SAS “new” business model

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Abstract

In September 2005 SAS introduced a new business model. Where did the model come from and what influenced it? This paper’s focus is on the making of the model where we study the making of a business model as a dynamic process through time. In concrete terms, traces of today’s model can be found and examined from the SAS group’s embryonic attempts starting in 1946, through the financially good years during the 1980s, to the market re-regulation in contemporary time. During these years several changes have taken part both on the larger air travel market and in SAS´s market practice. We have separated SAS´s history into three era’s, the technological era, the businessman’s airlines era, and the “to serve Europe with air travel” era. Elaborating on the theoretical notion of mutuality between markets and market practice (Cf. Helgesson et. al., 2004), the impact of these practices and of the market infra structure at different points in time are described and their importance for the emergence of the business model discussed. Our findings show that the political efforts to de-regulate the European air travel markets did not automatically change all market practices and thus not the market. The process that followed the de-regulation can better be characterised as a translation process in which a changed market was created, based on an already established network of embedded material and immaterial items, such as booking systems, airplanes and perceptive frames, that had to be taken into consideration.

Keywords: SAS, Markets, Market Practice

Introduction

> *“We must make sure to get rid of all un-necessary elements in our operations and in our products. We are striving for a simplification of our existence. I am completely convinced that the luxurious journeys by air in first class (…) are over or must come to an end under the pressure of the super crisis that has stroke us. (…) I imagine in a not to distant future well-filled aircrafts with all passengers in one class, tourist or economy class. At embarkation, everyone has had the possibility to bring with them a food box from a desk in the airport. The stewardesses that are to be found have their safety duties and are possibly responsible for serving refreshments.”*

Knut Hagrup, SAS president, 1975

The quotation above was written in 1975. Thirty years later, in the annual report of 2005, SAS describes a new business model, much in line with the vision that Hagrup presented. The new business model consists of three parts, aiming towards SAS´s commercial concept, towards their traffic system and towards cost cuttings, as illustrated in figure 1 below;

The SAS Group's new business model		
Commercial concepts	**Network/Traffic systems**	**Cost adjustments**
• Fare structure based on demand-based-one-way fares • Differentiated basic product • Offerings that stimulate additional sales and upgrading of the basic product • Internet booking	• Traffic systems are sized according to local demand and profitable transfer traffic • Dynamic and flexible traffic planning	• Cost levels for the basic products in line with those of the most efficient competitors on the same traffic flow • Future transfer, distribution, in-flight, on-ground, network etc. products must be profitable

Figure #1 SAS annual report 2005

SAS presents their new business model as a reaction against their "old" practice and as a clear break from the past. But is this "new" business model so radical and different from all earlier practice? The quotation by Hagrup gives us a hint that it might not be the case. This paper takes a closer look at the creation of SAS business model of 2005 from a historical perspective. Can we find any traces of today's business model in the market practice at SAS thirty or even sixty years ago?

Studying markets and market practice

> *"To understand why marketing is such a fascinating economic and sociological activity, we have to first understand the fundamental reason why <u>markets</u> develop. Markets exist because we get better at doing things the more we do them (labour specialization) and we get less interested in consuming things the more we consume them (consumption satiation). Put labour specialization and consumption satiation together in any society of humans and <u>markets</u> and <u>marketing</u> will be spontaneously created."*
>
> Czinkota et. al., 2000, p. 5

The quotation above is taken from a text with the heading "How markets evolve" in a marketing textbook. It is quite interesting that the book in marketing starts out from the market concept since a perfect market is defined as one of several suppliers and buyers of a highly standardised product. All participants in this market have full access to all information and act rational based on the information, leaving price as the only visible parameter. Hence there is no room for marketing in such a market. However, questioning the assumption of highly standardised products, Czinkota et al (2000, p. 6) argue that opportunities exist in the marketplace as a result of consumer satiation: "Opportunities exist in the marketplace for new products that not only satisfy unmet consumer needs, but also provide consumers with alternate means of satisfying needs currently being met by existing products." Looking at any empirical situation there are good reasons to question the existence of perfect markets; due to heterogeneity of products it might even be difficult to know who the suppliers and the customers are (from a very narrow perspective there might be just one or a few of each – whereas a broader product definition will give a large number of suppliers and customers connected to each other in a network like constellation). What we end up with are rather blurred *markets* that are much situation and time specific in nature, rather than *a market*.

Despite this reasoning, the market phenomenon seems to be of importance. Many actors involved in business practice perform activities based on ideas about the context of their businesses, i.e. on ideas about the market. And it is these activities, performed in interaction among actors, which continuously construct and reconstruct "the market". In this paper we try to elaborate on the theoretical notion of mutuality between markets and market practice further, using Kjellberg and Helgessons definition of market practice as all activities that contribute in shaping markets, and their categorisation of market practices into three broad categories. These categories are: 1) exchange practices, activities involved in exchange of goods and services; 2) normalising practices, activities involved in forming normative expectations for actors and; 3) representational practices, activities that produce images of markets. The practices that are performed are linked to other practices through various translations[1] (Latour, 1999) that produce the market. (Helgesson, et. al., 2004; Kjellberg & Helgesson, 2005)

Considering actions, such as the focal practice here, i.e. the creation of a new business model at SAS, as both socially embedded (Granovetter, 1985) and inter-defined and materially embedded (Callon, 1998) in contexts, a holistic approach to the study object is needed. The creation of a business plan is in this paper understood as an interactive and emergent phenomenon, based on present market practice, on earlier practices, as well as on present market infra structure. We believe as well, that context can be grasped differently, and that the perception of relevant context, or market, by a certain market actor at a certain point in time will have an impact on its market practice, and thus on the creation of the business plan. There will thus be varying definitions of relevant market between actors and over time within actors, which makes creation processes of this kind both dynamic and multifaceted.

How did we go about making the study, i.e. what was our practices? To grasp the mutuality between markets and marketing practice we conducted a processual case study. The SAS group's business model of 2005 functioned as a focal point for the case. To capture the process of developing of the new business model the focus has also been put on the SAS context, or market, as it has been described by themselves in interviews, annual reports etc. at different times. We have separated SAS history into three era's; the early technology driven years, the businessman's airline years and the contemporary "to serve Europe with air travel" years. Data was primarily gathered from SAS annual reports, but also other data sources such as interviews and articles in daily papers have been used. The annual reports gave information not only on some of SAS´s market practice and on some relevant market data, but also and foremost, on how SAS perceived and / or presented their market at different points in time.

The early, technologically driven, SAS years

The first traces of SAS new business model can be found in the very embryonic phase of the company. The creation of SAS was an initiative from the Swedish governmental owned actor AB Aerotransport (ABA) who, at the time of the Second World War, wanted to create an airline with routes between Stockholm and New York. However, the Swedish government did not have the financial strength to build such an airline, and therefore decided to give a licence, or in governmental terms a concession, to the private owned actor Svensk Interkontinental Lufttrafik AB (SILA). The plan was to wait until the war was over and then become the first airline to operate intercontinental flights between the Scandinavia and the US. After the war a flight rout was scheduled, but the financial side of the operation became too expensive for SILA to handle.

In order to solve the financial problems the Swedish actors[2] therefore created a co-operation, for the intercontinental flight route between Scandinavia and New York, between themselves and the Danish actor DDL (Det Danske Luftfartselskab A/S) and the Norwegian actor DNL (Det Norske Luftfartselskap A/S). The flights between Stockholm and New York started in 1946 under the name SAS (Scandinavian Airlines Systems). In 1951 the three actors ABA, DDL and DNL formed the present SAS Consortium where Sweden owned 3/7 of SAS and the other countries owned 2/7 each. Gradually the SAS Consortium expanded and begun operating on more routes than Stockholm – New York. In the end of 1946 a route to South America was started and from year 1950 SAS conducted fly traffic also in Europe and within the Scandinavian countries.

[1] A translation is defined by Latour (1999) as a basic process through which something (an idea, a product, a regulations etc.) spread in time and space. Each party that picks it up contributes to its development by transforming it.

[2] Interesting to note is that the private owned actor SILA was not a part of the original consortium but as the Swedish government sold 50 % of ABA to SILA they become an indirect owner. To make things even more complicated SILA was quoted on the "Stockbrokers' List " in Sweden, but SAS was not.

Much of the information in the SAS annual reports from the early years concerns the airplanes they have or will invest in and the routes that are opened. In 1945, already before the official establishment of the SAS Consortium, seven air planes, Douglas DC-4 (Skymasters), had been bought. It was one of these planes that made the official opening flight to New York six weeks after the establishment. In the start SAS made two double routes to New York each week, but soon expanded to daily routes. The developments in the area of civil air sector were rapid after the war. All airlines invested in new airplanes (as well as new equipment and education of personnel) in order to keep track of the development. SAS has been described as one of the companies that managed rather well in this technology race. Looking at the management of SAS at the time, we see staffs that mirror the importance of technology well. A majority of managers were engineers and experts on various technological matters related to air travel, often with a background from the air force industry or the national air traffic authorities.[3]

To book a ticket during these years was problematic not only for the consumer but also for SAS. In the late 1950s and early 1960s consumers demand for air transportation increased and the airlines had to commit more and more resources to the proceeding and execution of a flight ticket (Campbell-Kelly 2003). In the early sixties the situation begun to get out of control for the airlines. The more people got used to travel by air the more people the airlines had to employ to handle the bookings of the tickets. As an example, when a buyer entered or phoned an airlines distribution outlet or a travel agency to book a flight ticket between points “A” and “B” the only contact that specific outlet had with an airline was by telephone or mail. So, to execute a selling of a ticket the outlet had to contact a person at the airlines’ booking headquarters. That person had then to check the capacity of that flight on a big board and then put a “un-confirmation” on that board next to an available seat. The un-confirmation signs on the seat where there of two reasons, first there had been no confirmation from the customer and secondly there had been no money transaction. To make things even more problematic these two, money transaction and seat-confirmation, were two different booking systems, and to put a confirmation on a seat these two had to match. This created inconsistency and almost every twelfth booking did not match. (Dienel and Lyth 1998)

The early technological SAS period involved not only technological improvements but also standardisation of different kinds. One example is IATA (International Aviation Transport Association) and the air traffic regulation. These traffic regulations had at the time, and still have, an important impact on the market and marketing practice at SAS. The most important standardisation association were IATA whom worked as a coordination function of the air transportation market. They were founded in Europe 1919, but soon become global, to support cooperation between airlines with the aim of “co-operate to mutual advantages, in preparing and organizing international aerial traffic”. Their focus during the first years was on member cooperation to standardize different technical issues, such as “should a push forward on the throttle that controls the aircraft speed meant acceleration or a slowing down”. The association wrote a book, “IATA and what it does”, in 1977 about their function in the air transport market. At that time different actors were questioning their status, mostly because of the U.S. deregulation of their air traffic market in 1978. IATA’s inflammatory speech in the beginning of the book states that just “(t)he fact that today airlines can and does provide safe, comfortable and rapid transport to almost any point of the globe is essentially the result of very close cooperation and coordination between a large numbers of different interests”. Already in 1944, IATA conducted a convention that would standardise technical issues, the legal framework and function as an economic regulation. They managed to standardise two out of the three issues; the technical and the legal. At the time the economic standardisation did not work out. Instead the economic and the legal agreements become intertwined into three rules, bilateral agreements, inter-airline pooling agreements and agreements to approve tariffs fixed by IATA. (IATA, 1977, p. 2ff)

These three rules have been the corner-stone in shaping the air travel market and what SAS and any other airline can do according to marketing practice. Starting with the first rule, the bilateral agreements, it was based on four parts. First part was that representative of the government in Sweden had to come to an agreement with the government in, for example, Italy to sign a bilateral agreement that said it is ok to fly between Sweden and Italy. This part of the bilateral agreement was called allowance of “market access”. Second part was to decide which airports the airlines were allowed to traffic in each country. The Swedish government had selected the governmentally owned Arlanda as Sweden’s international airport located close to the capital Stockholm. This meant that all

[3] Edström et al, 1989, pp. 23-; SAS Annual reports, 1946-72.

international air traffic was directed to Arlanda. The third part was to come to an agreement of how many designated airlines from each country should be allowed to operate between the countries. Often only one (single designation) was allowed. The forth part of the bilateral agreement was for the governments to give the traffic right to an airline based in each country. Since the government in Sweden owned SAS, at least to 3/7, it naturally becomes SAS and because Italian government owned Alitalia the Italian government selected Alitalia. These governmental airlines become known as "flag carriers" because they had their country's flag on their tale and become almost synonymous with a country and their government. The second rule, inter-airline pooling agreement was a way of the two designated airlines, in our example SAS and Alitalia, to share the revenues generated from the routs between the two countries. This rule was often based on seat capacity.

The third rule, agreement to approve tariffs fixed by IATA was made through IATA's traffic conferences. These conferences were annual meetings where representants from all IATA associated airlines spend a weekend and discuss prices and routs for the following year. The airline had to be allowed to fly abroad to become an associated IATA airline. This boils down to only the flag carriers being able to take part in the price discussions. If we go back to our SAS and Alitalia example, representatives from the two airlines sat down and come to an agreement for the price of a ticket for the next year. In the book, IATA and what it does, it is stated that "(t)here has been some fear that because the airlines agree fares and rates between themselves in the first instance, the levels established are higher than those justified by economics" (Ibid., p. 104). It is argued that this was not the case, instead "(b)ut this attitude, of course, completely overlooks the fact that these agreements are subject to government scrutiny and approval" (Ibid.) and IATA can assure that "the authorities concerned take fully into account the actual costs of operation as well as the market conditions" (Ibid.). Others have, however, been critical. Doganis (2001) argues, for example, in his book "the airline business in the 21st century" that the situation of "the airline business is a paradox. In terms of its operations it is the most international of industries, yet in terms of ownership and control it is almost exclusively national" (p. 19). Regardless of opinions, the three IATA traffic rules have much shaped both the air travel market and SAS marketing practice for the last fifty years.

If we now summarises market and marketing practice at SAS as a business model for the first era, using the same three groups as SAS do in their contemporary business model, we see that SAS had to follow rules both bilateral and conducted by IATA which made their chances of flexibility slim. Most of SAS activities were to work as a cog in the bigger world air traffic machinery. An airline was most of all a symbol of their country "flagship carrier" and not a firm that follow business logics.

SAS business model in the technological era		
Commercial concepts	**Network/Traffic systems**	**Cost adjustments**
• Fare structure based on IATA rules • Product based on bilateral agreements • Product separated into first and second class • Bookings made through travel agencies	• Traffic systems were sized according to inter-airline pooling agreements • Traffic pre-planed by governments	• No cost adjustments

Figure #2 done by authors

SAS becomes the Businessman's Airline

In the late 1960s to the early 1970s, the technology race had started to cause negative effects on all air travel companies due to the created an overcapacity. The race came to an end at this time as the first oil crisis increased the costs for flight fuel, affected the world economy negatively as well as lead to higher prices on flight tickets. SAS with their technological expertise had at the time developed into a company that was perceived by others and themselves as safe and trustworthy but not very exciting. A common joke was that SAS stood for "Safe And Slow". SAS had also become a centralised, bureaucratic and functionally specialised organisation that looked a lot like other companies in the sector. The marketing practice and the service they offered customers has been described as standardised, and no large differences were made in the handling of different customer groups. The mid and late 1970s was also when the results of SAS decreased even though 1979/80 was the first year with a negative result. This was the time when the president Knut Hagrup said that SAS needed to get rid of what he called ”all un-necessary elements in our operations and in our products.” He was, as we stated earlier, convinced that the time of luxurious journeys in first class was over and that they needed to come to an end due to what he called “the super crisis that has stroke us”. However, a quite different recipe for success was tested just a few years later.

The background descriptions of the SAS period that followed, which has become known as the years when SAS became “The Businessman’s Airline,” differ much depending on when they are written. In an internal marketing pamphlet from the early 2000 it is argued that the Scandinavian economies had grown fast during the last decades, and, being one of the few airlines in the region, so had SAS. Therefore; “There was no competition to talk about and the price sensitivity among customers was minimal – the companies were paying”. SAS became “the Businessman’s Airline” known for offering good service and high comfort to its passengers.[4] Looking at sources from the time of the change in marketing practice, quite another picture is created. Jan Carlzon, the SAS president that has become known as the person who incorporated the businessman thinking into the organisation, describes the company in the early 1980s as a company in crisis that needed to change their focus from a technology drive to customer driven organisation. By focusing on a certain customer segment SAS would, according to Carlzon, be able to invest itself out of the crisis.

During the following years SAS was rearranged into a much more decentralised organisation with one commercial division with strong links to “the market” and several other divisions from which the commercial division would “buy services” on behalf of the customers. The customer in focus “The Businessman” was described s a full-paying, frequent, Scandinavian businessman, and much effort was direct at creating and communicating SAS´s product offer to this customer group. It was, for example, assumed that this type of customers value other services besides transportation from one location to another, such as good and customer specific services of various types. SAS tried also to “move forward in the value chain” investing in ground transportation, hotels, restaurants, booking- and financial units. To visualise the offer, a special business class (in Europe called EuroClass and on intercontinental flights First Business Class) was introduced instead of the old first class concept that was now abandoned. Business travellers were separated from travellers in tourist class through separate check-in desks, lounges on the air ports, more space in the air cabin as well as better food free of charge. In SAS annual report of 1999 some reasons for the businessman’s focus is given. It is states that Scandinavia consists of large countries in terms of area, but with difficult topography and low population density. The need for air transportations result mostly from what is described as “the unique concentration of strong export companies”.

Looking at the market rules in the businessman’s airline era they were the same as in the technological era, i.e. based on governmental and IATA regulations. Here we find a significant change in marketing practice at SAS. They separated their product from the other “flagship carriers” according to service level and also according to customer segmentation. They had found that the pooling arrangements were based on capacity and not on profit. SAS was able to build a profitable exchange practice around the flight product with business launches and better in-flight products (food, beverages, chairs etc. during flight). The focus was no longer just on the air transportation but on the whole travel concept including hotels and ground transportation. This was, according to SAS, “the way of the future” at the time.

One difference from the earlier technological era was SAS interest in their end-consumers, or at least in certain end-consumers. SAS state in the annual report of 1985 an urge to get a direct connection with their customers and that their hope is to utilize new technological developments. They declare that SAS possibilities to gain market access and efficiently communicate with their customers are already crucial but their vision is that in a near future with greater international competition information and reservation system will be “the” competitive power. The aim of the SAS Group’s distribution system was to freely expose all their products in one system where SAS position could not be restricted. In the US, American Airline had developed such a computerised booking system called SABRE which had all these features and SAS vision was to create a similar system for Scandinavia

[4] Folder titled “Scandinavian Airlines Sverige, Bruksanvisning” from 2005. Authors´ translation from Swedish.

and Europe. SABRE was build around a mathematical logarithm that made the search result come up in a specific order with the system owners' flights on top (Holloway 1997). When a travel agent searched for information about flights to a specific destination the first information on the screen was from the systems owner and the agent had to scroll down the computer screen to see other airlines offers. The reason was profit. Travel agents had a clear tendency to book flights from the first screen, 92 % of the bookings came from the first screen on the computer and 54 % the would be a booking of the top flight of the first screen (Button, 1991). It did not take long before these computer reservation systems begun to pay-off for the American Airlines (Shaw, 1999). SAS earlier internal reservation system was built on Unisys computers and when SAS found the cost of developing a European SABRE was too high they formed a group of other Unisys using airlines in Europe. In 1987, a project group consisting of four airlines (SAS, Lufthansa, Air France, and Iberia) was formed. However, it took two and a half years before the group outlined the computer specifications (Christensen, 2000, p. 236 ff). In 1992, the project came into operation under the name of AMADEUS. SAS had, however, left the project one year earlier, in 1991, stating that owning a computerized booking system was not their core activity and that it had not created the competitive edge that they had hoped for due to two reasons. The first reason was financial; the Gulf Crisis had created high cost on fuel. The second was the European regulation stating that each airline should be displayed in the booking system based on the same conditions, this so because the mathematical logarithms that the system was built around prevented competition in the market. (Shaw 1999). Despite the decline in SAS´s interest in ownership of AMADEUS, the systems still found a way to make an earning and to increase their powerful position in the booking network. The result was taking fees from airlines, not travel agencies, to make a reservation in their system (Rosén 2004).

Businessman's Airline in the deregulated market

In "The President's comments" in the SAS annual report of 2000, which was written in March of 2001, CEO Jan Stenberg stated that "In many respects 2000 was a good year for the European airline industry". His only "setback" was SAS´s change of catering supplier which he stated "unfortunately affected our customers." Later in his comments he once more move towards these problematic food times but state that "At the time of writing, however, there are many signs that these difficulties are under control and that SAS can once again deliver first-class service on board" (Annual report 2000 p3). Less then a year later, Jorgen Lindegaard, the new SAS CEO, opened his first "President's comments" in the Annual report of 2001 with stating that "2001 was a disastrous year for the airline business." Just a few months after Stenberg's food supplier problem, SAS delivered the worst result in the company's history, an astonishing minus of 1.8 billion SEK (roughly 180 million Euros). Another way of looking at the problem is to say that SAS lost roughly half a million Euros everyday, for the whole of 2001. It has to be said that SAS was not the only airline that had hard times during 2001. Lindegaard states that "The full extent of the 2001 collapse in the airline industry is difficult to visualize" (Annual report 2001 p39). SAS have a way, in the annual reports, to analyse the state of the airline business by telling the readers of how many airplanes there is in the "airplane churchyard" in a California desert. The number for 2001 rose by a thousand compared to 2000, from 1 100 to 2 100 airplanes. More specifically, 22 SAS airplanes were either put on the "churchyard" or sold in 2001, which corresponds to a capacity reduction of 18 %. At the same time almost 3 500 SAS employees become redundant. In less then a year the market conditions for airline travel had changed fast and fundamentally for the worst, at least for the "flag carriers".

There were at least four different causes to these fundamentally changed market conditions in 2001 as described by SAS. The first cause mentioned is the terrorist attacks on September 11, when two airplanes crashed into the twin-towers in New York. The American – Scandinavian air traffic was, and still is, SAS most important intercontinental routs. The first week after the attack, air traffic over the North Atlantic fell by 56 %. SAS have two peak periods during a physical year. The first is between April to June and the second is from the end of August until October, with September 11 being right on the spot for the second peak. In SAS own numbers a one percent decline equals a loss in earning of MSEK 225 (22.5 Million Euros) (Annual report p38). SAS changed their intercontinental focus during the last months of 2001 and aimed towards the Asian markets which soothed some, even though the annual decline become nine percent. The effects of the terror attack was not only on the intercontinental markets, in SAS annual report of 2001 they describe the situation as even in Europe air traffic declined with 17, 6 % for the period between September 11 and December 31.

Besides the terrorist attacks, the economy was not at its best in 2001. There had been signs of an economic downturn in early spring, and during the summer and autumn the economic recession intensified. The connection between GDP and air traffic is described in SAS annual report of 2003. Here SAS states that “higher economic activity means increased travel”, which might not come as a surprise. However, the connection is taken even further when it is claimed that “based on the rate of the last 30 years, traffic growth is deemed to have a multiplier of 2.5 times GDP” (Annual report 2003 p26).

As if these problems were not enough, on the October 8 of 2001, just a few weeks after the terror attacks, a SAS plane crashed with a small Cessna airplane on the Milan Lineate Airport with the disastrous effect of taking 118 passengers lives. Things were not good for SAS during 2001. Another disastrous “event”, as Lindgaard refers to it in the annual report of 2001, were the unlawful division of the market between the SAS Group and Maersk Air. The EU commission imposed heavy fines on both firms. SAS dismissal the person arranging the illegal market division and the whole SAS’s board decided to resign. It is not hard to understand that in the annual report of 2001 SAS stats that their main strategic focus is to pull the SAS Group through the present deep crisis. The tragic Milan accident and the illegal division of the market between SAS and Maersk have in common that they decrease consumers trust in the SAS. SAS defines customers trust and loyalty in the company in a Customer Satisfaction Index, CSI. In 2000 SAS had calculated with an index for 2001 of 75, on a 100 scale, but only reached 70. In the Annual report of 2001 their answer to the diminishing numbers is that “it’s becoming increasingly hard to meet customers’ expectations, which is a general trend in the airline industry”. Then they become a bit more specific when they notice that “one important explanation for this negative development of customer satisfaction is the low image score”. In an earlier annual report (1995) SAS defines image as the consumers loyalty and repurchase. In the annual report of 1997 SAS stats that “the importance of customer loyalty for an airline can hardly be overestimated”. SAS did at the time they calculated the impact of a loyal consumer on the business traveller rather than on an average customer. The numbers they come up with is that an “average business traveller in Scandinavia travels for MSEK 4-5 during his or her working life” (36), which makes the individual traveller an important business for SAS. (SAS Annual reports 1995, 2000 and 2001)

A final reason why SAS was facing difficult times in 2001 was the deregulation of the European air traffic market that had begun already in the 1990s. The start of the deregulation of the European market was a 1984 memorandum from the European Commission that proposed an abolishing of these pooling arrangements, price fixing and government subsidies. With the free movement of money, people, products and services within the union as one of the main cornerstones in EU, the almost cartel situation in the airline business was not acceptable. The opening of the European sky appeared in small steps, or packages. The date that is usually described as the liberalisation day of the European sky is the first of January 1993, when the third package gain legal force. It contained three inter-linked deregulations which altogether created an “open sky” in the European Union. First was the open market access. This meant that airlines from one of the unions’ states could operate freely with full traffic rights on all routes between member states, including EES (Norway and Island) members. SAS was, for example, allowed to fly between Paris and Milan, which had been impossible before the regulation when one of the end-points on the flight route had to be a Scandinavian city. A second part of the first agreement was that the airlines had no capacity restrictions, even on the routs outside their own country (EU Regulation 2408/92). Here EU said that if any European government would enforce any restriction to that rule it had to be “justified”, and governments could only get justifications regarding environmental issues, infrastructure capacity, and regional development.

The deregulation was something that SAS had some issues with in every annual report between 1993 and year 2000, i.e. for several years before the airline industry crash in 2001. The reason was the European governments’ reluctance to build bigger airports. SAS said that it takes at least 10 years to build an additional runway and very few airports had even started prospects. SAS argument was obvious, because if an airport has run out of slots, that’s the airline word for the time you as an airline has on the runway, the airport is fully booked. In the airline market there exists something called “grandfather rights”, the airline that had the slot-time last year have the right to have the same time next year. This makes it hard for new, or old, airlines to even get hold of any slot times in the more popular airports. One of the major reason why the airports were to small, is that all the major airports in Europe were build during the regulated times and all the major airports in Europe were owned by their government. There were no incentives in a regulated time to over dimension an airport since the government knew both present and future quantity of traffic on that specific airport because on the all bilateral agreements that the government had worked out. This meant that most of these governmental airports were under-dimensioned in a deregulated market.

The last stage of the first rule “open market access” came after four years in 1997. The difference between the new rule and the rule from 1993 were that all European airlines, and the EES countries, were now allowed to operate on domestic routes. SAS was, for example, give permission to operate routs between Milan and Rom. The second deregulation that created the “open sky” over European was the abandon of any price controls. From now on all airlines in Europe had the complete freedom to set their price on any fare. In the EU regulation 2409/92 there is some limited safeguards to prevent “predatory and excessive pricing”. But to our knowledge these limiting of the rules have never been used. This rule makes it impossible to use IATA’s price fixing conventions, at least on European soil. The third deregulation in the package was regarding operation licences and certifications by EU member states (EU Regulation 2707/92). As for SAS, and any other airline in Europe, there were two very important rules in this part of the package. First, for now on there is no distinction between scheduled and charter services. Before the deregulation these two services lived under different regulations. The second and most important rule was that a European airline must be majority owned and controlled by a member state or their nationals, or companies, but not necessarily national or companies of the state in which the airline is registered.

Preparing for the deregulated market

In the annual report of 1992, just one year before the deregulation, SAS vision was “to be one of five in -95” (92). This slogan seems a bit odd, but at the time SAS were confident that only five airlines were capable of surviving in the deregulated market. Their strategy was to merge SAS with one of the major players in the European market. This strategy did not work out and in annual report of 1996, SAS states that “all of the some twenty major airlines operating in 1985 are still going in 1996”. There were three reasons for the non-consolidation of the air travel market, according to SAS. First the EU commission’s restrictive attitude to mergers and acquisitions which they think will reduce competition. Secondly, or an effect of the first, is state subsidies approved by the EU Commission. In SAS annual report of 1996 they calculate that during 1996, six European airlines had been given 50 MSEK (5 million Euros) per day by the Commission. The third reason why there were no major mergers or acquisitions in the open European sky were connected with the international or global market. Outside Europe bilateral air traffic agreement with national clauses form the basis of international air traffic. In the annual report of 2000 SAS stated that “in the airline industry today there are more than 579 bilateral agreements involving more than 220 major airlines”. This makes mergers or acquisitions formally impossible. The reason is, as we said before, the Swedish government had to make an agreement with the government in the other country and all these agreement includes “nationality clauses”. In other words the airline had to be majority owned and controlled by that specific state. As an example, as SAS is a Scandinavian airline they can fly to South Africa from Scandinavia but not from, for instance, Italy. But, at the same time as it is almost impossible to merge or acquire another airline the rules said nothing about alliances and joint ventures. It has to be said; mergers and acquisitions are allowed, according to SAS annual report if they do not create a “dominant position”. (SAS Annual report, 1996; SAS Annual report 2000)

SAS strategy in 1992 of becoming “1 of 5 in 95” was obviously not working, as we said above. But the strategy had sowed a seed of cooperation with “one of the major players”. In May 1995 SAS formed a strategic cooperation with Lufthansa, the second largest airline in Europe at that time. The cooperation with Lufthansa includes a totally integrated joint venture between Scandinavia and Germany. The two airlines operate under “code-shares” (SAS carries out flight for Lufthansa and vice versa).[5] The two airlines also cooperated on the ground, with SAS taking over Lufthansa’s crew in Scandinavia and Lufthansa has taking over SAS ground crew in Germany. In June the same year, SAS and Thai Airways International announced their cooperation. Interesting to note in the cooperation between SAS and THAI, is that it is a renewal of an older collaboration. SAS were one of the founding fathers of THAI in 1958 and owning partner until 1977. The two cooperations described were the beginning of Star alliance, even though the official start of the alliance was in May 1997. The airlines included at the

[5] The difference between a code-share and, as in the regulated times, pooling agreement is hard to understand. We cannot find any facts that there is any difference.

time were SAS (Scandinavia), Lufthansa (Germany), United Airlines (US), Air Canada (Canada) and Thai Airways International (Thailand). (SAS Annual report, 1992; SAS Annual report, 1996)

When we said before that the deregulation of the European air traffic market were the forth reason why SAS had hard times during 2001, we could have been more specific. There was not so much the deregulation per se but the SAS marketing practice in these changed market conditions. SAS noticed for the first time in the annual report of 1996 a falling demand for their precious business segment (p54). This has been a continued notice in every annual report ever since, often combined with the words "continued downward pressure on yield" (p37). Yield is the airline word for average traffic revenue per passenger kilometres. A full airplane with low paying customers lowers the yield compared to a full airplane with high paying customers. At the same time an almost empty airplane with high paying customers is no good business either. This type of calculation is something every airline does and the question is how SAS can maximise the number of people in the cabin to what price. From 1998 SAS found out that more and more business travellers did not pay the extra fees for the business tickets. Instead they started fly with other companies and/or buy cheaper tickets. In the 1998 annual report SAS categorises the new market conditions into three labels. First the "flag carriers", the old governmental owned airlines, secondly the "Low-fare airlines", such as Ryanair, and thirdly the "extreme niche airlines", airlines that only/often operate one or two domestic routs (23).

As we said above, SAS were a "flagship carrier" embedded in an international context, hosted by IATA. Where forced cooperation between airlines from different countries made the air traffic market stabile. If SAS would change anything the other actor or actors had to agree to the change, the so called "double agreement regime". No competitors were allowed and the prices were fixed. After the deregulation of the European air traffic market in 1993 not much happened until 2001. Air traffic was almost the same as before the deregulation in this new, open European sky. "The deregulation is a total failure" as the minister of economics in Swedish said in an interview. (Göteborgs Posten, 2001-08-19). He's use of the word failure in this case meant the lack of competition. He wanted to see more competition as in the deregulated U.S. market. Interesting to note is that in the deregulated U.S. market 88 airlines started during the period of 1978 to 1989, 83 failed and called in for bankruptcy (Lawson, 2002). The airline that often symbolizes free air traffic, Southwest airlines, was founded in 1968 whereas the deregulation of the U.S. market was made in 1978 they were not a product of the free market. Talking about Southwest Airline the top managers of Ryanair went on a fieldtrip to visit Southwest Airlines in 1991 and in a Swedish article in 2003 the CEO of Ryanair, Michael O'Leary, commented the meeting: "That man is a genius", referring to Southwest Airlines founder Herbert D Kelleher.

The first thing Ryanair's CEO O'Leary did when he come back to Europe was to immediately copy the concept of Southwest Airlines in slightest detail. Ryanair become Europe's first no-frill airline with only point-to-point destinations. That sentence contains two of the major implications for a low-price airline. The first implication is "no-frill", which, in Ryanair case, means no service on the "in-flight product" or any or low ground-service. The "in-flight" service or product is the technical name for food, beverages, and newspapers etc, in other words the entire "extra" that appears in an airplane during a flight. The ground service includes check-ins and baggage handling. Ryanair have, for example, no seat allocation, no refunds or re-bookings and actively forces their customers to book their ticket on Internet. The food or no food in a flight appears to only influence the end-consumer slightly whereas the main savings are on the airline turnaround time. If, as for Ryanair, no food is served during the flight they can have a turnaround time of 25 minutes, the fastest in airline business. This means large savings, or as Ryanair´s manager on the Nordic markets, Lotta Lindquist, explains; "There is nothing as expensive as an airplane on the ground." The second part of the no-frill or low-price concept is the point-to-point travelling. Ryanair only operates between two destinations with no stopovers. Another thing O'Leary learned from Southwest Airline was to fly from secondary airports. Ryanair had already done so from the very beginning out of necessity, but now it become a strategy. As we said before the main airports in Europe used the "grandfather rights" which meant that additional airlines had problems to gain access. The main airports found out that they could charge a higher price of their product "slot", depending on supply and demand, then the secondary airports. This was also something Ryanair used to cut their slot prices at the traditional airports. Ryanair took inspiration from Southwest airline in the U.S. and even thou the founder of Southwest airline said that Ryanair was a carbon copy of his airline, there were fundamental differences. Southwest airline started as a way to connect cities in the state of Texas, as an alternative to drive car, then slowly expanded into other domestic "short haul" routs in America. In Europe, most countries have different types of fast trains, connecting bigger cities. It is no accident Ryanair started connecting two capitals in Europe that could not be reached by train, London and Dublin. Ryanair was the first low-price actor who started routs in Scandinavia, between London and Stockholm in 1997, also two cities with no train connection.

To serve Europe with air travel

> *"The changes have been implemented in stages. Immediately after September 2001, the first capacity reduction was carried out, and the first action program initiated. In, 2002, when changes in customer travel patterns, primarily among business travellers, had a negative impact on the Group, we continued to adjust and transform the Group's business model. During the second half of 2002, traffic fell further, and overcapacity in the market arose. The need for additional and more sweeping measures became clear at the beginning of 2003. The SARS epidemic and Iraq War put further pressure on the airline, while soaring fuel prices increase costs and negatively impacted the industry. 2004 was the year we experienced considerable overcapacity, as a number of new players entered the market. In 2005 the Group implemented new business models and marketing activities, while Turnaround 2005 was concluded as plan".*

President Comments, SAS Annual report, 2005

As is described by SAS´s CEO Jorgen Lindegaard in the annual report from 2005, SAS did change after the crisis in 2001. Some of the market factors that affected the market practice at SAS had their origin rather far from SAS regular business. As a response to some of these changes during the first years of the twenty-first century SAS adjusted their market definition. In the early technological era SAS defined their market as international flights between Scandinavia and U.S. or between Scandinavia and South America. Later, in the 1980s SAS market focus was on the "capital triangle" (Copenhagen – Stockholm – Oslo). In the annual report of 2005, SAS divided their market into three different categories depending on rout length; Intra-Scandinavian, European or International routs. In the same annual report they state that their home-base, intra-Scandinavia, is no longer just the Scandinavian countries but the Baltic Sea region which incorporates Scandinavia, Finland, western Russia, the Baltic States, Poland and northern Germany as well. SAS has a calculation of approximately 50-60 million possible passengers' living in this area. Today, 24 million passengers travel with the SAS Corporation in approximately 200 aircrafts that travel to 100 destinations.[6] The new definition of SAS home market was impossible before the deregulation. At that time, as we have said before, every airline had to have one of the two end-point of their flight in their domestic country. Now in the "open sky" over Europe a re-definition of the home market is possible and something that SAS has done. (SAS Annual report, 2005)

After EU's deregulation of the European air traffic market, airlines were not approved to have bilateral agreements, inter-airline pooling agreements or agreements to approve tariffs fixed by IATA. Interesting to note is that SAS lived under the deregulated regime in more than ten years before they even started to act differently regarding fare structure. Before the deregulation an empty chair in an airplane did not matter much since the capacity and price was already set by IATA and the governments in the two designated countries. After the deregulation every airline could adapt to existing conditions on European routs, but regulations regarding prices were still active. Jesper Söderström, Director Product Division Amadeus[7] Scandinavia explains that the system contained 25 different rules and one of the more famous was the Saturday night sleepover. That specific rule were built into the system because of business travellers travelled during the weeks and a way to gain demand on the weekends were to setup a rule that said that the tickets become discounted if one stayed until Sunday. All these rules made ticket pricing complicated. If an airline lowers the price of a ticket the system of rules could even make the end price to a customer higher, according to Söderström. It was not until September 2005 that IATA associated airlines could let all these 25 rules go (SAS annual report 2005 p11). In Europe today, every air traffic company can sell their tickets with

[6] Air travel is the core activity in SAS but in 2004 only 52% of the yearly turnover were connected with the airline. This figure is something that will be higher in the near future because of a focus on the core activities according to Johansson (Head of Marketing).
[7] Amadeus as a company owns Europe's most used GDS (Global Distribution System).

out advance purchase or minimum stay. These 25 rules only apply for IATA connected airlines, i.e. airlines with routs outside Europe. If, like Ryanair, an airline only had routs inside the European Union after the deregulation the rules did not apply. After September 2005, the ticket price at SAS always depends on demand and supply, i.e. when the demand is high the price is high until they have covered the costs for the flight. The price of a chair at a flight is thus never fixed but changes by the minute based on attempts to keep the yield as high as possible.

Ryanair and other low-price actors not only sell their tickets "by the minute" they also use a point-to-point structure. Point-to-point was introduced in the 1960s by traditional European charter traffic; the only difference was that charter included more then just the air trip. Packaged leisure travelling, or charter, especially from northern Europe to the Mediterranean coast, has been a form of low-price product ever since. According to SAS annual report of 1985 there was some rules that had to be followed; firstly, only traffic from secondary airports and secondly a maximum of 70 seats in each aircraft. The low-price carriers' point-to-point structure came out of two reasons; firstly, because the low-cost carriers did not have as many destinations as the flagship carriers, and, secondly, at least in Ryanair's case, they wanted to follow the Southwest airlines concept. Tickets are sold as one-way fares in the point-to-point structure with no round-trips. Traditionally all SAS tickets were sold on roundtrip basis, which included at least two trips, often more, in one ticket. Before the deregulation every airline had to have one of the end-points in their flight route in their home country. After the deregulation this was not the case and an SAS airplane could fly between Stockholm and Milan and then go direct to Paris. Before the deregulation the same trip was Stockholm to Copenhagen then Copenhagen to Milan then back to Copenhagen then to Paris. Out of this structure we can see that SAS used Copenhagen as a hub and all the other destinations were spokes. The hub-and-spoke structure grew out of necessity according to the regulations. In the hub-and-spoke network structure the roundtrip become four trips, and basically SAS sold four tickets to the price of one. After the deregulation the stop in Copenhagen was unnecessary since all European airlines were allowed to fly freely between countries. SAS did, however, continue to use Kastrup as a hub until 2005. In the hub-and-spoke structure the problem was not only selling four tickets of the price of one there were also the problem with utilization of aircrafts. When aircrafts operates in a point-to-point setting they can have more hours in the air per day. Ryanair had their airplanes in the air for over 9 hours during a day whereas SAS only had them in the air for six and a half hours. As Lotta Lindquist Ryanairs Nordic manager said "an airline does not make money on the ground". (SAS Annual, 1985; SAS Annual 2003; Interview, Lindquist)

From SAS perspective there were two reasons why they had to change into a point-to-point structure. First to gain better utilization of the aircrafts and secondly that the price sensitivity among customers had increased ever since SAS first noticed it in the annual report of 1997. After the crash in 2001 the boost had been remarkably, and the customers that focus only on price were now perceived by SAS as "way too many for us to be without."[8] Therefore SAS had to look into the low-price segment in order to discover if customers could be won back. In the annual report of 2002, SAS describes their new leisure travel concept called "Scandinavian Light" which they said would be realised in March of 2003. SAS stated that "by trying new customer concepts and more simple forms of production within the parameters of the SAS brand, Scandinavian Airlines intends to meet the needs of a growing marketing segment". The growing market segment mentioned was traditional leisure travellers with the need of a business traveller. It is in this segment Ryanair and other low-price actors in Europe aims. The more simple form of travel SAS talked about in the annual report of 2002, at the time Scandinavian light" was later renamed and became Snowflake and were operating as a low-price concept. Snowflake becomes a new company in the bigger SAS Group focusing on low-price, one-way routs between Scandinavia and the Mediterranean coast, mostly in Spain. The difference between Snowflake and the traditionally packaged leisure travelling product was that Snowflake only offered air transportation. Snowflake then spread their wings to other parts of the Mediterranean coast and to different cities in the mainland of Europe. After just one year Snowflake functioned as any low-price actor operating in Europe. The new SAS "concept", tried the best they could to copy Ryanair/Southwest airline. It was impossible in some fundamental aspects (see Sörhammar and Bengtson 2005) but they were the first airline in the SAS Group to operate in a point-to-point structure with one-way fares. One of the major differences was that they operated from primary airports. At the same time other "subsidiary-airlines" in the bigger SAS Group started one-way fair structure, e.g. Spanair and airBaltica in 2003, Blue1 in 2004. In 2004 SAS domestic flights in Norway and Sweden began one-way structure with a fixed price

[8] Folder titled "Scandinavian Airlines Sverige, Bruksanvisning" from 2005. Authors´ translation from Swedish.

class. In September of 2005, the model of one-way fare structure with one class with similarities of low-price actors was incorporated into the whole SAS Group.

Another aspect SAS copied from the low-price actors was to sell tickets directly on the Internet. SAS had an Internet homepage with booking possibilities in 1997, according to the annual report of 1997. At that time not many customers used Internet, and Internet was more considered, from SAS perspective, to be an interesting new technological invention. Today Ryanair sell over 95 % of their tickets directly on the Internet and the other five percent are sold through their own call centre (www.ryanair.com). SAS on the other hand sells almost 20 % of their tickets direct on their web-page or through their call centres (annual report 2005) and aims to make that number even higher. Given that information, 80 % of all SAS tickets are sold through travel agencies where SAS have to pay a fee. When Ryanair and other low-price airlines took-off in Europe they change the whole European air travel market into focus on costs. One of the costs low-price actors by-passed was to pay fees to AMADEUS and other computerized reservation systems (CRS) and to travel agencies. Instead they only sold their tickets directly on the Internet. SAS and other flagship carriers lost potential customers to these new cost focused carriers and that is one of the main reasons why SAS started Snowflake to "to check competition from rivals, such as Ryanair and Easyjet" (Aviation Daily, 21/3 2003). When the traditional flagship carriers tried to lower their ticket prices they found themselves with too high fixed costs. SAS started operation "Turnaround" in 2002 to cut costs after the devastating losses in 2001. Interesting to note is that the cost cutting at SAS took longer time then expected so in 2003 the word Turnaround become Turnaround2005.

During these years, until 2005, SAS cut internal external costs worth of SEK 14, 2 Billions. One of the external cost cuttings was aimed towards travel agencies and CRS systems. Instead of work with CRS systems such as AMADEUS and different travel agencies SAS tries to by-pass the system by forcing customers, by price, to use Internet. Their forcing methods or "transparency" as SAS calls it started on the 1st of October 2003 (SAS annual report 2003). Lennart Johansson Marketing Manager at SAS Sweden states that the idea behind the transparency was to "let our customers know what they pay for". Therefore, he continues, "We took away all provisions and lowered the prices with the same amount". The price of a SAS ticket is now depending on which channel the customers choose to utilise because every channel cover their own costs. After that, Johansson continues "all the other actors can put their service charge, what they would like to have in sales margin, on top of our net price". The booking channels are from a customer perspective disparate. From a SAS perspective, however, they are all connected to the same internal booking system RESAID (Reservation Inventory Documentation). Johansson continues, "There is no person involved from our side in a booking, only if a customer need some web support, otherwise everything is done by somebody else". This "somebody else" can either be an end-consumer or travel agent.

After the introduction of one-way structure in the whole SAS Group and actively forcing their customers to use Internet, SAS divided their routs into three different categories depending on length; Intra-Scandinavian, European or International routs. The intra-Scandinavian routs then become divided into three different products Fix, Flex or Full Flex ticket. On the European routs the products are called Economy, Economy Flex or a Business ticket. In the third category, International flights, the products are named Economy or Business class. First thing to notice is that SAS no longer talk about "Businessman's Airline" as in the 1980s; instead their focus is on "flexibility". This might be considered a small change. Looking at SAS´s offer we once more see that the business concept far from dead. In their annual report of 2002 SAS said that they have a strong position in the traditional business segment. When they refer to the business travellers needs they come up with three "hard" ingredients that have to be filled - choice of destination, frequencies and non-stop flights - and two more soft components; able to make last-minute decisions with great flexibility and a high level of service. In that annual report they have a hypothesis that if SAS can fill these criteria the business traveller is willing to pay a premium. The hard ingredient non-stop flight is just another word for point-to-point travel which SAS introduced in September 2005. When SAS differentiate their basic product they use the soft components of the businessman's needs and incorporate the price sensitive end-consumer into one united business travel product. (SAS Annual report, 2005)

When comparing the International business product with the businessman's ticket during the 1980s the concept is still alive mostly because of the bilateral laws with double agreement regime still exists outside Europe. When we looked at the difference between the intra- Scandinavian and the European products not much differ except the name and length of the routs. Ticket rules and "in-flight" product is the same. Full Flex and the European Business ticket have some striking similarities with the businessman's concept during the 1980s, business lounges and in-flight products are still there, but with some differences. Instead of the 1980s concept of full service on a broad range to business travellers, i.e. the full business concept, focus is now on core activity, air traffic. Now SAS primary mission is to serve Europe with air travel, with flexibility as their guiding star. Today, the focus is more on the first "soft component" able to make last-minute decisions with great flexibility then the second "high level of service". On the other side of the product scale, the "fix" product on the intra-Scandinavian routs and the "economy" product on the European routs, have some striking similarities with the low-price actors products and automatically of SAS own low-price concept Snowflake. Here we find tickets with no refund no flexibility that can only be bought on the Internet. Lennart Johansson, the former Marketing Manager at SAS Sweden said in 2004 that "Snowflake is just an experiment in the bigger SAS Group". Today the experiment is renamed, repackaged and incorporated into the bigger SAS Group as one product among the other.

During the years between 2003 and 2005 SAS had two traffic systems working at the same time in Europe, both hub-and-spoke and point-to-point. When SAS introduced point-to-point traffic in Europe with tickets based on one-way trips, their traditional hub-and-spoke traffic system model did not work. To change the whole SAS into point-to-point structure they had to change more then just the traffic system. SAS soon understood that to change the whole traffic system they needed to change their organisational structure as well. On October the first 2004 the SAS consortium formed four independent subsidiaries to serve the Scandinavian countries: Scandinavian Airlines Danmark A/S, SAS Braathens A/S in Norway[9] and SAS Scandinavian Airlines Sverige AB and a forth unit called SAS international. All other activities, such as ground services, were organised in different subsidiaries. The "SAS Group" Lindegaard referred to in his President's comments 2005 included not only the four SAS but also airlines owned by SAS, mostly in the Baltic Sea area, such as Estonian Air and airBaltic, but also in Spain, Spanair. The new SAS structure is not to, as before, incorporate all actors into one united SAS but instead divide SAS into a "brand portfolio" Some regulations based on the old rules do, however, remain; SAS can only fly to, for example, South Africa from Scandinavia but as long as the airlines stay in Europe that is not a problem and that is the reason why SAS has one subsidiary called SAS International. To separate SAS into four different firms, Sweden, Norway, Denmark and International, is not something new since they all were separate in the beginning. The only reason why SAS started back in 1946 was to have a direct traffic rout between New York and Stockholm with all other activities separated in the different countries. (SAS Annual report, 2005)

Discussion

The focus of this paper has been SAS´s business model of 2005, which was presented at the beginning of the paper. We stated early that we wanted to study the creation of the business model as a result of past and present business practice, as well as a result of a certain market structure (and of perceptions of the market). Market practice was defined as all activities that contribute in shaping markets. Several such activities in the European air traffic market have been described, even though the focus on one airline, SAS, dominated the description. Market practice was further divided into three types of practises; exchange practice, normative practice and representational practice. In the SAS case it has been illustrated that all three practices have been active in creating the "new" business model.

During the regulated years IATA shaped the normative landscape for SAS and other airlines. An important change in the development process that has been described was the de(re)regulation of the European air traffic market, in 1993, which can be described as a strong attempt to re-shape the European air traffic in a certain direction. The initial effects of the deregulation were not as strong as expected by governments and airlines, as stated by the Swedish minister of economics. The case shows however that the re-regulation had effect on several practises. Earlier normative practises constructed by IATA still have effects outside Europe and in an indirect way still affect the open European sky. SAS have the rights to fly wherever they want inside the Union but they can only fly to a country outside the Union, such as South Africa, from Scandinavia. The reason is that SAS is a Scandinavian owned airline. Another normative practice is the "grandfather right" where the airline owning a slot time one year automatically has the priority right next year. This, in combination with

[9] The reason why the name differ in Norway is of a 2001 acquire of the Norwegian company Braathens.

limited slots at an airport, creates physical restriction in the market and restrictions for exchange practices for the airlines.

One of the new possibilities created by the re-regulation of the open sky was that airlines from any of the Unions states could, with the physical restriction given above, operate freely with full traffic rights on all routes between member states, including EES countries. SAS used this right to change their representational practice by reformulate their home market to include the whole Baltic Sea region. SAS's and other airlines' business practices were of cause also influenced and changed by the shift in normative and representational practices. The disasters in 2001 created a decrease in demand for businessman's airline which leads to new emphasis on costs.

When Ryanair visited Southwest Airline in 1991 and took their exchange practice and translated into a European setting a new low price era started in Europe. They were not the first low-price actor in Europe since charter had used slightly the same practice since the 1960s, but they were the first to use the new representational practices created by the deregulation in their exchange practice. This time of transition made SAS insecure of their practices. A response to this insecurity was the establishment of their low-price subsidiary Snowflake. These practices spread in the organisation to other subsidiaries such as Spanair and Blue1 until 2005 when it was adopted into the new SAS business model. The changes also made it natural for SAS to go back to their initial organisational structure with three separated business units located in Sweden, Norway and Denmark. SAS translation of the new low-price practices not only changed their organisational structure it also changed their exchange practice towards customers. With a new cost focus SAS tries to by-pass the traditional booking structure, travel agencies and computerized booking systems such as Amadeus, by utilizing Internet. Interesting to note is that after almost 50 years of trying to keep the customers distanced from SAS they tries to bring them back, but with one difference, now the customer has to do all work.

Looking at the new SAS business model from 2005 we see that three categories; commercial concept, network/traffic systems and cost adjustments, nicely summarises the changes brought about by the translations and changes in practices described above. Under the heading commercial concepts the SAS group describes the changes in their product, which has been brought about through changed normative practices and the new low-cost focus introduced by Ryanair. SAS's exchange practices in many years been directed towards businessmen and high services, in-flight products. This makes it difficult for them to abandon the skills and physical resource developed during these years. A middle course with product differentiation seems to be a more reasonable way for SAS to handle the new normative practices. The second part of the new business model, network/traffic systems, describes the organisational changes made as a response to new market practises as described earlier. The final part of the new business model, cost adjustments, does not add much new but shed light on the fact that SAS has become a business unit on a free de-regulated market. SAS started as a consortium base on both governmental and business interest strongly supported by inter-governmental regulations. It seems at the time that the business interests have more normative power and influence. The last chapter in the SAS story is, however, still to be written.

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