

EMIRATES AIRLINE IN 2017*

Within three decades, Emirates Airline went from a small start-up to one of the world's biggest carriers measured by international passenger mileage. Started in 1985, the airline deviated from the strategy of most other airlines to use its position between the U.S., Europe, Africa, and Asia to connect flights between distant pairs of cities such as New York and Shanghai or London and Nairobi. Tim Clark, the firm's president, referred to these as "strange city pairs." No airline has grown like Emirates, whose expansion qualifies it to claim the crown of the freewheeling sultan of the skies.

Its strategy of flying large number of passengers all around the world would have been difficult without the introduction of Boeing 777 long-range planes and Airbus 380 superjumbos. In particular, Emirates has managed over the years to radically redraw the map of the world, transferring the hub of international travel from Europe to the Middle East. Dubai, the hub of Emirates, which currently handles over 80 million passengers each year, has become 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 almost 240 Emirates aircraft that fly out to 145 destinations around the world (see [Exhibit 1](#)).

EXHIBIT 1 Top Global Airlines

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

| | Started | Main Hub | Fleet | Destinations |
|-----------------|---------|--------------|-------|--------------|
| SINGAPORE | 1972 | Singapore | 108 | 63 |
| CATHAY PACIFIC | 1946 | Hongkong | 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: Skytrax.

Recent developments, however, such as the drop in oil prices and the growth in terrorist attacks have led to a decline in demand. Many companies, particularly in the Middle East, have been cutting back on travel for their employees, reducing the premium revenue that Emirates has been generating from first and business Page 76 class passengers. Growing fears about terrorism have led passengers to cut back on international travel and to reduce connecting through the Middle East. This has led Emirates to switch from the A380 to the smaller Boeing 777 on some routes. The largest U.S. airlines have alleged that Emirates, like others such as Etihad and Qatar, have received subsidies from their government. These subsidies have, according to these claims, provided Emirates with an unfair advantage. Tim Clark, the president, has responded to such charges by insisting that his carrier has never received government subsidies or obtained free or cheap fuel. The airline has always disclosed its finances, used international auditors, and posted regular quarterly profits (see [Exhibits 2 to 5](#)). In fact, according to its financial statements, Emirates has shown profits for the last 27 years. “We are confident that any allegation that Emirates has been subsidized is totally without grounds,” Clark declared.¹

EXHIBIT 2 Performance Highlights

| Year Ended, 31 March | Passengers Flown (thousands) | Profit or Loss (AEDm) |
|----------------------|------------------------------|-----------------------|
| 2005 | 12,529 | 2,619 |
| 2006 | 14,498 | 2,652 |
| 2007 | 17,544 | 3,339 |
| 2008 | 21,229 | 4,451 |
| 2009 | 22,731 | 2,278 |
| 2010 | 27,454 | 3,565 |
| 2011 | 31,422 | 5,443 |
| 2012 | 33,981 | 1,813 |
| 2013 | 39,391 | 2,839 |
| 2014 | 44,537 | 3,254 |
| 2015 | 49,292 | 5,893 |
| 2016 | 51,853 | 8,330 |

Source: Emirates Airline.



EXHIBIT 3 Income Statement (United Arab Emirates Dirham)

Consolidated Income Statement for the year ended 31 March

| | 2016 | 2015 |
|---|--------------|--------------|
| Revenue | 83,500 | 86,728 |
| Other operating income | 1,544 | 2,091 |
| Operating costs | (76,714) | (82,926) |
| Operating profit | 8,330 | 5,893 |
| Finance income | 220 | 175 |
| Finance costs | (1,329) | (1,449) |
| Share of results of investments accounted for using the equity method | 142 | 152 |
| Profit before income tax | 7,363 | 4,771 |
| Income tax expense | (45) | (43) |
| Profit for the year | 7,318 | 4,728 |
| Profit attributable to non-controlling interests | 193 | 173 |
| Profit attributable to Emirates' Owner | 7,125 | 4,555 |

Source: Emirates Airline.

Page 77 EXHIBIT 4 Balance Sheet (United Arab Emirates Dirham)

| | 2016 | 2015 |
|---|--------|--------|
| ASSETS | | |
| Non-current assets | | |
| Property, plant and equipment | 82,836 | 80,554 |
| Intangible assets | 1,317 | 975 |
| Investments accounted for using the equity method | 522 | 544 |
| Advance lease rentals | 2,580 | 920 |
| Loans and other receivables | 494 | 619 |

| | | |
|--|----------------|----------------|
| Derivative financial instruments | - | 21 |
| Deferred income tax asset | 3 | 4 |
| | 87,752 | 83,627 |
| Current assets | | |
| Inventories | 2,106 | 1,919 |
| Trade and other receivables | 9,321 | 8,589 |
| Derivative financial Instruments | 12 | 342 |
| Short term bank deposits | 7,823 | 8,488 |
| Cash and cash equivalents | 12,165 | 8,397 |
| | 31,427 | 27,735 |
| Total assets | 119,179 | 111,362 |
| EQUITY AND LIABILITIES | | |
| Capital and reserves | | |
| Capital | 801 | 801 |
| Other reserves | (1,179) | (168) |
| Retained earnings | 32,287 | 27,253 |
| Attributable to Emirates' Owner | 31,909 | 27,886 |
| Non-controlling interests | 496 | 400 |
| Total equity | 32,405 | 28,286 |
| Non-current liabilities | | |
| Trade and other payables | 513 | 202 |
| Borrowings and lease liabilities | 40,845 | 42,426 |
| Deferred revenue | 1,596 | 1,650 |
| Deferred credits | 1,090 | 207 |
| Derivative financial instruments | 440 | 521 |
| Provisions | 3,762 | 3,589 |
| Deferred income tax liability | 4 | - |

| | | |
|-------------------------------------|----------------|----------------|
| | 48,250 | 48,595 |
| Current liabilities | | |
| Trade and other payables | 27,037 | 27,770 |
| Income tax liabilities | 35 | 34 |
| Borrowings and lease liabilities | 9,260 | 5,382 |
| Deferred revenue | 1,316 | 1,244 |
| Deferred credits | 139 | 49 |
| Derivative financial instruments | 737 | 2 |
| | 38,524 | 34,481 |
| Total liabilities | 86,774 | 83,076 |
| Total equity and liabilities | 119,179 | 111,362 |

Source: Emirates Airline.

Page 78 **EXHIBIT 5 Cash Flow Statement (United Arab Emirates Dirham)**

| | 2016 | 2015 |
|---|-------|-------|
| Operating activities | | |
| Profit before income tax | 7,363 | 4,771 |
| Adjustments for: | | |
| Depreciation and amortisation | 8,000 | 7,446 |
| Finance costs - net | 1,109 | 1,274 |
| (Gain) / loss on sale of property, plant and equipment | (367) | (132) |
| Share of results of investments accounted for using the equity method | (142) | (152) |
| Net provision for impairment of trade receivables | 21 | 32 |
| Provision for employee benefits | 733 | 669 |
| Net movement on derivative financial instruments | (5) | (17) |
| Gain on sale of investments accounted for using the equity method | (12) | - |
| Employee benefit payments | (585) | (534) |
| Income tax paid | (62) | (68) |

| | | |
|---|----------------|----------------|
| Change in inventories | (168) | (213) |
| Change in receivables and advance lease rentals | (2,234) | 194 |
| Change in provisions, payables, deferred credits and deferred revenue | 454 | (5) |
| Net cash generated from operating activities | 14,105 | 13,265 |
| Investing activities | | |
| Proceeds from sale of property, plant and equipment | 6,535 | 3,478 |
| Additions to intangible assets | (374) | (157) |
| Additions to property, plant and equipment | (9,504) | (10,269) |
| Investments in associates and joint ventures | (19) | (12) |
| Acquisition of a subsidiary, net of cash acquired | (23) | - |
| Movement in short term bank deposits | 665 | 266 |
| Finance income | 231 | 168 |
| Dividends from investments accounted for using the equity method | 128 | 115 |
| Net cash used in investing activities | (2,361) | (6,411) |
| Financing activities | | |
| Proceeds from loans | 1,213 | 2,215 |
| Repayment of bonds and loans | (1,703) | (622) |
| Aircraft finance lease costs | (918) | (951) |
| Other finance costs | (294) | (341) |
| Repayment of lease liabilities | (4,055) | (5,628) |
| Dividend paid to Emirates' Owner | (2,100) | (869) |
| Dividend paid to non-controlling interests | (118) | (68) |
| Net cash used in financing activities | (7,975) | (6,264) |
| Net change in cash and cash equivalents | 3,7696 | 590 |
| Cash and cash equivalents at beginning of year | 8,393 | 7,800 |
| Effects of exchange rate changes | 3 | 3 |
| Cash and cash equivalents at end of year | 12,165 | 8,393 |

Source: Emirates Airline.

In fact, Emirates claims that it has 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 6](#)). Beyond this, it points to the high standards of service from its crew that speak many languages and come from many countries. Emirates' service manager, Terry Daly, employs an inspiring quote: "I may not remember exactly what you said. I may not remember exactly what you did. I will always remember exactly how you made me feel."

Page 79 **EXHIBIT 6** Service for Premium Passengers On Emirates A380

- Offer 1,600 channels of in-seat entertainment
- Serve Cuvee Dom Perignon, 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*

Source: Emirates Airline.

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, 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, to the top post. At 26 years old, Ahmed bin Saeed had just graduated from the University of Denver in the U.S. Since he had not held a job before, the young [Page 80](#) sheikh looked to Flanagan in order to figure out how to run the airline.

However, the speculator 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, on to 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 was able to expand at an amazing rate, particularly after it started adding Boeing 777s to its fleet after 1996. The carrier

continued to grow even through the recession that started 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.²

Providing the Ultimate Experience

Emirates strives to provide the best possible experience to its passengers in all sections of its aircraft. It was the first airline to offer in-flight viewing in the back of every seat. “That seems pretty normal for long haul airlines now, but it wasn’t then,” said Terry Daly.³ A caravan of flight attendants, who are fluent in a dozen languages, pass up and down the aisles, providing service with a smile. Daly, who maintains the highest standards for all in-flight services, is known for having once fired eight service supervisors on a single day when he discovered that the flight attendants that they had supervised had deviated from his precise instructions on how to respond to requests from passengers.

From its start, Emirates has also been known for the quality and selection of food that the airline provides, even to passengers in the back of the aircraft. The catering division is one of the world’s biggest, a multi-floor maze of monorails, cameras, vast warehouses of wines and liquors, multinational chefs slaving over steaming pans, kettles, grills, stretching as far as the eye can see, along with the latest in robotics, all of which deliver 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.⁴

But Emirates has always tried to push further and further on the service and amenities that it provides to its premium-class passengers. Included with a Business Class ticket is a limousine ride to and from the airport, personal assistance with the check-in process, and use of one of its 30 worldwide lounges. One of 600 multinational and multilingual members of a welcome team called *Marhaba*, Arabic for “welcome,” help all first- and business-class passengers clear all formalities upon departure and arrival.

Over the years, as Emirates has moved to larger and larger aircraft, it has found ways to enhance the experience of its premium passengers during flight. The airline pioneered the concept of a suite in first class with its launch of the A340 back in 2003. With its 50 A380s, the world’s biggest jetliner, Emirates is able to offer 14 first-class suites, each with a vanity table, closet, 23-inch TV screen and electronic doors that seal shut for total seclusion.

First-class passengers also have 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.”⁵ All premium-class passengers—both in first and business class—have 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

Each year, Emirates holds Open Days in more than 140 cities across 70 countries for the purpose of attracting new recruits to join its elite force of 18,000 flight attendants from 140 nationalities who speak more than 50 languages. They are not attracted by the

starting salary, which is only about \$30,000 per year, or to the free room and board that comes with it. They are excited about the possibility of joining an iconic brand which encompasses people around the world.

The airline offers a vast no-expenses-spared crew training program, where for seven weeks, each new recruit moves through different departments with specialists in various areas. Emirates carefully trains all its employees, from those who check in passengers to those who serve them on their planes. Only about 5 percent of the applicants make it through the selection process. 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 a member of an Emirates cabin crew.

The exterior of the Emirates' state-of-the-art training facility resembles the fuselage of a jetliner. Inside, everyone pays particular attention to the flight attendants, who must make sure that everyone on the aircraft receives the highest level of service on every single flight. This is particularly important for a carrier whose flights are of long duration because they serve destinations across all continents.

By the end of their training, the newcomers have been instructed in aspects of posture, etiquette, safety, and evacuation. There are strict standards for the color of the lipstick, the shade of the hair, and even the style of the lingerie. According to a recent report, the crew, who are 75 percent women, have an average age of 26 years, compared with an age of over 40 at U.S. airlines. Their weight is carefully monitored, their makeup mandatorily reapplied regularly, and unwed pregnancy is not allowed. Everything must go well with the pinstripe khaki uniform, the color of sand, with white scarfs billowing like exotic sails. Women must adhere to certain hairstyles that the crowning blood-red hat will 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.⁶

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Like everything else, Emirates goes over the top in what it calls *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, described the experience that the new recruits typically go 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?*"⁷

Communicating to the Masses

In spite of the extra touches and amenities that Emirates can provide for its passengers, the carrier discovered from focus groups that their name was not well known in many parts of the world where they were expanding. They realized that they needed to create a message they could use to develop their brand among consumers that would inform them what to expect from Emirates. This message could also be used to motivate

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 contract. StrawberryFrog, an advertising agency that had recently started operations in New York City, was one of the firms vying for the contract. Its founder, Scott Goodson, had read an interview with Tim Clark, the president of Emirates, shortly before this gathering of the 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.⁸ 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 theme for an ad campaign but a new way to think about the airline. Through the use of powerful storytelling, images, and music, the 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. In his conversation with Tim Clark, Goodson said: "Ad campaigns are fleeting. The power of a movement is that it can change habits and rally millions."⁹ The StrawberryFrog team spent 18 months at Emirates headquarters educating employees, making them foot soldiers in this "movement" or 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 steward pushes his drink cart as a mammoth A380 airplane seems to be literally built around him, its various parts and personnel coming from countries spanning the globe, providing proof that the airline is a truly global enterprise.

Chasing Tomorrow?

Even as Emirates has been trying to set itself apart from other carriers by enhancing the customer experience, it is facing new challenges. It is trying to attract tourists to Dubai to replace some of the connecting passengers that it is losing because of the wars in the Middle East and terrorism there and elsewhere. It is cutting back on its additional orders for the Airbus 380 at least until passenger levels rise again.

At the same time, many of its competitors have been trying to improve on their offerings, particularly for passengers who are willing to pay a little more. Airlines are fighting with each other to attract this more upscale segment as the higher fares allow them to increase their profits without having to add capacity. Singapore Airlines, for example, is trying to beat all competitors by providing a truly enhanced premium economy section. It will offer wider seats with more recline, a cocktail table, more storage space, and a sleek 13.3-inch high-definition screen, the largest in its class. Passengers will be offered state-of-the-art noise canceling headsets and hundreds of channels of entertainment, and they will be offered more options on a menu that will be designed specifically for the premium economy class.

Emirates faces its biggest challenge from its other U.A.E.–based rival, Etihad, which announced an improvement to the first-class suite that Emirates pioneered 12 years ago. 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 butler and private chefs, on its A380 flights. First offered on flights between Dubai and London, the service is to be expanded to flights between Dubai and New York and Dubai and Sydney.

Some industry analysts have questioned the ability of Emirates to deal with these challenges. Joe Brancatelli, a business travel writer, recently stated: “I could make the case that Emirates’ moment has passed. Emirates was the trendy airline three or four years ago.”¹⁰ In a recent meeting to announce the latest performance figures for the airline, Emirates Chairman and CEO His Highness Sheikh Ahmed bin Saeed Al Maktoum brushed away these concerns. “Over the years, we have always managed to come up with new products,” the young chairman responded.¹¹

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