Emerging Tendencies in the European Airline Industry

- an investigation of SAS and Ryanair -

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“John, can you explain why your taxi cost more than your flight?”
The photograph (on reverse side) was taken by Oliver Semrau October 30, 2002 in London, a commercial poster of Lufthansa. It nicely illustrates the motivation of the thesis.
Emerging Tendencies in the European Airline Industry - an investigation of SAS and Ryanair

Mandy Jacob, Zuzana Jakešová

Background: The airline industry is unique and fascinating. It was protected through government controls until the early 1980s. However, due to deregulation policy the industry opened to free competition. As a result, collaborations and alliances were formed and low budget airlines were able to enter the market.

Purpose: The purpose of this thesis is to present the current stage of the European airline industry by investigating the strategies of Ryanair and SAS with the help of strategic management tools.

Procedure: Two companies were chosen, Ryanair as a low budget airline and SAS as a mature airline. The investigation was based on secondary data found in financial, annual, business and company reports as well as in independent analyst reports and on the Internet.

Results: Ryanair’s and SAS’ strategies differ a lot. While Ryanair is focusing on lowest costs it is able to offer low fare tickets but also puts effort into increasing service. On the other hand, SAS’ complicated situation in the weak industry leads to many strategic adjustments. Its diverse choice of prices and services underlines its current instability. Concerning the European airline industry, moves toward consolidation are observable. The industry is reshaped.

Keyword
Strategy, Airline Industry, low budget airlines, SAS Airline, Ryanair
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This thesis allowed us to gain an insight into an area we were both interested in. We hope that our work will prove useful in the field of applying strategic frameworks in real life projects.

Linköping, January 2003
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<thead>
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<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AEA</td>
<td>Association of European Airlines</td>
</tr>
<tr>
<td>ASK</td>
<td>available seat kilometer</td>
</tr>
<tr>
<td>CFROI</td>
<td>cash flow return on investment</td>
</tr>
<tr>
<td>CSI</td>
<td>customer satisfaction index</td>
</tr>
<tr>
<td>ECA</td>
<td>European Corporation Agreement</td>
</tr>
<tr>
<td>EEA</td>
<td>European Economic Area</td>
</tr>
<tr>
<td>EFQM</td>
<td>European Foundation of Quality Management</td>
</tr>
<tr>
<td>RPK</td>
<td>revenue per kilometer</td>
</tr>
<tr>
<td>SAS</td>
<td>Scandinavian Airline System</td>
</tr>
<tr>
<td>SCC</td>
<td>SAS Corporate Card</td>
</tr>
<tr>
<td>SME</td>
<td>Small and medium sized enterprises</td>
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</table>
1 Introduction

In this chapter the topic of the thesis will be introduced. Its background as well as its purpose will be discussed; the research problem and scope will be defined. The aim is to make it possible for any reader to follow the argumentation.

1.1 Background

The airline industry\(^1\) is a unique and fascinating industry. It captures the interest of a worldwide audience due to its “glamour, reach and impact on large and still growing numbers of customers/travellers worldwide” (Chan, 2000, p. 1). It was described in 1994 by Sir Colin Marshal, Chairman of British Airways, as “the flywheel for the engines of the world’s industry” (cited in Chan, 2000, p. 1). By presenting several numbers one may get an understanding of the airline industry’s reach. The industry is worth over US$ 1,000 billion, it employs more than 22 million people and transports and services over 1.25 billion passengers a year (Chan, 2000). Further, the airline industry has enormous impact on other industries since one forth of the world’s manufactured exports (by value) reach their markets by air. It is also the heart of ‘travel and tourism’, the world’s largest industry (Chan, 2000).

Over the last three decades one could witness a wave of cross border or global mergers and acquisitions in many major industries, such as financial markets, telecommunication, information technologies, transportation and others. The airline industry has been and still is playing a key role in facilitating such international transformations. However, concerning internationalisation it is not as far developed as other industries due to a certain “conservative nationalistic character” inhibiting full international growth (Chan, 2000, p. 2).

Aviation has represented an important strategic meaning in state affairs and experiences from World War II and the Cold War led to tight governmental control.

\(^1\) Within this thesis the expression ‘airline industry’ stands for passenger transport.
Therefore, many airlines are still government-owned or government-controlled. Additionally, flag carriers played an ‘ambassadorial role’ in many nations and are viewed as symbols of pride and prestige. Consequently, it was very complicated to sign bilateral air agreements and services between nations were difficult to achieve until recently (Chan, 2000).

All these nationalistic factors in the airline industry may explain why the industry has not developed in a similar manner compared to many other industries. However, in a world swept increasingly by global mergers and acquisitions the airline industry cannot remain unaffected for long. Indications of response were observed recently (Chan 2000).

For instance, a trend towards globalization is noticeable in the airline industry. Collaboration and forming airline alliances is one of the strategies to cope with competition. Different alliances were established, for example Star Alliance was founded in 1997, OneWorld was established in September 1998. On the other hand, low budget airlines such as Ryanair, EasyJet, Go and others are entering the market. Further, traditional airlines are starting to introduce low fare flights, even for business travellers. For example, Lufthansa has a 24.9 % share in Eurowings, the mother company of Germanwings that will soon compete with low budget airlines by offering low fare flights (http://www.sueddeutsche.de).

This thesis will concentrate on recent developments in the airline industry. These will be illustrated by introducing contradicting strategies of two exemplifying airline companies. By applying some of the major theories concerning the field of strategic management we hope to introduce this area to the readers of this study.

1.2 Purpose

The purpose of this thesis is to present the current stage of the European airline industry. We hope to deepen our knowledge on strategic issues, both practically by investigating the strategies of two airlines and theoretically by studying theoretical frameworks and models concerning strategic management.
1.3 Research Problem and Research Questions

The overall research problem of this thesis can be summarized in the following way.

Which major changes during the last decade led to the current stage of the European airline industry?

To answer this research problem the strategies of two different airlines, Scandinavian Airline Systems (SAS) as a mature airline company and Ryanair as a low budget airline, will be examined. The aim is to investigate the strategic moves of the two airline companies and thereby reflect the recent events within the industry and the current situation by answering the following research questions:

- What theoretical base is useful for exploring issues concerning strategic management?
- Which are the most important companies within the airline industry in regard to an industry analysis?
- What is Ryanair’s and SAS’ strategy in terms of core competencies and positioning considering price and customer service?
- Which were major events in Ryanair’s and SAS’ strategy during the last decade that influenced the current situation in the airline industry?

1.4 Structure of the Thesis and Target Group

The figure presented below illustrates the approach towards the research topic and the process within the scope of this thesis. Events in the past, present and future influence the development of the airline industry. These are represented as diamond shapes in the figure. A closer look is taken into the recent developments of the airline industry and how these have an impact on the strategies of Ryanair and SAS. The current stage

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2 By ‘mature airline’ we mean an airline company that is well established, e.g. British Airways, Air France, Lufthansa, SAS and others and offers a relatively high level of service for a relatively high price.
of the industry is reflected in regard to strategic moves of the two “example-companies”. As present events also influence the future stage of the airline industry assumptions may be made about the development in the near future. These will be included in the conclusion of this paper.

Figure 1: Arrangement of the thesis

The research questions will be answered throughout the thesis. Perspectives on science and methodology are presented in the following part with a special emphasis on the methods used for the research carried out. A framework of references is given in part three by describing strategic theories and models applied within this thesis. Part four includes the empirical data collected for analysing Ryanair’s and SAS’ strategy in their competitive environment. Next, the data are analysed and results are discussed in regard to the theories and models introduced in part three. In the last part, conclusion, the main points are summarized in consideration of the purpose and research questions.

As one can easily imagine this thesis does not target ‘just any’ reader. As it provides a selection of well-known traditional theories as well as some innovative models on strategic management it may be most appealing for students. We believe, it is equally interesting for students who intend to gain knowledge in the field of strategic management as well as for those who already acquired a deeper understanding of the topic. Further, this thesis demonstrates how the chosen theoretical frameworks can be
applied to investigate strategic moves carried out in reality and therefore they offer an opportunity to study ‘theory in relation to practice’.

1.5 Scope and Limitations

The field of strategic management is very wide. There are various aspects which may be investigated, e.g. aspects concerning growth, technology, positioning, innovation, marketing, resources, segmentation etc.. Even though numerous parts of the strategic management field may be of interest for the purpose, the area is too extensive to be covered throughout this thesis. Therefore the focus will be given on the following aspects.

- To introduce the airline industry, an industry analysis based on M. Porter’s framework will be provided, which is supportive in pointing out the most significant companies within this industry.

- In regard to the strategies of SAS and Ryanair focus is given on presenting their core competencies and positioning strategies in terms of price and customer service. With the help of strategic models, such as SWOT Analysis, Porter’s three generic strategies, a resource-based view on strategy, positioning and strategic alliances, the view of both strategies from an external as well as internal perspective is possible.

- Even though the theories are presented in a considerably depth not all of them will be used in the analysis to their full extent. Porter’s three generic strategies, the SWOT Analysis and the positioning are the core of the analysis and discussion part. The remaining theories are used complementary as they enrich the analysis.

This thesis will be based only on secondary data. With the use of annual, financial, and business reports as well as independent analyst reports we hope to anticipate and partly analyse each company’s strategic moves as well as their historic development. Outlining the most significant events in the recent history of SAS and Ryanair will support us in describing the development of the airline industry and in illustrating its current stage. Published books and articles will offer the necessary material on
‘strategy’. The theories are presented in depth to prevent misunderstandings and a lack of background knowledge necessary to follow the argumentation.

Further, the concentration is on two European companies and therefore the European market.

We are aware of certain influences on reliability and validity by using secondary data, focusing on two companies and only examining the European market. These influences will be outlined in section 2.6 of the thesis.

1.6 Company Selection

For the collection of empirical data we chose two airline companies that have a very different business approach. SAS is an example of an international service (mature) airline whereas Ryanair is an example of a low budget rather regional airline. It can be assumed that both airline companies follow diverse strategies. Investigating these will show the latest changes in the airline industry from a strategic viewpoint and we hope to anticipate presenting the current stage of the industry.

Ryanair

Ryanair was chosen as an example for the thesis since it is a well-known low budget airline. Further, it is the first successful ‘low service/no frills’ airline within Europe operating on a more regional level, using London Stansted as its hub3 (base of origin). It is a rather young company, beginning its operations in 1985 (www.ryanair.com).

SAS

SAS is a typical example of a well-established international airline company serving not only Europe but also flying long distance and cross Atlantic flights. Compared to Ryanair it is a mature airline having its roots in the mid 1940’s (www.sas.se).

Both companies will be introduced in detail in part four of this thesis. They were chosen because we can easily identify with both airlines mainly due to personal experience and the time we spent in Sweden.

3 Hub: center of activity or interest/focal point
In order to prevent misconceptions and misunderstandings throughout the thesis the differences between low budget and mature airlines need to be clarified. Our perception is pointed out by the characteristics presented in the table below.

<table>
<thead>
<tr>
<th>Low budget Airline</th>
<th>Mature Airline</th>
</tr>
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<tbody>
<tr>
<td>Relatively low prices</td>
<td>Higher prices</td>
</tr>
<tr>
<td>Less in-flight service</td>
<td>More in-flight service</td>
</tr>
<tr>
<td>Primary/secondary airports</td>
<td>Primary airports</td>
</tr>
<tr>
<td>Less business/1st class travellers</td>
<td>More business/1st class travellers</td>
</tr>
<tr>
<td>Price sensitive customers</td>
<td>Service sensitive customers</td>
</tr>
<tr>
<td>Mostly online booking</td>
<td>Mostly traditional booking &amp; agencies</td>
</tr>
<tr>
<td>Difficult to change dates (less flexible)</td>
<td>Easy to change flight dates/times (more flexible)</td>
</tr>
<tr>
<td>Ticket-less travelling (no printing and sending of tickets)</td>
<td>Printed tickets</td>
</tr>
<tr>
<td>One type of ticket</td>
<td>Variety of tickets (business, leisure, youth etc.)</td>
</tr>
</tbody>
</table>

**Table 1: Characteristics of low budget and mature airlines**

In general, low budget airlines are able to offer less price intensive tickets because they have fewer costs. Cost savings can be achieved by providing less service for example in terms of in-flight offers (such as catering) and by using secondary airports.

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4 Secondary airports are located outside major cities. Usually airlines pay much lower taxes and fees and have much lower costs. These airports are utilized by low fare airlines.
2 Considerations of Science and Methodology

This chapter of the thesis is divided into two parts. The first one will provide perspectives of ‘science’ by defining ‘science’ and introduce two approaches how to conduct knowledge. It also contains considerations on ontology and epistemology. The second part goes deeper into methodology and includes a description of the research process and points out different types of research and data. It also reflects our approach of science and methodology and provides a discussion of the problem of reliability and validity.

2.1 Definition of Science

As we hope to deliver a scientific report with this thesis, it is important to define ‘science’. Numerous definitions can be found in the literature; some of them are presented below.

A definition of ‘science’ is given by Kerlinger (1973). In his view, ‘science’ can be seen as gathered information on specific activities and the process to get knowledge from it. A scientific approach is also a process of building theories through definite rules and methods. Scientific research is therefore a systematic, controlled, empirical and critical investigation of a specific problem emerging from basic assumptions and hypotheses (Kerlinger, 1973).

According to the Princeton University Thesaurus, ‘science’ is a “domain of knowledge accumulated by systematic study and organized by general principals” (www.princeton.edu).

Additionally, ‘science’ can be interpreted as an attempt to explain and understand the world and therefore the creation of knowledge. According to Arbnor & Bjerke (1997, p. 21), this attempt includes the following five questions:

1. What are the ultimate presumptions held by the creator of knowledge?
2. What kinds of questions are asked?
3. What kinds of concepts are used?
4. What kinds of methods are used to explain and understand the world?

5. What kinds of answers or solutions are given to the question?

From the answers, it is possible to distinguish between different ways of knowledge creation and to determine the validity of the knowledge created (Arbnor & Bjerke, 1997). Two different approaches/concepts of how knowledge is created are presented in part 2.2.

After having read many different definitions we agreed that it is helpful for the reader to present our perception. For us, ‘science’ is the creation of knowledge and the understanding of the outside world. Thereby our understanding follows Arbnor & Bjerke’s argumentation presented above.

2.2 Approaches to create Knowledge

Keeping the differences between research in natural and social science in mind one can find numerous ways to create knowledge. In the following paragraphs the two approaches of deduction and induction will be introduced.

**Deductive Approach**

Deduction is a knowledge creating method and by applying it, researchers infer “single cases from general laws” (Arbnor & Bjerke, 1997, p. 93).

![Figure 2: The process of deduction](adapted from: Bryman, 2001, p. 9)
In deductive studies, researchers deduce a hypothesis (or hypotheses), which will then be examined with support of empirical data. No matter if the hypothesis is rejected or confirmed the theory (which was used to formulate the hypothesis) needs to be revised (Bryman, 2001). Usually, deductive approaches are associated with quantitative research methods, which will be explained later (Neumann, 1997).

**Inductive Approach**

Induction is another knowledge creating method. Using induction, “researchers conclude general laws from individual cases”. (Arbnor & Bjerke, 1997, p. 92) As Bryman (2001) states a theory itself will be the outcome of an inductive research. The aim is to draw generalizable conclusions out of observations. Usually, inductive theories are associated with qualitative approach, which will be explained in part 2.4.3 (Bryman, 2001).

According to Bryman (2001), deduction (single cases from general laws) may as well involve induction (general laws from single cases) “as the researcher infers the implications of his or her findings for the theory” (Bryman, 2001, p. 9) that has driven the whole research. On the other hand, induction may also entail deduction to a small amount. “Once the phase of theoretical reflection on a set of data has been carried out, the researcher may want to collect further data in order to establish the conditions in which a theory will and will not hold” (Bryman, 2001, p. 10). This relationship is illustrated in the figure below.

![Figure 3: Interrelationship between induction and deduction](image)

In our thesis we will combine the inductive and deductive approach. Induction is applied by anticipating conclusions on the airline industry from investigating the two individual cases of SAS and Ryanair. However, due to limited resources, especially in terms of time, we will not be able to develop a new theory or general laws. Yet, we
hope to interpret the collected information – about the airline industry in general and the strategies of SAS and Ryanair in particular – in a new way and thereby create unidentified knowledge.

Deduction is applied by starting our investigations from a theoretical viewpoint. The models and frameworks that will be outlined in our literature review have an influence on the data collection and the way of interpreting it. However, again due to time resources, we are not able to revise the theories.

2.3 Perspectives of Science

There are different perspectives on science. The ones mostly introduced in the literature are ontology and epistemology. Both concepts will be introduced below.

2.3.1 Ontological Considerations

From a philosophical viewpoint ontology is the understanding and explanation of the nature. According to Bryman (2001, p. 505) it is defined as “a theory of the nature of social entities”. It “refers to the inquiry into the nature of reality” (Park Dahlgaard, 2001, p. 32) and is concerned with “our pre-assumptions and images of the nature of social and organizational reality” (Park Dahlgaard, 2001, p. 32). It can be interpreted from two different angles – objectivism and constructionism which are considered below.

**Objectivism**

Objectivism stresses that “social phenomena and their meaning have an existence that is independent of social actors” and “implies that social phenomena and the categories that we use in everyday discourse have an existence that is independent or separate from actors” (Bryman, 2001, p.17). That means, that knowledge is based on observed objects and events. An emphasis is put on objects rather than thoughts or feelings.

**Constructivism**

In contrary to objectivism, constructivism stresses that “social phenomena and their meanings are continually being accomplished by social actors” and “implies that social phenomena and categories are not only produced through social interaction but
that they are in a constant state of revision” (Bryman, 2001, p. 18). That means, that ‘everybody’ has an influence on ‘social phenomena’ and how they are perceived.

As ontology is the ‘study of being’, epistemology is the ‘study of knowing’. Depending on from which angle a researcher refers to ontology, one of the two epistemological positions are taken. These will be described below.

2.3.2 Epistemological Considerations

Epistemology is a theory of knowledge. According to www.dictionary.com it is “the branch of philosophy that studies the nature of knowledge, its presuppositions and foundations, and its extent and validity.” “An epistemological issue concerns the question of what is (or should be) regarded as acceptable knowledge in a discipline.” (Bryman, 2001, p. 11) A central issue in this context is whether the social world can/should be studied in the same way as natural science, following the same principals and procedures (Bryman, 2001).

In regard to epistemology there are two traditional approaches, positivism and interpretism (hermeneutics), which will be explained in the two following paragraphs.

**Positivism**

Positivism is an “epistemological position that advocates the application of the methods of the natural sciences to the study of social reality and beyond” (Bryman, 2001, p. 506) “The doctrine of positivism is extremely difficult to pin down” (Bryman, 2001, p.11) since it is used in a number of different ways by authors. Its original meaning derives from the Latin word ‘positum’, implying positions such as ‘to put’, ‘to place’, or ‘to lay’. (Phillips, 1992) The term positivism was first used by the French philosopher Henri Saint-Simon (1760-1825) to indicate an “emphasis on tested and systematic experience rather than on undisciplined speculation” (Arnbor & Bjerke, 1997, p. 97). His student and colleague Auguste Comte (1798-1857) popularized and systematized the use of the terms ‘positivism’ and ‘positive philosophy’ (Arnbor & Bjerke, 1997). He is seen as the inventor of the term and describes it as follows:

“Finally, in the positive state, the human mind, recognizing the impossibility of obtaining absolute truth, gives up the search after the origin and hidden causes of the universe and a knowledge of the final causes of phenomena. It endeavors now only to
discover, by a well-combined use of reasoning and observation, the actual laws of phenomena - that is to say, their inevitable relations of succession and likeness.” (Comte, cited in Phillips, 1992, p. 73).

A positivist approach is based on the assumption that science should be exact, verifiable and free from subjectivity. One of its fundamentals is the notion of an objective reality (meaning, that there exist a reality which appears the same, no matter when, where and who is viewing it (Lundahl & Skärvad, 1993). According to Patel and Davidson (1994), positivism is the traditional approach followed in sciences that study nature, e.g. physics, chemistry and biology to name a few. In these areas it provides a focus on researching cause-and-effect-laws and relations that are universally applicable and independent from the individual who studies them.

The positivistic ideal is to strive for a formulation of an independent description of what causes and affects a phenomenon appearing in reality (Patel and Davidson, 1994). Researchers applying the positivistic approach prefer the use of quantitative analysis methods, as mentioned before these will be described later.

**Interpretivism/Hermeneutics**

Interpretivism is an “epistemological position that requires the social scientist to grasp the subjective meaning of social action” (Bryman, 2001, p. 504). It is an alternative to the positivistic approach (Bryman, 2001). Its intellectual heritage includes besides others Weber’s\(^5\) notion of ‘Verstehen’ (to understand) (Bryman, 2001).

The term ‘hermeneutics’ refers to the ancient Greek god Hermes, who was known as the messenger among the gods. His task was to interpret the messages from the gods for the people. Hermeneutics is as well known as the science of interpretation (Neumann, 1997).

It is known that the term ‘hermeneutics’ is drawn from theology and, when imported into the social sciences, it is concerned with the theory and method of the interpretation of human actions (Bryman, 2001).

The hermeneutic position is based on the assumption that reality may only be understood by a human interpreting the actions and language of another human (Patel

\(^5\) German philosopher; 1864-1929
and Davidson, 1994). It assumes that people “look for meaning in their actions because they are interpretive creatures and tend to place their own subjective interpretations on what happens around them” (Arbnor and Bjerke, 1997, p. 130). Hermeneuticist scientists believe that they can make these subjective pictures of reality “objectively accessible” (Arbnor and Bjerke, 1997, p. 130). According to Arbnor and Bjerke (1994), an individual’s perception is linked to his or her previous experiences, assumptions, identities and affiliations. Due to these composed cognitive structures an individual creates meaning out of reality which is subjective and dependent on when, where and who is generating it (Lundahl & Skärvad, 1993).

Additionally, “Philips and Brown (1993) as well as Forster (1994) separately identified an approach to the interpretation of company documents that they describe as a ‘critical hermeneutic approach’ (Bryman, 2001, p. 383). In this context, the analysis of company data entails an examination of the documents and an extraction of themes from them. Further, the extracted subjects need to be referred to the knowledge of the organizational context (Bryman, 2001).

Due to his historic origin the interpretive/hermeneutic approach has become the ideal in social sciences. Psychology, Sociology, Law and Business Studies are some of the fields where this approach is applied in. Scientists following this view attempt to attain a holistic perspective on the studied problem (Patel & Davidson, 1994).

Since this understanding in contrary to the positivistic approach depends strongly on the subjective interpretation of the individual, the researcher favours the qualitative methods, which will as well be described in detail later (Neumann, 1997).

In regard to ontology our own approach is rather constructivist than objectivistic. Our study of the strategies of SAS and Ryanair will illustrate that occurring phenomena are the product of social interaction and in a constant state of revision.

Following from the taken ontological approach, our epistemological consideration (Positivism and Interpretivism/ Hermeneutics) will be hermeneutic. We will try to understand the context of two airline companies and therefore interpret numerous data/information published in company documents. Keeping the ideas of a ‘critical hermeneutic approach’ in mind as presented by Phillips and Brown as well as Forster in Bryman (2001), we may argue that in our research study we will follow this
approach by gathering data from company documents and applying it to the organizational and industrial context.

One needs to keep in mind the **interdependence** between ontology, epistemology and methodology. Depending on from which angle a researcher refers to ontology, an epistemological position is taken which leads to a choice of methodology.

If one chooses an objectivistic view (stressing that social phenomena and their meanings exist independently from social actors) a positivistic position (which strives to formulate an independent description of what causes and effects phenomena appearing in reality) will be taken. Researchers applying a positivistic position prefer the use of quantitative studies.

However, if one chooses a constructive view (stressing that social phenomena and their meanings are continually being accomplished by social actors) an interpretive/hermeneutic position (which is based on the assumption that reality may only be understood by a human interpreting the actions and language of another human) will be taken. Researchers applying a hermeneutic approach prefer the use of qualitative studies.

The interdependence of ontology, epistemology and methodology described above is illustrated in the figure below.

![Figure 4: Interdependence of ontology, epistemology and methodology](image-url)
The following paragraphs will provide more detailed information on methodology. Most of all it presents methods used within this thesis and describes our own approach towards science and methodology.

2.4 Methodology

Next, the research process in theory as well as our own practical approach is introduced and different types of research and data are presented.

2.4.1 Research Process

The picture below shows how the research process should work in theory. The model seems straightforward, however in practice it is necessary to go back a stage or stages overlap.

![Figure 5: Research process](adapted from: Hussey & Hussey, p. 52)

Ideally, the process starts with an identification of a certain research problem. As researchers investigate the area in which the problem is embedded in more detail they are able to define a comprehensive research problem/research question which they intend to solve. Next, the way in which the research will be conducted is determined. Following, researchers collect, analyze and interpret the data and compose their results in form of a report, dissertation or thesis.
Reflections of our Research Process

As the figure below indicates, our research process was less straightforward as it is described in theory.

Figure 6: Illustration of our research process
(modified from: Arbnor& Bjerke, 1997, p. 9)

Our research process started ahead of schedule. Since both of us participated in the course “International Business Strategy” (given at Linköpings Universitet in September/October, 2002) we gained background knowledge in the field of strategy. While reading through daily news we discovered that the area of the airline industry is widely discussed, mainly due to major changes within this industry. That was when the airline business developed to be an interesting research idea for this thesis. We tried to find a gap in what had been previously written. From our readings we discovered, that there is a lot written about airline businesses and separate airlines, as it has been a very ‘hot issue’ lately. However, none of the found articles was introducing airline companies that differ in their strategic orientation at the same time. As a result we thought of investigating the current stage of the airline industry by looking at two diverse companies - a low budget and a mature airline - in terms of their pursued strategies.

The research process evolved by formulating a rather broad research problem. We considered possible methods for conducting our study project, e.g., interviews as well
as questionnaire surveys. Finally, after contacting airline companies, we decided to concentrate only on secondary data. We went on studying the data (especially sources from the Internet in forms of financial reports) to ensure that the chosen method (concentrating on secondary data) is applicable to the research problem. Certainly, the research problem and - questions needed to be reshaped, however, the main ideas kept valid. After analyzing and evaluating the data the final report (thesis) was written, including conclusions about the airline industry’s current stage.

2.4.2 Types of Research

There are three types of research outlined by Ghauri & Gronhaug (2002), these are exploratory, descriptive and causal research. Exploratory research is used when the problem is badly understood and leads to an unstructured problem design. This kind of research helps to increase the familiarity with the researched area. During exploratory research, new findings and information are discovered, so the researcher must be flexible and prepared for possible changes in the research direction. The key requirements for this type of research are ability to observe, find information and be able to explain the findings. Descriptive research is used when the problem is well structured and understood; the task to solve is clear. The researchers should focus on the structure of the research, precise rules and procedures, since the ability to make good measurements is crucial for this type of research. Causal research is used when the problem(s) under research are structured. The main tasks in causal research are to isolate cause(s), and to tell whether and to what extent ‘cause(s)’ result(s) in effect(s). Both descriptive and causal research use structured problems (Ghauri & Gronhaug, 2002).

Hussey and Hussey (1997) define four different types of research: exploratory, descriptive, analytical or predictive. Their definition of exploratory and descriptive research does not differ from the ones given above by Ghauri and Gronhaug. However, they provide two additional research types. Analytical research can be seen as a continuation of descriptive research as it attempts to explain why a particular situation exists. It tries to identify causal relationships, i.e. ‘A’ causes ‘B’. Predictive research continues from analytical as it attempts to predict future outcomes from a particular situation. This type of research attempts to generalize, and these
generalizations will be applicable to similar problems. Each of these four different types of research can be seen as a continuation of the previous one:

![Diagram of types of research]

**Figure 7: Types of research**
(slightly modified from: Hussey & Hussey, 1997, p. 23)

For each type of research an extensive literature review is necessary. Reading as much of the published material on the subject area as possible is one way to get the best outcome from the literature review. At first, researchers need to review all references that are available. Those include textbooks, academic papers, professional magazines, newspapers and Internet resources. The emphasis should be obviously placed on the most recent material. However, as the research goes further the main focus should be given on papers and articles published in academically reviewed journals, as those are more likely to provide a scientific point of view. Furthermore official documents, reports and statements published by companies and institutions offer a valuable set of secondary data (Remenyi et al., 1998).

It is important to mention that the sources should be critically evaluated and not just accepted without a closer look at them. In order to review the literature adequately it is essential that the researchers examine the published work critically; “not all that is published should be taken as face value for” (Remevni et al, 1998, p. 158). Once the literature and other available secondary resources have been fully and seriously reviewed the researchers should be able to present a detailed description of the field that was studied (Remenyi et al., 1998).

In relation to different research types, a descriptive research is applied in this thesis. The research problem is well structured and the area of strategic management is well understood in the academic world and managers as well as by us. Further, the research
purpose (or task) is clear to us. We try to stay focused and organized in conducting our research and provide a logic structure with this written report.

This research is combined with an in depth literature review, not only in terms of books and articles but also in terms of company documents, such as annual, business and financial reports. Further, external data sources such as brokers/analysts reports are used as well as Internet sources.

2.4.3 Types of Data

One can make a distinction about the type of data collected. It can either be qualitative or quantitative. The former describes data which is nominal and the latter, numerical data. Another distinction can be made between secondary and primary data.

**Quantitative or numerical data** research is “objective in nature and concentrates on measuring phenomena” (Hussey and Hussey, 1997, p. 12). For example, statistical tests can be used to analyse data collected from a questionnaire with closed-end questions. This quantitative approach might present data in tables, charts and graphs, to summarize the data collected in a way that the reader can get an idea of the situation being studied. Different statistical relationships may also be explored in order to try to identify patterns or hypotheses. This type of data research may sound complex due to all the possible statistical tests involved, but one advantage is that it is structured.

**Qualitative data**, on the other hand, is “more subjective in nature and involves examining and reflecting on perceptions in order to gain understanding of social and human activities” (Hussey and Hussey, 1997, p. 12). This type of data may be gathered from interviews or secondary data sources. However it may be even more difficult to collect and analyse than quantitative data.

These two types of research data are not mutually exclusive. Qualitative data can also be quantified to a certain extent, e.g. the frequency of a certain ‘qualitative’ event may be quantified. Qualitative data may also be used in order to give further insight into numerical methods. In this way, each type can complement the other.

Data can also be divided into **primary and secondary data**. Primary data consists of original data collected by the researcher and secondary data consists of information
gathered by others for similar or different purposes than their own. Both types of data are explained in more detail below (Ghauri et al., 1995).

There is a number of different sources from which secondary data may be gathered. As shown in the table below, these sources can be internal or external.

<table>
<thead>
<tr>
<th>Company external sources</th>
<th>Company internal sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textbooks/Periodicals</td>
<td>Financial reports</td>
</tr>
<tr>
<td>Published articles/academic journals</td>
<td>Business reports</td>
</tr>
<tr>
<td>Internet resources</td>
<td>Internet resources</td>
</tr>
</tbody>
</table>

*Table 2: Sources of secondary data*

Further, government sources exist. According to Zikmund (2000), “Government agencies are prolific in producing data and most of the data published […] can be counted for accuracy and high quality of investigation” (Zikmund, 2000, p. 134). Government sources differ between countries; however, in most countries one can find statistical departments and offices on national and regional level.

The main advantage of gathering such data is obvious: gaining knowledge from previous research saves time and effort of performing the research ourselves, which is clearly impossible due to limited time and resources. Investigating secondary data has saved managers from “reinventing the wheel” (Zikmund, 2000, p. 58). Further, financial resources may be saved by using secondary data.

The disadvantages include the fact that the majority, if not all, of this data was gathered for a different purpose than our own. “The idea is to take our research problem as the starting point for secondary data we need, and not the other way around.” (Ghauri et al., 1995, p. 56). Another disadvantage can be the validity of the data “…it is the responsibility of the researcher that the data are accurate.” (Ghauri et al., 1995, p.56). Additionally, secondary data quickly become outdated in a rapidly changing environment. Consequently researchers have to be careful with data that has not been collected just recently.
When the collection of secondary data is saturated and no longer adds value to the research process, it is then necessary to collect relevant **primary data**. This can be accomplished by one of the following primary data collection processes:

- Interviews
- Surveys
- Questionnaires
- Case studies
- Observation

More details about each of the collection processes will not be presented since none of them is applied within this study.

Our study is mainly qualitative in nature since we will try to investigate two companies in depth. Yet, some of the quantitative data provided in company documents will be used for our analysis. However, no statistical calculation will be carried out.

When it comes to types of data it is - in our opinion - not necessary to collect primary data for our research purpose. Therefore exclusively secondary data is used.

### 2.5 Reliability and Validity

Researchers want to obtain valid knowledge, which means, that any alternative research method should produce the same results. The aim is to discover results, which are true (Ghauri et al., 1995; Jankowicz, 1991). One can distinguish between internal validity, meaning that results obtained within a study are true, and external validity, meaning that the findings can be generalized. Certain threats that endanger validity exist. For example, historical events, maturation and selection biases may affect the response. Further, research results should be reliable. That means, the same answer should be obtained on re-measurement assuming the situation has not changed (Ghauri et al., 1995).
There are certain factors that influence the reliability and validity of this thesis to some extent. Since only secondary data are used it can be assumed that influences may occur as the data were collected for another purpose. Further, it needs to be kept in mind that data gathered from company documents such as financial and annual reports are also available to customers and investors. It may be presumed that they are presented to highlight mainly positive aspects. However, we tried to be objective while evaluating the data. Moreover, the contacted airline companies provided us with all necessary documents upon request. We were told that no further information would be given to us due to confidentiality and both companies pointed out that conducting interviews or a questionnaire survey would not add any further information. Due to the limited amount of time available for this thesis we decided to resign from interviewing employees.

Considering books and articles we have checked the original source of data when feasible. This is more obvious for published articles and textbooks, but questions of validity arise when using Internet resources. Published articles and textbooks are easily cited and the fact that they are published shows that publishers and academic journals have recognized them. Internet resources do not undergo the same scrutiny and there are difficulties in citing these resources as they are often subject to change, or are simply removed after a certain time.

Another factor influencing our study is the fact that we examined two exemplifying European airline companies and their strategies. By presenting the development of the European industry and its current stage in regard to the strategies of the two chosen companies we have to be careful and objective regarding general conclusions.

We are also aware of the fact that the chosen strategic tools may influence our perception of the development of the airline industry and the presentation of its current stage. However, these strategic tools were chosen to be applied to both airline companies. We tried to be objective and included a variety of different strategic tools.

Concerning our research, a high internal validity can be assumed – the results within this study are true. Yet, the external validity is subject to discussion, since the results might not be generalizable. Unexpected events in the economic environment and strategic reorientation within the companies may not only influence the external validity of this study but also the reliability may be influenced. It cannot be proven
that exactly the same results occur if this research is re-studied in the future. Nor can we prove that the same results occur conducting the research using different strategic tools.

In addition, it needs to be pointed out that most of the anticipations included in the thesis are based on our own interpretation of the data. Certainly the assumptions made are based on the theoretical models and frameworks but also on our background knowledge in business/management and our way of thinking. That is why our results cannot be entirely verified.
3 Frame of References

The aim of this part is to familiarize the reader with theoretical aspects, which are necessary to understand the research topic. Firstly, an introduction is given pointing out reasons, why the used theories were chosen and how they are related to the research topic. Secondly, the used models and theories will be explained in more detail. In the end of this section a summary of the used theoretical framework will be provided in relation to the upcoming analytical part.

The theoretical framework will begin with definitions on strategy and competitive advantage to ensure that the reader is familiar with our understanding of the terms. Different viewpoints considering the description of the terms will be presented afterwards to provide a wider view and to illustrate opinions of different researchers.

Two different views on strategy will be explained – an external (outside-in) and internal (inside-out) perspective. These perspectives introduce a contradictory view on strategy, which allows the reader to get an insight in the vast amount of existing models. Both views will be used as a summary tool in the analysis to evaluate SAS’ and Ryanair’s strategies from different viewpoints. The ‘resource-based view on strategy’ (which pursues the ideas of the inside-out perspective) will be presented within the internal perspective. Since the analysis of the empirical data will also partly focus on the core competencies of both airlines, the ‘resourced based view on strategy’ needs to be introduced taking account of the company’s internal aspects such as capabilities, resources and competencies.

An industry analysis was chosen as a tool for presenting the airline business. The model that will be presented is based on Porter’s framework. It introduces five forces of competition: bargaining power of buyers and suppliers, threat of substitute products/services, potential entrants and existing rivalry. The model was chosen in order to analyse the current stage of the airline industry. It easily enables the reader to get an overview of the major players within the industry and to understand its recent developments.

Following, the SWOT Analysis will be presented as it combines the external and internal view of the perspectives mentioned before. Our expectation is that doing a
SWOT Analysis for each company will enable us to understand their chosen strategies from an external as well as an internal perspective.

After the examination of the general strengths and weaknesses Porter’s three generic strategies will support us in understanding the positioning of the companies in terms of their pricing policy and service standard. Therefore the aspects of cost leadership, differentiation and focus will be explained in detail in part 3.4.

Further, some theoretical aspects of positioning will be introduced. The different positioning strategies of SAS and Ryanair will result from their favoured generic strategy. Illustrating where the companies are currently positioned and presenting their strategies will provide an understanding of recent events within the whole industry. Since SAS and Ryanair are typical examples in nowadays airline industry we hope to be able to draw conclusions about the industry’s current stage.

Collaboration arrangements and forming strategic alliances are major strategic moves within the airline industry. Therefore, theoretical aspects of strategic alliances will be described as an additional theoretical base. Motives for joining an alliance, different forms and risks will be mentioned. Given that SAS is one of the founding members of the largest airline alliance, Star Alliance, the theoretical knowledge on collaborations will be used in the analysis of SAS’ strategy.

The “EFQM Model of Excellence”, presented by the European Foundation of Quality Management (EFQM) will be brought into the light to provide a framework that illustrates a way in which companies may achieve a high level of excellence in performing their management activities. The model can be used to underpin chosen strategies and policies and therefore support the achievement of a competitive advantage. In this thesis it will help in particular to analyse the empirical data of the sample companies in regard to their strategies.

The figure below illustrates how each theoretical framework is used to gain insight in either the airline industry or in SAS’ and Ryanair’s strategy. To examine the strategies from an external perspective, positioning, SWOT Analysis and Porter’s three generic strategies are applied whereas the ‘resource based view’, the European Model of Excellence and the background knowledge of alliances are used to evaluate the strategies from an internal perspective. Porter’s framework on the industry analysis is used to demonstrate the largest players in the industry.
Most of the theories studied within this part are built on models. Models are based on abstracting assumptions and reflect only a part of reality. Irrelevant information in regard to the considered problem is left out in order to enable the researchers to find solutions. Depending on the particular problem, assumptions are made and different realistic details are ignored. Consequently, models are restrictive which provides potential to criticize them easily (Wolff & Lazear, 2001).

### 3.1 Concepts of Strategy and Competitive Advantage

#### 3.1.1 Definition and Concepts of Strategy

There are numerous definitions of strategy; some of them are rather similar, whereas others fairly vary. In one of his more recent articles “What is Strategy”, Michael Porter (1996) tries to give a summarizing definition including new aspects of the business world. He states:

- Strategy is the creation of a unique and valuable position involving a different set of activities (compared to competitors).
- Strategy is creating ‘fit’ among a company’s activities – the success depends on doing many things well, not just a few and integrating among them.
- Strategy is making trade-offs in competing – the essence of strategy is what not to do. Strong leaders willing to make choices are essential.
• Strategy requires constant discipline and communication in regard to the made choices (in terms of customer target segments, product range and other strategic issues) and policies.

One critic of Michael Porter’s argumentation is the Canadian Professor Henry Mintzberg “whose view on strategy is ‘emergent’” (Kippenberger, 1997, p.23). He dislikes the analytic and deterministic approach and particularly disagrees with Porter’s belief that “strategic thinking rarely occurs spontaneously” (Kippenberger, 1997, p. 23) In contrast to Porter, Mintzberg states that strategy “is not so much formulated consciously by individuals as formed implicitly by the decisions they make, one at a time” (Mintzberg, 1979, p.443).

Nevertheless Porter is almost universally credited, most of all for creating a bridge between corporate strategy and industrial economics. That is why many of his major concepts are applied in this thesis.

Different concepts on strategy can be found. According to van Looy et al., (1998) there are two basic questions that have to be answered in order to achieve sustainability of a company: What has to be done in order to safeguard the firm’s long-term survival and how should this be done? To answer these questions a company needs to develop a strategy where the following elements (shown in figure 9) need to be considered:

• Firm’s objectives – what does a company want to do?
• Firm’s environment – what should a company do?
• Firm’s resources/patterns of resource allocation – what can a company do?
• Firm’s corporate values, norm and ethics – what is a company allowed to do?

According to Kippenberger (1997) this phrase is used by Porter in an ‘Economist’ article in 1987 which is specifically quoted and criticized no less than three times in Mintzberg’s most recent book “The Rise and Fall of Strategic Management”.

- 28 -
Figure 9: The field of strategy making
(adapted from Heene, 1997, p. 934)

The figure illustrated above presents the elements of strategy making. To be effective a strategy needs to be well balanced in all fields of decision making. These elements are not always aligned and may cause conflicts while trying to achieve them. Such conflicts can be, for example, caused by the pressure between the goal of the company and the values of the firm. Another conflict may arise when available resources do not allow the firm to go the direction, which it would like to follow (Heene, 1997).

Thus, the challenge in defining a sound and sustainable strategy is to come up with a consistent and integrated answer to the basic strategic question of what management wants to do, should do, can do and is allowed to do. These answers will result in longevity when it implies the creation of a competitive advantage (Heene, 1997).

3.1.2 Strategic Perspectives

There is a diversity of opinions among strategy theorists concerning the field of strategic management. However, at a fundamental level, two opposing perspectives on strategy can be identified, the outside-in perspective and the inside-out perspective. Both perspectives investigate the question of ‘What is the basis of a good strategy?’/’What are the qualities of a successful strategy?’(de Wit & Meyer, 2001).

In order to understand the differences between the outside-in and inside-out perspectives, it is useful to start with their similarities. Both views accept the four broad criteria outlined by Rumelt that need to be met by a good strategy (Rumelt in de
Wit & Meyer, 2001). Rumelt argues, that strategies must be *feasible* (implementable) and *consistent* (no mutually exclusive goal or policies). He also states that strategies must provide a *competitive advantage* and the necessity of *consonance* – a fit between the organization and its environment.

While both views share the assumption that an alignment between an organization/company and the outside world must be established and maintained (in order to assure a competitive advantage), they differ in their way of achieving such a ‘fit’. The next two paragraphs will outline the major differences between both views.

**Outside – In Perspective**
Strategists adopting the outside-in perspective believe that firms should take their environment as a starting point, when developing strategies. This can be done by taking cues from customers and competitors. It is argued, that an insight into markets and industries is essential. Being market driven and externally oriented makes it possible to identify attractive market opportunities. To the outside-in strategists the “game of strategy” is about market positioning and responding to external developments. Yet, strategists do acknowledge the importance of resources. In their view, strategists should always keep a firm’s strengths and weaknesses in mind when choosing an external position but the starting point for strategy development is the external environment. The outside-in perspective can be summarized as ‘resource base follows market position’ (de Wit & Meyer, 2001).

**Inside-Out Perspective**
Strategists adopting the inside-out perspective argue that strategies should not be built around external environments but around a company’s strengths. They believe, strategists should focus on “difficult to imitate competences and/or the acquisition of exclusive assets” (de Wit & Meyer, 2001, p. 332) when developing a strategy. The company’s resource base serves as the starting point for the strategy development process. Since the importance of competencies and capabilities plays a vital role this view is often referred to as competence-based or capability-based perspective on strategy. Still, strategists favouring the inside-out perspective keep in mind that a market position must be chosen. However, the market position selected is adapted to
fit the organization’s resource base as it is the basis for the strategy development process. The inside-out perspective can be summarized as ‘market follows resource base’ (de Wit & Meyer, 2001).

The arising question is whether strategists shall take the environment as starting point, choose an advantageous market position and obtain the resources needed to implement this choice or if they rather take the organization’s resource base (physical assets, competencies and relationships) as starting point and select and/or adapt an environment to fit with these strengths. Even though it seems most advantageous to follow both views, strategists need to decide for one due to the fact that the views are contradictory and possibly even mutually exclusive (de Wit & Meyer, 2001).

The table below points out major differences of the two perspectives.

<table>
<thead>
<tr>
<th>Emphasis on</th>
<th>Outside-In Perspective</th>
<th>Inside-Out Perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orientation</td>
<td>Market over resources</td>
<td>Resources over markets</td>
</tr>
<tr>
<td>Starting point</td>
<td>Market/Industry-driven</td>
<td>Resource-driven</td>
</tr>
<tr>
<td>Fit through</td>
<td>Adaptation to environment</td>
<td>Adaptation of environment</td>
</tr>
<tr>
<td>Strategic focus</td>
<td>Attaining advantageous position</td>
<td>Attaining distinctive resources</td>
</tr>
<tr>
<td>Strategic moves</td>
<td>Market/Industry positioning</td>
<td>Developing resource base</td>
</tr>
<tr>
<td>Tactical moves</td>
<td>Attaining necessary resources</td>
<td>Industry entry and positioning</td>
</tr>
<tr>
<td>Competitive weapons</td>
<td>Bargaining power and mobility barriers</td>
<td>Superior resources and imitation barriers</td>
</tr>
</tbody>
</table>

Table 3: Differences between the outside-in and inside-out view
(adapted from: de Wit & Meyer, 2001, p. 333)

This issue can also be expressed in terms of the classic SWOT framework that suggests that a sound strategy should match the firm’s strengths (S) and weaknesses (W) to the opportunities (O) and threats (T) encountered in the firm’s environment. This relation will be explained in part 3.3 in more detail.

**Resource based view on Strategy**

The ‘Resource based view’ on strategy follows the idea(s) of the inside-out perspective. Since this is a relatively new approach compared to the better known
outside in perspective, it will be explained in more detail below. The ‘Resource based view’ combines aspects concerning capabilities, resources and competencies (Johnson & Scholes, 2000).

Analysing an organization’s capabilities can become a strategic issue. It is important in terms of understanding whether the available resources and competencies fit the environment in which the organization is operating. Further, it is significant to evaluate if environmental opportunities and threats can be anticipated. Understanding the strategic capability is also crucial from another perspective since they may lead to a revised strategic development. New opportunities may exist by stretching and exploiting the organization’s unique resources and competencies in ways which competitors find difficult to match and/or in new directions. However, managers need to be careful. If resource and competence exploiting strategies are favoured one may not spot environmental opportunities and threats.

As already briefly mentioned above, strategic capabilities can be related to three main factors (Johnson & Scholes, 2000):

- Resources available to an organization
- The competencies with which the activities of an organization are undertaken
- The balance of resources, activities and business units in the organization.

The terms of resources and competencies will be explained in more detail in the following paragraphs.

According to Johnson & Scholes (2000), resources can be classified in four groups; physical, human, financial and intangible resources. All of them are necessary to support the strategy chosen by an organization. Some of these resources are unique in the sense that they are difficult to imitate for competitors and therefore they may create a competitive advantage.

Competencies are difficult to assess in absolute terms. That is why usually a basis of comparison is needed to determine their development. Looking at the organizational history can provide a basis as improvements and/or declines become obvious, industry norms will offer hints about competitors’ competence level and also benchmarking helps to assess competencies (Johnson & Scholes, 2000).
An organization needs to reach a threshold level of competence in all activities it undertakes, however only some of these activities are core competencies. Core competencies underpin the organization’s ability to outperform competition (or demonstrably provide better value for money). They must be rare and costly to imitate for competitors, provide value to customers and have to be integrated within the organization. Core competencies can be used to exploit more than one market or business arena. This ability requires a capacity for innovation and a willingness to change e.g. by adding valuable services to core products or spread geographically when traditional markets mature and/or saturate (Johnson & Scholes, 2000).

The figure below summarizes again the relationship between necessary and unique resources as well as threshold and core competencies.

![Figure 10: Relationship between resources and competences](adapted from: Johnson & Scholes, 2000, p. 145)

As briefly mentioned before, service can provide a core competence. According to Zeithaml & Bittner (1996, cited in Kasper et al., 2000, p. 72) services can be defined as follows:

“Services include all economic activities whose output is not a physical product or construction, is generally consumed at the time it is produced and provides added value (such as convenience, amusement, timeliness, comfort or health) in forms that are essentially intangible concerns of its first purchase.”

Van Looy et al. (1998) argue, that services are “activities or processes distinguished by two central notions: intangibility and simultaneity” (van Looy et al., 1998, p. 4).
Intangibility means that the result of service is not coupled with possession. It refers to service as a process or an act. Simultaneity simply implies that both provider and customer play an active role in the realization of services. Further, services are characterized by perishability and heterogeneity. Perishability is linked with intangibility and refers to the fact that services cannot be kept in stock. Heterogeneity is linked with simultaneity as it stresses the importance of interaction in the service delivery process in terms of variation.

We are aware of the fact that the presented concepts, perspectives and views are not the only ones provided by researchers. Above all, some of them are summarizing and reviewing already published ideas. However, since we will use the perspectives to sum up the analysis and discussion they are helpful to reflect our findings.

3.2 Industry Analysis by Michael Porter

Porter’s Industry Analysis is providing a framework using the outside-in perspective. The analysis starts with an investigation of the external environment. It argues that companies have to understand the rules of competition that determine industry attractiveness in order to be successful on the market. The crucial goal of each company is to be able to deal with the rules of competition and if possible to change them in order to make them fit to their own objectives. According to Porter (1980), the rules of competition are presented in five competitive forces:

- The entry of new competitors
- The threat of substitutes
- The bargain power of buyers
- The bargaining power of suppliers
- The rivalry among the existing competitors

In general, the five forces are the same for all industries on domestic and international markets, however their strengths may differ in each context. Their power can also change as an industry evolves. “The five forces determine the industry’s profitability
because they influence the prices, costs and required investment of firms in an industry – the elements of return on investments” (Porter, 1980, p. 28).

As can be seen in the figure illustrated below, the five forces have an impact on competition. They will be introduced regarding Porter’s ideas.

Figure 11: Forces driving competition
(adapted from: Porter, 1980, p.24)

The entry of new competitors

Prices and investment structures are influenced by the threat of new entrants. It depends on the current entry barriers and reaction of present competitors if new entrants have a chance to enter the existing market.

There are seven major entry barriers:

- Economies of scale
- Product differentiation
- Capital requirements
- Switching costs
- Access to distribution channels
- Cost disadvantages independent of scale
- Government policy

Newcomers are in a very difficult position if the entry barriers are high (which makes the threat of entry low) (Porter 1980).

**The threat of substitutes**

All firms in the industry are competing with industries producing substitute products. Substitutes limit the potential returns of an industry by offering replacement for the original products. Substitutes are very dangerous especially if they can serve the needs as well as the original product for lower price (Porter 1980).

**The bargaining power of buyers**

Buyers compete in the industry by pushing down the prices, bargaining for higher quality and more service and placing competitors against each other. According to Porter (1980), buyers are powerful if the following circumstances arise:

- They are concentrated or purchase large volumes relative to seller sales
- The products they purchase from the industry represents a significant fraction of the buyer’s costs or purchases
- The products they purchase from the industry are standard or undifferentiated
- They face low switching costs
- They earn low profits (with the purchased goods)
- They pose a credible threat of backward integration
- The industry’s product is unimportant to the quality of the buyers’ products or services
- They have full information

The power of buyers depends on the market and industry situation.

**The bargaining power of suppliers**
The suppliers can use bargaining power by raising prices or reducing the quality of goods and services that they are providing. Supplier groups possess control if the following apply (Porter, 1980):

- It is dominated by a few companies and is more concentrated than the industry it sells to
- It is not obliged to contend with other substitute products for sale to industry
- The industry is not an important customer of the supplier group
- The suppliers’ product is an important input to the buyer’s business
- The supplier group’s products are differentiated or it has built up switching costs
- The supplier group poses a credible threat of forward integration.

The conditions making suppliers powerful are very similar to the ones that were mentioned in the buyers power case.

**The rivalry among existing competitors**

Rivalry among competitors takes place when competitors feel the pressure or see the opportunity to improve their position.

As stated in Porter (1980), intense rivalry is the result of a number of interacting structural factors:

- Numerous or equally balanced competitors
- Slow industry growth
- High or fixed storage costs
- Lack of differentiation of switching costs
- Capacity augmented in large increments
- Diverse competitors
- High strategic stakes
- High exit barriers
The companies use the traditional tools as price competition, advertising battles, and product introductions, increase customer service and warranties to achieve the best position on the market (Porter, 1980).

Firms through their strategies can influence the five forces. If a firm can shape structure, it can fundamentally change an industry’s attractiveness for better or for worse. Many successful strategies have shifted the rules of competition this way (de Wit & Meyer, 2001).

Porter’s described analysis provides an uncomplicated overview of the competitive environment of an industry. It can also be used to generally introduce an industry structure. However, it does not provide the researcher with a framework that can be used to study the complete range of existing interacting relationships, e.g. for the supply chain. It does not cover the issues of partnerships and networks within an industry nor does it mention the importance of resources in depth. Consequently, the model may not be deep enough for some purposes. However, it offers a practical base to briefly introduce the airline industry.

### 3.3 SWOT Analysis

As mentioned in part 3.1 a firm’s strategy should take external opportunities and threats and internal strengths and weaknesses into account. This is done by SWOT Analysis.

Ken Andrews was the first strategy theorist who articulated the concept of strategic fit between the firm’s resources and capabilities with the external environment (Fleisher & Bensoussan, 2002).

The SWOT-Analysis is an effective way of identifying internal strengths and weaknesses of any organization and of examining opportunities and threats of the external environment. The analysis’ objective is to take advantage of the opportunities the environment offers, and to avoid or minimize environmental threats. It also aims for an extension of a company’s strengths and a reduction of weaknesses (Kasper et al., 2000).
The analysis of the internal factors - strengths and weaknesses - is related to the ‘Resource based model’. Core competencies and capabilities may be identified which influences the future strategic orientation.

The analysis of the external factors - opportunities and threats - is related to environmental models of competitive advantage (e.g. Porter’s industry analysis model). Investigating the external environment influences which position within an industry will be taken.

The interdependencies of the external and internal factors can be seen in the figure below.

![Internal Analysis vs External Analysis](image)

**Figure 12: SWOT Analysis**
(adapted from: de Wit & Meyer, p. 384)

Using the SWOT-Analysis is relatively simple. One basically has to answer the following four questions (http://www.mindtools.com/swot.html):

1. What are the organization’s strengths?
   - What advantages does the organization have compared to others?
   - Which procedures are better examined by the organization (compared to others)?
   - What do other people perceive as the organization’s strengths?

By answering the question one has to try not to be modest but realistic.

2. What are the organization’s weaknesses?
• What can be improved within the organization?
• Which activities are carried out in a poor quality/way?
• Which mistakes can be avoided in the future?

Again, one shall be realistic when answering the questions. It is good to discover unpleasant truths as soon as possible. It is also important to consider the questions from one’s own standpoint as well as an outside perspective.

3. What are external opportunities?
• What are opportunities that can be useful for future organizational development?
• What are current market trends and how may these develop into opportunities?

Changes in technology, markets or governmental policies or even social patterns such as lifestyle changes and population profiles need to be considered.

4. What are external threats?
• What obstacles are faced by the organization?
• Are changing technologies threatening the organization’s position?
• Are there any bad debt or cash flow problems?
• What is the development of the organization’s competitors?

Being aware of external threats is very significant as it may avoid investing in the “wrong” projects and thereby not only wasting financial resources but also putting the whole organization under financial pressure and maybe threatening its existence.

To summarize, the SWOT-Analysis can help to focus on organizational strengths and to minimize weaknesses. At the same time the analyst may discover opportunities, which can be taken care of as well as threats that one needs to be aware of. Therefore it supports companies in deciding on which markets they shall compete in and helps to choose a service and price level. Porter’s three generic strategies are a model, which concentrates only on these two aspects. His ideas will be introduced in part 3.4.
The SWOT Analysis is a simple model, which enables managers to consider not only internal aspects when designing a strategy but also provides them with a framework how to evaluate the outside environment. However, it is a basic model with limitations. We assume it is difficult to decide whether certain circumstances are an opportunity/strength or rather a threat/weakness. In fact, sometimes it is impossible to predict the future and what is perceived as ‘good’ will turn out to be ‘bad’ and vice versa. In addition, it is crucial for managers to stay objective when applying the model and to be open to discussion when it comes to opposing opinions.

3.4 Generic Strategies by Porter

“Firm’s relative position within an industry is another important question when it comes to competitive strategy. Positioning determines whether a firm’s profitability is above or below the industry average” (Porter, 1985, p. 40). In other words, a company that is able to position itself well may be very profitable even though the industry structure is unfavourable. Such situation can be achieved by following one of the three generic strategies (Porter, 1985):

1. Cost leadership
2. Differentiation
3. Focus

![Figure 13: Generic Strategies](adapted from: Porter, 1985, p. 46)

As can be seen in the figure above, the first two generic strategies, Cost Leadership and Differentiation, apply to a broad target segment whereas the last generic strategy
concentrates on a narrow target segment. However, only the focus strategy may be applied to both, low cost position and differentiation.

3.4.1 Cost Leadership

In cost leadership strategy the aim is to become the low cost producer in the industry. When following a cost leadership strategy a company typically operates on a broad scope, providing various products/services in many industry segments. “This strategy requires aggressive construction of efficient facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like R&D, service, sales force, advertising etc. (Porter 1980, p. 48).”

Achieving a low cost position and maintaining it brings along above average returns in its industry even if strong competitors exist. Cost leadership provides the firm with competitive advantage as lower costs imply higher returns. A low cost position also defends the firm against powerful buyers as they can make use of their power only to the level of the lowest price on the market. It provides a protection against suppliers as the low cost makes the company more flexible to fight increasing costs. The facts leading to the favourable low cost position also offer significant entry barriers due to cost advantages and economies of scale (Porter, 1985).

In short, low cost position can be successfully applied to protect firm against all five competitive forces. According to Porter (1985), once the low cost leadership is achieved it provides high margins, which can be invested in new equipment and modern facilities in order to sustain the leading position.

3.4.2 Differentiation

The second generic strategy is differentiation. In a differentiation strategy, a company is also operating at a broad scope but looking for a product or service that is perceived as unique in the industry and is widely valued by customers. A firm is compensated for its exclusivity by a premium price. The types of differentiation are diverse in each industry. It can be based on the product itself, the delivery system or a wide range of other factors. It is very important to say that this approach does not allow the firm to ignore costs, however, the costs are rather a secondary strategy target (Porter, 1985).
According to Porter (1985), the company that achieves differentiation is a possible candidate for earning the above average returns in the industry as it creates a relatively secure position in the market. A ‘differentiation position’ protects a company against competitors due to customer loyalty, which results in low price sensitivity. It also increases margins that keep the firm away from the need for low cost position and makes it possible to deal with supplier power. Furthermore, the customer faithfulness and the need for a competitor to overcome uniqueness provide high entry barriers.

In comparison to cost leadership there can be more than one player pursuing differentiation strategy within one industry if there are a number of elements that are broadly valued by customers (Porter, 1985).

3.4.3 Focus

The last generic strategy is called ‘focus’. This strategy is to some extent different from the other two because it focuses on a very narrow competitive range within an industry. The companies pursuing this approach (the focusers) select a segment or group of segments within the industry. They shape their strategy to serve their narrow strategic target more effectively and efficiently than the players that are competing on a broader scale. Therefore, firms achieve differentiation either because of being able to meet the needs of a certain target or due to lower cost in serving this target or even both. Even though the focus strategy does not achieve low cost strategy or differentiation from the perspective of the market as a whole, it does achieve one or both of these positions vis-à-vis its narrow market target (Porter, 1985).

A focuser takes advantage of competitors that are either under-performing or over-performing the market in meeting the needs of certain segment. This gap in the industry opens opportunities for focus strategies. However, the focus strategy always involves some limitations on the overall market share. Focus necessarily comes along with trade-offs between profitability and sales volume. Similarly as the differentiation strategy the overall cost position is very tricky to achieve at this level of strategy (Porter, 1985).
3.4.4 Stuck in the Middle

There are certain dangers/risks embedded in each of the three generic strategies. One of them is called ‘Stuck in the Middle’.

A firm that tries to be successful in all generic strategies at the same time but fails to achieve any of them is ‘Stuck in the Middle’ and has no competitive advantage. A firm that ends up in such a position is in a great disadvantage as the cost leader, differentiators and focusers will be in a better position to compete in any segment (Porter, 1985).

According to Porter (1985), becoming ‘Stuck in the Middle’ is often a manifestation of firm’s unwillingness to make choices about how to compete. The company stuck in the middle has to make a major strategic decision and choose one of the generic strategies. It either has to achieve cost leadership or else it must change direction and look for a particular target (focus) or accomplish some uniqueness (differentiation). The choice between these options depends on the firm’s abilities, limitations and opportunities (Porter, 1985).

![Figure 14: Stuck in the middle](adapted from: Porter, 1985, p. 5)

Traditionally, researchers argued that a high relative market share leads to a high return on investment (de Wit & Meyer, 2001). However, Porter points out that companies with a low relative market share have a great chance to be successful. These can achieve a high return on investment by providing niche products for premium prices. This relationship is illustrated in the figure above.
Out of the three mentioned generic strategies the focuser is most likely the one that ends up being ‘Stuck in the Middle’. Focus brings along a limited potential sales volume, which can lead to loss of control and forgetting what stands behind the success. In general, a firm is usually better off finding new industries where it can use its generic strategy again.

In our point of view companies with a medium relative market share have a chance to succeed as well. Especially small and medium sized enterprises (SME) do not have the resources to provide products with a wide range of service. Yet, they do not all provide niche products either. In reality, one can observe that SME offer products with a medium range of features and services for a medium price targeting customers who are not able to purchase the premium price product but do not want to resign from the whole range of services and features (Buzzel & Bradely, 1997 in: de Wit & Meyer, 2001). That is why, in our opinion, this idea of being ‘Stuck in the Middle’ should not be taken as a general rule.

Further risks concerning the generic strategies are presented in the table below.

<table>
<thead>
<tr>
<th>Risk of Cost Leadership</th>
<th>Risk of Differentiation</th>
<th>Risk of Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost leadership is not sustained</td>
<td>Differentiation is not sustained</td>
<td>Focus strategy is imitated The target segment becomes structurally unattractive</td>
</tr>
<tr>
<td>Competitors imitate Technology changes Other bases for cost leadership erodes</td>
<td>Competitors imitate Bases for differentiation become less important to buyers</td>
<td>Structure erodes Demand disappears</td>
</tr>
<tr>
<td>Proximity in differentiation is lost</td>
<td>Cost proximity is lost</td>
<td>Broadly targeted competitors overthrow the segment</td>
</tr>
<tr>
<td>Cost focusers achieve even lower cost in segments</td>
<td>Differentiation focusers achieve even greater differentiation in segments</td>
<td>New focusers sub-segment the industry</td>
</tr>
</tbody>
</table>

**Table 4: Risks of generic strategies**
(adapted from: de Wit & Meyer, 2001, p. 357)

Porter also provides a connection between positioning strategies and the three generic strategies (cost leadership, differentiation and focus). He states, “each position can
form the basis for a narrow- or broad based approach” (Porter, 1996, p. 5). Companies may have a broad target and serve a wide range of customers with common needs and wants. These companies ignore the specific needs of particular customer groups. On the other hand, companies may be focused and serve customers who are over-served and over-charged or even under-served and hence under-charged by broadly based competitors.

Approaches towards ‘Positioning’ are also provided by other authors. Some of them can be found below.

3.5 Positioning Strategies

The positioning of a product/service in a market or a company in an industry is a significant strategic decision.

Concerning product/service positioning, Doyle (2002) defines positioning strategy as the “choice of a target market segment which describes the customers a business will seek to serve and the choice of the differential advantage, which defines how it will compete in the segment”.

This definition shows that a positioning strategy may be broken into three interrelated sub-components (Brooksbank, 1994):

- Customer targets
- Competitor targets
- Competitive advantage

Brooksbank (1994) states that positioning demands the ability to face a company’s products and services in their market and to understand the interrelationships of the three sub-components. According to internal strengths and weaknesses and external threats and opportunities (discovered e.g. by examining a SWOT-Analysis) a company’s market segments and target customers shall be chosen. Hence, a position is determined.

The selection of customer targets plays a critical role in market segmentation, the sub-division of larger markets into “distinct subsets of customers with similar needs and wants” (Brooksbank, 1994, p. 48). There are many different approaches how to
segment a market. Common examples include Geographics (local, regional, national, etc), Demographics (age, sex, income level, etc.) or Psychographics (behaviour, attitudes, etc.). However, one should keep in mind, that there is not one ‘correct approach’, indeed, “any variable can be used as a basis for segmentation as long as the resulting target market segment(s) satisfy the four key requirements for effective segmentation” (Brookbank, 1994, p. 51). These are as follows:

- Homogeneity within segments (customers within segments have similar needs and wants)
- Heterogeneity between segments (customers between segments have different needs and wants)
- Targetability via marketing mix (segments can easily be reached and served)
- Viability in commercial terms (segments are profitable enough to justify being targeted)

The selection of competitor targets is significant for the evaluation of competitors’ relative strengths and weaknesses and the ability to compete. According to Brooksbank (1994), most successful companies are those that avoid ‘head to head’ competition by offering ‘something different’. As mentioned above, identifying and selecting customer targets (by investigating customer needs and wants) enables a company to exploit the market.

Defining a competitive advantage concerns the question of how a company is going to compete in the marketplace. The aim is to produce unique products and/or provide exceptional services so that customers are less likely to switch to offers of competitors. When developing a competitive advantage the two essential factors are:

- Being of value to customers
- Sustainability

A competitive advantage can be created out of the company’s strengths or core competencies (Brooksbank, 1994).

Once a positioning strategy is chosen, it needs to be translated into action by assembling an appropriate marketing mix. Kotler’s defines the marketing mix as the “4 P’s” – product, price, promotion and place (distribution) (Kotler, & Bliemel, 1999).
There can be said a lot about the marketing mix provided by Kotler & Bliemel (1999), however, it is not suitable for this thesis, since the area of marketing is not covered it will not be applied.

The figure below illustrates how the three sub-components of the positioning strategy decision (drawn as ovals) interrelate with each other, the SWOT Analysis and the Marketing Mix.

![Diagram of positioning strategy](image)

**Figure 15: Positioning in relation to SWOT Analysis and Marketing Mix**  
(adapted from: Brooksbank, 1994, p. 23)

In contrast to product positioning, the **positioning of a company** within its industry characterizes its situation compared to competitors, particularly in terms of product/service range, customer target segments and general pricing strategy (www.srfunds.com/entre/pers4.html).

According to www.srfunds.com/entre/pers4.html, a management team must be able to answer the following questions when considering the positioning strategy of any company:

- What is the company’s vision?
- In which market/product categories is the company competing?
- Which market and customer segments is the company targeting?
- How are products/services differentiated from the ones offered by competitors?
- How does the company ensure that the position is perceived as credible?
Developing and maintaining a positioning strategy is dynamic since external environments and internal processes are changing all the time. Therefore, positioning strategies need to be re-examined ‘from time to time’, in particular due to (www.srfunds.com/entre/pers4.html):

- New product developments and the erosion of market share
- Introduction of existing products into new markets in terms of new regional area or new application
- Changes in competitive environments in terms of new/less competitors,
- Major changes in the competitors’ strategy
- Alternative market solutions/changes in the market environment in terms of new technology, economic forces, standard stabilization
- Etc.

Any valuable strategic position attracts imitators. Thus, it is necessary to build a sustainable position, which in Porter’s view can be achieved by accepting the existence of trade-offs (Porter, 1996).

To reach a sustainable position it is often necessary to develop partnerships and/or enter networks. Such collaborations support to interlock activities and achieve a strategic fit.

### 3.6 Strategic Alliances

Strategic alliances support companies in gaining resources. As mentioned before, these can be used to reach a sustainable position but also to enable companies to expand. There are different ways, how companies expand, ensure growth, enter new markets and start working in international operations. Market entry modes they may choose are export, joint ventures, subsidiaries, franchising, licensing, strategic alliances and others (Daniels & Radebaough, 1998).

The term strategic alliance is used to “indicate an agreement that is of critical importance to the competitive viability of one or more partners” (Daniels and Radebaugh, 1998, p.18). Usually strategic alliances are some form of collaborative arrangements where two or more partners agree on an issue of working together.
There are numerous motives for getting involved in international business relations as well as choosing a strategic alliance to do so. The figure below shows the most common motives.

Figure 16: Motives for strategic alliances
(adapted from: Daniels & Radebaugh, 1998, p. 574)

As seen above, there are different motives for getting involved in international business relations. Most companies start exporting their goods and services in order to increase their sales. Acquiring resources is a major motive for going abroad as it is important for manufacturing intensive companies. However, resources do not only include raw material but also technologies, capital and knowledge. The reason of diversification refers to the fact that the timing of business cycles – recessions and expansions – differs among countries. Further, seeking resources from different countries allows companies to stay more independent from country specific price increases of raw materials and other resources. By moving abroad, companies can minimize competitive risks, for example by avoiding that their competitors may be the only player in a foreign market (Daniels & Radebaugh, 1998).

There are some general reasons, why companies use strategic alliances to enter new markets. Being able to let a partner take care of certain parts of the production or manufacturing process of a product or providing a certain service may lead to spread and reduced costs. Collaborating with another company can lead to a further specialization in competencies due to the fact that one company only needs to concentrate on processes/services that it can provide best. Further, companies that are involved in a strategic alliance do not need to fear direct competition from their
partners. However, at the same time collaborations ensure vertical and horizontal linkages (Daniels & Radebaugh, 1998).

Specific motives concerning strategic alliances exist regarding international business relations. Cultural, political, competitive and economic differences among countries create barriers for companies to enter foreign markets. By joining a strategic alliance these barriers can be overcome with fewer problems. Geographical diversification through strategic alliances has the advantage of a “fast initial means of entering multiple markets” (Daniels and Radebaugh, 1998, p.577). If companies want to operate in foreign markets with an unstable/risky environment it is of advantage to get involved in a strategic alliance, which will minimize the risk of having too many assets in the foreign country (Daniels & Radebaugh, 1998).

According to Daniels and Radebaugh (1998) there are several types of collaborative arrangements:

- Licensing arrangements
- Franchising
- Management contracts
- Turnkey operations
- Joint ventures
- Equity alliances

Their relative ownership continuum and relative number of partners are shown in the figure below.
Several problems may occur when being involved in a strategic collaboration (Daniels & Radebaugh, 1998):

- Relative importance to partners – may lead to dependence on the partner
- Differing objectives of partners – may lead to conflicts in decision making processes
- Control problems – may lead to monitoring problems
- Relative contributions and appropriations – may lead to allocation problems
- Differences in culture – may lead to conflicts in designing internal policies and work flow processes

These problems contain major risks when entering an alliance. They need to be thought through carefully every time before collaboration partners are considered. As can be seen in reality, alliances and collaborations often fail and cause enormous losses.
3.7 The European Model of Excellence

So far it was pointed out how strategies (by applying positioning, resource development and using partnerships) lead to the achievement of a sustainable competitive advantage. This means companies are performing on a very high level in all aspects. The European Model of Excellence is a framework designed to cope with the interrelations of all managerial aspects. Here, it will be used to complement the strategic concepts presented above.

Every company needs to be organized in a certain way; it needs an organizational framework to coordinate its processes and activities. Depending on how well this framework is designed and harmonized with internal activities and processes an organization can achieve a certain level of excellence. The more efficient and effective resources, capabilities and (core) competencies are used within an organization the higher the level of excellence. According to the European Foundation of Quality Management (EFQM), an ‘excellent organization’ has the ability to achieve and sustain outstanding results for its stakeholders, including customers, suppliers, employees and the society.

The Foundation introduced the EFQM Excellence Model in the beginning of May 1992 and presented a revised version in 1999 (www.efqm.org). The EFQM Model of Excellence is a non-prescriptive framework and can be used to assess an organization’s progress towards excellence. “The Model recognizes that there are many approaches to achieve sustainable excellence in all aspects of performance” (www.efqm.org).

The following concepts are underlying assumptions of the EFQM Excellence Model:

- Results Orientation – balancing and satisfying needs of relevant stakeholders
- Customer Focus – clear focus on needs of current and potential customers
- Leadership & Constancy of Purpose – clarity and unity of purpose within the organization and the surrounding environment
• Management by Processes & Facts – interrelated activities are well understood and systematically managed/decisions are made using reliable information including stakeholder perceptions
• People Development & Involvement – involvement of all organizational members, share of common values and a culture of trust and empowerment
• Continuous Learning, Innovation & Improvement – knowledge is shared
• Partnership Development – beneficial relationships built on trust, sharing of knowledge among and integration of partners
• Public Responsibility – adopting an ethical approach and exceeding the expectations and regulations of the community at large.

The EFQM Model is based on nine criteria and the premises that “Excellent results with respect to Performance, Customers, People and Society are achieved through Leadership driving Policy & Strategy, People, Partnerships & Resources and Processes” (www.efqm.org).
The nine criteria are shortly introduced below:

• Leadership: Leaders develop a mission, vision and values of the organization and are personally involved in the implementation process. Leaders are also in contact with customers, partners and representatives of society.
• Policy & Strategy: The implementation of an organization’s mission and vision is based on a stakeholder-focused strategy, supported by relevant policies, plans, objectives, targets and processes.
• People: This criterion is concerned with the management, development and release of knowledge and the full potential of its people at all levels.
• Processes: Processes need to be designed, managed and improved in order to support chosen policies and strategies as well as to satisfy and generate value for customers and other stakeholders.
• Partnership & Resources: The organization needs to plan and manage its partnerships and resources in order to support chosen policies and strategies as well as effective operation of the processes.
• Customer Results: This criterion deals with the question of what the organization is achieving in relation to its external customers.

• People Results: This criterion is concerned with the question of what the organization is achieving in relation to its people.

• Society Results: This criterion considers, what the organization is achieving in relation to local, national and international society.

• Key Performance Results: The question of what the organization is achieving in relation to its planned performance is dealt with by this criterion.

How all nine criteria interrelate can be seen in the figure below. ‘Enablers’ and ‘Results’ are two categories of criteria mentioned above. Whereas ‘Enablers’ criteria are concerned with how the organization undertakes its key activities, ‘Results’ criteria consider which results are achieved. The arrows emphasize the dynamic nature of the model. Innovation and learning support the improvements of enablers, which will consequently lead to enhanced results (www.efqm.org). According to Dahlgaard & Park Dahlgaard (2002), ‘Enablers’ cause Results’.

![Figure 18: The EFQM model of excellence](adapted from: www.efqm.org)

According to Dahlgaard and Park Dahlgaard (2002), information is expected to be generated and processed through ‘Enabler’ criteria. The ‘Result’ criteria “are expected to be utilized as feed forward loops in an ongoing process” (Dahlgaard and Park
Dahlgaard, 2002, p. 17). It is assumed that learning and improvement activities can be increased by reassessing goals, strategies and standards in the ‘enablers criteria’.

3.8 Summary of Used Theories

The following paragraph will summarize the theoretical models in the same order as they are used in analysis and discussion part of this thesis.

The industry analysis introduces five forces that drive competition. In our analysis (of the collected empirical data) it will mainly be used to introduce the most significant players within the airline industry.

The SWOT Analysis is used to generally illustrate the companies’ internal strengths and weaknesses as well as their environmental opportunities and threats.

Porter’s three generic strategies, cost leadership, differentiation and focus, underpin the necessity that companies have to decide which markets and customer groups they want to serve. They are applied to present the positions of SAS and Ryanair within the airline industry in terms of pricing and service level.

Theoretical background knowledge on positioning is essential to understand the positioning of a company and its products in greater depth. From the positioning analysis it can be anticipated where the companies place themselves in the market.

The European Model of Excellence provides a framework to achieve a high level of excellence in performing management activities. It will be used to underpin chosen strategies and policies and therefore support the achievement of a competitive advantage.

Partnerships and alliances are often used as a strategic tool to ensure growth. Further, both can provide advantages but also contain risks. We will apply the knowledge of alliances to investigate the companies’ partnership strategies.

As already mentioned, strategy can be viewed from an external as well as an internal perspective. Both views will be used to reflect the strategies of SAS and Ryanair from different viewpoints and to give an overview of the evaluation of the data.

As briefly pointed out before, some theories are applied more deeply than others. The ones concentrated on are the SWOT Analysis, the generic strategies and the positioning analysis. This is because we think that the collected data are most suitable
for these theories and can therefore be applied to the greatest extent. Furthermore, in our opinion they outline the different strategies of the companies best and therefore underline their strategic moves.
4 Empirical Data of Investigated Companies

This part of the thesis will present the empirical findings. It starts with a short presentation of the airline industry by presenting facts concerning the most important airlines as well as major changes in the industry’s development and continues with the presentation of SAS’ and Ryanair’s company data.

4.1 The Airline Industry

There can be said a lot about the airline industry since it is unique and gigantic. However, for our purpose it is sufficient to focus only on some aspects. Below, the most significant European airlines are mentioned and the most dramatic changes within the industry during the last decade are outlined. These include the deregulation policy, the establishment of huge alliances such as Star Alliance or OneWorld and the market entrance of low budget airlines. Some remarks on the terrorist attacks in New York, USA on September 11, 2001 are also taken into account.

4.1.1 The three largest European Airlines

According to Chan (2000), the three largest airlines within Europe are Air France, British Airways, and Lufthansa.

Lufthansa was founded in 1926 and is active in six business areas, e.g., passenger business, logistics, Catering, leisure travel and IT-Service. Its home market is Europe even though it is operating worldwide (www.lufthansa.com).

Air France was formed in 1933 and today it is one of the world’s leading airline. It is number three in international passenger transport, number four in international air freight and number two in providing aircraft maintenance. In terms of financial results it ranks third worldwide. Air France serves more than 200 destinations in 85 countries and offers approximately 1,700 daily flights (www.airfrance.com).

British Airways was formed in 1972 but its history can be traced back to 1924 (http://airlines.afriqonline.com). The airline’s mission is “to be the undisputed leader in world travel” and it aims to be customers’ first choice in its key markets. The values are stated to be “Safe & Secure, Honest & Responsible, Innovative & Team-spirited, Global & Caring and A good neighbour” (www.britishairways.com).
To sum up, the ‘three big airlines’ have their roots in the 1920s and 30s and their home market is Europe. They all join one of the major alliances however different ones as Lufthansa is a founding member of Star Alliance, Air France joins SkyTeam and British Airways is a member of OneWorld. They are typical examples of mature airlines – serving national, European and global flights. Consequently their target markets are overlapping and they compete. All three used to represent their nation in the past (as a flag carrier) and started or will start a privatisation process (www.lufthansa.com, www.britishairways.com, www.airfrance.com).

4.1.2 Deregulation Policy

So far single airlines were constrained in their ability to serve the increasing demand of customers who want to fly to more places more easily. This was mainly due to government restrictions. However, one of the major developments in the airline industry during the last decades has been deregulation. It was first introduced in the USA in 1978 and has been adopted in the late 1980s and early 1990s in Europe and other regions (Freedom in the air, 1997). It implies that government control of the airlines has diminished. The sudden change of the competitive situation – from tight regulation to free competition – has opened great opportunities but also caused many problems. Former secure markets turned to be highly vulnerable. As the rules of competition were redefined, different market segments emerged (Chan, 2000).

In general, new airlines entered high volume point-to-point markets with costs 30 - 40 % lower than the established carriers, largely driven by low non-union labour and a wide variety of inexpensive second hand aircraft. This forced larger carriers to reorganize and reduce their operating costs. As a result, average fares fell in real terms and demand for airline service doubled over a decade after deregulation policy was introduced (Funck & Ghannad, 1999).

In addition, the deregulation policy has had an impact on Ryanair and SAS. Ryanair would not have been able to develop the way it did and survival during crises would not have been possible either. In the case of SAS the deregulation policy enabled the airline to enter partnerships and Star Alliance to develop globally.

In general, a trend towards globalisation is noticeable. Single carriers do not have the volume to become a global player on their own. As a result, airlines look for
partnerships and form strategic alliances (Chan, 2000). The next paragraph will provide more details about alliances

4.1.3 Movement towards Alliances

During the last decade one could observe some major movements concerning collaboration in the airline industry. Five major airline alliances were founded, Star Alliance, OneWorld, SkyTeam, Wings and The Qualiflyer Group (www.aboutairline.com). Together they account for more than 60% of the total world airline capacity (www.oneworld.com). There are numerous reasons why more and more airlines found or join an airline alliance. In the rapidly changing business environment a drive to reduce costs exists. Alliances support airlines in achieving higher revenues and reducing costs by exploiting synergy effects. These range from joint use of ground facilities, such as check-in-counters, city offices and airport terminals. Other advantages accrue from joint purchasing of materials and equipment as well as procurement of common future aircraft types (www.lufthansa-financials.de, www.oneworld.com).

In the following paragraphs the three largest of the five alliances will be introduced. Thereby an emphasis is put on Star Alliance, as SAS Scandinavian Airlines was one of its founding members. In Appendix I further information about all five alliances can be found.

On May 14, 1997, Air Canada, Lufthansa, SAS Scandinavian Airlines, Thai Airways International and United Airlines founded Star Alliance. A couple of months later, in October 1997, VARIG Brazilian Airlines and in March 1999 Ansett Austrian Australia and Air New Zealand joined the Star Alliance network. One year later, in March 2000, Austrian Airline Group (comprising Austrian Airlines, Lauda Air and Tyrolean Airways) became the 10th member of Star Alliance. Later in the same year, Singapore Airlines (in April) and British Midland as well as Mexicana Airlines (both in July) joined the alliance. During the first half of 2003, Asiana Airlines of South Korea, LOT Polish Airlines and Spanair of Spain will become members of Star Alliance (http://investor.ee/en/news, www.star-alliance.com).

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7 Synergy effects: outcome of two or more companies working together is greater than the sum of the individual outcomes
Star Alliance’s mission is to deliver a seamless travel experience and offer reward and recognition to passenger travelling across its global network. Its aim is to contribute to the long-term profitability of its member airlines beyond their individual ability. Since its formation, Star Alliance has created a combined route network, which carries more than 300 million passengers annually to 894 airports in 129 countries. More details can be found in Appendix II (www.star-alliance.com).

Airlines are joining alliances because these provide benefits that can be passed on to customers. By creating a global route network with the best possible connection via several hub airports, Star Alliance is able to offer effective, flexible and simple global travel – meaning fast and smooth transfers between members’ flights. Further, the alliance provides a bonus program that can be used no matter with which member airline customers travel. According to Star Alliance, one great advantage is that all airlines’ products and services are available through all members’ distribution channels. Star Alliance sophisticated IT solution provides an effective support for this service. It was launched in September 2000 and links the various computer systems of the member airlines (www.star-alliance.com).

In February 1999 OneWorld was founded by American Airlines, British Airways, Cathay Pacific and Quantas. Today, eight airlines are members of this airline alliance. Additionally to the founding members, Finnair (September 1999), Iberia (September 1999), Aer Lingus (June 2000) and Lan Chile (June, 2000) joined OneWorld. As well as in Star Alliance, one of the benefits OneWorld offers is smooth travelling, since its member airlines connect 570 destinations in 134 countries. It also provides more than 400 lounges across the globe and a frequent flyer program. OneWorld’s vision is “to establish the winning alliance for customers, shareholders and employees” (www.oneworld.com). According to the OneWorld web page www.oneworld.com, this will be achieved by:

- Offering travel solution beyond the reach of any airline individual network
- Providing a common commitment to high standards of quality, service and safety
- Creating a world where customers always feel at home, wherever their journey may take them
• Delivering its airlines with savings and benefits greater than any can generate by itself

OneWorld is serving more countries than any other alliance and received the 2002 Business Traveler Awards (www.oneworld.com).

In June 2001 Aeromexico, Air France, Delta Airlines and Korean Air announced the formation of the airlines alliance SkyTeam. Later, Alitalia and CSA Czech Airlines joined the alliance. Together the airlines fly to 512 airports in 114 countries worldwide. As the other airlines alliances, Skyteam offers easy flight connections for smooth travel, high quality standards, single check in and access to 340 lounges. SkyTeam’s vision affirms a commitment to customers as well as a shift in industry viewpoints. It highlights SkyTeam’s position as a leading alliance, achieved through its high service level for passengers and cargo customers (www.skyteam.com).

Besides large collaborations, other developments took place at the same time, e.g., the establishment of low budget airlines.

4.1.4 Entrance of Low Budget Airlines

The entrance of low budget airlines started at the same time as the deregulation policy opened the markets for freer competition. Before European deregulation in the 1990s, the market was neatly divided – scheduled carriers controlled 75 % of the intra-European market by focusing on business travellers whereas the remaining 25 % were held by charter airlines (www.mckinseyquarterly.com).

The first low-fare airline appearing on the European market was Ryanair starting its operations already in 1985. EasyJet was founded 10 years later in 1995 (www.easyjet.com). Low fare airlines’ impact on the airline industry will be outlined in this as well as in the following analysing part. In short, one can notice an increased level of competition.

4.1.5 Consequences of Terror Attacks and Traffic Development

The situation for the airline industry worsened dramatically after the events on September 11, 2001. According to the SAS AB Group, it was the worst airline crisis since the Gulf War followed by great uncertainty in terms of world recession and a general fear of travelling. In some markets demand fell by more than 25 % overnight.
Airlines were forced to ground several aircraft, which meant a decrease in capacity by approximately 10% among European airlines. The number of aircraft in the parking areas (including those in California and Arizona, USA) has risen from approximately 1,100 at year-end 2000 to approximately 2,100 in December 2001. Air traffic over the North Atlantic was hit the hardest and fell in the first week after the events of September 11, 2001 by 56% for European Airlines associated in AEA (Association of European Airlines) (SAS Group in Summary 2001/2002).

In the period of September 11 to December 31, 2001, traffic for AEA decreased by 31% on average. According to statistics provided by AEA, traffic in Europe increased in the weeks before September 11 by approximately 3%. In the subsequent period until the year-end 2001 traffic fell 12% (www.aea.com).

The situation did not change to the better and according to the SAS Interim Report January – September 2002, the third quarter of 2002 continued to be affected by reduced capacity due to the events of autumn 2001. The international traffic is affected as well. The total traffic in terms of RPK (revenue per kilometre) decreased by 6.3% and capacity by 9.7% as stated by AEA (www.aea.com). In general, a less favourable business climate is noticed (SAS Interim Report January – September 2002).

4.2 SAS – Scandinavian Airline System

The presentation of the empirical data concerning SAS will start with an introduction of the entire SAS Group. This is necessary as a considerable amount of facts concerning the entire group is also valid for SAS Airline. It will continue with facts and data regarding only SAS Airline.

4.2.1 Introduction of the Company – SAS Group

SAS was formed in 1946 as a consortium comprising three national airlines; SAS Danmark A/S, SAS Norge ASA and SAS Sverige AB. Until the end of June 2001 the Danish and Norwegian parent companies owned a 2/7 share each, the Swedish company owned the remaining 3/7. In each parent company 50% of the shares are owned by the respective state and 50% by private interests (Interim Report January – June 2000).
In the beginning of May 2001, SAS AB, a newly formed Swedish company, made offers to the shareholders of SAS Danmark A/S, SAS Norge ASA and SAS Sverige AB to exchange their shares for the same numbers of newly issued shares in SAS AB. In the end of June 2001 shareholders representing more than 90% of shares in each company had accepted the offers. After the offers have been implemented and accepted in their entirety the Danish, Norwegian and Swedish states own 14.3%, 14.3% and 21.4% respectively of the share in SAS AB. The remaining 50% of the shares are owned by private interests. The former parent companies were de-listed and SAS AB is listed in Stockholm and on the stock exchanges in Copenhagen and Oslo.

The simplified share structure with a single share provides more transparent sector information and greater clarity in the capital market. Therefore it is easier to analyse and it offers preconditions for more efficient pricing and higher liquidity. Further, the single share provides opportunities to participate in structural deals, introduce incentive programs and achieve a more flexible decision making structure. The new structure can be seen in the figure below (SAS Group in Summary 2001/2002; SAS Interim Report January – March 2002).

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Figure 19: Ownership structure before restructuring
(adapted from: SAS Interim Report January – March 2001)

Figure 20: Ownership structure after restructuring
(adapted from: SAS Interim Report January – September 2001)
SAS AB Group is organized into five business areas, SAS Airlines, Subsidiary & Affiliated Airlines, Airline Support Businesses, Airline Related Businesses and Hotels (www.scandinavian.net).

The largest business area is SAS Airline. Subsidiary & Affiliated Airlines comprise other airlines within the group. Widerøe (owned to 99 % since May 2002, previously 63 %) and Air Botnia (owned 100 %) are already owned by SAS. Further, all the shares in Braathens ASA were acquired in the end of December 2001. In May 2002 the European Commission approved the acquisition of an additional 25 % of the shares in Spanair S.A., adding the SAS Group’s holding to 74 %. Affiliated airlines include Skyways, Cimber Air, British Midland, airBaltic and Air Greenland. Airline support businesses include, e.g., SAS Cargo, and airline related businesses consist of, e.g., SMART, SAS Trading and Jetpak – all with most of their sales to external customers. Rezidor SAS Hospitality (REZSAS) is the SAS Group’s hotel business. The company works with two hotel chains, Radisson SAS Hotels & Resorts and Malmaison (SAS Group in Summary 2001/2002).

In the SAS Group Summary Report 2001/2002 it is stated that in 2002 SAS Airline’s share of consolidated operating revenue will be 55 – 60 %, Subsidiary & Affiliated
Airlines will amount to approximately 25 %, Airline Related and Support Businesses 10-12 % and Rezidor SAS Hospitality 5-10 % (The SAS Group Summary Report 2001/2002).

During the time period in which this thesis was written SAS Group continued to change its organizational structure. In company reports from 2000 and 2001 the group was organized in only three business areas – SAS Airlines, Hotels and other operations. With the beginning of the third quarter in 2001 the company introduced a structure consisting of four business areas, namely SAS Airline, Subsidiary & Affiliated Airlines, Airline Related Businesses and Rezidor SAS Hospitality. The area of Airline Related Business is presently divided into two – Airline Related Businesses and Airline Support Businesses. The most recent structure can be seen in Figure 21. The recently changing organizational structure shows that SAS Group is facing a period of reorganization.

4.2.1.1 SAS Historical Overview

As mentioned before, SAS has its roots in mid 1940s when the three former national airlines Danish DDL, Norwegian DNL and Swedish SILA merged to become one Scandinavian corporation.

Ever since its foundation SAS was strongly committed towards innovative flight routes. In 1946, SAS operated its first flight to New York and to South America. The first exploratory transarctic flight with a commercial aircraft took place in 1952. During the following decade SAS opened several intercontinental routes such as New York and Los Angeles. In 1957, a North Pole shortcut from Copenhagen via Anchorage to Tokyo was inaugurated.

Historically, SAS invested into airline related businesses and co-operations. The company started to implement strategies such as collaborations and concentrated on airline related business already during the 1950s and early 1960s. In 1958, SAS signed a cooperation agreement with Swissair; many more followed. As an airline related business, the company opened its first hotel in Copenhagen in the 1960s. SAS is also the first airline to introduce European electronic reservation system. In 1969, a technical and operational agreement was signed between KLM, Swissair and SAS. Two years later the first Boeing 747 was delivered and introduced between Copenhagen and New York.
SAS’ strategy was based on a high level of service throughout its company history. The 1980s were a fortunate period for SAS as it was pronounced to be the most punctual airline according to AEA. It also won the “The Passenger Service” award and the “Airline of the Year” award. SAS decided to uncover its new corporate identity, ranging from aircraft uniforms to stationary, e.g. the dragonhead and fuselage eye-catcher were replaced with the widely known flag stripes. Furthermore, the aircraft was expanding during this period. SAS ordered nine Boeing 767 intercontinental jets, a number of Fokker 50 for its Commuter program and 61 MD-80 in order to renew the fleet. In the same year on August 1, SAS celebrated its 50th anniversary. In 1998 SAS purchased Air Botnia – a Finnish domestic airline. A year later SAS opened its Internet site www.scandinavian.net and put its first Boeing 737-700 into operation.

SAS is very committed towards the environment. The first environmental report was presented in April 1996 and eventually won several prizes for great performance. The environmental activities are pursuing its successful track when SAS was awarded with the prize for “Best Environmental Report 2000”.

After a stable period of two decades a set of unpleasant incidents happened in 2001. In the wave of terrorist attacks on New York’s World Trade Center and Washington Pentagon on September 11, 2001 and their immediate consequences on international civil aviation, SAS was forced to cut its capacity, reduce its staff and ground 16 of its aircraft. Another disaster followed in October when a Copenhagen-bound MD-87 in foggy weather had a collision with a Cessna executive jet during take-off in Milan’s Linate airport. All 110 people on the board of the SAS aircraft, four people in the Cessna and four ground workers died.

The year 2002 was a sign of new business ideas. In June SAS introduced a completely new price concept for travelling within and between Scandinavian countries. At the same time, SAS announced that it would introduce a new distribution concept in Scandinavia. In September, a low price Internet booking to more European destinations was introduced and in October a new and simpler traffic system was implemented in order to create a platform for long-term profitability (www.sas.se).
4.2.1.2 The SAS Group’s Business Concept

The **mission** of the SAS Group is to “offer air travel with a base in its home market in Northern Europe” (The SAS Group Summary 2001/2002, p.5). The group will also “engage in airline related businesses as long as such involvement increases the market value” of the SAS Group (The SAS Group Summary 2001/2002, p. 5).

According to the SAS Annual Report (2000) the **vision** of SAS is “to make Scandinavians proud of their airline” (SAS Annual Report, 2000, p. 5).

In terms of **values**, SAS’ goal is to be a company characterized by employees “who care, can be trusted, are progressive, and professional” (The SAS Group in summary 2001/2002, p. 5).

The **governance philosophy** of the SAS Group was “reformulated to reflect the moves towards more independent units with clear profit responsibility. In 2001 this has taken the form of a number of profit units within the group” (The SAS Group in Summary, 2001/2002, p. 13).

4.2.1.3 Objectives and Strategies

During the last decade the airline industry was facing continued deregulation with subsequent consolidation and restructuring. One of SAS Group’s aims is to remain neutral and independent in the changing scenario. SAS claims it is necessary to increase market capitalization though strong growth and high profitability in order to fulfil this aim. SAS Group’s targets until 2005 are:

- To achieve minimum CFROI (cash flow return on investment) of 17 % per year on average and

- To raise operating revenue by an average of 14 % per year with 2000 as the base year.

According to the SAS Group in Summary 2001/2002 report, another financial objective is to create value for SAS’ shareholders.

SAS’ **main strategic focus** is (SAS Group in Summary 2001/2002 report):

- An alignment of SAS Airline with the other airlines within the SAS group and

- The implementation of earning improvement activities.
SAS is following an orientation towards long-term development. This includes a strategic alignment of SAS Airline and the other airlines within the SAS group. As stated in one of SAS’ group’s company reports the alignment is necessary to survive “the present deep crises in the industry” (SAS Group in Summary 2001/2002, p. 6). The primary task for the year 2002 was therefore the implementation of earning improvement activities. These will not only ensure survival but also provide opportunities for future competitiveness and development. As they concern SAS Airline to a great extent they will be explained in part 4.2.2.5 (Restructuring Program, 2002 – 2004).

The main strategic focus of the SAS Group is summarized under four main headings:

- Growth
- Competitiveness
- Value creation
- Participation

To achieve these objectives, the SAS Group needs to accomplish a number of sub-objectives, which are shortly described below (SAS Group in Summary 2001/2002 report).

Financial Strategy

The SAS Group focuses on staying financially flexible, which will be achieved and maintained through high liquidity, good access to funding and an active dialog with the capital market. To identify and manage financial risks, relating to currency, interest rates and credits, is one of the purposes. According to company reports, the aircraft fleet is regarded and managed as a financial asset (SAS Group in Summary 2001/2002).

Investment Strategy

Concerning investments, SAS Group concentrates on consolidation. In 2001, Braathens, Widerøe and Air Botnia were consolidated in the SAS Group’s balance sheet. In 2002, consolidation of Spanair was planned. The EU Commission has approved SAS’ increased shareholding in Spanair S.A. from 49 % to 74 % by a decision on March 5, 2002. Taking into account these consolidations, SAS’ total
number of aircrafts will amount to 310 with 27 on order. Appendix III provides a
detailed list of the aircraft fleet (Interim Report January – September 2002).

**Partnership Strategy**

SAS pursues a partnership strategy with an orientation towards other airlines and
marketing partners. The way SAS Airline collaborates with partner airlines will be
outlined in part 4.2.2.2 (SAS Airline’s strategies). In terms of marketing SAS
provides an integrated solution for SAS’ and partner’s products and brands. The
partnerships between SAS and Royal, Arlanda Express, Hacette/Elle and Telia
Homerun are some examples (www.sas.se).

**Sustainable Policy**

For the SAS Group sustainable development means a parallel focus on financial
growth, environmental improvements and social responsibility. The Group’s task,
based on its core values, is to create long-term growth in value for its shareholders

**4.2.1.4 Traffic & Market Data**

According to the SAS Interim Report January - September 2002), the SAS Group’s
traffic (RPK) rose in January to September 2002 by 28.8 % due to the acquisitions of
Braathens and Spanair. For comparable units, traffic decreased by 4.8 % in the third
quarter of 2002 and capacity fell by 10.9 %.

In the same time, the Group’s intercontinental traffic (RPK) decreased by 5.2 %,
despite higher capacity at Scandinavian Airlines. Traffic in Europe fell by 3.4 %. Intra-Scandinavian Traffic (RPK) decreased by 6.8 % during the same time. Domestic
traffic fell 10.4 % in Denmark and Greenland, 6.1 % in Norway, and 7.3 % in Sweden

SAS Group’s home base is Scandinavia but the company also concentrates on the
European market. In the year 2000 SAS Group achieved 85.4 % of its passenger
revenue with non-intercontinental flights. 41 % of the passenger revenue was
achieved with flights to European countries, 30.1 % with domestic and 14.3 % with
Intra-Scandinavian flights. Just 14.6 % of the passenger revenue could have been
accomplished with intercontinental flights.
The SAS Group has a strong Scandinavian home market with a market share of 90%. On the domestic market of Sweden, Norway and Denmark it reaches a market share of 80%, 97% and 89% respectively. The exact numbers including all markets SAS Group serves are shown in the figure and table below (press meeting in Hamburg, Germany, November 29, 2002).

**Figure 22: Market share SAS Group**
(modified from: www.scandinavian.net/12208/Pressmeeting_Hamburg2002.pdf)

<table>
<thead>
<tr>
<th>Routes Sector</th>
<th>Market Share in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swedish domestic flights</td>
<td>80</td>
</tr>
<tr>
<td>Danish domestic flights</td>
<td>89</td>
</tr>
<tr>
<td>Norwegian domestic flights</td>
<td>97</td>
</tr>
<tr>
<td>Finish domestic flights</td>
<td>3</td>
</tr>
<tr>
<td>Intra-Scandinavian flights</td>
<td>90</td>
</tr>
<tr>
<td>Scandinavia-Finland flights</td>
<td>52</td>
</tr>
<tr>
<td>On traffic to the UK</td>
<td>40*</td>
</tr>
<tr>
<td>On traffic to France</td>
<td>40-50</td>
</tr>
<tr>
<td>On traffic to Spain</td>
<td>40</td>
</tr>
<tr>
<td>On traffic to Germany</td>
<td>50</td>
</tr>
<tr>
<td>Traffic in Spain</td>
<td>25</td>
</tr>
<tr>
<td>Intercontinental flights</td>
<td>25</td>
</tr>
</tbody>
</table>

**Table 5: Market share SAS Group**
* including low budget airlines
4.2.2 Empirical Data of SAS Airline

The empirical data of SAS Airline will be presented in more detail due to two reasons. First, it is the largest business area of the SAS Group and is therefore of great importance. Second, this thesis focuses on airlines.

4.2.2.1 SAS Airline Objectives

SAS Airline’s general aim is to be the leading airline in Scandinavia. The traffic system is concentrated on three major traffic flows: (1) to/from/within Denmark, Sweden and Norway; (2) between local markets and the rest of the world via Scandinavia and (3) between Europe and North America/Asia via Copenhagen. It is obvious that this strategic aim is aligned with the orientation of the SAS group.

Additionally, SAS Airline’s targets include the renewal of SAS Airline’s aircraft fleet, financial targets, customer targets, quality targets, human resource targets, and environmental targets. These will be described shortly below (SAS Group in Summary 2001/2002).

SAS Airline is in the middle of an investment program to renew its aircraft fleet. Appendix III shows planned investments for SAS airline based on orders placed for Boeing 737s, Airbus A340/330-300s and Airbus A 321. SAS Airline’s order has a total value of $US 585 million (Interim Report January – September 2002, p. 6), however this sum was reduced from originally $US 985 million (Group in Summary 2001/2002).

Concerning financial targets, SAS Airline aims for an increase in operating revenue by an average of 5 % per year and hopes to achieve a minimum CFROI of 17 % over a business cycle (in the period of 2002 to 2004) (SAS Group in Summary 2001/2002).

In order to monitor if customer expectations are met, SAS Airline is using the CSI (Customer Satisfaction Index). It does not only reflect how well SAS Airline is meeting customer expectations but also how the company is assessed in relation to the ‘ideal’ airline. The airline had set its CSI target at 75 points for 2001 but only scored 70. This decline is due to the fact that it is becoming increasingly hard to meet customer expectations, which is a common trend in the airline industry. The areas where customer satisfaction has been generally improved are those relating to
EuroBonus and service on board (In-flight Service). Key factors for increasing customer satisfaction are image, customer treatment, timetable/route network and punctuality (SAS Group in Summary 2001/2002).

Considering **quality targets**, the aim is to be the most punctual airline in Europe. SAS Airline’s punctuality target sets a 12% limit to the number of flights that may be delayed by a maximum of 15 minutes. SAS scored 14.9% in 2001 (SAS Group in Summary 2001/2002). The corresponding figure for airlines in AEA was 21% (www.aea.com).

In terms of **human resource** targets the aim is to further improve the working environment at SAS Airline and raise SAS Airline attraction as an employer over the long term (SAS Group in Summary 2001/2002).

SAS Airline’s main **environmental target** is to be among the airline industry leaders in adapting its operations to the environment and to make environmental management an integral part of the business management process (SAS Group in Summary 2001/2002).

### 4.2.2.2 SAS Airline’s Strategies

SAS Airline follows its own strategic direction, which is nevertheless harmonized with the one pursued by SAS Group. Its top priorities are:

- Flight safety,
- Punctuality and
- Service.

According to different company brochures (e.g. SAS Group in Summary 2001/2002 report) SAS Airline focuses on high **quality** offers. Since its foremost quality parameter is **flight safety**, the airline concentrates on maintenance and further enhancement of safety issues. Considering **service**, SAS Airline pursues a **customer and product strategy**. This strategy is based on three customer groups: (1) the customer who flies with SAS and pays for the trip personally, (2) the customer who flies with SAS and (3) the purchaser, i.e. company or organization paying for the trip.

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8 SAS’ frequent flyer program; will be explained in more detail in relation with SAS Airlines distribution channels.
According to the SAS Group in Summary 2001/2002 report, SAS Airline’s products and services are developed and adapted to meet customers’ needs for “simplicity, choice and consideration” (SAS Group in Summary 201/2002, p. 15). Further, SAS Airline’s orientation towards the most punctual airline within Europe increases its service level as well (SAS Group in Summary 2001/2002).

SAS Airline carries out a partnership strategy in coordination with the SAS Group. It is designed to create more efficient and effective connections and other travel benefits which SAS Airline alone would otherwise not be able to offer to its customers (Interim Report January – September 2002).

As a founding member of Star Alliance, this global alliance continues to be the cornerstone of SAS’ partnership strategy. The advantages of the membership in the alliance have been considerable for SAS Airline, especially in regard to growth in passenger numbers and traffic revenues. As mentioned before, Star Alliance mission is to contribute to the long-term profitability of its members beyond their individual ability (SAS Annual Report, 2001).

Furthermore, SAS cultivates many European collaboration agreements. On November 9, 1999 British Midland, Lufthansa and SAS concluded a three-party joint venture, the European Cooperation Agreement (ECA), whereupon the parties agreed to coordinate their existing and future scheduled traffic within the EEA (European Economic Area) to and from London and Manchester (SAS Annual Report 2001).

Lufthansa is SAS Airline’s most important partner. The cornerstone of this partnership is the EU Commission-approved joint venture agreement for air traffic between Scandinavia and Germany (SAS Annual Report, 2001).

Other European Airline partners are Iceland Air, Maersk Air and Estonian Air. SAS Airline has a code sharing cooperation with Iceland Air over the North Atlantic as well as to destinations in Europe via Copenhagen. In 1999, SAS Airline and Maersk started a commercial cooperation over code sharing, ground and IT services. Further, Maersk Air participates in SAS Airline’s EuroBonus program. Estonian Air complements SAS Airline by flying in cooperation with SAS Airline between Estonia

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9 Code-share: when two or more airlines state their flight number in the timetable for one and the same flight, while only one of the airlines operates the flight (SAS Annual Report 2000).
and Stockholm and Copenhagen respectively. As well as Maersk Air, Estonian Air participates in the SAS EuroBonus program (SAS Annual Report 2001).

In addition to these global and European collaborations, SAS Airline has also established partnerships with a number of regional airlines in Scandinavia and neighbouring areas. What these partners have in common is that they complement and extent SAS Airline’s regional route network in Scandinavia, Finland and other Baltic countries. This applies on routes, which could otherwise not be operated profitably. These airlines are comprised in “Well connected”, an alliance including among SAS the following airlines: airBaltic, Cimber Air, Skyways Holding, Air Botnia and Widerøe’s Flyveselskab. Together they serve 50 destinations in Scandinavia and neighbouring countries which are not served by SAS Airline. In total, SAS Airline included, 140 destinations are served (SAS Group in Summary 2001/2002).

As distribution channels are a central part of an airline’s competitiveness, SAS pays a lot of attention to its distribution strategy. An effective distribution forms both, short- and long-term customer relationships, which in turn affect the development of markets shares. SAS Airline states that its products must be available in the markets and through the channels where the prioritised customer segments wish to obtain their information. That is why the proportion of sales via the Internet and ticket-less travel is increasing. The new electronic product strengthens customer relations and reduces SAS Airline’s distribution costs. Additional endeavours will be made in this area.

SAS uses six different distribution channels, which will be named and shortly explained below (SAS Group in Summary 2001/2002).

(1) Electronic travel agencies:

In 2001, SAS Airline established co-operations with a number of new electronic travel agencies, both to reduce distribution costs and raise revenues. This channel will become more important for sales effort towards new niches and existing customer segments.

(2) SAS Direct (Call Centers):

Call Centers’ task is to ensure customer service. Compared with lost calls in previous years the trend was positive in 2001.
(3) SAS’ website www.scandinavian.net:

The SAS website offers SAS Airlines customers new self-service solutions. In 2001, www.scandinavian.net was the most visited travel site in Scandinavia, with 40,000 visitors a day. The trend indicates strong growth in the future. Electronic sales rose 230% in 2001 compared to the previous year and the business segment accounted for 40% of total sales.

(4) SAS Corporate Card:

In 2001, SAS Airline in cooperation with Nordea developed a new credit card, called SAS Corporate Card (SCC), which functions as an electronic ticket while also containing Travel Pass and Travel Pass Corporate functions. SCC is a key component in SAS’ strategy to reduce distribution costs and meet customer needs.

(5) Travellink AB:

Travellink AB is a full-service travel agency with its main focus on sales of travel services over the Internet. Travellink is active in Sweden, Norway, Denmark and focuses mainly on customers represented by companies. In spring 2002, Travellink launched a service for the leisure market as well. (Travellink is 60% owned by the SAS Group; other owners are Amadeus Global Travel Distribution S.A. and Tele 2 AB).

(6) EuroBonus:

The strategy for SAS EuroBonus is to develop lasting and profitable relationships with frequent travellers, while at the same time this dialog with customers provides considerable information for future product development. SAS EuroBonus gained high rankings in customer surveys again in 2001 and received the “Freddie Award” for the best frequent flyer program for the fifth consecutive years. The number of members rose during the year to almost 2.4 million.

To sum up, SAS Airline’s future focus concerning distribution is to work actively on the development of integrated solutions for its largest customers. SAS aim is to raise the proportion of sold electronic tickets (E-ticket), Travel Pass Corporate and the traditional Travel Pass. The goal is to increase Internet sales from approximately 1% today to 25% in 2004 (press meeting in Hamburg, Germany, November 29, 2002).
4.2.2.3 Macroeconomic Analysis

Economic development was positive in SAS Airline’s main markets in the first part of 2001. Signs of an economic downturn started to show in April and intensified in summer and autumn 2001 mainly due to the worldwide recession. Uncertainty increased as a result of events on September 11, 2001 and deepened the worsening of the economic situation in the U.S. and Europe.

As all other airlines, SAS Airline had and still has to cope with the decline in traffic. After September 11, 2001 traffic fell by 17.6 % for airlines in AEA (in average). In the same period SAS Airline had a decline of only 9 %. This can be explained by, among other things, the introduction of SAS Airline’s new aircraft fleet on Asian routes in autumn 2001 (SAS Group in Summary 2001/2002).

SAS Airline has also captured market shares from its competitors, but is still suffering badly from a lower proportion of business travellers combined with insufficient resource utilization and non-competitive cost levels in some areas. (Reuters notice from June 14, 2002; www.reuters.com). Business class traffic fell 15.9 % from December 2000 to December 2001 (www.reuters.com, January 9, 2002).

In February 2002, the airline states it aims to cut 1.7 billion SEK in costs, postpones the delivery of 13 new planes and drops five destinations. (www.reuters.com; notice from February 12, 2002) (Additionally 1.3 billion SEK are cut at majority-owned airlines Spanair, Braathens, Widerøe and Air Botnia). In June 2002, www.reuters.com notes that SAS Airline has increased its cost-cutting plan by 2 billion SEK. In comparison, concerning the SAS group, “the total savings and increased efficiency program is now 12 billion SEK before the end of 2004, up from previously 10 billion SEK” (Jyllands-Posten quoted SAS CEO Jørgen Lindegaard at a conference in Beijing).

Additionally, there are new competitors active on the Swedish and Norwegian domestic markets that threaten SAS Airlines strong position in its home base (press meeting in Hamburg, Germany, November 29, 2002). (So far it was not published who these competitors are.)
4.2.2.4 SAS Airline – Market and Traffic Trends

As briefly outlined above, SAS Airline divides its passenger traffic operations into six route sectors: (1) Intercontinental routes, (2) European routes, (3) Intra-Scandinavian routes, (4) Danish domestic traffic including Greenland, (5) Norwegian domestic traffic, and (6) Swedish domestic traffic.

In terms of market share, SAS Airline has a relatively high market share on the Scandinavian and European market, similar to the SAS Group. Considering intercontinental flights the SAS airline has a market share of 25%. All the exact numbers can be seen in the figure and table below (The numbers are based on the bookings in the reservation system (BRS) in 2000.) (SAS Group in Summary 2001/2002).

![Figure 23: Market share SAS Airline](modified from: SAS Group in Summary 2001/2002, p. 17)

<table>
<thead>
<tr>
<th>Routes Sector</th>
<th>Market Share in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swedish domestic flights</td>
<td>80</td>
</tr>
<tr>
<td>Danish domestic flights</td>
<td>76</td>
</tr>
<tr>
<td>Norwegian domestic flights</td>
<td>46</td>
</tr>
<tr>
<td>Intra-Scandinavian flights</td>
<td>90</td>
</tr>
<tr>
<td>European Routes</td>
<td>50</td>
</tr>
<tr>
<td>On traffic to the UK</td>
<td>35*</td>
</tr>
<tr>
<td>Intercontinental flights</td>
<td>25</td>
</tr>
</tbody>
</table>

Table 6: Market share SAS Airline

*including low-cost airlines
Through investments in the new fleet, the aim is to raise market share to 30-35 % on intercontinental flights (SAS Group in Summary 2001/2002).

The exact number concerning SAS Airline’s market and traffic trends can be found in Appendix IV.

4.2.2.5 Restructuring Program, 2002 - 2004

The events on September 11, 2001 had a large impact on SAS Airline. The company announced cutbacks of capacity two weeks after the events of September 11, 2001. Compared to its plan it reduced 22 % of intercontinental, 10 % of European, 2 % of intra-Scandinavian and 9 % of Swedish domestic single trips. This means a total reduction of 7 % of all single trips that were planned to be offered. In terms of ASK (available seat km) the total reduction amounts to 12 % (www.scandinavian.net, results Jan.-Juni 2001). Further, it was decided that the routes to Dehli, Kaliningrad, Stansted, Tel Aviv and Barcelona will be closed down (SAS Group in Summary 2001/2002; Interim Report January – September 2002).

Additionally, it implemented an earning improvement program with a short-term as well as long-term focus. The implementation of short-term measures started in November 2001 to counterbalance the unfavourable situation after the terror attacks in New York and Washington in September 2001. They include revenue enhancements and cost reductions. As examples, the sub-charge of US$ 4/passenger/flight\textsuperscript{10} and a general price increase of 5 % can be named. Long-term restructuring measures were initiated at the beginning of 2002 and consist of measures, which mainly concern SAS Airline’s production, product and distribution areas. SAS Airline has identified four strategic structural earnings improvement areas; production, customer offers, distribution and business model & control which are described below (SAS Group in Summary 2001/2002; Interim Report January – September 2002).

In order to return to levels of a satisfactory return on capital (CFROI over 17 %), SAS Airline is focusing on a structural reduction of \textbf{production} costs. According to a Press meeting given on November 29, 2002 in Hamburg, this will be achieved by:

\begin{itemize}
  \item A better utilization of aircraft and capacity
\end{itemize}

\textsuperscript{10} Read: US$ 4 per passenger per flight
• Increased block hours for pilots from 7.5 to 9 hours
• A rise of working hours from 490 to 600 hours for pilots on an annual basis
• A rise of working hours from 540 to 600 hours for cabin crew staff
• Decrease in aircraft and crew overnight stays
• A new aircraft configuration with more seats
• A reduction in ground service (has already started)
• Improvements in aircraft rotation by improved point to point rotation from 40 to 90 %

In depth data on production and traffic can be found in Appendix V.

Further, SAS Airline is currently developing new customer offers, in particular a new short route products. Especially due to close collaboration with regional airlines and the acquirements of small carriers SAS is able to offer this service. Internet check-in and a newly developed service concept have a central place in these new products. As already described in detail above, a concentration on ticket sales via Internet and ticket-less travel is considered to restructure distribution and thereby reduce costs. Moreover, since the reformulation of the governance philosophy of the SAS Group in 2000, SAS Airline has gradually been implementing a new business model where “different” service providers are given their own business responsibility within a specific area of operation. Motives to do so include: (1) raising powers of initiative and profits awareness throughout the organization, (2) reaching a broader customer base and more sources of revenue than those that can be reached with the air transport business alone, (3) reducing overheads (SAS Group in Summary 2001/2002).

The restructuring program includes price and service developments as well. SAS Airlines is trying to win back customers, especially business travellers, by cutting their fares by up to 30 %. In return for lower prices, business travellers receive less exclusive service on board. Particularly, business travellers obtain the same service as economy class passengers. Compared to “holidaymakers” they are still able to change their tickets once booked and travel on more flexible terms. Additionally, different prices are offered during peak and non-peak traffic. SAS CEO Jørgen Lindegaard
states: “This […] is intended to strengthen the company against the low-price competition and bolster our profitability in Scandinavia” (Reuters notice from March 21, 2002; www.reuters.com).

On June 1, 2002 SAS Airline launched a new price concept for airline travel within and between Scandinavian countries. It offers four “Daily” tickets for round-trip travel on the same day. The “Daily” options provide four price alternatives for business travellers while the three “Weekend” solutions offer a simplified structure for other customers. Details about each ticket option can be found in the Appendix VI (www.scandinavian.net; press release from March 20, 2002 “SAS Airline presents new price concept in Scandinavia”).

Eric Berggren Lindberg (Senior Vice President, Revenue management SAS Airline) comments on the concepts as follows:

“Based on these customer needs, we have created a price concept that provides greater choice, flexibility, more value for the money and which is based on simple and logical rules.”

Already in February 2002, SAS Airline launched the possibility to travel from five Scandinavian cities to London for less than SEK 900. These low fare offerings are available to customers who book on the Internet. The low fare flights include food and beverages during the flight and passengers enjoy SAS’ service concept for economy class (including onboard newspapers and departure/arrival on primary airports) and are able to earn EuroBonus points. Passengers must book tickets 21 days in advance and are not allowed to change bookings thereafter. The bookings are only available on the website and require an overnight stay from Saturday to Sunday. (www.scandinavian.net; press release from February 14, 2002 “London round trip for less than SEK 900”).

In the end of August 2002, SAS Airline announced reduced prices for student tickets within Sweden. Students older than 25 years are offered the same ticket prices and rebooking possibilities as for ‘Scandinavian Airlines’ youth rates. Additionally, if domestic flights are booked via the SAS web page (www.sas.se) further price reductions are provided (www.scandinavian.net; press release from August 29, 2002
“SAS reduces prices for student tickets”). Some price examples are shown in the table below.

### Table 7: Price examples on routes to major European cities

<table>
<thead>
<tr>
<th>Airline</th>
<th>Route</th>
<th>Fare SEK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ryanair</td>
<td>Stockholm – London</td>
<td>440</td>
</tr>
<tr>
<td>SAS</td>
<td>Stockholm – London</td>
<td>895</td>
</tr>
<tr>
<td>SAS</td>
<td>Stockholm – Manchester</td>
<td>2596</td>
</tr>
<tr>
<td>SAS</td>
<td>Stockholm – Brussels</td>
<td>2064</td>
</tr>
<tr>
<td>SAS</td>
<td>Stockholm – Dublin</td>
<td>2728</td>
</tr>
<tr>
<td>SAS</td>
<td>Stockholm – Frankfurt</td>
<td>3677</td>
</tr>
<tr>
<td>SAS</td>
<td>Stockholm - Milan</td>
<td>3174</td>
</tr>
</tbody>
</table>

![Figure 24: Price examples of reduced student prices](data is taken from: press release: 29.08.2002 “SAS reduces prices for students” found on www.scandinavian.net)

On a Press seminar given on November 29, 2002 in Hamburg the airline announced further price reductions on selected routes to major cities. So far it was neither published for which cities these reductions apply nor in what amount. According to the press release “London Round trip for less than SEK 900”, SAS is now represented in all price categories. Some price examples can be seen below (www.scandinavian.net; press release from February 14, 2002).

In November 2002, SAS Airline announced further plans. It will be the fourth airline behind Lufthansa, British Airways and Japan Airlines Co. to install Connexion high-speed Internet service on 11 of its long-haul jets beginning in 2004 (www.reuters.com).

However, there is a downside connected with the restructuring program. Major cost cuttings started already in 2001 in response to a “global slump” in air travel following the September 11, 2001 terrorist attacks in the United States. On October 12, 2002
SAS Airlines has given layoff notices to 300 of its 2000 pilots after negotiations with labour unions representing the pilots broke down. Additionally, the airline reduced its fleet from almost 200 aircraft in the end of 2001 to 160 and was implementing plans to cut its workforce by 3,500 from 22,000 by the end of 2002 (Reuters notice, October 12, 2002; www.reuters.com).

The implementation of the restructuring program will took place in the end of 2002 and is expected to have an earnings impact from 2003 (SAS Group in Summary 2001/2002).

4.2.3 Summary of SAS Airline’s Empirical Data

Before presenting a similar large amount of detailed data on Ryanair the most important facts concerning SAS Airline will be summarized.

Presently, SAS Airline mainly focuses on financial terms, such as profit and costs. Therefore the earning improvement programs and the extensive restructuring program were introduced, with the special aim to achieve a high level of liquidity and positive revenue numbers in the balance sheet. An organizational restructuring was undertaken at the same time.

In order to achieve cost reductions, SAS Airline reforms its distribution systems with an emphasis on Internet sales. Further, efficiency improvements towards an increased utilization of aircraft, capacity and personnel are carried out. Announced layoffs decrease costs as well as postponed aircraft orders.

A reduced service level can be noticed especially in business class. This correlates with the recently introduced price concepts “Daily” and “Weekend” and with reduced prices on a number of routes to major European cities and low price student tickets.

One should also keep in mind that SAS Airline’s home market is Scandinavia and that it focuses on routes to central Europe. In these areas a strong route network is established. It does not have a high market share on Intercontinental routes, however a strong performance on routes to Asia.

One of the airline’s main advantage is its involvement in partnerships and collaborations which enlarge its network even more.
4.3 Empirical Data on Ryanair

The following paragraphs will present the empirical data collected on Ryanair.

4.3.1 Historical Overview and Mission

Ryanair began its operation in 1985 when it was founded by its current leader and CEO Michael O’Leary. It started with launching a daily flight on a small 15 seats aircraft between Waterford Airport in Ireland and London Gatwick. In the first years of its operations the company had only 57 employees and carried over 5,000 passengers on its route. In 1986, the company managed to break the high fare cartel, which was operated by the two state airlines Aer Lingus and British Airways on the London-Dublin route. The route was characterized as one of the highest airfares in Europe. Ryanair was the first European airline that offered low fares on short intra European routes. By the end of the second year of its operations Ryanair had 120 employees and transported over 82,000 passengers on two routes.

During the next three years Ryanair expanded rapidly by opening many new routes between Ireland and the UK. It increased the fleet by adding BAC 1-11 jets and ATR 42 Turbo Prop aircraft. In 1990/91 a new management team undertook a major renewal of the airline when it introduced the first very new kind of a “low fares/no frills” project. Ryanair was following the steps of the very successful low budget airline Southwest Airlines operating in USA.

1997 was a milestone year for Ryanair. In recognition of the European Union air transport deregulation, the airline was free to open up new routes to Continental Europe. Services started from London Stansted to Stockholm and Oslo as well as from Dublin to Paris and Brussels. In 1999, the company made a big investment into new Boeing 737-800 series aircraft, which are the latest and most modern aircraft, manufactured by Boeing. In the same year Ryanair was awarded “Airline of the Year” by the Irish Air Transport Users Committee, and was one of the “Best Managed Airlines” in the world by the International Aviation Week magazine.

The year 2000 started very well as the airline was awarded “Company of the Year” by Ireland’s business magazine, ‘Business and Finance’, as well as winning the worldwide Market Development Award from ‘Airline Business Magazine’. The airline also launched Europe’s largest travel website www.ryanair.com, which within
three months from its opening was taking over 50,000 bookings per week. This huge success was achieved essentially by offering unbelievably low airfares. During the summer 2000, the airline started serving another 10 new European destinations. On the first anniversary of the Internet site opening, the website www.ryanair.com has become Europe’s largest travel website selling over 600,000 seats every month on the Internet. Another 7 new destinations were launched in 2001. In November 2002, Frankfurt (Hahn) Airport was chosen to be Ryanair’s second Continental European base.

In January 2002 Ryanair announced a new long-term cooperation, which commits the airline to purchase up to 150 new Boeing series aircraft over an eight-year period from 2002 – 2010. These new aircraft will create more than 3,000 new jobs within the company, including over 800 pilots, more than 2,000 cabin crew and over 400 engineering and operations vacancies. January 2002 also holds opening of another 11 new routes with expansion around Western Europe.

Presently, Ryanair is firmly established in Europe’s low fare airline business, and operates 76 low fare routes to 13 countries throughout Europe. In 2002, the airline has carried more than 12 million passengers. The airline is widely known for its consideration regarding the low cost travel. The sympathy towards this approach is also reflected in the company’s mission.

Ryanair’s mission is the following:

The company has a commitment to low fare air travel and making air travel affordable for everybody, not just rich people (www.ryanair.com).

4.3.2 Ryanair’s Competitive Environment and its Current Situation

Ryanair is competing on the low fare European airline market. Its biggest competitors in the past years were EasyJet, Go, Deutsche BA and Jet Blue. Ryanair’s net margins are more than twice as high as the ones of any other airline. Reported in last year’s full numbers, it reaches a net margin of 24.1 % compared with EasyJet’s 10.6 %, Jet Blue’s 12 % and Southwest Airline’s 9.2 % (Furlong, 2002).

Recently one major change in the business occurred when two of Ryanair’s competitors (EasyJet and Go) consolidated into one company. As a result Ryanair lost its position of being the biggest low cost airline on the European market. However,
according to Merrion Stockbrokers (March 11, 2002), the growth rate in the combined entity is likely to be lower than the one if both remained independent. The consolidated airlines are focusing on primary airports, which is not a threat for Ryanair as its strategic intention is heading towards a different direction (Merrion Stockbrokers, June 11, 2002).

“The two major players in the low budget airline business have emerged as the winners in the sector, but both are now pursuing distinctly different strategies, with differing risk profiles, to establish dominant position in this market”, (Merrion Stockbrokers, June 11, 2002, p. 1)

Although Ryanair is no longer Europe’s largest low fares airline, it continues being the lowest cost operator. Its preconception towards secondary airports means that it does not need to participate in a “land-grab”11. Its competitive advantage allows strong organic growth by distributing its successful formula (Davy Stockbrokers, June 14, 2002).

2001 was Ryanair’s 11th year of increased profitability. The key issue of the airline’s concept lies behind the idea of making air travel possible for everyone.

“Ryanair holdings could never have survived – let alone excelled in its niche - if Europe commercial air transport industry had not been yet deregulated” (Michael O’Leary, CEO, 2000 in: Davy Stockbrokers, June 14, 2002).

Concerning Ryanair’s employees, the number of recruits is growing. The fact that 10 % of employees were promoted shows trust and interest in people who work in the company. Employees are also able to buy shares in the company and that way benefit from continuing success of the company (Ryanair Annual Report 2002).

“Staff productivity continues to improve, much of it as a result of operating the larger 737-800 series aircraft. Ryanair is set to carry more than 9,000 passengers per employee this year, a figure that is more than twice that of Southwest and over ten times greater than our principal competitor British Airways” (Michael O’Leary, CEO, 2001 in: Davy Stockbrokers, August 6, 2002).

11 availability of slots for take off and landing at primary airports
4.3.3 Ryanair’s Objectives

The following objectives were presented by Ryanair’s CEO, Michael O’Leary in past two years:

2001

“Our objective over the coming months will be to retain our disciplined growth and our focus on cost reduction. In any fare war or recession, the lowest cost provider will always prevail. This is as true of Southwest Airlines as it is of Wal-Mart in the United States, and we believe that Ryanair is similarly positioned in Europe for growth and profitability, as long as there are no further untoward terrorist events which might have a short term impact on traffic” (Michael O’Leary, CEO, 2001 in: Financial Report - half year results March 31, 2000 – September 30, 2001, p. 18).

After a successful year (see also the financial overview in part 4.3.6) the objectives for 2002 were set as follows:

2002

“We intend to continue to provide customers with the lowest fares, more frequencies than our competitors and the No.1 on time performance, as we believe that it is this combination of price and customer service that continues to underpin our very strong traffic growth” (Michael O’Leary, CEO, 2002 in: Financial Report – half year results March 31, 2001 – September 30, 2001, p. 22).

A more detailed definition of the goals is given below:

- Ryanair will continue to be the fastest growing, most profitable and lower cost low fares airline in Europe.
- Ryanair’s growth will adjust to meet its profit objectives and prove time to train pilots and engineers and continue to drive down cost.
- Ryanair will continue its profitability by offering European customers an unbeatable combination of guaranteed lowest airfares, industry leading punctuality and an efficient, friendly on board service.
- Ryanair will target the airports where no other low cost airline is operating.
• Ryanair will concentrate on capacity growth and on frequency in existing markets.

• Ryanair will start new routes between cities currently served (connecting the dots).

• Ryanair will work on its continuous profitability by putting more emphasis on personnel, advertising and facilities already in place.

• Ryanair will continue to invest heavily in the quality, reliability and serviceability of the fleet and the people who fly and maintain them.

Ryanair uses price advantages afforded by low and flexible cost structures to win market shares from full service carriers and to stimulate new demand that was previously unexploited (Furlong, 2002).

4.3.4 Ryanair’s Strategy and Distribution of Tickets

Ryanair is pursuing different strategies than its competitors on the low fare market, which does not place it into direct competition with other airlines. The company has been recognized for having cost leadership as a pillar of its strategy. The main focus is given on the secondary airports where no other competitors operate and on the price sensitive customers.

The strategy is based on the achievement of an absolute competitive advantage in terms of costs. By achieving low cost leadership, entering new routes and offering fares at prices, which none of its competitors can profitably offer, Ryanair develops organically and builds its market share (partly through stimulating new demand and partly by winning part of the existing market) (Merrion Stockbrokers, June 11, 2002). The success of the low fare strategy is critically dependent on the maintenance of the low cost base. The new fleet deal and lower incremental airport costs will allow Ryanair to achieve even lower costs in the future and consequently to continue maintaining higher margins.

It is outstanding that Ryanair’s aircraft fleet is relatively new and that the company owns its fleet completely (Merrion Stockbrokers, August 6, 2002).
### Table 8: Ryanair’s aircraft fleet

(adopted from: Merrion Stockbrokers, August 6, 2002)

* The retirement dates for the Boeing 737-200 and the option dates for the Boeing 737-800 aircraft are flexible and may be moved backwards or forwards depending on economic conditions and operational costs.

“The new aircraft will deliver further cost efficiencies (the 737-800 have 45% more seats than the 737-200), engine and airframe warranties have improved, which will lower maintenance costs and Ryanair’s passenger staff ratio is increasing - already ten times that of British Airways” (Furlong, 2002, p. 11).

Ryanair does not focus on slot-controlled (primary) airports and therefore does not need to take advantage of the current availability of slots at major airports. Therefore Ryanair does not need to participate in a ‘land-grab’ especially because it has reached the point of ‘critical mass’. Consequently, future unit costs will decrease. Its focus is rather to achieve a competitive advantage through a lower cost position. This allows the airline to continue to grow strongly, winning through entering the routes with low prices step by step. This way, Ryanair avoids risks and pursues a pure and more visible strategy.

The lowest cost position and the competitive advantage allows Ryanair to offer the lowest fares in all markets it operates in. It is critical to its strategy to be able to provide the most attractive offers to price sensitive customers. Ryanair is following the steps of Southwest Airlines that proved that lowest cost eventually wins out. Therefore, it is likely that the airline will keep focusing on the low cost strategy and on competing with low fare prices. According to Davy Stockbrokers (October 18, 2002), the low cost position will allow the airline to compete on mature markets if they want to enter them.
According to the Annual Report (2001), Ryanair’s key strategic issues can be summarized as follows:

- Only Ryanair guarantees the lowest airfares.
- Ryanair uses efficient secondary airports.
- Ryanair is No. 1 in frequency and punctuality.
- Unbeatable customer service. People fly with our low fares but it is the friendly, efficient, on-time service that keeps them coming back.

In terms of distribution Ryanair sells its tickets mainly through its homepage www.ryanair.com, but also through Ryanair Direct (phone call booking) and local travel agents. The www.ryanair.com website was launched in January 2000.

According to Ryanair, the new, bigger and better online booking system is the largest, most efficient and most user-friendly online air-travel reservation system in the world. It offers ticket-less travel which removes the worry of waiting for the tickets to arrive in the post and makes the journey ‘hassle free’ (www.ryanair.com).

“Ryanair.com offers the simplest reservation system for air passengers who can be sure to get the cheapest air-tickets in the world thanks to courtesy of www.ryanair.com, the low fares website” (Ethel Power, Head of Communications at Ryanair in: Annual Report 2002).

The www.ryanair.com website also offers additional services such as hotel bookings, insurance and financial services, low cost calls and on-line shopping. Furthermore, the company is presenting its partnership with Hertz, a car rental company. This partnership allows Ryanair passengers to take advantage of exclusive car rental deals.

The fact that all the additional services provided on the web page are low cost only, proves that the company is faithful to its low cost approach in all situations. However, the airline is aware of the fact that customer service and quality is an important factor and does not take this issue for granted (Financial Report – half year results, September 30, 2001).
4.3.5 Quality and Customer Service

**Safety** is an absolute priority to Ryanair. So far the company managed to run 17 years of safe operations. It has extensive safety training programs to ensure the recruitment of suitably qualified pilots and maintenance personnel. In addition, the group operates and maintains all of its aircrafts in accordance with the highest European Aviation Industry Standards, which are regulated by Irish Aviation Authority.

“We continue to invest heavily in the quality of our operations. Two new simulators have been ordered at a cost of US$20m to enhance the quality of our initial and recurrent pilot training as we double our traffic and fleet. We have begun construction of our new aircraft maintenance centre at Glasgow Prestwick Airport, which will give us even more control over our maintenance costs, as well as further improving our maintenance quality control” (Michael O’Leary, CEO, 2002 in: Financial Report – half year results March 31, 2002 - September 30, 2002, p. 5).

Ryanair remains committed to providing all passengers with the lowest fares at all times but it does not forget about the **customer service**. The company is starting to run a program of continuous improvement in customer service. Starting in September 2002, Ryanair publishes monthly customers statistics (as shown in table below). This way Ryanair supports the European Union’s proposal to publish monthly passenger service statistics for all EU airlines. The current rate of on-time departures, customer complaints and mislaid baggage complaints places Ryanair among the very best airlines for customers’ service.

<table>
<thead>
<tr>
<th>PASSENGER SERVICE STATISTICS: SEPTEMBER</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. On-time flights in %</td>
<td>65</td>
<td>81</td>
</tr>
<tr>
<td>2. Complaints (per 1,000 passengers carried)</td>
<td>0.77</td>
<td>0.53</td>
</tr>
<tr>
<td>3. Baggage complaints (per 1,000 passengers carried)</td>
<td>1.19</td>
<td>1.21</td>
</tr>
<tr>
<td>4. Complaints answered within 7 days</td>
<td>N/A</td>
<td>99.7 %</td>
</tr>
</tbody>
</table>

Table 9: Passenger statistics September 2001 and 2002

(adapted from: Ryanair Annual Report 2002)

Ryanair is achieving its continuous improvement throughout Passenger Service Commitment, which consist of the following objectives (www.ryanair.com):

- 91 -
• Respect the agreed fare after payment
• Notify passengers of known delays, cancellations and diversions
• Eliminate the numbers of passengers facing delays
• Eliminate lost or delayed baggage
• Allow changes to internet or telephone reservations
• Provide prompt refunds
• Provide free assistance to wheelchair customers
• Take measures to speed up check-in
• Provide information to passengers regarding its commercial and operational conditions
• Be responsive to passenger complaints

“Ryanair believes that any passenger service commitment must involve a commitment on pricing and punctuality, and should not be confined to less important aspects of “service” which is the usual excuse the high fare airlines use for charging high air fares. We believe that we can do better, that’s why the Ryanair pricing, punctuality and service commitment is a far superior Passenger Service Commitment. We provide all of the essential customer services, but clearly we do not provide all of the back up services (“expensive frills”) that these high fares carriers promise, but then with our lower prices and better punctuality, 99.9 % of all our passengers won’t need them” (www.ryaniar.com)!

4.3.6 Financial Overview

During the period from September 1998 – September 1999 passengers’ volumes grew by 12 % to 2.9 million. Average yields increased by asset of longer average sector length leading to total revenue growth of 17 % to IR£153.2m. Well-focused cost control meant that operating expenses increased by 16 %, reflecting costs (primarily staff and airport costs) associated with this growth and the launch costs of seven new routes. As a result, profit after tax has risen by 23 % to IR£33.4m. Earnings per share grew by 19 %.

12 For exchange rates see Appendix VII (the exchanges rates for every year are based on December 6th)
### Table 10: Results 1998/99 in Irish Pounds (according to Irish GAAP)


<table>
<thead>
<tr>
<th>Year End</th>
<th>September 30, 1999</th>
<th>September 30, 1998</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passengers in mill.</td>
<td>2.89</td>
<td>2.58</td>
<td>12</td>
</tr>
<tr>
<td>Revenue in mill.</td>
<td>153.2</td>
<td>130.5</td>
<td>17</td>
</tr>
<tr>
<td>Profit after tax in mill.</td>
<td>33.4</td>
<td>27.2</td>
<td>23</td>
</tr>
<tr>
<td>Earnings per share (Euro Cent)</td>
<td>19.95</td>
<td>16.79</td>
<td>19</td>
</tr>
</tbody>
</table>

“We are pleased with these results which reflect the extraordinary talent of our 1,200 people, who continue to deliver growth in traffic and profitability despite the intensely competitive market place here in Europe. During the past 6 months we have purchased five new Boeing 737-800 next generation, aircraft, introduced them successfully and profitably, and opened up seven new low fare routes from London to France, Italy, Germany and Northern Ireland. The success of our unique low fare services is such that even though we compete head to head with Europe’s largest flag carriers, we have on average achieved 70 % plus load factors, and profitability on these new routes from day one” (Michael O’Leary, CEO, 1999 in: Financial Report – half year results, March 31, 1999 - September 30, 1999, p. 2).

During the period from **September 1999 – September 2000** passengers’ traffic grew by 33 % to 3.9 million, an increase of almost 1 million. Average yields also increased due to the longer average sector lengths on the 10 new routes and the strength of Sterling against the Euro. As a result total revenues grew by 37 % to €265.9m. Continued tight cost controls (particularly in the area of sales and distribution due to the successful expansion of the website www.ryanair.com) meant that total operating costs increased at a slightly lower rate than revenues, despite the launch of 10 new routes during the half year. Consequently profit after tax has risen sharply by 49 % to €63.4m. Earnings per share grew by 43 % to18.08 cents per share.
<table>
<thead>
<tr>
<th>Year End</th>
<th>September 30, 2000</th>
<th>September 30, 1999</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passengers in mill.</td>
<td>3.9</td>
<td>2.89</td>
<td>33</td>
</tr>
<tr>
<td>Revenue in mill.</td>
<td>265.9</td>
<td>194.5</td>
<td>37</td>
</tr>
<tr>
<td>Profit after tax in mill.</td>
<td>63.4</td>
<td>42.4</td>
<td>49</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>18.08</td>
<td>12.66</td>
<td>43</td>
</tr>
</tbody>
</table>

Table 11: Results 1999/2000 in Euro (according to Irish GAAP)

“These strong results are a tribute to the outstanding team of people in Ryanair. Through their efforts in the first half of the year, we have opened up 10 new routes, added 5 new Boeing 737-800 aircraft, and carried almost 1 million additional people. To have done so (with reduced costs and increased profitability) in an adverse trading environment characterized by, intense competition, and higher fuel prices is an outstanding performance. These results underline the robustness of Ryanair’s superior earnings model at a time when almost all of our principal European competitors are reporting downturns in profitability or losses” (Michael O’Leary, CEO, 2000 in: Financial Report – half year results, March 31, 2000 – September 30, 2000, p. 2).

During the period from September 2000 – September 2001 passengers’ traffic grew by 37 % to 5.3 million passengers, load factors rose to 77 %13. Average yields declined during the period by 6 %, a fall that was slightly lower than the 8 % decline during the first quarter. Another strong performance achieved by additional revenues (up 35 %), resulting in total revenue growth of 29 % to €344.2m.

13 load factor including charter passengers (passengers who booked tickets with different airlines but cannot fly with them due to, e.g., technical problems, over bookings etc.)
Table 12: Results 2000/01 in Euro (according to Irish GAAP)

“This is a great set of results bearing in mind that the half year covers both the foot and mouth outbreak in the UK at the beginning, and the tragic events of 11 September in the U.S. at the end, both of which negatively impacted air travel in Europe. This disciplined profit growth again highlights the difference between Ryanair and other European low fare carriers. Ryanair is continuing to grow at a faster rate than them and both our profits and our margins continue to rise, even in extremely adverse market conditions” (Michael O’Leary, CEO, 2001 in: Financial Report – half year results, March 31, 2001 – September 30, 2001, p. 2).

During the period from September 2001 – September 2002 passengers’ traffic grew by 37 % to 7.84 million. Load factors increased by 6 points to a new high of 88 %. Average fares declined by 2 %, however costs per passenger fell at a faster rate with the result that margins increased 6 points to 32 % during the half year. Tax profits have risen in the period by 71 % to a new record of €150.9m.

<table>
<thead>
<tr>
<th>Year End</th>
<th>September 30, 2001</th>
<th>September 30, 2000</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passengers in mill.</td>
<td>5.3</td>
<td>3.9m</td>
<td>37</td>
</tr>
<tr>
<td>Load Factor</td>
<td>77%</td>
<td>74%</td>
<td>4</td>
</tr>
<tr>
<td>Revenue in mill.</td>
<td>344.2</td>
<td>265.9</td>
<td>29</td>
</tr>
<tr>
<td>Profit after tax in mill.</td>
<td>88.0</td>
<td>63.4</td>
<td>39</td>
</tr>
<tr>
<td>Earnings per share (Euro Cent)</td>
<td>24.31</td>
<td>18.08</td>
<td>34</td>
</tr>
</tbody>
</table>

Table 13: Results 2001/02 in Euro (according to Irish GAAP)
The CEO Michael O’Leary comments on the cost saving result in this as follows:

“The most important feature of these results is our success in continuously driving down airfares and operating costs. Over the past six months Ryanair’s average fare has fallen by 2%, but our operating costs have fallen by 11% on a per passenger basis. Ryanair’s average fares continue to be over 50% lower than our nearest competitor and up to 80% lower than Lufthansa and British Airways. Our increased profitability at these lower fares gives Ryanair even more capacity to reduce airfares, and further stimulate load factors, traffic and growth. At the core of our cost reduction program is the addition of more Boeing 737-800 aircraft. These aircraft have delivered 45% more seats per flight than our existing Boeing 737-200 aircraft, whilst maintaining 25-minute turnarounds” (Michael O’Leary, CEO, 2002 in: Financial Report – half year results, March 31, 2002 – September 30, 2002, p. 2).

The numbers presented above are clearly underlying the earlier mentioned fact about the continuous profitability. The company managed to stay profitable even in the airline industry’s ‘bad times’, which only confirms its current stable position on the market. To be able to perform at high levels as well in the future, the airline needs to consider possible risks that might occur.

4.3.7 Risk Management

The main risks from the group’s financial operations are commodity price, foreign exchange and interest rate risks. It is Ryanair’s policy that no trading in financial instrument should take place.

Foreign currency risks in relation to the groups trading operations largely arise due to non-euro currencies, primarily Sterling and US Dollar. The group manages the exposure by matching its sterling revenues against sterling costs. The current weakness of the dollar might provide cost savings (circa 5%) (Davy Stockbrokers, November 4, 2002).

In order to handle the foreign currency management and interest rate risk in relation to the financing of new Boeings 737-800 next generation aircraft, Ryanair has entered series of cross currency interest rate swaps and forward starting interest rate
agreements. According to Davy Stockbrokers (November 4, 2002) the company has locked away interest rates (ca 5 %).

The **fuel risk** management policy is to hedge from 70 % to 90 % of the forecasted rolling annual gallons required to ensure that the future cost per gallon of fuel is locked in. This policy has been adopted to prevent the group from being exposed in the short term, to adverse movements in world jet fuel prices. Ryanair’s fuel costs are locked away until June 2003 (Davy Stockbrokers, November 4, 2002). The development of fuel prices is shown below:

- Average rate from April 2001 – end of March 2002 0,93$ per gallon
- Average rate from April 2002 – end of March 2002 0,83$ per gallon
- Average rate from April 2003 – end of June 2003 0,79$ per gallon

“Our disciplined policy of hedging fuel has also provided certainty and savings over the past six months. The uncertainty in the Middle East has meant that airlines that were buying fuel on the spot market were paying substantial penalties. Ryanair has continued to purchase forward fuel at discounts to current spot rates, and we have 80 % of our fuel requirements to the end of September 2003 fully hedged at a lower cost than we paid over the past year. As ever these cost reductions will be passed on to our customers in the form of lower fares” (Michael O’Leary, CEO in: Annual Report 2002, p. 8).

4.3.8 Summary

Ryanair is operating in the low cost airline segment of the market. Its main focus is given on pursuing the low cost strategy, which supports its mission ‘to make flying possible for everyone’. The company demonstrated its superior performance throughout 17 years of save operations and 11 years of profitability in sequence. One of the main factors that helped to achieve the excellent profitability is the air transport industry deregulation.

While concentrating on providing the lowest fares to its customers the company considers other important issues such as safety and extended customer service as well. The airline is starting to run a program of continuous improvement in customer service, which, besides other, includes tickets, refunds, speed up check-in and changes
of reservations. Extensive training programs, qualified pilots and maintenance personnel support the safe operations.

Concerning **financial** and **risk management**, the foreign currency risks, interest rate risks and fuel risks are handled carefully throughout disciplined management policies.

As shown in figure 25, Ryanair’s passenger numbers are successfully growing.

![Development of passenger numbers](image)

**Figure 25: Development of passenger numbers**

Ryanair does not participate in any kind of partnership with other airlines. It is solely focusing on its own operations and on following its low cost strategy. The investigation of its actions will be presented in the upcoming section Analysis & Discussion.
5 Analysis & Discussion

In this chapter the collected empirical data is analysed. It begins with a brief introduction of the major players within the airline industry by using Porter’s framework. Further the SWOT Analysis, generic strategies and positioning strategies are applied to illustrate strategic moves of Ryanair and SAS. The European Model of Excellence is used to illustrate SAS’ and Ryanair’s internal performance. The concepts of strategic alliances outlines the companies’ different approaches towards collaboration agreements. To summarize this chapter, the strategies are reflected from an external as well as internal view.

5.1 Industry Analysis

In order to use Porter’s Industry Analysis one has to define the industry that is being investigated and the customer needs. Within this thesis the airline industry stands for ‘transportation’. The need for customers is to be able to move from one place to another in the shortest possible time, most often far distances have to be overcome.

The following analysis briefly describes the European airline industry.

New Entrants

In our perspective, entering the airline industry is very complicated at present times since this business area as well as world economy is facing a recession period.

Entry barriers are very high due to great product differentiation. One can find a considerable number of flag carriers, charter airlines and low-fare airlines on the market. Together they offer a wide range of products to satisfy all customer needs. Further, an entry into the airline business requires high capital investments as aircrafts, technical support and IT service have to be bought or leased. Additionally, the business is fuel and labour intensive. Newcomers also need to have access to distribution channels, which means there is a necessity to gain trust within the industry in order to achieve access to take-off and landing spots (ground facilities). Moreover, permissions from governments are required for entering the airspace. National policies are still playing a major role within the industry. Once the market is entered, it is not easy to resign from it. That raises the switching costs to a high level.
During the last decade the market opened because of the deregulation policy. That gave low budget airlines a chance to enter the industry. However, the first entrants (Ryanair, Easyjet, GO) used this option effectively and created strong brands. Recent entrants with the same costs and prices have a harder time generating the traffic needed to fill their planes, as this strategy is not a simple ‘copy-and-paste’ game (Binggeli & Pompeo, 2002, p. 4).

In general it can be stated, that the threat of new entrants is low in the current business environment within the airline industry.

The Threat of Substitutes

As we assume the airline industry stands for ‘transportation’, substitute products include alternative travel possibilities, such as cars, trains, buses and in some areas even boats. However, none of these substitutes are able to fulfil the need of travelling to another destination anywhere in the world in a short time as good as airline companies. It is a fact that air travel is the most convenient option if one wants to quickly get some place far away.

Still, new technological developments such as email and videoconferencing decrease the need to travel by any means.

There is an orientation toward purchasing corporate jets instead of flying first class in many major companies. According to Costa et al. (2002), corporate jets could take away 10 % of the first class travellers by 2005 (Costa et al., 2002, p. 5).

The threat of substitutes is high for business travel due to new technologies and the introduction of corporate jets and lower for leisure travel as cars, trains and boats are not as convenient as air travel.

Buyers

Buyers may influence competition, as they are able to push down prices, bargain for higher quality and more service and place competitors against each other under certain circumstances. Since customers purchasing plane tickets are neither concentrated nor purchase large volumes they do not have a strong bargaining position. Their single purchases from the industry do not represent a significant fraction of the amount offered. Further, there is no threat of backward integration as customers do not consider purchasing an airline company.
However, buyers face low switching costs. They can easily switch the airline or decide to travel by car, train, bus or boat. Considering the worldwide recession and the psychological effect of the events on September 11, 2001 pressure is put on the airline companies as customers switch to alternative transportation possibilities. Nevertheless, in general it can be stated that the threat of buyer is relatively low.

**Suppliers**

Main suppliers within the airline industry are the aircraft manufacturers, such as Airbus, Boeing, Concord and Fokker, suppliers of fuel (e.g. Shell, British Petrol, Chevron Texaco), technical support and IT-service and to a smaller extent catering services.

Suppliers have a strong bargaining position if they are concentrated. In particular, this is the case for the airline manufactures because only a few companies are producing aircraft. Aircrafts cannot be substituted by any other product and are therefore an important input for the airlines, which strengthens the manufacturers’ position even more. However, for aircraft manufacturers and their suppliers, both the nature of the current economic downturn and the introduction of new airline business models (especially in regard to cost savings and postponed aircraft orders) are critical. That means that manufacturers must focus on supporting the airline business models to secure their own survival during the recent recession (Binggeli & Pompo, 2002). Therefore the global Airline Inventory Network was designed. Its aim is to attack costly inventory inefficiencies in the airline industry (www.boeing.com).

An outstanding bargaining position can be noticed for the fuel providers as they can increase fuel prices without considering the airlines as an important customer group.

However, the threat of forward integration is low, as it can be assumed that neither aircraft manufactures, fuel providers nor technical support companies will purchase an airline. Nevertheless, the very strong position of the fuel providers and a relatively strong position of manufacturers need to be taken into account.

**Existing Competitors**

Regarding to the European airline industry there exist two groups of competitors, the mature airlines and the low budget airlines. Competition within the group of mature airlines is most intense because national airlines are well established for nearly all
European countries since the beginning of the last century. The effects of the recent airline crises are putting even more pressure on all competing airlines. This leads to a process of consolidation and the foundation of alliances. Airlines within one alliance are not competing directly with each other anymore, which slightly decreases the pressure.

Within the group of low budget airlines the level of competition is settled at the moment. There are two major players and some minor competitors who split the market segment of price sensitive customers among them. Ryanair and EasyJet (that recently acquired GO) are targeting different ends of the same customer target group. They pursue different strategies as Ryanair concentrates on secondary airports whereas EasyJet/GO operates on primary airports. Therefore, they are not in direct competition.

Although these two different groups can be identified it cannot be precluded that they do not overlap. Already now, mature airlines adjust their strategies to be able to compete on the low fare market. Low budget airlines increase their services and open more routes to capture market share of mature airlines.

Therefore it can be argued that rivalry among exiting competitors is very high.
By applying certain strategies a firm can influence the five forces of competition and thereby reshape the attractiveness of an industry. Within the airline industry many successful strategies shifted the principles of competition (de Wit & Meyer, 2001).

The recovered industry is likely to look very different from today’s industry as the entrance of low budget airlines, the events on September 11, 2001, the growing number of alliances and the turndown of the world economy have an impact on the ‘rules of the game’.

5.2 SWOT Analysis

The SWOT Analysis is a tool that can be used to formulate a strategy considering both, company internal and environmental aspects. It will be used in the following paragraphs to evaluate SAS’ and Ryanair’s strengths, weaknesses, opportunities and threats.
5.2.1 SAS

Strengths

One of SAS’ strengths is its skill to formulate long-term strategies, especially in regard to its investment and partnership policy. The tendency towards partnerships and its joining of Star Alliances supports its ability to survive the deep airline crises. Further, its very strong Scandinavian home market and its focus on domestic, regional and European routes provides an excellent base for recent as well as future developments. The renewed aircraft fleet will also support the aim to remain independent in the following years. SAS’ strategic orientation towards repositioning may be one of their strengths in the future. The airline may succeed in attracting new customers with their lower price/lower service strategy.

Weaknesses

The just mentioned trend towards repositioning can also be interpreted as one of SAS’ major weaknesses as its traditional customers (business travellers) may be confused by this strategic move. They may respond in a negative way and switch to other alternatives as they feel that their needs – high in-flight service, high frequencies on flights – are misunderstood and not satisfied. “Balancing such considerations is the risk of losing corporate passengers who have become accustomed to high levels of service” (Binggeli & Pompeo, 2002, p.7). Further, the danger exist that the targeted customers may not feel addressed by SAS’ strategy, especially as the airline tries to re-attract business travellers at the same time. It seems that it wants to serve all possible customer target groups at once, which may lead to ‘loosing it all’ as nobody can identify with this strategic orientation and company culture. Moreover, SAS is still favouring a ‘hub-and-spoke’ model\(^\text{14}\), which needs to be changed to emphasize the needs of leisure travellers and price sensitive customers.

Opportunities

SAS is a mature airline that has reached certain size and inhabits a well-established organizational culture. That makes it difficult to be flexible and utilize all opportunities offered by the environment. Its strong Scandinavian position can be

\(^{14}\) ‘hub-and-spoke model favors one or a number of main airports on which traffic is “collected” and where connection flights are aligned.
used as a home base from which further regional development and penetration of the European market can be reached. Its orientation towards partnerships and consideration of a European consolidation of airline companies may reinforce its position in the European and most of all Scandinavian market. Further, cost reduction can be achieved due to synergy effects resulting from partnerships and alliances as well as from efficiency improvement programs. This may enable SAS to offer low-fare tickets on even more of its routes, which may attract price sensitive customers as well as leisure travellers. The recent decision to switch to just one class of service in all intra-Scandinavian markets is a step towards reaching these customer groups.

Additionally, SAS’ new aircraft can be interpreted as a sign of confidence and trust in future recovery. As Costa et al. (2002) state, an airline only invests heavily if it sees “sustained growth and high utilization” (Costa et al., 20002, p. 4). The new aircraft fleet may be used to serve routes to and from Asia, a region where SAS Airline is achieving a high level of performance presently and where its position can be strengthened. Also, the growing market share on routes to Asia in combination with an investment in aircraft serving these routes can be interpreted as an opportunity.

**Threats**

SAS’ financial situation results from the general recession, the airline crises and the events on September 11, 2001. These incidents put pressure on the company, especially in terms of cost savings, which may have an impact on further investments such as aircraft and partnerships. Fewer investments may endanger the ability to stay competitive and to react on future environmental changes. Additionally, the decreasing demand in airline travel leads to a capacity reduction that threatens SAS’ ability to earn profits.

Moreover, uncertainty and unprecedented risks occur in the whole industry as the downturn is expected to be longer and more severe than any other crises ever before. It is believed that even after recovery “yields will not come back as strongly as in previous downturns” (Costa et al., 2002, p.5).

Additionally, new low fare carriers are presently entering the Scandinavian market, which threatens SAS Airline’s strong position in its home market.

The main strengths, weaknesses, opportunities and threats for SAS are summarized in the figure illustrated below.
SAS is very strong concerning its partnerships and home market, rather weak towards reorientation and finding a new position in the changed environment, it has the opportunities to capture market share with its new price and service concepts and in the Asian region and it is threaten by new competitors, the general economic crisis and necessary reduction in production costs.

5.2.2 Ryanair

The results of Ryanair’s SWOT Analysis are presented below.

**Strengths**

The low cost strategy is an obvious strength of Ryanair. The company is able to successfully apply this strategy in recognition of simple company logistics, effective use of airtime and also in appreciation to its UK home market, which provides a strong base due to its high traffic. In addition, the focus on secondary airports allows minimizing landing and ground handling fees. The fact that the company does not take this strategy for granted and is seriously committed to it implicates even more positive factors. As the main focus is given on the secondary airports Ryanair does not come into direct competition with EasyJet/GO. It also benefits from the ‘first mover advantage’\(^\text{15}\) since it was the first low budget airline on the European market. This enables the airline to develop a powerful brand while stimulating demand with

\(^{15}\) First mover advantage is defined as a sometimes insurmountable advantage gained by the first significant company that moved into a new market (www.marketingterms.com).
low prices. With its low cost approach Ryanair has proven to be an excellent niche strategy. “It was playing its cards right” (www.mckinseyquarterly.com).

Weaknesses

Although secondary airports entail the advantage of lowering costs they limit the company in attracting certain groups of customers. Operating on secondary airports catches mainly the attention of new customers for whom travelling by air is a new habit. Considering travelling routines of European customers it might be difficult to take away market share from charter airlines since their passengers buy ‘holiday’ tickets in a ‘travel package’.

“Some 45% of the flights for all German holidays, for example, are still purchased as packages and that share has hardly changed in five years” (Costa et al., 2002, p. 7).

It can be questioned if Ryanair has a potential when it comes to serving ‘holiday’ routes in Southern Europe where its possible customers live already close to beaches or favourite vacation destinations. Considering the mature airline market the company cannot compete in the market of business travel since provided service is not fulfilling managers’ needs. The airline may also face problems on domestic markets where competition is already very high and other full service airlines provide only slightly higher prices than the ones Ryanair would be able to offer.

Opportunities

Ryanair is in general benefiting from the crises in the airline industry that are occurring at the moment. The company is young and does not face problems in adapting to new environments at the same level as the flag carriers. One of the opportunities is to underpin their strategy by developing small continental operating bases, such as ‘Hahn’ closed to Frankfurt, Germany and ‘Charleroi’ in Brussels, Belgium, which will allow them to serve more routes and to interconnect flights between the bases. Ryanair can also seek opportunities on the mature airline market and target business travellers on routes, which are not served by bigger airlines at all. There is also a chance to capture market share of the traditional airlines by attracting their price sensitive customers and the ones who do not need a flexible ticket as they plan their journey ahead. In addition, the airline has a chance to cooperate with the travel agencies to enter the charter segment in order to favour independent travellers.
It can be assumed that Ryanair is able to create a new demand and even stimulate larger number of travellers who were not aware of the chance of low costs air travel.

“The low cost airlines (Ryanair) can double its market share in the next five years, mainly by stimulating demand on the Continent. But shaping the future of intra European air travel would require the no-frills to make major inroads into the incumbents’ customer base. It’s likely to happen without taking the profitability from the low cost airlines” (Costa et al., 2002, p. 3).

**Threats**

A possible air crash is a real threat to Ryanair.

“There are two threats to us not achieving long term growth targets – an air accident, which could affect peoples travel habits in short term and management indiscipline, where we all took our eyes off the ball” (Michael O’Leary, CEO, 2002 in: Costa et al., 2002, p. 4).

As pointed out before, the company is attracting mainly customers, who do not depend on air travel as they can switch to alternative ways of transportation. Increasing fuel prices is another danger that could affect Ryanair operations. This could be a risk mostly in a longer run as the company is pursuing the fuel risk management that should provide protection in the near future. General losses within the low budget airline business during the last five years illustrate that it is challenging to compete within the segment.


Additionally, in the long-term the large scale may be difficult to achieve since the company may be forced to gain market share from mature airlines and charters. This will require a higher level of service and change of structure in order to be able to cope with the competitive challenges in these markets. A loss of focus may be a dramatic consequence for Ryanair.

The picture below summarizes the most important strengths, weaknesses, opportunities and threats of Ryanair.
Ryanair has an outstanding ability to focus and therefore maintains the lowest production costs. The only weakness that could be found is its concentration on secondary airports, which may lead to a decreased ability to attract certain customer groups. However, this can be interpreted as strengths as well. It faces opportunities in terms of an increase of intercontinental bases, which can be used to enlarge its growing route network. The airline faces threats due to general losses within the low budget business and a rise in fuel prices.

5.3 Generic Strategy

Below SAS Airline’s and Ryanair’s strategies are analysed in regard to ‘cost leadership’, ‘differentiation’ and ‘focus’ as outlined in part 3.4.

5.3.1 SAS

Concerning the competitive scope SAS serves a broad customer target. In regard to its new price concept one can argue that SAS targets on a wide range of different customers. It does not only focus on business travellers anymore but also emphasizes on leisure travel and price sensitive customers, e.g. students.

Additionally one can interpret the price concept as a differentiation strategy. Many types of tickets are offered (‘Daily’ concept, ‘Weekend’ concept) which differ in price and service level.
5.3.2 Ryanair

Ryanair’s competitive scope is much more limited in comparison to the one of SAS. The airline clearly states that it focuses only on price sensitive customers. That is why one may argue that it concentrates on a very narrow target market.

Concerning the competitive advantage, Ryanair is focusing on its costs and presently succeeds to achieve overall cost leadership. It occupies a low cost niche position.

“The low cost airlines developed sufficient lead times and competitive advantage to limit any new entrants to niche positions – and we still do not believe that the full service airlines have the culture to successfully develop sustainable in house low fares subsidiaries“ (Bingelli & Pompeo, 2002).

SAS Airline’s and Ryanair’s positions in the ‘generic strategy matrix’ are illustrated in figure 29.

![Figure 29: Generic strategies and the positions of SAS and Ryanair](image)

It can be stated that both companies face the risk of loosing their presently occupied positions. However, in our perception this risk is more threatening for SAS Airline as it experiences a period of restructuring. It tries to offer many different levels of service and price and it seems like the airline tries to please every existing customer group. In order to avoid being ‘stuck in the middle’ it needs to redefine its position as soon as possible.
For Ryanair the ‘stuck in the middle’ danger is less severe because the airline is aware of the fact that it has to keep focused. As soon as it starts to concentrate more on growth than on costs it may lose its main strengths – the lowest production costs.

5.4 Positioning Strategies

The two airline companies introduced throughout this thesis differ in their competing priorities. They are aware of the situation that leisure travellers seek the lowest prices and that these customers are less concerned with in-flight service, flight frequencies or a broad choice of destinations (Bingelli & Pompeo, 2002). Business travellers on the other hand demand frequent flights to a wide range of destinations, seek quality service and are willing to pay a reasonable premium for these benefits. Therefore SAS’ and Ryanair’s favoured positions within the airline may be profitable. They will be illustrated in the ‘Service-Price-Grid’ below.

5.4.1 Traditional Position & Recent Developments

As outlined before SAS Airline considers itself as a ‘high service’ airline offering high quality in-flight service, many different booking as well as rebooking options, printed tickets, flexible routes due to the network, reserved seats, flying from/to primary airports and benefits resulting from partnerships and alliances, such as EuroBonus. Consequently, the airline demands superior prices for tickets.

Recently, one can observe strategic reorientation within SAS Airline. The company decreases the service level, as it needs to reduce costs. Business travellers obtain now the same service level as economy class passengers. Further, different routes are eliminated; SAS Airlines does not fly to Dehli, Kaliningrad, Stansted, Tel Aviv and Barcelona anymore. In the long term, as the airline industry is likely to recover, the recent reduction in service level may be reversed again. The announced plan to provide in-flight Internet connections underpins this argument.

In terms of price development, SAS Airline recently implemented two new price concepts called ‘Daily’ and ‘Weekend’. They offer a wide range of lower costs tickets for business as well as leisure travel. Further, the low price student tickets as well as low fare options to several major European cities may be interpreted as SAS’ new focus on leisure travel.
**Ryanair** is obviously a low cost/no frills airline, offering a minimized service level for inexpensive tickets. Its focus on lowest costs within the industry requires deductions in customer service, realized by operating on secondary airports, no printed tickets, no seat reservation, less in-flight service, no rebooking options, more effective use of airtime and using mainly the same type of aircraft (which reduces training and maintenance costs). The cost advantages are passed on to customers in form of low-fare tickets.

However, the company develops as well. It remains to concentrate on its low costs, which underpins organic growth. As the company is slowly growing it is able to increase the service level. For example, Ryanair enlarges its network by entering new routes and connecting the destinations it flies to with each other (‘connecting the dots’). As well, Ryanair’s new aircraft fleet consists of brand new planes (Boeing 737-800). The airline further plans on implementing a rebooking system. Therefore one can argue, that its service level is and will be increasing (www.ryanair.com).

The figures below show the accustomed positions of SAS and Ryanair (illustrated as circles) and its recent movements (illustrated as arrows). The stars demonstrate the assumed new positions. One may now argue, that the distance between the two companies is decreasing. This is pointed out by dotted lines, where the one connecting the stars is shorter than the one connecting the original circles.

*Figure 30: a) Positioning strategies of SAS and Ryanair in a 'price-service-grid'; b) Repositioning strategies of SAS and Ryanair in a 'price-service-grid'*
One may also interpret the recent developments in the following way.

The original service level difference between SAS Airline and Ryanair was larger than the new service level difference (but it corresponded to the original price level difference). At the same time the original difference in price level is also larger as the new price level difference. This relationship is illustrated with the arrows in the figure below. However, while the arrows representing the original service/price level differences have the same length, the ones standing for the new service/price level differences vary in their length. The way it is illustrated in figure 31, the difference in service level is less than the one in price level.

![Figure 31: New positions of SAS and Ryanair and differences in service - and price levels](image)

As a consequence one may argue, Ryanair has a possibility to capture market share from SAS on routes both airlines serve or will serve. Customers who are more sensitive towards price than service are the ones who will most likely switch the airline.
5.5 European Model of Excellence

The European Model of Excellence is a framework that can be used to coordinate internal processes and activities to achieve excellent managerial performance in order to achieve an advantage over competitors.

Within this thesis the analysis of the model is based on our own perceptions and assumptions and on the empirical data that was collected for the ‘strategy overview’ purposes. Therefore, the evaluation is not as deep as it might be. The aim of the analysis below is only to find out whether SAS or Ryanair apply the model. For that reason each of the nine criteria of the model is examined.

5.5.1 SAS

In terms of **leadership** one may argue, that SAS does not have one strong leader as the board of directors retired in September 2001 and members of the recently management changed. However, their mission and vision is clearly defined and adjusted to the recent changes within the industry. Since the company is of certain size and operates as a flag carrier for three different countries (Sweden, Norway, Denmark) it may be more demanding for them (as for Ryanair) to implement strong leadership. Yet, the company communicates a ‘Scandinavian’ spirit to its customers.

When it comes to **policy and strategy** one can interpret SAS’ activities as adjustments to current needs supporting its mission and vision. SAS concentrates mainly on its shareholders but does not exclude stakeholders. For example, the move towards sustainable development shows that the company pays attention towards the environment. The implemented policies and strategies are shared within the whole group (SAS Group).

Considering **people**, SAS aims to further improve the working environment, as it wants to be an attractive future employer. Employees are very important to the company, as the airline is a service business. Its goal is to be characterized by employees “who care, can be trusted are progressive and professional” (The SAS Group in Summary 2001/2002, p. 13).

Star Alliance and Well Connected are two **partnership** programs (alliances) that SAS joins. Additionally, it cooperates with many other airlines as well as it has marketing partners. Due to code sharing agreements and the joint use of ground facilities as well
as technical support the airline has superior access to resources. Costs will be reduced and the airline may be able to increase revenues. The partnership strategy underpins implemented policies and strategies.

Concerning processes, one needs to keep in mind that the company just restructured into more independent units with a clear responsibility for profit. Consequently, internal processes are redesigned as well in order to ensure that they still strengthen the airline’s strategy.

SAS is achieving many results regarding its external customers. The alignment with partner airlines as well as the purchase of new aircraft shows the orientation towards customer service. However, as SAS did not manage to answer the received emails from customers it closed its customer email service. Questions are only answered through a telephone service (Call Centers). The airline also decreased in-flight service.

In terms of people results, one can mention that SAS may not be perceived as an employee friendly company at present due to its downsizing policy.

SAS contributes towards society results by considering the Scandinavian people and acting as a responsible citizen. They support and sponsor artistic sporting, environmental and humanitarian projects such as ‘Save the children’ as well as Astrid Lindgren’s Hospital (www.sas.se).

Concerning SAS’ key performance, it can be stated that it suffers in terms of financial outcomes, however, their non-financial outcomes reach a high level. The airline was awarded with the prize for ‘Best Environmental Report’ in 2000 and is continuously sustaining an outstanding performance in environmental activities. External resources including partnerships as well as their internal processes are well managed.

5.5.2 Ryanair

Ryanair’s well-known founder and strong leader Michael O’Leary is personally involved in the company as he managed to guide the airline for the last 17 years through ‘good and bad’ times. He developed the values and motivates the airline’s employees to be committed towards the low cost focus, which so far ensured long-term success. As well, he is the one communicating with the society, including
investors, customers and partners. In case of any event he justifies the company’s decisions and movements.

In terms of **policy and strategy**, Ryanair’s clearly defined mission is supported by the objectives. Strictly implemented policies strengthen the ability to achieve the goals and being profitable. The airline’s reviewed strategy is executed in the same way on every market. All side offers provided on the website (such as phone calls, car rentals and accommodation) are of low costs as well.

Considering **people** development, the airline is investing into pilot training by enlarging the number of flight simulators. Employees are also valued by share option schemes, which provide a possibility to profit from the company’s success. According to the recruiting website “Ryanair is an equal opportunities employer” (www.ryanair.com). Further, the promotion policy proves that Ryanair trusts in its employees.

When it comes to **partnership and resources** one can notice that the airline does not have as many partnerships as SAS, in fact it does not have any partners related to its core business (aviation). However, co-operations with Hertz as a car rental company and several accommodation facilities were found on its website (www.ryanair.com).

Due to the fact that Ryanair focuses on low costs at all fronts one may assume that internal **processes** are continuously monitored and redesigned in order to keep expenses down.

In terms of **customer results** it is obvious that the airline achieves lowest fares and an increase in service due to its enlarged European route network (‘connecting the dots’). It also offers seasonal products such as low fare trips to skiing destinations - “For the lowest fares to the slopes” (www.ryanair.com). Ryanair publishes its passengers service statistics monthly to prove an increase in service and therefore in customer results.

As a matter of fact it is much more ‘fun’ to work in a successful company instead of in one that suffers. That is why we assume that Ryanair’s employees are highly motivated which raises **people results**. After having read many company documents we feel that their commitment towards the goals is outstanding, especially as the company developed from a local airline to the most successful low budget airline on the European market.
Regarding society results, Ryanair co-sponsors the ‘Team Ireland Golf Trust’. “Ryanair’s low fares have made travel to golfing events all over Europe possible for golfing professionals and their fans alike. Our co-sponsorship of the Team Ireland Golf Trust will enable many young golfers to pursue theirs sporting dream without their parents having to re-mortgage the house in the process” (Ms Ethel Powers, Head of Communications at Ryanair; press release “Young Irish Golfers ‘tea off’ with Ryanair” from January 27, 2000 found on www.ryanair.com).

As Ryanair managed to be profitable ten years in a row its key performance in financial outcomes is excellent. The airline also managed to renew and expand its fleet. As the company does not focus on non-financial goals the performance is not excellent in this area.

Concluding one may say that SAS Airline is applying the European Model of Excellence since all criteria are included whereas Ryanair does not apply the model in its complete form. There is no strong focus on partnerships in Ryanair’s strategic orientation.

5.6 Strategic Alliances

Joining Strategic Alliances is a strategic tool often applied by companies to ensure expansion and growth. As outlined in part 3.6 there are different motives why such collaborations are advantageous for companies.

5.6.1 SAS

In case of SAS Airline, joining Star Alliance and Well Connected enhances the chance of the airline’s survival in nowadays turbulent times. SAS benefits from reduced costs and may gain resources due to synergy effects (resulting from the alliances). The effects occur because of joint ground facilities such as check in counters, joined airport terminals or even shared city offices. The coordinated scheduled travel creates a higher service level for customers as connection flights are harmonized. Further, the alliances offer benefits in form of lounge facilities.

Additionally, the collaboration agreements enable SAS to service routes that otherwise would not be profitable. This applies especially for the alliance Well
Connected as it comprises many small airlines. Increased revenues for SAS may be the result.

As the airline industry is still in the process of deregulation joining alliances is also important from another perspective. Legal constraint may be overcome in a less complicated way.

5.6.2 Ryanair

Ryanair does not join any alliances at present times. It only has some loose cooperation with airline related businesses such as the car rental company Hertz and some accommodation facilities. These are promoted on Ryanair’s website mainly to fulfil the task of offering a complete ‘travel site’.

In our perspective, it is most likely that Ryanair will not join any alliances or other form of collaboration arrangement in the near future. As their focus is strictly on lowest possible costs such partnerships may be distracting. Collaborating companies may not be as committed towards Ryanair’s pursued strategy as well as they may not be as disciplined concerning costs. As Ryanair is concentrating on organic growth – expanding through alliances does not fit its strategy. Additionally is has to be mentioned that EasyJet’s acquirement of GO eliminated direct competition and consequently collaborations with other airlines are not needed.

5.7 Summary of Strategies from an External and Internal View

This last part of the analysis summarizes argumentation outlined above by reflecting the strategic orientation of SAS Airline and Ryanair from an external as well as internal perspective. As pointed out in 3.1.2 the external view considers the company’s outside environment as a starting point for the strategy formulation process. In contrast, the internal view is more concerned about a company’s resource base regarding its strategic orientation.

5.7.1 SAS

As introduced in 4.2 SAS is an airline company competing mainly with flag carriers of other European countries. Its external competitive environment is to a great extent determined by the three big airlines Air France, British Airways and Lufthansa. In
general, all European airlines can be considered as either direct or indirect competitors. Concerning other airline companies one has to keep in mind that SAS is involved in many collaborations. These partnerships, especially the ones within the two alliances Star Alliance and Well Connected, are having a great influence on SAS’ strategic orientation. They provide the airline with synergy effects as outlined before and enhance the chance of further development or even survival during the recent industry crisis. It is worth mentioning that collaboration agreements increase since deregulation policy opened the market for freer competition.

These crises result partly from the unstable environment as the world economy faces a recession period and partly from the dramatic effects of the events on September 11, 2001. However, effects cannot be noticed only for the airlines, as players within the industry are affected as well. For example, aircraft suppliers as Boeing or Airbus suffer from a decreased demand in aircraft. Further, buyers are feeling ‘insecure’ and uncomfortable travelling by plane and consequently avoid flying as much as possible. Substitutes such as trains, buses and cars are preferred which has an impact on the airline industry – demand decreases which leads to reduced capacity. New entrants in form of low budget airlines are also reshaping the industry structure. On the one hand they may create a new demand as they target on customers who were not able to afford flying in the past. On the other hand they capture market share from mature airlines since in a phase of economic downturn customers become more price sensitive. In December 2002, one could observe the potential impact low budget airline may have in the United States, where United Airlines went bankrupt. New competition, especially due to low fare airlines, caused the liquidation (Daniel, 2002).

Facing the changed structure of the Airline Industry it is suitable for SAS Airline to reconsider its strategic orientation. From our viewpoint, SAS tries to increase its level of differentiation. With the beginning of the restructuring program in 2002 it offers many different kinds of tickets from which customers may choose. The additional range in terms of service and price has obviously the aim of attracting more customers. However, SAS Airline needs to consider that other airlines are following the same strategy. For example, British Airways offers low fare tickets as well as Lufthansa’s partner Germanwings. Compared to other European Airlines SAS has one advantage, namely its strong Scandinavian position.
In terms of **internal aspects** one has to remember SAS Airline’s long historic background due to which it is included within the SAS Group. The group does protect the Airline from external risks and financial difficulties.

SAS Airline has obviously a strong Scandinavian home market, as it is the largest airline within this region (due to historic reasons). It focuses mainly on domestic and intra-Scandinavian flights as well as on routes to continental Europe and the UK. It does not emphasis as much on intercontinental flights, e.g., to the United States. These routes were hit hardest after the events on September 11, 2001 in terms of decreased demand.

One could interpret SAS’ strong Scandinavian position as their core competence. As well it benefits from joining alliances to a great extent. In our perspective, it was brilliant to form a regional alliance, which supports the airline to eliminate inefficient routes, which could not be served profitably. The global alliance ‘Star Alliance’ provides SAS with other benefits by creating of synergy effects.

From an internal perspective, considering being strong in Scandinavia, one may assume that SAS Airlines uses this strength to increase its regional network and offer better coordinated flight connection to and within Europe.

### 5.7.2 Ryanair

Concerning Ryanair’s **external environment** it is really important to review that Ryanair’s development would not have been possible without the deregulation policy. This is simply due to the fact that the company is not a flag carrier and would not have received any support from the Irish government. Even though Ryanair was operating on the Irish domestic market as well as on the Dublin-London Route in its early history it was not possible to enter the continental European market. However, these early activities strengthen its home base in the UK.

Further, one has to keep in mind that the company does not face strong direct competition as EasyJet/GO focuses on ‘the other end’ of the low budget segment. Still, Ryanair competes on some routes with other European Airlines, e.g., with SAS Airline on the London – Stockholm route, Frankfurt – Stockholm route.

It is worth mentioning that Ryanair does not face the general economic crisis to such a great extent as it stimulates a new demand attracting customers who were not able to
travel by plane in the past. It basically captures market share from companies offering substitute products, such as trains and buses. While the flag carriers (mature airlines) are ‘in trouble’ Ryanair as well as other low budget airlines managed to strengthen their position and expanded their operations. According to Bingelli & Pompeo (2002), “they enjoy protection from business cycles, since in hard times demand for premium service tends to decline as more passengers seek less expensive travel alternatives” (Bingelli & Pompeo, 2002, p. 4).

After having examined the empirical data collected to investigate Ryanair’s strategy, one may assume that, from an internal point of view, its core competence is its strong leadership and disciplined management. The strong focus on the lowest possible production costs enables the company to offer low fare tickets. The strict management practice is the main reason why the company was able to be profitable during the last decade (Ryanair Annual Report 2001). It also continues to concentrate on organic growth instead of joining partnerships.

As Ryanair was the first low budget airline on the European market it highly benefits from the ‘first mover advantage’. The airlines succeeded in building a strong and well-known brand name that may create customer loyalty.

Its punctuality, increasing service level (e.g., by ‘connecting the dots’) and the fact of providing save operations (no accident within the last 17 years) raises trust of customers.

“Not only do you save money with Ryanair’s unbeatable fares but you also save time. Ryanair flights are more often on-time than many other so called high “service” airlines, such as British Airways” (www.ryanair.com).

To underline how punctual the airline is Ryanair provides updated punctuality statistics on its web page, which is accessible to everyone. For the week ending December 8, 2002, 87 % of Ryanair’s flights arrived within 15 minutes and 98 % within one hour of scheduled arrival time (www.ryanair.com).

Keeping the empirical data and facts mentioned above in mind, one may assume that Ryanair will keep on focusing on lowest costs in the future. According to Michael O’Leary, CEO, the airline will succeed if it will continue to be disciplined in offering customers even lower fares.
“The aim is to keep lowering costs, work harder and work smarter” (Ryanair Annual Report, 2001, p. 6).

It does not seem that Ryanair plans to acquire or merge with any other airline company. Instead we have the impression its focus is on organic growth only.

In summary one may state that it is obvious that Ryanair’s strategy is much more straightforward and focused compared to SAS’ strategic reorientation.
6 Conclusions and Final Remarks

This part of the thesis will answer the research questions stated in part 1.3 in short and end with conclusions about the future state of the European airline industry. It also includes final remarks and ideas for future research.

As outlined throughout the entire thesis, there are major environmental changes that lead to the current stage in the airline industry. Indirectly the economic downturn and the deregulation policy influence the current situation of the airline industry. Without the deregulation policy the foundation of alliances and strategic collaborations as well as the entrance of low fare airlines would not have been possible. Further, the terrorist attacks in New York and Washington DC on September 11, 2001 have a great impact on the airline industry.

The most important companies in the European airline industry are the ‘three big airlines’, British Airways, Air France and Lufthansa, and Ryanair as the most successful low budget airline. Additionally, fuel and aircraft suppliers such as British Petrol, Shell and Chevron Texaco, Airbus and Boeing are playing a major role. Other European airline companies, including mature as well as low fare carriers also need to be considered.

The strategies of SAS Airline and Ryanair vary a lot due to diverse core competencies. One reason is the different historic background of both companies. Further, the nature of their businesses is not the same.

Ryanair’s core competence can be defined as a strict leadership and disciplined management towards a strong low cost focus. Therefore its strategy is to maintain lowest production costs and be thereby able to offer low fare tickets for less service.

SAS Airline’s core competence can be defined as its strong geographic position in the Scandinavian market and Europe. Its former concentration on business travellers has been given up as the demand decreases. Even though SAS Airline tries to gain in the business class segment its recent focus is towards a very wide range of customers by offering low, medium and high price tickets for different service levels.

Resulting from different core competencies the airlines strategies differ as well. Ryanair’s cost focus leads to the lowest possible fares and a limited service level in
terms of airport choice, in-flight service, ticket printing and seat reservation. SAS’ complicated situation in the weak industry leads to many strategic adjustments. Offering a more diverse choice of tickets with a different price and service range underlines its instability (‘shakiness’). Its attempt to reposition itself includes the danger of losing loyal customers (business travellers) and is therefore risky.

Finally, it can be said that Ryanair’s strategic behaviour is very straightforward, the company acts proactive. Contrary, SAS seem to have difficulties in defining such a ‘clear-cut’ strategy and finding its new market position. In relation to recent changes in the airline industry the company acts reactive.

The conclusions of the research process are summarized in the figure below.

Figure 32: Results of the research process

The current picture of the European airline industry is reshaped. There are moves toward consolidation as large (mature) airlines are acquiring regional ones (see SAS), which reduces costs and increases their network and flexibility in terms connection flights. The industry is dominated by strong competition, reconsidered strategies and airlines that reorganize or just entered the market.
In future one may imagine the existence of a fewer number of airlines that operate in larger networks. However, in our perspective low budget airlines will be present from now on even though the industry will recover eventually.

**Final Remarks:**

In this thesis it was our purpose to present the current stage of the European airline industry, in particular by investigating the strategies of Ryanair and SAS.

During the time working on this thesis we found out facts that were surprising for us. For example, we did not expect, that SAS Airline is in the middle of a reorientation process and struggling to redefine its position in the European airline industry. In contrary, we also were surprised to discover that Ryanair is very well organized and strictly managed. In the beginning of the thesis project we could not imagine Ryanair’s focus on lowest production costs and the resulting straightforward strategy.

Further, we were surprised by the bankruptcy of United Airlines, especially as it was caused by the entrance of low budget airlines.

Additionally, we would like to mention here that a lot was learned during the project. As both of us have never applied strategic theories, frameworks and models it was interesting and new to experience how results can be generated in practice. Further, it was useful to gain a feeling and an understanding in how to handle such a huge amount of secondary data. It was not always easy to stay objective and reflect the reality.

Concerning methodology we experienced that it may be easier to collect primary data instead of reading through numerous company documents and analyst reports. As they were all written for another purpose it was difficult to select useful data in regard to our purpose.

For **further research** we recommend to repeat this study, however to collect primary data in form of interviews and questionnaire surveys. Also, the number of airlines could be increased, e.g. more European airlines may be included in such a study. This project may also be repeated on a worldwide scale.
7 Appendix

Appendix I - Major Airline Alliances

<table>
<thead>
<tr>
<th>Star Alliance</th>
<th>Member Airline</th>
<th>Passenger Number</th>
<th>Fleet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Canada</td>
<td>Not available</td>
<td>242</td>
<td></td>
</tr>
<tr>
<td>Air New Zealand</td>
<td>7,814,000</td>
<td>84</td>
<td></td>
</tr>
<tr>
<td>All Nippon Airways</td>
<td>49,887,000</td>
<td>140</td>
<td></td>
</tr>
<tr>
<td>Ansett Australia</td>
<td>651,000</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Austrian Airlines</td>
<td>8,446,000</td>
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<tr>
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<td>7,098,000</td>
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<tr>
<td>Laudia Air</td>
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<tr>
<td>Lufthansa</td>
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<tr>
<td>Mexicana Airlines</td>
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</tr>
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</tr>
<tr>
<td>Varig Brasil</td>
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<td>Total</td>
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<tr>
<td>Aer Lingus</td>
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<tr>
<td>American Airlines</td>
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<td>British Airways</td>
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<td>Fin Air</td>
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<tr>
<td>Iberia</td>
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<td>LAN Chile</td>
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<td>Total</td>
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<td>Air France</td>
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<td>Czech Airlines</td>
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<td>Delta Airlines</td>
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<td>Korean Air</td>
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<td>Total</td>
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<th>Fleet</th>
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<td>Air Europe</td>
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<td>Air Liberte</td>
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<td>Crossair Group</td>
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<td>Portugália Airlines</td>
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<td>Sabena</td>
<td>10,932,000</td>
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<tr>
<td>Swiss Int. Airlines (former Swissair)</td>
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<td>TAP Air Portugal</td>
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<td>Total</td>
<td>61,107,000</td>
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(adapted from: www.aboutairline.com/alliance_eng.htm (2001))
# Appendix II – Key figures for Star Alliances 2001


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<tr>
<th></th>
<th>Passenger/year (million)</th>
<th>Destinations</th>
<th>Countries</th>
<th>Aircraft</th>
<th>Daily departures</th>
<th>RPK</th>
<th>AOR, USD billion</th>
<th>Employees</th>
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<tbody>
<tr>
<td>Air Canada</td>
<td>31.0</td>
<td>150</td>
<td>28</td>
<td>376</td>
<td>1,800</td>
<td>60.3</td>
<td>6.3</td>
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<td>Air New Zealand/Ansett Australia</td>
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<td>190</td>
<td>20</td>
<td>191</td>
<td>1,000</td>
<td>62.4</td>
<td>3.7</td>
<td>22,966</td>
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<td>144</td>
<td>590</td>
<td>54.2</td>
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<td>British Midland International</td>
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<td>306</td>
<td>3.1</td>
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<td>Lufthansa</td>
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<td>349</td>
<td>91</td>
<td>324</td>
<td>1,349</td>
<td>85.3</td>
<td>11.5</td>
<td>31,305</td>
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<td>Mexicana</td>
<td>8.3</td>
<td>49</td>
<td>10</td>
<td>58</td>
<td>207</td>
<td>12.6</td>
<td>1.0</td>
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</tr>
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<td>SAS Airline</td>
<td>23.0</td>
<td>94</td>
<td>33</td>
<td>200</td>
<td>915</td>
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<td>12.8</td>
<td>119</td>
<td>41</td>
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<td>222</td>
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<td>4.6</td>
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<td>17.7</td>
<td>73</td>
<td>34</td>
<td>80</td>
<td>286</td>
<td>41.4</td>
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<td>87.0</td>
<td>307</td>
<td>26</td>
<td>604</td>
<td>2,294</td>
<td>200.5</td>
<td>19.4</td>
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<td>Varig</td>
<td>11.0</td>
<td>120</td>
<td>20</td>
<td>87</td>
<td>453</td>
<td>25.4</td>
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<td>129</td>
<td>2305</td>
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<td>68.0</td>
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Appendix III - SAS Groups Aircraft fleet

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<th>The SAS Group's total aircraft fleet</th>
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<tr>
<td></td>
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<td></td>
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<tr>
<td>owned</td>
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<tr>
<td>-------</td>
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<tr>
<td>Airbus A340-300</td>
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<tr>
<td>Airbus A330-300</td>
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<td>Being 737-700</td>
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<td>Being 737-800</td>
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<td>Douglas MD-81</td>
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<td>Douglas MD-82</td>
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<td>Douglas MD-90-30</td>
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<td>Douglas DC-9-41</td>
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<tr>
<td>Fokker F50</td>
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<tr>
<td>deHavilland Q100</td>
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<td>deHavilland Q300</td>
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<td>deHavilland Q400</td>
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<table>
<thead>
<tr>
<th>Breakdown in the groups fleet</th>
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<tr>
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</tr>
<tr>
<td>Spanair</td>
</tr>
<tr>
<td>Braathens</td>
</tr>
<tr>
<td>Wideroe</td>
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<td>Air Botnia</td>
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Appendix IV – Market and Traffic trends SAS Airline

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<td></td>
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<tr>
<td>Number of passenger 000</td>
<td>16,710</td>
<td>17,763</td>
<td>- 5.9</td>
<td>23,063</td>
<td>23,240</td>
<td>- 0.8</td>
</tr>
<tr>
<td>Revenue passenger km</td>
<td>17,749</td>
<td>17,858</td>
<td>- 0.6</td>
<td>22,956</td>
<td>22,467</td>
<td>+ 1.4</td>
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<tr>
<td>Available seat km</td>
<td>25,762</td>
<td>27,001</td>
<td>- 4.6</td>
<td>35,521</td>
<td>33,782</td>
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<tr>
<td>Cabin factor in %</td>
<td>68.9</td>
<td>66.1</td>
<td>+ 2.8*</td>
<td>64.6</td>
<td>67.0</td>
<td>- 2.4*</td>
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<tr>
<td><strong>Intercitl routes</strong></td>
<td></td>
<td></td>
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<tr>
<td>Number of passenger 000</td>
<td>1,063</td>
<td>950</td>
<td>+ 11.9</td>
<td>1,220</td>
<td>1,201</td>
<td>+ 1.6</td>
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<td>Revenue passenger km</td>
<td>7,354</td>
<td>6,437</td>
<td>+ 14.2</td>
<td>8,264</td>
<td>8,150</td>
<td>+ 1.4</td>
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<tr>
<td>Available seat km</td>
<td>8,677</td>
<td>7,952</td>
<td>+ 9.1</td>
<td>10,526</td>
<td>10,110</td>
<td>+ 4.1</td>
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<td>Cabin factor in %</td>
<td>84.8</td>
<td>81.0</td>
<td>+ 3.8*</td>
<td>78.5</td>
<td>80.6</td>
<td>- 2.1*</td>
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<td><strong>European Routes</strong></td>
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<td>Number of passenger 000</td>
<td>5,868</td>
<td>6,122</td>
<td>- 4.1</td>
<td>7,838</td>
<td>7,650</td>
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<td>Revenue passenger km</td>
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<td>6,218</td>
<td>- 5.7</td>
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<td>7,702</td>
<td>+ 3.1</td>
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<tr>
<td>Available seat km</td>
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<td>10,461</td>
<td>- 10.7</td>
<td>13,588</td>
<td>12,527</td>
<td>+ 8.5</td>
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<tr>
<td>Cabin factor in %</td>
<td>62.8</td>
<td>59.4</td>
<td>+ 3.4*</td>
<td>58.4</td>
<td>61.5</td>
<td>- 3.1*</td>
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<td><strong>Intra- Scaninavian Routes</strong></td>
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<td>Number of passenger 000</td>
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<td>3,084</td>
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<td>4,003</td>
<td>4,255</td>
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<td>Revenue passenger km</td>
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<td>1,467</td>
<td>- 6.3</td>
<td>1,900</td>
<td>1,874</td>
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<td>Available seat km</td>
<td>2,434</td>
<td>2,524</td>
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<td>3,343</td>
<td>3,108</td>
<td>+ 7.6</td>
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<td>Cabin factor in %</td>
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<td>58.2</td>
<td>- 1.7*</td>
<td>56.8</td>
<td>60.3</td>
<td>- 3.5*</td>
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<td><strong>Danish Domestic Routes and Greenland</strong></td>
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<tr>
<td>Number of passenger 000</td>
<td>666</td>
<td>735</td>
<td>- 9.4</td>
<td>955</td>
<td>980</td>
<td>- 2.5</td>
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<td>Revenue passenger km</td>
<td>263</td>
<td>296</td>
<td>- 11.0</td>
<td>365</td>
<td>372</td>
<td>- 1.9</td>
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<td>Available seat km</td>
<td>438</td>
<td>437</td>
<td>+ 0.2</td>
<td>559</td>
<td>550</td>
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<td>Cabin factor in %</td>
<td>60.1</td>
<td>67.7</td>
<td>- 7.5*</td>
<td>65.3</td>
<td>67.6</td>
<td>- 2.3*</td>
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<tr>
<td><strong>Norwegian Domestic Routes</strong></td>
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<tr>
<td>Number of passenger 000</td>
<td>2,743</td>
<td>2,975</td>
<td>- 7.8</td>
<td>3,839</td>
<td>3,850</td>
<td>- 0.3</td>
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<td>Revenue passenger km</td>
<td>1,164</td>
<td>1,543</td>
<td>- 24.6</td>
<td>1,962</td>
<td>1,977</td>
<td>- 0.7</td>
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<td>Available seat km</td>
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<td>2,521</td>
<td>- 22.1</td>
<td>3,300</td>
<td>3,466</td>
<td>- 4.8</td>
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<td>Cabin factor in %</td>
<td>59.3</td>
<td>61.2</td>
<td>- 1.9*</td>
<td>59.5</td>
<td>57.0</td>
<td>+ 2.4*</td>
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<td><strong>Swedish Domestic Routes</strong></td>
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<td>Number of passenger 000</td>
<td>3,526</td>
<td>3,897</td>
<td>- 9.5</td>
<td>5,209</td>
<td>5,305</td>
<td>- 1.8</td>
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<td>Revenue passenger km</td>
<td>1,729</td>
<td>1,897</td>
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<td>2,572</td>
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<td>Available seat km</td>
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<td>4,020</td>
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<td>Cabin factor in %</td>
<td>59.4</td>
<td>60.9</td>
<td>- 1.5*</td>
<td>60.1</td>
<td>64.0</td>
<td>- 3.9*</td>
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*change in percentage points
Appendix V - SAS Airline – Operating key figures, overview (incl. SAS Cargo)

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<tbody>
<tr>
<td>Number of cities served*</td>
<td>94</td>
<td>92</td>
<td>97</td>
<td>101</td>
<td>102</td>
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<tr>
<td>Number of flights, scheduled</td>
<td>334,039</td>
<td>343,482</td>
<td>343,611</td>
<td>328,327</td>
<td>320,410</td>
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<tr>
<td>km flown, scheduled (million)</td>
<td>265.1</td>
<td>263.4</td>
<td>261.1</td>
<td>251.9</td>
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<tr>
<td>Number of passengers carried, total (000)**</td>
<td>23,243</td>
<td>23,395</td>
<td>22,225</td>
<td>21,699</td>
<td>20,797</td>
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<tr>
<td>Available tonne km, total (million)</td>
<td>4,846.3</td>
<td>4,621.5</td>
<td>4,621.3</td>
<td>4,501.1</td>
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<tr>
<td>Revenue tonne km, scheduled (million)</td>
<td>3,034.0</td>
<td>3,016.7</td>
<td>2,834.5</td>
<td>2,680.0</td>
<td>2,571.5</td>
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<tr>
<td>Total load factor, scheduled (%)</td>
<td>63.2</td>
<td>65.8</td>
<td>62.1</td>
<td>60.1</td>
<td>59.9</td>
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<tr>
<td>Available seat km, scheduled (million)**</td>
<td>35,981</td>
<td>34,189</td>
<td>33,910</td>
<td>31,766</td>
<td>31,333</td>
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<tr>
<td>Revenue passenger km, scheduled (million)**</td>
<td>23,296</td>
<td>22,923</td>
<td>21,707</td>
<td>20,883</td>
<td>20,339</td>
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<tr>
<td>Cabin factor, scheduled**</td>
<td>64.7</td>
<td>67.0</td>
<td>64.0</td>
<td>65.7</td>
<td>64.9</td>
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<tr>
<td>Business class, share of revenue passenger km (%)</td>
<td>27.4</td>
<td>29.0</td>
<td>29.1</td>
<td>31.0</td>
<td>31.7</td>
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<tr>
<td>Average passenger trip length, scheduled (km)</td>
<td>1,010</td>
<td>974</td>
<td>966</td>
<td>971</td>
<td>986</td>
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<tr>
<td>Traffic revenue/revenue tonne km (SEK)</td>
<td>11.96</td>
<td>11.63</td>
<td>11.42</td>
<td>11.90</td>
<td>11.94</td>
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<tr>
<td>Passenger revenue/available seat km, scheduled (SEK)</td>
<td>0.96</td>
<td>0.93</td>
<td>0.86</td>
<td>0.89</td>
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<td>Airline operating expenses/available tonne km (SEK)</td>
<td>8.72</td>
<td>7.96</td>
<td>7.39</td>
<td>7.17</td>
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<td>Revenue tonne km/employee scheduled (000)</td>
<td>85.2</td>
<td>129.9</td>
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<td>129.4</td>
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<td>1,022.9</td>
<td>952.6</td>
<td>906.4</td>
<td>994.1</td>
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<td>Jet fuel price (cents/gallon)</td>
<td>89</td>
<td>94</td>
<td>60</td>
<td>66</td>
<td>75</td>
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<td>Punctuality (% within 15 minutes)</td>
<td>85.1</td>
<td>88.0</td>
<td>83.5</td>
<td>82.7</td>
<td>88.0</td>
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</table>

*Destinations served by SAS aircraft (summer period).
**Including other traffic/production.
Appendix VI - SAS’ new price concept – “Daily” and “Weekend”

“Daily” is a ticket addressing customers who want to travel completely on own terms, with full flexibility and no restrictions. The ticket is fully transferable, can be booked any time prior departure, has highest availability, and includes highest priority on waiting lists and pre-selection of seating and. Customers may choose between one-way or round trips.

“Daily 2” is for customers who book their trip not later than two days prior departure and do not change the date of departure. It offers flexible return trips (for which dates can be rebooked any time prior departure) and is 10% less expensive than “Daily”.

“Daily 4” is a ticket that must be purchased not later than four days prior departure. It is not possible to make any changes in the booking. “Daily 4” is 20% less expensive than “Daily”.

“Daily 7” is a ticket which must be bought not later than seven days prior departure and cannot be changed after booking. This round-trip ticket offers the lowest level of flexibility within the “Daily Group” and is about 33% less expensive than “Daily”.

A similar concept was introduced for private travellers with the beginning of June 2002. The so-called “Weekend” concept is also characterized by simplicity and a more logical configuration.

“Weekend” is the most flexible private ticket that can be booked and paid on the day of departure and costs about 50% of the price of an ordinary full-price ticket.

“Weekend 7” must be booked and paid not later than seven days prior departure and costs about 40% of an ordinary full-price ticket.

Weekend 14” must be booked at least 14 days prior to departure and costs 30-35% of a full-price ticket.

## Appendix VII – Currency Exchange Rate Table

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<th>USD/Unit</th>
<th>Units/USD</th>
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<td>1.12128</td>
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<th>Currency Unit in 2002</th>
<th>USD/Unit</th>
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<td>Euro</td>
<td>1.00765</td>
<td>0.992406</td>
</tr>
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</table>

The exchange rates for every year are based on December 6\textsuperscript{th}. 
8 References

Books:


**Articles**


Company Documents and Analyst Reports

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---

\(^{16}\) All reports can be found and downloaded from Ryanair’s website: www.ryanair.com

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18 All web sites were found and repeatedly visited between October 26th 2002 and January 7th 2003.