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AIR TRAVEL INDUSTRY

Competitive airline positioning in Europe

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1 INTRODUCTION

1.1 Background of the research

The aviation sector has repeatedly been threatened by a number of events. Among them the most visible ones seem to be September 11th 2001, the global economic slowdown and the SARS epidemic. These difficulties have led the industry to seek for new ways to continue its growth path. (Goh 2004) The aviation sector has surmounted those external disruptions it has been exposed to. The impact of these shocks has lasted only a short time, after which the sector has strongly grown. For example, after two years of stagnation following 2001, air travel demand increased 14 % in 2004 and approximately 6% in 2006. (Global Market Forecast 2006, 31) The following figure shows the main shocks the air travel industry has had to bear:

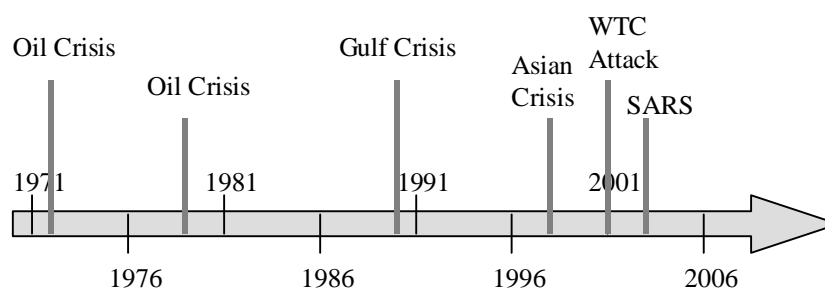


Figure 1 Major crises with an impact on air travel industry (modified from Global Market Forecast 2006, 31)

Thus one can see that there has been a strong spur to develop new kinds of operations in the aviation sector. The two big forces for change, already predating September 11th, are the strengthening competitiveness of low-cost carriers (LCCs) and the increase in transparency of fares provided by the Internet (State of the... 2003).

These ingredients for new trends were first, roughly said, dividing the industry into two types of airlines: LCCs and traditional network carriers. What is happening now is that the difference between the two models is becoming harder to make, as the carriers are learning from each other. (State of the... 2003) Cost savings have gained importance for keeping up with the competition, where the most prominent challengers are the LCCs. On the one hand, network carriers are imitating LCCs by using Internet bookings for cutting distribution costs. They have adopted dynamic pricing¹ as well. (see Jarach 2004, 25; State of the...2003; Smyth – Pearce 2006, 27). On the other hand, LCCs copy

¹ Dynamic pricing: Cheap seats are sold early, raising the price starts as each flight fills up.

the network carrier model. For example, a separate business cabin is offered for a supplement, and the business model based on point-to-point connections between cheaper secondary airports is being enlarged to territories dominated by the network carriers. (State of the... 2003)

During a long time, traditional network carriers were highly protected by governments, thus called flag carriers. This is not anymore the case due to the deregulation of the industry, which has made the competition even fiercer. Flag carriers that based their cost structures on oligopolistic markets face a challenge when trying to massively change their way of acting for getting accustomed to the new environment. (Jarach 2004, 29) One spur to hypercompetitive action has been the “single European sky” package initiated by the European Commission that came into effect in 2004. This initiative was taken in order to make optimum use of the European airspace, thus agitating competition in the market. (see Framework for... 2004) Moreover, there has been conversation on contracts with the U.S. (Meeting document nr. 1 2007). Consequently, the market is open to airlines, but only if they have resources enough to compete efficiently.

What says the customer when a low-cost carrier offers flying on a brand-new plane with large space and serves refreshments while giving the opportunity to watch live TV? (e.g. How to get... 2004) What does he/she say when the traditional network carrier does not afford offering a meal during the flight anymore? These result as surprises, but as very different kinds of surprises indeed. To promise slightly less than is offered in reality makes one succeed (see e.g. Adcock 1980, 131). But, promising more than is offered can result in a disappointment. In the worst case, this could lead to losing one’s customers. The popularity of the low-cost carriers has boosted the expansion of their operations and given an opportunity to spread like a wildfire; the growth of LCCs does not show any sign of slowing down (e.g. How to get... 2004). This situation, in which airlines struggle for achieving competitive advantage, lies in the heart of this research.

1.2 The research problem

The airline industry¹ has shown its dynamism. Action taken to struggle on territories and counterattacks in the field, lending each others’ weapons, interest the author and offer a great area to study. Why? The reason is that the character of the competition has evolved. *Studies on the intertwining business models and airlines’ positioning have not widely been conducted.* This is a problem as there is a lack of insight to the market situation. Therefore it is difficult for an airline’s strategic manager to see where to focus its airline’s business. This matter seen from another point of view, a customer faces a challenge when choosing an airline which exactly answers his/her needs. The range of

¹ In this research, airline industry and air travel industry are used interchangeably

choice is wide, offering different kinds of alternatives. For assessing these alternatives in a consistent way, a clear picture of the situation has to be processed.

Research done until now in the field of airline positioning is valuable, although not comprehensive. Most of it has been based on case research strategy using quantitative data. Secondary data is also prominently present. One interesting research in this field has been conducted by Kling and Smith (1995). It handles the recognition of different strategic groups in the U.S. airline industry using quantitative secondary data with a mapping technique. They have categorised, according to certain cost and quality criteria, nine major U.S. airlines' positions on a map. Another research, conducted ten years later by Gursoy, Chen and Kim (2005), analyses the relative positioning of ten US airlines. The outcome is a graphical presentation of the airlines in regard to quality ratings based on 15 attributes monthly published by the US Department of Transportation's Air Travel Consumer Report. The research visualises the areas of those airlines that need improvement in their positioning. Furthermore, it helps airline managers to find their closest competitors. A third research introduces the concept of combining elements from low cost and traditional carriers (see Huettinger 2006). The case consists of Air Baltic and SAS in the Baltic Sea region. Table 9 in Appendix I gathers a few research conducted in the field of airline positioning.

Thus interesting research exist, but it is not enough up-to-date. This is partly due to the rapid changes taking place in the industry. Moreover, much attention has been paid to the US airline industry – and not to its European counterpart. As a consequence, the turbulence of the airline industry should result in a productive and rewarding area to be further studied. Research done until now needs updating as well as more insights into the airline industry. This can be understood as a lack of research in the field, within which this study attempts to make new findings.

1.3 The purpose of the research

Compared to previous studies on airlines and airline positioning, the character of this research is fairly new due to the present situation that the competition imposes to airlines. The author emphasises that this research does not directly concentrate on two intertwining models – LCCs and network carriers – but rather takes a broad perspective for exploring airline positioning on the market. Actually no standard business model or definition for an LCC exists (see Smyth – Pearce 2006, 13). Therefore no primary classification on business models is being suggested in this research, either. Thus this research will base on a theoretical framework that provides tools allowing a relatively free analysis. The case airlines chosen with a specific set of criteria, their positioning will be visualised. This will reveal whether the positioning types are as simple as presented in

the media – is the market really divided into two positioning strategies that may blur or are there other ways of positioning, too. Consequently:

- *The purpose of the research is to develop an understanding on airline positioning on a specific market that could serve as a tool for airline strategists to make decisions on competitive positions.*

The sub objectives give support to an outcome that is in line with the purpose of the research. Thus they intend to:

- Explore the characteristics of the airline industry for understanding the field in which competition takes place.
- Describe the main factors affecting airline positioning in the chosen market.
- Visualise the positions of a set of airlines within a distinct market.

Underlying this research is the constant need of categorising events and phenomena. Indeed, there is a distinction between different scheduled air transport services (Mergers and alliances... 2004, 13): For example, low-cost carriers, regional carriers or “feeder” flights, and “traditional” or “full service” carrier flights. These will shortly be presented in section 2.3. Nevertheless, the distinctions have been made by airlines themselves, obviously being of strategic relevance for them. Still there is a lack of a common understanding about what exactly is meant when talking about a specific kind of airline. (Mergers and alliances... 2004, 13)

The first sub objective seeks to explore the characteristics of the air travel industry. This acts as the first step towards acquiring background information for a holistic understanding of the major features shaping the industry. Consequently, it is easier to understand an airline’s strategic choices.

The outcome of the first sub objective will be used as an underlying tool for keeping the track in the analysis of the second one. The second sub objective will discuss the forces and underlying factors at the level of an airline. Indeed, the forces and factors that may be crucial for an airline can be of no importance to another one. In this research, it is chosen to analyse five case airlines in order to get an understanding on industry forces from different point of views. It is logical that an airline’s competitive position reveals the strengths it has been able to cultivate, and the side that it has been striving to avoid. Thus it should be possible to mirror the competitive position to the competitive forces crucial to an airline. In the view of keeping the research controllable, too much of data would not be in accordance with the fact that achieving the interest of consumers has to be based on simplified communication (see section 3.3). Thus the sec-

ond sub objective's outcome is also achieved laying grounds on simplified communication.

Realising the third sub objective is the one that should be seen as the most relevant for comparing the airlines' choices on competitive positions at a glance. This is a demanding part, as discerning the crucial positioning data, opposing to factors that are not, require from the author not to base on her understandings prior to this research. It has been suggested in the literature (e.g. Hooley – Greenley 2005, 114) that exploring the positions occupied within a market could gain further insights into positioning research.

As a conclusion, the three sub objectives would collectively form the grounds on which to construct the realisation of this research's outcome: To develop an understanding on airline positioning on a specific market that could serve as a tool for airline strategists to make decisions on competitive positions. Ideally, the visualisation could be of great value to airlines which want to differentiate themselves from others. This would be reasonable considering that long-term success of a company and its products is based on a properly done positioning in the marketplace (e.g. Brooksbank 1994, 10). Of course, this purpose does not exclude the possibility that a single consumer may also use the outcome of this research for choosing his/her flight. To construct this research in regard to a consumer is still not in the focus.

One challenge in regard to this research is keeping the guideline of not having any prior definition on the characteristics that distinguish an airline from another. The baseline is to analyse the airlines' activities and then make conclusions about their competitive position. Of course, there exist basic definitions that aid the author to distinguish different traits that, crucial to positioning, should be taken into account. Appendix IV presents the guidance used in this research. Competitive positioning is a key marketing resource for generating sustainable competitive advantage (e.g. Hooley and Greenley 2005, 93). Therefore it is in the focus of all the theoretical background used in this research.

1.4 The structure of the research

The research will proceed as follows: First, the theoretical background is presented. It has been chosen to divide it into two distinct parts. Chapter 2 introduces theory on the formation of the competitive environment at a general level. A general understanding on industry characteristics is important when one has to understand the facts in regard to which a company can position itself. One talks about a company's competitive environment. Distinguishing between industry and market, as well as defining an airline's business, and finally arriving to a general view of the factors that shape the industry create a bridge towards the concept of positioning. Chapter 3 thus handles positioning

through the term itself, its communication and the concept of competitive advantage. The activity-system map deepens the understanding on the parts from which positioning is formed. Chapter 4 presents the construction of the research: the research method is selected, as well as the case airlines. It is also precised how the data is collected and analysed. Furthermore, the research is evaluated in regard to its trustworthiness. Last; chapter 5 presents the outcome of the research, in which the first sub objective will be reached separately from the second and third one. After having analysed the results, the conclusions will be presented in chapter 6. Last, for condensing this study into a few paragraphs, the summary is presented in the summary.

An operationalisation chart visualises the balance between the theoretical and empirical part of this research. Operationalising will help the author to keep focus when gathering the data, and to link the theory logically to the outcome of the research. Accordingly, then, the author would be able to convert the data collected to theoretical concepts. (cf. Eskola – Suoranta 2003, 75 & 77) The basics in operationalisation have been on operationalising through measurements. In qualitative research the “measurement” is translated into concepts qualifying the phenomenon studied (Eskola – Suoranta 2003, 78). This will be done in this research: an understanding on competitive positions is achieved through airlines’ communications, thus concepts.

The purpose of this research is operationalised through its sub objectives. Theories presented in chapters 2 and 3 have been carefully chosen for introducing themes that serve to reach the sub objectives and handle their implications. The operationalisation chart serves as a frame to understand the logic behind the findings of the research that will be presented in chapter 5.

Table 1 The operationalisation chart

PURPOSE OF THE RESEARCH	Sub objectives of the research	Theoretical framework	Research outcome
To develop an understanding on airline positioning on a specific market that could serve as a tool for airline strategists to make decisions on competitive positions.	1: To explore the characteristics of the airline industry for understanding the field in which competition takes place.	<p>Definitions:</p> <ul style="list-style-type: none"> -Industry, section 2.1 -Market, section 2.2 -Airline and its product, section 2.3 <p>Porter's five forces framework, section 2.4</p> <p>Linking industry landscape to competitive strategy, section 2.5</p>	<p>The relevant market, section 4.2.1</p> <p>The case airlines, section 4.2.2</p> <p>The air travel industry environment, section 5.1</p>
	2: To describe the main factors affecting airline positioning in the chosen market.	<p>Competitive advantage, section 3.1</p> <p>The concept of positioning, section 3.2</p>	<p>The main factors affecting each case airlines' competitive position, sections 5.2.1, 5.2.2, 5.2.3, 5.2.4 and 5.2.5</p>
	3: To visualise the positions of a set of airlines within a distinct market.	<p>Communication of the position, section 3.3</p> <p>Activity-system mapping, section 3.4</p>	<p>The activity-system maps of each case airline, sections 5.2.1, 5.2.2, 5.2.3, 5.2.4 and 5.2.5</p>

2 THE COMPETITIVE ENVIRONMENT

The Glossary of Industrial Organisation Economics and Competition Law provided by the Organisation for Economic Co-operation and Development¹ (Khemani – Shapiro 1993, 22) defines competition as a situation in a market in which several firms or sellers strive to achieve their business objective, for example, market share or profits. These firms act independently, and in this context they are rivals to each other. *The rivalry created by two or many firms appears in relation to price, quality, service or combinations* of these and other elements that are important to customers. This process named competition forces firms to become more efficient and offer a variety of products and services at a lower price. Competition contributes to economic and social benefits, as it acts as a power for innovation and through the development of trade and development of tourism. (Khemani – Shapiro 1993, 23; The economic... 2005, 1)

This research concentrates on airline positioning. More precisely, this research strives to an understanding on competitive strategy. Thus what affects its formulation has to be understood, too. Competitive strategy is the search for a favourable competitive position in an industry (see Porter 1985, 1). Positioning strategy formulation – in other words competitive strategy formulation – requires an ability to understand the marketplace (Brooksbank 1994, 10). Therefore, first theory on competitive environment will be handled. To get an understanding on the underlying factors that affect an airline's choices for acquiring competitive advantage, competition and concepts related, such as industry, will be presented. The core of this chapter is Porter's five forces model that will provide insight to the factors taken into account in this research. The author will also take into consideration insight provided by articles that enlighten the basic theories. The theoretical framework aims thus at building a body on which to lay a clear research outcome. Only after having handled theories related to competitive environment, competing in that environment will be presented in chapter 3.

2.1 Industry definition

An industry is a group of firms which produce products that are closely substitutable for each other (Porter 1980, 5). Elaborating this definition, there are existing as well as potential *items* within an industry, in addition to complementary services such as repair. There are also existing as well as potential *buyers* in an industry. Firms provide the link between products and buyers. (Porter 1985, 233)

It is a matter of degree how to draw industry boundaries. Therefore an industry should be understood through the segments that have very strong interrelationships.

¹ OECD

(Porter 1985, 272) Industry segmentation would therefore provide an accurate definition of an industry when one goal is to understand positioning which is closely related to competitive strategy formulation. Products and/or buyers within an industry still differ in ways that firms have to choose which kind of buyers match their products or services, so that *competitive advantage* is gained by supplying the “right” buyers. *Industry segments are formed based on the characteristics of an industry’s products and buyers, regardless of firms’ existing strategies.* (Porter 1985, 234)

In this research, the airline industry is comprised of passenger air transportation. Talking about air travel industry will therefore be understood as an industry in which the core products are flights from point A to point B, and buyers are private persons wanting to travel from point A to point B. Data used for reaching the research objectives has been retrieved from sources that have this underlying understanding on the definition of airline industry.

Still, the definition of an industry is not the same as the definition of where the firm wants to compete, that is, defining *its* business (Porter 1980, 32). Thus the air travel industry is a vast definition and it is not self-evident that an airline competes in this entire, broadly defined industry. Clarification is provided through the concept of market.

2.2 Market definition

*To define the market in which competition takes place is the starting point for a competition analysis*¹ (Khemani – Shapiro 1993, 54). Defining the relevant market serves to identify and define the framework of competition between firms (Commission notice... 1997). *The relevance of a market is understood by a firm’s business – its business*, as noted in the section above. Furthermore, understanding the marketplace is the basis for formulating a competitive strategy, striving to a favourable competitive position.

Obviously it would be out of reach of the author to analyse the whole airline industry. Therefore it is crucial to define the market in this research. The glossary provided by the OECD proposes dimensions that are in line with the market definition of the European Commission (see Commission notice... 1997). As the definition of a market is a commonly shared view, it is used in this research, too. The market is basically defined through two dimensions:

- The product market; and
- The geographic market.

¹ Competition analysis is in this research the synonym of competitive analysis, or structural analysis discussed later in this chapter. They all define an airline’s competitive field. Different authors use these words when writing about the same matter.

One must consider both demand and supply whilst defining a market. From the buyer's point of view (demand) the products that can be substitutable are taken into account, whereas from the seller side (supply) those who can substitute or easily switch production to substitutes must be included in the defined market. (Khemani – Shapiro 1993, 54) This has already been noted earlier. Whether travelling by plane is substitutable with other transport modes – i.e. rail, road, and water – depends on factors such as the type of passengers, their needs, the distance of the journey, the relative travel time, and the cost of the journey. Especially the distinction between time-sensitive and non time-sensitive passengers is of importance when assessing substitutability. (Mergers and alliances... 2004, 11) Basing his definition on several sources¹, Adcock (2000, 72) outlines a market as all potential customers who have a common need.

It is also crucial not to narrow the market too much due to the risk of excluding important competition outside the analysis (Khemani – Shapiro 1993, 54; Adcock 2000, 38). But, one should keep in mind that too vast a market definition leads to a distorted image of the degree of competition, market share and concentration measures. The location of demand and supply determines whether the market is local, regional, national or international. (Khemani – Shapiro 1993, 55)

2.3 Definition of an airline's product

From now on, the term product will be used for encompassing both services and products, because both apply to an output of an industry and have therefore an equivalent meaning in structural industry analysis (see Porter 1980, 5). Structural industry analysis will be used in this research as a tool for understanding the field of competition. Competition, as already noted, is a phenomenon stemming from several firms striving to acquire competitive advantage. Competitive advantage in turn is based on positioning.

The basic product of an airline is scheduled air transport services between a point of origin and a point of destination, hence called O&D (Mergers and alliances... 2004, 5). Even though this could include also cargo flights, *this research focuses only on passenger carriers*. Traditionally, an airline has provided services during the flight, such as catering and tax free sales, as well as ground services and lounges (e.g. Jarach 2004, 26). This is not anymore self-evident, and new forms of competing have emerged to the markets, as already presented in the introduction. These answers to a fiercer environment will be next under scrutiny.

¹ See Ansoff, H. Igor (1965) *Corporate Strategy*, McGraw-Hill, New York; Hamel, Gary – Prahalad C.K. (1994) *Competing for the Future*, Harvard Business School Press, Boston, MA; Levitt, Théodore (1960) Marketing Myopia, *Harvard Business Review*, July/Aug., pp.45–56.

Airlines make different decisions on how to position on the market. It is commonly understood that the “basic” airline is the so-called *flag carrier*. These conserve a significant monopolistic status in their served markets, as these markets are still tightly regulated. From these, *national carriers* have developed, as flag carriers have been forced to redesign their strategies for being more competitive in a deregulated environment (Jarach 2005, 14–16). The Finnish airline Finnair was a flag carrier, but as the environment became more volatile, it had to enhance its strategy and fits now to the definition of a national carrier. Other airlines that fit to the categories of national and flag carriers – and that typically operate “hub&spoke”¹ systems with an aim to international market coverage – are for instance Air France, British Airways and Alitalia. (Jarach 2005, 16)

Regional carriers are generally small-to-medium operators in relation to national carriers present in the same environment (Jarach 2005, 16). They focus their operations on a particular airport or a region, mostly using smaller aircrafts or turbo-propeller engines (Mergers and alliances... 2004, 14). They also have some competitive advantage in accordance to relatively low operational costs stemming from lower salary policies (Jarach 2005, 16). Regional carriers provide point-to-point services for local communities. In this field, they also provide hub-feeder –services. (Jarach 2005, 16) This category under the group of regional carriers is called *feeder carriers*, whose flights are part of an indirect flight. A feeder carrier is in co-operation with a national airline that serves a hub, and it operates on flights within a hub&spoke system (Mergers and alliances... 2004, 14)

Low-cost carriers are characterised by their cost structure and “no-frills” –type of service, as well as pricing policy, tickets type (e.g. restrictions), aircrafts used, destinations and airports used (Mergers and alliances... 2004, 13-14). They cut extra-service and place a major emphasis on cost savings. The customer sees this in very cheap and aggressive tariff packages. For example, Southwest Airlines in the US and its copy Ryanair in Europe are good examples of the operating mode of an LCC. (Jarach 2005, 16) The most dynamic market for LCCs is Asia (Jarach 2005, 17). Even though Asia could be a very interesting area to study, the focus of this research will be drawn on Europe. The grounds on that decision will be introduced in section 4.2.1. The picture given above on the LCC business model is a much generalised one, because even within the LCCs different market positioning is found (Jarach 2005, 17).

A subcategory of LCCs is the category of *low-cost subsidiaries* of flag and national carriers, which have not proven to consistently contribute to good results (Forsyth – Gillen – Mayer – Niemeier 2005, xiv; Jarach 2005, 18).

Last, *charter airlines*’ direct customers, and generally their main shareholder, are tour operators. This is a B2B relationship, and the operations are generally located to sunny destinations where demand for holiday package is highest. (Jarach 2005, 18)

¹ That is, between smaller airports and the hub airport. (Mergers and alliances... 2004, 14)

These are the basic distinctions between the different modes of operations in the passenger air transports. Of interest is the general categorisation of traditional and low cost carriers in Appendix II. These are not presented in the text due to the fact that it is striven not to make too much of primary categorisation. Contributing to this decision is, amongst others, the fact that actually no standard business model or definition for an LCC exists. The term includes a variety of airlines with major differences in the type of routes and the level of passenger service offered (see Smyth – Pearce 2006, 13). Nevertheless, these basic assumptions on airlines' orientations show the vast pallet along which an airline may even further differentiate itself from its competitors.

2.4 The link between industry structure and competitive strategy

Understanding the current situation airlines face requires a processing of a substantial amount of information. Structural industry analysis will be the theory on which to base the first sub objective: to “*explore the characteristics of the airline industry for understanding the field in which competition takes place*”. It frames the whole industry into distinct forces, making it easier diagnosing industry competition (see Porter 1980, 5). This is a demanding part to carry through, but will be rewarding as an understanding will be acquired on the field in which airlines compete.

Industry structure has a heavy impact on determining the rules between firms on how to operate in the industry; it influences the strategies potentially available to the firm. The core of the firm's environment is the industry in which it competes. The broader environment, in which e.g. economic forces such as state policies are categorised, does not belong to a firm's key environment as it comes from outside the industry and influences equally all the firms within the industry (Porter 1980, 3). It is questionable whether Porter would apply the same thinking to an international environment (see section 4.2.1). Until recent years, state policies did not have the same impact on every airline in the industry. Now, competitive authorities' actions and the advent of new agreements, as well as the erasure of other ones, have strongly affected the industry – and not in the same manner in regard to airlines with different preferential starting points. The pallet of choice for operating has changed in different increments for different airlines.

To identify the key structural features of the air travel industry that determine the strength of each competitive forces presented below is important for reaching this research's first sub objective. By deducing from these key structural features the *strongest forces* will serve as one tool for reaching the second sub objective; they are crucial in a firm's strategy formulation (see Porter 1980, 6). *Structural analysis is the key for formulating a competitive strategy. In turn, competitive strategy's goal is to find a position in the industry.* The ideal position is the one in which a firm can best defend itself

against the competitive forces. (Porter 1980, 4–5) Consequently, *the strongest forces will be first assessed in a general manner, concerning the air travel industry as a whole. Then, strongest forces in regard to each case airline will be unveiled by scrutinising each case airline's competitive position, because competitive position has been formulated against the strongest competitive forces.* Thus the first and the third sub objectives form a building block with two different points of view for reaching the second sub objective.

The five competitive forces – entry, threat of substitution, bargaining power of buyers, bargaining power of suppliers, and rivalry among current competitors – are presented in the figure below:

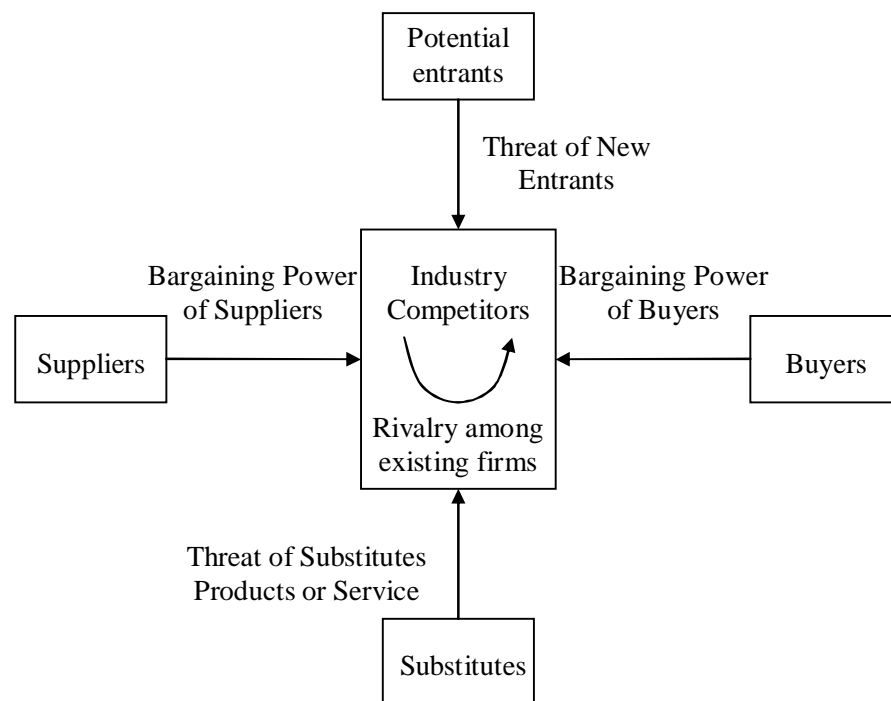


Figure 2 Forces driving industry competition (Porter 1980, 4)

In this research, much have been and will be said about short-run factors, as Porter (1980, 6) calls them meaning e.g. economic fluctuations, or material shortages. Material shortages could here be a delay in the delivering of new aircraft. Porter (1980, 6) argues that these have only a momentary impact on business. This has been shown as the revival of the air travel industry after major shocks, presented in the introduction. The deregulation of the industry has a long-term impact on airlines' operations and is therefore part of structural industry analysis. Analysis of industry structure reveals the basic and underlying characteristics of an industry that shape the environment in which competitive strategy has to be set (Porter 1980, 6). *The strongest forces shape the industry, and thus especially they are crucial for competitive strategy formulation.* Consequently,

not all the factors behind these forces that potentially affect industry competition need to be taken into account when making a structural analysis (Porter 1980, 33), as all of them do not affect a firm's business. Each force is next handled.

Threat of entry. What an incumbent may fear are the new entrants that bring new capacity, the desire to gain market share and, often, a great amount of resources to an industry. As a result, incumbents' costs can rise because they have to defend themselves, or they may be obliged to decrease prices. The level of threat a possible entrant imposes depends on the *barriers to entry* and the *reaction* from existing competitors. In a case where barriers to entry are high and/or the incumbents strongly react, the threat of entry is low. (Porter 1980, 7) It is crucial to understand that barriers are constructed high for a purpose. Barriers to entry have six major sources: *economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels and government policy* (Porter 1980, 7).

First, economies of scale¹ hinder entry by forcing a newcomer to enter the industry at large scale, thus risking strong reaction from existing firms. Alternatively, it may choose to come in at a small scale, but then accept a cost disadvantage. Both of these options are undesirable. (Porter 1980, 7) What could be of interest to the air travel industry, in the course of this research one should pay attention to economies of scale that can e.g. stem from purchasing, marketing, service network, distribution and sales force utilisation, when the scale economies stem from joint costs between two or more operations within a firm (cf. Porter 1980, 7–8). They are acquired when there is a possibility to share costs or intangible assets (Porter 1980, 8–9).

Second, entry barriers can stem from established firms' product differentiation. The firms already have an advantage that stems from e.g. their past advertising or customer service, thus generally having a superior basis for brand² identification and an already existing loyal customer base. As an outcome, differentiation creates such a barrier to entry that it forces entrants to spend heavily to gain existing customer loyalties. (Porter 1980, 9) Referring to the common distinction between LCCs and traditional, full service carriers, indeed product differentiation is said to diminish when the business becomes mature and the growth rates change (Porter 1998, 36). Will it be found that the airline industry's products will become less distinguishable? As industry growth has an effect on this, the maturity of the air travel industry will be explored under the force of intensity of rivalry.

Third, capital requirements in entering an industry may form a barrier to entry, if there is a need to invest large financial resources in order to compete. If the entrance is

¹ Economies of scale = as the absolute volume per period increases, the unit costs of a product (or operation/function directly related to a product's production) decline (Porter 1980, 7) Economies of scale exist when the average production costs decline with the number of units produced (Competitive Airlines 2002, 41).

² Brand refers to a name, symbol, term, or design or a combination of these, all intended to identify or differentiate a company's products or services. (Malver 1998, 199)

risky, as in the possible case of unrecoverable advance advertising costs, the barrier may be considered too high to surmount. (Porter 1980, 9) It is clear that capital requirements for entering the air travel industry are high, as for operating as an airline, one needs to invest in aircraft, among others.

Fourth, from the view of a buyer, switching costs may occur when changing from one supplier's product to another's. Switching costs can also be e.g. employee retaining costs and psychic costs. (Porter 1980, 9–10) In a situation where switching costs are high, new entrants must offer superior performance or offer a major improvement in cost (Porter 1980, 10).

Fifth, access to distribution channels is a challenge to new entrants as they have to persuade the channels to accept its product through price breaks, for instance, which reduce profits (Porter 1980, 10).

Sixth and last, government policy may form an entry barrier, when it limits entry into industries by controlling licensing requirements or regulates access to raw materials (Porter 1980, 13). As already discussed, there has been strong action from the competitive authorities against barriers to entry.

Intensity of rivalry among existing competitors. Rivalry occurs because one or more competitors either feel the pressure or see the opportunity to get a better position. Thus the core of rivalry, that is, positioning, can be distinguished through the use of tactics such as price competition, advertising battles or better customer service. One's moves affect others' competitiveness and profitability. Thus firms in an industry are mutually dependent. (Porter 1980, 17) This appearance of rivalry goes hand in hand with Khemani and Shapiro's definition, on page 8.

The urge to strive for a good position, that is, the urge for competitive advantage, stems from several structural facts. For example, the number of firms that are present in that industry, or the balance between competitors in regard to size and/or resources create turbulence in competition, that is intensity in rivalry. Slow industry growth, in turn, contributes to competition in regard to market share. (Porter 1980, 18) In a mature stage of an industry, companies incline towards vertical integration (backward or forward). For clarification, backward integration refers to the extent of control of the supply of raw materials, whereas forward integration, to the control of distribution channels. A firm with strong integration is in a better position than its rivals in a market where supplier and buyer power is high. (Hooley – Saunders 1998, 199). These trends can affect the sources of competition. (Porter 1998, 36)

High fixed or storage costs also create strong pressures for firms. (Porter 1980, 18) What comes to product differentiation, the more products are differentiated, the more isolated the firms are from direct competition; buyers have preferences and stay more easily loyal to the seller. In the case of lack of differentiation, for ex. when a service is perceived as a commodity, switching to another seller is relatively easy. The customers'

purchasing decisions are mainly based on price and service – and not on quality. (Porter 1980, 19) *This form of competition is extremely volatile* (Porter 1980, 19). The nature of the functioning of an industry's firms determines also the nature of rivalry, for example in relation to economies of scale dictating the augmentation of capacity in large increments. When one airline adds capacity in its operations, it can result as overcapacity and price-cutting in the industry. (see Porter 1980, 19) Also the diversity between competitors' strategies, origins and functioning restrains others to compare their own processes to their competitors'. (Porter 1980, 19) When a bigger group of firms have a high stake in that particular industry, competition is naturally fierce. The stake is high when the operations in that particular industry contribute substantially to the overall profitability of that company. If exit barriers are high, firms are forced to keep competing in the industry they operate. Exit barriers are economic, strategic and emotional factors that keep firms competing in the business even though it is not profitable. When exit barriers are high, excess capacity is stuck in the industry. (Porter 1980, 20) This may indeed be the case within the air travel industry, as even companies that are unprofitable cannot leave the game. A number of bankruptcies have thus taken place¹.

Pressure from substitute products. Substitute products are those that deliver the same function as the industry's product. If they deliver more attractive price-performance than the industry's products, they represent a serious challenge in regard to the price level within the industry. (Porter 1980, 23) Rail transportation as well as maritime transportation may challenge the air travel industry in certain routes. For example, Eurostar offers transportation that takes no longer than flights from Paris to London², thus possibly challenging airlines proposing flights between the same two cities.

Bargaining power of buyers. The buyers are hard challengers in an industry. They force prices down, they ask for higher service quality, they make competitors compete. According to Porter (1980, 26), a buyer group is powerful when: (1) It is concentrated or purchases large volumes relative to seller sales, (2) The product it purchases from the industry represent a significant amount of the buyer's costs or purchases, thus purchasing selectively as the buyer is price sensitive, (3) The products buyers buy are highly standardised (alternatives easily found) (4) It faces few switching costs, (5) It earns low profits, therefore creating incentives to lower purchasing costs, (6) Buyers pose a credible threat of backward integration, (7) The industry's product does not have any effect on the quality of the buyer's product or services, and (8) The buyer has complete information, thus always aware of better deals. As this research focuses on airlines that stand in relation to their competitors and consumers, that is, those who buy and generally also take the flight, the above points have to be understood in relation to a consumer's mind.

¹ The timeline of airline bankruptcies illustrates this phenomenon concretely: see http://en.wikipedia.org/wiki/Timeline_of_airline_bankruptcies.

² See Eurostar web page: www.eurostar.com.

They are, for example, price sensitive when it comes to purchasing undifferentiated products, expensive in relation to their incomes, or purchasing products that are not of particular importance to them (Porter 1980, 26).

Bargaining power of suppliers. Suppliers can challenge an industry's parties by threatening them by an increase in prices or decrease in the quality of goods they supply. As a result, suppliers can pose a challenge for other parties' cost structures. (Porter 1980, 27) A supplier group is powerful when: (1) The group is more concentrated than the industry it sells to, thus being able to influence in prices, quality, and terms, (2) The industry cannot get the product elsewhere than from the supplier group, (3) The industry is not an important customer of the supplier group, (4) The supplier's product is crucial to the buyer's business especially when the product (service) is not storable, (5) The supplier group's product has built-in switching costs, or is differentiated, thus diminishing the amount of alternative products, and (6) The supplier group poses a credible threat of forward integration. Porter notes that labour is also a supplier. The bargaining power of suppliers is often out of control of a firm, but firms can counteract by seeking to eliminate e.g. switching costs by changing their strategy and needs (Porter 1980, 28).

Figure 2 does not introduce the government as a force to industry competition. Nevertheless, competitive authorities, such as the Nordic competitive authorities, have contributed to always strive closer to a liberalised air travel industry¹. This has had an impact on lowering entry barriers that have been prominently present during a long time. Have these actions been taken either on economic or political circumstances (see Porter 1980, 28); in either way the contribution has had such effects that governments are approaching their goal. As the government affects the industry, it is crucial to take it into consideration in this research, through its effect on the five competitive forces (see Porter 1980, 29).

The structure of the industry is matched by the company's strengths and weaknesses to it (Porter 1980, 29). The goal is to find a position where the forces are the weakest, or where the company has enough resources to answer to forces that are strong. Knowing the company's capabilities and the causes of the competitive forces will bring out the areas where the company should confront the competition and where it should not (Porter 1980, 30). Formulating a position therefore requires acquiring an understanding on the strengths, weaknesses, opportunities and threats for the company in question (see Brooksbank 1994, 11). Knowing them in this research is not central as focus is on the competitive position – not on the steps taken to formulate it. The result is seen in the use of an airline's capabilities for creating a competitive position. Nevertheless, clarifying a competitive position's background, a strength is a resource or capacity that the company can use to achieve its objectives (Rowe et al. 1994, 199). In turn, a weakness is a limitation that inhibits a company to achieve its objectives. An opportunity is any situation

¹ see e.g. Competitive Airlines 2002

in the company's environment. (Rowe et al. 1994, 199) An example could be deregulation offering the access to new routes. By contrast, a threat is any unfavourable situation in the company's environment (Rowe et al. 1994, 199). The deregulation has obviously posed threats to airlines already established on a route. Finally, the second sub objective – *describe the main factors affecting airline positioning in the chosen market* – will be handled through airlines' competitive positions that have been formed leaning on their strengths and weaknesses.

Coming back to this section's promise to link industry structure to the competitive strategy of a firm, or vice versa, is now established. One has seen that a competitive strategy's goal is to create a defensible position against the five competitive forces. This necessitates recognising strengths and weaknesses, and consequently in this frame (1) positioning so that the competitive position forms a defence against the five forces, (2) repositioning by influencing the balance of forces through strategic move, and (3) anticipation (see Porter 1980, 29–30). In this research, each of these three ways of functioning is gathered under the concept of positioning, which will be handled in chapter 3.

The five forces framework, when applied to the air travel industry, will serve as a tool for assessing the underlying causes behind the competitive forces that are important in regard to each case airline. It is important to note, as discussed in the sections handling industry and market definition, that it is the *market* in which a firm focuses its business, not in the whole industry. Therefore the market will be scrupulously framed in chapter 4. As a result, not all the factors presented above strongly impact the air travel industry. The crucial factors will be kept in mind when answering the second sub objective in section 5.2 in the light of each case airline – maybe the crucial factors do not have as big a role for each airline's strategies. It is also understood that an industry's central factors will not possibly be exactly the same in every airlines' case. By merely exploring the airline industry, a comprehensive industry analysis will not take place as this is not the main focus of this study – the attention is drawn to a comprehensive *understanding* of the industry.

2.5 Industry landscape as an insight to position

Before moving ahead to chapter 3, dedicated for positioning, the author suggests to smoothly land through industry landscape. This insight gives an idea of the difficulties in making an offering that perfectly matches the customers' requirements. The airline industry is in a big process of change, in which airlines search for ways to differ from competitors and at the same time to satisfy customers.

The identification of competitors' positions serves as a basis for deciding on the position of the company. The competitors of a company are those who operate in a spe-

cific market segment that a company, too, targets. (Kotler 1983, 233–234) The fundamental decision – which market segment to target – is followed by a decision on the company’s positioning strategy, that is, where to position itself in that target market segment. Only after having decided on the positioning strategy, a suitable marketing mix should be developed (Kotler 1983, 234) Theory on marketing mix will not be presented in this research – the centre of attention is the reflection of the positioning strategy – thus understanding positioning.

We have seen that industry has a clear effect on positioning: the competitive forces shape a company’s competitive environment according to which it has to create its competitive strategy. An understanding on strategic position¹ may be examined through industry landscape. By visualising the industry, it is easier for an outsider to understand where a strategic position of a firm emerges from. *An industry may be defined as a landscape of related markets that are isolated from each other by blockages in the terrain* (Mintzberg 1996, 76). These blockages are commonly known as barriers to entry (Mintzberg 1996, 76). Those companies that have similar strategies form a strategic group (Porter 1980, 129). For example, traditional carriers targeting a large consumer base form a strategic group, in contrast to airlines targeting a specific customer group, such as smokers with a taste for luxury². Strategic groups are separated by mobility barriers (Mintzberg 1996, 76). This means that moving from one strategic group to another may be difficult and demanding. (Mintzberg 1996, 76) In the following figure, higher barriers separate the industry from others, and lower ones distinguish strategic groups:

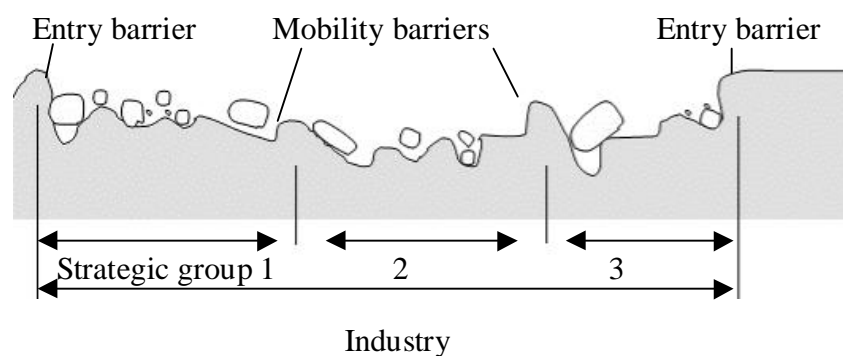


Figure 3 Industry landscape (Mintzberg 1987, 76)

The ”rocks” in the landscape illustrate companies’ offerings (products or services). Whether they fit the landscape or are not entirely compatible defines the nature of the

¹ Mintzberg uses the concept of strategic position. Due to the meaning Mintzberg gives to strategic position, it is seen to match the concept of Porter’s competitive position. Generally positioning has always a strategic posture against competition; when referring to Mintzberg’s theory, strategic and competitive position are used interchangeably in this research,. Nevertheless, note that Rumelt distinguishes between strategic and competitive positioning. Their basic meaning is the same, but the focus is different.

² See: Smintair – about us

implemented strategy and its vulnerability or strength. Markets have their needs and wants, and it is the precision of the *fit* – or the strategic position in other words – that is a crucial consideration for lucrative operations in the market. (Mintzberg 1996, 76–77) The fit locks out potential imitators with carefully designed activities that reinforce one another (Porter 1996, 70). Therefore, the better the fit is, the stronger the position. *Strategic position is the central concept of strategic management* (Mintzberg 1996, 76–77). Also Hooley and Greenley (2005, 93) agree that competitive position is central to market-focused management. Competitive position comprises the choice of target market the firm wants to operate in as well as how the firm intends to compete in that target market.

Thus, a business' strategic positioning can be seen as adapting to its environment, and competing with those firms who also try to adapt. (see Mintzberg 1996, 80–82; Rumelt 1998, 94). Adapting is the basic mission of a business and conducting an analysis on strategic position is generally done by looking at the evolution of economic and social conditions *over time*. In the other hand, competing can be seen in relation to competitive position. (Rumelt 1998, 94) As an interesting point to this research, Rumelt (1998, 94) argues that analysis of competitive position typically focuses on the differences between firms at a given time. Thus, Rumelt differentiates between strategic positioning by referring to adapting to the environment, and competitive positioning by referring to competitive strategy thus allowing to a firm the possibility of being the first mover and not only the one which adapts. Competitive positioning refers to performing *different* activities than rivals do, or performing similar activities differently from rivals' ways of performing them. (Porter 1996, 61)

Rumelt confirms that adapting to environment is a basic, generic aspect of strategy. In turn, the focus in competing with other firms leans on a competitive strategy. Table 2 introduces the differences between these strategies.

Table 2 Generic versus competitive strategy (Rumelt 1998, 94)

	Generic Strategy	Competitive Strategy
Value Issue	Social Value	Corporate Value
Value Constraint	Customer Value > Cost	Price > Cost
Success Indicator	Sales Growth	Increased Corporate Growth
Basic Strategic Task	Adapting to Change	Innovating, Impeding, Imitation, Deterring Rivals
How Strategy is Expressed	Product Market Definition	Advantage, Position and Policies Supporting Them
Basic Approach to Analysis	Study of an Industry over Time	Comparison across Rivals

Now, a firm's goal is to achieve competitive advantage for creating a favourable position. Adaptation is only one characteristic of positioning, as being the pioneer for

change may also be a possibility in positioning. As an aspect of generic strategy, the key for analysing adaptation is first acquiring an understanding of basic economic grounds that support and define the business (Rumelt 1998, 95). Only after having reached this understanding, it is possible to study the consequences of trends and changes that are crucial to the business (Rumelt 1998, 95). Nevertheless, a longitudinal industry analysis is not the main goal of this research. This is why a closer look has been taken on competitive position.

The table shows that competitive strategy may be expressed through position. Mintzberg's (see 1996, 28) definition of strategy as a position only strengthens the choice that this research will be conducted through the concepts within competitive strategy. As mentioned earlier, competitive positioning is closely linked to competitive strategy formulation, and consequently to competitive advantage. The table confirms the view of the author that analysis on positioning should be conducted at one point of time. In practice, this is possible by choosing e.g. a specific financial year to be under scrutiny. *The author has chosen not to carry out this research purely as a comparison across rivals, but by gathering data that is comparable from one case to another.* This fills the criteria of comparability across competitors – and competitiveness.

Now, this research leans explicitly on the concept of competitive strategy. Chapter 3 focuses on developing this concept to an understanding on competitive positioning – the central theme of this research.

3 COMPETING WITH COMMUNICATING

As it has been presented in the preceding chapter, understanding the industry is the basis for competitive strategy formulation. In turn, the core of competitive strategy formulation is positioning. Thus, the role of positioning has been made very clear. It is a crucial element for a company to acquire competitive advantage. Indeed, when a company aims at competing efficiently in the long-term, positioning its products and services in the marketplace is crucial. Several authors share this view (see e.g. Brooksbank 1994, 10; Hooley – Greenley 2005, 93). First, a discussion on competitive advantage is presented because it is *the* thing that a company wants to acquire. Then, the core terms of this research, positioning and competitive positioning, will be discussed in section 3.2. Finally, sections 3.3 and 3.4 will elucidate how the second and third sub objectives will be reached.

3.1 Competitive advantage

Unlike generic strategy that focuses on firms' common missions, competitive strategy focuses on firms' differences (Rumelt 1998, 95). *Only when an offering to a customer gives something of value that is unique and not available from other sources, competitive advantage is created* (Adcock 2000, 133).

The line between competitive advantage and competitive position is difficult to draw, as they are closely linked to one another. The literature does not help in this task, as the distinct roles of cause and effect are not consistently explained; competitive advantage and competitive position are often used interchangeably¹. Even though Porter later does not distinguish clearly the term competitive advantage from competitive position², he argues in his earlier work that competitive advantage stems from the choice of competitive strategy (Porter 1985, 1). Competitive strategy formulation is related to two underlying questions: industry attractiveness along with the factors that determine it, and the relative factors behind the company's competitive position within that industry (see Porter 1985, 4 & 11). In turn, competitive position – the fit to the industry landscape – creates the competitive advantage (Porter 1996, 70) as it is the core of competitive strategy. Competitive position is thus formulated in order to attract the target customers. In regard to this research's purposes, the author thus defines competitive advantage as the result of a successful competitive strategy: the success is achieved thanks to a clear position

¹ See e.g. Rumelt (1998) used in this research.

² See Porter (1996)

Competitive advantage is what the company wants to acquire – the competitive position is the facade of the company that the public sees. It is the face that the author of this research also perceives, as she has no access to airlines’ internal documents. Figure 4 illustrates the sequence in achieving competitive advantage. First an understanding on industry structure (see section 2.4) for being able to formulate a competitive strategy is needed. Then, positioning, being the core of competitive strategy and formulated according to a firm’s strengths and weaknesses, is the prerequisite for achieving competitive advantage.

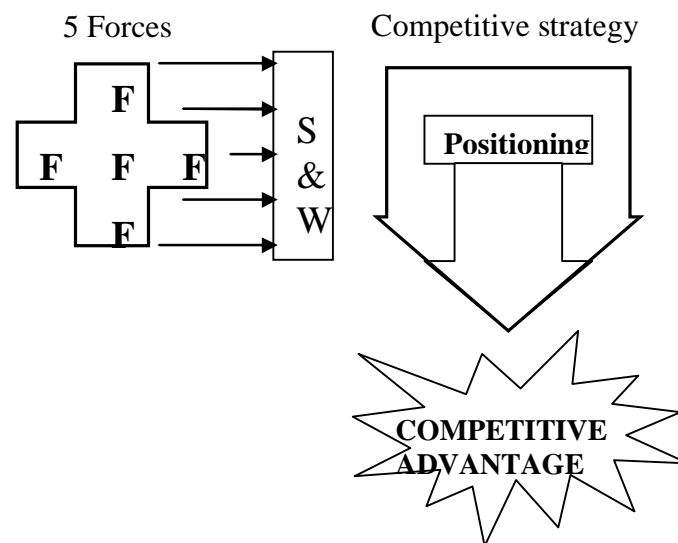


Figure 4 The link between industry structure, competitive strategy and competitive advantage

It is understandable that competitive position is easily used as the synonym to competitive advantage, because when a company has already established its operations to a specific industry that it considers attractive, only the choice on competitive strategy – and position – remains as the root for competitive advantage. For a company, acquiring sustainable competitive advantage means having a competitive edge in regard to its competitors, by tuning its activities and offerings to the requirements of the chosen segment(s) (Hooley – Saunders 1993, 237). Porter (1985, 11) has introduced that there are two generic types of competitive advantage: cost leadership and differentiation. These are further specified in accordance to the scope of activities. As a result, competitive advantage can be divided into the following types: cost leadership and cost focus, as well as differentiation and differentiation focus. (Porter 1985, 11) Nevertheless, cost leadership does not give customers any reason to buy from the supplier, as it is merely an internally focused competitive advantage. It is nonetheless crucial to understand the role of cost efficiency in competition: it is critical for an airline’s ability to

compete and survive. This should not be the only goal for an airline to achieve, as many competitive advantages stem from an efficiently delivered, higher product quality network model. (Smyth – Pearce 2006, 44–45) In turn, differentiation is the market-based strategy that stems from giving the customer greater value. (Hooley – Saunders 1993, 237) Therefore differentiation is seen as the root to a competitive position. Once the offer has been differentiated according to customers' preferences, only then attention is drawn to offering it as economically as possible (Hooley – Saunders 1993, 238).

Rumelt (1998, 95) argues that competitive advantage emerges through three *alternative* roots: (1) Superior skills (2) superior resources, or (3) superior position. He considers that a company has already chosen its industry and the competitive advantage can be created only through a company's own operations. Of course, these operations are made with a focus on competitors. Superior skills are the kind of advantage that is based on "tacit knowledge"; on a company's own history of learning-by-doing, consequently on skills embedded in its people's minds (Rumelt 1998, 95). As this kind of knowledge is hard to articulate, this kind of advantage cannot be sold to competitors. Second, superior resources refer to assets like patents or good relationships between a firm and its suppliers. These are built over time with the aid of superior skills, or are acquired by being the first mover – or by luck. (Rumelt 1998, 95) In principle, as good relationship with suppliers may contribute to making the supply chain as cost effective as possible, the low cost strategy of an airline is possible to realise. What comes to the much-spoken price war in the airline industry, many strategies are cost-based (Lawton 1999, 578). Lawton also stresses that cost-base is only a means of achieving a wished output, and is not as such a competitive advantage. To glue this view to Rumelt's, a cost-based strategy can be seen as a superior resources root to competitive advantage, as it releases extra resources to alternative ends. Consequently, these extra resources can be used for creating something unique and inimitable. Superior resources may thus lead to superior position – the third root for competitive advantage. Superior position can be gained by anticipation, superior skills and/or resources, or just luck. Rumelt translates differentiation into superior position – the possibilities to differentiation become even greater when the operations are economically designed for having extra resources in use. Thus, achieving a superior position generally has to be based on the first two roots.

As a conclusion, sustainable competitive advantage helps the company to achieve its strategic goal (Rowe, Mason, Dickel, Mann & Mockler 1994, 233) – through positioning. The next section will clarify the concept of positioning, crucial for acquiring competitive advantage.

3.2 Positioning

As Philip Kotler (1983, 43) puts it, market positioning¹ means arranging for a company's offer a clear, distinctive, and desirable place in the market and in the minds of target customers. Mintzberg (1987, 11) argues that one definition of strategy² is position. Strategy as position fits the company's internal and external contexts together; it is the place in the environment where the company concentrates its resources (Mintzberg 1987, 15). In other words, strategy as position provides a bridge between a company and its target customers, describing to them in which way the company is different from the present or potential competitors (Hooley – Saunders 1993, 169). Therefore strategic positioning has its core in choosing activities different from rivals'. It is the creation of a unique and valuable position, involving a different set of activities (Porter 1996, 67)³. A very clear description of a firm's position is presented by Rumelt (1998, 96):

A firm's position consists of the products or services it provides, the market segments it sells to and the degree to which it is isolated from direct competition.

This definition has three distinctive parts: (1) The products or services provided by a firm, (2) The targeted market segments and (3) Competitive advantage in regard to the firm's rivals. It is useful to clarify that positioning – or competitive positioning as Hooley and Greenley (2005, 93) name it – is about *the choice* of target market the firm wants to operate in, and *how* it will compete with rivals in that target for achieving competitive advantage. Thus the first two parts of Rumelt's (1998, 96) description contribute to a certain degree of isolation from direct competition.

It is still interesting to take a look at views that have dominated strategic marketing thinking. Over the last two decades, originating from economics, the resource-based view of strategy has gained substantial importance in strategic management literature. It has become increasingly popular among the marketing scholars who have further developed the view⁴. (Hooley – Greenley 2005, 93) Alongside with the resource-based view (RBV) of the firm, market orientation of the firm has also dominated marketing strategy thinking in the 1990s. These have formed two relatively independent literatures. (Hooley, Broderick and Möller 1998, 97–98) The central proposal of the RBV is that competitive advantage is dependent on historically developed resource endowments (Hooley – Greenley 2005, 93). RBV theorists conclude that the key is to possess and deploy re-

¹ The words position and positioning here are used interchangeably, as the literature uses them variably both when referring to arranging and to what has been acquired. Within the context of positioning, the two meanings are very closely linked together.

² Plan, ploy, pattern and perspective - also definitions for strategy, the five Ps for strategy – are not in the focus of this research, thus not handled here. The definition of strategy as position can be compatible with either or all of the preceding ones, except with perspective. (cf. Mintzberg 1998, 13–21)

³ The generic strategies remain useful to characterise strategic positions at the simplest and broadest level (see Porter 1996, 67)

⁴ The following on competitive position is partly based on these scholars' discussions.

sources that competitors cannot imitate and that customers see as unique due to the resources' imperfectly substitutable nature (Mahoney and Pandian, 1992, 371). In essence, resource-based theorists consider that for being sustainable, a strategy needs to be embedded in the firm's resources and capabilities (Hooley et al. 1998, 98). It is argued that the RBV is weak in regard to turbulent environments. In turn, the market orientation view is static, as it concentrates on measuring current orientation, but not its deployment in regard to competitors. *Competitive positioning is a perspective that draws together these two streams.* (Hooley et al. 1998, 98) The airline industry has proven to be turbulent. At the same time, the nature of this research strives to have a static glimpse of the industry. Therefore combining the two views seem to be of great importance for understanding how competitive advantage is acquired. The table below clarifies the relation of competitive position to the views it draws together.

Table 3 Strategic management views

View	Market character	Basic source for competitive advantage
RBV	Does not take into account – risk of myopia	A strategy is based on internal, organisational resources and capabilities in regard to customers and competitors
Competitive position	Turbulent environment	Seeks to match market requirements (market orientation) and company abilities to serve the market (RBV)
Market orientation	Static environment	A strategy is based on external, market considerations

This research uses competitive strategy as a basis for positioning, as it takes into account the competition. Moreover, leaning on the advantages brought by competitive position in regard to a turbulent environment, only the term competitive positioning will be used in its actual sense.

In addition to what has been presented on positioning until now, Adcock (2000, 18–19) further clarifies the concept by dividing it in even more precise aspects:

- *Market positioning* refers to the choice of the markets to be targeted, that is, where to compete. This is a choice.
- *Company or competitive positioning* refers to the way a company competes in a chosen market (e.g. specialist, volume producer). This is a choice.
- *Product positioning* refers to the whole of the product/marketing mix for competitively responding to a target market's demand. This is a choice.

- *Positioning as perception* refers to how the customers evaluate a company and its offering in relation to the competition. Customer perception plays a crucial role in a purchase situation. This is a result.

Market positioning has been discussed in the previous chapter through the statement that structural analysis is used to assess an industry's attractiveness and further to formulate a competitive strategy in accordance to the strongest competitive forces (see section 2.4). Company positioning – or competitive positioning – consists of the attitude of an organisation in the chosen market. As competitors have to be taken into account, the basis on which to compete is necessary to decide. The core idea is that a company must offer something that represents either higher perceived value or lower costs for customers, in regard to the competition. Focusing on specific segments reduces the distance between supplier and customer, providing a further advantage if leading to stronger relationships. (Adcock 2000, 127–128) In regard to this research, the company positioning is translated to understandable concepts through product positioning, as an airline has one core product according to which it communicates its position in the market.

Product positioning, in addition to what is mentioned above, can be closely related to the company position as a provider of high perceived value products or low delivered costs for customers. These should include a differentiating aspect in the total product offering from competitors, in order to achieve competitive advantage. Consequently, an expectation on the product is formed. This expectation comes directly from the consumer interpretation of the product position, and whether he or she values the feature giving differentiation. (Adcock 2000, 129) A product can be positioned according to what a company wants to communicate about the product position. Adcock (2000, 126) claims that differentiation alone is not enough to “energise” customers to buy the product. The way the offering is portrayed and the way in which it energises the customers creates a sustainable competitive position – if it is properly done. Such a position must be in accordance to the organisation's capabilities, that is, resources and skills, and to any constraint that may exist (Adcock 2000, 126), for example entry barriers. Consequently, competitive position will be analysed in this research according to what an airline *describes* about it.

While market, company and product positioning are ideals a company wishes to achieve, they are measured by the perception a customer has on the company and its products (Adcock 2000, 139). Therefore positioning as perception is a result. The perception can therefore be understood as the ultimate creation of competitive advantage. It measures whether the positioning has succeeded.

As a conclusion, even though Adcock chooses to present positioning in regard to four aspects, the author of this research prefers to view them as a process that leads from one step to another, in the presented order. Hence, as introduced in the beginning

of this section, *competitive position provides a bridge between the company and its target customers by describing to them in which way it is different from the present and potential competitors*. How the company describes its competitive position will be introduced in the next section.

3.3 Communicating the competitive position

Positioning is communicating. Positioning is not something that is done to a product, a company, or a service. It is what is done to the mind of the prospect. (Ries – Trout 1986, 1–2) Thus, an airline positions itself and its product *in the mind of the prospect*. To cope with excess communication, a mind simplifies the information it receives. Therefore also the communication must be simplified (Ries – Trout 1986, 7). Even though Ries and Trout (1986, 197) argue that positioning is a cumulative concept which stems from past and present advertising (cf. Hooley – Greenley 2005, 93), the author of this study views that positioning is all that a company communicates about itself – and not always in the form of pure advertising. The essence of positioning is simplicity and tenacity: distinguishing the features of the product, market place and competitors, and communicating it in the form of a simple message (Hooley – Saunders 1993, 182). *Competitive position lies at the heart of the successful implementation of marketing* (Hooley – Saunders 1993, 240). Only if the positions are built on the marketing assets and competences of the firm, they are sustainable (Hooley et al. 1998, 106).

Competitive positioning is composed of a firm's choice of target market and the differential advantage it seeks to create as a means for securing that market. Insight to a clear view of the target market and customer requirements is facilitated by market orientation. The RBV, in turn, provides help in creating uniqueness that is valued by the target. (Hooley – Greenley 2005, 94–95) In this research, the creation of uniqueness will be scrutinised and the target will be understood through the creation of uniqueness, as these are assumed to be consistent. Nevertheless, there is still debate on how the value can be provided, that is, what assets and capabilities are required to deliver the added value for the buyer. (Hooley – Greenley 2005, 94–95) For clarification, assets are resource endowments that the firm has accumulated over time and now has to deploy in the market to create competitive advantage. For instance, machinery and brand equity are considered as assets. (Hooley et al. 1998, 99) It is not a surprise that intangible assets are often the most important marketing assets (see Hooley et al. 1998, 100). Creating intangible assets such as brand image requires capabilities at the individual, group and organisation levels. Capabilities refer thus to a firm's capacity to deploy assets for reaching a desired end. (Hooley et al. 1998, 100–101). Individuals can carry out specific tasks, such as booking flights; functional groups such as marketing departments carry

out the functional tasks assigned; and the organisational level sets the direction of the company, manages knowledge and ensures that resources are optimally used (cf. Hooley et al. 1998, 100–102). Interesting in regard to the air travel industry, creating alliances and networks with other companies makes it possible to the parties to leverage each other's assets and competencies. An alliance is the solution when competition and the provision of service become too expensive to a single carrier to take care of (Malver 1998, 19). An airline in this situation creates an alliance with carriers with similar visions and quality standards (Malver 1998, 19). Four set of resources are made available in the case of an alliance: (1) access to new markets, (2) access to managerial competence, (3) access to technology and (4) economic benefits (Hooley et al. 1998, 102–103). For customers, e.g. a single boarding card and more convenient connections with FFP mileage points through partner programs are made available (Malver 1998, 21)

Leaning on the discussion above, for an airline to choose a competitive position it will occupy means combining its choice of target market and the differential advantage it seeks to create for securing that market. When carrying out this research, only the differential advantage of an airline will be assessed. Differential advantage can in turn be translated to the markets the airline targets. *It has to be spelled out that this research does not seek to scrutinise a competitive position of a specific airline, but to understand the chosen airlines' competitive positions.* Hooley et al. (1998, 105–112) propose six competitive positioning dimensions for adding value to customers – that is, for acquiring differential, competitive advantage. These are (1) price positioning, (2) quality positioning, (3) innovation positioning, (4) service positioning, (5) benefit positioning, and (6) tailored positioning.

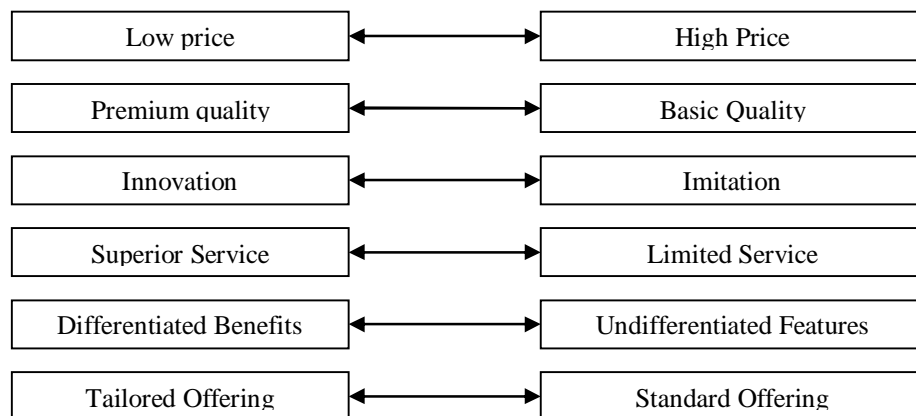


Figure 5 Underlying positioning dimensions (Hooley et al. 1998, 106)

As it was pointed out in the previous section, deciding on the basis of sustainable competitive advantage, the core of competitive positioning is indeed differentiation, as

it creates a market rather than only an internal financial advantage (Hooley et al. 1998, 105). The above emphases on differentiation are considered encompassing the themes that should be assessed in the communication of each airline's positioning. It is still interesting that the relative combinations across these dimensions enable the creation of a unique position (Hooley – Greenley 2005, 95). Therefore the resource underpinnings presented in the next table are not the only truth, and while carrying out this research, the author will keep a broad focus for finding what the communicated key resources for an airline's competitive position are. Consequently, as promised in the beginning of this research, no prior assessment of any business model will be made. Nevertheless, the following table will give some insight to which direction the author should concentrate when assessing the case airlines' competitive positioning. Classification is utile, but readily generalising is futile (see Hooley et al. 1998, 113). The table below will show the classification:

Table 4 Basic positioning strategies (Hooley et al. 1998, 107)

Position	Customer groups	Strategic focus	Assets and competencies
Low price	Price-sensitive customers	Internal efficiency	Cost control systems, TQM ¹ processes, procurement and innovation systems
Superior quality	Premium demanding customers	Superior quality and image management	Market sensing, quality control and assurance, brand reputation and supply chain management
Rapid innovation	Innovators and early adopters	First to market	New product/service development, R&D technical skills and creative skills
Superior service	Service-sensitive customers	Relationship building	Market sensing, customer linking, service systems, skilled staff, feedback systems and continuous monitoring
Differentiated benefits	Benefit segments	Focused targeting	Market sensing, new product/service development skills and creativity in

¹ Total Quality Management means integrated effort aiming at improving performance in all level of the organisation. Customer satisfaction is in the constant focus through performance that includes goals of quality, cost, schedule, service, reliability, and customer relations. These goals are interrelated. (Rowe et al. 1994, 182)

These dimensions will be used as a tool for encompassing the themes that should be paid attention to in airline positioning. Therefore the author prefers not to generalise the positions too much but tries to keep the mind open to what an airlines really communicates. It is of importance not to keep the resources communicated for competitive advantage strictly categorised, as the purpose is to follow what the company has chosen to communicate about itself in the light of its position. The author argues that *what a company has of value, it also communicates about it*.

Referring to Ries and Trout (1986, 1–2), the goal of positioning is to position a firm in the mind of the customer. Therefore this research will utilise buyer purchase criteria

in assessing the position of a case airline. The specific attributes with which a firm can create actual or perceived value for the buyer are use criteria and signalling criteria. Use criteria are measures that create buyer value (Porter 1985, 142). *As it is assumed that an airline will also inform about the way it performs, scrutinising the position of an airline will be made along the signaling criteria.* Signaling criteria reflect companies' signals of value that are designed to assure customers on the company's ability to meet its use criteria (Porter 1985, 144). Thus, amongst others, the company's activities reflect a certain positioning decision.

This research will focus on the signalling criteria, keeping in mind the positioning dimensions mirrored to assets and capabilities (thus strengths) behind them. Reaching the third sub objective requires a map in regard to each case airline. They will be constructed in a simplified manner, as positioning is characterised by simplified communication. The best source of data is the annual report dedicated for each of its stakeholders, as it is the source of information that a company publishes every year for carefully explaining the facts (activities, amongst others!) that it wants to communicate about itself. These facts are naturally assumed to be in line with the publishing airline's strategy – and competitive position.

3.4 Activity-system mapping

Market research uses commonly product/market mapping, which helps to identify a product's key features in the eyes of its customers. Using this input allows strategic managers to make successful product differentiation and market segmentation strategies. (Rowe et al. 1994, 273) There are a number of different techniques, such as cluster analysis or multidimensional scaling. The choice on the product/market mapping technique depends on the focus of the technique – whether it is on product features or demographic features – and on the extent of prior understanding of consumer choice. The techniques help strategic managers to identify (1) customer or market segments, (2) product attributes that will appeal to specific segments and (3) opportunities for new products. (Rowe et al. 1994, 275–276) Research on positioning brings this product multidimensionality and psychology together by using techniques that extract consumer perceptions. Computer programs are a crucial tool for various data-gathering techniques (Hooley – Saunders 1993, 169). With these techniques, one can determine the competitors' positions before understanding how the customer differentiates between them. This is a peculiarity of many techniques used in positioning research. For determining the competitors, an approach called similarities-based multidimensional scaling is appropriate. (Hooley – Saunders 1993, 172) In general, multidimensional scaling calculations need to be carried out with the aid of a computer due to their complex nature (see

Kruskal – Wish 1978, 15) Nevertheless, as a purely qualitative research (see section 4.1), the competitors will be assessed leaning on concepts and determinations. Referring to the communication of positioning, it is assumed that a company communicates about the way it positions itself. Therefore no computerised mapping technique will be used.

As reaching the third sub objective requires an understanding on the communication of the chosen position, a more practical way of visualising it is mapping activity-systems. In his paper “What is Strategy”, Porter (see 1996, 71) uses the method of mapping activity-systems to show the way a company’s competitive position¹ stems from key activities that are designed to deliver the position. The more lucid the position, the more one can await higher-order strategic themes that are identified and implemented through groups of tightly linked activities. Therefore the research focuses first on activities that will then, by reasoning, generate those higher-order themes leaning on positioning dimensions.

An activity-system map is constructed relatively inductively, and therefore it will not be explained more comprehensively in the theory. The starting point for constructing one is thinking the activities in terms of themes, such as a particular notion of customer service (Porter 1996, 73). This will be realised through the use of positioning dimensions. Activity-system map will be used for visualising the positioning of each case airline, thus reaching the third sub objective. The maps will resemble this:

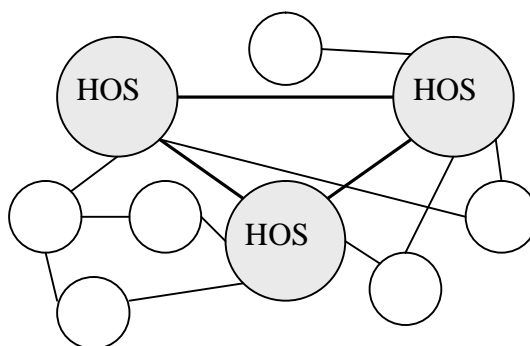


Figure 6 Activities system map (see Porter 1996, 73)

In this map, the higher-order strategic themes are presented in light grey, whereas the activities are the smaller, white circles. As a recapitulation, the sources for competitive advantage for a company consist of a unique position. To ensure the sustainability, a fit across activities – tailored to the unique competitive position – with trade-offs in regard to competitors are required. (Porter 1996, 74). One cannot look at several directions at a time. The fit across activities creates competitive advantage, and activity-*system* creates

¹ Porter uses strategic position, but it is understood in this research as competitive positioning due to the fact that company activities are assumed to be tailored in regard to matching market requirements to company resources.

sustainability – not activities separately. Last, obviously, these activities have to be operated efficiently. (Porter 1996, 74)

These represent the ingredients valuable to keep in mind when striving for an understanding on airline positioning within the air travel industry. The system of activities is communicated in order to explain the airline's competitive position. As a result, if the competitive position is valued by the customers, competitive advantage is created.

As the sources of differentiation are often not understood (Porter 1985, 119) this research provides some insight to sources of competitive, or differential, advantage. This will be strived to realize even though only a few companies are under scrutiny due to the author's resource constraints.

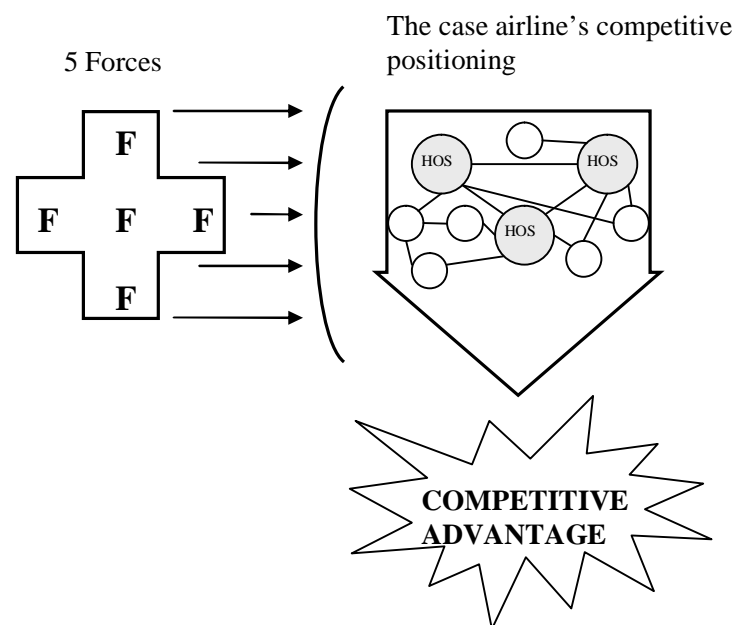


Figure 7 The theoretical framework

As a conclusion to chapter 3, the figure above gathers the whole idea on which this research bases its purpose. It illustrates that first, the industry's competitive forces must be understood for then enabling the airline to match its strengths and weaknesses with the industry. Resulting from the awareness of its strength and weaknesses, an airline logically creates activities tuned in accordance to its strengths. Taking into account the difference of the competitive forces' strength, the airline's key activities will not be equally directed to each of them. The activities system map is the visualisation of the company's position – competitive or not – in regard to the assets and capabilities it uses for achieving competitive advantage. The assets and capabilities are communicated to the stakeholders, as the competitive position of an airline is in the end in the mind of its customers.

4 CONDUCT OF THE RESEARCH

4.1 Selection of the research method

It is difficult to strictly assess whether a research approach is quantitative or qualitative. For example, qualitative approach can be used as a first stage leading to quantitative research, thus testing whether the cases to be measured are appropriate in regard to the research. Thus they can be viewed as supplements to each other. They also may be used simultaneously by using simple calculations for enlarging the results from concerning only a single case. A quantitative stage in a research may also precede the qualitative stage, for example through a survey-research laying ground for a formation of comparable groups appropriate for interviewing. Furthermore, numbers characteristic to quantitative approach, and meanings, characteristic to qualitative approach, depend on each other in a sense that numbers found ground for meanings and some meanings can be articulated through numbers. (Hirsjärvi, Remes & Sajavaara 2000, 125–126) A foundation for qualitative research is to describe real life by understanding the research subject comprehensively (Hirsjärvi, Remes & Sajavaara 2000, 152). Also, not having hypotheses is characteristic to qualitative research (Eskola – Suoranta 2003, 19–20).

The author does not have any strong underlying assumptions about the results of this research, and thus no hypotheses have been placed. Still, the author has preceding information that perhaps has guided the consideration about how to handle the subject, thanks to being acquainted with previous research done in the field. Nonetheless, no exact model used by previous research can be applied to this one, as the research's author has not found similar secondary data that the previous have used. This does not inhibit other ways for finding answers for understanding airline positioning. So, there might be underlying assumptions, but these are acknowledged and not taken for granted when defining the research manoeuvres. The author is more driven by the nature of the research problem, that *studies on the intertwining business models and airlines' positioning have not widely been conducted* – and *not* on the method. In order to get a comprehensive understanding of airline positioning, a qualitative approach to this research would be justified (see Zalan – Lewis 2004, 510). Moreover, the author's aim is to find new insights and to learn about this subject, thus supporting the choice of qualitative research approach. (see Eskola – Suoranta 2003, 19–20)

This research is qualitative; it aims at understanding and exploring the “real-life” situation – the competitive situation – of the air travel market. There is no intention to scrupulously measure and describe all the factors that affect an airline's competitiveness and positioning, which could lead to choosing a quantitative approach. This research, if

carried out quantitatively, would not provide any clear and comprehensive understanding fitting in the boundaries of this research. Instead, this research will provide adequate information carried out qualitatively, as it clearly focuses on the character of the market through the first sub objective, and moves that are made within the market through the second and third sub objective. Only when research on this field will be largely available, then one should consider an up-to-date quantitative research using qualitative research as background information, as they already will have proven their cases' value. But, as discussed above, qualitative does not completely exclude quantitative. This should be kept in mind when deciding on what kind of data is useful in regard to this topic – and what is not.

Basing one's decisions only on a qualitative approach is not sufficient for carrying out a viable research. One should in addition decide on the research strategy. Five major research strategies are experiments, surveys, archival analysis, histories and case studies (Yin 1985, 16). Yin (1985, 16) proposes three steps for finding the right research strategy. There are three conditions that affect the use of a particular research strategy: (a) The type of the research question, (b) the amount of control the researcher has over behavioural events and (c) the focus on either current or historical events. Let's take a look at this research's objectives again.

- *The purpose of the research is to develop an understanding on airline positioning on a specific market that could serve as a tool for airline strategists to make decisions on competitive positions.*

The sub objectives intend to:

- Explore the characteristics of the airline industry for understanding the field in which competition takes place.
- Describe the main factors affecting airline positioning in the chosen market.
- Visualise the positions of a set of airlines within a distinct market.

The objectives of this research, converted to questions, are essentially based on the research question of type “what”. The first sub objective is constructed on the question “what”: What are the characteristics of the air travel industry? The aim here is to find out the characteristics the airline industry has, thus leading to a basic understanding of an airline's competitive field. The second sub objective is also answering the question “what”: What are the factors in the chosen market along which an airline mainly builds its positioning strategy? The last sub objective, as well, seeks an answer to the “what”-question: What are the positions of the chosen airlines on the market? Once these questions have been answered to, an understanding on how and why airlines are positioned as they are, has been acquired.

In this research, the “what” questions refer to an *exploratory case research*, as the goal is to develop propositions to further research (cf. Yin 1985, 17; Marshall – Rossman 1989, 78). Due to this exploratory aspect, and to the nature of the questions

(“what” –questions), each research strategy could be appropriate to this research (see Yin 1985, 17). This poses a challenge to the author, as it is important to choose a strategy that would be convenient to carry out, as well as that would be generating accurate research information. Clarifying this issue, there is also a possibility to interpret the first and second sub objectives as answering to “how” questions. How is an airline’s competitive environment modelled? How does an airline build its positioning strategy? This would give reason also to an *explanatory aspect*, still not trying to scrupulously give explanation to events within the airline industry (cf. Yin 1985, 17). The “how” questions are often answered to through a case research strategy (Yin 1985, 17).

The view of Marshall and Rossman (1989, 78) agree on the case study research strategy. They, too, propose a guideline to choose the case research strategy that would best contribute to finding valid answers to the research questions. They differentiate the purpose of the research into an exploratory, explanatory, descriptive and predictive nature. According to them, the purpose of this research can be converted to both exploratory and explanatory. Following their indications, an exploratory research is to be conducted when the study involves, for example, discovering important variables in regard to a phenomenon. In turn, an explanatory research is to be carried through when explaining the forces causing a phenomenon is the purpose. (Marchall – Rossman 1989, 78) With this research, the author aims at discovering what the important variables of the air travel industry. This contributes to the exploratory aspect of this research. Identifying the variables’ effects on airline positioning will bring the explanatory aspect to this research. These conclusions legitimate the choice of qualitative research as well as the case study research strategy. As long as the results are not used to generalisations (see Yin 1985, 21), but only to providing some guidance, the case study is the right research strategy to be used.

Finally, only strengthening the views presented above, the case research is the option to be taken when there is no control over the contemporary events. This approach is useful as it allows the parallel use of documents and interviews, for example. (Yin 1985, 20; Ghauri 2004, 109) It is quite clear that the air travel industry in Europe operates independently from the author’s actions. The amount the author has on behavioural events is inexistent, as the research is about exploring and understanding (thus explaining to oneself) as an outsider, the contemporary air travel market and its actors’ competitive choices on positioning (cf. Yin 1985, 20). As the structure of the airline industry is on the wallpaper in this research and the goal is to understand the complexity of decision-making to find the right positioning decision, a case study as a research strategy would allow getting a holistic understanding on the meaningful characteristics of real-life events of the air travel market (cf. Yin 1985, 14).

Coming back to Yin’s three conditions for choosing the research strategy, the following have been clarified:

- This research is exploratory with an explanatory aspect, too.
- The author does not have control over behavioural events of the air travel industry.
- The focus is on contemporary events.

Leaning on these conditions, the chosen research strategy is the case study. Handling the research objectives through a pallet of chosen cases seem to provide the ingredients for developing an understanding on airline positioning in the specific market.

4.2 Case selection

The research objectives have been constructed to understand the issues that an airline faces when positioning itself on the market. The subject of this research emerged from the volatile environment in which airlines operate, and from the discussion on airline positioning that has been on the headings of the media. When conducting a qualitative research, one usually focuses on a small amount of cases for scrutinising them as thoroughly as possible (Eskola – Suoranta 2003, 18). There is no upper nor lower limit in regard to the quantity of cases used (Ghauri 2004, 114) Therefore it is the quality – not the quantity – of the research that makes it a scientifically good research. (Eskola – Suoranta 2003, 18; Hooley – Saunders 1993, 170) In a case study, how to select the case is viewed as one of the most important issues. The cases should be in line with the theoretical framework, and the variables that are studied. (Ghauri 2004, 112) The cheapest and easiest – and at the same time the least reliable – way of choosing a case is to sample according to the author's own resolution. This sampling method is called convenience. This approach is used especially in the early stages of exploratory research, when guidance on the subject studied is needed. But, the evidence that is got from the sample, may be so all-inclusive that it is not necessary to proceed to more sophisticated sampling methods. (Emory 1985, 280) Therefore, the choice on the cases to be studied will be made according to the author's own, justified resolution.

In this section, the author will ultimately choose the cases investigated. It should be kept in mind that those cases cannot be entirely generalised to other firms within the air travel industry. The focus is merely on acquiring an understanding. But first, the relevant market is defined, as this is the starting point for outlining the environment of the cases.

The time boundaries set for scrutinising the cases are those of each case airline's last fiscal year. Thus their annual reports provide a good source of information encompassing the events and directions of that year. The annual reports will limit the data collection and analysis (see Yin 1985, 33), thus contributing to comparability across the cases.

What comes to the structural analysis, the time span is limited to the recent past years till 2006, in accordance to the secondary sources available to the author.

4.2.1 The relevant market

The selection of the market in this research is processed in accordance to the definition provided in section 2.2, approved by the OECD and the European Commission. The airline industry has been regulated during a long period of time. It has been strongly impacted by the competition policies. Actually, competition policy is applied by the Commission in this kind of accurately defined framework (see Commission notice... 1997). Therefore defining the market in this research leans on such authorities' definitions for constructing a framework.

First, the product market is defined. The basic product of the airline industry is scheduled air transport services between a point of origin and a point of destination (O&D). This is what passengers purchase. (Mergers and alliances... 2004, 5) Second, as air transport service has inherently a geographic dimension in itself (Mergers and alliances... 2004, 5) the geographic market is has to be defined and the research remains controllable.

Product dimension

As noted in section 2.2, the demand side may be one of the bases on which to frame the product market. But, as this research's focus is on the understanding of the process of positioning, the viewpoint of the customer thus does not serve as a crucial building block for framing the market. Even though from a customer's viewpoint, charter flights may represent possible substitutes for certain scheduled air transport services, the European Commission has not so far considered them sufficiently substitutable despite the fact that the markets are closely related. Charter operations are a distinct activity from scheduled air transport. (Mergers and alliances... 2004, 11–13)

What comes to alternative transport modes, whether they belong to the same product market or not can only be assessed individually on a route by route basis (Mergers and alliances... 2004, 11). Airlines' competing according to market conditions in Europe has resulted in developing co-operation inside the airline's own value proposition, either with a direct competitor or another transport operator. For keeping a competitive advantage, it has been lucrative to cooperate for instance with train operators that are largely subsidised by their State owners. Charles de Gaulle airport in Paris is a good example of this kind of approach to competition. (Jarach 2005, 51) Still, keeping in

mind the simplicity that a restricted research like this one needs for generating accurate information, the focus will be merely on pure airlines.

Selecting the relevant market, different kinds of airlines will be taken into account as their services are at least to some extent substitutable. For example, “low cost” carriers and traditional carriers are considered as substitutes partly for time-sensitive, and fully for time-insensitive passengers. (Mergers and alliances... 2004, 14) So, as there is at least some substitutability between both business travellers (time-sensitive) and leisure travellers (time-insensitive), both types of passengers are considered present in the same product market. Consequently, in regard to the product dimension, the market in focus of this research is the *scheduled passenger air transport services*.

Geographic dimension

The competitive authorities act constantly against restrictions on competition in the airline industry. The negotiations having started already in 2003, the most recent move has been the EU transport ministers’ unanimous approval of the EU-US first-stage air transport agreement on 22 March 2007 (Meeting document nr. 1 2007), also known as the open skies deal. It will come provisionally into effect 28 October 2007 (Information note... 2007, 9). This is one step towards an open aviation area (OAA), as it is called in the mandate agreed at the Air Transport Council of 5 June 2003¹. The final objective is to remove all market access restrictions and to ensure effective competition. Furthermore, bringing bilateral agreements into conformity with EC law and creating a single market for air transport between the EU and US are in the scope of these developments, amongst others. Airlines would thus be able to provide air services without any restriction, including in the domestic markets of both parties. (Information note... 2007, 2) The second-stage negotiations will take place in early 2008 (Information note... 2007, 9). Thus, in the future, the possible competitive field for an airline will be progressively the entire world. At the moment, when an airline does not have any bilateral agreement with the US, it cannot compete over the Atlantic. This is the main situation within European airlines. As an exception, for example British Airways has a bilateral agreement with the US (see Inquiry into... 2003, 2). Even though there would be a possibility to act world wide, the relevant market for a single airline supposedly would not be as vast, as it would be questionable to run such a business in a sustainable way.

In the meanwhile, before the accomplishment of the OAA, the European market has been in the process of deregulation. One spur for a deregulated European market has been the “single European sky” package initiated by the European Commission. It came into effect in 2004. This initiative was taken in order to make optimum use of the Euro-

¹ See: 11322/03 AVIATION 137 RELEX 202 USA 55 Council decision on authorising the Commission to open negotiations with the United States in the field of air transport, 9 July 2003.

pean airspace, thus agitating competition in the market. (Regulation 549/2004/EC, 1;9). The view of the single European sky is that borders in the sky should not exist. This is controlled through requiring an annual report from each Member State. (e.g. Regulation 551/2004/EC, 23) The single European sky in effect allows whichever European airline to compete in whichever route.

According to the statistics of IATA (Route Tracker 2005, 3), Europe represents the most voluminously travelled area in the world, in regard to scheduled passenger traffic. IATA has defined six major markets, of which *air traffic within Europe*¹ is considered as one (Route Tracker 2005, 14). The following table provides insight to the amounts of passengers within the market of Europe and relates it to the 5 major markets, defined by the IATA.

Table 5 Passengers carried in 2005 according to six major markets (modified from Route Tracker 2005, 14)

	Airline sample	Passengers carried
Within Europe	43	13 601 991
Within Far East	28	4 618 483
Europe – Far East	28	2 285 346
North Atlantic	38	4 341 627
North and Mid Pacific	19	1 621 769
Europe – Middle East	32	1 190 451

The numbers in the above table are retrieved only from 70% of IATA's member airlines traffic, and 17 of the world's top 20 airlines are included (Route Tracker 2003, 14). Nevertheless, this should provide a clear picture of Europe as the most prominent market.

Consequently, the European market may be seen as the member states of the European Union, or as IATA defines it, consisting also of the Russian market. Both definitions are strictly framed and either of them can serve as market definition in this research. Therefore Europe in its broad sense is the market that is taken into consideration in this research. As a great market, secondary data on it should be relatively easy to ac-

¹ Europe, defined along IATA (Route Tracker 2005, 14): Albania, Andorra, Armenia, Austria, Azerbaijan, Azores, Belarus, Belgium, Bosnia Herzegovina, Bulgaria, Canary Islands, Croatia, Cyprus, Czech Republic, Denmark, Eire, Estonia, Faeroe Islands, Finland, France, Georgia, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Germany, Gibraltar, Greece, Greenland, Hungary, Macedonia (former Yugoslavia), Madeira, Malta, Republic of Moldova, Monaco, Netherlands, Norway, Poland, Portugal, Romania, San Marino, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, Ukraine, United Kingdom, and Russian Federation.

quire. As presented in section 2.2, the geographical dimension of the relevant market is therefore international, *intra-European*.

4.2.2 *The case airlines*

Now, the relevant market has been defined. It is *the market of intra-European scheduled air transport services*. Defining the case(s) has to be made in order to reflect the research objectives (Yin 1985, 31). As we are looking for general guidance, a multiple-case design is the appropriate way for meeting this research's objectives (see Ghauri 2004, 115). Each case must be selected either so that it predicts similar results or produces contrary results for predictable reasons (Yin 1985, 48).

The cases here are carefully selected with an assumption that mainly the same factors affect each airline. This is also why the market has been so scrupulously defined. The cases are selected within this market. In a multiple case study, the aim is to draw conclusions by asking the same questions in a number of organisations and then by comparing them with each other (Ghauri 2004, 114). So, *the same sequential of analysis will be systematically applied to each case airline in order to make them comparable to each other*. This demands comparability from case to case, in regard to size, for example (Ghauri 2004, 113). As the market has been selected, the cases are also comparable in regard to the same competitive environment in which they operate. As mentioned in section 4.2, it is the quality and not the quantity of the cases that contributes to a satisfying research outcome that is also in accordance to the resources of the author. Limiting the number of competing airlines will result in a more efficient data-processing. (see Hooley – Saunders 1993, 170) Central to position research is the identification of direct competitors as well as the identification of indirect competitors for being able to exclude them from the analysis (Hooley – Saunders 1993, 170). This exclusion has been reassured in the clearly defined market framework.

The conduct of a multiple-case research can be very resource- and time-demanding (Yin 1985, 48). It is thus decided to first analyse five cases and then consider whether the point of saturation has been reached. Consequently, it will be easier to conclude whether additional cases will be useful to handle in this research. The choice of convenience is also present; the means of the author are restricted, and therefore analysing five cases is viewed as a realistic starting point for this research. Yin (1985, 33) stresses that there needs to be a timeline for the cases almost in any topic. *Thus the timeline determined for the case airlines is their last fiscal year*. The timeline starts from 2006 and finishes in 2007. Nevertheless, a central consideration is that these companies' operations are a result of many years' work. Therefore, we will only see the result of those years.

The criterion for choosing the case airlines is the number of passengers carried per airline. Of course, one could rely e.g. on airline rankings according to revenues and to personnel. But personnel can be used in other than core business, and revenues can stem also from cargo operations if an airline has such business also. Cargo operations are out of this research's focus. Therefore, the case airlines chosen in regard to the demand side seem to be more appealing as choosing so reflects what the market wants. It shows which airlines are the most popular. Moreover, this criterion does not exclude different positioning types. Also, if the number of passengers carried is substantial, it is thanks to a carefully designed positioning. This view is also approved by Gursoy, Chen and Kim (2005, 57). So, it is justifiable to choose the case airlines in regard to this criterion.

The case airlines are chosen leaning first on an extract of WATS 2006, World Air Transport Statistics, a report published by IATA. As this statistic leans on passengers carried per airline during the whole year of 2006, the impact of seasonal fluctuations are erased and thus do not distort the choice on the case airlines. Nevertheless, it is chosen to gather the information from these companies' own statistics, as they offer transparent information that concerns only the market of Europe. The following table sums up this research's case airlines.

Table 6 The case airlines; operations in Europe¹

Airline fiscal year	Passengers carried in 2006 (thousand)	Passengers carried in 2005 (thousand)	Destinations in Europe	Headquarters
Ryanair Holdings plc April-March	42,5	34,8	137 (2007)	Ireland
Lufthansa January-December	41,5	39,5	171 (2006)	Germany
Air France-KLM April-March	51,3	48,9	122 (2006)	France
EasyJet plc October-September	33,0	29,6	74 (2007)	United Kingdom
British Airways plc April-March	20,3	19,6	147 (international cipher, 2007)	United Kingdom

The table leans on the WATS 2006 but is up-to-date for the European market. The extract of WATS 2006 is for international markets, thus not of accurate use to this research. The WATS 2006 is seen as sufficiently advisory to define the airlines with most passengers in Europe. The above table is accurate and shows the airlines that are com-

¹ Passengers carried: : Ryanair (Ryanair: Annual report 2007, 3); Lufthansa (Lufthansa: Annual report 2007, 90); Air France-KLM (Air France-KLM: Annual report 2007, 28); EasyJet (easyJet: Annual report... 2007, 26); British Airways (Traffic and capacity... 2007, 2)
Destinations: Ryanair (Members' statistics 2007); Lufthansa (Lufthansa: Annual report 2007, 90); Air France-KLM (Air France-KLM: Management report... 2007, 24); EasyJet (easyJet: Annual report... 2007, 3); British Airways (British Airways: Annual report 2007, 17)

parable to each other. Moreover, the coincidence that they represent the diversity of European airlines enriches the research. This is important in order to understand airline positioning from different point of views. The cases are shortly introduced to understand their relevance to this research. The order in which they are presented reflects the order in which they will be handled.

4.3 Data collection

This research is mainly a secondary research. Using secondary data is not time-demanding (Emory 1985, 135; Stewart 1984, 14) and therefore is advantageous compared to primary research. Nevertheless, due to the exploratory nature of this research, an interview is considered relevant: getting information from a specialist who has deep knowledge on the field puts in advance the most relevant issues to be further developed. Thus the interview is used as a support to the first sub objective, which has an aim on understanding the air travel industry and laying ground for the developing of this research. It was chosen to interview the senior researcher Antti Norkela of the Finnish Competition Authority. The interview takes a form of a *semi-structured interview* arranged along themes. The interviewee can thus answer in his own words even though the questions have been preformulated. (see Eskola – Suoranta 2003, 86) By e-mailing the themes to him, he will be prepared to the questions asked. Nevertheless, presenting them is not made too exactly for not distorting the interview and the data; the ultimate ends of the questions are tried to keep unknown. According to Yin's categorisation, the *open-ended nature* of the interview questions is realised by asking for the facts of a matter as well as asking what his/hers opinions and emphases on that matter are. Thus, actually the interviewee is rather an informant than a respondent. If he/she also proposes corroboratory evidence, they will be of critical value to this study. (cf. Yin 1985, 83)

In order to make the interviewing situation more comfortable and natural, it was conducted in a place familiar to the interviewee. The interview took place in the premises of the Finnish Competition Authority in Helsinki, at the address of Pitkäsillanranta 3 A, on Wednesday 4.10.2006 at 13 p.m. In order not to distort the information, the interview was recorded with a mini-disc –recorder, and field notes were used as well. The interview lasted 1,5 hours. The interview framework is presented in Appendix III.

Thus, the interview is the starting force to the outcome of this research. Nevertheless, methodological triangulation takes place. Triangulation is a characteristic of case study, where the data collection happens through different methods, and thus reduces the likelihood of data misinterpretation (Ghuri 2004, 115). Matching the nature of this research, documentation is relevant to every case study topic (see Yin 1985, 79). In contrast to primary data, which the analyst is responsible for (Stewart 1984, 12), the author

keeps in mind that secondary data has been gathered and written for a specific purpose and audience other than the author's purposes (e.g. Yin 1985, 81). This is its most important limitation, revealing problems with definitions, units of measures and different time periods. (Emory 1985, 136) Secondary information¹ is thus collected by others and archived in some form for a specific end (Stewart 1984, 11).

As a case study is a study of events within their real-life contexts (Yin 1985, 67), company documentation is a natural source of information to use. They are contextual proofs of company activities, and are an integral part of other systems and structures in organisations (Forster 1994, 149). For this reason, the author will carefully evaluate the information that will be used, by e.g. keeping in mind an understanding that information is context-specific and not therefore always possible to generalise. Company documentation handles often contemporary events in companies – and contemporary events that affect companies (Forster 1994, 148). The author has access only to public company material. It is therefore important to understand that even though the material used would be explicitly PR documentation, it can tell the researcher a great deal about the kind of image the company is trying to present internally *and* externally, to customers or potential competitors. (Forster 1994, 148)

For meeting each sub objective, secondary data has been acquired from several sources, such as formal studies, newsclippings, organisational records, maps and charts (see Yin 1985, 79–81). No one source alone provides all the necessary information to a research objective. Therefore sources of secondary data used in this research consist mainly of industry studies (e.g. Global Market Forecast 2006), government reports (e.g. Mergers and Alliances... 2004), statistical studies provided by organisations such as IATA (International Air Transport Association), and other research done in the field of air travel industry. Newsclippings have been collected during the period of January 2006 to May 2007 from the journal *Kauppa-lehti*. This has provided the author with general knowledge and sensibility to central issues within the industry, in addition to the interview. Nevertheless, their use has not been in the scope of this research as the articles often focus merely on airlines in Northern Europe. The sources have been carefully chosen; accuracy has a direct impact on the soundness of this research's findings (see Zalan – Lewis 2004, 515). One can rely on the accuracy, as providing this kind of information is one of the purposes of these organisations' existence. The data used in this study is free data that is available for anyone. Nevertheless, the data is not used in its raw form, but has first been summarised and analysed for other purposes than this research.

Thus, the first sub objective leans on several sources due to its broad character. In turn, the second and third sub objectives will be reached through a relatively restricted

¹ Secondary data (the raw data obtained in various studies) and secondary sources (summaries of these data that has been published) (see Stewart 1984, 11)

amount of documentation, as it is considered that mainly each case airlines' annual reports provide the necessary information for being able to carry out the analysis. The saturation point in this regard is low. The choice on a low amount of secondary data is also due to the author's restricted access to company-internal information. As a conclusion, the second and third sub objectives are strongly interrelated, thus the secondary data sources are also used for both.

4.4 Analysing the data

The interpretation of qualitative data may be seen as the most difficult task in a case study. A challenge is that data analysis must be connected to data collection during the whole research. Consequently theory develops as the data is gathered. (Ghauri 2004, 117) The process of data analysis includes clarifying and understanding text data, preparing the data for interpretation (Creswell 2003, 190). Generic steps may be followed to analyse the data (Creswell 2003, 191–192): (1) Organise and prepare the data for analysis, (2) Obtaining a general sense of the data by reading it through, (3) Analysing the data in a more detailed manner by coding it, (4) Use the coding process to construct a description of the phenomenon and themes for analysis, (5) Advance how the description and themes will be represented in the research text, and (6) Making an interpretation on the data.

Analysing the interview. Following these steps, the researcher first transcribed the interview word for word for getting a tool for analysis. It is also easier to glance the entity of the interview, and thus all the material will be handled, not forgetting anything of importance from the analysis. Second, the data – the transcription – was read through for obtaining a general sense of what it involves. This was of use because it brought out some statements that appeared to be more important than other issues. Also, the credibility of the data was assessed giving a reason to check corroborating documents, as for example uncertainty on a response to a question not accurately formulated was not noticed during the interview, only after reading the whole transcript this was clarified. This stage also brought ideas of how to understand some answers. This was possible as the researcher made notes on the margins which revealed underlying assumptions not pronounced out loud. The interview questions were designed with a purpose to understand air travel industry characteristics. Thus third, the transcript was divided into themes corresponding Porter's five forces for ensuring that all relevant issues would be taken into account. This arrangement to themes generated "sub themes" that can be seen under the main themes in Appendix IV. The transcript was then coloured according to the sub themes, thus better visualising the data. Fifth, the themes of the exploratory interview were used in contribution to the information provided by the documents, thus

ensuring the minimisation of misinterpretations in regard to the first sub objective. The final step of interpreting the data required connecting the findings with past information the researcher had¹ for seeing what new insights the research would bring to the research on air travel industry. The researcher strove to see the linkages with the theoretical part, thus bringing meaning to the whole research.

Analysing the documents. The author chose to organise the documents gathered simply by arranging them in accordance to their main themes (positioning, structural factors...) The initial pallet of variable documents was vast, and this classification to files allowed the researcher getting a general sense of the research material. This proved to be of use as it brought out points that appeared to be more important than other issues. Thus it revealed the distinction between documents to be scrupulously read, and those that were not of importance. The third step concentrated on coding. It was used not to get overloaded with worthless data in regard to this research. Coding is already analysis (Miles – Huberman 1994, 56). Using codes allowed separating and combining data from different documents, thus making it easier to retrieve and organise it to pieces that matter the most in the research (cf. Miles – Huberman 1994, 56–57). As the codes had been designed in accordance to the theory, the inductiveness was kept at a relatively low level. The analysis did not get the freedom to flourish out of focus and it was easier for the author to make conclusions. But, naturally, as the master codes were set, analysing the documents in regard to the first sub objective generated subcodes dividing the master codes into smaller entities (e.g. ENT, and ENT-ECON). Thus the author was open to what the “secondary data had to say”. What comes to the second and third sub objectives, the theory forced to leave a considerable part to induction. The same codes were searched from each documents used, and for each case airline. In practice, master codes were used as labels written on the side of parts of a text representing a particular meaning. The documents were then coloured according to the subcodes, thus better visualising the data. For example, a master code for each Porter’s five forces was created (ENT), and subcodes for the forces’ underlying factors were then used (e.g. ENT-ECON, ENT-DIFF, ENT-CAP, etc.). Consequently, the researcher took the freedom to advance in her analysis not exactly following these steps presented: the fourth step was not taken. Appendix IV summarises the codes used in this research. The fifth step was carried through according to the sub objectives of the study that form a logic progression to the research outcome. So, the research outcome will be presented according to the sub objectives. The second and third sub objectives will have to be handled in parallel. As reaching them is directly linked to the analysis of the cases, the same logic of analysis will be applied to each case airline. Finally, the data was interpreted leaning on the theoretical framework.

¹ e.g. *Competitive Airlines (2002)*, information gathered from *Kauppalähti*

4.5 Trustworthiness of the research

It is crucial for a research to lean on data that can serve as a tool for responding to the objectives and purpose set. The data should allow the research to be completed; it should be in measure to provide information that is useful in regard to extracting answers from the phenomenon studied. (Mäkelä 1990, 42) Thus it is important that the collected data is clearly defined. Naturally, only then one can assess whether the research is trustworthy or not (Mäkelä 1990, 47) – that is, whether the data matches the research objectives. The field of the research has clearly been defined above, as well as the data to be collected. Now, the significance of the research, the sufficiency of the data, the scope of the analysis, and evaluability and repeatability of the research are next assessed.

4.5.1 *The significance of the research*

For a research to be significant, one should argue why the data collected is worth analysing (Mäkelä 1990, 48). This research has an exploratory character, giving first insight to the air travel industry's structural factors. Prior to this research, the author has limited knowledge on the air travel industry. Therefore, searching for potential interviewees that would have an acquaintance with the industry and its competitive environment is a crucial factor for reaching an understanding on how to carry out this research. What comes to the first sub objective, it is partly constructed according to the knowledge the interviewee can share with the researcher. The data collected and the first sub objective of this research are in line, giving reason to analyse the data. Furthermore, problems of language differences are minimised as the author has, nevertheless, been doing background research and is acquainted with the specific terms of airline competition issues. Therefore the analysis should not be distorted. The interview should be analysed because it is assumed to provide an accurate insight to the first sub objective – air travel industry characteristics. Furthermore, the analysis of the data is justified, because the interviewee that has been chosen is right in the heart of competitive matters in the airline industry. Finally, the data is not biased as the interview has been tape recorded, making the data even more worth analysing.

In addition to the interview used exclusively for the first sub objective, the documentation has been carefully chosen in order to achieve each sub objective, either through triangulation (first sub objective), or solely (second and third sub objectives). The documentation, published by specialised organisations in the field, is significant to be analysed as it strongly contributes to achieving the research objectives. Of importance is the use of both external documentation as well as company specific documen-

tation; data external to airlines contributes to the first and second sub objectives, and information published by companies completes the second and finally the third sub objectives. Thus the data used has a specific and distinct role, carefully chosen to match each sub objective. Therefore, in the author's understanding, no other source of information would be as accurate and significant in regard to this research as the documentation analysed. This consideration is valid as long as the research bases mainly on secondary data. Of course, of interest would be to interview e.g. each case company's marketing directors, or realise a survey on consumers' perceptions on each airline's competitive position. Nevertheless, access to marketing managers of each case company is not probable, and a survey would qualify the perception of the cases' competitive positions – and not what the airlines communicate about their competitive positions.

Thus, it is justified to end with a conclusion that this research is significant due to the fact that the data collected is worth analysing.

4.5.2 The sufficiency of the data collected

The data collected is sufficient when the saturation point has been reached. As this point is not known right at the beginning of a research, one should first collect only a small amount of data (Mäkelä 1990, 52). This was done in this research. For the first sub objective, only one interviewee was first chosen. Beforehand, the researcher had had to make some background studies in the field. These two combined, there was no need to further interviews; the purpose of the study is based on *understanding*. This is the perception of the author, even though it is challenging to assess whether this understanding could be improved with more data collected. The conclusion is that the results could be even further specific, but not significantly. Still, all the questions that interested the researcher could not entirely be answered. However it would not have been easy to find other interviewees as valuable as this one and consequently as adequate data as the data provided by the interviewee. Nonetheless, the role of documentation collected was to fill the gaps and to strengthen the answers provided by the interviewee. Thus, triangulating with documentation proved to be sufficient, as there was no need to gather further data for achieving an understanding.

What comes to the data used for the second and third sub objectives, it is considered sufficient due to its comprehensive nature. The documentation consists of research basing on company and industrial facts, focusing on the entire functioning of company and industry entities. There would be no reason to consider that this kind of information would be insufficient in order to respond to the purpose of the study.

But, reaching the saturation point requires also good skills of analysing: with documentation that the author is not able to process, one can indeed say that the documenta-

tion is sufficient, but the author's analysing capabilities are not. This leads us to the assessment of the scope of the analysis.

4.5.3 The scope of the analysis

The adequate scope of the analysis means that the interpretations of the researcher do not lean on occasional extracts (Mäkelä 1990, 53). This has been ensured by following a range of steps (see section 4.4) in analysing the interview in order to make the data more controllable, and to reveal the relevant issues with the aid of categorisation. The documentation, which consists of a wide range of information, has equally been categorised for the data to be controllable.

The data has been processed in regard to each research sub objective, ensuring that the purpose of the research is achieved. Furthermore, the data in accordance to the case airlines is analysed consistently with the same categorising concepts, from one airline to another. Consequently, the scope should be maintained in this regard.

Nevertheless, regarding the airlines, two problems persist. First, the choice of case airlines based on the number of passengers carried does obviously not let the opportunity to analyse small, focused airlines, such as Smintair. Still, this basis for choosing case airlines is considered the best as it lets a variety of different airline types to be analysed. Thus the interpretations are not focused to occasional extracts. Second, one should consider the problem that Porter's theory and recommendations on mapping systems of activities (see section 3.4) revealed too simplified. It was demanding to take into account the higher-order themes, and activities sustaining them due to the lack of rigidity in Porter's model. The model left too much of freedom to the author's own considerations and perceptions. Many activities persisted from one case to another, but they appeared to be presented at a differing level of importance. Of course, although time consuming, it would have been relatively easy to list all the activities and to construct a map regrouping each of them. After all, in a rationally managed organisation, there can be almost an infinite bundle of activities that contribute to the competitive position. But the purpose of the map is only to gather the most important ones in regard to the airline's competitive position. Here emerges the problem: as judging on the importance of each activity in regard to each airline has been left to the author, the impact of occasional extracts has not entirely been wiped out. Thus, there persist some weakness in the scope of the analysis. This, in turn, has an impact on the comparability amongst the cases. Activity-system mapping should therefore be reformulated, because at present it relies too strongly on interpretation.

4.5.4 The evaluability and repeatability of the research

For the reader to be able to evaluate the research, the author has striven to explain the bases for her assumptions and interpretations (cf. Mäkelä 1990, 53). The concepts and theories used have been defined, and the conduct of research explicated. Thus the reader should be able to understand the logic behind the results.

In turn, the repeatability refers to whether someone else could get the same results according to the categorisations that have been done in the research (Mäkelä 1990, 53). Therefore the author has created codes as clearly as possible, in accordance to the theoretical framework. The author considers that for another researcher, reaching the first sub objective in the same way as it has been reached in this research is possible. Nevertheless, referring to the discussion on the problem in Porter's activity-system mapping which relatively strongly leans on induction, the use of categorisation is demanding. The model does not allow the creation of strict codes, because it gives place to the author's impression on the importance of each kind of activity. Thus this impression cannot be extracted exactly in the same way by another researcher, because the author's own point of view prevails too much. Nevertheless, the author considers that repeatability prevails to a certain extent – conducted by another researcher, the results of this research would not be significantly different. There would be difference only on the level of importance attributed to each activity. As a consequence, the activity-system maps would not be identical to the ones presented in section 5.2. Consequently, also responding to the second sub objective, using amongst others activity-system maps, lacks of perfect repeatability.

As a conclusion, the reader is invited to be critical on the analyses and conclusions. All in all, the research is still relatively trustworthy. The author believes that another person would get similar results to this study, with the same framework used.

5 THE RESEARCH OUTCOME

This chapter presents the outcome of the research according to each sub objective. First, an understanding on the structure of the air travel industry will be acquired. Then, the cases will be presented. First, a company overview will be provided. Then, an understanding on the factors that have been considered as affecting the positioning choices are handled. Parallel to this, the case airlines' competitive positions will be visualised. Thus handling the second and third sub objectives is strongly interrelated.

5.1 The field of competition in the air travel industry

A coding process leaning on Porter's five forces framework was used to explore the air travel industry. The goal was to achieve the first sub objective: "*to explore the characteristics of the airline industry for understanding the field in which competition takes place*". The documents were tagged with codes referring to the structural features having an impact on the forces. Documentation provided by competition authorities, amongst others, was concluded to be the most useful for achieving the first sub objective, as the aim was to get a general understanding on the industry – and not on one airline's business. The competition authorities were seen as the experts in this field, and the interview with the senior researcher Antti Norkela (interview 4.10.2006) opened a general understanding on those aspects central to be taken into account in the course of the research. Moreover, the view of competition authorities seems to be generally acknowledged.

After having introduced the key structural features, they will be gathered into the air travel industry's five competitive forces framework. After this, the strongest forces will be identified as they shape the air travel industry's competitive environment. When analysing the case airlines' competitive positions basing on the positioning dimensions presented in the theoretical framework, the positions will be assessed in regard to the industry's strongest forces. While reading about the below forces, it is nevertheless important to keep in mind that the analysis represents only a scratch on the features behind the five forces; the objective is indeed *to explore for understanding* the air travel industry. Therefore, features behind the five forces are explored, and not scrutinised. Due to this, the list is not exhaustive.

5.1.1 Threat of entry

If an airline perceives a threat to its business, it obviously strives to construct a set of operations that enforces its posture against new entrants. It is important to remember that threat of entry is fought with striving to keep one's competitive advantage. Therefore, the higher the barriers to entry, the less intense the threat of entry is. In the air travel industry, the fear is focused on new players trying to access the competitive field of incumbents, that is, the centre of Porter's five forces. In this sense, barriers to entry have the same meaning as barriers to competition, because an airline – or a government – constructs barriers for defending its – or its airlines' – competitive environment. Workable competition¹ has a positive welfare effect, as noted earlier in this study (see introduction of chapter 2). Therefore striving to it is the goal of competitive authorities who follow closely barriers to competition created by governments and airlines. Threat of entry in this research is explored through the *barriers to competition* and the *reactions* of airlines.

This section will show that barriers to entry in the air travel industry are prominently present and therefore in the focus of competitive authorities. Consequently, this competitive force is seen as the most important force shaping the competitive environment. As noted earlier, barriers to entry have six major sources: *economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels, and government policy*. These were taken into account when interviewing senior researcher Antti Norkela of the Finnish Competition Authority. The data collected is therefore analysed in accordance to interview findings and documentation for triangulating information on the air travel industry. The interviewee was asked to describe the air travel industry according to its specific characteristics that he considered as important in regard to other industries. The question corresponding is in appendices (question 2.1). The aim was to understand the current phenomena in the industry. As noted later in the theoretical literature (see Porter 1980, 7 and section 2.4) also during the interview it became clear that making a distinction between *reasons*, such as deregulation, for striving for competitive advantage and *actions*, such as alliances, for gaining competitive advantage in the air travel industry had to be taken into account. These together impact barriers to entry in the competitive environment and therefore are jointly handled. Challenges to airlines were also asked (question 2.2), independently from the question 2.1, which clarified the reasons to airlines' actions.

Before exploring the six major sources of barriers to entry, it is important to understand the industry's speciality. The European competition authorities consider that com-

¹ The Finnish Competition Authority defines workable competition as a situation in which firms are free to make their own choices on getting to the market and acting there in their own way. Accordingly, customers are free to choose from whom to buy. In a situation of workable competition, actors have the freedom to optimise their ways of action. (Kilpailunrajoitukset)

petition between airlines is influenced particularly by its network character (Mergers and Alliances... 2004, 1). As it can be understood, the network character has a clear impact on barriers to entry. It is therefore of importance to explore the six major sources with the underlying understanding of the air travel industry as a network industry. Network character in the air travel industry can be described as a system of links (routes) that connect nodes (airports). (Competitive airlines 2002, 109) In other words, the hub-and-spoke system refers to the organisation of flights so that the company channels all its passengers through a hub airport. From the hub airport, connections extend in the form comparable to a wheel. As a result, the number of non-stop routes needed to serve the possible destinations is substantially reduced. (Competitive Airlines 2002, 110) The network character implies externalities due to the fact that costs and revenues in carrying passengers on different and interconnected routes are interdependent. (Competitive airlines 2002, 43) Consequently, exploiting the network aspect brings value added to customers by enlarging an airline's supply range and thus making it easy for customers to organise a journey (Norkela, interview 4.10.2006). This form of operating may strongly raise barriers to competitiveness even though operating like this can be economically efficient to an individual airline: the airline has considerable market power in and around its hub airport (Competitive Airlines 202, 110) Economies of scale, scope and density stem from the structure of the industry, thus from the network character of the industry. These economies make the use of networks appealing, and airlines do not hesitate to use them. Therefore, for understanding the threat of entry as a competitive force, airlines' most common means for acquiring competitive advantage – and thus minimising threat of entry by making competition indirect – are next explored.

Economies of scale. Sources to economies of scale are linked to aircraft size, load factor, and stage length. When a larger aircraft is used, pilots and crew costs do not rise in proportion to the number of seats. Also landing fees based on weight, or long flight distances, contribute to achieving economies of scale. (Competitive Airlines 2002, 41–43) What comes to load factor, that is, the number of passengers per seat (Competitive Airlines 2002, 42), the fuller the aeroplane, the more scale economies are achieved. As a result, the cost per passenger decreases. The discipline on capacity use in air travel business has resulted in a substantially improved load factor in Europe as well as in the US (see Global market forecast 2006, 47; Pearce 2007, 3). This shows that airlines have their strategic focus on a more efficient way of operating. What Porter considered also as economies of scale, has been handled under the term economies of scope in the air travel literature. *Economies of scope* refer to the fact that it costs less to produce two or more services by one firm than produce these services separately by different firms (Competitive Airlines 2002, 41). Consequently, the complementarity of routes within the network can be considered as the most important economy of scope. Operating several interconnected routes offers an airline the possibility to use aircraft, crew, reserva-

tion systems, marketing in a larger scale (Competitive Airlines 2002, 44). This results in joint costs instead of separate for each purpose. As Norkela (interview 4.10.2006) pointed out, on the demand side, economies of scope emerge from the diversity of routes provided by a carrier (Competitive Airlines 2002, 109). Therefore it is advantageous to passengers to use a carrier with a wide hub-and-spoke system. *The nature of the industry therefore allows incumbents to be efficient and establish wide networks, and this creates a high entry barrier to be surmounted.*

Airlines have well understood that economies of scale and scope can result also from sharing costs with other companies. One important trend in the air travel industry has been the mergers and alliances. As more extensive networks are more attractive to customers, airlines form alliances to exploit each other's networks (Competitive airlines 2002, 111). It is widely acknowledged that a merger or alliance is carried through because of financial advantages or synergy effects, in other words. It has been seen that this kind of action provides firms with such benefit that competition authorities have apparently drawn close attention to these business arrangements. For example, European Competition Authorities have gathered the Air Traffic Working Group for keeping a close eye to the competitive effects of mergers and alliances. Co-operation between airlines have resulted for example as code sharing¹, revenue and cost sharing, joint pricing, co-ordination of capacities, route and scheduling planning, co-ordination of marketing, advertising, sales and distribution networks, branding/co-branding, co-ordination of frequent flyer programmes², sharing of facilities and services at airports etc (Mergers and acquisitions...2004, 4–5). It is relatively difficult to a new player to enter the industry as mergers and alliances create often barriers to competition.

Product differentiation is another word for positioning. The aim of positioning is amongst others to protect one's business. A harsh introduction on airlines' common decisions on differentiating their products was presented in the section handling the term airline and its product, which are often thought of as a bulk when talking about positioning. Now, one could preliminary distinguish at least flag carriers, national carriers, regional carriers, feeder carriers, and low-cost carriers. But these airline types may differentiate even further. As an example, Finnair being at the head in differentiating itself to a route provider between Europe and Asia (see Annual Review 2006), entry barriers to this Asian route market have strongly arisen.

Capital requirements. Airlines cannot provide air transport services without aircraft. As an example of capital requirements in the air travel industry, the author took a look at Airbus' results of year 2006, from which the price for an aircraft could be calculated. Of course, price differences according to the type of aircraft are acknowledged. Never-

¹ Code sharing is a system in which two or more airlines agree to use the same flight number for connection services for attracting more customers by extending their networks through partner carriers, less expensive fares (Malver 1998, 19)

² FFPs will be explained under switching costs

theless, an estimation of the average price for one aircraft – approximately 91,14 million US dollars¹ (see Airbus 2006 results) – was considered as relevant to show that for entering the air travel industry, a firm needs substantial financial resources. This is seen as the most prominent cost stemming from the inherent nature of an airline. One could now question how LCCs can make such investments, if their strategy is on keeping the cost base the lowest possible. Airbus has taken airlines' needs into consideration, and proposes single-aisle aircraft for LCCs, which are affordable to them (see Global Market Forecast, 64). Thus, as there is aircraft tailored to different needs, it is questionable whether capital requirements contribute to high entry barrier at all.

Switching costs. In the air travel industry, the attention in regard to switching costs is mainly drawn to buyers, that is, passengers. Switching costs stem mainly from the airlines' exploitation of the network industry. So, referring to acquiring economies of scope, a carrier providing a diversity of destinations is highly valued by a customer. It would therefore be difficult to a customer to be willing to change the service provider, because the airline has proved its services to be co-ordinated and of quality. Passengers are often unwilling to use two or more carriers' services during a journey, as in such a case they perceive more risks to be present in regard to extra costs, connection delays, baggage handling problems etc. (Competitive airlines 2002, 45). An increase in the number of routes results also in fewer transfers between aircraft and passengers. Many passengers prefer fewer shifts. (see Competitive airlines 2002, 45) Therefore switching costs are naturally high, but they can also be artificially heightened for example by loyalty programmes. In Porter's words, airlines reward their customers for loyalty. Frequent flyer programmes (FFPs) can be generally characterised by (1) free membership to any individual traveller, (2) accumulation of bonus points when using the airlines', its alliance partners', or other business associates' such as car rental companies' services, (4) accumulation of a certain amount of points before a certain time deadline can be converted e.g. to free air tickets, (5) "discounts" in service are offered, but often of different quality as the same service purchased, (6) the more extensive the network, the more attractive the FFP is. As a result, alliance airlines merge their FFPs for mutually enhancing their competitiveness. (Competitive Airlines 2002, 78) And when loyalty is gained in this fashion, it is understandable that customers do not easily switch from one company to another as they prefer using one service provider. Therefore switching costs are obviously a barrier to competition as they inhibit a customer from wanting to buy services from a competitor (or a new entrant).

Access to distribution channels. Again, referring to economies that an airline can exploit, the density of activities provides a source of economies. Economies of density result as a decline in an airline's unit costs, when the airline adds flights or seats on ex-

¹ The average costs for one aircraft was obtained by dividing the total value of aircraft orders in 2006, that is, 75,1 billion US dollars, by 827 aircraft orders.

isting routes. Thus the use of aircraft capacity is improved (Competitive Airlines 2002, 45). On the demand side, when the frequency of flights offered on a route is high, this improves the attractiveness of the airline's services (Competitive Airlines 2002, 109). This could be of particular importance from the time-sensitive passenger type. Access to improved utilisation of aircraft by augmenting the frequency of flights cannot be materialised without access to distribution channels. In this research, the distribution channels refer to airports and more specifically slots¹. When an airport has had scarce slots, an increase in frequency would have been difficult to achieve. As an example on the scarcity of slots, Lufthansa dominated the Frankfurt hub (see 2002/746EC, para 99). This inhibited other competitors from obtaining slots as the airport was congested (see 2002/746/EC, para 99), thus creating a substantial barrier to entry. There are often restrictions on the sale of slots (see Peteraf 1993, 521). Here one could talk e.g. about contracts with primary and secondary airports, present in the discussion of traditional and low-cost carriers' operation areas. For example, in order to sustain their low fares, LCCs use airports with no high cost on airport services, as it is a major area where these airlines can achieve economies (Jarach 2005, 54).

Government policy. First, starting from the basic characteristics of the industry, the airline industry is inherently a geographically largely spread business (Norkela, interview 4.10.2006). This makes the competition naturally turbulent, as the scope of competitors does more easily extend over national boundaries. Historically, natural competition was not possible due to the phenomenon known as flag carrier (Norkela, interview 4.10.2006). Flag carriers were state owned, at least to a very large extent. Thus two countries had an agreement on transports between them (Norkela, interview 4.10.2006); the airline industry was highly regulated during a long time, which has had a substantial impact on the competition within the airline industry (Jarach 2004, 29). In this regard, the industry is now in a phase of change. (Norkela, interview 4.10.2006) According to Norkela (interview 4.10.2006), the most prominent action against barriers to airline competition is the deregulation of the industry, on which the initiators have been the competitive authorities. But, even if the European Community air travel markets have been gradually liberalised, there is still much to do as the market cannot yet be characterised as workable (Competitive Airlines 2002, 118). Consequently, it is understandable that against these barriers to workable competition, there is a whole new range of changes creating explosive action within the competition, when there is access to new opportunities. In this sense, government policy has enhanced competition and made it easier for new entrants to enter the airline industry. The business is in transition with new emerging actors (Norkela, interview 4.10.2006) The transition refers directly to changes in competition.

¹ Slot: time span that is given for a carrier to land at or take off from an airport at a specific date and time (Air France – KLM: Reference document 2007, 223).

Concluding, the environment that has been made freer promotes striving for survival in relation to competitors. In fact, earlier formal restrictions on competition have been replaced by airlines' responses to competition that often can be so fierce that they inhibit competition. Therefore airlines' actions were handled under barriers to entry and competition. Before, entry barriers were created by governments. Now, they are created by airlines. Now, they are created through actions of rivalry. Consequently, threat of entry is lowered by intense rivalry. Next factors contributing to the creation of rivalry are handled.

5.1.2 Intensity of rivalry among existing competitors

Facts among industry competitors have a substantial impact on rivalry. As presented in the theoretical framework, the intensity of competition can be determined using several structural factors. *Rivalry is intense when the number of competitors is high or they are balanced, the industry growth is slow, fixed costs are high, there is little or no switching costs, the capacity augments in large increments, the competitors are diverse, firms' strategic stakes are high and exit barriers are high.* IATA as a source of information for exploring this competitive force has been chosen due to the fact that it is "the" association that represents the airline industry. This stands in IATA's mission statement (IATA – fact sheet). The association is a generally acknowledged player in the airline industry.

Number of competitors. It is almost needless to state that the air travel industry has a substantial amount of airlines. Only IATA has 243 airline members, and the members' flights represent 94 % of the world's international scheduled traffic (IATA – fact sheet). This can be understood as a substantial amount of competitors due to the vast geographical area in which the airlines compete. Thus, they confront more competitors than in an industry in which actors operate in a more restricted area. As the amount of competitors is substantial, it is understandable that there is a whole new range of changes creating explosive action in competition; removing barriers to competition through deregulation has created access to new opportunities.

The balance between firms can be measured in regard to size and resources; balance between firms creates instability as they have relatively equal power to fight each other (Porter 1980, 18). The activity-system maps will reveal to some extent the comparability of resources of the case airlines. As they are prominently present in the European market, each offering service to a substantial amount of passengers, one can argue that the balance between airlines create instability.

Economic growth. What comes to the air travel industry's growth, the passenger business has been very strong; there has been an economic growth stronger than expected in Asia and Europe (see Avery 2007, 3; Pearce 2007, 1). When the whole indus-

try's (including freight) operating profits were 4,3 billion US dollars in 2005, the profits are forecasted to 21,1 billion US dollars in 2008. Also, the net profits in the industry will have grown with near to 14 billion US dollars till 2008. (see table¹ in Pearce 2007, 1). Nevertheless, the revenue growth for airlines has been slowing since the extraordinary peak in 2004. (Pearce 2007, 1–2) Airline revenue growth in 2006 was approximately 8%. In the other hand, global economic growth was 3,9%. (see figure in Pearce 2007, 2) Generally speaking, the industry growth is strong, but returns on capital are still not as high as in the late 90s (Pearce 2007, 1). Airline revenue growth is also expected to slow down (Avery 2007, 7; Pearce 2007, 2). Nevertheless, at the moment the *intensity of rivalry does not focus on struggle on market share* as capacity in the air travel industry is sufficient to maintain such an amount of airlines competitively. It was also considered interesting to take a look also at the passenger growth. Since 2000, the amount of air passengers has grown by nearly 433 million, and it has been forecasted to grow even more (Pearce 2007, 4). This tells that demand for scheduled air transport services is increasing. Industry growth in regard to revenues and passengers can thus be seen as contributing to a *moderate intensity of rivalry*, because the industry growth does not constrain operations. Actually, it contributes to take advantage on new opportunities.

Air travel industry is sensitive to fluctuations (e.g. Norkela, interview 4.10.2006). This has been several times proved by recent developments within the industry, rapidly presented in the introduction part of this study. Referring to random as well as dependent factors, the airline industry easily reacts to them. One random factor worth mentioning is the psychological side of the consumers, for example in the short run drastically reducing travelling due to a terrorist attack (Norkela, interview 4.10.2006; Lloyd – Chong – Patrick 2003, 7). Oil's world market price affects all airlines, putting them in this regard on the same baseline. These are therefore crucial to take into account when considering economic growth. They can have a sudden, strong impact on the entire industry.

Fixed costs. A matter that airlines take into account is also the nature of the commodity they offer; air flights (transportation) cannot be stored, and this aspect involves making predictions on demand (Norkela, interview 4.10.2006). This is a crucial issue as this leads to fierce competing on customers, raising the dynamics of the environment. When all the tickets to a flight are not sold, the profits that could have been gained are lost as the seats cannot be stored for the next flight.

Switching costs. “Volatile” is the word that has been several times repeated in literature and speeches handling the situation of the airline industry (e.g. Lloyd et al. 2003, 15). It has also been seen in section 2.3 that airlines differentiate themselves for being competitive in their field of operations. Regarding a flight as the basic product of an

¹ Extracted from ICAO data to 2005 and IATA forecasts 2006-2008.

airline on a single route, switching costs are often low for buyers. This is sustained by the fact that the first criterion to choose an airline in international flights is price¹ (Global market forecast 2006, 22). Many incumbents therefore take advantage of buyers' likings by creating vigorous price competition. In the view of competitive authorities, it is difficult to assess whether price competition turns out to be predatory pricing (Forsyth et al. 2005, xiv). Predation can be defined as selling a product below one's cost with an aim to make the rival exit the market and to gain monopoly profits afterwards (Forsyth et al. 2005, xv), even though there is no general consensus on predation among economists (Forsyth et al. 2005, xxii).

The airline industry's capacity. As noted, the airline industry is a network industry with economies of scale, scope and density. Exploiting the network aspect brings value added to customers by enlarging an airline's supply range and thus making it easy for customers to organise a trip (Norkela, interview 4.10.2006). This enlargement of the range of supply – enlarging an airline's capacity – could result as an overall filling of industry capacity. Avery (2007, 4) supports the view that the airlines increase their capacity well in excess in comparison to normal market growth. Moreover, the ferocity of price competition (see Forsyth et al. 2005, xiv) could well support the view that the industry is near its maximal capacity level.

Diversity of competitors. In regard to strategy, there are a number of different kinds of competitors competing on the same market. One should go back to section 2.3 where airlines with differing strategies and orientations have been presented. It is not a surprise that the range of different strategies has emerged. New opportunities following the process of liberalisation of the air travel industry have been a power for change (Norkela, interview 4.10.2006). Gradually removing the state-owned flag carrier system, in which two countries agreed on transports between them has clearly affected the supply side of the air travel industry (Norkela, interview 4.10.2006). What comes to the diversity of origins, the basic characteristics of the airline industry is inherently a geographically largely spread business (Norkela, interview 4.10.2006). Also, due to the phenomenon of flag carriers, the origins of competitors are numerous with their roots in different countries. Interesting, although not perfectly illustrating, is that IATA's member airlines that represent 94 % of world's airlines operate in 130 countries (IATA – fact sheet). So, the diversity of airlines makes the competition naturally turbulent, as today the scope of competitors does more easily extend over national boundaries.

Firm's strategic stakes. It is not unambiguous to assess the extent to which companies are devoted to this industry. Nevertheless, one could say the air travel industry is quite a specialised industry even though there are groups such as Virgin Group² that have companies with a focus on travel, leisure, shopping, social and environmental con-

¹ Source: Survey of international air travel. US Department of Commerce.

² see www.virgin.com

cerns, health, media, and finance. This diverse, immense group is an exception. Most firms in the air travel industry are primarily single-business or dominant-business firms (Peteraf 1993, 521). So, high strategic stakes present in the air travel industry are making the competition fiercer. If an airline does not keep up with its competitors' pace, it is questionable how long it can profitably operate. For airlines, achieving success in the air travel industry is needed for survival, and therefore firms have high strategic stakes which create intense competition.

Exit barriers. It is almost unnecessary to state that owning aircraft is a high exit barrier, because as a specialised asset it is difficult to liquidate as then the whole business would lose its purpose. (see Lloyd et al. 2003, 7).

5.1.3 Pressure from substitute products

In an industry, products substitutable to each other naturally exist. When two or more firms provide the same kind of product to the same market, one can talk about competition. When talking about substitute products, the focus is on other industries' products, which can be bought for the same purposes as the industry's product.

Generally charter flights are not included in the same product market as scheduled air transport services (Mergers and Alliances... 2004, 11). It is very important to point out that it can only be assessed on a route-by-route case if alternative transport modes, such as rail, road or water transports belong to the same product market as air travel. Often – but not always – high-speed rail transport has been considered as a noteworthy option for all categories of passengers. The key to assess the substitutability is the total travelling time; when the difference is perceived as small, the alternative transport mode is considered as an actual substitute. (Mergers and Alliances... 2004, 11–12)

As a result, when later assessing airline positioning, neither charter flights nor alternative modes of transport will be taken into account as they do not pose any real pressure to the industry as a whole. Nevertheless it is not denied that alternative transport modes may pose a pressure of substitution on a single route. It is questionable whether the pressure of substitute products belongs to the air travel industry's strongest forces. But, considering the industry as an entity, e.g. rail transport substitution affects only certain routes and is therefore not one of the major key features, and consequently, it is not a force that would shape the industry. This is why it is questionable whether an airline should take into account substitutes when building its *overall* competitive strategy.

5.1.4 Bargaining power of buyers

In this research, buyers in the air travel industry are mainly considered to be individual passengers, whose flights have been purchased using the money of the household in which they live. In the literature on competition in the air travel industry, there is the distinction between the time-sensitive (generally business travellers), and non time-sensitive travellers (generally leisure travellers) (see e.g. *Mergers and Alliances...* 2004, 6). Also other distinctions have been made between types of passengers, e.g. connecting/point-to-point passengers (see *Mergers and Alliances...* 2004, 7). Nevertheless, as data on the travellers' time-sensitiveness is unavailable (see *Mergers and Alliances...* 2004, 6), it is out of this research's scope to try to find other ways for distinguishing between these two customer groups. Also the distinction between connecting and point-to-point passengers is useless for assessing competition of affected O&D routes; all the passengers must be taken into account (see *Mergers and Alliances* 2004, 7).

In general, individual passengers (i.e. customers) do not have any bargaining power in relation to airlines. Corporate customers may have this buyer power, but only at a small scale. (*Mergers and Alliances...* 2004, 29) This is somehow confusing taking into account the price competition present between airlines. Lloyd et al. (2003, 8) consider that with the arrival of the internet has made the information more transparent, and consequently, increase buyer power. Thanks to the internet, buyers can compare prices side-by-side. Internet has also weakened the power of FFPs, and customers have shown less brand loyalty in recent years. (Lloyd et al. 2003, 8) Therefore, the bargaining power of buyers is seen as one of the strongest forces. Competition between airlines for passengers is fierce particularly in a period of low demand (Lloyd et al. 2003, 8), that is, low growth.

5.1.5 Bargaining power of suppliers

First, in the air travel industry, labour poses a great power. Most airline employees are union workers (Lloyd et al. 2003, 7). Much has been discussed in the media on the working conditions of flight crew, for example. The conversation can be the result of bargaining power of labour unions. Moreover, shortage of skilled labour has augmented their bargaining power in wages (Pearce 2007, 4). But, some low cost airlines have been in this regard under scrutiny, as the attempts of their labour to form a union have been inhibited. As a result, alternative means are employed in order to form a collective voice for hearing the employees¹.

¹ See www.ryan-be-fair.org

What comes to industrial suppliers, they have a fair amount of power in the industry (Lloyd et al. 2003, 7). Aircraft manufacturers are only few (e.g. Boeing, Airbus). Planes have a limited life; they cannot be sold forever (Lloyd et al. 2003, 7). Moreover, airlines have often a long-term contract with the supplier. Referring to Porter (1980, 28), even though airlines would change their needs, it does not seem probable that it could have an effect on bargaining power of suppliers, as they are more concentrated than the air travel industry. The industry does not have many alternative producers, the product (aircraft) is crucial for to the airlines' business (who would fly without wings?), and the aircraft manufacturers have built-in switching costs due to their scarcity. The product of aircraft manufacturers has become even more crucial as cost savings are in the heart of competitiveness of an airline (Pearce 2007, 4). Consequently, manufacturers have used their power by raising the prices of fuel-efficient aircraft (Pearce 2007, 4). But, the air travel industry is an important customer of the supplier group, thus having a buyer power. Furthermore, the product is storable (but not with a frequent turnover), and the supplier does not pose any credible threat of forward integration, because they already share the market with few competitors and therefore exert great market power in their industry.

Third, fuel costs are significant (Lloyd et al. 2003, 8). The strong economic growth and production cuts by OPEC¹ have resulted in an even further increase of fuel prices (Pearce 2003, 2) which has been cushioned with the improvements in aircraft fuel efficiency.

As a conclusion, the bargaining power of suppliers is estimated as moderate, but not strong. The following figure gathers each force and their strength considered according to the features behind them.

¹ OPEC = Organization of the Petroleum Exporting Countries

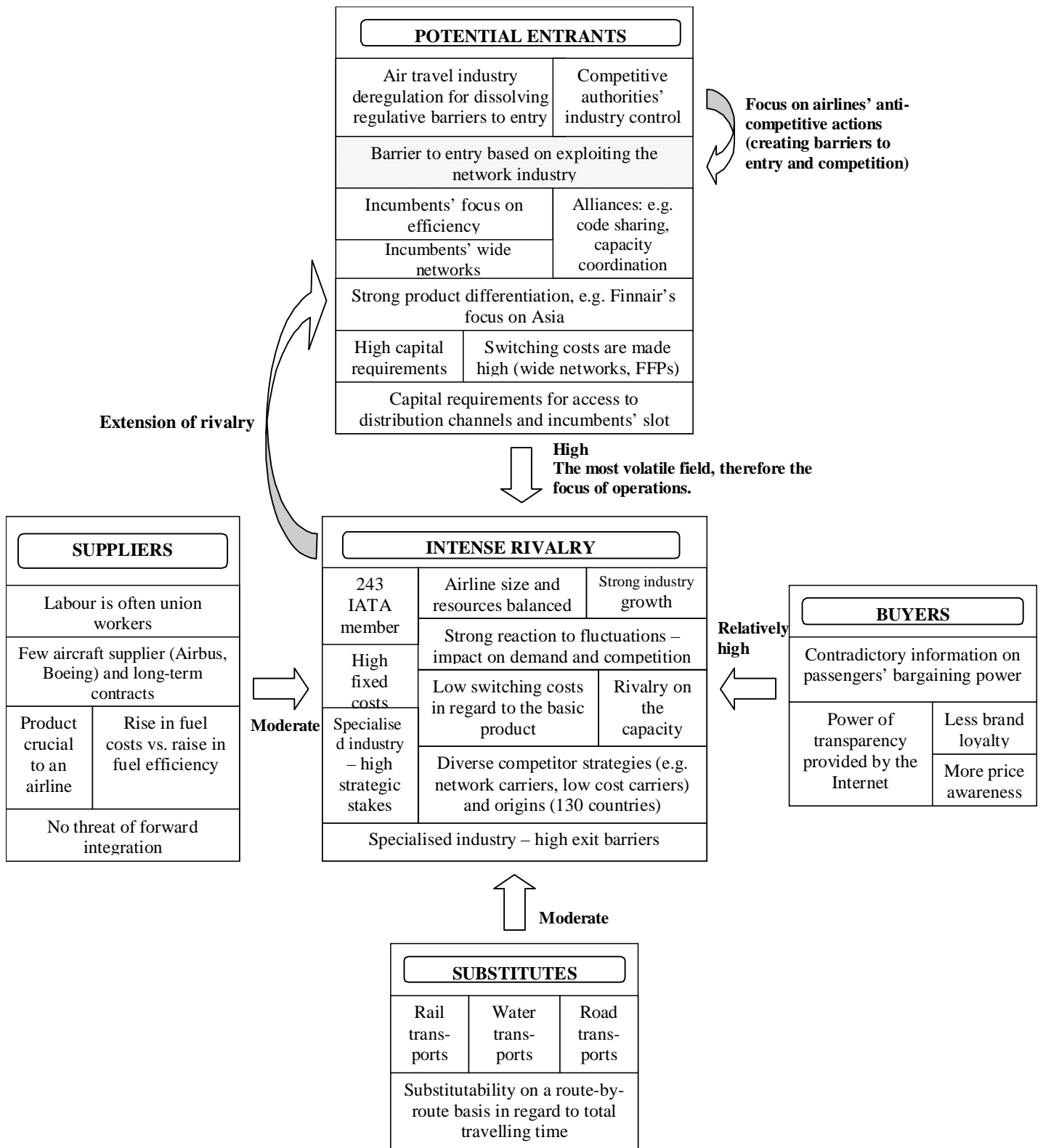


Figure 8 Strongest forces driving air travel industry competition

Figure 8 shows the key features that affect the strength of each competitive force. The air travel industry's competitive environment is shaped especially according to

buyers, deregulation followed by new potential entrants, and buyers. The strength of rivalry is considered to be a result of these three strong forces. Nevertheless, it is quite ambiguous to assess the strength of threat of entry, because it appears as a battle between competitive authorities lowering barriers to competition, and incumbent airlines heightening them. As the incumbents have a variety of strategic means to heighten the barriers to entry, the threat of entry decreases, at least momentarily. In this particular moment, airlines tend to assess the threat as important, but the threat is then erased by action inhibiting competition. Still, the threat steadily becomes more important as competitive authorities enable new entrants' entry to competition. Next these three forces, which appear the most important in shaping the structure of the airline industry, will be assessed from the view of each case airline.

5.2 The case airlines' competitive positioning

The previous section revealed the characteristics of the air travel industry. It provided an explorative answer to the first sub objective of this research. It also revealed to some extent the major forces shaping the industry. This section focuses on *describing the main factors affecting airline positioning in the chosen market and visualising the positions of a set of airlines within a distinct market.* The main factors will be assessed in regard to each case airline. As the strongest forces shape the industry, competitive strategy is formulated against the industry's strongest forces and thus against specific factors. Moreover, competitive strategy cannot be constructed on inexistent resources and capabilities. Therefore a strategically managed airline has *developed strengths in regard to the industry's strongest forces and understands its weaknesses* – thus where not to position itself.

This section provides thus insight to the factors according to which airlines place their rocks in the landscape. The landscape is here understood as the market that was framed in section 4.2.1, that is, the European scheduled air transport services market. The European air transport services market is thus a market isolated by blockages, that is, barriers to entry, from other markets within the air travel industry. For example, cargo business segments will be excluded from analysis even though they are provided by many air travel groups. The second and third sub objectives are reached in regard to five case airlines which were chosen in accordance to the strength of their fit to the European scheduled air transport services market. Airlines were considered to have a strong strategy and a logically constructed competitive position when they showed their popularity in regard to the number of passengers carried.

Figure 9 summarises the logic of this chapter – why the two last sub objectives need to be handled simultaneously.

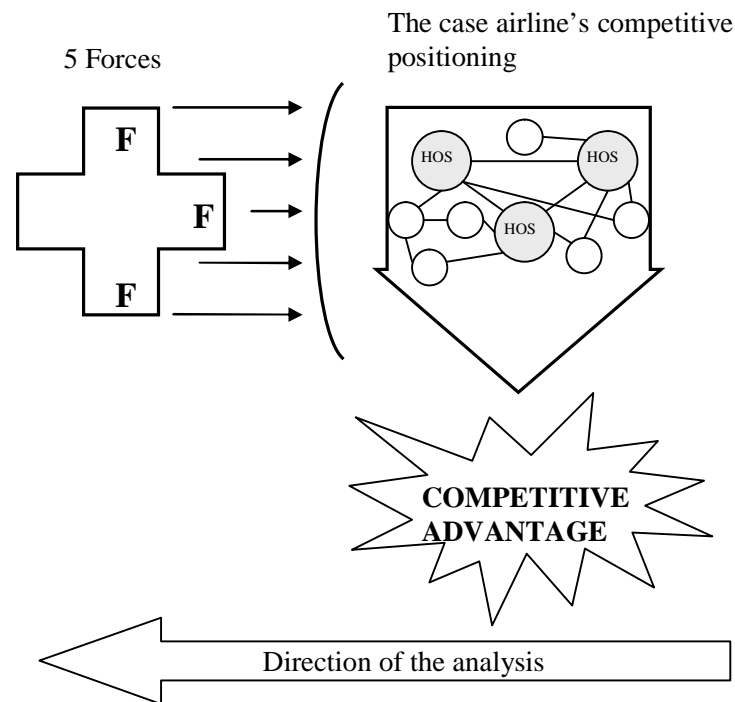


Figure 9 The sequence of analysis for the second and third sub objectives

Competitive position has been constructed in regard to the industry's strongest forces. Competitive position is the façade that the public sees. It is also the tool for achieving competitive advantage when the public likes what it sees. Therefore, competitive advantage is reached when competitive positioning has been done matching the company's abilities to the market's requirements – not forgetting the rules of the industry, which in turn is shaped by the strongest forces. The company's abilities are translated to activities that the market is assumed to value and that it can provide considering the restrictions the industry's strongest forces pose. These activities are perceived as signalling criteria, discussed in the theoretical framework. Analysing the activities that are constructed in regard to the underlying forces (the shield in the figure) will unveil the crucial forces in regard to each airline, thus providing an answer to the second sub objective. Thus, *the central tool of this chapter is the activity-system map* which presents the airlines' measures for making the buyers perceive their position as the airlines want.

When scrutinising the case airlines' activity-system maps, one has to understand that a company's competitive position is interpreted by individuals in different ways. Positioning is what a company does to a customer's mind. How one understands the competitive position may vary from individual to individual. The maps are constructed in the understanding of this research's author, and they thus do not represent the one and sole truth; the list of a company's activities is endless and those activities' linkages may

be perceived in numerous ways. Here one could talk about a positioning gap, that is, the difference between the place where a company wants to be, and the place in which buyers perceive it to be. Nevertheless, the author followed the promises of the airlines and linked them to their activities, thus ensuring a “realistic” understanding of the case airline’s competitive positions. The cases are purposely handled at an explorative exactitude. *The activities in the respective annual reports are mirrored to the airlines’ promises.*

5.2.1 Ryanair Holdings plc

Company overview. Ryanair Holdings plc is a group that operates low fares scheduled passenger service (Ryanair: Annual report 2007, 3 & 45). It is headquartered in Dublin, Ireland. All trading activities are provided by Ryanair Limited. (Ryanair: Annual report 2007, 45) From now on, the airline will be referred to as Ryanair. Ryanair characterises itself as the most reliable airline in the industry in regard to customer service delivery (see Ryanair: Annual report 2007, 4); it argues being Europe’s No.1 customer service airline in regard to best punctuality, fewest lost bags and fewest flight cancellations (Ryanair: Annual report 2007, 6). The company serves on 550 routes and it has an operating profit of €472 million (Ryanair: Annual report 2007, 13).

Competitive position. The Ryanair strategy is crystallised as follows (Strategy):

Ryanair’s objective is to firmly establish itself as Europe’s leading low-fares scheduled passenger airline through continued improvements and expanded offerings of its low-fares service.

Thus Ryanair’s strategy as position provides low-fares service which is communicated through the low level of ticket fares. The basic pillars of the airline’s strategy are low fares, customer service, frequent point-to-point flights on short-haul routes, taking advantage of the internet, commitment to safety and quality maintenance, enhancement of operating results through ancillary services, focused criteria for growth, and low operating costs (see Strategy). As it was discussed in the theoretical framework, cost leadership is only an internally focused competitive advantage. Therefore the company’s competitive position is handled in regard to the differentiated assets and capabilities that give the customer greater value (see section 3.3). Taking advantage of the internet and providing ancillary services are considered as activities contributing to keeping fares low. Therefore they are not presented as higher-order themes. The commitment to safety and quality is not a higher-order theme either, because it is rather perceived as delivered service, thus bundled with customer service in the list above. It is supported by personnel training programmes, for instance. Figure 10 shows how Ryanair provides its

competitive position with low fares, customer service and frequent point-to-point flights on short-haul routes.

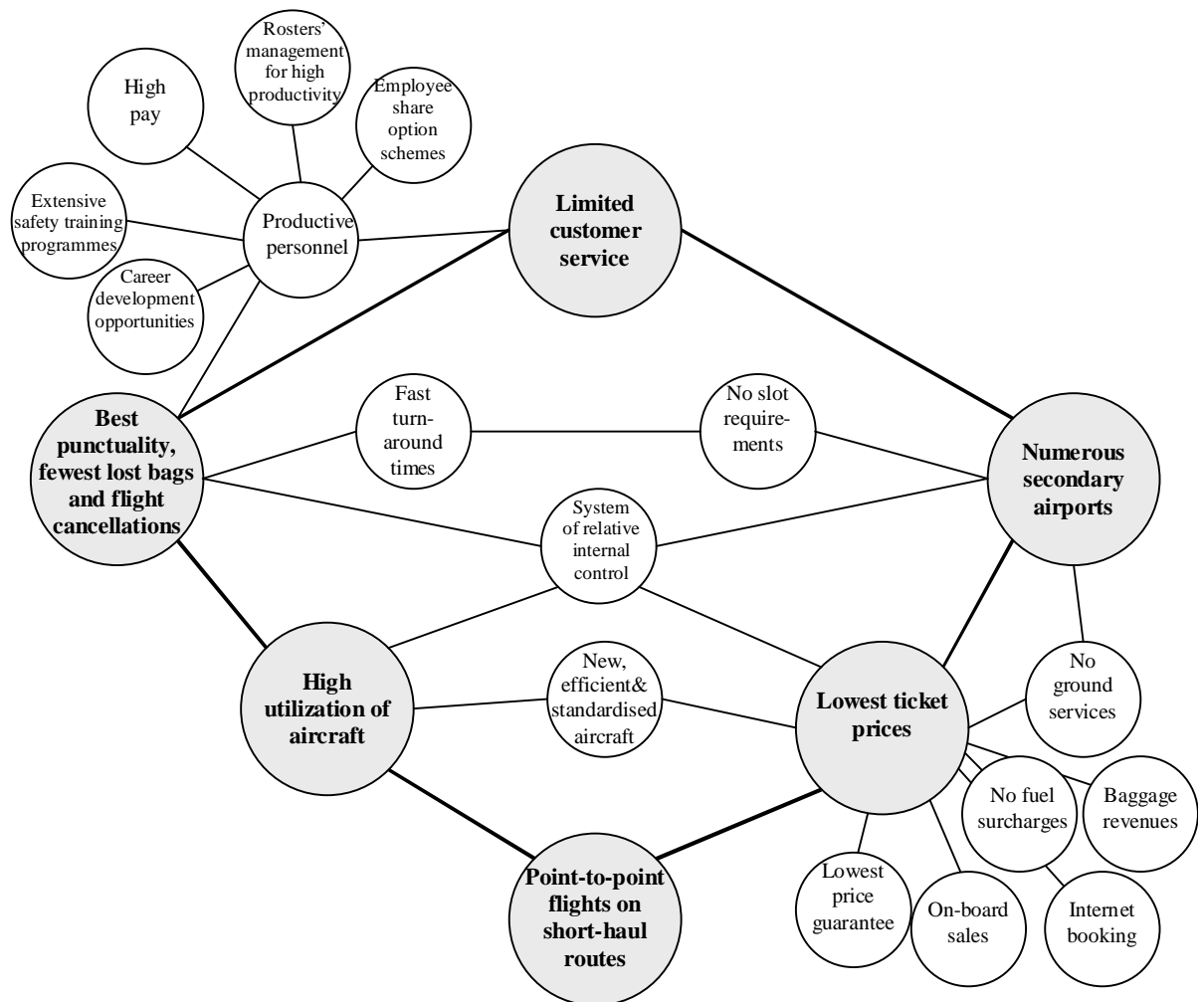


Figure 10 Ryanair's activity system (Strategy, 1–4)

According to, Hooley et al.'s (1998, 105–112) competitive positioning dimensions, Ryanair positions itself above all on the low price dimension. Hooley et al.'s (1998, 107) proposed assets and competencies are present mainly in internal control and innovation by the internet, contributing to realising a low price position. The higher-order strategic themes will be next introduced with activities that support them. Then, the underpinning forces will be assessed.

Low fares. Ryanair's low fare policy is targeted to attract price-sensitive travellers who might have used alternative transport modes or would not have travelled at all (Strategy, 1) Internet users are allowed to make reservations and pay for confirmed ones through the company's website Ryanair.com (Strategy, 3). Thus Ryanair makes substantial savings as near to 100 % (see Strategy, 3) of its reservations are made through

the internet. Moreover, ancillary services such as on-board sales and excess baggage revenues contribute to reducing costs on a per unit basis (Strategy, 4; Ryanair: Annual report 2007, 15). Ryanair owns aircraft with an average age of 2,7 years and has invested in 30 new ones in year ending March 2007. (Ryanair: Annual report 2007, 4 & 33) The newness of its aircraft is not surprising. The volume of the company's operations has exploded from 19 million passengers in 2003 to 42,5 million passengers in 2007 (see Ryanair: Annual report 2007, 3). The airline's aircraft is dense in regard to seats and argues having a high passenger load factor, which means the maximal seats sold on a flight (Ryanair: Annual report 2007, 34). Thus the aircraft utilisation is made efficient, which in turn enables the airline to introduce its "lowest price" guarantee with no fuel surcharges (see Ryanair: Annual report 2007, 5&12). Moreover, efficiency contributes to reducing the airline's impact on the environment (see Ryanair: Annual report 2007, 34).

Limited customer service. Delivering the best customer service is ensured by strongly focusing on the delivery of punctuality, minimising baggage losses as well as flight cancellations. Operating from uncongested airports also contributes to succeed in customer service. (Strategy, 1) The airline's personnel is motivated e.g. thanks to its high pay: Ryanair's average pay is one of the highest among European airlines, that is, 52 499 euros. This is higher than Air France KLM's, British Airways' or Lufthansa's pays¹. (Ryanair: Annual report 2007, 7). Moreover, employees are involved in delivering safe service: an extensive safety security programme is used in recruiting qualified crew (Ryanair: Annual report 2007, 19). Thus, customer service may be restricted, but its tight focus allows Ryanair to deliver it in a best possible way.

Frequent point-to-point flights on short-haul routes. Short-haul routes allow Ryanair to provide frequent service. It also erases the necessity to provide "frill" services that customers would expect on longer distances. Moreover, point-to-point exempts the airline from providing ground services such as baggage transfers, as there are no connecting passengers. (Strategy, 1)

Numerous secondary airports. Secondary airports are generally uncongested. Consequently, they are more reliable for timely departures, faster turnaround times in regard to passenger loading and unloading. Secondary airports are more competitive in regard to access and handling costs. (Strategy, 1) Ryanair maximises its aircraft utilisation mainly thanks to fast turnaround times. Moreover, secondary airports contribute to cost reduction through the fact that they usually do not have slot requirements that would limit the number of allowed landings and take-offs. (Strategy, 2)

Last, the airline has a system of internal control for managing the risk of failure to achieve its business objectives. Nevertheless, this system does not provide total coverage against unwanted events. (Ryanair: Annual report 2007, 28) Thus this is probably

¹ Katso vastaavat muiden vuosikertomuksista äläkä vain Ryanairista.

one point in which the airline has made costs savings, compared to the airlines presented later in this chapter.

Factors from which Ryanair's competitive position stems. Ryanair's activities system map reveals the airline's focus on the needs and wants of price-sensitive customers. The airline has based its operations on the consideration of opening the market to customers, who do not seek the luxury of travelling, but value the core product of the airline. As a result, the airline has rigidly focused on the activities that deliver the core product reliably. No misunderstandings occur as the relation between low price and the service delivered are interrelated. Nevertheless, low fares do not mean low security – and this has clearly been stated in Ryanair's activities contributing to its positioning. Thus the figure below illustrates the competitive forces that affect the airline's strategy. The factors beneath these forces are next explained.

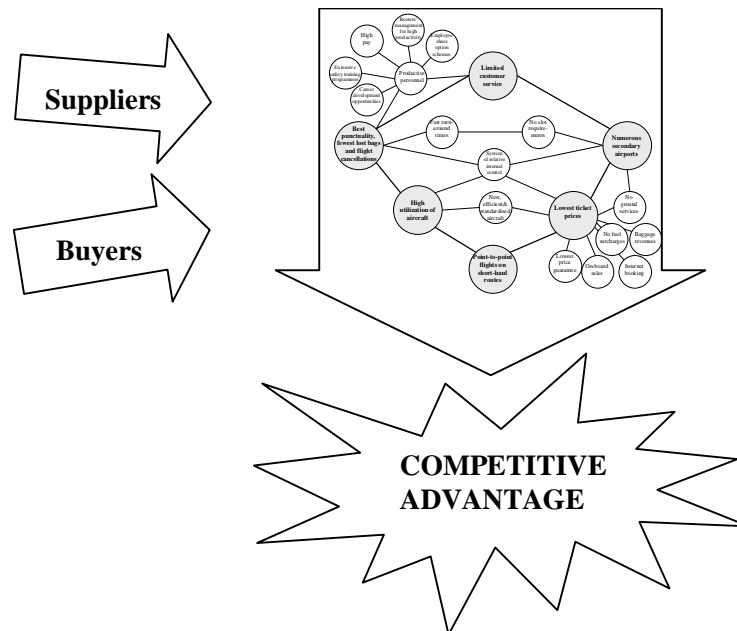


Figure 11 The strongest forces in regard to Ryanair

Ryanair has sought to differentiate itself as a low fares, no-frills provider. This kind of competitive position has proved to be a successful one; the popularity of the airline is the proof. As already seen, Ryanair is the leader in regard to the number of passengers carried. Moreover, it argues that it is the number one in customer service. Both listening to its customers through price and the quality of its service, even though restricted, prove that *Ryanair has forcefully positioned itself in regard to the bargaining power of buyers*. At the same time, Ryanair has provided its customers with bargaining power, as its website contributes to the supplying of transparent information on different price options. Ryanair has thus taken advantage of the buyer power by captivating it to the airline's purposes.

But, when the buyer power of price-sensitive customers is the most important force that shapes the company's competitive position, everything that may substantially change the structure is under scrutiny. In the company's annual report, two factors that have crucially affected the company's operations are the *supply of fuel* and the *increasing regulatory interventions* (see Ryanair: Annual report 2007, 6). 40 % of the company's total operating costs are due to fuel¹. As a company whose position bases on minimum operating costs, the bargaining power of suppliers in regard to fuel has grown significantly. If the increase in oil prices continues, keeping the present competitive position will pose a considerable challenge to Ryanair.

What comes to the power of Ryanair's employees, which is equally a supplier bargaining power, the company has inhibited the possibility of its staff to join trade unions (cf. Appeal for fairness). In a point of view, this is understandable as their strength could pose a considerable challenge in order to keep the cost structure of the company. Nevertheless, even though the question on staff is present in the media², the fact that it is not organised softens its strength in regard to the company and therefore is not considered as one of the main factors to the airline's competitive position.

Instead, the regulatory powers are those that inhibit the functioning of the company. For instance, the labour law in France is applicable also to the employees of Ryanair, even though headquartered in Dublin³ (see Labour law applicable...). In the airline's annual report (2007, 8), the company argues that the regulatory interventions are made in the interest of, and to protect, network carriers. Therefore one can argue that Ryanair indeed is threatened by discriminative actions that raise barriers to entry. Ryanair is seen as a threat, and thus regulation in regard to Ryanair does not represent something that opens the competitive field to new entrants. The regulatory power is therefore not a source of threat of entry (see Figure 8), and threat of entry is not a competitive force to Ryanair. It is Ryanair that poses a threat to other airlines.

As a conclusion, the forces according to which Ryanair has constructed its competitive position are *buyer power and supplier power*. The main factors beneath are *price-sensitive customers* informed with transparent information (*internet*), and *fuel prices*. Governmental actions inhibit the entry and thus lower the level of rivalry focusing on Ryanair. According to this reasoning, the airline seems to be the one that challenges, thus it is free from intense rivalry, potential entrants, and substitutes, in its domain. As it occupies a strictly differentiated competitive position, the only airlines that truly challenge Ryanair are other low fares airlines.

It is important to note that these are the factors that are perceived in regard to Ryanair's point of view – the material lies mainly on the company's annual report. But

¹ 693 331 000 € out of a total operating cost of 1 765 150 000 € (see Ryanair: Annual Report 2007, 42)

² (See e.g. Union seeks allies...; Ryanair and easyJet...)

³ At the time of the redaction of this research, the decision was not yet put on the French Council of State's web site.

reaching objectivity is not the purpose. A competitive position is not constructed on the basis of outsiders' perception of the factors that affect the company. Competitive position is constructed by the company, thus on what *the company* perceives of its environment. Therefore, even though Ryanair argues being "the victim of powerful monopoly airports" or being deprived of the merger with Aer Lingus by the European Commission (see Ryanair: Annual report 2007, 11), one cannot despise the power of deregulation of the European air transport market that has provided Ryanair – together with other airlines – with freedom to operate on a considerable geographical scale, opposing to the era of flag carriers.

5.2.2 Lufthansa

Company overview. Lufthansa is characterised as one of the world's largest network carriers (Lufthansa: Annual report 2007, 1). In fact, it is the world's fourth largest air travel services provider (IATA Economic Briefing 2007, 2) with an operating profit of €845 million (Lufthansa: Annual report 2007, 182). It offers its customers network connections to 843 destinations in 153 countries through its membership with Star Alliance (Lufthansa: Annual report 2007, 101). It was pointed out when handling the first sub objective that customers highly value wide networks. This is also ascertained in the group's annual report: It is considered as a major achievement (see Lufthansa: Annual report 2007, 32) and moreover, it is stated on the first page of the report – Lufthansa is a leading network carrier (see Lufthansa: Annual report 2007, 1). Consequently, Lufthansa has considerable bargaining power in the market as it is a high-ranking air travel services provider. The group operates in key European economic gateways (see Lufthansa: Company profile 2006, 20), for instance in its two hubs in Frankfurt and Munich (Lufthansa: Annual report 2007, 38). The group has other business segments such as cargo and catering services contributing to the strong market position (see Lufthansa: Company profile 2006, 20). Nevertheless, Lufthansa's core business is passenger transportation. This segment generates 65,1 percent of the group's revenues¹. (Lufthansa: Annual report 2007, 34) Consequently, passenger transportation provides the most substantial contribution to Lufthansa's strong market position.

Competitive position. First, the presentation of the Lufthansa Group in its annual report (2007, 1) is useful to discuss:

We want to assert our position and continue to grow as a leading network carrier with excellent quality and innovative services. This growth represents great opportunities for our customers, employees and shareholders alike because we feel duty bound to create value. We want to continue to

¹ Excluding SWISS, see footnote p. 78

write success stories – as the most attractive and most profitable airline offering global services!

The above promise positions Lufthansa as a global, leading network carrier with excellent quality, and excellent innovative services. Lufthansa's image contains four key notes: quality, safety, reliability and innovation (Lufthansa: Annual report 2007, 34). Nevertheless, each of these key notes is not prominently present in the above promise. Quality and innovation are clearly communicated, and reliability can be discerned through the promise of "we feel duty". But under the surface of quality, only a note of safety can be interpreted. One can therefore conclude that the promise in question is the simplified communication provided for customers that suffer from over communication.

Comparing the above promise and the activities designed for delivering the competitive position highlights Lufthansa's choice of target market and the differential advantage it seeks to create. Moreover, the crucial competitive forces in regard to the airline will be unveiled. Figure 12 shows the activities as well as interconnections among them.

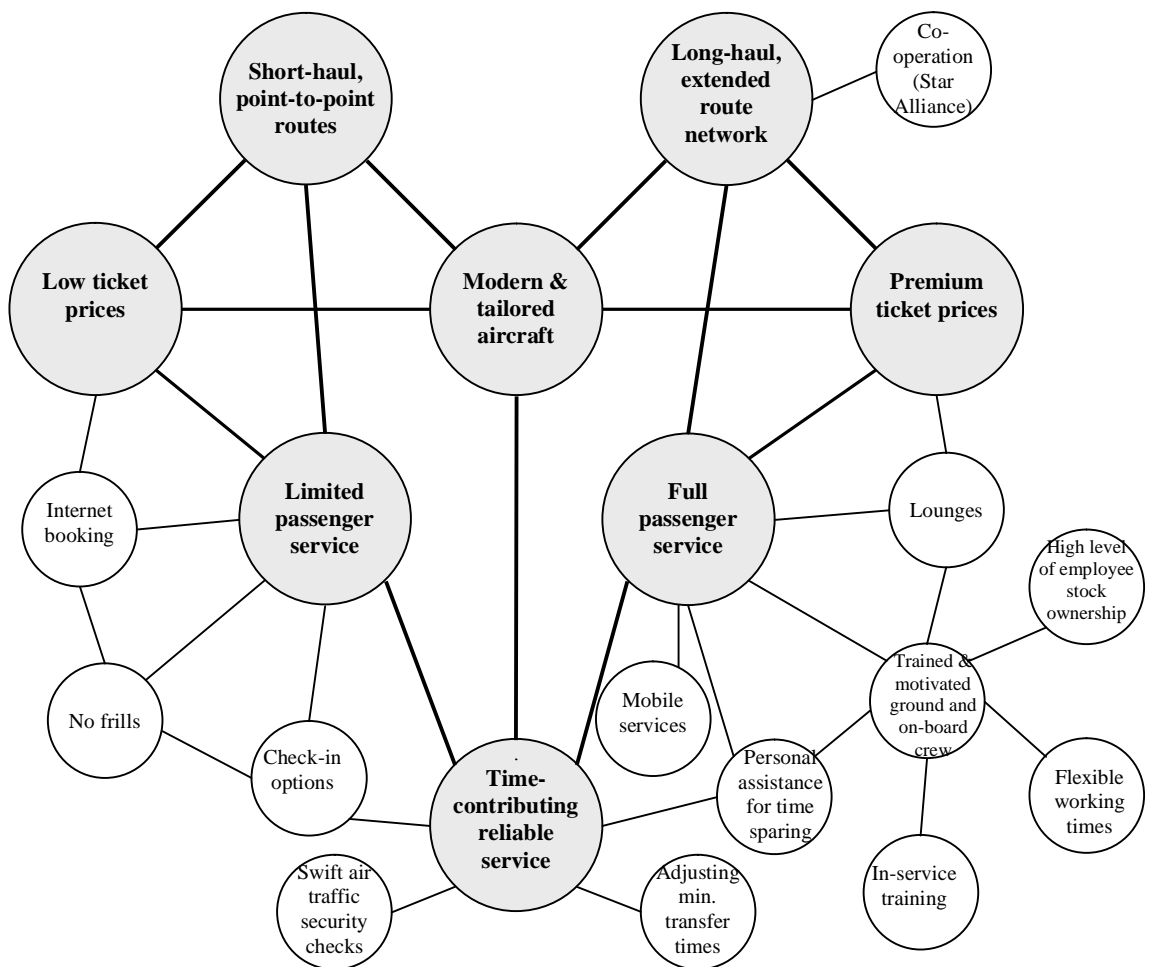


Figure 12 Lufthansa's activity system (see Lufthansa: Annual report 2007, 1–38)

Drawing attention back on Hooley et al.'s (1998, 105–112) competitive positioning dimensions, the author argues that Lufthansa's competitive position has notes of each dimension. But, above all of these, Lufthansa seems to lean on benefit positioning dimension. Hooley et al. (1998, 107) argued that this dimension includes market sensing, new product service development skills and creativity in segmentation. In this regard, the higher-order strategic themes will be briefly explained as well as the linkages with activities. Then, the forces taken into account will be assessed.

Lufthansa concentrates on positioning itself as a premium brand (Lufthansa: Annual report 2007, 37) One can see that Lufthansa's activity system map reveals also services that do not communicate any premium value at a first glance. But the underlying means of positioning Lufthansa as a provider of premium services is that *quality counts in all classes* (Lufthansa: Annual report 2007, 32). Lufthansa has an explicit multi-brand¹, multi-product strategic frame (Lufthansa: Annual report 2007, 37), which explains the controversial signals of its activity system map. Lufthansa can be seen as a quality service provider which has the resources to provide differentiated service for creatively segmented market segments. Next Lufthansa's higher-order strategic themes are explained.

Full passenger service. Full passenger service means especially flexibility and personal service. (see Lufthansa: Annual report 2007, 34) This is ensured to be delivered through by employee motivation for quality service (see Lufthansa: Annual report 2007, 27 & 95). "Value is created by respect" (Lufthansa: Annual report 2007, 26). The activities making the staff motivated are presented in the map.

Long-haul, extended route network. Lufthansa is a founding member of Star Alliance, which enables extending Lufthansa's routes and services worldwide (Lufthansa: Annual report 2007, 34). As already noted, the wider the network, the more recognised the airline amongst customers. And the wider the shared services, the more efficiency gains are made.

Lufthansa provides, in co-operation with its partner airlines, a frequent flyer programme named Miles & More. (Lufthansa Annual Report 2007, 65)

Premium ticket prices. Those passengers who need full service and a connected route under the same airline, are willing to pay a premium ticket price. For example, Lufthansa has two premium products: First Class Terminal and Private Jet services, clearly oriented towards frequent business travellers (see Lufthansa Annual Report 2007, 35).

Limited passenger service. Following its multi-product approach, Lufthansa offers limited passenger services for those customers who want just to fly (Lufthansa: Annual Report, 35). Thus, providing only the core product keeps the costs low, enabling selling

¹ The business segment Passenger Transportation comprises Deutsche Lufthansa AG, which is the group's parent company. Furthermore, this segment includes Air Dolomiti, Lufthansa CityLine, Eurowings (including Germanwings), and SWISS. (Lufthansa: Annual Report 2007, 34)

tickets at low fares. The executive power is the “BetterFly”-programme that ensures delivering what customers want by having surveyed them (see Lufthansa: Annual report 2007, 35). Internet booking (e.g. www.germanwings.com) as well as check-in counters and automatic check-ins contribute to cost reduction.

Low ticket prices. Lufthansa provides low fare on rather restricted terms (Lufthansa: Annual report 2007, 34) – and limited service.

Short-haul, point-to-point routes. The “BetterFly”-programme concentrates on flights within EU and Norway, Switzerland and Turkey (Lufthansa: Annual report 2007, 35).

Modern & tailored aircraft. Fleet investments are made in the focus of cost-savings and environmental-friendliness. The group has made research on air traffic impact on the environment for ten years. The new fleet ordered is fuel-efficient and has low-noise engines. (see Lufthansa 2007, 93)

Time-contributing reliable service. For example, the possibility to check-in and print boarding cards at home already saves time at the airport. Also, swifter air traffic security checks have been introduced. Moreover, Lufthansa has adjusted minimum transfer times on many time-critical routes for keeping its flight departures punctual. (Lufthansa: Annual report 2007, 38–39) The security checks contribute thus to safety, and punctuality to reliability.

Factors from which Lufthansa’s competitive position stems. What can be said then, against which forces Lufthansa has created its competitive position? It clearly has a market sensing attitude, thus listening to what the customers have to say. Especially in no-frills services leaning on internet booking that contribute to information transparency, *buyers have considerable bargaining power.* Indeed, Lufthansa’s annual report (2007, 34) observes that passengers are increasingly price-sensitive. Their bargaining power is thus present even though Lufthansa tries to combat the trap of highly standardised product with promising quality, for heightening switching costs. Therefore customers seem to have a great bargaining power in regard to Lufthansa’s competitive position. New products and services have also been developed in accordance to customers’ wishes. Not listening to their customer wants would lower their switching costs. Nevertheless, differentiated value proposition to customers does not make their bargaining power more important; this action has rather had an impact on threat of entry and potential entrants. Concluding, Lufthansa as a big group has carried through segmentation in a multi-focused manner, responding to customer bargaining power in terms of raising switching costs and *responding to the threat of entry* by enjoying all the major sources of barriers to entry (cf. Porter 1980, 7): Lufthansa has considerable contribution to its profitability stemming from alliances, product diversity, financial strength (see Lufthansa: Annual report 2007, 20), Miles & More –frequent flyer programme, its hubs and its history as a flag carrier. *The bargaining power of suppliers* is

important. It has been taken into account by crystallising that “value is created by respect” presented above, thus taking care of employee contribution. Suppliers’ bargaining power has also been taken into account in the airline’s investments on fleet, in which the high price of oil has played a crucial role (see Lufthansa: Annual report 2007, 34). The fleet investments have been further impacted by pressure in its environment for reducing noise emissions and pollution (see Lufthansa: Annual report 2007, 93). Consequently, *the forces against which Lufthansa’s Passenger Transportation segment has created its activities – and thus its competitive position – are threat of entry, bargaining power of buyers and bargaining power of suppliers*. Beneath the forces, the factors that contribute to the forces’ strength are *a variety of customers* in regard to price-sensitivity, *internet* as they are more aware of the offer in the market, and last, *low-cost carriers* which effect is revealed as Lufthansa seems to be forced to compete in the low cost field.

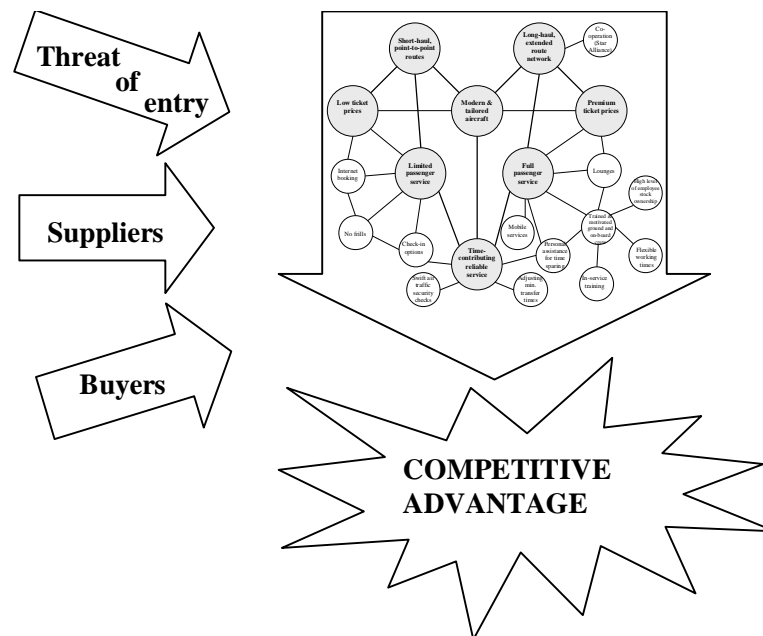


Figure 13 The strongest forces in regard to Lufthansa

Referring to the theory, competitive position needs to be created matching market requirements and the airline’s own resources. This is what has been successfully done in Lufthansa’s case. Different products are offered to different segments under different brands (multi-product, multi-brand – approach), thus keeping the offerings of different value separate. It can be deduced that Lufthansa has been positioned where it can take advantage of its own capabilities and where its competitors do not necessarily have resources to do the same. Moreover, one can see the linkages that are challenging to be imitated and that they are deeply embedded in the group’s activities through surveys

and motivating behaviour. Thus, where those forces are relatively high in regard to rivals, there Lufthansa attempts to be – thanks to its capabilities and resources.

5.2.3 Air France-KLM

Company overview. Air France-KLM is an interesting group in comparison to other case airlines in this research's. The group is a result of a creation of a holding company that regroups two airline subsidiaries, that is, Air France and KLM. The creation of Air France-KLM took place in September 2004. (Air France-KLM: Reference document 2007, 205) Access to new markets, managerial competence, technology and economic benefit can be seen as the resources that both airlines wanted to reach when merging (see section 3.3). Air France-KLM is constructed around a model of “one group, two airlines and three core businesses” (Air France-KLM: Reference document 2007, 46) Figure 14 illustrates the group's structure:

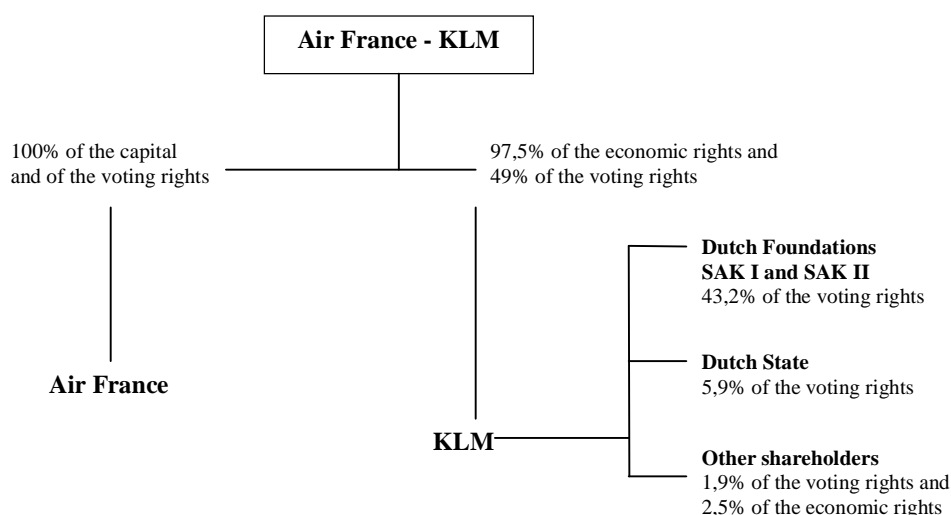


Figure 14 Air France-KLM group structure (Air France-KLM: Reference document 2007, 214)

Air France-KLM is the European market leader in passenger transportation with a market share of 27,1% in 2006. It argues that it has the best offer in Europe in regard to connections with long-haul flights from its two hubs: Paris-Charles de Gaulle and Amsterdam Schiphol. These hubs represent two of the four largest platforms in Europe. The group provides 240 destinations in 105 countries, of which 122 are medium-haul flight destinations. (Air France – KLM: Annual report 2007, 16–17) Finally, together with its SkyTeam alliance partners, 728 destinations are offered to customers of ten member airlines (see Air France-KLM: Annual report 2007, 26).

The group is thus the world's second largest (IATA Economic Briefing 2007, 2) with an operating profit of EUR 1 240 million (Air France-KLM: Annual report 2007, 65). In Europe, it is the largest one in this regard, as it is preceded by FedEx which is not a European carrier¹. It concentrates on three distinctive activities: passenger, cargo and maintenance. Passenger traffic represents EUR 1 067 million. (Air France-KLM: Annual report 2007, 5) and is therefore considered as the main activity of the group.

The focuses of the two airlines differ geographically. KLM concentrates on the North European market, whereas Air France operates more specifically in South European markets (Air France: un leader... 2006, 3). Thus the two airlines are complementary and do not represent any threat to each other. This obviously was one criterion for merging with the highest possible level of synergy effects. As the strategy of the group is shifting to a greater level of integration (Air France-KLM: Annual report 2007, 13), the competitive position will not be assessed in regard to the separate airlines. Instead, as the position is achieved by common activities such as a common network and team coordination between the two separate brands (see Air France-KLM: Reference document 2007, 26), the Air France-KLM competitive position will be assessed as an entity². Yet one cannot yet deny that Air France-KLM has two layers of positioning; one at the airline level, one at the group level. It is the increasing integration that justifies the analysis at the group level.

Competitive position. The message on the competitive position in the annual report of Air France-KLM is constructed on quotations of representatives from different companies using the group's services. Logically these comments are exposed in the report for proving the customer benefits that the group generates. The view of the customer, consistent with the message the group wants to communicate about itself, represents thus the group's competitive position. An extract of these quotations (see Air France-KLM: Annual report 2007, 19) is next presented:

The flight times and frequencies as well as competitive fares are all factors which convinced us to build a global relationship with Air France-KLM. We also appreciate the new e-services which streamline the travel experience. Finally, we are also sensitive to what the Group is doing on the environment.

Bill Doull

Europe Non Production Items Supply Manager

Unilever plc

This quotation thus incorporates the points on which the group leans in its positioning: *it has the leading global network, a leadership strategy focused on the customer,*

¹ FedEx has its headquarters basis in Memphis, and mainly a freight services provider (see FedEx express facts)

² Consider nevertheless that the two airlines are assessed separately in some publications (e.g. WATS 2006). The merger is now in a state in which access to information on the separate airlines is restricted.

new products in high-growth markets and the most modern fleet in Europe (see Air France-KLM: Annual report 2007, 16–24). In the view of the group, along with the increasing competition, customers have become more demanding in regard to customised service. As an answer to this challenge, the group has developed its e-services making travel easier, enriched its product offer and used innovation for better comfort on flights. (Air France-KLM: Annual report 2007, 20) Linking to the theory, one can discern the development from superior quality dimension to superior service dimension. Why? Because the merger did not literally merge the two airlines but a holding company with two brands was created. Thus amongst others, keeping the brand reputation of the two airlines translated into the strategic focus on image management and superior quality. Moreover, contributing to superior quality, both airlines have or are striving to have quality certifications; KLM has already acquired ISO 14001 certification (see Air France-KLM: Reference document 2007, 53–54). Now, the quotation above translates the group's position into superior service dimension. As already seen, the group is also further integrating, which can be understood as constructing in the long run an entity without fragmentation. Service dimension involves relationship building as a strategic focus, which is clearly seen through the quotations in the annual report focusing on corporate customers. *Market sensing* is prominently present through the leadership strategy focused on the customer (see Air France-KLM: Annual report 2007, 20). *Customer linking* involves amongst others frequent flyer program (this will be seen below). *Service systems* are developed amongst other through e-services (see Air France-KLM: Annual report 2007, 20), and last, *feedback and continuous monitoring* is realised amongst others through certifications and management systems (see figure below). Consequently, the group's competitive position is constructed on both dimensions with a switching centre of focus from quality to service. Next the competitive position will be illustrated:

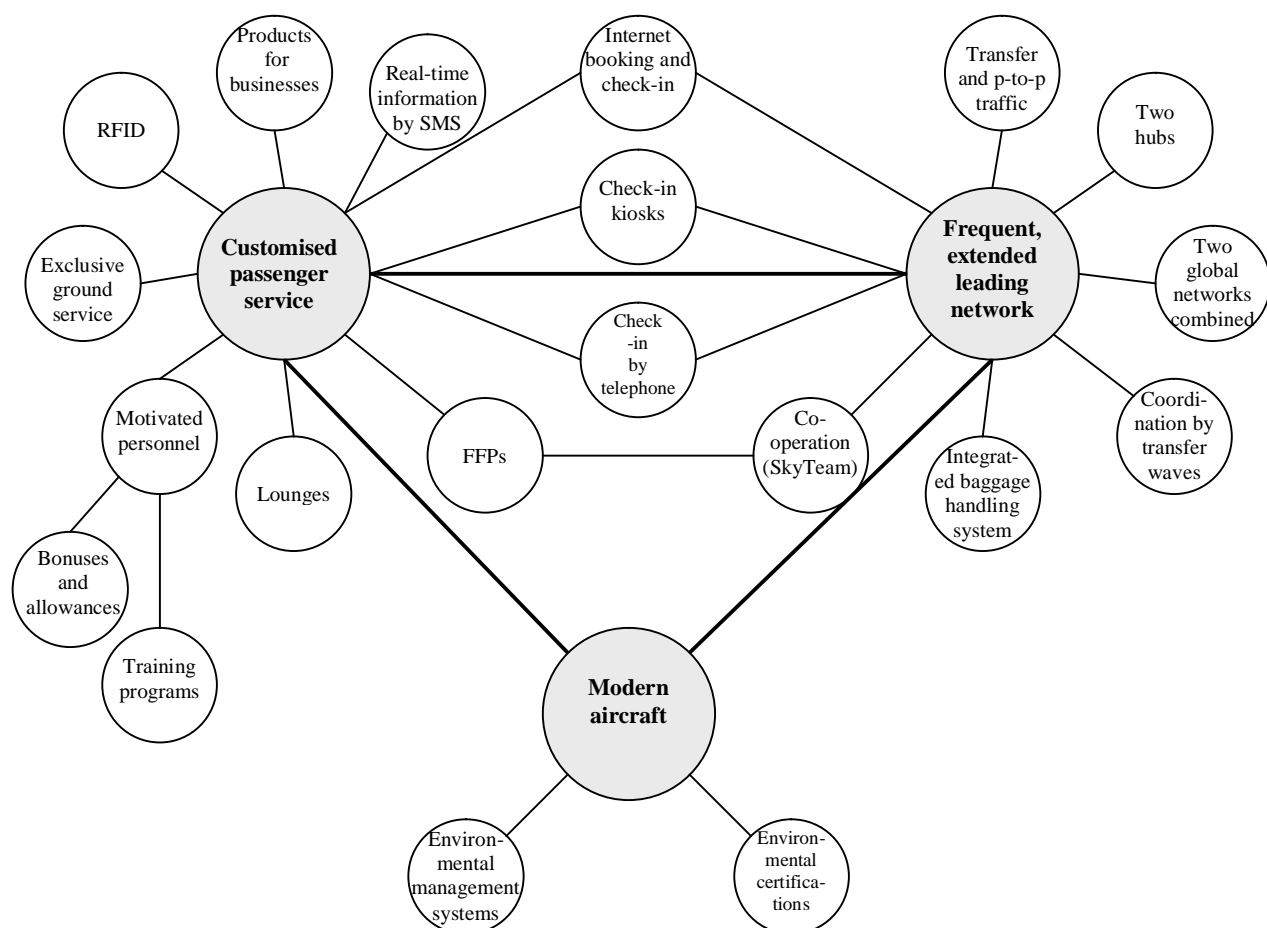


Figure 15 Air France-KLM's activity system map (see Air France-KLM: Annual report 2007, 16–28; Air France-KLM: Reference document 2007, 47–54)

Frequent and extended leading global network. This higher-order theme has been realised through the use of two hubs that the group declares as powerful. Indeed the coordination through a series of transfer waves at Paris Charles de Gaulle and Amsterdam-Schiphol enables the maximum number of transfer possibilities. (Air France-KLM: Annual report 2007, 17) Thus there is no doubt that, as a provider of a hub-and-spoke system, the group represents the characteristics of a traditional carrier. The efficient combination of both airlines' global networks is considered as an advantage that attracts a relatively high level of premium transfer traffic (Air France-KLM: Annual report 2007, 17). Moreover, the combination of transfer and point-to-point traffic flows raises the possibility to offering new destinations and to increasing frequencies in a given destination. Thus the passengers have more flexibility in regard to schedules. (Air France-KLM: Annual report 2007, 18) As seen in the company presentation, the SkyTeam alliance provides an even more extended network.

Customised passenger service. Attracting the premium transfer traffic is furthermore ensured by the development of the group's hubs. This is considered as a testimony of

quality that the group translates into customer demand in terms of flexibility and service (see Air France-KLM: Annual report 2007, 18). The Air France hub Paris Charles de Gaulle had a new satellite S3 completed in June, named Galerie Parisienne. Other renewals are also in plans for enhancing the service quality. For example, an integrated baggage handling system and e-services contribute to developing the service quality. (Air France-KLM: Annual report 2007, 18) *The objective is to make travel easier, speedier and more autonomous.* E-services highly contribute for attaining this objective, and they represent a significant source of cost savings. (Air France-KLM: Annual report 2007, 20) Moreover, self-service through 500 check-in kiosks as well as pre-check-in by telephone for those who do not use the internet (Air France-KLM: Annual report 2007, 20) contribute to customising the passenger service without reducing the level of service. KLM was the first European airline to introduce the check-in kiosks system (Air France-KLM: Annual report 2007, 20). Customer autonomy is supported by providing real-time information with SMS messages on alternative solution in the case of e.g. a delayed departure. Moreover, a frequent flyer program named Flying Blue has been the result of joining the two airlines' previous programs, providing benefits from the entire network provided by the SkyTeam alliance members. (Air France-KLM: Annual report 2007, 21) The alliance members regroup their airport facilities in regard to shared lounges, counters and agencies. The alliance has developed also products aimed at businesses for facilitating their travel plans. (Air France-KLM: Annual report 2007, 27). Air France-KLM uses Radio Frequency Identification chips – RFID chips – for tracking the location of the baggage using sensors in the some of its network's airports. Thus passengers are informed on the exact location and delivery delays of their baggage. (Air France-KLM: Annual report 2007, 24). Finally, Air France has full or partial subsidiaries, CityJet, Regional and transavia.com, focusing on business or leisure travellers. It has also an exclusive service named Espace Premiere with a customised and exclusive ground service – that is, e.g. personalised welcome, accompaniment to the dedicated lounge – aiming at a sensation of well-being. (Air France-KLM: Annual report 2007, 22) KLM in turn has its regional subsidiary Cityhopper (Air France-KLM: Annual report 2007, 25).

Enabling the provision of a service of quality, motivating the employees is taken into account. Both airlines have training programs for enabling the employees to adapt to change and for promoting their mobility. Furthermore, an incentive scheme of paying bonuses and allowances for ground staff and cabin crew is in use, as well as a profit-share agreement. Trade unions relationships are established as well. (Air France-KLM: Reference document 2007, 47–48). As a result, employee compensation, whether financial or not, is seen as a basis which is a crucial factor in contributing to the quality of services.

Modern aircraft. Concentrated traffic flows enable using higher-capacity aircraft. This contributes to reducing costs per seat by optimising load factors. In turn, aircraft is used with greater energy efficiency. Thus both airlines renovate and replace their airlines. (Air France-KLM: Annual report 2007, 18 & 25) As a result, fuel consumption is diminished and noise emissions are reduced. Modern aircraft thus is justified with its environmental friendliness. The focus on environment is in turn reassured by environmental management systems. (Air France-KLM: Annual report 2007, 62) The group argues that environment has always been in the heart of its considerations. Both airlines have separate environmental systems that are now in the process of unification. Most activities of KLM's are ISO 14001 certified¹, and Air France is striving for achieving the same certification. The group's aim is to create a common environmental reporting mechanism, or the establishment of a sustainability report for the group. (see Air France-KLM: Reference document 2007, 53–54)

As a conclusion, Air France – KLM's competitive position is a relatively simple and clear one as it has only three higher-order themes. Nevertheless, as the group is the European leader, the author argues that it has not paid much attention on differentiating itself in regard to its competitors. Air France-KLM's competitive position leans on the group's prominence and on providing better service than before. Even though the group, through its subsidiaries, has additional low fares operators, it retains its image of a traditional carrier providing full services. The full services are now updated in accordance to customers that require more autonomy than before – therefore it is presented as customised passenger service in the group's activity system map.

Factors from which Air France-KLM's competitive position stems. Air France-KLM has an apparently simple, traditional competitive position. Unlike Lufthansa, presented above, or British Airways which will be next presented, Air France-KLM's view is that customers require today more flexible and up-to-date service. At least the group's target customers' main criterion is thus not a low ticket price. Nevertheless, the leadership strategy focused on the customer growth strategy is constructed in regard to the bargaining power of buyers. The service dimension is heavily constructed to support the delivery of a service quality that the customer values. But, it is also obvious that the merger that took place in 2004 is a response to increasing competition – and the concern of keeping a profitable position against unwanted entrants. Thus Air France-KLM, with its growth strategy, has constructed a shield against the threat of entry and buyer bargaining power. Both forces are presented in the annual report (see Air France-KLM: Annual report 2007, 20). What can also be deciphered from matching both airlines' activities is that synergy effects are translated by cost savings. Thus keeping costs low has

¹ Environmental management standard, in which an organisation agrees on terms to minimise the harmful effects it has on the environment, and to perform in a way to improve continually its environmental performance (see ISO 14001:2004...)

softened the impact of the increasing fuel price; the group is amongst the best performing companies in terms of profitability, with a multiplication of 3,4 of their operating income in three years (see Air France-KLM: Annual report 2007, 2). Thus the reorganisation of the group's cost structure represents an inhibiting power to the bargaining power of suppliers. The fuel risk is thus minimised. Moreover, the group has been able to reallocate its costs and creating value to stakeholders in new areas (services development). The concern of low cost carriers does not appear crucial, as no radical communication on the new low cost carrier, transavia.com, takes place. Nevertheless, the concern on new entrants is highly present in a global manner. The numerous actions taken for enhancing the services is a clear action for defending the group from competition.

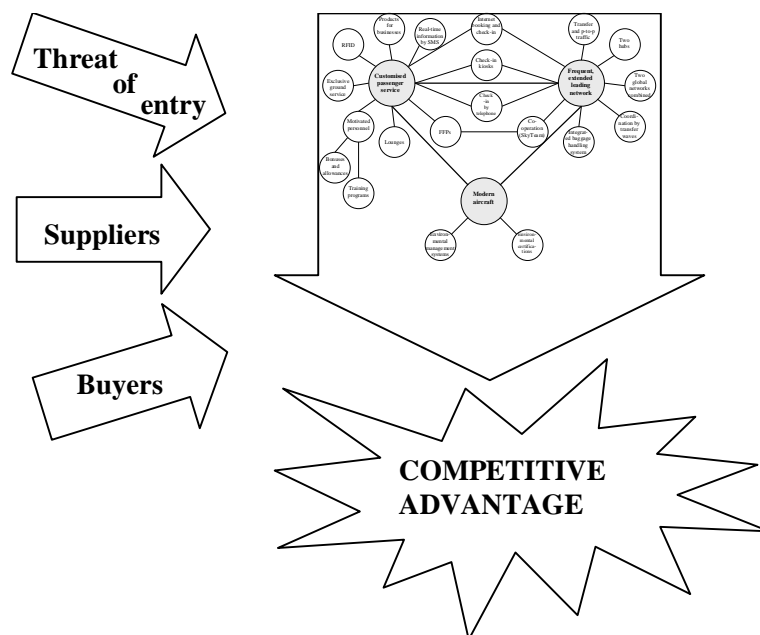


Figure 16 The strongest forces in regard to Air France-KLM

As a conclusion, Air France-KLM concentrates heavily on *demanding customers*, as a response to increased threat of entry. The group seeks for efficiency, it has the leading network, the merger synergies liberate capital for further developing the offer, and finally Flying Blue represents a tool raising switching costs. Thus much effort is posed for keeping the barriers to entry high. Moreover, keeping the group's costs structure rigid has been a response to the increase of *fuel prices* – and the focus on this factor is kept close. Thus the most important forces in regard to Air France-KLM are *threat of entry, supplier bargaining power and buyer bargaining power*.

5.2.4 EasyJet plc

Company overview. EasyJet plc provides airline service on short-haul and medium-haul point-to-point routes within Europe. (easyJet: Annual report... 2006, 6) It is an airline founded in 1995, by Sir Stelios Haji-Ioannou, who's family is the main shareholder in easyJet plc. He has created the easyGroup IP licensing Ltd which, in turn, owns the "easy" brand. Thus the brand is licensed also to other companies, from which easyJet operates independently. (Company overview) The airline operates a network of 262 routes to 74 airport destinations, in 21 countries. The airline also argues having one of the most modern and environmental friendly fleet in Europe. (easyJet: Annual report... 2006, 4). Nevertheless, easyJet is ranked only 29th in IATA's worldwide comparison (IATA Economic Briefing 2007, 2): the airline has an operating profit of only £118 million¹. Nevertheless, the company operates profitably: compared to the previous fiscal year, it testifies a 56% increase in profit before tax (easyJet: Annual report... 2006, 2). Next what easyJet promises is handled.

Competitive position. The first page of the company's annual report gathers explicitly easyJet's focus:

Low cost with care + convenience (easyJet: Annual report... 2006, 1).

This clear and short message encrypts all the service that easyJet is bound to deliver to its customers. The most important component is low cost that becomes meaningful to its customers through low ticket fares. For the airline, it means keeping its costs down. (easyJet: Annual report... 2006, 1&4) The airline argues that convenience is created through the airline's award-winning website as well as centrally located airports giving quick access to customers to where they want to go. Finally, the company looks after its people in order that they look after and care for the airline's customers. (easyJet: Annual report... 2006, 1) The following recapitulates even more precisely the model of easyJet:

The easyJet model is low cost, based on maximising operating efficiencies, achieving high-asset utilisation and providing point-to-point services between convenient locations, operating established markets whilst avoiding the largest, most congested hub airports (easyJet: Annual report... 2006, 6)

Consequently, there is no doubt that easyJet positions itself according to the positioning dimension of low price. This dimension, with a strategic focus on internal efficiency, is translated through the focus on network development, revenue enhancement, cost reduction and development of the company's people (see easyJet: Annual report... 2006, 4), all of these contributing to efficient operations. *Cost control systems, TQM processes, procurement and innovation systems* are put into action through, respec-

¹ On 29.9.2006, the exchange rate for 1 euro was 0,68887 British Pounds (see Suomen Pankki). Consequently, 1 EUR/0,68887 GBP * GBP 118 million = EUR 171,29 million

tively, the policy of easyJet (no frills), e.g. customer feedback programme, tailored supplier agreements and e-services (see easyJet: Annual report... 2007, 25). The figure below illustrates the competitive position of easyJet:

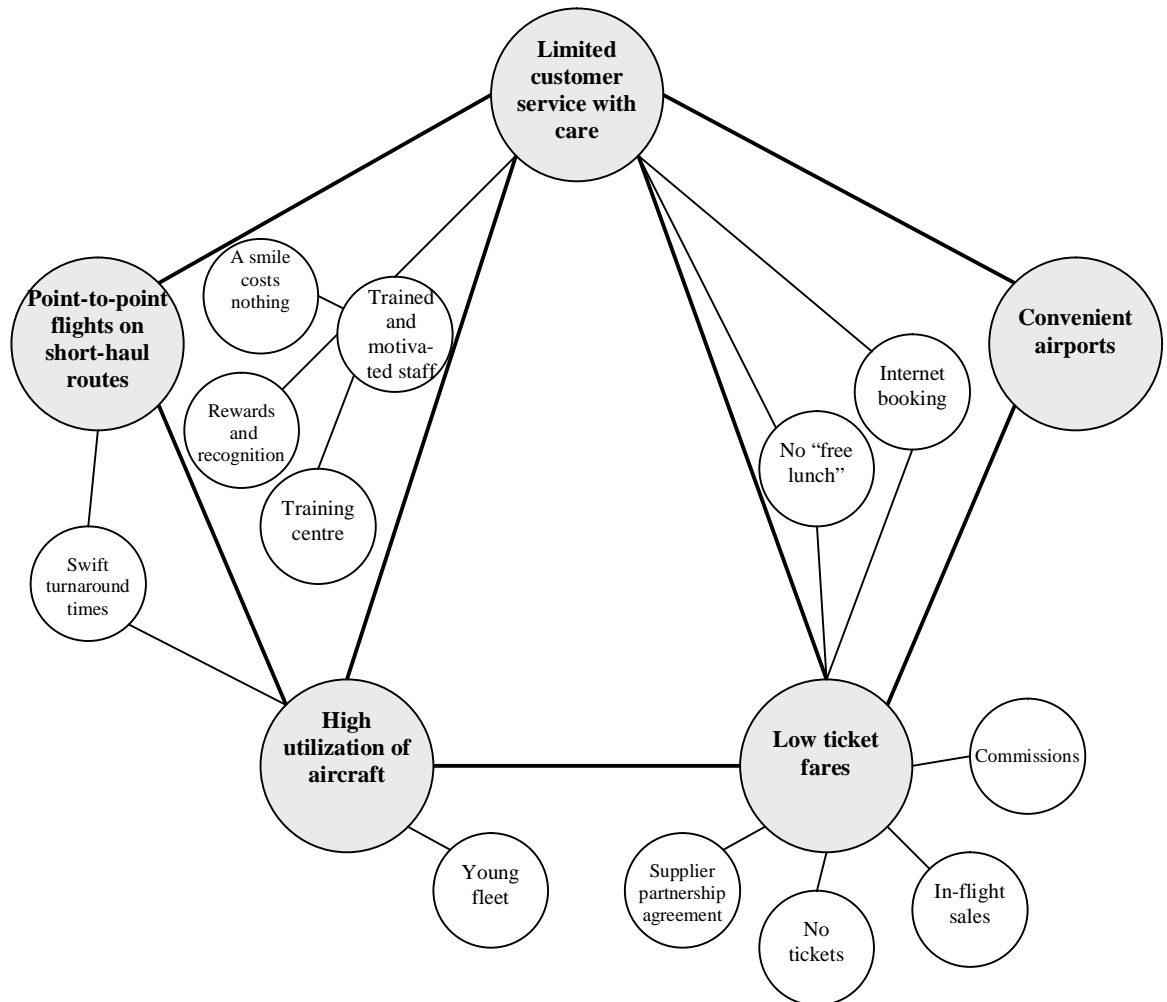


Figure 17 EasyJet's activity system map (easyJet: Annual report... 2007, 1–49)

Low fares. EasyJet has an important focus on developing its easyJet.com website (easyJet: Annual report... 2007, 6). As the focus is in eliminating the unnecessary costs and frills characteristic to traditional airlines, the internet is considered as a means to reducing distribution costs. 95% of the airline's seats are sold online. Travel without tickets also contributes to savings by reducing the cost of issuing, distributing etc. Moreover, the intensive utilisation of aircraft reduces unit costs. Finally, no "free lunch" includes minimising complex management of, amongst others, catering and seats readily assigned. (easyJet: Annual report... 2007, 22). The fleet of easyJet is in average 2,2 years old (easyJet: Annual report... 2007, 4). This young aircraft enables the airline to use it as efficiently as possible – normally no functioning problems related to age re-

strain efficient activity. Contributing to efficiency, easyJet considers its load factor of 84,8% high (easyJet: Annual report... 2007, 3). The airline has developed numerous ways of making ancillary gains through, for example, application of additional charges (easyJet: Annual report... 2007, 6). For instance, in-flight sales and commissions on hotel bookings represent ancillary revenues crucial to keeping ticket fares as low as possible (easyJet: Annual report... 2007, 29).

Limited customer service with care. As the focus of easyJet is to keep costs down, obviously customer service is not a developed aspect of its competitive position. Instead, customers are empowered to manage their travel. Nevertheless, a basic service takes place through looking after the customers, after looking after the company's people: A smile costs nothing (easyJet: Annual report... 2007, 1), as easyJet formulates it. Developing the company's people is one of its main areas of focuses (easyJet: Annual report... 2007, 4). Its employees are trained for obtaining motivation for delivering the service required. The easyJet Academy is a training and assessment centre, including even cabin simulators, aimed at the entire present or coming easyJet staff. Last, easyJet employs staff rewards and recognition through share schemes that allow buying easyJet shares with a preferential price. The staff and three persons each chooses, as well as dependants under the age of 21, can fly on flights that otherwise would have been left empty. Finally, an employee incentive scheme has been put into practice by recognising the best working employees. (easyJet: Annual report... 2007, 48–49) The “no frills” approach consists thus only on the following: A safety first policy, new reliable fleet, friendly and trained staff, a customer service programme for feedback, and an in-flight refreshment and gift service. (easyJet: Annual report... 2007, 25) The company has only one business segment: the provision of low-cost airline services within Europe (easyJet: Annual report... 2007, 70). Thus compared to traditional airlines, this relatively restricted offer does not mean that the service's quality would be low.

Point-to-point flights on short-haul routes. As for Ryanair, point-to-point routes contribute to keeping costs down. Turnaround times are kept swift (easyJet: Annual report... 2007, 22), as there is no need to wait for connecting flights, characteristic to the hub-and-spoke system.

Convenient airports. Developing the network is at the core of easyJet's goals (see easyJet: Annual report... 2007, 4) As discussed, network is a core aspect that customers value. Convenient airports refer to major airports (easyJet: Annual report... 2007, 25), naturally contributing to delivering benefits that customers value. Nevertheless, as in the presentation of the easyJet model above, most congested airports are left out; they would inhibit keeping fast turnaround times (see easyJet: Annual report... 2007, 25).

Last, easyJet has tailored supplier partnership agreements in order to assure the proper operations of the airline. Thus they are in line with easyJet's goals, and ensure the suppliers' appropriate reward. (EasyJet: Annual report... 2007, 25) Here one can see

that appropriate is the level that the airline focuses on. Thus keeping costs down is, again, made possible.

Factors from which easyJet's competitive position stems. EasyJet's focus is exclusively on the provision of low cost services. The activity system map of the airline is in accordance with this fact. Thus easyJet targets customers that value low fares and do not need ancillary services to boost their travel experience. Convenience and the care the customers deserve (easyJet: Annual report... 2007, 25) is what the customers value. Consequently, easyJet positions itself in accordance to *price-sensitive customers* that are provided with transparent information (*internet*) A minimum capital has to be spent on "care factors", but the fares have to be kept low – it is the main basis on which the customers make their choice of using easyJet. Basing the focus on low costs, undoubtedly the increasing fuel price has major effects on the company's cost structure (see easyJet: Annual... 2007, 33) As seen above, supplier bargaining power has been controlled by agreements. In turn, treasury risk management seeks to attenuate the possible fuel risks (see easyJet: Annual report... 2007, 34) Moreover, easyJet argues that it has good union relationships (easyJet: Annual report... 2007, 33), thus keeping its workforce's possible strike actions at a minimum level. Strikes could create capital losses. Thus easyJet's competitive position, stemming from its cost structure, indirectly stems from cost risks, especially the *supply of fuel*, which is at the moment at the heart of costs developments. Figure 18 illustrates the forces that are the most prominent in regard to easyJet's competitive position.

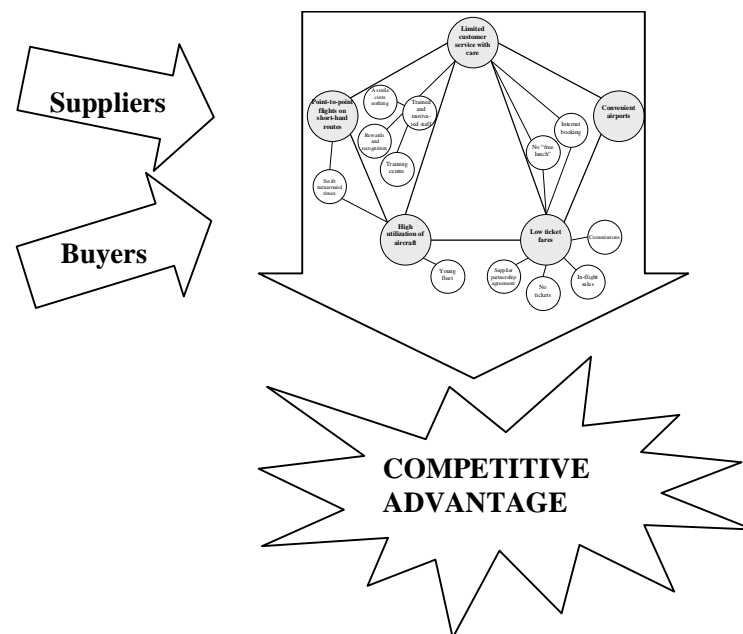


Figure 18 The strongest forces in regard to easyJet

Even though easyJet mentions also other forces, such as substitutes in regard to rail and road transportation, their number is not of importance to the entire network of easyJet (see easyJet: Annual report... 2007, 43). Thus, the *buyers' bargaining power is extremely high*, as well as the *bargaining power of suppliers* mainly represented as fuel price, due to the airline's competitive position depending on the provision of services at low costs and fares.

5.2.5 *British Airways Plc*

Company overview. British Airways describes itself as one of the world's leading scheduled international passenger airlines (British Airways: Annual report... 2007, 6). According to IATA, the company is the third largest airline (IATA Economic Briefing 2007, 2). British Airways' operating profit for the year ended March 31, 2007, was £602 million¹. Compared to the precedent year, the operating profit has decreased by 13,3 percent. (British Airways: Annual report... 2007, 1). The group has several main activities that consist of passenger and cargo transportation on a domestic as well as international scale. Moreover, the group provides ancillary services. Nevertheless, as 85,5 percent of the group's revenues is generated from passenger traffic (British Airways: Annual report... 2007, 6), there is no doubt that the group's core business is scheduled air passenger services. British Airways' main place of activities is the Heathrow hub, which is positioned as one of the world's premier airport locations (British Airways: annual report... 2007, 6). This is a strength to British Airways, as historically the airline has enjoyed the benefits of Heathrow's role of being the gateway to Europe (see section 4.2.1). Heathrow serves relatively high amounts of point-to-point flights (see British Airways: annual report... 2007, 6). The group with its subsidiary BA CityFlyer provides flights to 147 destinations in 75 countries, and adding to this franchising, codesharing and the company's alliance partners, the network extends to 629 destinations in 143 countries. One of the world's most extensive routes forms a basis to the airline's business. (British Airways: annual report... 2007, 17) Thus, also British Airways has considerable bargaining power as an air travel services supplier. What distinguishes it from other airlines is next handled.

Competitive position. The following quotation has been taken from British Airways' website:

British Airways is a full service global airline, offering year-round low fares with an extensive global route network flying to and from centrally located airports. (British Airways – Global gateway)

¹ On 30.3.2007, the exchange rate for 1 euro was 0,67980 British Pounds (see Suomen Pankki) Consequently, 1EUR/0,67980 GBP * GBP 602 million = EUR 886 million

British Airways thus introduces itself as an airline that provides access to extensive networks, full service and the central airports at low fares. British Airways argues that it provides the best customer service and products; it won the OAG Airline of the Year award in April 2007 (British Airways: annual report... 2007, 2). The award, in which airlines' most important customers' views are presented, is one of the most respected recognitions in the air travel industry. The most valuable customers are considered frequent travellers. (see Airline of the year) This justifies the author's view that British Airways' main positioning dimension is service. In the light of activities reinforcing the service dimension, next British Airways higher-order themes are handled. Underlying the higher-order themes are the delivery of safety and security, social and environmental responsibility, as well as professionalism (British Airways: annual report... 2007, 5). In addition to these, the "BA Way"-image building includes retaining British traditions through delivering only service that matters (British Airways: annual report... 2007, 5). The activities through which British Airways' position is communicated to customers is presented below:

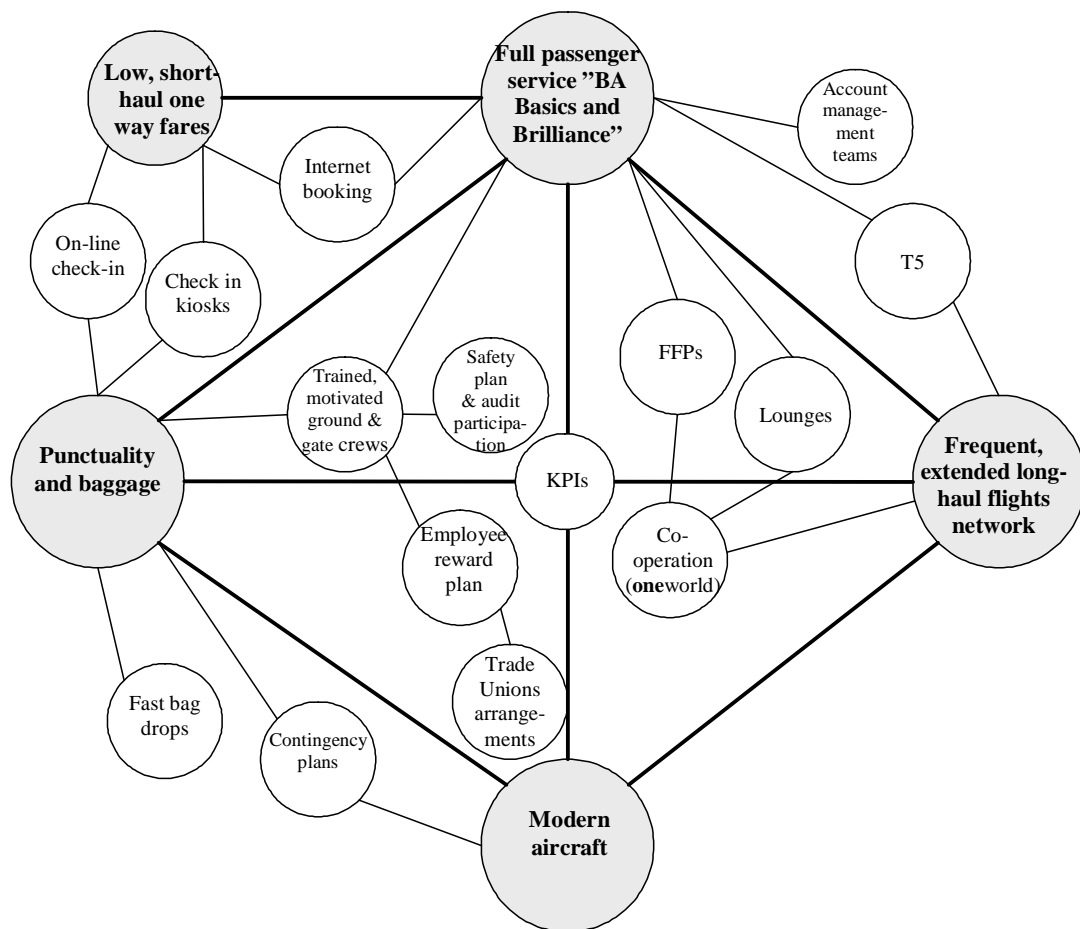


Figure 19 British Airways' activity system (see British Airways: annual report... 2007, 5–27)

As the building block of British Airways positioning is delivering service that matters (see British Airways: annual report... 2007, 5), the author considers that the airline has also strategic focus on relationship building (see Hooley et al. 1998, 107). Recalling the theoretical framework, the service dimension involves market sensing, customer linking, service systems, skilled staff, feedback systems and continuous monitoring. (Hooley et al. 1998, 107) These are explicitly presented in the airline's annual report and are presented respectively as account e.g. management teams, check-in kiosks, trained crew, KPIs and audits in the figure above.

Full passenger service. For ensuring providing full service, British Airways takes care of key customer relationships with global account management teams that represent amongst others, travel agents or call centres (see British Airways: annual report... 2007, 9). Even though British Airways advertises itself as a full service provider, its basic promise, to deliver service that matters (see British Airways: annual report... 2007, 5), does not exclude the possibility to enlarge to no-frills activities – if a particular segment does not value service. Thus, the core of the airline's positioning appears to be brilliant. The concept that British Airways uses of its promise – “Basics and Brilliance” – indeed focuses on delivering basics to customers and a hint of brilliance where it truly counts (British Airways: annual report... 2007, 5). Consequently, the airline has created activities through a profitability improvement programme in order to decrease costs in the short-haul business and to improve its profitability in that segment. For example, the using of the website ba.com as a distribution channel has reduced the company's costs. Moreover, making the right buyers aware of this has contributed to the improvement of the airline's load factor. (British Airways: annual report... 2007, 7) As a consequence, despite being a full service airline, for competing in the environment British Airways needs to position itself also in regard to the increasing group of price-sensitive buyers. Interestingly, this need was identified in year 2006 as the airline's weakness in a SWOT –analysis made by Datamonitor (see British Airways Plc: Company profile 2006, 19). Thus, this positioning decision has been made under market pressure.

Long-haul, extended route network. British Airways is part of **oneworld** alliance (British Airways: annual report... 2007, 10). As already noted, the route network rises substantially with this co-operation. In addition to **oneworld**, the airline benefits also from individual co-operation and codeshare with other airlines (see British Airways: Annual Report 2007, 9–10). Thus, co-operation with other airlines provides one of the bases of British Airways' competitive position: A London based network in terms of destinations and frequencies (British Airways: annual report... 2007, 9) As a result, the customers benefit from frequent flyer programmes, lounge access, and smooth transfers (British Airways: annual report... 2007, 10).

Punctuality and baggage. The airline is moving 90 percent of its flights that were previously operated from Heathrow, to its new Terminal 5. The new terminal brings

high-speed baggage system with fast bag-drops and online check-in as well as check-in kiosks. Removing traditional airport processes contribute to delivering punctuality and baggage reliability (British Airways: annual report... 2007, 5) in what comes to baggage losses. Thus, *passengers are empowered* to manage their own travel.

The company argues that maintaining high safety standards especially in engineering, flight operations and group operations is its key priority (British Airways: annual report... 2007, 13). The company has a safety plan covering the whole business operations and participates in IATA Operational Safety Audits. Moreover, embedded in the employees behaviour, “safe and secure” is a core value within the “BA Way”. (British Airways: annual report... 2007, 14) Employees are trained to contributing to standards (British Airways: annual report... 2007, 22).

Modern aircraft. Central to British Airways competitive position remain contribution to environmental-friendliness (British Airways: annual report... 2007, 2). New investment in efficient aircraft for long-haul flights supports the airline’s contribution to control its stake of pollution. The new fleet is also cost-efficient. (British Airways: annual report... 2007, 7) This is crucial due to the cost of fuel which forms a major cost of the airline: Fuel represents 22,1 percent of British Airways’ total costs (British Airways: annual report... 2007, 17). The company has developed contingency plans for ensuring the availability of new aircraft, amongst others (see British Airways: annual report... 2007, 20).

Last, British Airways measures its performance with the help of key performance indicators (KPIs) for operating margin, customer advocacy, safety and security, the level of the respect to the company, employee motivation and incentive plans (British Airways: annual report... 2007, 14–15) These ensure delivering the customer what the was intended in communicating the company in the customers’ minds. The company ensures the realising of further, numerous activities to communicate their intended competitive position (e.g. British Airways: annual report... 2007, 21 & 22 & 26).

Factors from which British Airways’ competitive position stems. The competitive position of British Airways appears similar to Lufthansa’s. Diversifying products to luxury, but also having no-frills operations belongs to both airlines’ competitive position, most probably due to similar market pressure. However, the airlines emphasise differently their character and therefore their activity systems do not look identical. British airways’ competitive position relies on its brand, award-winning products, London-based network’s strength in terms of destinations and frequency (British Airways: annual report... 2007, 9). What differentiates it the most is thus its geographical situation.

Referring to the airline’s activities system and KPIs serves as a tool to discerning the competitive forces taken into account when having positioned the airline. A strong focus has been on customers. The company has been forced to operate with low fares. As

seen in the case of Lufthansa, customers pay increasingly attention to price. Moreover, response to rivals has been created by offering luxury (brilliance) where it counts. This is realised for example with the new Terminal 5 with smoother service (see British Airways: annual report... 2007, 4). Suppliers have a big role in providing activities: The emphasis on employee motivation has been highly present. Moreover, ensuring British Airways' ability to operate without rupture, contingency plans have ensured the availability of supply through alternative suppliers (see British Airways: annual report... 2007, 20). But, even though focus is on customers, suppliers and rivals, deregulation is the force that has opened doors to potential entrants. Access to Heathrow will not be anymore the exclusive right of British Airways from March 2008 (see British Airways: annual report... 2007, 3). This can be seen as the main force against which the airline positions itself. Moreover, the concern is rather on new entrants than existing rivals with which the airline is used to cope.

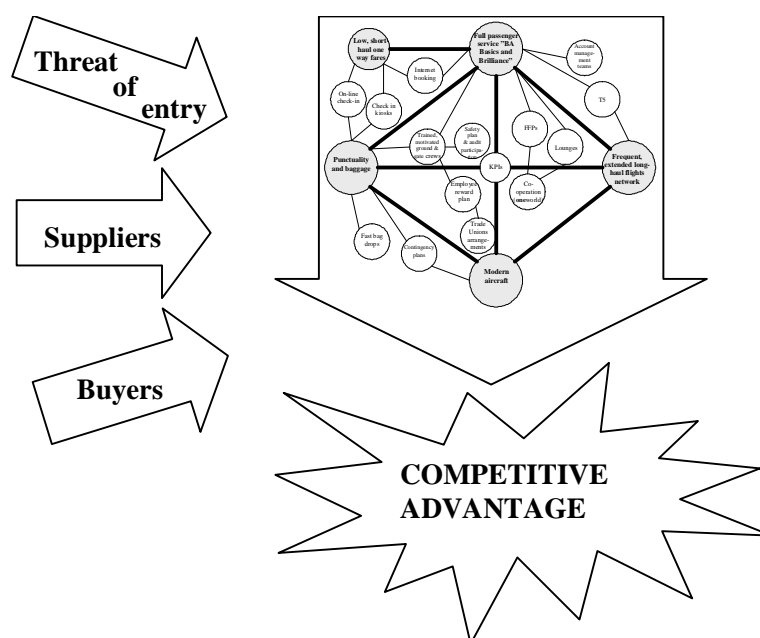


Figure 20 The strongest forces in regard to British Airways

Consequently, *the forces against which British Airways has created its competitive position are threat of entry, bargaining power of buyers and bargaining power of suppliers*. British Airways – like Lufthansa – has resources that enable the airline to differentiate itself from competition. Nevertheless, it obviously needs to free more resources as the airline has been pressured to create non-frill operations with only basics that count. Loosing one of its basic strengths, that is, the privilege to US flights from Heathrow, creates a very strong threat of entry.

As a conclusion on the choices made by airline managers on their competitive positions, the following table shows the positioning dimension that should create sustainable

competitive advantage to the airline, the factors that have incited the airline to position itself as it does, and the main group of customers that they target.

Table 7 The case airlines' centre of attention

	Ryanair	Lufthansa	Air France-KLM	easyJet	British Airways
Main positioning dimension	Price	Benefit	Service	Price	Service
Key factors affecting the positioning	Price-sensitive customers Internet Fuel prices	Price-sensitive to demanding customers Internet LCCs	Demanding customers Fuel prices LCCs	Price-sensitive customers Internet Fuel prices	Price-sensitive to demanding customers Internet LCCs
Target customers	Price-sensitive	Price-sensitive to demanding	Demanding customers	Price-sensitive	Price-sensitive to demanding

It is not surprising that the target customers are those that dictate also the airline's competitive position, as matching their needs differently from rivals is an eternal issue in competitive positioning. Coming back to the second sub objective, describing the main factors affecting airline positioning, the table above provides the necessary information to reaching it. In cases where price is the dominant dimension, the main factors and target customers go hand in hand with that dimension. When the dominant dimension leans on benefits, the main factors and target customers seem to increase in variety. Finally, when it is chosen to position according to the service dimension, there already appear to be divergence in the target choices and perception of the key factors.

As already discussed, it is crucial to keep in mind that other dimensions are also included, and there can be different views in assessing which of them are the dominant ones. Chapter 6 will utilise the results matched to the three sub objectives to realise the purpose of the research.

6 CONCLUSIONS

The character of competition within the air travel industry has drastically changed over the past decades. The development has worked as a cycle: The “old” that were once accustomed to a certain environment, have had to face the “new” – airlines or economic fluctuations – changing the environment and thus inciting the “old” to find means to keeping up with the competition. The means for keeping up with the competition may face further challenge coming from regulatory powers’ attention. This acts as a further push to development. Figure 21 illustrates this reasoning:

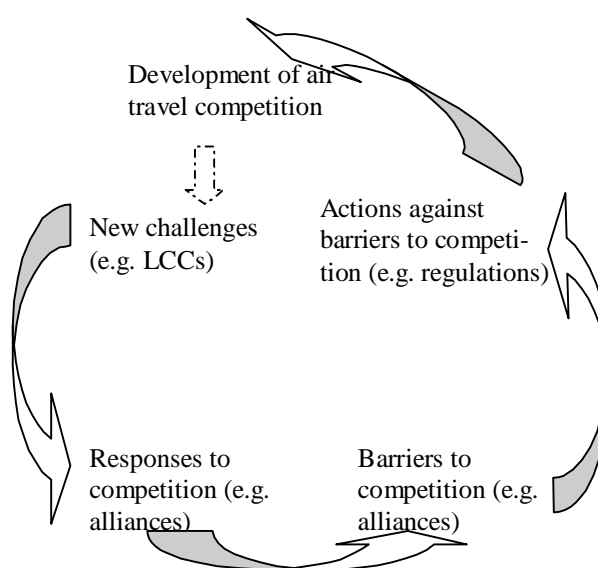


Figure 21 Underlying the development of airline competition

The purpose of this research was to develop an understanding on airline positioning on a specific market. This was considered as an important issue to develop, as the air travel industry has been exposed to a number of elements that have had a fundamental impact on the industry’s functioning. Airlines have had to follow the developments imposed by economic fluctuations due to crises in the supply as well as demand side (oil, SARS...). Thus they have developed a pallet of distinct responses to the new challenges imposed. This can be discerned especially through the emergence of different positioning decisions.

The field of research was not a stable one, and one can argue that, in the long term, it would not have been of use to represent airlines’ competitive positions at a point of time. But used as a step towards acquiring an understanding on positioning, this is of value due to the fact that one objective was to facilitate decision making on an airline’s

future orientations. Now, it should be easier to develop orientations that have not been developed by competitors – at least yet. Thus, referring to the research problem, the lack of insight into the market situation was striven to fill.

The purpose of this research – *to develop an understanding on airline positioning on a specific market that could serve as a tool for airline strategists to make decisions on competitive positions* – was reached by analysing the data gathered in regard to three sub objectives. The specific market that was chosen was not yet taken into account when handling the first sub objective, due to industry definition (see section 2.1); an industry is not limited to a certain market. Only when handling the case airlines, the data was purposely analysed in regard to the relevant market of *intra-European scheduled air transport services*.

6.1 Understanding the air travel industry

Crucial for this research was first to *explore the characteristics of the airline industry for understanding the field in which competition takes place*. The outcome was used as a constructive block in order to move closer to the concept of competitive positioning. Coming back to the first sub objective, the exploratory phase, the goal of becoming acquainted with the general concepts of the air travel industry was realised with the aid of documentation, and the interview with the senior researcher Antti Norkela from the Finnish Competition Authority. These together formed a strong basis for developing even a further understanding on the industry's structure. The first exploration thus revealed a diversity of factors present in the air travel industry. Basing on this, Porter's five forces model (see section 2.4) was a central tool to explore the industry structure; it allowed creating a comprehensive set of codes. These codes, in turn, ensured that, at a scale of mere exploration, there were no significant factors left outside the analysis. The five forces consist of threat of entry, threat of substitution, bargaining power of buyers, bargaining power of suppliers, and rivalry among current competitors. Each of these forces and their underlying factors were explored. The particularity of the industry – its network character – was equally kept in mind when striving to achieve an understanding on the major forces shaping the air travel industry.

From this exploration emerged the strongest forces that shape the air travel industry's competitive environment. Thus, as the weakest forces do not contribute to an understanding on the structure of the air travel industry, conclusions in this section have been made in accordance to the industry's strongest forces: threat of entry, bargaining power of buyers, and bargaining power of suppliers.

Threat of entry. It is not surprising that threat of entry is a central force in the airline industry – the turbulence is present in the conversation on airlines and especially the

phenomenon of LCCs. The ultimate goal being positive welfare effect, competitive authorities have acted as a decisive power opening doors to new entrants with an aim to achieve the state of workable competition. Airlines have thus been forced to strongly counteract this threat in order not to lose their competitive advantage. As a result, a pallet of barriers to entry and competition has been created.

The network aspect of the industry averred to be of great importance as exploiting it can substantially enlarge an airline's supply in terms of destinations. Consequently, an airline, taking advantage of the network aspect, becomes relatively powerful in and around its hub airport. Moreover, the network is valued by customers as they generally are unwilling to use two or more carriers' services during a journey. The passengers are also retained with the aid of frequent flyer programmes.

Creating economies of scale (e.g. load factor), scope (e.g. hub-and-spoke system, alliances) and density (e.g. flight frequency in accordance with slots) revealed to act as a response to the threat of entry, while simply being at the same time action taken for gaining competitive advantage. Product differentiation was also included to the exploration of threat of entry as a competitive force. Even though airlines try to distinguish themselves from their competitors, the author argues that they are also forced to grow similar to them due to the new benefits valued by customers, that is, especially low fares; even though the customers have become less price-sensitive (see Avery 2007, 3)! But despite the decrease in price-sensitivity, ticket price remains the number one criterion when choosing a flight (Global Market Forecast 2006, 22). The high price of aircraft was not seen as lowering the entry threat, as its supply was diversified.

The most prominent factor contributing to the fiercening nature of competition – that is, lowering the barriers to entry and competition – is the government policy. The large number of actions taken by airlines reflects the presence of a substantial threat of entry: Otherwise there would not be such a willingness to construct shields against new entrants. As a consequence, action taken is understood through the presence of threat of entry. *It was concluded that the nature of the industry is still preferential for incumbents as they have resources to be efficient and to establish wide networks.* The variety of self-protective activities, such as alliances, is substantial. *The incumbents have already established distribution channels as well as strong customer bases,* which a new entrant usually lacks of. Thus incumbents can allocate their resources to other than basic means of acquiring competitive advantage. It is important to consider that new entrants are not always those airlines that are tagged as “LCCs”, but other network carriers as well.

Bargaining power of buyers. Buyers are mainly considered as individual passengers. Surprisingly, it was argued that they do not have bargaining power in the air travel industry. This was the opinion presented in a document provided by the European Commission Authorities (see Mergers and alliances... 2004, 29). Nevertheless, this was not in accordance with the author's view. The results of bargaining power are prominently

present in the actions taken by airlines – otherwise there would not be such a fierce competition taking place in the air travel industry! An airline can, of course, be better than its rivals, without being valued by consumers. But in the end, the survival of airlines depends on their popularity amongst customers, and their ability to manage costs. Referring to the theory, bargaining power in the air travel industry fills 4 criteria of the eight: The flight tickets purchased represent a significant amount of the buyer's costs (criterion 2); the buyer faces less switching costs than before (criterion 4, the presence of LCCs act here as an attractive factor); some of them earn low profits and take advantage of lower ticket price (criterion 5); and finally, the buyer has near to complete information through the internet (criterion 8).

A point that emerged is that the power of FFPs had weakened through the strengthening role of the internet. Therefore it is surprising that the biggest airlines still put a lot of effort in developing their frequent flyer programmes. But, FFPs remain the third criterion in selecting a flight (Global Market Forecast 2006, 22), which is a fact that cannot be left without attention. Nevertheless, the transparency provided by the internet was considered as a driving factor contributing to an important level of bargaining power amongst buyers. Making them able to compare ticket fares, they impose a pressure to airlines, which are forced to keep their costs down and to supply with low fares. As a conclusion, the volatile field of competition in the air travel industry is strongly influenced by the strength of the bargaining power of buyers.

Bargaining power of suppliers. Modelling the field in which airlines have to operate, the suppliers were considered to join the group of the strongest competitive forces. Nevertheless, in regard to buyers and potential entrants, suppliers were considered having the weakest bargaining power. Within the field of suppliers, there is a lack of skilled labour, a problematic perception of labour unions, few aircraft manufacturers, and significant fuel costs. Generally speaking, proving their strength, suppliers filled four criteria of six: they were considered to be more concentrated than their customers (criterion 1); the industry could not get the product they offered elsewhere (criterion 2); the product was considered crucial to the airlines' business (criterion 4); what comes to the aircraft manufacturers, their scarcity imposes high switching costs to airlines (criterion 5). But, on the other hand, lowering this aspect was that the airline industry is an important customer of, especially, the supplier group of aircraft manufacturers. Therefore the impact of this competitive force is hindered, and this competitive force considered as moderate.

The following figure gathers the three competitive forces and the key features that are crucial to the competitive environment of airlines. The industry structure is thus mainly formed as a result of these three forces. Potential entrants, bargaining power of buyers and suppliers determine the rules between firms in regard to rivalry created through price, quality, service or combinations of these. Structural analysis being the

key for formulating a competitive strategy, and ultimately finding a competitive position, has been comprehensively carried through. The figure below is a concentrated version of Figure 8 and represents an understanding on the air travel industry's main characteristics.

Table 8 The key characteristics of the air travel industry

Strongest competitive forces		Key features	
Potential entrants +++	Government policy +	Network aspect -	Strong product differentiation -
Buyers ++	Power of transparency provided by the Internet +	More price awareness +	Less brand loyalty +
Supplier +	Few aircraft suppliers +	Product crucial to an airline +	Rise in fuel costs +

The author considered that a simplified demonstration on the key features characterising the air travel industry was to be presented, taking into account that an individual's mind simplifies the communication it receives. Thus it is easier to keep in mind, and especially understand, the factors that an airline takes into account in its actions. Table 8 illustrates also the direction of the features' impact. What comes to the bargaining power of buyers and suppliers, the key features enhance their power. In turn, the threat of potential entrants grows along with the government policy developments, but is inhibited through incumbents' use of network and product differentiation. This active fight against new entrants is considered thus as the strongest force; in turn, the industry has to accustom to buyer and supplier forces. Distinguishing the two forces, more activity is matched to answering buyers wants – generally, airlines merely adapt to the effects coming from suppliers. Thus, an understanding on the air travel industry's key features has been reached. This understanding will serve to conclude on the understanding on airline position, using the second and third sub objectives' outcome.

6.2 Understanding airline positioning

Industry characteristics have proven to have a major effect on airlines. Indeed, they are part of the two underlying questions for competitive strategy formulation (see Porter 1985, 4 & 11): The industry's attractiveness and the relative factors behind an airline's competitive position within that industry. The air travel industry attractiveness has already been pondered by each airline as they have chosen to operate in it. It is unquestionable that the air travel industry is attractive – there is indeed a number of new entrants, and incumbents reacting against them. Conclusions on the relative factors to airlines are made in this section.

A central reflection is that an airline does not position itself in a place in which it has no abilities required for lucrative operations. An airline develops its strengths in regard to the industry's strongest forces, because they shape the competitive environment. If no strength has been developed, then the airline loses its competitive advantage as it will be attacked by the main forces. The activities, in turn, revealed the forces and factors with an impact on airline positioning. It averred crucial to base the analysis on the visualisation of the case airlines' competitive positions, as Porter's activity-system map revealed to be encompassing, when adequately used, and not representing merely a few dimensions as in the case of most positioning maps.

The activity-system maps revealed that the ideal of the fit in an airline's activities did not realise in each case. A number of different positioning dimensions came up when assessing each case airline's competitive position. Figure 21 presents the prominent dimension that was discerned in regard to each case airline. Nevertheless, what was considered to create sustainable competitive advantage – and thus a unique position – was the relative combination of these dimensions. Figure 5 showed 6 continuums regarding each competitive positioning dimension. For example, British Airways' "Basics and Brilliance" –concept appears to be controversial in regard to these continuums; when creating sustainable competitive advantage requires one point on each continuum, British Airways had several on one continuum. For example, it had products with low as well as high price, or premium as well as basic quality. It is obviously confusing to define the competitive position that British Airways occupies. This was the case of the Air France-KLM and Lufthansa as well. Under the pressure of competition, each of them has diversified to providing low fare flights (transavia.com and germanwings, respectively), while still arguing that they concentrate respectively on traditional full service carrier, or premium-brand, positioning.

Let us go back to the essence of competitive positioning. *Competitive position provides a bridge between the company and its target customers by describing to them in which way it is different from the present and potential competitors.* Moreover, it was considered that competitive positioning has its focus on activities that are performed differently from, or performing different activities than rivals. Thus it is questionable whether competitive positioning takes even place in the case of incumbents. Making conclusions leaning on the three well-established airlines can be of guidance, to some extent, to all incumbents in the air travel industry. This is possible as they have a similar history as flag carriers. If a sustainable position requires trade-offs (Porter 1996, 68), these have not been realised in the case of incumbents. Incumbents have added new activities without removing others. As a result, inconsistency in image is likely to occur. Referring to this research's introduction – how does a customer perceive an airline positioned as a full service airline, now adding characteristics of low-cost carrier to its operations? One position cannot be communicated with inconsistency in equipment,

employee behaviour or different management systems. After all, positioning choices do not define only which activities to perform and how they will be performed individually, but also how they will match each other (see Porter 1996, 69–70). It is thus the fit across activities carefully chosen that create a fit to the competitive landscape – consequently, competitive advantage. But, in the present competitive situation in which threat of entry, pressure coming from buyers, and pressure coming from the supply side dominate, is it possible for incumbents to follow a competitive positioning decision? It seems that the incumbents have similar aspirations, to provide luxury but also basics. In Porter's words (1996, 74): *A competitor seeking to match an activity system gains little by imitating only some activities and not matching the whole.*

Why, then, the incumbents have not understood the futility of imitating the newcomers – and each other? As pointed out, it is perhaps due to their past as flag carriers. Then, they did not have to strongly distinguish themselves from competitors, as these were non-existent. The initial success of flag carriers was due to the absence of direct competitors and thus the lack of need to differentiate. The positions of flag carriers thus resembled each other, except in terms of destinations. During a long time, flying was reserved to upper-class citizens with good financial grounds. Flying was considered as luxury and the positioning dimensions, although relatively non-existent, were automatically sufficiently consistent in regard to the activities. One should not forget also the financial support that each state brought to its flag carrier. As a result, no one asked the question on the problematic of competitive positioning, as the activity system was not a centre of attention. Meanwhile one cannot deny that there would not have been fit and a unique position leaning perhaps on the superior service, at least to some extent. *But in the sense in which competitive positioning is defined, the author suggests that the notion of competitive position would have arrived hand in hand with the deregulation and competitors in the air travel industry.*

Although these traditional carriers persist high in rankings, other forms of airlines arrive at full pace. As the industry characteristics have evolved, the incumbents have been faced by pressure for growth (stemming e.g. from shareholders), forced to incrementally add activity varieties, serve new customer groups, or imitating rivals' activities (cf. Porter 1996, 76). This has obviously resulted as a blurring of the incumbents' "uniqueness", or sense of superior service, as they try to match the new entrants' competitive positions and to serve the most customer groups. Thus the fit evaporates. So, losing focus is understandable in the case of incumbents – after all, they are led by human minds affected by wish and greed.

As a solution for reconnecting with strategy, Porter (1996, 76) proposes a set of questions to be asked: *Which of our products or service varieties are the most distinctive? Which of our product or service varieties are the most profitable? Which of our customers are the most satisfied? Which customers, channels, or purchase occasions*

are the most profitable? Which of the activities in our value chain are the most different and effective? These questions should decipher the path to attain fit amongst activities, resulting as a unique, competitive position without losing its uniqueness. Of course, creating separate units have also been a response to some incumbents when striving to avoid the inconsistencies in their positioning. One has seen that they create separate brand-names and tailored activities. Separating airline groups into business units is a formula that should create competitiveness in a market pressured by LCCs and fuel prices (see Heynold – Rosander 2006). In this regard, the separation of strategic and operative roles is crucial to manage in order to attain lucrative coordination (Heynold – Rosander 2006). A clear division of roles does not seem to always take place. At least the communication of Air France-KLM's positioning strongly resembles a fully-merged group – and not the coordination of two separate airlines. A diversity of activities fit both airlines' positioning, as they both represent traditional full-service carrier –models. Thus no separate coordination is perceived to be needed. In contrast, Lufthansa's multi-brand strategy that explicitly regroups airlines leaning on different positioning dimensions is a good example of the functioning of separate business units.

What about the conclusions that can be made basing on the two other case airlines, Ryanair and easyJet? Both airlines can be seen as challengers, thus new entrants to the air travel industry. Once the opportunity to enter the industry became materialised following the process of deregulation, finding a unique position on the market was not, in fact, very demanding. The market needs, which were once overlooked by incumbents, were now taken advantage of. This resulted as answering to the needs of price-sensitive customers through radical trade-offs on service. Therefore, creating fit across activities for realising a viable and relatively simple position, was a matter of rigidity in decision-making. The essence of strategy, competitive positioning, has been realised in the case of the new players in the industry – they perform flight operations differently from their rivals. The same cannot be generalised to incumbents. Nevertheless, it is a matter of time when the competitive positions of the new entrants will end up resembling each other. Even now, adding ancillary sources of revenues pumps up the overall price of the journey. Will the decrease in trade-offs result as losing fit between activities? Are the new entrants falling into the same trap as the incumbents, as they try to imitate activities that do not match, in the end, their entire system of activities? Therefore, also these new players should reconsider the questions asked from the incumbents.

Growth is a factor that creates pressure to compromises, reducing fit, thus blurring the unique position (Porter 1996, 77) of an airline. The growth strategy was explicitly expressed at least in the case of Ryanair, Lufthansa and Air France-KLM. Indeed it is challenging to distinguish what the differences between Lufthansa and Air France-KLM are, despite the main positioning dimensions. But, in the case of Ryanair which really has a competitive position at the moment, the threat of losing the fit is not as persistent

as to the incumbents: Globalisation allows growing consistently with a focussed strategy (Porter 1996, 77), which is the case of Ryanair.

Thus, what can be understood from competitive airline positioning? The volatility of the air travel industry and the strong competitive forces it includes do not really leave a choice for the airlines to choosing a unique competitive position. There are success stories as well as hard times, and it is no wonder that airlines have the incentive to imitate those that have succeeded. Nevertheless Porter (cf. 1996, 77) gives a managerial guideline: the leader of an airline must formulate the discipline according to which industry changes and consumer needs are taken into account without disturbing the airline's uniqueness. Therefore an airline does not have to react against all the changes.

As a conclusion, an airline does not have a vast pallet of choice when it comes to survival in the highly volatile air travel industry impacted by customers' purchasing decisions basing on price and service – and not on quality. This is mirrored by the case airlines' main positioning dimensions. Consequently, there do not exist that many relatively large segments with different customer needs. Airlines have to play according to the rules of the game with threats that they do not control and with the resources the game provides them with. As presented in Airbus' Global Market Forecast (2006, 22), who would not be attracted to satisfy the first criteria for choice when selecting a flight? These involve, in order of importance, price, convenient schedule, FFP and non-stop flights. Price represents a clear preference amongst the respondents. (Global Market Forecast 2006, 22) But moving from one strategic group to another is a demanding task to carry through. Thus not only Porter through the fit of activities, but also Mintzberg (see 1996, 76), supports this view. The competitive positioning that leans on uniqueness is hard to realise especially when sources of differentiation are not often understood (see Porter 1985, 119). When the ultimate issue has become merely to operate the chosen activities as well as possible, and taking at the same time ingredients from the competitors' activities, the airline positions gradually are drawn together. They do not acquire sources of differentiation in regard to competitors. The result is often zero-sum competition, static or declining prices, as well as pressure on costs (Porter 1996, 64). That sounds familiar to the air travel industry.

6.3 Industry outlook

The current direction towards which the air travel industry is heading, is the result of a number of factors. Employees, fuel prices, but above all new entrants with a unique position and the revelation of new customer needs and wants, are responsible for this development. As a result, competition is not inhibited – it has become volatile. Following this evolution, it becomes more demanding to compete lucratively. There neverthe-

less remain sources of profits that are not yet exhausted. Over the next twenty years, a growth of 4,8 %, equalling to the world annual average growth, is forecasted to European traffic (Global Market Forecast 2006, 48). As a result, a duplication of European passenger aircraft fleet is expected till then (Global Market Forecast 2006, 48).

Despite this optimistic view, others persist. It is argued that the air travel industry would be at the top of its cycle (Avery 2007, 1) – thus becoming mature. Amongst others, the growth rates in the yields of the major EU airlines are expected to slow down, if it is to have confidence into the cycles of rising yields historically. Moreover, especially in the LCC sector, the passengers have become more resistant to price rises. (Avery 2007, 1&7) Thus, referring to Porter (1998, 36), the business becoming mature and the change in growth rates should be discerned as a weakening in product differentiation. Matching each others' activities without clear consistency with one's activity-system is a proof of the air travel industry growing mature.

The level of air travel industry capacity is not far to be reached. As a consequence, rivalry is not expected to weaken – if airlines will end at competing with the same weapons, there would not exist competitive positioning. As it is the market which dictates the rules, the competitive position is no more than a response to the challenges and possibilities emerging. Keeping a strict focus on a competitive position and making trade-offs requires discipline. Discipline and rationality is not self-evident to follow, as airlines are led by individuals that may have a number of aspirations that can be out of scope with the competitive position. Moreover, the contribution of subordinates can deter the positioning. Positioning is thus not only a matter of decision-making. As the vicious cycle of increasing volatility in competition is present, will there be any source of sustainable competitive advantage? The author argues that competitive positioning, which creates sustainable competitive advantage, will lose its importance when the only goal is survival – even though it should be the core of competitive strategy.

Concluding, coming back to the purpose of the research, which was *to develop an understanding on airline positioning on a specific market that could serve as a tool for airline strategists to make decisions on competitive positions*, this understanding has been acquired. It has been understood that an airline's competitive positioning is dependent on an important amount of external and internal factors. The activity-system map brought the understanding on how a competitive position is finally created. Having five case airlines visualised provided a swift insight to their main activities that could be of use to consider by an airline strategist, too. Moreover, for an airline strategist to use a tool like the activity-system map could reveal areas to be revised in the strategist's airline.

Nevertheless, the research problem – the lack of up-to-date research on the field – persists. Thus the author suggests that it would be interesting to, first, systematise theory on competitive positioning due to some ambiguity in the theoretical literature, and sec-

ond, to deepen the understanding on airline competitive positioning by conducting research based on manager and consumer interviews. Thus the existence of competitive positioning in the air travel industry would be assessed – or have airlines been restricted to mere positioning without a sustainable focus?

SUMMARY

During the past years, the airline industry has been under special observation. Deregulation, its impact on the competitive field notably with the arrival of low-cost carriers, or the impact of random factors such as terrorist attacks, have been present in the headlines of the media. These events have spurred airlines to find ways of competing and keeping with the pace of the competition. This situation of struggling to achieve competitive advantage lies at the heart of this research. Competitive positioning averred to be the key for achieving competitive advantage.

Research on airline positioning done until now is interesting, although not comprehensive. Moreover, research conducted on the field mainly handles the US airline industry. It was thus concluded that there is a lack of research in regard to up-to-date information on the air travel industry in Europe. This research brings revised conclusions on airline positioning in Europe, taking a broad perspective for exploring airline positioning on the market. Consequently:

- *The purpose of the research is to develop an understanding on airline positioning on a specific market that could serve as a tool for airline strategists to make decisions on competitive positions.*

This purpose was divided into three sub objectives, intending to:

- Explore the characteristics of the airline industry for understanding the field in which competition takes place.
- Describe the main factors affecting airline positioning in the chosen market.
- Visualise the positions of a set of airlines within a distinct market.

The three sub objectives found ground for reaching the purpose of the research. The theoretical framework was constructed in the view of reaching the sub objectives. First, formation of the competitive environment at a general level was discussed. Industry characteristics were considered important to be handled in order to gain a basis for understanding company positioning. Thus definitions on industry, market and airline business were presented. Then, a general view of factors shaping the industry could be introduced through Porter's five forces –model, creating a bridge towards the concept of positioning. It averred that positioning has been given several meanings, slightly differing on the phase of its implication to a company's competitive strategy. First, the terms positioning and competitive advantage were handled. Then, it was paid attention to the communication of competitive position. It was concluded that competitive position provides a bridge between the company and its target customers by describing to them in which way it is different from the present and potential competitors. Mapping a company's activity system provided further understanding on the concept of competitive position by visualising how one can be constructed.

It was chosen to conduct the research as an exploratory, qualitative research, mainly basing on secondary data. An explanatory aspect was reserved amongst others for explaining how competitive position is formed. The research strategy was chosen to be a multiple case study, using five European airlines as cases. The market was defined as the market of intra-European scheduled air transport services. The airlines were chosen in accordance to the number of passengers carried, reflecting the wants of the market. This was also considered as a proof of a carefully designed positioning. Thus, the case airlines chosen were Ryanair, Lufthansa, Air France, easyJet and British Airways.

The research was conducted by first analysing the industry structure, and then by focusing on the case airlines' competitive positioning as well as the factors that affect their competitive positions. Thus, the first sub objective was reached, amongst others, leaning on an interview of senior researcher Antti Norkela from the Finnish Competition Authority. He was considered to be at the heart of the airline industry issues, thus being of value to the research. By using triangulation, an understanding on the field of airline competition was reached. It was concluded that the air travel industry is characterised by a number of forces and underlying key features. The strongest forces revealed to be threat of entry, bargaining power of buyers, and bargaining power of suppliers. Threat of entry was characterised by key features including the impact of government policy on the competitive environment, airlines' strong product differentiation reflecting the airlines' fear of the presence of entry threat, and cultivating the benefits of the network aspect of airline business, which brings economies of scale, scope and density to an airline. It was concluded that with an already established network, incumbents possess a superior initial advantage in regard to new entrants. The usage of the network aspect was viewed as a weapon against the entry threat of new players. The competitive force of threat of entry was considered to be the strongest one within the air travel industry. Then, buyers were found to pose a relatively high bargaining power. Especially the increased use of internet provided buyers with transparency of information. Thus consumers are more aware of prices. They have also been offered the chance to be opportunistic, resulting as a lower brand loyalty. This power has conducted airlines to fierce competition for retaining and gaining customers in the market that is becoming mature. Last, the bargaining power of suppliers was considered the less strong force of the three. Especially the rise in fuel prices has impacted airlines, in regard to their cost structure. In turn, buyers forcing prices down demands rigidity in keeping costs down. Consequently, an understanding on the basis according to which an airline creates its competitive strategy, and thus its competitive position, was reached.

The forces shaping the industry were understood to have a major impact on airlines. An airline thus has to develop strengths in regard to the industry's strongest forces. The airline activities revealed the forces and factors which have an impact on airline positioning. This contributed to illustrating the link between industry structure and competi-

tive position. Visualising the five case airlines' positions through Porter's technique of activity-system mapping provided a deepened insight to their positioning. The author argues that this kind of visualisation is, in a point of view, more describing than a simple two-dimensional perceptual map. Nevertheless, it appeared that this map lacked of rigidity and let considerable place for interpretation. Despite this consideration, each case airlines' map was of use. An important finding in this research was that the activity-system maps revealed that the ideal of the fit across an airline's activities did not realise in each case. Especially incumbents lacked of ability to make trade-offs in regard to competitors; this defected their unique competitive position. One indeed cannot look at several directions simultaneously – or then keeping the position has to be rigidly managed. Being of guidance to all of the incumbents in the air travel industry, the author argues that those airlines having a similar historical background should strongly rethink their positioning. Not having fit across activities, no competitive position is created. What comes to the new entrants, they have relatively well formulated competitive positions. But growth is a factor that seems to be in vogue at the moment. It creates pressure to compromises and blurs the unique initial position created by airlines. Thus one solution to controlling growth is proposed: A new form of organisation separating different positionings into clearly distinct business units should create clear competitive positioning.

Leaning on research on the field, the author argues that the air travel industry growing mature, competing lucratively has become more demanding. Thus airlines make mistakes in trying to keep at the surface. They easily copy each other, resulting as inconsistencies across their activities. Thus the author considers that competitive positioning, which is not present in every airlines' strategy, would loose its importance as the competition for survival gains attention. Thus the question of how to create sustainable competitive advantage is left open.

Concluding, an airline's competitive positioning is dependent on an important amount of external and internal factors. The activity-system map brought deeper insight into the creation of competitive position. The visualisation of five case airlines' crucial activities provided a tool for getting a comprehensive view of their positioning – at a glance. This research brings understanding to the field of research on airline positioning in the market of intra-European scheduled air transport services. Nevertheless, this research does not fill the vast gap of up-to-date information that persists in the field. Therefore it would be useful to conduct further research on positioning, basing this time on primary information – this research could represent the exploratory phase needed for further refining the problematic.

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APPENDICES

Appendix I

Previous research in the field of airline positioning

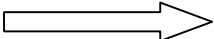
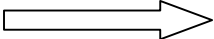
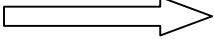
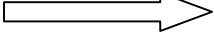
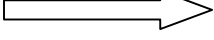
Table 9 Articles and research on airline positioning

Author	Research goal	Research approach	Research outcome
Heynold and Rosander (2006)	Presenting a new organisational model for surmounting difficulties brought by the present reactions to airline competition	Proving the efficiency of the new organisational model, compared to other industries	Suggestions why aviation groups should adopt an organisational model structured around separate business units
Huettinger (2006)	Reveal how a Scandinavian carrier has entered the Baltic market with a subsidiary airline combining elements of low-cost and traditional carriers	Primary and secondary resources used to developing an overview of airline operating philosophies, the Nordic airline market and the operating strategy of Air Baltic related to the extension policy of Scandinavian Airlines	The hybrid character of Air Baltic reflects the Central European/Baltic business environment
Binggeli and Pompeo (2005)	Showing the convergence of LLC's, traditional carriers' and charter companies' offerings	Presenting evidence on market saturation laying ground for convergence	Future developments of the air travel industry with guidelines on how to survive
Gursoy, Chen and Kim (2005)	Examine the relative positioning of the 10 major US airlines	Correspondence analysis on 15 attributes that measure actual airline performance on critical quality criteria important to consumers	Determine positions of 10 major US airlines
Lawton (1999)	Obtain indication of passenger views on Ryanair's service standards and their reasons for choosing Ryanair's flights	Interviews with senior Ryanair management, passenger surveys, document analysis using company reports and financial results	A strategy of low operating costs and cheap prices is not sufficient to ensure long-term competitive advantage
Kling and Smith (1995)	Identify strategic groups from nine major US passenger carriers	Scatter-plot based on airline's cost and quality positions	Identification of strategic groups

Appendix II

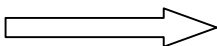
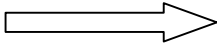
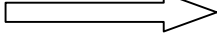
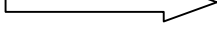
Characteristics of LCCs and network-based carriers

Table 10 The pillars of low-cost airlines (Jarach 2004, 26)

	Minimal marketing expenses (word-of-mouth on comparative advertising, airports' supports);
	Personal, convenient and pleasant service (reengineering around core benefit, easy price discrimination);
	Judicious use of technology (hard tech: fleet standardisation; soft tech: Internet and CRS avoidance);
	Structural efficiencies (no overstaffing, high productivity, no hubbing costs);
	Realistic financial targets (based on their own business model).

Comments: Ryanair is a pure no-frills airline as it flies from secondary airports and targets customers with ultra-low prices. In the other hand, JetBlue in the US promotes itself as the "best service at low prices". Both are considered as LCCs. So, it is the airline's own strategy and value proposition that determines whether it promotes itself to potential customers as an LCC or a network carrier. (see Smyth & Pearce 2006, 13) The hard competition in the US has forced to traditional carriers to establish their on low-cost "airline-within-an-airline". (Malver 1998, 17)

Table 11 The pillars of network-based airlines (Jarach 2004, 26)

	Massive marketing expenses (advertising, FFPs, travel agents' overrides, network analysis);
	Expensive, fragmented and complex service (classes of tariffs and service, catering, lounges, ground services, etc);
	Massive use of technology (hard tech: aircraft tailored for each route; soft tech: CRS legacy systems);
	"Ancien-regime" financial targets (in contrast with macroeconomic shockwaves and lifestyle changes).

Comments: In turn, the formerly regulated carriers can be distinguished from the group of new entrants according to a number of dimensions. They include, for example, a common managerial logic, first-mover advantages at thin-monopoly or congested space-constrained airports, a given fleet mix, goodwill assets, developed route networks, and higher factors costs. (see Peteraf 1993, 522) The network model can provide some competitive advantages through higher product quality (e.g. network connections, flexibility, product comfort, more convenient airports, and personal rewards through loyalty schemes) that incur some additional costs. Nevertheless, as they are targeting "willing-to-pay" customers, their advantage is indeed that business model that enables them for example to use several different aircraft types for adjusting capacity to demand conditions on different routes, on a specific time. (Smyth – Pearce 2006, 41)

Appendix III

The frame for the interview and themes

1. BACKGROUND INFORMATION

- 1.1. Interviewee: (name, age, gender)
- 1.2. History of the interviewee: (degree, year of graduation, job history)
- 1.3. Position in the Finnish Competitive Authority

2. COMPETITION IN THE AIR TRAVEL INDUSTRY

- 2.1. Please describe the air travel industry and its characteristics in regard to other industries
- 2.2. What kind of challenges do airlines meet in the air travel industry?
 - 2.2.1. What kind of implications do these kind of challenges have on the character of competition?
- 2.3. What kind of strategic groups exist in the air travel industry?
 - 2.3.1. What kind of implications do they have on competition?

3. ACTIONS AGAINST BARRIERS TO AIRLINE COMPETITION

- 3.1. Please describe the role of the Finnish Competition Authority in regard to influencing competition.
- 3.2. What other kind of actors exist in influencing competition?
- 3.3. What kinds of restraints on competition exist, being out of reach of the influence of competition authorities?

4. DEVELOPMENT OF AIRLINE COMPETITION

- 4.1. How would you characterise the development of airline competition beginning from 2002 (after the publication of the Nordic competition authorities' report)?
- 4.2. How important do you consider the impact of actions against competition restraints on the direction of the development in airline competition?
 - 4.2.1. Do you think that the development would have been the same without those actions?
 - 4.2.2. What would have been the direction of development?

5. OUTLOOK

- 5.1. How would you see the development of air travel industry during the following 5 years?

Appendix IV

Codes

Table 12 Codes used for meeting the first sub objective

Threat of Entry	ENT
ENT: economies of scale	ENT-ECON
ENT: established firms' product differentiation	ENT-DIFF
ENT: capital requirements	ENT-CAP
ENT: switching costs	ENT-SWI
ENT: access to distribution channels	ENT-DIST
ENT: government policy	ENT-GOV
Rivalry	RIV
Substitutes	SUB
SUB: Alternative transport modes	SUB-ALT
SUB: Other passenger air transportation modes	SUB-AIR
Bargaining power of buyers	BUY
Bargaining power of suppliers	SUP

Table 13 Definitions of the first sub objective's selected codes

CODE	Description
ENT-ECON	Incumbent airlines' sources of economies of scale
ENT-DIFF	Incumbent airlines' brand identification and customer loyalties stemming from the airlines' operations in the past
ENT-CAP	Capital required in accordance to the nature of the air transport services business
ENT-SWI	Costs facing buyers (passengers) when changing from one airlines' products to another's
ENT-DIST	Incumbents' ties to distribution channels – are they tight and exclusive for new entrants?
ENT-GOV	Government policy in regard to competition, or pollution quotas for example
RIV	Number of competitors Balance between competitors Industry growth Fixed costs Switching costs
	Nature of capacity use Competitor diversity Strategic stakes Exit barriers
SUB-ALT	Substitute alternative transport modes
SUB-AIR	Substitute from other kind of passenger air transportation companies
BUY	Bargaining power of passengers
SUP	Bargaining power of suppliers (fuel, employees)

Table 14 Codes used for meeting the second and third sub objectives

Dimensions	CODE
Price positioning	PRI
Quality positioning	QUAL
Innovation positioning	INNO
Service positioning	SERV
Benefit positioning	BEN
Tailored positioning	TAIL