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9B19A057

China Eastern’s World-class Dream: Shanghai-based Globalization

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With the vigorous development of China’s aviation industry, China Eastern Airlines has grown into the seventh-largest airline in the world, serving more than 121 million passengers per year with over 700 fleets. The “sun never sets” for China Eastern Airlines, with flights in the air at any given time. We have the most advanced and comfortable aircrafts, have built a global route network, have simplified passenger travel, and have improved the on-board service to be more personalized and user-friendly. More importantly, we are actively involved in international airline affairs, building a global network, joining the top airline alliance, and developing close partnerships with the world’s leading airlines; [China Eastern Airlines] has gained a commanding voice in the global airline industry.

Shaoyong Liu, chairman, China Eastern Airlines Corporation Limited

Faced with fierce competition from major domestic and international airlines, in 2014, Shaoyong Liu, chairman of China Eastern Airlines Corporation Limited (China Eastern), first introduced the company’s “Pacific Plan.” The plan involved a comprehensive upgrade of hardware and software services to enhance the competitiveness of China Eastern’s cross-Pacific routes. Since November 2014, Boeing 777-300ER aircrafts were allocated for long-haul trans-Pacific routes and became the main force of the Pacific Plan.[[1]](#footnote-1) Seizing opportunities brought forward by the introduction of new-generation long-haul aircraft and in-flight Internet network services, China Eastern built a new brand image with international influence. From 2014 to 2018, the China Eastern North America team made concerted efforts in expanding its route network and optimizing transit opportunities through “gateway” cities in China and North America. At the end of 2018, China Eastern operated a total of ten North American routes, reaching international metropolitan cities including New York City, Honolulu, San Francisco, Los Angeles, Chicago, Toronto, and Vancouver. Among these eight routes, seven departed from Shanghai. China Eastern strove to become more global by continuing to extend its influence from Shanghai to the rest of the world.

With the implementation of the Belt and Road Initiative in 2017, a global development strategy adopted by the Chinese government, what should China Eastern Airlines do to continue to expand its Shanghai-based globalization strategy?

China Eastern AIrlines COrporation—History and Background

China Eastern was one of China’s top three major state-owned air transportation companies, headquartered in Shanghai. China Eastern first listed its H shares on the Stock Exchange of Hong Kong and the New York Stock Exchange in February 1997. In October of the same year, China Eastern issued and listed its A shares on the Shanghai Stock Exchange. This signified the first Chinese airline to list its three securities on three stock exchanges.

Air China Limited, China Southern Airlines Company Limited, and China Eastern dominated 64.6 per cent of the market share in China; the remaining market was shared by smaller airline companies, such as Hainan Airlines Co., Ltd.[[2]](#footnote-2)

The scope of China Eastern’s business included domestic, international, and regional air transportation of passengers, cargo, mail, and luggage, as well as other airline services. As China’s second-largest carrier by number of passengers, China Eastern aimed to exploit potential in the domestic market as it boosted domestic and regional flight frequencies from Shanghai to other Chinese cities.

On the international front, China Eastern accelerated the pace of international expansion by increasing flight frequencies to international destinations. On June 21, 2011, China Eastern joined SkyTeam Airline Alliance (SkyTeam), allowing the company to extend its flight network from Shanghai to 1,150 destinations in 175 countries around the world. China Eastern leveraged the SkyTeam platform and route network of member airlines and commenced a code-sharing[[3]](#footnote-3) operation with over 10 SkyTeam member airlines, covering 797 routes. China Eastern also sustainably commenced intensive co-operation with SkyTeam members in alliance projects such as SkyPriority, SkyTeam Hubs, and SkyPort. Furthermore, China Eastern also strengthened its partnerships with SkyTeam members such as Air France-KLM S.A. (Air France-KLM), Delta Airlines Inc. (Delta), and China Airlines to continuously develop an international brand with a global influence.[[4]](#footnote-4)

Brand Development

Core Value

China Eastern’s core brand value was “world-class hospitality with Eastern charm.” The company strove to provide globally integrated aviation services and logistics. Through the implementation of its brand operation strategy, China Eastern dedicated itself to providing “accurate, delicate, and precise” quality of service in creating splendid travel experiences for global customers.

Brand Orientation

China Eastern built world-class aviation services to ensure its safe operation. China Eastern emphasized the services and experiences it provided to its customers. Adhering to the service philosophy of “customer-oriented and dedicated services,” China Eastern introduced the “Eastern Miles” frequent flyer program, an incentivized program that allowed its members to enjoy benefits offered by 19 SkyTeam airlines as well as the use of more than 750 VIP airport lounges across the world. China Eastern also promoted marketing campaigns such as “Members Day” and the “818 Big Sale,” aiming to develop a strong frequent-flyer member base and customer resources. By the end of 2018, the Eastern Miles frequent-flyer program had reached 39.63 million members.

China Eastern steadily increased its service quality and services by vigorously promoting online service integration. Self-service check-in was expanded to 88.11 per cent of locations, and the self-service check-in rate in China exceeded 78 per cent. China Eastern was committed to creating a digitalized airline that brought great convenience to passenger travel. Online service system and the luggage inquiry system were developed to enhance the customer’s travelling experience.

Brand Style

With a focus on building an “exquisite, elegant, [and] fashionable” brand style, China Eastern was dedicated to pursuing service quality improvement and providing its customers with safe, comfortable, and convenient air transport services. The airline aimed to create an exclusive service brand by optimizing customer experiences. China Eastern constantly improved hardware service facilities; for instance, it upgraded Shanghai Pudong International Airport’s high-end check-in area and renovated 37 VIP lounges at 13 airports. The Eastern Miles platinum card was introduced to forge a brand dedicated to high-end services.

North American Lines and Call Centre

On August 6, 1991, China Eastern opened its first trans-Pacific long-haul international route connecting Shanghai to Los Angeles. On June 16, 2004, China Eastern extended its flight network, connecting Shanghai to Vancouver by introducing the second North American long-haul route.[[5]](#footnote-5) Over the next ten years, China Eastern focused its strategy on establishing transportation hubs by opening various international routes for long-haul flights to extend its flight converge. With Shanghai as China Eastern’s core hub, five international routes for long-haul flights were added to the network, connecting Shanghai with New York City, Honolulu, San Francisco, Toronto, and Chicago. In 2014, China Eastern founded a marketing centre in North America to expand marketing channels in the United States. In 2015, the marketing centre expanded its network to include airline routes to Canadian cities. With a focus on enhancing customer value, China Eastern developed an international e-commerce platform to expand its sales channel in North America. As of 2015, China Eastern presently had a total of 73 flights flying from China to North America each week. It had become the third-largest carrier in the China–US market and the second-largest carrier in the China–Canada market.[[6]](#footnote-6)

Informatization was the “engine” of brand internationalization. China Eastern formed digitized systems for major business services such as international operation control, aircraft affairs, and management control to enhance the customer experience. On November 17, 2016, the North American call centre was established for airline services support and inquiries for North American routes. China Eastern vigorously promoted online service integration such as with their online self-service check-in system, luggage inquiry system, and abnormal flight information release platform to increase service quality; for example, offline cabin meals can be selected through this online system in advance. The airline also developed a mobile marketing and service platform, leveraging channels such as WeChat, to provide passengers with always connected, and 24-7 travel information services.

The Pacific Plan

China Eastern aimed to accelerate the globalization process by strengthening its co-operation with partners in the aviation industry. With the goal to further optimize and better serve the North American market, Liu rolled out the Pacific Plan in 2014, aiming to expand China Eastern’s route network and enhance the airline’s competitiveness in North America. Considering its customers’ needs, China Eastern expanded the VIP airport pickup service to Los Angeles, New York, and San Francisco, as well as a series of overseas services, cooperation with Delta to jointly implement customer development plan, and to enhance service quality for foreign customers.[[7]](#footnote-7)

From 2016 to 2018, China Eastern prioritized the Pacific Plan as one of its core marketing strategies with which to strengthen its international brand. The plan was also conducive to the company’s internationalization process. Taking the opening of new routes in North America as opportunities, China Eastern expanded its route hub network, marketing network, and service security network, laying a solid foundation for the company’s internationalization strategy. As of 2015, China Eastern had a total of seven gateway cities in North America—Los Angeles, New York, San Francisco, Chicago, Honolulu, Vancouver, and Toronto—providing as many as 73 flights per week, enhancing the airline’s trans-Pacific long-haul capacity.[[8]](#footnote-8) Through a series of operations, promotions, service enhancement and customer development, China Eastern’s North American routes became profitable in 2015. In 2016, China Eastern was ranked for the first time as one of the top 500 most valuable brands, making Brand Finance’s Global 500 list for three consecutive years.[[9]](#footnote-9)

In order to meet the increasingly intense competition in the global airline industry, China Eastern actively co-operated with industry partners. In 2015, China Eastern co-operated with Delta as a strategic investor to establish a global strategic partnership. China Eastern actively sought strategic partnerships through joint ventures, equity investments, and mergers and acquisitions to acquire a global competitive advantage. Moving forward, China Eastern planned to continue deepening its partnership with Delta by further expanding the code-sharing coverage and marketing channels. By taking advantage of Delta’s resources and established flight network in the United States, China Eastern would be able to expand its own route network and optimize transit opportunities through the gateways of China and the United States. Meanwhile, customer experiences related to shared and improved airport resources, facilities, and services; procedures for travellers; and an established luggage information system would be enhanced through partnership. For example, Delta customers would have access to China Eastern’s network of premium lounges while the same would be true for China Eastern customers in Delta facilities. The strategic partnership between China Eastern and Delta would be a win-win, enabling both parties to build and share an airline network with global coverage.[[10]](#footnote-10)

In July 2017, China Eastern made a strategic investment in Air France-KLM, purchasing a 10 per cent stake. The new landscape of the global aviation industry that China Eastern actively participated in had gradually formed and positioned China Eastern as more international than before.[[11]](#footnote-11)

The Development of the New York Line

Since its development, China Eastern’s New York line had remained relatively stable in terms of capacity, with significant expansions taking place in 2010 and 2016. Seizing the opportunities brought by Expo 2010 Shanghai China and the relaxation of visa requirements, the China Eastern New York line increased its flight frequency from four flights per week to seven. Growth of the New York line’s capacity remained stable between 2012 and 2015. After November 2014, China Eastern extended some of its flight network by introducing the Fuzhou–Shanghai–New York route. Every Tuesday and Thursday, direct Shanghai–New York flights were extended to Fuzhou, providing more convenience and choices for Fuzhou travellers. Meanwhile, China Eastern replaced the old A346 aircraft with new-generation long-haul, wide-body aircraft—the Boeing 777 series. In order to meet the growing demand of the market, in December 2015, the China Eastern New York line expanded to 14 flights per week (including the Fuzhou–Shanghai–New York route). As of May 2018, China Eastern’s Shanghai–New York four-hour minimum connecting time (MCT) original destination routes had a total of 109 flights monthly, representing a capacity increase of 5.5 per cent as compared to 2017, while its six-hour MCT original destination routes had a total of 115 flights monthly, representing a capacity increase of 3.2 per cent as compared to 2017.

Strategy for Pricing International Flight Tickets

The objectives of China Eastern’s strategy for pricing international flight tickets were formulated to (a) determine optimal pricing to ensure China Eastern’s survival in the increasingly competitive market; (b) gain market share in the global market; (c) maximize the unit margin; (d) optimize operations; and (e) enhance revenue quality. China Eastern pursued a cost-plus pricing strategy, which consisted of identifying and totalling all flight costs and then setting air ticket prices at a certain percentage above total unit cost in order to drive profitability. Meanwhile, China Eastern took into account the competitive and legal environment in which the company operated. For certain international routes, China Eastern pursued a competitive pricing strategy, which set the ticket price based on the prices of similar competitors in the market.As the airline industry was highly subject to seasonality, during periods of higher demand, such as the peak season of summer, China Eastern’s pricing strategy was adjusted based on dynamic demand, fluctuating daily due to market demand factors and flight capacity. The level of revenue control and ticket pricing was also enhanced with the help of technological means such as megadata and cloud computing. China Eastern had started testing a strategy that leveraged machine-learning algorithms to customize airfare pricing and itinerary results based on collected customer data. The airline promoted informatization, as it led to continual enhancement of operational management and the ability to reform and innovate in the competitive business environment.

Throughout its development, China Eastern continued to focus on extending its reach to the rest of the world and establishing itself as a global airline. China Eastern innovated on all fronts of its business to remain agile to meet the changing dynamics of the global airline market.

brand DEVELOPMENT IN the NORTH AMERICAN MARKET

Sales Channel

With “world-class hospitality” and “Eastern charm,” China Eastern made continuous efforts to modernize sales and branding in North America.[[12]](#footnote-12)

China Eastern constructed a marketing service centre and distribution channel in North America to build consumer confidence and trust. Adhering to the service philosophy of “customer-oriented and dedicated service,” China Eastern continuously strengthened service software and hardware to optimize the customer travel experience.

The establishment of a marketing system in North America brought opportunities for China Eastern. The company comprehensively promoted sales and distribution channels to enhance its ability to secure high-value customers. China Eastern emphasized strengthening co-operation with travel management companies, online travel agents, and major corporate clients. By taking advantage of the partnership with Delta, China Eastern further expanded the code-sharing coverage and strengthened marketing co-operation. Furthermore, to effectively broaden direct sales channels in North America, China Eastern strengthened its online sales channels via its official website, optimized the functions and settings of mobile applications, and launched brand marketing through self-owned media.[[13]](#footnote-13)

Meanwhile, China Eastern strove to promote informatization and digitalization as well as to enhance operational management and control marketing channels. With the fast development of the mobile Internet, promoting mobile applications became an important way to increase direct sales, improve service, and optimize the customer’s travel experience. As a result, China Eastern revitalized its online sales channel to ensure appeal to a newer generation of travellers, who were more Internet-savvy. In 2017, the airline’s revenue from direct sales increased by 34.3 per cent as compared to 2016, representing 51.2 per cent of revenue, while agency fee expenses were continuously reduced.[[14]](#footnote-14) In 2018, China Eastern’s revenue increased to ¥114.93 billion[[15]](#footnote-15)—a 12.99 per cent growth.[[16]](#footnote-16)

Integrated Marketing Communication

China Eastern aimed to enhance its brand awareness and reputation in North America. In co-operation with the American Association of Advertising Agencies, China Eastern made continuous advertising investments in various sales channels to formulate advertisements and promotional projects. Meanwhile, leveraging social media platforms. China Eastern promoted awareness of its brand and enhanced its market influence through various marketing campaigns in North America.

The company deepened its partnership with Delta to jointly establish a route in the China–US market. The concerted efforts in expanding the route network in the United States and optimizing transit opportunities through the gateways of China and the United States allowed China Eastern to expand marketing channels in the US and enhance its influence in North American markets. At the same time, China Eastern sought partnership opportunities that would increase brand awareness and loyalty, generate revenue, and support positive community involvement. China Eastern also actively sponsored a number of cultural and charitable events to promote its brand through airline ticket auctions[[17]](#footnote-17)

Internal Management

China Eastern established a comprehensive internal control manual for principal departments and branches in North America. It thoroughly reviewed and established the rules and regulations of its New York sales department. Thereafter, the company formulated the work manual for its North American marketing centre, which standardized the daily operational procedures and management of the business departments in North America.

Moreover, China Eastern steadily promoted a “delicate” management strategy and strengthened communication between departments and branches. Through establishing integrated management in departments such as sales, marketing, information technology, and operations, China Eastern, in turn, strengthened communication between headquarters and employees so as to optimize business processes and enhance foundational management in the North American marketing department.

Furthermore, China Eastern pushed ahead to create a harmonious corporate culture and labour relationship, increasing employee recognition as well as loyalty towards the company. Employees were held accountable for completing assigned tasks and performing the duties required by their jobs. This, in turn, firmly fostered a sound atmosphere for continuous improvement in areas such as marketing and sales, customer services, and safe operation.

As an important destination in China Eastern’s global network, North America had been a focal point of the airline’s expansion strategy. By leveraging its existing partnerships and expertise, China Eastern was able to successfully uphold its “world-class hospitality with Eastern charm” brand during its expansion.

CHALLENGES

China Eastern rolled out the Pacific Plan to develop the China–North America sector, operating ten trans-Pacific routes to seven gateways in North America. However, aside from the brand awareness attained in major gateway cities in the United States and Canada, China Eastern’s brand awareness was relatively low among North American cities, thus hindering the airline’s ability to capture market share beyond these major cities and limiting steady long-term growth.

The airline’s international operations were subject to competition from both foreign and domestic carriers. Foreign carriers such as United Airlines Inc. had built a robust flight network in the United States and Canada, placing significant competitive pressure on other network carriers in the market. Although alliance with foreign carriers such as Delta allowed China Eastern to increase its ability to sell international transportation services to US gateway cities, China Eastern faced competitive pressure from an increasing number of medium-sized Chinese airlines that had actively expanded their flight networks into North America. As more carriers obtained increased access to interior US passenger traffic beyond the traditional US gateway cities, international air traffic flight rights and related resources became scarce.

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FUTURE OPPORTUNITIES AND DEVELOPMENT

The 19th National Congress of the Communist Party of China, which took place on October 18, 2017, emphasized “going global” and implementing the Belt and Road Initiative.[[18]](#footnote-18) How should China Eastern adjust its international strategy of Shanghai-based globalization?

This case is sponsored by National Natural Science Foundation of China (71572107, 2016.1-2019.12, "An Empirical Study on the Influence of Social Class on Chinese Consumers' Preference for Mainstream and Niche Luxury Brands").

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