Low cost carriers versus traditional carriers and its impact on financial performance: a comparative study on the UAE airlines companies

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Abstract: The initial appearance of US low-cost carriers forced incumbents to create new forms of competitive advantage. However, these hindrances proved to be successful for nearly two decades. In any case, a new report by the NBK capital, an investment bank based in Kuwait, recorded that in the Middle East, especially in the Gulf region, the low cost carrier sector has established itself as a thriving industry with lots of potential in hardly four years. This paper endeavours to highlight some of the differences between the two markets and it gives an explanation as to how the advantages of the Middle East low cost airlines would be enough to bypass the financial performance of the traditional carriers.

Keywords: financial performance; Middle East; low cost carriers; airline industry; UAE.

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1. Introduction

Low cost carriers have rebuilt the competitive environment of the airline business within liberalised markets and have had significant effects on the world’s domestic traveller markets, which had already been to a great extent controlled by full service network carriers (O’Connell and Williams, 2005). There are many features that differentiate the low cost airlines from the traditional carriers. These components incorporate – online ticket sales, ticketless travel, no global offices, no regular flyer points, no free food and beverages, no in-flight magazines, no club lounges, use of secondary city airports (Najda,2003; Ito and Lee, 2003).

The term low cost carriers has its origins from within the airline industry. It refers to all those carriers that have an operating cost structure lower than their rivals. Low cost carriers should not be mistaken for regional airlines that work short flight without service or with full-service airlines offering reduce fares even though the term is frequently connected to any carrier with low ticket costs and limited services (Fourie and Lubbe, 2006). “The Low cost airlines posed a significant threat to the sustainability of traditional airlines” (Osman, 2015).
In due course, few aircrafts have effectively looked to showcase and publicise themselves as low-cost, budget, or discount airlines while sticking with products and services usually connected with traditional carrier services which resulted in increasing the operational complexity (Dunn, 2009). The products which increased the complexity to diminish effectiveness are preferred or allocated seating, providing items other than the basic beverages, separated premium cabins, satellite/ground-based Wi-Fi internet, and in-flight audio-visual entertainment (Harteveldt, 2012). Thus, by publicising as low cost carriers, this class of airlines looks to gain a competitive marketing advantage over similarly priced airline carrier’s products; despite the fact that in reality the fare prices for the traveller might be same as the other carrier alternative because of the associated add-on fees and they seem less costly to travellers when compared with traditional airlines. “The airline business low cost carrier survey (2014) covering 100 leading airlines operating in the leisure sector, handled 991 million passengers in 2014, which is an increase of 10.6% and even faster than the 2013 growth rate” (Dunn, 2015).

Hence, this paper endeavours to highlight some of the differences between the low cost carriers and the traditional carriers providing full service. This paper will attempt a relative study between the two carriers in the Middle East region in order to explain how the low cost carriers are having more advantage to overtake the financial performance of the traditional carriers in the Middle East region. This paper might be viewed as the first to explore the performance of low cost carriers in the Middle East region; as the literature has covered low cost carriers in the US, Europe and Asia, however none of the research to date has explored their performance in the Middle East region.

2. Airline market of Middle East

The term ‘emerging carriers’ was introduced in the early 2000’s and the term is used to describe airlines in the Middle East which are growing. On a global air industry, these carriers capture attention by showing rapid growth. Airlines carriers like Etihad, Emirates and Qatar Airways belong to this group. Each of these carriers managed to achieve an extraordinary development for the past years, as a group these airline carriers dominate the air traffic in the Middle East and other regions. The geographic location also adds as a tactical advantage, which cannot be easily copied. Even during the events of the financial crisis according to reports, these emerging carriers were able to achieve almost 10% annual growth rates. On an average, these airline carriers achieve to increase the size of the fleet by 10% every year. By 2020 these carriers are expected to double the fleet. The rises of Middle East carriers like Etihad, Qatar Airways and Emirates in providing international air transport have been dramatic. With only a slight difference in their strategy, according to Carey (2015) these air carriers have expanded their capacity to carry people from to different parts across the globe from their home-bases. From 20 million passengers in 2004 these airs carries carried more than 75 million passengers by 2012 (Dresner et al., 2015). All the three airlines combined made an aggregate passenger growth of 24% per year. In accordance with the air traffic between Europe and South Asia, Europe and Australia, the carriers like Etihad, Emirates and Qatar airways can be considered as a sphere of influence. By a single aircraft on a day-to-day spin (e.g., the flight hours between Dubai and Paris is 7 hrs) these airline companies can serve most cities in Europe (Fan and Lingblad, 2016).

According to Everington (2016) Middle East aircrafts drove the world in passenger development a year ago, as indicated by industry body of the International Air Transport Association (IATA), in the process surpassing their North American partners as far as global piece of the overall industry. During the year of 2015 Etihad airways took almost 17.4 million travellers which gave them yearly increase of 17 cents on 2014. Emirates in the meantime reported a 10 cents ascend in traveller numbers for six months by the end of September 2015. Regional airlines developed their ability by
13.2 for cent a year, surpassing interest increases, as indicated by IATA. The solid development sought after Middle East aircraft’s takes an aggregate of 14.2 universal air passenger movements during the year, transcending above 13.4 for percent piece of the market held via carriers in North-America. Worldwide passenger movement grew 6.5% contrasted with 2014, as per IATA reports and the most grounded development took place since 2010.

According to O’Connell (2011) the middles east have come up with master plan for a post oil era expanding the regions industrial-base, with aviation section being an important factor. The turnover of Emirates Airline is considered to be 20% of Dubai’s GDP, and the airline is considered to be incarnation of Dubai’s growth to global importance. According to O’Connell (2011) the Middle East airlines also predict that the air traffic will continue to develop for the next decades and the airlines has invested heavily by investing in large number of aircrafts while the airports are being developed by the local government. The hub and the spoke mechanism allow cities to be linked together like as a central hub to enhance linkage benefits and through services. These networks however combine short traffics into long haul mechanism (Franke, 2004) argues that travellers acknowledge exchanges on intercontinental instead of continental trips, and that most airlines consider that utilisation of intercontinental centre point and spoke operation are more beneficial. Emirates’ technique is to serve both essential and regional airline terminals (Clarke, 2007) discovers that half of Emirates’ traffic is travelling through Dubai, down from 75% 10 years prior, as more travellers are terminating at the base airport as a part of tourism, for and the rest for conference and business ventures.

According to the International Air Transport Association (IATA) reports of 2006, the Middle East is observed to be quick moving area for international traffic. By 2007–2010, according to reports there is around 6.9% passenger growth annually which when compared to the world average is only 4.8%. Aircraft manufactures like Boeing estimates the Middle East part as a whole to increase by 5.5% in 2025, where Airbus predicts 6.2% by 2025. One can say that the stability of the government and the level of oil prices in the middle east drive the treasures of these emerging carriers. Middle East countries like Saudi Arabia is said to have 50% of the oil reserves and Qatar hold the world’s largest natural oil reserve

3. Traditional carrier in the aviation industry

Traditional Airlines differ from low cost airlines in terms of the fares and the services they offer.

According to the Global Aviation Group (2013), the cost difference amongst traditional and low cost airlines has fallen by an average of 30% in six years mainly because traditional air carriers isolated its competitors with options like free baggage and in-flight catering services. Some reports suggest that traditional airlines are less fancy during on board flights. In North America, the traditional airlines restricted free on flight food for economy travellers. As per KPMG, these sorts of activities decrease traditional airlines cost interference against low cost airlines by more than a third. To move one seat through the air for one kilometre (0.6 miles), a distinctive traditional airline now devotes 2.5 cents more than one of its low cost rivals, down from a 3.6-cent premium in 2006. As conventional airlines copy low cost aircrafts, they drive themselves to resist exclusively on value terms. KPMG’s figures demonstrate that a traditional aircraft working an Airbus A320 amongst London and Rome burns through $12,000 more on each round-outing than a minimal effort carrier does.

According to Staff (2009) usually 61% of passengers suggest they have flown on a budget airline in the most recent year, the dominant part (75%) of these hope to fly with them all the more throughout the following year. For the individuals who have not utilised a budget aircraft as a part of the most recent year, half (46%) say they are liable to do as such in the coming year. These are results from an online study of 700 voyagers, directed in June 2009. The results mirror the current
atmosphere, with travellers today being more careful about spending. A little more than a third (36%) say they would utilise them to get the best value while a fifth say it is so they can make more outings with in their financial plan. In spite of the way that westerners travel to every part the most (averaging four recreations and more than three business trips for every annum) they are by a wide margin to the least extent liable to have utilised low cost airline; Only 14% say they have flown one for recreation at all year, in contrast with a normal of 57% over all nationalities.

4. Low cost carriers in the aviation industry

Those airlines which offer low fares in return for less passenger comforts are called Low cost carriers, discount airlines or low cost airlines. This idea began in the 70’s by Southwest airlines – an American domestic carrier as an approach to offer cheap fares to customers, from that point forward more low cost airlines began to proliferate gobbling market share to the point that even the major carriers needed to build up their own particular subsidiaries that offered lower charges to recover their lost customers. It was found that fares at three airports dropped 25% during the one-year period after Southwest Airlines entered the market (Goetz, 2002).

There has been a tremendous impact to the aviation industry since the advent of the low cost carriers. The low cost carriers penetrated the market very deeply adversely affecting the business of the conventional carriers. Some had to cut their flights, close down their hubs and even cancel their services to some of the cities. The budget airlines have been reporting profits consistently and they have been expanding their routes and slowly eating up the market share of the traditional carriers despite the rising fuel costs and the global slowdown. In both Asia and the Middle East, there has been a tremendous growth in the low cost sector and there are no signs that this expansion would be reduced. According to a report from OAG, the low budget airlines have grown at a yearly rate of 52% in the last decade while the conventional carriers could only grow at an average rate of 7% per annum.

The huge success of the low cost airlines can be followed back to their business model that explains that ‘cost is not equal to price’. The American low cost carrier, southwest airlines model comprised of low airfares, higher frequency routes, utilisation of secondary airports with short turnaround times and using the same sort of aircraft for the fleet that operates more hours a day than the traditional carriers (Doganis, 2001; Morris et al., 2005; Dobruszkes, 2009) and still managed to be one of the few consistently profitable airline in the world (Barney, 2002). The modern low cost carriers still nearly take after the same statutes as those laid out by Southwest Airlines model but because of the more number of low budget airlines competing in the same market, there have been differences in the implementation for each low cost carrier. The low budget airlines in America offer regular programs for flyers and some of them have even offered the same perks found in the traditional carriers, like diverse class systems and complementary drinks. In Europe, low cost carriers like EasyJet and Ryanair generally take after the more conventional business model with the exception of that both airlines have operated into major hubs like Paris Charles de Gaulle, Manchester and Dublin where the conventional technique of operating in secondary airports.

The business model adapted by low cost airlines has put a competitive pressure on the existing traditional airlines. This is done by offering fares at costs that traditional air carriers find it difficult to match and still cover their fixed cost. Generally, traditional Airlines differ from low cost airlines in terms of the fares and the services they offer.

According to the Global Aviation Group (2013) the cost amongst traditional and low cost airlines has fallen by an average of 30% in six years mainly because traditional airlines isolated the competitors
by like free baggage and in-flight catering services. Even in times of financial crisis traditional airlines used to cut cost, yet, unbalanced when stood up to by their unionised workforce. In North America, the traditional airlines restricted free on flight food for economy travellers. As per KPMG, these sorts of activities decrease traditional airlines cost interference against low cost airlines by more than a third. To move one seat through the air for one kilometre (0.6 miles), a distinctive traditional airline now devotes 2.5 cents more than one of its low-cost rivals, down from a 3.6-cent premium in 2006. KPMG’s figures demonstrate that a legacy aircraft working an Airbus A320 amongst London and Rome burns through $12,000 more on each round outing than a minimal effort carrier does. One can say that customer loyalty plays a key role in the competitive strategies used by the traditional airlines. Traditional Airlines loyalty programs include issuing loyalty cards, offering prizes and discounts and these airlines emotionally ties the customers with the company and they gain advantage from that. Usually say for example a middle-class family by seeing these offers and loyalty cards prefer to travel in traditional airlines than that of a low-cost airline.

To distinguish from traditional airlines the low-cost carriers must consider lot of actors. They tend to achieve high productivity by utilising their resources to their maximum and through staff efficiency. Traditional Air carriers like the British Airways, KLM, Continental and Delta Airlines try to imitate the low-cost airlines by cutting cost, but failed drastically. This is because, in the customers view these airlines seems to be expensive, and when suddenly low fares are being offered, it will hard for the people to accept that fact. Some other reasons a traditional airline can fail include deep-rooted management and labour systems, Extensive network of high cost stations, uneconomic air routes, complex and costly marketing ideas and distribution channels. For traditional airline since the competition among airlines companies are high it is very difficult to sustain the brand value they have. Any small flaws from the sides of these traditional carriers, it can lead them to jeopardy.

5. The global financial crisis and its effect on the aviation industry

According to Essays UK (2013) the global financial crisis sprouted in 2007–2008 especially in developed countries like USA. After that the crisis entered the European nations and following a couple days the crisis simply takes the entire of the world under its effect. All of the nations on the planet got influenced by this financial crisis either directly or in an indirect way. The Aviation industry is considered as one of the pillars of the global economy of the world, this sector is said to provide millions of job and has a great contribution in the global GDP. So when the financial crisis broke out in 2007–2008 it created a major impact on the aviation field also. Some aviation companies which were not able to bear the loss, had to head to bankruptcy after the crisis.

As far as UAE is concerned, the country has the fast growing economy of the world with GDP said to be in the limit of 9.4%. The GDP of UAE as indicated by 2008 yearly report is 270 billion US dollars which is third most noteworthy in Middle East and positioned 38th all over world. One can say that the aviation industry of UAE stood against the financial crisis that affected the world. The UAE can be considered as one of the major tourist attractions of the world. Airline industry in the Middle East makes up around 20% of their GDP.

In most recent ten years the utilisation of air travel has expanded at the rate of 7% every year. Going for both business and recreation exercises have become a common routine around the globe. During the financial crisis Emirates Airlines industry suffered a huge loss as a part of global recession. The home costs dropped by 50% from their value in 2008 leaving Dubai in a circumstance where they were not able to create sufficient cash so as to reimburse the obligations that they had taken in order to endorse the tourism business. Dubai which is represented by Sheik Mohammed Bin Rashid Al Maktoum acquired approx. 80 billion US Dollars in a time of four years of construction for the
development market of economy of regional tourism as their fundamental focus was on tourism as they expect that it would prompt a solid source of income for them notwithstanding when their oil resources get depleted.

In the early time of global financial framework Dubai’s budgetary structure, dynamic development and tourism enterprises appeared to be in an incredible favourable position, and numerous individuals even anticipated that it would stay free from any kind of retreat. IATA has anticipated that regardless of the post financial stage, the global air industry is relied upon to develop by around 6.6% (Essays UK, 2013).

The draining global economy has resulted in forcing more customers to decide on the no-frills approach to flying in order to save money. While the greatest draw for the low budget airlines is still the low fares that it offers, this is by all account was the only contributing element to their success during the crisis. For the flyers who fly frequently, the greatest factor that makes a low cost carrier more appealing is that flights are always available and with the traditional airlines downsizing their operations, the choice in schedules have come down.

The future of the traditional carriers has been brought into question by the huge growth of the low budget airlines. The high fixed costs and the relevant market positioning to consumers have increasingly pressurised the traditional carriers. The traditional airlines are now increasingly focusing on cost effectiveness, specific travelling segments, consolidating through mergers and acquisitions and investing into staff training and communications. The new competitive scenario puts the well-established airlines to compete with low cost airlines.

6. Emergence of low-cost carriers in the Middle East

The low cost airlines started operations in the Middle East region since early 2000’s and since then, they have demonstrated relentless development particularly in the leisure market. The International Civil Aviation Organization (ICAO) confirmed that the low budget airlines have started showing strong growth prospects. Mr. Eric Chang, Senior Associate, TNI Investment Research (Chang, 2007) said that since the Middle East region had a population that was highly urbanised, it meant that LCC’s choice of hub will have a wide catchment area. In the Gulf region, since there is an absence of the rail system, the plane is the sole transportation mode for intra-MEA travels. He also mentioned that the Middle Eastern LCC’s have a low share (1.4%) of passengers. Interestingly, US and European LCC’s has a market share of almost 25% while the Asia Pacific low cost carriers have 8% market share. In the end, the success of Low cost carriers in the Middle East region depends completely on the political backing to open routes.

In view of the TNI report (Chang, 2007) ‘open skies’ agreements creates an opportunity for the smaller low cost carriers to enter new markets and compete with the leading budget carrier in the Middle East, Air Arabia, which has transported more than 3.4 million travellers since its inception in the year 2003. Air Arabia has the advantage of being the first low budget airline according to the TNI report. The partial liberalisation in the Middle East has benefitted Jazeera Airways, a Kuwait-based privately owned low cost carrier. NAS Air commenced its operations in Saudi Arabia in the year 2007 while Sama Airlines is planning to be debuted on the 18th of March 2007.

According to the OAG market analysis report in 2012, in the last decade, there has been a huge growth in the low cost sector of the Middle East region and shows no sign of subsiding. It was the market leader in airline schedule data. The low cost airlines, in the last decade, have had a growth of 52% whereas the traditional carriers have only grown at 7%. A higher growth has been consistently
delivered by the low cost carriers in the Middle East region when compared with the any other global region in the past ten years.

The aviation market in the Middle East has become one of the fastest growing in the world as discussed in the OAG (2012) market analysis report, which was distributed at the World Route Development Forum, Abu Dhabi. The report investigates as to how the low cost carriers in the Middle East is growing at an outstanding pace, developing both a strong intra-regional market and at the same time expanding services to and from the Middle East. 20% of all the flights inside the region are now accounted by the low cost carriers.

The global slowdown affected the Middle East economy as well. But when compared with the other regions of the world, the degree of affliction was much lower. The aviation market in the Middle East is one of the fastest growing regions in the world for scheduled flight capacity. Over the last decade, the seat capacity in the Middle East has grown at 10% which is the highest rate globally. Rob Shaw, Director of Analytics at OAG (2012) IATAT, 2012 confirmed that there are three primary low cost carriers that dominate the Middle East region, serving numerous market segments. Air Arabia, Fly Dubai and Jazeera Airways serve 79 destinations and operate between them, nearly 1,000 weekly departures. In 2003, there were only six destinations that the low cost carriers served and that too, all were operated by Air Arabia. The first non-government owned in the Middle East was Jazeera Airways and It was launched in the year 2004. Fly Dubai was launched in the year 2009 and now is the largest low cost carrier in the Middle East region. This feat was achieved by offering the product segmentation low cost business model that has been developed in Europe and North America.

The paper measures the financial performance of Air Arabia as a low cost carrier and compares it with the Emirates Airlines, which is a well-established traditional full service carrier in the Middle East region. An analysis is done on the financial data of both companies for the year 2007, 2008 and 2009 in order to measure and compare the performance of each carrier during the financial crisis and discuss which showed more resilience and how.

7. Air Arabia: case study

Air Arabia is the first low cost carrier in the Middle East region and it was launched in 2003. It has developed from two leased aircraft to a current fleet of nine new airbus airplane and is ready to become a giant in the low cost airline industry. Air Arabia has services scheduled to 46 destinations in the Middle East, Indian Subcontinent, Central Asia, North Africa and Europe to 22 countries from Sharjah, 11 destinations in ten countries from Casablanca and five destinations in five countries from Alexandria.

The main base of operations is the Sharjah International Airport where it operates as a low cost-base, just like other low cost airport bases in Europe like Rome Ciampino, London Stansted and Brussels South Charleroi Airport. Air Arabia is distinguished from other low cost carriers for the fact that it provides connections to many flights at the Sharjah Base. Air Arabia also has focus cities in Casablanca and Alexandria.

In 2006, Air Arabia’s net profit rose to 222%, while its passenger load factor was 82.10% and the total revenue increased 82%. Air Arabia is “committed to enabling customers who have not been able to afford air travel in the past to start traveling…and those who do travel to travel more frequently”. Air Arabia still offers luxury and quality with the new and spacious fleet of airplanes (Hardy, 2007).
The management of Air Arabia decided in March 2007 to convert the company into a public joint stock company (PJSC) because of the consistent and profitable record that the company achieved since its launch. Thus Air Arabia was the first airline in the Gulf region to be publicly owned and it also enabled the carrier to set the proper-base required to implement the expansion strategy of the company and its ambition to become the world’s leading low cost carrier.

Air Arabia was declared the most profitable airline in the world in 2008. It overcame the financial slow down by offering its customers better choice to ‘travel more for less’. The icing on the cake was when the carrier was ranked the best low cost carrier in the world on the top performing companies (TPC) list issued by Aviation week.

Air Arabia launched its second hub in Casablanca, Morocco on the 28 April 2009 and offered the customers in the Moroccan and North African countries cheap rates to fly from and into Europe. To further grow the already existing network, Air Arabia launched its third hub in Egypt and thus linked the whole Arab world with Europe.

At the 2015 Aviation business awards in Dubai, Air Arabia was awarded the ‘airline of the year’. It was also pronounced as the best low cost airline in the Middle East during the Skytrax World Airline Awards held in France. At the 2015 World tourism forum awards, Air Arabia won the title of ‘best low cost carrier’. They also got the ‘award for customer innovation’ at the first aviation achievement awards.

8. Financial performance of Etihad airways and Emirates airlines

Talking about the financial performance of airlines in the UAE, Etihad is one of the leading airline company which maintains a top notch in terms of financial performance. According to Kane (2017) Etihad airways attained a high financial position in 2015 by forming strategic alliances with other airline companies (Kane, 2017) also states that the carrier reported its best ever turnover and benefit figures, with income up to almost 20% to US$9.02 billion and net benefit taking off by 40% to $103 million. The aircraft companies in which Etihad are partners is reported to have value stake or code share understanding which contributes about $1.4 bn to the income, and it added an extra five million passengers to Etihad a year ago. Etihad has energetic marginal interests in six global carriers, and also the European system Etihad Regional. It has code share concurrences with 49 aircrafts.

According to Gazzar (2015) lower fuel costs and higher passenger request supported Dubai’s leader transporter Emirates, which posted a 65% hop in first half net benefit. The aircraft, one of the world’s biggest transporters of universal travellers, reported a benefit of Dh3.1 billion for the six months by 30 September 2015, up from Dh1.9 bn a year prior. Emirates which operates the world’s biggest fleet of the Airbus A380 superjumbo aircraft, said first-half revenue was down 4.2 per cent to Dh42.3 bn, compared to Dh44.2 bn in 2014.

9. Financial analysis of the Emirates Airlines and Air Arabia

The paper compares and analyses the financial reports of both companies over the 2007, 2008 and 2009 years looking for signs of the world financial crisis effect on both companies and which of them were able to benefit on the account of the other specially that they are both operating from the same origin. The normal comparative financial analysis for both companies is impossible as although they share the same business sector of passenger air transportation the market segment and the type of investments involved and business diversification model makes cross comparison technically impossible. As due the significant amount of investment in place by the traditional carriers and specially aggressive growth plan of emirates airline has made the conventional ratio analysis
comparison practically impossible (especially if we consider the amount of window dressing account go through prior release to public in order to mask or hide unwanted or sensitive data no matter how transparent company reporting is).

9.1 Return on assets

Return on assets (ROA) acts as an indicator showing how profitable a company is, relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company’s annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as ‘return on investment’.

The formula for ROA is:

\[
\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}
\]

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Return on assets</th>
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<tbody>
<tr>
<td>Company</td>
<td>2007</td>
</tr>
<tr>
<td>Emirates Airline</td>
<td>8%</td>
</tr>
<tr>
<td>Arabia Airline</td>
<td>5%</td>
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Table 1 detailing the ROA for both companies shows that during 2007 and 2008 Arabia Airline has achieved figures inferior by 3% than the ones achieved by Emirates Airline, however this can be quite justifiable if we consider the significant difference in the amount of investments made by Emirates Airlines compared by the low cost carrier Arabia Airlines; But in 2009 which was we see that Emirates Airline has achieved only 2% compared by 7% achieved by Arabia Airlines which we can attribute to the aggressive new investments made by Emirates during 2009 to concrete its growth in the market despite the world crisis.

9.2 Asset turnover

Asset turnover measures a firm’s efficiency at using its assets in generating sales or revenue – the higher the number the better. It also indicates pricing strategy: companies with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover.

\[
\text{Asset Turnover} = \frac{\text{Revenue}}{\text{Assets}}
\]

<table>
<thead>
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<th>Table 2</th>
<th>Asset turnover</th>
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<tbody>
<tr>
<td>Company</td>
<td>2007</td>
</tr>
<tr>
<td>Emirates Airline</td>
<td>79%</td>
</tr>
<tr>
<td>Arabia Airline</td>
<td>15%</td>
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Table 2 shows that the Emirates Airline is far more efficient in its assets management in turns of them generating revues to the company, which can justify not only its resilience in the face of the world crisis but also how well they were diversified in order to absorb the its effect.
9.3 Net profit ratio

This can be considered as the proportion of net profit relative to the revenue earned. Net Profit Margin proportion is a key execution marker of profitability of a company. It is one of the two components that decide the ROA, the other component being the asset turnover ratio. Measuring the pattern of Net Profit margin for more than a few periods in contrast with industry benchmarks is vital for distinguishing execution gaps that could be overcome to enhance the profitability of business later on. A sufficient edge of net profits will be created just when all activities are being done productively. The activities might include production, organisation, selling, financing, tax administration etc. Even if any of these perform badly, the effect on net profits and their margins can be seen.

Table 3 shows the net profit ratio of Air Arabia and Emirates Airlines.

Table 3 Net profit ratio

<table>
<thead>
<tr>
<th>Company</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emirates Airline</td>
<td>11.04%</td>
<td>13.92%</td>
<td>2.45%</td>
</tr>
<tr>
<td>Arabia Airline</td>
<td>35.85%</td>
<td>24.67%</td>
<td>22.73%</td>
</tr>
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Usually for a company a high profit ratio, it shows the efficient management the company has. From the table we see that the ratio has declined from that of 2007 to 2009. We can infer that Air Arabia was initially successful in converting the revenue to the actual profit. A sudden dip was present from the year 2007 to 2008 and again a decline of 2% in 2009. When we analyse the profit margin of emirates airline we can see that the cost associated with it are decreasing the net profit tremendously and hence the net profit ration has taken a sudden dip from that of 2008 to 2009.

9.4 Quick ratio

By quick ratio we could analyse a company’s short term liquidity. Quick assets are present resources that can be changed over to cash inside 90 days or in the short-term. It includes cash and cash equivalents, short term investments, current account receivables etc. Because of huge stock-base, an organisation’s financial strength might be exaggerated if current ratio is utilised. By using the quick ratio, this circumstance can be taken care of and will restrain organisations getting an extra loan; the adjusting of which may not be as simple as expressed by current ratio.

Table 4 Quick ratio

<table>
<thead>
<tr>
<th>Company</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<tbody>
<tr>
<td>Emirates Airline</td>
<td>1.38%</td>
<td>1.13%</td>
<td>1.01%</td>
</tr>
<tr>
<td>Arabia Airline</td>
<td>10.41%</td>
<td>4.33%</td>
<td>4.07%</td>
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Ideally the quick ratio should be 1:1. In the event of high quick ratio, organisation may keep a lot of money close by or have an issue gathering its account receivable. Higher quick ratio is required when the organisation experiences issues acquiring short term notes. A quick ratio higher than 1:1 shows that the business can meet its current financial commitments with the accessible quick assets close by. From the table we notice that the quick ratio is high, which means that they have too much cash on them and the short term investments are low. As far as Emirates airlines is concerned they maintain a quick ratio where the ratio does not exceed 1:1. They maintain the cash and have investments which show a good strategy for the company. When we take it as a whole, the liquidity
and the cash flow is greatly maintained by Emirates Airlines and the net profit ratio is higher for Air Arabia.

In the following examples show how traditional trend of total revenues and passenger revenues and analysis did not yield any significant results concerning the effect of the world crisis on both companies Emirates Airlines and Arabia Airlines as both trends show that the two companies has maintained the upward trend in revenues.

**Figure 1** Total revenue analysis of Emirates and Arabia Airlines for 2007, 2008 and 2009

![Total Revenue Analysis](image1)

**Figure 2** Passenger revenue analysis of Emirates and Arabia Airlines for 2007, 2008 and 2009

![Passenger Revenue Analysis](image2)

**Figure 3** Operating profit of Emirates and Arabia Airlines for 2007, 2008 and 2009

![Operating Profit Analysis](image3)
From the above trends we were not able to see any effect to the financial crisis on the both companies and we can even conclude from first glance the Emirates Airline benefited or improved its performance at the height of the crisis. However, the signs of the crisis started to show in the following trends (operating profit) as the operating profit has shown a deep reduction.

We can see from Figures 3–4 (net profit) that the Emirates Airlines has suffered from a sharp decrease in operating and net profit in 2009 and Arabia Airline have maintained its steady slow growth during the same period.

Accordingly, when we started considering the passenger to be the factor of comparison the following trends emerged showing that despite Emirates Airlines shows higher figure average passenger revenues the net profit per passenger and the operating profit per passenger has shown skewedness toward Arabia Airlines specially in year 2009, and if we consider that the value of investments in place by Arabia Airline is far less than the ones in place by Emirates Airlines. Accordingly, we can assume that despite Emirates Airlines has scored higher in the ROA and asset turnover ratios that we consider measures of efficiency in terms of assets generating revenues, if we asset of the company that the comparison should be orbiting around is the PASSENGER as the source of revenue, Arabia Airlines was able to be more efficient.

**Table 5** Comparison of average passenger revenue, average net profit/passenger and operating profit per passenger for Emirates and Arabia Airlines for the year 2007, 2008 and 2009

<table>
<thead>
<tr>
<th>Company name</th>
<th>Year</th>
<th>Average passenger revenue (AED)</th>
<th>Average net profit per passenger (AED)</th>
<th>Average operating profit per passenger (AED)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emirates Airline</td>
<td>2007</td>
<td>1,289</td>
<td>146</td>
<td>157</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>1,237</td>
<td>221</td>
<td>196</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>1,201</td>
<td>36</td>
<td>94</td>
</tr>
<tr>
<td>Arabia Airline</td>
<td>2007</td>
<td>276</td>
<td>102</td>
<td>56</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>538</td>
<td>142</td>
<td>81</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>451</td>
<td>113</td>
<td>98</td>
</tr>
</tbody>
</table>
According to the above average passenger revenue and average net profit per passenger charts, Arabia Airline were able to derive as much profit as Emirates Airline out of each passenger without them having the same scheme of heavy investment related, and that Emirates net profit and operating profit has sustained severe strikes as seen in their figures of 2009 which were not related to them losing customers as it was seen that their annual number of passenger increased, which was basically due to their swift reaction to the financial crisis by increasing their investment and number of destinations served as well as introduction of new services as described in their 2009–2010 annual report.

Figure 5 Average passenger revenue

![Figure 5](image)

Figure 6 Average net profit per passenger

![Figure 6](image)

10. Conclusions

If we consider the passenger as the unit of performance of measurement (in terms of profit generation) between Emirates Airline and Arabia Airline we can see that during the 2009 Arabia Airlines has reached the same level of Emirates Airlines in terms of per passenger profit despite the significant difference of investment installed by Emirates Airline compared to the ones used by Arabia Airlines as well as the aggressive investment scheme that Emirates group used to confront the global recession.
Accordingly, the 2007–2008 world crisis has shed its shadows over the passenger transport market as well in the Middle East. However, large transport companies were able to maintain survival, low cost carrier started to gain ground on the basis on the more dollar cautious passenger. We can conclude that being big or to be more precise very big is good but we all should consider that the turtle has won race with the rabbit not through sheer power or speed but through resilience and persistence.

11. Limitation to this analysis

Limitation to the analysis came from the limited information we are able to derive from the annual reports of both companies, as one of the decisive ratios was to calculate the Return on Working Investment if we were able to access the figures of investments related to passenger transport only to unify the comparison-base between the two companies. Also, the type of diversified investment group Emirates Airlines belong to makes it impossible to make a fair comparison between it and any other airline due to the wide spectrum the group is involved in and the large amount of annual new investment poured in every year.

References


Staff, B-M. (2009) UAE Travellers Moving Away from Traditional Airlines to No-Frills, Reveals YouGov Poll, Business Intelligence-Middle East, UAE.