



TAP Air Portugal

Adaptive Strategies due to the  
pandemic of Covid19

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## **Abstract**

**Title:** TAP Air Portugal – Adaptive Strategies due to the pandemic of Covid19

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**Keywords:** crisis; strategy; competitive advantage; consumer habits; change; different environment; ability to adapt; differentiation

This thesis is going to be presented in the form of a case study. The main goal is to study how TAP Air Portugal adapted its core business in response to the pandemic of Covid19. Furthermore, the case will also explore important topics such as what are adaptive strategies, the concept of competitive advantage and the ability to understand environmental and consumer habits changes.

TAP Air Portugal had to make some important and crucial decisions that have had an influence in the way its business works and that will be highlighted in this case. Adding to it, TAP Air Portugal adaptive strategies will be compared to the entire industry. This comparison is crucial to understand the entire market and if the strategies taken by TAP Air Portugal were the more suitable ones.

In order to have a deeper knowledge regarding the strategies taken by TAP Air Portugal, an interview has been conducted with the Marketing Manager of the company, Dr. Paula Canada

Adding to the case study, there will also be developed some theoretical concepts that may come as a hand to better understand the case study. The goal here is to provide the tools and all the necessary material to have complete knowledge of the case.

Giving suggestions, personal opinion and any type of explanation will be given as a conclusion, after the elaboration of the case study and the theoretical concepts.

## **Abstrato**

**Título:** TAP Air Portugal – Estratégias de Adaptação de negócio devido à pandemia de Covid19

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**Palavras-chave:** crise; estratégia; vantagem competitiva; hábitos de consumo; mudar; ambiente diferente; capacidade de adaptação; diferenciação

Esta tese será apresentada na forma de um estudo de caso. O principal objetivo é estudar como a TAP Air Portugal como um todo, conseguiu dar resposta à pandemia de Covid19. Além disso, o caso também irá explorar temas importantes como o que são estratégias adaptativas, o conceito de vantagem competitiva e a capacidade de entender as mudanças de hábitos ambientais e de consumo.

A TAP Air Portugal teve de tomar algumas decisões importantes e cruciais que influenciaram na forma como os seus negócios funcionam e que serão destacadas neste caso. Seguidamente, as estratégias adaptativas da TAP Air Portugal serão comparadas com a indústria em si. Esta comparação é crucial para compreender todo o mercado e se as estratégias tomadas pela TAP Air Portugal foram as mais adequadas.

Para ter um conhecimento mais profundo sobre as estratégias tomadas pela TAP Air Portugal, foi realizada uma entrevista com a Diretora de Marketing da empresa, Dra. Paula Canada

Para além do caso de estudo, também serão desenvolvidos alguns conceitos teóricos que serão úteis para melhor entender o caso. O objetivo aqui é fornecer as ferramentas e todo o material necessário para ter total conhecimento do caso.

Sugestões, opinião pessoal e qualquer tipo de explicação serão dadas como conclusão, após a elaboração do caso de estudo e dos conceitos teóricos.

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## **List of Abbreviations**

CEO	Chief Executive Officer
TAP	Transportes Aéreos Portugueses
e.g.	For example
R&D	Research and development
SWOT	Strengths, Weaknesses, Opportunities, Threats
EEC	European Economic Community
USA	United States of America
CO2	Carbon Dioxide
Dr.	Doctor
FAQ	Frequently Asked Questions
UN	United Nations
CFI	Corporate Finance Institute

## **List of Exhibits**

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## **I. Case Study**

A new reality has emerged in everyone lives, the pandemic of COVID-19 has had an impact in multiple sectors, such as the aviation sector. Airline companies are currently going through tough times. Due to the pandemic itself and all the restrictions that are associated with it, TAP Air Portugal and many other international airline companies have suffered its consequences. The economic crisis associated with the aviation sector can be considered one of the worst ever, since airports and borders were closed, no airplanes were on the air, everything stopped. TAP Air Portugal is the biggest airline company in Portugal and as any other major airline in the world has suffered its consequences. As a country, Portugal plays an important role in the relation between Europe and the rest of the world, which enhances the importance of TAP Air Portugal. This case aims to illustrate the impact that COVID-19 had on TAP, understand how the company turn things around (adaptive strategies) and compare its decisions with other airline companies that can be compared with TAP.

### **1.1 TAP Air Portugal**

#### **1.1.1 History**

By the end of the Second World War, the aviation sector erupts, and TAP Air Portugal was no exception. The mass consumption, entertainment and baby-boom were the trends, and there was still no way to connect Portugal to the world. Therefore in 1945, the first Portuguese airline company was born. In 1946 the first international connection is established with the Spanish capital, Madrid and in 1947 the first domestic connection with Porto. In the following two years other connections are established with some of the biggest cities in Europe like London, Paris and Seville. In the following decades new routes are established all over the world and the technological innovation starts to appear in the company. The 80's is one of the most difficult decades for TAP Airline Portugal due to a serial of events that affected the Portuguese and world economy such as the entry of Portugal in the EEC, the fall of the Berlin wall and the oil shocks that damaged had a serious impact around the world. In 1981, TAP had the first women to ever pilot an aircraft, an important event for the airline company. Also, in this decade, TAP reaches a total of one million passengers that have flew with the company. In the 90's decade, TAP becomes present in the digital, with its first website allowing it to reach a higher number

of potential customers. In the beginning of the 20<sup>th</sup> century, the aviation sector suffers one of its worst crises due to the terrorist's attacks in the USA. However, TAP Air Portugal adapted to the situation and consolidates itself as one of the biggest export companies in the country. The 2010's are known for the partnerships that TAP starts to develop and establishment in the worldwide aviation sector. Finally, in 2015, occurs the privatization of TAP Airline Portugal, approved by the Council of Ministers. 2017 is the year for TAP, 14 new routes are launched, more than 14 million passengers, however in 2016 this decision is reversed. In 2020, TAP's majority of shares goes to the Portuguese state. (*TAP Air Portugal Website; About us*).

### **1.1.2 Mission and Compromise**

TAP Air Portugal has its mission set in three major points.

- 1. Revolutionize the fleet:** With the ability to invest, the company has made a clear bet on the comfort, modernization and reinforcement of its aircrafts.
- 2. Go beyond:** The goal is to expand the web of destinations. Not only to create new ones, but to reinforce the current ones as well. The biggest objective was to conquer the north American market and TAP did that in 2018 with direct connections to some of the biggest American cities.
- 3. Get deeper connections:** The goal is to have a service that focuses on each consumer needs and to establish a close relationship with them.

*(TAP Air Portugal Website; About us; The New TAP)*

TAP Air Portugal has been compromised in two different areas, social and environmental aspects. In the social slope, TAP has invested in volunteering and humanitarian campaigns. The TAP Program Donate Miles that allows the Miles&Go customers to donate miles to non-governmental organizations that are then turned into trips. On the other hand, regarding the environmental aspect, TAP done everything in order to reduce CO2 emissions and be energetic efficient. Therefore, the goal is to offer the best possible quality to the customer with high established patterns.

*(TAP Air Portugal Website; Responsibility; Social and Environmental Compromise)*

### **1.1.3 Business Segments**

TAP Air Portugal is one of several companies that belongs to **TAP Group**. Alongside, there are 5 more companies that belong to the group: Groundforce Portugal; TAP Maintenance and Engineering Brazil; Aeropar Participation, Ltda; Portugália (Portuguese Company of Airline Transportations, S.A.); TAPGER Society of Management and Services, S.A.

Besides these companies that form the Group TAP, there are also 3 main shareholders that have a certain share of the Group, being: PARPÚBLICA (SGPS, S.A.); Republic of Portugal, through the Directorate-General for Treasury and Finance; HPGB, SGPS, S.A.

Regarding TAP Air Portugal, in the year of 2015 occurs the privatization of the company, however in 2016 this process was reverted and in 2020 the company goes back to the hands of the Portuguese state.

Therefore, since then the company's main only shareholder is the Republic of Portugal, through the Directorate-General for Treasury and Finance, with the 91,8% of the company shares. The rest of the shares (8,2%) belongs to TAP Group. (*TAP Air Portugal Website; About Us; TAP Group*)

## **1.2 Company's Goals Pre-COVID-19**

TAP Air Portugal had a clear view of what its main goals were, defining its strategic guidelines in a 3-way process. The first main guideline was the need to go further, and by that, the ability to have new routes. By 2018, a total of eight new destinations were announced to the following year, being those: San Francisco, Washington, Chicago, Dublin, Basel, Tenerife, Napoli and Tel-Aviv. TAP wanted to go “higher and further”, always looking to the future with the intention to develop and expand its business. Furthermore, it was important to develop the connections over the Atlantic with the United States of America. The new A330neo airplanes enable TAP to develop those relations and the goal of “going further” started to be achieved. TAP was not just looking to go abroad, domestic flights were also a priority, mainly between the two largest cities, Lisbon and Porto, and since 2016 the connection between both these cities have improved, being a total of thirteen daily flights that connect the two biggest touristic places in Portugal.

The second main guideline clearly defined by TAP Air Portugal, was the need to develop and revolutionize the fleet. Both these goals complement themselves since it is not possible to go further if you don't have the tools to do it. In this case, TAP did not just aim to get a lot of planes, it was also needed to modernize the actual fleet and the ability to offer passengers the best flying quality. Adding to it, the design of the airplanes also aims to reinforce the Portuguese identity with the red and green colors. In order to establish this idea of revolutionizing the fleet, TAP developed a new segment called TAP Express focused on the short and medium duration flights. This initiative allowed people to move easier inside the country. Finally, with the purpose of being an eco-friendly airline company, TAP Air Portugal developed what they called "sharklets", being the first European airline company to have done it, with the aim to reduce emissions and increase efficiency.

As a third and final guideline, which can also be a combination of the previous two, TAP Air Portugal wanted to offer its client the best possible service and create a close connection with the customer. To achieve this goal, TAP decided to innovate in their site, in which its customer can customize its profile page and have access to all kinds of information; TAP also created the TAP Corporate which is directed to companies and it is available in four different countries: Portugal, Spain, France and USA; last, but not least, the company decided to baptize the regional fleet with the names of the national districts, in order to promote the country in a worldwide basis.

TAP Air Portugal throughout the years, has had a clear view of innovation, trying to keep up with the continuous development of other major airline companies around the world. The Portuguese company did not just keep up, but also tried and managed to be a pioneer in some of the decisions they made. In terms of differentiation, TAP can say that they did it, especially in terms of giving special attention to the customer and being in constant development to provide the best possible service.

### 1.3 Market Overview

With a special focus on Europe, the aviation industry is a strategic important industry for some of the countries. Due to the COVID-19 pandemic, the effects on the industry have been huge, mainly in terms of the decline of passengers traffic and flight activity. Despite this situation, the European aviation market has been valued in 37.78 billion USD in 2020 and it is expected to grow into 68.41 billion USD in 2026. Nowadays, it becomes impossible to talk about the aviation industry and not connecting it to the pandemic situation. The situation has not been easy to deal with it, therefore some of Europe's most important flag carriers had to ask for financial and economic support to their local governments, illustrating the negative and severe impact of the pandemic situation. Following on that, aviation companies have had the need to reduce costs, such as the cancel of some orders of new aircrafts, creating some doubts, for the specialists, regarding the forecast growth prediction mentioned above. The market has suffered with this new reality and it has been in *check* for the past 2 years. The constant waves of the pandemic around the world have limited people's circulation and have had an impact on each country's economic situation.

When looking into the market as a place where transactions are made, goods and people are moved and connections between countries are established and consolidated, it is important to understand which are the companies that have a higher share and are the biggest players in the market. Therefore, the following airlines companies are the main ones worldwide: **Air France KLM, American Airlines Group, ANA Holdings, British Airways, Delta Air Lines, Deutsche Lufthansa, Hainan Airlines, Japan Airlines, LATAM Airlines Group, Qantas Airways, Ryanair Holdings, Singapore Airlines, Southwest Airlines, Thai Airways International PCL, United Continental Holdings, and WestJet Airlines.**

The COVID-19 pandemic has caused great damaged to this sector. In 2020 the air traffic has suffered a fall of 39,9%, in comparison with 2019. This value can be justified by the restrictions that were imposed, in which borders were closed and circulation of people was forbidden. Step by step the normal activity is going back to normal, for example, in August of 2021 there has been an increase on the number of passengers (76,3%) and in the number of goods transacted (55,3%), when compared to August of the previous year. The values illustrate that the comeback of the sector has been improving

since the beginning of the pandemic, however local authorities believe that social and economic effects of the pandemic in the sector are still to be evaluated in the future. Therefore, the help and support from local and international governments has played a determinant role to help the companies to survive this situation.

In Portugal another problem has been identified, being that the lack of professionals with the right skills:” more than over 600.000 pilots and 500.000 maintenance technicians are necessary in the next 20 years, besides other complementary jobs in the aeronautic area” (*Jornal de Negócios; Novos Desafios da Aviação Civil*).

### 1.3.1 Competition

TAP Air Portugal has established itself as the number one airline company in Portugal. There are a total of 12 national companies in the sector, however, only TAP Air Portugal has launched itself in an international perspective, flying for more than 100 destinations. For this reason, it can be said that the company does not have any domestic competition, having the majority of the share market in terms of the number of passengers per year, number of flights made per year and in terms of revenue. Furthermore, TAP has developed TAP express which has been responsible for domestic flights between Lisbon and Porto. Therefore, in terms of national competition it can be said that there is no company that can get to the numbers that TAP has shown throughout the last few years.

In terms of international competition, the focus will be on Ryanair and EasyJet. The main reason that has led to these two companies is the fact that low-cost airlines are an emergent segment in the industry, in a way that they have come to compete with the biggest airlines. In times that price is seen as a top priority for regular customers, low-cost airlines are considered to be a threat.

- **Ryanair:** This low-cost airline was founded in 1984 and its growth can be described as a quick one as a result of the rapid expansion that low-cost airlines had, on the late 90's. By analyzing online data, Ryanair was number one in number of passengers in 2019 with 152.4 million. In 2020 and despite the decrease of these numbers, the company was still number one with 52.01 million passengers. The airline has around 17.500 employees, considering data from 2019. In terms of revenue, it has decreased in 2021, which is general scenario around the entire sector, having a total of -1.636 billion dollars in

comparison to the previous year. All the relevant data can be found in Exhibit 2. The company has also been targeted and criticized for the lack of conditions that are given to its workers, the heavy use of extra charges, bad customer service and the fact that they need to generate controversy in order to gain free publicity. The main reason that Ryanair has to step up and differentiate itself from the top players in the market is the price. However, bigger airlines such as Lufthansa or Air France have tried to battle the growth of the low-cost airlines, by doing some discounts themselves. According to The Guardian, Ryanair has made it clear that they are here to stay and are expected to increase by 25 million passengers each year until 2026, considering this to be the comeback from the pandemic.

- **EasyJet:** Founded in 1995, it is a British multinational low-cost airline group that is currently located in London, Luton Airport. It operates both domestic and international flights in more than 30 countries. In order to guarantee the fulfillment of its services it has affiliations all around Europe. As many other low-cost airlines, its growth is due to the need that customers have shown to fly cheaper. In 2021, EasyJet has around 14.000 employees. According to the company annual report of 2020, the airline has gone from a revenue of 6.385 million dollars, in 2019, to a total of 3.009 million dollars, in 2020. However, despite the loss in terms of revenue, EasyJet has been able to capitalize in other areas, such as the reduction in emissions and fuel consumption, that can be justified by the new-generation aircraft. Due to this, the airline has been able to save around 15% of the costs. The main goal of EasyJet is to make travel an easy, enjoyable and affordable experience, whether it is for leisure or business (*EasyJet, Annual Report 2020*)

### 1.3.2 Main Trends

As mentioned in the previous topic, the entire aviation industry was affected by the whole situation around the pandemic of the COVID-19. Border restrictions and the decline in passenger demand in 2020 and in the beginning of 2021, were the main reasons that led to that.

In the European aviation market, the United Kingdom is the country that holds the biggest share in terms of revenue. The main reason that can justify this, is the fact that the UK has some of the biggest airports in Europe, like the London-Heathrow airport and the Gatwick airport. Despite the reduction in terms of passengers (72% in 2020) and number of flights, both these airports are still considered to be two of the busiest ones in Europe.

The pandemic has also had a huge impact in terms of the growth of some of the airlines, however others decided to avoid this negative scenario, such as, Ryanair and Virgin Atlantic who tried to go around this pessimistic view in the aviation industry and decided to expand their order book for 2020. These companies had hopes that the number of passengers would grow abruptly in the next few years. A clear example occurred when Ryanair decided to place an order in December 2020 for an aircraft worth over 9 billion USD, hoping that its customer base would grow from 149 million by 2022 and reach 200 million in 2026.

### 1.3.3 The Customer

TAP Air Portugal has been a vital element in a way Portugal and Europe are able to communicate with the rest of the world. According to an interview that was conducted with the Marketing Manager of TAP Air Portugal, Dr. Paula Canada, it is evident that the company's target can be divided into 3 main clusters that have its own characteristics. It is also relevant to understand how these 3 segments have reacted to the pandemic situation and in what way have they responded to it.

Segment	Characterization	Evolution
<b>Leisure (46%)</b>	This is the number one segment in terms of revenue. Alongside that, are the ones who are willing to spend more money.	Due to the pandemic, it is a segment that has lost a lot of its power in recent times. Nowadays, tourists only go to close destinations and tend to book their flights very close to the date. The main focus is avoid spending too much money

<b>Corporate (22%)</b>	This segment is extremely volatile, it depends a lot on the time of the year. However, due to the new technologies and the ability to do everything online, it has led to a slight downfall in recent years.	A segment that has tried to come back to how it was in the past, however with the feasibility of online contact it is expected have a slow growth. Besides that, safety policies activated by companies have been extremely strict.
<b>Emigrants (32%)</b>	A very objective segment that only travels in specific times of the year. Ethnical segment that supports airline companies.	The number one segment in the pandemic situation, since it was almost mandatory for people to go back to their local of residence.

As a conclusion to this topic and as a starting point for the future content of this case, TAP Air Portugal and other airlines have been allowed customers to cancel their flight and having their money back. Due to the pandemic situation around the world, the aviation industry has become very uncertain. Therefore, in order to prevent customers major loses of money, the airlines have provided this system, that works as an insurance policy in case anything happens.

In addition, TAP Air Portugal had also adopted a strategy that avoids the lost of possible customers. As mentioned in the case before, the company has the programme known as Miles&Go for the most loyal customers. However, since these miles have an expiration date and due to the pandemic, it was impossible to fly, the company decided to extend the expiration date for another 12 months. This allowed TAP to keep their most loyal customers, which is one of the main goals in this new reality.

## **2. New Strategy under the pandemic of COVID-19**

The content that will be display in this part of the case was partial obtained due to an interview made with the Marketing Manager of TAP Air Portugal Dr. Paula Canada (Exhibit 3). The rest of the information was obtained in reports and journals.

The new strategy developed by TAP Air Portugal during the COVID-19 pandemic was divided into several important areas: operational (Exhibit 3), social and

economic. In terms of the operational area, it was established a process divide by several stages that helped the company to improve in a better way. In terms of the social and economic strategy the same cannot be said, as it will be shown further on.

## **2.1 Strategy under an operational perspective**

In an operational point of view, TAP Air Portugal decided to proceed with the execution of a contingency plan that had several actions to be developed, that had to take into account the evolution of the pandemic. The execution of this plan had to go through different stages.

The first stage was from February 2020 to March 2020, which was also the beginning of the pandemic in Portugal. In this period the main priority was the repatriation flights, in which a total of 14 thousand passengers went back to their home countries. Besides that, a refund process was created in order to prevent passengers from losing the money of their flights. This process allowed the refund of the entire value of the flight, in which 68% was paid in voucher, in case anything happened that would cancel the flight. Other measures were also taken such as: closing the lounge, which limited the contact between passengers and crew members and adjusting the on-board service that had all the safety measures needed to fly safe. In this stage, the internet and social media played a massive role in terms of the communication B2C, since it was through the online that customers had access to all the required information, mainly through the FAQ channel that had the most common questions regarding the lay-off situation. Different times also demanded different objectives and in this time the goal went from trying to get new customers, to keep the ones they already had.

By April 2020, the entire scenario was beginning to change again and a chance for new opportunities to re-open to the world was now a reality. In this stage communication played a massive role in this stage. The need to get in contact with the client was of major importance, being re-established the communication dedicated to promotions and special offers. A total of 7 different campaigns, around 12 countries turned out to be the way TAP tried to get the passengers trust again.

Although there were clear evidence things were getting back to normal, TAP Air Portugal was still very concern with the safety of its passengers. In order to keep up with the high standards that TAP is known for, cleaning and safety procedures were an important aspect that the company took into account. Some of the measures taken were: the constant testing of cabin crew and all the staff in contact with the passengers; the need to clean and disinfect the airplanes and the creation of a procedure guide that every worker and passenger had to follow.

It was crucial for TAP to boost sales and incentivize customers to fly and for that, were developed loyalty campaigns and new products and services were promoted. Some of these campaigns were made in partnership with the finest and most common touristic places passengers tend to travel (e.g., Lisbon, Madeira). These initiatives had the motto “Ready to Go”, which in a way tend to bring a sense of confidence and hope to people. Once again, communication played a key role during this period and for Portugal this was the time to promote internal tourism. Therefore, TAP in collaboration with local entities offered a variety of experiences, in which the goal was to travel safe, to a place near and promote the country and all it has to offer.

Finally, during this period there were also some changes in the company’s structure, mainly in terms of the shareholders, with a new CEO, a subject that will be developed further on the case.

By October 2020, the world was open and airline companies were able to get back to their regular activity. Therefore, there were several actions that took place during this period: a new destination Maceió; the reopening of the lounge (Lisbon); new campaigns that had has a primary focus the 75 years of TAP and promotions related with the Black Friday; the passengers who were in the Miles&Go programme were rewarded with some benefits such as, having priority when doing the check-in and boarding, access to the lounge and other advantages which led to higher customer satisfaction; the need to boost sales through the possibility that the passengers could do parcel payments, giving them more flexibility. All these activities that TAP Air Portugal had in hand were the start of a new era, in which the main focus was getting customer satisfaction and ensure that this was a trustworthy company that people could use to fly.

In order to guarantee and improve customer satisfaction, other measures were taken such as: contact center outsourcing reinforcement, going from a share of 69% answered calls in March to a total of 89% in December; developing strategies that helped customers to solve any flight situation, such as overbookings or cancelled flights, by giving them protection in these kinds of situations

In the communication department there were some actions to be taken, with the goal of passing that message of trust and reliability on the company. Some examples of these “measures” were: the 75<sup>th</sup> anniversary tribute video, that had more than 14 thousand views on the online; a series of just 2 episodes related to the engineering part of the company; a Christmas message that had more than 2 thousand views and so on. In total, there were 70.708 pieces of news related with TAP that were published on social media and around 38 videos generated a total of 4 million views on social media, as well.

## **2.2 Strategy under a social perspective**

According to a Portuguese newspaper (*Diário de Notícias*) by the end of 2020 a plan was elaborated by the Boston Consulting Group, that had the goal to minimize costs by making some cuts, since it was impossible for the company to support them. Firing TAP staff and pay cuts were two of the biggest measures mentioned on this plan. Apart from this, reductions in terms of number of planes and routes were also necessary to make TAP a viable company in the future.

By the end of 2019 TAP Air Portugal had around 10 thousand employees, while at the end of 2020 it only had around 8 thousand, due to the fact that about 1.600 contracts were over by the end of the year and were not planned to be renovated, since there were no conditions for that to happen. Until the end of 2021, more 2 thousand employees are expected to leave TAP (500 pilots; 750 cabin crew members and 750 workers).

Adding to this, pay cuts was also a measure TAP had to do, a reduction in 25% was made. The only exception in this department was regarding the wages that were of 900€, which did not suffer any cuts. In 2019, the total amount of wages were around 700 million euros, however in 2020 this value was substantially lower, due to the lay-off regime the company was in. In the next few years, it is expected the total amount

of money the company will spent on wages will be around 250 and 300 million euros. The pandemic situation has caused clear damages to their employees, leading to the firing of some and reduction of wages for others. According to information giving by Dr. Paula Canada, this situation was expected, and the operational departments were the ones that suffered the most with the whole situation.

All the situation regarding layoffs was managed by TAP to be as efficient as they could possibly be. Of all the measures taken by the company the following ones stood out: terminations by mutual agreement, early retirement, pre-retirement, part-time work and unpaid leave.

In 2021, a total of 206 letters were sent to employees regarding terminations by mutual agreement, which were denied by them. Since they were in a lay-off situation and the agreement was not made, the plan is to fire them during the year of 2021. The company justifies this decision, by the fact that there are over-jobs, which does not match the plan established by the company to overcome the pandemic situation. Furthermore, it is assumed by the Minister for Infrastructure and Transport, Pedro Nuno Santos, that if these negotiations between both parts does not come to a conclusion, there will be a collective redundancy.

However, and despite all the action around this subject, TAP Air Portugal did never put aside its Corporate Social Responsibility. In this context, the valorization of its Human Resources, and in accordance with the policy aimed at ensuring the compliance with its Social Responsibility (Exhibit 4), is guided by the following principles:

- Promote work-life balance;
- The importance of gender equality in the field of social sustainability;
- Adopt principles of transparency in the company's management and in the relationship with society;
- Provide conditions of professional and academic development to its employees;
- Assume a relationship with employees and other stakeholders, according to ethical principles and mutual respect;
- Respect the fundamental principles of Human Rights and Labor Practices of the Global UN Compact

### 2.3 Strategy under an economic perspective

TAP Air Portugal has suffered due to the pandemic situation, however it is important to understand it in terms of numbers and compare different periods to have a clearer view of the situation. According to the Management Report of TAP Air Portugal of 2020, it is possible to see the difference between the pre-pandemic and the during pandemic period. In terms of sales the company had an abrupt downfall from 2019 to 2020, going from 3.272,3 to 1.048,6 million euros (Exhibit 5). This value illustrates the effects of the pandemic in the airline company and how difficult it has been to deal with the whole situation. As a result of the evaluation carried out, the Board of Directors concluded that the Company has adequate resources to maintain activities, and there is no intention to cease activities in the short term. Regarding the activities for 2021, there is still no information given by the company since it is extremely difficult to predict any kind of possible reality.

Because of the decrease in terms of the operational activity and the need to have a better management of the company's money, the airline reduced the hiring of current service providers, which led to a decrease in accounts payable compared to December 2019. Additionally, TAP has also renegotiated with some of its current supplier's payment plans with the respective extension of the payment term. These negotiations in 2020 mainly focused on the deferral of rent payments and maintenance, as well as in the renegotiation of amounts of future rents, while keeping present, in these negotiations, on the possible future need for fleet reduction stemming from the Restructuring Plan. As regards the contract for the acquisition of aircraft of the A320neo family, the decrease in the number of aircraft to be delivered in 2020, deporting some deliveries to 2021. In addition, the agreement allowed the majority of deliveries originally scheduled for 2021 and 2022 to be postponed for the period 2025-2027. Regarding the contract for the acquisition of A330neo aircraft, it was agreed the postponement for 2024 for the 2 aircraft originally scheduled for delivery in 2022, ensuring that TAP deferred commitments to the payment of Pre-Delivery Payments and the possibility of rechanging these aircraft for other models, to be assessed depending on the resumption of demand and of the company's future needs (*TAP Management Report*).

Due to the difficult situation the company was going through the Portuguese state conceded a loan of 1.2 million euros. Furthermore, the company joined a set of supports that was conceded by the Portuguese government due to the critical context companies were in due to the COVID-19 pandemic. Those measures were the following ones:

- exceptional and temporary regime of compliance with tax obligations and social contributions, within the framework of the COVID-19 disease pandemic, decree-law no. 10-F/2020 of March 26, in its current wording.
- the application of the scheme exceptional and temporary suspension of judicial, administrative and tax deadlines, in accordance with the 1-A/2020 of 19 March, in its current wording.
- exceptional credit protection scheme companies, in the context of the COVID-19 disease pandemic, contained in Decree-Law No. 10- J/2020, March 26, in its current wording.

### **3 The biggest Challenges for TAP Air Portugal and the airline industry**

TAP Air Portugal went to a series of changes, a completely new world after 2 years, due to the COVID-19 pandemic. However, it was not just TAP that had to go through all of this to get back on top. Companies with more name in the market such as Lufthansa Group, Air France or even a low-cost like Ryanair were as affected as the Portuguese company. By being a smaller company, TAP may have gone through tougher times and took a longer time to get back to the same numbers as before, as it is possibly to see in the Management Report from 2020. In a social perspective and as a mandatory policy that had to be implemented in the entire industry, jobs were lost, profitability was almost inexistent and people were not allowed to fly. In general, this was the biggest and worst crisis in aviation history (*Paula Canada, Marketing Manager of TAP Air Portugal*).

Companies and TAP, in specific, had to redefine their goals and the mentality had to change completely. While back in the days the goal was to get new customers and to fly to new destinations, the reality now is completely different, since the focus is to keep the actual customers, through loyalty campaigns and consolidate the existent destinations. This is currently the biggest challenge for the entire industry and for TAP Air Portugal.

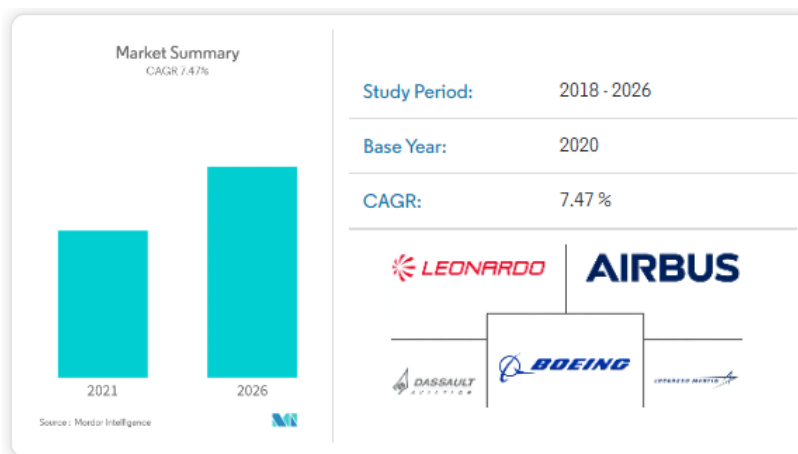
### Assignment Questions:

- From what you have read throughout the case, how do you see TAP Air Portugal in a 10-year period? Taking into account the current pandemic situation and its evolution.
- What assets do you consider to be the strongest and the weakest of TAP Air Portugal and which are the main threats and opportunities? Which aspects stood out?
- Do you consider that TAP has been up to the task? Give further recommendations for future strategic alignments
- Do you believe TAP Air Portugal and the airline industry would survive another crisis? Please justify

## 4 Exhibits

### Exhibit 1

Market evolution from 2018 to 2026



Source: Airline Market Forecast (from verifiedmarketresearch.com)

## Exhibit 2

### Evolution in several aspects of the low-cost Ryanair (2010-2021)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Turnover (€m)	2,988	3,629	4,390	4,884	5,037	5,654	6,536	6,648	7,151	7,697	8,495	1,636
Operating profit (€m)	402	488	683	718	659	1,043	1,460	1,534	1,667	1,016	1,127	-839
Profit before tax (€m)	341	421	633	651	591	982	1,722	1,470	1,611	948	671	-1,109
Profit after tax (€m)	305	375	560	569	523	867	1,559	1,316	1,450	885	649	-1,015
Number of employees (average)	7,032	8,063	8,438	9,059	9,501	9,586	10,926	12,438	13,803	15,938	17,268	-
Number of passengers (m)	66.5	72.1	75.8	79.3	81.7	90.6	106.4	120.0	130.3	142.1	148.6	27.5
Passenger load factor (%)	82	83	82	82	83	88	93	94	95	96	95	71
Number of aircraft (at year end)	232	272	294	305	297	308	341	383	431	471	466	451

Source: Ryanair info page on Wikipedia

## Exhibit 3

### Contingency Plan for TAP Air Portugal (total of 6 images)

#### Efforts among different departments allowed quick response to market changes, minimizing Pandemic impact

**2020**

**FIRST WAVE FEB-MAR**

- Contingency Plan for TAP Group
- Coronavirus channel
- Beginning of repatriation flights (80 in total) and 144 passengers
- Service adjustments redesigning the procedures for Cabin Crew and closing TAP Lounge in Lisbon Airport
- Joint communication and real time information updates on FlyTAP for Clients
- Reimbursement management together with Finance & IT teams in order to balance Cash protection but at the same time Client satisfaction
- M&C Client Status extension for 12 months (+100M monthly miles extended)

**PREPARE FOR RELAUNCH APR-JUN**

- Reactivation of the communication with Clients with promotions and special offers under the umbrella concept of **Ready to go** (7 campaigns, 12 countries)
- We Will Fly Again video and microsite with weekly updates + Hotline Office Channel
- Self Service Tools: new features in MYB in order to adapt to new Pandemic context - waivers and discounts on ticket reissuing; Self Service Recovery (Operational window); New App
- Call center: working hours reduction from 8-24h and homeoffice
- Internalization of paid search competences and redesign of the marketing process in order to achieve more accurate investments on paid search and paid media
- OBKR Kick-off Project
- TAP Clean&Safe (Clients & Employees)

**RELAUNCH JUL-SEP**

- OBKR launch for MY flights (phase 1), and reintroduction of CC service on Tap
- COVID-19 Insurance with the aim of promoting higher yield brands as TAP (Classic and TAP Plus)
- Ready to Go Concept in partnership with Turismo de Portugal - +20 campaigns including USA market
- Customer Management: task-force on complaints department to reinforce the treatment of most problematic cases (like overbooking); Management of cancelled flights with respective flight protections (120K PHRs processed)
- Design & implementation of the procedures for Cargo flights
- Boost sales through loyalty campaigns, promoting new products & services

**SECOND WAVE OCT-DEC**

- OBKR implementation (fase 2)
- Reintroduction of CC Service on LH flights with new routes and Vista Alegre dishes. Lounge reopening (Lisbon)
- New destination Macao
- Ancillaries with miles (e-commerce platform)
- +30 Promotional campaigns with highlight for Cyber Monday and TAP's 75 years
- LGSP hiring to increase capacity over passengers protection process on flights with load factor over 90%
- Restructuring Plan contributions from M&S

**2020**

**MARKETING & SALES**   **CUSTOMER**   **LOYALTY / CRM**   **COMMUNICATION**   **CABIN CREW**

**2020**

**FIRST WAVE FEB-MAR**

- Internalization of Paid Search competences
- Redesign and improvement of digital marketing campaign structures (Discounts of 25 for 10M) to ensure a better control, OD segmentation and to coverage
- MYB customizations in order to improve the booking management process - Discounts of 25 for 10M and 100 eur (14) to encourage rebooking and avoid refund or voucher requests. Growth of the self service usage with 173K requests, reducing the total calls to CC in 2020 from -3% calls
- Development of an investment and cost of sale daily reporting process, to monitor online channels and markets, for a better control and investment management

**PREPARE FOR RELAUNCH APR-JUN**

- Microsite for repatriation flights (35.000 submissions in 2020), and around 4.000 in the 2021 first wave)
- Crisis communication and travel conditions in a pandemic scenario, on FlyTap, during the layoff period (185 updates - avg 20/month)
- New APP - Digital Boarding Pass, Booking management and Self Service, with 280K initial users
- Self Service Recovery solution available at App and MYB, integrated and with an aligned look&feel
- Notes partnerships and promotion, to increase sales and to support partners in the most difficult moments of the pandemic

**RELAUNCH JUL-SEP**

- Communication regarding the return of the operation by the umbrella concept **Ready to go**, with several promotional campaigns (discounts, kids fly for free, etc.)
- COVID-19 offer insurance through sales demitization promoting upsells to Tap (Classic and Tap Plus, which represents an increase of 30% in sales (market PT)
- Promotion with Região Turismo da Madeira, with experiences offers in collaboration with local entities.

**SECOND WAVE OCT-DEC**

- Implementation of a payment miles process for ancillaries at (BE commercial, award and M&S as well as the possibility to buy ancillaries in cash during the award booking process. Liability reduction and customer satisfaction growth
- Lighter - parcel payments for US&CA markets: Boosting sales through the possibility of parcel payments

**2020**

**MARKETING & SALES**   **CUSTOMER**   **LOYALTY / CRM**   **COMMUNICATION**   **CABIN CREW**

**2020**

**FIRST WAVE FEB-MAR**

- Large investment in communication with the Client, whether through FlyTap, social networks or sending messages by flight or by destination - initially manually, with a significant part of messages being automated during the last months
- Refunds process management, together with finance and IT, to achieve a balance between protecting cash flow and customer satisfaction. Refunds paid in the amount of €491M of which €366M paid by voucher (68% of the total amount refunded). Pending payment amount of 70M €

**PREPARE FOR RELAUNCH APR-JUN**

- Increased skills of outsource agents to compensate for the loss of capacity caused by the non-renewal of contracts at TAP (lost of ~100 resources from the CC) with an exponential increase in calls especially at the beginning of the pandemic - 554K calls in 1 month (average Jan / Feb 2020)
- Reduction of Contact Center opening hours to 8-24h due to reduced resource needs
- Relationship with ANAC to ensure that the information made available by TAP to the Passenger is in accordance with the rules in force

**RELAUNCH JUL-SEP**

- Flight cancellations and protections process management - implementation together with IT of a communication mechanism to the Client that protects your acceptance, reducing the PHR's that are subject to manual claims by 50%, dropping 120.000 PHR's with a compensation rate of 61% flight
- Creation of a task-force at Fare Connors to deal with items related to refunds and complaints of irregularities, especially in European markets. Despite having been a challenging year, we handled 249K complaints, a growth of 40% compared to 2019
- Self-care solution development for the Client to be able to, autonomously, change his flight (website or app) in case of irregularity - in production for the operational window since August 2020, extended out of the operational window in January 2021

**SECOND WAVE OCT-DEC**

- Hiring of the LGSP to expand capacity in the cancelled flights protection treatment with verification and replacement of connections, isolation of overbookings and help in cleaning flights with EA above 50%, in order to maximize available seats for sale and support the decision of the network in cancel or reduce frequencies or make changes to equipment according to effective demand
- Contact Center outsourcing reinforcement -> we went from an outsourcing start-up based on answered calls of 60% in March to 80% in December
- Implementation of a mechanism that allows Customers who intend to contact TAP in the languages in which we have a lack of capacity (German, French and Italian) to choose to speak in Portuguese or English, reducing the pressure on those languages peaks by up to 25% of the volume

**2020**

**MARKETING & SALES**   **CUSTOMER**   **LOYALTY / CRM**   **COMMUNICATION**   **CABIN CREW**

**2020**

**FIRST WAVE FEB-MAR**

- Support Customers with the guarantee of maintaining rights and benefits
  - Extension of clients' status for another 12 months
- Prolongamos a validade das nossas milhas
  - Miles validity extended for 12 months
  - Booking changes, cancellations and refunds without additional penalties

**PREPARE FOR RELAUNCH APR-JUN**

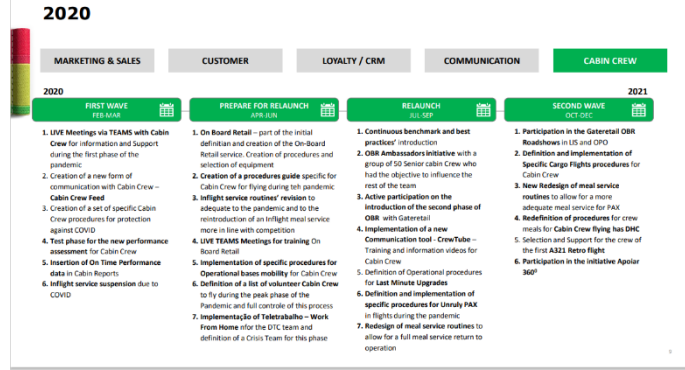
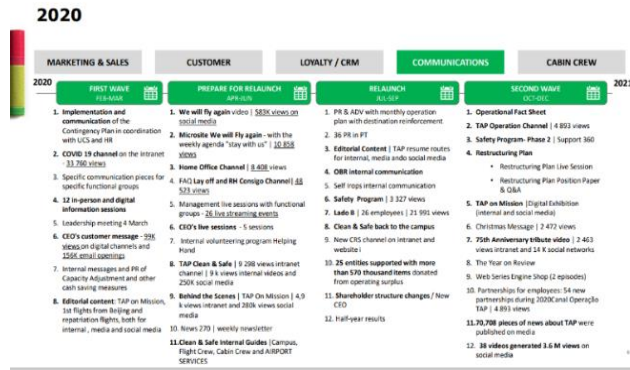
- Implementation of Status Match, to retain valuable Customers from other competing airlines (~200 new Customers / month)
- Industry awards won by the Programme, at the Freddie Awards:
  - Best Redemption Ability and Biggest Growth Potential for Europe and Africa

**RELAUNCH JUL-SEP**

- Support Sales with demand increase:
  - Double/Triple Accrual for Customers that bought and flew within 1 months period
  - Status upgrade to Silver or Gold for half the miles until Dec 2020
  - Possibility to issue One-Way Award tickets with Star Alliance

**SECOND WAVE OCT-DEC**

- Diversification of Miles Redemption opportunities on TAP
  - Signing of the first contract for a bank transfer partnership in the United States - Capital One
  - Ancillaries with miles Payment of all travel extras (e.g. bags, seat, first, lounge, pet's, sports / musical instruments) - 21.000 items sold so far, -16Mio miles redeemed equivalent to +1.10K€
  - Profiling of 4.5Mio Customers according to purchases to next best destination, propensity for ancillary purchases, churn, lifetime value that feed 480 campaigns / +300 monthly targets according to defined commercial communication timeline



Source: PowerPoint related to the Marketing & Sales of 2020 (given by Dr. Paula Canada)

**Exhibit 4**

Indicators that represent the social perspective of TAP Air Portugal

Objetivos	Indicadores	2018	2019	2020
Promover Envolvimento com a Empresa	Taxa de Absentismo	5,8%	5,7%	7%
Disponibilizar serviços e apoios de natureza social e cultural aos Colaboradores que contribuem para melhorar as condições de trabalho e facilitar a compatibilização	Nº crianças que utilizam o infantário	265	246	247
	Nº beneficiários do Seguro de saúde do Grupo <sup>1)</sup>	24,636	25,581	18,143
Promover e apoiar iniciativas de carácter social	Realização de Estágios na Empresa	186	167	57

Source: TAP Air Portugal Management Report 2020

**Exhibit 5**

TAP Air Portugal Management Report 2020 (Main Financial Data)

TAP S.A. - Principais Indicadores Financeiros (Contas Individuais)	2020	2019	Varição Abs.	Varição %
<b>Demonstração de Resultados</b>				
Vendas e serviços prestados	1.048,6	3.272,3	-2.223,7	-68,0%
Outros rendimentos e ganhos operacionais	12,5	33,4	-20,9	-62,5%
Gastos e perdas operacionais	-2.059,1	-3.370,1	1.311,0	-38,9%
<b>Resultado antes de depreciações, gastos de financiamento e impostos</b>	<b>-998,0</b>	<b>-64,4</b>	<b>-933,6</b>	<b>&lt;-200%</b>
Gastos/reversões de depreciação e de amortização	-95,3	-78,9	-16,4	+20,8%
Imparidade de investimentos depreciáveis/amortizáveis (perdas/reversões)	-2,7	-2,7	0,0	-0,6%
<b>Resultado operacional (antes de gastos de financiamento e impostos)</b>	<b>-1.096,0</b>	<b>-146,0</b>	<b>-950,1</b>	<b>&lt;-200%</b>
Juros e rendimentos similares obtidos	33,6	33,8	-0,3	-0,8%
Juros e gastos similares suportados	-251,4	-59,0	-192,3	>+200%
<b>Resultados antes de impostos</b>	<b>-1.313,8</b>	<b>-171,2</b>	<b>-1.142,7</b>	<b>&lt;-200%</b>
Imposto sobre o rendimento do exercício	-4,0	36,9	-40,9	-110,9%
<b>Resultado líquido do exercício</b>	<b>-1.317,9</b>	<b>-134,3</b>	<b>-1.183,6</b>	<b>&lt;-200%</b>
<b>Balanco</b>				
<b>Total do Ativo</b>	<b>2.866,7</b>	<b>2.775,3</b>	<b>91,4</b>	<b>+3,3%</b>
Ativos não correntes	1.052,9	858,5	194,4	+22,6%
Ativos correntes	1.813,8	1.916,8	-103,0	-5,4%
<b>Total do Capital Próprio</b>	<b>-1.371,5</b>	<b>4,9</b>	<b>-1.376,4</b>	<b>&lt;-200%</b>
<b>Total do Passivo</b>	<b>4.238,2</b>	<b>2.770,4</b>	<b>1.467,8</b>	<b>+53,0%</b>
Passivos não correntes	1.345,3	1.384,1	-38,8	-2,8%
Passivos correntes	2.892,9	1.386,3	1.506,6	+108,7%

Source: TAP Air Portugal Management Report 2020

## **II. Theoretical background**

In this chapter the main goal is to understand the theoretical background behind the case study. Understanding how theory works, leads to a better understanding of how the entire industry and a certain company performs, both in terms of decision-making and analyzing the results. These theories do not explain everything, since there are other factors that are also important to consider, but they are important and necessary to have in hand.

### **1. Market Overview**

Market overview can be defined as a brief synopsis of a certain market, which aim is to provide a global view of a market in order to better understand some important components. This analysis may be extremely subjective since the analysis may only be done regarding certain dimensions. Therefore, it is important to clearly establish the criteria of your research, in order to be as more specific as possible.

In order to collect the data, there are many resources to be used to do that, such as: Market Publications, Industry Analysis, Individual Companies, Port Authorities, Information Brokers, Economic Development Agencies, Governments and other organizations.

The market overview can have some limitations and those may not be included in a certain analysis. Unpredictable and out of hand situations cannot be taken into account in a market overview analysis, since they are not possible to control. A clear example of that is the COVID-19 pandemic in an early stage, that led to modifications in almost every market, changing every predicted made about how its evolution.

As a conclusion, market overview is an important element of market analysis, however it can be a very volatile instrument since it is not able to predict certain events that can change it completely. As a personal opinion, short-term analysis may seem more suitable in nowadays, due to the voidability of the markets and the lack of uncertainty there is.

## 2. SWOT Analysis

The SWOT analysis has been throughout the years one of the most used methods by specialists, that analyzes a certain company internally, by its strengths and weaknesses, and also compares it with the market, by analyzing possible threats and opportunities. Furthermore, SWOT analysis is a tool that is commonly used for strategic planning and management. It can also be used to build organizational strategy and competitive strategy (*cf. Gurel, Emet 2017*). Swot analysis is a simple but powerful tool for sizing up an organization's resource capabilities and deficiencies, its market opportunities, and the external threats to its future (*cf. Thompson 2007*). Understanding the story involves evaluating the strengths, weaknesses, opportunities, and threats and drawing conclusions about how the organization's strategy can be matched to both its resource capabilities and its market opportunities, and how urgent it is for the organization to correct which particular resource weaknesses and guard against which particular external threats" (*Thompson and Strickland, 2001: 127*). The true value of a SWOT analysis is being able to analyze what the four components talk about the company situation and, from that, understand what actions should be taken by the company. This system helps to focus on minimizing weaknesses and taking the greatest possible advantage of opportunities available. As a result, considering external and internal factors is essential because they clarify the world in which the business or the unit operates, enabling it to get a better envision for the desired future (*Pahl and Richter, 2009*).

## 3. Social Responsibility

According to the Corporate Finance Institute (CFI), social responsibility can be defined as the business practices of engaging in ethical behavior and in taking actions aimed at benefiting the society in which the business operates in. Nowadays companies have shown to be more eager to practice this kind of policies, which in a certain way can be justified by the fact that Millennials have shown an increasing concern about socially responsible business practices. Furthermore, it is expected that companies can achieve more profit and revenues if these practices are put into action.

The way companies decide to implement its socially responsible practices it's up to each one of them. In one hand, some prefer to have more eco-friendly practices, such as the reduction of the carbon footprint, water pollution or the use of non-recyclable

products. On the other hand, others prefer to do volunteering actions, by contributing to the community. An important aspect that needs to be taken into account, is to understand how these practices are implemented. According to the CFI, if practices are implemented into the core business of the company, they tend to be easier to implement, to be sustained and to gather a better response from the public.

As a second possible definition, according to the Cambridge Dictionary, social responsibility is the practice of producing goods and services in a way that it is not harmful for the environment or for the society. Throughout the last decades, it there has been a sense of urgency for companies to have special focus concerning the social responsibility, since the consumer has also shown special care regarding the subject.

#### **4. Competitive Analysis**

This concept can be described as the analysis companies make of their competitors and how their own business can be compared to it. To better understand this concept, it is necessary for companies to respond to several questions:

- Who are your competitors?
- What products or services do they sell?
- What is each competitor's market share?
- What are their past strategies?
- What are their current strategies?
- What type of media are used to market their products or services?
- How many hours per week do they purchase to advertise through the media used in this market?
- What are each competitor's strengths and weaknesses?
- What potential threats do your competitors pose?
- What potential opportunities do they make available for you?

Companies have different reasons to why they make this analysis, being those SEO, branding, pricing or go-to market strategy. However, this type of analyze can not only be made taking your competitors into account, as Peep Laja said in one of his notes, what company X does, company Y does not have to do the exact same thing. If a certain thing

has worked for company X, it may not work for company Y, since the way that business is managed from company to company is different. “You’d be surprised by the number of people who actually know their shit” (*Peep Laja*). As he continues on his notes, “The thing you copy is a hypothesis – and you need to test it” (*Peep Laja*). Therefore, as a conclusion and in order to have a good competitive analysis it is important to define several steps that will give logic to your analysis. Those steps are:

- Set your goals.
- Identify your competition.
- Conduct a competitive usability investigation.
- Compare competitor value propositions.
- Interview your competitors’ customers.
- Run a competitive analysis for design.
- Make a quantitative competitive investigation.
- Run a functional investigation.

## **5. Crisis Management**

This concept can be defined as the process undertaken by a certain organization to prevent, prepare for and respond to future crisis that threaten to harm the organization’s business and its employees. Generally, crisis led to losses of money, decreases in terms of sales and possible redundancies.

According to Investopedia, even the best managed business may be hit by a crisis caused by both internal and external events. The clearest of examples is the actual crisis of the COVID-19 pandemic that has affected a huge number of businesses, however a crisis can be defined in many ways, such as an office fire, a terrorist attack, a data breach or a climatic change. Companies have no way to control certain events, however the need to have mechanisms to prevent these events and that is what makes a difference between a good and a bad crisis management.

In order to keep a business running, it is important that companies have a way to measure risk, and that’s what we called risk analysis, which is the process of identifying adverse events that may occur and estimating their likelihood of occurring. By managing and analyzing the different possible scenarios, a manager can understand the probability

of a certain event occurring, the worst and best possible outcomes and the damage the company will suffer from that crisis.

Despite the fact that the concepts of crisis management and risk management differ in certain aspects, they complement themselves and are both helpful in a management situation.

### **III. Resolution Notes**

#### **1. Introduction/Synopsis**

TAP Air Portugal has been through a serial of bumps in the last decade, the constant change in terms of CEO is an example of constant uncertainty that has been in the company's mind in the last few years. However, the crisis due to the COVID-19 pandemic has been the one that has most affected the company, leading to deep internal and external changes. This case was elaborated in 2021 and it tries to englobe all the changes that TAP has suffered throughout the 2-year period, since the start of the pandemic. By reading the case, students should have a better understanding of how the airline industry has dealt with the pandemic situation, its major changes and how companies like TAP Air Portugal have tried to turn its situation back around.

It is also important to mentioned that due to the uncertainty of the pandemic situation, many of the measures that were taken by TAP and by the industry, as a whole may have changed.

The following teaching note can be used as a helpful support in order to better understand of the case and the respective assignment questions. As mentioned, this case is an extremely volatile one, therefore in-class discussion should have an important role, in order to discuss future changes and strategies taken by TAP.

#### **2. Teaching Notes**

The case offers a different type of point of views regarding TAP's strategic actions that were taken to deal with the pandemic situation that has had a dramatic impact in the company's core business. Strategies were made taking into consideration an operational,

social and economic points of view. In order for a deeper analysis and complete understanding of the case it is important that the class discussion triggers new ideas and thoughts towards the strategy made by TAP.

Understanding the theoretical concepts around the case and each and everyone's personal and critical opinion are the keys to completely understand the case and generate new ideas that may complement the information given. Students should have some information regarding TAP's history and about the airline industry, since there are some definitions/terms that may be difficult to understand. However, this previous background is not mandatory. It may be helpful that while reading the case to take some notes, make some graphics or illustrations that may lead to an easier comprehension. Before the reading of the case, it is recommended that the professor hands out the questions, to provide guidance for the students. For each question, it is expected the student to have a certain level of knowledge regarding the theoretical background described in previous topics. In addition, the objectives that are expected to be reached in each question are described below:

**Question 1: From what you have read throughout the case, how do you see TAP Air Portugal in a 10-year period? Considering the current pandemic situation and its evolution.**

*Teaching Objective:*

- *Understand if the company's strategy is the most suitable one for now*
- *Understand if in the long way the strategy adopted makes sense or has to be changed*
- *Understand how the industry changes and possible opportunities/threats.*

**Question 2: What assets do you consider to be the strongest and the weakest of TAP Air Portugal and which are the main threats and opportunities? Which aspects stood out?**

*Teaching Objective:*

- *Analyze the importance of a SWOT analysis for the success of a business*

**Question 3: Do you consider that TAP has been up to the task? Give further recommendations for future strategic alignments**

*Teaching Notes:*

- *Reflect on the current and future goals of the company*
- *Being able to have a critical point of view*
- *Finding recommendation for future strategic alignments*

**Question 4: Do you believe TAP Air Portugal and the airline industry would survive another crisis? Please justify**

*Teaching Notes:*

- *Reflect about the concepts of crisis and risk management*
- *Understand the importance of a market overview analysis*

### **3. Assignment Questions**

According to the case, the following assignment questions are the ones that can complement the information given by the case and generate opinions that may be relevant. Therefore, those questions are recommended, and others may be provided by the professor during class. During the reading of the questions and while elaborating the answers, the students are recommended to have a critical thinking regarding the subject and always give their personal point of view, in order to create more content to be discuss in class.

**Question 1:** From what you have read throughout the case, how do you see TAP Air Portugal in a 10-year period? Considering the current pandemic situation and its evolution.

**Question 2:** What assets do you consider to be the strongest and the weakest of TAP Air Portugal and which are the main threats and opportunities? Which aspects stood out?

**Question 3:** Do you consider that TAP has been up to the task? Give further recommendations for future strategic alignments.

**Question 4:** Do you believe TAP Air Portugal and the airline industry would survive another crisis? Please justify

#### 4. Analysis and Discussion

**Question 1: From what you have read throughout the case, how do you see TAP Air Portugal in a 10-year period? Considering the current pandemic situation and its evolution**

The main goal in this question is that the student can analyze the current strategy implemented by TAP Air Portugal and understand if that is the most suitable one in the long run. Not only it is important that an analysis is made to the strategy TAP decided to adopt but also to how the market is performing as well as the pandemic situation evolution. Therefore, for this question it is not just important to read and understand TAP's strategy but to search for information that may give some tips for what the future holds.

In this question it is important that the student can first do a personal analysis regarding the strategy taken by the company and then do a market overview regarding the entire industry and understand what is expected of the pandemic's evolution.

By analyzing the current strategy adopted by TAP Air Portugal it is still very soon to tell if it was the more correct one or not. As seen in the case, the strategy had several points of focus. In an operational analysis, there were taken measures that would relaunch the company back on track and would have a positive impact on future years. However, the scenario described by TAP by this perspective is way too positive and there is no evidence that it is all going to go well. There are a lot of "What if's" that can lead to a complete turnaround on the strategy defined by the company. In the social point of view, the need to reduce wages and do redundancies was expected by almost everyone and it has to be said that it was the right step to do it. TAP was not having the same profits as before and costs were too high for the company to support, which meant that a more aggressive strategy had to be taken, which in my opinion was the correct one. In an economic point of view, the need to request the help of the Portuguese state, to sell aircrafts and to reduce suppliers was also an expected measure to be taken by the company, since there was no other possible alternative.

In the future years it is still very uncertain to predict how is TAP going to be, since it depends a lot on the evolution of the pandemic. According to the International Civil Aviation Organization, a total of 370 million dollars were lost by the airline industry in 2020. It is expected that the comeback will take longer than expected, since there is no

way that airline companies can predict how the future will go. However, there is also the other way of thinking, that the airline has started to operate and getting used to the changes suffered due to the pandemic. It is to be said that TAP will not be better or worst in a 10-year period, but it will definitely be different from how it was in the past.

The main difficult for TAP and many other airline companies is the constant instability of the pandemic, since there are periods with less restrictions and other periods in which borders are closed and there are quite a few flight restrictions. It is important that TAP can adapt to it and be prepared to make constant changes in their way of making business. 10 years from now it is not expected that the pandemic to be completely over, which in a way means that strategies are going to be changing constantly and needed to be adapted to each reality.

**Question 2: What assets do you consider to be the strongest and the weakest of TAP Air Portugal and which are the main threats and opportunities? Which aspects stood out?**

This question is basically asking for the student to make a SWOT analysis of the company and indicate what aspects stood out during the pandemic period. As an additional note it is important that the student may take some strategic guidelines.

This might seem as an extremely simple question, as it in fact only asks the student to make a SWOT analysis, however it is important to take in mind some factors: are the strategic guidelines suitable for the company? Is it possible to do? Are any other factors to take into account? Questions that do not have an answer but have to be in the student's mind.

## SWOT ANALYSIS OF TAP

### STRENGTHS:

- Strong brand image in both a national and international perspective;
- High quality in terms of the service and safety;
- High customer satisfaction;
- Good relation between price and quality;
- Various actions made in the digital world (campaigns; promotions);
- High social responsibility;
- Easiness to access information on the on-line

### WEAKNESSES

- Frequent strike actions, that lead to job instability;
- Still a small airline when compared to another major airline companies;
- High fix costs;
- Strong dependence on the Portuguese government

### OPPORTUNITIES

- Possible partnerships with other companies;
- Expansion in terms of new destinations/routes;
- Expanding their loyalty programs (develop the Miles&Go programme);
- Take advantage of the digitalization era

### THREATS

- Low-cost airlines are expanding in the market;
- Economic crisis, mainly due to the pandemic (threat that is expected to last a long period of time);
- Consumer behavior is changing and price is becoming the number one factor when making decisions;
- Easy substitutes for the domestic flights;
- Environmental crisis and measures;

The SWOT Analysis serves as an example of the main aspects that can be define internally and externally when analyzing the case. During the pandemic there were some that definitely played a more important role and had to be seen in a different perspective.

In terms of the main strengths safety and quality procedures were aspects that had to come up and be the image of the company during this period. Safety measures around the passengers and the employees played a massive role during this time. Actions like the cleaning of the aircrafts, the use of masks by everyone involved, the need to present the vaccination certificate or the constant testing of cabin crew members and pilots are some examples of measures taken by TAP to ensure the safety and quality procedures.

The need to go to the online in a time where contact face-to-face was restricted, gave TAP other possibilities to expand their business and being able to better communicate to its customers. Major developments were made in both the website and social media.

Not only positive aspects arise due to the pandemic, but several weaknesses were also more evident during this period. The constant strikes by employees were one of them, justified by the low wages and the uncertainty the employees had on keeping their jobs. During this period, redundancies were almost mandatory and a minimum total of 2.000 employees were fired due to unbearable financial situation the company was (available on the management report of TAP of 2020). Furthermore, wage reduction was another aspect that led to a decrease in the employee's satisfaction. All the wages above 900€ suffered a 25% reduction, which is still a substantially downfall.

Despite the dark scenario around the industry, opportunities were still there, and TAP needs to take advantage of them. The need to retain customers is one of them. In a period where gaining new customers is harder than ever, keeping the actual ones seems to be a more real goal to be achieved. By that, betting on activities, such as the Miles&Go programme is crucial in this period. Offering passengers, the possibility to have rewards by travelling with the company not only increases customer satisfaction, but it also leads to a better brand position in the market. According to most recent data of 2020 in terms of the biggest airlines in Europe in terms of number of passengers, TAP is currently on the 16<sup>th</sup> position which means that there is still lot of room to improve and a lot of work to be done.

More than ever, threats are the worst nightmare for any airline company in this moment. The clearest one is the uncertainty of the pandemic scenario in future years, the

unknown is a terrified world and the inability to predict anything makes thing even worst. This can be said to be the only threat TAP cannot avoid and be harder to face in the future. However, other threats such as, the boost that low-cost airline companies have had in recent years is also an important one to consider in future analysis. How can TAP compete with these airlines? A simple and direct response would be to reduce prices, however this would change company's image and the way they position themselves in the market, as well as their main target. The other hypothesis is to keep the prices and boost quality, efficiency and safety measures. According to TripAdvisor, the reviews given to the airline company regarding the customer support is of 15,7%, which is an extremely low value. This a clear example of how urgent it is for TAP to invest in their customer support. In order to better understand some of the differences between TAP and their main

competitors the following table is presented:

<b>Competitor Analysis</b>	<b>Strengths</b>	<b>Weakness</b>	<b>Differentiation</b>	<b>Target Group</b>
<b>TAP Air Portugal</b>	Strong brand image High price/quality Strong online presence	High fix costs High prices Strikes	Brand image High Quality Safety	Older people Medium/High class salary Educated passengers
<b>Ryanair/EasyJet</b>	Cheap tickets Low costs Low airport charges	Lower loyalty Lower quality Bad relation company/customer	Cheap prices Low costs	Younger people Low class salary Price sensitive

Source: Own figure (keep in mind that the two airlines used to compare with TAP are low-cost, therefore the characteristics are pretty much the same)

As we can see from the table above, price is the main factor of differentiation between these airlines. Since it does not make sense for TAP to reduce its price to the values that both Ryanair and EasyJet present to their customers, the strategy should be to focus on increasing the quality, reducing costs and increase employee satisfaction. By focusing on these aspects, TAP should differentiate itself from these companies, not by price, but by investing on these other factors.

**Question 3: Do you consider that TAP has been up to the task? Give further recommendations for future strategic alignments.**

This is question that has multiple answers and it's up to each student to have a critical thinking and being able to justify their own answer. It is difficult to say yes or no to the question, since there is a lot of information that is not possible to have access.

However, there is still different ways to be able to analyze if the strategy that was set by TAP has led or not to major changes in the company's dynamic and mainly regarding its business. Despite the answer being yes or no it is still possible for TAP to make future strategic implementations that could possibly lead to an improvement of the company's success in every aspect.

According to the information given in the case, it is still too soon to say if the company's strategy has been the correct one or not. However, as a personal opinion, the actions that were put into practice were the most suitable ones, taking into account the reality of the situation in hand. Situations like redundancies and wage reductions cannot be defined as a positive strategy, since it had a negative impact on the employees. If we think on this situation in a business perspective, it was something that had to be done, the need to reduce costs was almost mandatory and it was unbearable for TAP keep the business running without the abrupt reduction in terms of sales and revenue. So, answering the question, it can be said that despite not taking the measures that were satisfying for everybody, they were the ones that had to be made in a strategic point of view.

As it is mentioned throughout the case, the future is still very uncertain, which makes it harder to predict what will happen in the following years. From what we know and seen from TAP there are still some things that can and should be done in the future

- Invest in loyalty campaigns, the main priority is to ensure that the company can retain its actual customers. For example, develop the Miles&Go programme with new rewards and benefits that are more attractive to customers.
- Due to the need to reduce wages TAP may invest in internship indicatives, since it allows the company to reduce cost in terms of salaries (a trainee receives a clearly lower amount of money when compared to a full-time employee) and it also gives the opportunity for the youngsters to have an experience at the biggest national airline.

- The need to develop new routes, for example to Asia since this is the only continent that the company does not operate to. New destinations allow TAP to have a higher visibility internationally and therefore higher brand image.
- It is important to have a mind-set in the future, therefore the ordering of new aircrafts is something to keep in mind. On the other hand, fixed costs need to be reduced and profit generated per flight has to be higher.
- The digital era has come and TAP has been there to respond. It is important to always be “on time”, therefore the creation of new digital concepts is an important element in the communication with the customer.
- As seen, the relation between stakeholders and employees has not been the best. It would be important to establish a better relationship between both parts and focus on their communication. Managerial decisions should be known by the two parts.

**Question 4: Do you believe TAP Air Portugal and the airline industry would survive another crisis? Please justify**

In this question it is important to go back to the concepts of risk and crisis management since they are crucial for this situation. Despite not having information if those two concepts were present in the current scenario, it is important to think on the future and being able to predict any further bad situation for the company. Therefore, both concepts will be analyzed in the current scenario and in a possible future.

By analyzing TAP’s strategy and the path the company decided to follow it is clear that there were no expectations regarding the impacts that the pandemic would have on the company’s business, which therefore we can affirm that there was no evaluation previously made of the crisis that was to come. However, it is also true that this was as an external event that had dimensions impossible to compare to any other previous event.

Is it possible to affirm that with all the knowledge of today regarding the pandemic, if it was to happen today, TAP’s business would be able to survive? There is no clear evidence that can allow us to say that, but it is possible that the company’s approach in terms of risk analysis and the way the crisis is managed, would be different.

By definition, a crisis management serves as an instrument to help companies prepare for a future situation that can harm the business as a whole. This concept is only a

guideline and may suffer some modifications according to the type of crisis and all the surrounding environments.

There is no correct answer to this question since the opinion may diverge. In one way, there is a possibility that TAP has learnt with all the COVID-19 pandemic and has taken some notes for a possible future crisis, making some adjustments to the plan that was taken into action in this situation. On another hand, it is possible that a future crisis is completely unknown (like this was) and there is no possibility to evaluate the risk and create a plan that can be put to perfection.

Concluding, there are two ways of thoughts. The first one is assuming that TAP has taken some lessons from this crisis that will help them in a future one. The second one is assuming that another crisis has completely unknown impacts and TAP cannot be able to control its effects. This last one is a subjective thought since it depends on a variety of factors: Is it an external or internal crisis? Who/What caused it? How long is it going to take?

## **5. Conclusion/Limitations**

This dissertation, in a form of a case study, allows the students to better understand how big companies like TAP Air Portugal has responded to one of the most difficult periods in recent history. The case gives the chance to analyze a real scenario and to have the opportunity to make a strategic analysis and have a personal point of view regarding a company's strategy during the COVID-19 pandemic. The major conclusion that is possible to take from analyzing the case is how fast and harmful the pandemic was and how a certain company had to respond to it. Company's mentality has suffered some radical changes, consumers have changed and most important, the business is completely different from what it was before. It is pretty interesting to understand these dynamics and to follow the path that TAP had to take to be able to achieve their goals and to redefine its strategy.

This case is a description of today's reality, however in the near future it can be completely different due to several factors, such as the evolution of the pandemic, the goals TAP wants to achieve, the future dynamics of the airline industry and most important, the consumer behavior and how they feel towards this whole situation.

For the elaboration of this case the help of Dr. Paula Canada was extremely useful in order to understand the direction TAP was planning to go, as well as their main concerns for the present. However, and despite all the help provided, some subjects were not revealed by the Marketing Manager of TAP, which led to search on journals, websites and analyzing the Management Report from the past two years. The difficulty of getting precise information regarding TAP's numbers was the major limitation during the elaboration of this case. Regarding the COVID-19 crisis the information was a little bit easier to obtain, since it is the most debated subject of our time and there was a lot of articles that gave special attention to it.

In a personal point of view, the elaboration of this dissertation was not as easy as it was expected from the beginning, since there was a lot of information not available online and was not given by Dr. Paula Canada. However, it is pretty interesting to see the response that a big company in the airline industry and the biggest one in Portugal, has responded to a difficult situation like this. It will also be interesting to see where they go now and what future actions are going to be taken to get back to how it was. This case may serve as a starting point for students to understand the first steps the company took and to see how it will go from now on.

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