

All three airlines from the Gulf are heavily investing in marketing and branding in Europe. Football fans tend to know 'the Emirates' (the home of Arsenal Football Club) and 'the Etihad' (formerly City of Manchester Stadium). *Emirates* also sponsors a veritable portfolio of AC Milan, Real Madrid, Paris Saint-Germain, Hamburger SV and Olympiacos. *Qatar Airways* is aiming very high with its deal with Barcelona FC, while *Etihad* is looking further afield, sponsoring Melbourne FC and New York City FC.

European airlines have been fighting back with their own aggressive pricing and new offerings, but also lobby to restrict the Gulf operators in Europe because of the 'unfair' subsidies their new competitors allegedly receive in the form of cheap fuel and low airport fees. *Emirates* responds that it pays slightly more for fuel at home (DXB) than abroad, because of the lack of refining capacity in the Gulf. Moreover, since Dubai provides few social services to expatriates, *Emirates* spends \$400 million a year to provide accommodation, health care and schools for its staff – a huge expense that rivals do not have to cough up. In 2015, US airlines felt the pinch too and demanded that the USA take action, claiming that the three received hidden

aid worth \$42 billion, mainly in the form of interest-free loans and guarantees. Also the political instability in the Gulf region and restrictions put in place by the US authorities, supposedly aimed at reducing terrorism risks, hit the three superconnectors.

However, competitors are not standing still. *Turkish Airlines* is investing in expanding its network, while new long distance carriers spring up across Asia. European, Asian and US airlines are upgrading their facilities and partnerships. Will there be enough air traffic for all of them? Some analysts speculate that there may only be two survivors of the 'super-connectors'. Who will be the survivors of this intensive competition?

Sources: (1) *Aviation News*, 2011, Dubai International Airport, December: 34–39; (2) *The Economist*, 2010, Super-duper-connectors from the Gulf, June 5; (3); (5) A. Parker & S. Kerr, 2013, Emirates: In a sweet spot, *Financial Times*, December; (4) *Handelsblatt*, 2014, Etihad-Einstieg bei Air Berlin erst 2015, November 29; (5) R. Wright, 2015, US airlines seek help on Gulf rivals, *Financial Times*, March 6; (6) J. Gapper, 2015, Stop trying to ground the Gulf airlines, *Financial Times*, March 18; (7) T. Powley & S. Kerr, 2017, A hard landing for the Gulf's airlines, *Financial Times*, September 5; (8) *The Economist*, 2017, Missed connection, May 13.

Emirates has been plotting its strategy for building a leading position in its chosen market for a long time. It made strategic investments to build rare capabilities. At the same time, it is engaged in head-to-head competition with its rivals, reacting to their moves in terms of pricing, frequent flyer schemes and auxiliary services. Once *Emirates* makes a move, how do *Etihad*, *Turkish Airlines* and *Lufthansa* respond? How can they compete so fiercely, yet earn handsome profits for their owners?

When business leaders talk of the big ideas on how they engage with the competition, they often refer to the 'strategy'. What is **strategy**? Essentially, a strategy consists of broadly defined objectives and a set of actions to achieve those goals.¹ For businesses, objectives often refer to markets in which the company wants to compete and the market position the company wants to achieve.² The actions include, for example, acquisition of key capabilities, or entry into key market segments. In your personal life, you may also have a strategy: you may have a career objective of one day leading a major international business, and the actions you take to achieve that objective include studying this course. For business, developing strategy is first and foremost about where, when and how to compete.

This chapter thus first deals with the dynamics of competition and with the ways firms cooperate to undermine competition by collusion and signalling. Then, we draw on institution- and resource-based views to shed light on competitive dynamics. Debates and extensions focus on strategies to face challenging market situations such as recession or overwhelming foreign entrants in your home market.

strategy

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