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Sample Case Analysis #1

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Case: *Ethiopian Airlines: Bringing Africa Together*

ETHIOPIAN AIRLINES

Bringing Africa Together

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by

XXXXXX University

(Name of Student 1)
(Name of Student 2)
(Name of Student 3)
(Name of Student 4)

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Introduction

Over the past 62 years, Ethiopian Airlines has successfully expanded throughout Africa. However, the company is currently struggling to choose an optimal location for the airline's first international hub. Two sub-issues are: (1) Whether a partnership with another larger airline would be beneficial, and (2) how to delegate management and control of the company's first international hub to ensure the greatest likelihood of success. Yissehak Zewoldi is concerned with ensuring that the remainder of the company's five-year strategic plan is successfully implemented and is motivated to choose a location for the company's new hub that will ensure success. Options will be considered and thoroughly analyzed to ensure effectiveness moving forward.

Situation Analysis

In developing a clear plan for implementing the company's multi-hub strategy, Ethiopian AIrlines must consider both the internal and external factors that are affecting the company. A **SWOT, Porter's Five Forces, summarized CCPESTEL, competitive, and financial** analyses were conducted to evaluate the company's position. Ethiopian Airlines would benefit from taking advantage of their presence in African aviation by pioneering the implementation of a hub-and-spoke model throughout the continent, as it is both a Strength and Opportunity for the company. As shown in the Porter's Five Forces analysis, the high operational costs and degree of rivalry from British and French airlines have created an extremely competitive industry. Further, although British and French airlines have low operating costs, their domestic flight presence is minimal compared to that of the Ethiopian Airlines. Compared to South African Airlines (SAA), the company has the competitive advantage of both domestic and potential international flights. Africa also has several political and economic factors to consider when choosing a location, most importantly the political instability in Western Africa and the growth of the country's

overall economy. Financially, the company will require external financial support to establish their first international hub as they continue to implement their five-year strategy. For detailed analyses, refer to Exhibits 1, 2, 3, 4, and 5 respectively.

Analysis of Alternatives & Recommendations

In order to determine the best option moving forward, four alternatives were considered. The alternatives were weighed against the following criteria: **Degree of competition, economic growth, development of infrastructure, and brand awareness**. Each option was assigned a numerical rating indicating its ability to fulfill each criterion, the highest ranked option will be chosen as the optimal solution. Decision criteria and the Decision Matrix are available in Exhibit 6.

ALTERNATIVE 1	Northern Africa
ALTERNATIVE 2	Middle Africa
ALTERNATIVE 3	Western Africa
ALTERNATIVE 4	Southern Africa

Alternative 1: North Africa

The first option considered includes establishing the company's first international hub in North Africa. This location is appealing based on its developed infrastructure, economic stability, and the location's proximity to the European continent. Ethiopian Airlines will also need to consider North Africa's downfalls as a first location for an international hub, most importantly the high degree of competition in the area and the lack of brand awareness for the company given that they currently serve only one flight destination in the region.

Alternative 2: Middle Africa

The second option considered includes establishing the company's first international hub in Middle Africa. When considering this alternative, there are several benefits to note, including the high economic growth, established brand awareness, the ease of servicing the entire continent, as well as an adequately close proximity to bordering continents. Although the region is favourable, the low development of infrastructure will pose a threat to the success of establishing a hub in the area.

Alternative 3: Western Africa

Establishing the company's first international hub in Western Africa was the third option considered. There is a low degree of competition in the region, a moderate degree of infrastructure development, and a high degree of brand awareness; however, the region also has low economic growth. Although there is low economic growth, there is significant potential for an increase given the abundant natural resources. The unstable political climate of Western Africa also warrants consideration given that the region has experienced social and civil unrest in recent years that could affect the success of the establishment of a hub.

Alternative 4: Southern Africa

The final alternative considered includes establishing the company's first international hub in Southern Africa. The dominant airline in the region, South African Airlines, creates a moderate degree of competition and the economic growth is low; however, the current Gross Domestic Product (GDP) is the second highest in the continent, contributing to their highly developed infrastructure. The company currently services only one city in the region, creating low brand awareness.

Recommendation

After careful consideration and given the results of the Decision Matrix available in Exhibit 6, **Alternative 2: Middle Africa** was selected as the optimal solution. Although both Alternative 2: Middle Africa and Alternative 3: Western Africa received identical scores within the Decision Matrix, the political instability of Western Africa acted as the deciding factor in choosing Middle Africa as the optimal location for establishing an international hub. For more information on why Middle Africa was selected, refer to Exhibit 7.

Implementation Plan

A three-phased **"3D Strategy"** was devised in order to mitigate possible risks in implementation and to ensure the greatest likelihood of success moving forward. The greatest risk in implementing the strategy will be finding an appropriate partner in Phase One. For more information on possible risks and their mitigations, and to see a two-year implementation timeline, refer to Exhibits 8 and 9 respectively.

Derive → Delegate → Develop

Phase 1 - Derive Partnership

Understanding that partnerships are an important competitive industry trend, Ethiopian Airlines will benefit from establishing a partnership with a larger competing airline that will allow them to gain access to new markets to feed intra-African flights. Establishing a hub requires significant financial investment and partnering with a larger airline will provide access to increased capital required. Ethiopian Airlines will maintain a majority share in developing the hub in order to ensure control over

management of personnel and its brand. The company has been operating at a profit in comparison to the industry, making it appealing to potential partners.

Ethiopian Airlines will seek a partnership with a European airline as a means of gaining access to both increased capital and new markets. An ideal partner will have financial and international flight capabilities to give Ethiopian Airlines an increased competitive advantage. The company should expect to receive funding based on the number of outstanding shares the investing company purchases and the market price of shares at the time of purchase.

Phase 2- Delegate Management & Train Employees

Moving into the second phase, delegating management is key to maintaining brand consistency while ensuring control over the company's first international hub, both of which are key components in successful implementation. This phase allows the company to maintain control over its employees who will be operating the hub, allowing the airline to ensure the continued safety and security of their passengers.

The hub's management team will be comprised of graduates from Ethiopian Airlines' aviation academy. The company will update the academy's curriculum to include informational sessions on the multi-hub strategy to ensure a complete understanding of the strategy and its implementation plan. During training, all safety and security procedures will be clearly outlined to ensure Ethiopian Airlines is successful in obtaining an IATA Operational Safety Audit Certificate. Obtaining the certification will be crucial in ensuring that the passengers are comfortable in travelling with the airline as they expand.

Phase 3: Develop the Hub

Ethiopian Airlines will use the financing from their partnership with a European airline to aid in the development of the hub. The hub will be similar to the size and structure of the company's main hub at the Bole International Airport. The design will allow for adequate space for all domestic and international flight departures and arrivals. Developing the hub will include coordination and scheduling of all flights, which will be a costly and timely endeavour.

Based on the decision to choose the second alternative, the hub will be established in Middle Africa, giving the company easy access to both African and inter-continental regions. The Central African Republic is a favourable location for the hub within Middle Africa.

Conclusion

By implementing the **"3D Strategy"**, Ethiopian Airlines will be able to successfully complete the implementation of their five-year strategy by selecting a location to establish their first international hub that will ensure the continued success of the airline. Partnering with a European airline will ensure adequate financial support is available to establish the hub. Given the Balanced Scorecard in Exhibit 10, Ethiopian Airlines will be able to achieve the objectives through the recommended initiatives.

Exhibits

Exhibit 1: Company SWOT Analysis

Strengths	• Financial success in a struggling African aviation industry • African Airline and African Business of the Year awards have yielded recognition
Weaknesses	• High operating costs • Decreasing growth
Opportunities	• Hub-and-spoke models are undeveloped in Africa • Emerging middle class and intra-African trade resulting in growing transportation needs
Threats	• Competition outside of Africa is able to offer lower pricing • Political and economic instability in particular regions may inhibit development

Exhibit 2: Industry Porter's 5 Forces Analysis

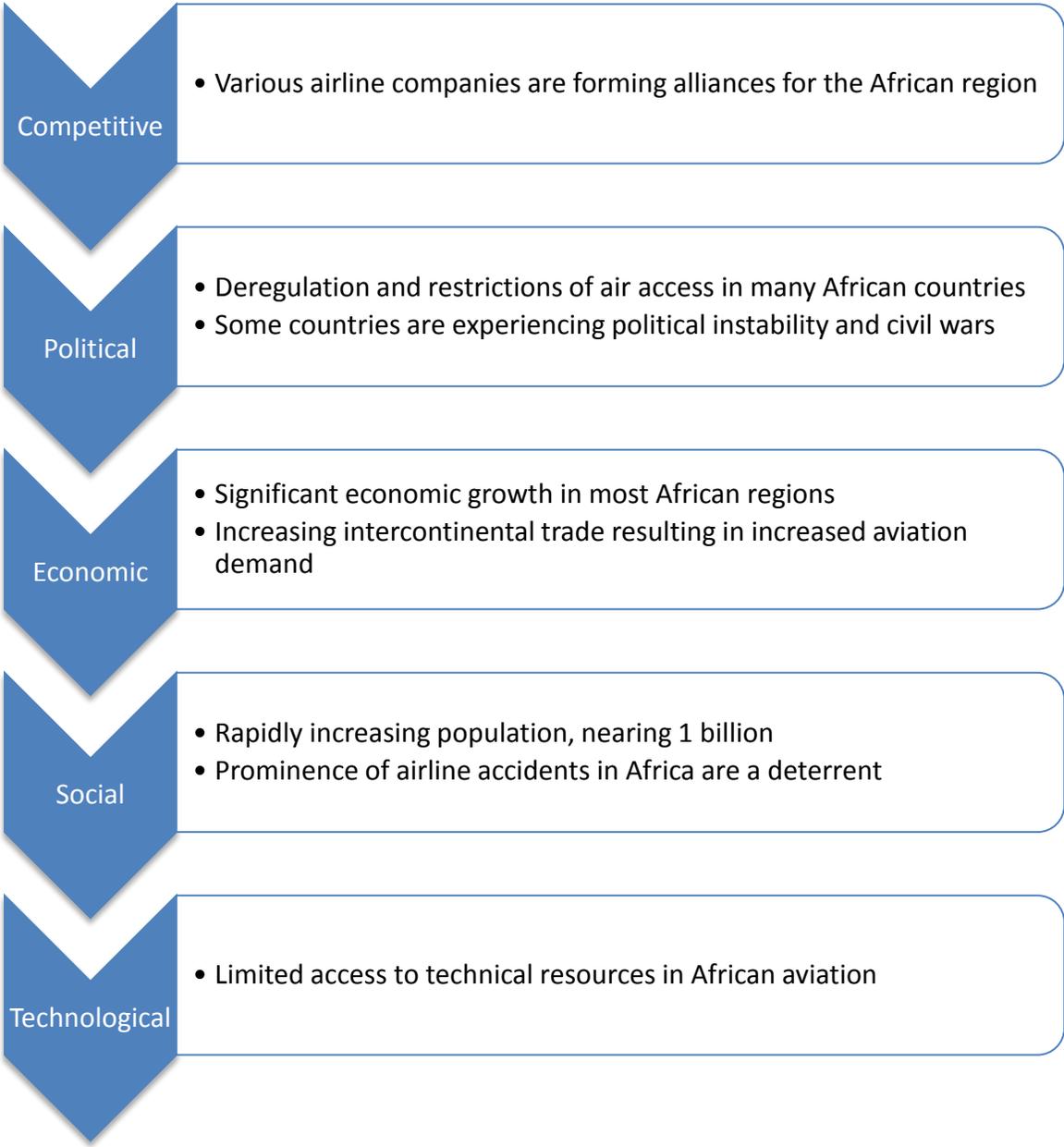| Threat of Substitutes	**Moderate**	People may turn to railway transportation within Africa.
Threat of New Entrants	**Low**	Airport charges, taxes, and high fuel and operating costs are major deterrents in the industry.
Degree of Rivalry	**High**	Airlines from Britain and France are travelling to African countries at a lower rate.
Buyer Power	**High**	Buyers are able to select airlines based on particular needs – brand loyalty does not surpass price points and efficiency.
Supplier Power	**High**	Aircrafts require significant investment with very limited suppliers.

Exhibit 3: Summarized CCPESTEL

Competitive
- Various airline companies are forming alliances for the African region

Political
- Deregulation and restrictions of air access in many African countries
- Some countries are experiencing political instability and civil wars

Economic
- Significant economic growth in most African regions
- Increasing intercontinental trade resulting in increased aviation demand

Social
- Rapidly increasing population, nearing 1 billion
- Prominence of airline accidents in Africa are a deterrent

Technological
- Limited access to technical resources in African aviation

Exhibit 4: Competitive Analysis

	Operational Costs	African Presence	International Capabilities
Britain/France	Low	Low – no domestic flights	High
South Africa Airlines	High	High – primary development in Africa	Low – South African location is inhibiting
Ethiopian Airlines	High	High – primary development in Africa	Moderate

Exhibit 5: Financial Analysis*

Leverage Ratio	2005	2006	2007
Debt/equity ratio	111.7%	125.8%	112.8%

Ratio considers Paid-up Capital, Contributions, and Long-term Loans.

It is suggested that a company have a debt/equity ratio at a maximum of 100%. As a result of debt/equity analysis of Ethiopian Airlines, it is expected that substantial external financing will be required to implement a hub.

Exhibit 6:Decision Criteria and Matrix*

Degree of Competition	What is the likelihood of success amongst competition?
Economic Growth	How promising is the region's economic outlook?
Development of Infrastructure	How established is the region in terms of infrastructural and political development?
Brand Awareness	How does Ethiopian Airlines as a company currently sit in the region?

Alternative	Degree of Competition	Economic Growth	Development of Infrastructure	Brand Awareness	Total
North	1	2	3	1	7
Middle	2	3	1	3	9
Western	3	1	2	3	9
Southern	2	1	3	1	7

3: Appealing 2:Moderate 1:Unappealing

Exhibit 7: Pros and Cons of Potential Regions

	North	Middle	Western	Southern
Pros	• Large population • Developed infrastructure • Close proximity to Europe	• High GDP growth • Established brand awareness • Moderate proximity to Europe	• Large population • Wealthy population • Established brand awareness • Low competition	• Opportunity to capitalize on competition downfall • Developed infrastructure
Cons	• Dense competition • Lack of brand awareness	• Low population • Moderate competition • Undeveloped infrastructure	• Low GDP growth • Political instability and restrictions	• Low population • Lack of brand awareness • Poor geographical location for hub-and-spoke

Exhibit 8: Risks and Mitigation

Risk	Impact	Likelihood	Mitigation
Cannot find appropriate partnership	**High**	**Moderate**	Continue to search for partners, stressing past success of hub-and-spoke models
Insufficient funding from partnership	**High**	**Low**	Seek alternative external financing.

Exhibit 9: Implementation Timeline

PHASE	MONTH 0	MONTH 6	MONTH 12	MONTH 18	MONTH 24
DERIVE	Strategic Partnership				
DELEGATE		Management & Safety Training			
DEVELOP		Initial hub location			
EVALUATE				Progress of 1st hub – potential second	

Exhibit 10: Balanced Scorecard

	Objective	Measure	Target	Initiative
Financial	Increase market share	Revenue	$1 Billion annual revenue	Multi-hub strategy
Customer	Provide greater value to customers	Flight frequency	Increase flight frequency by 25%	Multi-hub strategy
Internal	Implement hub-and-spoke network model	Number of passengers utilizing model	90% seat occupation of hub-and-spoke flights	1st hub establishment
Learning	Increased passenger safety	Number of airline accidents	Minimal airline accidents	Proper safety training programs at aviation academy