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Master in International Business Program

Master thesis

“Customer value creation for airline carriers”

Master’s Thesis by the 2nd year student
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**ЗАЯВЛЕНИЕ О САМОСТОЯТЕЛЬНОМ ХАРАКТЕРЕ
МАГИСТЕРСКОЙ ДИССЕРТАЦИИ**

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АННОТАЦИЯ

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Описание целей, задач и основных результатов исследования	<p>Целью данного исследования является выявление факторов, которые помогут бизнес моделям российских авиакомпаний увеличить ценность для клиентов и создать устойчивое конкурентное преимущество.</p> <p>Исследователь изучает 5 авиакомпаний на основе хоста бизнес модели, который широко используется для создания дизайна бизнес моделей на основе ключевых партнеров, компетенции, деятельности, ресурсов, взаимоотношения с клиентами, каналов, потоков доходов, сегментов, структуры затрат и предложения ценности, которые являются значимыми для авиакомпаний. Наибольшее внимание следует обратить на следующие элементы: ключевые партнеры, заемные средства, структура расходов и ключевые ресурсы. Они помогают авиакомпаниям оптимизировать свою текущую бизнес-модель, создать высокую ценность для клиентов, выдержать последствия экономического кризиса, оставаться конкурентоспособными даже с увеличением расходов и доставлять до покупателей ценность, которая, в конечном счете, хорошо ими воспринимается.</p> <p>Сравнительный анализ бизнес моделей и ключевых показателей индустрии позволили выявить важность следующих факторов, непосредственно влияющих на создание ценности для клиента: окраска самолетов и общая стилистика авиакомпании, дополнительное вознаграждение агентам по продажам, участия в альянсах, современное программное обеспечение для управления расписанием, безбагажные билеты, использование только операционного лизинга, участие в благотворительных акциях, электронные посадочные талоны, дополнительные услуги программы часто летающих пассажиров, бесплатное специальное меню, свободные спальные принадлежности, доступ в Интернет и мультимедиа развлечений на борту</p>
Ключевые слова	Авиакомпания, бизнес модель, холст бизнес моделей, дизайн бизнес модели, конкурентное преимущество, создание добавленной стоимости, присвоение ценности, предложение ценности, сервисная компания, Аэрофлот, S7, UTair

ABSTRACT

Master Student's Name	Nikita Yaroslavtsev
Master Thesis Title	Customer value creation for airline carriers
Faculty	Graduate School of Management, Saint-Petersburg University
Program	080200 «Management»
Year	2016
Academic Advisor's Name	Assistant professor: Johanna Frozen
Description of the goal, tasks and main results	<p>The objective of the current research is to identify the factors that can make business models of Russian airlines able to increase customer value and create a sustainable competitive advantage.</p> <p>The researcher studies business models of 5 focal airlines on the basis of business model canvas which is widely used to create design of BMs in the context of key partners, competencies, activities, resources, customer relationships, channels, revenue streams, segments, cost structure and value proposition which have proved to be significant for Airline companies. Biggest attention should be paid to the following elements: key partners, leveraged cost structure and key resources. They help airlines optimise their current business model, create superior customer value, withstand consequences of economic crisis, stay competitive even with increased costs and manage to deliver value that is ultimately well-perceived by the customers.</p> <p>Comparative analysis of the business models and industry KPIs have revealed the importance of the following factors that directly influence the perceived customer value creation: plane colouring and whole company style, additional bonuses to sales agents, engagement in alliances, contemporary software for schedule management, no-luggage tickets, using only operational lease, participation in charitable events, electronic boarding pass, additional services of frequent flyer program, free choice of special menu, free sleeping items, on-board Internet access and multimedia entertainment</p>
Keywords	Airlines, Business model, Business model canvas, Business model design, , Competitive advantage, Value creation, Value capture, Value Proposition, Service company, Aeroflot, S7, UTair

Table of contents

1	Introduction.....	6
1.1	Background.....	6
1.2	Research main question and objectives.....	9
2	Theoretical backgrounds of business models and customer value creation.....	10
2.1	Business model design.....	10
2.1.1	Business Model Concept and Definitions.....	10
2.1.2	Business model design elements and themes.....	15
2.2	Elements of business models based on business model canvas approach.....	19
2.2.1	Business model canvas concept.....	19
2.2.2	Value creation.....	24
2.2.3	Value proposition.....	26
2.2.4	Value capture.....	27
2.3	Business models in service companies.....	30
2.4	Summary.....	33
3	Empirical research.....	35
3.1	Research methodology and design.....	35
3.2	Russian airline market overview.....	42
3.3	Airline case studies.....	49
3.3.1	Aeroflot group.....	49
3.3.2	UTair.....	53
3.3.3	S7.....	53
3.4	Comparative analysis of the focal airlines on the basis of business model canvas.....	54
3.4.1	Value proposition.....	54
3.4.2	The company and its exchange partners (customer segment and relationships, channels and key partners).....	55
3.4.3	Key activities and key resources.....	61
3.4.4	Revenue streams and cost structure.....	63
3.5	Business model canvas results and interpretation.....	65
4	Conclusions.....	73
4.1	Theoretical implications.....	73
4.2	Managerial implications.....	73
4.3	Limitations.....	75

4.4	Recommendations for future research.....	76
	List of References.....	77

1 Introduction

1.1 Background

Customers have to make decisions connected with choice on a daily basis. Is it better to buy a coffee in Starbucks or go across the street and buy alike coffee in a Coffee Shop and even maybe pay less for a less branded drink? Upon every buying decision a consumer faces a dilemma of asking himself a question if he will receive a value worthy of giving up the other choice and the benefits implied by having it. Another aspect the consumer’s mind is occupied with is the cost that he or she must undergo in order to receive that potential value from the product or service. Therefore, that **exact value the individual connects and associates with a product or service becomes the customer value for that offer** (Woodruff, 2003). Customer value in reference to a certain product is weighted against similar products and services on the market that potentially or subjectively can substitute the original product by providing similar benefits. As a logical result, the consumer will prefer the item with the highest perceived customer value on the market (Kaplan, Norton, 2011).

As regards more formal and business approach to redefining customer value, science has a number of definitions of customer value. For example, Zeithami in 1998 called it “low price, receiving what is desired, receiving quality for what is paid, or receiving something in return for what is given”. Whereas Woodruff in 2003 said that **customer value is “a customer perceived preference for and evaluation of those products attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer’s goals and purposes in use situations”** (Woodruff, 2003, p. 153) and until now it is regarded as the most commonly used and most popular definition.

As far as the value creation is concerned, business dictionary defines it as **the performance of actions that increase the worth of goods, services and even business itself** (Osterwalder, Pigneur, Tucci, 2005). Value creation is the primary aim of any business and company. Creating value for customers helps a company to sell its products; creating value for shareholders by having high stock price gives guarantees to long-term development in the future (Favaro, 2009). Finance-wise the value is created when the company earns money in the form of revenue that is bigger than the costs.

The common perception of value creation connected with financial aspects is connected with managerial monetary restrictions usually aimed at cutting costs in order to meet the short-term goals instead of long-term investment plans to foster growth and development. Consequently,

value creation is put as a cornerstone for all staff and all business decisions: “If you put value creation first in the right way, your managers will know where and how to grow; they will deploy capital better than competitors; and they will develop more talent than your competition. This will give you an enormous advantage in building your company's ability to achieve profitable and long-lasting growth” (Favaro, 2009, p. 231).

Therefore the key factor in achieving superior value creation is deep understanding of the main drivers and sources of value creation in a particular industry, business entity and market. In order to create the value managers should see its sources and concentrate capital and human resources on the most profitable growth options (Kaplan, Norton, 2011). “If customers value innovation and high performance, then the skills, systems, and processes that create new products and services with superior functionality take on high value. “Consistent alignment of actions and capabilities with the customer value proposition is the core of strategy execution” (Kaplan, Norton, 2011).

Value creation, value proposition and value capture are all connected with the concept of business model that is vital in a competitive environment of mature industries. The business model depicts “the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities” (Amit, Zott, 2001, p. 511). Further on the scholars changed the definition of a BM to “a system of interdependent activities that transcends the focal firm and spans its boundaries” (Amit, Zott, 2010, p. 216).

Business model topic attracts more and more attention from the scientific and business communities due to the fact that emerging business model tools seem to cover the gap between theory and practice. One of the most representative, complete and widely used frameworks that are used in practice is Business model canvas. It is used for designing BM and has helped many companies to customize their business model so that it answers their needs and considers their key resources, partners and competitive advantages. Business model canvas is focused on the basic principle customer value creation in exchange for the revenue (Osterwalder & Pigneur, 2010). The aim of BMC is to come up with the standardized approach to designing BMs (Osterwalder & Pigneur, 2010). What BMC does is that provides a universal tool for creation of a visually representative designed BM that allows for fast and easy communication. According to the words of Pigneur (2009) BMC gives managers a new angle of looking at their business model.

Taking everything into consideration, the researcher studies the question of how exactly airlines create value for their customers and what components in their business model allow them to create superior customer value and competitive advantage. The geographical region that the

researcher will apply his study is Russia, what is a very interesting country from the point of its size, population purchasing power and current market situation.

1.2 **Research main question and objectives**

This thesis is aimed at analyzing how airline carriers create value for customers and choose the best business strategy that will allow the company to do so. The researcher will also take an insight into the changes of business models of Russian airlines to evaluate the effectiveness of certain business models from the point of customer value creation and provide background for future researches that may elaborate a more precise analysis on what niches to take and what market positioning to choose. Fortunately, customer value creation being a very well studied topic has not yet been described and evaluated from the point of certain frameworks of business models in regards to Russian market of airlines, as a result I feel that this particular analysis is of interest and may unveil eminent results.

The main question of this thesis is:

What changes to their business models should Russian companies do to increase customer value and gain a competitive advantage?

In order to answer this question the researcher sets the **main goal** of the research as:

“To find factors that can make business models of Russian airlines able to increase customer value and create a sustainable competitive advantage”.

As by finding factors the researcher will be able to understand how changes in them can lead to increased customer value and gaining a sustainable competitive advantage. In order to achieve the main goal of the thesis the researcher needs to analyse the biggest Russian airline carriers with the biggest market share and investigate the reason for their success. In order to do so the researcher will look into their market positioning, business model, the resources that they have and the way they utilise these resources. Additionally, the researcher will look at the dynamics of Russian airline industry and individual airlines under crisis circumstances. The researcher will do a multiple case study of biggest Russian airline companies on Russian market including Pobeda that is the only Russian low-cost carrier. In order to do so, the researcher will do the market research on the basis of primary data in the form of industry insiders' interview and secondary data in the form of company reports, available market information, Mc'Kinsey reports, CAPA report, 2016s and mass media interviews.

The main objectives of this research are:

- 1) analyse value creation and business models literature
- 2) analyse existing airlines business model literature
- 3) find relevant factors constituting airline business models that are most appropriate for Russian market

- 4) analyse Russian airline market and business models of 5 biggest Russian airlines
- 5) give recommendations on business models to focal airlines

The research gap of the thesis is “Elements of business models that help Russian airline companies create customer value and gain competitive advantage”.

2 Theoretical backgrounds of business models and customer value creation

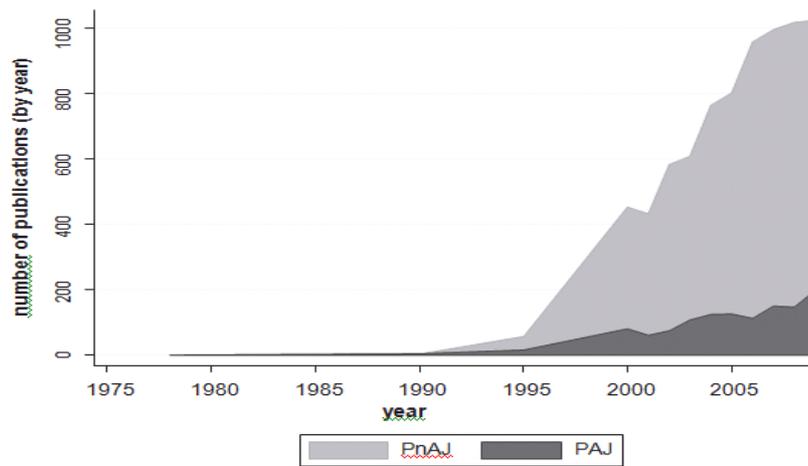
2.1 **Business model design**

2.1.1 **Business Model Concept and Definitions**

In recent years the scientific community has paid much attention to the business models. Since 1996 more than 1100 articles were published in academic journals which concern the topic of business model (Figure 1). Nevertheless, the scientific world is yet to develop the unified and commonly approved and respected approach to examining the business model construct. Amit and Zott (2009) have come to a conclusion that in spite of a big number of articles devoted to business model (BM) there is no agreement between scholars on what BM is. Moreover, they have found out that the literature on the topic forms clusters according to the scope of interest of scholars, which are e-business, strategic issues that cover the value creation, competitive advantage and company performance; and innovation and technology management.

Lastly, Amit and Zott emphasise that despite the difference in understanding of BM, scholar agree that it is a new subject that requires holistic approach to how the company does its business and that BM aims to explain not only **the value creation**, but also value capture.

Figure 3 Business Model Articles



Note: This area graph shows trends in the number of business model articles. PnAJ = articles published in non-academic journals; PAJ = articles published in academic journals.
Source: Business Source Complete, EBSCOhost database, January 1975–December 2009.

Figure 1. Business model articles

Source: Amit and Zott, 2009

BM was addressed as a description (Applegate, 2000; Weill & Vitale, 2001), a statement (Stewart & Zhao, 2000), a representation (Morris, Schindehutte, & Allen, 2005; Shafer, Smith, & Linder, 2005) or an architecture (Dubosson-Torbay, Osterwalder, & Pigneur, 2002; Timmers, 1998) etc. Nevertheless, only a third of articles define BM at all (Amit, Zott, 2009).

Therefore the lack of certain definition allows for a potential reason for misunderstanding and confusion instead of cumulative result of BM research development. Table 1 (Zott et al., 2009) comprises some of the most acknowledged definitions of BM with the reference to the articles they were taken from:

Table 1. Selected business definitions.

Source: Zott et al. 2009

Author/year	Definition	Paper citing
Timmers, 1998	The business model is “an architecture of the product, service and information flows, including a description of the various business actors and their roles; a description of the potential benefits for the various business actors; a description of the sources of revenues” (p. 2).	Hedman & Kalling, 2003

Amit & Zott, 2001; Zott & Amit, 2010	The business model depicts “the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities” (2001, p. 511). Based on the fact that transactions connect activities, the authors further evolved this definition to conceptualize a firm’s business model as “a system of interdependent activities that transcends the focal firm and spans its boundaries” (2010, p. 216).	Hedman & Kalling, 2003; Morris, Schindehutte, & Allen, 2005; Zott & Amit, 2007, 2008; Santos, Spector, & Van Der Heyden, 2009; Bock, Opsahl, & George, 2010
Chesbrough & Rosenbloom, 2002	The business model is “the heuristic logic that connects technical potential with the realization of economic value” (p. 529).	Chesbrough, Ahern, Finn, & Guerraz, 2006; Chesbrough, 2007a, 2007b; Teece, 2007, 2010
Magretta, 2002	Business models are “stories that explain how enterprises work. A good business model answers Peter Drucker’s age old questions: Who is the customer? And what does the customer value? It also answers the fundamental questions every manager must ask: How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?” (p. 4).	Seddon, Lewis, Freeman, & Shanks, 2004; Ojala & Tyrväinen, 2006; Demil & Lecocq, 2010
Johnson, Christensen, & Kagermann, 2008	Business models “consist of four interlocking elements that, taken together, create and deliver value” (p. 52). These are customer value proposition, profit formula, key resources, and key processes	Johnson & Suskewicz, 2009
Teece 2010	“A business model articulates the logic, the data and other evidence that support a value proposition for the customer, and a viable structure of revenues and costs for the enterprise delivering that value” (p. 179).	Gambardella & McGahan, 2010

The conclusions of Zott al al. reveal that BM is mainly used to address the strategic issues of the company such as **value creation, competitive advantage, company performance and innovation**. Therefore the research of the master thesis will proceed with the focus on the value creation and capture as one the main strategic issues addressed by the BM.

Business model has received a lot of attention from business scholars as a concept of explaining company's value creation, performance, and competitive advantage.

The concept of BM is widely used in explaining value creation in many fields, for example Thompson and MacMillan (2010) proposed the framework aimed at not only economic, but also social welfare improvement.

Value creation mechanisms frequently exceed the value created via the reconfiguration of value chain (Porter, 1985), creation of strategic network among companies and the using the company's core competencies. According to Amit et al. (2001) there are 4 potential sources of value creation that stem from the business model:

1. novelty
2. lock-in
3. complementarities
4. efficiency

These drivers are complementary, so that combined together they give a better result.

According to Hamel (2001) if business wants to be proactive it has to develop new business models which will embrace the value creation and capture in a value network, that in its turn will involve partners, suppliers, coalitions that extend and complement company resources and capabilities.

Representative of scientific community claim that companies do not utilise their BM in a competitive vacuum (Hamel, 2000) and that companies can compete by the means of their BM (Casadesus- Masanell & Ricart, 2010). Therefore the BM is a potential source of competitive advantage for the company (Markides & Charitou, 2004). Therefore the results of a novel BM can become superior customer value (Morris et al., 2005) that may disrupt the market and bring a new generation of competition (Magretta, 2002).

BM can be key in explaining the performance of a company. Afuah and Tucci, for example, define BM as the method by which a firm builds and uses its resources to offer its customer better value and to make money in doing so" (2001). Afuah (2004) proposed a framework where the BM is presented as a set of compounds that correlate with the main factor of firm's profitability. Such theory was then supported by Zott and Amit (2007) who have analysed the connection between the firm performance and its BM. From their point of view the 2 separate effects determine the interrelation BM and performance:

- total value creation potential of the business model design
- focal firm's ability to appropriate that value

Moreover they have highlighted 2 "design themes" that play very important role- **novelty and**

efficiency.

Another empirical research by Amit and Zott (2008) was done to emphasise the role of BM in mediating between company performance and product market strategy. Their study has revealed the following ideas:

- novel BM with positive impact on performance represent either the cost leadership or differentiation principle
- early market entry combined with novelty of BM give a positive performance effect

Another profound and scientifically acknowledged study was done by Giesen, Berman, Bell, and Blitz (2007) who studied the connection between BM innovation and company performance.

They refer to 3 types of business model innovation:

1. industry models (innovations in industry supply chain)
2. revenue models (innovations in the way of value generation)
3. enterprise models (innovations in the role of the company in an industry supply chain)

The 2 main insights they found are:

1. each type of business model innovation can generate success
2. innovation in **enterprise models** which pays much attention to external collaboration and partnerships is particularly effective in old enterprises in comparison with young ones.

BM also covers the central ideas of business strategy and is regarded among scholars as a source competitive advantage that is separate from product market position (Christensen, 2001). Companies that have the same product market strategy and satisfy similar needs of customers can do so via different BM, therefore market strategy and BM are not substitutes; rather they complement each other (Zott & Amit, 2008).

According to the scholars, **BM is closely connected with customer-focused value creation** (Chesbrough & Rosenbloom, 2002; Mansfield & Fourie, 2004). BM comprises the way the focal company does economic exchanges with external parties (Zott & Amit, 2008). Also BM emphasizes the key detail of company value proposition to the stakeholders and the system that the focal company utilizes to create and deliver value to its customers (Seddon, Lewis, Freeman, & Shanks, 2004).

Eventually, strategy literature and researches mainly concern 3 key aspects:

1. the networked nature of value creation
2. the relationship between BM and company performance

3. the distinction between the BM and other strategy concepts

Companies can look at BM not only as a mechanism to foster technological innovation, but also as an innovation itself (Mitchell & Coles, 2003). Scientific community in majority favors the idea that BM innovations are vital for company performance and see it as a mechanism of company transformation (Johnson, Christensen, & Kagermann, 2008; Sosna, Treviño-Rodríguez, & Velamuri, 2010). It is believed by some scientists that BM forms via the process of experimentation that is different depending on the field (Hayashi, 2009; McGrath, 2010).

1

Conclusion

Taking everything into consideration, BM is a relatively new topic of analysis that is viewed from different perspectives- closer to the company (Casadesus- Masanell & Ricart, 2010; Hurt, 2008), closer to the network of a company (e.g., Tapscott et al., 2000) or in the middle between a company and a network (e.g., Amit & Zott, 2001). Many scholars in regards to the BM provide holistic view on not only what business does, but also on how business does it. Also in the BM concept scientists include activities done by focal company and its suppliers, customers and partner's conceptualization (McGrath, 2010; Teece, 2010; Zott & Amit, 2010).

Scholars see the BM as a company-centered and boundary-expanding activity system, what is consistent with representational and systemic nature of the BM (Dubosson-Torbay et al., 2002; Timmers, 1998).

Another conclusion drawn from the BM literature is that the scientific community has changed the focus from value capture to value creation, where latter has become a valuable complement of the former. The analysis of business model components proposed in the literature reveals that the most frequent and important one is the concept of value. BM is a new unit of analysis that is focused on activities and value creation in particular.

Therefore the researcher will look deeper into the concept of value creation, mechanisms of value creation and main elements of business model especially in the context of service companies in order to achieve the objectives of the research.

2.1.2 Business model design elements and themes

BM design- is architecture of the activity system with key design parameters that may help managers and researchers create better BMs (Amit et al, 2009).

Main idea of BM design – “purposeful weaving together of interdependent activities, performed by the firm itself or by its suppliers, partners and/or customers” (Amit et al, 2009).

The ultimate goal of a company BM is “**to exploit the business opportunity by creating value for the parties involved (fulfill customer needs) and create surplus while generating a profit for the focal firm and its partners**” (Amit, Zott, 2009). Such a purpose is mentioned in value proposition and was described as “the value creating insight on which the firm turns” (Magretta, 2006). So the activity in a company BM is the engagement of any type of resources of any party in the BM that is needed to achieve the ultimate objective.

Therefore, the **Activity System of the company** is “**a set of independent organizational activities centered on a focal firm, including those conducted by the focal firm, its partners, vendors or customers**” (Amit et al, 2011).

So a BM can be viewed as an activity system - a system that consists of elements, connections between these elements and dynamics (Afuah and Tucci, 2005). Afuah also saw BM as a set of activities that the company performs in a certain way and time.

Another point of view on BM said that BM includes “training, development, manufacturing, budgeting, planning, sales and service” (Johnson et al, 2005) whereas Mitchell and Coles highlighted that BM is about how to provide customers with the product. According to Chesborough and Rosenbloom BM defines the value chain structure and creates value. Apparently, the scientific community supports the activity system approach to BM.

1.1.1 **Design parameters of a business model**

According to Amit and Zott (2011) the key parameters required for BM design are separated into 2 groups:

1. **design elements** (content, structure and governance) that describe architecture of the activity system
2. **design themes** (novelty, lock-in, complementarities and efficiency) that describe the sources of value creation

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3. **design elements** (content, structure and governance) that describe architecture of the activity system

4. **design themes** (novelty, lock-in, complementarities and efficiency) that describe the sources of value creation

The first group of vital BM design parameters is content, structure and governance that cover bigger scope than the interrelations of activities and network scheme of the company (Zott et al, 2009):

1. **Activity system content** is responsible for a selection of activities that will then be performed and that will constitute the BM of the focal company

2. **Activity system structure** tells how the activities are connected and emphasizes their importance for the BM (i.e. it tells about their nature- core, supporting of peripheral).

3. **Activity system governance** tells us who does these activities.

Ultimately, the BM as an activity system characterises how companies do their business.

Design themes of a business model

Another type of parameters that describes the activity system is **design themes** that concern the main drivers of value creation in the focal company.

Design themes are configurations of design elements are related to certain design themes

(Amit et al, 2009). Both empirical and theoretical researches have proved that there are 4 main variable elements of an activity system: novelty, lock-in, complementarities and efficiency:

1. **Novelty**- the key principle of novelty-focused activity is the adoption of new activities (content) and/or connection of old activities in a new way (structure) and/or new ways of controlling those activities (governance).

2. **Lock-in**- it is an activity system that constitutes the power of a focal company to attract 3rd parties into being BM participants. The lock-in power may be connected with switching costs and a potential loss of externalities, content and/or governance of the activity system

3. **Complementarities**- represent the idea that the activities create a synergy when performed together and prove less effective separately.

4. **Efficiency** – this parameter of design themes states how efficient the focal company uses activity system design by cutting costs. Companies can become more efficient via their activity system and structure. For example, low-cost airlines get rid of activities to lower the cost.

The following table (figure 2) summarizes the activity system design framework:

Framework provides insight by:	
Giving Business Model Design <i>a language, concepts, and tools</i>	
Highlighting Business Model Design as a <i>key managerial/entrepreneurial task</i>	
Emphasising <i>system-level design</i> over partial optimisation	
Design Elements	
Content	<i>What activities should be performed?</i>
Structure	<i>How should they be linked and sequenced?</i>
Governance	<i>Who should perform them, and Where?</i>
Design Themes	
Novelty	<i>Adopt innovative content, structure or governance</i>
Lock-In	<i>Build in elements to retain business model stakeholders</i>
Complementarities	<i>Bundle activities to generate more value</i>
Efficiency	<i>Reorganise activities to reduce transaction costs</i>

Figure 2. Activity system design framework

Source: Amit et al, 2009

Conclusion

A BM can be looked at as a framework how the company does business, how it delivers value to its stakeholders and how it links factor and product markets (Zott et al, 2009). The activity system approach relates with all of these issues, providing managers and academics with a tool to communicate and find the best solution.

The activity system in BM is useful for managers as it gives them a framework of BM design.

Moreover, it encourages them to use holistic and systematic approach to creating the BM instead of isolated decisions like whether to buy or make something. Last advantage of activity system is the possibility for further theoretical development and amendment (Amit, Zott, 2009).

The following steps of the research will get a deeper look at the Michael Porter's concepts of competitive advantage, competitive strategy and value chain, that represent valuable concept for BM and strategy analysis. The next step in the literature review is devoted to airlines BM and their key components that are represented in the business models literature. Theoretical research outcome will lead to the synergy of emerged theoretical junction of BM activity system, airline BM frameworks, Porter's value competitive advantage and strategies and the concept of value creation that as it was found previously constitutes an important part in BM structure.

2.2 Elements of business models based on business model canvas approach

2.2.1 Business model canvas concept

The Business Model Canvas (BMC) describes the characteristics of BMs and attempts to see the entire picture ([Zott et al., 2010](#)). The main aim of BMC is to bring the ultimate language that would describe BMs in reality and test the applicability of a certain BM (Amit, 2011). Therefore BMC offers a universal way to describe a BM in a visually and logically comprehensive way ([Osterwalder & Pigneur, 2010](#)). In order to get an understanding of BMC the following definition of a business model itself was used during creation of BMC- "A business model describes the rationale of how an organization creates, delivers and captures value" (Osterwalder & Pigneur, 2010). Another definition of a BM formulated by Osterwalder is "a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm" ([Osterwalder et al., 2010](#)). This definition describes the BM as tools for capturing, creating and delivering value and is compatible with BMs of other companies.

BMC is a tool that aims to ease the design of BM and an incentive to managers to think differently about their BM (Osterwalder, 2004). In order to achieve this goal [Osterwalder and Pigneur \(2010\)](#) created a canvas that is from their point of view is applicable to every BM. The structure of the BMC consists of 9 blocks that can be structured according to the BM dimensions:

- value proposition (value proposition)
- architecture of the relation between the firm and its exchange partners (customer segment, channels, customer relationship and key partners)

- architecture of what a firm is doing (key activities and key resources)
- financial aspects (revenue stream and cost structure).

These building blocks provide an insight into what should be in the BM, yet the main block is the value proposition, so that “other blocks are supportive to deliver, capture and activate the value proposition” (Osterwalder and Pigneur, 2010). The balance between the blocks and the combination of their interrelation and mechanism of functioning creates the unique BM(Osterwalder and Pigneur, 2010). The following figure 3 depicts the visual representation MBC. In order to get a better understanding of the concept each element of the business model canvas will be analysed further.

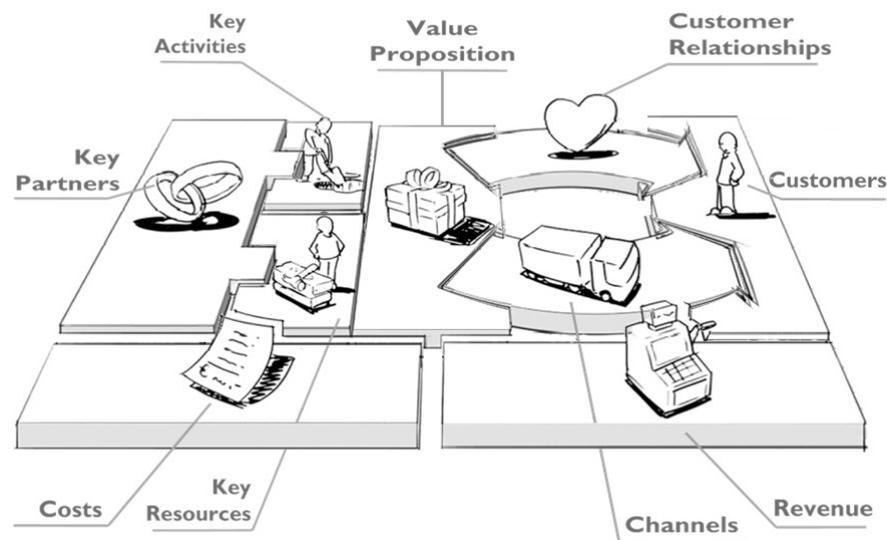


Figure 3. Business Model Canvas

Source: Osterwalder and Pigneur, 2010

BMC elements are divided into 4 main groups: value, architecture of how the company functions, architecture of what the company is doing and the financial aspects.

1.1.2.1

1.1.2.2 Key Element: Value proposition

Value proposition

According to Osterwalder (2004) value proposition is in the center of the BMC and is designed to satisfy the customers. In case it does not meet the customer needs, the company will cease to exist in the long run. Therefore the customer is a key factor for the business. So that the value proposition has to be defined very carefully and refer to the main value created for the

customer: “the value proposition bundles products and services that create value for a specific customer segment” (Osterwalder & Pigneur, 2010). Examples of value offers include the following- cost reduction, risk reduction, price and presumably better performance (Osterwalder & Pigneur, 2010).

1.1.2.3 Key Element: Architecture of the relation between the firm and its exchange partners

Customer segment

The value proposition is designed for a certain customer segment that is defined as “different groups of people or organizations an organization aims to reach and serve” (Osterwalder & Pigneur, 2010). Obviously, the customers make the company survive therefore the company must know what they want. In order to create a bundle of the products the company has to have a customer segment as this segment represents a group of customers with similar needs for which the value proposition was created. Otherwise the company proposition may not be considered valuable. Customer segment must be defined in terms of size, variety and type of customer. Then according to the segments must be identified in regards to the relations with customers, distribution channels and revenue structures. Should all these be identified, the customer segment is created. Next step is to verify if the customer segment correlates with the value proposition and a BM to provide successful delivery of value proposition (Osterwalder & Pigneur, 2010).

Channels and Customer relationship

Osterwalder and Pigneur (2010) use channels and customer relationships in BMC in order to communicate and deliver the value proposition. The Channels block is defined as ‘how a company communicates with and reaches its Customer Segment to deliver a Value Proposition’ (Osterwalder & Pigneur, 2010). In this block the authors define communication way, sales strategy and distribution as the factors that create customer awareness of the value proposed. Also the channels are responsible for the support of this value to clarify its maximum potential (Osterwalder & Pigneur, 2010).

The neighbor block of Channels is the Customer relationships block that also bridges the value proposition and customers. This block is responsible for the way how customer are connected with the company. The purpose of this block is to sell more by enhancing customer loyalty and increasing the customer base.

Key Partners

Due to the fact that a firm does not possess all needed resources and activities within itself to create the value proposition, the network activity is set as one of the main things in the BMC. Logically, the Key partners arise, that is “the network of suppliers and partners that make the business model work” (Osterwalder & Pigneur, 2010). Such a network of suppliers and partners can give positive outcomes in the form of risk and cost reductions and unique or rare resources (Osterwalder & Pigneur, 2010). According to Zott et al (2010) the key partners block complements the company resources. Moreover, the BM also creates value for the partners and suppliers (Brandenburger & Stuart, 1996).

1.1.2.4 Key Element: architecture of what a firm is doing

Key resources and Key activities

This block is defined as “describes the most important assets required to make a business model work” ([Osterwalder & Pigneur, 2010](#)). Resources are crucial for sustainable competitiveness of the company as they are used to create, communicate and deliver the value proposition (Barney, 1991). Therefore every business has different resources that can be in the physical or intellectual form. Other resources are human and financial ([Osterwalder & Pigneur, 2010](#)). Yet resources alone are not sufficient and the company needs key activities that are defined as “the most important things a company must do to make its business model work” (Osterwalder & Pigneur, 2010). These activities that create value are production problem solving and network activities ([Osterwalder & Pigneur, 2010](#)).

1.1.2.5 Key Element: Financial aspects

Revenue stream and Cost structure

All mentioned block are connected with delivering value to the customer. The company’s aim is to make profit what is to increase revenues and decrease the costs. The BMC reflects this principle in the building block Revenue streams and captures the value created on the right side of the BMC.

Revenue streams block is defined as “represent the cash a company generates from each Customer Segment” (Osterwalder & Pigneur, 2010). The pricing policy is included in this block as the revenues are initiated by the money paid for the delivered value.

The blocks Key Resources, Key Activities and Key Partners are responsible for value creation and capture (Osterwalder & Pigneur, 2010), but they need costs to be incurred in order to function. The Costs block is described as “the Cost Structure describes all costs incurred to

operate a business model” (Osterwalder & Pigneur, 2010). The cost structure can be defined as cost-driven, value-driven, fixed costs and variable costs. Finally, the revenues minus costs lead to the profit that represents the added value created by the BM of a company (Osterwalder & Pigneur, 2010).

1.1.2.6

1.1.2.7 Business Model Canvas and Strategy

1.1.2.8 The scientists differentiate the designing of BM and its implementation in a company in a way that it will make a company successful. The application of a BM is related to the environmental factors of the company. SO the analysis and the adaptation to such conditions is a corporate strategy (Zott, 2009). There are 4 ways of strategic perspectives of BM: “BM Environment, Evaluation of BM, BM Perspective on Blue Ocean Strategy and Managing Multiple BMs” (Osterwalder and Pigneur, 2010). An approach provided by these scholars implies that these elements can be seen as the steps to follow to best adjust the BM to the environment. Consequently, the BM is seen as a dynamic concept that needs to constantly assessed and changed in case it does not comply with the environment (Osterwalder and Pigneur, 2010).

1.1.2.9 Management is considered as a crucial component upon the implementation of a new BM. The current decisions will greatly influence the results of implementation, nevertheless the process of constant and relevant adjustment of the BM and the evaluation of its results is paramount (Osterwalder & Pigneur, 2010).

1.1.3 Strengths and limitations based on academic literature

1.1.4 The main strength of BMC is the visual comprehensiveness and ease of understanding of the focus on value and full coverage of different BM aspects. The main limitations are the absence competition, imitation and market forces blocks. Though it can be compensated by more thorough description of Key activities and Key resources blocks. Another significant limitation is low level of applicability of BMC for NPO, what shows the limited strategic purpose aspect of the proposed framework.

1.1.5 Generally, BMC has limitations when it comes to combining the strategy with BMs as the strategy is not mentioned in the canvas and therefore appears to out of the scope of the concept. Nevertheless the strategy and BM literature sees these concepts as inextricably connected as “value creation mechanism is based on the competitive advantage on competition” (Brandenburger & Stuart, 1996). The way the company utilized its capability to stay competitive defines the difference in positive performance in respect to the competitors (Magretta, 2002).

1.1.6 Ultimately, the theoretical limitation of the BMC is insufficient coverage of strategy aspect. The following table (Table 2) summarizes the strengths and limitations of BMC:

Table 2. Strengths and limitations based on alternative business model tools

Source: Beltramello et al., 2013

Strengths	Limitations
Visual representation of the BMC.	The ignorance of external factors such as competitions, imitation and market.
The coverage of the different dimensions of a business model such as Channels, Customer Segments, Cost Structure and Revenue Streams.	The BMC is based on building blocks of different levels of abstraction. This results in more emphasis on building blocks such as Key Resources, Key activities, Channels and Customer Relationship.
The centrality of value.	Human, and team interaction is not taken into account. This may result in incomplete identification of the value creation
	Mission and vision of a company are missed, which implies that the focus is on profit generation

As a part of the research goal is to find the BM factors that can increase the customer value the model that the researcher aims to consider value creation and value proposition parameters. Value creation is at the heart of any business model; businesses typically capture value by seizing new business opportunities, new markets and new revenue streams (Beltramello et al., 2013). The value proposition is typically concerned with the product and service offering to generate economic return (Boons and Lüdeke-Freund, 2013). Value capture is about considering how to earn revenues (i.e. capture value) from the provision of good, services or information to users and customers (Teece, 2010). Therefore, the next part of the theoretical analysis in this research will be value. The following literature review will focus on the mechanisms of value creation, proposition and capture.

2.2.2 Value creation

A lot of attention was paid to value when new digital technologies emerged when resulted in a demand on new mechanisms of value creation based on a network of partnerships and connections with partners and customers (Zott et al., 2010). Some scholars consider BM as a mechanism of value creation (Amit & Zott, 2001), whereas the rest believes that BMs are a mechanism for value capture (Zott et al., 2010). Scholars regard value as a central part of a business model. Value is the means of measure of performance of a company BM. If the delivered

value is perceived higher than the price, it will be bought (Anderson & Narus, 2004). Additionally, the business model must create the value that is bigger than the costs incurred for its creation (Anderson & Narus, 2004). The overall value creation by a BM is the total value of all stakeholders- partners, suppliers, customers (Brandenburger & Stuart, 1996).

According to Chesbrough & Rosenbloom (2002) BM is like a “hypothesis” of how to deliver value to the customer, yet not a precise plan of how to run the company. “Value creation and capture mechanisms take place in a network of value of the company where the network partners complement the company resources” (Zott et al., 2010, p. 21).

Nowadays the way of creating value is different because customers can provide a feedback and impact the value creation process. The question changes from “What we can do for you?” to a more proactive “What can you do with us?” (Wind & Rangaswamy, 2001, p. 21). Nowadays customers are no longer an isolated group of people, but a party closely connected with business, a party that is well informed and active (Prahalad & Ramaswamy, 2004). The customer’s role has evolved from an external element to a co-producer of value (Zhang & Chen, 2008). All these concepts are depicted in Figure 4:

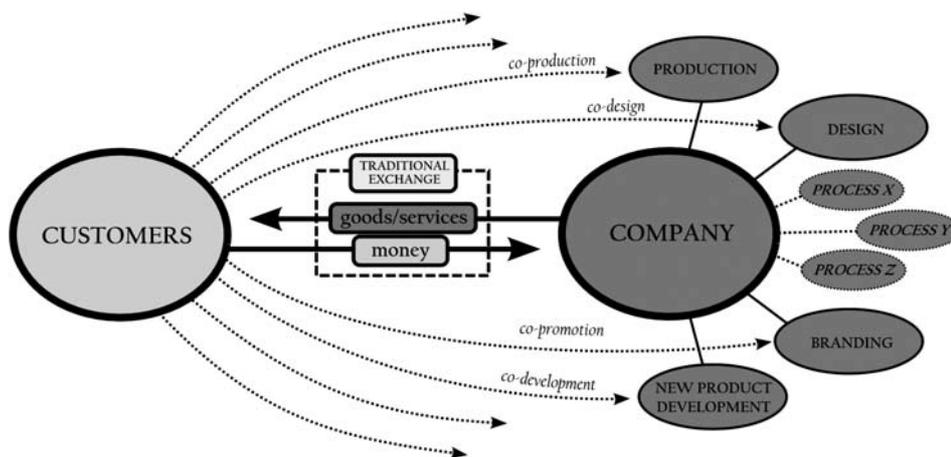


Figure 4. Contemporary interrelation and information exchange between companies and customers

Source: Zhang & Chen, 2008

Value creation mechanisms are in the base of interrelation between customers and companies nowadays. The BM literature gives a valuable insight into a decent number of mechanisms of value creation that offer new effective ways how the classic interrelation may be changed and improved. For instance, co-production is transformed in the process where the customer is engaged into the production process of the product or service (Lusch, 2007; Lusch & Vargo, 2006). By doing this, the company integrates customer resources in the creation of the product. Vargo and Lusch (2006) have claimed that customer resources may be very successfully and

beneficially used for company's improvement of design, promotion, pricing and distribution. Zhang and Chen (2008) proposed 4 main value creation activities which include involvement customers in marketing and sales procedures, new product development, hiring customers as part-time employees and using their feedback to improve the service quality.

In 2007 Sheth and Uslay have introduced co-conception, co-consumption, co-maintenance, co-disposal and co-outsourcing as the certain steps or part of mechanisms of customer value creation. With these concepts in use the role of the customer undergoes a total change making him a not only a payer, but a provider of insight, information-holder and an assistant.

2.2.3 Value proposition

Value Proposition is created to satisfy customers and match their needs. If the value proposition fails to do so, a company will not survive the competition, therefore the customer becomes the main element for the business. Value proposition should be formed very carefully and should contain the value in the form of services and products for the customers. According to Osterwalder and Pigneur (2010, p. 22) "Value Proposition bundles products and services that create value for a specific Customer Segment". Value proposition is basically an offer that answers the needs of the market or certain customer groups or certain customers. The examples of value proposition comprise risk and cost reductions, price and positive performance (Osterwalder & Pigneur, 2010).

Value proposition not only helps to deliver the message about the main advantages and beneficial features of their market offer, but also give an opportunity to focus on the inside processes to facilitate the process on transition of this value to consumers. From this point of view, customer value propositions is a capacity to establish a reliable, undistorted and clear connection between an organisation and customers (Webster, 2004).

Lanning and Michaels (1998) emphasised 2 main activities in this theory: the creation of value delivery system and creation of value proposition. The main focus is on increasing the value for the customers with the least losses. Moreover, customer value proposition should be based on the most effective utilisation of the resources that the company has in comparison with its competitors, what may result in a sustainable competitive advantage (Rintamaki, Kuusela, & Mitronen, 2007). Lanning and Michaels (1998) have highlighted 3 main processes in customer value creation and proposition: divide customers in groups in accordance with their perceived value from the product/service and then analyse these groups, evaluate if particular organisation segments are capable of delivering more value and finally make a pick with the value proposition

that would make the above-mentioned opportunities possible (Frow & Payne, 2011). Eventually, customer value propositions may be a key to success and a competitive position of the company on the market (Anderson, Van Rossum, 2006).

Customer value proposition can be used as a powerful tool to evaluate the potential of value creation mechanisms that a company can undertake. It helps the business to understand if certain value creation mechanisms are able to facilitate the delivery of value proposition (Frow & Payne, 2011). It is crucial to understand that customer value proposition bears responsibility for the very existence of the company, because it is responsible for the perceived value that defines if the product is popular or not (Frow & Payne, 2011). From this point of view, value creation is always followed by value proposition. So the customers putting their additional resources into co-promotion, co-design, or co-development create a huge change in the classic relation between a company and a customer (Anderson, Narus & Van Rossum, 2006). By doing this the business attracts additional non-monetary resources to value creation and its delivery (Figure 5).

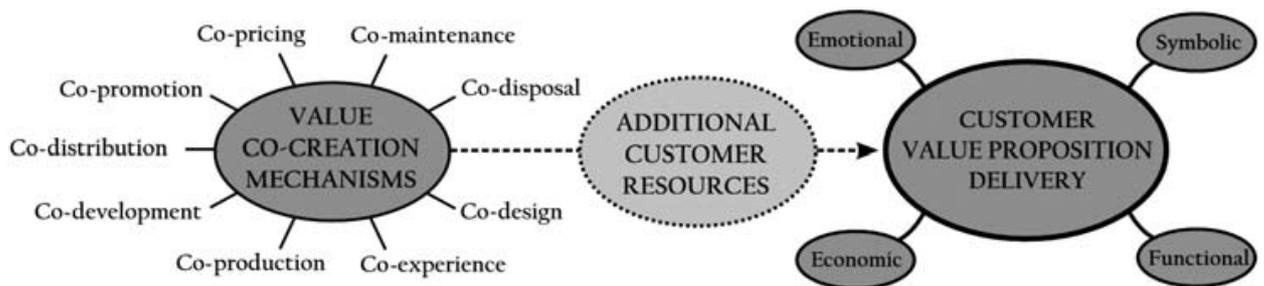


Figure 5. Integrating additional customer resources to the delivery of the company’s customer value proposition.

Source: Anderson, Narus & Van Rossum, 2006

Auh, Bell, McLeod, and Shih (2007) came up with 3 main determinants that seem to be vital for effective co-production: the task must be clear, easily comprehensible and simple, customer must be able to cope with it and customer must have a proper level of motivation and desire to fulfil such a task. Co-production is a good idea because it is very straight-forward, simple and effective tool how to clearly deliver economic value to the customer.

2.2.4 Value capture

“Value capture is about considering how to earn revenues from the provision of good, services or information to users and customers” (Tece, 2010).

Value capture (VC), also defined as value appropriation or claiming, is determined by the part of exchange rent that a company can capture (Gulati and Wang, 2003). VC comes from the ability of a company to gather the rents were generated in the exchange process (Verwaal et al., 2009). VC allows the company to secure the resources that permit the company invest in future value creation (Wagner et al, 2010).

VC as well as value creation is the very basis of the company functioning and financial performance. The aim of VC is to secure profits what would let companies to invest in R&D, resources and business relations and so on, what would in its turn gain a competitive advantage.

VC is a crucial to the company value creation and is not its sub-product therefore requires a lot of attention from the managerial point of view. The scientists propose to utilise the specific scheme for discussing, testing and planning VC (Harrison et al, 2010). There are 5 methods how to connect the value creation and value capture, in particular this method emphasizes different ways of interacting with other businesses. Moreover, both suppliers and customers may be engaged in this (Ford et al., 2003).

VC can be looked at from different angles, e.g. from the point of negotiation stream. There it depends on the interpersonal relations on the give and take basis that result in the contract between the companies. The buyer and the representative of a supplier meet in order to bargain and negotiate the deal (Bac, 2001; Kaufmann, 1987). Value creation as well as VC is realized at the time of negotiations. The details of the signed contract are the usually quantitative and imply monetary costs of the parties. The indexes of the performance like prices, discounts, volumes and terms are subject to bargain. There are 2 types of bargaining one of which is integrative, that is closely associated with value creation. It is characterized by learning, communication, collaborate problem-solving, abstaining from conflicts etc (Bac, 2001; Kaufmann, 1987; Lax and Sebenius, 1986; Sebenius, 1992).

From another point of view, VC is perceived as negotiation process over an unchangeable object (Neale and Bazerman, 1992; Sebenius, 1992). Therefore, the value in question is already a prepared solution, service and the distribution splits the value between the supplier and buyer (Fisher et al., 2011). The ability to capture value is connected with bargaining power what in its turn stems from how independent the company is from the supplier (Bacharach and Lawler, 1994). SO the manipulations with its bargaining power may guarantee the company better value capture (Bacharach and Lawler, 1984; Lax and Sebenius, 1986).

Another point of view to look at value capture is resource based view (RBV). RBV firms use their interior resources to create value for customers and get profits (Barney, 1991; Peteraf, 1993; Wernerfelt, 1984). VC is connected with the competitive advantage that the company has and how sustainable it is. Therefore the competition on the market is determined by how much value can be captured from the whole customer pool (Bowman and Ambrosini, 2000; Lepak et al., 2007).

The key element of VC from RBV point of view is isolating mechanisms (Rumelt, 1997). The firms with poor interior resources need to gain access to external resources to get to new markets and customers (Alvarez and Barney, 2004). So the main RBV company objective is to protect the resources from competitors to retain sustainable competitive advantage. Isolating mechanisms in the RBV implies technological patents, trademarks, copyrights and property rights (Alvarez and Barney, 2004). There is a balance between value creation and capture that stem from managerial decisions whether to put resources into the product creation or to invest them into differentiation in the form of advertising.

Another way to look at VC is the strategic alliance. The alliance is “any voluntary initiated cooperative agreement between companies that involves exchange, sharing or co-development and can include contributions of capital, technology or firm-specific assets by partners” (Gulati and Singh, 2001). The ultimate goal of such alliance is to capture value from the collaboration and avoid compromising the alliance (Gulati and Singh, 2001). VC from the collaboration comprises common benefits based on the needs of the alliance and private benefits that consist of needs of a certain company (Lavie, 2006). According to Lavie (2006) the benefits that stem from the alliances are the internal benefits that concern certainty and specialization and external spillover benefits that come from internalizing the resources of a partner within an alliance, what results in building competitive advantage for the sake of a partner (Lavie, 2006).

A very important aspect of VC that draws scientific attention is the relation between the seller and buyer in the form of trust and commitment (Deligonul et al. 2006, Wagner et al. 2010). If the company abuses its customers with excessive VC techniques it can damage the customer and supplier relations, ultimately affecting the performance (Deligonul et al., 2006). On the other hand, thoughtful and respectful relations will create strong basis for mutually beneficial relations (Deligonul et al., 2006).

2.3 Business models in service companies

One of the many definitions of a BM is “a set of which activities a firm performs, how it performs them, and when it performs them as it uses its resources to perform activities, given its industry, to create superior customer value (low-cost or differentiated products) and put itself in a position to appropriate value” (Afuah, 2004). BM can be separated into 3 categories- abstract, implemented and virtual. Abstract models represent generic approach to BM concepts, elements and the interrelations that can be used in the processes and structures of the focal organisation. Virtual models in their turn are implemented as sources of innovation and instructions in times of change (Osterwalder, 2004).

BM of a service company is considered as a managerial tool that is defined by Osterwalder (2004) as “conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm” (Osterwalder, 2004).

Developed economies have more than 60% of work force engaged in services (Florea, Andreescu, Uta, 2011). From the business model canvas proposed by Osterwalder the service companies deserve particular attention in the context of the following dimensions: customers, customer relations, partners and resources. Another additional aspect that needs to be taken into consideration is Personnel due to the fact that customers interact with staff that require particular attention in a BM of a service company. Another crucial part of a BM of a service company is Pricing. As all elements must work in collaboration Simona Kleinhempel and Stefan Nitchi (2010) have proposed to emphasise 5 main blocks of service business models (Figure 6):

- Service- resources, customer value
- Partners
- Customers
- Staff
- Finance

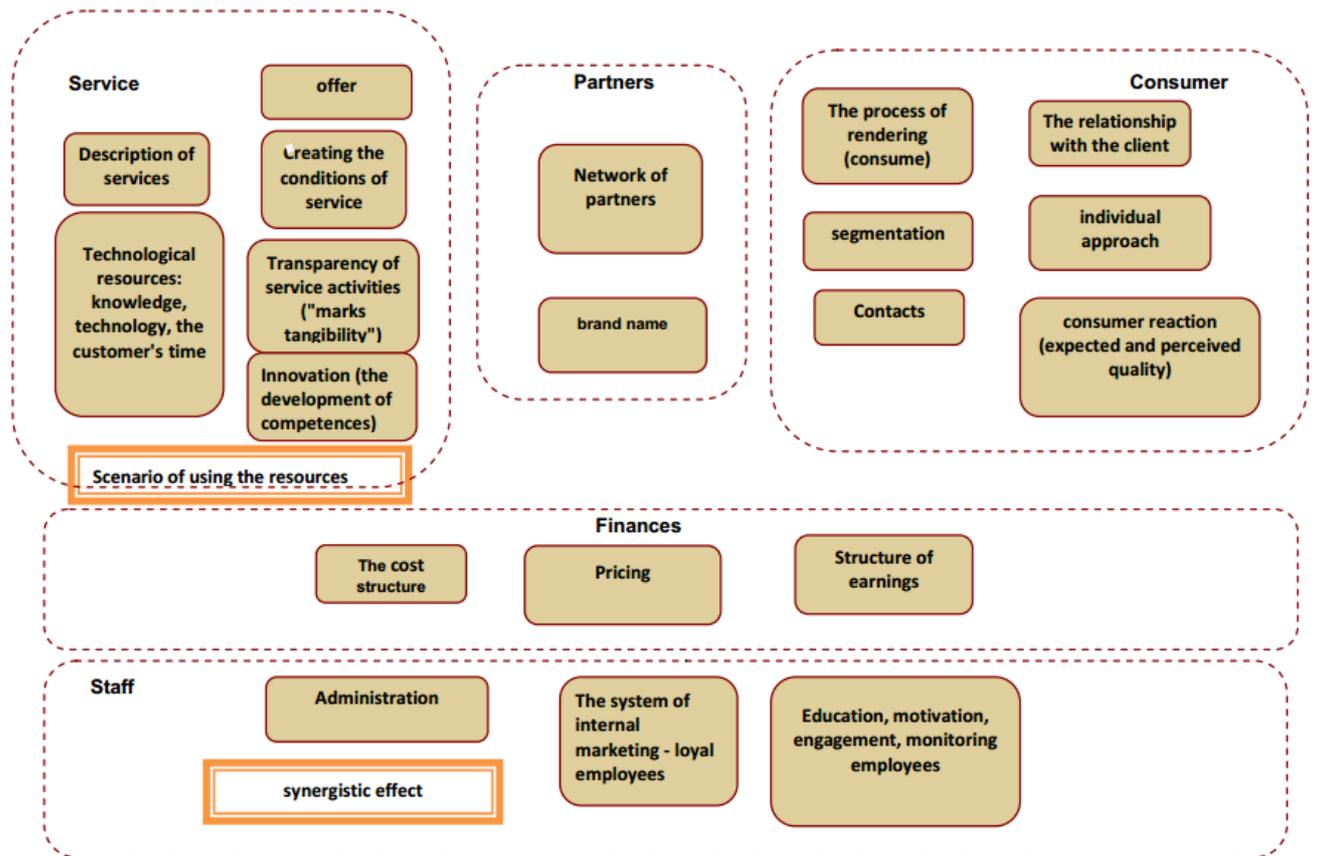


Figure 6. Scheme of a business model for a service company

Source: Kleinhempel, Nitchi 2010

This figure represents the BM of a service company that describes the conditions and resources that are needed for creation, visualization, marketing and delivering the value by a team of properly trained personnel (Simona Kleinhempel, Stefan Nitchi, 2010). A very crucial thing in

Service BM which infers the adoption of efficient and effective processes, appropriation of the best practices among companies (Grant, 2010). Such process of standartisation and gradual convergence is an integral part of competitive process (Lieberman and Asaba, 2006) and highly characteristic of service industries (Grant, 2010). Yet, the service industries like airline are mature, unprofitable, homogeneous and extremely competitive, therefore the business strategy groups in such companies are always striving to find the differentiation niche, at the same time being “in trend” with the best industry business strategy moves and keep reasonable parity (Tarry, 2010). Ultimately, service business model configurations and especially their resemblances are of paramount importance. The necessity to cultivate the framework to coherently assess and describe business models of service companies has been acknowledged (Mason and Morrison, 2008).

The existing approaches in the field share common principles by describing the business as

one implementing a set of “constitutional components and sub-dimensions” (Mason and Morrison, 2008). The things that differ in such approaches are number of components, model layers and the contents of such categories. As far as the concept design is concerned, such frameworks are divided into 3 to 8 elements. The majority of approaches allow seeing and therefore assessing and describing the value creation system of the service organizations. The following table (Table 3) depicts the overall concepts of a number of business model frameworks.

Table 3. Selected business model components for service companies

Source: Morris et al., 2005

Author	Number of components	Main themes
Hamel, 2000	4	Customer interface, Core strategy, Strategic resources, Value network
Alt and Zimmermann, 2001	6	Mission, Structure, Processes, Revenues, Legal issues, Technology
Weill and Vitale, 2001	8	Strategic objectives, Value proposition, Revenue sources, Success factors, Channels, Core competencies, Customer segments, IT
Magretta, 2002	3	Value proposition, Customers, Revenue sources
Bieger and Agosti, 2005	8	Growth concept, Organizational formation, Cooperation concept, Competencies, Coordination concept, Communication concept, Revenue concept, Product/Service concept
Knyphausen-Aufsess and Zollenkop, 2007	3	Product-market-combination, Configuration of value chain, Revenue generation mechanism
Richardson, 2008	3	Value proposition, Value creation, Value capture
Casadesus-Masanell and Ricart, 2010	3	Policy, Governance, Assets
Al-Debai and Avison, 2010	4	Value proposition, Value architecture, Value finance, Value network

The elements of business model frameworks of service companies must be able to provide an insight into the value creation system, so these elements have to be rather general, but deep and

take into consideration the specifics of an industry (Ulrich and Fluri, 2005). Eventually, these requirements impose certain structural principles that determine the design of the frameworks.

The structural design of a service company BM layout has to be focused on differentiation of decision-making levels in an organisation as of operating, tactical and normative layers (Ulrich and Fluri, 2005).

BMs from Table 5 imply that the parameters of its compounds are subject to managerial decisions thus become the basic instruments to design the business model (Seddon et al., 2004). Unlikely the measures that are used in order to evaluate the efficiency of BM elements such as profitability or loading have nothing to do with being a part BM rather they represent input factors for service company BM (Seddon et al., 2004). These business model frameworks are applicable to the level of business unit, so if the service company has a number of business units, the model should be applied to each one as each one has its own value creation strategy (Seddon et al., 2004).

Finally, business models and business model innovation for service companies have received substantial attention in literature and industry and it is increasingly suggested that business model innovation is a key to business success (Chesbrough, 2010, Lüdeke-Freund, 2010 and Zott et al., 2011). With the rising global sustainability pressures, collaboration between firms and other key stakeholders is becoming more important (Lowitt, 2013). Value is no longer created by service companies acting autonomously, but by firms acting together with parties external to the firm through informal arrangements or formal alliances (Beattie and Smith, 2013). The service business model may be viewed as a new unit of analysis in business, which takes into account these collaborative ties (Zott et al., 2011 and Beattie and Smith, 2013).

2.4 Summary

In this chapter the researcher used different theoretical frameworks that are implemented in the business society that help to find factors that can make business models able to increase customer value and create a sustainable competitive advantage. The researcher has thoroughly looked into BM definitions and concepts. The researcher studied the literature concerning business models in the context of value, strategy, company performance and innovations in order to get a full picture of the concept of an organization. Literature review includes theoretical analysis of value in the context of value creation, proposition and capture due to the fact that value is a key element of the business model of any company.

Additional literature review about the business model design elements and themes that views the BM as an activity system (activity system is a set of independent organizational activities

centred on a focal firm, including those conducted by the focal firm, its partners, vendors or customers) helped to reveal the BM insights that will help to achieve the objectives of the research. During the literature review the researcher has arrived at a conclusion that value is key element in the business model, therefore the literature review pays much attention to this concept. The study of value has revealed the importance of value creation and proposition in the BM that helps to achieve greater performance for the company.

The researcher has analysed the BM concepts and approaches that are respected and used in scientific society in regards to the question if they help create superior customer value and gain a competitive advantage. The researcher looked at the notions of business models, at the frameworks of service companies' business models and their parameters. All those frameworks include elements that seek to provide an insight into the value creation system of a company. The structural design of these business models is focused on differentiation of decision-making levels in an organisation as of operating, tactical and normative layers. These decision levels cover both functional and organisational levels in business.

The conclusion that the researcher has arrived at is that value creation is an important component of a BM and needs to be taken in consideration while creating the business model of the company. In order to take into consideration the importance of value, avoid overlooking the important design themes and elements and be able to comprehensively present the results of the research Business Model Canvas framework was chosen. The researcher decided to take this framework because it is visually representative, able to cover multiple dimensions of a BM like customer segments, channels, cost structure and revenue streams. Moreover Business Model Canvas is focused on the value that the company creates having one part devoted to value proposition, another part to value creation, another to value capture and cost structure and revenue streams at the bottom. The empirical part will prove the feasibility of this approach in assessing the BM of airline carriers.

3 Empirical research

3.1 Research methodology and design

In order to describe the methodology implemented in my thesis, I have used the research design suggested by Saunders et al. (2009). Figure 7 represents the research design choices taken in order to reach the goal of the thesis.

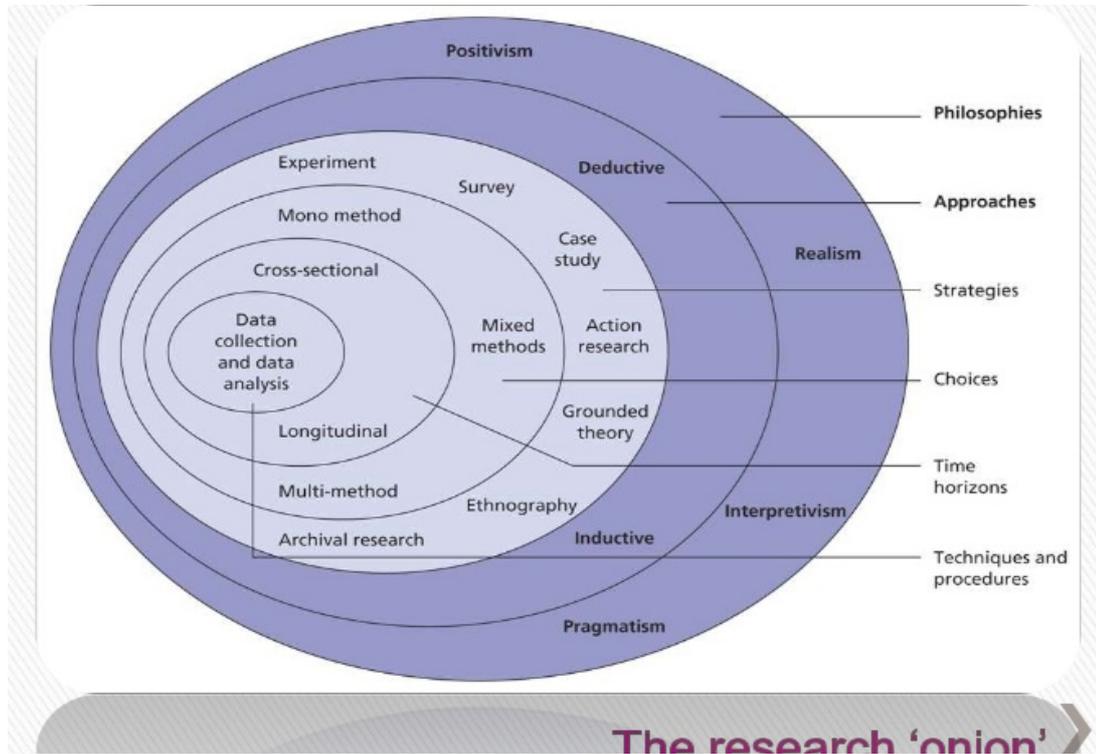


Figure 7. Research design choices of study

Source: Saunders et al., 2009

Justification of the empirical methods of the research

In this master thesis a number of business model frameworks and methodologies of definition were used in regards to the customer value creation. Research method that is commonly used for case studies is qualitative. Qualitative approach is appropriate for this study as the problem of research can be observed and interpreted, yet is difficult to quantify as the number of business models as well as the airlines that represent an interesting case is not numerous. Another argument in favour of qualitative approach is that a business model is a very complex phenomenon, whereas the context of the study is focused on customer value creation.

Business models and their influence on customer value creation of Russian airline carriers is an understudied field especially in the crisis period. Even the notion of the business model itself is not well defined and has a number of interpretations in the scientific world. Therefore the

inductive study is perfectly appropriate for the purposes of this research. The goal of the inductive study is to derive theories from the observation made from the cases studied.

As regards the sampling of the thesis, it fully answers the flexible research structure due to the fact that in the beginning of the research there was no understanding of the business models on the market.

Research philosophy

The research philosophy is the first and the most basic level of the research framework. The philosophy as can answer the question of how the author (researcher) sees the world, his assumption about the human knowledge and his perception of the true nature of things. This perception will vastly influence the research strategies and methodology that constitutes the part of that strategy (Saunders, 2009).

The research philosophy taken by this thesis authors is used is realism as from the author's perspective the world exists independently of the mind. As what the researches can sense is perceived by his mind through the prism of his personal views and experiences. Philosophic realism was defined by Phillips (1987) as "the view that entities exist independently of being perceived or independently of our theories about them". There are 2 types of realism- direct and critical. A researcher using direct realism believes that our senses provide us with correct representation of the reality. On the contrary, a critical realism researcher states that the primary perception of information via our senses is then distorted by our mind to the subjective direction. Therefore the critical philosophy claims the necessity to dig deeper in the structures and relationships of the perceived phenomena in order to discover the conceived complexity. Therefore the data collection techniques and analysis conducting can be qualitative, quantitative or both (Saunders et al., 2009).

Research approach

Deduction and induction are the main research approaches there are. Induction is the research approach when the author is trying to understand what is happening and understand the gist of the problem. Deduction on the other hand tests the theories via hypotheses.

In induction the researcher analyses the collected data what emerges into theory, what in its turn becomes an isolated part of the real world that is aimed at explaining what is happening. In general, induction is focused on a detached comprehension of the research context, the gathering of qualitative data and rather flexible research structures that imply possible research changes during its process (Saunders et al., 2009).

Research strategies

The research strategy that the author uses in this thesis is a multiple case study. Case study as a research strategy includes the empirical investigation of a particular thing within the frames of real life, what uses a number of sources of evidence (Yin, 2009). Taking into consideration the relevance of case studies context, the limiting frames of the focal phenomenon and the context of its research are necessarily well defined (Robson, 2002).

Usually, case study is an element of the exploratory research which main purpose is to investigate the unexplored insights of the focal phenomena and look at it from a new angle (Robson, 2002). Logically the case study answers the requirements of this case study.

Research methodological choice

Methodological choice describes the research design part that concerns the nature of data collected by the researcher. The types of data are separated into 2 groups- qualitative and quantitative. Quantitative data contains numerical information, however qualitative data consists of other forms information but numerical, like photos, words and other types of visual representation (Saunders et al., 2009).

The author has chosen multi-method case study for this research, so that a number of data collection methods from different sources are utilized, yet all of them are qualitative. The reasoning behind such choice is to triangulate the data collected to support the reliability of research findings (Saunders et al., 2009).

Time horizon

The time horizon of the research can be cross-sectional or longitudinal. Cross-sectional analysis is used when the research is taken to address a question or describe a phenomenon at a particular point in time, whereas longitudinal time horizon attempts to study the phenomenon during the extended period of time (Saunders et al., 2009). The researcher seeks to find factors in business models that positively influence the companies' performance at certain years, therefore the time horizon of this research is cross-sectional.

Techniques and procedures

The last level of Saunders research design framework is techniques and procedures that are utilized to describe what was done by the researcher to collect and then analyse the data of the thesis. The following part will cover the decisions made in regards to the choice of data sampling, data collection and data analysis.

Sampling

The ultimate purpose of sampling is to find cases that are likely to support and extend the chosen theory. Therefore, for the case study method the sample must not be random, on the contrary it has to be chosen specifically in order to support the development of theoretical background (Yin 2009, Eisenhardt 1989). The choice of cases for the research should be done in a way that they have to either predict alike research results, or on the other hand they have to lead to diverse yet expected results (Yin, 2009). In general, the cases with diametric outcomes constitute the best information provider for theoretical purposes in case studies (Eisenhardt, 1989).

The sample for data collection research consists of 5 civil Russian passenger airline carriers that operate on the territory of The Russian Federation and are owned either by Russian government or by Russian citizens. The total number of airlines that operate on the Russian market is around 100 with the 14% of the market belonging to foreign carriers. The total market share of 5 case companies amounted to 56% in 2015, what is a big part of the whole market and constitutes a representative sample.

The sample choice process was done via the market analysis of Russian airline industry that was conducted by the researcher. The main sources of information were reports from international aviation agencies that gather information about the airlines and countries. Another source of data was the mass media articles and interviews that cover the current situation on the market and most powerful and interesting from the business perspective companies. Additional sampling sources of information were airlines' presentations and reports that include information about the market and certain business specifics of the company itself.

The second screening round was concentrated on only 8 of these companies. The researcher wanted to gather the maximum information in regards to the business models and value creation principles of these companies. Such information was found in newspaper articles, business journals, Internet articles and interview and industry and company reports. Such actions were taken in order to ensure the triangulation and diversification of information sources that allow proving the validity of data.

Out of those 8 airlines 5 were particularly suitable for the analysis conducted in the study. Companies were not bankrupts, had more than 10 airplanes in their fleet, had a distinctive brand name, reputation, did both domestic and international flights and their business models' information is available in different sources.

Data collection

In general data collection methodology for case studies is quite flexible and very much depends on the particular opportunities that are available to the researcher, therefore the data is collected from all available resources. Case study usually composes diverse data collection methods as of questionnaires, archives, interviews, observations are in either quantitative or qualitative form. A thing that is very important is the triangulation principle that is crucial for theory creation in case studies. The triangulation states that the data collected and analysed from one source is compared with another source with the aim of verifying its quality (Eisenhardt, 1989).

The main data collection was conducted via semi-structured interviews with the airport representatives and representatives of airlines. The interviews were based on the opened questions to provide elaborate questions. The interviews were divided into several themes each consisting of a number of questions in regards to the business model and value creation principles of the case companies. The semi-structured interviews may vary according to the respondent as the type of respondent is different and the company is different as well (Saunders et al, 2009).

Primary data concerning 5 focal case companies consist of 4 interviews with industry insiders. The initial goal was to conduct interviews with a representative of every case company, yet as a result of unavailability of some managers and tight schedule of other company representatives, 2 interviews were conducted in person and 2 via phone (table 4):

Table 4. Interview information

interview	1	2	3	4
date	10.03.2016	12.03.2016	05.05.2016	10.05.2016
company	A	A	B	C
title	Deputy PR director	Business development manager	Deputy Marketing manager	Lean manager
type	phone	phone	face-to-face	face-to-face
place	respondent in Moscow	respondent in Moscow	office	office
start time	18:20	12:00	19:00	19:00
duration	1 hour	45 min	50 min	45 min

Semi-structured interviews included all research topics and were conducted with people, who have worked or work in the focal companies and have inside information about them. The interviews were conducted in Russian and took place in the city. Telephone interviews were

conducted with Moscow. The data was recorded by a recorder for the telephone interviews and was written down for the personal interviews.

The interviews were based on the opened questions to provide elaborate answers. The interviews were divided into 3 groups (table 5).

Table 5. Questions from the conducted interviews

company business model	<ol style="list-style-type: none"> 1) what business model does your company have? 2) what are the key elements of your business model? 3) how does the company change its business model? 4) how does the business model differ from the ones of competitors? 5) what can you say in regards to these question about other companies?
customer value creation elements	<ol style="list-style-type: none"> 1) How do you create value? 2) What are the main drivers of value creation in your company? 3) how do your engage customers in value creation? 4) how do you reach your customers? 5) how do you educate your customers? 6) how do you capture value 7) how do you get feedback from your customers? 8) what can you say in regards to these question about other companies?
key competitive advantage drivers	<ol style="list-style-type: none"> 1) what are the competitive advantages of your company? 2) how sustainable are these competitive advantages? 3) how did the company manage to achieve theses competitive advantages? 3) what can you say in regards to these question about other companies?

The secondary data collection was done through secondary data sources. The secondary data mainly consists of materials provided by airlines' reports and presentations, researches made by CAPA (Centre for Aviation), Rosstat statistics, consulting agencies' market researches and interviews from reliable mass media sources like "Kommersant", "RBK". The researcher has analysed the 17 articles by RBK, Verdomosti and Kommersant in regards to the industry and the scope of the thesis. Another valuable source of numerical information was the Rosstat stitastical agency that provides annual reports. The thesis also refers to the reports made by CAPA agency based in Australia that prepares the global and country specific reports in regards to the aviation

industry and airlines in particular. Moreover, the research has vastly used the annual reports made by the focal airlines themselves and posed on their web-sites. Another source of data were the financial reports of the focal companies that allowed calculating the key industry indicators that are then used to evaluate the effectiveness of business models among the case companies. The indexes used in the thesis are globally recognised and are used by international airline carriers around the world. The financial data was taken from the companies' web-sites and their annual reports in order to check the validity of the data presented by comparing the figures.

Data analysis

For each of the cases a number of topics were analysed. According to the theories of business models the definition of business model, its main components and best model that can be used for the mature civil aviation industry deserve significant attention in the research. The mass media interviews with CEOs of the focal airlines as well as the marketing and consulting agencies' reports will support the analysis phase as the airlines' reports, seminars and presentations may include the bias and require triangulation.

With the aim of achieving reliable results of analysis, the researched is to make a more profound investigation that the first impression of the data (Eisenhardt, 1989). In the thesis, this is achieved by cross-referring the impressions from the airlines' reports and references about themselves and the opinion about them from the competitors, mass media and different information agencies.

The actual research objectives and proposition were not finalised when the data mining was initiated rather they emerged during the process of data analysis. This is a regular phenomenon for an inductive study due to the fact that imminent issues and questions appear and become evident from the data (Saunders, 2009).

Initially, 5 cases of the thesis were studied individually by applying the research objectives to each single case. As soon as the characteristics of each case were found, analysed and became distinct and clear, so that the business model and main sources of customer value creation were found, cross-case conclusions were made so as to achieve the research objectives and prove or dispute the research propositions.

3.2 Russian airline market overview

The researcher starts this chapter with the short overlook of Russian economy that is crucial for understanding the current situation in Russian airline market that will go afterwards. The last year Russian federal budget and therefore economy was dependent on oil prices by about 50%. So a huge drop in fossil fuels resulted in recession and stagflation, creating a big budget deficit. One of the measures taken by the government is privatization and a sale of, for example, Aeroflot stocks which is still mostly owned by the state.

IMF (International monetary fund) claims that Russian GDP contracted by 3.7% in the year of 2015, what was previously followed by several years of steady recession with GDP growth of 0.7% in 2014, 1.3% in 2013 and 3,4% in 2012 (IMF report, 2016). As a result of these statistics many investors reacted negatively on the market conjuncture and withdrew their assets from the economy what led to capital outflows of \$153 bln in 2014 and \$57 bln in 2015. The expectations about the current year correspond with 2015, what is a somewhat good sign meaning that investors are now less suspicious of Russian economy. That followed by low oil prices have devastated RUR causing its drop by 44% vs. USD in 2014 and further 19% drop in 2015, but in the 1st quarter of 2016 it has recovered by 11% vs. USD (CAPA report, 2016).

Consumer inflation rate was pretty high with 16% in 2015 and so far keeps around 8% in 2016 in comparison with 2014 when it compounded only 5.5%. So the economy situation may result in 2 possible macroeconomic interventions in the form of either increased tax burden or budget spending cuts. According to the information from IMF on January 2016 Russian GDP is expected to drop by 1% this year what is worse than the similar forecast done in October 2015 0.6% (IMF report, 2016).

Yet, regardless of hard economic situation the growth of airline passengers remained constant throughout these years. From 2009 until now the average passenger growth rate remained around 14.5% per annum in both domestic and international sectors. The traffic growth was 13.2% in 2013, 7.8% in 2014 and 8% in 2015, what shows a negative trend, but still surpasses the world trend (CAPA report, 2016).

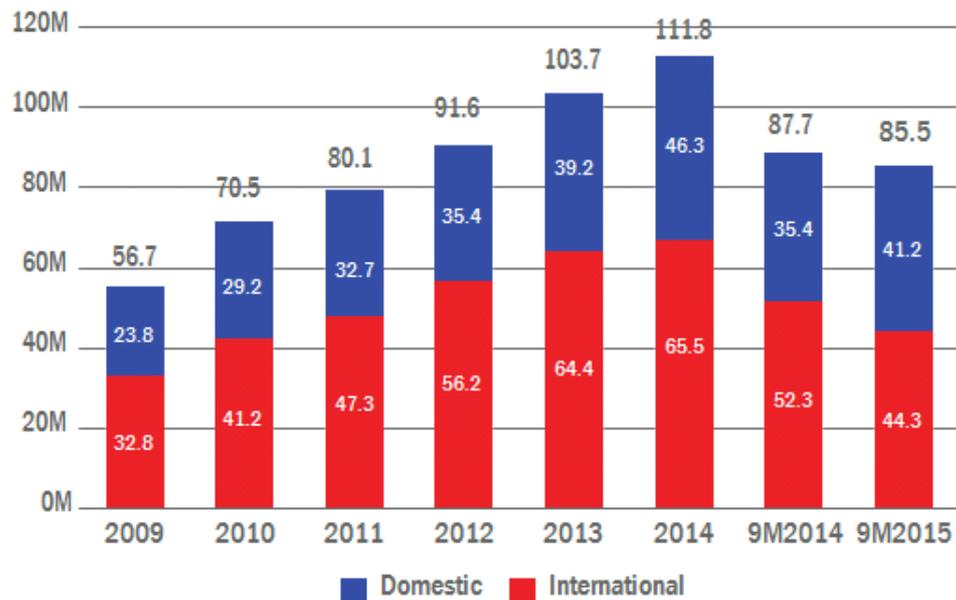


Figure 8. Russian civil passengers in mln 2009-2015

Source: CAPA report, 2016

However, the traffic has been vastly influenced in 2015 by numerous factors such as terrorist acts in Egypt, a conflict with Turkey, European sanctions and recession. SO in the first 9 months on 2015 the traffic was down by 2.6% (Figure 8).

Apparently, the international destinations have suffered most by 15.7% dropping in 2015 due to the fact that not only customers were affected by these circumstances, but also foreign carriers withdrew their capacity as a result of cost of doing business and political situation. The first signs of extinction of international destination traffic were observed in 2014 when it shows the growth of 1.8% in comparison with previous 2-digit numbers. Fortunately, a big part of the international flight decrease was balanced by a short increase in domestic flight growth of 16.2% in 2015 (Rosavia). The fact that the interdependence coefficient between GDP growth and traffic growth in Russia is bigger than the average by 2 times reveals that Russians are more sensitive to economic state as air travelers (figure 9).

According to the Russian Association of Air Transport Operators (Transport Operators Association), the direct costs of the airlines increased by 25% in 2014, and fuel costs increased by 17%, while the lease payments increased by 45%, what made the financial conditions for the air carriers even tighter and riskier (Aeroflot group 2015 results, 2016).

According to information available in February 2016 the seat number at least up to July 2016 is expected to fall up to 15-20% (CAPA report, 2016). Though should economy recovers, the growth numbers will return to positive trend. Nonetheless, so far the Ukrainian war, European

sanctions, low oil prices, unstable RUR and war in Syria negatively affect the condition of Russian economy and airline market in particular.

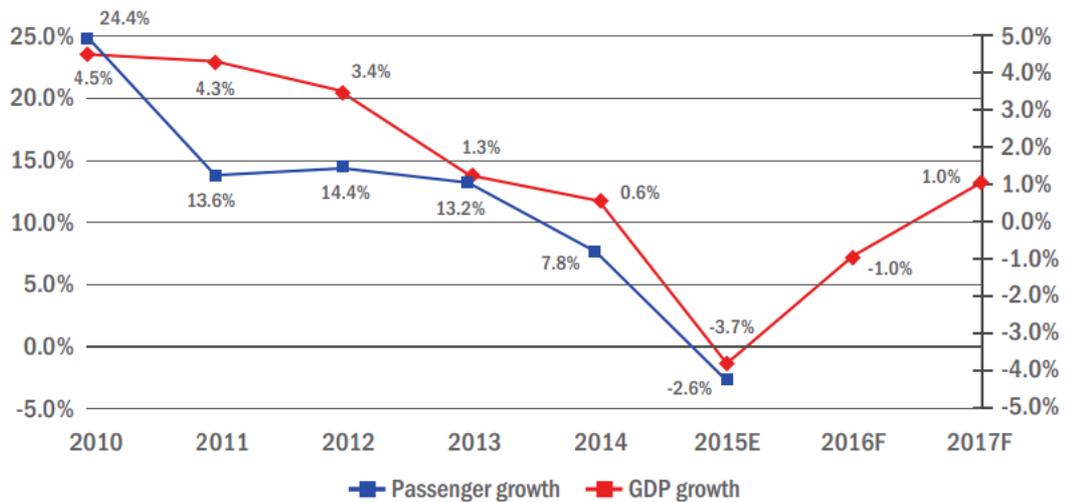


Figure 9. Russian GDP growth and civil aviation passenger growth 2010-2015

Source: Aeroflot presentation 2015

Russian airline market is very much consolidated and continues such trend until now. Top 5 Russian airlines' share has increased from 60% in 2010 to 81% in 2015 (Aeroflot group 2015 results, 2016). The reason for this consolidation is a number of acquisitions by Aeroflot in 2011, difficulties encountered by market participants and revocation of a privilege to hold a flying certificate and bankruptcy procedure of the 2nd biggest Russian airline company Transaero. Consequently, Russian airline leaders managed to augment its PAX (passengers approximately) from 20.5% in 2011 to 35.2% in 9M2015 (Figure 10).

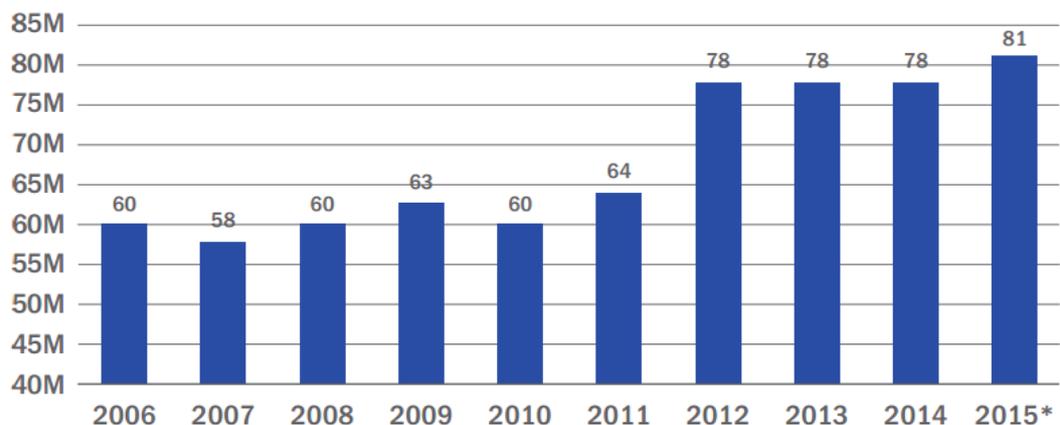


Figure 10. Share of passengers carrier by top 5 Russian airlines 2006-2015

Source: CAPA report, 2016

In 2015 the biggest player on the Russian market was airline conglomerate of Aeroflot group that consists of Aeroflot itself (27.8%), Russia airlines (5.2%), Donavia (1.6%), Orenair (3.1%), Avrora (1.2%) and low-cost carrier (LCC) Pobeda (3.2%). The total sum of Aeroflot group then equals 41.1%, but if we take into consideration international traffic in drops to 35% (CAPA report, 2016, 2016). The runners-up were flat-broke Transaero (13%) and S7 (9%). The Aeroflot group market share was 35% in 2015 in comparison to 30% a year earlier (Figure 11). This is the reverse trend from the market that shrank by 2.6%, because Aeroflot group transferred 13.3% more in 9M2015 than in 9M2014 (Rosavia). The whole year gave Aeroflot a growth rate of 13.4%, created by 32.5% rise in the international segment and a drop of 6.2% in the domestic segment. Aeroflot has mostly benefited from a loss of passengers by UTAir group that lost of 17.1% in 2015, 16.1% loss of Russian top 5 and a 19.9% decrease of foreign companies that left the Russia in 2015 (CAPA report, 2016, 2016).

As it was previously stated on the 26th October 2015 2nd biggest player on Russian airline market Transaero was suspended due to inability to pay its debts.

The following figure (Figure 11) shows how concentrated Russian airline market is depicting share of passenger numbers carries by top 5 Russian airlines:

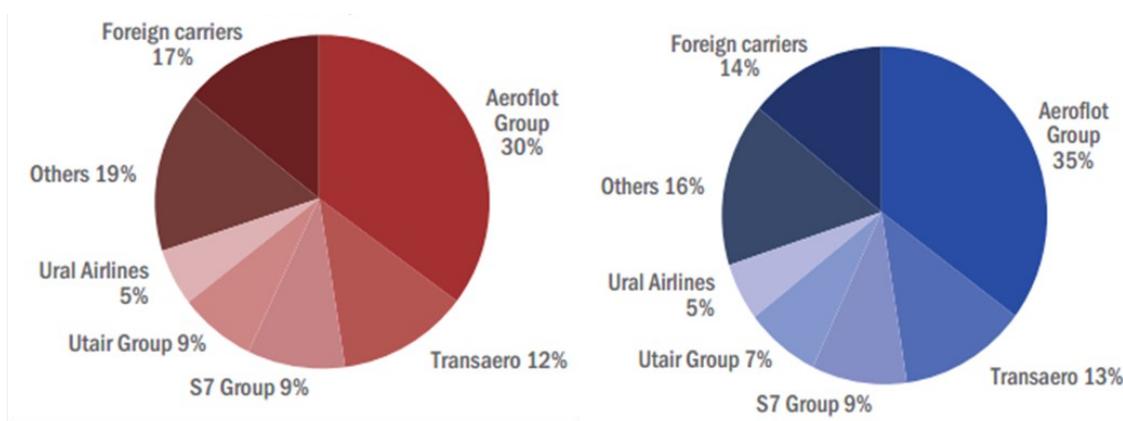


Figure 11. Market shares of Russian aviation 2014 (red) and 2015 (blue)

Source: Rosavia, CAPA report, 2016

2013 and 2014 were particular from the point of foreign LCC that tried to enter the market. Companies like EasyJet, Flydubai, Niki and Germanwings (Lufthansa) succumbed to temptation to enter the growing and promising Russian market and increase their capacity (routes to-from Moscow). Though hard they tried they managed to achieve only 5% of cross-border seats in 2014 (Aeroflot report, 2015). Subsequently in 2015 the majority of foreign LCC shrunked their business in Russia. For instance, EasyJet cancelled the flights to Manchester and decreased the number of

flights to London by 2 times. As a result the volume of seats taken by LCC in Russia fell down to less than 4% in 2015. Currently, the leader on the market among foreign LCCs in Russia is FlyDubai that holds the 15th place out of all airlines by international seats in Russia.

Simultaneously, the market niche of low-cost was filled with local company DOBROLET in 2014. Yet it was for a very short-term of 2 months because of EU sanctions and lessors' refusal to continue the contract. Further on Aeroflot founded a new LCC Pobeda in December of 2014. Until now Pobeda is the only Russian representative of low-cost segment in our country. It transferred 3.1 mln people or 8% of all Aeroflot group in 2015 (Aeroflot report, 2015). According to the statistics given by OAG (Air travel intelligence) as of 1st of February 2016 Pobeda is the 5th biggest airline in Russian market. The following figure (Figure 12) represents the LCC capacity share of all seats in Russian market divided into domestic and foreign companies (Air travel intelligence, 2016). In 2007 and 2008 there were 2 low-cost companies called Skyexpress and Avianova that went out of business due to old planes that required high repair expenses, frequent flight delays and poor financial performance (Air travel intelligence, 2016).

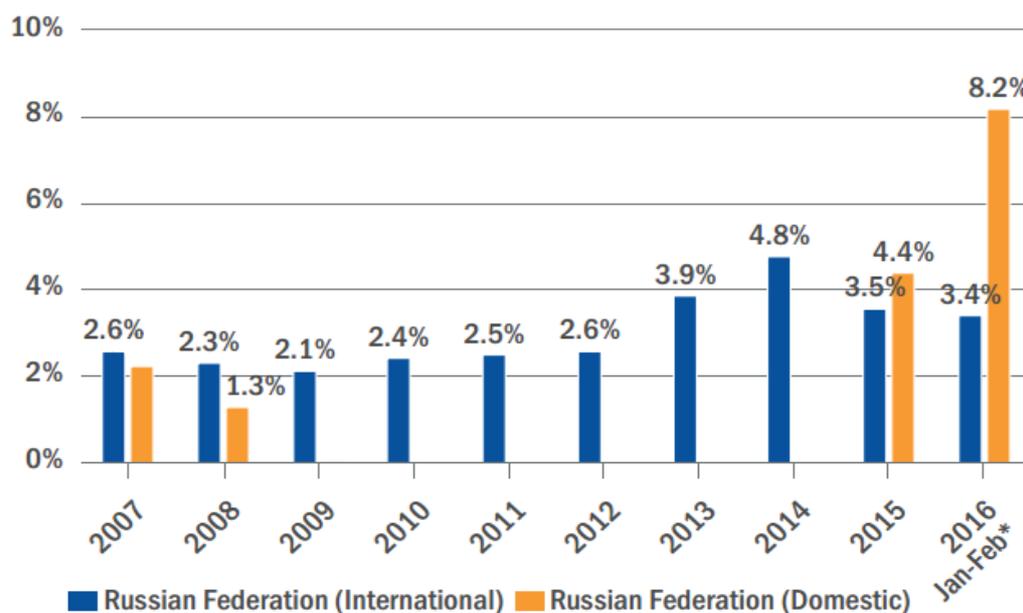


Figure 12. LCC capacity share of total seats of the Russian market 2007-2016

Source: Air travel intelligence, 2016

Russian airline market seems to be much closed in comparison with European because Russian carriers perform 85% of all flights and 100% of domestic flights. On the contrary, in Poland local airlines do only 32%, in Germany 58% and in England 55% of all movements. This might be explained by the fact that Russian market is dominated by domestic flights. 54% of all flight are done within its boundaries, however, in Europe number are drastically lower- Poland

8%, England 10% and Germany 16% (CAPA report, 2016). One of the possible reasons for that is that Russia is not a part of European Union aviation market what places obstacles on the way of entering for foreign carriers from both sides. Currently the situation is worsened due to political conflicts and recession in Russia.

Another important aspect in aviation, especially with expensive USD is leasing. There are generally 2 types of leasing- financial and operational. Operational leasing is more favourable for Russian market as the situation with oil prices and therefore with RUR exchange rate is unclear, so the short-term (up to 10 years, in Russia usually 5 years) and less risky operational leasing contracts are more favourable for the market. Operational leasing satisfies both the leaser and the airline as they minimise their risks in case of payment default on the contract (Air travel intelligence, 2016).

For example, Aeroflot share of foreign currency liabilities in the total amount of capital lease liabilities is 98.1%, but 65.8% of payments under finance lease contracts are due from 2018 and later (Air travel intelligence, 2016).

Aeroflot group has 78% of aircrafts in operational leasing that does not imply the purchase of an aircraft after the maturity of contract, but 22% of contracts are in financial leasing (average term 15 years) that forces the lessee to purchase the aircraft afterwards (Air travel intelligence, 2016). That is not profitable for the airline as the price of the airplane almost does not change for the first 12 years, whereas the average operational leasing contract lasts up to 7 years. Operating lease expenses in 2015 for Aeroflot reached 44.415 mln RUR, whereas the revenue was 415.173 mln RUR. On average the operating lease expenses equal **12% of operating expenses** for the industry (Aeroflot group 2015 results, 2016).

Another important aspect of Russian market is a number of wide-body planes that amounts to less than 7% (CAPA fleet database, 2016) whereas world average is 17% and Europe average is 14%. What is more, out of 62 planes owned by Russia, 38 belong to Aeroflot group, what exceeds 60% of the overall volume. In the world only cargo carrier by the name of Air Bridge Cargo can boast of 15 wide-body aircrafts, but normally companies have no more than 5. As a consequence, Aeroflot group is obviously very dominant on the Russian market (CAPA fleet database, 2016).

Another type of airplanes- narrow-body ones are statistically correspondent number-wise with Europe and World- Russia 48%, Europe 52%, World 49% (CAPA fleet database, 2016). However, Russia is very much ahead with small planes. Jets are represented by 15% in our country featuring 11% in Europe and 13% globally. Turboprop aircrafts constitute 19% in Russia compared with 11-12% in Europe and world (Figure 13).

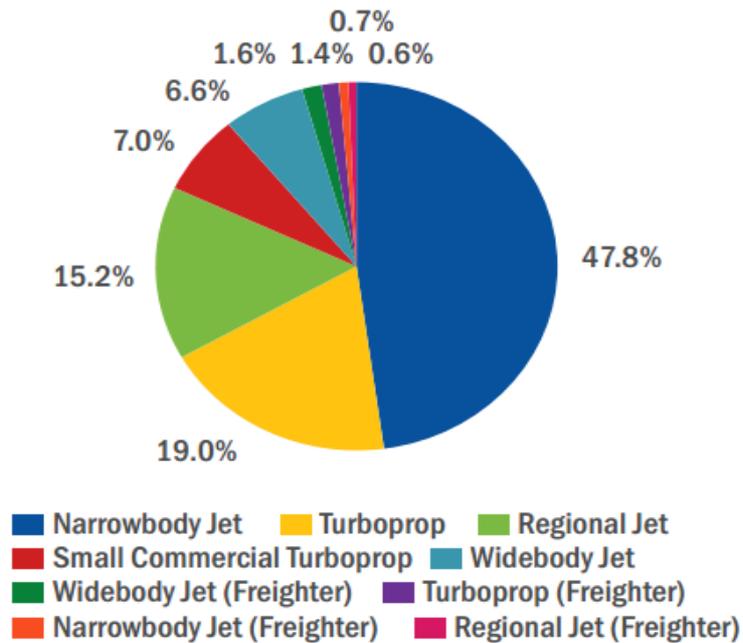


Figure 13. Russian fleet breakdown in 02.2016

Source: CAPA fleet database, 2016

The increased number of narrow-body and small aircrafts in Russia is explained by the importance of the domestic market due to the huge size of the country and its geographic location. Russia is closer to Asia than Europe, so latter faces the necessity of long-haul travel to reach Asia.

Speaking about the Aeroflot group, it has the biggest fleet in Russia. According to the CAPA statistics for the 31st of January 2016 Aeroflot groups fleet includes 266 planes (28% of all Russian aircrafts) currently in use and 116 planes are on order (38% of all planes on order in Russia). Aeroflot orders are evenly distributed between Airbus and Boeing in narrow and wide categories, what is more important the order includes 6 Russian regional planes of SSJ - Sukhoi Super Jet (Aeroflot report, 2015).

The runner-up is UTAir Group with a fleet of 97 planes (less than 50% of Aeroflot). UTAir has a order of 46 planes out of which 8 Airbus, 28 Boeing and 21 Irkut narrow-body planes. The third place is taken by S7 airlines with 45 aircrafts in operation and 23 A320s on order. The 4th place is Ural Airlines with 35 planes and 7 A320 on order (CAPA fleet database, 2016).

Apart from this top 4 there are only 4 companies that have airplanes on order at the volume above 10 machines. These are usually small aircrafts from local manufacturers: Yamal ordered 17 SSJ, VIM- 10 Tupolev and Bombardier, Red Wings- 10 Tupolev and IrAero- 10 Irkut (CAPA report, 2016).

Russian airline market is inextricably linked and dependent on regulatory system and governmental intervention. And Aeroflot, being by far the biggest player and 51% owned by the government is the main participant of the evolution of Russian airline market legislation.

The initiative of Aeroflot to become a market leader belongs to the Russian government. Government made non-refundable tickets and hiring foreign pilots legal and now the country has an opportunity to have its own low-cost carrier Pobeda (CAPA report, 2016).

All things considered, the situation on Russian airline market seems to be an interesting topic for a research from the point of business models used by the companies and their value creation principles. The following research will start with the companies' description and further focus on the elements of BMs of the focal companies that help them create superior customer value and gain a competitive advantage.

3.3 Airline case studies

3.3.1 Aeroflot group

The largest national airline of Russia performing domestic and international flights from Moscow Sheremetyevo airport. It is one of the oldest airlines in the world, from its history of 1923 it is a wholly state-owned enterprise. After the collapse of the Soviet Union became semi-privatized company where a majority stake (51%) is under the control of the state (Aeroflot annual report, 2016).

Since April 2006, Aeroflot is a full member of the airline alliance SkyTeam. Also, Aeroflot together with its subsidiaries, the airlines Russia, Donavia, Aurora, Orenburg Airlines and Pobeda forms one of the largest aviation holdings in Russia - Aeroflot group (Aeroflot annual report, 2016). Multi-brand strategy allows the Group to successfully expand its presence in all key segments of the market in the domestic and international destinations.

At the end of 2015 the Group holds 35% of the Russian market. According to passenger traffic in 2015, 34.7 million people used Aeroflot group, including 23.6 million passengers who flew by Aeroflot (CAPA Centre for aviation, 2016).

Group successfully implemented its strategy of profitable growth with the main priorities:

- high rates of business growth
- increase of investment attractiveness
- construction of high-performance hub system
- development of a modern aircraft fleet
- balanced development of the route network

- improving the quality of passenger service

Aeroflot fleet is the youngest among the world's major airlines. The average age of Aeroflot aircraft is 4.1 years, and the Group's aircraft is 7.0 years.

Aeroflot performs his own passenger and cargo flights from Moscow (Sheremetyevo airport) to 51 countries around the world. Out of 125 destinations 43 are located in Russia, 8 in the CIS, and the rest - 1 in Africa, 4 in the Middle East, 5 in the Americas, 13 in Asia and 45 in Europe (CAPA Centre for aviation, 2016).

Shared flights (code-sharing) with partner airlines are done in 69 destinations, but if we take into consideration the whole group and the code-sharing flights, we will have the total of **351 points located in 66 countries**.

In 2012, Aeroflot continued development of cooperation with a number of airlines via code-sharing in order to strengthen the presence in promising markets, get access to new markets, improve route network and more efficiently use of its own fleet ships.

At the beginning of 2013 JSC Aeroflot had code-sharing agreements with 29 Russian and foreign airlines, including (Aeroflot web-site):

- 17 agreements in which Aeroflot is a partner of the operator, and marketing partner
- 4 of the agreement, which Aeroflot is the only partner-operator
- 8 agreements where Aeroflot is the only marketing partner.

Total last year Aeroflot flights have transported more than 500.000 passengers by code-sharing. Total income from operating activities of Aeroflot in the framework of agreements code-sharing has made more than **3.7 billion rubles** (Aeroflot annual report, 2016).

Russia airlines

“Russia airlines” is a part of the Aeroflot group that operates passenger and cargo flights from St Petersburg Pulkovo Airport. At the end of 2014 Russia took the fifth place in the list of the largest airlines of the country. The company is based in St. Petersburg and carries about **40% of all air traffic from the airport Pulkovo**.

In summer 2016 Russia airlines will unite 3 Aeroflot subsidiaries- **Russia itself, Donavia and Orenburg Airlines**. It will be a new major carrier positioned in the middle price segment with a fleet of **74 aircraft** (Aeroflot annual report, 2016).

Russia airlines also promote themselves by doing different agreements. For example, in July 19th 2015 a new partnership agreement between "Russia" was signed by the airline on the "Petrovsky" stadium and the football club "Zenit". The new agreement partners is for one year with possibility of further extension.

Geography of flights includes over **20 Russian cities, 5 cities of the CIS, and 13 points in the other countries.**

In 2012, the Company continued to optimize and coordinate schedules and route network as part of "Aeroflot" Group. Russia airlines got rid of unprofitable flights by reducing the number of routes from 120 to about 80. The company has improved the results of operation of aircraft An-148 type vessels, reduced the number of aircraft types by the withdrawal of Boeing 737 and optimized staff structure (Aeroflot financial annual report, 2016).

"Donavia" is a regional carrier that is based in Rostov. In 2012 the Company completed the transfer of all commercial functions in Aeroflot. The company completed the implementation of unified financial policy, accounting and adjusted itself to a Group product standard "Region". It also went through a complex restructuring of the fleet. In addition, the company centralized the functions of maintenance and repair with providing a centralized pool of spare parts, engineering and quality control (Company web-site).

"Orenburg airlines" used to be a charter-oriented company, but as a result of economic crisis, terrorist attacks and political problems such business model has become unprofitable. So Aeroflot has decreased the number of planes by 9 and decreased destinations by 26. Business model is now mixed- local regular carrier with charter flights to holiday destinations. Aeroflot has centralized program of periodic flights carried out by "Donavia" and "Vladivostok Avia" in the Southern and Far Eastern Federal Districts. In addition, "Orenburg airlines" is now responsible for periodic flights previously carried out by Russia airlines to/from St. Petersburg. The company, like other subsidiaries, has unified fiscal policy and tax accounting rules (Company web-site).

Avrora- Russian regional airline based in Yuzhno-Sakhalinsk, Vladivostok and Khabarovsk. One of the subsidiaries of Aeroflot Group (51%). The airline connects regular flights between The Far East and Siberia, performs local transportation within the Far Eastern regions and flies China, Korea and Japan (Company web-site).

The establishment of Russia airlines that will embrace Russia, Donavia, OrenAir and Aurora is aimed at **strengthening Aeroflot presence** in international and domestic market and **optimisation of domestic network** in order to lower the costs and increase customer value that will result in higher profits.

Pobeda

Currently Pobeda is the only Russian LCC - the 4th in the Russian aviation history and the 1st successful one.

At the moment, 12 new Boeing 737-800 aircraft operate about 70 flights per day to 34 destinations, 6 of which are foreign. By the end of 2015, passenger traffic reached 3 million passengers. By 2018, the fleet will consist of 40 aircraft and transportation will reach 10 million people a year, allowing the company to enter the top five largest Russian air carriers (Aeroflot financial annual report, 2016).

Pobeda airplanes fly to 65 destinations (data for February 2016) between 24 airports in Russia and 5 in Europe. The main hub is **Vnukovo Moscow airport**. In the near future Pobeda plans to expand its flight direction and add to its network new Russian and European cities.

Pobeda has the park of 12 new Boeing 737 that is used super intensively as airplanes spend **14 hours a day in the air** (CAPA fleet database, 2016). It provides low operating cost per flight hour. The Company is very serious with fuel economy: for example, in order to lower the weight of the aircraft they got rid of unnecessary equipment (food heating furnace, trolleys, etc.), so the planes became lighter 1.5 tons each, what in its turn reduced the cost of flight hours by approximately 380 rubles. Another achievement developed jointly with Boeing is a new technology of lying on one engine that gave savings of 100 kg of fuel per flight.

As a result of cutting labor costs Pobeda has 5000 passengers carried per employee, while the world average is 1,000 passengers per employee (www.rbc.ru).

Pobeda is first in Russian airline where you can buy a single ticket "plane plus bus. A passenger of the airline can just buy a ticket from Moscow to the centre of Vienna. By selling a ticket Pobeda guarantees the transportation in spite of a delay of a bus or a plane (CAPA fleet database, 2016).

According to the data from Aeroflot Pobeda has managed to find its routs and customers **without cannibalizing on the group**. For example, at Sochi during the 9 months of 2015 Pobeda had a loading of 82.5%, whereas Aeroflot had 80.8% and Russia airlines had 83.9%. As far as the passenger numbers are concerned, they were decent at all three airlines- Pobeda 395000, Russia 491000 and Aeroflot 481000 (Aeroflot annual report, 2016).

Pobeda is perfectly market positioned as it took the new market segment of price-sensitive passengers and is winning by offering more affordable travelling experience without cannibalizing of the Aeroflot group. Moreover, the emerging and development of Russian LCC protects the market from entering by foreign competitors who might occupy the market.

3.3.2 **UTair**

This carrier is formed by many subsidiaries such as UTair-Ukraine, UTair Helicopter Services, UTair Cargo and others. One of the largest air-holdings in the country UTair Group is engaged in the implementation of passenger and cargo flights within Russia and abroad as well as the maintenance of aircraft (airplanes and helicopters) and staff training.

Their largest airline hub airport is **Moscow Vnukovo airport** and **Roschino (Tyumen)**. Also, UTair has hubs and important technical bases in several northern and western regions of Siberia- **Surgut (headquarters), Khanty-Mansiysk and Noyabrsk**.

The airline is the world's largest in size and capacity of the existing **helicopter fleet** operating in Russia and in other countries and continents. By volume of passenger traffic UTair occupies the 2nd place in Russia after Aeroflot. During 2015 the airline carried more than **8.7 million people**.

In April 2016 a fleet of UTair consists of **62 aircraft**. Helicopter fleet comprises **338 units** (as of March 1st, 2016) including the world's best-lifting helicopters Mi-26, capable of carrying up to 20 tons (UTair annual report, 2015).

2014 was tough for the airline - according to the document, the net loss reached 61 billion 659 million rubbles.

The reason for bad economic performance is the leasing payment in foreign currency. The aging fleet and the incidents (8 crashes during 9 years) in the sky forced UTair to buy new planes. As part of the "Farnborough-2012" Carrier has signed a contract with Airbus for the supply of **twenty A-321 worth \$2 billion**. The reality is that the aircraft business of UTair is unprofitable, but these losses are covered by helicopter business. Nowadays with ruble is cheap and purchasing power of passengers is low, the helicopter business cannot cover airline losses (www.ura.ru/articles/1036263544).

3.3.3 S7

It is a Russian airline operating both domestically and internationally. It has hubs at **Tolmachevo** (Novosibirsk) and **Domodedovo** airports, as well as additional hubs in **Irkutsk, Krasnoyarsk, Khabarovsk and Vladivostok**.

In 2015 S7 Group (includes airlines "Siberia" and "Globus") carried 10.63 million passengers, which is 5.6% more than the year before; with 7.57 million passengers transported on domestic routes (S7 Annual report, 2015).

From 15th of November 2010 the airline is a full member of the global airline alliance **OneWorld**, which gives them a certain status and the possibility of code-sharing. In 2014 174.000

passengers were transported on interline flight agreements and another 170.000 on code-share agreements. Airlines OneWorld based on all continents and operate flights to 150 countries.

In April 2016 S7 Group fleet consists of 64 aircraft. The **average age** of the fleet is 9.3 years, the average **number of flight hours** a day is 11.0 hours (S7 Annual report, 2015).

S7 boasts a loyalty program «S7 Priority» which gives various bonuses for regular passengers. They have also developed good Internet services and mobile technologies- they had the first airline website where you could buy tickets directly, service Passbook and the service «Mobile boarding ticket».

3.4 Comparative analysis of the focal airlines on the basis of business model canvas

3.4.1 Value proposition

Value proposition of Aeroflot is separated into 3 main segments that are attached to the subsidiaries of Pobeda, Russia airlines and Aeroflot itself. They all, as a group, cover all customer segments (Table 6).

Table 6. Customer segments of Aeroflot group

Source: Aeroflot report, 2016

purpose	length	price	destination
business	short-haul	low-cost	regional
regional traffic	mid-haul	mid-price	domestic
leisure	long-haul	upper class	international
price-sensitive			

Aeroflot value proposition - Russian airline providing perfect safety and a high quality service at all stages of air travel- premium product. Aeroflot works hard to provide a clear vision and understanding to the customer that their value is superior to others. All other elements of their business model work in collaboration to get a clear and distinct value proposition. Their value is safe air trips to multiple destinations domestically and internationally with superior quality of service, new and safe aircrafts, cutting-edge entertainment systems on board, superior food and high preflight experience.

Russia airlines value proposition- focus on regional operations in the middle price segment with selective exposure to international routes. Obviously the value proposition of Russia airlines correlates the price segment and their destinations' network. They offer safe, comfortable service mostly for regional domestic flights, particularly covering other region of The Russian Federation and connecting them with each other and with Moscow and Saint Petersburg.

Pobeda value proposition- Russian only low-cost flight service with good value fares to convenient airports and leading-edge digital platform Pobeda provides much lower ticket prices for both domestic and international destinations that are mainly in small airports. Pobeda service is the main substitution to railways as the price may be even cheap whereas it is much more comfortable and fast.

3.4.2 **The company and its exchange partners (customer segment and relationships, channels and key partners)**

Aeroflot's main customer segment is business travellers for short-haul, mid-haul and long-haul distances. For short-haul they use direct flights on regional jets, for mid-haul they use hub-spoke model with very high frequency flights and narrow-body aircrafts. For long-haul business flights they also use hub-spoke, high frequency flights some of which are code-shared. Long-haul aircrafts are wide-body. Aeroflot also takes some part of regional traffic and long-haul leisure passengers.

Aeroflot based in Sheremetyevo covers the whole Russia connecting Far-East, Siberia and other regions with Moscow. Out of 125 Aeroflot destinations 43 are located in Russia, 8 in the CIS, and the rest - 1 in Africa, 4 in the Middle East, 5 in the Americas and 13 in Asia and 45 in Europe. Shared flights (code-sharing) with partner airlines are done in 69 destinations

Russia airlines is presented in regional traffic and leisure segments. For regional traffic Russia airlines are presented in short-haul flights on demand-based frequency basis of direct flights. Mid-haul segment is based on hub-spoke model of demand-based frequency. Leisure segment is covered by mid-haul and long-haul flights with high seasonality.

Russia airlines will unite in one big carrier this summer, so I will treat it as 1 company consisting of 4 (Aeroflot annual report, 2016):

1. **Russia airlines** themselves- regional airline with a hub in SPb, focus on direct and transit routes via Pulkovo, Aeroflot SkyTeam representative on the north-west of Russia
2. **Donavia-** regional airlines with hubs in Rostov, Krasnodar, Sochi and Mineralnie Vodi. It does short and mid-haul direct domestic routes in the South of Russia

3. **OrenAir**- charter business model, well established locally, hubs in Vnukovo, Domodedovo and Orenburg.

4. **Aurora**- regional far-east airline with hubs in Vladivostok and Khabarovsk that flies short- and mid-haul international and domestic routes.

Pobeda airline operates in a price sensitive segment on short and middle distances. The business model is based on maximum frequency direct flights and maximum fleet utilisation. They use only 1 type of completely new aircrafts and offer ancillary services like luggage, food and boarding pass printing. At the moment, 12 new Boeing 737-800 aircraft operate about 70 flights per day to 34 destinations, 6 of which are foreign. It flies to Milan, Bratislava, Vienna, Cologne and Minsk.

All things considered, the strategy of Aeroflot Group for the year 2025 is to provide the establishment of 3 standards: “Premium”, “Region” and “Tourist”. Aeroflot will take “Premium” niche, “Region” niche will be taken by **Russia Airlines** in the North-West and by **Donavia** in the South. A new Far-East airline **Aurora** will function in “Region” standard, whereas **Oren Air** will play the role of a charter carrier in a “Tourist” niche.

In order to best meet the consumer demand and create the biggest value the Group plans to divide into the following segments:

- Aeroflot serves premium passengers, offering high quality service, high-frequency route network with more destinations, access to the partner network of routes for the SkyTeam alliance, convenient connections for international transit passengers.
- Subsidiaries specialize on carrying passengers located mainly in regions with adjustable frequency of flights and the capacity for maintenance of transit flows prospects in case growth in demand.
- Model of LCC involves the use of short or medium-range passenger service for the most price-sensitive segment.
- Travel Company provides passenger transport to places of recreation on the world's largest resorts mainly in cooperation with travel agencies.

All in all, Aeroflot group has divided the country not only into 3 segments and now has a separate airline targeting for each niche, but also has the full coverage of the territory including foreign destinations. Ultimately, the company is trying to create value for every passenger who can now choose from the group’s wide portfolio (Figure 14).

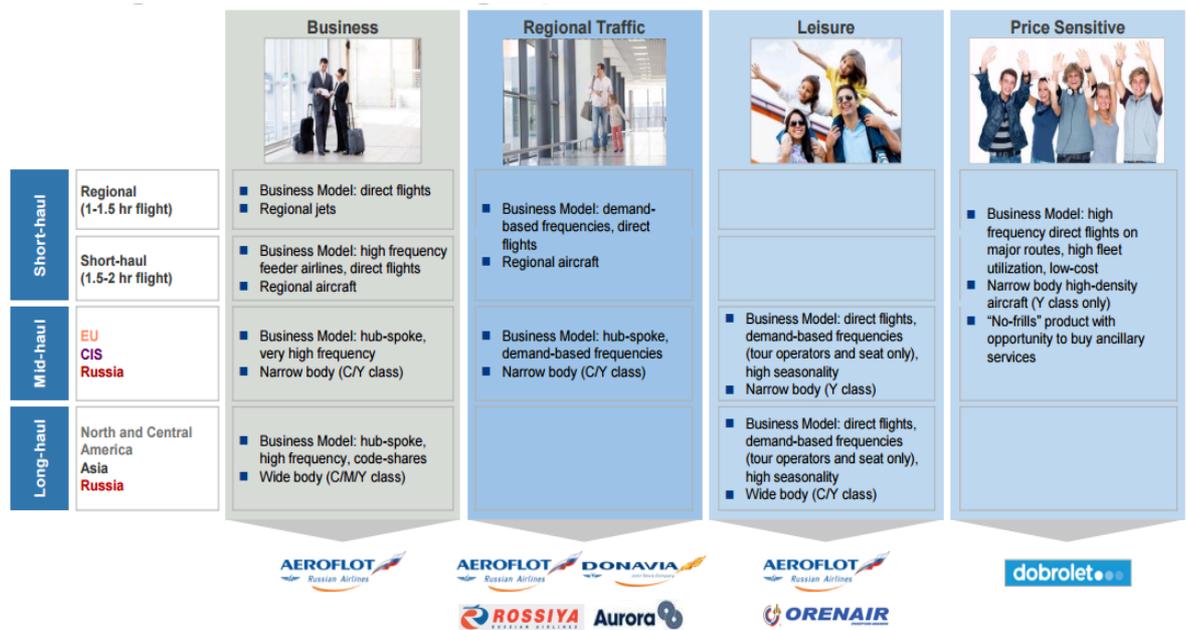


Figure 14. Aeroflot group market segmentation

Source: Aeroflot report, 2016

Taking everything into consideration, Aeroflot group region-wise has full coverage on Russia. The synergy of all companies within the group allows capturing customers not only with different level of income, but also flying to/from almost any region of the country and international passengers albeit tourists or business people flying to distant or neighbor countries.

Customer relationships of Aeroflot group do not differ within the group and do not significantly differ from other focal companies. Aeroflot, Russia and Pobeda all have their call-centres where the customer can call and ask the required information. Moreover they all have convenient web-sites designed in accordance with their brand design and value proposition. All web-sites offer additional services of hotels, car rentals etc. Pobeda is the only one that does not have a mobile app, what is logical due to low-cost BM. All group companies offer airport services of self-registration booths and business lounges (except Pobeda). Moreover Russia and Aeroflot have the shared “Aeroflot bonus” program for frequent fliers that give the following bonuses:

- have premium flights together with your family or friends;
- use earned miles for class upgrades;
- faster miles earning in business class;
- collect miles with program partners;
- use the premium service partners to gain miles;
- regularly receive information about news and offers of Aeroflot and program partners.

The **channels** that Aeroflot uses to reach their customers are web-sites, e-mail delivery, mobile application and advertising. They do not have any distinct details in these channels, as they are almost obligatory for the industry and shared by all focal companies. Another important way how Aeroflot reaches its customers are the charitable events that Aeroflot always participates in. They support different event both by free or discounted services or financially. Another very important for Aeroflot channel is code-sharing contracts that allow penetration into new hard to get markets and increase the global recognition of the brand. Lastly, Aeroflot uses the sponsorship contracts like with Manchester United football club. Aeroflot has become an official carrier for the club and by doing this they have rocketed the brand recognition on a global scale.

As far as the **key partners** of Aeroflot are concerned, they are shared among within the group with only Pobeda being an outsider for The Skyteam alliance. Aeroflot is a member of Skyteam alliance what helped them transfer 450000 passengers via code-sharing contracts just in 2015. Skyteam has an extensive network of routes throughout the world through the powerful base airports alliance members with Aeroflot in Moscow - Sheremetyevo, Air France and KLM in Paris - Charles de Gaulle, Delta in Atlanta in Amsterdam – Schiphol as well as the leading airport in Mexico City – Aeromehiko. The alliance has 636 lounges around the world that is available to Aeroflot bonus passengers (Aeroflot web-site).

Moreover Aeroflot has profitable contracts with Boeing, Airbus and SSJ what allows former get 40-60% discount on big airplane orders. Due to the fact that Aeroflot buys planes as a group i.e. in big number, they can benefit from such economy of scale and get aircrafts much cheaper than other companies.

There are multiple corporate partners like Manchester United football club or Zenit football club (Russia airlines). Charitable organisations are also partners of Aeroflot that give them a chance to increase the brand awareness and improve the public perception of the company. Another block of partners are airports, gas companies and catering agencies. At this point Aeroflot does not have differences from other companies and here the economies of scale are not significant. Lastly, the travel agencies and ticket web-sites are a big group of parents as only 30% of tickets were sold by Aeroflot itself in 2015.

UTair has 2 distinct customer groups- aircraft customers and helicopter customers. **UTair** strategy is aimed at Ural federal district where UTair does, according to various estimates, about 2/3 of the flights (CAPA report, 2016).

Aircraft customers are business and leisure passengers for mainly mid-haul flights both domestically and internationally. The price segment is middle.

In order to capture price-sensitive customers who are unable to afford a full price ticket UTair has a new tariff "Light" for passengers without luggage. It also has limitations for changing your reservation and refunding the ticket, but passenger can choose the seat for free.

Helicopter customers are a bit vaster and universal. Basically, UTair Helicopters is ready to service any kind of operations in any part of the world. Mainly their customer are oil and gas companies that need to conduct geodesic works or need to transfer their employees or equipment to the distant areas. Another big source of contracts are different international operations with United Nations. The company operates in Liberia, Côte d'Ivoire, Sudan, South Sudan, Congo, Afghanistan, Somali and Mali. The company provides exclusive air service for some villages and small towns. Also the airline does VIP-transportations and custom-made transportation, tourist charters and conducts video footage from a helicopter.

Geography of UTair flights in Russia covers European Russia, Siberia and the Far East since 2012, but does not cover distant foreign countries. Daily aircrafts do more than **300 flights in 100 directions** (UTair web-site). Flights are in Moscow, St. Petersburg, Tyumen, Rostov, Krasnoyarsk, Irkutsk, Surgut, Omsk, Perm, Novosibirsk, Ufa and Kiev, Minsk, Baku, Tashkent, Yerevan and Vilnius.

UTair **main distinguishing feature** is helicopter operations and the contract with United Nations. For this UTair has a set of subsidiaries- UTair Europe, UTair South Africa and UTair India (CAPA report, 2016).

The **mission of the business direction** of helicopter operations in Russia and abroad is to perform work on customer request and at the optimal quality at any time of year and day anywhere in the world by modern and reliable helicopters.

Customer relationships of UTair do not significantly differ from other focal companies. UTair has a call-centre where customers can ask the required information. Moreover it has a convenient web-site where they offer additional services of hotels, car rentals etc. UTair also has a mobile app, that allows convenient purchase of tickets and easy search. UTair also offers airport services of self-registration booths and business lounges. Moreover, UTair like all focal companies except Pobeda has a frequent flyer program called "Status" that gives the different bonuses from the program partners. Customers can gain extra miles staying in hotels, using the services of car rental and paying by credit card for purchases. A unique feature of UTair Status program is that one can spend 6000 miles on 30 min of pilot experience in a flight simulation machine (UTair annual report, 2015).

The **channels** that UTair uses to reach their customers are a web-site, e-mail delivery, mobile application and advertising. It does not have any distinct details in these channels, as it was

previously mentioned they are almost obligatory for the industry and shared by all focal companies.

Key partner of UTair are the oil&gas companies that require their helicopter services for different operations and employees delivery in particular. Another important partner is The United Nations and other foreign organisations and associations that need helicopter services in different part of the world (UTair annual report, 2015). Moreover, UTair is in partnership with Airbus helicopters that allow them to conduct more effective and cheaper staff education and keep close relations with the helicopter provider. As well as other companies UTair has code-sharing partners, but there are only 7 of them that is substantially less than other focal companies have.

Another block of partners are airports, gas companies and catering agencies. At this point UTair like Aeroflot does not have differences from other companies. Eventually, the travel agencies and ticket web-sites are a big group of partners as who managed to sell 68% of tickets in 2015 (UTair annual report, 2015).

The main customer segment for S7 is business passengers, leisure passengers and regional traffic. For regional traffic S7 business model is based on hub-spoke model of demand-based frequency. For business passengers they use hub-spoke model with high frequency flights and narrow-body aircrafts. Leisure segment is covered by mid-haul flights with high seasonality (S7 Annual report, 2015).

In 2014 the routing network of airline Siberia included 122 routes- 29 countries, 91 cities. S7 Airlines together with its subsidiaries forms extensive route network, which includes 88 destinations (44 - Russian) in 26 countries in Europe, Asia and the Middle East (S7 Annual report, 2015).

S7 represents the same niche as Aeroflot of high price segment with well-perceived market brand and high quality of service. S7 is known for being innovative and contemporary with mobile applications (Passbook) and has won numerous rewards as the best carrier, best advertisement, best Russian airline company and many others. Also, S7 charter flights account for 19% of passenger traffic, so tourists are a very important part of their business (CAPA report, 2016).

S7 like Aeroflot covers the whole Russia, but does not have distant foreign countries and flies to Europe, Asia and Near East. It will also try to gain a competitive advantage by launching Charlie Airlines in Cyprus to fly in Europe.

In 2016 S7 has introduced new types of tariffs for flying (S7 web-site):

- Economy basic- no luggage, 10 kg of carryon, no free date change or seat choice
- Economy flex- 23 kg luggage, 10 kg of carryon, free date change or seat choice

- Business basic- 32 kg luggage, 10 kg of carryon, no free date change or seat choice, no access to airport business lounge
- Business flex- 2*32 kg luggage, 2*10 kg of carryon, free date change, seat choice and ticket return

Customer relationships of S7 are a bit different from other focal companies to the point that they are most innovative in terms of digital ways of establishing the relations with customers. For example, they were the 1st who launched a web-site, who started selling tickets from it, who offered a mobile app, they are still the only ones who offer a Passbook- an app that allows users to store electronic tickets, boarding passes, event tickets, loyalty program cards, coupons, discount cards and gift certificates on their phones. S7 has a call-centre where customers can ask the required information. Like other companies S7 has a convenient web-site where they offer additional services of hotels, car rentals etc. Another common feature is airport services of self-registration booths and business lounges. S7 has its own frequent flyer program called “S7 Priority” that gives the different bonuses from the program partners. Customers can gain extra miles staying in hotels, using the services of car rental and paying by credit card for purchases (CAPA report, 2016).

The **channels** that UTair uses to reach their customers are a web-site, e-mail delivery, mobile application and advertising. It does not have any distinct details in these channels, as it was previously mentioned. Nevertheless, the S7 advertisements were acknowledged to be the best in the industry and have gain the world recognition on Cannes Lions awards.

The Key partners of S7 airlines include The Oneworld alliance that implies 21 core-sharing agreements with airlines globally. Another partner is S7 Engineering facility that conducts the aircraft maintenance for the airlines. Other partners include Russian jet fuel suppliers- Rosneft, Gazprom and Lukoil (CAPA report, 2016). Other partners include hotels, car rentals, Internet shop etc- all companies that are involved in S7 Priority frequent flyer program. As well as other airlines S7 has partnerships with airports, catering, travels agencies and charitable organisations.

3.4.3 Key activities and key resources

The **key activities** for all focal companies include: flight operations, on-line and office ticket sales, airplane maintenance, customer service, timetable planning and marketing research and campaigns. For The Aeroflot the exception is the current rebranding of Russia airlines and merging Russia itself, Donavia, Orenburg Airlines and Aurora in the whole Aeroflot group system

with subsequent optimisation of these subsidiaries. For UTair an exceptional activity includes extensive helicopter operations of any kind, any difficulty, anywhere. S7 stays within the regular list of activities mentioned above.

The researcher wants to start with the analysis of such activity as fleet. The graph (Figure 15) shows that Aeroflot, S7 and Russia are expecting growth in the near future in mid-haul flights, where Aeroflot has the brightest expectations of buying 61 more aircrafts. Moreover, we can see that Aeroflot is planning to drastically increase the number of long-range aircrafts by buying 47 more, whereas other companies either don't have any plans to fly long distances in the future or just keep the airplane rotation with a slight increase like Russia airlines with 3 more aircrafts. As far as the mid-range aircrafts are concerned- no interesting pattern is revealed with only UTair not buying anything. Yet that is obvious due to hard financial condition of the company and a trend towards selling assets. Moreover UTair is a company that makes money on their helicopter business, whereas their airplane segment has been long unprofitable.



Figure 15. Fleet comparison of long-haul and mid-haul airplanes of the focal companies
Source: Researcher analysis

Another key resource for Aeroflot is the Russian government. The researcher considers government in this case a resource rather than a partner, due to the fact that government can have another government as a partner, whereas here it is more one-sided benefit relations in favor of Aeroflot. The idea is make a country champion out of The Aeroflot Company (research interview reference) that obviously has access to the political elite and therefore has by definition a very crucial competitive advantage. Also Aeroflot has a studying facility and a maintenance facility that help then decrease the labour and maintenance costs and retain the quality management at a very high level due to the fact that they can control all the processes and provide themselves with resources like professional and sufficient in numbers personnel and well-prepared planes. Another resource that Aeroflot can boast of is its size and vast present via multiple airlines in the group. This economy of scale allows them economize a lot of money as a buyer and decrease the fixed costs. Lastly, the researcher considers high brand recognition and professional staff as valuable resources as well, yet all focal companies obtain them as well.

The Key Resources for UTair is obviously the biggest in Russia helicopter fleet and maintenance facilities that allow them to repair their fleet. Another resource is Surgutneftegas, who is also the biggest shareholder, that can assist financially and support in case of payment defaults (UTair annual report, 2015). Of course, other resource includes international channels with organizations that need helicopter services and professional staff.

The key resources for S7 include their airplanes that are very distinct and recognizable due to their color. Another resource is S7 Engineering, what is a maintenance facility that allows them to repair their fleet and planes of other companies. Another resource that the researcher feels most relevant is the management of S7. As the company is basically owned and controlled by Filevi family, they take a very close look at all KPIs and performance indexes. Moreover, they are primarily interested in both long-term and short-term goals. Another resource that constitutes the bright coloring of the fleet is very bright and distinctive brand. It is well perceived by the customers and is associated with good emotions and high quality.

3.4.4 Revenue streams and cost structure

Aeroflot **revenue streams** stem from their multi-segment strategy that is aimed at capturing maximum value from all possible market segments. As Aeroflot is the biggest company in Russian aviation market with distinct airlines that aim different price segments and geographic regions, they manage to get the maximum value from the customers. Moreover, they offer superior service

on board in comparison with competitors. Lastly, they make a lot of money on core-sharing agreements with their partners.

Cost structure of Aeroflot group is managed in a way that they constantly try to decrease the operational costs and optimise the companies in the group. They have optimized the lease payment of the subsidiaries what helped latter save 42 mln \$ just in 2015 (Aeroflot annual report, 2016). Another important aspect is constant flight optimization. Since 2014 they have changes about 26% of the routes what allowed them to get rid of excessive operational costs and keep high loading. Fleet standartisation that they use allows decreasing the maintenance costs and labour costs by servicing only 1 or 2 types of aircraft. Moreover technical personnel will do a better and faster job if they train only on 1 type of the plane. The fuel optimization equals to 1.4-1.8% each year what is a very good result that saves Aeroflot millions of dollars annually (Aeroflot annual report, 2016). That is achieved by decreasing the weight of an airplane by flying with less fuel, less equipment and by using new generation airplanes that are more efficient as they are. Another important indicator that Aeroflot uses is the labor productivity that is kept very high in all Aeroflot subsidiaries. The labor optimization allowed them to decrease labor costs by 8% in 2015 (Aeroflot annual report, 2016).

UTair revenue streams come from helicopter business that equal to 70% of their operational profit. As it was already mentioned they have contracts with The United Nations and oil & gas companies what constitutes 87% of helicopter revenues. Also 10% of their revenue comes from code-sharing contracts with partners (CAPA annual report, 2016).

UTair **cost structure** was completely remastered in 2015 as a result of huge net losses since 2012 with 6 bln RUR loss in 2014. They have sold 4 subsidiaries, 46 aircrafts and cancelled 37 routes to cover the operational expenses and shrink according to the current demand. They have also cut the headcount by 35% accordingly to the overall company reduction. Moreover they have restructured their debt what decreased their operation costs by 25% or 65 bln RUR (UTair annual report, 2015).

S7 revenue streams are aimed at high effectiveness and low efficiency. They are considered to be most effective on the Russian aviation market. One of the main additional KPIs used by Filevi is a number of hours flown by plane, as the more hours it flies a month the less lease payment part it has per flight. By controlling this KPI they keep very high utilization of each plain and achieve maximum loading. Another important contributor to their revenue is highly effective collaboration with Domodedovo airport that manages to prepare the plain for the flight within 40 minutes, whereas the average time for other carriers is 2-3 hours (Researcher interview information). Moreover, S7 provides customers with superior quality service that attracts new customers and

retains old ones. Obviously, the participation in Oneworld alliance gives additional passengers via code-sharing and interline contracts. The part of passengers reached through Oneworld alliance equals 9-17% of all traffic (S7 annual report, 2015). Another source of revenue are travel agencies, web-sites and other selling intermediaries that S7 unlike other companies offers additional payments to their partners and therefore stimulating them to sell better.

S7 cost structure consists of first of all low lease payments, % to which were negotiated with the lease company privately. Moreover, S7 does not use the financial lease at all, preferring operational lease that is less risky and by definition less expensive. They have very professional cash management that allowed them to have 12 bln RUR on bank accounts against 7.8 bln RUR of accounts payable in 2016, what means that they retain high liquidity and have survived the crisis successfully (Researcher interview information). Another point is the fuel cost optimization by remaking the contracts with the oil producers instead of intermediaries. Like other focal companies S7 constantly optimizes the routes and manages to increase the loading by 1.7% in 2015. They also do the fleet standardisation and manage its size very carefully. For example, they had sold 37 Russian airplanes just before 2014 and laid-off 3000 employees. By doing that they have managed to get rid of unprofitable assets and would have caused huge losses. Moreover, they have negotiated the debt % at Alfa Bank, who gave them a discount and postpones the maturity date. As far as the labor costs are concerned, they are optimized by the unique in Russia fully automated system of work planning of flight and cabin crews that allows minimizing the number of employees and optimizing their schedule to ensure no intersection takes place. Lastly, S7 engineering allows decreasing the fleet maintenance costs by 25% by not outsourcing it and doing it themselves (S7 annual report, 2015).

3.5 **Business model canvas results and interpretation**

In order to present the findings in a visually representative way and cover all important aspects of the focal companies' BMs, business model canvas approach was chosen. The following tables (Tables 7, 8, 9) represent full analysis of Aeroflot group with sub-division into Aeroflot itself, Russia airlines and Pobeda, then UTair and S7.

Table 7. Aeroflot BMC

Source: Researcher analysis

<p>Key Partners</p> <p>Skyteam alliance (450.000 code-sharing and interline passengers In 2015) Companies within the Aeroflot group (personnel and machinery rotation within the group, aircraft maintenance)</p> <p>Boeing, Airbus, Sukhoi Super Jet (up to 50% discounts for big orders) Manchester united football club (high brand reputation and recognition) "Aeroflot bonus" partners (hotels, car rentals, shops etc) Russian jet fuel suppliers- Rosneft, Gazprom, Lukoil Airports services and catering Charitable organisations Travel agencies and web sites (70% of tickets sold by partners in 2015)</p>	<p>Key Activities</p> <p>Flight operations On-line and office tickets sales Airplanes maintenance Customer service Timetable planning Marketing research and campaign Development of Aeroflot group airlines</p>	<p>Value Propositions</p> <p>Provide multi-segment flight services:</p> <p>Aeroflot-ussian airline providing perfect safety and a high quality service at all stages of air travel. Premium product</p> <p>Russia- focus on regional operations in the middle price segment with selective exposure to international</p> <p>Pobeda- provide Russian low-cost flight s</p>	<p>Customer Relationships</p> <p>Call center Web-site Mobile app Business lounges Self-registration booths Superior flight and pre-flight service Aeroflot bonus program</p>	<p>Customer Segments</p> <p>Aeroflot Mainly business purpose passengers, but also regional and leisure passengers Short-haul, mid-haul and long-haul flights for domestic and international destinations Top price segment</p> <p>Russia Regional and leisure passengers Short-, mid-haul for regional passengers Mid-, long-haul for leisure passengers Domestic and international destinations Middle price segment</p> <p>Pobeda Price-sensitive passengers Short- and mid-haul flight Domestic and international destinations</p>
<p>Cost Structure</p> <p>Leasing payments (42\$ mln saved on leasing optimisation for subsidiaries in 2015) constant flight routes optimisation (26% of flights changed since 2014) fleet standartisation: Airbus for Aeroflot, Boeing for Russia and Pobeda (low costs of maaintenance) fuel optimisation (1,4-1.8% saved each year) labour costs optimisation by increased productivity (decreased labour costs by 8%)</p>		<p>Revenue Streams</p> <p>multi-segment strategy for capturing maximum value from the market maximum geographical coverage of the market superior quality service perceived as "safest" fleet biggest number of code-sharing and interline partnerships</p>		

Table 8. Aeroflot BMC

Source: Researcher analysis

<p>Key Partners</p> <p>United Nations contracts (UTair Europe, UTair South Africa and UTair India have contracts in Liberia, Côte d'Ivoire, Sudan, South Sudan, Congo, Afghanistan, Somali Airbus helicopters (helicopter discounts, united pilor tutoring) Russian and foreign Oil&gas companies (personnel transfer) "Surgutneftegas" company (main stockholder) "Status" program partners (hotels, car rentals. shops etc) Russian jet fuel suppliers- Rosneft, Gazprom. Lukoil Airports services and catering Charitable organisations Travel agencies and web sites Codesharing and interline partners</p>	<p>Key Activities</p> <p>Helicopter flight operations Airplane flight operations On-line and office tickets sales Customer service Timetable planning Marketing research and campaign</p>	<p>Value Propositions</p> <p>Aircraft Transport services on aircraft of various types on reasonably priced and convenient routes, with a high level of safety, comfort and service</p> <p>Helicopter Optimal quality helicopter operations of any difficulty at any time of year and day anywhere in the world</p>	<p>Customer Relationships</p> <p>Call center Web-site Mobile app Business lounges Self-registration booths Flight and pre-flight service Frequent flyer "Status" program</p>	<p>Customer Segments</p> <p>Aircraft Business and leisure passengers Mainly mid-haul flights both domestic and international Middle price segment</p> <p>Helicopter Oil&gas companies Northern regions Any customer globally needing any helicopter services</p>
	<p>Key Resources</p> <p>biggest helicopter fleet (338 units including heavvweight machines) Maintenance facilities (3 facilities across Russia) Surgutneftegas financial support unique contracts with UN and oil&gas firms high helicopter brand recognition professional staff</p>		<p>Channels</p> <p>Web-site Mobile app Codesharing and interline contracts Corporate responsibility events Advertising</p>	
<p>Cost Structure</p> <p>"Impulse" optimisation program: 49 aircrafts sold and 37 routes cancelled to optimise the leasing payments and cut operational costs realization of 4 unprofitable subsidiaries to cover the loss and decrease costs headcount reduction by 35% fuel optimisation debt restructurisation (65 bln RUR revenue - 25% of operational cost) increased loading by 3%</p>			<p>Revenue Streams</p> <p>helicopter business domination United Nations, oil & gas and other unique contracts code-sharing and interline partnerships no-luqqaqe discount tickets</p>	

Table 9. Aeroflot BMC

Source: Researcher analysis

<p>Key Partners</p> <p>Oneworld alliance (21 core-sharing) S7 Engineering (aircraft maintenance) "S7 priority" partners (hotels, car rentals, shops etc) Russian jet fuel suppliers- Rosneft, Gazprom, Lukoil Airports services and catering (fastest plane preparation in Domodedovo airport- Charitable organisations Travel agencies and web sites</p>	<p>Key Activities</p> <p>Flight operations On-line and office tickets sales Airplanes maintenance Customer service Timetable planning Marketing research and campaign</p>	<p>Value Propositions</p> <p>bright, comfortable, affordable, practical and reliable airline</p>	<p>Customer Relationships</p> <p>Call center Web-site Mobile app (first on the market) Business lounges Self-registration booths Superior flight and pre-flight service S7 Priority bonus program Electronic boarding pass</p>	<p>Customer Segments</p> <p>Business and leisure passengers Mainly mid-haul flights both domestic and international Middle and upper price segment</p>
<p>Cost Structure</p> <p>decreased leasing payments (no financial leasing- only operational, low leasing %) professional cash-management (12 bln RUR on bank accounts against 7.8 bln RUR accounts payable by 2016) fuel costs optimisation (fuel contracts directly with oil producers, selling Russian airplanes) constant route optimisation (increased loading by 1.7% in 2015) fleet standardisation and size management (mainly Airbus 320, Boeing 737, sold 37 Russian airplanes) low debt % in the bank and prolonged term of the debt labour optimisation (30% of personnel were laid-off, unique in Russia fully automated system of work planning of flight and cabin crew) decreased maintenance costs (S7 engineering)</p>	<p>Key Resources</p> <p>airplanes (bright green colouring, 9 years old) S7 Engineering (5 maintenance facilities across Russia) Professional management (family owned company) high brand recognition professional staff</p>		<p>Channels</p> <p>S7 web-site Mobile app Codesharing and interline contracts Corporate responsibility events Advertising (multiple awards)</p>	
<p>Cost Structure</p> <p>decreased leasing payments (no financial leasing- only operational, low leasing %) professional cash-management (12 bln RUR on bank accounts against 7.8 bln RUR accounts payable by 2016) fuel costs optimisation (fuel contracts directly with oil producers, selling Russian airplanes) constant route optimisation (increased loading by 1.7% in 2015) fleet standardisation and size management (mainly Airbus 320, Boeing 737, sold 37 Russian airplanes) low debt % in the bank and prolonged term of the debt labour optimisation (30% of personnel were laid-off, unique in Russia fully automated system of work planning of flight and cabin crew) decreased maintenance costs (S7 engineering)</p>		<p>Revenue Streams</p> <p>maximum fleet utilization (increased number of hours flown per plane) fast speed of plane preparation for the flight superior quality service code-sharing and interline partnerships no-luggage discount tickets increased payments to the sales agents</p>		

Taking everything into consideration the following conclusions are drawn from the analysis of the business models of the focal airlines (Table 10):

Table 10. Main differentiating components from the BMC analysis. Source: Researcher analysis

	Aeroflot	UTair	S7
Key partners	<ol style="list-style-type: none"> 1. Skyteam- code-sharing 2. Airplane suppliers- discounts 3. Government- support 	<ol style="list-style-type: none"> 1. United nations- unique contracts 2. Oil&gas companies- unique contracts 	<ol style="list-style-type: none"> 1. Oneworld alliance- code-sharing 2. Sales agents- additional compensation motivation 3. Domodedovo airport- increased speed of plane maintenance
Key activities	<ol style="list-style-type: none"> 1. Constant optimization of Aeroflot group airlines 2. Airplane maintenance 	<ol style="list-style-type: none"> 1. Global helicopter operations 2. Airplane & helicopter maintenance 	<ol style="list-style-type: none"> 1. Airplane maintenance
Key resources	<ol style="list-style-type: none"> 1. Young airplanes- low maintenance costs, high customer value 2. Studying facility- cheap to teach, sufficient staff supply 3. Maintenance facility- cheap to repair aircrafts 4. Governmental support 	<ol style="list-style-type: none"> 1. Biggest helicopter fleet 2. Airplane & helicopter maintenance facilities- cheap to repair machines 3. “Surguneftegaz” support 	<ol style="list-style-type: none"> 1. Professional management- family owned and controlled 2. S7 engineering facility- cheaper to repair aircrafts 3. Bright company image
Value proposition	Multi-brand for anybody anywhere	Any helicopter operations anywhere	Bright, comfortable, affordable, practical and reliable airline
Customer relationships			Electronic boarding pass
Channels	Extensive code-sharing contracts		Award-winning advertising
Customer segments	Everybody	<ol style="list-style-type: none"> 1. Airplane- mid-price, mainly regular mid-haul flights, leisure and business 2. Helicopter- everything 	Mid and upper price segment, mainly regular mid-haul flights, leisure and business
Cost structure	<ol style="list-style-type: none"> 1. Constant cost optimization 2. Leasing management 3. Airplane discounts- up to 60% 	Impulse optimization program- 25% cut of operational costs in 2015 just by debt restructuring	<ol style="list-style-type: none"> 1. Exceptional management 2. Careful expansion strategy 3. Low bank % 4. Fully automated system of work planning for flight and cabin crews

Revenue streams	<ol style="list-style-type: none"> 1. multi-segment strategy 2. superior quality service 3. code-sharing and interline partnerships 	<ol style="list-style-type: none"> 1. helicopter business 2. multiple tariffs for passengers 	<ol style="list-style-type: none"> 1. maximum fleet utilization 2. superior quality service 3. code-sharing and interline partnerships
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All case companies manage to create high customer value for the particular segment of the market. They are all very approachable and available both on the Internet, on mobiles, at the airports and have their own offices and call centers. They all use different types of advertising and well-known by both people and businesses. They all have good quality of service, self-service booths and other types of preflight and on-board services. They all fly domestically and internationally. Nevertheless there are differences in other elements.

S7 has the most proactive and yet careful approach to doing business. Being family owned and mostly controlled by Filevi family the company is extremely economical and has very meticulous KPI management, particularly the index of flight hours by the plane as it directly increases the revenue from the plane. They managed to sell 37 Russian planes, lay-off 30% of the staff just before the crisis what helped them get rid of irrelevant assets, decrease fuel costs (Russian planes need 2 time more fuel that Boeing and Airbus) and decrease labour costs. Their expansion plan is very accurate and reasoned- they have bought only 2 planes in 2015 (Aeroflot ordered 50). S7 tries to use their planes as much as possible including night hours. They work in collaboration with Domodedovo airport, where the average time of plane flight preparation is 40 min, whereas the average time in the industry is 2-3 hours.

UTair in 2014 was saved by 3 main factors that constitute the core advantages of their BM-Surgutneftegas, helicopter business and Impulse optimization program. UTair had massive losses due to big dollar financial lease payments, low loading (69%) and increased fuel expenses. As a result they decided to sell 4 subsidiaries (Katekavia, Engineering facility, UTiar-Murmansk and Tyumen R&D centre), 49 aircrafts out of 115, cut 37 routes, laid-off 37% of staff and restructure their debt. Only debt restructuring has decreased the operational costs in 215 by 25% (65 bln RUR) (UTair annual report, 20015). Another reason why UTair is still alive and profitable is UTair Helicopters that is now a separate legal entity that has always been the main revenue driver in the company. They have the biggest helicopter fleet and do multiple contracts all over the world.

Aeroflot group main advantage is the size and multi-segment positioning. Another important factor is close relation with Russian government that accidentally is their main stockholder with 51% of stocks. Aeroflot comprises 7 different airlines that cover the whole Russian and many countries all over the world. They utilise their participation in Skyteam alliance at best- they are the only ones who have a big long-haul fleet (35 now and 47 ordered) that can be utilized abroad.

Moreover, the participation in the Skyteam alliance helps them to raise their brand reputation globally and penetrate new markets via code-sharing.

As it is seen in the BMC, airlines in Aeroflot group altogether cover all customer segments- business, leisure, regional (where airplane is the only transport) both domestically and internationally. Aeroflot is aimed at upper price segment, Russia airline is for mid-price segment and Pobeda the only Russian LCC is for price sensitive customers like students.

Aeroflot gets political and financial support from the government in an attempt to create the “country champion”, it now takes about 40% of the whole civil airline market in Russia.

In order to triangulate my conclusion and reveal how effective each BM of the focal airlines is the researcher has made the financial calculation on the basis of 3 most important and globally acknowledged indexes for the evaluation of the civil airline carriers (US Department of Transportation, Form41):

PRASK (revenue per seat km) = Revenue / ASK

CASK (cost per seat km) = Revenue / ASK

RASK (operating income per seat km) = Operation profit/ ASK,

Where ASK (available seat km) = number of seats in the fleet * number of km flown by fleet.

The following table (Table 11) clearly depicts the difference in the actual performance of the focal airlines. These indexes help to avoid the bias of the size and the pricing, as they show how much revenue, operational profit and operational loss the company gets per 1 seat per 1 km, without taking into consideration the loading factor, i.e. if the loading factor is low, then the revenue is low and the indexes are worse as well because of lower numerator.

Table 11. PRASK, CASK, RASK indexes of the case airline in 2015

Source: Researcher analysis, Focal companies' income statements

			Financial indexes 2015				
			Aeroflot	Russia	Pobeda	Utair	S7
ASK	available seat km	mln	124741	13400	3846	14298	20397
		pas.km					
RPK	revenue	mln	97672	10100	3000	9995	15584
	passenger km	pas.km					
RPK/ASK	load factor	%	78.3%	75,60%	78%	69,90%	76,40%
	revenue	mln RUR	415173	35843	11000	68875	70756
	operational profit	mln RUR	44101	4420	37	7974	7218
	operational costs	mln RUR	371066	34652	8784,6	65311	63488
PRASK	revenue per seat km	RUR	3,3283	2,6749	2,8601	4,8171	3,4689
CASK	cost per seat km	RUR	2,9747	2,5860	2,2841	4,5678	3,1126
RASK	operating income per seat km	RUR	0,3535	0,3299	0,0096	0,5577	0,3539

The table clearly shows that even though Aeroflot size, partnership network, cost management and multi-segment strategy help gain a sustainable competitive advantage and create superior customer value, its indexes are not the best in the industry. In fact the PRASK results of the group are the worst in comparison with UTair and S7, logically Pobeda is weakest company in this index, but that is a result of the price strategy of LCC- they need higher volumes to improve the performance. Obviously, Aeroflot size, governmental presence in decision making and costs connected with its massive and rapid expansion plan decrease these indexes. Yet for such a giant these are good results.

UTair managed to recover after 6 bln net loss in 2014 and has the best result in revenue and operation profit per seat km. That is a result of all sold assets that now cover the costs and constitute a respective part of the revenue, but as the table shows the cost per seat per km is still the highest what means that the efficiency still needs to be optimised and the company has to utilise its fleet more effectively. Yet their plan to shrink the aircraft business and concentrate more on helicopter business proves its viability.

S7 remain the leader in efficiency taking the second place after UTair in terms of PRASK and RASK, what proves the quality of management in the company and consistency with the mission. The company tries to offer reasonable variety of services and tariffs in an unusual, bright and comfortable way, keeping a close eye on the key financial indicators like lease payments, fuel and labour costs.

4 Conclusions

4.1 Theoretical implications

This thesis contributes to the literature in the field of business models analysis and application. This thesis showed in detail how the analysis of business models and then their application in regards to the Russian airline market in the context of economic crisis works. This thesis showed the interrelation between different business models frameworks and their approaches to the service companies like airlines. The thesis also managed to define that one of the key parameters in the business model is value that is subdivided into value creation, value proposition and value capture.

The researcher is inclined to believe that the study would mostly contribute to the managers of the service companies and airline managers in particular rather than for the theories. As the study implies the application of widely used business model canvas framework for the analysis of 5 biggest airlines and then draws the conclusions in regards to the Russian economic and political situation.

4.2 Managerial implications

After analysing business models of 5 case companies and highlighting their key partners, activities, competencies, resources, customer relationships, channels and segments, cost structure, revenue streams and value proposition the researcher arrived at a conclusion that **the most important elements in the airline BMs are cost structure, key partners and key resources** as they help Russian airline carriers withstand the consequences of economic crisis, stay competitive even with increased costs and create and deliver value that is well-perceived by the customers.

Ultimately, literature review and the subsequent empirical research helped to derive the following recommendations to Russian airline companies that will help them create competitive business model and increase performance by creating superior customer value:

- 1. Increase financial management quality to restructure the debt and manage the lease contracts and payments**
- 2. Constantly optimize the routes and subsidiaries, get rid of them in case of their financial irrelevance**
- 3. Optimize business on the current scale, no significant growth moves**
- 4. Concentrate on a certain service and segment (e.g. helicopter or airline, regional flights or long-haul)**
- 5. Use proactive strategy and flexible business model**
- 6. Keep high company liquidity.**

The research has also shown that in order to create superior customer value the following recommendations should be taken into account (Table 12):

Table 12. Recommendations on improvement of customer value creation of focal airlines

Customer value creation improvement measures	Recommended to				
	Aeroflot	Russia	Pobeda	Utair	S7
use bright plane colouring to increase the perception of brand and value	Green	Red	Red	Red	Green
pay additional bonuses to sales agents to improve sales experience	Red	Red	Red	Red	Green
engage in alliances to provide better destination choice	Green	Green	Green	Red	Green
engage in alliances to provide multiple business lounges globally	Green	Green	Green	Red	Green
use contemporary software of work planning of flight and cabin crew to improve the flights timing and employees schedule	Red	Red	Red	Red	Green
use no-luggage tickets to satisfy price sensitive travellers	Red	Red	Green	Green	Green
take new plane in operational lease to have safer and newer fleet at reasonable price	Green	Green	Green	Red	Green
actively engage in charitable events	Green	Green	Green	Green	Red
use electronic boarding pass	Red	Red	Red	Red	Green
develop additional services within frequent flyer program	Red	Red	Red	Green	Red
use memorable and creative advertising	Red	Red	Red	Red	Green
offer free choice of special menu (diet, child, kosher, diabetic etc)	Green	Green	Green	Red	Red
provide plaids on short-haul and mid-haul flights	Green	Green	Green	Red	Red
provide on-board Internet access	Green	Red	Green	Red	Red
provide multimedia entertainment on board	Green	Red	Green	Red	Red
do express postal delivery (not cargo)	Red	Red	Red	Red	Green

The table emphasises the actions that need to be taken in order to create superior customer value in the focal airlines. Taking everything into consideration, the airlines should pay attention to the red squares in the table which means that the airline does have a capability to provide certain services to the customers what leads to a loss of the value created and therefore may affect

the performance. The green square says that either the company already has this service or it is not applicable to it, for example free food is not applicable to the low-cost carrier (Pobeda).

Judging by the number of services, S7 seems to be most advanced, yet they do not provide multimedia entertainment and Internet access on board what affects the value that they create on mid-haul and long-haul flights. Aeroflot has a number of competitive advantages like multimedia systems that become extremely important for customers in long-haul flights. Whereas UTair has to adopt some of the best practices from the competitors to become more recognizable and create better customer value.

4.3 Limitations

The research is limited by looking at the business models and analysing the competitive advantages of 5 airline carriers and not the whole market. As the full market research would require much deeper analysis and access to the market and financial information that is either unavailable or hard to reach. The researcher does not perform thorough financial analysis during a number of consecutive years. Also, the scope of the research is limited to Russian airlines, therefore all foreign carriers that fly to Russia are not taken into consideration.

Moreover the locale of the study represents a limiting factor of the research. Organising tête-à-tête interviews in remote locations like Moscow would be expensive and difficult therefore would surpass the budget and timeframes of the theses, consequently the study is based on a limited number of interviews and neglects the primary interviews with top-management.

The thesis is focused on the biggest Russian civil airline carriers that are not bankrupts and still perform the operations. The size of this companies and the availability of industry insiders and secondary information have allowed the researcher to gather sufficient primary and secondary data and conduct a deep analysis to get a respective insight in the industry.

The study is not focused on the analysis of financial performance and comparing Russian airlines with their foreign competitors or analogues.

Finally, the study relies on qualitative data collected from the industry insiders and company representatives. Another data collection was done via secondary resources in the form of airlines reports, market research agencies reports, mass media interviews with top-management and consulting reports. Different sources of data were used in order to triangulate it and improve the reliability of the data.

4.4 Recommendations for future research

The concept of business model is comparatively new in the scientific literature and is still under discussion and development. Especially it becomes interesting in the context of Russian

during the time of economic and financial crisis. There are many questions about how value perception of the customers will change, how to manage your key resources, partnerships and other capabilities to deliver the maximum value and gain a sustainable competitive advantage.

In order to cover the whole concept of a business model and its main value drivers for Russian market further research should be conducted that will include all Russian airlines and cover benchmarking them against best examples on a global scale. This kind of study would benefit both the theory that may arrive at interesting conclusions about the specifics of Russian market and the influence of hard economic environment of business models, and managers who will see a broad picture of Russian civil aviation business models and its comparison with foreign leaders.

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