

# CASE 34

## EMIRATES AIRLINE\*

Emirates Airline was one of the three Middle East carriers that were singled out by the largest U.S. airlines in a report that was released on March 5, 2015. The report charged that the flagship airline of Dubai, along with Etihad Airways and Qatar Airways, had received over \$42 billion in government subsidies and tax breaks since 2004. Claiming that this gave an unfair advantage to these state-owned airlines, the U.S. airlines demanded that the “open skies” treaties that had allowed these three airlines—Emirates, Etihad, and Qatar—access to the United States should be

renegotiated in order to curtail their further expansion into the country.

No airline had grown like Emirates, which in the three decades since its birth could be crowned as the freewheeling sultan of the skies. By assembling the largest fleet of Airbus A380 super jumbos and Boeing 777 long-range jets, the airline had already become one of the leading transporters of passengers on international routes around the world (see Exhibit 1). The U.S. carriers were worried that they would meet the fate of the European carriers, whose market share had declined by double digits on routes where they competed with Emirates.

In particular, Emirates, along with newer upstarts Qatar and Etihad Airways, had managed over the years to radically redraw the map of the world, transferring the hub of

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### EXHIBIT 1 Top Global Airlines

There are several rankings of the world's airlines, but a few carriers have consistently been rated highest in service over the past five years. These airlines are listed below in no particular order.

	Started	Main Hub	Fleet	Destinations
Singapore	1972	Singapore	108	63
Cathay Pacific	1946	Hong Kong	161	102
Emirates	1985	Dubai	221	142
Thai	1960	Bangkok	91	78
Asiana	1988	Seoul	85	108
Etihad	2003	Abu Dhabi	102	109
EVA	1989	Taipei	68	73
Air New Zealand	1940	Auckland	106	58
Garuda	1949	Jakarta	119	102
Qatar	1994	Doha	146	146
ANA	1952	Tokyo	211	73
South African	1934	Johannesburg	60	42
Virgin Atlantic	1984	London	40	30
Qantas	1920	Sydney	118	42
Lufthansa	1953	Frankfurt	273	190

Source: Wikipedia, Skytrax.

international travel from Europe to the Middle East. Dubai, the hub of Emirates, currently handling 75 million passengers each year, became the world's busiest airport for international passengers. A new terminal, the largest in the world, was recently built at a cost of \$4.5 billion just to accommodate the 224 Emirates aircraft that flew out to 145 destinations around the world.

Emirates claimed that it had worked hard to achieve its leading position by offering onboard amenities, like bars and showers on its aircraft, which other carriers find frivolous (see Exhibit 2). Beyond this, it pointed to the high standards of service from its crew on its flights. Emirates had built an elite force of 18,000 flight attendants who represented 140 nationalities and spoke more than 50 languages. They were selected from thousands who regularly lined up at Open Days, held in more than 140 cities in 70 countries, just to have a shot at becoming part of an iconic brand that was uniting people and places around the world.

Sir Tim Clark, the president of Emirates Airline, responded to the charges in the report by insisting that his carrier had never received government subsidies or obtained free or cheap fuel. The airline had always disclosed its finances, used international auditors, and posted regular quarterly profits. In fact, according to its financial statements, Emirates had shown profits for the last 27 years. In 2014, the airline generated these profits by carrying over 45 million passengers, ranking it behind only

#### EXHIBIT 2 Service for Premium Passengers on Emirates A380

- Offer 1,600 channels of in-seat entertainment
- Serve Cuvee Dom Pérignon 2000 champagne
- Serve Iranian caviar
- Serve gourmet cuisine prepared by chefs of 47 nationalities
- Offer largest selection of premium wines
- Use bone china by Royal Doulton
- Use specially made cutlery by British design house Robert Welch
- Provide Bulgari-designed amenity kits
- Feature a stand-up bar
- Offer two on-board walnut and marble design showers\*

\* Only for first-class passengers.

Source: Emirates.

five U.S. and European carriers (see Exhibits 3–5). “We are confident that any allegation that Emirates has been subsidized is totally without grounds,” Clark declared.<sup>1</sup>

#### Launching a Dream

The roots of Emirates can be traced back to Gulf Air, which was a formidable airline owned by the governments of Bahrain, Abu Dhabi, Qatar, and Oman. In the early 1980s,

#### EXHIBIT 3 Income Statement (United Arab Emirates Dirham)

	Year Ended March 31	
	2015	2014
Revenue	86,728	80,717
Other operating income	2,091	1,919
Operating costs	(82,926)	(78,376)
<b>Operating profit</b>	<b>5,893</b>	<b>4,260</b>
Finance income	175	247
Finance costs	(1,449)	(1,179)
Share of results of investments accounted for using the equity method	152	136
<b>Profit before income tax</b>	<b>4,771</b>	<b>3,464</b>
Income tax expense	(43)	(47)
<b>Profit for the year</b>	<b>4,728</b>	<b>3,417</b>
Profit attributable to non-controlling interests	173	163
<b>Profit attributable to Emirates' Owner</b>	<b>4,555</b>	<b>3,254</b>

Source: Emirates.

**EXHIBIT 4 Balance Sheet (United Arab Emirates Dirham)**

	Year Ended March 31	
	2015	2014
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	80,544	71,582
Intangible assets	975	928
Investments accounted for using the equity method	544	495
Advance lease rentals	920	812
Loans and other receivables	619	428
Derivative financial instruments	21	5
Deferred income tax asset	4	—
	<b>83,627</b>	<b>74,250</b>
<b>Current assets</b>		
Inventories	1,919	1,706
Trade and other receivables	8,589	9,086
Derivative financial instruments	342	1
Short term bank deposits	8,488	8,754
Cash and cash equivalents	8,397	7,807
	<b>27,735</b>	<b>27,354</b>
<b>Total assets</b>	<b>111,362</b>	<b>101,604</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>		
Capital	801	801
Other reserves	(168)	(634)
Retained earnings	27,253	25,009
<b>Attributable to Emirates' Owner</b>	<b>27,886</b>	<b>25,176</b>
<b>Non-controlling interests</b>	<b>400</b>	<b>295</b>
<b>Total equity</b>	<b>28,286</b>	<b>25,471</b>
<b>Non-current liabilities</b>		
Trade and other payables	202	287
Borrowings and lease liabilities	42,426	38,500
Deferred revenue	1,650	1,440
Deferred credits	207	234

	Year Ended March 31	
	2015	2014
Derivative financial instruments	521	599
Provisions	3,589	2,643
Deferred income tax liability	—	2
<b>Current liabilities</b>	<b>48,595</b>	<b>43,705</b>
Trade and other payables	27,770	27,079
Income tax liabilities	34	30
Borrowings and lease liabilities	5,382	3,931
Deferred revenue	1,244	1,227
Deferred credits	49	66
Derivative financial instruments	2	95
	<b>34,481</b>	<b>32,428</b>
<b>Total liabilities</b>	<b>83,076</b>	<b>76,133</b>
<b>Total equity and liabilities</b>	<b>111,362</b>	<b>101,604</b>

Source: Emirates.

**EXHIBIT 5** Cash Flow Statement (United Arab Emirates Dirham)

	Year Ended March 31	
	2015	2014
<b>Operating activities</b>		
Profit before income tax	4,771	3,464
Adjustments for:		
Depreciation and amortisation	7,446	6,421
Finance costs - net	1,274	932
(Gain) / loss on sale of property, plant and equipment	(132)	26
Share of results of investments accounted for using the equity method	(152)	(136)
Net provision for impairment of trade receivables	32	5
Provision for employee benefits	669	616
Net movement on derivative financial instruments	(17)	9

*continued*

**EXHIBIT 5 Continued**

	Year Ended March 31	
	2015	2014
Employee benefit payments	(534)	(485)
Income tax paid	(68)	(49)
Change in inventories	(213)	(142)
Change in receivables and advance lease rentals	194	(314)
Change in provisions, payables, deferred credits and revenue	(5)	2,302
<b>Net cash generated from operating activities</b>	<b>13,265</b>	<b>12,649</b>
<b>Investing activities</b>		
Proceeds from sale of property, plant and equipment	3,478	78
Additions to intangible assets	(157)	(105)
Additions to property, plant and equipment	(10,269)	(13,958)
Investments in associates and joint ventures	(13)	(7)
Movement in short term bank deposits	266	9,294
Finance income	169	308
Dividends from investments accounted for using the equity method	115	133
<b>Net cash used in investing activities</b>	<b>(6,411)</b>	<b>(4,257)</b>
<b>Financing activities</b>		
Proceeds from loans	2,215	—
Repayment of bonds and loans	(622)	(2,530)
Aircraft financing costs	(951)	(790)
Other finance charges	(341)	(271)
Repayment of lease liabilities	(5,628)	(2,652)
Dividend paid to Emirates' Owner	(869)	(726)
Dividend paid to non-controlling interests	(68)	(138)
<b>Net cash used in financing activities</b>	<b>(6,264)</b>	<b>(7,107)</b>
<b>Net change in cash and cash equivalents</b>	<b>590</b>	<b>1,285</b>
Cash and cash equivalents at beginning of year	7,800	6,520
Effects of exchange rate changes	3	(5)
<b>Cash and cash equivalents at end of year</b>	<b>8,393</b>	<b>7,800</b>

Source: Emirates.

the young sheikh of Dubai, Sheikh Mohammed bin Rashid al Maktoum, was upset by the decision of Gulf Air to cut flights into and out of Dubai. He responded by resolving to start his own airline that would help build Dubai into a center of business and tourism, given the emirates' lack of significant oil resources.

The sheikh recruited British Airways veteran Sir Maurice Flanagan to lay the groundwork for the new airline, which he bankrolled with \$10 million in royal funding. He placed a member of his royal family, Sheikh Ahmed bin Saeed al Maktoum, in the top post. Ahmed bin Saeed, just 26 years old, had just graduated from the University of Denver in the U.S. Since he had not held a job before, the young sheikh looked to Flanagan in order to figure out how to run the airline.

However, the spectacular growth of Emirates can be attributed to Sir Tim Clark, who was handed the critical task of route planning. He recognized that about two-thirds of the world's population was within eight hours of Dubai, but the firm lacked the aircraft to take advantage of its location. This began to change with the arrival of more advanced aircraft, beginning with the introduction of the Boeing 777 in 1996 and then the Airbus A380 in 2008. The long range of these aircraft allowed Emirates to develop routes that could link any two points in the world with one stop in Dubai.

From serving 12 destinations in 1988, Emirates expanded at an alarming rate, particularly after 1996, when it started adding Boeing 777s to its fleet. The carrier continued to grow even through the recession that began in 2008, taking possession of more new aircraft than any other competitor. "We operated normally. We put on more aircraft. We carried more passengers," said Mohammed H. Mattar, senior vice president of the carrier's airport services.<sup>2</sup>

## Providing the Ultimate Experience

Emirates strived to provide the best possible experience to its passengers in all sections of its aircraft. It was the first airline to offer in-flight television viewing on the back of every seat. "That seems pretty normal for long haul airlines now, but it wasn't then," said Terry Daly, who was in charge of service at the carrier.<sup>3</sup> Flight attendants, who were fluent in a dozen languages, passed up and down the aisles, providing service with a smile. Daly, who maintained the highest standards for all in-flight services, was known for once having fired eight service supervisors on a single day when he discovered that the flight attendants they supervised had deviated from his precise instructions on how to respond to requests from passengers.

From its start, Emirates was known for the quality and selection of food that the airline provided, even to passengers in the back of the aircraft. The catering division was the world's biggest—a multifloor maze of monorails, cameras, vast stocks of wines and liquors,

multinational chefs slaving over steaming pans, kettles, and grills stretching into eternity, and the latest in robotics. The division delivered 115,000 meal trays to Emirates planes each day. "It's about making sure the culinary offering is absolutely first class across the airplane," said Daly.<sup>4</sup>

But Emirates always tried to push further and further on the service and amenities that it provided to its premium-class passengers. Included with a business-class ticket were limousine rides to and from the airport, personal assistance with the check-in process, and use of one of the airline's 30 worldwide lounges. One of 600 multinational and multilingual members of a welcome team called *Marhaba*, Arabic for "welcome," helps all first- and business-class passengers clear all formalities upon departure and upon arrival.

Over the years, as Emirates moved to larger and larger aircraft, it found ways to enhance the experience of its premium passengers during flight. The airline had pioneered the concept of a suite in first class with its launch of A340 aircraft in 2003. With the addition of the A380, the world's biggest jetliner (it had 50—more than any other competitor), Emirates was able to offer 14 first-class suites, each with a vanity table, closet, 23-inch TV screen, and electronic doors that sealed shut for total seclusion.

First-class passengers also had access to two enormous spa showers, a first in the industry. An event planner who flew first class said, "To walk onto the A380, to have an average size bathroom, a seven minute shower, full size bath towels and your own attendant is pretty amazing."<sup>5</sup> All premium-class passengers—both in first and business class—had access to a big, circular lounge, with a horseshoe-shaped stand-up bar in the center, for which Emirates forfeited a number of business-class seats.

## Grooming a Special Employee

Emirates created a state-of-the-art facility to train its employees, from those who check in passengers to those who serve them on its planes. The exterior of the training facility resembled the fuselage of a jetliner. Inside, everyone paid particular attention to the flight attendants, who had to make sure that everyone on the aircraft received the highest level of service on every single flight. This was particularly important for a carrier whose flights were of long duration because it served destinations across all continents.

Catherine Baird was in charge of training the airline's new recruits, who constituted only about 5 percent of the applications received by Emirates. The low acceptance rate pushes people with diverse backgrounds to compete in an *American Idol*-style brains-and-beauty contest for a chance to travel around the world as an Emirates cabin crew member. According to a recent report, the crew had an average age of 26 years, compared to over 40 at U.S. airlines, and was 75 percent women. Their weight was carefully monitored, their makeup was

mandatorily reapplied regularly, and unwed pregnancy was not allowed.

The airline offered a vast, no-expenses-spared crew training program, in which, for seven weeks, each new recruit moved through different departments with specialists in different areas. By the end of their training, the newcomers had been instructed in aspects of posture, etiquette, safety, and evacuation. There were strict standards for the color of the lipstick, the shade of the hair, and even the style of the lingerie. Everything had to go well with the pinstripe khaki uniform, the color of sand, with white scarves billowing like exotic sails. Women had to adhere to certain hairstyles that the crowning blood-red hat would work with. "When walking through an airport terminal, it's usually a *Catch Me If You Can* movie moment, with passengers all turning their heads," said one of the new recruits.<sup>6</sup>

As with everything else, Emirates went over the top in what it called *Nujoum*, the Arabic word for "stars," by including motivational team-building exercises in its training program. Travel writer Christine Negroni, who participated in one of these exercises, described the experience that the new recruits typically went through: "It is a combination of a customer service experience and a come-to-Jesus rally, highly produced like a Hollywood spectacular. If you had told me that Disney produced it, I wouldn't doubt it. By the end of the day, they are whipped into a frenzy of feeling 'What can I do for Emirates?'"<sup>7</sup>

### Communicating to the Masses

In spite of the extra touches that Emirates provided to its passengers, the carrier discovered, from focus groups it conducted, that its name was not well known in many parts of the world that it was expanding to. Emirates realized it needed to create a message that it could use to develop its brand among consumers and inform them what to expect from Emirates. This message could also be used to inspire existing and potential employees to rally behind the airline and work to deliver on its promise.

In its usual style of pushing for the best, Emirates summoned the world's top 10 advertising agencies to Dubai to compete for a massive international advertising campaign. StrawberryFrog, an advertising agency that had recently started operations in New York City, was one of the firms vying for the contract with the rapidly growing carrier. Its founder, Scott Goodson, had read an interview with Sir Tim Clark, the president of Emirates, shortly before the gathering of advertising agencies. "And in that article, he was talking about his vision, that he wanted Emirates to be a global company and wanted to make the world a smaller place by bringing people together," said Goodson.<sup>8</sup>

These comments inspired Goodson to come up with the idea of "Hello Tomorrow," which allowed his firm to clinch the contract with Emirates. These words became not just the idea for an ad campaign but for a new way to think

about an airline. Through the use of powerful storytelling, words, images, music, and film, this message portrayed Emirates not just as a carrier that delivered a superior experience but as a catalyst for connecting a new global culture of shared aspirations, values, enthusiasm, and dreams.

Immediately afterward, the StrawberryFrog team spent 18 months at Emirates headquarters educating employees, making them foot soldiers in this campaign. In the early spring of 2012, the "Hello Tomorrow" brand was launched, a universal message in myriad languages in 150 countries. In television ads, an Emirates flight attendant pushed his drink cart as a mammoth A380 airplane seemed to be literally built around him, its various parts and personnel coming from countries spanning the globe, providing proof that the airline was truly a global enterprise.

### Chasing Tomorrow?

Even as Emirates was trying to set itself apart from other carriers by enhancing the customer experience, it was facing new challenges. Many of its competitors were also trying to improve on their offerings, particularly for the passengers who were willing to pay a little more. Airlines were fighting with each other to attract this more upscale segment as the higher fare allowed them to increase their profits without having to add capacity. A few carriers, for example, were adding nanny services to some of their flights by providing staff who would entertain and engage children, particularly on long-range flights, so that parents could get a much needed break.

Another trend was the addition of a premium economy section that gave passengers in the back of the plane a little more leg space. Singapore Airlines was planning to beat all other competitors by providing a truly enhanced premium economy section. It would feature wider seats that reclined more, a cocktail table, more storage space, and a sleek 13.3-inch high-definition screen, the largest in its class. Passengers would be offered state-of-the-art noise canceling headsets to watch hundreds of channels of entertainment. Finally, they would have more options on a menu that was to be designed specifically for the premium economy class.

However, Emirates recently faced its biggest challenge when its UAE-based rival, Etihad, announced an improvement to the first-class suite that Emirates had pioneered 12 years earlier. Etihad introduced, with grand bravado, a three-room, \$21,000 one-way "Residence" and nine \$16,000 one-way, one-room "First Apartments," complete with Savoy Academy-trained butlers and private chefs, on its A380 flights. First offered on flights between Dubai and London, the carrier planned to expand these options to its flights between Dubai and New York and Dubai and Sydney.

Some industry analysts questioned the ability of Emirates to deal with these growing challenges. Joe Brancatelli, a business travel writer, recently stated: "I could