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Aviation - a qualitative forecast of air passenger segments with focus on the West Coast region of Sweden

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Preface

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Abstract

The purpose of this thesis is to provide the Swedish Civil Aviation Administration with information regarding the market development within the private- and business passenger segments' present and future needs, demands, and volumes. The thesis focuses on the end customers, as these will determine the future value chain constellation.

The main area in focus is business and consumer passenger preferences today, tomorrow and the forthcoming ten years. We also provide a description of macro factors affecting the growth of passenger volumes. This will be used to provide an insight into the relation between economical and political factors and the amount of air travel.

The results will aid to the decision-making process regarding the future development of the Landvetter airport. The result will also be used to secure that relevant traffic can be attracted to the airport.

Traditionally the aviation market has been rather stable due to governmental regulation. Today it has shifted into a highly turbulent market situation where many aviation actors are desperately fighting to increase their market share. This has made it necessary for airports to focus on the end user, i.e. be proactive instead of responding to short-term trends among aviation actors.

The outcome of the thesis shows that business passengers still value flexibility over price. Private passengers, on the other hand, focus solely on the price issue when choosing airline and destination. The complexity of the aviation market today makes the travel management function increasingly important in the future.

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PART ONE

1. Introduction

1.1 Thesis background

The Swedish Civil Aviation Authority has been split into two parts in order separate the authority function from the strictly business oriented part of managing the governmentally owned airports. This together with the recent downswing in air travel is the underlying factors to the initiation of a larger project to thoroughly investigate the Swedish Aviation market. This master thesis is one of the proposed measures initiated by a large report produced by the Civil Aviation Authority in order to revitalise the Swedish aviation market. The report, named Flygkrisen (flight crisis) 2004 states areas that should be further analysed. Among them are:

- Investigate the effect of SAS changes of its business in Sweden and its effects on the aviation market.
- The European Union's, the harmonisation process, effect on the Swedish aviation market, including the new competitive situation created by the new member nations and their less demanding preconditions concerning taxes, fees and safety regulations.
- Investigate changes in consumer travellers' habits considering issues such as substitutes, short-break vacations and ethnical commuting between Sweden and areas such as Balkan and the Middle East.
- Analyse the changes in travellers´ preferences, including the fact that Low Cost Carriers are becoming a significant threat to Traditional Network Aviation companies.

In this master thesis we will investigate the customer base and how to effectively segment the passenger market in order to create effective marketing mixes for each segment that is perceived as beneficial to serve. The main areas in focus are business and private passenger volumes and preferences today, tomorrow and the forthcoming ten years.

The conclusions in this thesis can be further used to support investigations in a wide array of tasks, especially as a support in predicting the future for SAS and LCC.

After three years of stagnation we can now (2005) see a turnaround in volumes of passengers in the Swedish aviation transport system. Both domestic and international markets are increasing. The most significant increase can we see in the international traffic, the main explanation for this is the steadily growing LCC actors. These constitute 70 percent of the total market increase according to Mats Sigurdson, Director Aviation Marketing at the Swedish Civil Aviation Authority.

In order to respond and capitalise on this positive trend of passenger growth we need to know who the customers are and what they want. The logic is; find out what the end users´ key preferences are and fit the airports to the aviation companies that respond best to these demands. This instead of focusing on the aviation companies directly, because we do not know if they will be here tomorrow, the customer base certainly will. Historically, it seems, the management of airports in Sweden have been focusing a lot on SAS and we think this aviation company focus is risky. There will probably be a more turbulent aviation market in the future and the actors will enter and exit, therefore we think it is better to focus directly at the end user, i.e. be proactive instead of responding to the current market leader demands. It is tempting to switch operational focus to fit LCC, but is it what the customer really want or is it a short term trend? With a proactive approach airports in Sweden could adapt to customers´ preferences directly, instead of being dependent on the information received from aviation companies considering passenger statistics and ticket prices. This approach also facilitates the adaptation process, i.e. we can foresee market changes earlier and make necessary changes proactive instead of reactive.

1.2 Purpose

The purpose of this thesis is to provide the Swedish Aviation Administration with information regarding the market development within the private- and business passenger segments.

The results will aid in the decision-making process regarding the focus of the airports. They will also be used to secure that relevant traffic can be attracted to Landvetter airport, and to enhance the airport's ability to plan the operations.

The description of macro factors affecting the growth of passenger volumes will be used to provide an insight into the link between such things as economical and political factors and the amount of air travelling.

1.3 Statement of the problem

The main research problem in this thesis is *present and future needs and demands of the private- and business airline passengers in the West Coast region of Sweden.* We will also describe different macro factors that affect the growth of air travel.

1.3.1 Problem analysis

The airline industry is under constant change, as new companies emerge and others disappear. It is therefore critical for the success of the airports that they are targeting companies that are viable for an extended period of time. The passengers choose the airline that appeal to them, and the airline that has attributes that are adapted to their needs. It is these airlines that the airports need to attract and retain. If the airport does not have a long-term perspective and vision it runs the risk of placing the eggs in the wrong basket. Much of the airport structure in Sweden has been adapted to the needs of SAS, as they had the monopoly for a long time. As the importance of other company types such as Low Cost Carriers increase, it is important that the airports adapt to this development.

The airline industry is strongly affected by macro factors. This is to a certain part a consequence of the international characteristics of the business. It is also depending on other factors such as the history of terror attacks where airplanes have been involved, such as many hijacks and the recent 9/11 attacks. The airline industry is also depending on fossil fuels that make them subject to environmental legislation and taxation. The impact of the economic climate is likely to decrease as air travels become less and less costly. This is still a factor with impact though, as people are less willing to travel when times are bad.

1.3.2 Sub problems

In order to support the research of the main research problem *present and future needs and demands of the private- and business segments in the West Coast region of Sweden* we have also defined a number of sub problems presented below:

Private passenger:

- What are the product criteria and key preferences of important
- How can the market be effectively segmented? Trends?

Business passenger:

- What are the product criteria and key preferences of important?
- How does the travel manager’s role evolve? Trends?
- How can the market be effectively segmented? Trends?

Examine possible future development concerning macro factors,

- What factors impact the growth of airline travel?
- Macro factors:
    - Economic factors
    - Political factors
    - Research and Development
- What are probable scenarios?
- What kinds of demand are likely to develop or increase?

Aviation Market

- SAS Future
- LCC Future
- Harmonization of market/Future Airfares

1.4 Delimitations

This thesis will not deal with the entire airline industry, as this is an area that is not possible to cover in the time frame that is at our disposal. We will deal with scheduled services and charter flights (non-scheduled, commercial flight of more than 10 passengers). The thesis will deal with the developing needs of the airline customers within the private- and business passenger segments in a ten-year perspective. The thesis will focus on the west coast region of Sweden. Some national factors such as broad political goals, GDP, and growth will be included as these greatly affect the regional conditions.

The thesis will not deal with the airline companies’ ability to meet these future demands.

This thesis will not cover the areas of targeting and positioning, the steps following the process of segmentation. We leave the affected organizations to deal with these steps, according to their internal goals and policies.

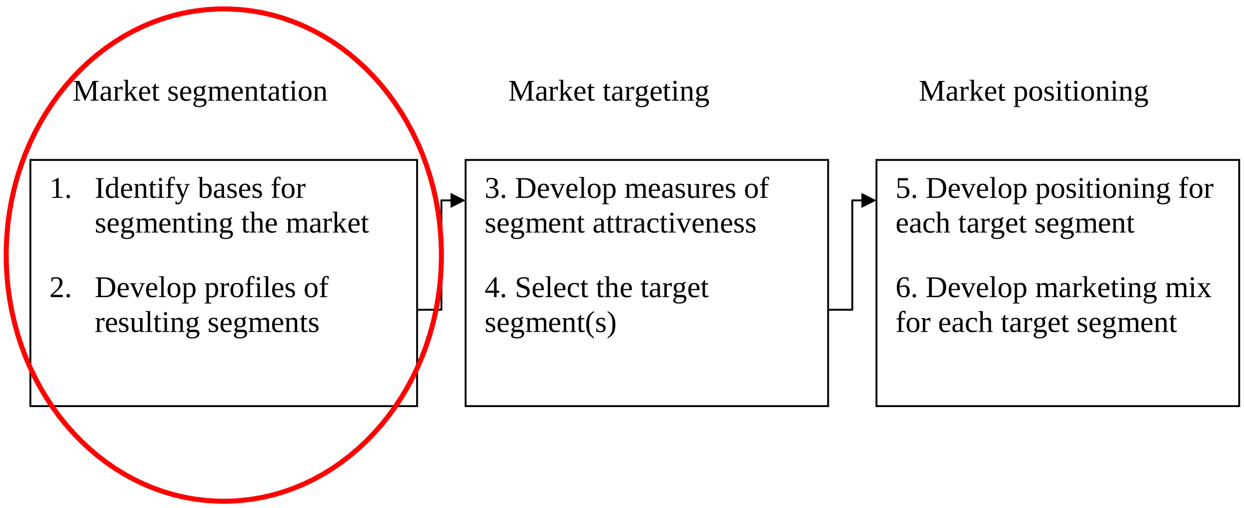

Figure 1: Project delimitation. Source: Kotler et al 2002

Private passengers are defined as passengers paying for their tickets themselves with the purpose of the trip not being business related.

Business passengers are defined as all passengers that have their tickets paid for by a company, with a business related purpose of the trip.

2. Theoretical framework

When we started considering which models to use while performing our master thesis we thought a lot of how to create a theoretical framework that are both scientific and practical. The conclusion we arrived at is that the model must be easily iterative, i.e. it must be easy to correct and use again if the project owner wants to redo the investigation and compare with our thesis sometime in the future.

”There is nothing permanent except change”, Heraclites of Greece 513 B.C.

Models that have a complicated and complex structure are seldom used in real life business situations, this because of several reasons. First, the impact on costs and benefits of the outcome of a decision, supported by the model, states the amount of time and resources that are correct to delegate to a project. In management literature as well as in the Swedish norms for book keeping this is referred too as the principle of information, i.e. the process of finding information should never be more expensive then the benefits created by the information collected and analyzed. Although, this is a project on strategic level and therefore it demands a thoroughly base of information. Second, the market for civil air passenger traffic is complicated. Non-market factors like environmental issues and constantly changing political directives make the problem hard to analyze in a strict economical model. The process of translating the results achieved through the use of national economic models into a strictly regional context demands a lot of simplifications if we should be able to survey the situation within the time limit for this project. Third, the results of a strategic thesis should be easy to translate into recommendations for different departments at the airport. Strategic goals should be easy to translate into projects on operational level. The recommendations should be a vital support when constructing a marketing plan, i.e. the marketing mix in which we can attract the chosen segments.

We have chosen, based on the argumentation above, four simple yet very useful models to support our work on. The first model visualizes the approach that we think is necessary to have. The model states that we always shall start at the end user, in this case the passengers, when analyzing a market. Even though the direct market, the customers, for the airports to a large extent is the aviation companies and not the passengers. In this discussion we exclude the value-added services at the airports and focus solely at the airports´ core business, i.e. the passenger flow as well as landing and take-off. The model will be described further below.

As a support in finding out how to segment the passenger market we use Kotler´s standard model for customer segmentation as a starting point. The model divides the total market based on whether the customer is a consumer, a business traveller or a reseller organization among others. We are going to investigate if and how the segments can be further divided due to heterogeneity within a segment or put together into one larger segment due to homogeneity among “starting segments”. The focus will be on business and consumer segments, but with this model we will also remind the reader that there is other important segments as well and that these often has to be managed with different procedures.

Governmental and Institutional customer are two good examples of customers that are obliged to do their purchases according to special rules according to certain legislation for publicly owned organizations. The third framework described in this chapter is also a Kotler production and it presents a working pattern that serves to facilitate the structuring of data with the support of segment variables. The variables selected by Kotler have been used as a general framework for market and business development projects in numerous of industries and we think it will fit the aviation passenger industry as well. As always we are forced to customize the model and emphasizes on the variables that are most critical in this specific situation, i.e. focus on the vital few. Nevertheless, we want to present a holistic view and we will therefore support our data collection process on a well-used model that provides us with this framework.

At last, since we are going to examine the product preferences of private and business passengers respectively, we also use the "Three levels of product" –model described by Kotler.

National economy theory is an integrated part of the variables described in some of the models used and we have to adjust the models slightly in order to describe the regional perspective.

The market we are going to evaluate is the Gothenburg region. This makes it important to evaluate figures, such as GDP and GDP growth, in a regional context. The analysis chapter includes a sub-chapter dealing with macro trends of importance. Here, we use a qualitative approach and focus solely on factors that are of significance for the airport industry and *the West Coast region of Sweden*. Since our project has a future perspective we support this work theoretically with a chapter about qualitative forecast.

2.1 Approach –Customer focus

The task of being able to meet customer demands is an on going struggle for companies. This much relates to the idea of marketing, where organizations try to offer products or services to its customers. The two main ideas to this issue of marketing are product focus and customer focus. These two main ideas have very different focus, in terms of how they present their products and services to its customers.

Product oriented model

The way a company conduct its marketing activities very much depends on the current market situation. In other words, high customer demands equals less marketing activities. This, due to an access in demand were marketing activities is not really needed to attract customers. This was much the case among industries in the situation from the end of the Second World War up until the late 1970s. Here, there was an access in demand, which led companies to produce at maximum capacity, while at the same time find that their output was not enough to cover the demand. During these times, very few persons among industry saw a need in making marketing efforts to attract new customers. This due to the fact that they already had their hands full of trying to meet the great demands that were placed upon them.

According to this model, the focus was on the product or service. Here, customers are not the primary focus, since they are said to buy whatever product the company produce. It was not until the late 1970s before this belief somewhat changed. Here, many companies realized that they needed to change its focus from the product-oriented approach to the more customer oriented approach. However, this new approach only slightly change the initial product oriented approach. Instead, this approach was more into convincing the customers that this product or service was the right choice for them, although the product they offered was the same as the initial one. One famous quote from this era was" it's possible to sell whatever product that is out there, as long as the advertising and price is the right one".

Even if this new approach slightly changed the focus from the product to be more customer oriented, companies among industry realized that this slight change of focus was not sufficient in order to retain customers. Up until the late 70s, there had been an access in demand, which lead companies to forget about customers need. However, during the 80s and 90s this approach was to completely change as competition increased along with customers began to be more selective in their buying process. These factors lead to a complete shift among organizations marketing strategies. Figure 2 shows the product-oriented model in detail. (Axelsson, B)

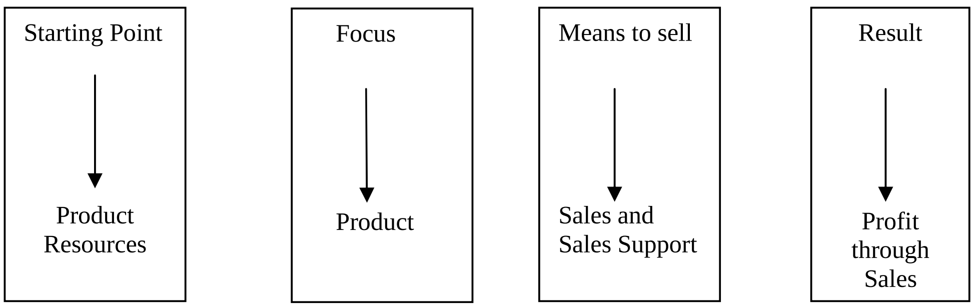

Figure 2: Product oriented model. Source: Axelsson, B, 1996.

Customer oriented model

As mentioned above, the initial belief among organizations were that the main focus should be placed on the product. In this view, customers were not paid much attention to, since they were expected to buy what the companies produce. However, more organizations started to realize that the focus needed to shift to better meet consumer's preferences. By doing so, the focus was more on the customer and their requirements, rather than being product oriented.

This shift from product oriented focus to consumer-oriented focus put greater demands on organizations among industries. The focus was now on the customer and its problems, which required greater insight in customer operations and decision-making. Here, decision-making refers to key persons in the company that are those that execute the major decision. For example, which products or services to buy along with determine which suppliers to use? However, this is not an easy task. In general, customer's preferences are somewhat complex and difficult to satisfy. The important factor is to understand and listen to the customer, in order to get around these problems that arise along the way.

This customer oriented model tries to combine product or service specifics with customer set preferences. The difficult task here is to find a balance between customer's requirements and what the company is able to offer. In terms of the company, this balance needs to be met, while at the same time making sure that the offer is economical profitable to the company. The key issue here is "value for customers". In other words, the producer of products or services shall offer solutions that add value to the customer. However, the added value that the customer expects should not be above the value that the company generates from offering the product or service.

As mentioned above, suppliers are today expected to offer products or services that add greater value for its customers. This should be done, while at the same time offer prices that is below the previous price. The well-known American marketing guru Philip Kotler has coin an expression that says”more for less”. This expression very well explains the situation industries today find themselves in. In addition to this, many industries are in the mature stage of their life cycles, which makes the competition fierce. Here, the competition focus is on cost along with consumers demanding increased value to its products, which leaves very little room for companies to make profits.

In terms of the aviation industry, one can easily argue that this is the situation today. Customers are expecting greater value, in terms of flexibility, service, etc, while paying the same or even less money for their tickets. The focus is today very much on the customer and the aviation industry’s effort to satisfy these needs. Since the customer expects to fly cheap these days, the focus among the industry has very much been on low fares. However, many companies have struggled to meet this balance were the added value for customers do not exceed the added value to the company. This, among other reasons, is why we today are seeing numerous of companies within the aviation industry making huge losses. This, much due to the fact that they are meeting customer demands to an extent that makes it difficult for these companies to be profitable. (Axelsson, B.)

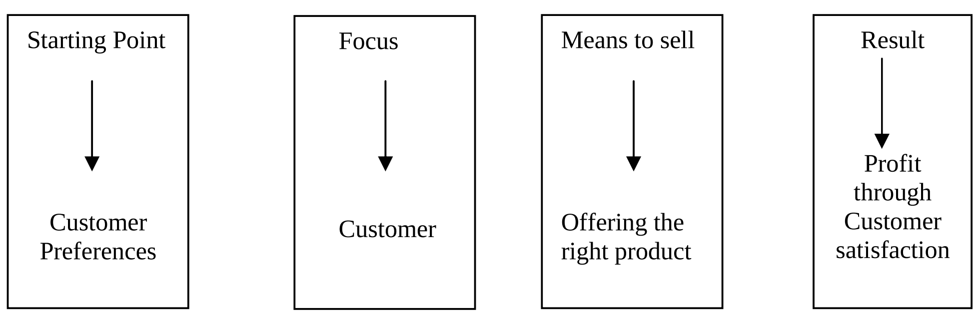

Figure 3: Customer oriented model. Source: Axelsson, B, 1996

2.2 Segmentation – Type of customer

A company should always be aware of who its end users are and what preferences they have. Even though many companies never get in contact with the end user and only communicate and make business with intermediaries. In our case the airports of Sweden, at least if we discuss their core business, sell to aviation companies and not to the passengers.

Information is power, if we do not want to rely our customers, the aviation companies and their reports and pictures of the situation, we can make decisions based on more objective information by collecting it ourselves. The danger in relaying on information, about end users, received from aviation companies is that we adapt their perception of what the customer wants, if this is incorrect we turn up with operational preconditions that are suited to a company no longer in a strong market position or maybe not on the market at all.

In Sweden the tradition among government owned airports have been to rely on and fit their resources to SAS demands, but does SAS fit their business to the passengers’ real demands? In order to avoid dead ends concerning operational management of airports we will with this master thesis find out the real need and preferences of passengers in Sweden with focus on the West Coast region.

The aviation companies' perception is influenced of what they are good at and their constellation of resources and not only the demands of the passengers. It is also influenced of the culture within the company, if e.g. SAS management personal mind set tells them that air travelling should be expensive and that customer wants to pay high prices for business travelling. This perception of real customer demand was concreted within SAS management and ended long before they recognized or accepted the market turn towards low price. If airport managers uncritically trust an aviation companies judgment they risk getting the wrong picture of real market demand, i.e. they risk being reactive instead of being proactive.

In this master thesis we will focus on business and consumer passengers, but we want to at least present all six customer segments stated by Philip Kotler, in his bible called "Principle of marketing". Kotler as well as the book referred too is acknowledged as one of the foremost marketing gurus and books worldwide. Therefore we feel comfortable with supporting our segmentation framework on his and his colleagues' knowledge and reputation.

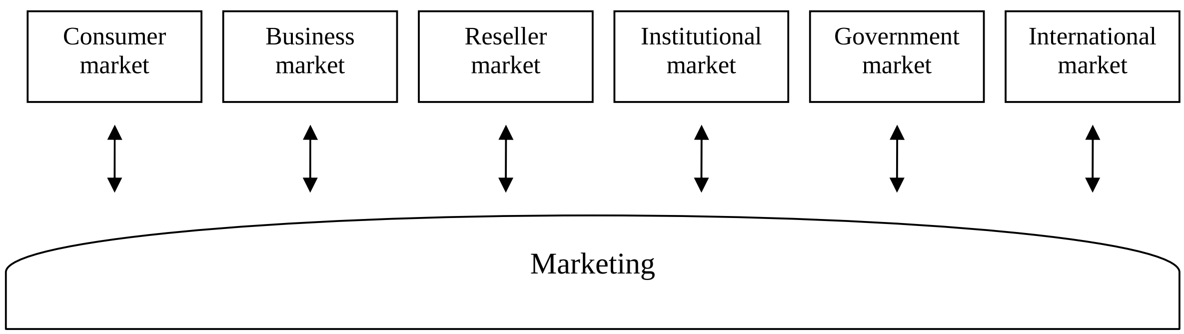

Figure 4: Types of customers. Source: Kotler et al, Second edition.

The figure above presents six types of customer groups. **Consumer segments** consist of households and individuals that buy goods and services for personal consumption. In our case they buy travelling services either for vacation or necessity such as visiting a sick friend or any other business that is not pure pleasure. **Business segments** consist of goods and services that are bought in order to fulfil a function in the companies' production. Normally we talk about input material such as components and raw material to a production plant, but it could also be services that are bought to support the business, e.g. transports of engineers or business people between the headquarter and plant. **Institutional markets** refer to hospitals, prisons and other institutions that provide services to people in their care. This customer segment is presented separately because of the different preconditions and rules that these activities are exposed to. There are very special rules on how to transport prisoners and the ways that institutions are allowed to buy services, especially if they have a monopoly situation. The bidding process must be transparent and no selling organization is allowed to be favoured. We will exclude this segment from our investigation; nevertheless we want the reader to be aware of which segments we have not dealt with. **Government markets** are made up of agencies that buy goods and services in order to produce public services or transfer goods and services to others that need them. In this subject, the fact that the Swedish government partly finances services from airline companies on links that otherwise would have been unbeneficial. This in order to reach the transport political goal of accessibility, in all parts of Sweden, as well as supporting local industries and communities. **International markets** refer to buyers in other countries, including all the segments described above. In this general model foreign markets are put together separately in order to emphasize the fact that other circumstances exist. Precondition such as political atmosphere, business ethics and cultural differences such as religious beliefs, societal norms are often different among nations. We only study the Swedish market in this master thesis, focusing on the West Coast region, in which this category gets excluded.

The model and segments described above is a general framework and not representative for the aviation market and the segmentation of it. Therefore it shall be interpreted and transformed into an aviation market perspective and seen only as “starting point”. It is possible that the investigations made during the project as well as information received during interviews makes it logical to unite or split some of the basic segments above. It is also important to understand that the relations that the model supports in our case is the relation between the end users and airports via the aviation companies, i.e. derived demand. One exemplification of a derived demand relation is:

End user ➔ Travel agency ➔ Aviation company ➔ **Airport** (an extended value chain)

Here, the focus is the end users demands on the travel agency and how this translates into choice of aviation company and in the last step which actions to take in order to support the aviation company that best meets the passengers’ demands. It seems a bit far-fetched when put in this perspective, but in our opinion it is the only way to secure that we focus our resources in the most beneficial manner. Airports do not do business with the end user, but we can still collect first version data, i.e. go to the source instead of getting a second version with communication noise and influences of intermediary perception. It is also wise to collect data from aviation companies as well to investigate the gap in perception between e.g. travel agencies and aviation actors. In conclusion we will earlier recognize which actors that will survive in the long-term perspective or at least get an opportunity to make our own qualified guess.

When segmenting you divide a market into distinct groups that have homogeneous needs and attractiveness, on the product or service in focus, within the segment. The reason that we divide markets into segments is that they have characteristics that are so different that we need different approaches to reach them, i.e. segments are heterogeneous. It is important to emphasis that the constellation of a segment always origin in the value offering in focus. The segmentation is only valid for this particular product package, if the offering changes the segmentation is no longer valid and a new investigation have to be performed. For each segment we have to make two decisions.

First, if we want to serve this segment with our offering, is it attractive enough to be beneficial? One relevant example is if we want to attract passengers that favour LCC or should we keep focus on Traditional Network Aviation Companies?

Second, how should we combine our resources to best attract the segments we want to address? When working with how to reach markets, called targeting and positioning, we use a concept called “the marketing mix”. We will not explain this work in this master thesis; due to lack of time this part has to be excluded. We focus solely on market analysis and segmentation and we hope that our results will serve as a foundation for further work with attracting the right customers and analyse the competitive situation for airports in West Sweden.

A person is unique, i.e. there is heterogeneity between every single individual. Each passenger has their own perception of reality, life and also the performance of aviation companies and airports. Theoretical models are tools to simplify reality in order to make it easier to analyse and structure. Segmentation can be performed down to each passenger and it can be used to simplify reality to transform unique individuals into homogeneous market segment. There are different levels in segmentation, the choice of level, i.e. how unique the customer is in relation to the offering we are going to market, decides how fare we will go with the segmentation process. We have already made one segmentation decision, in the assignment description, when dividing the travellers into business and private segments. The reasons for business travelling are obviously quit different from the pleasure travelling of private passengers. Next step is harder to support with logic and simplifications, e.g. how to divide private passengers into homogeneous groups, price sensitivity, food, and commercial activities at the airport? What is important and what is not? How beneficial is it to pay attention to each different passengers´ desire?

If it is very beneficial, e.g. transports of movie stars, we use the highest level of market segmentation, i.e. micro marketing. Here, we tailor the offer to fit the passenger almost too any cost. This customer is often not price sensitive. This is a rare way of segmenting in most business occasions. If we start doing simplifications, we generalize customer demands to some respect; first phase (starting from the individual) is refereed to as niche marketing. In this case we customize the product to a large extent, but not for each individual, e.g. first class passengers are a niche segment and we attract them trough a unique set of the “marketing mix”. Regular segments, the next level of generalization, are e.g. to address business passengers in a different manner than private travellers. If we use the same approach to reach all passengers, i.e. only use one single “marketing mix” this is refereed to as mass marketing. This approach has both pros and cons. First, you get economies of scale in addressing all passengers in the same manner, e.g. you use the same advertisement for all passengers and the same lounges at the airports etc. Second, you do either give some customers services that they do not want to pay for and at the same time some passengers lack services there are willing to pay for. In conclusion the lack of fit between product offering and customer demand are greatest with this approach. (Kotler et al, 2002)

2.3 Segmentation variables

As already mentioned we will focus on private and business segments and their preferences. Before we begin with collecting information about the two segments we will describe the most important segmentation variables for the two different segments, as stated in Kotler et al, 2002.

2.3.1 Private segment

Consumers are influenced by the characteristics presented in the figure below. Mostly, these factors are out of the control of marketers, i.e. we cannot affect them they are given preconditions that we have to adapt to.

The picture below shows a logical segmentation pattern, we start on the right side, with finding out the **cultural** differences, e.g. the differences in behaviour and preferences between Christian and Islamic people or strong believers and atheists. One simple example is that some religious people do not drink alcoholic drinks another difference could be in the way people welcome each other.

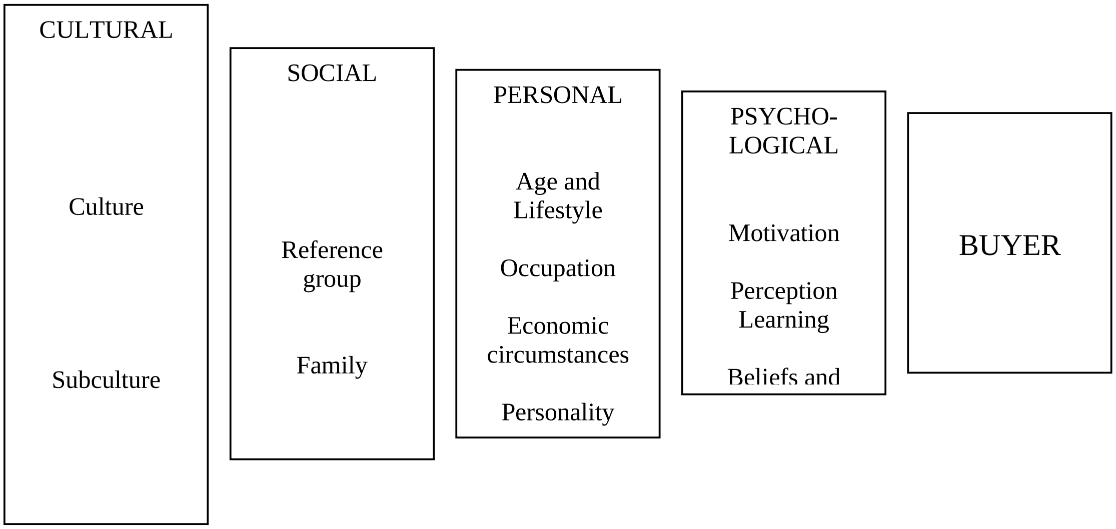

Figure 5: Consumer segment variables. Source: Kotler et al, 2002.

The focus is on basic values for example freedom, individualism and health that are common western world values today. It is important to spot cultural shifts in order to be proactive and imagine new products that might be wanted. Every society consists of **subcultures,** i.e. groups of people with shared value systems based on common life experiences and situations. Subcultures include factors such as nationalities, racial groups and geographic regions. **Social classes** are relatively permanent and ordered groups of people sharing similar values, interest, behaviour and conditions governing one's life. "The British scale" with six social classes is widely used, even though all societies have their own systems. This scale relates to "occupation of head of household".

1. Upper middle class –higher managerial, administrative or professional.
2. Middle-intermediate managerial, administrative or professional
3. Lower middle –supervisors or clerical, junior managerial, administrative or professional
4. Skilled working – skilled manual workers
5. Working – semi skilled and unskilled manual workers
6. Those at lowest level – state pensioners or widows, casual or lower-grade workers of subsistence

Nevertheless, it has been proven useful when segmenting consumer markets. The scale is not solely dependent on occupation other variables such as income, wealth and education is other factors that constitute the foundation for the British scale.

A consumer's behaviour is also influenced by **social factor** such as status and social roles. The differences between this social groups and the social class is that the group has direct influence over a person's life.

1. **Membership groups** – groups that have a direct influence on a person's life and to which the person belongs. These can be further divided into primary groups such as family, friends and co-workers. Secondary groups are more formal and have less regular interaction the person, e.g. religious groups, professional associations and trade unions.
   Family members can strongly affect the buying patterns of a person; we normally divide the family factor into "the family of orientation" and "the family of procreation". The first one is basically your parents and their influence on your religious beliefs, politics and economics as well as your ambition level and self-worth. The family procreation refers to the spouse and children and their influence on a

persons buying preferences. Group members can affect the buying decisions in many ways:

- Initiator – the person who comes up with the idea
- Influencer – the person(s) whose opinion affects the buying decision
- Decider – the decision maker
- Buyer- the person who makes the transaction (the daughter may decide to buy a ticket, while the parent pays at the cashier)
- User –the person who consumes or uses the product, (e.g. if the ticket is for a friend of the daughter)

The buyer, decider and user are often the same person when discussing consumer markets, but not always as exemplified above.

2. **Reference groups** that have direct (face-to-face) or indirect influence on the person’s behaviour and perception. An inspirational group is a group that the person wants to belong to. In our case it could be people who want to be perceived as wealthy and move in good society and therefore prefer buying first class tickets. Even though the socioeconomic segmentation described above would have put this person in another segment due to e.g. income level. Reference groups are often used in marketing to create demand, especially with the use of sport and movie stars that some regular people want to be identified with.

In all groups each person have a role or a level of status, this is a factor to take into account, especially the fact that the role changes depending on which group the person in question for the moment is interacting with. The person behaves different when she is in the daughter role than she does when she is in the role she has among her friends.

The next factors to investigate, according to Kotler´s model presented above is **Personal factors**. These can be divided into:

1. **Age and Life-cycle Stage** – preferences when it comes to travelling are intimately related to the family life cycle, i.e. the stages through which a family member might pass as he mature over time. Comfort is often not as important for poor students, as it is for elders with an aching back etc.
2. **Occupation** – the outlook on life are to a large extent affected of your choice of profession. Compare a worker occupied with a machine at a plant and a businessperson travelling worldwide.
3. **Economic circumstances** - see the discussion above concerning “the British socioeconomic scale”.
4. **Lifestyle** – a person’s pattern of living expressed in his or her activities, interests and opinions. The technique of measuring lifestyle is called psychographics. One common scale to group people according to lifestyle is the six so-called “Eurotypes”, developed by RISC research agency in Paris.
    1. The Traditionalist – mainly influenced of culture and socio-economic history, with a profile reflecting deep-rooted attitudes specific to his country.
    2. The Homebody – is driven by a strong attachment to his or her roots and childhood environment.
    3. The Rationalist – focused on self-expression and willing to take risks and start new endeavours, but is not mainly driven by wealth dreams.
    4. The Pleasurist – emphasis emotional and sensual experiences. Prefer self-regulation and dislikes formal decision process, more spontaneous buyers.

    5. The Striver – beliefs in autonomous behaviour and prefer to focus his efforts on shaping life to exploit mental, physical and emotional possibilities to the outermost.
    6. The Trendsetter – is spontaneous and dislikes formal structures and procedures. They see no intrinsic value in proving their abilities.
5. **Personality and Self-Concept**. Each individual has its own unique psychological characteristics, the personality. These characteristics are usually relatively consistent during time and are often described in terms of features such as self-confidence, dominance, aggressiveness, adaptability and autonomy etc. All these features and there between themselves strength relations, i.e. the dominating vs. the less influencing characteristics constitutes the individuals self-concept. The self-concept is the mental picture that people have of themselves, their identity. A persons identity decides which kind of products that he/she prefers, e.g. if a person self-image is that he is in the forefront of technological development, a modern person, he will probably choose a cell phone with a lot of features compared to e.g. the Traditionalist that instead seeks functionality to low cost.
6. The last segmentation variables described by Kotler is **Psychological factors**, in our opinion, it seems very difficult to separate these from the personality discussion above, nevertheless the focus shifts slightly from the view of a person as one entity into different parts of the human mentality. Areas such as **motivation** theory and perception processes are in focus here. A concept called Maslow´s hierarchy of needs and the selective attention due to each individual unique perception is the focus for the discussion.

1. Maslow´s hierarchy of needs structures human demands in order of importance. The arrangement of importance is:
    1. Physiological needs - hunger, thirst
    2. Safety needs - security, protection
    3. Social needs – sense of belonging, love
    4. Esteem needs – self esteem, recognition and status
    5. Self-actualization needs – self-development and realization

   We will not describe this model further in this master thesis, but the logic is that needs marked (1) must be fulfilled before needs (2) can be satisfied etc. It is also important to be aware of that a person finds oneself on different levels during a lifetime, travelling up and down the steps in “the Pyramid” depending on circumstances in life. This fact is important to understand because it affects a person’s perception, in the same manner as the maturity life cycle discussed earlier in this text.

2. Motivation stimulates action, and **perception** directs action. Together these concepts constitute the foundation for a decision from a psychological perspective. In this context, a buying (or not buying) decision. There are two sides of the perception discussion, selective attention and selective distortion. Selective attention refers to the process of screening out most of the information to which we are exposed in order to be able to interpret, to process and make it meaningful. The information we choose to pay attention to depends on our selective distortion, e.g. many people living in Scandinavia feels that SAS is a company with high safety standards and will sort out information that states that other less, for them, known companies have high safety standards as well. This information gets distorted in order to keep a formed conception of what is good and what is not, independently of the validity. This can be a very hard

entry barrier for new entrants on markets consisting of strong actors with well known products and a good brand image.

3. **Learning** by experience, e.g. if we are satisfied with our last vacation when we travel with SAS from Landvetter airport we either change our mind from a earlier poor perception of these two actors performance or we reinforce a perception of this travel arrangement as even better than we already knew. It is important to be aware of that a satisfied customer does not tell friends and families what they were satisfied with in the same magnitude as the unsatisfied customer does when it comes to negative experiences. Your business can not live on historical reputation, but poor track records can be severely damaging for future business opportunities.

   The learning process consists of:
   1. Drives – internal stimuli for action, i.e. for the seller a given precondition. If e.g. a person that arrives at the car shops states that he likes and wants to buy a sports car.
   2. Cues – are smaller, external stimuli that determine when, where and how a person responds to a seller's argument or to a car advertisement campaign etc.
   3. Reinforce – as discussed above; is the actual result in the customer's perception of the car that he bought. Did it respond to his expectation? If, yes, then the probability that he will buy next car of the same brand or/and from the same retailer greater. Otherwise his perception of the car, seller and store are weakened.
4. **Beliefs and attitudes** can be seen as the result of a learning process, even though a statically condition never appears, i.e. the learning process goes on during life, it is never finished. A belief is a descriptive thought that a person has about something, e.g. the car seller discussion above. These beliefs are what make up a brand image and the preferences customers have on a specific product. In the discussion about market segmentation we have to put people's beliefs in relation to the product, the value offering. In this context this is referred to as the customers' attitude towards the product. It is hard to change a person's attitude; therefore companies should rather focus on changing the product offering instead, so that it fits the people we want to address. This fact is key in our master thesis, we have discussed earlier in this chapter the importance in finding what the customers really want by being proactive. There are situations when it pays off to work with changing attitudes instead of changing the product offering, but as a rule of thumb focus on fitting the offer not the people. (Kotler et al, 2002)

2.3.2 Business Segment

Similar to the consumer segment, the business segment is influenced by various factors. These factors to a great extent affect the business buying process. Traditionally, business-buying decisions have been based on rational economic decisions. In other words, buyers tend to favour the supplier that provides them with the lowest cost. However, this belief has changed over time. Today, most businesses respond both to economic factors along with personal influences. Here, personal influences come into play when suppliers offer similar products that all meet the requirements set by the buyer. Due to this, personal influences to a greater extent affect the choice of supplier. However, when products or services tend to substantially differ between one another; economic factors have a greater impact on the choice of supplier.

In addition to strictly economic and personal factors, there are other external and internal influences that affect the business buyer segment. These factors are environmental, organizational, interpersonal, and individual influences. All these factors to some extent affect the business segment in their choice of product and services. These influences are shown below. (Kotler et al, 2002)

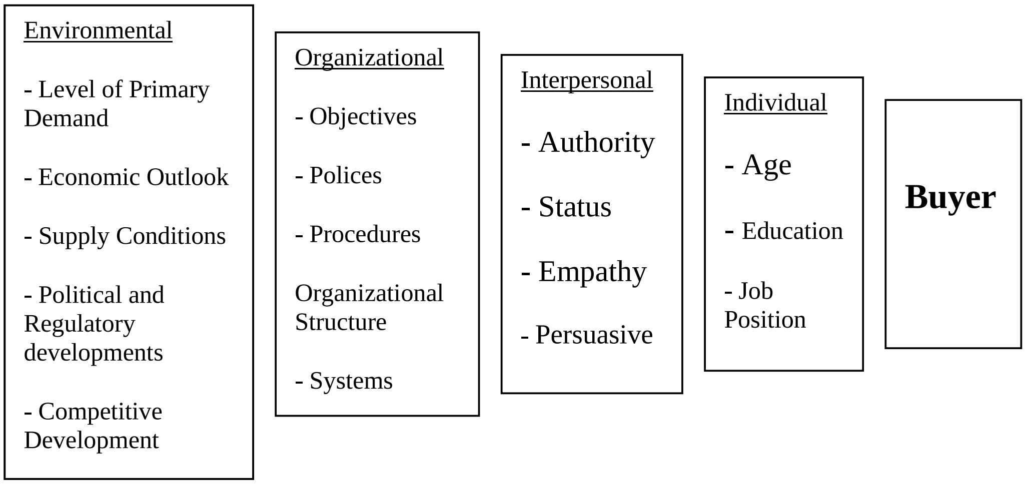

Figure 6: Business segment variables. Source: Kotler et al, 2002.

Environmental influences

Environmental factors refer to key economic components that influence the decision making of business buyers. These factors are, demand of customers, economic outlook and the cost of money. In addition, the uncertainty issue of customers also affect the business buyers. In times when uncertainty among customers is high, business buyers tend to reduce their inventories in order to reduce their capital costs.

Other environmental factors that influence the business segment in their buying process are political and technological factors. Cultural factors also influence decisions among business buyers. Therefore, it is of great importance for suppliers to keep in mind these factors and try to turn them into opportunities for the business buyers.

Organizational factors

In terms of organizational factors, it is of great importance to understand each organizations´ own objectives, policies and structures. The focus here should be placed on examining and realising the specific need for every organization. Another issue that becomes vital is realising who’s involved in the buying decision. In other words, how many and which people are involved in the buying process?

In addition to these traditional organizational factors, which impact the business buying decision, there are a few recent organizational trends that indirect have an impact. These are:

- Upgrading and centralized purchasing.
- Long term contracts
- Extranet exchanges.

Here, upgrading and centralized purchasing refers to the organizational aims of combining several functions, in order to better manage and control the total buying process in the organization. Long terms contracts involve the companies' aim of seeking long-term relationships with its suppliers, which could be beneficial to both parties.

Finally, with extranet exchanges business buyers try to reach as many potential suppliers as possible, through the use of electronic interchange. This enables them find suppliers that quickly can deal with the organizations specific and detailed requirements.

Interpersonal factors

Interpersonal factors in business buying decision refer to who are in charge of executing the business decisions. This seems rather evident; however, it is not always the top manager who executes all decision. Furthermore, certain members of the buying team have greater impact on the buying decisions that other. Here, it is important to understand these underlying facts that all have an impact on the buying decisions. Usually, the business buying group is made up of large number of participants that all contribute to the final buying decisions. Therefore, according to Kotler, it becomes important to determine what kind of interpersonal factors and group dynamics that have an impact on the business buying decision.

Individual factors

In addition to the previous factors that influence the business buying decisions, individual factors are also of importance. Here, the individual factors are affected by certain characteristics. These are income, age, education, personality among others. In addition, the buying decisions also vary a great deal among individuals. Certain individuals make very in-depth analysis while other believes in fast, perhaps not so rational decision. Here, the difficult task is to investigate certain individual behaviours among business buyers, in order to both suite business and organizational needs along with individual factors. (Kotler et al, 2002)

2.4 The Three level product

The aim of this model is to support the analysis in answering questions such as:

What to the passengers want?

What key preferences do they favour?

In order to do this we need a structure to describe the product's different components. To start with we have to define the product. A product in the general sense is everything that can "be offered to a market for attention, acquisition, use or consumption that might satisfy a want or a need. It includes physical objects, services, persons, places, organizations and ideas", Kotler et al, 2002.

Aviation companies and airports together provide the market with flight services, i.e. they provide a transport service. The core product seems to be a transport between points of departure to the points of destination. **The core product** is defined as the problem solving part of the total offering. The customer buys the product because he/she wants or needs to be at another destination. **The actual product** is what the customers buy in from of service quality (e.g. service manner among cabin staff), features (e.g. food, drinks), product design (e.g. aircrafts used, lounges at airports), brand name (e.g. SAS perceived as a safe alternative), packaging and other attributes (e.g. Malmö Aviation focus on the business traveller on the domestic market, i.e. the provide a “business package” consisting of bundled services). **The augmented product** concerns additional services, e.g. possibilities to book a rent car at an aviation company’s homepage or to other services not directly part of the core/actual product. Today, especially in the highly competitive aviation industry, most competitive activities take place in this part of the product. Fly Nordic work with creating portals other travel related homepages and on the net and SAS have a new price strategy offering different level of service warranties etc. It is here that competition take place, the do not compete in the core product. The Concorde (very fast aircraft that no longer is in use) is the only example we can think of where aviation actors tried to create a competitive edge with the core product, i.e. transport.

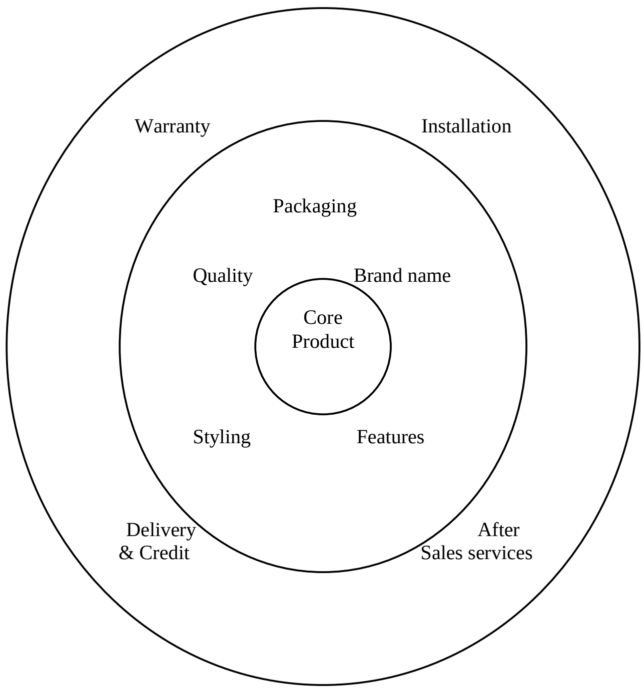

Figure 7: The Three level product. Source: Kotler et al, 2002.

2.5 Forecast theory

Besides investigating the customer structure for the airport passengers we will try to provide an outlook of the expected volumes, or at least the relations between volumes, that each segment constitutes. The aviation market is going through major structural changes and we see this fact as a reason to be very careful in considering past experiences of volumes as a foundation for future forecasts. This together with our relatively long-term forecast period, 10 years, is important to consider when choosing method and technique for our work.

There are forecast techniques ranging from relatively informal qualitative surveys to highly advanced statistical models. We will explained some of the techniques briefly and discuss the logic behind our choice.

Forecast methods are often divided into three groups, time series, casual and qualitative.

2.5.1 Time series forecast

Time series consist of mathematical methods, constructed based on past demand and relatively constant relations between used parameters during the forecast periods. The calculation performed is often based on historical data. This figure can be calculated in a lot of different ways that we will not discuss in depth in this thesis. Briefly, it is often some kind of average demand during the past 2-5 years that constitute the foundation for the formula used. Time series are not sensitive for turning points, i.e. in our case major market precondition changes. Therefore we feel that this approach does not fit our problem formulation, because we do not think the past market situation reflects the future. We base this conclusion on the relatively new competitive situation with LCC actors and the lack of SAS monopoly at Swedish airports. It is possible to make a short-term time series forecast based on the last two years of aviation market with the growing of LCC actors, but not for our ten-year timeframe.

2.5.2 Causal forecast

Causal forecast is performed by the use of a regression formula. Here, we try to find a relation between an independent factor and its relation to the area we are going to investigate. This method is successful when an obvious and stable relation exists between one or a few parameters and our forecast factor. (D, J Bowersox et al, First edition)

Historically, there have been such relations between both price elasticity and GDP and the amount of passengers passing through an airport. Today, with the lower aviation ticket prices the relation between GDP and consumption of air travelling gets less obvious. It is possible for almost all groups in society to afford a ticket that costs 300-500 SEK even during poor national economic trends. During the time period when SAS occupied a monopoly situation and the ticket prices varied between 3000- 5000SEK for a one hour trip the impacts of factors that constitute GDP where fare greater. To exemplify it is possible for an unemployed individual to save money for a trip to London worth 800 SEK, but rarely if it costs several thousands Swedish SEK. The relation between GDP and passenger volumes still exist, but it is easier to interpret a relation of 1:3 than 1:1, 2 that where the case in 2003 when the last investigation of this relation where performed. (1:3, GDP increase of 1 % ➔ passenger volume increase 3% respective today GDP 1% ➔ Passenger volume 1, 2%).

This discussion mostly concern the private traveller and the relation between GDP and passenger volumes may still be of importance, because the business passenger makes the journey based on other factors that are indirectly affected by GDP. GDP is an indicator of the amount of sold goods and merchandise in a country during a year, it therefore constitute a measure of business activity. Business activity generates travelling to meet and make business deals etc. (Luftfartsverket, Flygkrisen 2004)

In conclusion, the GDP is still an important measure of the amount of passenger volumes, but less than it used to before the LCC actors entered the market. The aviation industry is complex with a lot of different factors affecting demand and prices, when we do a forecast with a time frame of ten years a regression analysis provides little value, even though it can be a good tool in a shorter time frame. Especially, when considering the business passenger market. With the private passenger market we have to make a multi-regressional analysis, due to the many factors affecting the travelling patterns. The preconditions for each factor changes, e.g. next years election can put an end to the new tax on air tickets of 100-50 SEK it can also make it a fact. As already mentioned the indicators we choose when making a regression analysis changes, today we can see that the emphasis on GDP as single indicator, regression parameter, is decreasing. If the ticket prices once again increase due to taxes or due to other for us at the moment unknown aspects it will reinforce the GDP´s importance as an indicator. The discussion about GDP and its correlation with passenger volumes serves to explain the logic of not choosing this forecast method.

In conclusion indicators and circumstances changes and it is not logical to make advanced mathematical calculations on input data and regression parameter relations that are not valid for the whole forecast period. Therefore we see this method as a stronger choice in less long-term forecasts. (D, J Bowersox et al, First edition)

2.5.3 Qualitative forecast

When performing a qualitative forecast we use the knowledge and experience of experts, in our case, on the aviation passenger market. The information can be collected directly from the experts or via reports and articles as secondary data. It is important to evaluate the validity of each source considering both knowledge and which interests they represent. A critical statement should always be further investigated by interviewing other respondents and if possible secure correctness of facts. A qualitative forecast may rely on past experience, but it can also have a totally independent approach, i.e. we only look into the future instead of having the current situation as a foundation for our calculations and assumptions. This can be appropriate when severe changes in the industry structure have been the case and reliance on traditional business knowledge tells very little about the future. This can often be the case when an innovative new solution for a problem appears as substitute for our product. As an example Kodak’s market for their roll of films could be based on statistical forecasts considering sales figures each year until the digital camera entered and aggressively penetrated the camera market. With this substitute to the regular cameras it was no idea to base the demand calculations on past experience because the microenvironment with this new technology looked so different. This is a good example when we have to think deeper than just looking at base demands, trends and seasonality etc. In this situation it is often better to “start from the beginning” by considering the new preconditions given by the changes in the competitive situation. In our example we look at a new product, the digital camera, as the substitute, this is easy to understand.

In our thesis the substitute is either another mode, intermodal competition, such as train, car or bus travelling or intra competitive, i.e. LCC vs. traditional airlines etc. The LCC actors have both expanded the total aviation market and to some extent taken customers from regular airlines, business travellers as well as private travellers have deviated towards this low price companies. We as well as many of the respondents we have been in contact with see the upcoming of these new actors as a major market shift. We imagine that the preconditions for the future aviation market will change and are in change of a magnitude that makes the time series analyses based on passed volumes per segment of low reliability. This is strengthened by the fact that our forecast period is long-term. In conclusion we think it is wiser to base our quantification of future passenger volumes on experts’ opinions and their qualified guesses rather than making advanced and time consuming mathematical calculations based on figures not representative for the new market situation.

A qualitative forecast, judgmental method can be performed in different ways. Below we describe the four most common methods; Consensus forecast, the Delphi method, analogy method and mapping.

Judgemental forecasts are often used as complement to a quantitative model in order to clarify factors that do not fit in a mathematical equation. It can also be used to further explain the forecast errors in a quantitative model.

In the consensus method we let individuals or small groups of experts together making assessment of the probability of different scenarios by evaluating factors such as historical trends, current economic situation and related aspects important for the specific forecast issues in question. This method is well fitted for occasions when circumstances shifts in a high pace and the problem is very complex. As with the aviation industry with e.g. the goal conflicts between market forces and transport political goals among other factors. We gather experts for a discussion in order to reach common understanding of the situation. This can be very time consuming and experts from different areas seldom succeed in creating a "common opinion", but the process often harmonizes "extreme opinions" and we also sort out a lot of pure "industry interest opinions", i.e. non-fact opinions only there to support an actors economical or political interest. It is important to gather representatives from different backgrounds if we use the consensus forecast too reach high reliability. (Article 7: West Virginia University, Regional Research Institute)

The reason that we did not use this method in our master thesis is that we probably not would have been able to gather experts enough to one single place and time and get them to spend a day or a week discussing the future passenger segments as a contribution to our master thesis. Nevertheless, we have been part of a business travellers´ forum during the work with this thesis and by that been part of a consensus building process, even though it is a small contribution to our thesis compared to other qualitative methods we have used.

The Delphi method is another approach when performing a qualitative forecast. In this case we describe a couple of different scenarios for a selected group of respondents with different backgrounds. They are thereafter asked to rank the relevance and probability of the descriptions made by us or another project group. The answers are evaluated and a new improved dispatch is often performed to the same respondents. This iteration process makes the method very costly and it is therefore almost only used in large investments projects.

The analogy method can be described as a variation of "benchmarking" where experiences in other fields than the one we are investigating are used to base a forecast on. If e.g. we used the development and trends of domestic train traffic in order to forecast the future for domestic aviation markets. We have not found an industry that reminds so much about the aviation market and our mission that we have further evaluated to use this method.

Mapping is often used in marketing in the form of marketing surveys via interviews face-to-face and on the telephone often compared with inquiries sent out to less, for the mission, important respondents. The respondents' opinion could still be important, but the questions asked are often simpler and by that demands less of interaction between interviewer and respondent. Face-to-face interviews are important in order to be able to interact when analysing complex factors as well in judging the reliability of the source. Collected data are then sorted and analysed in order to make forecasts. (G, Persson & H, Virum, 1996)

2.5.4 Chosen approach – qualitative

We have used the mapping method to a large extent during our work, basically because we want to be as time effective as possible with our respondents' time. We also wanted to get in contact with a wide range of different opinions in order to secure both the relevance and correctness of all facts presented in our thesis. The focus has been, similar to the one for consensus building approaches, to find respondents in each of all major interest groups, i.e. travelling agencies, aviation companies and business people and airport operators as well as Travel managers. This in order to make the analyse process balanced and holistic. Unfortunately, we have not been able to make a consumer survey, but we have taken part of one performed by the CAA, although it focuses on the Stockholm region we think it can be a useful support in analysing the West Coast of Sweden as well.

It is important to be aware of the weaknesses of this forecast method; here are the most common complications with this method:

- Subject to bias, we do not use empirical data; the analysis used is not purely scientific, because we do not prove our conclusions.
- Anchoring events, i.e. allowing recent events to influence perception about the future. In our case we risk focusing too much on LCC, because it is the current trend and focus in the industry.
- Information availability, as above a lot of the articles we have found during our work focus on LCC actors and there is a risk that we miss something that could be very important during the forecast period, ten years.
- False correlation, the use of indicators that is not indicators at all, maybe they have been indicators historically but not at the present situation or in the future.
- Inconsistency in methods and judgments decreases the reliability of the study.
- Selective perception, discussed in the theoretical framework, subchapter about the private segment. In brief, important information is ignored because of personal motives or personal perception about a relation that do not exist in "reality".
- Wishful thinking, the consensus creating process goal is to pleasure the interviewer or a political force rather than finding out what the reality looks like.
- Group thinking, the group keeps to together, instead of presenting their own independent opinion. Reasons such as hostile environment, risk to loose job or supporting the wrong political or economical interest by "telling the truth". Here, the single respondent interviews facilitate to get an honest and independent answer.
- Political pressure, respondents or forecasters are forced into adapting to a certain opinion. This in order to meet budget goals or not risking loosing allowance etc.

2.5.5 Forecast components

No matter which forecast method to use, if we quantify the volume it consists of different components. The forecast is often expressed as a figure consisting of six different components.

- Base level (B) demand for period t, often estimated as the average volume over a time period t. Average amount of passengers during a week on a specific link.
- Seasonality factor (S), an upward or downward movement in volumes of demand during a time period. The forecast period for the seasonality parameter is often one year. A common aviation example is the upswing in charter passengers during summer times.
- Trend (T) is measure of a long-term change in volumes. It is important to be careful when talking about trends so that we do not make mistakes such as interpreting a stochastic fluctuation as a trend. There are a lot of mathematical statistical rules for making the decision if it is a trend or a stochastic variation in demand volumes. A

trend could be positive, negative or neutral in direction. In contradiction to all the other components that constitutes the forecasted figure this is directly influencing base demand according to the following formula: Real base demand = Base demand * Trend index. The value 1, 0 constitutes a neutral trend, less is declining and a higher value is an increasing trend.

- The cyclic component (C) is used when describing swings in demand volumes that range more than one year. Economical conditions such as business cycles in the heavy industry, such as Volvo and SKF, affect the cyclical component when looking at the aviation market. GDP swings due to Sweden's major business areas cyclic behaviour has traditionally been a good indicator of the passenger volumes with a factor of 1:3, i.e. when GDP increases with 1 percent the passenger volumes increase by three percent, according to a price elasticity study presented in the CAA's report, Flygkrisen 2004. Even though this relation, due to lower ticket prices among other factors, no longer is obvious, it is a good example of the cyclic component in an aviation passenger forecast.
- The promotional component (P) constitute the volume increase due to company activities, e.g. SAS are presently implementing their new pricing strategy and they advertise this heavily in different medias to increase their volumes of passengers. This is an example of a more long-term promotional activity; the lower new prices are here to stay, at least for a while. There are other promotion activities as well, such as short-term deals and promotion campaigns, e.g. competitions to stimulate customers to try a new product and at the same time get the opportunity to win a new car etc. It is important to evaluate the impact of each of this actions affect on the demand. In our case the passenger volumes.
- The irregular factor (I) is added to the formula after the other components have been investigated and approximated. This factor is random or stochastic as we called it in the paragraph about the trend component above. This is the part of the forecast that we cannot find a logical explanation to. This factor often increases with the time frame for the forecast, i.e. the longer the forecast period the less reliable the forecast and the greater the irregular component.
- The forecast formula: Ft = (Bt*St*T*Ct*Pt) + I

It is not necessary to include all components above in a forecast; this is only a guideline and structure when working with forecasts. We should only consider factors vital for the specific forecast situation, e.g. if no promotional activities are planned for the forecast period we exclude the factor. (D, J Bowersox et al, First edition)

In our case, we use factors relevant based on our problem analysis, e.g. we do not focus on seasonal fluctuations. Using this general model, describing components, we found that the focus is primarily on trends divided by segments.

A forecast process generates both the forecasted figure named Ft above and a figure called forecast error. This factor can sometimes be more important to decide than the actual forecast volume, because it describes the stability of the demand that we try to forecast. If the forecast error turns out to be great we have to organize our efforts in a flexible manner. In the production industry we talk about agile supply or demand chains. An agile demand chain consist of a chain of actors that are very sensitive to changes both in volumes and product specifications, i.e. a value chain that can reorganize its efforts according to new customer behaviour within a short time frame. In our case we need travel agencies and aviation companies that respond and adapt quickly to new passenger preferences and volatile volumes. In the prolongation, i.e. at the airports, we have to fit the resources to the changing business processes of aviation companies, the holistic system shall respond to “triggers” from the customer base. This is also, the basic logic for our thesis; it is all about being proactive! The forecast error can also be used to adjust the forecast method, if e.g. a forecast model shows the same error of the same magnitude a couple of periods in a row we get indicators on how to improve the model. This is another important task for the forecast process; it is not only about the figures concerning volumes and segments it is equally important to catch the dynamics of the market forecasted.

The following rules of thumb are important to keep in mind while performing a forecast and using it as a decision support:

- Forecasts always diverge from actual outcome, i.e. real passenger volumes in our case.
- Forecast always generates two figures a forecast figure and an error figure.
- Forecasts are better if they are performed in a short-term basis rather than in a long-term period. (G, Persson & H, Virum, 1996)

3. Methodology framework

3.1 Objectivity

Objectivity is an important question concerning academic research. In essence there are two viewpoints in this question. The first view is that the researchers should remain objective to the study at all time, called the positivistic approach. (Ghauri et al 1995) This approach further suggests that all data can be classified and measured. This means that all qualitative data that is collected should be coded and refined so that it can be categorized and quantified. The researchers should try to find the “truth”. (Holme et al 1997)

The other view on objectivity suggests that the researchers might become subjective in their interpretations of the information, an approach that is referred to as a hermeneutic approach. This approach further suggests that it is not necessary to categorize and quantify data, as this differs from case to case. The results may not be “true”, and therefore only applicable in the specific case. (Ghauri et al 1995)

3.1.1 Objectivity in this thesis

The authors of this thesis do not expect the results to be”the absolute truth” or valid for an indefinite period of time. The airline industry and the conditions are constantly changing and it is therefore not possible to present a result that is valid for an extended period of time. The results may also not be possible to apply to other geographic markets as factors such as growth and political conditions may differ. The authors are therefore using a hermeneutic research approach.

3.2 Research design

3.2.1 Exploratory

The exploratory research design is used to explain phenomena. It is adequate when there is not much knowledge of the research area. Characteristic of the exploratory research is its flexibility, which means that the research can change direction as new information emerges. (Ghauri et al 1995) When performing an exploratory research, there is no hypothesis to work from. The problem statement is not very detailed, but more of a theme to work from. Exploratory research methods are often used in pre-studies and pilot studies for bigger research projects within the area. (Svenning 1996)

3.2.2 Descriptive

The descriptive research design is used to describe things that are happening. The problem is structured and well understood. The researchers have knowledge of the area, so that they can create hypothesis to work from, and the task is well structured. (Ghauri et al) The research questions are more elaborate and precise. (Svenning 1996)

3.2.3 Causal

The causal research design is used to describe cause and effect relations. The problem is structured, and well understood. The researchers have a hypothesis to work from. (Svenning 1996) One of the problems is to isolate causes and decide whether these cause the effect, and to what extent. This can be done in laboratory experiments for example. (Ghauri et al 1995)

3.2.4 Research design used in this project

The characteristics of our research make an exploratory research method a natural choice. There is little knowledge about the research area that we are studying, which means that the direction of the study might change, as more knowledge is acquired.

3.3 Sources of information

All information has an origin. Either someone has written a book, published something on the Internet, or the information might come directly from the original source. These two different main sources are called secondary- and primary sources.

3.3.1 Secondary

Secondary sources of information should be used primarily. These are sources such as literature, the Internet, and reports. Someone else has written about the area that we are interested in, but with another purpose. This means that everything is not applicable on our research. These sources are much cheaper and less time consuming to use than primary sources. (Ghauri et al 1995)

3.3.2 Primary

Primary sources of information should only be used when the secondary sources are exhausted. This is because it is very time-consuming and costly to use primary sources. The meaning of primary sources is that the researchers themselves collect information from people who have the specific knowledge. There are a few different methods that can be used for this. The information can be collected through interviews, questionnaires. Also, there are different approaches within these areas; the interviews can be made by phone, by mail, or face to face with the interviewee. (Ghauri et al 1995)

3.3.3 Sources used in this project

In this project we have used a combination of primary and secondary sources. Secondary data was used to describe more general areas of the study, but there are no secondary sources available for our specific research area, which means that more specific information had to be collected from primary sources.

3.4 Data collection methods

Both quantitative and qualitative methods serve the same purpose, to give a better understanding of society, and the people and institutions that shape it. The methods do not compete and there are benefits in using them in parallel. The choice of method differs depending on the research area, but in some cases it is possible to choose either of the two. In those cases the choice of method depends on a number of factors, such as whether the aim is a total perspective or complete understanding.

3.4.1 Quantitative

Quantitative data collection is concerned with the gathering of "hard data" such as statistics, and the transformation of information into figures and amounts. This information is then analyzed statistically to get results about correlation between different factors, or if we want to get a cross-section of the studied phenomena. Quantitative data provide the answer to "how many?" and provides a small amount of information about a large number of units, which makes the study broad. There is a large distance to the studied reality, and the study is aimed at describing and explaining phenomena. The analytical tool is selected from a standardized set of tools that are commonly used, both in natural- and social science. Characteristic of quantitative studies is structure. (Svenning 1996)

3.4.2 Qualitative

When doing qualitative research, the result is not achieved by statistical methods or similar procedures. Qualitative research is more exemplifying than generalizing, which means that it is hard to draw general conclusions from the results. Qualitative data answer the question "why?" A large amount of information is collected from a small number of units, which demands that the researcher is close to the studied reality. The study is deep and aimed at describing and understanding phenomena. The qualitative method focuses on the researcher's perception of the information, which means that it cannot and should not be transformed into figures.

Characteristic for qualitative studies is flexibility. The same questions don't have to be asked to different respondents. If it is discovered that some of the questions are not correct, they are changed. (Solvang et al 1996)

3.4.3 Qualitative interviews

Qualitative interviews are usually performed face-to-face with the respondents. The strictly qualitative interview is unstructured, which means that the interviewer only has a very general interview guide and makes up the questions depending on which direction the interview takes. The respondents are free to answer whatever they want, unlike structured interviews, where there are a few given alternatives. This makes it harder to analyse the results, as the respondents might have answered in completely different ways. It is therefore hard to make comparisons, and the interviews therefore serve mainly as sources of information. To perform a good unstructured interview requires training and experience.

One of the dangers with qualitative interviews is that the interviewer might affect the respondent in some way. This can be by the tone of voice, clothes, or the way the questions are asked. The outcome of the interview is also strongly dependant on the skill of the interviewer. An interviewer that lacks proper training and experience might miss vital information because he doesn't ask timely questions. There are also problems later on when the information should be interpreted and analysed. Many of the parts of the interview, such as gestures and other small indicators are lost unless the interview is videotaped, which is a bit controversial and also might affect the respondent in a negative way. (Gillham, B) (Svenning 1996)

3.5 Triangulation

Triangulation is a combination of different methods to study the same research area. It can be used to increase the validity of the research. Triangulation is achieved by combining for example quantitative and qualitative methods in the research. It can also be to cover the research area from different angles. It is a very useful way to work when the research requires precise judgments. The use of triangulation helps to give a more complete, holistic view of the subject. Despite all the advantages there are also some disadvantages in using this method. One of the drawbacks is that it can be hard to decide whether the results are consistent. The researcher might also get contradictory results from different methods. However, if contradictory results would be found, they still aid in providing a better understanding of the problem and give rise to new questions to be answered by further research. (Ghauri et al 1995)

3.5.1 Methods used in this project

Due to the nature of the research problem, we have used triangulation. We will mainly use qualitative methods for data collection. One of the methods that will be used for this is qualitative interviews. The interviews will be semi-structured, as the interviewers do not have the proper experience or training to perform completely unstructured interviews.

3.6 Validity

Validity is the investigation's ability to measure what we intended to measure. One of the big threats to this is the interviews. The interviewer might affect the respondent in some way, or the questions might be vaguely formulated. Within the validity term there are two different areas: internal- and external validity. The internal validity is a measure of how strongly linked the theoretical and empirical results are within the project. It is strongly linked to how the project, and its different parts, is designed.

External validity is a measure of the relation between the project itself and the scientific context. It is a question of whether it is possible to generalize based on the results, and whether the results are applicable in a wider context than the specific study. In the case of a quantitative study it is vital that the empirical base is correct. If the internal parts of the project do not fulfil the validity criteria, then the project cannot achieve validity. Internal validity is about asking the right questions to the right people, that there are a sufficient number of indicators to cover a certain question, and that the right measurement instruments are used in the right circumstances. Face validity, or experienced validity, is the simplest form of internal validity. This is a judgment based on the researchers experience that there seems to be a correlation between theory and empirical results. Content validity is concerned with the matter of whether all aspects of the research questions are covered.

Validity, especially internal validity, is more easily achieved in qualitative than in quantitative research. External validity can be just as hard to achieve in qualitative studies; if the interview base is not correct, it is not possible to draw any general conclusions. (Svenning 1996)

3.7 Reliability

Reliability is concerned with the question whether our results are reliable; will the result be the same if the study is repeated? There are a few different interpretations of the term. Some mean that the same measurement instrument should be possible to use several times with the same result while others mean that the same notions and research questions should give the same results. The former is called *same-measurement-instrument-model* and the latter model the *input-output-model*.

There are two methods that are used to test the reliability of a study: the *test-retest* method, and the *split-half* method. These are used for the *same-measurement-instrument-model*. Test-retest means that the same questions are asked to the same persons, with some difference in time, which causes some problems. The interviewees learn a certain way to answer, and might also change position on certain questions. This means that we get a certain measurement effect.

The essence of the split-half method is that the questions are split into two parts, so that two measurements are made at once. This means that a lot of the drawbacks of the test-retest model are removed. The drawbacks of the split-half model are that we can’t measure the stability of the reliability or how representative it is (correlation between different groups).

What cause low reliability, especially in quantitative research, can be such things as faulty samples, interviewer effects and interpretation problems? There are a few ways to increase the reliability. One of these is to use clear definitions of the concepts that are used in the interviews. It is also important that the respondents are not forced to use their own definitions on measurements such as time, amount etc. Instead of using notions such as many, short, long etc. more precise measurements such as “more than 3 hours”, “within 5 years”, and so on. It is also good to use several indicators to measure more sensitive subjects. By approaching the subject from many directions, it is more certain that the data are reliable. (Svenning 1996)

3.7.1 Methods used in this project

In order to achieve a high reliability in this thesis we will put significant effort into operationalising concepts and expressions such as “flexibility” and “long-term”.

PART TWO

4. Industry overview

4.1 National and international organizations

4.1.1 IATA-International Air transport Association

IATA or the International Air Transport Association is the governing body that creates regulation for air transport. The organization was founded in 1945, and today consists of over 270 members in 140 countries around the world. Its main focus is on inter-airline cooperation in promoting safe, reliable, secure and economical air services –"for the benefit of the world's consumers".

The organization is involved in many areas that both directly and indirectly affect the aviation industry. Areas such as aircraft operations, airport development and structure, regulations, public policies and safety issues.

In terms of aircraft operations, the organization identifies possible solutions related to flight operations. Considering airport development, IATA works toward enhancing airport planning along with participating in development projects, which are set to meet airline requirements. Within the regulatory and public policy field, the organization helps their members in promoting their interest at all government levels. Issues within this field are such as slot allocation regulation, customers´ demand for passenger information.

Finally, the safety issue is probably the most important issue that IATA faces. In 2004, IATA set a goal to further improve safety by 25 %. In order to achieve this goal, the organization is assisting its members in enhance their overall management systems.

Over the years, the organization has somewhat changed its structure. This, much due to the dynamics in the aviation industry, especially on the passenger side to it. Today the organization is divided into two branches; a trade association and tariff coordination. The trade association deals with technical, legal, and agency issues. The tariff coordination branch handles passenger and cargo rates along with related conditions and charges. The headquarters of IATA is located in Montréal, Canada. (IATA.com)

4.1.2 ICAO- International Civil Aviation Organization

The international Civil Aviation Organization is a United Nations agency. The aim of the organization is to develop techniques and principles for international air navigation and promotes the development of air transport. This, in order to ensure safety along with steady increase in air transports. In addition, the organization adopts and enforces practices regarding unlawful interference, facilitation of border crossings, and procedures for civil aviation.

As mentioned above, ICAO works among other things to adopt procedures for civil aviation. These procedures include standardization, Cns/Atm, and regional planning. The standardization issue refers to establishment of International Standards, Recommended Practices and Procedures covering the technical fields of aviation; licensing of personnel, rules of the air, aeronautical meteorology, aeronautical charts, units of measurement, operation of aircraft, nationality and registration marks, airworthiness, aeronautical telecommunications, air traffic services, search and rescue, aircraft accident investigation, aerodromes, aeronautical information services, aircraft noise and engine missions, security and the safe transport of dangerous goods.

Cns/Atm is an effort to meet the future need of satellite-based communication. The system is supposed to serve the growing need of air transport, in a more efficient manner. This, by making use of the advanced satellite communication tools that is available. The implementation of this new system is an ongoing project. The major obstacle is the standardization issue, which has halted the project for some time.

In terms of regional planning the organization has divided its members into nine different geographical areas. In each of these areas, extensive regional planning is required in order to meet the demands from the global air traffic management. The organization here assists in setting up facilities, the navigation aids, and navigation units etc. In some areas, there is need for more extensive planning and assistance than in other areas. (ICAO.com)

4.1.3 The Swedish Civil Aviation Administration

The Swedish Civil Aviation Administration is in charge of all operations and development among all the nations governmental own airports. The aim for the organization is to secure a sustainable air transport support systems, in a cost effective manner. In other words, the organization is responsible for the maintenance of national airports and air traffic services.

As mention above, the Swedish CAA is fully own by the Swedish government. This means that the government impose certain restriction or guidelines on how the CAA organization should operate. In addition, the CAA should contribute to

- A well functioning transport network
- A positive regional development
- High transport quality
- Safety, both in the air and on the ground
- An equal transport system
- Improved environment

Here, a well functioning transport network means satisfying citizens and corporate needs for air transports. Regional development is the air transport systems capabilities of even out geographical differences, in terms of access and distribution of goods and services. A high transport quality refers to the shape of the air transport systems. This, in order to provide high quality transport-access for both corporate and personal needs. In terms of safety, the CAA should develop the air transport system so it meets the set safety standards. An equal transport system stresses the need for meeting air transport needs among both men and woman. Finally, the CAA should also contribute to a friendlier environment by stressing the need for an air transport system, which works towards reducing the amount of emissions.

In addition to these goals set by the government, the CAA strives for providing value-added services for their customers, both passengers and companies. Along with meeting the goals set by the government, the CAA are also set out be as cost effective as possible. In other words, their investments should in the long terms generate monetary return to the Swedish state. In 2004, the CAA showed a positive financial result with a profit of 124 million

Swedish crowns. At the same time, air travellers increased by about 6 % from the following year.

From the 1 of January 2005, the CAA's two governmental related branches Air transport inspection and Air transport and society, were separated from the organization. In stead, these two branches now make up a completely new governmental agency called the Swedish Aviation Authority. This agency is in charge of licenses and training procedures, leaving the CAA with the business related tasks. (www.lfv.se)

4.1.4 The Swedish Civil Aviation Authority

The Swedish Civil Aviation Authority operates under the supervision of the Swedish government. The organization was formed in January 2005 as the outcome of the split among the different branches within the Civil Aviation Administration. The branches that were separated from the Civil Aviation Administration formed what is now called the Swedish Aviation Authority.

The authority's main focus is on regulation and inspections within Swedish aviation. In addition to this, they supervise, analyse and develop the civil aviation sector as well as provide expertise in issues including physical planning, the environment, emergency planning and contingency planning.

As the world becomes more globally integrated, and air transport is in nature an international mode of transport, rules and regulation are in many cases subject to international rules and agreements. Due to this, a majority of rules that affects Swedish civil aviation has its origin in international agreements. As an outcome of this, the Swedish Aviation Authority acts both on a national level as well as on the international level. In terms of national level, their focus is to enforce these rules and regulations that have been agreed upon on an international level. On the international level, the aviation authority is trying to have an influence on new rules and regulations, making sure these are in the best interest for the Swedish aviation and air transport industry.

The authority is situated in Norrköping, Sweden along with regional branches around the country. Currently, the authority has 230 staff members, who work with various issues regarding air transports. (www.luftfartsstyrelsen.se)

4.1.5 Gothenburg-Landvetter Airport

Gothenburg Landvetter Airport is the second largest airport in Sweden. It is located about 30 km outside of Gothenburg. Every year, the airport serves more than 4 million passengers. Their catchment area, which is the area from where people are to choose Landvetter as their primary airport, reaches about 250 kilometres in each direction. Within this area live about two million people. In other words, the number of potential customers for Landvetter airports is about two million people.

In terms of destinations, Landvetter has different carriers that fly non-stop through numbers of destinations. For example, SAS/Lufthansa operates Gothenburg-Munich, Gothenburg – Düsseldorf, and Lufthansa recently started route between Gothenburg-Hamburg. In addition to this, City Airline, Fly Nordic, KLM/Air France, and Blue One operate non-stop routes to and from Landvetter. There are also ongoing talks of bringing in several of LCCs to Landvetter, which would increase the numbers of destinations Landvetter serve. However, as of today Fly Me and Fly Nordic are the only two LCCs, which operate out of Landvetter airport.

The current trend is that both domestic and international traffic from Landvetter airport is increasing. Recent numbers shows that domestic travel was up 8 % in October 2005 while international traffic was up by 2 %. (www.lfv.se) A lot of the increase on the domestic routes is associated with the heavy competition domestically, especially on the one between Gothenburg-Stockholm. However, the new imposed passenger taxes, which set to be imposed during 2006 is major threat to this positive trend in passenger increase. Today, 80 percent of the domestic passengers are made up of business travellers.

In 2013, Landvetter plans to open its train connection with Gothenburg and other cities. This new connection will increase the airports catchment area, which will indirectly have a positive impact on the number of passengers at Landvetter airport. In addition, this new connection will also decrease the time it takes to reach the airport. (Wiberg, H) Furthermore, this new train connection will also be more convenient for the passengers. If we compare to the new train connection at Stockholm-Arlanda airport, the outcome here is that the train has decreased the time it takes to reach the airport by around 10 minutes. This fact increases the aviations competitiveness with other modes of transport. Even if we can only speculate about what the outcome will be at Gothenburg-Landvetter airport, it is still likely that the numbers of passengers will increase when the train connection is established here.

The airport put major focus on the environmental issues, according to airports´ representatives. (Wiberg, H) This, since more and more companies and persons are becoming aware of the importance of a sustainable environment. Organizations have started to choose their mode of transport based on which alternatives that is the most environmental friendly. Here, the aviation industry has a disadvantage to train, since aircrafts generates more emissions and noise than what trains do. However, Landvetter are trying to improve the image of being an environmental alternative by putting restrictions on which types of aircrafts that are allowed and favoured to operate at the airport. Furthermore, the airport has an ongoing program in trying to reduce spill and leakages of various fuels and gases. This, in order to prove that aviation take these issues seriously, and proving that Landvetter is an environmental friendly alternative. (Wiberg, H)

4.2 Economic indicators

Historically, the Gross Domestic Product has been a very important indicator of growth in aviation. GDP and aviation has been closely linked with a ratio of about 1:3. If GDP has changed by 1, aviation has changed by 3. Over the last decade this ratio has been decreasing and is now approximately 1:1.2. (Bergbom, L) One of the reasons for this change is the reduction of price for airline tickets. (Sigurdson, M) Price is also a factor that is starting to gain importance as an indicator. (Utter, J)

Another indicator of passenger volumes is the general stability in the world. The stability within aviation itself is also important e.g. if there is a great risk of strikes initiated by the unions. These are important factors as they increase the risk of unexpected delays and other problems of reaching the destination, which reduces the will to travel by air (Jansson, W). Another indicator that might become important is growth in other regions, as increased activity also increases travelling. (Sigurdson, M)

According to Jan Forsberg at SJ AB the single most important reason for passenger volume changes is the amount of unemployment in Sweden. At the moment the unemployment rate is decreasing, especially in Mälardalen, where one third of the Swedish population lives. So far, this year SJ has increased their passenger volumes by 7 percent, consisting partly of new customers, but mostly of long-term customers travelling more frequently.

4.3 Type of operators in the Scandinavian market

4.3.1 Introduction

The airline industry has changed its shape over the last couple of years. Prior to this, the industry were somewhat regulated with only a few carriers. These carriers were in complete control over the market, which led to high air fares for the customer. However, since only a few years back this industry structure has rapidly changed to becoming a highly competitive market were the customers have the upper hand. Initially, the belief was that this would come along as soon as the market became deregulated. However, it was not until the LCC (Low Cost Carriers) came around that the deregulation of the market started to have an impact on the industry structure.

As mentioned above, the aviation industry has changed from being very static to becoming a very dynamic industry. Here, dynamic means that industry changes take place over night and that the structure of the industry has gone through major changes over the last couple of years. This have led to that numerous of airlines have either gone out of business or operates under protection from state or government. This is also true for the Scandinavian market, which has seen many carriers filing for bankruptcy in recent years. These have both been traditional carries and low cost carries. In terms of the traditional airlines, their problem has been to adapt to a completely new cost structure. If we instead look at the LCC, their main problem has been to raise sufficient amount of capital to survive over a longer time span.

This change in structure among the commercial airline indirectly also effect CAA´s operations. The purpose of this chapter is to investigate some major actors in the aviation field, and how they relate to CAA´s operations. No matter what, CAA is definitely affected by this new market structure, both in terms of carriers operating at their airports and the airport structure.

4.3.2 Low Cost Carriers

Low cost carriers have not been around for a very long time. It was not until the deregulation came into effect that we started to see the impact that the low cost carriers (LCCs) had on the market. By definition, an LCC is an airline that operates on a point-to-point basis along with having a much lower cost structure than traditional airlines. Within the aviation industry, the cost of labour is the greatest cost factor for the airlines. Generally, LCCs have a wage structure that is 30-40% below traditional carriers. In addition to this, LCCs typically do not provide any so-called add on services, such as lounges and food on the plane. These factors make the LCCs highly competitive in the aviation market. (Rosèn, H)

Another important aspect, in terms of the low cost carriers and their cost structure, is their choice of secondary airports. In general, most of the major airports are today struggling with congestion both in the sky and on the ground. Since many LCCs operate out of secondary airports, they, in many cases, avoid these problems.

Furthermore, major airports requires large amount of airport staff, which costs is passed onto the airline operating there. The LCCs are also seeking to lower their cost structure by shortening their turnaround time at airports, since the capital-intensive aircrafts do not generate any operating revenues when they are not in use. If we compare Lufthansa and their LCC company German wings; Lufthansa only manages to have its planes in the sky for 8hours per day, while German wings manage to have their planes flying during 12 hours during the same time span.

However, there is a problem in choosing secondary airports. In general, these airports are located further away from the city core than primary airports are. Also, transfer to-and from these airports are sometimes not as well developed, as for the larger primary airports. These facts may have an impact on their attractiveness among business travellers, who generally values accessibility and total travel time.

In terms of technical issues and maintenance, LCCs are also more cost efficient than the traditional airlines. In general, LCCs are only operating one type of aircraft, which reduces the need for greater technical skills. In addition, low cost carriers are outsourcing these technical skills, rather than having these services in-house which are common among traditional carriers.

The emerge of the new e-ticket travel is something that the LCCs really have captured on. In the old system, each ticket had to be produced and sent by mail which had impact on the total price. Usually, airlines charges around 100 SEK for producing and mailing the ticket. On the contrary, LCCs have managed to lead the development of the e-ticket system, where the paper ticket is replaced by a person’s credit card. Here, the booking reservation is stored with a person’s credit card and used by the airline to obtain the information. By doing so, the airline avoids the paper ticket and the costs it involves. If we compare the use of e-ticket between LCCs and traditional airlines, LCCs sells more than 50 % through this channel, while the traditional airline only manage to sell 15 % of their tickets this way. Using the e-ticket as the mode of booking reservation is both beneficial for the company and the customer, by reducing the cost of handling and distribution. Also, less personal is needed at the airport since the check-in in many instances is handled by card readers, which provide the passenger with the boarding card. (Rosen, H,)

Type of Cost	*Traditional Carrier*	*Low Cost Carrier*	*Difference*
Cost of airplane	**4375**	**2900**	**1475**
Crew	***4500***	***3000***	***1500***
Landing	**5000**	**5000**	**0**
Over flight	***4500***	***4500***	***0***
Fuel	**3000**	**3000**	**0**
Flight handling	***10000***	***5000***	***5000***
Technical Issues	**3000**	**2000**	**1000**
Cost of flight without passenger	***34375***	***25400***	***8975***
Cost seat/km	**0.5 (140 Seats)**	**0.31 (160 Seats)**	**0.19**

Table 1: Compilation of LCCs' operating cost vs. traditional airline cost for flying between the same European destinations. The prices are estimated based on information from the airlines. Source: Flygrevyn, February 2005

For this study, we choose to look more closely into airlines within each segment of the aviation industry. In terms of the LCC, the choice fell on Ryanair and Fly Me. In the case of Ryanair, the choice fell on the much due to the fact that they have been successful in meeting the need demands set by customers. In terms of Fly Me, we thought it was interesting to look more closely into an LCC, which has Landvetter as their base for operations.

Ryanair

Ryanair is Europe’s largest low cost carrier airline. Currently, the airline carries more than 35 million passengers on a yearly basis. In addition, the company serves 266 routes among 21 European countries. The company was founded in 1985 by the Irish Ryan family.

In contrast to the more traditional airlines, such as SAS and Lufthansa, which operates under a group with various entities and business segments, Ryanair focuses solely on the airline operations. Their strategy is to fly short haul routes on secondary airports. This is different from the more traditional airlines, which uses a so-called hub-and spoke system for their network operations. By doing so, the airline believe to cut cost by eliminating costly services and avoid the cost of connecting flight issues. In choosing secondary airports, their belief is to avoid congestion both in the sky and at the ground along with lower take-off and landing fees.

In terms of traffic and economic figures, the airline company is doing extremely well. As mentioned above, this year Ryan Air will carry more than 35 million passengers. This is an increase by 21% compared to last year. In addition to this, their load factor is substantially higher than traditional airlines. For the year 2004, the load factor was around 85 %, compared to 64 % for SAS. Furthermore, their net profit margin was around 20 %, compared to the industry average of about 3-4 %.

Operational Key Figures	
Passengers (Millions)	35.8
Load factor %	85

Table 2, source: Ryanair Financial Report 2005.

Even if Ryanair does not operate out of Landvetter, they are still interesting for Landvetter airport. This, due to the fact that their operations take volumes from Landvetter airports. On the other hand, Ryanair might be a potential customer for Landvetter airport depending on whether or not Gothenburg-Säve airport will be around in the future. In addition, will Landvetter be able to handle the volumes that Ryanair brings. Furthermore, Ryanair put great demands on the airports they operate. This policy conflicts with the current policy of Luftfartsverket, where all operators should be treated on equal terms. In other words, slot times and gate allocations should be equally divided among operators. Also, the same rates should be given to all carriers. These are few reasons why Ryanair generally chooses secondary airports, since they here are able to negotiate better deals with these airports.

To sum up, Ryanair is both a threat and opportunity to Gothenburg-Landvetter airport, depending on how one wish to look at it. It is defiantly an issue that should be looked into more closely.

Fly Me

Fly Me Sweden is a wholly owned subsidiary to Fly Me Europe. Fly Me Sweden operates out of Gothenburg-Landvetter airport. The company operates both domestic and international traffic. Their focus is to fly have a good time table during peak hours along with offering lower air fares compared to their competitors.

Within Sweden Fly Me operates on primary airports, such as Stockholm-Arlanda, Gothenburg-Landvetter, and Malmö-Sturup. They also served Sundsvall and Ängelholm airport up until recently. However, due to the fact that few passengers travel at these destinations, the company has chosen not to operate these airports.

In terms of key traffic figures, the company is far behind its competitors in terms of revenue and profit margins. In addition, the load factor is also substantially lower than its LCC competitors and the traditional airlines. This, the company explains by an increase in number of departures during the year. Even if these figures show an airline company that is doing rather poor, the company management still believe they will turn this around. This, much due to the fact that their traffic volumes have increased rapidly in recent times. In addition to this, their charter traffic has been doing extremely well recently, which add to the belief that the company will be around in the future.

Operational Key Figures	
ASK (Passenger Traffic)	78.4
RSK	44.1
Load factor %	54,2
Numbers of Passengers (000)	26,1

Table 3, source: Fly Me`s Financial Report 05.

The traffic that FlyMe brings to Landvetter airport is defiantly important for the LFV. This, both in terms of revenue creation and in order to attract other LCCs actors to Gothenburg and Landvetter airport. If we look at the revenue side, the increase in take-offs and landings by Fly Me add to the revenues FlyMe brings to the airport. This increase in passengers also brings increase in sales at the airport's stores. This is especially true for the charter traffic, were waiting times at the gates are usually longer than on domestic flights. This is a possibility the airport can capture.

In terms of attracting other LCCs actors, Fly Me is a good example that it is possible for LCCs to operate out of primary airports. In contrast to Ryanair, the largest low cost carrier in Europe, that only operates out of secondary airports. This, much to the fact that secondary airports are able to provide greater flexibility and lower charges for take offs-and landings. However, primary airports have the advantage of offering greater connecting flights along with better infrastructure and communications to and from the airport. This is what Landvetter need to capture on, in its effort of attracting new LCCs companies to the airport. In recent years, LCCs such as Great Britain based Easy Jet, has started to focus on the business passenger segment. This, in order to capture on this type of travellers that generally favours the more traditional airlines, due to numbers of airport these airlines serve along with the fact that these airline operates out of primary airports. In terms of Easy Jet, their philosophy is to operate out of primary airports, which means that they could be a potential customer to Landvetter.

In November 2005, Fly Me announced that they with open up 12 new destinations from Landvetter airport, starting in March of 2006. This will definitely boost the traffic volumes at Landvetter airport.

4.3.3 Traditional Network Airlines

This business segment among the airline industry, are those actors that serve their customers with worldwide services to destinations all around the world. They mainly operate out of a so-called hub-spoke system, which means that they have a base from were most of their operations fly in and out from. Traditional network airlines are actors such as Lufthansa, Air France/KLM, United Airlines and British Airways. As mentioned above, these companies serve their customers with flight service all around the world. In cases where they do not have their own services, they have alliances with other airlines that serve these remote locations.

In recent years, many of the traditional network airlines have suffered major losses. This could be explained by their higher cost structure. This, along with external factors such as the September 11 attacks have contributed to the decrease in revenues among the traditional network airlines. Major airlines such as US Airways, Delta, and United are all under the so-called chapter 11 protection, where the companies goes through a recovery process which is aimed at avoiding bankruptcy. Compared to their American counterparts, the major European Network airlines, such as Lufthansa and British Airways have better manage the recent crisis in airline passenger traffic. This can be explained in various ways. However, the cost structure in the U.S based Network Airlines have been higher, which makes it more difficult for them to handle downswings in their traffic volumes. (Lidman, A)

We find it interesting to look more closely at Lufthansa group, because they are one of few major carriers that are showing positive economic results.

Lufthansa

The Lufthansa Group consists of six different business segments. These are Passenger Business, Logistics, Maintenance and Repair, Catering, It-services, and Leisure travel.

The organization is one of the largest in the industry. In terms of passenger business, the two main carriers in the Lufthansa Group are Lufthansa German Airlines and Lufthansa Citylines. Here, Lufthansa German Airlines acts as an antonymous business entity within the group, while Lufthansa Citylines is a full owned subsidiary to Lufthansa group. On top of this, the Lufthansa group recently merge with Swiss airlines, with expands their operations even further.

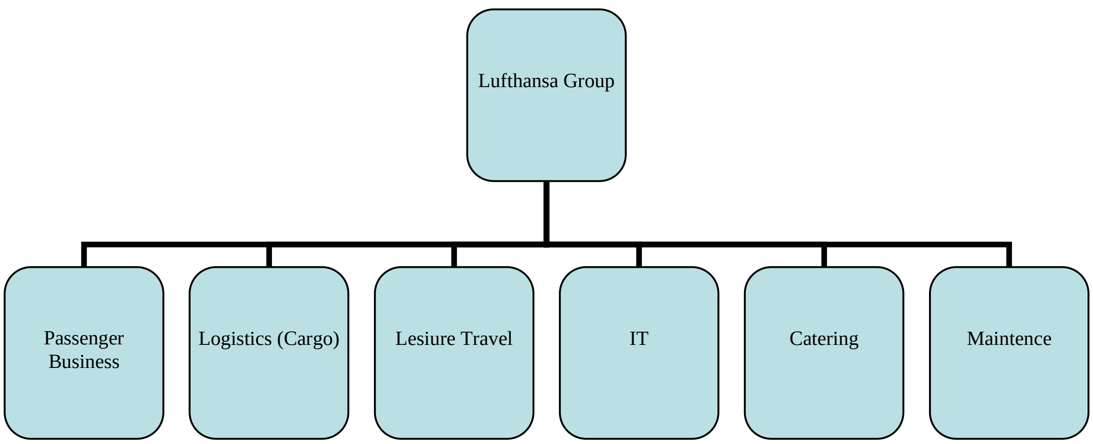

Figure 8: Lufthansa Group.

In contrast to SAS, Lufthansa Group has been rather successful in recent years. If we look at business and passenger travel, which is the main focus of this thesis, we find that Lufthansa and their subsidiaries showed strong key figure. Both revenues and passengers were up by about 10 % in 2004. In addition, the load factor was 74%, meaning that around three out of four seats on every flight were taken. If we compare this to SAS, with a load factor of about 64 %, Lufthansa could be said to be in a much healthier condition. For airlines such as Lufthansa and SAS, the breakeven point is located approximately at a load factor of 65%. (Lidman, A) This is also depending on how many number of seats, which are sold to discounted fares.

Operational Key Figures	
Passengers (Millions)	50.9
ASK (Billions)	140.6
RSK (Billions)	104.1
Load Factor %	74.1

Table 4, source: Lufthansa's Financial Report 2005.

From Landvetter airport, Lufthansa operates four different routes, to and from Germany. Currently, the cities they serve from Landvetter are Frankfurt, Düsseldorf, Hamburg and Munich. In addition, they also have a joint venture with SAS on routes to and from Germany. However, this joint venture is terminated from the 1st of January 2006, which probably will somewhat effect the choice of future routes. Lufthansa is definitely an important actor for Landvetter, since it serves Landvetter with feeder traffic from its main hubs in Frankfurt and Munich. This service is very important for the business segment, since these two major hubs serves destinations on an intercontinental level. In other words, the airport in Frankfurt serves numerous of important cities all around the globe. Here, having good transfer traffic to-and-from this airport definitely is a competitive advantage for Gothenburg-Landvetter airport in trying to attract passengers.

4.3.4 Regional Network Airlines

Within this type of airline segment, we find companies such as SAS, Finnair, and Olympic airlines. These companies operates mainly in the regional area, such as SAS in Scandinavia, Finnair in Scandinavia, and Olympic in the south Mediterranean area.

Subsequently for all these airlines are that they have a regional base, which they operate out of. This is similar to the major network airlines. The difference here is that these regional hubs work as sub-hubs to the major network airlines own hubs. This fact makes them rather important, especially from a businessperson's point of view, which requires fast transfer from and to the major hubs.

The regional carriers have also suffered huge losses in recent years. This, because their cost structure is rather high and their volumes are small compared to the large network carries. Also, the regional networks carriers' faces direct competition from the low cost carries. This, in contrast to the major network carries, since low cost carriers are competing more on a regional basis than on a global basis. Due to the heavy competition that the low cost carriers have brought along, regional carriers are today desperately finding ways to reduce their cost structure. One of these regional airlines that have been in focus recently is SAS.

SAS

The SAS (Scandinavian Airline System) Group is the largest airline and travel organization in the Nordic region of Europe. In terms of passenger and revenues, the SAS group is the fourth largest operator in Europe. The SAS group consist of five main business areas; Scandinavian Airlines Businesses, Airlines Support Businesses, Hotels, and Airline Related Businesses.

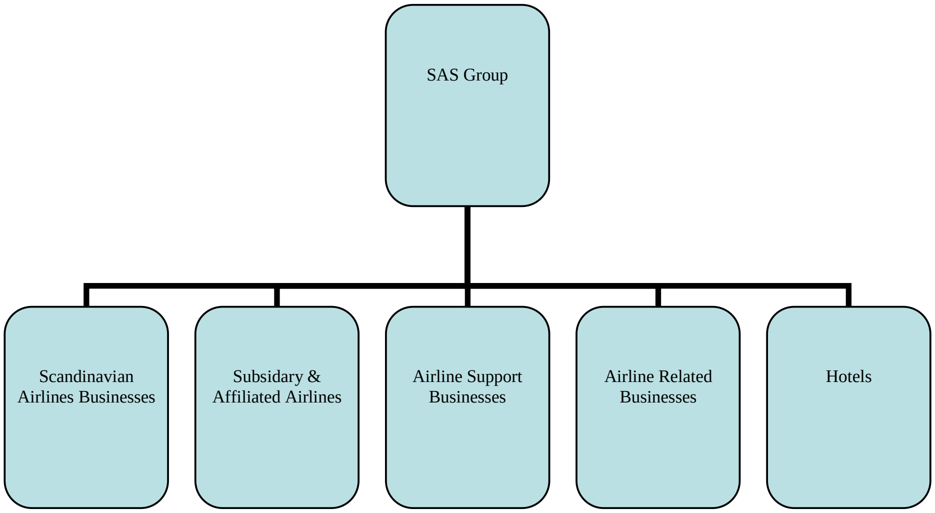

Figure 9: SAS Group.

In terms of Airlines businesses, the area consists of SAS Denmark, SAS Sweden, and SAS Norway along with SAS Braathens in Norway. This area of the company handles the flying operations of the group. Along with these carriers, the SAS group also have some subsidiary airline companies, such as Spanair, Wideroe, and Blue One. These are all run as separate entities, even if they belong to the SAS family.

In recent years, the SAS group has tried to overcome some major difficulties. Their main problem has been on the cost structure side of their operations, meaning that their cost structure has been sufficiently higher than their competitors. This lead to the establishment of the Turnaround 2005 project, were the SAS group is set to cut cost at all across the organization. For 2004, the SAS group presented some key economic figures:

Operational Key Figures	
Number of Passengers (Millions)	32.4
Load factor %	63.7
PPK/Yield	1.12

Table 5, source: SAS´ Financial Report 2005

When looking at these figures we find that they made a loss of 904 million Swedish crowns. In addition to this, the load factor (% of seats that are sold) was around 64 %. However, the most critical factor is the yield (passenger revenue/kilometre). The figure that SAS presented is among the lowest on the market.

Today, SAS operates numerous of destinations from Gothenburg-Landvetter airport, domestic as well as international. SAS makes up a large part of all departures and arrivals at the airport. (Hårdänge, N) In other words, SAS is the most important customer to Landvetter airport. Changes in the SAS company structure could very much lead to a reduction in number of flights to and from Landvetter airport, eliminating certain destination. This is an issue that Landvetter airport needs to be aware of, in how to cope with unforeseeable happenings in the future. As of today, Landvetter airport much relies on the revenues generated from SAS operations. A decrease or elimination of these operations will directly affect the revenues and volumes at Landvetter airport. (Weihart, B)

In December 2005, SAS began a joint venture with the Gothenburg based City Airline, which is owned by the investor Lars Magnusson through his company Janus Invest (www.cityairline.se). This joint venture makes it possible for SAS to sell seats on City Airlines non-stop flights to and from Gothenburg. According to Anders Ehrling, the president of SAS Sweden, the joint venture is set to increase the market share and revenues for both companies (www.di.se). This joint venture will probably affect other airlines that operate out of Landvetter in their efforts of opening new routes.

4.4 Trends emerging influencing the Civil Aviation market

This chapter provides the reader with information that is necessary to posses in order to understand the complexity of the Swedish aviation market. The most important political trends are dealt with, both on International, European and National level.

We have recognized two very demanding areas that are exposed for new preconditions in a very high pace due to political decision. These areas are safety/security and environmental concerns. There are surely more areas that are of interest, but because of lack of time we try to focus on the vital few rather than the many less significant.

We do not judge any information from a political perspective, but we will present the full economical impact of it, no matter if it is beneficial or destructive for the Swedish airports. An airport, as well as all other governmentally owned business activities has overall goals that consist of more than revenues and economical results. The goals for the transport industry can be found in the Swedish Transport Policy, these goals are not quantified, but it provides a foundation for other laws such as taxes, environmental fees etc. Besides the transport policy there are goals that are more or less common for all governmental owned activities, they can be divided into:

- Accessibility, e.g. the airport should be there even though, it is not economically beneficial. To serve the community and the local industries.
- Influence citizen behaviour, e.g. environmental fees on domestic airline tickets or car fuel will increase the will to travel by train instead, i.e. train is seen as more environmental friendly.
- Attract people or/and companies to a region. For example by building an airport in a less populated area that has started to grow moderately in order to increase the will for a specific company to go on with investments in that area etc. Too provide an infrastructure that is not beneficial in it self, but provides opportunities for companies in the region to prosper.
- Get access to resources, governmental support, to make investments or to cover other extraordinary costs. (Stensson S, 2002)

4.4.1 Environmental regulations

The purpose with this chapter is to provide the reader with basic knowledge of the most important environmental issues in the airline industry of today. For those of you not familiar with the business and with the operational and economical limitations that is created by the legislation concerning pollution, noise and operating frequency this chapter will provide a brief outlook.

There are a lot of rules and regulations affecting the environmental framework, one of them are the Swedish Transport Political Goal that is monitored by the Swedish Civil Aviation

Authority on behalf of the Swedish Government. This act contain rules and guidance for all aspects of airline industry activity on Swedish territory, among them are the overall goal that states that the transport system should be shaped in order to reach the national environmental quality goals concerning an healthy environment for both humans and animals as well as a restrictive use of natural resources.

This statement has effects on all decisions that are being taken in the industry and also affects Sweden's competitive situation as an aviation nation. In short the higher the environmental demands, the lower the competitive strength of the nation. This because the regulations is concretised in laws that states the amount of pollution that are allowed to release during a time period or per aircraft. This reduces both the type of aircrafts that can be used when trafficking Swedish territory as well as providing limitations to the amount of operations allowed thus decreasing the capacity use of capital intensive investments, i.e. aircrafts. There is a goal conflict between creating an attractive national market and protecting the citizens from pollution. It is possible to use legislation in order to stimulate action that both decrease the harmful effects on nature and at the same time increase the competitive strength for the airline companies that adapt to the more environmental friendly path. Companies using less polluting aircrafts can operate them to larger extent within the emission limitation thus creating a competitive edge in using new more energy efficient technology. This will to invest in more efficient and by that more expensive new technology can be further reinforced by fee relieves for certain aircrafts. Concerning mainly airport fees and related landing costs. It is getting more and more expensive for airline companies to pollute and therefore it also contains important business opportunities. These will be capitalized on to a larger extent in the future according to the annual report from the Swedish Aviation Authority concerning the aviation industries development 2004.

New technology has been mentioned as one important fact that has developed into a significant factor in the work with keeping environmental related costs on a minimal level. Another important issue to mention in this context is that our membership in the European Union will facilitate our competitive situation in the long-term perspective when the harmonization of the EU internal market has been further developed. Today Sweden has, among a few other countries, the most restricted environmental regulation in the world. In the future we probably will have the same prerequisite in Sweden as e.g. in Denmark and Germany thus providing the Swedish market with an equal competitive situation.

Even though the European market will be more harmonized in the future there will probably be economical advantages for those companies that adapt to environmental recommendations. This because it creates a positive brand image to be environmental friendly and it has cost benefits due to incentives created by government action such as reduced fees and taxes on environmentally friendly transports.

Environmental issues are no longer a periphery cost for any company in any business especially not for those engaged in the transport industry where consumer perception is changing towards increased environmental concern. In conclusion a strategy for environmental concern will both be a tool to increase revenue, through a better reputation and reducing costs.

The Kyoto protocol is one of the most important environmental documents of today and it has been accepted by Sweden as well as by a lot of other countries except the United States, which has slowed down the process. If and when the Kyoto protocol is put into action it will vitalize the environmental debate and improve the efforts in a wide perspective including the exchange of emission licenses in the aviation industry. Even though the aircraft as a mode is excluded from the improvement areas stated in the Kyoto protocol it will probably be included in the nearby future. Partly because there are a lot of governments, aviation industry organizations and airline companies that repeatedly states that there should be a harmonization of trade with emission licenses within the European Union. The second phase is to expand this into an international level, i.e. the long-term perspective. This demands a powerful tool as the Kyoto protocol to support the work. The goal is to optimise the cost effectiveness for the managing and monitoring of environmental improvement work as well as harmonizing the environmental prerequisites for all transport modes.

The primary reason that the aviation industry has been excluded is that it has been seen as unimportant to focus on due to its small volumes of emission compared to other modes and pollution from the heavy process industry. The main focus is and has been the Greenhouse effect and therefore most efforts have been focusing on issues like automobile and lorry emissions. The aviation industries´ total emissions that affect the Greenhouse effect constitute a few percent of the total, but it is increasing steadily. The aviation industry is a growing business; this growth has been accelerated with the upcoming of low fare companies that has created new markets, e.g. shorter weekend holidays and the use of air mode instead of rail traffic on shorter distances. This makes the emissions from the aviation sector a growing problem, some of the emission increase, due to the increased amount of operations, is compensated by technological innovations, i.e. more energy efficient engines and by that reduced total fuel consumption. Nevertheless, there is a net increase of Greenhouse gases in today’s world aviation market, most critical is carbon dioxide. It is therefore relevant to assume that the aviation industry will be subject to society protecting regulations in the same manner as other modes on an international (Kyoto protocol) as well as on European Union level.

In the current situation ICAO (International Civil Aviation Organisation) and concerned nation have the responsibility to monitor and manage the aviation sector concerning above described aspects, according to the Kyoto protocol. Nations that are members of the European Union will therefore not be affected at all of the Kyoto protocol since the efforts executed by the European Union are more extensive than those initiated by ICAO. ICAO measures are often blocked or reduced by the United States while at the same time there is a sharing of view within the European Union, its member countries and ICAO. Sweden supports the view of the European Union as well as striving to be at the forefront of its environmental commitments. Sweden also emphasizes the importance of finding economical incentives as well as cost efficient solutions when managing and monitoring the development of environmental goals and their fulfilments.

The reason that we clarify the trends in the environmental area on both an International and a European level is that it affects the Swedish market in different ways. Sweden has always been a nation in the forefront when it comes to environmental issues and it affects the cost structure for Swedish airports and companies that operates in Sweden thus creating a competitive cost advantage for the surrounding Scandinavian airport market, e.g. Kastrup in Copenhagen. The harmonization will decrease these effects without decreasing the fulfilments of the environmental goals.

A wide array of European airline companies supports the idea of trade with emission licenses among them are Scandinavian Airlines (SAS). ICAO will during the forthcoming three years move on with an increased pace concerning the establishment of a trade market for emission licenses. The primary focus is on supporting voluntary initiatives from member nations.

The conclusion drawn by us is that the environmental trends will leave Sweden and its airports with a reinforced competitive situation, because we have voluntarily executed a wide range of the recommendations and regulations proposed by authorities and organizations on International and European level thus creating a positive reputation via shown responsibility for the environment. The drawbacks, higher cost structure due fees etc, will be reduced compared to other nations as the harmonization process moves on. The work with emission licenses will be administratively structured as a part of the United Nations climate convention and not as an ICAO recommendation. The United Nation projects are seen as less effective because of the organizations many other obligations and hierarchical structure. Therefore the work with creating an international market for emission trade where the aviation industry takes part is seen as a long-term vision rather than a concrete measure from ICAO.

Based on the argumentation above it is more reasonable to believe that the harmonization within in the European Union will emerge in the foreseeable future and that the international harmonization will take decades. Another important fact is that an investigation has been made of the effects of tax on aircraft fuel. This was performed by the Civil Aviation Authority and has also been made on international level by different organizations and by the European Union. The result of the investigation performed by the European Union is the foundation on which the European Council based their new energy tax directive 2003/96/EG. This directive states that the member states now have the opportunity to make exceptions to the basic principle, i.e. tax-free aircraft fuel. The reason, without further discussion, that the aircraft fuel is tax-free is that the tax policy conditions among countries are very different creating market disturbances. The tax-free principle has been established via international commitments based on bilateral agreements. The new directive encourages member nations to make exception on the basic principle for domestic traffic as well as trying to establish bilateral agreements with other member nations. (Luftfartsverket, Flygets utveckling, 2004)

According to our beliefs the fuel tax will have two important effects on the Swedish aviation industry. First, it will promote investments in new less fuel consuming aircrafts thus favours companies that have access to large capital. Creating a though competitive situation for companies with older aircraft fleets as well as companies with a fleet mainly consisting of larger aircrafts with relatively low cabin factor. It also has a great impact on the cost structure of low fare airlines for which the fuel cost is the largest amount of the total cost of a Take-off and Landing cycle. This, of course, affects the traditional airline companies as well, but these have more factors to compete with than price, i.e. low cost. The low fare companies' competitive edge could be in danger with this path of action.

Another important factor to consider when deciding if to establish fuel taxes is that this will have most negative impact on links with low cabin factor, i.e. the secondary links such as feeder traffic and traffic between smaller cities. What we can see here is a goal conflict on transport political level.

The Swedish Civil Aviation Administration should meet:

- The transport political environmental goal (as stated in the second paragraph of this chapter).
- The transport political goal concerning an accessible aviation transport system, shaped to meet both the citizens demands as well as the industries´ needs.

According to Jan Palmer, CEO at Skyways a possible proposition of fuel taxes will thin out the Swedish existence of smaller, secondary airports. This because companies occupied with regional air traffic will not have the economical preconditions to sustain these links. (Article 1: Luftfartsverket, Nyhetsarkiv)

A new tax on airway tickets has been decided by the Swedish government together with their collaborators, i.e. the Left party and the Green party. The tax will correspond to approximately 100 SEK per ticket. This is forecasted to weakening the Swedish airports both from the intramodal perspective, because of the lack of this kind of taxes in surrounding countries such as Norway and Denmark (recently abrogated). The intermodal competition will also be affected and the air lines will lose customers to substitutes both cars, buses and train traffic are forecasted to take market shares. (Article 2: Flygtorget, Hans Enelius)

The single most frequent complain that the aviation industry is subject to is related to noise. Aircrafts that produces comparatively less noise is often the ones that also produce smaller amounts of other pollutions as well. There is a significant difference between the noise created by an aircraft manufactured twenty years ago and one based on today's technology. From April 2002 all of the real old and noise producing aircrafts are gone from Swedish and European airports. Furthermore, from 2006 aircrafts needs to fulfil new and stricter rules concerning noise pollution in order to be certified, i.e. get allowance to operate. This due to an international sharpening of the acceptable noise limit. In conclusion noise pollution generates costs, via investments in modern aircrafts, in order to be certified. It also saves money due to the new technologies less fuel consuming engines. Since 1994 there have been fees in Sweden based on the amount of noise an aircraft produces. These revenues have been used to cover the cost of isolating surrounding buildings from the noise pollution. (Article 3: Luftfartsverket, Miljöfrågor)

4.4.2 Safety and Security

The aviation industry is complex and it demands a wide perspective and general knowledge in order to make a realistic and correct analyse of the economical situation for Swedish aviation market. The target of this master thesis is to provide the project owner with a forecast of future passengers´ demands on the product as well as an outlook on segment constellation. Due to the complexness of the market we have to consider a lot of different so called non-market factors, among them are safety and security as well as environmental issues that already has been dealt with.

The focus is solely on the economical situation; we exclude the technical details that are not relevant as logical support, i.e. only in order to explain investments and measures taken. Our intention is not to provide the reader with a deep view on security and safety matters. Rather is it a brief description of facts and special events, such as investments and environmental changes that have or will have a major impact on the aviation industry's cost structure and demand patterns.

In our opinion it is important to divide costs due to safety and security into two different groups, costs initiated by supranational organizations or collaborations and those established by decisions taken on national level. This distinction is important to be aware of, especially when considering our focus, i.e. the West Coast of Sweden. A significant part of the increased costs for aviation market actors, such as airports and airline companies, are initiated by international organizations and by nations together both via the European Union and other multilateral agreements. This makes the effect of the cost less of a disadvantage because it affects Swedish airports as well as competing airports in surrounding countries. Therefore its effects on the competitive situation are slighter even though the cost increases due to safety fees etc.

The discussion above is true as long as we have an intramodal perspective, i.e. one airport or aviation company competing with another. On the contrary if we look at the intermodal competition, e.g. domestic air traffic between Landvetter airport and Arlanda airport in comparison with train travelling the same distance. There will with high probability be a shifting in the cost/price situation towards a less competitive domestic aviation industry. In conclusion supranational decisions on aviation security have the greatest effects on the intra modal competitive situation in the domestic market. National decisions affect Sweden's competitive situation from an intramodal International or European perspective, i.e. makes Sweden a less beneficial market to operate on compared to surrounding nations with lower safety and security fees.

Sweden is among the world leaders in the field of airport security and aviation safety as well as on the environmental regulation area. We do not judge this fact in a political context, but from a strictly economical perspective it constitutes harder conditions considering competition based on the cost/price discussion. On the contrary safety, environmental friendliness and high security standards can provide Sweden and its airports with a good reputation and aviation actors based in Sweden with strengthen brand image. Even though this by the industry called "best in class" practice have pros and cons, the industry's common opinion seems to be that this political agenda sometimes creates severe competitive shortcomings for Swedish actors on the international arena. (Luftfartsverket, Flygkrisen 2004)

In our perception the industry seems to emphasize their criticism on the Swedish authorities' demands considering reports of different kinds. The administrative work is considered very heavy and some even contra productive. Another important issue is that the safety costs according to SAS have increased, from their perspective, with 800 percent, due to increased security fees, administrational costs etc, as a direct effect of measures taken after the 11 September.

In conclusion, the industry's opinion is that there is a lack of holistic perspective and too little knowledge of the preconditions for the aviation industry among political decision makers in Sweden. During the last five years there have been a lot of extraordinary events affecting the aviation industry negatively. To start with we have the after-effect of the terror attack the 11 of September 2001. This assault had effects on both the revenue side, volumes of passengers, and on the cost structure, investments of different kind serving to reinforce the safety and security. The fear of terror has primarily affected the American aviation market, but the international market, including Sweden, has had a volume decrease as well. The turbulence on the market has been increased due to the United States wars against Afghanistan and Iraq. On top of this we have had two severe diseases SARS 2003 and Chicken flu 2004. In the last context the aviation industry has been considered as a disease spreader and this has affected the world market for air transports. Even though it is possible to see that these disasters have impacted the aviation industry it is very hard to quantify the impact, especially in countries not directly affected by the events. Again, the aviation market is complex and there are a lot of other factors affecting the revenue side of the aviation companies´ annual reports. Circumstances such as international and national economical trends, the development of information technology, as a new communication channel (instead of travelling) as well as the strong growth of low fare air transport providers. (Luftfartsverket, Flygkrisen 2004)

According to Johan Holmer at the Swedish Civil Aviation Authority, Department for Air Traffic and Society, there is no significant relation between the business passenger volume declination during 2002 and 2003. He states that this trend began fare earlier than the 11 September and it is a strict business trend due to depressions among different industry sectors. The depression forces companies to save money in all parts of business including travelling. Another fact is that a large part of the Swedish air traffic is domestic, with overcapacity on the popular links, and that SAS have reduced their offers on low volume links.

The correlation between above described course of events and passenger demand patterns states that the connection between 11 September and travel patterns are relatively weak and short-term in North Europe, if we examine the graph below.

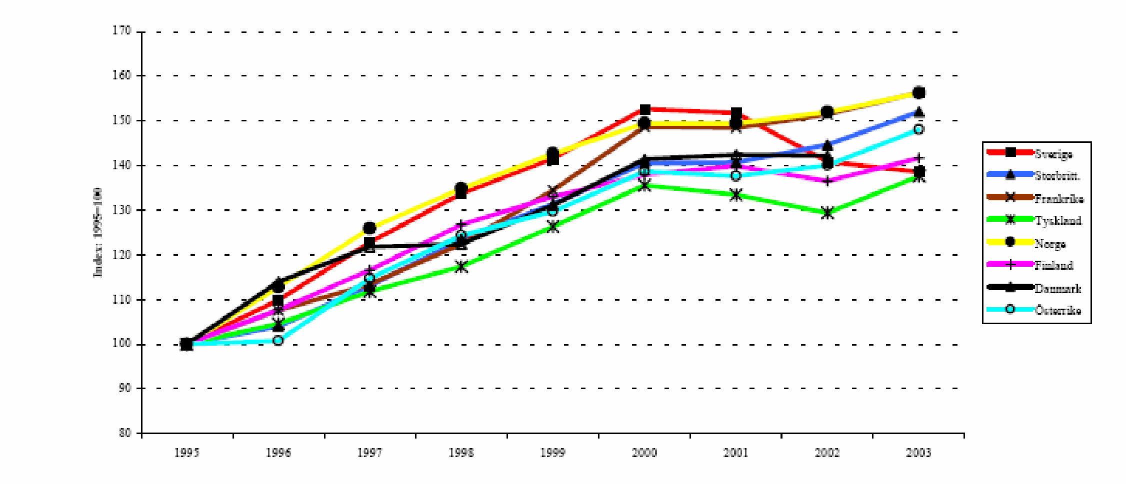

Figure 10: Index describing trends in air travelling for a few European nations. Source: Flygkrisen 2004.

The international air travelling went upward during 2002 for several countries in Europe, but with a slower pace than before 2001. This indicates that markets in nations not directly affected by the events where relatively good at recovering. We can also see that in contradiction to surrounding countries Sweden do not turn upwards during 2002 and 2003. One reason could be the measures taken by Swedish authorities, in the repercussions of the disasters, have been overreactions and that this has placed Sweden in a competitively weaker position due to increased costs. There are a lot of other possible reasons for why Sweden does not keep to the other North European nations´ growth trend. It is hard to decide and quantify whether or not the higher cost structure due to safety factors is an important cause for the situation.

In connection to this it is also important to mention that the year 2004 was the year with least death casualties ever in the Civil Aviations history, which could be one positive consequence of the increased focus on safety and security issues. New technology, such as more advanced flight control systems and new aircraft navigations systems are examples of important investments, concrete actions, supporting this trend. (Article 4: Flight Safety Foundation)

If we leave the demand discussion and focus on the cost side we can more easily support the discussion with hard facts. Safety/security investments and costs, such as fees and taxes, are easier to measure and derive.

- The year 2002, i.e. as an direct consequence of the 11 September, 350 new extra airport inspectors where hired from Falck security by the Swedish Civil Aviation Authority, according to Göran Wigerdal at Falck Security interviewed in their own industry news paper. The costs of this should be covered by the airport fees thus causing increased prices. (Falck.säkerhet)
- Sweden have after ten years of work implemented the new Air Traffic Control system called Eurocat 2000 to a cost of totally 1 400 000 000SEK. This was necessary to be able to manage the forecasted air traffic growth on Swedish territory in a safe manner. The Eurocat 2000 will make it easier for the air traffic control personal to plan and foresee conflicts in the air space thus making it possible to increase the volume of operations without jeopardize safety. It is also important to mention that the cost for human resources in air traffic control will not be affected by the Eurocat 2000; it is managed with the same amount of people. (www.flygtorget.se)
- Security issues, such as passenger and luggage control have decreased the pace of logistical flow in the terminals causing delays and less satisfied passengers during peak periods.

The total cost of reinforced security on Swedish airports passed 700 000 000SEK 2002, all financed by the Swedish Civil Aviation Authority. This has to be paid by their customers, the aviation companies and in the prolongation their passengers via different kind of security fees. A lot of the actions being taken are directives from the European Union and forthcoming years will be dedicated to speed up the process of managing the passenger flow under the new safety/security situation. “Safety is always number one at an airport, but it should be possible to combine with high service level and efficiency”, Leif Svensson, Chief of Security at Arlanda airport. (Falck.säkerhet)

The aviation companies based in Scandinavia are worried about the competitive situation when the eastern member states starts compete on the European market. In diversity to other businesses that is more concerned with the differences in cost for wages, the aviation market actors is troubled with differences in regulation and conditions between traditional European Union members and new entrants concerning safety issues. Safety do cost and if some actors gets considerable relieves from regulation it will affect the competitive situation for actors based in Sweden and other traditional European Union nations.

European nations have to varying extent supported their respective aviation companies in the process of reinforcing the air space protection. Sweden has been restrictive in this matter and at the same time emphasized on “best of class” regulations. This is causing negative reactions from the industry because of the distorted competitive situation it causes for Swedish aviation industry. (Flygkrisen 2004)

To sum up, the direct effect of disasters during the latest five years have had little or no impact on Swedish aviation industry, the demand decrease is with high probability a result of other causes such as business trends and changed strategies for airlines operating on Swedish territory. Nevertheless, has the new more threatening international environment together with Sweden’s high standards in safety matters created significant cost disadvantages weakening the Swedish aviation industry. Primarily; via fees, lack of economical support and heavy administrative workload. Even though most measures are initiated by the European Union forcing both Sweden and surrounding competing countries to take action, “the best in class” approach seems problematic. A capital-intensive project, Eurocat 2000, is up running and the pay-off has started generating. This is a good example of a positive correlation between safety work and economical benefits due to the possibility to increase the number of operations and at the same time perform them under higher safety.

The aviation industry's greatest safety related worries for the future seems to be the lack harmonization within the extended European Union and the political "best in practice" whatever the cost policy, i.e. the lack of holistic perspective concerning the transport business generally and the aviation market specifically. (Flygkrisen 2004)

4.5 Competitive modes

Here we present basic facts concerning competing modes and technology that serves as substitute and compliments for air travelling. This chapter is a brief summary of the primary data received during interviews. The data is further discussed and integrated in the analysis chapter.

4.5.1 Rail mode

In terms of rail passenger transportation, SJ AB is the single most dominant player on the market. There are a few other actors on the Swedish market, such as Tågkompaniet and Connex. However, SJ holds more than 90 % of all rail passenger traffic in Sweden (Forsberg. J). SJ is today fully owned by the Swedish government, and is under the supervision of the Swedish department of business. The department of business wants SJ to act as "a modern travel company, which makes decisions based on the business rationalities". (www.sj.se.)

Prior to 2002, the rail passenger transports had seen a decrease in both passengers and revenues. SJ AB was making huge losses along with intense competition from other modes of transportation. However, since 2002 the rail passenger traffic has seen an upswing in both revenues and numbers of passengers. According to the latest half-year result from SJ, the company made a profit of almost 400 million Swedish crowns. More important, the upswing in number of passengers increased more than 7 % from the year before. The reasons for this upswing can be explained by many factors. A few of this factors, as the company CEO Jan Forsberg points out are modern trains, wireless internet onboard, and more and better alternatives of food. As he points out, the use of lap-top computers along with the use of mobile phones while travelling is becoming increasingly important for business travellers. In terms of enhanced mobile phone reception, this is set to improve during 2006. A agreement has been made between SJ and the Swedish based it-company Avitec, which is set to increase the signal from the mobile phones on the train. (Ny-Teknik) In other words, the reception from the mobile phones will be drastically improved. This is of great importance, especially for business traveller and their ability to work while travelling.

As with air passenger traffic, rail passenger traffic looks at some key operational index for their operations. The above mentioned passenger increase of 7 % is of course one. In addition to this, there are also the issue of load factor, seat kilometre and passenger kilometre. The above mentioned key performance index for SJ is shown in their latest financial report for 2005.

SJ´s Operational Figures

	Jan-Sept 2005	Index to 2004
Personkilometer(Millions)	4087	100
Seatkilometer(Millions)	8585	95
Load Factor(%)	48	105
Number of Trips(Millions)	25.2	99

Table 6, source: SJ´s Financial Report

In terms of rail and rail transportation, the Swedish government's policy is to increase the amount of infrastructure investments related to rail transportation within the coming year. 10 billion SEK has been invested in recent years on rail and rail transportation. (www.flygtorget.se) This, in compare to the investments made in aviation, where they have not even reached 200 millions. This current policy set by the government in office, is of course beneficial for the rail passenger industry. The ongoing investment of importance is the improvement of the route north of Stockholm, which is set to cut travelling time for passengers going from Stockholm to Sundsvall. As of today, the travelling time is over 4 hours but is to decrease once the investments on this route have been made.

4.5.2 Road mode

In terms of travelling on the Swedish roads, SRA or the Swedish Road Administration is the national authority assigned the overall sectoral responsibility for the entire road transport system. In addition, the administration is also responsible for drawing up and applying road transport regulations. In addition, the Swedish Road Administration is responsible for the planning, construction, operation and maintenance of the state roads (www.vv.se).

In addition to these tasks, the SRA has been asked by the Swedish government develop a plan set out to decrease the amount of travelling by road vehicles. This, in addition to reduce the amount of emissions from this type of transport mode. Currently, the amount of road transportation is increasingly by 2 % on a yearly basis (www.vv.se) However, the planed preventive measures; such as congestion fees and increased fuel taxes are set out reduce the amount of road transportation. (www.vv.se)

When looking at private and business travelling by road vehicles, these are generally trips that take less than 2 hours. (Gustavsson, S) In addition, private travellers are also more frequently using this mode of travelling, compared to business travellers. For business travellers, they generally prefer train or air transportation for trips that takes more than 2 hours. This has a lot to do with issues such as safety and environment. In terms of safety, many companies do not want to see their employees driving longer distances, since they then becomes tired and are exposed to greater danger than the other modes of transportation. (Lundstedt, L-G) More over, the environmental impact from travelling by car is much greater, compared to the emissions from train. In terms of travelling by bus, this is not really an option, according to most of the travelling managers interviewed.

4.5.3 Information technology

In recent years, the development of new techniques of interpersonal communication has increased rapidly. These techniques are videoconferences, mobile phones and the extensive use of electronic mail. Today, these communication modes have become substitutes to the various modes of travelling. This, since the use of videoconferences erases the need of physical travelling for business travellers. The extensive use of videoconferences might by a real threat for the other modes of transportation, especially for intra-company travelling.

As mentioned above, the use of new communication techniques might have an impact on the amount of travelling, both for business and private travellers. However, there will always be a need for face-to-face meeting. (Lundstedt, L-G) Moreover, doing actual inter-company business will never be conducted through the use of videoconferences. (Lundstedt, L-G) In addition, the use of videoconferences could actually boost the amount business travelling. This, since more people are able to interact with each other. This interaction often generates the need of physical meetings. (Lundstedt, L-G) Therefore, an extensive use of videoconferences could actually boost the amount of business travelling.

In terms of private travellers, videoconferences do not really have an impact on the amount of private travellers. The use of electronic mail and mobile phones could in some instances replace the need of face-to-face contact between persons. However, the extensive use of new communication techniques results in greater interaction between persons. This interaction usually results in the need for face-to-face meetings. In other words, greater interaction through electronic mail could, as for business persons actually have a positive impact on the amount of private travellers in the future.

4.6 Travel management

It is generally said that travelling costs are the third largest variable cost in a company or organization. This makes it important to manage this function in an effective and efficient way. Just pursuing the cheapest tickets and hotels is not a good way to handle this. What is needed is Travel Management, TM.

4.6.1 The task

The task of a travel manager is to make the whole travelling process cost efficient. There is a lot of money to be saved on booking- and reimbursement-routines. The task of TM is not to ban expensive trips, but to make the travelling easier, more comfortable, and more secure for the travellers. The travel managers do not decide how the employees should travel, that is the job of the management of the company who decide on the travelling policy.

4.6.2 Small companies

For small and medium sized companies it is usually not possible to have a full time TM. In these companies it is common to have someone who works with travel management tasks part-time. A large part of the travel management function is outsourced to a travel agency.

4.6.3 Large companies

Some of the large companies work directly towards the airlines and negotiate special agreements based on annual volumes. This is something that is decreasing due to the rapid fluctuations in ticket prices today. This means that a travel agency often can provide cheaper tickets than the company’s agreement.

4.6.4 Different views

Different companies treat the task of travel management differently. Some companies see it as a strategic purchasing task, and some companies see it as simply hiring a travel agency to get them the tickets that they need, and some may rely on the employees to arrange their own travels. This is often connected to the size of the company, or the travels relative part of the total costs in the company. In a small company there might not be much to gain from working actively with these tasks. (Affärsresenären 2005)

PART THREE

5. Analysis –sub problems

Introduction

As stated in chapter 2.5.4 we have used the mapping method, i.e. marketing surveys in the form of interviews, in our case face-to-face. Face-to-face interviews are important in order to be able to interact when analysing complex factors as well in judging the reliability of the source.

We wanted to get in contact with a wide range of different people with different professions related to the aviation industry. This in order to secure both the relevance and correctness of all facts presented in our thesis. The focus has been, similar to the one for the consensus building approach, to find respondents in each of all major interest groups; travelling agencies, aviation companies and business people, airport operators, competitive mode (SJ AB) as well as Travel managers. This in order to make the analyse process balanced and holistic. Unfortunately, we have not been able to make a consumer survey, but we have taken part of one performed by the CAA, even though it focuses on the Stockholm region we think it can be a useful support in analysing the West Coast region of Sweden as well.

As thesis authors we are aware of the weaknesses of this forecast method; here are the most common complications with this method.

Interviewees´ can be subject to:

- Bias; we do not use empirical data; the analysis method used is not purely scientific, because we do not prove our conclusions.
- Anchoring events; allowing recent events to influence perception about the future. In our case we risk focusing too much on the LCC concept, because it is the current trend and focus in the aviation industry in Sweden.
- Information availability; as above a lot of the articles we have found during our work focus on LCC actors and there is a risk that we miss something that could be very important during the forecast period, ten years timeframe.
- False correlation; the use of indicators that is not indicators at all, maybe have been indicators historically but not at the present situation or in the future.
- Selective perception; is discussed in the theoretical framework, subchapter about the private segment. It is possible that important information is ignored because of personal motives or personal perception about a relation that do not exist in “reality”.
- Wishful thinking; when the consensus creating process goal is to pleasure the interviewer or a political force rather than finding out what the reality looks like.
- Group thinking, the group keeps to together, instead of presenting their own independent opinion. Reasons such as hostile environment, risk to loose job or supporting the wrong political or economical interest by “telling the truth”. Here, the single respondent interviews facilitate to get an honest and independent answer.
- Political pressure; respondents or forecasters are forced into adapting to a certain opinion. This in order to meet budget goals or not risking loosing allowance etc.

The project group have taken all this factors into consideration and have actively avoided to present information that purely advertise a certain respondents interest. We have also considered some information and some contexts somewhat of a company specific solution rather than a general industry trend.

We have sorted out the information that we believe is useful when providing an answer to the problem definition found in chapter 1.3. For those of you interested, we have chosen to provide you with all information gained during interviews by adding all interview material as an Appendix.

Sensitive information that risk harming the respondent in any way is not presented in interview summaries nor as quotations, we believe that it is possible to provide a good outlook without this information. Instead this information serves as a foundation for the analysis chapter, together with all our experiences during the project process.

5.1 Macro trends

5.1.1 Political factors

Politics have a very big impact on the aviation industry and is of great importance to the future of the industry. Politicians set the pre-conditions of the aviation industry. The output is decided by whether the politicians have faith in aviation or not. It is currently the opposition parties in Sweden that more firmly believe in aviation as a future mode of transportation. (Lidman, A) This view is shared by other respondents (Wiberg, H; Weihart, B). There have been heavy investments in the railways by the current Government, while aviation is still viewed as a "bad boy" (Wiberg, H). There is currently a huge lack of balance in the financing of infrastructure, where the railway is heavily subsidised by the Government (i.e. the tax payers), while the aviation industry finances their infrastructure themselves (Sigurdson, M; Forsberg, J). The proposed passenger tax is a good example of the current Government's policy on air transport (Lidman, A). On the other hand some of the respondents are of the opinion that single issues, e.g. the proposed passenger tax, rather than the political ideology of the Government decide the future of aviation (Ahrle, S). Others are the opinion that a change of Government will affect the near future in aviation, and believe that the passenger tax will never be implemented if there is a change of Government prior to that (Einarsson, H; Sigurdson, M).

"Svenskt flyg" has earlier calculated with an average tax of approximately 95 SEK per departing passenger. Currently, it seems like the tax will be even greater. Each domestic one-way flight will be debt 96 SEK, except on routes to and from Norrland and Visby. A flight within Europe in business class will result in a tax of 192 SEK per ticket and to destinations outside Europe 430 SEK. This is forecasted to generate approximately 1. 44 billion SEK in total tax revenues. (Enelius, H) The tax has been estimated by the CAA to cause a 7.5 % decrease in domestic aviation. The largest effect will be on the more price-sensitive consumer market. (Bergbom, L; Wiberg, H) For a family of four it will cost 1600 SEK more to go from e.g. Umeå to Gothenburg via Stockholm and back (Sigurdson, M). The tax will also reduce the will to invest in aviation in Sweden. Many LCCs have announced that they will not enter the Swedish market and those already here say they will not expand their operations (Lidman, A). It also affects regular airlines' plans and will have a negative effect on the airport's efforts to attract new customers to operate out of Landvetter (Wiberg, H). There were plans of opening new routes from both Småland's Airport and Landvetter Airport, but these have now been put on hold due to this tax (Lidman, A). It is also believed that the environmental consequences of the tax will be opposite to the purpose. As airline tickets get more expensive, the passenger volumes will decrease which has two effects; the cabin factor decrease, and more people go by car instead. A lower cabin factor gives a higher environmental impact per passenger, since the airlines still need to maintain their frequencies. Added to this impact is the mentioned increase of travels by car. (Utter. J)

The UK has had a similar tax for the last ten years but it is hard to show that it has had any effect. The UK is a slightly different market, since they have a lot of intercontinental travels, with more expensive tickets. It is therefore not directly comparable to the Swedish market where there are a lot of domestic travels. Our neighbour, Denmark, have recently decided to remove their passenger tax, and calculations show that this will give an increase of 600,000 passengers annually. (Bergbom, L) However Denmark is also a quite different market, with only 7% of total traffic being domestic. This makes it hard to compare with them as well, but it might increase the amount of people that go by car or train to Copenhagen to depart from there. (Christensen, O.W)

5.1.2 Environmental factors

Due to the nature of aviation, environmental factors have a great effect on the development. Recently there has been a suggestion in the UK to introduce personalized carbon dioxide accounts. This would limit the amount of annual travel that a person can do. This would reduce the amount of travel with polluting transport modes such as for example air. (Einarsson, H)

Landvetter airport is working towards lowering the total emissions and noise at the airports. One contributing factor is that the planes today are much cleaner and produce less noise than in the past (Lidman, A). Landvetter airport restrict what types of airplanes that are allowed to use the airport. They also try to minimise the spill of air fuel. The environmental issue will become even more important for airports in the future, both in terms of business- and private passengers. However, air transport will never be as environmental friendly as train transport. (Wiberg, H; Weihart, B)

Recently, the Swedish Government has announced that the goal is that Sweden will not be dependent on oil in the year 2020. The Government have announced that one part of this is to reduce the transport sector, and more freight should be transported by sea and rail. This doesn’t leave much room for aviation in the future transport system. (Government Office)

5.1.3 Economy

The current trend with a lot of companies outsourcing parts of their organisation contributes to the amount of long-distance travelling by air (Einarsson, H). The reason for this is that the number of interfaces between companies increase and therefore the need to travel (Bergbom, L). Many other respondents believe that the issue of outsourcing does not increase the number of travels, and might even reduce travelling since the now have the competence in another country (Thormählen, C; Hårdänge, N).

The current focus on the ticket price is a not an isolated occurrence. There is a high cost focus within all functions of the companies today. It is a consequence of the competitive situation today. (Thormählen, C) It is also a consequence of the difficulty in measuring other aspects of the travels. It is very hard to quantify aspects such as time, better performance by the staff etc. (Hylander, S)

Fluctuation in countries’ Gross Domestic Product has historically had a great effect on the departing passenger volumes. Economy still affects the consumers, but not as much nowadays because of cheaper tickets. Economy also affects the volume of business travellers, but it is mainly internal travelling that decreases. The external travels, e.g. customer visits, only have slight decreases as these have a higher priority. The biggest recent impact by economic depression started in May 2001. In the autumn the same year the 9/11 attacks occurred, which overshadowed the economic depression with the result that the downswing was blamed solely on the attacks. (Bergbom, L)

It is important not to overestimate the price reduction that is very much in focus today. The price reduction process started already in the late 60’s and has been driven by technical improvements leading to more energy efficient aircraft. In order to get a more realistic view of this development, one must look at average prices instead of lowest prices. By doing this, one can see that the price reduction has not been as dramatic as one can think. It has actually been a rather steady process. (Bergbom, L)

As airplanes use oil products as fuel (kerosene), they will in time be strongly affected by the fact that oil is not an endless resource. They are already affected by fluctuations in oil prices, but in the long-term the effect will be stronger. Most economists believe that the oil price in the short term will stabilize and drop slightly. In the long term, however, the oil price might get very high. (Einarsson, H)

5.1.4 Gothenburg region

Currently, the region is doing quite well and has good potential for continuous growth. The region is ranked 16: th among regions in the EU that are likely to grow the most until 2015. The region is doing better than the Swedish average both in terms of employment and economic growth. (Einarsson, H) The region houses many of the largest companies in Sweden such as Volvo, Astra Zeneca, SKF, Ericsson, and many others. The region also has the largest port in Sweden, the Port of Gothenburg, which contributes to making the region the logistic centre of Sweden. (Inköp & Logistik)

The Gothenburg region has two airports: Landvetter Airport, and Gothenburg City Airport (GCA). The Swedish Civil Aviation Administration owns Landvetter Airport, and Gothenburg City, the CAA, and Volvo own GCA. Currently Landvetter Airport is directed more towards traditional airlines, while GCA is directed towards LCCs and other operations such as rescue helicopters and private pilots etc. There are many opinions whether it is good or bad for Gothenburg to have two airports. Some are of the opinion that Gothenburg needs one strong airport to which travellers can be attracted and the flows concentrated (Sigurdson, M). Others with similar opinions mean that the conditions for the West Coast region might have been better with just one airport (Aviation Hearing). It is also a question of whether there are enough people living in the area to support two airports. This is why Landvetter Airport is working to extend the catchment area, something that the planned train connection in 2013 will aid in (Wiberg, H). When it comes to the air traffic some mean that Landvetter Airport would not function without GCA, and that they to a large extent complement each other (Aviation Hearing). GCA has many kinds of air traffic that Landvetter can’t or don’t want to have such as helicopters, business jets and pilot education. The airports also have some cooperation e.g. GCA is used by Landvetter Airport as an alternative airport in fog etc.

Some respondents, who have preferred to be anonymous in this context, have been critical to the fact that Landvetter Airport is Government owned. They mean that the airport would be able to develop much more if it was privately owned. One of the reasons for this is that the CAA owns a lot of airports that are not profitable. Profits from e.g. Landvetter Airport are needed to support these airports. If Landvetter Airport was privately owned, it would be possible to keep all the profit at Landvetter for improvement of the competitiveness. It would then not be necessary to take any consideration to the goals of other airports. Examples of possible areas for this improvement are reduced fees, more attractive commercial areas, and conference centres. In the present situation the CAA must approve all investments at Landvetter Airport. In practise this means that needed investments are not made because they are not approved. Instead there is an over investment in areas that are not vital, but where the investments are smaller and easier to get approved.

5.1.5 Research and development

Research and Development is an important part of the environmental work, as it can create opportunities for more efficient and quiet aircraft. Lighter materials gives airplanes that consume less fuel and/or take more cargo. In the business market there are small and lightweight jets under development that will drastically reduce the cost of using the business jet service. They will also have the ability to land on small airfields, which makes it possible to come close to the final destination. (Lidman, A) The low weight also reduces fuel consumption, which among other things results in a lower break-even point. Opposite to this development are the new “super jumbos”, very large airplanes with a high capacity. This means that they demand an even greater concentration of the passenger flows to build volume. This makes us believe that there might be a diversification in the years to come. On continental routes the hub and spoke system is abandoned and replaced by direct lines. On intercontinental routes the hub and spoke system is further reinforced with fewer, larger hubs to fill the large airplanes.

We believe that R&D is vital to secure the future survival of aviation as environmental demands and fuel prices increase. The most important task is definitely to develop aircraft that consume less fuel, and in the long run don’t use fossil fuel at all. The new very large airplanes (e.g. Airbus A380) are a step in the right direction, as the fuel consumption per passenger is lower in a large airplane than in a small.

5.1.6 Demographics

The customers do not stay the same throughout time. The single most noticeable trend is the changing age structure. Another major change is the family structure. Today between 35 and 40 % of the households are single. This poses new challenges and opportunities for the airlines, as single households don’t demand the same products as the traditional family. Singles generally have more money, as they don’t have anyone to support. They are also able to dispose their time in a different way. These are all factors that are likely to reflect in the future offers from airlines. (Utter, J) Both historically and today, Engel’s laws have had a great impact on the aviation industry. What Engel discovered was that the households’ spending pattern change as the income increases. For example, more money is spent on such things as travels. Other associated factors impacting this pattern are interest rates and cost of living. (Kotler et al) Another demographic factor that has an impact on the aviation industry is immigration. Various wars and disturbances around the World both past and present contribute to this. This also creates a demand for travels to these areas when they are calm again. (Sigurdson, M) This is one example of ethnical travelling, which is dealt with in the Private Passengers chapter.

5.2 Private passengers

The private passengers stand for the largest part of the market growth in aviation in Sweden. Compared to the business passenger segment, the volumes are more volatile as the private travels, in contrast to business travels, are not necessary. (Bergbom, L) The segment has been quite static during the last four years considering age and gender. During this period the share of first class tickets has decreased, something that will continue in the coming years. (Ahrle, S)

According to our respondents it has historically been rather easy to separate business- and private passengers. Business passengers have had a need for flexibility, which has automatically placed them in business class. (Thormählen, C) Private passengers have had a need for cheap tickets, so they have travelled in Economy class. Today there is a slightly different situation. Many airlines today have flexible tickets also in economy class. This results in business passengers and private passengers travelling together in the same way. (Utter, J) It is therefore sometimes hard to separate the two on the traditional basis. The main difference today is the purpose of the trip.

The private travellers generally have a less critical and more positive attitude towards their trip. One reason for this is that a lot of private passengers see the flying time and time at the airport as parts of their holiday and sometimes a bit fun, with shopping, dining at restaurants etc. A reason for this is the private travellers' less frequent travelling behaviour. (Ahrle, S)

5.2.1 Product criteria and key preferences

The above-mentioned purpose of the trip also sets the basis for what criteria that are important. The private passenger in general has price as the absolutely most important criteria when choosing a ticket. This makes it natural for private passengers to travel in Economy class or with LCCs. They are prepared to sacrifice service and comfort on continental routes (Lidman, A). Today the passengers have the possibility to keep very well informed about different prices much due to the increased access to the Internet. One drawback of the Internet access is that it makes the planning more complex and it is sometimes hard to find the right solution. (Jacobsson, B) The criteria that are not as important are flexibility and travelling experience. One of the least important criteria is service. (Ahlsen, T)

One factor where there are different opinions is brand image. On one hand, some sources say that the brand image is losing its importance. Customers care less about the brand and more about the ticket price. (Utter, J) On the other hand some sources say that the brand image is one of the most important things that an airline's got (Sigurdson, M).

Safety is something that all passengers take for granted; they do not fly with a company if they feel that there is a risk that they won't make it to the destination alive. This is also one of the reasons for why no airlines use safety to market themselves. It is also considered to mean bad luck and bad ethics. (Sigurdson, M)

Below is a figure illustrating the relative importance of different criteria for the private passengers. The criteria close to the centre are considered as important, while the criteria in the outer circle are considered to be less important.

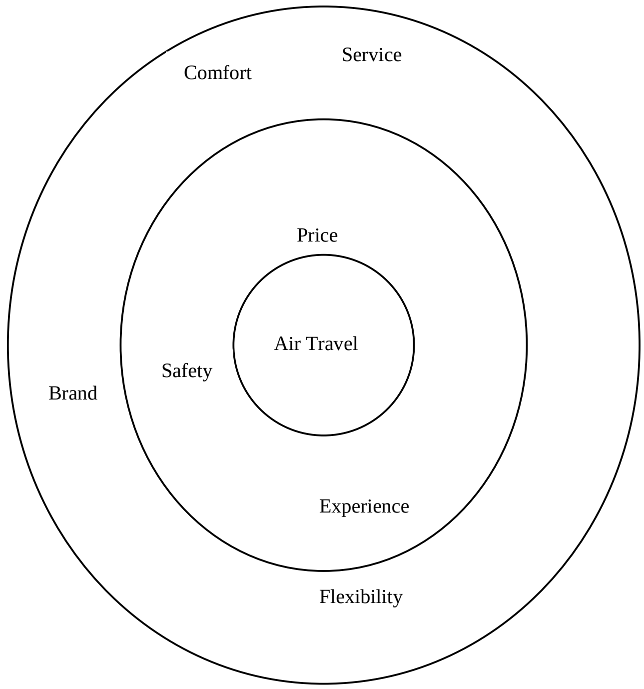

Figure 11: Private passengers' criteria and their relative importance.

5.2.2 Segments

The travellers today have different needs depending on what type of travelling they are about to do. We are moving away from the time when passengers could be easily segmented. (Lidman, A) It seems like there will be more and more mixed flights in the future. These are flights where there are ethnical-, private-, and business travellers on the same airplane. (Jansson, W) Ethnical travellers is a fairly recently established segment and will be dealt with below.

The more traditional segments for private travellers are "surf & sand", people going to warm places to sunbathe and swim, and "visit friends and relatives" (Sigurdson, M). According to a survey performed by the CAA the "visit friends & relatives" segment stands for 25 % of the passengers departing from Arlanda Airport, which makes it quite significant.

As mentioned above it will be very difficult to keep the current segmentation in the future. One possible scenario is that the customer"segments" himself by choosing what he wants and packaging his own trip. (Utter, J) Today's private travellers are so well informed that they are able find their own travel solution rather than travelling in groups that was the trend 5-10 years ago. This is what the industry has to adapt to, offering several alternatives where the customers can chose the individual travel solution that fits best. This is the future of private airline passenger travel. (Jacobsson, B) This is also staring to reflect on the supply side; the airlines are positioning themselves more into niches than before when there were only regular and charter (Utter, J).

Weekend

Since the introduction of low cost carriers in Sweden there has been an increase of weekend trips. Some of our respondents believe that this to a large extent is the result of the low ticket prices, and that the segment will continue to increase in volume due to the prices. (Bergbom, L) Other respondents claim that the average weekend traveller is not very price-sensitive, and that the average age is above 50 years (Jansson, W).

One of the reasons for the steady increase of this kind of travelling is the general lack of time in today's society. People have less and less time for holidays due to demanding jobs. Therefore this kind of short vacation suits them better, as they can go away for a weekend a few times a year instead of going away for two weeks only once. (Jansson, W)

One of the trends in this area is to vacate on less known destinations, such as Bologna in the north of Italy, And Glasgow in Scotland (Bergbom, L; Sigurdson, M). The airlines' business idea is to switch among a few destinations and offer cheap tickets there (Jansson, W).

Singles

The share of single person households in Sweden is increasing and is currently around 40 %. This is something that will be reflected in the airlines' offers. The singles are an attractive segment as they generally have a relatively high amount of money and no one else to support. They are also able to dispose their time in a different way than a traditional family. (Utter, J)

Ethnical

The ethnical travel segment is based on immigrants from different parts of the world. The ethnical travellers are private passengers, but they have a demand for other destinations (Sigurdson, M). There are different opinions on whether this is an important segment or not. Some of our respondents are have a very positive attitude towards this segment. Others claim that the ethnical segment is not relevant to the industry, as heavy price competition and the wide coverage by the network airlines effectively cover this segment already. (Jacobsson, B; Lidman, A) One example that shows the potential of ethnical travels is Lufthansa; one of their best routes was Stockholm-Asmara, which lies in North Africa (Sigurdson, M). Ethnic travelling will probably increase heavily due to peace in some of the countries that most immigrants living in Sweden origin from (Bergbom, L), and it is also possible to target the segment effectively (Ahrle, S). Even though these passenger volumes are relatively small and have no major impact on the total amount of travelling in Sweden (Bergbom, L). The ethnical segment doesn't have to be treated as an exclusive segment. One example is mixed flights, where there are both tourists, ethnical travellers, and business passengers. Sweden has good potential for this segment because the different ethnic groups are well concentrated. In the south there is a high concentration of Croatians, in Gothenburg and Stockholm there are Serbs. This means that the conditions would be good for a route between e.g. Malmö and Zagreb. (Sigurdson, M) SAS have also screened this market in the Baltic among other places. They see the ethnical travel as one part of a split traffic direct link to destinations in these parts of the world, even though they do not work with pure ethnical traffic projects as with the SweFly case. (Jansson, W) SAS is also cooperating with travel agencies that work specifically towards people with a foreign background (Utter, J).

One example of an airline that worked specifically towards ethnical travellers is Swefly. The airline went bankrupt in 2005 after just one year in business. The business model was to perform long-haul traffic between Skavsta Airport and Pakistan, supported by feeder traffic from London and Oslo. The long-link managed to cover the costs, but the feeder traffic got too expensive. (Jansson, W) Their mistake was that they chose Skavsta Airport in Sweden instead of Arlanda Airport. The problems with Skavsta Airport are that it is one of Ryan Air's airports, and it doesn't have any feeder-traffic. Swefly would have been more successful if they had chosen Arlanda Airport, despite the higher costs that this would have brought. (Sigurdson, M)

5.2.3 Environment

Environmental issues, as a marketing factor, are nothing that will have a major impact on which airlines people travel with. In order for environmental approaches to work they must be supported and motivated by cost benefits. The situation today is that the cost benefit is only lower take-off and landing fees for less pollutant aircraft. Today's market is not ready, i.e. both private and business passengers are not willing to pay for more environmentally friendly aviation services. The customer base is too small for this kind of marketing efforts, even though environmental issues is increasing in importance in aviation as well as other business sectors. (Jansson, W)

One of the environmentally friendly alternatives to aviation on domestic routes is train. But for example the travel agency "Resia" does not feel that any of their customers are choosing train instead of airplane because of any environmental issues. However, future environment policies set by the EU and the national government might have an impact on how the customers chose their transport mode. Such an impact is very difficult to predict in the future. The new aviation passenger tax might be a first step in that direction. (Jacobsson, B) Another environmentally friendly alternative is not to travel. This is often not an alternative, but the mentioned suggestion of personalised CO_2 accounts (see 5.1.2), would make this alternative come into question.

5.2.4 Incoming Traffic

Incoming traffic has great potential in Sweden, but has yet been very little explored. Today the Swedish airports have 77 % Swedish travellers and 33 % foreign, this is a relatively low proportion of foreign travellers compared to other nations. The work with marketing Sweden and to create relationships among travelling agencies, lobby groups and other organisations have increased during the last couple of years at least concerning the Stockholm region. The governmental contributions to the marketing of Sweden will and should increase the next coming years. One such project in Berlin has been performed and turned out well; this is a good example of how the work should proceed. (Ahrle, S)

The LCCs are a major enabler of an increased incoming flow. Most of these use secondary airports, and it is therefore important to establish a system that takes people to other parts of Sweden than the two main cities. An example of a nation that has succeeded with this is Finland. Finland has successfully marketed their nature and fly tourists to the northern parts of the country. One problem with this kind of trips in Sweden is that they get very costly due to the geographic conditions of the country. (Jansson, W)

One way to facilitate an increased incoming flow is to use modules, where the regions cooperate in order to offer complete travel packages for customers. The airline might have different travel packages on their web page that the passengers can combine to create their holiday. This system would be possible if the different tourism organisations communicated and co-operated nationally. (Lidman, A) Another possibility is to use direct marketing on the Internet, where offers can be guided by national IP-addresses to target specific customers (Sigurdson, M).

5.3 Business passengers

5.3.1 Product criteria and key preferences

In terms of business passengers, these are the ones who usually travel on a more frequent basis than the private passengers. Furthermore, the business passengers also have greater demand on the product they buy. In other words, their preferences on the actual travel are somewhat different from what the private passengers demand. As mentioned earlier, private passengers generally only have demands in terms of price. Other issues, such as flexibility and service are less important for the private passengers.

As for the business passengers, their key criterion is flexibility (Christensen-O-W; Sigurdson, Mats; Lidman, A). In other words, flexibility ranks ahead of other criteria, such as price and lounges. Since flexibility is a rather broad term, it is quite interesting to look at the components that are associated with flexibility, in terms of business travel. According to Lennart Bergbom at CAA, flexibility refers to;

- The ease of rebooking and cancelling
- The time between departures, the companies´ personal should not have to schedule their meeting based on a flight timetable.
- Quick changes in destination to travel to should be possible to make within a relatively short time frame.

From what we have experienced, all these components are important for the business passengers. The ease of rebooking is of course here primary, since many of business travellers usually change their meeting times with very short notice. Furthermore, number of destination an airline or an airport serve, is also of importance for business travellers. This is especially true for large organizations that have offices and customers all over the world.

As for Business Travellers, the price issue is closing in on factors such as flexibility and accessibility (Lidman, A; Jacobson, B; Sigurdson, M). In other words, the organization are becoming more price sensitive, which means that they today less willing of paying high air fares for their business trips. From our understanding, this has to with the increase of Low Cost Carriers along with the intensified competition among companies. Here, companies are trying to cut cost at every corner, which means that they today more closely evaluate their air fares. According to some of our respondents, companies have realized that it is possible to use LCCs for certain type of air travel. Here, these types of travels are mainly for trips between point a to b, along with rather high frequency in departures. Low Cost Carriers, such as Easy Jet and Jet Blue are companies that have been mentioned here, due to the fact that they have been rather successful in attracting business passengers.

From what has come out of the interviews and sources we have analysed, it has become obvious that safety and security are secondary factors for business passengers (Ahlsen, T; Lidman, A). Here, the safety issue is more or less taken for granted by the business passengers, at least when the fly within Europe. The services issue is a bit more difficult to explain. Here, the industry is heading towards something called business with service (Christensen, O-W). This new concept involves issues, such as wireless Internet access, printers, lounge accesses etc. In other words, the business travellers today require different types of services than in the past, where issues like hot meals and free wine were prioritised. Also, these value added service could be added on to the actual airfare, were business travellers with greater demands on business service pays an additional fee than the regular traveller. However, as many of our respondent’s mentions, the business travellers are likely to pay this additional fee since it buys them additional work time.

The actual travel experience is not really an important issue for the business passengers. The aim with the travel for business passengers is to quickly move from one place to another without inconvenient stops (Lidman, A). This is different from private passengers, who actually value the actual travel experience when choosing both airline and airport. Here, business passenger will never consider travel experience ahead of flexibility and price, unless the value added services are unique for the alternative option.

In the figure below, we have tried to visually explain the business travellers new set of demands, and grade the importance of each criterion. Here, the ones that are close to the centre of the inner circle, is of greatest importance. The ones that are in outer circles are said to be of less importance for business passengers. Here, we clearly see that flexibility lies close to the centre with price at bit further out. In terms of travel experience, it is further out in the circles, since it is secondary issue for business

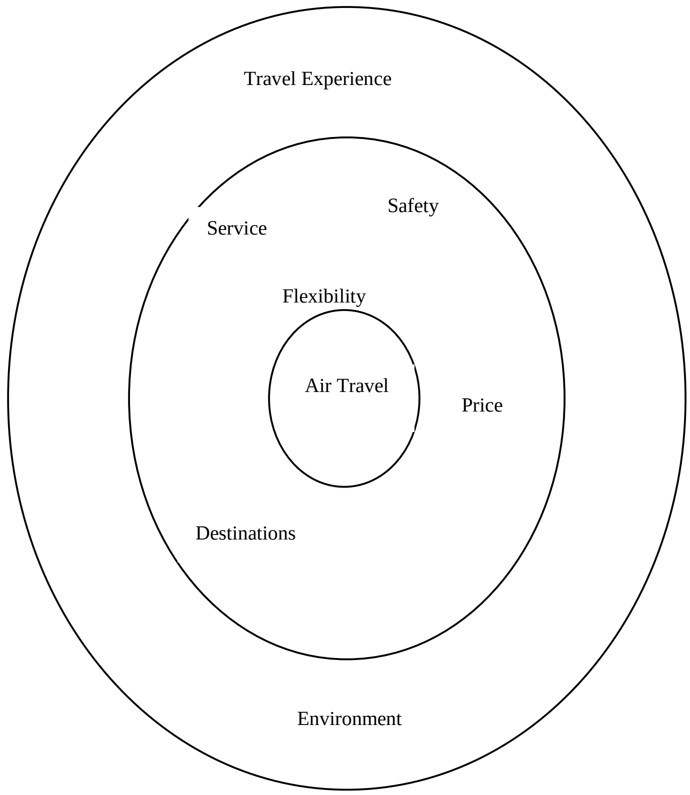

Figure 12: Business passengers' criteria their relative importance.

5.3.2 Travel management function

The travel management profession will go through major changes, because business travelling and related costs are increasing. This together with new demands from business travellers, concerning primarily flexibility issues. (Ahlsen, T) The Travel Management function has evolved from the executive secretary profession. Traditionally, this was a low status function and a secretary does not possess the position to decide and influence the travel behaviour among managers and businesspersons. (Orwallius, C) In many companies the function has evolved into a full time profession, due to the function's changed focus. A shift from simply booking to managing travel costs as well as efficiency related issues. In an international service company, the travelling constitutes a large part of total company costs. Therefore there is a need for more sophisticated management procedures than for e.g. a smaller local firm or a pure production plant with few suppliers and customers etc. (Bergbom, L) Still, it is very rare that more than one employee per company works with these issues, this makes the Travel management profession somewhat of a "one man's business". This, together with the current upswing of professional Travel managers has resulted in a massive member increase for SBTA during the last couple of years. The organisation serves as a meeting point for Travel managers, too brief, learn, benchmark and discuss the future challenges as well as meeting with travel agencies and aviation representatives. (Orwallius, C) Broström´s Travel Agency does not have customers that are large enough to have Travel managers employed. Most of the customers have some kind of secretary that manages bookings. For the agency's customers it is the agency that is the Travel manager. (Thormählen, C) Schenker has its own travel manager that is taking care of negotiations with transport companies. The agreement is then communicated to the travel agency managing the daily work. This solution makes it possible for their Travel manager to work with other purchase related tasks as well. (Bengtzelius, Å) Employees working with Travel management part-time are very common. In these cases it is often a secondary responsibility and the purchaser often have other primary tasks in the company. (Gustavsson, S)

The Challenges

SAS EuroBonus and other similar bonus cards is one important obstacle for Travel managers to overcome, it is hard to motivate a business person to choose a solution which do not provide him with his personal credit points, even though it would have been a good travel solution from the company perspective. Today, it is therefore rare that employees get to keep this credit points for personal use. (Bergbom, L) SJ is currently working with developing a new bonus card; they have benchmarked the conflicts created between the Travel management function and the business traveller within the companies concerning EuroBonus. SJ will design its offer in a manner that excludes this goal conflict between company and individual goal, thus working with not against companies´ Travel management functions. (Forsberg, J)

During the last couple of years the industry of business travelling has been very turbulent due to structural changes, with aviation operators and travel agencies disappearing from the market and new actors entering. (Orwallius, C) The driving force for the travel management function should be to increase travel efficiency, i.e. to lower the travel costs while maintaining the fulfilment of goals stated in the business plan. (Sigurdson, M)

In terms of the aviation market, the need for active Travel management has increased due to the increased competitive situation, i.e. the increased amount of alternative travelling solutions to evaluate. (Bergbom, L) A large part of the travel management work concerns purchases of travel agency and aviation company services. The procedures, within Volvo AB, differ among different nations. Even though, some aspects, such as safety issues, are always fixed in the travel policy. (Hylander, S)

The future for the travel manager function will involve a lot more of environmental considerations. SJ wants to facilitate companies´ environmental work by providing them with an emission report, which can be integrated in the companies´ environmental report. This and other related tasks will probably constitute a larger part of the Travel managers' time in the future. (Forsberg, J) Even though, the reason for working with environmental issues primarily seems to be an opportunity to cut cost, e.g. by using more efficient engines, i.e. modern aircrafts. (Gustavsson, S) Other important tasks for the travel manager is to provide the employees with a travel coach that is both easy to understand and well communicated throughout the organisation. It is also important that the Travel manager establishes a policy that coop with corporate strategy, i.e. top management and owners, as well as with employees´ demands and preferences. (Orwallius, C) Travel managers on the forefront do not focus primarily on soft issues nor do they focus on prices solely. The problem approach should be holistic, taking different factors into account. Areas such as; time spent on airports not working, cost of an extra night at hotel and cost of not being rested while working, at arrival destination, should all be quantified. (Arhle, S)

Total Cost of Ownership, i.e. the total cost for the company, describes this approach, where an optimisation of all including costs are performed. The complication with this holistic approach is that company department's results are measured in pure costs, i.e. how well they manage their respective budgets. Costs such as time savings or quality of performance due to rested personal are very hard to measure and are therefore not used as a cost measurement tool. If it should be possible to use this approach it demands simplification in measuring different parameters. It also demands employees that take active part and responsibility for keeping costs down. Here, it is important that the Travel manager takes active part in the cost awareness creating process. Understanding and support often increase when figures are presented for the employees; "If Volvo decreases the total travel cost with one percent it generates a saving of three million SEK". (Hylander, S)

Travel managers in general have no incitements to be strategic in the long-term perspective, since most companies' top management sees travel management simply as a cost cutting function. This makes it hard for companies to work together with transport companies in order to create or sustain accessibility and good communications via e.g. long-term contracts with aviation operators, to regions of strategic importance. (Gustavsson, S) Figure ten shows the proportion of different travelling costs.

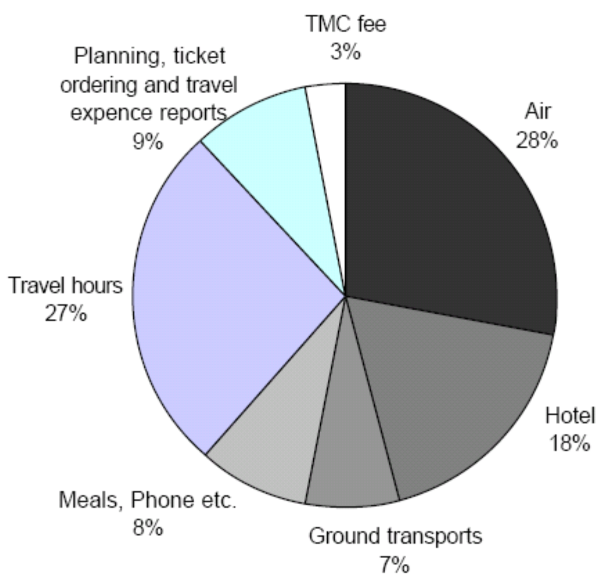

Figure 13: Holistic view of travel related costs. Source: Hearing about aviation industry 2005- West Swedish Chamber of Commerce and Industry.

Unfortunately, the travel management function is currently strongly influenced by the traditional purchase function and its cost cutting oriented approach. This strict price focus sometimes leads to a lack of holistic perspective. (Orwallius, C)

The use of Information technology such as Internet booking is the future within the airline business. Here, either the travel manager or the travelling customers are able to book and search for flights that suites the most. (Lidman, A)

Safety issues are increasing in importance among Travel managers, e.g. the Swedish National Road Administration states criteria on the features that the cars rented for business travelling shall fulfil, such as size of vehicle, the existence of autopilot, safety equipment e.g. airbags. (Orwallius, C) Safety issues are also an important decision variable when discussing whether or not to use Internet self-booking. Volvo is currently planning to implement an on-line travel booking system for employees to make their bookings themselves. This new booking system must live up to all safety aspects. (Hylander, S) As the world is becoming more and more integrated were companies have offices all around the world, it is becoming increasingly important to know were all staff are located. This together with a more hostile world climate has increased the demands put on it-solutions considering safety issues. Especially, when using self-booking, here it is important that information regarding each employee's travel path is stored at the travel agency or respective function within the company. The system shall also exclude travel solutions not aligned with the travel policy, whatever the reason may be. (Hylander, S; Thormählen, C; Bengtzelius, Å; Lundstedt, L-G) For Volvo AB it is even more emphasized since the safety attribute is the number one criteria that Volvo AB shall be identified with. Here, the travel policy should be aligned with the overall corporate strategy. (Hylander, S)

Organisation, structure and strategy

Briefly there are three different ways of organising the travel management function. First, we can have it as a separate agency with its own personal located in-house, i.e. in the specific company's facilities. This solution exists in really large companies, but it is getting a more and more rare solution. Second, the travel agency could be outsourced, but with close relationship with the company using its services, this is the most common solution today. Finally, some companies uses no or a minimum of travel agency services. Here, travel management are performed via an in-house system (personal, data systems and related resources). The usage of this solution is increasing, mostly because of the generation shift in companies. Young people are very familiar with using computers and the Internet. Therefore, a self-booking system is easier to implement in a company with younger personal, seen from the user perspective. (Orwallius, C) One reason for using travel agencies is that they usually provide better prices via the passenger transport market today, than the company can gain trough agreements with e.g. SAS and KLM. Therefore it is most likely that these agreements will disappear and be replaced by just buying one-way tickets. (Lundstedt, L-G) The larger companies will remain with their efforts of keeping an in-house function of travel management. However, due to the complexity of the market they need to extend their organisation with people from the travel business or outsource some activities. In terms of the small and mid-sized companies, they are likely to outsource their travel management function to an extended degree to travel agencies. This once again due to the complexity of the market where companies feel that the travel agencies are better suited to finding the best solution, concerning price and flexibility. (Jacobsson, B) SKF e.g. use travel management consultants to a large extent to get a good base for decisions, currently they use American Express. AmEx does not make the decision they rather provide the traveller with information regarding good alternatives that matches the travel policy. It is only when the travel criteria goes beyond the travel policy that the Travel manager at SKF is involved. (Lundstedt, G-L) Today, there are two types of travel agency segments. The ones that focuses on major multinational companies, with all the complexity that involves, e.g. Nyman & Schultz and American Express. On the other hand, there are the ones that have a more local focus, such as Resia. This split of the agency market is likely to continue in the foreseeable future. (Jacobsson, B)

Travel policy

Most policies seem to be quite unclear. There are interesting aspects of e.g. environmental questions, e.g. how much can the environmental friendliness cost? How much more are companies willing to pay for travelling with a less polluting mode? (Thormählen, C) As already stated above:

“The reason for working with environmental issues primarily seems to be an opportunity to cut cost, e.g. by using more efficient engines, i.e. modern aircrafts”, (Gustavsson, S).

Our perception, based on the information we received and on the overall impression we have gained during interviews, is that this is the basic criterion for working with environmental issues. Jan Forsberg, emphasizes the environmental issues more than any other respondents, this also feels natural since he his the CEO of an alternative mode that are better fitted to deal with environmental challenges. Furthermore, environmental issues seem to increase in importance due to the positive brand image created by being an environmentally friendly alternative. According to our study, at the current situation, it is not a primary task for the Travel manager, but will probably be during the next coming ten years.

The main differences between travel policies among companies are whether it is a rule to follow or a recommendation. Some companies have policies that have been signed by the top management representatives, sometimes even by the owners of the company to emphasise the importance of that every employee keeps to it (Orwallius, C) Even though Travel managers as well as the travel policy more often is in the situation of not being supported by the top management, which makes it hard to make the staff follow the travel policy, since it is vital that the top management lead by good examples (Thormählen, C).

When the policy is a rule, there is also a question about consequences when employees not keep to stated rules. You also have to decide the detail level of the travel policy and related travel rules and also put a lot of energy in communicating it to all involved parties. This, of course, is especially important in company cultures where the policy is a strict rule.

The most important part of a travel policy:

- Statement of service level to use (on different distances)
- Transport mode to use (in different situations)
- Safety issues
- Environmental issues
- Rules of authorisation of payment
- Decision coach, a guide for the businessperson to bring with him when travelling. Including an emergency telephone number, to get help or clarification, often a 24-7 service performed by a travel agency.

The use of on-line self-booking has made this decision support more difficult, since the use of travel agencies have decreased due to this. (Orwallius, C)

5.3.3 Business passenger segmentation

It is hard to segment the aviation market concerning business nisch segments by viewing the market as a whole. We as well as the majority of our interviewees´ feel it is necessary to present this analysis divided into three large segments, with the segmentation variable being transport distance. Here we can divide the business passenger market into: Domestic passengers, Continental passengers and Inter- continental passengers. When making the market segmentation we state that these are three totally different products. Even though they provide the customers with the same offer concerning means and purpose, i.e. air mode (key feature; speed) and transport (geographical access). This because the demands on the product differs heavily depending on the distance, therefore we find it necessary to address respective customer base with a unique marketing mix thus making this the first segmentation decision, figure 13 below.

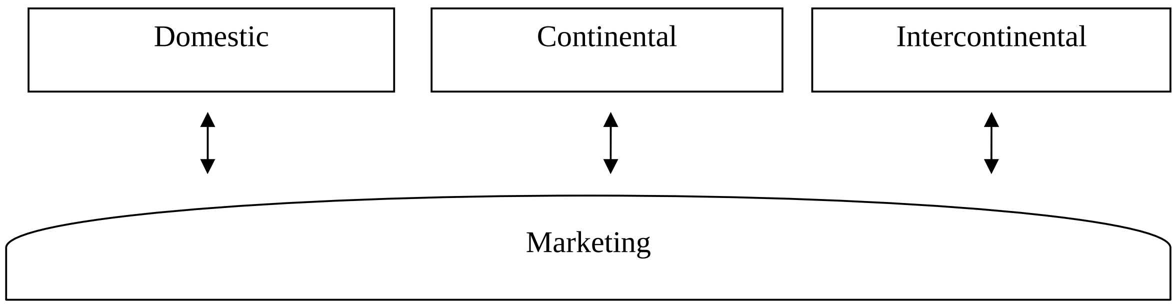

Figure 14: Business segment, further segmented by segment variable distance.

Business class does not exist as a concept on domestic flights. Here, it is more a question of flexibility concerning e.g. re-bookability (Sigurdson, S). The most important competitive factors to consider here is the ease of re-booking and cancelling. Also the time between departures, the companies´ personal should not have to schedule their meeting based on a flight timetable. Quick changes in destination to travel to should be possible to make within a relatively short timeframe. Another important area to work with and facilitate, especially important for business travellers on shorter flights, is the safety control function. Partly, because it takes time, but even more important because it creates an uncertainty component. These uncertainty forces passengers to be at the airport well in advance before departure thus affecting the total time for travelling, i.e. a competitive pitfall compared to e.g. the rail mode. (Bergbom, L) LCC actors such as Ryanair want its passengers to arrive well in time before departure making its offer less attractive for the time pressed business traveller. The fact that LCC carriers do not take responsibility for the whole trip makes them less of an option, for the business traveller, on links where they do not offer direct relations. (Gustavsson, S) In order to attract business travellers; airlines must in most instances fly on primary airports. However, secondary airports that are located closer to cities than primary airports or secondary airports with excellent connection systems will definitely be of interest for the business traveller in the future. Much due to the fact that the price is becoming increasingly important together with the fact that airport and landing related fees are lower at secondary airports thus making the trip cheaper for the business traveller. (Lidman, A)

Traditional Aviation companies are still focused on keeping business class, due to its important role in making the total haul profitable when regular prices have decreased due to deregulations. However, the expression “business class” will probable disappear as well as much of the products luxury image. Today, SAS have concepts such as economy plus, this product has somewhat evolved from the traditional business class concept. The new product name (“economy” with some extension due to added services, e.g. economy plus) fits better with business peoples´ view of themselves as “lean thinkers”. (Gustavsson, S)

Prior to the introduction of the LCCs, the aviation market acted as an oligopoly were the airlines divided the market between actors. Due to this, SAS manage to remain their prices high, with a breakeven point reached at a load factor of 35 percent. At these times SAS had an average of 60-65 percent business travellers who had no alternative, but to pay these high prices. So it was more a question of how the airline was willing to serve the customer rather than a question of customer demands and preferences. (Lidman, A)

There will probably be a harmonization in the aviation market, where traditional airlines´ and Low Cost Carriers´ products will be more equal. This is something that is already about to happen today, as the traditional airlines are offering lower prices along with decreased passenger service. In other words, the future product that the airlines offer will not differ that much, both in terms of price and service features. (Ahlsen, T)

According to the majority of our respondents this harmonisation process is a fact and it will have its greatest impact on the domestic market where price sensitivity and possibilities to add product service features in order to reach profitability is moderate.

There are exceptions to this trend within the Swedish domestic market; Malmö Aviations holds on to their strategy of keeping high service level, in terms of meals and business lounges (Jacobsson, B). Figure 15 below provides a general view of the domestic aviation market, using SAS terminology, but representing all actors involved in the harmonisation process, thus excluding Malmö aviation that keeps to the traditional way of operating domestic traffic. The conclusion here is that there is no class differentiation, only different kind of flexibility offers, mostly concerning tickets.

In this context it is important to notice that the domestic competitor rail mode is heading in the opposite direction. This with significant differentiation, everything from first class plus to economy class, via regular business class and economy class with different kind of added services. This primarily on X2000 trafficked links.

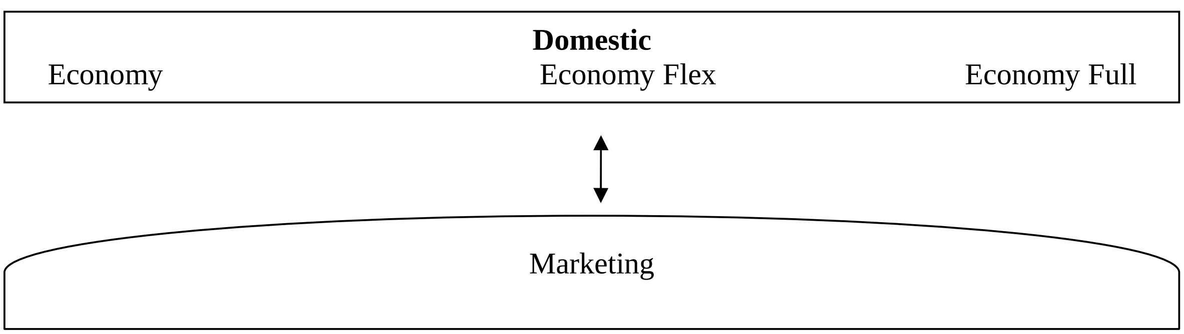

Figure 15: Domestic segments in Sweden. Source: SAS Sweden.

In terms of continental traffic in Europe, besides economy-oriented customers that perceive flexibility as key, business class still has potential, according to most of our respondents.

Business class has its largest market shares for business travellers that travel a lot on longer distances. The focus is comfort rather than luxury. The primary goal seems to be that the passenger shall arrive at final destination rested. The cost for a business class ticket should be put in relation to how it affects his or her work performance. (Arhle, S)

In terms of business class, there is definitely a possible future for this type of segment. However, the product might look a bit different from the traditional business class. Business with “office service”, since business passengers requires different things than before. Here, instead of champagne and wine business passengers today demand wireless Internet access along with other business related services. This is probably the direction business class is heading towards. (Ahlsen, T)

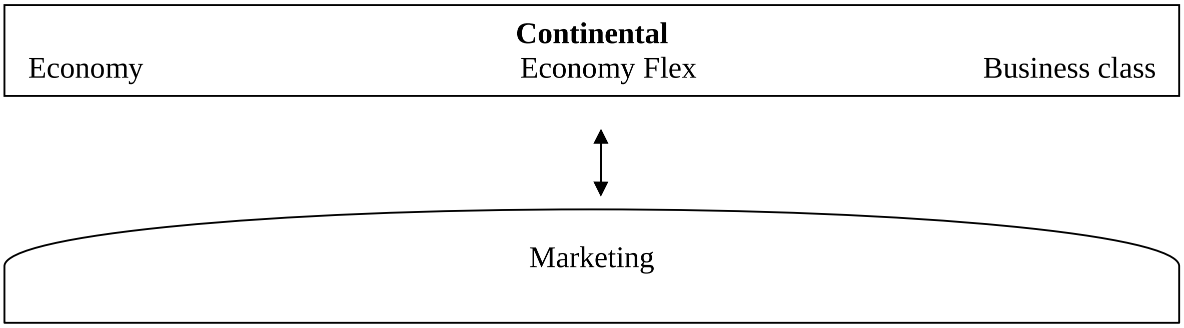

Figure 16: Continental segments. Source: SAS Sweden.

Volvo AB is currently travelling by their own direct links, operated by City Airlines, due to their concentrated travel patterns between e.g. Leon and Gothenburg. This is a very rare solution since most companies in the Gothenburg area have a more scattered travelling behaviour. This makes the dedicated link too expensive due to lack of passengers on the specific link.

On the intercontinental aviation market there is a better understanding and acceptance among business travellers to pay for services refereed to as business or first class services. Even though the focus no longer is primarily on luxury, it is more about being rested when arriving at destination and ready to make a good day’s work. (Jansson, W) On intercontinental flights business class is a totally different product than in continental traffic where the additional service often is limited to better seats and food. In intercontinental business class the passengers also receives smoother airport passage due to VIP queues in e.g. safety checks. (Sigurdson, M)

In our perception, based on performed interviews, it seems that the main difference between intercontinental and continental (and domestic) business class is the extent of comfort. In intercontinental business class comfort is in focus from arrival at the departure airport until you leave destination airport. This while continental business class are more focused to provide comfort aboard solely, with few exceptions e.g. Malmö aviation have lounges for domestic passengers. These services are expensive to produce and are hard to justify, from a business perspective, on cheap short distance tickets, since “the arrive rested criteria” does not seem to be a relevant argument when travelling for a few hours.

An additional service that is especially interesting in terms of intercontinental business class is “the office concept”, with services such as copy machines, telephones, Internet connection etc. (Orwallius, C)

In terms of first class, traditionally it was a product created by a covering between the front seats in the aircraft and the rest of the plane. Today, we can see that first class moves into dedicated aircrafts solely serving fist class passengers. This trend primarily concerns the intercontinental traffic, on all other shorter links first class will probably be a rare product in the future. (Jansson, W) These aircrafts are relatively small, approximately 50-60 seats. Today this kind of traffic is mainly performed between Germany/Switzerland and the US. Onboard there are possibilities to lie down and to get separated from other passengers by walls or by using a room layout aboard. (Gustavsson, S) New types of smaller jets are on the way, which will drastically decrease the prices of acquiring and operating for companies. The use of new lighter composite material that fulfils quality strength demands together with new energy efficient engines will make it possible to perform this “pure first class operations” as well as extending the use of private jets since a larger group of people will afford them. (Lidman, A)

We believe, based on received information that the intercontinental market will evolve into three separated segments, figure 17, with Traditional Network Companies focusing on business class, i.e. fulfil the “arrive at destination rested criteria”, first class in different shapes will primarily be performed by nisch operators, e.g. private jets that could be rented (annually or per hour/day/week etc.) alone or together with other companies. It can also be bought and operated by owners; all these travel solutions are refereed to as Private Jets. Pure first class operators are regular aviation companies (you buy a ticket) that only provide first class services.

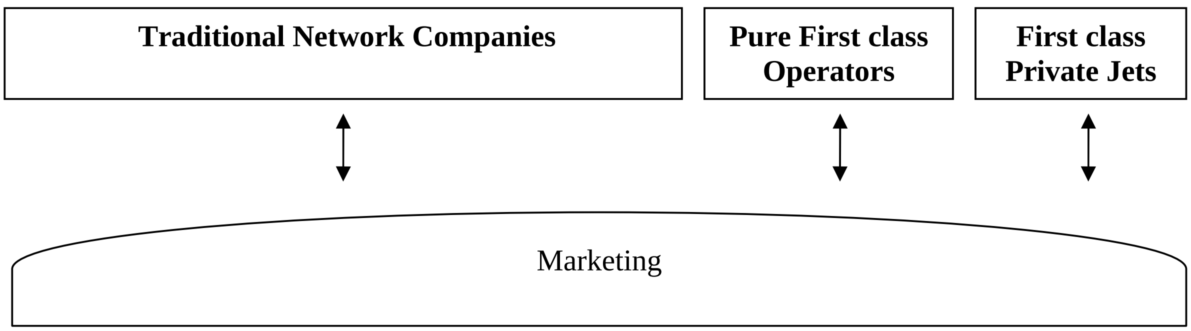

Figure 17: Intercontinental segment. Source: Thesis authors.

5.4 Compatibility between modes of transports and customer preferences

5.4.1 Traditional Network Airlines

As described earlier in the thesis, the traditional networks airlines have been forced to better adapt to the new set of demands from both private and business passengers. These new demands set by the customers are stressing the needs among the network carriers to shift the focus from solely their air operations to better accommodate customer preferences. The product focus was the main theme in the 80ths and 90ths, where customers were believed to fly on routes that the operators felt suitable and where the passengers on average where charge with high airfares. Today, the focus has shifted where the customers have the upper hand. In other words, the traditional network airlines need to better accommodate the needs of both private and business passengers, if they are to be around in the long run.

In terms of network airlines, their main task is to operate a well functioning network, which feeds their main hub with transfer passengers (Lidman, A; Sigurdson, M). Traditionally, they have been operating this so-called hub-spoke system, in addition with flexible time tables. Here, flexible time tables refer to great number of flights during peak and evening hours (Lidman, A). These preferences could very well be said to correlate to the business passengers’ key preferences that has been evaluated earlier in the analysis. Here, business passenger generally stresses the need for flexibility, both in terms of routes and number of daily departures. The price issue has traditionally been a secondary issue for business passengers. However, due to greater competition from Low Cost Carriers, the business passenger's preferences have somewhat changed over the last couple of years. This, due to the fact that Low Cost Carriers have increased both their number of destinations and daily departures, along with offering lower prices than the traditional network carriers. This is something that the business passenger has started to capture on. According to many of our respondents, business passengers are no longer willing to pay excess prices for their airfares. Instead, they want the same service as before along with drastically lower airfares (Ahlsen, T). This has caused problems for the network carries, which generally are stuck with higher cost structures than the LCCs. One way to tackle this problem is to simple lower its cost structure, in order to compete with the LCCs. This is something, which SAS and others network carriers are in the process of doing. However, as many of our respondents have pointed out, SAS and other network operator's competitive strength lies in its flexible time tables and their ability to serve great number of locations. These competitive strengths need to be kept in place, in order to avoid business passengers to more frequently choose LCCs. Here, it is important to keep in mind that business passengers still values flexibility over price, in terms of their way of travel. (Lundstedt, L-G; Ahlsen, T) We believe that as long as the traditional network airlines are able to meet this key preference among business passengers, they will in most instances be the primary choice among this passenger segment.

As of private passengers, they in general put price ahead of flexibility and service (Ahlsen, T; Sigurdson, M). Therefore, it is obvious that these passengers will choose a Low Cost Carrier on routes were they are operating alongside traditional network airlines. According to many of our respondents, price comes way ahead of flexibility and service when it comes to private passengers. This creates problems for traditional network airlines. In general, business passengers are more important to retain for the network airlines. However, as business passengers airfares are shrinking, the so called "break even load factor" increases. In other words, the airlines must try to reduce the amount of empty seats on their planes. In order to do so, they must both turn to business and private passengers, in order to increase their "so called" load factor.

In what ways are than network airlines able to attract more private passengers? Of course, they are not able to compete with the LCCs fares but there are other ways to attract the private passengers. According to some of our respondents, the safety issue is one preference, by which these types of carriers could capture on. Passengers generally feel safer when they fly with the traditional network carriers. However, the track record shows that European LCCs are as safe, if not even safer modes of transports than the networks carriers (Wieth, O). In addition to this, the younger generation, who are those that really have contributed to the increase in volumes among LCCs, are set to erase this belief that network carriers emphasizes more on the safety issue.

To sum up, business passenger's key preferences better suite the product that the network carriers offer. In other words, these passengers still value flexibility and service on top the price issue. (Lidman, A; Sigurdson M) However, as LCCs product is improving, more and more business passengers are considering LCCs as an alternative. This was definitely not the case five years ago.

5.4.2 Low Cost Carriers

Traditionally, Low Cost Carriers business idea is to fly from point a to b, along with short turnaround times (Lidman, A). Also, they have refused to adapt to the strategy of having so-called hub systems, where you fly feeder traffic into you main hub. This, in order to avoid the problems of connecting flights, which could bring about higher costs and cause time-delays for the airline company.

As for LCCs. their customer focus is slightly different from what the network carriers' experience. For an LCC, the customer demands are slightly different from the demands a network carrier is said live up to. According to many of our respondents, people are willing to adapt to the shortcomings an LCC brings, in terms of non-flexible schedules, flying out of secondary airports, reduced customer service etc. This, due to the fact that the fares they offer is so affordable so that people are in many cases are willing to sacrifice the above mentioned services for a less expensive airfare.

If we look specifically at the business passenger customers, we see that their key preferences that were mentioned earlier in the thesis does not really match with the product that the LCCs offer. As previously stated, business passengers in general requires more flexibility in terms of their way of travel. Therefore, it has previously been said that LCCs is not an option for business travellers since they do not meet the key preferences of the business passengers require. This is true to some extent. However, as organizations emphasising on reducing their costs, more attentions is paid to the LCCs and their operations. (Ahlsen, T) An additional important aspect is the new LCCs, which much more focuses on the areas that are said to be important for the business passengers. Fly Nordic and Easyjet are example of these types of LCC, which offers greater flexibility and services, compared with the traditional LCCs. In addition, these companies have chosen to fly out of primary airports, which is on of the criteria that business travellers values as important.

To sum up the business passenger and their attitudes towards the LCCs are somewhat changing. This has a lot to do with the fact that LCCs today better accommodate the needs of business passengers. This through new operators, which are said to be LCCs with service. This was not the case a few years ago. Also, the fact that the cost issue is becoming more important for companies today also plays in to the shift in attitudes. The network airlines are still the first choice among business passengers, due to flexibility and service demands that LCCs are not able to satisfy. Also, the fact that the network airlines have alliances with other operators and runs bonus programs, are also issues which favours the use of network airlines among business passengers. However, as the LCCs increasingly improve their product the competition over business passengers will increase in the future.

In terms of private passengers and their attitudes towards Low Cost Carriers, it has become obvious that this is today their natural mode of air transportation (Ahlsen, T). As pointed out earlier, price comes way ahead of flexibility and service when it comes to private passengers (Lidman, A). As he points out, the private passengers are able to fly during non-peak hours in addition to less flexibility and service, as long as the airfare is cheap (Lidman, A). Therefore, according to many of our respondents, the private passengers will even more frequently choose LCCs over the more traditional network airline companies.

As mentioned above, private passengers put price as their primary criteria, when it comes to travel. Consequently, this means that their choice should fall on the LCCs. were available. However, the airline passenger market has recently become even more complex as some of the network airlines, SAS, have drastically lowered their airfares. This means that some of their fares are even lower than the LCCs on the same routes. What is then the result of all this? In other words, how will the private passenger market look like in the future?

We believe that the private passenger's preferences in the future will look about the same as they do today. In other words, price as their key preference. This will definitely gain the LCCs in the future. However, the difference between LCCs and network airlines will probably even out as the network airlines reduces their cost structure, which will able them to close in on the fares that the LCCs charge. The winner of all this is of course the consumer, which will have more routes and greater number of departures to choose from along with low airfares. Furthermore, LCCs are better suited for new trends such as weekend and- ethnical travel. This, due to the fact that their planes are not locked into complicated network schedules, which makes them more flexible for these type of air travel. Ultimately, due to the above-mentioned aspects, we feel that LCCs are better suited for the private passenger market, in contrast to the network airlines that will remain the primary choice of business travellers. As the Low Cost Carriers both increase their number of routes along with higher frequency, we believe that private passenger will increase their use of this type of transport mode.

5.4.3 Intermodal Competition, Rail & Road

As mentioned earlier in the thesis, there is a steady increase in both private and business train travellers. According to Jan Forsberg, CEO of SJ, travelling by train is up by 7 % from previous year. On the route between Stockholm- Gothenburg, train has about 55 % of the market share while the airlines has about 40 %. The travel time between the two major cities is around three hours by train, but is set to further decrease in the near future. (Forsberg, J) This shortening in travel time will be made possible through various reconstructions of the rail. Furthermore, in ten years time the actual travelling time between Gothenburg and Stockholm will be down to 2.5 hours, which will make train, in all aspects the most favourable travel option for both business and private passengers. (Forsberg, J)

Before we start to look at the passenger's preferences, and how well they meet the product that the train mode offers, we have to keep in mind that the train mode only competes on routes shorter than 4 hours. Trips that take more than four hours is said to mostly go by plane both in terms of business and private passengers. (Lidman, A)

If we look at the key criteria for private passengers, price is what here comes first. If we compare the cost structure between train and aviation, there is an advantage for rail passenger transports. As of today, it cost about 1000 SEK to operate one train mile and about 2000 SEK top operate one air mile (Forsberg, J). In other words, as Mr Forsberg points out, when it comes to the price issue the airlines will never be able to match the prices the train offers.

When we look at the business passengers and their travel preferences, flexibility, both in terms of number of departures and flexibly timetables is their number one criteria of choice. In other words, business travels values timesaving and value added service over price, when it comes to travel. This actually gives air-travel a competitive advantage, since it is a faster mode of transport. However, as travel time decreases along with new value added services onboard, the train will increase their business passenger market share (Forsberg, J). This, especially on distances less than 3 hours, were the total time between the two modes are about the same.

In our opinion, we feel that the train mode is closing in on air-travel, when it comes to business passengers. This, much to the fact that the overall product they offer is improving in many areas. First of all, the actual travel time between Gothenburg-Stockholm, which is the domestic most frequent business trip, is decreasing. As mentioned earlier, the travel time is today about three hours but is said to reach 2.5 within the next 5-10 years. In addition to this, the value added services, such as wireless Internet connection onboard and improved mobile communication will further enhance the use of train as transport mode. Once again, this on route that takes less than 3 hours. As pointed out by many of our respondents, travelling by train for more than 4 hours is not really an option for business travellers. Here, air-travel becomes really the sole option for business travellers.

As mentioned in chapter 4.5.2, the use of cars for travelling is increasing by about 2 % (www.vv.se). In general, the use of cars as a mode of travel usually is for trips that take less than 2 hours. This is true, at least for business travellers. According to many of our respondents, companies do not want their staff to be travel great distances by car. This due to various reasons, were the safety issue is the most important one. Here, companies feel that their employees is exposed to greater danger when driving longer distances along with running the risk of being tired at the time of arrival.

In our opinion, we feel that the use of cars and busses in general are pure feeder traffic to the other modes of transports (air & train). This, especially for business passengers who for various reasons, such as safety and time will not even consider the use of cars and busses for greater distances. In terms of private passengers, we feel that they are somewhat less reluctant to cars and busses, compared to their business counterparts. As mentioned before, their most important criterion for travel is the price issue. In other words, they are more willing to overlook issues such as time and safety, as long as it is cheaper to go by car. However, issues such congestion fees on roads along with increased fuel taxes might in the future have implications on road transportations.

5.4.4 Substitutes, Information Technology

The use of Videoconference is a mode of visually communicating between people and organization, without having to be physical present at the same location. This new technique was introduced during the 90ths, and has started to get real recognition lately.

In terms private passengers, videoconferences is not really an option since these travellers feel the need of physical presence rather than only visual on a computer screen. In addition, the tools that are needed for setting up videoconferences are rather expensive.

When looking at business passengers and their need for travel, then the situation becomes more complex. The business passengers travel due to various reasons, depending on the situation they are in. For example, a person at a multinational company with offices all over the world could feel the need of meeting a college that is situated in a remote location. Traditionally, these persons have travelled somewhere to meet up. However, this inter-company meeting could very well be replaced by a videoconference, saving both time and money for the organization. This is also something that the travel manager at SKF, Leif-Göran Lundstedt points out. According to him, more of their inter-company meetings are today conducted through the use of videoconferences. However, when doing businesses with other companies and organizations, the use of videoconference is never an option (Lundstedt, L-G; Bengtzelius, Å; Gustavsson, S). This, since these meeting actually requires the physical presence of both parties. Here, the issue of trust in other parties come into play, which further stresses the need for face-to-face meetings when conducting businesses with new parties.

To sum up the issue of Videoconferences, and how they satisfy the needs of private and business persons, we found that videoconferences could be a compliment to travel. In other words, both time and money could be saved through more frequent use of videoconferences. However, this is option is more suitable for business passengers. Private passengers will always have a need for face-to-face meetings. Furthermore, extensive use of Videoconferences could actually result in additional travel. This, since videoconferences able more people to interact than before, due to the easy of visible communication. This extensive communications between persons sooner or later result in the need for “face-to-face meetings”. This is an issue some of our respondents have mentioned and we firmly believe that so is the case. In other words, videoconferences could actually result in an increase of business travellers.

6. Conclusions and recommendations

6.1 Conclusion

6.1.1 Private Passengers

- The most important criterion for the private passenger is price. The private passenger today is not prepared to pay for extra services, flexibility, or comfort on continental routes. The passengers are also very well informed about the price situation on the market through the Internet.

- The private passenger market is becoming more fragmented. The industry is moving away from mass marketing towards the segment of one. Increased competition, the Internet, and the deregulation, are all underlying causes to this development. From charter- and regular traffic, the airlines today are specialising in certain niches.

6.1.2 Business passengers

Business segment-domestic

- Business class does not exist as a concept on domestic flights. The most important competitive factor here is the issue of flexibility. Flexibility here refers to number of departures along with the ease of re-booking. Secondary issues are price and value added services, such as internet access and meals. Here, the price issue is today becoming more important for business passengers.

- It is important to keep in mind that the rail mode is heading in the opposite direction. This with significant differentiation based on two different core products, first and second-class, with different value added services. This makes it possible to customise the product to a large extent.

Business segment-continental and intercontinental

- The primary goal seems to be that the passenger shall arrive at final destination rested. The cost for a business class ticket should be put in relation to how it affects work performance. It is not about luxury anymore, it is about the employee’s performance and the business class product must support this.

- On the intercontinental aviation market there is a better understanding and acceptance among business travellers to pay for services refereed to as business or first class services due to the longer travel time and by that the products fulfilment of the main criteria “ to arrive rested and in shape”. The main difference between intercontinental and continental (and domestic) business class is the extent of comfort. In intercontinental business class comfort is in focus from arrival at the departure airport until you leave destination airport. This while continental business class is more focused to provide comfort aboard the aircraft solely.

- The use of new lighter composite material and new energy efficient engines will increase the market for “pure first class operators” as well as extending the use of private jets since a larger group of people will afford them.

6.1.3 Travel management

- In terms of the aviation market, the need for active Travel management has increased due to the increased competitive situation, i.e. the increased amount of alternative travelling solutions to evaluate.

- Unfortunately, the travel management function is currently strongly influenced by the traditional purchase function and its cost cutting oriented approach. This strict price focus sometimes leads to a lack of holistic perspective. The complication with a holistic travel management approach is that company department’s results today are measured in pure costs, i.e. how well they manage their respective budgets. Costs such as timesaving or quality of performance due to rested personal are very hard to measure and are therefore not used as objectives. Travel managers on the forefront do not focus primarily on soft issues nor do they focus on prices solely.

- The use of information technology such as Internet booking is the future within the airline business. Here, either the travel manager or the travelling customers are able to book and search for flights that suites the most.

- Safety issues are increasing in importance and it is also an important decision variable when discussing whether or not to use internet self booking. In this context it concerns information regarding each employee’s travel path that should be stored at the travel agency or respective function within the company.

- Travel management performed via an in-house system (personal, data systems and related resources) is increasing, mostly because of the current generation shift in Swedish companies.

6.1.4 Aviation market

- The entire market, including airlines and airports needs to better accommodate the needs of passengers. Issues like wireless internet access, number of destinations the airport serve, flexible time tables, and ease of rebooking are examples of these that the passengers value.

- SAS will continue to be a major player on the Swedish Market. The dominant position they have had on the Swedish market for many years will probably further decrease, due to increase competition from Low Cost Carriers. However, due to the company’s strong market share along with drastically efforts to lower their airfares and better accommodate the need of the passengers, we believe that SAS will remain a strong actor on the Swedish market.

- Low Cost Carriers will further increase their market share. Operators like FlyMe and Fly Nordic will continue their expansion on routes to and from Landvetter airport. In case of FlyMe, they are opening 12 new routes, beginning in March 2006. Other Low Cost Carriers, such as Easy Jet and Sky Europe are considering moving into the

Swedish market. However, this depends a lot on if the proposed passenger tax will be imposed in 2006.

- The number of routes and operators from Gothenburg- Landvetter airport will further increase**.** As mentioned earlier, new operators are considering moving into Sweden. This, along with current Low Cost Carriers expanding their operations at Gothenburg-Landvetter airport, is set to increase both passengers and number of routes at the airport. Here, it is also important to keep in mind that many of our respondents have mentioned increase number of non-stop routes, to and from Landvetter, which makes the prediction even more reliable.

- The harmonization of the market will make Network airlines and Low Cost Carriers look more the same, in terms of the product they are offering. This is already happening, as SAS and other traditional network airlines are trying to compete on the same basis as LCCs. In other words, in order to match the prices LCCs offer, SAS and other network airlines are reducing their cost structure by offering less service on board along with online booking system, which reduces the need for staffs. Overall, this leads to a less differentiated market, where the distinction between traditional airlines and LCCs less visual.

6.1.5 Research recommendations

During the course of action we have run into some areas, which are interesting to further investigate. These areas are of great interest and might be subject for future master thesis. Examples of these are;

- The net effect of the domestic competitive situation between rail and air mode.

- The outcome of the harmonisation process that we have forecasted.

- The possibilities to create strategic alliances among companies in one region. This in order to increase the number of non-stop routes to and from the airport.

- How will an increase in Low Cost Carriers impact the aviation market?

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3. Sandra Arhle, Market Analyst, Swedish Civil Aviation Authority
4. Åsa Bengtzelius, Purchaser/Travel Manager, Schenker Logistics AB
5. Lennart Bergbom, National Economist, Swedish Civil Aviation Authority
6. Henrik Einarsson, Macro Analyst, Business region Gothenburg
7. Jan Forsberg, Chief Executive Officer, SJ AB
8. Stephan Hylander, Senior Strategic Buyer -Travel Management, Volvo AB
9. Niklas Hårdänge, Route Manager at SAS Sweden
10. Bo Jacobsson, Marketing Director, Resia
11. Wille Jansson, Project Manager, Svenskt Flyg
12. Anders Lidman, Aeropol
13. Leif-Göran Lundstedt, Group Travel Manager, SKF AB
14. Claes Orwallius, Head of Service, Swedish Business Travellers Association
15. Mats Sigurdson, Director Aviation Marketing, Swedish Civil Aviation Authority
16. Claes Thormählen, Manager Business Travel, Broström´s Travel Agency AB
17. Jasmine Utter, Business Intelligence, SAS Sweden AB
18. Ole Wieth Christensen, Airlines Relations, Copenhagen Airports
19. Helena Wiberg, Manager Airport Specialist Staff and Brett Weihart, Chief Financial Officer; Landvetter Airport

Appendix

8. Appendix 1: Glossary

ASK: Available Seat Kilometres

RPK: Revenue Passenger Kilometre

RASK: Revenue per Available Seat Kilometre

CASK: Cost per Available Seat Kilometre

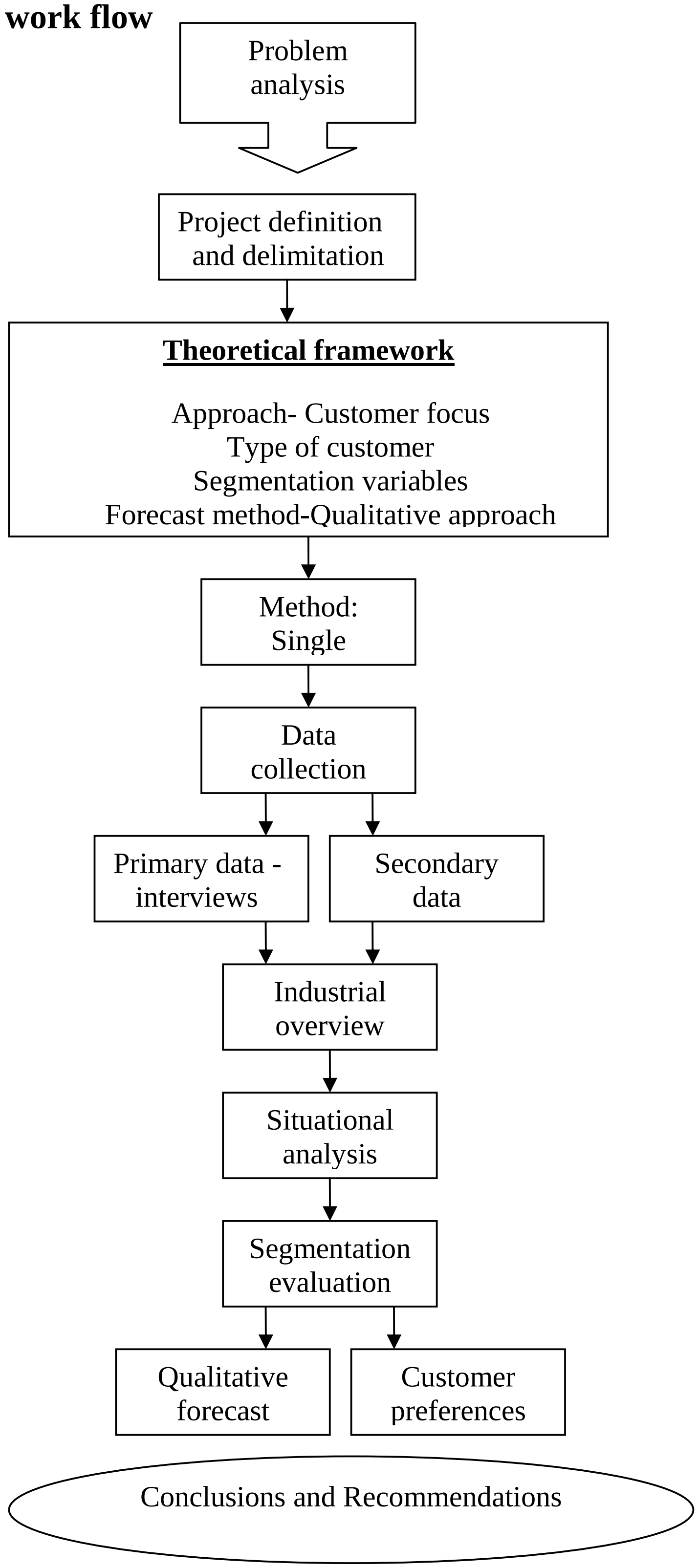
Load Factor %: ASK/RPK

Yield: Revenue passenger unit

LCC: Low Cost Carrier

CAA: Civil Aviation Administration

9. Appendix 2: Project work flow



10. Appendix 3: Interview inquiry

- Purpose and mission.
- Interviewee's background?
- Company/Business description.

The business traveller:

- What are the product criteria of importance that makes the product price worthy?
  List and motivate!

- Pattern and development of this segment?
  Trends? Increase/Decrease of customer groups?

- How would you define Low Cost Carriers (LCC)?

- Describe the development and future for business travelling with LCC?

- How would you define Business class?
  Describe the development of travelling with Business class?

- Describe the development of the Travel management role? Which criteria are of greatest importance?
  Cultural differences among companies?

- Competition:
  Intermodal? Train, Car, Information technology respectively.
  Intramodal? 5-10 years perspective.

- Probable development of:
  SAS business in a5-10 years perspective?
  LCC?
  Other trends?

- What is missing, which needs are not satisfied on today aviation market?
  Total expansion of the Swedish aviation market? New actors? New niche markets?
  E.g. low-fare business class, environmentally friendly positioned companies (as a competitive edge).

The private traveller:

- What are the product criteria of importance that makes the product price worthy?
  List and motivate! Increase/Decrease? Customer groups? Trends?

- Is existing industry structure long-term or is this segment exposed to fast pace development?

What parts of the private travelling is undergoing development currently and in the future respectively? 5-10 years perspective.

- Patterns concerning private travelers´ preferences? Which parts of private travelling should be developed? 5-10 year perspective.

- Competition:
  Intermodal? Train, Car, Information technology respectively.

- Intramodal? What does the average customer look like for LCC and Traditional Aviation companies respectively?

- How would you describe the future for following factors:
  Ethnical travelling?
  LCC (Domestic/Continental/Inter-continental?
  Weekend holidays?
  SAS- its future concerning private travelling?
  Other nisch markets?

- What is missing in the Swedish aviation market today?
  Potential customer groups not currently addressed?
  May the entrance of new aviation actors further expand the current total market?

Macro factors:

- Politics:
  The effects of Governmental shift in 2006, affection in reality and in optimism?
  Political decisions of importance, currently addressed in media and debates, harmful or/and vitalizing?
  E.g. issues such as: Passenger tax, other taxes and fees, local support measures such as actions to reach regional and national accessibility goals.

- Trade conditions:
  Relation between aviation market development and national/international business trends?
  Key figures of importance? E.g. GDP? Industry- and Consumer index?
  Most important key indicators for Business and private travelers respectively?

- Oil price:
  How does it affect the aviation market?
  Continued increase ➔ decreased air travelling? Describe the effect per segment.

- Outsourcing:
  Increased geographical distances between different parts of the manufacturing value chain ➔ How does it affect business travelling?

- National growth:
  General trends? Positive? Negative?

11. Appendix 4: SJ interview guide

- What is important for the product (train travelling) to be perceived as valuable and price worthy?
  List and motivate for the Business and private traveler respectively.

- Describe the rail modes competitive edge in relation to the air mode.
  Where, when and how is train a better alternative.
  What can and will make SJ stronger actors on the passenger transport market in the future? 10-year perspective.
  E.g. new links, faster trains, more frequent departures or onboard services.

- Describe the relation between rail and air mode in Sweden. Is train traffic primarily a complement or a competitor to the aviation (passenger) industry? What is the net effect of SJ´s business for the Swedish air traffic in Sweden in general and for the Gothenburg region specifically?

- Will the rail mode receive further state-aid in the future? How will this be affected by a governmental shift 2006? What is your perception of the competitive “warpedness” on the Swedish transport market considering preconditions for among modes? Does SJ need state-aids of this magnitude?

- Does SJ work with company contracts? If that is the case; what is your perception of the Travel management function and its development? Describe it and a probable future scenario.

- Which of the following modes and (technology) constitute the most important competitor for SJ:
  The car?
  The aviation industry? (LCC and Traditional airlines respectively)
  Information technology? (E.g. It-conferences)
  Others?

- Within the aviation industry there is a lot a discussion about the “harmonization process”, where both business class and low price segments are striving towards “the middle”, i.e. ok service to reasonable price. In this process, business class has somewhat decreased.
  What it the corresponding situation for SJ and its customer base? Describe the future for First class?

- SAS have the last couple of years withdrawn some of their feeder traffic links in Sweden. How has this affected SJ´s customer base? Considering the weakening of SAS position in Sweden, the effect on SJ´s business?
  LCC actors are growing and taking market shares on the Swedish market how does this affect SJ´s business? Private and Business traveller respectively?

- Describe the nisch segments SJ addresses. Describe your customer base in a nisch segment perspective?

- Which indicators are you using when forecasting future passenger volumes? Are there any factors of special importance considering the competition with the air mode?

- How environmentally friendly is the rail mode? Considering factors such as:
  Fill rate?
  Building of infrastructure?
  Energy supply?
  Are the media and the political sphere providing the public with a correct view of the railway considering environmental issues?

- Describe the rail modes future in Sweden; 10 year perspective: Challenges, growth and technical development? Other?

12. Appendix 5: Interview summaries

12.1 Imad Abbawi, Travel manager, ITT Flygt AB

Background:

” As the world leader of submersible pumps, mixers and accessories ITT Flygt has been producing products within this field since the 1940's, when Sixten Englesson invented the first submersible drainage pump. The company has since grown to a worldwide corporation, operating in over 130 countries. Throughout the last half century ITT Flygt has continued to lead the submersible industry, with inventions such as the submersible mixer, the submersible sewage pump, and the banana blade mixer. At year-end 2004 ITT Flygt had a turnover of approximately USD 873 million.

The corporate headquarter is based in Stockholm, Sweden and the company have over 4000 employees, of which 2500 are employed outside of Sweden.

Interview:

The project group met Imad Abbawi during the “Affärsreseforum” at Park Avenue, Gothenburg and only had the possibility to make a spontaneous and brief conversation with him. Nevertheless, we found his statements of importance and interesting as a support to our thesis, therefore we here present the information we received.

Travel management

Imad´s focus seemed to be the purchasing process rather than looking at the product solely. He stated the importance of personal relationships with service providers.

Key criteria of importance:

- The service provider should be a very skilled implementer and generally the initiator of the collaboration.
- The partner should also have the same personal managing each transaction with ITT, i.e. not using secondary or short-term hired staff to manage the interaction. The collaboration will proceed smoother if we know each other.
- ”Purchasement focus”, i.e. cost effectiveness rather then ancillary services and “soft issues”. Due to Imad´s background he his familiar to logistical and organizational concepts such as “lean thinking” and “information efficient processes”. He therefore demands the kind and level of service and business logic from his partners as his colleagues working with core business purchases do. He emphasizes this with the fact that travel cost in larger companies constitutes between 10-20 percent of the total company costs structure.
- As Travel managers Imad creates a list of features that are of importance, each criteria in this list demands a single decision.
  Depending on the criteria’s significance or strategic impact the T.M decides whether or not the decision should be “outsourced” on the partner, travel agency, or not.

At the current situation Imad estimates that 30% of the service policy is managed in-house and the 70 % its travel agency partner and aviation companies. Imad primarily work with the framework, i.e. strategically decisions, daily transactional issues are mainly managed by its partner within the limits of the travel policy stated by Imad.

- Imad also makes use of his colleagues at other departments in his work, but he is alone in the function “Travel Management”. He do not see the function as a “one-mans-job” it is rather a networking role and he meets everybody from the student making a master thesis at the company to the top management, to keep in pace with the need addressed to the Travel Management function in his company.
- Imad find price a key criteria, but he emphasize that price is not solely “the price tag”. It is more about the Travel management process including costs such as communication, monetary transactions and easiness to deal with partners. Including their innovativeness and will to create personal relations. In conclusion, it is more about total process costs than ticket prices.

12.2 Thomas Ahlsen, Director Sales, Fly Nordic

Fly Nordic is a so-called low cost carrier, which operates out of Stockholm Sweden. The company serves numerous of destinations in Sweden and Europe. Their key strategy is to serve business passengers during peak times and manage private and leisure travellers during non-peak times. More information about the company is to be found in the industry overview chapter.

Interview

The interview took place at Fly Nordics headquarter at Stockholm-Arlanda airport. The spokesman for the company was Thomas Ahlsen, who had just been appointed as their new chief of Sales. His background is in the travel management industry, where he has been working for several travel management companies such as Nyman & Schultz and American Express business travellers. In addition to this, he has been working as business controller for Vodafone and founded various travel websites.

The reason behind this interview is to give Fly Nordics view on the future private and business passenger segments.

Key Criteria of importance,

- Increase in passenger travellers, both among business and passenger segments. This development is not effected by the use of new technology. Instead, technology may stress for increase in airline travel, due to greater interaction among users of new technology.
- In terms of business travellers, their main criterion according to Thomas Ahlsen is flexibility. Price is definitely closing in on flexibility, according to Thomas Ahlsen. Security and service are secondary factors while traveller experience comes last.
- Private Travellers put price at number one, while traveller experience and flexibility comes after. Service ranks last among this passenger segment.
- New type of business travellers, more concerned about flexibility and price rather than paying excess amount of money for service they don’t value (meals, and champagne). However, other types of service attributes become important, such as lap top hook ups and internet access on longer flights.
- One or two existing airlines will have problems to survive, according to Thomas Ahlsen. This, much due to the fact of the heavy competition on the route between Stockholm-Gothenburg.
- The role of the travel manager will somewhat change according to Thomas Ahlsen. As travelling increases along with new demands from business travellers, travel management will become more important for companies in the future.
- The airlines see themselves as a LCC with service. As of today, about 60 percent of their passengers are business travellers, according to Thomas Ahlsen. Their strategy is to continue to open new routes, especially on European destinations.
- In terms of SAS and their future, Mr Ahlsen believes that they need to look over their cost structure, in order to be able to compete with fly Nordic and Fly Me. As Mr Ahlsen describes, SAS have today 120 employees per plan while Fly Nordic has 27 employees. This clearly shows why SAS today has problem with profitability, according to Thomas Ahlsen.

- In terms of Fly Nordic, their primary customer focus lies on the business passenger, according to Thomas Ahlsen. In his belief, by focusing primary on the business customer, you indirect also attracting the private passenger. This, since the business passenger is also a private passenger, when not travelling in business. So by offering a good product for the business passenger, you are then also likely to attract him or her when travelling off business, according to Thomas Ahlsen.
- In terms of airfare, it actually depends on the time of travelling, according to Thomas Ahlsen. However, this belief is not always true, due to heavy competition on certain routes. As of the route between Stockholm – Gothenburg, the price will in the future probably be around 1000 SEK on way, according to Thomas Ahlsen.
- As of the new suggested passenger taxes, which are proposed by the government, the effect of this is very hard to estimate, according to Thomas Ahlsen. As he sees it, it with probably have a greater impact on private travellers, which are very price sensitive. As for the business passengers, the effect will probably be as great as for the private segment. However, companies today much more price sensitive than the use to be, which means that this suggested tax increase might trigger companies to look for other modes of transports. Here, Thomas Ahlsen mentions train as possibly substitute, at least for domestic travel. Mr Ahlsen also mentions that this suggested passenger tax will have a negative impact on the amount of carriers that are wiling to operate in and out of Sweden. This, due the fact that they then view Sweden as somewhat “hostile” towards air carriers.
- The most important components, in terms of the product offer, are flexibility, price, service, product, and travel experience. Here flexibility refers to number of departures along with number of destination the airline serve. In terms of safety, it’s included in the product along with types of aircrafts the airline posses.
- In terms of secondary airports, this is not even a consideration for business passengers. Private passengers, on the other hand are less time sensitive to the amount of time it takes to travel to-and from the airport.
- In term of airports, it is very important that they are user friendly, according to Thomas Ahlsen. There should be no confusion on where the passengers should go and where security and gates are located.
- In terms of business class, there is definitely a possible future for this type of segment. However, the product might look at bit different from the traditional business class. Here, Thomas Ahlsen business with service is something that he mentions, where business passengers requires different things than before. Here, instead of champagne and vine business passengers today demands wireless internet access along with other business related services. This is probably the direction business class is headed for, according to Thomas Ahlsen.
- In terms of nisch segments, he mentions issues like weekend travel to major cities and theme travel to Ireland and France, where Golf and wine is in focus. Here, the theme travels have person’s interest in focus, and works from that as a starting point.
- There will probably be a harmonization in the aviation market, where traditional airlines and Low Cost Carriers products will more look the same. This is something that is already about to happened today, as the traditional airlines are offering lower airfares along with decreased passenger service. In other words, the future product that the airlines offer will not differ that much, both in terms of price and service according to Thomas Ahlsen. However, their will always be companies that solely focusing on service rather than price.

12.3 Sandra Ahrle, Market Analyst, Swedish Civil Aviation Authority

Sandra has worked with mainly with marketing surveys she is one of the persons responsible for Luftfartsverket two major investigations performed on an annual basis. These are their travel behaviour investigation and a survey stating conditions on Swedish major governmentally owned airports. Besides this she is involved in a lot of ad hoc projects in different matters concerning the CAA's operations.

Further information about Luftfartsverket can be found in a separate chapter in this thesis called Industrial overview, subchapter National and International organizations.

Key criteria of importance:

- A business traveller have more demands and are generally more sceptical when purchasing travelling services than is the case for the private travellers whose perception generally are less critical and more positive. One reason for this is that a lot of private passengers see the flying time and time at the airport as parts of their holiday and sometimes a bit fun, with shopping, eat at restaurant etc. This due to some private travellers less frequent travelling behaviour.
- Business passengers are very focused on key issues such as flexibility considering rebooking, VIP-lines to avoid congestion in safety control and checking-in. They are also concerned with having dense frequencies during peak. They have very little interest in shopping experience at the airport or any other commercial activities.
- **Business passenger segmentation:**
  The amount of first class passengers is decreasing.
  Business class ➔ LCC actors.
- A decade ago the aviation market was polarised, today all actors on the Swedish market is striving towards the middle, concerning service level, a harmonisation process.
  It is also important to be aware of that a LCC ticket means that you have less service already paid for via the ticket, but you can buy a lot of services on board on most LCC companies´ aircrafts. Except warm meal and more space. E.g. LCC companies offer breakfast packages aboard, this are for free on Air France morning flights etc.
- **Definition of LCC:**
  CAA has no official definition of LCC.
  Different aspects are used in different discussions. It is easier to define what is not LCC, i.e. business and first class.
- **Definition of Business class:**
  Higher service concerning food and drinks, warm meal etc. More expensive ticket that is possible to rebook. Business class has its greatest market share for business travellers that travel a lot on longer distances. The focus is on comfort rather than luxury, e.g. seat that can be transformed into beds and more space around each seat. The primary goal seems to be that the passenger shall feel rested and ready when arriving on destination. The cost for this most be put in relation to the worth of the specific business traveller and how it affects his/her performance and the cost of staying one extra day because he/she are not rested and are not able to perform satisfactorily.

The covering between business and economy class seems a bit silly today and a lot of business travellers feel that it is not businesslike to pay so much for so little real value. Earlier it was status travel business class, today it is not.

- Little difference between business and first class. Possible scenario for the future:
  First class ➔ Smaller luxury aircrafts with only first class services on-board.
  Today's first class ➔ Business class.
  Economy class ➔ LCC actors
- **Aviation market harmonisation:**
  LCC tickets will be more expensive:
  Network companies will be less expensive.
  This will probably decrease the total number of actors per destination and the today very turbulent market will be more stabile, this within approximately 3-4 years, according to Sandra Arhle beliefs.
- **Intermodal competition:**
  Rail traffic is often supported via governmental subventions and is thereby able to serve their passengers with frequencies not possible to keep in a real market situation. These frequencies are not possible to have in the aviation mode at the current competitive situation. Trains also often transport the passenger directly to the city core, which is often the final destination for both business and private travellers. The rail mode is only a strong competitor domestic, with a few exceptions such as train link to Copenhagen.
  Car as an option relies very much on the distance between starting point and final destination. If the total time to go by air mode is longer than using the car most people choose car. On shorter distances domestic this is the case for both business and private travellers. Factors affecting the choice are accessibility to a car, mainly for private travellers. Business travellers often rent cars. It is also important to consider how many persons that are travelling together, i.e. to you fill a car is on shorter distances much cheaper than buying five airline tickets. Another factor to take into account is that a lot of people are afraid of flying. If we compare rail, road and aircraft as modes the rail mode are favoured via subventions. At the same time the oil price have increased and by that the taxes on car gasoline and the government have currently proposed a new passenger tax of 50-100 SEK per airline ticket.
- **Information technology:**
  The new technology for communication will probably rather increase than decrease the amount of travelling. This because a lot more people get in contact via the new technology and by this wants to meet in person. Traditionally, there have been a lot of complications with this communication technology. Today it works fine, but some of those engaged in this kind of projects when the technology was new still feels a bit negative concerning using IT or telephone conferences.
- **Travel managers:**
  Historically, the one travelling was his own travelling manager; the travel management function got a lot more attention during the latest economic depression. With this companies paid more attention to all kind of costs, even non core business activities was exposed to "lean thinking" including business travelling costs. The major complication with initiating a Travel management function is that people are not accustomed to somebody else taking care of and deciding for them which hotel to stay on and which mode to travel with. Travel managers on the forefront today do not focus on soft issues like comfort factors nor do they focus on ticket prices solely. The focus should be holistic taking different factors into account. Costs like time spent on airport instead of working, cost of not being rested while working, cost of an extra

night at hotel, cost for connection transports from airports, allowance for expenses, hourly salary for the one travelling, i.e. faster transportation for CEO etc. Travel policy; expressed and concretised, i.e. employees should know exactly what kind of mode they should choose in a specific situation and what kind of travelling we do not use or only use if no other possibilities exist, e.g. to always choose the most environmental or the cheapest mode etc.

- **Aviation market segmentation, niche markets:**
  Environmental issues as a marketing factor is nothing Sandra Ahrle beliefs will have a major impact on which aviation companies a company choose to travel with. Environmental issues are more important on the cost side where less pollutant aircrafts gets lower fares at airports. Ethnical travelling is something Sandra Ahrle believes can be a growing segment; she thinks that this segment is possible to effectively market. Incoming is the most important possibilities to consider. In Sweden today we have 77 percent Swedish travellers and 33 percent foreign, this is a relatively low proportion of foreign travellers compared to other nations. The work with marketing Sweden and to create relationships among travelling agencies, lobby groups and other organisations have increased during the last couple of year at least concerning the Stockholm region. Sandra Ahrle thinks that governmental contributions to market Sweden will and should increase the next coming years. One such project in Berlin has been performed and it turned out well, this she see as a good example of how the work should proceed.
- **The private passenger:**
  During the last four years the amount of private and business travellers have been of equally proportion considering both size and growth, i.e. a 50%/50% situation. When it comes to factors as gender and age there is a static relation as well. The only factor that has really been changing is a decrease in amount of first class tickets, compared to total amount of tickets, these have decreased. Sandra Ahrle beliefs that this trend will keep on the next coming years. Above statement about statistics is only valid for the Stockholm-Arlanda region. There are no such investigations performed by the CAA on other regions. The survey is based on 100 000 respondents and is performed annually.
- **SAS future:**
  A very difficult question! Currently, SAS is focusing hard on their domestic links. Sandra Ahrle thinks SAS will focus their efforts to a larger extent and by that narrow their business. The hard question is to what extent this focus will change SAS way of operating. There will probably be fewer companies trafficking domestic links in Sweden and SAS will still be a major actor here. SAS will probably operate less on long haul links, at least in their own production.
- **Politics:**
  Sandra Ahrle believes that the outcome of next year’s election is relatively unimportant and that the single most important issue are the so called passenger tax. This is a single question rather than different party’s general agenda. When it comes to aviation companies will to invest in Sweden it is economic growth and by that the passenger volumes that are the single most important question. Politics are fare less important.

12.4 Åsa Bengtzelius, Schenker logistics AB

Åsa Bengtzelius works with Travel Management for Schenker North (Sweden, Norway, Denmark, England, and Ireland) part time combined with other strategic purchasing tasks.

Key Criteria of importance:

Online bookings

The agency fee becomes a large part of the price on domestic flights. Schenker is developing a system where all deals are inserted, but where it is also possible to get the lowest fares. It also provides the security of knowing where all the staff is located. This system makes it easy to find good prices. It also makes it more difficult for the individual traveller to choose a more expensive trip than if he calls the Travel Agency and simply request to go with SAS. A self-booking system suits Schenker because they have many simple trips e.g. Gothenburg-Stockholm.

Important criteria

These differ depending on the nature of the trip e.g. if it is an internal meeting it is very important with a low price, while this at a customer meeting is less important. Generally they travel in economy class. The travel policy is seen as a recommendation, but the attesting manager is responsible that it is followed. The policy also differs depending on the level in the company by natural causes; managers might have schedules and meetings that make it impossible to follow the policy.

Destination and the need to work decide the choice of mode from Gothenburg to Stockholm along with price.

Safety and price becomes more and more important. A few years ago there was so low competition that you had to pay what the airline charged. The price has come into focus and it is a constant chase for the cheapest options. Safety has become more important after 9/11. People have become aware that things might happen here as well, not just on the other side of the world. Price is starting to catch up on flexibility, which was the undisputed leader before.

Deals

Schenker negotiate directly with the travel supplier (SAS). The Travel agency receives a copy of the deal so that they can insert it into their data system.

Are used more and more scarcely, Schenker use them as a maximum price guarantee. On Gothenburg-Düsseldorf they have a deal with SAS/Lufthansa with a fixed rebate that is quite small due to the low competition. One of the "terms" is that SAS want Schenker to use SAS as a prioritised partner between Gothenburg-Stockholm. Schenker has had negotiations with other companies, but none of them have a direct link. Schenker are hoping that they will be able to benefit from the new continental prices on SAS. The link Gothenburg-Düsseldorf stands for 6-7 M, trips which make up almost half of Schenker's annual volume. When it comes to strategic alliances, Schenker has only talked about this within Swedish Business Travel Association, since Schenker does not travel on destinations where it is a high possibility of creating alliances.

Intermodal competition

Schenker has moved to a new office, which is situated quite close to the Central railway station from being previously 15-20 minutes from Landvetter Airport. One problem is that the railway is still more expensive than aviation. The time it takes is not crucial since it takes about the same time from door to door with both modes. The limit where the train starts to get really interesting is app. 2.5 hours, where it is not worth going by air, but than the train needs to get cheaper. It happens that employees go to Stockholm by car, if they are more than one that is going. Schenker has invested in two new systems for IT-conferences. This mode is being frequently used in Stockholm because they are managing the whole northern part of Sweden. The new technology is much more easy to use than the old one. Åsa believes that the internal travelling will decrease because of this. Of the domestic travels around half is internal, for projects and education.

Macro

The passenger tax will affect mainly domestic travel, where Schenker have a high volume. The tax doesn't matter much on expensive tickets, but it affects tickets for cheap destinations. The tax will be beneficial for the railway. Åsa does not believe that there will be any major changes if there would be a change of Government.

The travelling is strongly affected by the economy, since travel is the first things that the company try to save money on, mainly internal travels.

Schenker has app. the same travel volume now as they did in 2002, but the cost has decreased a lot.

12.5 Lennart Bergbom, National Economist, Swedish Civil Aviation Authority

Lennart has a background from the Swedish Finance department and he has worked for the Luftfartsverket in four years mainly at the HQ in Norrköping making analyses on strategically level. He is one of the main authors of most literature published by the CAA concerning the aviation development on International and National level. He has been involved in "Flygets utveckling 2004" and "Flygkrisen 2004", i.e. two reports frequently used as support for this thesis. We met Lennart Bergbom at the CAA´s office located nearby Arlanda airport.

Further information about Luftfartsverket can be found in a separate chapter in this thesis called Industrial overview, subchapter National and International organizations.

Key criteria of importance:

The business passenger

The choice made by a business passenger is mainly based on where he is going in the region he is travelling to. A lot of industries are located outside the city core and passengers visiting those geographical areas logically choose Landvetter airport instead of going by train, if the airport is situated closer to final destination. Business travellers going from city core to city core often have significant time gains to make when choosing rail mode instead. Except price Lennart Bergbom states that the most important factors are different aspects of flexibility such as rebooking and cancelling of bought tickets. He also thinks that speed is major concern for the business traveller, here it is important to consider the total time from starting point to final destination. It is of no value to compare link speed solely, we also have to thoroughly analyse the node time at terminals etc. The relation between and importance of criteria depend on the business and its size. A "single person" company would logically pay more attention to cost than a middle manager of a large Group. The industry, considering the total amount travel within the organization, also plays an important role in the relation among the factors mentioned above. An organization selling services often travel more than a company that has production as its core business.

The definition of flexibility varies, according to Lennart Bergbom these are the most common factors referred to:

- The ease of rebooking and cancelling
- The time between departures, the companies´ personal should not have to schedule their meeting based on a flight timetable.
- Quick changes in destination to travel to should be possible to make within a relatively short time frame.

An important issue to work with at the airport is the safety control function. Partly because it takes time, but even more important because it creates an uncertainty component that often forces passengers to be at the airport in very good time before departure thus affecting total travel time ➔ competitive pitfall.

LCC as a concept is hard to define; a lot different angles have been used in doing so:

- The actual price level, low price vs. regular or business class

- The cabin factor, amount of filled seats, break even at higher volumes, expressed in percent, for the LCC actors.
- Cost per seat.
- The operational perspective. Network companies contra Peer-to-Peer, i.e. LCC actors.
- The approach: Market focus (network) companies fulfil passenger needs and LCC actors focus on maximizing the use of aircrafts and other resources.

According to Lennart Bergbom there is no single official method to classify LCC companies. It is also hard to define the level where the company is within each above stated definition that constitutes a LCC company, i.e. it is hard to quantify e.g.: 700SEK/ticket? 65% fill rate? This fact is reinforced by the convergence of actors from an earlier very polarized market.

Business travelling with LCC

If you are situated in Östergötland and want to go to London, it is practical to take the car to Skavsta airport and then go directly to London with a LCC. The alternative is to travel with SAS from Arlanda to Copenhagen Airport and switch aircraft to continue the journey to London. Here, we save time by using LCC actors that have direct traffic between secondary airports in Sweden and major business centres in Europe. The timesaving come from that fact that we do not have to enter a network. To travel this distance without passing trough a hub makes the total trip less costly, we skip unload and reload of passengers and therefore this link demands less resources, i.e. the price can be more competitive as well.

The drawback of this concept is that it can not be made profitable at all locations to use direct relations, but as already mentioned the LCC actors are resource usage focused and do only traffic links chosen based on this fact.

There is still a need for network companies to feed less passenger volume intensive regions into the traffic system. The amount of LCC travellers is increasing, but there will probably be stabilization. The question is what the market share relation will look like.

Private travellers

The largest part of the total aviation market growth in Sweden consists of private passengers. The private travelling is more volatile than the business travelling pattern, because business travelling often is necessarily in contradiction to leisure journeys.

Ethnic travelling will probably increase heavily due to peace in some of the countries that most immigrants living in Sweden origin from. Even though these passenger volumes are relatively small and have no major impact on the total amount of travelling in Sweden.

Weekend/Party/Shopping vacations will probably increase both in volumes and assortment due to the lower ticket prices.

One trend is vacation on less popular/known cities, e.g. German wings fly German tourists to different corners of Sweden. Ryanair is another company operating on smaller airports in Sweden facilitating this kind of tourism in Sweden.

SAS future

Finnair is currently updating its aircraft fleet with new Brazilian aircrafts with less seat capacity (70-80 seats) in order to increase the cabin factor. SAS have a relatively low average cabin factor in its production today and it is probably wise for them to follow Finnair approach. Even though aircrafts is easy movable resources the economic situation in SAS today makes this project hard to accomplish.

During the 90th everybody thought the positive trend would keep on, therefore SAS as well as other aviation actors bought larger aircrafts to respond to the growing passenger volumes. This occurred at the same time as SAS had to update its fleet and get rid of its old DC9: s. Unfortunately, this forecast turned out to be wrong and SAS now wear a too big suit.

The price on used aircrafts have been falling during the last couple of year, but we can now see that the trend has changed, which is positive for SAS, if they choose to sell there old aircrafts and invest in new with less capacity. The downswing in aircraft prices worldwide was a direct effect of the 11 September.

SAS have traditionally accepted unprofitable links as long as it served to feed major long-links with the necessary passenger volumes to make the total system of links profitable, so called “cross-financing”. Nevertheless, SAS has found some of their domestic traffic links unprofitable to such an extent that they have fazed them out in spite of this feeder strategy.

Intermodal competition

Have to be analysed relation by relation and is only interesting in the domestic perspective except a few exceptions such as e.g. going by train to Denmark. The most important distance domestic is Gothenburg- Stockholm from a profitability perspective due to the possibility to create large volumes. Of second importance are the relations between Malmö and Stockholm and Gothenburg respectively. In the Gothenburg perspective X2000 is a major alternative; its weakness is the slow speed distance between Gothenburg and Alingsås, i.e. the bottleneck. There exist no improvement programs for this area as far as SJ project plans tells, this stretches until 2015. The train mode often offers more frequent timetables (especially during weekends), but this competitive advantage is partly reduced by the air modes speed advantage. On the contrary, the speed advantage has to be put in relation to the total journey from start to final destination for each link investigated to get a picture of the competitive situation.

Lennart Bergbom also explains that their sometimes is to narrow focus when analysing intermodal competition focusing on the rail mode and forgetting that the car is a strong competitor on this distances. This concerns both the private and the business segment.

The Travel manager

The function, considering air travelling, has developed a lot the last decade as a fact of the increased competition on the aviation market. This initiated a shift from soft issues to cost effectiveness as a fact of the wide array of alternatives.

The status for the travel management function is increasing due to the functions changed focus. The importance of the function is strongly related to the characteristic of the company, the international service companies have higher travelling costs than the small private firm or a pure production company with concentrated, few suppliers and customers, markets.

Historically, the bonus cards was a “hot” question, business travellers wanted to collect points to use during vacations, today it is rare that employees get to keep this points. This somewhat facilitates the Travel Managers work with choosing the most economic solution and also get the business traveller to accept it.

Economic development, macro trends

Elasticity of the relation **GDP** and passenger volumes have been decreasing steadily during the decade. Even though the correlation still exists, its impact as an indicator has somewhat shifted towards less obvious measure especially concerning private passengers.

It is important that we do not overestimate the price reduction since this process has been a fact from the late 60th until the 80th, because of technical improvements such as more energy efficient aircrafts. In the 80th we had the “red prices” and later during the beginning of the 21st century we had deregulation with free market and the creation of a competitive aviation market as a vitalizing force. In conclusion, Lennart does not fully agree on that the price reduction have been as dramatic as a lot of other respondents’ state. He imagines that this conclusion is primarily based on lowest price and he states that average price is better indicator of real and practical price situation. Especially, concerning business travellers that often have to get a ticket within a short time notice and schedule, therefore are less able to utilize the lower price tickets. To exemplify, it is in a practical sense hard to get a ticket Stockholm-Sturup for less than 2000-2400SEK (including return ticket) for a business traveller. This information is primarily based on the statistics found at SEB homepage considering consumer index. The weakness of this statistics is that it only deals with major links, such as Stockholm-Gothenburg.

Fuel tax is a tough question for Lennart to answer considering his position as an employee at a Government-owned company. Even though the CAA is a business driven organization a not financed by taxes and government contributions. When we asked about the reason for the upcoming of this tax Lennart feels that it is a pure party political action and logic is primarily for the Social democrats to secure the cooperation with the Left party and the Environmental party considering the referendum 2006.

The practical effects of the tax are hard to forecast. We have to different parallels to examine. First, the tax has been a fact in the United Kingdom since ten years ago and it has been hard to prove the effects of this tax. On the other hand the situation for the British aviation market is quiet different, with a lot of intercontinental traffic, i.e. major consumption of more expensive travelling. The effect of a tax the magnitude of 100SEK is not devastating for the sales figure considering that an average ticket with a price somewhere between 5000-10 000SEK. Therefore, the British aviation market is not comparable with the Swedish aviation market and related effects of a new tax on tickets.

Another important fact to consider is that our nearest competitor Denmark, with its strong actor Copenhagen airport is currently deciding to put an end to this tax. This at the same time as the Swedish government decides to introduce it. In conclusion, the effect of the tax will be reinforced and according to Lennart Bergbom there have been calculations made that indicate an upswing in passenger volumes of approximately 600 000 passengers annually as a direct effect of the tax reduction.

The major negative impact in Sweden will with high probability be on the domestic traffic. Simulations have indicated a declination in volumes of approximately 7,5percent on the CAA´s airports, 4,5percent on the domestic traffic and 1, 5-2percent on international links. Especially, on links with a lot of alternatives such as Stockholm- Gothenburg there train traffic is a strong competitor. The tax will have the largest impact on the more price sensitive consumer market. In conclusion the tax issues has to be investigated for each link or at least each kind of link and the impact cannot be judged equally for the holistic aviation market.

The fuel tax even has effects on the will to invest in the Swedish aviation market. This impact is clear; Sweden will with this tax announce that we are not interested to be seen as a strong geographical choice among LCC actors such as Ryanair. We will with high probability descent in their ranking of popular links to start trafficking in the future. This in advantage to e.g. Denmark and their shown will to create better preconditions for operators. Another effect is that small, less trafficked links that are barely profitable at the current situation will be phased. Unless it constitute an important base for feeder traffic to network airlines such as SAS.

Outsourcing of non-core activities and the focus on a narrow but competitive edge in each company's business place new demands on personal transportations. The logic is that the fragmentation and by this the increased amount of interfaces between companies have increased the need for travelling during last decades globalisation.

11 September and Sweden

According to Lennart Bergbom too much of the downswing in the Swedish aviation market have been addressed as a fact of the terror assault. The negative trend started before the 11 September and the reason is the depression that we could see initiated already in May.

Depression

Still affects the private customer to a large extent, even though the impact has been slightly decreased due to cheaper journeys. When it comes to the business traveller the effects are very small on the extern/customer visits made. Even though the travel volumes indirectly decreases due to the decreased demands of products during negative economical trends. On the contrary, when it comes to internal travelling, to visit plants or arranging conferences, the cost reduction awareness are more emphasized.

12.6 Henrik Einarsson, Business Region Göteborg

Henrik Einarsson has a degree in economy. He has been involved in strategic investigations concerning Landvetter Airport. BRG is a community owned organization that is working with regional questions regarding industry and trade.

The Gothenburg region

The Gothenburg area is doing quite well at the moment. The unemployment rate is lower than in the rest of Sweden, and there is still a lot of room for growth. The conditions for future growth are good, and Gothenburg is in place 16 on the EU list of regions that are likely to grow fastest until the year 2015. The Gothenburg area had a steady growth until 2003 while the rest of Sweden declined due to e.g. the crash of the IT-industry and Ericsson. The export and import in Sweden increased by 30 % in the years 1997-2003. Gothenburg increased by 130 %. Export and import are important generators of business travelling.

- There might be a connection between the regional sum of wages (2/3 of GDP) and the amount of business travelling. The regional sum of wages gives a good indication of the regional growth.

Politics

There has been a suggestion in Great Britain to introduce personal carbon dioxide accounts. This will limit the amount a person can travel per year. If Sweden would introduce similar measures this might reduce the travelling by polluting modes of transport, such as by air.

- The coming election might have some affect on the development of the air industry because of political and environmental goals that affect taxes.

Economy general

In order to describe the impact of the economic development one can look at the report on the state of the market by the major banks.

- Most people in the business estimate that the oil price will stabilize and decrease in the short term. In the long term the oil price might get very high.
- The competition on e.g. Stockholm-Gothenburg has been greatly affected by the current low prices, which makes a lot of people go by air instead of train.
- There are good possibilities for Landvetter airport to have a bigger catchment area. For example it takes the same amount of time to go from Norrköping to Stockholm as it takes to go from Norrköping to Landvetter (by car). In order to take a larger catchment area, Landvetter has to work on widening the selection of destinations. Communications to the airport is another important factor for the customers.
- It is hard to attract long-distance direct lines to Landvetter because of the closeness to Kastrup airport. Landvetter have to concentrate on getting more lines to Europe.
- Financially supporting certain lines is not the solution. The legislation only allows this for one year, after which the line must be self supporting (and therefore disappear if it is not profitable).

There has been a demand from big companies for lines to the US and Asia. There have been investigations to see if it is possible to get profitability on these lines. They have been found not to be. To get them the companies would have to go in with guarantees for certain volumes. On lines with competitors this is not possible because of the fluctuations in prices. It might be possible to achieve profitability by finding good return flows, or fly via certain destinations to collect more passengers.

- Airport factors such as the selection of shopping plays a role, but price and amount of destinations is much more important.
- Outsourcing contributes to an increasing amount of especially long-distance business travelling.

12.7 Jan Forsberg, CEO, SJ AB.

Jan has been the CEO of SJ AB since April 2002. He has a history from the aviation industry were he has been working with different task for twelve years. The last five of them he had a position in the SAS Group top management team, responsible for the flight operative division. He has a civil engineering degree and he started his career in logistics within the engineering industry. Jan has gained a vivid perspective of this industry through working within many different areas such as purchasing, manufacturing, distribution, capital binding issues and also major plant rationalisation projects. Before he entered the aviation operator business he came from a position as CLO at Incentive's largest group. He has always worked in organisations in rapid change.

SJ is currently going through some major changes, especially concerning their project with revitalising the X2000 fleet. The wagon design as well as the services provided onboard is going through a modernisation process in order to capture on the rail mode's competitive edge: "Travel while doing something else". This concept will be further discussed during the interview summary below. SJ has been operated as a regular Ltd since January 2001 and therefore it can not be supported by governmental subventions due to European Union regulations. It has to be managed according to market conditions and compete for its revenue and other capital contribution in the same manner as SAS and other passenger transport companies.

Key criteria of importance:

- Business edge and key concept:
  The train's major advantage in relation to other modes is that it provides the traveller with extra time to do something else. With this Jan states that it is the only competing mode that can provide enough space and comfort for people to both rest and work while travelling. With other modes such as the Domestic air mode travellers can not rest due to the lack of space and comfort nor can they work due to the short travel time as well as the lack of space. The basic concept, i.e. for all classes onboard a train, is comfort and enough space, with wide, comfortable chairs and a lot of leg space.
- The price issue:
  Price is very important for both the private and the business traveller today. In contradiction to the aviation industry that decreases both prices and service, SJ increase services while decreasing the price. As price is an important decision variable for the passenger choosing mode. Jan describes the natural competitive shortcoming of aviation in this price discussion: ”An aviation company can never be profitable and at the same time compete with SJ´s pricing. This due to the facts that: One train mile costs 1000 SEK to produce. One flight mile costs 2000 SEK to produce. And: SAS sells 10 000 low price tickets per week. SJ sell 15 0000 second-class tickets and 15 000 first class tickets per day". The average ticket; is less expensive when going by train than by air mode. The cheapest ticket in the relation Stockholm-Gothenburg: 267 SEK Second class, approximately 450SEK in First class.
- **The time issue:**
  The travel time is of primary importance. The breakeven between train and the air mode is approximately three hours of total travel time from city core to city core. E.g.

the trip between Stockholm and Gothenburg takes approximately three hours and here SJ have 55 percent and the four aviation companies 45 percent of the customer base. If train travel times reaches down to 2, 5 hours the rail mode will serve approximately 75-80 percent of the passenger flow. This is true both domestic in Sweden as well as in Europe and Internationally. If train travel time further decrease the aviation operators are out of business in this context. E.g. the Karlstad-Stockholm relation with a transport time of 2 hour and 20 minutes and where the air mode serves only two percent of the total amount of passengers. On-time performance: 93 percent, somewhat lower during peaks in Stockholm, Gothenburg and Malmö due to the lack of enough rail capacity. Important time goals: Stockholm-Malmö: 3h (today 4h) Stockholm-Gothenburg 2,5h (today 3h) Stockholm-Sundsvall 2h 50 minutes (today 3h 20 minutes) All above stated time goals can be achieved within today's transport system and with relatively moderate investments. (Investments are further discussed in the infrastructure part below).

- **The service provided and current service improvements:**
  Business/working issues such as Internet connection and current supply at each seat is basic service. As well as cell phone connection onboard and wagons without "Cell phone talking" for those who want to rest or sleep. The X2000 fleet, consisting of 43 train sets will be redesigned to provide a more luxury and modern experience. Along with these improvements food services will be upgraded severely. This with the help of the Swedish Cooking team that provide the menu unto which one of Sweden's most well known wine experts matches the wine list. In first class there will be a possibility to buy three dishes dinner, included in First class + (also called business plus) served at each seat. In regular business class there will also be a dinner served, but not as luxury as for the fist class passengers. Second class travellers are able to buy these dinners at the bistro, the menu will be very inexpensive due to the fact that SJ do not see this as a secondary profit source. The food is rather a part of the product and SJ wants to make their profit on the transport, i.e. via ticket revenues not on onboard services.

  All these concepts are practical solutions to the general goal, to provide: "travel while doing something else, i.e. working, resting, sleeping or experience (e.g. a nice combination of food and wine). Currently SJ are exploring the possibility and profitability to provide so called "overnight traffic". The concept serves to primarily provide the business traveller with a good alternative to the early morning flight. The business logic is that the passenger can enjoy a nice dinner or a movie in the cinema wagon and then hit for the sleeping wagon in order to get to the business meeting rested, unstressed and in a cheerful mode. The link primarily considered is between Stockholm and Copenhagen. In conclusion, SJ do not attend "the harmonisation process", instead they go in the opposite direction, i.e. to make the differences among classes even more obvious. SJ have already seen the results of this positioning strategy. Especially, with the new offering "right now"-tickets, even for first class. Earlier, until Q1 2005 First class passenger volumes were decreasing. At the current situation, Q3 2005 has increased by 50 percent compared to Q3 2004.
- **Service areas rejected:**
  Jan rejects the "Office concept" with copying machine and conference areas, due to the facts that it takes a lot of space and need for it is moderate since it is possible to connect to the office via the internet. He also rejects the issues of insulated areas for business people to make their sensitive business calls due to the lack of space and need for these areas. Jan states that these kinds of business security issues are to be

managed by each company and business person individually. Nevertheless, he mentions new technology that for example makes it possible to protect information on the lap-top screen. This by providing each screen with a film that makes the information only visible for the ones sitting right in front of it. This is a solution that can be used by the train traveller working onboard, but it is not an onboard service.

- **Flexibility:**
  The flexibility issues that is emphasised during our interview with Jan focus on the basic business concept, “Travel while doing something else” e.g.: Travel while sleeping. Travel while working. Travel while experiencing etc. In other modes, according to Jan, this is made in sequence, i.e. firstly travel to the destination than you rest at your hotel etc. (Flexibility concerning ticket rebooking and departure frequencies were not a major issue during the interview; nevertheless we know that SJ provide frequencies and rebooking possibilities comparable with SAS Flex. Tickets, i.e. possibility to get money back if you do not use the ticket except a 65 SEK booking fee).
- **Environmental issues and the discussion about subventions:**
  SJ are indirectly favoured by subventions such as taxes on aviation operators and their passengers and by the fact that they do not have to pay for their infrastructure. Aviation operators have to pay fees for using airports, e.g. landing and security fees as well as the so called passenger tax. SJ do not pay for or take part in infrastructure projects, but SJ covers its operating costs and expenses including environmental effects and related costs. The aviation operators do not cover their pollution related costs.

  In this context it is also important to consider the public will, i.e. society’s demands on environmentally friendly transports. The importance of environmental issues are getting significantly more emphasised when both companies and private travellers choose transport mode. One day’s production in the Stockholm-Gothenburg relation (approximately 50-50 percent relation of passengers ➔ 55% train, 45% aircraft). SJ produces 12 kilograms carbon dioxide (CO_2) The four aviation actors operating on the link together produces 180 000 kilograms carbon dioxide (CO_2). SJ does only (100%) buy environmentally friendly energy, i.e. renewal (e.g. water and wind generated) energy. By this SJ takes the additional costs of only supporting this more expensive energy production. Due to the increased focus among both private people and company management; the aviation industry has to respond by more sophisticated engines that are less polluting. Today, an average aircraft’s emission rate is 15 000 times greater than the emission from an electric locomotive. Add to this fact that Sweden is one of the leading nations concerning environmental responsibility. In conclusion, environmental fees, on aviation operators, will probably increase. The huge challenge for the aviation industry’s future lies within the aircraft manufacturing business and how well it manages to build energy efficient and clean engines.
- **Information technology:**
  Have no significant impact on travel behaviour; people want to meet and neither terror attacks, wars, oil crisis can change this fact. A lot of historical events illustrate this, starting from the Kuwait war when the travelling was forecast to decrease, because due to safety and security issues. Still air travelling is a growing business. Within SAS there was a lot of unnecessary travelling due to the fact that they used their own seat overcapacity (i.e. no additional transport costs), business people within SAS did this because they wanted the salary increase due to the allowances they received when they

where on business trips. This kind of travelling will probably decrease as well as other internal travelling due to generally increased cost awareness among companies.

- **Competition and market shares:**
  On the question whether or not SJ has benefit on SAS´s reduction of feeder traffic in Sweden Jan states that it is of secondary importance. Even though he mentions that Jönköping, Norrköping and Karlstad Airports that earlier were frequently trafficked airports today are threatened with closure. This he explains with the fact that: "People are rejecting flying per automatic", referring to the environmental discussion. Jan also states that SJ do not gain new customers if and when one of the domestic aviation operators leaves the market. These customers will not turn to SJ; they turn to competing aviation companies. In the beginning of the 90th X2000 was a major threat to the domestic airline traffic, the business opportunity inherent in the X2000-concept were spoiled by poor management. Management mainly failed in maintenance of wagons, pricing, "trendy ness" (image) and marketing (communicating the product). Soon we will experience another more competent boost due to the upgrading of the X2000 fleet, with no such mistakes.
- **Travel management:**
  The future for the Travel manager function will involve a lot more of environmental considerations. SJ wants to facilitate companies´ environmental work by providing them with an emission report, stating their travelling emissions, which can be integrated in the companies´ environmental report. In the future all companies needs to integrate environmental friendliness in their brand image; therefore travel managers will reject transport options that produce unnecessary pollution, i.e. choose alternative modes. Furthermore, SJ will respond to SAS and other bonus systems provided by competitors. SJ have a bonus system today, but it is a weak product and has to be revitalised. Although SJ will not make it an offer addressed to each individual employ, i.e. SJ will avoid the situation created by SAS and their employee connected Euro bonus system. SJ´s new bonus will be company connected and by this avoid taking part in this conflict. This will probably attract Travel managers that do not have to deal with the bonus issues in the same manner when making up their company's travel policy.

- **Key indicators:**
  The single most important reason for passenger volume changes is the amount of unemployment in Sweden. Especially in Mälardalen, were one third of the Swedish population lives, at the moment the unemployment here is decreasing. So far, this year SJ have increased their passenger volumes by 7 percent, consisting partly of new customers, but mostly of long-term customers travelling more frequently.
- **Infrastructure:**
  In many other countries fast speed train operates on rail separated from regular slower traffic. This solution is too expensive for Sweden; therefore investments will be performed in order to reducing bottlenecks in the existing transport system. The focus should, according to SJ, be in the main cities as well as adjacent areas that today slow down the whole system. There is a goal conflict between SJ management and the political sphere. The Government wants to make major investments in Norrland, while SJ wants to make investments in order to remove bottlenecks. Projects suggested by SJ are mainly: The Mälar Tunnel, in Stockholm.The City Tunnel, In Malmö. As well as investments in greater rail capacity between Gothenburg and Alingsås. Sweden will invest 110-120 billion SEK in infrastructure until 2015, Jan thinks it is wise to focus

the measures to the areas with large and growing population instead of making huge investments in Norrland. As rule of thumb major investments should be executed south of Sundsvall, this is were the rail mode, due distances and “the 3 hour rule”, can be a competitive mode.

- Politics:
  If the outcome in the election 2006 puts the right hand parties in charge they will probably withdraw “the Bottniabanan” project. Everything else will probably proceed as planned. This because of the projects magnitude, you do not change this kind of projects in the short time frame that constitute a reign period. Furthermore, all parties want to keep to the environmentally friendly agenda. Based on this, Jan does not think that the aviation operators will be a fiercer competitor due to a Governmental change.

12.8 Stephan Hylander, Senior Strategic Buyer, Travel Management, Volvo AB

Stephan is responsible for all travels within Volvo AB worldwide. Mr Hylander is not operationally responsible. He is not involved in the trip itself; he creates the conditions so that the staff can travel in a good way when they have to.

Travel policy

A large part of the work is negotiations with travel agencies and airlines. Volvo AB has an annual volume of 20-25000 passengers. The travel policy is formulated by the Human Resource department, with advice from Travel Management. The policy is applied worldwide, with adjustments based on national conditions. Safety is very important, in line with Volvo’s image. One of the advantages with aviation in this aspect is that it is very strictly regulated and controlled.

Other areas dealt with in the policy are the problem with classified information. It is assumed that people are sensible enough to avoid talking about sensitive issues on the phone etc. Other areas are environment, ethics, choice of suppliers, how to order, what you can order, and who authorizes for payment.

Transport modes

The choice of mode is made based on a ranking of what is important. On the route Gbg-Sth there is rail, road, and 4 airlines. In this case one has to consider the time aspect, since time is money, and it is also a question of practicality, will I make it home the same day? If you go by car you have to stay at a hotel over night. Volvo does not stop anyone from going by car or train, but if you fly, you should fly with SAS (since Volvo has a deal with them).

There is a possibility to work on the train, and this has been communicated to the employees. If there is a lack of time, they go by air. It is up to the employees to decide how they want to travel.

Total cost

It is important to look at the total cost of the trip:

- Travel agency 3%
- Ticket price 27%
- Hotel 12-13%
- Other transports 8%
- Expenses, food, representation 10%

- Other, planning, time for reimbursement 12-13%
- Time 25-30% it is often worth paying more to save time
- It is also worth taking a look at the transfer: Amsterdam 4500, Copenhagen 5000. Differences in taxes and other fees.

TCO, Total Cost of Ownership, i.e. what is the cost for the company? The department don't see the cost of time, but it is there anyway for the company. Each department is responsible for their travel costs. There is a problem in measuring the cost of time, so Volvo measure accounted costs. Volvo simply has to assume that the employees travel in a cost-efficient way.

Criteria

It is hard to rank criteria; it is a mix of different factors. It is possible to get a really low price, but then you get a low frequency. If three suppliers offer pretty much the same time schedule etc. the price is more decisive. It is necessary that the supplier has a certain frequency etc. Safety is also very important.

Agreements

Volvo has an agreement with star alliance. They do not sign any other agreements on the routes where Star Alliance has traffic. It is however possible to use another company if there are reasons to do so e.g. the plane is full, there is no departure at the time, the client wants another company etc. The agreements are based on a certain price at certain conditions. The big selection of air travels makes it impossible to get an agreement that always gives the lowest price. The travel agency always checks if it is possible to get a lower price on the specific trip to be performed if the passenger can adapt to the conditions and it is a company within Star Alliance. The agreement gives a highest price that is lower than the public price. The agreement gives a ceiling for the price.

Designated routes

The biggest route within the entire Volvo Group is Gothenburg-Lyon. The route has more than 20,000 passengers annually. Before the passengers had to go via Amsterdam, Frankfurt, Paris, or Brussels. The trip often took more than 5 hours. The company had negotiations with several companies about a direct route to Lyon. They finally signed an agreement with City Airlines. There are not many passengers on the route that are not involved with Volvo. Volvo has a rather strict policy on the route due to guarantees given to City Airlines. The contract is signed by the top management. The trip now takes 2h 15min instead of the previous 5 hours. The drawback is that the passengers have to wait for the next plane instead of taking another airline. The airlines have departures morning and evening. The staff must adapt their meetings to the schedule. Of course Volvo has to pay for this service, but they do not pay more than they did before, but not less either. What happened after the introduction of the route was that SN Brussels dropped their prices by 30 % on their route to Lyon. Because of the contract with City Airlines Volvo refused to fly with them anyway. If passengers started to use other airlines Volvo would loose the contract with City Airlines. Using other airlines also increases the travelling time, which increases the total cost for the company.

All Volvo's agreements run 1 year at the time, including the direct route.

Strategic Alliances

It is hard to create strategic alliances with other companies in order to create direct routes. It is hard to find a common denominator. It is also hard to do this from Gothenburg as 70 % of the flows are from Stockholm. Volvo has formed a consortium with 5 other companies that have performed joint negotiations with airlines. These negotiations were very successful, and they managed to lower the price by 30 % from the already before low agreement price.

The will to sign contracts for routes varies depending on the company culture. The purchasers will to commit varies depending on the internal support. In some companies it is the manager that signs all agreements, and many reject them without even reading them. Other companies are more willing.

Volvo also looks at the return flow by talking to foreign airlines as well. Companies that have a need to travel usually have some kind of business on the destination as well. The companies seldom travel to destinations where they do not have any kind of business. There are not many companies that have big flows to the same destinations as Volvo.

There are some difficulties with consortiums; they can't be too big, because then it becomes a cartel, which is illegal. The size has to be below a certain proportion of the total market. It is also hard to be too many companies because of all the different needs and policies. This makes it hard to decide on departure times etc. The alliance has to be homogenous so that it is possible to speak as one at negotiations. The creation of the current alliance has taken a lot of time and effort to create. There are great expectations at the companies of the result but not much knowledge of the underlying factors. It is sometimes hard to explain why the departure times change so that the connections are missed for example.

Travel management development

Success within travel management has a lot to do with receiving support and understanding for what you do. This has a lot to do with the total cost. If Volvo reduces their travelling expenses by 1 % that means a saving of 3 M SEK. In companies where the costs are not that high it is not worth putting a lot of effort in travel management. In small companies there are a lot of other areas that are more important, it doesn't matter so much if the ticket costs 5- or 6000. In the case of Volvo the volumes are so high that 5 % on a route makes a big difference.

The role of the Mr Hylander is to deal with purchase and agreements with suppliers. Traditionally travel management deals with everything that has to do with travels. Volvo has a lot put on the travel agency; that is where the travellers turn when there are problems. It is important that the managers are good examples. They lose a lot of trust if they go business class. However, it is important to remember that top management often have a quite different travel pattern, which makes it necessary to travel in other ways.

Volvo is planning to implement an online system for travel booking. This means that the traveller makes the booking himself, but the booking goes to the travel agency, which means that they are still aware of where the staff is located. The system also provides the possibility to control which options that are visible to the traveller. The unit cost with this system decreases from “10” to “5”.

The security aspect makes it “forbidden” to use the Internet for travel bookings, unless the conditions require it. The staff may use LCC, but it has to go through the travel agency.

IT-conferences

When the Internet came everyone thought the travelling would decrease, same thing with video conferences. These means provide further areas to create contact. However, in many decisions we have to meet face to face. IT is a very good complement to personal meetings. If the technology is developed a lot the travelling might decrease.

12.9 Niklas Hårdänge, Route Manager at SAS Sweden.

Mr Hårdänge has been working at SAS since –89 and is a specialist at Route Management and Network Management. The area includes as the setup for STH-London, number of departures, number and type of aircraft etc. Route management drives the business, and one part of this is business development. Mr Hårdänge is also project manager for the production area in the Turnaround project. Mr Hårdänge is responsible for Europe and his tasks includes pricing (departures, destinations, partners), (supply and demand (number of seats available)), product (what is available onboard, automatic check-in etc), and route planning.

Charter

SAS are involved in charter, which means that they offer seats and the destinations that the travel agency demand.

Domestic

Domestic is a very simple product. It is about price and frequency and certain add-ons (e.g. lounges). They also have a bonus program and a smooth check-in. SAS do not differentiate the domestic passengers. They want to offer something that the competitors don't; therefore they serve breakfast and seat reservation. Nowadays all the routes have to be profitable on their own, there is no cross-subsidising.

Europe

On the continental routes SAS offer business class. This means that there is a chance to charge a premium price. They offer this because there is a demand and the competitors have it. The difference between an expensive economy ticket and a cheap business ticket is rather small.

Passenger types

SAS see three kinds of passengers; price driven, flexibility driven, and comfort driven. For the price driven passenger there is no alternative, the ticket has to be cheap enough. For the flexibility driven it is not so important with comfort and food, but he might not know when the meeting will end, so he needs to be able to change his ticket. The comfort driven passenger is the more traditional business passenger, he wants to be seated in the front with plenty of leg room, warm food, lounges etc.

Monopoly

Monopoly leads to inefficiency, and the costs are allowed to increase (e.g. wages, administration). A company needs competition to become efficient.

Value chain

The one that meets the customers has the power compared to the suppliers. In the case of SAS they have owned the supplier, which has lead to the chain making money but not the company that meets the customers. The income is also more uncertain on the customer side. If there is no connection between the companies it is possible to put more pressure on the suppliers as it is always possible to do business with someone else. SAS still has some connections on the supply side, but the conversion into independent subsidiary companies is a step towards increased competition.

Market

Air travel has become a commodity that makes price very important. Recently founded companies are always able to offer lower prices by employing younger staff with lower wages that have to work more etc. Mr Hårdänge believes that one of SAS advantages is that they are able to package the trip more with service and bonus points etc. The bonus program must be developed to be competitive.

Costs / income

The cabin factor on domestic used to be 60 %, today it is around 70 %. The cost per seat is lower on a large plane than on a small one. The fuel consumption is relatively lower. The CASK (Cost/seat km) is lower. RASK is revenue / passenger km. One of the mistakes that Swefly made was that their feeder aircraft were too big, but they could not have made it with e.g. an Embraer because that has a high CASK.

Current situation

SAS are trying to reposition in the customers mind. Mr Hårdänge believes that people will choose SAS if the price difference is small.

Domestic competition

The most dangerous competitors are the irrational competitors that do not care about profitability, for example Fly Nordic that is owned by Finnair to compete with SAS. Fly Nordic are losing money year after year, but Finnair think that’s OK because they are making money on their Asia routes. In Norway on the other hand Braathens compete with Norwegian, which is noted on the stock market and whose only objective is to make money. Both of these companies make money. On STH-GBG all companies are unprofitable. Of course Fly Nordic wants to make profit, but if they cant they will still go on with their traffic to obstruct SAS.

Owners

The owner structure is rather strong as the different companies in the business group can support each other, at least temporarily. The board would definitely be more competent if the company was privately owned. Mr Hårdänge thinks it is very questionable that the Government owns private companies. The best thing would be if the owner structure was changed from the current. The current owner structure is 50 % privately owned, 50 % Government owned with 7/7 divided on three countries. This stalls many processes; the pilot agreements are viable in three countries etc…

IT

There is till a great need to physically meet. IT has affected our way of living, but the travelling has not decreased. The world economy becomes more integrated, people move more etc…

Ethnical travelling

Ethnical travelling has already affected SAS. They fly on destinations that they would not have otherwise (e.g. Split, Dubrovnik, Prictina). They see a greater payment will among these passengers than the passengers that are just going to their holiday homes. It is an interesting and good market, but it is rather difficult because it is seasonal.

Swefly

Swefly's business plan was to fly people from three destinations to Skavsta airport for further transport to Pakistan. The long leg was supposed to support the three feeder links. SAS tried a similar model, but it is very expensive to draw people from several destinations. This kind of operations needs a local market.

Niches

A lot of people talk about LCC on intercontinental routes, which is not available here at the moment. Emirates have it, but that's in Dubai. Business jets come and go, and are mainly for major companies like H&M and IKEA when they need to make a trip around Europe. It is a growing segment but it is not a threat to SAS business idea. Otherwise it is not that much coming at the moment, other than more or less strong LCC operators. Mr Hårdänge's favourites are Ryan Air and Air Berlin. Air Berlin is special because they have very low costs, but are also able to charge pretty high prices. One thing that exists in the USA but not yet in Europe is LCC with quality. Jet blue is one example, they have really low costs but still good service; food, TV, bonus programs etc…

12.10 Stefan Gustavsson, Director Business environment, West Sweden Chamber of Commerce and Industry

Stefan has worked at the Swedish National Road Administration mainly with infrastructure projects. He has so far been at the West Sweden Chamber of Commerce and Industry for one year. In the beginning he worked mainly with infrastructure tasks and by the summer 2005 he was promoted to director of the Business environment department. He is involved in a wide array of projects, such as infrastructure projects that serve to facilitate communication as stated by there customers/members consisting of all kinds of industry actors in the region. He is involved in different projects concerning the development and preconditions of the aviation industry in West Sweden. He describes his role as the meeting place for companies in the region to discuss their demands with aviation representatives and other related actors. Questions relevant in this context are bus and train connections and the environment and layout at Landvetter and Säve airports.

Key criteria of importance:

- **Preferences of business travellers:**
  Ticket price only constitute approximately 30 percent of the total travel costs. Other expenses such as travel time, allowance of expenses and other expenses due to longer travel time are often ignored. This is probably because it is easier to make the ticket cost visible in budgets and other measure tools. Costs such as lost working time is very hard to quantify, nevertheless it is an equally important factor to consider when making a travel decision. When there was a monopoly situation at the Swedish aviation market price where not an issue and therefore the discussion where never between price and flexibility or time issues. Deregulation of the aviation market worldwide made it beneficial to hunt for lowest price. In this process companies forgot about the holistic perspective and even today a lot of companies keep to this simpler way of making travel purchases. In the holistic perspective important criteria are total travel time and frequency in departures, this in order to reach effective meeting times and avoid having to stay a night at a hotel on shorter trips.
- **Travel management:**
  Traditionally travel management was one of the tasks performed by the secretaries with few exceptions. Today travel management has increased in both importance and status and more professional work with these issues in more concentrated form. Even though many travel managers have other tasks as well, this even in really large companies. Employees working with travel management part time often have responsibility for other primary purchase activities; this places travel management as a secondary priority. One important trend to consider when examining the future for the travel management function is self-booking via Internet. Internet booking have decreased the will among companies to build relations among price issues with aviation companies, because the negotiated price is not compatible with the price received when screening the market using the internet. It is important to separate self booking from internet booking; the later can be performed either by travel management personal, by travel agencies as an outsourced service according to certain criteria or as mentioned via self booking. If to use self booking is mainly question of how long it takes for an employee to find a good price on his own, i.e. how easy this service is to use. This compared with the cost of centralizing booking and the price added by travel agencies for screening the market. When travelling by train it is much

simpler to use self booking, because there are no alternative, given that it is not a decision between the rail and air mode.

The travel management function is heading in two directions. Some travel managers are still focusing solely on the price tag, while some are shifting focus to a more holistic view with price tag as one of many parameters deciding the most appropriate solution. Travel managers in general have no incitements to be strategic in the long-term perspective, i.e. to support SAS on links with cheaper alternatives in order to keep the country wide availability that SAS creates. By choosing alternatives such as LCC on some routes companies indirectly makes it hard for SAS to use its cross-financing concepts and keep total profit above zero. Most companies´ top management sees travel management as a cost reduction function nothing more nothing less. Even though the price tag is not the single decision variable, there are some trends that stretch over the whole array of travel managers, i.e. to avoid business class as fare as possible. The only major exception is during intercontinental flights, where the travel mangers keeping to the holistic model sees drawbacks in getting tired and poor performing employees at the final destination. Business class in this context is focused on issues like the possibility to sleep, to sit comfortable and have access to communication equipment and other practical issues. Traditional business class, with luxury focus is not an option any more and most employees do not see the benefits with this anyway, so the issue does not really exist.

There are some situation where business class is necessary and beneficial to use, mainly referring to the top management that have a very tight schedule and the cost of having a CEO sit and wait at an airport or being tired is more expensive than paying for a more flexible ticket and a more comfortable seat. It is a common policy that every employee besides the top management team travels by economy on domestic and continental links. Travel managers see environmental issues primarily as a cost reduction tool and it is of secondary importance compared to price, not always but more often, i.e. there are exceptions.

- **Definition and function of Low Cost Carriers**
  There is, as far as Stefan is aware, any single given definition of LCC. Different aspects as seen as indicators of if an aviation company shall be considered a LCC actor. When LCC actors arrived at the market, the polarization between LCC and traditional airlines made the differences more obvious then with the current situation. Some definitions used are:
  LCC actors are using secondary airports. This not fully truth at the current situation, e.g. Easy Jet (LCC) uses primary airports. The Gothenburg area is somewhat special with Säve airport as secondary airport in size, but primary airport in location. Compared to Paris where the secondary airports are fare away from Paris city core, this places the airport in amore clear second choice from customer perspective. Another important indicator stating that we deal with a LCC actor is that it takes no responsibility for the whole transport, to time with connecting flights etc. In conclusion: LCC: A➔B, Traditional network company: A ➔ B ➔ C ➔A. LCCs future depends on how long-tern and which values companies´ travel mangers sees with a direct link. It f they want the availability and time savings created by a direct relation they have make some kind of sacrifice, e.g. promise to use the relation they demanded or be willing to pay extra, increased ticket price, to receive better availability and shorter travel time. One complicating issue in this discussion is that travel managers have problems steering their travellers to use their recommendations.

This is a precondition for companies that want to support a direct link. One factor that decreases the travel managers' ability to steer its travellers into choosing the LCC direct link is SAS and its Euro bonus concept. Euro bonus is personal and the business passenger can use these accumulated credit points during private travelling. Companies that make a half-way commitment i.e. use the direct link sometimes and go by SAS in its network others, risk loosing the availability created by the direct link. This because volumes have to be holding on a certain least level statically otherwise the link quickly gets unprofitable and has to be cancelled. In conclusion, it is a balance between ticket costs and availability/time saving.

SCA and Volvo are presently working with creating a new direct link to Froslaw in Poland, with two flights per week. Preconditions for this kind of projects are that enough volumes could be created together and the existing alternative provide by network companies is perceived as unpopular and intricate by the companies business people. The business travellers actions are hard to manage, therefore they most be willing to choose this direct link without being pushed to do so. A direct link is often more expensive than travelling in a network system, therefore a holistic approach is a preconditions for companies being interested in this solution. Travel mangers with a strict ticket price focus a rarely interested and willing to invest in a strategic alliance as described above. The amount of direct links from the Gothenburg region will probably be relatively low due to the fact that Gothenburg in this context has small population. This kind of strategic alliances demands large and steady passenger volumes.

On relations where volumes are enough to create a direct relation with smaller aircrafts, e.g. between Barcelona and Gothenburg, the distance makes it hard to find aircrafts in a size that can make the trip economical due to fuel costs. Small aircrafts are also limited when it comes to carrying enough fuel on longer distances. Another factor to consider with direct links on larger distances is the capacity utilization, LCC actor often wants to make three routes during a day. Morning peak, lunch and evening peak. If travelling Gothenburg ➔ Barcelona it is hard to accomplish and they have to skip the lunch flight.

Ryanair have succeeded in making the direct link between Glasgow and Skavsta with volumes that makes the link profitable. This is useful for business passengers going to Glasgow, but the link gets its major volumes from tourists that go to Glasgow mainly because the ticket is very cheap, i.e. the initiator is ticket price and the volumes mainly private passengers. Maybe, tourism and split flight is a precondition for direct links for business passengers.

City airline with headquarter in Gothenburg works with a cyclic business model that consist of iterated links; Gothenburg ➔ South west during morning peak (profitable) ➔ North and east during lunch (covering costs) ➔ Back to Gothenburg during evening peak (profitable).

- **Business class:**
  Traditional aviation companies are very focused on keeping business class, due to its important role in making the total haul profitable when regular prices have decreased due to deregulations. However, the word business class will probably disappear as well as much of the product luxury image. Today, SAS have concepts such as economy plus, this product have somewhat evolved from the traditional business class

concept. The name fits better with company and business people image being a "lean thinker". On intercontinental flights we can see a first class or business class trend with executive aircrafts of fifty seats all first class. Today, this aircrafts mainly perform traffic between the US and Germany/Switzerland. Onboard there are possibilities to lie down and to get separated from other passenger by walls or by using a cabin layout onboard.

- **Traditional network companies vs. LCC:**
  One major benefit with travelling with a company like SAS is the more flexible ticket. LCC actors usually do not provide any flexibility at all, considering issues such as rebooking, rescheduling and cancelling a trip. Accessibility, where the airport we departure and arrive to is located, in Gothenburg as already mentioned, the choice is of secondary importance. This because of the nearness to city core from both Säve and Landvetter airports. In Stockholm, the situation looks somewhat different comparing distance between Stockholm-Skavsta and Bromma that are located in the city. Business lounges still of some importance for people travelling frequently, an oasis to relax in. VIP queues for security control and checking-in as a service for "business class" passengers is an important service, even though machines for self check-in decrease the need for this separate VIP-flow. Automats can only be used if the person brings only hand baggage, larger baggage still have to be checked-in the traditional manner. Business people often travel light making this is a smaller issue on shorter domestic and continental journeys. In spite of this security check is still a bottleneck that can be managed by a more time efficient VIP-flow, thus making it possible for the passenger to arrive later to the airport. LCC actors such as Ryanair want its passengers to arrive well in time before departure making its offer less attractive for the time pressed business traveller. The fact that LCC carriers do not take responsibility for the whole trip, which makes them less of a choice on distances where they do not offer a direct link. This due to longer and less reliable total lead-time.
- **SAS and its future:**
  SAS have during the last couple of years decreased its costs tremendously, partly by renegotiating expensive contracts with different trade unions. Partly through process reengineering due to the increased cost awareness within the SAS Group. This is necessity due to new market situation with LCC actors. SAS competitive situation is toughest on the domestic market and the fact that SAS is invest a lot of capital and energy in this market emphasize the importance of cutting costs. SAS main competitive advantage is that they, as a flag carrier, posses a superior position when it comes to availability. LCC actors are not interested in providing their customers with this total service approach. LCC are only interested in making relations between A➔B profitable while SAS goal is to provide the all parts of Sweden with available flight connections. If SAS would focus its resources on the domestic traffic solely, they would have to make deals with aviation companies that provide the long haul links. This because most feeder traffic has traditionally been cross-financed within SAS and the profit has been produced by the long haul links. Feeder traffic to Stockholm from the south parts of Sweden will logically decrease due to good train connections with good availability concerning frequencies. Norrland-Stockholm with its great distances probably constitutes a stronger competitive advantage for SAS and its focus on domestic traffic. SAS and its network operations are key for regions such as Luleå / Umeå, this because the amount of direct links to different parts of Sweden and Europe are very few, due to relatively small volumes of passengers. To go by train these long distances is very time consuming and therefore not a practical option for the

business travellers with his pressed schedule. In conclusion SAS Domestic network is vital for the north of Sweden.

- **Private travellers:**
  It is hard to map private travellers and their final destination. CAA only provides with statistics of where passengers are going in a first step, i.e. often a hub such as Copenhagen not where they are going from the hub. Statistics that describe the whole route can partly be found and bought from aviation companies and its booking system, but it does not provide a total picture due to rebooking and changed schedules etc.
- **Competitive situation:**
  Spare-time travelling increase progressively in proportion to income increase, concerning car travelling. It is logical to assume that the same situation is a fact for private travelling with by air mode especially with LCC actors. LCC also makes it possible to travel more frequently, without larger holiday budgets, due to the lower ticket prices. Even though the ticket get cheaper it is still other adjacent costs to take into account, such as food, hotel, bus, cab and leisure activity expenses. In conclusion, the net effect is less is somewhat overrated when comparing to e.g. a charter trip where hotel, bus between airport and hotel is included in the offering. Business travellers still see the car as an important mode of transport, this much because the air mode in some companies is still perceived as a luxury product. The great advantage with train traffic, especially for tourists, is that they get directly into the city core. The car is even more important for the private travellers than for the business traveller, because it facilitate transportation at final destination.
- **Landvetter airport:**
  Landvetter airport has been profitable for 18 of the last 20 years. The cash flow has been positive for the last 17 years. Due to the fact that the CAA owns a lot of unprofitable airports, this leads to a situation of cross financing. Landvetter airport consequently finance the operation of smaller, less profitable airports. This goes also for Arlanda airport, where there have been heavy investments for the last years. This is to a part financed by the profits at Landvetter airport. This also means that the money that is generated at Landvetter is not used to improve the competitiveness of the airport. Examples of this could be reduced fees, more attractive commercial areas, restaurants, conference centres etc. This is also true when it comes to the safety fees, where the passengers at Landvetter pay for the safety at many other airports. The reason for this is that the CAA has taken the cost of safety and divided it on the passengers. In practice the safety cost per passenger is much lower at a large airport than on a small. The airports get back what the security has actually cost from the money that is received through the safety fee.

  Many investments cannot be made at Landvetter because the CAA must approve all investments. This also leads to over investments on areas where it is easier to get approval.

  There is also an unfair subsidiarisation of transport modes, where trains are heavily subsidized at the same time as the airline industry must carry all costs. The CAA has a demand to be profitable, but the railways do not have any such demand. It is also interesting that the airline industry must pay for its own security. This is not the case in any other area of society. If there is a football game, and 500 policemen are needed to guarantee the safety, the cost is taken by the police (in the end the tax payers). If it would be similar to the airline industry, the audience of the football game would pay this cost for security.

12.11 Bo Jacobsson, Marketing Director, Resia

Resia is Sweden's largest privately owned travel agency. It was founded in 1974 and has since then grown rapidly. Their focus is both on business and private travellers. In addition, they are offering the largest product assortment in the industry. The actual ration is 65 % are private travellers and the rest 35 % of their customers are business travellers. In terms of business travellers, the aim at satisfying the needs of small and midsize companies, rather than focusing on the larger multinational companies. Another aim is to capture private travellers through their business travellers. Resia has small local branches in 27 cities around Sweden. In compare to their competitors they are rather fragmented. However, to place their local branches in smaller cities is an outspoken strategy by the company. This, in order to capture the small and midsize companies, which are usually, located outside the major cities. Furthermore, they feel that they are not suited to fit the larger companies travel needs. That is another reason why they are focusing on the small-and midsize companies rather than the larger ones. Today, Resia has a yearly turnaround of 2.1 billion Swedish crowns and is the only travel agency that has managed to show profits since the start. In 1974.

The interview took place at Resia's headquarter in Gothenburg, Sweden. The person we spoke to at Resia was Mr. Bo Jacobsson. Hi is their chief of sales, and been at the travel agency for 2 years. Prior to that, he had worked for other travel agencies and also been in the supplying industry.

The reason behind this interview is give the travel agencies view on the future development of the private and business traveller and their requirements regarding air transports.

Key Criteria of importance.

- Focuses on capturing the small and midsize business travellers, much why they are located in smaller cities. This, in order to satisfying the needs of local business travellers.
- The need for travelling in business class has become very limited among business travellers, only of interest for the so-called long haul journeys. Within Europe, the traditional business travelling is within the past, according to Mr. Jacobsson.
- Travellers have become very informed about prices. However, the market has become so complex that their customers are not able to find the right travel solution to their specific need, due to the complexity of the market.
- Accessibility is the number one criteria for their business travellers. However, the smaller the company is the more price sensitive they are. According to Mr Jacobsson, the cheapest price is not necessarily the best solution for their customers. The companies' needs, accessibility and opportunities are as important as price when it comes to find the best travelling solution.
- Security and environment are here secondary issues when finding the right travel solution, according to Mr. Jacobsson.
- Their customer separate deals with the airlines make the equation even more complex. Companies' wants separate contracts solutions, due to the way they conduct their businesses with Resia.
- There are new demands put on the travel management, terms the companies demanding booking platforms, which are easy to use access along with an outspoken environment strategy of the travel agency. These issues are so-called order qualifiers

which the travel agencies needs to fulfil, before any agreements with business travellers are made.

- In terms of **low cost carriers and business class**, Mr Jacobsson believes that these to segments will form into one. This much due to the fact that there are now margins for companies to form their own niche segments. However, he does mention Ryanair as best in class in convincing their customers to book their tickets as early as possible. Also, he recognizes Malmö aviation strategy to keep their high service levels, in terms of meals and business lounges. Besides these two, mr. Jacobsson does not see any more inch segments among the aviation industry
- Resia does not feel that any of their customers are choosing train in front of plane because of any environment issues. However, future environment policy set by EU and the national government might have an impact on how Resia`s customers chose their transport mode. Such an impact is very difficult to predict in the future according to Mr. Jacobsson. The new additional tax on every airplane passenger might be a first step in such direction, according to Mr Jacobsson.
- In terms of **travel management**, the larger companies will remain with their efforts of keeping an in-house function of travel management. However, due to the complexity of the market they need to extend their organization with people from the travel business or outsource some activities to the travel agencies, according to Mr Jacobsson. In terms of the small and mid-size companies, they are likely to outsource their travel management function to an extended degree to the travel agencies. This, once again due to the complexity of the market where companies feel that the travel agencies are better suited to finding the best travel solution, in terms of flexibility and price, according to mr. Jacobsson.
- Today, there are two types of travel agencies segments, according to Mr Jacobsson. The ones that focus more on the major multinational companies, with all the complexity that involve. Types of these are American Express and Nyman & Schultz. On the other hand, there are the ones that have a more local focus, such as Resia. This spilt between the segments are likely to continue, according to Mr Jacobsson.
- The airlines will no extend there business future into becoming a fully travel agency, where the owned their own planes. This, much to the fact that they don’t want to take an additional risk, due to the fact that they are already stuck with the highly capital intensive airplanes. Also, very few airlines serve all destinations, meaning that if they were to extend into becoming a travel agency, they would not be able to meet specific customer needs.
- The **airline market** is today not sustainable, according to Mr Jacobsson. He mentions the fact that on the route Stockholm-Gothenburg there are today 4 carriers operating on a 100 % capacity when the market demand are 27 %. This is not sustainable and will probably lead to a consolidation of the aviation market in a near future, according to Mr Jacobsson. Already examples of this are the merger between Air France/KLM.
- The role of **Landvetter** is today somewhat problematic, according to Mr Jacobsson. There is today only one Swedish national airport, which are able to satisfy the needs of the customer, Stockholm- Arlanda. Landvetter is here more a regional airport which can somewhat satisfy the needs of region, according to Mr Jacobsson. However, this much due to the fact that the total volumes can not justify any greater extended routes from Landvetter, according to Mr Jacobsson. However, he does mention that this view might be different among travel agencies such as American express business travellers and Nyman& Schultz which deals with larger international companies and volumes.
- The issue over **ethnical travelling** is on its way out, due to heavy price competition and the extended routes offered by the various airline companies. Also, the issues of

ethnical travelling more concerns private segments, where concerns about the price are more important than service and flexibility, add to the lesser so-called ethnical travelling.

- The issue of **low cost carriers** and their strategy of offering cheaper tickets the more ahead you book your tickets is a very rational way of thinking, according to Mr Jacobson. He puts this in perspective to the charter flights, where the ticket tends to become cheaper just one or two days prior to the flights. The low cost carrier's model is here to be preferred, both among the companies and the travel agency, according to Mr Jacobsson.
- In terms of **private airline travel**, capital intensive products are here the greatest competitor. This, much due to the fact that capital intensive products are what the private segment weights against airline travel. Furthermore, capital intensive product has also the advantage of letting their customers split up their payments while the trend among airlines is to make the passenger pay the entire amount well in advance to the actual date of travel. This fact, according to Mr Jacobsson might be a threat to the passenger travel.
- Today's private travellers are so well informed that they are able find their own travel solution rather than travelling in groups that was the trend 5-10 years ago. This is was the industry needs to adapt to, offering several of alternatives where the customers can chose its individual travel solution that fits best. This is the future of private airline passenger travel, according to Mr Jacobsson.

In terms of additional charges in the travel agency, the revolution of the so-called ticket-less travel will in the near future get rid of many of the service charges that both the airline and the travel agencies today charge their customers. The already existing e-ticket system, where you are no required to have any paper ticket what so ever, is a first step in this direction, Mr Jacobsson believes

12.12 Wille Jansson, Project manager, Svenskt Flyg

Wille Jansson works with a wide array of tasks at Svenskt Flyg. He was in charge of the "Flyg med Framtid" conference in Gothenburg that took place in Chalmers facilities the 16 of November 2005.
This and many other projects have been initiated by Wille and his colleagues, in order to create platforms for business people, politicians and other organisations interested in the welfare of the Swedish aviation market. Events, seminaries and conferences are major parts of Svenskt Flyg's core activities, but they also work a lot with making new industry specific information available by:

- Performing aviation environmental surveys
- Inform the public about the aviation industry
- Initiate different kind of investigations
- Communicate with authorities, politicians and media on a daily basis

Key criteria of importance:

- Business passenger:
  LCC actors are one important reason that Travel managers today make a total cost analysis. Previously, when the ticket price where significantly higher than today and the options where few, focus was on the time factor. Preferences have shifted towards price the last couple of years, especially concerning the continental and domestic market. Business and Private segments demands on the product melted together more or less to one segment. Recently we have seen a slight change in this trend with business passengers showing an increased focus on service factors again. Services that are seen as key issues are direct relations between cities, instead of having to enter into a network; there is a strong will to not have to travel via Amsterdam or Copenhagen. This because it is time consuming and the business travellers' time often is equally important as ticket prices when considering total cost of a business trip. In conclusion we can see a harmonisation process, change in customer preferences towards reasonable service to reasonable prices. This fact benefits the aviation industry that otherwise would have had a difficult task to keep current prices and at the same time covering operating costs in a long-term perspective. The current demand on domestic traffic is better accessibility even to less trafficked destinations, where today car is the only real alternative.
- The private passenger:
  One important trend to consider is that business passengers today travel in the same manner as private travellers do and have done traditionally. So, when making this discussion it is important to keep apart "the private traveller" from the private passenger from a service perspective. Do mean the reason for travelling or do we reefer to the service level? When it comes to the service level there is a significant switch from traditional business segment to the private segment. When it comes to private travellers there is an even greater price focus and it is logical to assume that holidays and weekend travelling will increase during the next coming years. Another important factor to consider is that LCC passengers are willing to land and by that visit regions outside the main cities´ cores and thereby expand the tourism to other parts of Sweden.
- Market segmentation –Niche markets:

Ryan Air has presently communicated to Swedish media that they will invest in modern less polluting aircrafts. In relation to this their CEO Michael O'Leary states that nations should form their taxes in order to favour companies that use more environmentally sustainable aircrafts. He criticized the new passenger tax and expressed is unwillingness to make business in Sweden. In conclusion, we do not create conditions to stimulate environmentally niche markets with current political majority. Even though landing and take-off fares are based on noise and emission pollutions.

Environmental approaches must be supported and motivated by cost benefits. According to Wille Jansson today's market is not ready, i.e. both private and business passengers, are not willing to pay for more environmentally friendly aviation services. The customer base is too small for this kind of marketing efforts, even though environmental issues is increasing in importance in this business sector as well as in the others.

Ethnical travelling has been tested by SweFly, initiated 2004 and cancelled 2005 due to economical bankruptcy. The business model's foundation was to perform long haul traffic between Skavsta airport and Pakistan, supported by feeder traffic from Oslo and London where many Pakistani lives. The long link covered its costs but unfortunately the feeder traffic was too expensive and it could not be covered by the profit created in the long link.

SAS have also screened this market in the Baltic among other places. They see the ethnical travel as one part of a split traffic direct link to destinations in these parts of the world, even though the do not work with pure ethnical traffic projects as with the SweFly case.

Weekend travelling is another important segment that is increasing steadily, the average customer on these vacations is not very price sensitive and most of the passengers are above fifty in age. The business opportunity with this segment is increased by the fact that people seem to have less and less time for resting and vacation due to demanding jobs. Therefore this kind of travelling fits their private situation than traditional holidays of one to two weeks.

When it comes to segmentation of passengers it seems like the future will consist of more and more **mixed flights**, i.e. a flight will have ethnical, business and private travellers at the same time. This will affect the criteria for establishing new link; it is more likely that aviation companies will establish direct links for business travellers if it could be supported by tourism, as e.g. the case with Madrid-Gothenburg relation. In general there is also a trend towards less common destinations, e.g. Bologna in North Italia. The business idea is to switch among a couple of less known destinations and offer cheap tickets to these destinations due to its less popular airports etc. Incoming is a great possibility that have so far been very little explored. Sweden also establishes systems to manage the tourism flows when they arrive, not only in Stockholm and Gothenburg. This if we want use secondary airports and advertise other parts of Sweden than the two main cities. Finland has successfully advertised their nature and fly charter tourists to north part of Finland, i.e. a nature experience. One problem for this kind of trips in Sweden is that they get very expensive due to the geographies, Sweden is a very long country and an intermediate touchdown is often needed, i.e. expensive flights.

Business Jets and First class, traditionally first class was a product created by a covering between the front seats in the aircraft and the rest of the plane. Today we can see that first class moves in to dedicated aircrafts only serving first class passengers.

This trend can primarily be seen on the intercontinental flights on all other shorter links we will probably see less and less of First class seats. **Business class** will consist of better seats with more space and a more flexible ticket.

- **Definition LCC:**
  The boarder between LCC actors and network companies is somewhat erasing when network companies enter the low price market as SAS is currently doing, concerning their domestic traffic. The greatest difference between LCC and network companies is not the price, it is that the network company takes responsibility for the whole trip from "starting point" to final destination", including timing between arrival of feeder traffic and departure of long haul. This part of is cost intensive, more personal to manage unload and reload of luggage among other activities. In conclusion, passengers can be managed more effective in the networks or alliance network system.
- **SAS future:**
  SAS cost structure is still relatively high compared to competition and prices on the domestic, even though they have made great progress in this area. Because of the way they operate they will never reach cost structures similar to Ryanair´s. SAS have to compete with other factors, even though competitive prices are important, if they want to preserve their network structure. SAS is a so called flag carriers and have by this more responsibilities than LCC actors such as Ryanair. SAS have a much greater administrative stab engaged in tasks such as bilateral agreements and between Scandinavian nations and nations outside European Union. They also pay a lot of attention to environmental issues and transport political agendas. LCC actors only perform traffic between A➔B nothing more nothing less. SAS have rearranges their organisation in national companies this have positive impact on Landvetter airports importance because it weakens Copenhagen airports position as the natural hub for all SAS traffic. The Swedish part of SAS consider if they should invest in intercontinental traffic from Landvetter, if this gets reality it puts new lights on Landvetter and the Gothenburg region. In conclusion, Landvetter will still be an important feeder airport, but with more direct relations as well. Even though this new direct relations probably not will be operated by SAS rather by their competitors.
- **Direct relations:**
  As a fact of SAS weaker position on the Scandinavian market as well as strong LCC actors. Wille Jansson beliefs in a couple of new continental direct links between Gothenburg and e.g. Barcelona and Malaga. If and when this these lines are initiated, the links will and have to create volumes by attracting business and private passengers to the same flights to reach break even. In conclusion, it is not enough to have a steady business passenger segment in the relation; the destination must also be a relatively attractive tourist destination. SAS aircraft fleet today consist of planes with to many seats, optimal capacity for this kind of business and private mix direct links are somewhere between 70-100 seats. City airlines operate with good economy in this manner with their 50 seats, but the have another cost structure. It all comes down to the cost per seat, therefore aircraft size optimal can vary between companies operating a certain relation.
- **Intramodal competition: SAS vs. LCC:**
  LCC are more cost efficient and produces more flight hours per employee. SAS working towards this approach, but will not reach the same efficiency due to their responsibility as a network operator, described above. SAS are also captured in costly agreements with approximately 35 different Trade Unions from three nations. Compared to e.g. Ryanair that has zero Trade Unions to manage. One important example is the retirement costs for pilots that can retire when they are 60 and go on

working until 65 will full salary, this is costly. Ryanair have high pilot costs as well, but they use their pilots much more and by this the cost per hour and pilot gives Ryanair a competitive advantage.

- **Business class/First class:**
  On the intercontinental aviation market there is a better understanding and acceptance among travellers, especially business passengers, to pay for services refereed to as business or first class. The focus for business travellers are not luxury it is to be rested when arriving and ready make a good days work. This makes the intercontinental business traveller less price focused and priorities comfort such as space, larger seat and the possibility to lie down and sleep. First class in a more traditional manner will probably exist more in form of Business Jets and companies flying business travellers is smaller aircraft with only first class services to everybody aboard. All aspects of First class: Space, seat comfort and first class food and drinks. The segregation aboard regular aircrafts using "the covering" seems to be history or at least of less importance. The upswing for this Business Jets is probably based on the relation: Cost of CEO (or other very expensive human resources) per time unit compared to cost per ticket for different travelling alternatives.
- **Business travelling in the future (continental/domestic):**
  Priorities:
  1. Time; will once again get the most vital decision variable. Partly because of the harmonisation of market.
  2. Security; choose aviation companies with great track record concerning safety issues.
  3. Comfort, to be rested when arriving, concern
  4. Price, still important, but not as today. Two reasons, business traveller prepared to pay more and getting comfort services and the absence of the aggressive price war we see at the current situation.
- **Substitutes: Information technology**
  Teleconferences entered the market in the 80th and analytics forecasted a decrease in travelling, but on the contrary an increase appeared. Teleconferences made it possible for more people to initiated communication channels and this created a will and need to meet in person. IT-conferences have a stronger position as a substitute because get the visibility impressions (see the other person) as well as the possibility to communicate with slide shows and pictures while speaking. Still, Wille Jansson, beliefs that the net impact of this technology constitutes an increase the total amount of business travelling. The increase is probably slighter than the one during the teleconference era due to the possibility to communicate picture as well as sound.
- **Value-added-services at Airports:**
  Conference centres at Arlanda airport have been a successful investment with good utilisation and Wille Jansson beliefs that kind of project can attract business people to come together in a hub as Arlanda or Copenhagen. Instead of travelling all the way to one actors office or other conference centre. Here we have time savings in e.g. getting into city core and other connecting transportation at destination airport. He do not belief that Landvetter with today limited offers concerning destinations can perform these conference activities in any larger extent. For hub airport that can provide all conference participants with direct connection to the airport it can be a alternative when choosing between IT-conference or conference at one of the involved parties company site or other conference centre. In conclusion, the sales argument is: Meet in person as well as save time.
- **Indicators:**

The safety situation in the world.
GDP still important indicator.
The stability in the aviation business, e.g. frequent strikes initiated by Trade unions favours business occupied in another mode.
The amount of outsourcing and off-shore activities where Swedish actors are involved are important to consider.

12.13 Anders Lidman, consultant in the airline passenger business

Anders Lidman has a bachelor degree in law from Lund University and a Master degree in air space law, from McGill University in Quebec, Canada. He later worked for the Swedish Government, were he was assigned to deal with issues related to air travel. Examples of these issues was bilateral air agreements between countries, were Mr Lidman was sent out as a negotiator for the Swedish government. In 1986 he started to work for a small airline company called AMA- flyg, which later became known as Sall air with a broader aircraft fleet. Through various mergers, Sall air became what is today known as Skyways. Anders Lidman was also among the group of persons who initiated the Transwede, which operated side by side with SAS during the 80ths and early 90ths. Apart from this, Mr Lidman founded the Swedish carrier Goodjet, which was the first low cost carrier in the Scandinavian market. Goodjet was operating between 2000 and 2003.

Today, Mr Lidman has his own consulting company Aeropol, which helps airlines and airports in various aspects to become more efficient. He also is involved in Ålands flyg, a new airline carrier which operates out of the finish island of Åland. Ålands flyg recently started their operations and is the only carrier between Åland and Helsinki Finland. Currently, the company has 4 daily connections between Åland and Helsinki.

Key criteria of importance.

- Low cost Carriers are the first generations of air carriers, which aim is to bring people to Sweden. The difference between them and traditional carriers and charters are that the previous two types of carriers were only set out to carry Swedes from and back to Sweden. With the introduction of low cost carriers, such as Ryanair, people from other countries were brought to Sweden with the aim to experience what Sweden has to offer. This was something which rarely happened, prior to the introduction of low cost carriers, according to Anders Lidman.
- According to Anders Lidman, low cost carriers are only set to operate on international destinations, meaning that LCCs are not suited for the domestic air traffic. This, due to LCCs is based on the low prices rather than flexible time tables. On domestic flights, with large numbers of business travellers, which in large parts only requires flights during peak hours, makes it very difficult for LCCs to be profitable. According to Mr Lidman, the ideal situation for LCCs is two turnarounds a day with 3 hours legs each along with off-peak start and landing. This makes them profitable since the planes are in the air much longer and the turnaround time is less due to less traffic in the air and on the ground during off peak hours.
- The airports today are becoming more and more interesting for investors, since they are the ones generating all the profits. This, in contrast to the airlines which have been loosing money ever since the Wright brothers were around according to Anders Lidman. In addition to this, the airlines are bounded with new “environmental fees” across Europe, which makes them loosing even more money
- The new “environmental tax” is very harmful for the entire aviation business, since airlines become less compatible with other modes of transports. Also, there were planes of opening new routes from Småland's airport and from Landvetter, which are put on hold due to this new fee posed on the airline operating in and out of Sweden.
- In terms of business travellers, offering a well functioning time tables with many alternatives during peak and evening hours is the most important factors on shorter and mid range routes. However, the price issue are becoming an increasingly

important factor on these routes, according to Anders Lidman. This along with the more extensive use of laptops makes business travellers focusing more and more on price rather than time tables.

- Easy Jet and the American counterpart Southwest airlines are today the leading low cost carries that have been successful in meeting the needs of both business and private travellers.
- Prior to the introduction of the LCCs, the aviation market acted as an oligopoly were the airlines divided the market between the actors. Due to this, SAS manage to remain there prices high where their breakeven point was at a load factor of only 35 %. This manage SAS to keep a high service level since filling a flight only half full was a rather good business for them. At these times, SAS had on average 60-65 % business travellers who paid 3-4 more than the other passengers. Furthermore, due to restrictions the business travellers had no alternatives than to pay these high prices, unless they agreed to be gone over the weekend. So it was more a question of how the airline were willing to serve the customer rather than the customer could choose his/her way of travelling
- Prior to 1980, the aviation industry had been totally regulated. The first real attempt to deregulate the market was initiated by President Carter. Prior to this, the barging power had always been among the suppliers (airlines). However, this is not the fact today. Instead, we are seeing that for the first time in the aviation history, the customer is in charge and are able to put demands on airlines in terms of prices and flexibility, according to Anders Lidman.
- Travellers have different needs depending what types of travelling there are set to. In Anders Lidman’s mind, we are moving away from the time when travellers associated themselves in various segments. The situation today is that, depending of what types of business you are in and where you are set to travel, is the decisive factor in how people wish to travel in the sky. In general, the multinational companies are those that are more committed to the traditional network carriers while small and mid-size companies are more flexible in their way of travel in the air.
- Sky Europe is a new LCCs carrier that will emerge through Europe, according to Anders Lidman. They are set out to meet business travellers need along with having a cost structure that is well below Easy Jet. Similar to Easy Jet, Sky Europe has chosen to fly out of primary airports, which makes them more attractive to business travellers. Here, the cost of flying out of primary airports is only a marginal cost which the airlines are willing to take, since their product becomes so much more attractive for business travellers.
- In order to attract business travellers, airlines must in most instances fly on primary airports, according to Anders Lidman. Here, he mentions the mistake that Goodjet did when they choose to fly on Bowie, which is a secondary airport well outside Paris. However, secondary airports that are located closer to cities than primary airports or secondary airports with excellent connecting systems will definitely be of interest in the future. Much due to the fact that the price is becoming increasingly important for the business traveller and secondary airports in general have lower fees, which results in lower air fares for the customer.
- Ryanair has an outspoken strategy that for each year that goes by, lower their passenger revenue margins. Instead, they are set to bring in revenues in other ways. For examples, by bringing in commissions to other types of sales through commissions on their home page or at airport shopping.
- The trend among new airlines is to only stick to their core business, which is carrying passengers in the sky. However, similar to Ryanair they are trying to generate

extensive revenues through commissions. For example, if a customer books a rental car through Fly Nordics webpage, Fly Nordic receives a certain percent of the profit. This is what more and more airlines are set to in order to increase their profits without increasing their cost structure.

- The use of internet booking is the future within the airline industry, according to Anders Lidman. Here, either the travel manager or the travelling customer are able to book and search for flight that suites the most
- In terms of LCCs, their problems lies when people whish to travel beyond point B, according to Anders Lidman. They are then stuck in the process of check-in and- out the baggage an additional time along with having limited supported flights that takes them to their final destination
- The uses of the new online booking systems is a way in which the LCCs may be able to provide both business and private passengers with various of service, without being forced to charge higher prices, according to higher prices. The use of the so-called service fee, which the traveller is charge with when booking online, is away to satisfy the needs of travel agencies. This fee is set to diminish according to Anders Lidman. This, depending on the ratio between the sales on-line and the sales through traditional travel agencies.
- New types of modules where the regions cooperate, in order to offer total travel packages for customers. This might be the new trend in the industry where the airlines offer this total travel solution on their webpage, according to Anders Lidman.
- LCCs are the first actors in the aviation industry that actually brings large volumes of people to Sweden, according to Anders Lidman.
- New types of smaller jets are on the way, which will drastically decrease the prices of acquiring and operating for companies. This might be an innovation, which might affect business travelling, according to Anders Lidman.
- The price issue is becoming more important for business travellers. However, flexibility and the numbers of flights are still the most important for business travellers. For private customers the price issue if of greater importance. They are willing to sacrifices both service and travel during non-peak hours to reduce their expenses, according to Anders Lidman.
- The political issue is of great importance for the future of the aviation industry. The politicians are today those who decides the pre-conditions for the industry. Whether or not the politicians have faith in the industry is what determines the industry outputs, according to Anders Lidman. He also believes that the opposition parties in Sweden more firmly believes in aviation as a future mode of transport, in contrast to the parties that are in control today. The new passenger taxes are a good example of the current Government policy on air transport, according to Anders Lidman.
- Privatising Landvetter would be beneficial both for Landvetter airport and the region. If that were the case, the airport would have better pre-conditions to offer products and routes that better suites the travellers, according to Anders Lidman.
- The Swedish domestic market is not suited for Low Cost Carriers, according to Anders Lidman. There are not enough people flying domestic today to make it profitable to operate LCCs domestically, according to Anders Lidman.
- The facts that business travellers choose train as transport mode, due to their desire to work during the travel is not accurate, according to Anders Lidman. In the study he did, the result showed that the reality were that the business travellers either slept or did other non-business related tasks during their travel by train. Therefore, this

argument that business travellers choose train as their future mode of transport is not true, according to Anders Lidman.

- The issue of ethnical travel is not an issue of importance, according to Anders Lidman. This traffic is today handled by the traditional airlines and will probably be so in the future, according to Anders Lidman. In his mind, ethical travel is a term that is not relevant for the industry.
- Sky Europe is today one of the more interesting new airlines, according to Anders Lidman. Their cost structure is below Ryanair´s, while their tickets prices are in the same level as Easy jet. In other words, their profit margin per passengers is relatively high.
- None of the airlines actors that are today operating in the Swedish domestic market are generating any profits today, according to Anders Lidman. High cost structures in combination with an access of number of seats offered is the underlying reason why the industry is loosing money.
- The critical point for where travellers choose train before plan, in terms of travelling time, is 2.5 hours between Stockholm and Gothenburg. In other words, 2, 5 is the critical point where travellers would choose train as their transport mode, according to Anders Lidman.
- The perception among travellers is that travelling by plane in general feels shorter in comparison to train, according to Anders Lidman. Studies show that the short breaks in air transports is what makes this reality, according to Anders Lidman.

12.14 Leif-Göran Lundstedt, Group Travel Manager, SKF AB

SKF AB is a production company in the bearing business. They are especially known for their roller-bearings.

Leif-Göran Lundstedt started working with other questions regarding rationalisation within the company. He slipped into travel management and discovered that the travelling was performed in many different ways. This initiated the formulation of a national travel policy. The policy is national due to legislation and cultural differences. The policy is the same no matter what position in the company one has.

Key Criteria's of Importance

- In general, SKF travel in economy-class. Travels in Business class can be granted by the top management in exceptional cases.
- It is important that the travels are safe and cost-effective. It is not only the ticket price that is important, also hotel, transport to and from the airport, wages, and allowance has to be taken into account.
- The absolutely most important thing is safety. After that comes a good time-table and price. SKF is trying to get the employees to book the meeting after the time-table instead of the other way around. A high frequency of departures is a service factor that can be solved by booking one-way tickets and mix between different airlines.
- When it comes to the bonus points these are a taxable privilege, and SKF have decided that they can only be used to upgrade the ticket or for a free business trip. It is not allowed to do private travelling with the bonus points. This is also something that differs between nations because of cultural differences.

Travel patterns

SKF has a high amount of travelling due to the segmented structure of the company. They also have a very spread customer base, so the travelling is scattered over many destinations. The biggest destination is Frankfurt, but even that only has 8 % of the total amount of travels.

IT-conferences

SKF were very early in adopting the technology of IT-conferences. Due to the flaws in the early technology it was put away, but now they have invested in new equipment again. Also conferences by telephone have been used a lot, and they will now focus on these technologies again. The reason for this is that the travelling has increased quite rapidly recently. These technologies are most useful within the company, where it is not as important with the relations that personal meetings create.

Future volumes

SKF do not see any long-term decrease in the amount of travelling, though there might be short dips and peaks, depending on the result of the company. The travelling is relatively a rather small cost, due to SKF being a manufacturing company. The higher relative cost of travelling the more it is in focus.

Travel management in practise

SKF use travel management consultants to a large extent to get a good base for decisions. Currently they use American Express for this. AmEx does not make decisions, but provide the traveller with alternatives. It is only when the travel goes beyond the framework of the travel policy that the travel manager at SKF is actively involved. The agreement with AmEx is revised continuously, but the basics stay the same. There is a more substantial revision once a year when the business plans are made. SKF negotiate with SAS and Lufthansa based on the volume of travelling, based on information from AmEx. SKF have international agreements with some airlines, such as KLM and Air France. It is very common that the travel agency can get much better prices than the agreements can. Therefore it is most likely that these agreements will disappear and be replaced by just buying one-way tickets.

Low-cost carriers

The low cost carriers do not have a very strong position within SKF. Some suitable links are used e.g. from Gothenburg to Luton near Stanstead where Ryan Air is always used. On many links it is too complicated to use Low cost carriers. SKF defines a low cost carrier by the passenger being willing to receiving less service. The ticket is usually not re-book able, and it might not be possible to be seated together. The airports that are used are secondary.

Landvetter airport

SKF find Landvetter airport to be good because it is easy to get a good overview. Also, the processes are smooth. The drawback of the airport is that it lacks many direct connections such as Paris, Brussels, and Frankfurt.

Creating new links

SKF cooperate with other companies to influence airlines to create new connections, and also when competition is too low. The scattered travelling makes it hard to create connections on their own.

Intermodal competition

When it comes to the intermodal competition, SKF are interested in environmental factors, where air travel is not good. On travels to Stockholm it is better to take the train than to go by air. To destinations that are close it is better to take the train than the car, if there are good connections. Environmental factors are mentioned in the travel policy, but it has not been controlled much. Leif-Göran believes that the focus on environmental factors will be greater in the future. The low cost carriers have often been accused of being environmentally hostile, but here the cabin factor also comes into the picture, and he is curious how it looks if this is taken into consideration

12.15 Claes Orwallius, Head of Service, Swedish Business Travellers Association

Claes comes from a background in the Swedish Chamber of Commerce where he has been working with communication during the last twenty-seven years. The year 2000; he was one of the initiators to move the business service division to Gothenburg. This because otherwise it would have been cancelled due to the lack of interest for this kind of question among people in the Stockholm office. However, Claes felt that the business travel function was an important actor in establishing networks among travel mangers and other related personal. Therefore, he took over the whole function and moved it to Gothenburg. SBTA have been in action for twenty years, but in its present form and in Gothenburg since five years ago.

During the last year the amount of members has increased by fifty and today SBTA have approximately 360 members. This emphasizes the fact that travel expenses and the travel management function are increasing in importance. It also indicates that SBTA is filling its function and that they are improving themselves. SBTA focus mainly on competence development and teaching, but they also act as a creator of public opinion fighting for their members i.e. the buyers of business services; they do not support any political agenda. Other functions performed by SBTA are; international activities (following trend, networking etc), seminaries, study trips and other forums.

Key criteria of importance:

- Travel management and the industry of business travelling:
  The industry of business travelling is and has been very turbulent during the last years due to structural changes with aviation companies and travel agencies disappearing from the market and new actors entering. There have also been trends emerging in the buying side, i.e. among Travel managers.
- It is often lonely to be a Travel manager, because often you are the only one within the company working with these issues. This makes SBTA conferences, seminaries, meetings and other activities such as study trips important meeting places where Travel managers can seek support, brief with colleagues who understand their worries and have insight in their daily problems. It is also a forum for less experienced Travel managers to meet and learn from the more skilled ones, to benchmark their success.
- The Travel management function is currently strongly influenced by the traditional purchase function and its cost cutting oriented approach. The strict focus on price can sometimes lead to a lack of holistic perspective. The travel management functions primary tasks should be to find competitive prices, but also to make the trip efficient, i.e. get to the destination rested, in time and with the least possible waste of time due to delays, lack of frequency etc.
- The travel manager function has evolved from the executive secretary profession. Traditionally this was a low status function and a secretary does not posses a position to decide and influence how managers shall travel. Therefore, the role has been upgraded into a travel manager function separated from the secretary duties and status.
  Travel management policy:
  In relation to the context in the paragraph above, it is important to mention that safety issues are rising in importance among travel managers. E.g. The Swedish national Road Administration states criteria on the features that the cars rented for business travelling shall fulfil, among them are; size of the vehicle, the existence of autopilot,

(emission limits), safety equipment and on what distances employees are allowed to use it.

- The use and shape of a travel policy is very different among companies. It is important to decide if the policy is **a recommendation or a rule**. Some companies have policies that have been signed by top management representatives, sometimes even by the owners of the company to emphasize the importance of that every employee keeps to it. This is especially important when the policy is more of a recommendation. In this context there is also a question about consequences for employees not following “rule policies”.
- The next decision to take is the level of details, if the policy is a rule it is important to clarify details in order to avoid misunderstanding.
- The most important parts of a travel policy:
  Statement of travel service level to use (on different distances).
  Transport mode to use.
  Safety issues.
  Environmental issues.
  Rules of authorization of payment.
  Decision coach, a guide for the business person to bring with him when travelling.
  ”An emergency telephone number” to the travel agency used, to get help or clarification, often 24-7. (This function performed by the travel agency is somewhat put out of action when shifting towards more on-line self-booking and by this reduced use of agencies).
- It is important that the travel policy feels alright for managers, owners and employees too be effective. Some companies have a generally detail managed policy program and it feels natural to include the travel policy in this. If instead the company culture relay on individuals sense of responsibility and employees are used to being empowered it feels more logical to have the travel policy stated in the same manner. In conclusion the travel policy should be aligned with company culture and the framework for all other policies. It shall also be easy to communicate within the company, i.e. it must be logical and easy to interpret. A well functioning intranet were employees quickly can receive answers to their question is one good example of an effective communication channel.
- Three different ways of structuring the travel management function:
  A separate agency with its own personal located in-house, i.e. in the specific company’s facilities. Exist in larger companies, but it is a rare solution today. The travel agency outsourced, but with close relationship to the company it serves is a common solution today. No or very little travel agency usage. Travel management performed via an in-house system (personal, data system and related resources). The usage of this solution is increasing, mostly because of the generation shift in companies. Young people are very used to using computers and the internet. Therefore a self-booking system is easier to implement in a company with younger personal, seen from the user perspective. If to use self-booking is mainly decided by:
  The complexity of the trip
  How much time that each employee shall use to plan their travelling.
  One important argument against self-booking is safety issues, such as being able to know exactly were the companies´ personal is located. This to be able to get in contact with them if e.g. there is a natural disaster.
- There is also an important difference in the ways that companies negotiate with transport providers. Small and mid sized companies usually receives more negotiating power by using the travel agencies services. This, while larger companies makes their

own negotiations and only lets the travel agencies manage the contract considering day-to-day business.

- The price criteria:
  One important reason to why price is such a focus today is that companies feel that they have been cheated by the aviation companies. This due to the historically very high prices that they where exposed to by e.g. SAS during the 80^{th} when they paid ticket prices of up to 3800SEK for a trip between Gothenburg and Stockholm. Today, with the rising competition on the aviation market we can see that it is possible for aviation operators to make money on a ticket price of approximately 1500SEK. This of course is disturbing for companies that know that they have paid an excessive price for over twenty years and they do not want to make the same mistake twice. This does not mean that flexibility and service is unimportant, but companies today know that they can receive it together with a reasonable price.
- Furthermore, travel managers with insight and experience realize that it is important to pay the operators enough to at least cover their costs otherwise we risk loosing competitors. If e.g. Fly Me and Fly Nordic leave the Gothenburg-Stockholm route, it is reasonable too believe that this will result in excessive prices on this route once again. Today the price war on e.g. the Gothenburg-Stockholm link makes aviation companies operating on prices that do not cover its costs. This is not a long-term solution and the market will probably emerge towards a more reasonable price level, i.e. a harmonization process. It is possible that one actor on this specific link in question will be cancelled. Today, there is an overcapacity of seats in this relation. It is also possible that the more realistic prices, due to the harmonization process, will make companies reduce the amount of people they send on business trips in a certain situation. When prices decreased to current level, many companies decided that the cost of sending one extra person have so little economical impact that it could be motivated. This trend may reverse somewhat if and when the harmonization of the market gets a reality.
- In conclusion SBTA and its members seeks win-win solutions in the long-term perspective, i.e. when prices are fair for both SBTA´s members and the aviation companies can make a decent living.
- The service criteria:
  To describe flexibility and its importance in detail it is not possible to make a general picture. The impact and importance of flexibility is based on the situation at hand. The Stockholm-Gothenburg relation have good frequencies between departures, with a lot of actors operating the link, therefore the question is less of an issue in this case with flexibility defined as frequency (the term flexibility consists of different aspects such as frequencies, ticket rebooking/cancelling etc). If we instead analyse the Gothenburg-Prague distance we find flexibility much more of an issue, here it is easier to see the drawbacks created by the lack of flexibility, defined as low frequencies in the link. E.g. the cost of having personal staying one extra hotel night, due to lack of departures is easy to calculate. On the domestic market, frequencies in departures are the absolutely most important criteria. Here the competition of rail traffic and its frequencies is important to consider.
- The need for comfort related services increases by distance and travel time as well as how heavy scheduled the business person is. Once again it is not possible to give a general answer to this question, it depends on the situation, but if the person is supposed to be able to work directly when arriving and do a good job you should be able to sleep or lie down during trips longer than approximately three hours. On continental flights issues like “the office onboard concept” can be an interesting

question for aviation companies to work with. This is also a service that business passengers probably should be willing to pay for, in contradiction to “lull-lull”, i.e. champagne, luxury food etc. Nevertheless, flexibility is still key, in this case it mostly concerns ticket flexibility, i.e. the possibility to rebook if the traveller misses a flight for some reason, cancel or redirect a flight to other destination. It is important that the waiting time is kept on a minimum, e.g. that the passenger can go with another aviation companies empty seat, e.g. within an alliance. This to avoid chain reactions in the business passenger’s heavy schedule.

- “The office aboard” concept consists of services like copy machines, telephones, internet connection etc. This could be a business opportunity on longer distances. Internet connections already are. If to use this concept aboard, the question about sensitive information has to solved, i.e. companies do not want their employees to share important information with the rest of the cabin while working.
- **Competition:**
  On the link between Gothenburg-Stockholm the aviation companies have a significant competitor in the rail mode substitute. This much because people find it relaxing to travel by train even though it often demands longer travel time compared to going by air. The basic argument for choosing this mode is that the passenger wants to be able to work while travelling. It seems easier to work on three hours trip than it is when you have to change mode a couple of times during the trip as with the air mode; e.g. Gothenburg-Stockholm bus➔aircraft➔ Arlanda express. Even though peoples often use this as their main argument to choose train for their travelling, going by train is often perceived as very sleepy and it is hard to be effective. The alternative, to travel by air mode in fifty minutes, is often more effective, basically because it is not as comfortable and you do only have fifty minutes to get the job done. Of course, this is somewhat speculative and the question is very individual, but the discussion is good to have in mind while examining the competitive situation between these modes on shorter distances, i.e. in our case domestic.
- When analysing the total travelling time going by air and rail mode, in general we always calculate total time with the air mode, but only train time when using rail mode in the long link. Not everybody travelling have their final destination in the city core, where the train usually stops. Sometimes the airport and adjacent local modes makes this a better alternative from the time aspects. In conclusion, the choice between going by train or by air mode is often up to the individuals own perception of what is the best, rather than put in a reality context. Except when Travel managers have routines that states when to choose a certain mode.
- The car is an alternative mostly to shorter train journeys. On flying distances, it is often not an option, especially not for the business passenger. The car has is said to be an option for travelling within a total range of approximately 200 kilometres, but there are a lot of reasons not to choose it; traffic accidents, long travel time, rising gasoline prices. It also comes down to how many people that are travelling from a specific company, if you fill a car (five persons) it could be economically justified, but with one person travelling it seldom is on longer distances.
- Business travellers often have one or a few addresses to visit at the final destination and the usefulness of a car is therefore less, than for the tourist who can benefit from the car while at the final destination. Even though, the car still provides the traveller with flexibility no other mode can compete with on shorter distances. For good or for worse, people can also avoid getting late by adjust the travelling speed themselves. The car is also often used on links where we miss alternatives such as rail and air mode connections, but the roads are of high standards. E.g. there are no air mode

connections between Malmö-Gothenburg. The train to Copenhagen exists, but it is relatively expensive.

- **IT conferences:**

  A slight increase adjacent to the 11 September assault and SARS, but it decreased rapidly. People spend a lot of time in front of a computer and most people want to meet with others in reality rather than using technology. There is no sign of a “natural change-over” from travel to technology, but it is possible to decide, via the travel policy, that some meeting shall be performed via e.g. IT-conferences. One important occasion when it could be used is when having project meetings that only serve update and no significant progress have been reached. Situations when very little can be discussed and decided at the current situation. It is common that a lot of projects´ members meet only to declare that they have not been able to make want they were supposed to do until this specific deadline. This is a typical situation when it could be better to only meet via telephone/IT-conference.

12.16 Mats Sigurdson, Director Aviation Marketing, Swedish Civil Aviation Authority

Mats Sigurdson has previously been working at SAS for 20 years.

Key Criteria of Importance

- Security is something that all passengers take for granted; they do not fly with a company if they feel that there is a risk that they won't make it alive. There are also no airlines that market themselves with security. This would be considered to mean bad luck, and would also not be appreciated in the industry. Qantas is the only major airline that has not had a major accident, but they do not use it in their marketing.
- Flexibility is the criterion that is most highly valued in the sense of the ability to re-book and also timetable.
- Another important thing is brand and simplicity in the price structure. If the passenger chooses between a company with a very simple and understandable price structure and a company where the price structure is very complex, he will go for the simple. Euro bonus is a major attractor to SAS.
- Price is increasing in importance due to the focus that this is given in the airline industry at the moment.
- There is a balance between time and ticket price on longer travels. This is not the same on shorter trips, because these are often made outside regular working hours. On long trips, it might be justified to let the employees travel in Business Class, so that they are fit for fight when they arrive and thereby also saving one day.

Definitions

Business class doesn't exist as a concept on domestic flights. Here it is more a question of flexibility such as re-book ability. On continental flights it exists and the passenger receives better seat comfort, better food, and flexibility. On intercontinental flights business class is a completely different product; comfort is in focus, accessibility to lounges, and flexibility. There is a focus in Business class to get through the airport quickly, for example by going past the queue at the security check. First class is a lot of everything; big seats, complete service. This also means that it is expensive to produce this service; therefore it hardly exists on domestic and continental flights.

To run a pure business class airplane demands that there are big companies that back it up. For example, City Airlines are talking about starting a route between Gothenburg and New York. I do not quite believe in this idea, because it is hard to find companies that put in guarantees for their part of the costs. Another part of this is that the major airlines in Europe almost completely lack competition on their intercontinental routes. This means that this is a major source of income. This is all based on preventing new actors to break into this market. If City Airlines would start a route to New-York, these airlines would drop their prices, and this would make it very difficult for the newcomer to keep their customers.

Travel Management

The driving force for Travel Management is to lower the travelling costs, alternatively increase the efficiency for the same cost. The objective is to secure that the company can perform the goals of the business plan. A strategic purchaser always has a focus on money, which might restrain the efficiency of the travelling.

Airlines are a typical example of companies that are governed more by money than by efficiency. When there is a need to invest in systems to increase the efficiency, the company is generally not doing well, which means that they cannot invest. The investment is made when the company is starting to do well again. The effect of this is that the bad times are longer than they would have been if the investment had been made.

Intermodal competition

The airline transports between Gothenburg and Stockholm are increasing due to the low prices. The low prices are an affect of the overcapacity that exists on this route, where 2.4 million seats are offered to 1.3 million passengers. There is a need to adapt the capacity to the demand. It will be very hard to increase the prices when the passengers have gotten used to the current price level. It is therefore very stupid to go out and use the lowest price as a slogan (Gbg-Sth 450 SEK, SAS) instead of e.g. giving examples of different prices. Indirectly they are saying that everyone that has paid more than 450 have paid too much.

The classical business traveller has no problem with paying 2000 SEK for a return ticket Gothenburg-Stockholm. The private traveller is not likely to pay more than 1000 SEK.

- The train connection to Landvetter airport will not make much difference for the domestic air travel. The reason for this is that the time saved by getting off the train, go by air, and take the train to Stockholm is too small compared to staying on the train all the way. The connection will have an effect on international flights though.

There is a significant lack of balance in the financing of infrastructure, which results in a distortion of the competition. The government pays the infrastructure for rail, while all infrastructure for air traffic is paid for by the passengers. Having said this, train will still always be a good choice both from environmental and competitive aspects. The passengers are prepared to spend maximum 3 hours on the train, and if the time travelling time to Stockholm by train goes down to about 2.5 hours it will be a really serious competitor to the airlines.

- The car is always a strong alternative because of the supreme comfort of being able to do things undisturbed. People are prepared to pay a high price for the ability to go by car. Going by car is an alternative on the route Gothenburg-Stockholm, especially if you live in the direction towards Stockholm from the airport, which means that you have to go back to be able to take a plane.
- IT makes it easier to establish a contact. It will not reduce travelling, but it makes it easier to make contact and decide on small issues, but sooner or later you have to go and see them in person anyhow.

- There is definitely a future for conference centres on airports. It demands a pleasant airport such as Copenhagen or Bratislava. It also demands good connections from several destinations at a low cost.

SAS future

There is no alternative to focusing on the domestic market for SAS Sweden. On the intercontinental market there are three major actors: KLM, British Airways, and Lufthansa. Here, the passenger flows are concentrated to five major airports: Charles-de-Gaulle, Heathrow, Amsterdam, Frankfurt, and Munich. The co-operation between SAS and Lufthansa has taught the Swedish passengers to go via these airports. On the continental market there is strong competition from Low Cost Carriers. The intercontinental traffic that SAS have departs from Copenhagen airport. The new high capacity airplanes mean that the capacity on many intercontinental routes will be twice the current capacity. This means that the prices to the major hubs from the surrounding markets will drop, because the airlines want to focus the flow even more. SAS option is to position themselves as a strong domestic airline with feeder traffic to major European destinations where there is a strong local traffic and they might also take some of the feeder traffic to the intercontinental routes.

In the future it will be more common to create alliances through acquisitions. For example Lufthansa is actively monitoring the bidding for a number of smaller airlines. The probability for Lufthansa to buy SAS is quite small. They would buy a lot of problems such as a declining brand (positioned as expensive), an old airplane fleet where all the new planes are leased, and a lot of old union agreements. Lufthansa and SAS have been co-operating for 10 years, which means that the Lufthansa brand is well established on the Swedish market. This means that they might as well start their own routes instead of buying SAS, and it would cost them a fraction of an acquisition.

A possible merge would be SAS and Finnair. The Swedish and Finnish markets are very similar which means that synergies could be achieved. Mats do not believe that SAS will be able to reach the cost level of Finnair by 2007, as they have stated. Also, even Finnair have a relatively high cost level compared to the LCCs. One of Finnair’s advantages is that they have a route to Asia that is generating a lot of money. One example of a traditional network company that does have a low cost level is British Airways. They are able to keep this level because of e.g. the more liberal British work legislation.

- One interesting company on the Swedish market is Fly Nordic. Fly Nordic is not run from a business perspective. Of course they are trying to make good results, but they are owned by Finnair. They only bought it because SAS bought Air Bottnia and started to compete on the Finnish market. Fly Nordic was Finnair’s counter attack.

- One of the most important things in the airline business is the brand. It is vital for the ability to attract passengers.

Future

A few of the strong actors on the European market is Ryan Air, Easyjet, Air Berlin, German Wings (Lufthansa), and Hapag-Lloyd Express (Tui).

Traditional airlines make all their income on the tickets. The LCCs make about 70 % from the tickets and the remaining 30 % on additional revenues from e.g. rental cars, hotels etc. so-called kickback. The goal for Ryan Air is that the tickets should be free.

There is definitely a future for travel assembly through modules via Internet, where the passenger selects different modules to combine their holiday. There is also a bright future for selective web marketing based on IP-address. This makes it possible to target e.g. people searching for “Stockholm” in Japan, and target advertisement on the airlines offer for the trip from Japan to Stockholm.

Private passengers

There are a few established customer groups:

- Surf& Sand
- Visit friends & relatives
- Ethnical travellers

The airline Swedefly were focusing on ethnical travellers, but went bankrupt. There biggest mistake was to choose Skavsta airport instead of Arlanda. Skavsta is one of Ryan Air’s airports and do not have any feeder traffic. Swedefly would have been more successful if they had chosen Arlanda, despite the increased costs this would have brought.

Another airline that is clearly profiled towards ethnical travelling is Austrian Airlines. One of the best routes for Lufthansa was Stockholm – Asmara (northern Africa). Ethnical travelling is a growing segment. In Sweden for example there is a concentration of Croatians in the south, and Serbs in Gothenburg and Stockholm. This means that there are good conditions for a route from Sturup airport to Zagreb for example.

- The spontaneous travels to odd destinations are driven by the LCCs. One example is Glasgow, where there was no demand, but Ryan Air created it with their route.

The problem on many destinations for LCCs is that they have a home market but no market in the other end. This means that many routes are clear one-way flows, with smaller margins as a consequence.

- The route to Split is a good example of a route where both tourists, ethnical travellers, and others go. The business travellers are very few at the moment though.
- Ljubljana, Bratislava, Bilbao, and Porto are destinations that will develop, also Montpellier and Toulon.

Sweden

75 % of the passengers at Arlanda airport are Swedish. This makes the airport and airlines very vulnerable to the shifts in the Swedish economy. There has historically been a focus on making the Swedes travel more, but not on making people go to Sweden.

Säve airport is a good example of what not to do. The Gothenburg area would need one strong airport to which travellers are attracted. The flow should not be divided between two airports.

The passenger tax

The calculations at the Swedish CAA show that they will lose 110 million if the tax is introduced. On domestic routes, where the tax is imposed both ways, it will be 1600 SEK more expensive for a family of four on a return ticket. The effect of this is that the domestic travelling is predicted to decrease by 7.7 %. If there is a re-election before the tax is introduced it will probably not be realized.

Indicators

The LCCs makes GDP loose its importance as an indicator of passenger growth in the airline industry. Growth in other regions might be an interesting indicator instead.

12.17 Claes Thormählen, Manager Business Travel, Broström´s travel agency AB

The other business area is special travels, which is conventions and travels for ship crews. The biggest customers are the Chalmers and the City of Gothenburg. Other customers are Bilia AB, and Atlet.

Key criteria of importance

The cost awareness has increased, but not only because of Low Cost Carriers, it started already before that. In the 80's it was cool to travel in front of the curtain. Today it is cool to travel at a low cost, but Mr Thormählen does not think that there will be a second wave where it will be cool to travel in business class. One of the reasons is that it has become so common nowadays to travel so people don't see it as a bonus, they are happy if the meeting is cancelled so that they don't have to leave the family etc. There is also a higher pace that makes people prioritize their spare time more.

Except price, also time table and flexibility (re-book able) is important. If the meeting is finished earlier you don't want to sit and wait. SAS has a good concept with one-way pricing where you can take low price out and full-flex home.

Harmonisation

Full-price is to expensive, low-price is"too cheap". Even without taking the LCCs into account the gap between full-price and lowest price is too big. Full price is 3-4 times more expensive than the cheapest ticket. The airlines must find a level that lies closer to reality. For the travel agency this is much a question about selling the right ticket to the right customer. Generally people are prepared to pay more to save time.

Total cost

There are big differences between companies how well aware they are about this. A lot of focus is on the ticket price. There is also a high focus on the agency's fee. If the agency can offer an alternative for 4000 SEK and another agency offer 7000 SEK, there is still a focus on whether the agency takes 140 or 150 SEK in fee. One of the reasons for this is that it is easier to compare the fee.

Loyalty

The customers that use Broström´s today are generally loyal to them, but there is a trend that people go out on the internet and book their tickets themselves. That way they save the agency's fee, but they don't value their own time.

Another aspect on this is safety, and also cost review and statistics. Many companies have negotiated special deals, and then it is important to be able to review this and see how much they have travelled. When people book their own tickets this gets very complicated with invoices coming from many different places.

Deals

It is mainly on domestic flights that it is possible to find better prices than a deal would give. On continental flights there are still few LCCs which make deals more important. One problem with the deals is that companies seem to find it hard to put their foot down and make the staff travel only with a designated airline.

Travel policies

Most policies seem to be quite unclear. There are interesting aspects of environmental questions, for example how much can the environment cost? How much more are they prepared to pay?

The policy might also differ depending on the purpose of the trip. You might take a cheap ticket one way, but a more expensive (flexible) ticket for the trip home as it is not possible to leave the customer just because the plane is leaving.

Competition

If you are going to e.g. Stockholm just for a day it is preferable to fly. There is a possibility to work on the train, but so far it is not good enough. Most of the time it is impossible to use the mobile phone as well. Wireless internet might come on domestic airlines as well, but it is a bit more of a fuzz to take out the laptop on an airplane.

Mr Thormählen has not seen any impact by video conferences. He believes there is a need for personal relations. However, in companies with a lot of internal travels it can be a good substitute, but not for customer visits.

LCC

- Slim organisation
- Only fly on attractive destinations
- Only fly during peak hours
- Offer transport only, no frills
- To a large extent available via the Internet, but this is starting to turn. Both Fly Me and Fly Nordic are now available through the Amadeus system, which 90 % of the travel agencies use. They seem to have discovered that it is the agencies that have the customers. There is also a trend that the customers stop by passing the travel agency and book LCC via the agency. It is too complex to access four different websites to find the lowest price.

Traditional airline

Offer a wider opportunity to choose; choose comfort and most of all flexibility. Better safety net than the LCC. If they can not fly you, they make sure that someone else does.

Business class

Comfort is not the key. What you pay for is flexibility. In Europe it doesn't matter if you sit in front of or behind the curtain. SAS have different degrees of flexibility in economy-class, but if you go with many other airlines you end up in business-class if you want a fully flexible ticket.

Self booking system

These systems have been around for 15 years but are only starting to get good enough. The customers are very interested and want immediate access. One advantage is that the company specific deals can be integrated so that it is only possible to book what the company want the staff to book. This system gives the agency an easier handling and suits well for simple travels.

Travel Management

Broström´s Travel Agency does not have customers that are large enough to have Travel managers employed. Most of the customers have some kind of secretary that takes care of the bookings. Chalmers thought about developing this function, but they could not see that they could fill the day for that person. For the agency's customers it is the agency that functions as a travel manager, and in the case of Chalmers it is Mr Thormählen that takes responsibility for this, since they are a key customer. Mr Thormählen tries to be proactive and come with suggestions on how they can improve their travelling. Mr Thormählen believes that many Travel Managers are in the position of not having support from the top management, which makes it hard to make the staff follow the travel policy, since it is vital that top management are good examples. Broström´s travel agency are also involved in advising on the formulation of the travel policy, but the policies are often not very detailed speaking more in general. Examples are that you should plan your trip well in advance, e.g. if you have known for 2 months that you are making the trip, you shouldn't wait until the day before to book it. Also that you try to combine several trips into one. In essence it has a lot to do with planning ahead.

Future

Mr Thormählen finds it hard to see that the happy 80's would return. He also believes that the LCCs are here to stay, but he thinks that there will be consolidations between them. He does not believe that there will be any LCCs in ten years, just airlines as the different kinds have blended into one. SAS are restructuring and the LCCs need to increase their margins, so they will meet somewhere in between. For example Ryan Air has lots of passengers, but if there is a dip in demand he thinks that things will go fast, since they have so small margins. Consolidations are a trend also between traditional network companies, and he believes that this will continue. Today the passengers pay for the transport in a different way than before, when they wanted limousine service and lounges etc. Today it is not a big issue whether you get food or not, as long as it is available for purchase. According to Mr Thormählen, people are prepared to pay for the extra flexibility compared to LCCs. This is something that we already see on Gothenburg-Stockholm, where passengers choose SAS instead of LCCs, because it feels safer.

Parallel luxury development

This is very dependant on the market, for example Germany is well situated with a huge catchment area. It is very much a question of culture as well; down there you go 1st class or business if you are top management. Mr Thormählen does not believe that it will be anything up here. You can draw parallels to Concorde, which Mr Thormählen has not booked many tickets with through the years.

Non-Stop Routes

Gothenburg has a fairly decent selection of direct connections, but between e.g. Gothenburg and Oslo there is too little competition which makes the prices high. Mr Thormählen also thinks that it is questionable that SAS only has two direct connections from Gothenburg, Frankfurt and London. He believes that Gbg has low priority since SAS has Stockholm and Copenhagen. It is also difficult for SAS to get into other routes, as there is fierce competition on most routes.

City airlines

Much of City Airlines success is based on the small destinations that keep competition low. He is always grateful for direct connections from Gbg, although they have quite low frequency that can make it difficult at times.

SAS

Mr Thormählen believes that SAS will continue to have a strong position on the Swedish market. The brand is very strong and people are prepared to pay a bit more to go with them.

Macro

Mr Thormählen does not believe that the passenger tax will have any big effect on the business travellers on international flights as there are no alternatives. On the domestic market it can increase the passenger volumes on rail but otherwise he does not think there will be much effect. He does also not think that it will slow down the development much. He believes that a change of Government would mean a more positive politic for the transport business as a whole, as the opposition doesn't want to slow the development.

Lately it has been possible to see an effect on the travelling by changes in GDP. Before the travelling has been on a steady level. In times of economic downswing the companies have been travelling around looking for new customers, and in good times they have been out visiting these customers. Lately the companies have been cutting down on travelling in bad times, as travelling represents the third largest affect able cost in most companies. Also generally companies question whether it is necessary for three persons to go instead of two.

The relation between travelling and outsourcing is connected to the will to travel. Generally the staff would prefer not to go to China to inspect the factory, but rather have someone on site that handles that.

Development

There have been a few rough years since 9/11, but if nothing unpredictable occurs he believes that the travelling will continue to grow. He also says that one can wonder if the market will not get saturated soon, haven't everyone been to London soon? The LCCs have definitely increased the total market.

Landvetter

The only drawback of Landvetter airport has been the security check in the morning; otherwise it is a very good airport with the selection of routes etc. that exists.

Jasmine Utter, Business Intelligence, SAS Sweden AB.

Business Intelligence department started rather recently as SAS discovered that there was a need to have better knowledge of macro economic development, the actions of other airlines, and customers. The department is also responsible for reviewing sales and income.

Competition factors

The customer segments are not as clear now as they used to be. They are split into many small segments and the borders are diffuse. Jasmine believes that this development will continue as society becomes more and more individualised. The number of single households is now 35-40 %, people have children later in life, the 40's generation is retiring etc. All this will affect the segmentation and the airline's offer. Instead of family prices they might have "single prices" or "friend prices" for example. In other words, a greater focus on the individual basically.

Important criteria

Price is very important today, much more than before. Earlier it was the people in the back of the cabin that were price-sensitive, today the whole cabin is. For the business traveller other factors such as accessibility and factors that makes the trip easier since time is important. More people can afford to travel today; it has become a part of life. The airline's brand is losing its importance and price is becoming more important.

Business class

Is becoming smaller and smaller, and will continue to be small. Jasmine can not see anything that suggests that it would increase within a near future. It is still very important since it takes a number of economy passengers to pay for one business class passenger. SAS already have a "low-fare business class", called economy extra, which is fairly large. This class has taken over the role of business class. The passengers first stepped down from first class to business, and now they continue from business to economy extra. Almost all airlines have removed first class and replaced it with business class. In time maybe even business class will disappear and be replaced by economy extra.

Segmentation

It will be very difficult to keep the current segmentation. One possible scenario is that the customer "segments" himself by choosing what he wants and packaging his own trip. The airlines are more divided into niches than before when it was only regular and charter.

Competition for SAS

It is very important that the product is perceived as worth its price. For companies this means that they get a deal that doesn't make them feel like they have been cheated. The company should feel that it gets cost- and time efficient for the company. For the private passengers it is important that they have accessibility to the tickets they want to the right destinations.

SAS have to be able to keep the current price structure, otherwise they will loose all public trust. It is not possible to do any major changes at this point; around 400 SEK is the price that the market is prepared to pay Gothenburg-Stockholm at the moment. For SAS it is about getting cost-efficient enough to make profit. At the moment SAS have higher costs than newly started airlines.

Organisation

SAS are aware that the market situation today demands that the organisation is agile. The history of oligopoly means that it has been a tedious process to adapt to the situation of today. Some of the old managers have adapted to this, and SAS Sweden are well aware of the need to change and are currently going through the organisation to make sure that they have the right people at the right places.

Macro

According to Jasmine the election 2006 will have a great effect on the industry. The Social Democrats do not have a politic that is beneficial to aviation. Jasmine believes that a change of Government would benefit aviation. The proposed tax will not give any environmental benefits, as the cabin factor decreases and more people go by car etc. Regarding the possibility that the proposed passenger tax might be beneficial to SAS (since new entrants might stay out of the market), Jasmine say the effect of the tax is so great that it would be better with new entrants than the tax. For some reason Sweden seems to be an attractive market, despite the fact that there are many markets where it is possible to make more money.

Intermodal competition

Jasmine does not believe that IT-conferences will reduce the travelling. The topic has been discussed about for the last decade but nothing has happened.

Regarding the railway, Jasmine says that there are three destinations where going by rail is good; Gothenburg, Karlstad, and Sundsvall (from Stockholm). If you are not going to any of these places, it takes too long time to go by rail. There has to be changes at the Swedish Rail Administration if rail should be more competitive. Jasmine believes that one of the advantages of aviation is that it is not possible to be reached, which means that you can relax.

SAS was the first airline in the world to have Internet on all their intercontinental routes, and they are looking a bit on the possibility of “office departments” on long-hauls. They are also looking at new technology, which makes it impossible to see the neighbours computer screen. Jasmine does not believe in having telephones onboard, as they have tried it and it was rarely used.

Economy

There is a correlation between the state of the market and demand for air transport. The aviation industry is one of the most sensitive businesses for this. The correlation is decreasing, but the factors that give a continuous affect are the state of the market and price, where the impact of price is increasing. The companies are quick to reduce the travelling expenses when economic depression occurs.

SAS are looking at the competition for the disposable income. It varies how willing people are to spend money on "unnecessary" items. One of the trends that SAS see is that people book their trips later today than before. Because of the problems with liquidity in the business it is not possible to allow the passengers to pay later. It is also preferable that the passengers pay before they travel.

Future segments

Singles: There is an increase in the number of singles, and Jasmine believes that this will be seen in the selection. The singles have a lot of money and can be egoistic since they do not have anyone else to support. They are also able to dispose their time in a different way than families.

Ethnical travellers: There are a lot of immigrants in Sweden, and Jasmine believes that there is a great need to travel among them. SAS are cooperating with travel agencies that work specifically towards people with a foreign background.

Route structure

Many airlines are turning away from the hub-philosophy. SAS have more direct routes now than ever before. The passengers want to fly direct, so when there is a sufficient base, SAS fly direct. In some cases there are advantages with smaller aircraft in these cases, but it depends on the destination. At the present SAS will not buy any new aircraft, but have to utilise the fleet in the best way possible. The over capacity is coming down and demand is increasing again.

SAS make certain investigations before a new route is started. It is hard to estimate volumes before the route exists. SAS gather a lot of different information and talk to some external sources. They also make continuous surveys of how the passengers perceive SAS. Apart from this they also make continuous evaluations of frequencies, destinations etc.

Company deals

SAS have certain routes that would not exist unless some companies had a need for them. However SAS do not have any signed contracts on the routes, but start the route after evaluating the customer base. The companies are free to fly with other airlines if they want to. SAS do not have any special payoff-time for new lines; this is judged from case to case. SAS do not have any possibility to compete with City Airlines for example on direct lines specifically for a company.

LCC

The LCCs in practise aim one specific segment, while SAS are aimed at somewhat different customers. Both airline types fill a purpose, and SAS do not see any need to compete just because the LCCs aim certain customers or fly to certain destinations.

Outsourcing

SAS consider themselves to have a good idea of what the Swedish companies are doing and where they have their factories. They know the big companies since they have them as customers. When new companies emerge they keep a look at where they make their business. In general the companies go to airports that are big enough to make the route survive even if a certain company would leave. If there is a destination where there is sufficient customer base, SAS fly there…

The future development of SAS is depending on market development and the introduction of taxes and other political decisions.

The Swedish domestic market

Jasmine believes that Fly Me will definitely survive because they now have a strong Icelandic owner. It is more questionable whether Fly Nordic will survive.

12.18 Ole Wieth Christensen, Airlines relations, Copenhagen Airports.

Ole has a background within the pharmaceutical industry where we worked with issues such as marketing and business strategies. Currently, he works at Copenhagen Airports, where he is appointed as route development manager. He is in daily contact with all the major airlines and has great knowledge in their preferences. In other words, he knows what the companies are looking for, in terms of segments and flying demands. As for the airport, it is today one of the world most profitable airports, with a profit margin said to be around 35 %. Furthermore, the airport has numerous of times been voted as the greatest airport in the world by IATA.

Key Criteria of importance;

- In terms of business passengers, price is becoming increasingly important. Traditionally, flexibility and frequency was the major issues that business passengers were concerned about, where price was not really a big issue. However, this has changed, a lot due to new types of LCC actors has entered the market and drastically lowered the prices. Still, flexibility and frequency are the most important issues for business passengers along with price.
- In terms of safety, flying within Europe the safety issue is not really a concern for business passengers. Safety is here said to be taken for granted, no matter of what airline the business passengers are using. However, when flying in other parts of the world, such as Central America and parts of Russia, the safety is definitely a concern for business passengers, according to Ole Wieth Christensen. According to him, business travellers here only use the major carriers.
- In terms of LCC and safety, the track record shows that they are as safe as the major airlines. This is not factor from stopping business passengers using Low Cost Carriers.
- Business passengers are more likely to fly out of a primary airport, than the private segment. Here, business passenger put demands on the attributes of the airport, such as location, infrastructure, frequency in departures and value added services. In terms of Copenhagen airport, the location is rather good along with great accessibility from either road or rail. According to Ole Wieth Christiansen, it does not take more than 10-15 minutes go by either car or train from the airport to downtown Copenhagen. Furthermore, the ratings show that business passengers are satisfied with these issues, at Copenhagen airports.
- In terms of the issue over Business Class, it is today “untrendy” to pay six times as much as other passengers. Today, value added service are becoming more important for business passengers. By value added services, lounge access with wireless internet access along with smooth check-in restrictions are today becoming increasingly important for business passenger. In other words, business class will reshape its form to better accommodate the new demands set by business passengers. Here, issues like free champagne and food are becoming less important factors, according to Ole Wieth Christensen.
- In terms of Copenhagen airport, their have been great investments in wireless internet access all across the airport. These, in order satisfy the needs of business passengers.
- In terms of LCC, they will in the look more towards the business traveller in the future. Existing examples of this are today Easy Jet and the American counterpart Jet Blue.
- SAS is the airports largest customer; main hub for SAS is located here. However, this does not stop the airport from attracting new carriers, both network and low cost

carrier. Copenhagen airport is definitely an alternative for LCC, since the turnaround time at the airport is as low as 25 minutes, Easy Jet are operating on these level today, according to Ole Wieth Christensen. In terms of passengers, the airport today serves almost 20 million passengers per year. According to Ole Wieth Christensen, the maximum number of passengers that the airport could serve is 25 million, with the same number of terminal and runways as of today. In terms of slot times, this issue is not a problem with the number of passengers today.

- The Catchment area of Kastrup-Copenhagen airport is 3 hour from the site, which actually reaches as far as north of Gothenburg, Sweden. According to Ole Wieth Christensen, more Swedes today use Kastrup as their primary airport.
- As of today, the airport is not cooperating with the rail mode. Of course, the rail station at the airport could be viewed as cooperation. However, the airport and DB (Danske Bahn) are not running any campaigns together.
- Copenhagen Airports is a shareholder company, which was recently bought by an Australia group. According to Ole Wieth Christensen, this fact is definitely an advantage for the airport. Here, he mentions efficiency as an example in where the airport is better off, in compare to state owned organizations. The airports vision is to be best in class, in terms of key account management towards its customer (airlines).
- As for the competition from rail and road, the competition here never becomes an issue, much due to the fact that the domestic air travel is as low as 7 % of the total traffic. The route between Copenhagen- Ålborg is the only domestic route where airlines are directly competing with rail. As for the route between Stockholm-Copenhagen, the actually travel time by rail is too long for being a real threat, according to Ole Wieth Christensen.
- In terms of information technology, such as videoconferences and the extensive use of electronic mail, these are more supplements rather than competitors for the aviation industry. There is always a need for face-to face contact according to Ole Wieth Christensen. The actual meeting is very valuable for businesses, and could never be completely substituted by videoconferences.
- In terms of SAS, the company makes up for about 50 % of all flying operations at Kastrup-Copenhagen airport. If we take into account their star alliances partners, this numbers increase to about 75 %. The relation to SAS is very important for the airport, according to Ole Wieth Christensen.
- In terms of types of airline traffic that goes through Kastrup, the transit has decreased over the last couple of years. As of today, the so call transit traffic is down to about 30 %. This could be explained by greater number of actors that are offering non-stop traffic from airports that have tradition of not offering these types of services. The route between Gothenburg- Manchester, where City airlines are flying non-stop is a good example of this, according to Ole Wieth Christensen. This development is a natural step for regions that are expanding, and is not seen as a real threat in his eyes. Actually, this could actually lead to increase numbers of passengers, are new regions are requiring traffic to their regions.
- In terms of Low Cost Carriers at the airport, their share of the total number of operations has drastically increased in only a few years time. In 2002, this number was said to be around 3 %. Today, this number has increased to over 15 %, as the total share of operators at the airport. This could indirectly be the effect of the take off and landing fees the airport charge the airlines. These fees are among the lowest tier in Europe, according to Ole Wieth Christensen.
- Kastrup views Landvetter as a threat on certain routes, while on other routes Landvetter works as a feeder airport for Kastrup. In terms of European routes,

Landvetter is becoming more of a threat due to the increased numbers of destinations they serve. On the intercontinental routes, Landvetter more or less functions as a feeder airport for Kastrup.

- As for business passengers, Kastrup aims for attracting companies that are willing to operate more intercontinental routes. This, due to greater demands from business passengers.
- There is a future for the new called business jets, according to Ole Wieth Christensen. Here, he mentions Lufthansa and their initiative with intercontinental business jet traffic, where the numbers of seats are reduced to about 60 to better serve the demands for business passengers.
- The amount of traffic is said to increase by about 4 % in 2006. Previous year there has been an increase by close to 7 %, but this will not be achievable in 2006, according to Ole Wieth Christensen. GDP is closely related to the increase/decrease in the passenger volumes.
- The future of the airline industry is difficult to predict. Their might be a harmonization of the market where the LCC and Network airlines products become more difficult to separate. However, their will always be Ryanair which will stick to their initial business plan of only offering seats without any service.

12.19 Helena Wiberg, Manager Airport specialist staff and Brett Weihart, CFO, Landvetter airport.

Helena Wiberg background is as a technical engineer where she has been involved in the process of building airports. Brett Weihart has a degree in business administration and works today as Chief Financial Officer at Landvetter airport. Prior to this, he was at Ericsson in Stockholm for ten years. He has a flight certificate and has also been working for an Australian airline, where he was working with luggage handling.

Key criteria of importance.

- In terms of the business travellers, they mention number of flights, flexibility and ease of rebook as the most important criteria.
- The airport is working towards decreasing their cost, in order to be more attractive for both passengers and airlines.
- The airport has more than 4 million passengers on a yearly basis.
- The airport is changing its revenue structure. Today 60 percent of their revenues come from traffic related issues and 40 percent comes from commercial sales at the airport. Here, traffic related revenues are take off and landing fees, which comes from the airlines. The aim is to generate 60 percent of their revenues from commercial sales and decrease their revenues from traffic related fees. They believe that this revenue structure is healthier for the airport as a whole.
- The airport is today put under heavy pressure from the airlines, in terms of what they are willing to pay to operate out of Landvetter airport. Therefore, the airport must give incentives to the airlines in order to include Landvetter in their routes. These indirectly decrease the revenues from traffic related issues. In order to compensate this decrease, the airport works towards generating more profits from commercial sales at the airport.
- Landvetter only uses half of its capacity, in terms of take-offs and landing. Therefore, the potential for attracting new airlines is rather good.
- Within Landvetter’s catchment area, approximately 2 million people live.
- Landvetter airport has a good cooperation with business region Gothenburg. This cooperation is to look at companies and persons and their needs in regard to air travel.
- SAS is today Landvetter’s airports largest customer.
- The new passenger tax would hurt more the private travel than the business travel. The airport is today not seeing any increase in passenger volumes. The tax hurts the airports efforts in attracting new airlines to operate out of Landvetter.
- There are not enough people in the region to satisfy the passenger volumes of two airports, according to Brett Weihart.
- The trend is that the pure charter concept is on the way out.
- Landvetter is making efforts in expanding their catchment area, in order to attract more people to Landvetter airport. According to Helena Wiberg, people are willing to travel rather far distances to airports if they manage to get hold of cheap airfares. This new trend is an important aspect why Landvetter could widen their catchment area. This issue becomes even more present as Landvetter get its train connection in 2013.
- Macro trends, such as new businesses along with future taxes and trends among other transport modes are issues that indirect affect the airport.
- The opposition parties are probably more positive towards air travel as a transport mode than the current Swedish government. The current government have invested

heavy in promoting train as the future mode of transport, while air transport is still viewed as a somewhat “bad guy”.

- Landvetter wants to establish as the primary airport for air cargo in Sweden. A new cargo terminal is on its way. Major transport companies, such as DHL, TNT, SAS Cargo, and Emirates are today operating at Landvetter airport.
- The airport has a close cooperation with the Swedish Road Authority (Vägverket), in order to have better infrastructure to and from the airport.
- The airport closely looks at companies and regions that might be a potential area of interests, in terms of new routes. Here, the people at Landvetter airports look at both the passenger and cargo side, in order to secure efficient traffic on these routes.
- The main competition from other transport modes is on the route between Stockholm-Gothenburg. Here, the train is directly competition on both business and private travellers. As of today, the airlines have an advantage, due being a faster transport mode. However, when the travelling time decreases to 2.5 hours the airlines will start to heavy problems. This, since they then can’t motivate that the total travel time is shorter than the train.
- The Gothenburg region is a growth region, in terms of economic growth. This is something that the airport wants to capture on by offering routes and service that satisfy the needs of the travellers.
- In term of environmental issues, the airport is working towards lowering the total emissions and noise at the airports. The planes are today much cleaner and less noise than in the past. Also, the airport also tries to lower its spill of gasoline. The environmental issue will become even more important in the future, both for the business and private passengers. In terms of Landvetter airports, they have restrictions on what types of airplanes which are to use the airport. However, air transports will never be as environmental friendly as train transport.
- The Asian market is interesting for Landvetter airports, in terms of new routes. This due to the more and more stable trading balance between Europe and China. For a couple of years, this balance has been heavily uneven. However, there are sign that this difference is evening out, much due to the upswing in the Chine’s economy.
- In terms of the airports economic forecast, they use indicators such as take-offs and landings, numbers of passengers (PAX), and tonnage on the planes. The macro trends are estimated at the CAA's headquarters in Norrköping. Landvetter here only focuses on the regional trends. However, the traffic forecast is very hard to determine. Usually, forecast that estimates air traffic more than 6 months ahead are not very reliable.
- The recent trends in air traffic is that the planes are becoming smaller, which makes the movement of people at the airports increase due to additional number of flights. The airports believe the future lies between a mix of LCCs and traditional airlines. There are ongoing tasks with additional LCCs and their interest of flying to-and from Landvetter.