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MARKETING STRATEGY OF TURKISH AIRLINERS

MARKETINGOVA STRATEGIE FIRMY TURKISH AIRLINERS

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ABSTRACT

Diploma thesis is focus on marketing strategy of Turkish Airlines, the best European airline carrier with its main hub in Istanbul Ataturk Airport. Author covers analysis of airline industry and proposes marketing approach for increasing awareness and increasing sales of Turkish Airlines. Diploma thesis consists of three parts theoretical, practical and proposal part.

KEYWORDS

Turkey, Turkish Airlines, Airline industry, Istanbul, marketing, social media

ABSTRAKT

Diplomová práce se zaměřuje na marketingovou strategii Turkish Airlines, který je nejlepší evropský letecký dopravce s jeho hlavní základnou v Istanbulu na letišti Atatürk. Práce také zahrnuje rozbor leteckého průmyslu a navrhuje marketingový přístup pro rozvoj povědomí a zvýšení prodeje společnosti Turkish Airlines. Diplomová práce se skládá ze tří částí teoretické, praktické a návrhové části.

KLÍČOVÁ SLOVA

Turecko, Turkish Airlines, Letecký průmysl, Istanbul, marketing, sociální media

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PROHLÁŠENÍ

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V Brně, 18. července 2016

STATUTORY DECLARATION

I hereby declare that this diploma thesis has been written by myself without any external unauthorized help, that it has been neither presented to any institution for evaluation nor previously published. All used information sources are properly cited including complete reference to the original work.

Brno, 18th July 2016

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Daniel Fritsch

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Introduction

Turkish Airlines was founded in 1933 as a part of the ministry of Defense with 100 percent state equity. However, privatization efforts of state owned companies and the liberalization of the airline industry in Turkey led into 49 percent state interest in the company as the rest can be publicly traded on Istanbul Stock Exchange. Until 1990s, the reputation of the Turkish Airlines had been largely influenced by frequent delays, maintenance issues and poor customer service. For this reason, Turkish government decided to promote image of national airlines by reorganizing its fleet and management. The current intensity of domestic and global competition in airline industry is very strong, that is why Turkish Airlines achieved crucial alliances in the industry and significantly upgraded the quality of its services (Bilici, Dixit and Sahay, 2013).

Turkish Airlines has been largely benefiting from growing of his domestic market and from long-term business strategy focused on transfer traffic. Due to this reason, Istanbul has become one of the most important aviation hub on the planet, connecting Europe with Asia. In the last decades, Turkish Airlines constantly achieves double digit growth in revenues as well as passenger traffic (CAPA, 2014). As the global economic expansion is expected to continue and the world economy shows potential to grow for the next several years, the aviation market will be greatly benefiting from this situation (CURRENT MARKET OUTLOOK, 2015).

Success of Turkish Airlines is tightly linked with economics situation particularly in Europe and Asia. In these days, Europe shows signs of gradual recovery as decisive monetary stimulus serves as a tailwind to economic growth and reforms undertaken in many European countries will gradually pay off in higher growth rates. On the other hand, rising of income levels and consumer spending in Asia is well positioned on an upward trajectory. Economic situation on both continents will stimulate global trade and will create numerous opportunities from Middle Eastern airline carriers, including Turkish Airlines (CURRENT MARKET OUTLOOK, 2015).

Therefore in this report, author provides complex marketing analysis of the Turkish Airlines company in order to analyse opportunities with understanding of current company situation and position on the market.

Main aim of the thesis

The purpose of this diploma's thesis is to suggest a suitable marketing strategy as well as recommendations for Turkish Airlines. Such recommendations could be used in order to increase traffic flows, better penetration on foreign markets and increase brand awareness among its customers. The author considers Turkish Airlines as an important player in global airline industry with one of the most significant hub in the world, Istanbul Ataturk Airport. In the first part of the report, the author provides the theoretical framework that constitutes the pre knowledge of the investigation and the importance of marketing in business decision making. Theoretical part is followed by practical part of the report where the macro environment analysis with PESTL model is applied in order to identify factors that have influence over market scenario. In this part the author provides also micro environment analysis where Porter model of five forces is used to assess the nature of an industry's competitiveness. Company weaknesses and strengths will be included in SWOT analysis which also provides reader with necessary information regarding internal business framework. In the proposal part, the author provides the marketing recommendations for Turkish Airlines which provide useful tools in order to increase traffic flows and their networks. Conclusion is provided in the last part of the paper.

1 Theoretical Part

1.1 The Fundamentals of marketing

Basic concept of marketing is a complete philosophy of running a business which is based on research and understanding of company customers. Marketing is the management process helping managers to identify, satisfy and anticipate customer needs. Anticipating customer requirements emphasizes the fact that customer needs are in constant evolution and for this reason marketing is dynamic discipline. Ability to properly anticipate future customer trends and changes is especially important in airline industry. Unsuccessful airline companies are mostly those which wait too long for opportunities and then try to catch up with them. In marketing is also important to distinguish between industrial and consumer marketing. Consumer marketing often relates to activity targeting individuals and identify particular product quite straightforward. On the other hand, industrial marketing doesn't provide straightforward opportunities as is referring to a business-to business activities. When managers make a purchasing decisions, it often involves a complex decision-making process. Ability to understand such process is the main skill in industrial marketing. In the aviation industry it is necessary to create and apply combination of both, industrial and consumer marketing principles. Typical example of consumer marketing principles in aviation industry are relating to business air travelers and air freight services. However, consumer marketing principles are linked with leisure air travel issues (Shaw, 2007).

1.2 Marketing mix

Activities which must be undertaken in order to apply marketing principles into real business are described in marketing mix. It is a useful tool including four main marketing related areas: Product, Price, Promotion and Place. In airline industry "Place" can be confusing as it describes distribution channels employed by airlines companies. In marketing mix "Product" is referred to decision which has to be made in order to create an offer and set the right "Price" which will charge for them. Management of every airline

company has to also find right communication channels and persuade people to buy their products and establish connection between clients and company. The marketing mix is also highlighting the fact that marketing decisions cannot be made in isolation as all factors are relating and are linked with each other. It is a crucial ability of managers to make a perfect balance between them in order to optimise the final results (Shaw, 2007).

Optimizing the marketing mix is most obvious between price and product. Investing in product enhancement is reasonable in situation when the company expects to obtain a higher returns from such product. Decision making in promotion areas is equally significant and challenging task for the management. Managers have to decide whether the company will represents as wholesaler or a retailer. In airline business, wholesalers are those companies which are dealing with charter carries and sold on a wholesale basis. Their plane-load capacity relates to orders placed by tour operators which combined the plane seats with hotel and make up packaged holiday. In these situations, the airline companies are just supplying capacity, but the tour operator is fully responsible for reservations and selling (Shaw, 2007).

Retailers in airline industry are those companies focusing on the business travel market. One of the key requirement is to maintain contact with travel agents and keep high promotional profile through various advertising channels. Using retailing philosophy in aviation industry is linked with high costs and therefore need to be balanced with reasonable advantages (Shaw, 2007).

1.3 Concept of marketing

Four main pillars create a core concept of marketing: customer orientation, focus on marketing, coordinated marketing and profitability. Image below represents a schematic marketing exchange process – marketing concept, which was created by Kotler and Armstrong, and edited the original they created by a new value for the customer. In 2012, basic marketing concept areas included (Jakubíková, 2013):

- Need, desire and demand;
- Target markets, positioning and segmentation;
- Offers and brands;
- Value and satisfaction;
- Marketing channels;
- Supply chain;
- Competition;
- Marketing environment

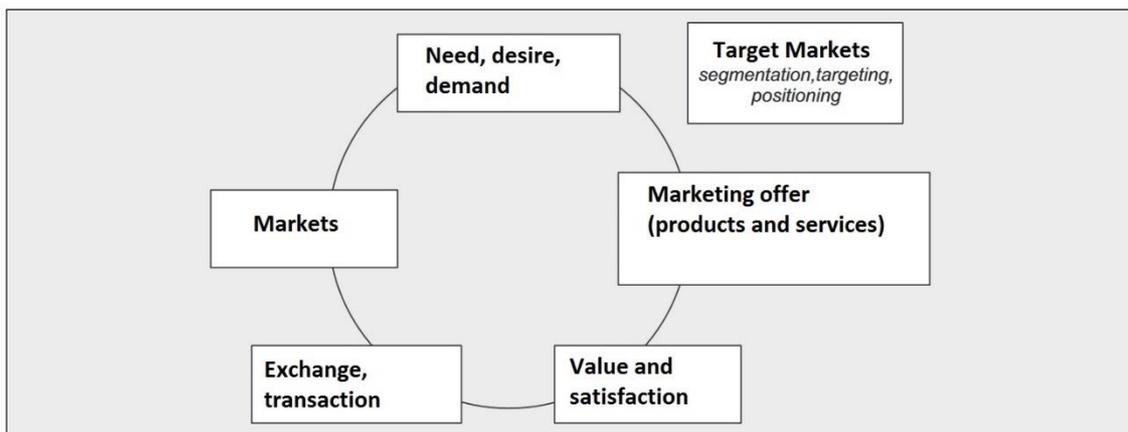


Figure 1: Marketing exchange process – marketing concept (Source: Jakubíková, 2013)

Each element of the marketing exchange process has value-character that adds value to the next element. The starting point of the marketing exchange process is understanding the needs, wishes and demands of customers. The need is a sense of lack. According to Jakubíková (2013), we can distinguish between five types of needs:

- declared needs (the customer wants inexpensive car);

- real needs (the customer wants a car whose operation is cheap, not the car whose purchase price is low);
- unexpressed needs (the customer expects good service from the dealer);
- pleasure needs (when buying a car the customer receives free atlas);
- secret needs (the customer wants to be perceived as a man who can buy a nice car).

Our desires are resulting from human needs and are influenced by cultural and personal characteristics. People want to satisfy their needs and fulfill their wishes, but to do so, the system must have the purchasing power to be able to create and execute demand (Jakubíková, 2013).

1.4 Role of marketing

According to Mahea (2014), the marketing role in any organization is too important to be ignored. As we are living in globalized world where regardless on company size, organizations are in tough competition in order to achieve and maximize profits and its market share. Competition has dramatically escalated in past decades as latest innovation and social media channels have been intruded by organization, causing that people are more informed than they were a few years back. Difference between fail and success lays in innovation and proactive approach. Therefore, it is important to apply good marketing principles coupled by excellent financial operations within company structure. Role of marketing is not only to establish relationship between customer and company, but it also brings confidence into organization to launch new product to the market with strong support of public awareness. Due to this reason, marketing became crucial function in every company regardless whether the organization focus on profit or non-profit goals. Maintaining good marketing principles within the organization shape the public image and public association of products or services. This subsequently leads into confidence and trust of people in these products (Mahea ,2014).

Profit led companies have adjusted marketing to be responsible for growing their customer base while increasing their revenues and profitability. Another important function is brand awareness of the organization. Here are important participations in public activities, advertising and customer interaction through social media while providing feedback collection. Marketing is often used not only when products is launching on the market, but also in its ending situations. Managers want to know if the needs of the customers after introducing the product were met, allowing to be at the top of the customers mind as well as protect market share position. Customer loyalty and its retention is created by marketing. Our famous brands would be illuminated and lifeless without marketing. Organization's success is not only determined by the prudent application of funds to the various portfolios of investment but also by the relationship established with the customers, which is a function of marketing (Mahea, 2014).

1.5 Importance of marketing strategy for the formulation of business strategy

Rapid development of a new economic era is changing the world we are living in. National economies are now linked to interdependence. Through mobile phones and Internet, information flow can reach a speed of light. This innovation brings many benefits for corporations such as cost reduction, production acceleration and better distribution of goods and services. On the other hand, the dark side shows substantial increase in the risk and uncertainties for wide range of businesses and their customers. Any event or change in the situation in a single country, whether it is a failure of the banking system, stock market, political assassination or fall of the currency may extend to many other countries and create a massive economic turbulence with unpredictable results. When the economic stability is reached again, it does not have to apply for all areas of industries, markets or specific company. In these days, risk is referred to uncertainty that we can assess and against which we can insure. Instead of facing the high level of risk in order to maximize profits, company can explore and implement decisions that minimize its business risk and if the worst scenario became reality, these companies can survive (Kotler and Caslione, 2009).

According to Kotler (2009), in the coming decades we can expect increased economic turbulence around the world, such as rapid changes of political leadership in emerging markets, substantial shifts in political direction, a growing number of armed conflicts, budget cuts of local and national governments and their impact on individual businesses. One of the substantial shift in political direction can be latest Aviation Strategy for Europe, which was adopted by European Commission in December 2015. This strategy aims to reform the aviation sector by setting new safety and security standards, adopting new digital technologies and bringing with updated legal framework (Grey, 2016).

We live in very uncertain times, which means that businesses of all sizes around the world are facing more risk. For this reason companies have to come up with new strategies, which will protect their operations and which will enable to achieve new opportunities that will undoubtedly arise. Today's managers are more cautious and make careful decisions in order to reduce risk. Governments are trying to enforce regulations designed to prevent repeating of economic crisis in the future (Kotler and Caslione, 2009).

Concept of marketing strategy can be expressed by these principles and practical rules:

- Effective spending and decision attitude into building of healthy relationship product – market. Relationship should be in line with company's aims and goals.
- Maintaining and creating demonstrable competitive advantages on the selected market.

In order to create trouble-free processes within the internal and external environment, there is an urgent need for general rules, principles and objectives that must be understood and strictly followed. Respecting of these rules lead into establishing of efficient company structure with functional labor and communication system shared at all company levels. When the company gets bigger, the more important these rules and principles become.

Respecting basic principles also help managers to know how to manage business activities and subsequently achieve strategic goals. Therefore, management processes should be viewed from the point of their content and also time, as it is very important to view reality in broad context with regard of future tasks. One of the condition for the successful business development strategy is a quality management style, allowing managers to understand and respond to changes that occur in a corporate environment and make appropriate decisions. Companies which failed to create a strategic management style, will move from place to place, their performance will be poor which could end up by losing company competitiveness and company exit from the market. Strategic management is continuous process consisting of wide range of activities in order to achieve certain benefits (Horáková, 2003).

1.6 The latest trends in Marketing

Integrated marketing communication

According to Kotler (2004), it is increasingly evident that businesses generally cannot integrate their marketing communications. In the field of advertising, they pick some advertising agency, for PR presentation chose another specialized firm and for sales support also different company. This may lead to a situation where these promotional tools are used in the wrong proportions. Also they may fail to communicate and formulate their consistent message to its customers (Kotler, 2004).

Based on integrated marketing communications principles, firm should estimate effectiveness of each tool in terms of cost and choose a combination that maximizes the effect on the target group. Selecting the appropriate combination of promotional tools would be easier if the company had a theory of factors stimulating the customer to buy. Generally, the company must distinguish between the role which are played by the various promotional tools so that they can effectively select and combine (Kotler, 2004).

Kotler (2004) argues, that the organizations should establish a new position within the company dealing with communication issues. This person would then responsible for the management and integration of business communications. His duties would include providing advice on all matters that somehow appeal to customers not only in the choice of standard media, but also in corporate dress codes, in the appearance of company trucks, production facilities etc. To create an integrated marketing communication, it requires the identification of all the contact points at which the customer can be in touch with the company, its products and brands. The need for integration does not referred only for promotional tools but it is necessary to integrate all of the 4P (Kotler, 2004).

Focus on interest groups

With increasing awareness of the socio-political problems of the population, there is a growing interest among the general public about areas such as environmental or health that are subjected to critical reflection. Generally, interest groups can be characterized as a groups based on social or market requirements which more or less derive their specific expectations of the company and thus affecting corporate objectives, either themselves or through third parties (Kotler, 2004).

1.7 Areas of marketing environment

In the macro-environment area all businesses operate irrespective of particular sector while under pressure of forces which they are not capable to affect. Macro environment creates opportunities for a variety of businesses, but at the same it brings threats for the company. Macro environment factors affect all economics subjects as well. A prerequisite for the success of the company is the effort to comply its strategy with external environment. The main aim of macro-analysis is the identification and interpretation of opportunities and threats which are present in the external environment. In order to

provide efficient execution of these steps, it is necessary to know the trends and development of environment. Subsequently it is needed to respond them by taking appropriate and responsible strategy (Kotler, 2004).

Companies, their suppliers, intermediaries in the market, customers, competitors and the public, all of them also operate in the macro environment while they are under forces and trends that create both opportunities and threats. These forces represent the "uncontrollable factor" that companies must analyze and what must be reflected through the instruments of the marketing mix. In the rapidly changing global macro environment companies must constantly monitor the development of demographic, economic, natural, technological, political, legislative, social and cultural forces that affect the company. It is important to observe the interaction between them, which can create new opportunities and threats (Kotler, 2004).

Demographic environment

Marketers attach the greatest importance to the demographic environment, as it relates to people and people form the market. Analysis of demographic environment include monitoring of changes in the age structure of the population. It follows patterns such as the number of people in the working age, the size of the income of the population, the number of family members, education patterns and so on. It is difficult to interpret demographic trends in the short and medium period of time. Enterprise should not be surprised by the demographic development, therefore its monitoring and constant analysis of the demographic environment represents basis for the future development of the company (Kotler, 2004).

Economic environment

According to Kotler (2004), factors operating in this environment influence consumer's purchasing power and the structure of their expenditure. The total purchasing

power of the population is determined by the actual amount of income, the amount of the price level, savings and lending rates and inflation development.

Natural environment

The natural environment includes natural resources which the company uses as inputs. We can distinguish four groups regarding the natural environment. Staff members of the marketing department should not forget about these groups and include following trends in the analysis (Kotler, 2001):

- Lack of natural resources
- Increased energy costs
- Increase the level of contamination
- State intervention in the management of natural resources

Company management should treat ecological environment in a form to minimize consequences of pollution. Opportunities can occur during solutions of partial problems. Often in a ways of recycling, organic packaging, organic waste treatment, construction of sewage water treatment etc (Kotler, 2001).

Technological environment

Technological environment significantly affects the position of the company. They create forces that affect the development of new products and materials, development of new technologies and new market opportunities. It is influenced by technology expertise, skilled labor force, the level of science and technology. Successful businesses focus their attention more and more on research and development of new technologies

and products that are not only financed through own resources, but also with help of subsidies from the state budget and resources from various funds (Kotler, 2004).

Technological environment is the main source of technological developments and progress which allows organization to not only improve its market position, but also to increase competitiveness and improve economic performance. Science and technology policy of the state is dealing with the creation of appropriate legislation as well as specify the purchase conditions for various licenses. This policy determines protection of new scientific and technological innovations and generally influences the conditions for pro-innovative environment in the country. In cases of good government support, technological environment can become a source of competitive advantage for businesses in the country and the country itself. Due to ongoing scientific and technological progress there are much shorter intervals for lifetime production and development process and the product itself. Organizations which attempt to assert itself in the fierce competition in today's dynamic world have to invest more in research and development in order to survive (Kotler, 2004).

Political environment

The political environment influences all businesses in a form of new laws, rules and regulations of the government and government bodies which regulate business activities, competitive business environment and ecological behavior of a particular state. For the favorable economic development of the state, it is necessary to create a legislative framework that not only foster and support entrepreneurship, but also built a barrier for illegal business. The main aim of such framework should be supporting competition, keeping safety standards, protecting intellectual property rights and prevent misleading advertising (Kotler, 2004).

Cultural environment

Cultural environment consists of factors that affect the fundamental values of society, people's attitudes, preferences and behavior. In each country, it consists of specific national customs, traditions and taboos. People grow up in a certain society, which naturally forms their basic beliefs and significantly affects the value system. Subsequently, people tend to adopt a view which determines their relationship to ourselves and to the surroundings. To marketing decision can affect countless cultural characteristics. Each company is built on certain values which may differ considerably. These values significantly affect the method of communication, conduct and outcome of business meetings as well as purchasing behavior of consumers. They are distributed by various institutions operating in a given culture, such as education, family, religion and legislation (Kotler, 2004).

2 Practical Part

2.1 Overview of aviation trends

The global airline industry is facing a sharp and consistent growth. In terms of revenues, the aviation industry managed to double this figures over the past decade. According to IATA (International Air Transport Association), the industry's revenues reached almost US\$750 billion in 2014. It is important to highlight that most of the industry growth has been driven by low-cost airline companies, which represent roughly about 25 percent of the global aviation market. According to IATA, nowadays airline carries are very focused on expanding their business operation across emerging markets. At the same time, growth can be realized also on developed markets, but with very low profit margin reaching less than 3 percent. Low profit margin are registered in the whole aviation sector, including all players in the chain, such as airports, jet engine manufacturers, service companies as well as airline makers. Due to the difficult nature of the business environment linked with high degree of government regulation, creating a significant pressure on airline companies and pushes the levels of vulnerability. Government regulations mostly reflects global security concerns, infectious diseases and the latest emissions issues. Together with price pressure and tough competition, the airline industry has

reported significant price fall in last decades. For example, airline yields which represents the average fare paid by a passenger per kilometer, have been constantly dropping since the 1950s. Based on unique specifics of the aviation industry, companies has to focus on production effectivity and lowering their costs. Airline carrier performance will be reflected by individual ability to react on future trends (Hilz and Clayton, 2015).

Hils and Clayton (2015) argue that, people demand to see innovations and improvements in things they buy. For instance, car industry has shown a strong progress in this area. Industry have managed to develop upgraded safety systems, new entertainment features and better fuel consumption. However, airline travel has not followed this pattern. Therefore, increasing consumer expectations will be an important issue in aviation industry (Hilz and Clayton, 2015).

Innovation of effective management operations is the utmost importance in the sector. The best performing airliners and leaders of the industry are those companies which strictly follow cost controls. One of the most significant factor is controlling costs linked with fuel efficiency, as the jet fuel represents up to 55 percent of all operating expenses. Successful airline carries have been constantly improving their fleet in order to incorporate more fuel-efficient planes. Buying new aircrafts is a very expensive decision, for this reason managers should carefully consider its real value against the long-term plans of the airline company and its implementation to the route network. Organization structure is a next area where cost reduction can be implemented. Generally, traditional airline carries have built up a complex operation model with much higher cost comparing to low cost airline carries. In order to reduce costs, management should carefully review all operation layers and subsequently lower its complexity to create an effective work practices (Hilz and Clayton, 2015).

According to Hils and Clayton (2015), a strong growth of air travel in Asia has shifted the center of gravity for many airline carriers. Companies such as Turkish Airlines and many other Middle East carries, including Emirates and Qatar Airways, are

largely benefiting from strong demand of Asia traffic. In these days, the Middle East carries are significantly dependent on connecting traffic because of their unique geographic position, allowing them to capture a large share of long-haul market (Hilz and Clayton, 2015).

2.2 PESTLE Analysis

In the following analysis author provides overview of various aspects and factors which influence macro environment situation in Turkey. A PESTEL analysis provides us with a useful insight into external marketing environment and factors that have an impact on an organization. This tool is often used by marketers and results of such analysis are used to identify threats and weaknesses in a SWOT analysis.

Political Analysis

In 1999, Turkey has officially become a candidate for EU Membership. This initiative has led to the implementation of several political and economic reforms in the country. But on the other hand, with a high corruption level and low political commitment, Turkey has not become paradise for prospective international investors. Bureaucratic political machinery is viewed as a widespread pattern across the country. Turkey is ranked on 64th place by Transparency International in its corruption perception index. The problem of institutional corruption is a huge challenge for Turkish government and according the latest reports, the situation is not getting better. Therefore, the future outlook remains negative as the high corruption levels are results of weak political commitment (Datamonitor, 2014).

In the past decades Turkish government is strengthening its global political influence and supports policies on liberalization in order to create an open trade environment between different countries in the EU. At the same time government is also promoting

liberal investment policies. Since the custom union agreement was introduced in 1996, many Turkish firms get bigger and more successful in the global economy. One of the main industry which is doing very well is fashion. Exports in this industry are rising at a rate of 10% annually. Turkish automotive sector has also benefited from the custom union agreement, as the car exports have significantly grown since 1996. Due to these policies, country have managed to stabilize inflation rates and foster investment and trading activity in Turkey (UKEssays, 2016).

One of the recent political issue in Turkey is the growing violence of Islamic extremism with tight links on terrorist network of Al-Qaeda. Turkey has encountered with sporadic series of terrorist attacks in the past as there are number of violent group bases in the country. This situation is significantly increasing the risk of building a plant in Turkey as it may be targeted by terrorists. Back in 2006, the Turkish police even informed the public about the involvement of military officers in the plot to weaken the influence of Justice and Development Party (UKEssays, 2016).

Most of the violent terrorist organizations in the country have focused their attention on tourists or government facilities. Islamic State, groups of Turkish Islamist or even the Kurdistan Workers Party have targeted their efforts to damage Turkish tourism industry. In past few years, radical Islamic groups have attempted number of attacks in the country but the majority of them have been prevented. Increasing number of such attacks will inevitably harm the country image, increase the security risks as well as lower growth prospects (Datamonitor, 2014).

Turkey is a country which has a complicated relationships with its neighbors. In terms of Greece, we can see some signs of improvements, but constant territorial disputes regarding certain areas still cause political tension. Furthermore, Turkish involvement in the fights with Kurdish rebels complicate its relationship with United States and other members of international community (Datamonitor, 2014).

Table 1: Political overview (Source: Datamonitor, 2014).

Current Strength	Current Challenges
- Liberal Government Policies	- Terrorist Attacks - Corruption
Future Prospects	Future Risks
- EU Membership	- Unstable relationships with neighbors

Economic Analysis

Turkey is relatively well supported by the governmental monetary and fiscal policies which create a backbone for the economic structure of the country. Government has set a tight fiscal policies as well as increased the prime lending rates for banks to extract excess liquidity from the market. In terms of inflation, there is a huge drop as private investments have been rising since 2003. Turkey has implemented number of structural reforms which resulted in higher productivity of the country. Furthermore, the high flow of foreign direct investments is helping with economic development. One of the main aim of the current Turkish government is to create a free trade agreements in order to boost competitiveness and encourage international as well as domestic investors. Moreover, situation on the labor market is rigid compared to other countries. For the Turkish labor market it is difficult to respond on competitive pressures and open an adequate number of jobs. For this reason, government has decided to implement regulations that would make labor market more flexible (Datamonitor, 2014).

Of the main Turkish economic strength is relatively high flow of foreign investment coming from foreign countries. FDI plays an important role in the economy. In the past few years Turkish economic growth has been driving by particularly such investments. The high inflow of foreign investments shows the country's considerable economic size and good quality of workforce. Money generated from foreign investments are used to finance infrastructure projects within the country. Financing of such projects is a difficult task for any economy, for this reason Turkey has launch large privatization

program in 2008. During this program, country wants to sell major bridges, shares in commercial banks, highways and so on. Turkey believes that new infrastructure projects will help the economy to expand and bring constant growth (UKEssays, 2016).

On the other hand, Turkey is facing current account deficit. The current account deficit makes the Turkey more sensitive during times of global financial uncertainty (Datamonitor, 2014).

As the country plans to launch free trade agreements to support international and domestic investors and subsequently foster competitiveness. This plan includes several trade agreements with number of countries form Middle East region, Africa and Central America. At the same time, Turkey implemented trade agreement also with Albania in 2008. The aim of this move is to strengthen relationship between two countries and promote joint investments. Turkey wants to increase its bilateral trade with India as well. Due to these free trade agreements, Turkey can improve the prospects of economic expansion (Datamonitor, 2014).

Table 2: Economic Overview (Source: Datamonitor, 2014)

Current Strength	Current Challenges
- High inflow of FDI - Prudent fiscal and monetary policies	- Current account deficit
Future Prospects	Future Risks
- Free trade agreements	- Rigid labor market

Social Analysis

Turkish social system is particularly strong in growing proportion of young people. Today, more than half of the population in Turkey are less than 30 years old. Due to

this reason, country is able to increase their employment rate and use young workforce to improve economy factors. This can be done through capitalizing of its own young labor force. But still the unemployment rate in Turkey is relatively high which is also an effect of weaker educational system. Educational system is an important issue which creates a gap between demand and supply on the labor market. As the future of the economic growth is led by knowledge economy, Turkey may not be able to meet those needs. Moreover, the schools in Turkey do not have adequate infrastructure. Most of the schools in Turkey are in urgent need of teachers and half of schools do not even have library or related facilities. This outdated education environment and lack of proper facilities can be viewed as a reason for high unemployment levels. Due to this reason, country has launched education reforms in order to improve scenario and create a strong link between academic and industrial needs. For domestic or international companies this situation represents a bid advantage as there is large number of people willing to work. But on the other hand, the current situation in Turkey brings various of issues. It is important to mention that country has many people which may not be skilled for particular jobs. For companies it means increased cost for trainings and qualifications. At the same time, government has introduces number of fiscal programs and reforms to improve situation in healthcare and pension area. Government is providing several social programs, such as unemployment insurance, medical insurance, housing security as well as insurance for work injuries (UKEssays, 2016).

On the other hand, number of social factors are showing very weak performance. The human development index is ranked on 84th place among 177 countries mainly because of policies within the country. Life expectancy is fluctuating around 70 years and ratio of education enrolment is about 69%. Turkey is performing very poor in gender equality as well. This situation reflects that the country is unable to create a positive working environment for women. Infant mortality rate is very high in Turkey as the rate of mortality is almost seven times higher than the average of European Union countries. In 2006, the number of deaths per 1000 live births was about 37, which makes Turkey the worst country in Europe with infant mortality rate. For this reason, the major issues regarding social environment in Turkey is to create a preventing and protective health system in order to lower mortality rates in the country (Datamonitor, 2014).

As was already mentioned, Turkey has high unemployment rate which is the result of strong regulation on the market and high employment cost. For fast growing population in Turkey it is extremely difficult to create a sufficient number of jobs for its inhabitants. According to the statistics, more than 73% of Turkish population who were unemployed comprised by males. More than half of these people did not have a high school education and one third of them were jobless for more than one year. One of the main aim for the Turkish government is therefore provide various initiatives and policies to improve the social benefits of its own people. Country has launched number of social programs for people living in rural areas in order to improve quality of their lives. Social program also includes building hospitals, cultural centers, schools and roads infrastructure. Most of these social programs are focused on modernization of the agricultural sector in the county. At the same time, Turkish government wants to invest in agricultural companies, food processing industry as well as to support the manufacturers in agricultural industry. By these contributions, country wants to develop rural economy which would lead into creation of new jobs in remote parts of the country and promote small enterprises in the region (Datamonitor, 2014).

According to the Datamonitor (2014), Turkey urgently needs to implement social security system as the country has inadequate pension system. People in the country are finding it very difficult to lead a proper life after their retirement. Growing imbalances in the system are proving that current social security system is unsustainable. These imbalances are mostly caused by underreporting of incomes and low levels of registration among workers (Datamonitor, 2014).

Table 3: Social Overview (Source: Datamonitor, 2014).

Current Strength	Current Challenges
- Growing percentage of Turkish young population	- Low human development index - High level of infant mortality - High level of unemployment
Future Prospects	Future Risks
- Overhaul of social policies	- Imbalanced and ineffective social security system - Inadequate education system and infrastructure

Technological Analysis

Comparing to the other European counterparts, Turkey was adopting new technologies much slower. Nevertheless, Turkey is particularly strong in the development of the ICT (Information and Communication Technologies) sector, which increased by double-digits during 2001 and 2007. In 2007, the market value was at 24 billion of US\$, increasing its position by 3 billion of US\$ compared to the previous year. The ICT sector highly contributed to the Turkish Gross Domestic Product and became an important part of the economy. Turkey is showing a very successful growth in this sector with substantial inflow of money. The number of mobile telephone users has increased as well. In 2002, Turkey had only 23 million users but until 2007 the number of users achieved 62 million. There is also a major increase in terms of internet users in the country. Number of internet users increased from 10 million in 2004 to almost 20 million of users in 2007. Main reason for a strong increase in this industry is dedicated to large privatization of the Turkish telecommunications by the government which should foster employment as well. It is projected that Turkey remains as an attractive destination for foreign and domestic technological projects (UKEssays, 2016).

Turkey is also dealing with number of technological challenges. One of the main issue is the low expenditure cost on the research and development. The Turkish research and development index is far below the average of the other European countries. Total

expenditure on research and development in 2006 as a percentage of gross domestic product, was around 0.6%; which is much less 2.3% in the OECD countries. For companies which are based on innovations it represents a major challenge as there is a lack of investments in this field. For this reason, Turkey has extremely low level of patenting. Although the number of patents is gradually increasing it cannot be compared with levels in other European countries. Low levels of expenditure on research and development represents a thread for competitiveness of the Turkish industries. Therefore, country has to focus its attention to bring more investments from both public and private sector into research and innovation, so the industry can remain competitive with its European counterparts (UKEssays, 2016).

Turkey provides a significant encouragement to foreign entities and prominent universities to foster innovation within the country and keep a track with European nations. Program called Vision 2023, is a program for the period 2003 – 2023 which is under control of the Scientific and Technical Research Council and the Supreme Council of Science and Technology. The aim of the project is to implement and gather information technology across all technological levels within wide range of industries (Datamonitor, 2014)

Turkey supports number of other initiatives in order to establish technology centers and foster e-commerce network to grow in the country. Many of these projects formulate new Turkish technology policies support innovation which is a crucial factor for the future development (Datamonitor, 2014).

At the same time, Turkey can be proud of relatively high number of skilled scientist which returned back to the country. Turkey offers number of opportunities for these people as well as future prospect to join European Union one day. High level of skilled scientist will definitely provide a fundamental ground for boost and development of technology in the country (Datamonitor, 2014).

Table 4: Technological Overview (Source: Datamonitor, 2014)

Current Strength	Current Challenges
- Significant development in the ICT sector	- Low expenditure on Research and Development
Future Prospects	Future Risks
- Government encouragement to improve Research and Development - Prospects of joining the EU reversing brain drain	- Lack of innovation and low number of patents

Year	Turkey	France	Germany	Japan	US
2000	6	4 173	10 824	32 922	97 011
2001	14	4 456	11 894	34 890	98 655
2002	18	4 421	11 957	36 339	97 125
2003	32	4 421	11 957	36 339	97 125
2004	19	3 686	11 367	37 032	94 129
2005	10	3 106	9 575	31 834	82 586
2006	23	3 856	10 889	34 411	102 267

Figure 2: Overview of patents received from the US Patent and Trademark Office (Source: Datamonitor, 2014).

Legal analysis

Turkish judicial system is comprised from an independent legal framework to create an order of law. Turkey is particularly strong in the comprehensive legal structure which comprise of variety of courts. Its general court deals only with domestic cases, military court deals with military cases, heavy penal courts deal with serious cases and the highest Constitutional Court deals with variety of different cases including war crimes. The Constitutional Court represents the most important and essential part of the

legal framework as it determines the legislation prior to the accepting of new laws. The main advantage to relocate business activity or open subsidiary in Turkey is strict law enforcement by the government. This factor helps businesses to have a fair trial and solve serious problems and issues. Government has managed to create a solid legal framework which provides ability to address wide range of issues in the right way. This system provides basics for fair investment environment within the country (UKEssays, 2016).

Another important legal factor is the robust framework for all kinds of business entities. For the companies which intend to invest into Turkish economy, there are not long business registration processes. Legal framework is based on freedom to start, operate and close a company by the certain set of regulations. Usually it takes only six days to start a company in Turkey. This is much less compared to 43 day in the other countries around the world. Short process of registration helps any type of market the company is related to. For example, in fashion industry it is crucial to adapt quickly if the plant is brought to Turkey. Freedom to easily start a business motivates domestic as well as international businessmen to move their operation in Turkey. It is important to mention that gaining all required licensed takes much less than the world average with lower costs as well (UKEssays, 2016).

On the other hand, there are certain challenges and issues regarding Turkish legal system. The main issue is the judicial inefficiencies and delays in this system which can lead into serious issues. This issue has recently become a serious topic for debate in Turkey and country officials are ready to tackle this issue in near future. Another current legal issue are judges who are politically connected and can affect final legal outcome. This situation creates a space for unfair decision making against the company if judges view cases through political interests (UKEssays, 2016).

Therefore, the High Council of Judges decided to control the careers of their judges and carefully examine their decisions over cases. It is important to highlight that Turkish commercial courts are too overloaded with many cases that it often takes too long

to resolve a simple case. The average time of getting a final decision from court is one year. In terms of criminal cases, the average time is even slower due to high number of backlog cases which in many cases have been subject of political interference (Datamonitor, 2014).

Legal system in Turkey is divided on administrative and judicial order of courts. There is also a hierarchy between various courts depending on its levels. As Turkey has been trying to make a country more attractive for foreign investors by supporting domestic infrastructure projects, it also reduced the corporation tax. This situation created many holes in Turkish law system and increased number of people who are trying to make a tax frauds (Datamonitor, 2014).

Currently, Turkey has one of the lowest corporate tax in the world and in the future government expects that the rate will be even lower. Major tax reduction was done during 2007, when Turkey reduced the rate by 10%. Government has launched many e-government tools, such as online filing of various documents in order to reduce time for useless bureaucracy. At the same time, Turkey reduced personal income tax to stimulate economic growth. Growth of the total foreign investment is particularly significant from 2004 to 2006, when property purchases increased from 2,8 billion \$US to more than 20 billion \$US in 2006. Rising of foreign investments is due to implementation of new laws which reduced useless requirements and restrictions imposed on international investors. Government provides them the same legal status as Turkish companies under the same code of conduct (Datamonitor, 2014).

Turkish government is still trying to improve their internal legal environment in order to supports various infrastructure investments and subsequently to stimulate positive impacts on whole economy. The main issue remains the several loopholes in judicial system which provide an opportunity for tax evasion as property prices, company revenues and personal incomes are often under-declared. Turkey claims that more than 30% of VAT tax revenue is never collected. At the same time, many businessmen are avoiding

the payments of social security for their employees and income taxes. Turkey is in urgent need to implement strict action in order to prevent such loopholes in their legal system (Datamonitor, 2014).

Table 5: Legal Overview (Source: Datamonitor, 2014)

Current Strength	Current Challenges
<ul style="list-style-type: none"> - Comprehensive legal environment - Robust framework for business entities 	<ul style="list-style-type: none"> - Judicial inefficiencies
Future Prospects	Future Risks
<ul style="list-style-type: none"> - Reduction in tax rates - Favorable laws for foreign investment 	<ul style="list-style-type: none"> - Existing loopholes in the taxation system

Environmental analysis

In terms of environmental advantages that Turkey have, it is necessary to include remarkable biodiversity. Its biodiversity includes wide range of wild and important species, such as chickpeas, wheat, lentils, pears and many others, with over 33% of its flora being endemic. The landscape of the country is famous for its typical flower tulip, which you can find on many places. For companies it represents a huge advantage because rich biodiversity foster development of new plants in Turkey and creates an offer of materials such as cotton. It means that for investors are natural inputs cheaper in Turkey which subsequently leads into new plants and more jobs for local people. Also, rich biodiversity creates a space for ecotourism (UKEssays, 2016).

On the other hand Turkey is facing high pollution levels which has become the main environmental challenge for the country. Turkey is highly involved in global environmental challenges and has developed links to tackle current environmental issues. Despite this fact, country has failed to prevent air pollution. Turkish government has to urgently focus their attention on topics such as waste management, water treatment facilities and its equipment in order to lower chemicals present in the environment. Current stage

of air pollution in Turkey can cause severe illness to people who inhale it, especially in main city areas. Air pollution has significantly increased since 1990 and created a serious issue in cities such as Istanbul or Ankara. Air pollution is increasing in one hand with increase of number of cars in Turkey. Second main source of air pollution comes from industrial plants and facilities which lack a proper filtration systems. Due to this reason, country loses about 1 billion tons of topsoil each year which can make a serious problems for Turkish economy and people as well. At the same time, high levels of various pollutants can influence quality of water in the Black Sea which is already showing signs of contamination by its neighboring countries (UKEssays, 2016).

The air pollution represents a major obstacle for investor who are thinking about construction of a new plant in Turkey. There are many forms of pollution which could have negative effects to the environmental value of the company. Companies risk their brand image and potential loses of their customers (UKEssays, 2016).

Turkish government should focused more on environmental aspects of their country in order to lower high levels of greenhouse gas. Becoming green country would lead into cleaner air and better country image in the world (UKEssays, 2016).

Turkey has officially became member of the United Nations Framework Convention on May 2004 and adopted Kyoto Protocol on August 2009. But the country has not taken part of the Protocol 1 – first period (2008 - 2012) which was setting limitation for emission reduction. Also Turkey will not participated in second period (2012 - 2016) as the country should finally take part in the third period. Nevertheless, Turkey has been responsible for organization of greenhouse gas inventory and has to provide national declarations. Main future prospect for the country is prevention against climate change which is global concern of the humanity as well as cooperation with international organizations in order to promote scientific research in this field (Mondaq, 2011).

Table 6: Environmental Overview (Source: Datamonitor, 2014)

Current Strength	Current Challenges
- Rich biodiversity	- High pollution levels
Future Prospects	Future Risks
- Kyoto Protocol	- Increasing levels of hazardous waste - Rising emission levels

2.3 Porter's Five Forces Analysis

We use five forces model which was developed by Michael E. Porter in order to analyze micro environment situation. Through this model we are able to assess the nature of an industry's competitiveness and create suitable business strategies. The framework consists from five forces that determine the profitability of an industry (Cleverism, 2014).

The airline industry is a very unique industry providing specific service for its customers. Its main service is to transport people from one point to another with high level of safety, efficiency and convenience. The airline industry is such a specific industry that it cannot be easily substituted by other form of service. Classical airline companies such as Turkish Airlines provides high level of customer service, including quality food, drinks, helpful staff and various entertainment opportunities during the flight. Transportation services are provided also by different industries, but the airline companies still provide time efficiency which is highly desirable by customers. Therefore, airline industry should be viewed in a global aspect, as some firms are focusing on global market but the others are flying on smaller geographic routes (Airline Industry Analysis, n.d.).

Bargaining power of Buyers - Medium

In the airline industry we are able to distinguish only two types of buyers. Firstly, there are people which buy ticket on their own. These are recognized as individual flyers. Reason for their purchase of fly ticket is due to their personal or business related issue.

Second group of buyers are comprised of travel agencies or various online portals. Often these subjects are recognized as representatives and act as middle man between the clients and airline companies. For this reason, they have to work with many airlines in order to provide best possible services for their clients (Airline Industry Analysis, n.d.).

According to the Sundaresan (n.d.), the power of buyers in the airline business depends on various options which are available to them. In 1989, the General Accounting Office made an analysis which showed that in monopoly hubs, fares were 27% higher than at competitive airports. For this reason, it is extremely important to create an effective yield management system and apply competitive pricing model in order to reach new customers in smaller remote markets where potential clients do not have much choice. Therefore, airline industry is characterized by intense pricing competition among airlines which leads into strengthening bargaining power of buyers (Sundaresan, n.d.).

Generally, buyers represent a competitive force as they often demand higher quality, safety, better entertainment which move with the flight ticket price. Customer power depends on a various characteristic of the market situation and on the relative importance of its purchases from the industry. Buyers are easily able to switch among airline companies without any added cost which creates an independent choice. These factors are pushing competition in airline business on higher level and have a significant influence over their profitability (Nhuta, 2012).

According to DePersio (2016), buyers have very strong bargaining position over airlines as the efforts and costs which are required to switch from one carrier to another are very low. The internet era comes with many e-commerce sites, booking websites and smartphone apps which make it much easier to find your flight connection. Therefore, most travelers do not contact an airline carrier, such as Turkish Airlines directly, but they find their offer on internet sites or apps. The main advantage for customers is its convenience as they are able to compare rates across all carriers and find the best flight for the best price. This makes the bargaining power of buyers even stronger. This internet based

sites also represents an advantage for Turkish Airline company. Managers can promote their products there as well as to conduct various market research in order to find the most popular destinations by travelers and subsequently offer them direct flight at low prices. Moreover, the airline company should strengthen their relationship with credit cards operators in order to provide the best reward program, such as “free miles”. These programs are extremely popular by frequent travelers as they are able to accumulate miles and spend them on next flight ticket (DePersio, 2016).

On the other hand, another study claims that the power of buyer in the airline business is relatively low. There is high number of potential customers for airline industry, and it keeps growing. Additionally, some travelers tend to go overseas for certain reason and it has become part of the today’s lifestyle. This circumstances are lowering bargaining power of buyers as for these customers the airline travel represents the only possible choice (Study Moose, 2016).

Based on above we can say that there are many situations which increasing bargaining power of buyers in the airline industry, such as internet which allows customers to easily make comparison and choose the best possible price. Also people are free in their choice as there are only minimum cost involved when switching airline carries. On the other hand, there is a proper argument that the overseas travelers do not have any other choice, and they are dependent on airline service. In our case, Turkish Airlines is a carrier which is mainly focused on hub and spoke system as the main base in Istanbul which represents a hub for connections between Europe and Asia. Such airline carries do not have to compete with local transports like trains, buses or cars. For this reason, for a low cost carrier, like Ryanair or EasyJet, the bargaining power would be high. But for the classical airline carriers such as Turkish Airlines or Emirates the **bargaining power is medium**. Even though, airline companies have to carefully review customer needs and to provide them the best possible flight connections.

Bargaining power of Suppliers - high

Basically, there are many airline suppliers which creates a quite long list. On the other hand, the list of airline carriers for suppliers to sell to, is much shorter. This market situation creates an asymmetry and put the bargaining power to the hands of the airline carries. In terms of Turkish Airline, the bargaining power is particularly strong. This company has a very good market position and was awarded as the best European Airline carrier. At the same time, Turkish Airline is rapidly expanding on new territories, including Eastern European market which creates a space for new plane orders. It is obvious that, Turkish Airliner's suppliers are highly motivated to keep the relationship on the good terms as it would be very difficult for these suppliers to find a buyer with a higher sales volumes. Position of airline carries is strong as they can replace suppliers without any problems (DePersio, 2016).

Based on above it can be seen that power of supplier is low. But on the other hand we cannot forget on three main inputs: Aircraft, Fuel and Labour.

According to Vibin (2016), the power of suppliers in the airline industry is high. There are three major inputs that airline carriers have to consider and which have a significant effects on their external environment. These inputs are divided on fuel, aircraft parts and labour work (Vibin, 2016).

In terms of fuel, the price of this commodity is highly influenced by the fluctuations on the global oil market. This global market can be very unstable, mostly because of various geopolitical factors. In many cases, development of these factors have a negative effect over the price of the aviation fuel. For this reason companies use hedging in order to reduce cost from fluctuation on the commodity market. Hedging helps the company to save a lot of money from negative fluctuations but it cannot brings the benefits when the market prices goes down. As an example, we can see the table below which shows the overview of market prices and money saved by one flight of 1000 Air miles which was done every day, in a horizon of one year (Vibin, 2016).

Table 7: Jet Fuel Expenses (Source: Vibin, 2016)

A	B	C	D	E
Date	Jet Fuel Price [per gallon]	Price Change	Money saved per flight [5gallon per mile]	Money saved per Month
Apr-14	174.31			
May-14	170.2	-4.11	822	24660
Jun-14	172.15	-2.16	432	12960
Jul-14	169.2	-5.11	1022	30660
Aug-14	172.88	-1.43	286	8580
Sep-14	166.15	-8.16	1632	48960
Okt-14	150.92	-23.39	4678	140340
Nov-14	141.67	-32.64	6528	195840
Dec-14	112.94	-61.37	12274	368220
Jan-14	92.95	-81.36	16272	488160
Feb-14	108.86	-65.45	13090	392700
Mar-14	101.73	-72.58	14516	435480

Total money saved on fuel: 2 575 260 US Dollars.

The table above proves that the fuel costs in aviation industry are very high and highlights the importance of fuel in the industry. According to IATA (2010), the fuel represented more than 32% of the total operation costs. Data were collected from 45 major global passenger airlines. Also the table shows how much it is possible to save on positive fluctuation of aviation fuel on the market. The aviation fuel is therefore the most important input in the aviation industry. It is necessary to constantly review changes of fuel on the market (Vibin, 2016).

Second main force of suppliers in aviation industry is labour. Moreover, labor is subject to the power of the unions. These unions often threaten and bargain the company in order to get unreasonable and costly concessions from the airline carriers. According to

the IATA (2007), labor unions play a crucial role in the airline industry as approximately half of the workers are unionized. With regard of high labor costs, which are often referred as the largest costs for airline carriers, represent an important issue for management. Moreover, union bargaining power in the airline business is extremely high due to threat of strikes. Strikes of pilots, flight attendants or mechanics are common practice of European airlines, including huge carriers such as Lufthansa or British Airways. As the transportation services cannot be stored or shifted, therefore strikes gives unions very strong position over company heading (IATA, 2007).

Third main supplier's force in the airline industry are aircrafts. Every airline carrier needs a plane in form of ownership or leasing in order to provide transportation services. Generally, there are two biggest world's manufacturers, American company Boeing, and European Airbus. Airline carriers are depending on few manufacturers which are able to provide them high quality and efficient plane. In addition to that, most airline carriers do not often switch their aircraft manufacturer. First reason could be, that there are a few companies operating in plane manufacturing industry because of high capital requirements needed to enter the market and high amount of money needed for expertise. Second reason is, manufacturers usually makes a long term agreements with airline carriers with favorable terms (Vibin, 2016).

Based on above, power of suppliers can be defined as the supplier's ability to affect a business environment. **The bargaining power of suppliers in the airline industry is high** mostly because of fluctuation of aviation fuel. Moreover, fuel represents a significant share of operational costs which increases its importance in this industry. Also there are no substitute for aviation fuel, and airline carriers are highly dependent on oil market development. For this reason, airlines often use hedging options to prevent negative effects of such fluctuations. High bargaining power of suppliers is supported by a strong position of labour union in airline industry, which can easily open a new strike and create a threat for airline operations. Therefore, it is crucial to create a long term relationship with all supplier in order to build up a successful strategy and gain advantage over competitors.

Threat of Substitutes - Low

Threat of substitutes are part of the Five Forces model and are defined as the service or the product that competes directly with the airline carrier but acts as a substitute for it. Therefore, a Turkish Airlines flight from Istanbul to London is not considered a substitute for a British Airways with the same start and end points. Real substitutes are referred as different kinds of transportation method (DePersio, 2016).

Nowadays, there are no perfect substitutes for airline services. The main reason for this is that airline carriers have the best range of destination, time-efficient and convenience. Nevertheless, the fact that cars or trains are substitute to the airline industry is true. But it is necessary to highlight that the threat of substitutes will only be high if it's applied in domestic travel. In these days, the threat of substitutes for airline industry is recognized as low. In regards to the threats, airline carriers must keep innovation of their services to prevent a perfect substitute (Study Moose, 2016).

The main threat for the airline industry represent strategic substitutes. Strategic substitutes are transportation services which provide the same function as the airline industry. For example, we can distinguish train, automotive or boat transportation service. In terms of shorter distances these forms of travel represent a high risk for airline carriers. Particularly in our case, Turkish Airline is a carrier which business strategy is based on hub and spoke system between Europe and Asia. For this reason, train, automotive or boat transportation do not represent a high risk for the Turkish Airline business operations as it operates on long-haul flights (Brown, Gogzheyanyan and Huwel, 2009).

In these days, there is another potential threat for any kind of transportation service. Technology innovations make a huge progress and fostered a virtual communication among people. Technology such as Skype, can reduce a fair amount of travelling time,

money and make people more productive. Therefore, video conferencing became a normal part of any business company as well as it often replaces face to face meetings (Brown, Gogzheyana and Huwel, 2009).

According to Vibin (2016), airline industry is exposed to substitutes on the medium level. As was already mentioned, there are various way how to customer can reach his desirable destination. However, costs for the other forms of transportation are usually higher. And the most significant cost for people is time. Moreover, planes represent the fastest form of transport which is highly reliable and safe. Also, airline carriers surpass all other form of transport when it comes to cost, convenience and sometimes service (Vibin, 2016).

On the other hand when it comes to short travelling distances, customers can choose other methods of travel. Threat of substitutes for domestic airline carries is much higher compared to transocean or transcontinental carriers. Furthermore, on short distances people tend to choose the cheapest form of transport. High quality of services including Wi-Fi, meals and other amenities offered by airline carriers do not attract passengers as much as lower fares. For this reason, there is a growing trend of low-cost airline operations in Europe which is gradually replacing traditional airline companies on short flights (Vibin, 2016).

Many airline carries have established non price based tactics with their customers in order to support the customer retention and prevent people from choosing competitors or other form of transport. These tactics are often in form of frequent flyer programs which motivate people to constantly choose a certain airline carrier (Brown, Gogzheyana and Huwel, 2009).

Based on above, the large availability of substitutes and the effect of low costs of these substitute, which are more significant in Europe and in developed parts of the world,

tend to make substitutes a medium threat for the airline carriers. Medium threat of substitutes is mostly affecting domestic airline carriers. But in our case, Turkish Airline is focused on transcontinental flights, therefore the **threat of substitutes is low**. In these situations customers do not have any other form of travel which could compete with airline travelling. One potential substitute was teleconferencing, which has the possibility to radically reduce the amount of business travel required, but it cannot replaced the human presence. For longer distances, planes represent only rational option as it is the most effective, fastest and the most reliable form of transport.

Threat of New Entrants - Low

The threat of new entrants is one of the major aspects of business analysis. New airline carriers bring new capacity for the market, desire to gain market share and foster the rivalry among competitors. New entrants can bid down prices or even inflate costs. According to the Loris (2014), the threat of new entrants is low as existing companies have already created a large amount of capital and strong customer base. This factors allow existing companies to lower their cost and taking the loss in order to beat new competitors. Customers tend to choose the stable and well known airline carries. In many cases the flight tickets are not cheap, and people prefer to spend their money on airliners they trust. As an important issue for them could be security aspects as most customers feel safer when travelling with popular carriers (Loris, 2014).

The threat of new entrants represent a minimal threat to Turkish Airlines. Mostly because of entry barriers in the airline industry. New carriers are facing many challenging obstacles. Companies have to deal with various government regulations, enormous operating costs as well as managing very complex business. These applies mostly for traditional concepts of airline carriers (DePersio, 2016).

However, some airline companies can easily speculate on the market. Particularly this is the case of various domestic carriers. From this point of view, there are no significant barriers for entry. In these days many services can be outsourced, including aircraft maintenance, ground services, food services or reservation systems. Their planes can be leased in order to avoid huge initial investments. However, this type of airline carrier does not represent a real threat for Turkish Airlines. Their main aim is to compete with charter airlines during seasons. For this reason, threats of new entrants in the segment of upper airline carries is very low (Sundaesan, n.d.).

The airline industry have one very specific requirement which has to be undertaken. New carriers entering the market often need flying experience and various licenses to operate their business. Licensing procedures can last months even years. Therefore, many new entrants are blocked and exit the market before they even enter. This major issues prevent many people from investing and operating new airline carrier (Loris, 2014).

As was already mentioned many airline carriers have established long lasting relationships with their customers. Almost all well-established carriers are part of alliances with common loyalty program which promotes customer retention. Together with another high quality services and many exclusive contracts it is very hard to find a space for new carrier in today's airline market (Nhuta, 2012).

Another issue which is lowering the threat of new entrants in aviation industry is lack of skilled workforce. According to Vibin (2016), passengers and plane fleets are likely to triple until 2025. Every airline carrier needs a complex of skilled manpower ranging from pilots, flight attendants, technicians, engineers, ground handling staff as well as many administrative and sales people. But the skilled workforce in the aviation sector can represent a fair challenge, especially for new companies (Vibin, 2016).

To summarize this, new airline carriers need to make an enormous capital investment to enter the market and have a huge financial reserve to compete with existing carriers or to absorb losses. Such requirements represent a major obstacle for newcomers and set the entry barriers on a very high level. These newcomers also have to find a way how to reach their customers. In the airline industry, customer acquisition is an extremely sophisticated task. New entrants have a very difficult industry as they do not compete only with other airliner companies but also with alliances which have created very strong customer retention programs. At the same time, new carriers have to provide a knowledge and expertise of the aviation industry in order to understand their competitors and the complex environment. Nevertheless, the airline industry leverages the efficiencies and the synergies from the economies of scale and hence, the entry barriers are high. When applying Porter Model of five forces, we are able to conclude that **the threat of new entrants is low** as the airline carriers face many entry barriers.

Competitive Rivalry – High

Many airline carriers are involved in a deep struggle to achieve the market share from each other. But the industry growth is only average which created a highly competitive market. Loris (2014) says, that growth of the industry is not significant as it was in the past. It seems to be in the mature stage of the business cycle. Many competitors of the Turkish Airlines remain the same for a long period of time. Rivalry among existing companies is so high that it pushes out new airlines that do not provide enough financial reserves. Rivalry in the airline industry is fostered by the high fixed costs. Due to high fixed costs, there is an opportunity to sell unsold seats at a relatively low price. This factor results in price wars among airlines (Nhuta, 2012).

Competition in the airline business is achieving relatively high levels. Turkish Airlines' main competitors fly almost to the same destinations for almost the same prices. Service provided by such airline carriers is very similar. Turkish Airlines' main competitors are mostly airline carriers from Europe, Middle East and Gulf region, including big

players like Emirates, Qatar Airliners, Lufthansa and many others. Travelling with those companies bring a very similar experience to customer, therefore the airline carries are under constant threat by the prospects of losing passenger to competitors. Turkish Airliners is no exception. For instance, when a customer is planning to go from Istanbul to London, many booking sites will offer a lot of flight possibilities with a good prices. The customer can make a simple switch of his flight with one click of the mouse. Turkish Airliners is dedicated to lower competitive threats with extensive marketing campaigns that support brand awareness of the company and its longstanding reputation (DePersio, 2016).

According to Vibin (2016), there is a high number of competitors in the airline industry which was caused by the expansion of low-cost carriers, modernization of airports, increased inflow of foreign direct investments, new information technology and governmental policies fostering regional connectivity. Completion in airline industry is high despite the fact that there are high operational and fixed costs for airline carries, including initial finance cost for plane, training and various license. Also exit costs are high as it is very difficult to leave airline industry because the capital is ensnared in large loans, equipment and flight cancellation refunds. Leaving the market is hard also due to long –term contracts which make companies likely to stay in the business. This factor is increasing level of competition within the industry. Moreover, by the arrival of low-cost airlines which offer value for money airline service it affects the competition in airline business to become more intense. At the same time, all airline carriers are providing similar service, therefore many companies expand their services to provide taxis or hotel bookings to improve the customer retention levels (Vibin, 2016).

Rivalry between existing companies on the market refers to the degree in which the companies react to moves from other companies within an industry. Because of the latest innovation in field of technology services, such as online booking portals, we are able to allow customers to easily switch among certain companies with almost no additional costs. Due to this reason, the intensity of competition is increasing among airline carriers (Study Moose, 2016).

Based on above, **the level of rivalry among existing airline companies is categorized as high** according to the Porter's Five Forces framework. Intense competition is fostered by high fixed costs, many booking sites, no charges for switching among carriers as well as similarity of their products. Mix of these factors create highly competitive environment. Therefore, airline carries have to innovate their services and keep a track with the most advanced technology in order to provide best possible service and minimalize their market share.

2.4 SWOT Analysis

SWOT analysis is an examination of the threats the external environment presents to survive on the market while providing an analysis of organization's internal strengths, weaknesses and opportunities for growth and improvement. It represent a useful tool for analyzing a certain company. SWOT shows all aspects which have an influence over performance of the firm. SWOT Analysis was first used by Albert Humphrey at Stanford University in 1960. It soon became favorite analytic method among competitive intelligence professionals as well as many other disciplines involved with strategic planning. This analysis provides a link between firm's capabilities and competitive environment where the firm operates. It collects the most important and key issues from the business environment and the strategic capability of an organization that are most likely to impact on strategy development (Shodhganga, n.d.).

The strengths can be characterize as a fields where a company has a competitive advance in comparison with its competitors. On the other hand, weaknesses are aspects of the competitive disadvantages. The strengths and weaknesses are representing internal environment of a company. External environment are determined by the opportunities and threats of a company. Opportunities create a challenges of the external environment that have the potential to help the organization to achieve its strategic goals. By contrast

to this, threats are issues which may prevent the organization from achieving its strategic goals (Shodhganga, n.d.).

Strengths

The main strength of the Turkish Airlines is the prime location of its hub at Atatürk Airport in Istanbul, with close connectivity to Europe, the Middle East, Central Asia and North Africa. It is estimated that more than 40% of all worldwide international air traffic uses this main flight route. At the same time, Turkish Airlines is able to cover more than 60 capital cities with their narrow body range planes. This major advantage supports company goals to penetrate into many smaller underserved markets and create a hub and spoke system. Also, Turkish Airlines are able to provide greater frequency of their flights comparing with its competitors. Operating from a central location as a main hub has assisted us in creating a balanced network structure and, in return, achieving higher aircraft utilization levels (Sustainability Report, 2014).

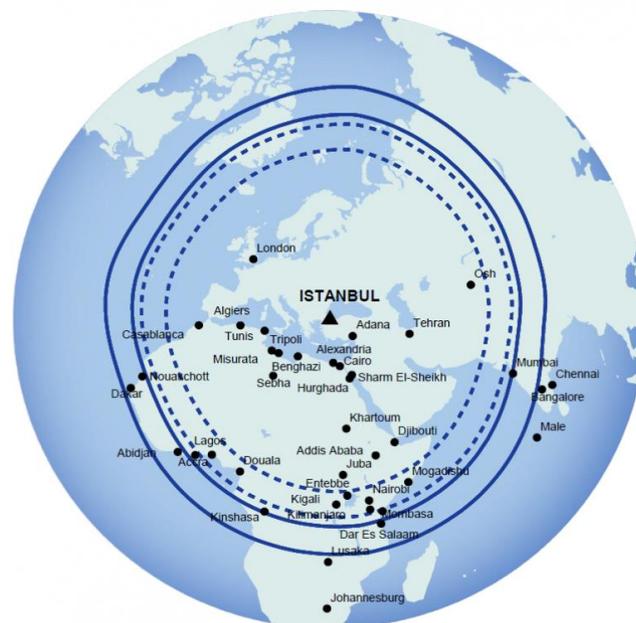


Figure 3: Narrow body range aircrafts to and from Istanbul (Source: Turkish Airlines)

Another main advantage of Turkish Airlines is its well-developed route network. Its networks is well-positioned and aimed at growth on developing as well as emerging markets. In these days, Turkish Airlines are able to offer flights to 108 countries which is more than any other competitor can offer. Moreover, since 2013, Turkish Airlines is recognized as the world's largest air carrier in terms of the coverage of international destinations from a single hub. Due to this reason, Turkish Airlines are able to serve over 9000 flights per week and reached approximately 76% of all destinations daily. Furthermore, Turkish Airlines main hub – Ataturk Airport, limits opportunities for foreign airlines as Turkish Airlines operates over 75% of the capacity of the airport. (Sustainability Report, 2014).

Airline industry is a very competitive environment, therefore it is necessary to achieve desirable cost efficiency in order to compete with other traditional airline carriers. The main driver of Turkish Airline cost efficiency is high utilization rate of the fleet. Turkish Airline fleet consists from relatively young and modern aircrafts which significantly contribute to overall efficiency. Moreover, management implemented numerous fuel consumption policies, cost-cutting strategies, risk management strategies and employee efficiency strategies in order to preserve competitive advantage. Future plans of Turkish Airline are highly focused on new technologies, decreasing costs and increasing efficiency of the fleet and improving experiences of the customers. Turkish Airlines has managed to create highly efficient cost structure. Its unit cost, expressed as cost per available seat kilometer (CASK) in USc is lower than that of the principal legacy airlines in each of the major world regions (Sustainability Report, 2014).

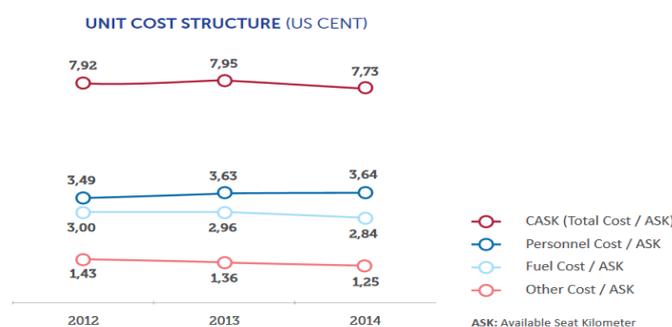


Figure 4: Unit cost structure (Source: Sustainability Report, 2014)

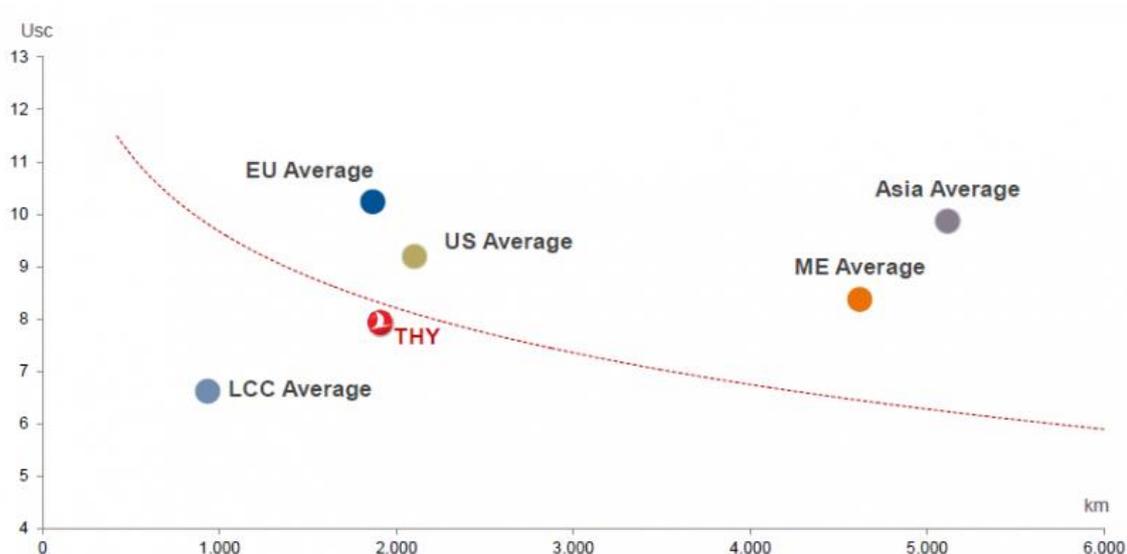


Figure 5: Cost per available seat km (CASK, USc) versus average stage length in 2013 (Source: CAPA, 2014)

As the Turkish Airlines network is gradually growing, company launched Fleet Projection Program which aim is to make significant investments into new planes. In 2008 Turkish Airlines ordered 344 new planes. Until 2014, 99 planes were already delivered. Remaining 245 aircrafts should be delivered by 2021. All these new aircraft are recognized as highly efficient, saving 15% of fuel costs. By the end of the 2023, Turkish Airlines will be the largest and the most modern airline carrier in the world as well as meeting latest safety and environmental standards (Sustainability Report, 2014).

Turkish Airlines strategy is highly based on attracting transfer customers, using Istanbul as a hub for next flight. Therefore, if we compare Turkish Airlines with other Middle East airline carries such as Emirates, Qatar Airways or Etihad, it has a much stronger position for attracting European customers. In 2014, 58% of all global customers were on routes from or to Europe. Other Middle East carries are achieving around 30% of European customers (CAPA, 2014).

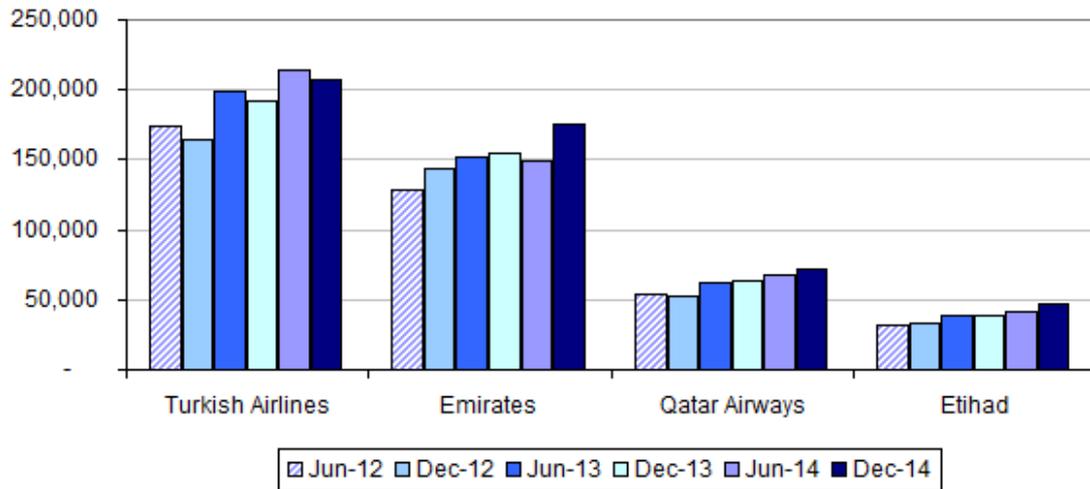


Figure 6: Weekly international seats from their respective hubs* to Europe: Jun-2012 to Dec-2014 (Source: CAPA, 2014)

Airline	Number of direct destinations in Europe	Number of codeshare destinations in Europe	Number of codeshare partners in Europe
Turkish Airlines	99	53	9
Emirates	35	5	2
Qatar Airways	33	7	1
Etihad	17	105	19

Figure 7: Number of direct and codeshare destinations in Europe (Source: CAPA, 2014)

Moreover, Turkish Airlines has won numerous of awards, including Skytrax award for the Best Airline in Europe. Also, in 2014, Turkish Airlines won awards for the best business class lounge dining, best catering onboard and best airline in Southern Europe. Therefore, Turkish Airlines brand is very strong and valuable by its customers (Sustainability Report, 2014).

Weaknesses

On the other hand, Turkish Airlines has a relatively weak position regarding connection to China, Pacific region and South-East Asia. Its main competitors from the Middle East region, such as Emirates, Etihad or Qatar Airlines, have a much stronger position in Asia in terms of traffic and the number of routes served. The Asian region accounted approximately for only 13% of Turkish's passenger numbers in 2014. By contrast to this, Emirates and Etihad Airways have roughly around 40% and Qatar Airways about 30% share of the Asian market (CAPA, 2014).

For this reason, Turkish Airlines tries to improve its market share on Asian and Pacific region by using partnerships.

As was already mentioned, Turkish Airlines' growth has been made by the unique position of Istanbul, which has become a hub between Asia and Europe. In the past few years, Istanbul's main airport, Ataturk, is extremely overloaded. The declared capacity of the airport is 58 movements per hour, but currently Ataturk Airport is handling 67 movements per hour. Therefore, there are plans for a new airport in Istanbul which should be opened by 2019. Nevertheless, Turkish Airlines has moved some of its operations to the second main Istanbul airport, Sabiha Gokcen. This airport is mostly used by domestic flights, although Turkish Airlines is more often using this airport for Middle East and Asia connections. Sabiha Gokcen Airport is a main base for low cost carrier Pegasus Airlines, therefore Turkish Airlines' capacity expansion is facing strong downward pressure on yields. In this situation, Turkish Airlines is losing its advantage to better cope with lower yields than low cost carriers, such as Pegasus (CAPA, 2014).

Operational expansion on Sabiha Gokcen Airport helps Turkish Airlines to cover the strong demand for its services. However, Turkish Airlines' transfer traffic strategy is becoming less efficient as it is necessary to operate on two big airports in Istanbul. For

Turkish Airlines it would be much better to focus on just one airport, particularly Ataturk (CAPA, 2014).

According to Torlal (2007), Turkish Airlines are facing an irrational price competition by its rivals, which undermine efforts of achieving profit targets. Together with a lack of enterprise resource planning software and increasing number of planes financed by leasing, it is pushing up operational expenses and cutting profits (Torlal, 2007).

Opportunities

According to the Sustainability Report (2014), the portion of airline traffic in total transportation is relatively low as high portion is made by land or maritime transportation methods. However, growing demand for faster traveling is gradually changing the trend. Turkish Airlines have a strong opportunity to benefit from unique geographic location of Istanbul, where the main hub is located. It enables Turkish Airlines to operate at optimum stage lengths and develop better cost structure, which is a core competitive advantage regarding its competitors.

Moreover, Turkey is a growing country with almost 80 million inhabitants with a huge capital city with a population of 14 million people. Over past decades, Istanbul has become a Euro-Asian hub and belongs to one of the most visited destination in the world. Managers of Turkish Airlines see an opportunity that this trend will continue in future and Istanbul will remain a strategic destination between Europe and Asia. Also, geographic location of Istanbul is considered to be a better than Qatar, Dubai or Doha for transfer traffic between Europe and Asia. This makes a significant opportunity for further development. Therefore, it is not surprising that Istanbul is ranked as the third most popular travel city in Europe. At the same time, Istanbul creates a great network with North Africa. Turkish Airlines are considerably surpassing its competitors with a number of seats to almost all African regions with opportunity to increase its network, mostly to South

Africa where Emirates is a leader. Based on above, Turkish Airlines has a strong potential to expand their operations and remain a global leader in transfer traffic. According to the company statistics, 44% of all international passengers in 2014, used Turkish Airlines services for transfer traffic and not for a direct flight in or out of Turkey (Sustainability Report, 2014).

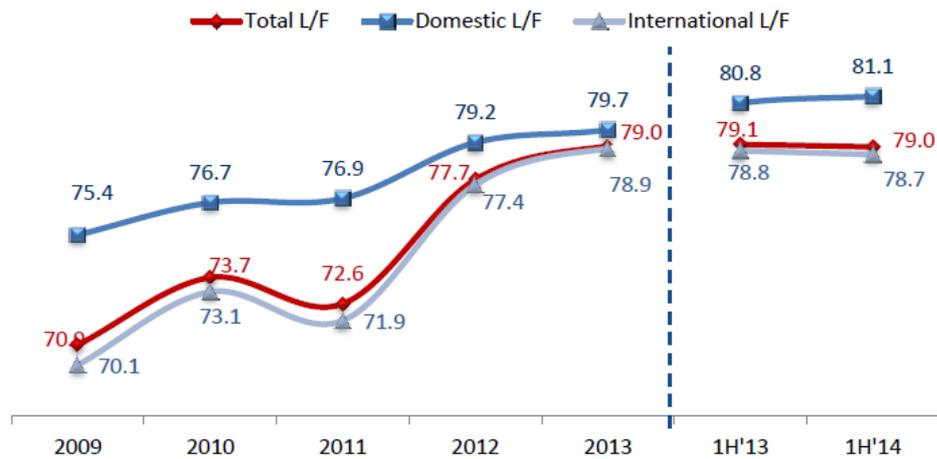


Figure 8: Overview of passenger load factors of Turkish Airlines in percents
(Source: CAPA, 2014)

As can be seen, passenger load factor is gradually increasing since 2009 for both domestic as well as international traffic with a good future prospects for fleet utilization. Also, levels of daily utilizations are continually rising, achieving its peak in 2014. Total daily utilization is around 12 hours, which is much higher than European average of just 8 hours. But it is still lower when compared to competitors from Middle-East and Gulf region. Turkish Airlines has an ideal opportunity to continue with effective fleet utilization and make further improvements (CAPA, 2014).

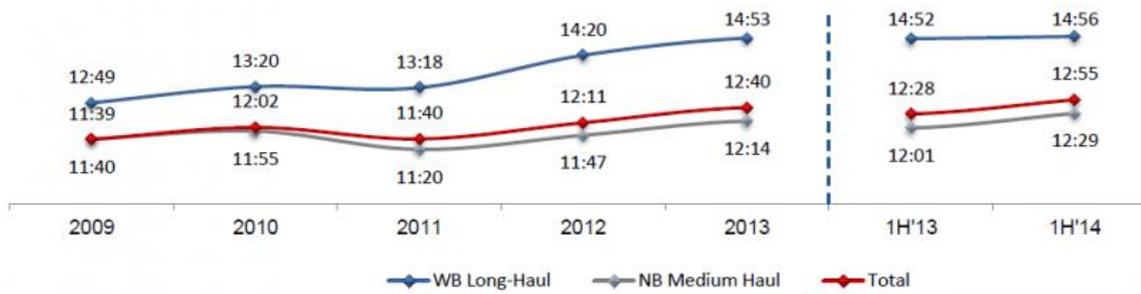


Figure 9: Average daily aircraft utilization (hours) (Source: CAPA, 2014)

As was already mentioned, Istanbul will soon open its new airport with capacity for 90 million passenger with further increase up to 150 million by 2027. It is estimated that capacity should be three times higher than on the current main airport Ataturk. This is a great opportunity for Turkish Airlines to make a solid foundation for future expansions, particularly in Asia and Africa. Moreover, Turkish Airlines' expansion plans are going to be supported by a new long-haul aircraft which will provide a good platform to reach new markets. It was reported that Turkish Airlines are considering to modernize its fleet by the biggest aircraft in the world, Airbus A380, and the latest version of Boeing 747-8 (CAPA, 2014).

Threats

Turkish Airlines has a 50% stake in low cost carrier Sun Express which is mostly used for summer charter flights to Europe, particularly Germany. Due to this reason, Turkish Airlines has to carefully follow main competitor, Pegasus, which is achieving double digit rate growth in the charter and point to point field. Nevertheless, the main focus of Turkish Airlines is aimed at transfer passengers. Therefore, most low-cost airline carriers represent indirect threat. However, there are carriers such as Germanwings, Wizz Air or Atlasjet which can be an alternative for transfer passenger and subsequently increase competition level across all domestic flights. In terms of international flights, Turkish Airlines is facing strong competition from Middle East and Gulf airline carriers, particularly Emirates, Etihad Airways and Qatar Airways. These airlines are very successful on Asian and African routes with a strong domestic hubs in Dubai and Doha. The

main threat for Turkish Airlines is that all of these competitors from Gulf region have built up a strong brands based on quality of service and that is why it is very difficult to create a competitive advantage. Main marketing strategy of Turkish Airlines is based on extensive flight network in Europe, but regions of Asia, Australia and Africa are uncovered. In future, situation in Europe do not have to be very easy for Turkish Airlines as Etihad Airways has added a lot of code-share partners and built up a solid influence on this market (CAPA, 2014).

Another recent threat for Turkish Airlines is current geopolitical situation and instability of many Middle East countries. According to Morris (2016), the risk of terrorism aimed at tourist is very high in Turkey, particularly in Istanbul. Recently, main airport in Istanbul, Ataturk, was hit by a suicide bombing attack. As this airport is third busiest in Europe, it raises many security concerns and has a negative effects on tourism. According to the country officials, the most attack can take place in the south and east of the Turkey, near the complicated borders. However, Ankara and Istanbul are under high terrorist risk attack against the aviation industry. As Turkish Airlines has a major hub in Istanbul, it represents a significant threat for its operations which can subsequently lead into decrease of tourist or transfer travelers. Today, Turkey is facing a sharp decrease in arrivals as civil instability is keeping travelers away from the once-popular destination. According to Morris (2016), Turkey has registered double digit percentage decrease in each month of this year (Morris, 2016).

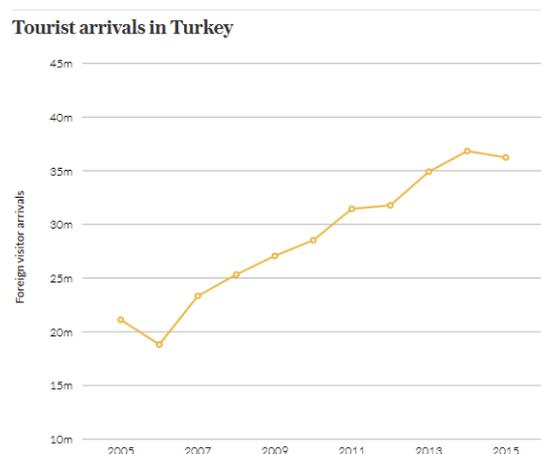


Figure 10: Overview of tourist arrivals in Turkey (Source: Morris, 2016)

At the same time, margins of Turkish Airlines have fallen. Airline is still more profitable than vast majority of classic airlines, but comparing to the low cost carriers Turkish Airlines' margins are below average. Drop in profits can be a result of lower transfer traffic yields and growing costs. As the part of the long term strategy is to increase transfer traffic, Turkish Airlines has to keep a good approach to effective cost management. Below we can see an overview of Turkish Airlines' Cost per available seat kilometers (CASK) versus Revenue per available seat kilometers (RASK) since 2013 till 2014 (CAPA, 2014).

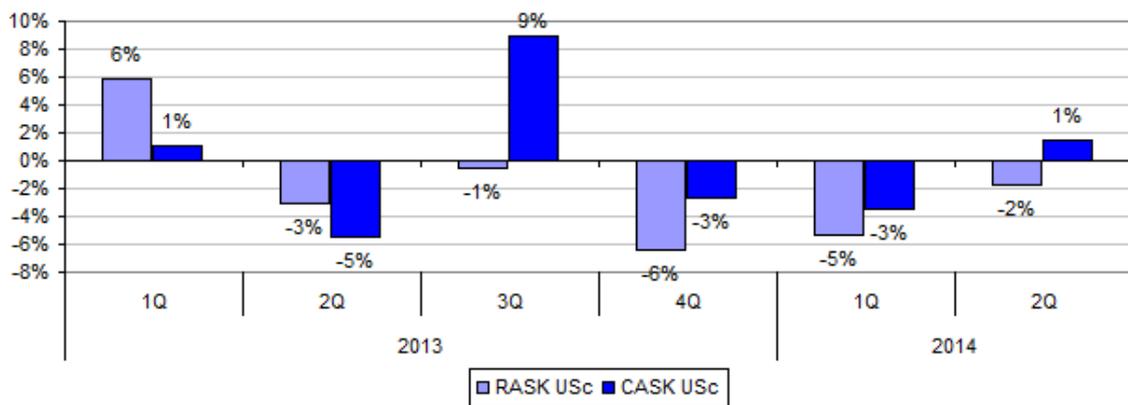


Figure 11: Turkish Airlines year on year growth in USD-reported by RASK and CASK (Source: CAPA, 2014)

3. Proposal Part

3.1 Turkish Airlines Overview

Turkish Airlines (THY) is the national airline of Turkey which is based at Istanbul's Ataturk International Airport. This company is relatively stable and for many years the country's largest carrier. Turkish Airlines operates a huge international and domestic network of air transport services throughout Turkey, Middle East, Europe, Africa, America as well as Asia. Turkish Airlines operates passenger services to more than 270 desti-

nations from Ataturk International Airport. Turkish Cargo is a freight division of the carrier, operating services to over 100 countries across its network. Turkish Airlines has been a member of the Star Alliance network since 1 April 2008. (CAPA, 2016).

	FY2014	FY2015	Change 2015 vs 2014
Revenue USD million	11,070	10,522	-5.0%
Operating profit* USD million	641	682	6.4%
Operating margin %	5.8	6.5	+0.7ppts
Net profit USD million	845	1,069	26.5%
ASK million	134,809	153,209	13.6%
RPK million	106,913	119,372	11.7%
Load factor	79.3	77.9	-1.4ppts

Figure 12: Turkish Airlines Performance (Source: turkishairlines.com, 2016)

3.2 Objectives

I have divided main objectives into short term goals and long term goals. The short term goals are the main issues which should company accomplish by the end of 2017. On the other hand, the long term objectives should be implemented within next four years.

Short term objectives:

- Aircraft upgrade by premium economy class for Boeing 777-300 ER on Asian market
- Recruitment of new employees
- Free wife system on-board
- Maintain customer value while decreasing cost

Long term objectives:

- To remain the best European Airline company
- To be a competitive player in field of luxurious air travel
- To be a profitable airline carries while maintain 5-10% annual profit increase
- To strengthen airline position on Asian market

3.3 4P marketing mix**Product**

Turkish Airlines product is offering business class and economy travel from two major Istanbul Airports. Wide range of benefits, such as very high in-flight services, comfortable seats as well as chauffeur services for economy and business class travelers, makes the product of Turkish Airlines different from its competitors. Product of Turkish Airlines has to be positioned to target two types of passengers: business passenger and leisure travelers.

The product for leisure travelers highly exceeds their needs, as the economy class cannot be compared with services provided by low cost carriers. In-flight services provided by Turkish Airlines even exceed European counterparts, especially in terms of cuisine. Moreover, the seats in economy class are of standard size with adjustable headrests, option of entertainment and power outlets for laptops.

The product aimed on business passengers compete with its major competitors mainly based on price differentiation. For business class passengers, the seats are spacious, and seat control options allow for a variety of comfortable positions. Passengers are able to transform their seat into a fully flat bed while in-flight service provide them with blanket and pillow. The lavatories on board resemble an upscale hotel, with special mood lighting and a hands free sink with a large basin.

The actual product component also comprises of Turkish Airlines staff and crew and in-flight entertainment system. Unlike few other airline carries, Turkish Airliners allows passengers to check-in 24 hours prior departure, which safes time as passengers only need to arrive at the airport an hour before departure that the normal three hours.

Potential development of the product should follow the latest trend in aviation industry. Therefore, company should launch a premium economy class, which is a completely new product targeting passengers on long-haul flight who demand more space than in economy class. Premium economy class would provide better comfort, however stays behind business class. Premium economy is sometimes limited to just a bit more leg room, but at its most comprehensive can feature services associated with business class travel. Such upgrade would strengthen Turkish Airliners position on a very competitive market with Middle East rivals, including Emirates or Etihad Airways.



Figure13: Example of New Premium Economy Class (Source: Economy Flyer, 2016)



Figure14: Example of New Premium Economy Class (Source: Airliners.net, 2016)

Price

As Istanbul is one of the major hub between west and east, the company has been able to serve low cost tickets to its customers in comparison with the other airlines. For this reason, Turkish Airlines offers its customers direct flights to many destinations at very reasonable rates. Such effective pricing policy provides them with a strong advantage over their competitors in certain routes and helps in generating revenues because of the volume of passengers. Turkish Airlines should use the strategy of dynamic pricing which helps to manage seat capacity of every airplane in order to get highest available price for every seat. This would result in flexible prices of the seats.

Already Turkish Airlines has a market penetration pricing strategy so it fosters future expansion plans on Asian market. After successful expansion in Asia I recommend that the company increase its prices by 10%. In that way Turkish Airlines would be in the same category with Emirates or British Airways with the price factor. For this reason customers will not perceived Turkish Airlines as a low value brand compared to its competitors from Middle East or Europe.

Prices for suggested product upgrades should follow current price setting within the company. Therefore, premium economy class should be positioned between price range of business class and economy class.

Promotion

According to Meyer & Bernier (2010), advertising strategies can be divided on two major categories, global and local strategy. When global companies, such as Turkish Airlines adopt local advertising strategy, it is often more costly as you need to target every single country with a unique and familiar concept. Such concepts should be used on important markets where company has strong market share or is trying to penetrate there. On the other hand, global campaign are more suitable in prices because of usage same strategies and concepts in different markets.

Turkish Airlines has launched several global campaigns in order to maintain its position as a global leader in the aviation industry. In 2009, a huge advertising campaign with Kevin Costner was broadcasted in 70 countries to emphasize the comfort and high quality of services. Turkish Airlines selects for its advertising campaigns well-known actors or sportsmen. Instead of shooting many advertising videos with local stars in each country like in local advertisement strategy approach, using Kevin Costner is more suitable in order to achieve its global impact.

Other methods of creating awareness of the airline product should include sales promotions and presence at business trade shows, promoting the airlines directly to the target audiences, as well as social websites like Facebook, Twitter, etc.

Place

Turkish Airlines manages all its operations from the two major Istanbul airports with global network spread through six continents. Turkish Airlines has used its strategic hub location to maximum benefits, linking Europe and Asia with many direct flights. Due to its large aircraft fleet, Turkish Airlines are able to penetrate on new markets, which create a space for competitive advantage. The carrier already flies to over 110 countries, more than any other airline in the world. The current airport restrictions are slowing the airline's growth, but these will be removed with the new airport's capacity. When a first construction phase ends in 2018, Istanbul New Airport will have the world's largest terminal under one roof, with ability to serve 90 million passengers a year. This would be the perfect place where Turkish Airlines can foster future expansion plans.

A Multi-level marketing strategy should be employed to distribute the product. That is a combination of travel agents, tour operators, direct sales and indirect sales through the internet, Business trade shows and corporate travel agencies. Moreover, it is recommended that Turkish Airlines keeps its current place strategy and also add number of branches and more general sales agents to its list. At the same time Turkish Airlines should open a selling store at a leading malls in Turkey where individual could also come and book a flight there.



Figure 15: New Airport in Istanbul (Source: Kitching, 2016)

3.4 Promotion Strategies

Viral Marketing

Viral Marketing is a good way to build up and remain high brand awareness among customers. Therefore, managers of Turkish airlines should focus their attention on new business ideas that will keep their services recognizable among clients. Future expansion plans of Turkish Airlines need viral marketing in order to give their customers a reason to dream about their future purchases. Allowing clients to talk about Turkish Airliner's services is very important for business growth. Viral marketing typically involves social media sites such as YouTube, Twitter or Facebook. Its message is often distributed in form of video, which is very interactive. Viral marketing campaign has to be amusing, entertaining and targeted on certain market of potential customers who are likely to share it. Basically, people share the message because it is funny and not because of the brand issues.

Ability to develop a proper viral marketing campaign is an art. Mostly because, the campaign has to be unique and funny while the brand message should be visible but

it cannot dominate in such campaign. Some companies take these campaigns too manufactured and subsequently lose the main aim. Furthermore, people do not have to love such campaign, important is to create an emotion and exposure.

There are number of brands that showed very creative and compelling viral campaigns. One of the best leader in such marketing campaigns is Air New Zealand, which commercial spread very fast around the world. This company became very popular for their unusual safety videos. Air New Zealand is using unconventional approach, and makes boring on-board procedures on amusing performance aimed on broad spectrum of audience. Such videos soon became a solid part of the airline's identity, doubling as marketing tools and raising awareness of the carrier around the globe. By using YouTube platform, airline companies can think out of the box.

Management of Turkish Airlines has to consider four steps before launching their viral marketing campaign. Firstly, it is necessary to establish right goals and strategy. Defining Turkish Airlines goals is important to do before developing of marketing concept. Marketing directors or PR managers are responsible for the success of the video campaign, therefore their results are measured against the goals in order to quantify their return on investment. Process of setting right goals and strategy should include following questions:

- What are the Campaign goals to be achieved including service and brand awareness?
- What should be the post-view action you want viewers to take immediately after watching the video?
- Is the promoted video part of a larger viral campaign backed by Public Relations or other marketing departments?
- Define your social media networks, marketing partners, demographic and influencers.

Answering on these question helps marketing agency or marketing directors to create a strategy and ensure successful viral campaign. Costs related with this phase range from 2 000 euros to 8 000 euros (Murdico, 2010).

Second stage of viral marketing campaign is dealing with creative phenomena. Here is important to create an entertaining video content, which will be effective for viral campaign. It is very important to create a concept where audience fully realize Turkish Airlines brand, but they still devote their time to watch and share the video. Concept of viral video can involve shocking, clever, funny or unexpected moments. Cost related with second step can vary as there are number of different models. Generally the costs for creative part is somewhere between 2 500 euros to 8 000 euros (Murdico, 2010).

Third stage of viral marketing campaign is driven by the video production. Production can be divide on pre-production and post-production. Pre-production typically involves castings and location screenings. On the other hand, post-production deals with editing, computer graphics, effects and music background. Total costs for production ranges from 20 000 euros to 30 000 euros. Some viral production, especially for big commercial, starts from 100 000 euros. Therefore, Turkish Airliner's marketing directors should evaluate their budget against goals and come up with creative solutions that will be effective (Murdico, 2010).

The last stage of viral marketing is dealing with promotion. It is important to identify your potential viewer and create a sufficient promotion in order to reach this audience. These people are most likely to buy service you are offering. Promotion costs linked with viral videos range from 25 cents per view. From certain point of view it might seems little expensive until you realize that viral marketing really works. When the video spreads and became popular, you will build a buzz about your service and brand. Proper viral video campaign can exceed the first expectations and makes number of views less expensive as at the beginning. For this reason, aim of viral video marketing is not to pay for every single view, but instead to pay enough to get your video popular among people which can share it within their community. Approximately initial costs for 200 000 views can be around 50 000 euros (Murdico, 2010).

Based on above, total cost for Turkish Airliner's viral campaign can starts from 75 000 euros up to 170 000 euros.

Online Marketing

The main reason why Turkish Airlines should focus its attention on online marketing is that almost 90% of Internet searches led to an action like contacting or visiting a business site. Majority of people use search engines to begin their online experience. In these days every uses the world wide web on their mobile phones or computers. For Turkish Airliners is therefore important to be visible on certain sites and be found on major search engines (Barbera, 2014).

Generally, companies create their marketing budget as a percentage of their sales. Therefore we can use revenues as a basis for our marketing calculation. Most companies spend approximately 10% of their revenues on advertising which is the number most marketing managers recommend. Although it is important to state how much company is willing to spend on online marketing and SEO optimization. As the airline industry is highly based on internet selling through flight booking sites or airline website, the costs for online marketing should be higher comparing with other industries.

Search engine optimization is a first thing which many marketing managers encounter. It is important to state, that SEO optimization is an ongoing and complex process which require a constant attention. In order to be among the first results, it is necessary to make website more appealing to search engines. The size of the audience you want for your service have a major impact of the SEO costs. The larger and more competitive your target market, the more expensive SEO will be. Proper SEO optimization can costs at least 10 000 euros a month, which a common rate for many international companies. Particularly, Turkish Airliners SEO costs are expected to be much higher. The best way of doing a proper SEO optimization is to hire right marketing agency (Steimle, 2016).

Turkish Airlines has to focus on web advertising and partnership with flight booking sites. These online sites are often the place where decisions of our potential customers are made. Therefore it is important to be included in search engines on such platforms like Kayak, Momondo, AnywayAnyday or SkyScanner. A very useful marketing tool can be advertising on such sites. Rates depend on size, length and target audience for particular ads. These sites have millions of visitors a day and rates can be compared with advertising on major social media platforms like Facebook or Twitter. A daily advertising starts from 20 000 euros.

Partnerships and alliances

Another possibility to expand Turkish Airlines networks, foster revenues and reduce costs can be partnership in airline alliances or create cooperative arrangements between them. A fundamental partnership tactic is code sharing of routes. This method has grown by almost 8 percent annually during past few years. There are only three significant alliances operating in the airline industry which are able to provide more than 60 percent of global capacity: Oneworld, Star Alliance and SkyTeam. As Turkish Airlines is a member of Star Alliance, the future of expansion can be in code-sharing arrangements. The main focus should be on Asian and African market which are places where Turkish Airlines is not among the market leaders. Another possibility to expand operation is to enter joint ventures that will allow to operate on more routes (Boeing, 2016).

At the same time Turkish Airlines can take equity stakes in other airlines as a part of the growth strategy. For example, full mergers, partial acquisitions or co-branded subsidiaries are typical examples of expanding operations. These methods are useful particularly in situations of entering new markets, reducing costs or achieving new traffic flow. Such strategies can help Turkish Airlines remain competitive and increase its market share. At the same time opening new subsidiaries will allow Turkish Airlines to expand

their brand awareness on foreign markets. Following all these tactics can lead into higher profits within airline industry (Boeing, 2016).

Blogs and Vlogs

Another great promotion channels are blogs and vlogs where biggest YouTube stars share amazing moments. Turkish Airlines can largely benefit from its subscription base and raise awareness over its brand. Until today, Turkish Airlines announced partnership with Rightster, the cloud-based global video distribution network which promote and deliver online video content to broad scale of audiences. Thanks to this decision, Turkish Airlines can become the most subscribed airline on the Internet. Partnership with best vloggers and bloggers, including Devin Supertramp and Damian Walters, create a huge potential audience of more than three million people. Here Turkish Airlines has a space for promoting their destinations and its main hub, Istanbul. Vloggers and bloggers are asked to record their experiences from chosen destination of Turkish Airlines and share it on their sites. Each video or report will be linked with official Turkish Airlines web site and YouTube channel. In this project, there are more number of successful and talented people from ten countries which cover a wide range of potential customers. This is one of the most innovative step which Turkish Airlines can take in terms of marketing campaign (Rightster, 2016).

YouTube provides an ideal platform for marketer thinking aimed at promoting brands. If you chose right people, your service or product can be exposed to a huge audience that might not have known about your brand before. The most crucial part is to select a suitable type of blogger or vlogger for your brand. An experienced blogger/vlogger will provide a link to your site in the description page which will provide a direct link on company's services and increase traffic inflows. High engagement of Turkish Airlines on social media will simple expose the brand to more people and demonstrate the airliner's services (Harris, 2014).

Perfect type of vlogger or blogger for Turkish Airlines should meet following criteria:

- Be present in a country you want to see traffic from
- Provide a catching details and brand information about Turkish Airlines in their video and description
- Provide amazing reviews of Turkish Airlines' services
- Share its content to targeted audience
- Have a highly engaged community

Turkish Airlines has to select a vlogger or blogger that is reliable and open for longer partnership period. Influential people on digital platforms are becoming an important part of public relation. This approach will have a great impact on social community and acquisition of new customers of Turkish Airlines (Harris, 2014).

3.5 Product, Staffing and Promotion costs

Product

Author suggests that the product of Turkish Airlines should be upgraded by premium class economy in order to enhance quality of on-board services. From technical point of view, it is possible to upgrade only one part of the Turkish Airlines fleet. Therefore, the aim is to focus our attention on Boeing 777-300 ER, which is a popular plane on long-haul flights. At the moment Turkish Airlines has 33 aircraft of this kind in his fleet.

Seat features:

- 18 cm of extra legroom
- 5 cm of extra seat width
- 5 cm extra of seat recline
- Adjustable headrests, legrests, or lumbar support
- Larger personal TV screens

- Laptop Power Ports
- Premium Food Service

Aircraft model:

According to size of the aircraft, author recommends to change the layout of current Boeing 777-300 ER and include 63 new premium class seats. This seats will be located right behind current business class and will start at 11th row.

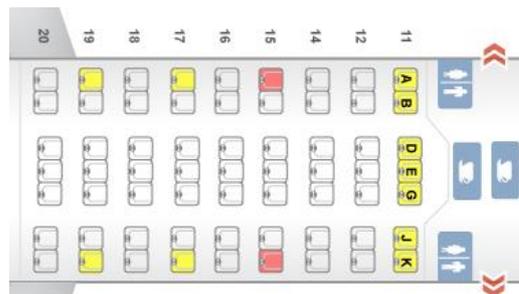


Figure 16: New aircraft model of Boeing 777-300 ER

Seat costs involved [per aircraft]		
Item	Number	Costs [€]
Premium class seat	1	30 000
Installation costs		1 000
Total costs [per seat]	1	31 000
Total costs [per aircraft]	63	1 953 000
Seat costs involved [whole fleet - 33]		
Total costs	2079	64 449 000

Figure 17: Product costs overview

Staffing

For recommended airplane upgrade, authors provides an overview of necessary staffing changes. Turkish Airlines should hire at least 2 new employees, chef and steward,

as there are higher demands on quality of services. Detailed overview of costs involved is included in the table below. First part of the table shows overview of staffing costs pre aircraft while the second parts shows costs involved per whole fleet of Boeing 777-300 ER.

Staffing costs involved [per aircraft]		
Position	Number of Staff	Salary per month [€]
Chef	1	1 000
Steward	1	800
Total	2	1 800
Staffing costs involved [whole fleet - 33]		
Total staffing costs	66	59 400

Figure 18: Staffing costs overview

Moreover, training costs for one employee are 1 400€. Therefore total training costs for 66 new employees are 92 400€.

Promotion

Author recommends to apply a combination of several promotion techniques. The aim of the campaign would be to distribute a global awareness about new product and target audience by internet channels. For these purpose, combination of blogs, online and viral marketing would be used. Audio-visual content achieved from viral campaign would be subsequently used as a TV advertisement. Author recommends that TV advertisements should be distributed in Asia and Turkey as a new product would be focused only on these markets. Whole marketing campaign will be running for a period of one year.

Promotion costs involved		
Marketing tool	Price for whole campaign [€]	Remarks
Viral Campaign	300 000	Price will include 2 campaigns
*Vlogs and Blogs	40 000	Price for 10 months
SEO Optimization	240 000	Price for 10 months
Web Advertisements	3 000 000	Campaign for 5 months
TV campaign	400 000	Price for 80 TV spots in Asia and Turkey
Total costs	3 980 000	

Figure 19: Promotion costs overview

*Turkish Airlines should reach at least 10 well-known YouTubers and Bloggers. The aim of this campaign would be to distribute reviews from these people and build up awareness of launching new products.

3.6 Project realization schedule

January 2017:

- Creation of team involved in launching new product.

March 2017:

- Hiring process of new staff required for premium economy class. Also training provided for these employees.
- Start of sales for new product.
- Start of SEO optimization for a new product.
- Start of Web advertisement, which will continue for next 5 months.
- Product launch will be supported on various blogs and vlogs. This campaign will be running whole year.

April 2017:

- Start of technical upgrade for the first two aircrafts of Boeing 777-300 ER. Installation of new in-flight entertainment system for premium economy class, on-board adjustments as well upgrade of internal selling software.

- Start of TV advertisement which will continue for next 4 months in Turkey and Asia.
- Start of first viral campaign on online streaming platforms.

May 2017:

- First launch of new product by 2 upgraded aircrafts. As there is a strong demand for such service in Asia, these aircraft would be focused particularly on this market.
- Recruitment of new employees for future upgraded aircrafts with necessary training.

June 2017:

- Start of technical upgrade for another eight aircrafts of Boeing 777-300 ER. Launched in Asia.
- Recruitment of new employees for future upgraded aircrafts with necessary training.

July 2017:

- Start of technical upgrade for another eight aircrafts of Boeing 777-300 ER. Launched in Asia.
- Recruitment of new employees for future upgraded aircrafts with necessary training.

August 2017:

- Start of technical upgrade for another eight aircrafts of Boeing 777-300 ER. Launched in Asia.
- Recruitment of new employees for future upgraded aircrafts with necessary training.
- Start of second viral campaign on online streaming platforms.

September 2017:

- Start of technical upgrade for last seven aircrafts of Boeing 777-300 ER. Launched in Asia.

3.7 Financial budget and expected revenues

Next calculation provide an overview related to product upgrade for premium economy class. Therefore, revenues are calculated from average load factor achieved in 2015 (78%). Prices for air tickets for Asian routes can vary, therefore author provides an average price of 850€ for premium class economy on this market. Moreover we assume that all 33 aircrafts of Boeing 777-300 ER are in use every day. Time of product upgrade takes only couple of days, for this reason this factor is negligible in our revenue calculation. Author also provides information about operation profit, which we calculate from average operation profit margin achieved in 2015 (6,5%).

Financial Budget [€]				
Costs	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Aircraft up-grade		35 154 000	29 295 000	
Promotion	628 000	2 334 000	934 000	84 000
Staff	3 600	32 400	59 400	59 400
Training costs	5 600	44 800	42 000	
Total costs	637 200	37 565 200	30 330 400	143 400
Revenues				
Total Revenues		17 850 000	98 175 000	126 225 000
Operation Profit		1 160 250	6 381 375	8 204 625

Figure 20: Budget overview

Total estimated profits for the first year of launching would be approximately 15.7 million € while total costs climb up to 67.8 million €. Based on financial performance we can assume that the return on such investment would be until 3 years.

Conclusion

Airline industry is complex, dynamic and very competitive area. Decisions need to be taken every day by the whole organization while carefully evaluate its impacts. Airline transport is becoming one of the most significant transportation form, and its activities have a major influence on total national economy. Aviation is considered to be a mirror of the country's stability and prosperity. Well-developed aviation infrastructure is often a backbone of the economy while directly employing thousands of people and many more in support industries. Turkey is not an exception as it has one of the most developed domestic airline network. Therefore, managers of Turkish Airlines are under constant pressure of internal and external factors which have a major influence over their decision making. In order to stay competitive, manager has to constantly come up with an innovative marketing strategies which will ensure future legacy of the company. Their aim is very straightforward, remain the best airline company in the Europe and expand their network on other markets. Particularly Asian and African market can be seen as a major opportunity for further expansion plans. For Turkish Airlines it is necessary to find a competitive advantage over its main competitors from Middle East, especially Emirates and Etihad Airways. By strong government support, well developed infrastructure and innovative marketing methods of digital era, their plans can be successful. On the other hand, current complicated situation in surrounding countries as well as domestic situation in Turkey are undermining strong company efforts. For this reason, political stability of Turkey have never been such an important aspect of Turkish Airlines success ever in its history.

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