LIBERA UNIVERSITÀ INTERNAZIONALE DEGLI STUDI SOCIALI

Department of Business and Management, *Chair* Corporate Strategies

The Future of Airline Business Models: Which Will Win?

(Summary)

Supervisor (s)

Prof. Paolo Boccardelli (LUISS)

Prof. Leonardo Corbo (LUISS)

Prof. Carlos Marques (NOVA SBE)

Candidate

Rui Marques, No. 663041

Co-supervisor

Prof. Andrea Prencipe

Double Degree Program between Nova SBE and Luiss Guido Carlo

2014/2015

Introduction

The purpose of this direct research is to analyze which Airlines and airline business models have been successful in the European context, and which do not. The main goal is to build some future scenarios and predict some consequences, threats, challenges and opportunities, for such a vital industry in the globalized economy of nowadays. The first chapter is an extensive literature review of business models in strategy and organization. This theoretical part is crucial for the upcoming chapter that discusses all the business models in the European Airline industry. This part distinguishes and describes all the main European Airlines according to their business models, i.e. Low Cost Carriers, Full Services Carriers or Hybrid Carriers. In the last chapter, three case studies – Ryanair, Air Berlin and TAP Portugal – are presented as a way of illustrating the three different airline business models on a deeper way.

Chapter 1: Business Models in Strategy & Organization

Author (s)	Date	Journal/Publication	Article	Relevant Contribution	Context/Purpose
Linder, J., &Cantrell	2000	Accenture Institute for Strategic Change	Changing Business Models: Surveying the Landscape	Introduction to change models	Innovations in technology, changes in law, competitive moves, and shifts in consumer changes
Amit, R., & Zott, C.	2001	Strategic Management Journal	Value creation in e-business	First construct of the Business Model concept	Internet boom
Seddon, P. B., Lewis, G. P., Freeman, P., & Shanks, G.	2004	Communications of the Association for Information Systems	The Case for Viewing Business Models as Abstractions of Strategy	Differences between business models and strategy	Problems associated to business models
Markides, C., & Charitou, C. D.	2004	Academy of Management Executive	Competing with dual business models: A contingency approach	Risks of using two different BMs in the same market	Utilization of more than one business model
Shafera, S. M., Smitha, H. J., & Linder, J. C.	2005	Business Horizons	The power of business models	Differences between business models and strategy	Applicability of Business Models in corporate management
Osterwalder, A., Pigneur, Y., & Tucci, C.L.	2005	Communications of the Association for Information Systems	Clarifying BM's: Origins, Present, and Future of the Concept	The BM concept was sturucutred into nine business model building blocks	Clarification of the business model concept

Richardson, J.	2005	Shidler College of Business University of Hawaii	The BM: An Integrative Framework for Strategy Execution	Differences between business models and strategy	Applicability of Business Models in corporate management
Zott, C., & Amit, R.	2007	Organization Science	Business model design and the performance of entrepreneurial firms	The impact of BM design on the performance of entrepreneurial firms	Create value through busines models
Zott, C., & Amit, R.	2008	Strategic Management Journal	The fit between product market strategy and business model: Implications for firm performance	Firm's BM and product market strategy's impact on firm's performance	Create value through busines models
Magretta,J.	2009	Harvard Business Review	Why Business Models Matter	Two basic critical tests to check the workability of a BM in a company	Applicability of Business Models in corporate management
Casadeus-Masanell, R., & RIcart, J. E.	2009	Harvard Business School	From strategy to business models and onto tactics	conceptual framework to separate and relate business model and strategy	Problems associated to business models
Zott, C., & Amit, R.	2009	IESE working paper	Designing your future business model: an activity perspective	develop an activity system perspective on the business model	Applicability of Business Models in corporate management
Chesbrough, H.	2010	Long Range Planning	Business Model Innovation: Opportunities and Barriers	map's construction of BMs and introduction of component business modeling	Problems associated to business models
Teece, D. J.	2010	Long Range Planning	Business Models, Business Strategy and Innovation	Development of the Profiting from Innovation framework	Create value through busines models
Amit, R., & Zott	2010	IESE working paper	Business model innovation: Creating values in times of changes	six questions' proposal for managers better understanding of how to structure a firm	Applicability of Business Models in corporate management
McGrath, R. G.	2010	Long Range Planning	Business Models: A Discovery Driven Approach	Development of the "discovery driven approach" as the way to explore business models	Problems associated to business models
Demil, B., & Lecocq, X.	2010	Long Range Planning	Business Model Evolution: In Search of Dynamic Consistency	Development of the RCOV framework	Applicability of Business Models in corporate management
Zott, C., Amit, R., & Massa, L.	2011	Journal of Management	The business model: Recent developments and future research	"Systemic perspective" on how to do business focusing on "value creation"	Create value through busines models
Burkhart, T., Krumeich, J., Werth, D., & Loos, P.	2011	German Research Center for Artificial Intelligence (DFKI) & Institute for Information Systems (IWi)	Analyzing the BM concept – A comprehensive classification of literature	Classification framework of the BM concept	Clarification of the business model concept
Huelsbeck, D. P., Merchant, K. A., & Sandino, T.	2011	American Accounting Association	On Testing Business Models	Introduction of the first BM's test: "cause and effect relationships" implicit in the BMl of a single business unit company	Applicability of Business Models in corporate management

Storbacka, K.	2011	Industrial Marketing Management	A solution business model: Capabilities and management practices for integrated solutions	Development of a solution business model framework in order to assist firms to design solution BMs	Create value through busines models
Zook, C., & Allen, J.	2011	Harvard Business Review	The great repeatable business model	introduction of the concept “repeatable business model”	Applicability of Business Models in corporate management
Wirtz, B. W.	2011	Gabler Verlag | Springer Fachmedien Wiesbaden GmbH	Business Model Management: Design – Instruments – Success	Overview of the most paradigmatic business models’ case studies among the different industries	Create value through busines models
Amit, R., & Zott, C.	2012	MITS Loan Management Review	Creating Value through Business model innovation	Suggestion of the 6 critical questions that managers may ask when considering business model innovation	Applicability of Business Models in corporate management
Lambert, S. C., & Davidson, R. A.	2013	European Management Journal	Applications of the BM in studies of enterprise success, innovation and classification: An analysis of empirical research from 1996 to 2010	Identification, organization and analysis of all existing empirical research to highlight the value of the business model from 1996 to 2010	Create value through busines models
Massa, L., & Tucci, C. L.	2013	The Oxford handbook of Innovation Management	Business Model innovation	Argument that business model innovation will be the only possibility of reshaping several industries	Create value through busines models
Boons, F., & Lüdeke-Freund, F.	2013	Journal of Cleaner Production	Business models for sustainable innovation: state-of-the-art and steps towards a research agenda	Introduction of sustainable business models' concept and its 4 normative requirements	Development of sustainable business models
Roelens, B., & Poels, G., (2013)	2013	Ghent University	Towards an Integrative Component Framework for Business Models: Identifying the Common Elements Between the Current Business Model Views	Proposal of the integrative business model framework which integrates the second-generation papers on the BM concept	Clarification of the business model concept
Lundl, M., & Nielsen, C.	2014	Journal of Business Models	The Evolution of Network-based Business Models Illustrated through the Case Study of an Entrepreneurship Project	Proposal of a network-based BM that generates additional value for the company, partners and customers	Create value through busines models
Ozkan-Canbolata, E., Basa, A., & Cafri, R.	2014	Procedia - Social and Behavioral Sciences	An Alternative Forms of Organizing Business Model: A Model of Value Creater Networks	Integration mechanisms of inter-firm networks	Create value through busines models
Amit, R., & Zott, C.	2014	IESE working paper	Business model design: A dynamic capability perspective	Development of the first linkage between business models and the dynamic capabilities framework	Attempt to linkstrategy and business models

Hu, B.	2014	European Management Journal	Linking business models with technological innovation performance through organizational learning	Development of the first conceptual model linking BM design themes, organizational learning and technological innovation performance	Attempt to linkstrategy and business models
Veit, D., Clemons, E., Benlian, A., Buxmann, P., Hess, T., Kun-disch, D., Leimeister, J. M., Loos, P., & Spann, M.	2014	Business & Information Systems Engineering	Business Models – An Information Systems Research Agenda	Identification of the BM concept as the "missing link" between business strategy, processes and Information Technology	Attempt to linkstrategy and business models
Bocken, N.M.P., Short, S.W., Rana, P., & Evans, S.	2014	Journal of Cleaner Production	A literature and practice review to develop sustainable business model archetypes	Proposal of the categorization of "sustainable business model archetypes"	Development of sustainable business models
Reim, W., Parida, V., & Ortqvist, D.	2014	Journal of Cleaner Production	ProducteService Systems (PSS) business models and tactics e a systematic literature review	First literature review of Product Services Systems (PSS)	Development of sustainable business models

Chapter 2: Business Models' Overview in the European Air Transportation Industry

2.1. Introduction

The main purpose of this chapter is looking at how the European Air Transportation Industry for Passengers has been changing. It is very relevant to consider that, in 2026, Europe will be still involved in 33% of Global Air Traffic. Then, an assessment of these dynamics in the industry – in terms of pricing strategies, distribution channels, revenues streams, cost structure, customer targets, share coding partnerships and value proposition - and their impact over the main European Airlines is key in order to predict the future of the industry in the next years.

2.2. Full Service Carriers (FSC) in the European Market

Five of the European major FSC players are Lufthansa, British Airways, Air France, Alitalia and Iberia.

Deutsche Lufthansa AG leads the air transportation market in Europe with 10.8% market share. However, Deutsche Lufthansa lost its global leadership position to the group emerging from the merger between American Airlines and US Airways. Currently, the airlines keeps suffering hard competition from low cost carriers in Europe on short and medium-haul routes, and it has been incurring extra costs and significant losses. In addition, the company has been facing other problems: the poor economic conditions and high taxation in Europe; Lufthansa has been very hesitant in its decision making (for example with regard to fleet upgrades, costcutting measures) at a time when other players have been very aggressively expanding and transforming their operations; its heavy internal structure of its business model.

Although the French market represents a great opportunity for Airlines due to the fact that Paris CDG is the most powerful hub in Europe with more than 18,000 connecting routes, its major player – Air France-KLM – doesn't seem to benefit from this. Moreover, it is evident that despite almost 10 years of the merger, both Air France and KLM appear to be competing each other in the short haul segment. Both carriers are not having success to create real synergies. In addition, Air France-KLM presents one of the highest labor costs as a proportion of total cost in the European aviation industry. The Airline is responding by shifting its strategy of a pure FSC business model to become a more low cost focused in its short to mid haul business, mainly by boosting Transavia operations.

The schedule airline British Airway is the leading carrier in the UK with three main operating hubs – Heathrow, Gatwick and London City Airports. Low cost competition, in particular the British LCC Easyjet, represent the main threats in terms of short and mid haul competition. British Airways has merged with the Spanish FSC's Iberia in 2011. British Airway's business model is very clear and its pricing strategy reflects it too. In fact, British Airways' price setting, at least for its cheapest fares, is similar to the low-cost approach, although it is generally applied using higher fares. This seems to be a distinct strategy when comparing with the other main FSCs that has as main target the low cost competition in the short and mid haul.

Alitalia is the Italian major FSC. The LCC's threat is particularly high in Italy due to the fact that in no other European country there are more airports served by LCCs than in Italy. The main strategy to fight LCCs has been the merger with Air One since it enabled the Group to increase capacity and decrease distribution cost. Nevertheless, the competition in short haul is not exclusive from Easyjet and Ryanair. As a matter of fact, Alitalia's position on the Rome-Milan route has been challenged by the high-speed rail network, with train services absorbing much of the traffic between Rome and Milan. Finally, Alitalia's main failure to the threat of competition in domestic market was its sluggishness to react, often seemingly more interested in preserve its existing position than pursuing new markets.

The Spanish FSC's air market is very similar to the French. They both have a comparable development of the supply of FSNCs mainly driven by the home carrier's development. Air France and Iberia both hold – in contrast to British Airways – relatively high domestic market shares. They also both hold relatively high regional market shares, although the trend is developing differently in each country. In both countries, the LCC market emerged relatively late, but now it seems that there was a tremendous "sleeping demand", which represents a big threat for Iberia. However, Iberia's dominant position in two of Europe's largest airports has been a crucial key success factor. The company concentrates its network operations in Madrid and its low-cost operations, i.e. Vueling, in Barcelona.

To sum up, established airlines have become victims of their past success, struggling with a combination of several problems, such as entrenched management and labour practices; substantial debt commitments as a result of both growth and volatility; extensive network of high cost stations; uneconomic routes; complex and costly marketing arrangements and distribution channels.

2.3. Low Cost Carriers (LCC) in the European Market

Despite the fact that LCCs initially focused on short-haul services, due to the increasing competition on the established routes, recently, Ryanair has announced its plans for transatlantic long haul flights. LCCs continue to be the most successful business model in air travel and they continue to gain popularity and market share. The liberalization of the intra-EU air services market provided the legislative framework in which LCCs could develop. The utilization of small airports, the high-density seating and the online direct selling system are usually considered some of the main drivers of the LCC business model.

EasyJet is among those LCCs that operates from a few large hubs (Amsterdam, Madrid, Munich, Paris CDG). On the other hand, Ryanair has persisted with this secondary airports strategy. Ryanair has a market share as measured by offered seats of over 75% at nearly half of its bases. By contrast, EasyJet does not even have such market share at a single base, which indicates that EasyJet opts to focus on main intra- European routes, while Ryanair looks for niche markets.

Increasing seat density on board of the aircraft has been one of the recent strategies of European LCCs in order to lower unit costs and at the same time increase ticket sales while limiting airplane orders. Furthermore, the so-called “de-seasonalisation” of the winter-summer schedule is another approach which LCCs are adopting with the same purpose. As a matter of fact, the pricing structure of many European LCCs has been improving since those airlines have been adopting much more flexibility with fares as a direct response to demand levels. In addition, fuel efficiency through high performance next-generation airlines is considered to be one of the main strategies for the leading European point-to-point carriers because it enables them to achieve economies of scale. Finally, homogenizing the fleet (LCCs manage to decrease their maintenance costs) and the online direct selling system remain crucial for LCCs.

There are some signs of a saturating continental market for LCCs, in terms of decreasing average frequencies and increasing average route distances. Thus, LCCs might be forced to (partly) adopt other business strategies for future growth: shifting to primary airports, starting hubbing activities that enable passengers to transfer from one to the other flight, signing codeshare agreements, entering alliances, and acquiring other airlines. In fact, Despite the LCC business model is based on pricing fares at a low cost, loyal passengers are essential to any successful airline.

2.4. Hybridization of the European Market

To differentiate themselves from other LCCs, some low-cost operators are adopting different business models that include, for instance, shifting to primary airports, starting hubbing activities, providing meals and other in-flight services, and entering alliances. This process is called the Hybridization of the business model. Air Berlin is a carrier that changed its business model from a holiday to a hybrid one. Air Berlin most differentiates from the other LCCs by offering connecting flights at its hubs in Berlin, Dusseldorf, Nuremberg and Palma de Mallorca. Furthermore, the Airline provides a full range of services including meals, drinks, newspapers, assigned seating and frequent flyer program. Nevertheless, Air Berlin has been experiencing severe financial difficulties, which threat the viability of its business model. The other relevant example is Aer Lingus, who has changed from a FSC to a hybrid carrier due to Ryanair's strength on Irish market. Aer Lingus now offers low-cost services from Dublin to major European airports which – at the same time – feed the carrier's full-service, two class long-haul flights to North America. The classification of the three business models is not easy. Ryanair and Wizz Air coincide with pure low-cost carrier model, while Easyjet, Aer Lingus and Vueling were characterized as airlines within hybrid carrier group with still dominating low-cost elements. In addition, Transavia, Germanwings, Norwegian, Flybe and jet2go were labeled as hybrid carriers with dominating traditional airline business model elements. Finally, Air Berlin, Niki (owned by Air Berlin), Air Baltic and Meridiana correspond to traditional FSC business concept.

2.5. The Dual brand Strategy

One of the two major ways that FSCs have adopted to respond to LCCs has been the establishment of low cost, 'airlines within airlines', attempting to apply elements of the LCC business model. In the European context, the major Airlines have decided to adopt this strategy. For example: Iberia and Vueling (Spain); Air France and Hop! (France); KLM and Transavia (Netherlands); Lufthansa, Eurowings and Germanwings (Germany). So far, the dual brand strategy seems to be gaining relevance within the major European FSCs in the short-haul segment. However, in the LCC arena, the leading players may take on a growing role and further consolidation and increased concentration in the industry are expected. Easyjet's take over to the financial stabilized British Airways' subsidiary GO represents a strong alert to other subsidiaries not so financial balanced, such as HOP! and Transavia.

2.6. The End of Charter Flights?

The term "charter airline" was widely used to describe these airlines as most holiday flights were then not sold directly by the airline to the passengers but were included in charter packages offered by tour operators. Nowadays, many holiday flights are operated as scheduled, albeit often seasonal services), which means that Charters Airlines provide a very similar service to LCCs. In fact, many Europeans Charter Airlines have been changing their core business model to a low-cost one.

2.7. Conclusion: comparison of the main Business Models in Europe

Starting to look at the countries of origin where, in Europe, the most relevant airlines come from the western European countries, we are able to state that they dominate the market. Some M&A activity is expected to concentrate more on the European market.

In terms of distribution channels, a new paradigm has been introducing in the Industry. Ryanair's recent partnership with Amadeus might lead other European LCCs to adopt the Global Distribution Systems (GDS) as distribution channel. However, this will have an impact on their cost structure once part of their business model's strategy has been based on direct online sales.

The targeted customers by the European airlines has been clearly in a changing process as well. On one hand, many FSCs, such as Iberia, Lufthansa and Air France – KLM have adopted a dual brand strategy in order to target a broader range of travelers, namely 'shoppers' – those travelers who search for the lowest price in many airlines' web site, even if they offer differentiated routes. This strategy enables FSCs to compete with LCCs in the short mid haul routes. On the other hand, some LCCS like Easyjet have started to introduce some routes in order to target business travelers, departing at appropriate schedules and flying to some main airports. A targeting convergence can be perceived in the two main business models. The hybrid business model appears as a reliable alternative for business travelers too.

The biggest global alliances, i.e. Star Alliance, Sky Team and One World, are becoming stronger in the European market. They are particularly relevant for FSCs when operating long haul routes. Some dual brands, such as Vueling, seem to take benefit from their airline's group network. Moreover, few LCCs are starting to make some partnerships for longer haul flights. For instance, Easyjet (UK) and Transaereo (Russia). Surprisingly, or not, hybrid carriers such as Air Berlin and Aer Lingus belong to One World, which seems to be one competitive advantage.

In terms of value proposition, FSCs keep betting on variety and flexibility of the routes, convenience of the departure time and location of the airports, comfort, customer service, entertainment on board and prestige. LCCs continue do sell low-cost fares and guaranteeing on-time arrival performance due to the fact that they frequently use secondary airports. Nevertheless, many LCCS like Ryanair and Easyjet appear making an effort to improve their customer service. Hybrid European airlines offer both a flight experience and an affordable price.

LCCs' cost structure relies on the utilization of small airports, high-density seating, online direct selling and a single and homogenous class. As described above, many Europeans LCCs look to use bigger airports (e.g. Easyjet) and eventually GDS (Ryanair was one of the first), which will be a challenging fact in the next few years. Due to LCC competition in short-mid routes, many Europeans FSCs have been decreasing their operational costs and following a skimming pricing strategy – by creating more than two classes (e.g. Iberia) - in order to target more customers.

Revenues streaming within European LCCs and FSCs are not expected to suffer many changes. LCCs will keep relying on advanced booking, travel retail, onboard retail, excess baggage fares, sales of checked and cabin luggage. The main FSCs still price their fares at a premium, selling a full service to their loyal customers.

Chapter 3: Three Business Models, Three Cases

3.1. Case Study: Ryanair

3.1.1. Ryanair's history, figures and recent achievements

In 2014, the company's average fare of €46 represented the Europe's lowest fare. When compared with the averages fares of Norwegian and Easyjet, Ryanair's main competitors charged fares 80% and 83% more expensive, respectively. Furthermore, with a cost of €29 (excluding fuel) Ryanair operated at the European's lowest cost. In addition, the company established 121 new routes and opened 8 new bases. These figures made of Ryanair Europe's number one airline in terms of coverage: 72 bases, 189 airports, 30 countries, more than 1600 routes. This growth trend seems to continue once that, in 2014, Ryanair ordered 180 aircrafts to be delivered until 2018, having the company a total of 380 Boeings on order. Moreover, the LCC is market share leader in Spain, Italy, Belgium, Ireland and Poland. In the UK and Portugal the airline ranks the second position, whereas in Germany and France, Ryanair is the third airline. It is also relevant to mention that, in 2014, over 90% out of about 530,000 flights arrived on-time. Finally, looking at the financial performance, the 'Full Year Result of 2014' reported revenues of €5,037m and a net profit of €523M, which may be considered positive because the traffic had growth 3% to 81,7M passengers concerning the previous year.

3.1.2. Ryanair’s Business Model: key success factors

First, since Ryanair’s routes are mainly point-to-point, the company is able to reduce airport charges by avoiding congested airports, choosing secondary airports and regional destinations. Second, Ryanair follows a very strict policy in terms of its internal organization. For instance, the company’s employees perform several jobs, such as the cabin crew that cleans up the crew after passengers disembark (often joined by the pilots as well) in order to comply with its punctuality and fast turnaround time. Third, the company exploits revenues further than the traditional ones, enabling it to reduce unit costs. Actually, 20% of its revenue from ancillary products and services. Forth, the LCC was pioneer of making the use of Internet as its main distribution channel. Fifth, Ryanair minimizes its marketing and advertising costs, relying on free publicity through controversial and topical advertising, press conferences and publicity stunts’. Sixth, the Airline provides only the minimum customer service standards. Seventh, Ryanair’s aircraft fleet is all composed only by Boeing 737-800, meaning that by using a homogeneous fleet enables a reduction in costs of training and maintenance. Eight, as mentioned in the previous factors, the low-cost airline focuses all its strategy on achieving fast turnaround times. In order to maximize aircrafts use, by starting flights earlier in the morning and to end them later in the night, each plane yielded eight to ten hours per day of activity compared to the five or six of traditional airlines on the same routes. Ninth, the pricing strategy is crucial for Ryanair’s business model success because by charging the right low price the company will maximize its volume. Tenth, the LCC strategically targets its customers, attracting a high number of younger people, with 24% of its passengers being in the under 24 year’s age group.

3.1.3 Ryanair: weaknesses, threats, challenges and future

Many of the Ryanair’s weaknesses and threats might have to do with its weak internal culture. Ryanair’s poor reputation in terms of customer service and job satisfaction may have a negative effect on its success in the future. Furthermore, The Airline’s approach to stakeholders is regularly under attack from industry observers and stakeholder groups.

Moreover, the LCC is only capable of starting thin routes, which in turn is an indication of a saturating market and future, or already existing, route density problems. Another issue is Ryanair's brand perception. In fact, the LCC is frequently featured in surveys as having one of the weakest brands in European aviation, and this perception may start to have an adverse impact on sales as the Airline matures. Despite its internal problems, the Airline faces several external threats too. For instance, the recession on the European economy has led to a significant impact on the airline's industry, particularly on LCCs, that have had a double challenge of reducing operating costs and maintaining lower ticket prices. In addition, during the last years, competition has been becoming stronger and the consumer behavior has been changing, which has been threating Ryanair's business model. Concerning competition, Easyjet and schedule players have been decreasing their fares dramatically. Finally, it is not perceivable yet whether Ryanair's future will result or not on a merger with the Irish flag carrier, Aer Lingus. O'Leary (the CEO) initial plan would be taking over Aer Lingus, a hybrid carrier combining low cost European routes with long-haul, in order to wide body operations between its Dublin hub and North America. This merger would give the Ryanair access to resources and "know-how" needed to start long haul operations.

3.2. Air Berlin: The hybrid business model paradigm

3.2.1. Air Berlin's background, strategy and figures

Although Air Berlin presents an innovation in terms of business model, the financial and operational performances have not been successful. In fact, since 2007 only in one year the company achieved profitability. The average price per passenger has remained stable from 2008 to 2013 – about €92 – but, the number of customers has been considerably declining. Therefore, despite the revenues slightly increased by 0,3%, the company obtained a negative EBIT of €26.7M. Its hybrid cost structure seems to be too heavy.

3.2.2. The hybrid business model: why is it failing?

When comparing with the other LCCs, such as Ryanair, Air Berlin has about half of Ryanair's passengers but many more employees and daily flights, which is a considerable imbalance. Furthermore, the passenger load factor is 74%, which is only 5% above

Lufthansa and quite below other LCCs, such as Germanwings and EasyJet. Obviously these results challenge the sustainability of its business model. Then, the unsuccessful merger with LTU, in 2014, has been the first reason for the negative results because Air Berlin has started to operate unsustainable routes. Another reason has been the dependence on the seasonality of weekly flights to Palma De Mallorca during the peak holiday season, which has felt the effects of the recent economic downturn in Europe. Moreover, the air travel tax introduced by the German government - due to the excess of domestic flights - has been hitting Air Berlin in a higher proportion than its competitors. Moreover, the company is using fleet operated by lease, which is not common among airlines and is costlier. Finally, eventually the major problem is the fact that Berlin's new airport has been postponed several times, which affects Air Berlin more than its competitors because the company planned its schedule and its expansion based on the assumption of this new airport.

3.2.3. Which future for Air berlin's hybrid business model?

Seven years of losses is not sustainable anymore in such a competitive and consolidated European market. First, the only way to turn the adverse situation over consists in focusing on achieving higher efficiency while controlling costs within the short-haul segment. Thus, turnarounds times may be shorter, a gradual harmonization of its fleet to a single Boeing aircraft family for each of short-mid and long hauls might be relevant, and a larger focus on connecting high volume routes in its main markets, i.e. Germany, Austria, Palma de Mallorca and Switzerland, will reduce the operation's susceptibility volatility. Second, the strategic location and utilization of airports will be very important for the future of Air Berlin's hybrid business model. In particular, it is capital for the Airline to "expand its non-stop long haul flights services from Berlin to Dusseldorf", so that the company can consolidate its second position on German market. Third, the future of the Airline also seems to rely on the cooperation with its equity partner, Etihad Airways. Even though the main purpose of this alliance is to exploit synergies in all the several areas of both companies, this strategic partnership also intends to save costs, become Air Berlin more efficient and seek for new opportunities. Finally, Air Berlin needs to quickly resolve its fundamental question of being a short point-to-point LCC, a FSC, a leisure operator or a high frequency business airline.

3.3. TAP Air Portugal: the traditional FSC business model

3.3.1. The Portuguese airline market and TAP

The Portuguese airline is a reliable and appealing carrier for Portuguese tourist, who historically prefer the national airline due to its high quality services and safety standards. In fact, the Portuguese Airline has been voted as the best European airline company in 2011, 2012 and 2013 by the *American Global Traveller*, which means that the quality standards of TAP have a strong reputation abroad. Although the Airline has not been profitable during many years, TAP was the biggest exporter in Portugal several times, such as in 2009, when it contributed with around €1.4 billion in sales to the external markets.

3.3.2. TAP as a FSC: business model, competition and future

TAP as a medium size European airline that operates with a special focus on the 'triangle' Europe-Africa-South America. Its main competitive advantages are its geography and the fact that the Portuguese Airline stands out as the most international among all the airlines in the Portuguese speaking countries, particularly in Brazil. Lisbon hub is a key European gateway at the crossroads of the African, North and South America Continents.

A first problem comes from the fact that TAP suffers from very low productivity and efficiency. It will be very important that investors believe that TAP can improve its current operational efficiency in order to leverage the results in Africa and South America, which ultimately would have a positive impact on the company's negative equity. Regarding this, the privatization process may lead to a more positive valuation by the investors. Furthermore, apart from its punctuality due to its low operational efficiency, Tap's network is not so wide, missing, for instance, a route to Asia. A second problem has to do with LLC's presence in Lisbon's airport, namely Ryanair since 2013. In fact, the main threat for TAP comes exactly on several of its European short-haul operations, with Ryanair and Easyjet leading TAP to a tradeoff situation, where increasing fares is limited and, at the same time, the average fare is decreasing as it is reflected on the yield. Tap's average fare has decreased from €126 to €104, between 2008 and 2013. Nevertheless, TAP managers are convinced that there is no space for dual brands, such as the successful case of Iberia and Vueling. On the other hand, code-sharing agreements with the Brazilian TAM or US Airlines give the opportunity to TAP of offering many more destinations in Brazil and US, rather than just the few routes that the Airline operate to these countries. In fact, the impact on the results of these kind of agreements is larger as smaller is the dimension of the airline. These agreements gain even more relevance concerning other external threats because, in the future, non-European Airlines, namely in South America, may threat the strategic positioning that TAP has in key regions, such as Brazil and Africa.

The future of the European Airline industry will be determined by the market and its willingness to pay for a superfluous good, such as travelling. This will result from the evolution of society's behavior and improvement or not of its living standards, which are unpredictable.

3.4. Conclusions

First, Ryanair continues operating its paradigmatic and very successful LCC business model. Nevertheless, the LCC competition has been increasing and becoming stronger. The company's quick response to the several changes on consumer behavior and its ability to improve its internal organization without increasing its cost structure, will determine its success. Moreover, reproducing its original business model in long haul operations (Middle East and US) seems to be its future challenge in order to keep growing. Second, Air Berlin's 'stuck in the middle' business model has not been profitable so far. Unless the hybrid carrier clarify its strategy, i.e., focusing on short point-to-point LCC or on long-haul operations as well as targeting business travelers or tourists, Air Berlin does not seem able to continue operating under this model. The partnership with Etihad Airways will be crucial for the company's future. Finally, so that TAP Portugal's FSC business model can survive to LCC competition, the Airline must rely more and more on the triangle 'Portugal-South America-Africa', where the Portuguese Airline presents some competitive advantages.