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# The strategic impact of airline group diversification: The cases of Emirates and Lufthansa

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ABSTRACT

The airline industry is a diverse sector, requiring the support of a varied range of ancillary businesses such as maintenance, catering and travel agencies to carry out its activities. Many of these supporting businesses demonstrate the potential to drive wider profit margins despite generating lower revenues than the airlines themselves, making them attractive investment opportunities in a sector prone to volatile and often lacklustre trading. This study investigates two of the largest diversified airline groups, Germany's Lufthansa Group and Dubai's Emirates Group, each adopting a distinct approach towards diversification that may serve as a model for airline groups worldwide. The areas investigated were Cargo, Maintenance, Catering and Travel Services. The research found that whilst diversification may not always present the most attractive option financially, strategic factors can often outweigh such concerns. Business units studied were found to have variable prospects; particularly in the case of Catering, a sector on the rise – versus in-house Maintenance, which for airlines, is likely to see decline. The pursuit of third party revenue streams to offset weak internal trading and growth in competencies were found to be the key drivers of success. Interplay between segments was also apparent, showing that a well-organised diversification strategy can achieve robust cross-functional benefits and deliver significant value to the parent organisation.

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## 1. Introduction

Corporate diversification within the airline business has a long history. Many of the first airlines were initiated as related sub-ventures by existing transport-focused organisations; such as United Airlines, which can trace its lineage to Boeing Air Transport in 1927 (Rodgers, 1996). As the industry grew and matured, Pan American World Airways came to epitomise the concept of a global aviat ion services empire, with subsidiaries such as Pan Am World Services and the still active Intercontinental Hotels brand, allowing it to strategically extend its reach into higher margin sectors, whilst supporting the objectives and needs of its core business.

In a highly-cyclical business such as air transport, it is arguably difficult to maintain a long-term strategic scope whilst managing non-core assets effectively. The Emirates and the Lufthansa Groups are both highly successful airline conglomerates but given the propensity for diversified business units to often outperform the core passenger business of an airline, the question arises as to what their overall contribution to core results are.

This will be investigated through a specific analysis of the Lufthansa and Emirates Groups, both individually and comparatively. Each has been chosen due to their industry prevalence and ability to serve as emblematic representations of legacy carriers, acting as bellwethers for broader industry trends. The business units focussed upon have been chosen on the basis of the scale of their overall revenue share in each group (top 3). These units are shown in Table 1.

The study's specific research questions are to discover how diversified business units drive airline parent company strategy and vice versa, how the strategic value of an airline business unit is measured and how individual business units belonging to larger airline Groups succeed or fail. The overriding aim of the study is to investigate how the present state of airline business diversification has been achieved at both Lufthansa and Emirates using a mix of qualitative and quantitative methodologies.

The data and methods strategy is firstly summarised in Section 2. Initial context is then provided through a review of selected company interview data and airline diversification literature

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**Table 1**
Business units investigated.

| Company | Business unit | Market sector |
|---|---|---|
| Emirates | SkyCargo | Cargo/air freight |
| | DLM and Travel Services | Travel |
| | Catering | Flight Catering |
| Lufthansa | Logistics | Cargo/air freight |
| | Technik | Maintenance Repair and Overhaul |
| | LSG SkyChefs | Flight Catering |

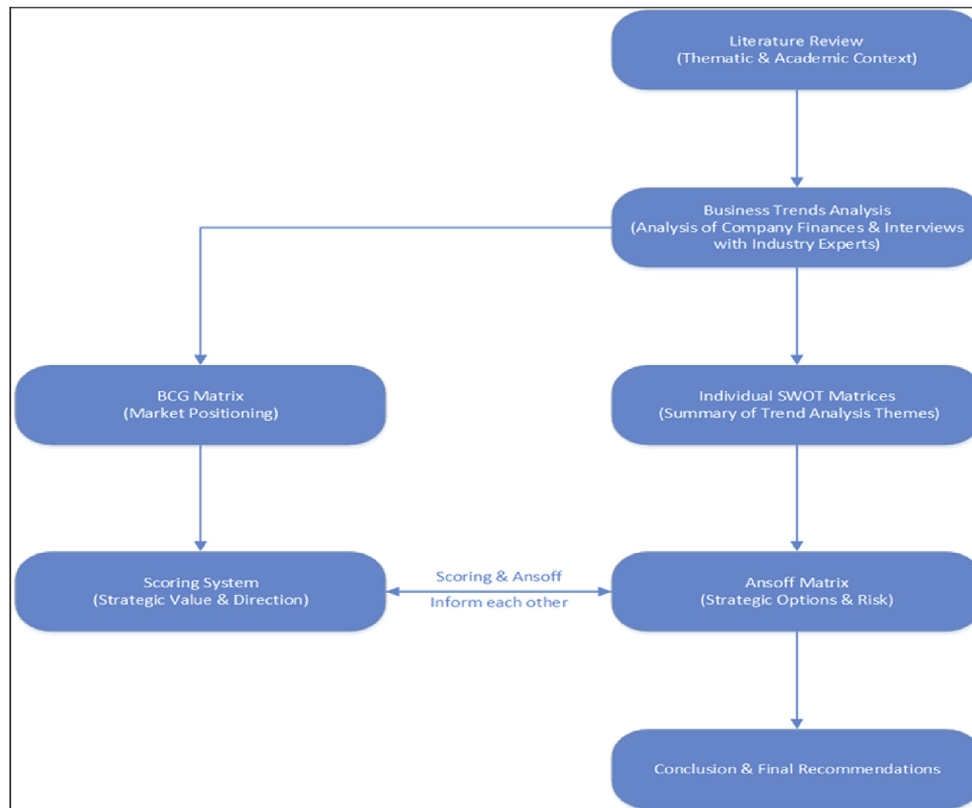


**Fig. 1.** Methodology outline.

(Section 3). Thematic areas for further analysis stemming from the literature/interview review process were merged together with a quantitative assessment of Group financial records and trends for the period 2009–2014 along with a unique Strategic Scoring Method especially adapted for this study (Sections 4 and 5). Commonly applied BCG and ANSOFF frameworks (Section 5) are finally devised for the two airline Groups to arrive at a set of reliable conclusions and recommendations (Section 6). Excerpts from expert interviews for this study are continued throughout the analysis sections (Sections 4–6) in support of the quantitative analysis.

## 2. Data sources and methods

The study uses a mix of qualitative and quantitative methods as described below in Fig. 1 with industry expert views being combined with an innovative scoring system to facilitate judgements around the impact of airline diversification strategies.

Two case study airline groups Lufthansa and Emirates were selected for strategic and financial assessment on the basis that both are well established conglomerates that could possibly act as a blueprint for other carriers considering diversification as a strategy. Through the use of a number of commonly used strategic analysis tools the two Groups' diversified businesses could be compared in order generate recommendations for a uniform or a non-uniform approach to vertical integration. The Strategic Scoring Method, employed for this study was based upon a selected series of strategic and financial criteria employing quantifiable insights as referenced against the BCG and SWOT matrices. One overall business unit ranking based on an average composite of standardised factors was then determined.

It was intended to be primarily allegorical and illustrative, producing an 'Indicative Result' that was subsequently analysed and critiqued. The majority of factors were quantitative, with a number of qualitative exceptions, which are based on clear statements of fact drawn from industry reports and expert interviews exclusive to this study. Each business unit analysis in Section 5 is presented with a summary table, showing an Average Score and Indicative Result.[1] Using the example of LSG SkyChefs, the way the strategic scoring system works at the business unit level is shown below in Table 2.

The factors measured are informed by the following criteria:

- **Parent Company Revenue Growth** is taken as an average. Neither Lufthansa Group nor Emirates Group achieved higher than 30% year-on-year growth, hence the capping of this scale at

[1] Full tables showing all business units can be made available upon request to the corresponding author frankie.oconnell@cranfield.ac.uk.

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