodate the growing air cargo services sector as well as to meet the annually increasing number of passengers travelling to and from the Kingdom of Saudi Arabia, and also within Saudi Arabia (Mishra, 2013). In addition, Saudi Arabian Airlines has started to offer private jet operations (Saudi Private Aviation, SPA) to meet the growing demand in the private aviation sector. In order to enhance its capacity for the most demanded routes and operations (Aldaghmi, 2014), Saudi Arabian Airlines was the first airline company to receive the Airbus wide-body A330-300 aircraft in the region, which has proven to be quite advantageous, since the airline can serve short-range flights more efficiently (Airbus, 2013).

### ***Minimized Financial and Operational Risk***

Financial freedom, fuel subsidies and operational risk management (e.g. management of asset leverage, mergers and optimization of the organization) and assets to increase revenue, such as commercial and operation strategies, have been implemented and executed to help Saudi Arabian Airlines achieve the planned goal (Fudah, 2008). At the same time, Saudi Arabian Airlines has the flexibility to borrow from other banking institutes, which enables it to expand its commercial size and performance. In addition, Saudi Arabian Airlines also has the advantage of a tax-free economic

environment, which allows Saudi Arabian Airlines to save significant amounts of money that can be redirected into its operations and commercial expansion plans.

Last but not least, Saudi Arabia is a member of the World Trade Organization. It has an open economic policy which allows foreign investment and which brings in more money and expertise for sound development and a strong future presence. Thus Saudi Arabian Airlines has multiple advantages in the region for competitive success (Binmahfouz, 2014). These advantages will enable increased future travel and have a positive impact on the passenger flow for Saudi Arabian Airlines.

According to research and business principles, pricing is power and plays a critical role in aviation success (Porter, 1979). This gives Saudi Arabian Airlines two advantages: one is the low unit cost of running the operation and the second is a tax-free regime which supports the airline, leading to an increase in profits (Delbari, Ng, AbdulAziz & Ho, 2016). For example, this has led to lower employee salaries, which translates to lower costs and higher job satisfaction, as it is a win-win situation for both the employer and employees. Secondly, Saudi Arabian Airlines has the advantage of a lean supply chain, since the Kingdom of Saudi Arabia has the world's largest crude oil reserves, which is a key factor for the operational success of Saudi Arabian Airlines. For this reason, Saudi Arabian Airlines has its fuel subsidized by the Saudi government. Saudi Arabian Airlines is at an advantage because it enjoys provisions from the Saudi Arabian government which result in generous fuel subsidies. This government support is an advantage enjoyed by Saudi Arabian Airlines, as this support is by far greater than that of any other GCC national carrier. This gives Saudi Arabian Airlines' management the flexibility to adjust air fares, as well as the power to control prices in the region (Alharthi, 2014).

In terms of operational risk management, Saudi Arabian Airlines operates in a high-risk operating environment, which is the nature of the aviation industry. However, it has been successful so far in mitigating these risks through the well-established risk management systems of the Saudi government. Major risk factors that Saudi Arabian Airlines has often faced are hazards, strategic risk taking, and financial and operational risks (Fudah, 2008). These risks often arise from incorrect assessments of potential risks and not complying with governmental and international regulations, in addition to poorly trained employees and unreported safety concerns by airline staff (Aldkhel, 2013; Gilbey, Tani & Tsui, 2015). These issues have already been addressed by the airline.

#### ***Improved Training of Human Resources and Labour Management.***

Human resources are undeniably a huge asset and their development is one of the airline's strengths. The Prince Sultan Aviation Academy in Jeddah is an in-house state-of-the-art training facility for staff development and it provides the qualifications required by the aviation industry. This allows the organization to provide quality training in order to improve the capacity of the staff at a significantly lower cost. The training offered ensures implementation of the highest safety procedures in accordance with international standards, which, in turn, will be embedded in the staff as a safety-oriented culture. For example, pilots' assessments consider the trainees' attitude in conducting safe flying concerning violations and human error, because this is a key strategy for the success of the airline (Alsowayigh, 2014). As a result, Saudi Arabian Airlines will be able to meet the strict regulations for pilot training and development of other team members of the airline in various functional areas by using the available training facility. The quality preparation of staff through the Crew Resource Management programme will improve the safety of flight operations, as

many skilled international staff from diverse backgrounds have also been recruited by Saudi Arabian Airlines to diversify and broaden the expertise of the key people involved. This demonstrates the global cultural values of the organization, which broadens perspective and acceptance (Metscher, Marvin & Abdullah, 2009).

Additionally, Saudi Arabian Airlines in general has a big advantage in the area of labour management relations (Pakkiasamy, 2015). No trade unions are permitted in the Kingdom of Saudi Arabia, since these are considered illegal. Therefore, there are no strikes or labour unrest in the Kingdom. There is also no pressure or fear on the part of Saudi Arabian Airlines in terms of wage hikes, which happen in many countries that allow the establishment of unions.

Therefore, it can be seen that all of the above strengths and advantages have provided Saudi Arabian Airlines all it needs to achieve a sustainable and competitive advantage in the aviation market, not only in the Middle East but around the world.

## **4.3 Weaknesses**

### ***Limited Flight Network***

Although, Saudi Arabian Airlines flies to over 80 cities in Asia, Africa and North America (Al-maghrabi, Dennis & Halliday, 2011), a limited flight operation network to some key international airports (e.g. Oceania) still exists. To illustrate, Saudi Arabian Airlines caters to many destinations around the world, which have been carefully selected on the basis of demands of travel to and from the Kingdom of Saudi Arabia; however, this strategy forces Saudi Arabian Airlines to leave out some potentially profitable routes which could be developed and made profitable in the future through connecting these flights to the Kingdom and using these routes as hubs. Another weakness which has been observed is that Saudi Arabian Airlines is not yet

calling in to some key airports such as Sydney in Australia and Auckland in New Zealand, representing the Australasian market. By ignoring the expansion of Saudi Arabian Airlines' network and not reaching Australia and New Zealand, Saudi Arabian Airlines is ignoring the opportunity to tap into segments such as Muslim pilgrims and the large number of students sponsored by the government studying in the Australasian region. Another missed opportunity is travellers to the western side of the world who could have chosen Saudi Arabian Airlines as an option for a connecting service provider; this opportunity is being lost and has become a weakness instead of a strength (Vespermann, Wald & Gleich, 2008).

#### ***High Operating Costs for Domestic Flights***

Domestic flights tend to impose high costs. This may be a result of Saudi Arabian Airlines flying large airplanes to regional airports, not efficiently using plane capacity and supplying unnecessary seating. As a result, the cost per passenger is higher (Mogarry, 1982). Saudi Arabian Airlines is currently overwhelmed with its domestic operations. Saudi Arabian Airlines dominates the Saudi domestic market, with 70% of Saudi airline passengers being domestic. Since Saudi Arabian Airlines is the national flag carrier of the Kingdom of Saudi Arabia, it is obligated to fully serve the local aviation market and, as a first priority, to connect internal airports together. This being the case, Saudi Arabian Airlines is faced with carrying the cost of unprofitable routes (Alahdal, 2010). This can act as a weakness for the future growth of Saudi Arabian Airlines.

### ***Unexpected Flight Interruptions***

Saudi Arabian Airlines always strives to ensure the highest safety standards through procedures compliance; however, there are situations in which mechanical breakdowns and emergencies on the ground take long periods of time to fix and resolve in order to put the aircraft back in the air. This can cause serious delays to scheduled flights and it also challenges Saudi Arabian Airlines to secure equipment for future routings. As a result, the airline will have to face issues with customer service experience, wherein the customer will lose faith in the brand, and the airline will end up facing more challenges to come if this is not seriously considered and resolved (Gurkan, Gurel & Akturk, 2016).

### ***Possible Loss of Valuable Workforce***

Saudi Arabian Airlines has distinguishable traits and capabilities. To meet passengers' expectations, the airline strives to support its crew with knowledgeable and skilful employees, and to adopt state-of-the-art technology. However, if these capabilities are underused, the outcome will be the waste of valuable resources. The acquired capabilities are an important driving force if not properly directed by the airline, which could lead to business bleeding and loss of much needed revenue (Fadag, 2012). For example, the high turnover of skilled employees such as highly experienced information and telecommunications professionals could become a significant challenge for Saudi Arabian Airlines' management to overcome. There is a limited supply of skilled labour due to the existence of other regional carriers and the opening of two new airlines in the Saudi aviation market, because these two new airlines will offer high wages to attract airline experts. This is known as employee poaching, which is a common strategy for newly established businesses and in the aviation sector specifically. In addition, another threat to the aviation sector is the

global shortage of internationally experienced pilots and flight mechanics (Goglia, 2014).

#### ***Lack of Aviation Management Skills among Top Management***

The new Saudi Arabian Airlines Chief Executive Officer may be considered as a weak link in the organization because he lacks experience in the aviation industry (Lee & Moon, 2016). This might not be attractive for serious investors who consider the experience and achievement of the leadership of the company (e.g. Warren Buffett, considering buying stock shares in big companies) (Jain, 2010). The new CEO was recruited from the telecommunication industry, which is quite different in nature and practice from the airline industry. He had great success as a leader of the biggest organization in the telecommunications industry but since the nature of the aviation industry is different, there is no assurance that he will be a great success in running such a large and sophisticated organization as Saudi Arabian Airlines, which is situated in a highly dynamic and changeable business environment.

#### ***Difficulty in Fulfilling Passenger Expectations during Peak Seasons***

One of the most significant weaknesses of any airlines is poor customer experience at airports during peak seasons. Saudi Arabia's international airports cater to many more travellers than it can handle during peak seasons, specifically during the Hajj season, when hundreds of thousands of passengers go in and out of Jeddah airports over the span of 2 months. Negative experiences can hurt goodwill towards and the image of the airline, and it will need enormous effort to rebuild that image and recover the service shortfall (Salamah, 2012). This will also require the airline to invest heavily to recover passenger trust because of dissatisfaction with the service received from the airline (Ansari & Qadri, 2014).

In a study conducted by DataGuru.org in 2012, it was found that Saudi Arabian Airlines lost 68% of its passengers, which had an impact on the airline's growth (Alamri, 2013). The procedures may be improving but at a very slow pace, which could have adverse effects on the airline's reputation. Although much has been done to strengthen workers' capacities and capabilities, many incidents have still been reported and it does not help when there is also a considerable number of new, inexperienced and young employees who are not yet adept in providing excellent customer service and care (Binsiddiq, 2013).

### *The Aging of Some of the Fleet*

An aging airplane fleet can have a negative impact on a brand image and pose as a weakness (Alamri, 2013). Some elements in the plane affect the passengers' experience, such as modern interior designs, more leg space, technologies and entertainment. The differences between new and old aircraft are very obvious and they are used as a reference for travellers when choosing their carrier, especially when there is a wide range of options available in the commercial aviation market. Evidently, airlines are not forced to change their interior unless it poses a safety issue to the passengers (Ackert, 2012). Furthermore, many passengers have some level of flying phobia, where any squeaking noise from seats or interior parts can be quite a terrifying experience for them. Other passengers look for luxurious accommodation and services with up-to-date and state-of-the-art technologies and entertainment to offer, which can assist them to have an enjoyable flight or help them get some work done. The new Boeing 787 Dreamliner or the Airbus A380 offer much more to travellers, as they are changing the way travelling is done. The current aircraft models offer luxurious privacy and services in first class, and the endless options for entertainment to all passengers, as well as comfort during the flight. Until planes start

to age and the interior deteriorates from wear and tear, airlines now are paying attention to the details that will leave a lasting impression on their passengers (Salamah, 2012).

### ***Fare Caps and Regulation for Some Flights***

Airfare prices are strictly controlled by the government of the Kingdom of Saudi Arabia, which makes the airline unable to raise more funds and increase the fare to generate more revenue, such as by having price increases for high seasons (i.e. in certain times of the year such as school holidays, when there is an increased demand for flights) (Alahdal, 2010). Although this is one of the major competitive drivers to attract passengers to fly with Saudi Arabian Airlines, this also means lower profit margins for Saudi Arabian Airlines (Delbari, Ng, AbdulAziz & Ho, 2016).

### ***The Business Context where Saudi Arabian Airlines Operates***

The financial sector of the Saudi economy is also not well organized (Ministry of Finance Saudi Arabia, 2015). There are no secondary markets in the kingdom. This does not provide an opportunity to the banks to have an outlet for creating and selling financial instruments, which are the backbone of an economy needed to activate the aviation industry and other industrial sectors. To add to the problem, stock trading is not well developed, which could have been tapped by the aviation sector for raising funds through initial public offerings. This is one of the best ways of raising funds which is the least risky and incurs a minimum cost of capital (Jasimuddin, 2001). These growth options are not available to Saudi Arabian Airlines compared with Air New Zealand, which is listed on the stock market.

These weaknesses are significant and Saudi Arabian Airlines' management must consider and overcome them to make the airline grow to its full potential.

## 4.4 Opportunities

There are many areas where Saudi Arabian Airlines needs to look for bigger opportunities. Although the government has shown willingness to spend in building infrastructure, it still needs to scan the external environment to identify the opportunities which exist in the environment locally and globally. Some of the areas of opportunity are identified and evaluated below.

### *Entering New Markets*

*Entering new international markets:* The increase in the number of new connections available to passengers such as connecting passengers to London and South Africa, for example, from Oceania and Asia is a good opportunity to be considered. Another area is the European Union aviation market, which is a good opportunity and can be covered by the strategic location of Saudi Arabia, especially for Muslims who would like to transit Saudi Arabia while visiting the holy places of Mecca and Medina as a potential new route from the Kingdom of Saudi Arabia to European destinations (O'Connell, 2011). The airline can also include New Zealand to further expand its network of operation for profit optimization.

As part of Saudi Arabian Airlines' route development strategy, the most important goal is to increase the volume of passengers by expanding and creating some new destinations to support the existing airline route network. In addition, expanding the flight network will increase the total air traffic volume for the airline (ICAO, 2006). For example, Bali and Auckland are very important new routes for Saudi Arabian Airlines to raise the number of passengers on its existing network (Button, Brugnoli, Martini & Scotti, 2015). As Bali is becoming one of the most favourable destinations in Asia for many reasons, such as water sports, great tropical weather and wonderful

landscapes, Saudi Arabian Airlines may have to start a new route from Jeddah or Riyadh to Bali and thereafter to Auckland, New Zealand. However, Saudi Arabian Airlines may fly directly from the eastern side of the Kingdom of Saudi Arabia from Dammam International Airport, the third most important airport in Saudi Arabia, to Auckland New Zealand in a non-stop 18-hour flight.

*For domestic network expansion:* The three biggest hubs in the GCC, namely Dubai, Abu Dhabi and Doha, are only 2 hours away from Jeddah airport (King Abdullah Aziz International Airport). This can connect the East and the West, and expand trade between the two regions. As one-third of the world population lives within 6 hours' flying time of Jeddah, this can be a key factor in the success of Saudi Arabian Airlines. In addition, a large Muslim population lives around the Kingdom, making it easier to target them with specially tailored flights with the help of the two new airlines serving domestic routes, namely Al Maha Airlines, a subsidiary of Qatar Airlines, and Saudi Gulf. This will relieve the pressure on Saudi Arabian Airlines' domestic segment, and it will enable Saudi Arabian Airlines to focus on international expansion and customer service.

### ***Saudi Arabia is Adjacent to Emerging Markets such as China and India***

Saudi Arabia is closely located to the two biggest emerging markets, China and India. The growth rate of India is expected to be 7.5% and that of China is expected to be 6.5% per annum. These two emerging markets are becoming prosperous and air travel growth will be very fast (GBTimes Beijing, 2015). One should not forget that these are also the two most populated countries of the world. Saudi Arabia can develop closer ties with these two countries and can get a big portion of their business market. This is a very good opportunity for the Saudi government and Saudi Arabian Airlines to increase trade and tourism with these emerging markets.

### ***Political and Economic Stability***

The Kingdom's political and economic stability creates a healthy business environment for growth and sustainability (SAGIA, 2016). According to IECONOMICS.com, the GDP rate in Saudi Arabia recorded a growth rate of 3.8% in the second quarter of 2015 from 2.3% in first quarter of 2015 (IECONOMICS, 2015). That is a good reflection of the sound position of the Kingdom's economy despite the drastic fall of oil prices recently. The healthy environment is a good platform for the economy to grow, which, in turn, will help the aviation sector. The growth of GDP is also a very important driver for the competitiveness of Saudi Arabian Airlines (Delbari, Ng, AbdulAziz & Ho, 2016).

### ***The Privatization of Saudi Arabian Airlines***

There is a proposal to privatize Saudi Arabian Airlines, which would make the airline more efficient and give it operational freedom for growth (Algehani, 2002). After the full privatization of Saudi Arabian Airlines, the airline's management would be able to reform and apply business development strategies to the airline more efficiently (Damanhori, 2013). The aviation industry in Saudi Arabia would also be able to offer the opportunity for commercial aviation services to compete and grow like those of other countries (e.g. New Zealand, the United Kingdom). As the national carrier, Saudi Arabian Airlines is currently undergoing deregulation and restructuring, which will hopefully lead to higher growth and expansion (Dalton, Todor, Spendolini, Fielding & Porter, 1980) . Hence, Saudi Arabian Airlines will be ready to become the main and most important player in the local aviation industry, which would enable it to compete with other private service providers on domestic and foreign routes.

### ***The Rise of Healthy Competition***

The government has also allowed the entry of two new domestic airlines, namely Almaha Airlines, a subsidiary of Qatar Airlines, and Saudi Gulf, in preparation for the privatization of Saudi Arabian Airlines. This will create strong competition in the market such as what happened in the Chinese aviation market (Fu, Oum & Zhang, 2010). Considerable effort is being made to build a healthy aviation industry, which, in turn, will significantly support the economy of Saudi Arabia. As the two new airlines start their operations in Saudi Arabia, this will relieve some pressure on Saudi Arabian Airlines in the domestic sector and will enable the airline to focus on international and external expansion, as well as to take advantage of many new opportunities in the global market (Almlohai, 2013).

### ***Population Growth***

Another key factor is the population growth of the Saudi market, which is made up of young enterprising people who are more accustomed to travel for business and domestic reasons. Furthermore, the government is also promoting and encouraging people to undertake travel as part of tourism promotion, which also improves business for the aviation market. According to the Saudi Central Department of Statistics and Information, the total population in the Kingdom was nearly 31.2 million, including the expatriate labour force. Of these, almost 21 million people are Saudi nationals, who are growing at the rate of 2.1% per annum. (Central Department of Statistics and Information, 2015). When researchers talk about a growing population, there is also an expected growth in collective demand. This is one of the key factors that drives economies to prosper.

### ***Involvement in the Business Aviation Sector***

The development of business aviation is a good opportunity for Saudi Arabian Airlines. Private aviation is attracting wealthy and high-net-worth groups of individuals (O'Connell, 2011). This is because private jet travel is a more comfortable and convenient way to travel, and can be adjusted to suit the person who charters it. It is a new trend to show off or perhaps economize on first-class tickets. For example, it is more economical and more private for five passengers or more to travel in a private jet compared to flying first class. The fashion or trend of flying in private planes is becoming a necessity for many wealthy people who are very busy and short of time. Travelling on private planes in general is considered a prestigious status symbol and demand for it will increase in regions with increased wealth like the GCC region (O'Connell, 2011). As the number of wealthy individuals in the region increases, this is also likely to trigger more demand for luxurious and private air charter services. Therefore, Saudi Arabian Airlines established SPA, a subsidiary of Saudi Arabian Airlines, to serve the private business sector and to ensure that it will not miss the opportunity to be involved in this particular market segment (Atalık, 2009).

### ***The Strategic Location of the Kingdom of Saudi Arabia***

The religious status and geographical location are key factors supporting the expansion of the aviation market (O'Connell, 2011). The Kingdom of Saudi Arabia is investing astronomical figures in the biggest expansion in the history of the holy places of Mecca and Medina, which will expand their capacity in the religious tourism industry all year round. The Ministry of Hajj plans to accommodate the largest number of travellers coming to visit the holy places in Islamic history. Saudi Arabian Airlines should be ready to take advantage of this opportunity and provide more capacity to carry pilgrims to and from their countries. After the completion of the new

Omrah system in 2016, the arrival rate will increase due to the possibility of giving electronic online visas to visitors so as to maximize the benefit of the mega-projects implemented by the Government Custodian of the Two Holy Mosques (Saudi Arabian Ministry Of Haj, 2016).

### ***Transferring More Passengers***

The objective of the Saudi Arabian government is to accommodate as many passengers and flights as possible for the opening of the new airport in Jeddah. Greater passenger flow means more income and jobs being created by the new demand for travel and services, as these contribute positively to the total GDP of the Kingdom of Saudi Arabia (Oxford Economics, 2011).

### ***Changes in Technology and Conducting Operations***

State-of-the-art technology will go a long way towards creating the most efficient infrastructure and operation due to the government's plan for the aviation market. The Saudi Arabian Civil Aviation Authority plans to advance the airports in the Kingdom as well as to accommodate a continuous increase in the number of flights and passenger numbers. It has formed a special commission for this purpose, which also involves Emirates Airlines. A spokesman for the Civil Aviation Authority announced that the growth in traffic at airports in the Kingdom is one of the highest in the region: the growth rate ranges between 8% and 14% at airports, which is considered to be a very significant growth in the aviation market (GACA, 2014). The commission has implemented several large development projects to create new travel enhancements such as the state-of-the-art airport in Jeddah (Saudi Arabian Ministry Of Haj, 2016).

Furthermore, there are opportunities in the guise of the new and rapidly changing technology and regulations that are needed to ensure that Saudi Arabian Airlines

operates in a safe and legal environment. Due to the mandatory regulations, applicability and compliance with state of design airworthiness directives have become an obligation for every registered aircraft. Complying with airworthiness directives is an important aspect for safe operations to continue or to be able to legally operate and fly. Although, it is initially a financial and time burden on the company, it will serve Saudi Arabian Airlines in the long run and enable the airline to provide better and safer services to its customers (Federal Aviation Authority (FAA), 2015). For example, the Government Regulation and Aviation Authorities set a measure that makes it compulsory to abide by the environmental rules and policies required by aviation regulators to match environmental standards across the world (New Zealand Civil Aviation Authority, 2015). This may pose a challenge but be a significant opportunity for Saudi Arabian Airlines in the future; thus they need to be up to date with innovation and technology, as the airline's costs may be affected by changing some parts of particular airplanes that are waiting for new regulations (Alpen Capital, 2014). For example, there is a new trend toward more efficient and more environmentally friendly aircraft, which will benefit Saudi Arabian Airlines in the long term.

### ***Signing More Bilateral Agreements***

In general, bilateral agreements lower cultural and economic barriers (U.S Department of State, 2015). The Saudi government's new economic reforms have been designed to encourage investment from overseas companies in some technological and industrial sectors. The government can have separate economic zones that are free of any cultural restrictions. This will help create an economic corridor to develop the export of products which are different from oil. This will also make Saudi Arabia become less dependent on oil. Less reliance on oil reserves will

lead to more investments in other sectors like agriculture and the aviation industry, which will drive new investments and business opportunities. Therefore, the overall impact would be an improvement in domestic and international air traffic, which would help growth in the aviation industry. The government is already making moves to bring positive reforms. As a first step, it is planning to invest \$2.2 billion in the development of Jeddah, including the world's tallest building (the Mile-High Jeddah Tower), which will be 1.6 km high and taller than the Burj Khalifa Centre in Dubai (Carrington & Ap, 2015). Once completed in 2020, it will open up a large number of opportunities for the Saudi aviation sector and the Saudi economy in general.

It can be observed from the points above that there are several areas for potential growth which can provide new opportunities for Saudi Arabian Airlines.

## **4.5 Threats**

### ***Increased Competition***

The competition in the region is fierce, with many big and small players operating in the region, such as Emirates, Qatar Airways, Etihad Airlines and others (O'Connell, 2011). Saudi Arabian Airlines is a competitor with the major players in the region as well as globally, and they are not to be underestimated in terms of their ability to play well in the market. The enormous fleet expansion of the key GCC commercial airlines mentioned above will supply the regional market with lots of capacity and will compel Saudi Arabian Airlines to provide commercial aviation services in and out of the Kingdom of Saudi Arabia (Ladki & Misk, 2009). The big airlines in the Arabian Gulf, such as Emirates Airlines, Etihad Airlines and Qatar Airways, are set to take a big portion of the international flight market. These competing airlines have the potential to grow and take over some sectors, as they share the same demographic

advantages and many competitive advantages with the Saudi aviation sector (Aldaghmi, 2014). In addition, these three airlines (Emirates Airlines, Etihad Airlines and Qatar Airways) are among the world's 10 best airlines, with many recognized global awards such as Skytrax (Skytrax, 2015). Saudi Arabian Airlines is not the only commercial aviation service provider in the Saudi market, as another private airline is presenting itself as a competitor. The competition has benefitted the customer by giving the most competitive pricing. However, this has also been challenging for Saudi Arabian Airlines, since it usually offers higher fares than its competitors. This is one of the constraints that Saudi Arabian Airlines is facing in achieving a higher growth rate (Aldaghmi, 2014). In some popular domestic and international routes, the scheduled seat supply is much less than the demand, especially in high seasons, which makes it extremely difficult to find available seats on routes such as from Jeddah to Riyadh domestically and from Jeddah to Cairo internationally.

In addition, as fuel costs are falling rapidly, the competing airlines experience great savings, which allow them to execute potential expansions to provide more capacity to pilgrims from all around the world into Saudi Arabia (O'Connell, 2011). As a consequence, this leads to fiercer competition in the market. This could become a strong threat that needs to be addressed by Saudi Arabian Airlines. After all, there is already the presence of a threat from the increasing competition among the existing regional carriers. In addition, the shortage of secondary airfields in the GCC has required its LCC airlines to operate out of the key airports. On the other hand, the open sky agreements have led to the international airlines competing for a greater share of the domestic aviation market in the region and in Saudi Arabia. This means the LCCs will compete with the full service airlines to have a share of the domestic aviation market (Ko, 2016). As a result, the other Gulf-based airlines will focus their presence worldwide and thus securing landing slots at international Saudi airports will

be more difficult for them. Nevertheless, the crowded main airports in the Kingdom could be a threat to Saudi Arabian Airlines as well as a boon, as passengers may shift their loyalty toward Saudi Arabian Airlines (Alhatrishi, 2011).

### *The Threat of New Entrants*

The threats of new entrants into the Saudi Arabian aviation sector will always be present (Almlohai, 2013). Most of these new airlines come from countries such as Turkey, Pakistan, Indonesia, Bangladesh and others, which have large Muslim populations. Furthermore, there are many airlines which could create a challenge for Saudi Arabian Airlines and prevent it from growing. One such airline is Emirates Airlines. This airline has the biggest profit gain achieved by any airline (O'Connell, 2011). It is believed to be a rising star in both Europe and the Middle East. It has reported the third highest net profit, which shows that Emirates Airlines is a serious contender for everyone in the Middle East and the world aviation market. It has been receiving a lot of interest from various quarters such as investors, competitors and those who want to collaborate with it.

Another airline is emerging: Air Asia. Although at present, it operates in the Asian markets, it is ambitious for growth and it could make a great impact on the crowded Middle East market. It is a low-cost airline, which could pose a threat to existing airline companies, including Saudi Arabian Airlines. Air Asia has posted a profit for three of the four quarters in 2009 and it is rising at a very fast pace. These two airlines need to be watched by Saudi Arabian Airlines' management to counter competition (Aldaghmi, 2014).

### ***The Threat of Substitutes Such as the New High-Speed Train Project***

Despite the presence of two new LCC providers to the Saudi Arabian domestic market, a new threat is underway, which is the new high-speed train project in Saudi Arabia (Terrapinn, 2013; Porter, 1979). This factor may affect the transport mode choice for some passengers. For example, the London–Paris train route has a significant market share of the aviation market and Saudi Arabian Airlines is facing a similar situation (Baroom, 2010). The GCC hub in the Middle East could also form a unified Middle East in the future. This could open up the scope for having another substitute to replace air travel such as a high-speed train network across most countries in the Middle East. At the moment, the Haramain High Speed Rail is set to open in the first quarter of 2018, linking the holy cities of Mecca and Medina via Jeddah (TexasHSR.Org, 2012). Such substitutes can shift loyalty and can impact the aviation sector, as in the case of high-speed bullet trains. The advantage which most airlines, such as Saudi Arabian Airlines, Emirates and Qatar Airways, enjoy at present will no longer have the same attraction, since the high-speed train network will be cheaper, affordable and as fast as aircraft. This will become a formidable threat to airlines in the Middle East in the future.

### ***The Slow Moving Saudi Arabian Economy***

One observation about the business context in Saudi Arabia is that it is quite laid back and slow to change. People have become used to the prosperity of the country and are not getting used to the reality that it will not last forever. This is showing in the budget provisions of the government since 1983. There is a balance of payments deficit. Saudi Arabia is being threatened from beyond the borders, which has led to a doubling of expenditure on the armed forces by the government. Furthermore, the International Monetary Fund has been cautioning the Saudi government about its

rising debt, which has reached nearly SAR326.2 billion (Ministry of Finance Saudi Arabia, 2015). This could lead to the government to not being able to support the aviation sector, which requires constant upgrading, as new technology is always around the corner. If the Saudi government does not control its budget deficit, this could lead to the derailment of many departments.

### ***Epidemics in Aviation Markets***

The airline business poses extremely high risks for spreading dangerous airborne diseases (Bowron & Maalim, 2016). Airlines in general take extra measures to prevent every possible health threat but there are still many risks present. Any major events could put the airlines in a vulnerable position. Major epidemic outbreaks are not easy to control, such as the Ebola epidemic in Africa in 2014 and the SARS outbreak in 2003. The effects of such threats can limit the number of travellers. Furthermore, epidemics can put airlines at the risk of customers losing faith in health and safety measures, together with the increased costs of applying health and safety procedures (Cenciarelli, 2014). This leads to a decrease in RPKs not only for Saudi Arabian Airlines but also for the other airlines as well.

### ***Flight into Unsafe Zones***

There is also concern about flight safety in war zone areas. The recent Yemen conflict with Saudi Arabia has increased the level of aviation risk factors, especially towards the south of the Kingdom of Saudi Arabia. There are many examples to prove this point, such as the Malaysian aircraft shot down in the Russian–Ukraine conflict zone. There is also a more recent incident of a Russian airplane being shot down because the Syrian conflict. This is a major threat to the aviation industry in general and to the Gulf region specifically, and it could have a major impact on Saudi Arabian Airlines.

It could result in Saudi Arabian Airlines facing higher costs of installing cyber security measures in their systems to ensure customer safety. This would be an added cost and a burden on Saudi Arabian Airlines, which makes its position less competitive (Lim, 2014). The overall unrest in the region is high and threatens the stability of the commercial airline environment. Currently, there is unrest on one side in Yemen, which shares a border with the southern part of the Kingdom, and there is the continuous threat of terrorism from the ISIS group from the Syrian side, which is to the north of the Kingdom. This is impacting the political environment and might cause some instability in the aviation industry in the region, including the Saudi aviation sector. All of these factors could add to the cost of the operations by increasing overheads and making the airlines less competitive (Algehani, 2002).

### *Natural Disasters*

There is also a threat of natural disasters which could destabilize the region or the aviation industry in general, such as dust storms and hot summer temperatures caused by climate change. There is also the threat of natural disasters such as volcanic eruptions in Europe or wind storms on the surface that may prevent scheduled flights from leaving on time. Natural disasters and weather phenomena are hazardous risks that compromise the safety of flights as well as disrupting carefully laid out flight schedules (Gurkan, Gurel & Akturk, 2016). One of the challenges facing the GCC aviation industry and Saudi Arabian Airlines is the disruption of its operations due to bad weather at home and abroad. Saudi Arabian Airlines will delay or terminate their pre-planned flights, for example, when airports face sandstorms, and all flights usually end up being delayed or cancelled to ensure the safety of the travellers and the aircraft (IATA, 2010).

### ***Process Holdups***

There are also process holdups within Saudi aviation. In other words, there are obstacles such as bureaucratic restrictions and unfair competition, which undeniably decrease airline efficiency (Al-Otaibi, 2012). This can also pose a major threat to Saudi Arabian Airlines' development and growth in the region. The biggest challenge which Saudi Arabian Airlines faces is from Emirates Airlines, not only in the Middle East but around the world. The UAE only has 1.4 million residents but has managed to increase its market from 8 million passengers in 1996 to 29 million by 2006 (Ladki & Misk, 2009). The growth has been nothing short of phenomenal and it is something no competitor in the Gulf region could even dream about. This poses a very big challenge for Saudi Arabian Airlines. The biggest and most powerful economy in the Middle East, instead of leading in aviation, is finding itself struggling to expand before the airline of a tiny kingdom which is considered by others in aviation circles to have one of the most liberal aviation policies in the world. Emirates has been quite fast in expanding its fleet to neighbouring Kuwait, Bahrain and Mumbai in India. This is not possible in the case of Saudi Arabian Airlines due to its bureaucratic style of management (Ladki & Misk, 2009). Therefore, Saudi Arabian Airlines has been lagging behind in its growth compared to others in the region. On many occasions, the Saudi government has tried to make the aviation sector efficient and competitive, but progress is very slow.

### ***Global Economic Decline and Falling Oil Prices, Leading to a Slump in the Saudi Arabian Economy***

Economic slumps and recessions lower fuel prices and create unstable currency exchange rates; these have a direct impact on airline revenues and competitiveness (Delbari, Ng, AbdulAziz & Ho, 2016). For example, the Saudi Arabian riyal is

pegged to the US dollar at a rate of SAR3.75 for each US dollar, which means that if the US dollar drops against other currencies, the riyal will lose some value and the costs of operation and supply may increase dramatically (Al-Omran, 2015). There is also the threat of prolonged global economic instability, which may have a negative effect on the GCC aviation industry in the medium and long term.

The short-term impact of falling fuel costs should be considered to be a positive sign for any airline but this could have a financial impact in the long term on the government of Saudi Arabia (Ministry of Finance Saudi Arabia, 2015). The Kingdom of Saudi Arabia, along with other Organization of the Petroleum Exporting Countries members, has been refusing to cut oil production, which has brought about an oil oversupply in the market. The situation has posed new challenges to the Kingdom as well as the aviation sector. Many planned projects are on hold, which, in the long run, could have an indirect effect by reducing foreign investment as well as the GDP growth rate. As the cost of fuel goes down, travellers expect lower fares (Said & Faucon, 2015). Furthermore, there could also be a situation where the Saudi government could cut down the operational costs of the airlines as well as acquiring new aircraft. This could be a setback for Saudi Arabian Airlines, as competition in the aviation sector is global and intense.

### ***Increase in Passenger Bargaining Power***

The airline industry (e.g. the number of airlines or airline seats) is very elastic, especially in case of tourists and customer satisfaction (Alshaya, 2014). As the number of airlines increases in the future, this will increase the bargaining power of customers (Porter, 1979). The high elasticity of demand will mean that a slight increase in the price will bring down the demand heavily. This means that Saudi Arabian Airlines will either have to create product or service differentiation or adopt a

dynamic and cost-effective strategy; as a result, Saudi Arabian Airlines' management will face the problem of lower margins, which could lower its profitability (Rahman, Azad & Sabnam, 2015). This could be avoided by Saudi Arabian Airlines if a unique product or service brand is implemented. This, however, is not an easy task and will require lot of specialized teams to implement the marketing strategy.

## 4.6 Summary

The SWOT analysis above has been summarized and further elucidated to give a birds-eye view of the situation.

Weighted scores between 1 and 5 were assigned. The weighting for this table was based on the observation method, taking all the inputs from the secondary research into consideration. The ranking is given based on the researcher's judgment and perceived importance of the factors, and is therefore subjective in nature. This reflects the interpretivist lens of the research.

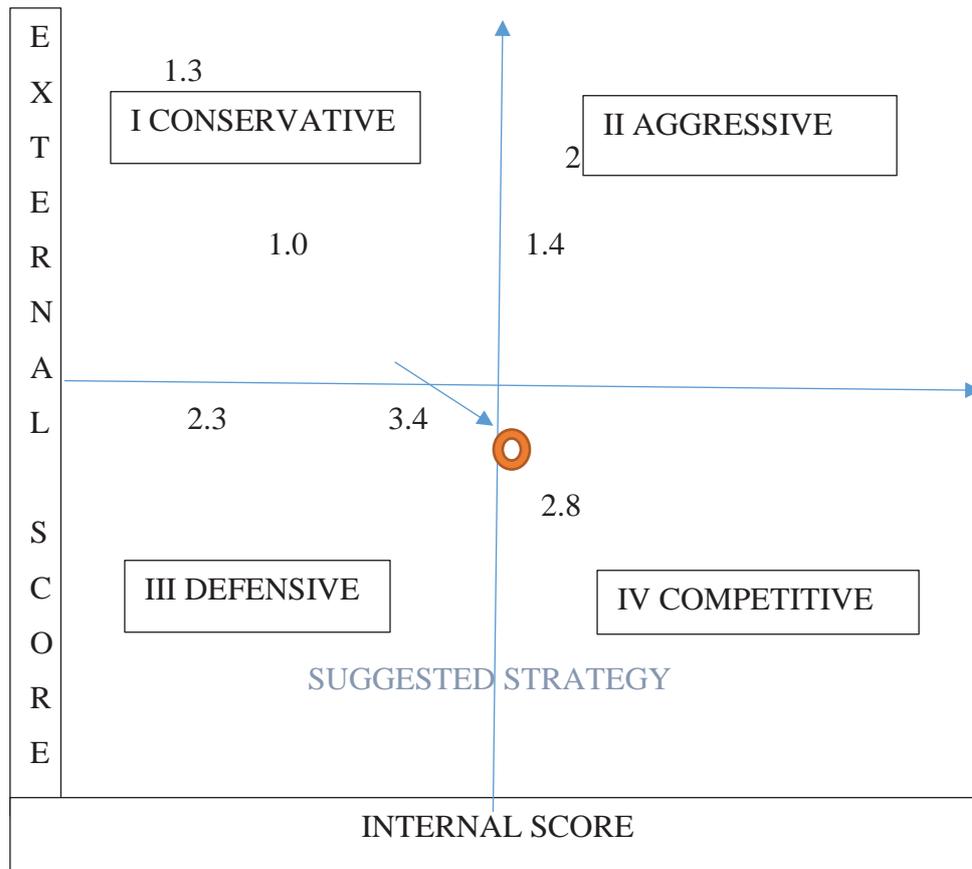
**Table 1: Summary Table of the SWOT Analysis**

<b>Internal</b>	<p><b>Strengths</b></p> <ol style="list-style-type: none"> <li>1) The religious obligation for all Muslims to travel to Saudi Arabia and the praying area offered by the airlines on the airplanes</li> <li>2) The mass infrastructure and the building of attractions to accommodate large number of visitors</li> <li>3) Passengers' loyalty toward the airline</li> <li>4) The collaboration with other airlines</li> <li>5) Advanced airline systems and strong brand image</li> <li>6) Latest technology and modern fleet</li> <li>7) Minimized financial and operation risk</li> <li>8) Improved training of human resources and labour management</li> </ol> <p>Weighted Score: 2.5</p>	<p><b>Weakness</b></p> <ol style="list-style-type: none"> <li>1) Limited flight network</li> <li>2) High operating costs for domestic flights</li> <li>3) Unexpected flight interruptions</li> <li>4) Possible loss of valuable workforce</li> <li>5) Top management is not linked to the aviation industry</li> <li>6) Lack of aviation management skills among top management</li> <li>7) Fulfilling passengers' expectations</li> <li>8) The aging of some of the fleet</li> <li>9) Fare caps and regulation for some flights</li> <li>10) Business context</li> <li>11) The airline is not privatized</li> </ol> <p>Weighted Score: 2.7 (Defensive)</p>

External	<p><b>Opportunities</b></p> <ol style="list-style-type: none"> <li>1) Entering new markets (i.e. international and domestic markets)</li> <li>2) It is adjacent to emerging markets such as China and India</li> <li>3) Political and economic stability</li> <li>4) Privatization of Saudi Arabian Airlines</li> <li>5) Rise of healthy competition</li> <li>6) Population growth</li> <li>7) Involvement in the business aviation sector</li> <li>8) The strategic location of the Kingdom of Saudi Arabia</li> <li>9) Transferring more passengers</li> <li>10) Signing more bilateral agreements.</li> </ol> <p>Weighted Score: 2.5</p>	<p><b>Threats</b></p> <ol style="list-style-type: none"> <li>1) Increased competition</li> <li>2) The threat of new entrants</li> <li>3) The threat of substitutes such as the new high-speed train project.</li> <li>4) Slow-moving Saudi Arabian economy</li> <li>5) Epidemics</li> <li>6) Flight into unsafe zones</li> <li>7) Natural disasters</li> <li>8) Process holdups</li> <li>9) Global economic declines and falling oil prices</li> <li>10) Increased passenger bargaining power</li> </ol> <p>Weighted Score: 3.5 (Competitive)</p>

Table 1 shows that it is appropriate to follow a competitive strategy combined with the defensive strategy, based on the weighted scores.

Furthermore, the different elements of the SWOT analysis have been weighed to prepare the SWOT matrix below. This matrix clarifies the strategies Saudi Arabian Airlines needs to follow on the basis of the potential and its core competences based on the SWOT analysis above. The SWOT matrix is a visual mathematical illustration representing the right strategy for Saudi Arabian Airlines to adopt (Ommani, 2011).



**Figure 1: SWOT Matrix**

Based on the matrix above, the strategy to be followed by Saudi Arabian Airlines is to be competitive to a greater extent with some defensive policies. Thus one thing is certain: the contribution of SWOT analysis as an analytical tool for Saudi Arabian Airlines is justified and appropriate (Ommani, 2011).

To recapitulate, the strengths of Saudi Arabian Airlines are as follows: the religious obligation for all Muslims to travel to Saudi Arabia and the praying area offered by the airlines on the airplanes, the mass infrastructure and the building of attractions to accommodate the largest number of visitors, passengers' loyalty toward the airline, collaboration with other airlines, advanced airline systems and strong brand image, having the latest technology and a modern fleet. Other strengths include minimized

financial and operation risks and improved training of human resources and labour management.

Its weaknesses include the limited flight network, high operating costs for domestic flights, unexpected flight interruptions, possible loss of valuable workforce, top management not being linked to the aviation industry and a lack of aviation management skills among top management, difficulty in fulfilling passengers' expectations during peak seasons, the aging of some of the fleet, and fare caps and regulation for some flights. Furthermore, Saudi Arabian Airlines is limited to the business context where it operates, which does not fully encourage an increase in profit margins. Not being privatized is also an added weakness of Saudi Arabian Airlines.

Saudi Arabian Airlines, however, faces several opportunities that include: the possibility of entering new markets such as the Australasian aviation market, the proximity of Saudi Arabia to emerging markets such as China and India, the political and economic stability of Saudi Arabia that brings in new investments and increased revenue per kilometre, the opportunity to privatize Saudi Arabian Airlines and the possible involvement of the private aviation sector, the rise of healthy competition, the prospective population growth of Saudi Arabia, the strategic location of the Kingdom of Saudi Arabia, the prospect of the Saudi Arabian government signing more bilateral agreements and the possibility of Saudi Arabian Airlines transferring more passengers.

Together with the opportunities, there are also threats that Saudi Arabian Airlines is facing, such as increased competition and the threat of new players in the Saudi Arabian aviation industry and the threat of substitution, such as the new high-speed railway project, which is set to finish in 2018. Saudi Arabian Airlines is also

threatened by the possibility of increasing occurrences of epidemics in the domestic and international markets, which could potentially scare passengers away from flying through and/or visiting Saudi Arabia, as well as natural disasters, flights to unsafe zones, the global economic decline and falling oil prices, which have led to a slump in the Saudi Arabian economy and therefore limit the buying power of passengers who depend on the Saudi Arabian economy. Other threats include process holdups and increased passenger bargaining power.

Overall, there are a considerable number of strengths that Saudi Arabian Airlines can use to counter the weaknesses of the organization. Furthermore, there are plenty of opportunities that Saudi Arabian Airlines can take advantage of in order to limit the consequences of the threats the airline is facing. The SWOT analysis and the SWOT matrix in this thesis have provided an inventory of the factors that Saudi Arabian Airlines needs to take advantage of and to address. It is necessary to act on these factors for Saudi Arabian Airlines to be able to keep pace with the other competitive airlines in the Middle East region.

## **CHAPTER 5: Survey Analysis of the Need for a New Route from Saudi Arabia to New Zealand**

### **5.1 Introduction**

In this section, the thesis aims to answer the second research question, which looks into the potential for Saudi Arabian Airlines to establish a new route from Jeddah, Saudi Arabia, via Bali, Indonesia to Auckland, New Zealand. This research question used primary data from surveys and guided interviews, which were used as data collection methods. The results are described below.

Stratified random sampling was used to ensure that the different segments of the market were well represented, from the businessperson category to students and Muslims who often travel between Jeddah and Auckland. Acquiring the different segments of the market ensured that the different perspectives of their needs were covered by the survey. Furthermore, this study also ensured that, despite limited resources, a representative sample can still be attained (Cohen & Manion, 2000). The survey was done through face-to-face interviews composed of a closed-ended questionnaire with six items that were answerable by “Yes” or “No”. This type of instrument was used because it was time-efficient, did not violate ethical standards and, above all, was financially feasible. Furthermore, the survey also included items that had a multiple-choice format to find out the current preferred airline of the participants. Questions that identified their perception of Saudi Arabian Airlines, as well as how it can better meet customer expectations and its competitive advantages, were also included.

#### ***Sampling Size***

Survey questionnaires composed of seven multiple-choice items were given to a sample of 100 individuals. Due to the sizable market population of Saudi Arabian

Airlines, it was deemed necessary to obtain a segment of the market for the sample. After considering the population of Saudi Arabian students and others who are spread throughout New Zealand, it was decided that a sample size of 100 was appropriate based on various constraints (i.e. temporal and financial constraints).

## **5.2 The Data Analysis Process**

Due to the nature of the research question in this study and the categorical variables collected, the statistical analyses used to examine the data used a table of contingencies, a non-parametric analysis. Tables of contingencies show the frequency distribution of the different variables used in the study between Saudi and non-Saudi respondents. Aside from the descriptive analysis, Pearson's Chi-Square test was used for further analysis in SPSS software. Despite all these tools of analysis being used in the study, this study does not aim to replace professional judgment, but the results should be used as a guide for informed and intelligent decision making to take place. The data gathered in this report can provide a sufficient framework for future planning needs (Bernstein, 2002).

The research involved seven variables, which were quantified through the survey questionnaire. These variables were nominal and categorical variables, most of which had two categories, but one had five categories.

For the secondary data, SWOT analysis was used for data analysis, as discussed in the previous section.

## **5.3 Descriptive Statistics**

The primary research mostly involved quantitative analysis of the descriptive statistical type. This approach was suitable, as the findings of the research, as

explained below, contain mostly descriptive data, but need to be interpreted and explained in the most appropriate way possible through the use of a table of contingencies and Pearson's Chi-Square test. The sample of 100 research participants in this study was composed of 70% Saudi Arabians and 30% from other nationalities, as shown in Table 2.

**Table 2: Nationality of Respondents**

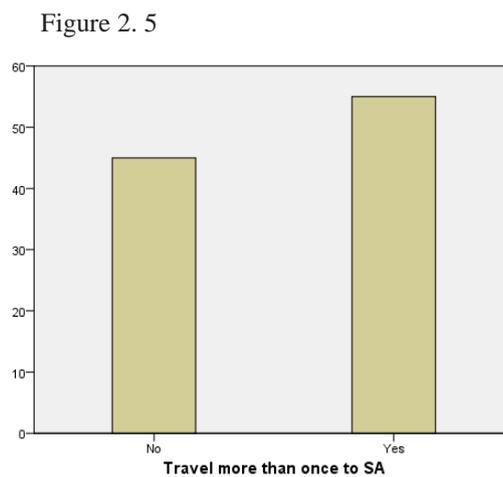
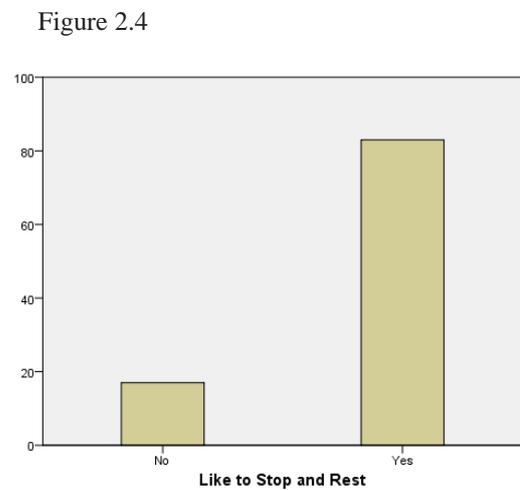
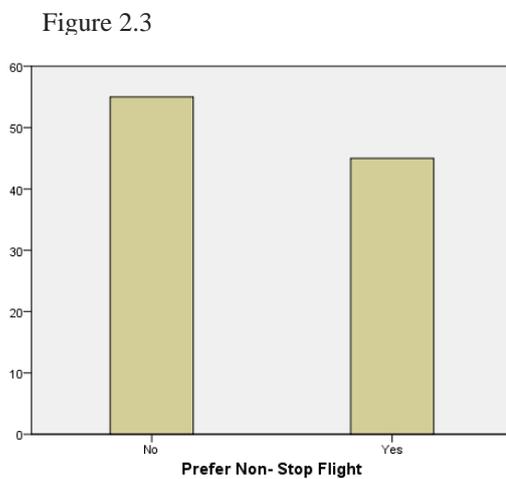
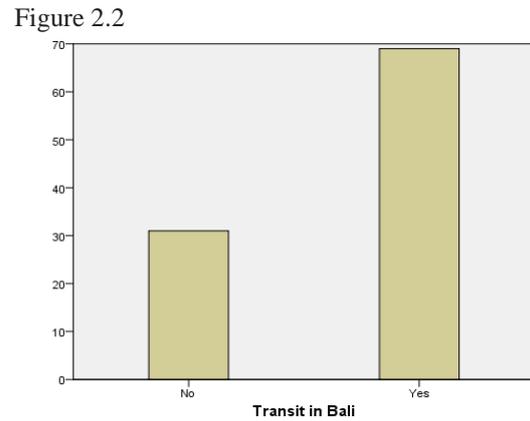
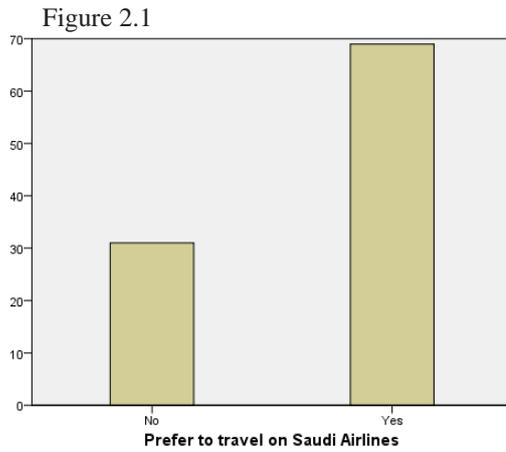
<b>Citizenship</b>	<b>Frequency</b>	<b>Percent</b>
Saudi Arabian	70	70%
Other	30	30%
Total	100	100%

The next table shows the results categorized by frequency.

**Table 3: Frequencies of Different Responses to the Survey Questions**

Questions	Answers	Frequency	Percentage
Q.1 Prefer to travel on Saudi Arabian Airlines to Saudi Arabia	Yes	69	69%
	No	31	31%
Q.2 Prefer to have a stopover in Bali on the flight to Saudi Arabia	Yes	69	69%
	No	31	31%
Q.3 Prefer to have a non-stop flight to Saudi Arabia	Yes	45	45%
	No	55	55%
Q.4 Prefer to stop, relax and visit new places during the long-haul flight	Yes	83	83%
	No	17	17%
Q.5 Travel more than once to Saudi Arabia	Yes	55	55%
	No	45	45%

The frequencies of answers in Table 3 are shown graphically below.



**Figure 2: Passenger Preferences**

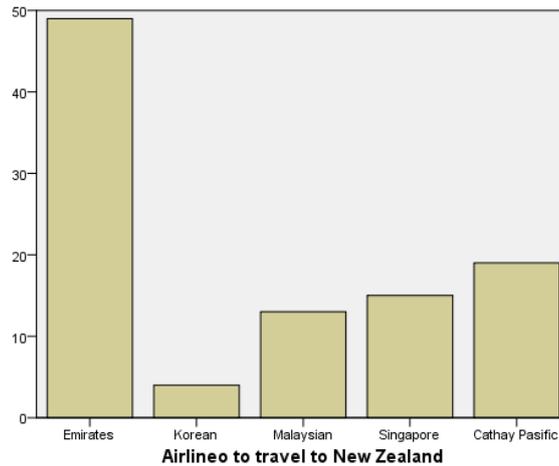
Table 3 and Figure 2.1 show that 69% of the respondents surveyed prefer to travel to Saudi Arabia from New Zealand by Saudi Arabia Airlines. Furthermore, Table 3 and Figure 2.2 show that more than 69% of the respondents prefer to have a stopover in

Bali, Indonesia. One can deduce that the reason behind this is probably because this is a long-haul flight, where a break is preferable in between flights. This also gives the opportunity for passengers to visit and explore new places. As a stopover, Bali is an ideal destination, since it is known for its diverse culture, relaxing vistas and for its gastronomic delights. The results in Table 3 and Figure 2.3 also indicate that less than half (45%) of the respondents prefer a non-stop flight. This is concurrent with the results illustrated in Figure 2.2, where many respondents preferred to have a layover in Bali. This is an interesting finding and could possibly translate into a new opportunity for Saudi Arabian Airlines in the New Zealand market. A non-stop flight would be approximately 18 hours, one of the longest flights in the global aviation market. However, more than 80% of respondents would prefer to stop, relax and visit new places during the long-haul flight to Saudi Arabia from New Zealand, as illustrated in Figure 2.4 above.

Furthermore, it was determined from the sample that more than half (55%) of the respondents (see Table 3 and Figure 2.5) travel to Saudi Arabia from New Zealand more than once per year, because of family or for business purposes.

**Table 4: Airline Preferences of Travellers from Saudi Arabia to New Zealand**

Question	Airlines	Frequency of respondents	Percentage
Q.6 Airline taken from Saudi Arabia to New Zealand	Emirates	49	49%
	Cathay Pacific	19	19%
	Singapore	15	15%
	Malaysian	13	13%
	Korean	4	4%
	Etihad	0	0%



**Figure 3: Airlines Used for Travel to New Zealand**

Table 4 and Figure 3 show the frequencies of the airline of choice used by travellers who have travelled from Saudi Arabia to New Zealand. The findings show that nearly half of the respondents used Emirates Airlines, 19% used Cathay Pacific, 15% used Singapore Airlines, 13% used Malaysian Airlines and a few people used Korean Airlines.

## 5.4 Table of Contingencies

In the next section, a non-parametric analysis was employed using the table of contingencies. In preparing the contingency table, the forecasting was based on the number of assumptions and factors besides the demand statistical techniques (Lin & Ban, 2014). The variables considered are the past history, the current and expected future environment, and the role being played by the airport. The demand-driven assumption of the aviation industry was also taken into account. In the aviation industry, it is assumed that every airline will adjust its capacity for high demand (Bernstein, 2002). This is true for Saudi Arabian Airlines too. Furthermore, the analysis considered the relationship between the variables (Saudi nationality and non-Saudi nationality) collected in the survey. A number of 2×2 tables of contingencies

were created and Pearson Chi-Square tests were undertaken. The tests examine the relationships among the variables.

Table 5 below shows the table of contingencies created, each of which has a  $2 \times 2$  layout. The tables show the frequency distributions and the number of cases in each category. For instance, there were 51 individuals who would prefer to travel by Saudi Arabian Airlines and have a stopover in Bali, 40 people who travelled more than once to Saudi Arabia and prefer to have a stopover in Bali, and 55 people want to have a non-stop flight and prefer to stop, relax and visit new places.

**Table 5: Table of Contingencies of Travellers' Preferences**

		Prefer to have a stopover in Bali on the flight to Saudi Arabia		Have a non-stop flight to Saudi Arabia		Stop, relax and visit new places during the long-haul flight		Travel more than once to Saudi Arabia		Saudi Arabian nationality	
		No	Yes	No	Yes	No	Yes	No	Yes	No	Yes
Prefer to travel on Saudi Arabian Airlines to Saudi Arabia	No	13	18	14	17	6	25	15	16	8	23
	Yes	18	51	41	28	11	58	30	39	22	47
Prefer to have a stopover in Bali on the flight to Saudi Arabia	No			10	21	13	18	16	15	6	25
	Yes			45	24	4	65	29	40	24	45
Have a non-stop flight to Saudi Arabia	No					0	55	27	28	18	37
	Yes					17	28	18	27	12	33
Stop, relax and visit new places during the long-haul flight	No							7	10	4	13
	Yes							38	45	26	57
Travel more than once to Saudi Arabia	No									18	27
	Yes									12	43

Furthermore, Table 6 shows the tables of contingencies (4 × 2) among the six variables and the airlines that the respondents used to travel to New Zealand. The airlines with only a few frequencies were grouped together as “Other”.

The table shows, for instance, that there were 33 travellers who travelled to New Zealand by Emirates Airlines and who would prefer to fly by Saudi Arabian Airlines, and 15 people who travelled by Cathay Pacific and who would like to stop, relax and visit a new place.

**Table 6: Table of Contingencies for Airline Preferences**

		Airline people have travelled to New Zealand on			
		Emirates	Singapore	Cathay Pacific	Other
Travel on Saudi Arabian Airlines to Saudi Arabia	No	16	6	6	3
	Yes	33	9	13	14
Have a stopover in Bali on the flight to Saudi Arabia	No	12	6	11	2
	Yes	37	9	8	15
Have a non-stop flight to Saudi Arabia	No	26	7	10	12
	Yes	23	8	9	5
Stop, relax and visit new places during the long-haul flight	No	8	3	4	2
	Yes	41	12	15	15
Travel more than once to Saudi Arabia	No	20	9	9	7
	Yes	29	6	10	10
Saudi Arabian nationality	No	17	3	4	6
	Yes	32	12	15	11

Finally, Table 7 shows the Pearson Chi-Square test for the 15 tables of contingencies. It was found that there are significant relationships at the 1% level of confidence between the preference for a non-stop flight and having a stopover in Bali; there is also a significant relationship at the 5% level of confidence between Saudi nationality and travelling to Saudi Arabia more than once per year.

**Table 7: Pearson's Chi-Square Test for Consumers' Preferences**

			Have a stopover in Bali on the flight to Saudi Arabia	Have a non-stop flight to Saudi Arabia	Stop, relax and visit new places during the long-haul flight	Travel more than once to Saudi Arabia	Saudi Arabian nationality
Travel on Saudi Arabian Airlines to Saudi Arabia	Chi-Square		2.512	1.757	0.177	0.208	0.376
	Degrees of Freedom	1		1	1	1	1
	P-value		0.113	0.185	0.674	0.648	0.54
Have a stopover in Bali on the flight to Saudi Arabia	Chi-Square			9.388	19.798	0.794	2.424
	Degrees of Freedom			1	1	1	1
	P-value			.002*	.000*	0.373	0.119
Have a non-stop flight to Saudi Arabia	Chi-Square				25.033	0.826	0.433
	Degrees of Freedom				1	1	1
	P-value				.000*	0.363	0.511
Stop, relax and visit new places during the long-haul flight	Chi-Square					0.121	0.408
	Degrees of Freedom					1	1
	P-value					0.728	0.523
Travel more than once to Saudi Arabia	Chi-Square						3.896
	Degrees of Freedom						1
	P-value						.048**

\*Significant at the 1% level; \*\* Significant at the 5% level

Furthermore, Table 8 shows the six Pearson Chi-Square tests for the six questions in the survey. The findings show that the only variable which has a significant relationship at the 95% confidence level is the relationship between the airlines people used in travelling to New Zealand and the preference for a stopover in Bali, Indonesia.

**Table 8: Pearson's Chi-Square Test for Airline Choice**

		Airline people have travelled to New Zealand on
Travel on Saudi Arabian Airlines to Saudi Arabia	Chi-Square	2.051
	Degrees of Freedom	3
	P-value	0.562
Have a stopover in Bali on the flight to Saudi Arabia	Chi-Square	10.905
	Degrees of Freedom	3
	P-value	0.012**
Have a non-stop flight to Saudi Arabia	Chi-Square	2.207
	Degrees of Freedom	3
	P-value	0.530
Stop, relax and visit new places during the long-haul flight	Chi-Square	.663
	Degrees of Freedom	3
	P-value	0.882
Travel more than once to Saudi Arabia	Chi-Square	1.854
	Degrees of Freedom	3
	P-value	0.603
Saudi Arabian nationality	Chi-Square	2.180
	Degrees of Freedom	3
	P-value	0.536

\*Significant at the 1% level; \*\* Significant at the 5% level

In conclusion, this survey shows the stopover is a key factor for travellers in deciding which airline to use to fly from New Zealand to Saudi Arabia, or from Saudi Arabia to New Zealand. The option to have Bali as a place to stop seems to have piqued the interest of the respondents and Bali is perceived to be an interesting destination for a stopover.

The survey was carried out to acquire primary data regarding the preferences of travellers and passengers for the route between Saudi Arabia and New Zealand. The survey results can provide a guide to Saudi Arabian Airlines' management to evaluate the strategic direction Saudi Arabian Airlines should take in consideration of its potential passenger client preferences. This will also enable the airline to further improve the customer service experience and, consequently, be able to bring out the full potential of the airline. These recommendations will be explained in detail in the next section. Furthermore, in arriving at the decision, certain adjustment factors such as regulations, demand, competition, the strategies of other airlines in the region and substitutes need to be taken into account, as this is also being done by many other airlines when determining their demand forecast and strategies (Hong Kong Airport Authority, 2015).

## **CHAPTER 6: Factors to be Considered for the New Route between Saudi Arabia and New Zealand**

Following the survey results in the last section, the feasibility study for a new route, Jeddah– Denpasar–Auckland, will be explored in this section. From the survey results, there are several other significant factors that may have to be considered when planning this new route.

### ***How Research Data Point to the Marketability of the New Route***

The decision for the new route was determined through collection of the primary data. The main primary method used in this study was the survey questionnaire method, which was quite useful for making decisions for the new route and airlines services (Cohen & Manion, 2000). The key information required was to understand and calculate the demand for the international new route so that Saudi Arabian Airlines could incorporate it into its strategic plan. A strategic plan must be developed, as it is a priority for remaining competitive in the aviation market. This will help the management of Saudi Arabian Airlines to understand the market outlook of this potential route. However, in this thesis, a strategic plan will be elucidated without the data needed for proper strategic planning to take place, as stated in the recommendations of this thesis.

### ***Better Forecasting of Future Demand***

Other aspects which need to be looked at as part of the network strategy may also include forecasting future demand for the route or in the region. This includes market analysis of the targeted customer segmentation and positioning, fare analysis to understand the trend and direction of the change, competition analysis, code sharing to promote future collaboration and connectivity analysis to understand growth routes from stagnant markets.

According to Bernstein (2002), when one considers the demand forecast for air travel, there is a need to consider various factors such as the population growth in the region and people's motivation to travel. However, the future predictions of the demand forecast are problematic in nature due to constant environmental changes, the uncertainty of possible developing conflicts and other factors (Burghouwt, 2014; Sheng, Li, Xiao & Fu, 2015). Other factors that also need to be considered for traffic estimation are socio-economic activities, the availability of services, airfare prices, the infrastructure of Saudi Arabian Airlines and the aviation sector in the Kingdom of Saudi Arabia (Abed, Ba-Fail, & Sajjad, 2001; Alharthi, 2014; Al-Sayeh, 2014; Ba-Fail & Jasimuddin, 2000; Button, Brugnoli, Martini & Scotti, 2015; Jasimuddin, 2001; Kolker & Lutjens, 2015; Lin & Ban, 2014; Silva, Verhoef & Van den Berg, 2014; UK Department for Transport, 2013). Socio-economic factors need to be considered for planning this route by looking at the traffic-generating factors such as the total GDP of a country and the population size (e.g. in Saudi Arabia). The future demand forecasts need to consider all these factors to be able to predict a more reliable and accurate outcome (Sheng, Li, Xiao & Fu, 2015). Accordingly, all these factors have been considered and analysed in line with what is stated by Bernstein (2002) to get an overview of the Middle Eastern aviation industry. When one makes a forecast with this consideration in mind, the co-relationship between the demand and the underlying factors is assumed (Delbari, Ng, AbdulAziz & Ho, 2016).

Based on research by Silva, Verhoef & Van den Berg (2014), there are many assumptions that have been taken into consideration such as available airport slots and the airline network system (e.g. hub-and-spoke network and point-to-point operations) and there is also an assumption that the operations of the larger airports will generate demand and profits such as airport-airline collaboration, thus encouraging

competition (Delbari, Ng, AbdulAziz, & Ho, 2016; Saraswati, Shinya & Hanaoka, 2014). However, the operation to secondary airports such as Bali is beneficial for a network competition prevention strategy because of the less presence of rival airlines (Bowen, 2016; Stucke, 2013). Thus competition is considered to be demand-driven (O'Connor, 2000). Secondly, it is assumed that the airlines will increase their capacity to meet the demand (Bernstein, 2002). Based on these assumptions, the existing and future demand for Saudi Arabian Airlines travel is discussed and explained.

Abed, Ba-Fail & Sajjad (2001) showed that an increase in the demand for international air travel in the Kingdom of Saudi Arabia. The study of future travel demand is important for Saudi Arabian Airlines as part of their strategic corporate plan. Future travel demand helps in making decisions regarding the utilization of passenger capacity to the optimum possible (Saraswati, Shinya, & Hanaoka, 2014). In this case, similar methodology is adopted by the airlines to forecast the demand. The model has taken into consideration factors such as the network structure, operating features and specific factors impacting on Saudi Arabian Airlines. The two-stage least square procedure was being applied by Abed, Ba-Fail & Sajjad (2001) and the results showed that demand is yield-elastic, but it is inelastic as far as the network structure and specific factors are concerned in respect of Saudi Arabian Airlines.

There are many other factors which influence the demand for air travel, such as airfares, fleet age, quality of service, the number of stops and having an important strong tourist attraction such as the religious attraction of Mecca and Medina, which will attract more passengers to fly with Saudi Arabian Airlines. According to Adler & Hashai (2005), the demand forecast of the aviation industry in the Middle East will rise by about 4.9% per annum to transport 237 million travellers each year by 2034. The Big Four airlines operating in the Middle East region all come from GCC

countries, namely Saudi Arabian Airlines, Emirates, Etihad and Qatar Airlines (O'Connell, 2011). Saudi Arabian Airlines will have to consider this positive but challenging and massive impact on its future growth. The overall commercial aviation industry size of the GCC will be 383 million passengers by 2034 (IATA, 2014b). This indicates an expansive growth pattern for aviation industry in the Middle East, which can mean optimal future growth potential and a higher profit margin for Saudi Arabian Airlines. Adler and Hashai's (2005) demand forecast, however, is based on the assumption that the current situation in the Middle East is negative and is set to improve in the future, based on the experience of Western European countries after World War II. Similarly, in the Middle East, it is expected that once peace sets in, this will act as a catalyst to boost the demand for air travel for leisure as well as in the business segment (Adler & Hashai, 2005).

It is important for Saudi Arabian Airlines to study, analyse and understand the aviation market relating to its capability, as this will help the organization to formulate proper policies to achieve its full potential in the future (Al-Otaibi, 2012; Zuhairy, 2014). In the current political, social and economic changes around the world, Saudi Arabian Airlines will focus on investing in local personnel by using the top-quality training available around the world (Pakkiasamy, 2015). Saudi Arabian Airlines aims to use the latest technology, and expand its fleet and flight networks, as the airline will need to double its fleet to meet increasing demand for the passenger travel and for VIP flights (Atalık, 2009; U.S. International Trade Commission, 2012). Furthermore, Saudi Arabian Airlines is planning to increase its seat availability on domestic flights so as to expand and optimize its international operations (Aldaghmi, 2014).

### ***The Possibility of Entering into New Bilateral Agreements with Foreign Governments***

The decision to develop a new route for any airline is the fundamental foundation of its operations. Therefore, one of the strategies for the management to consider could be for the Saudi Arabian government to enter into bilateral agreements with other governments to make it easier to enter new aviation markets such as Bali in Indonesia and Auckland in New Zealand. This could be executed by the Saudi Arabian government to ensure that Saudi Arabian Airlines can penetrate the Australasian market, specifically New Zealand, which this thesis is focusing on. This measure could ensure better profit margins for Saudi Arabian Airlines in the future and thus increase the GDP of the Kingdom of Saudi Arabia (Ministry of Finance Saudi Arabia, 2015).

### ***The Vast Number of Possible Muslim Travellers***

One of the advantages of the route is that the large Muslim population living in Indonesia and the surrounding areas will benefit from the direct flight to and from Bali to the main cities in the Kingdom of Saudi Arabia, as will the Muslim population living in New Zealand. Furthermore, there were also nearly 4000 students from Saudi Arabia in New Zealand according to data collected from the Saudi Arabian Cultural Commission in Auckland in 2014. This shows that in all areas of the target market (i.e. Bali and New Zealand), there is a growth potential comprising a Muslim population and students coming into New Zealand or visiting or transiting in Bali. This indicates that a new Saudi Arabia–Indonesia–New Zealand route could be a good addition to Saudi Arabian Airlines' network.

### ***Other Possible Interested Customers***

This new route proposed for Saudi Arabian Airlines will be beneficial to a wide range of groups of people in different countries. The new route is considered to be the most convenient and the fastest route to Saudi Arabia from New Zealand in terms of flight hours. The flight time from Auckland to Denpasar is only 9 hours and that from Jeddah to Denpasar is another 9 hours, which could be marketed as an attractive route, since Bali is a popular tourist destination. Furthermore, Saudi Arabian Airlines also has the market potential to attract travellers in New Zealand who want to visit the USA and Europe, which could be a viable target market.

However, in order to determine the profitability of the new route, strategic planning will be necessary. Hence, at the start of considering a new route proposal, a thorough survey questionnaire needs to be prepared so that customer demand can be analysed. Since Saudi Arabian Airlines would face tough competition from Emirates and Qatar Airlines in the New Zealand market if it plans to open this route, it will require a detailed business plan to be able to make a proper decision about the new route, and for Saudi Arabian Airlines to achieve its ambitions for expansion and to gain a competitive advantage.

### ***Compatibility with Airline Expansion Plans and Networks***

The new route will be compatible and has a strong link to the existing routes, with the aim of ensuring that the total traffic for the airline will grow (ICAO, 2006). This will ensure that the objective of the SWOT analysis is addressed: that it will improve the strengths, eliminate the weak points, overcome the threats and seek for new opportunities in the uncertain and dynamic environment prevailing in the aviation and transport industry.

### ***Travel Requirements and Restrictions***

Saudi Arabia Airlines must also look into the important aspect of governmental constraints and restrictions on travelling to some countries such as visa requirements, which are mandatory to enter other countries (New Zealand Immigration, 2016). However, this will not be a hindrance to the prospective customers of this route such as Saudi Arabian students and Indonesian residents, who will be able to travel to New Zealand directly from Indonesia with valid visas without having to transit Australian airports and apply for Australian visas if they want to travel within the region. Another advantage is that Saudi Arabian passport holders do not have to apply for a visitor visa prior to their arrival in New Zealand or the Republic of Indonesia for the first 3 months, which means it will be the preferred choice in terms of reduced visa application costs (New Zealand Immigration, 2016).

Another development which has been emerging since 2015 is the falling oil prices and their impact on Saudi Arabian Airlines. This should be considered as a tactics for survival as well as for creating a competitive advantage, as it is vital to struggle to survive in the aviation industry (Delbari, Ng, AbdulAziz and Ho, 2016; Golicic, McCarthy, and Mentzer, 2003). In terms of capabilities and competence, the Saudi Arabian economy has the same or better skills compared to the competitors in the region. A paper published in the *Journal of Transport Geography* by Vespermann, Wald & Gleich (2008) shows that the biggest established competitors are putting large funds into buying newer aircraft and developing infrastructure, a strategy could be adapted by Saudi Arabia Airlines.

The information in Chapter 2's literature review about the potential of Saudi Arabian Airlines, the SWOT analysis of Saudi Arabian Airlines in Chapter 4 and the survey

analysis in Chapter 5 provide meaningful findings that there is a potential for Saudi Arabia Airlines to expand its market share. From the results gathered from this investigation, one can deduce that Saudi Arabian Airlines must expand its flying network to reach new destinations and to take advantage of the growth in new markets, which will potentially make Saudi Arabian Airlines one of the most successful aviation companies in the world. One of these possible lucrative routes would be the Bali to New Zealand route, which could provide a bigger profit margin for the airline, considering the potential customer base of this market.

In summary, the potential demand for the new Jeddah–Denpasar–Auckland route confirms that Saudi Arabian Airlines should expand its operation to the New Zealand market and increase its route network as part of its growth factor strategy. This will be a profitable connection for Saudi Arabian Airlines as well as an opportunity to strengthen its existing route network. The growth opportunities identified above reflect the underlying need for Saudi Arabian Airlines to grow. The launching of the new route (in this case, Saudi Arabia–Bali–Auckland) would be a big first step for expanding the network of routes that the airline could possibly offer.

## **CHAPTER 7: Conclusions and Recommendations**

### **7.1 Conclusions**

The thesis has looked into the journey of Saudi Arabian Airlines since 1934 and tracked its progress since then. This thesis has also attempted to investigate, analyse and understand the aviation sector in the Kingdom of Saudi Arabia, with a special focus on Saudi Arabian Airlines. Specifically, this research attempted to answer two questions: firstly, the factors (i.e. strengths, weaknesses, opportunities and threats) that can influence the future development of Saudi Arabian Airlines and, secondly, the feasibility of adding a new route from Jeddah to Auckland.

For the first phase of the study, the thesis carried out secondary research to delve deeper into the existing situation of Saudi Arabian Airlines. The research involved a thorough review of the literature. A SWOT analysis was conducted to understand the internal strengths and weaknesses of Saudi Arabian Airlines as well as to examine the opportunities and threats from the external environment in which it is operating.

To reiterate the findings of the SWOT analysis in Chapter 4, the strengths of Saudi Arabian Airlines include: the praying rooms offered inside the fleet of Saudi Arabian Airlines so that religious obligations can be fulfilled, the infrastructure that exists in Saudi Arabia to accommodate a large number of visitors (i.e. religious tourists), the passengers' loyalty towards the airline, the network of Saudi Arabian Airlines, advanced airline systems, a strong brand image, the latest technology and the modernization of the Saudi Arabian Airlines' fleet, minimized financial and operations risks in Saudi Arabian Airlines, and improved human resources training and labour management.

Its weaknesses include a limited flight network in some regions, high operating costs for domestic flights, unexpected flight interruptions, underuse of qualified staff working for Saudi Arabian Airlines (leading to a possible loss of valuable workforce), and Saudi Arabian Airlines' top management not being well-versed in or well-connected with the global aviation industry. There is also some difficulty in fulfilling passenger expectations during peak seasons, the aging of some airplanes in the fleet, fare caps and regulations on some domestic flights, the business context where Saudi Arabian Airlines is situated in and the airline not being completely privatized.

Saudi Arabian Airlines, however, faces several opportunities, including the possibility of entering new markets such as the Australasian aviation market, the proximity of Saudi Arabia to emerging markets like China and India, the political and economic stability of Saudi Arabia that brings in new investments and increased revenue per kilometre, the opportunity to privatize Saudi Arabian Airlines and its possible involvement in the private aviation sector, the rise of healthy competition, the prospective population growth of Saudi Arabia, the strategic location of the Kingdom of Saudi Arabia and the prospect of the Saudi Arabian government signing more bilateral agreements, as well as the possibility of Saudi Arabian Airlines transferring more passengers.

There are also threats that Saudi Arabian Airlines is facing, such as increased competition and threats from new players in the Saudi Arabian aviation industry and the threat of substitutes such as the new high-speed railway project, which is set to finish in 2018. Saudi Arabian Airlines is also threatened by the possibility of increasing occurrences of epidemics in the domestic and international markets that could potentially scare passengers away from flying through and/or visiting Saudi Arabia, natural disasters, flights to unsafe zones, the global economic decline and

falling oil prices, which have led to a slump in the Saudi Arabian economy and thus have limited the buying power of the passengers who depend on the Saudi Arabian economy. Other threats include process holdups and increased passenger bargaining power.

Thus the potential of the airline to improve its performance and growth in the future was considered from various aspects. It was observed that there is scope for the airline to improve the demand for its products and services by introducing newer routes, especially by filling in the gap in some areas such as that between Jeddah, Saudi Arabia and Auckland, New Zealand via Bali in Indonesia.

Data gathering (i.e. the second phase of the research) revealed that the majority of the research respondents are receptive and open to the possibility of flying on the new Jeddah–Bali–Auckland route if this opens. Although this is just a representative sample, it is already a good indicator that this route could open opportunities in terms of revenue for Saudi Arabian Airlines.

## **7.2 Recommendations**

In the following paragraphs, some recommendations are provided for Saudi Arabian Airlines' management to achieve their goals and objectives, thus fulfilling the aim of this thesis.

Based on the information analysed and the evaluation of Saudi Arabian Airlines' situation, five recommendations are offered to help the airline achieve its full potential.

- Saudi Arabian Airlines needs to use its strategic and dominant position in the Middle Eastern aviation market. It has been a dominant player in the domestic

market and thus is in a position to be a major influence in religious tourism. Steps have been made to establish a sister LCC (i.e. Flyadeal) that can cater to other market segments. Furthermore, Saudi Arabian Airlines has a large market share in the Middle Eastern market because of a large group of loyal passengers (Ko, 2016). In order for its passengers to stay loyal, Saudi Arabian Airlines must be proactive in meeting the changing needs of passengers. A good strategy would be to conduct a continuous customer service survey that would look into passenger satisfaction levels, and their needs and wants, which the airline can possibly cater for.

- Saudi Arabian Airlines needs to expand its airline alliance not only with SkyTeam but also with other aviation alliances as well. Exploring this type of strategy further will help them to achieve optimal profit growth. Airline alliances can mean more network destinations and newer markets for Saudi Arabian Airlines. For example, Saudi Arabia Airlines has not entered the large and lucrative aviation markets of South America and Oceania (Garg, 2016). Saudi Arabian Airlines must look to growth opportunities in these regions before other airlines realize the potential that these markets have and exploit it for themselves. Saudi Arabian Airlines could do this either through the introduction of new direct flights or by entering into alliances with other reputed airlines operating in the region. International airline alliances are a relatively new trend that can efficiently advance the airline's network expansion and therefore reach and serve more passengers from all over the world (Lin & Ban, 2014). Saudi Arabian Airlines has recently entered a strategic partnership with the SkyTeam airline alliance in the area of strategic airline collaboration and a code-sharing partnership among the 20 airlines that are members of the team (SkyTeam, 2015). This kind of alliance needs to be

applied to other global regions as well. There is a positive direction towards this trend in the guise of the open sky agreements with North America and Europe, as well as corporate collaborations with other organizations beyond a single airline network (Garg, 2016). Furthermore, there is also an opportunity to partner with Boeing due to its presence in the region. Thus alliances with Boeing and Airbus would benefit the goal of improving the aviation industry in the Kingdom of Saudi Arabia and Saudi Arabian Airlines. Having these alliances is highly important for improving the profit margin and business performance of Saudi Arabian Airlines.

- There are many competitors for the same space who are adopting similar strategic management and marketing strategies to Saudi Arabian Airlines (e.g. the Emirates and Qantas alliance). If Saudi Arabian Airlines' strategy for growth is going to succeed, then it needs to use different and innovative strategies that will draw new customers and retain the loyalty of its existing customers (Delbari, Ng, AbdulAziz & Ho, 2016). It is recommended that Saudi Arabian Airlines introduce new routes gradually in order to achieve different milestones of growth at every small step. Therefore, instead of introducing the Jeddah–Denpasar–Auckland straightaway, they must first introduce the Jeddah–Denpasar route, followed by other sectors such as Denpasar–Auckland and so on.
- The management of Saudi Arabian Airlines can also take measures such as international branding, increasing sponsorship of marketing events within and outside the country, and enhancing Saudi Arabian Airlines' image by strengthening customer contact with their brand, such as in sport events such as F1 racing or the America's Cup, which are both well known. It is also recommended that Saudi Arabian Airlines develop an innovative and strong

marketing campaign. For example, the Omrah (i.e. the ritual to be performed by every Muslim by visiting Mecca) transit will attract Muslim passengers to the Middle East either for transiting and/or visiting Saudi Arabia. It is further recommended that marketing strategists, who have a deep-seated understanding of human behaviour and cultural contexts, need to be employed in order for the marketing campaigns to efficiently work. Another area that is worth looking into is the possibility of reducing the costs of operation by cutting the middle man through introducing online reservations. The middle man (i.e. travel agencies) contributes 8% of the ticket cost. This cost can be reduced by the airline and take benefit from selling the tickets directly online to customers. This advantage in pricing power is already being used by LCCs, such as Jet Star and other no-frills airlines who are using direct sales to customers (Shaw, 2007)

- Saudi Arabian Airlines might also undertake an optimization programme through a holistic approach, such as next-generation air transportation systems, starting a world-class aviation university to develop its workforce further and diversifying into LCCs to fill the widening gap in the aviation industry market, which is advancing rapidly in every dimension (Ko, 2016). Furthermore, it is recommended in this thesis that the government of Saudi Arabia should establish an academic airline training college along with an LCC airline in the name of Sultan Bin Salman, who is well known in the Kingdom of Saudi Arabia for his aviation initiatives. This will be a good inspiration for aviation enthusiasts in the Kingdom of Saudi Arabia. This college could also be useful especially for those who want to take up aviation as a career to serve the Saudi Arabian aviation market. These individuals should be supported through training in all aspects of airline operations, such

as pilot courses, maintenance courses, management, leadership, marketing, ticketing, customer service and others. This could be done through a new world-class academic institution (Ko, 2016). The launch of such project initiatives will create opportunities that will improve the competitive edge of Saudi Arabian Airlines' overall performance in the long term, as well as creating a positive image and brand for the company.

- The Jeddah–Bali–Auckland route was a good idea, according to the survey presented in this thesis; however, there is an alternative strategy that could enable Saudi Arabian Airlines to expedite its penetration of the Australasian market. As Saudi Arabian Airlines has established flights, hubs and operations in Manila and Jakarta, it will be more practical and more expedient at this stage to extend their operation to Australia and New Zealand. Establishing a new route entails a lot of logistical preparations, as well as entering into new and improved government bilateral agreements with the countries concerned, which take a long time to set up (Halpern & Graham, 2015). Therefore, it is recommended that Saudi Arabian Airlines should start its new route from Jakarta (the capital of Indonesia), using the existing teamwork that Saudi Arabian Airlines have with Garuda Airlines, to Australia and New Zealand. Through this strategy, Saudi Arabian Airlines would be able to use its current resources and advantages without having to wait to tap the potential of the Australian market.

In conclusion, aviation in the Saudi Arabian market is an important sector for the economic sustainability of the Kingdom of Saudi Arabia, as illustrated in numerous reports. The Kingdom cannot solely rely on the depreciating commodity of oil forever. Aviation is one of the possible alternatives which could be combined with

other industries that could sustain the Saudi Arabian economy in the future. As the aviation sector grows, it will be able to strengthen the economy of the Kingdom of Saudi Arabia. Therefore, the Saudi Arabian government must embark on a reform of liberalization to fortify the aviation sector and stimulate the economy in general. The Kingdom of Saudi Arabia enjoys clout in the aviation sector to a great degree. Aircraft manufacturing giants (i.e. Airbus and Boeing) have their eyes on the Middle East, especially on the Saudi Arabian market, with its increasing economic growth and vast market potential, such as religious tourism. Their market outlooks reflect immense opportunities for Saudi Arabian Airlines to develop to a whole new level. One thing is clear: the aviation sector in Saudi Arabia and the Middle East offers many opportunities and great potential growth to the economy of Saudi Arabia as well as Saudi Arabian Airlines.

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## Appendix A: The Survey

### Saudi Arabian Airlines' new route forecast study for flights from Saudi Arabia to New Zealand

1-Would you prefer to travel on Saudi Arabian Airlines from New Zealand to Saudi Arabia?

Yes

No

2-Do you like the transit destination Bali, Indonesia from New Zealand to Saudi Arabia?

Yes

No

3-Do you prefer a non-stop flight (18 hours' flight) from Saudi Arabia to New Zealand?

Yes

No

4-Do you like to stop, rest and see new places during your long-haul flight?

Yes

No

5-Do you travel to Saudi Arabia from New Zealand more than once a year?

Yes

No

6-What airline did you take when you came to New Zealand?

Cathay Pacific

Singapore

Etihad

Korean

Emirates

Malaysian

Other

7-Saudi national:

Yes

No

## Appendix B: Saudi Arabian Airlines' Profile



Saudi Arabian Airlines logo:

Founded by the Saudi Arabian government in 1945

IATA code: SV

ICAO code: SVA

Corporate address: Saudi Arabian Airlines  
P.O. Box 620, Jeddah 21231, The Kingdom of Saudi Arabia

Website: <http://www.saudiairlines.com>

Main hub: Jeddah King Abdul-Aziz International Airport

Country: The Kingdom of Saudi Arabia

Business model: Full service carrier network (domestic, international, cargo, private)

Number of destinations: 80

Fleet size: 150

Fleet size (cargo): 15 wide-body

Business jet (SPA): 10

Airline alliance: SkyTeam; joined SkyTeam Alliance 2012

Passenger loyalty programme: Al-Fursan

Association membership: AACO, IATA, TIACA

Slogan: Welcome to your world

Codeshare partners: Air Europa, Lineas Aereas, Air France, Alitalia, Gulf Air, KLM, Korean Air, Middle East Airlines, Sri Lankan Airlines, Yemenia)