CREATING THE FUTURE – CASE STUDY

Today, air travelling has taken on a synonymous term for easy travel and flights are constantly taking place making it seem like a mere bus ride to and from a destination. Today people in all parts of the world are looking for carriers that are able to offer good values in price (airfare) high service quality, on-time arrival, and no baggage loss. Airlines in general, hence need to defy the traditional business strategy theory according to which trying to achieve low cost and differentiation simultaneously has also been prescribed by many researchers as a recipe for strategic disaster. Even in the case study we find that the CEO of PNA (Polynesia National Airline) has angrily dismissed of transformation to low frills would defeat the purpose of running an airline. This assignment will not look at the recent changes of Virgin Blue's collaboration with PNA in the real world scenario and stick more to the case study for developing scenarios.

TASK 1

When we need to understand the differences between traditional and contemporary strategy we need to focus on examples in an airline setting. For example, when one analyses Virgin as a whole - it is pursuing a corporate strategy of growth by unrelated diversification and has chosen to be active in business sectors such as air transportation, trains, music and entertainment, mobile phone communication, financial services, etc. In each of these business sectors, Virgin competes by using the strength of its brand to differentiate its offerings from that of its competitors. Marketing strategy, human resource strategy, research and development strategy and operations strategy are examples of functional strategies.

From 1950s, strategic management discussion has started, and different ideas developed along the time. All researches from 1950 to 1990 are foundation for all current approaches. It means that without them, strategic management would not be well defined. According to strategy theories from "management by objectives" (Drucker, 1954), "five forces" (Porter, 1980), "portfolio strategies" (Markowitz, 1951) until current approaches like "blue ocean" (Kim et al., 2005), "scenario planning" (Lindgren et al., 2003), and "balanced score card" (Kaplan et al., 1996), defining the essence of the organization, and objectives to reach, is the main part of strategy plan. In addition, planning and defining measurements, to monitor the organization, and ensure that the organization is stuck to plan will help organization to achieve the goals. It means that, every method for strategy planning from the scratch had some basics which are common. For example following major parts are necessary for all methods and theories:

- Environmental data gathering – PEST analysis, Porter's 5 forces
- Using current situation analysis methods like SWOT, Value chain, Resources, and competencies
- Defining Vision for desired future
- Implementing strategic plan
- Review the plan on a regularly scheduled basis and improve it

Lindgren et al. (2003) in his book says “In the 1990s another revolution took place, shifting the focus from the content of strategy to the strategic decision-making process, hyper-competition and high-velocity environments, organizational capabilities and evolutionary aspects of strategy”. Rapid change in the world leaded companies to focus on uncertainty, innovation, participative management styles, and different competition models. Whereas Kim et al. (2005) in his book about blue ocean strategy brought some examples to change old competition models to Blue Ocean strategy in and after 1990s.

Porter (1980) has argued that there exists two types of competitive advantages which can be combined with either a broad or limited competitive scope to create four well known business strategies: cost leadership, differentiation, focused low-cost and focused differentiation. According to Porter (1980), this is what happened to Laker Airways in the 1970s. The British airline offered a successful no frill/low fare service but eventually started to add more destinations and fancier in-flight services. To maintain its profitability, Laker had to raise their fares to the point where travellers felt that they had more value for money compared to flying with traditional carriers. According to Porter, being stuck in the middle is a recipe for strategic weakness and below-average performance because pursuing all the strategies simultaneously means that a firm is not able to achieve any of them because of their inherent contradictions.

This “stuck in the middle” prescription has generated much debate among academic circles. Indeed, many authors do not consider cost leadership and differentiation as equally special and argue that companies in mature industries can change themselves by shifting to product differentiation and innovation, whilst preserving strengths in cost reduction and efficient operations. Authors like Cronshaw, Davis and Kay (1994) have suggested that firms who do not establish lower costs or better or differentiated products rarely succeed overall. This contributed to challenge the notion of a single competitive edge and stressed the danger for companies to put all their hopes and resources into one main unique selling proposition. This interpretation suggested that “stuck in the middle” may not be appropriate than a way to analyze strategic results and evaluate performance. The “stuck in the middle” prescription should, therefore, not be taken literally. This argument also reflected the “value for money” theory supported by authors who argue for the need of companies to try to achieve both cost leadership and differentiation.

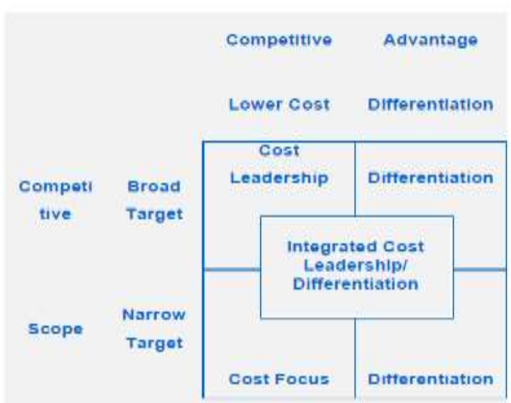


Figure 2
Five Competitive Strategies

As mentioned before, Porter has insisted on the danger for a low-cost producer of not offering acceptable quality and service as well as the danger for a differentiator of having costs higher than its price premium when he introduced his typology of business strategy in 1980. Consequently, it is not surprising that most strategy textbooks now offer a fifth choice namely the “integrated cost leadership/differentiation strategy,” a strategy in which an organization develops a competitive advantage by simultaneously achieving low costs and high levels of differentiation. Interestingly, while Southwest is widely recognized for having invented the low-cost carrier business model, strategy textbooks state that Southwest Airlines succeeds in spite of poor economic conditions because of its integrated cost leadership/differentiation strategy, adding that Southwest offers low fares, like many other carriers, but also has fewer customer complaints than major carriers, is able to attract employees that treat customers well and has an excellent on-time performance. Southwest, therefore, appears to achieve low cost and differentiation simultaneously.

In conclusion, there are some distinctive differences among strategy planning theories which can be divided into two categories (Traditional, Contemporary). These major differences are the viewpoint to future and long term objectives, top down approach to strategic planning vs. participative approach, future predictions and Innovation. Understanding distinctions for these two eras helps us to know more about how thoughts changed during the time. Evolution in strategy thinking, planning, and management makes us more aware as students and on the other hand as researchers, apart from choosing our approach, based on contemporary approaches, we should examine business history and use similarities and every taught aspect from the result of those approaches for organizations.

Task II

Before starting the 2nd Task of the assignment, it should be made clear at this point that none of the scenarios explained below will lead to a no-frills airline (despite its advantages) as that has been dismissed by the CEO in the case-study. This section starts off with a brief contextual background and then Strategies/concepts will be explored here in relation to the case and scenarios are analysed subsequently.

Contextual background

To summarize In brief context, within 2006, the government restructured Samoa's loss-making airline, Polynesian Airlines, resulting in a joint venture with Virgin Blue to operate the airline's international routes. This successful venture illustrates the substantial efficiency gains that can come with privatization. The no-frills airline will have no business class. Meals, drinks and in-flight movies will have to be paid for. Samoa's partnership with Virgin Blue in Polynesian Blue, the report says, is one of the region's success business models that is worth emulating. During 2005/06, Samoan tourism grew strongly, spurred by the market entry of the LCA (low cost airline) Polynesian Blue. Earnings from tourism climbed 14% during the year, reflecting both the impetus created by Polynesian Blue and the government's focus on building tourism returns. Between the November 2005 entry of the airline into the market and June 2006, visitor arrivals rose by 18.4%, compared with a 3.9% average yearly growth in the previous 10 years. (ADB, 2006) **Refer Appendices 1 & 2**

Before analyzing each scenario, a thorough SWOT and PESTEL analysis must be done to ensure that all major points are covered in the environmental analysis. **SWOT analysis** is a strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieve that objective. SWOT was developed by Ken Andrews in the early 1970s although the technique is credited to Albert Humphrey, who led a convention at Stanford University in the 1960s and 1970s using data from Fortune 500 companies. PESTEL on the other hand is a framework of macro-environmental factors used in the environmental scanning component of strategic management.

PESTEL Analysis of PNA

a) **Political factors** – There is no political party in general who is backing up airlines and it was a government run operation till the last few years. It does not, however, constitute a political or monetary union. Hence, political interference is minimum and the restructuring was a major debate between government and private officials. It all worked out when international sector would be privatized helping save the airline from ruin. PNA has advantage of government supporting them to be an efficient world class airline.

b) **Economic factors** – The economy in the Polynesian island is booming – tourism, handicrafts, hospitality and recreation in particular. With the exception of New Zealand, the majority of independent Polynesian islands derive much of their income from foreign aid and remittances from those who live in other countries. Some encourage their young people to go where they can earn good money to remit to their stay-at-home relatives. Many Polynesian locations, such as Easter Island, supplement this with tourism income. PNA has great opportunity exploiting these niche markets which can boost their revenues. There are other factors which inhibit progress of PNA such as Fuel charges, compliance costs, airport sharing costs and so on which need to be controlled by increasing revenue in other areas. More of this will be explained in the scenario analysis.

c) **Socio-cultural factors** – Polynesia divides into two distinct cultural groups, East Polynesia and West Polynesia. The culture of West Polynesia is conditioned to high populations. It has strong institutions of marriage and well-developed judicial, monetary and trading traditions. People from all over the world are treated to Polynesian culture as a highlight in their tours. There are no religious tensions and have a very open and courteous society. Samoa's tourism industry is taking product marketing seriously. It now offers a better-differentiated basket of products catering to different kinds of tourists. At the top end, it has upscale hotels and resorts like the recently inaugurated Aggie Grey's resort, near the international airport, with a state-of-the-art spa, excellent water sports facilities and a soon-to-be-ready golf course. At the other end of the spectrum, there is a range of options for backpackers and adventure tourists: from spartan, furniture-less and even wall-less shared toilet facilities to self-contained units and motels. It is also putting together a new homestay scheme where tourists will be able to live with families in villages, getting a once-in-lifetime chance to imbibe Samoan life and custom. There are also opportunities for hiking and nature trailing in its verdant rainforests, as well as snorkelling and surfing off its secluded beaches. PNA is known to have a courteous staff and eager to get training. Its passengers are also proud of their culture which is reflected through the customer service and image of their airline.

d) **Technological Factors** – There is a great opportunity for PNA to look and adapt to new airport and airline technology. Internet facilities must be thoroughly explored which would help them cater to bookings, seat requests, meal preferences, online check-in, baggage tracking, internet surfing while flying and so on. PNA can also explore cheaper and newer aircrafts to enhance the flying experience of their customers. Many competitors are beating them in online services and baggage tracking which is done through the installation of RFID devices (one-time cost).

e) **Environmental Factors** – With issues such as global warming, cleaner air and ecological preservation arising – all airlines including PNA must comply with these policies which eventually spike the running costs. On the other hand, the islands of Polynesia and Oceania are not as polluted compared to other continents and offer great scope in terms of environmental friendliness.

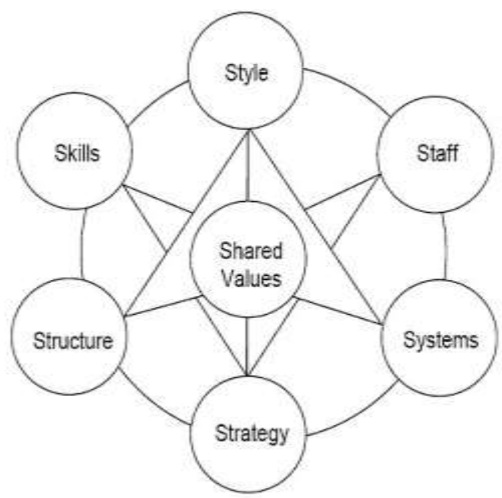
f) **Legal factors** – The major concerns for airlines in terms of legality comes in compliance, code-sharing with other airlines, safety, passenger grievances, flight delay/cancellation loss, missing baggage compensation and outstanding loans. PNA has no issues with the above as they were lucky to be bailed out by the government when they were running into losses. The privatization scheme allowed for PNA to Virgin helped reduce pressure and the airline is constantly trying to find new ways to please customers and increase profits.

PNA's SWOT ANALYSIS BASED ON CASE-STUDY	
STRENGTHS	**WEAKNESSES**
• Excellent Employer • Polynesia's citizens preferred airline • Excellent Safety record • Voted Region Airline of Year • Awarded best airline food in world • Courteous staff • Excellent Employer • Offer Online Discounts	• Commission/travel Agent Sales Dominate • Shelling out higher salaries to Pilots • No online check-in facility • No baggage tracking device system • Seldom premium class or business class users • Restructuring has given smaller market to focus • Unwilling to no-frills option • Cargo operations are under-utilized
OPPORTUNITIES	**THREATS**
• Scope to enhance online booking & call centers • Focus on Market Niches – leisure, Tourism & Cargo • Technology & Customer Service - Synergy • Combining Staff roles – attendant & counter • New local routes and price offers • Re-brand/marketing strategy based on goodwill	• Rising fuel charges • Rising compliance charges • High Pilot Salaries draining out revenues • Competition from other low cost airlines • Declining Sales – Direct Bookings & Cargo

Based on the PESTEL analysis, SWOT analysis and other secondary data, the following 4 scenarios have been drawn up:

SCENARIO 1

This scenario will take support of the famous **McKinsey 7S Framework,** which is a management model developed by well-known business consultants Robert H. Waterman, Jr. and Tom Peters and Julien Philips whilst working for McKinsey and originally presented in their article "Structure is not Organization" in the 1980s. This was a strategic vision for groups, to include businesses, business units, and teams. The 7S are structure, strategy, systems, skills, style, staff and shared values. The model is most often used as a tool to assess and monitor changes in the internal situation of an organization. I will use this model to understand and present how PNA can use this concept to create a sustainable future.



1) **Strategy** – PNA must pursue a multi-pronged integrated strategy as discussed in Task 1 of the assignment that of efficiency and adaptability to market forecasts and conditions. Today the customer has become so tech-savvy that they can make bookings through their mobile phones and

can compare their price with other companies at the click of a button. PNA must adapt to these technological innovations and deliver prompt service to customers. It also needs to adapt to their market and offer a basket of services for the customer to choose from. In short, they must opt for bundled price packages and have customers register with a loyalty scheme which can avail rewards. Keeping in mind this, internally they must look at ways to reduce overheads which will be explained in other sections. The overall strategy for PNA could be summarized as:

a. Reinforce the manager's department's position
b. Maximize the company's market share
c. Maximize the company's cash-flow/net profit
d. Maximize the share holders' value (if applicable)
e. Maximize one or more stake holders' objectives
f. Minimize the environmental impact
g. Enhance the regional employment within Polynesia

2) **Structure** – With its current structure – PNA must exploit their local sector to the core in terms of number of flights, connecting flights and service. Internally, PNA must opt for a more Bottom-Top (decentralized) structure where the feedback of employees acts as a tool to keep in check the vision and mission of the airline. Attendants must serve multiple roles hence they can be paid more and less recruitments would have to take place. Cost synergies are relatively easily grasped by cost sharing in staff, offices, marketing, joint IT systems and handling.

3) **Systems** – with the restructuring financial systems have advantage of privatization and government support; PNA hiring must be kept to a minimum low and replacements only when retirement or death takes place, promotion has to cater to niche markets of tourists, corporate and holidaymakers, performance appraisal systems must remain same as PNA is known for being a good employer; the information systems need to completely updated as it is a one-time cost for RFID, internet back-up solutions, internet booking options and in-flight entertainment systems.

4) **Skills** – PNA is known for its courteous staff but the ball should not stop there. Pilots must learn new techniques and can offer adventure rides to smaller groups of tourists which showcases sightseeing spots and gives adrenaline rush as well.

5) **Staff** – PNA staff must be kept in same numbers without any major increase. They must implement world-class training programmes in IT and customer service twice a year to keep their staff updated on developments and to sharpen their old skills. Job rotation for flight attendants as well as multiple roles of gate attendant, medical assistance and baggage-tag handling (since they are small size flights) must be adopted to save future costs. They must also hire more temporary or contractual staff at all airports they serve in terms of ground crew to ensure faster unloading for connecting flights.

6) **Style** – The management should adopt a flexible style so that decision making can be spread out and reduce delays in times of crisis. They must implement kaizen concept to ensure quality and make every member of the team as a manager. This ill increase team-work and build a great airline.

7) **Shared Value** – PNA must learn from SouthWest Airlines how they attach themselves to customers on a personal level which will enhance trust and loyalty towards the airline. Their belief of having a good time on the flight for a price which is affordable must be worked upon to ensure sustainable competitive advantage in the long run.

SCENARIO 2

This scenario will use the famous marketing Mix of 4 Ps where PNA can achieve a turnaround by enhancing its marketing and overall image.

1) Product (service) – Since flight is the main factor here it would be termed as a service as it is more intangible and the flight experience counts.

- Capacity management must evolve and be efficiently used
- Customer must have a good flight experience, no missing baggage and without any delays
- The aircraft which delivers the services should be a decent one offering comfortable seats, legroom, clean toilets, good food, and entertainment facilities.
- Ticket booking must be available at the airport with a separate kiosk, at home through internet, through phone by outsourcing to a 24x7 call centre as well as through travel Agents.
- The PNA aircrafts must act as a symbol of pride with good colours and possibly a band ambassador.
- It must cater to regular, business, cargo and premium sectors locally.
- It should introduce unique premium services (apart from regular flights) on certain routes after carrying out a research on the same, such as:
  - ➢ Business flights which would offer wireless internet services, telephony and quick massage treatment to solely its business travelers on certain routes;
  - ➢ Live DJ and movies on its holidaymaker flights aimed at families and young adults;
  - ➢ Party services to groups celebrating birthdays, anniversaries in the air and of course maintain its normal flights for it regular fares.
  - ➢ Personalized Adventure rides to Tourists/Young adults which will look at sightseeing from high and low altitudes.

2) Price – This deals with the airfare that PNA should charge its customers.

- Pricing must have seasonal strategies based on demand and load factors according to 4 seasons.

- It must maintain regular fares and remove business class altogether as well as introduce premium fares for unique flight themes (discussed above).
- Auction system for selling tickets booked 3 months in advance.
- Special fares for groups or business travelers upon valid proof.
- Not more than 10% extra of what competitors charge to maintain repute.
- Offer subsidies to passengers having cargo.
- Predatory pricing can be used to undermine profitability on routes where and when a new entrant starts selling capacity.

3) Place - this would deal with Airports, Travel Companies and the Internet

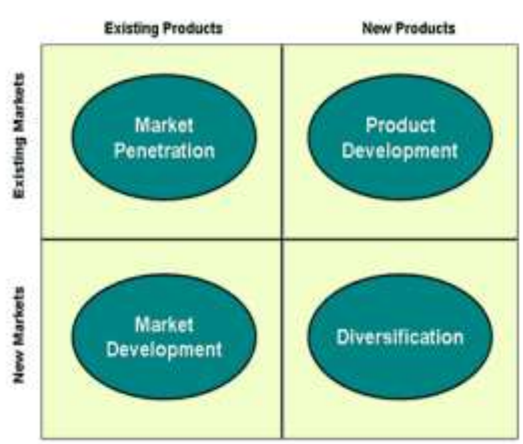
- Must enhance current Airline code-sharing & Alliances to expand horizon,
- Brochures, posters, billboards, kiosks must be placed strategically in supermarkets, social centres, outside schools, within travel agencies and internet advertisements - it must make customers more curious about offers and the airline itself,
- Agreements must be made between travel partners from time to time
- Contractual sales force must be deployed to ensure sales pitch within Polynesia and Oceania
- Airports must offer shorter queue times, online check-in, lounges for loyal customers where other travelers should envy PNA passenger's privileges
- Route network development and the location choice of hubs are other major elements in a coherent market strategy.

4) Promotion (spreading awareness)

- Make customers aware of the great tourism sights and sound. This must be done in sync with tourism to get overseas tourists also to fly PNA
- Offer PNA merchandise and collectibles to passengers on board
- Sponsor road shows with local celebrities for a social cause
- Tie-up with Golf Clubs, resorts, hotels to offer attractive deals every month
- Hire a brand ambassador to boost image
- Use Billboards, viral advertising, Internet promotions through Facebook or Twitter
- Download special deal codes to mobile phones once a month
- Special getaway deals for snowbirds, tourists at end of autumn season

SCENARIO 3

To portray alternative corporate growth strategies, Igor Ansoff (1957) presented a matrix that focused on the firm's present and potential products and markets (customers). By considering ways to grow via existing products and new products, and in existing markets and new markets, there



are four possible product-market combinations. Hence, using the Ansoff matrix, I will now try to create a strategy to focus on local Tourism and Entertainment-in-the-Air.

1) **<u>Market Penetration</u>** - strategy is the least risky since it leverages many of the firm's existing resources and capabilities. It can be used by PNA only on new routes if introduced. PNA could achieve growth with existing flights in their current market segments, aiming to increase its market share. They would have to adopt Price Penetration or skimming strategies which would not be appropriate at this stage.
2) **<u>Product (Service) Development</u>** – This strategy may be appropriate if the PNA's strengths are related to its specific customers rather than to the specific service itself. In this situation, it can leverage its strengths by developing a new route/themed flight (<u>discussed in Scenario 1 & 2</u>) targeted to its existing customers. However, new product development carries more risk than simply attempting to increase market share.
3) **<u>Market Development</u>** – Its options include the pursuit of additional market segments or geographical regions. The development of new markets for the service may be a good strategy if PNA's core competencies are related more to the specific service than to its experience with a specific market segment. Because the firm is expanding into a new market, a market development strategy typically has more risk than a market penetration strategy. But this is the most appropriate step that PNA could take by increasing the awareness of tourism and tying-up with tourism companies in Polynesia and Oceania islands to attract holidaymakers, college students, young adults and foreign tourists. It could possibly result in more flights and unique themed packages could be offered in specific seasons and brand it as Entertainment-in-the-Air.
4) **<u>Diversification</u>** – It is the most risky of the four growth strategies since it requires both product (service) and market development and may be outside the core competencies of PNA. In fact, this quadrant of the matrix has been referred to by various authors like Jain (1997) as the "suicide cell". However, diversification may be a reasonable choice if the high risk is compensated by the chance of a high rate of return. This would mean newer aircrafts or new interiors as well as new, innovative services and themed flights. PNA could also focus on local shipping (cargo) of goods by air and diversify into this sector. Other advantages of diversification include the potential to gain a foothold in an attractive tourism or cargo industry and the reduction of overall business portfolio risk.

<u>SCENARIO 4</u>

<u>Keep current operations intact and Focus on Baggage & Cargo Sector</u>

- **By inspiring customers to check bags, aircraft can be loaded and unloaded much faster than if passengers carry bags onto the main deck and put them in the overhead bin**. Anyone who has been on a fully loaded jet recently knows it can take 15-20 minutes just to get the passengers off the plane. The bigger the jet, the longer this takes. Time spent on the ground means time not in the air. Airlines only make money when the jet is flying. By encouraging passengers to check bags and by operating a homogeneous network, PNA can turn flights faster and thus create more profit for the airline.

- **Consumers feel airlines lost the luggage -** In fact many times the airline cannot accommodate it so they chose to pay a premium to deliver it to you later, often at the cost of your loyalty and future business. Most major airlines don't want you to have any bags. Major airlines do not want to carry them and especially they don't want the liability for tracking and reuniting you with a bag left behind because of network mismatch.
- **PNA must leverage this opportunity -** Locals who fly weekly and spend business dollars to do so, need to get there efficiently and as conveniently as possible. If they check a bag and know its going to get there, and not pay any extra, they skip the frequent flyer loyalty in order to make the flight that best suits their business interests.
- **PNA customers must pay to check a bag -** Maybe not in cash, but in additional frequent flyer mileage or other ways. PNA would enable you to track your bags en-route so that you know your bag was on the same airplane and it also made your connection and it finally was en-route to the bag carousel at the final destination. And all that should be sent to your cell phone, Scan the bags at specific junctions like checked in, onboard, deplaned, at destination, etc.
- **PNA must be a first mover on the advertising campaign** of tracked baggage, coupled with the tracking technology described above.

Cargo

A distinct feature of the air cargo industry is that its business model differs significantly from the air passenger business model. However, these models are often mixed in one single airline entity as about half of the world's air cargo is moved in the belly-hold of passenger aircraft. Therefore, the network planning and operations for half the capacity are dictated by demands of the passenger market (Kadar and Larew, 2004, p. 3-9).

	Variables	**Proposed PNA Air Cargo**	**Major Airline Cargo**
PRODUCT STRATEGY	Product Differentiation	Basic Product	Broad Product Range
	CRM	Small Sales Team	Large sales Force
	Environment	No attention Paid	Environmental Policy
	Alliances	Only Virgin Blue	Synergies provided by Alliance
MARKET STRATEGY	Capacity Mgmt	Hardly present	Complex
	Competitive Behaviour	None	Yes
NETWORK STRATEGY	Unit Cost	Low End	Medium to Higher end
	Route Network	Small	Large
	Hub	Not required	Required
	Airport	Low Cost Airport	Major Airports
	Fleet	Older Aircraft Types	Newer Aircraft Type
	RFID	Yes (Low End)	Yes (High End)
Adapted from : Dewulf *et al* (2011) Key Factors Contributing to Management Strategy Development at Air Cargo Carriers, Aerlines, Air Cargo Management Journal			

Air cargo was traditionally seen as a by-product of passenger transport and its pricing was based on marginal cost, and no separate cargo division took responsibility for sales and operations. A crucial part in the market strategy of cargo operations is explained in the table above proposing PNA's strategy for the same. Hence, in this final scenario both baggage procedures and cargo operations must be revamped as proposed by the points and table given above.

CONCLUSION

This task of the assignment was to examine management strategies and concepts, prepare an environmental analysis and then subsequently create four different scenarios where they can be implemented and used by PNA. All the scenarios have their own distinct features although having a few things in common.

TASK III

Learning from the assignment can be summarized in the following points:

1. I learnt about various management strategies, its significance and practicality
2. I also learnt a great deal of knowledge about the aviation industry
3. I was not aware of Polynesia and its people – the assignment helped me get a in-depth view of their society and geography.
4. Task 1 was very theoretical and more of a debate between strategy - its process, content and context.
5. Task 2 on other hand was extremely practical and let me come with creative ideas for the airline to pursue in the future in order to create a sustainable competitive advantage in the market.
6. Management processes and decision making it not as easy as it seems and I now understand the great depth managers must be going through to come to a decision especially to revolutionize a nearly loss-making airline.
7. Environmental Analysis such as PESTEL, SWOT helps us to create an agenda of points that we need to tackle as future managers.
8. I now appreciate the various long and complex strategies that are taught in class as it is the very basic foundation toward making innovative strategies customized and adapted towards the future.
9. Although I avoided the analysis of low cost airlines completely from the assignment, the future of airlines (especially low cost carriers) is uncertain. This is because of the following reasons:
    a. the number of low cost airlines will also decrease through acquisitions and mergers and will be left with a small number of very extensive low cost airlines.
    b. Long haul leisure travel will grow more than short haul leisure travel
    c. Leisure trips will become shorter.
    d. Smaller network carriers will need to find a niche market or risk being driven out or absorbed by the dominant network airlines.
    e. Short haul business class will disappear as most short haul business travellers will not be willing to pay for it.
    f. Increase in technology (i.e. web conferencing etc) will require the need for the business traveller to travel less.

In conclusion, it can be said that Polynesian National Airlines has a bright future if it starts implementing a sound strategy that would help it increase its revenues, keep overheads low or constant and increase market share. I personally feel that **Scenario 2** as it is pretty comprehensive and covers a lot of points and would only serve best if they are aiming at greater market share and product (flight experience) development. Although if they wish to experiment and go in for a little gamble, **Scenario 4** seems promising as well as it would also give them a niche in an untapped market space giving locals a new meaning to shipping goods quickly instead of roads in case of perishable items and so on. Hence, I can finally say that an integrated strategy **combining Scenarios 2 & 4** would be ideal for PNA in the years to come.

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Appendices

Appendix 1: Polynesian Airlines Turns Subsidies into Profits In 2006, Samoa privatized the international operations of the 100% state-owned Polynesian Airlines by creating a joint venture with a private partner, Pacific Blue. Pacific Blue and the Government of Samoa each hold 49% of shares in the new company, PolyBlue. Samoan private investors hold 2%. As a majority locally–owned company, the airline maintains Samoa's air traffic rights. PolyBlue is managed by Pacific Blue under an agreement that provides for some input from the government. Since privatization, the cost of flying from Australia or New Zealand to Samoa has fallen by around 50%, and traffic volumes are up, providing a significant boost to tourism. After years of subsidizing Polynesian Airlines (including $71 million in subsidies from 1995 to 2004), the Government of Samoa now expects an annual dividend of $1.4 million from the new company, PolyBlue. The company returned a healthy profit of ST9 million ($3.3 million) between October 2005 and December 2006. The PolyBlue joint venture has involved some short-term costs to the government, such as $7 million to cancel the lease on an aircraft operated by Polynesian Airlines and payments for redundancy costs due to restructuring. Some form of restructuring was inevitable, however, and—by incurring these costs now—the government has stopped the chronic losses from Polynesian Airlines' international operations.

Source: Australian Agency for International Development, Pacific Economic Survey 2008.

Appendix 2: The second example is the establishment of a joint-venture called Polynesian Blue which will take over and develop Samoa's international jet services. The new company will be owned 51% by the Samoan government and the balance by Australian LCC Virgin Blue. The existing Samoan carrier, Polynesian Airlines, will continue to operate domestic and regional turbo-prop services, such as the island flights within Samoa. It would also provide ground handling in Samoa for Polynesian Blue. On international routes, Virgin Blue is expected to provide marketing support.

Source: ***Strategic Directions for ASEAN Airlines in a Globalizing World, Findlay, 2005***