



# A conceptual framework for measuring airline business model convergence

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## A B S T R A C T

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This paper develops a measurement framework that synthesizes the airline and strategy literature to identify relevant dimensions and elements of airline business models. The applicability of this framework for describing airline strategies and structures and, based on this conceptualization, for assessing the potential convergence of airline business models over time is then illustrated using a small sample of five German passenger airlines. For this sample, the perception of a rapprochement of business models can be supported. This paper extends the mostly qualitative and anecdotal literature on convergence in the airline industry and provides a platform for further empirical convergence studies.

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## 1. Introduction

In the field of strategic management, the predominant paradigm of a sustainable competitive advantage is based on the notion that efficient and effective leveraging of idiosyncratic resources and capabilities results in superior firm performance (Grant, 2010). This notion does not preclude the existence of similarities, but it does imply that firms at least need some unique resources and capabilities in order to perform better than their competitors. Empirical studies support this view and even indicate that business strategies that evenly converge toward the mainstream middle tend to show lower performance than “pure” strategic orientations (Thornhill and White, 2007). Seemingly oblivious to these findings, a trend of convergence of strategies and structures (“business models”) can be observed in the airline industry (e.g., Bell and Lindenau, 2009). Airlines such as easyJet and Air Berlin, which were initially based on rigorous low-cost practices (such as avoiding major airports or offering only point-to-point networks), evolved toward so-called hybrid business models by implementing practices that had previously only been implemented by established full-service carriers (Dunn and Dunning-Mitchell, 2011).

However, convergence also has positive effects if it reflects the diffusion of efficient processes and practices among firms. Such a process of standardization and homogenization based on diffusion of knowledge is a fundamental part of the competitive process (Lieberman and Asaba, 2006) and, in particular, is well

known from mature industries (Grant, 2010). However, especially in mature industries that provide widely homogenous products, as in the passenger airline industry (Tarry, 2010), incumbents are almost desperate in their attempts to aim at differentiation options and have to balance intentional and reasonable imitation to maintain competitive parity.

Hence, business model configurations and, in particular, their similarities seem to matter significantly. Given this importance and the stipulated effect of such configurations on performance, the issue of business model similarity warrants analysis, especially in the highly competitive and notoriously unprofitable airline industry. However, a comparison of airline business models requires that they are coherently assessed. Although the need for a comprehensive framework to precisely describe and quantify airline business models has been recognized (Mason and Morrison, 2008), it remains unmet. Extant scientific work on the components of airline business models is mostly based on anecdotal accounts rather than being rooted in coherent empirical studies. Additionally, a systematic assessment of the evolution of airline business models (whether converging or diverging) has yet to be subject to scientific inquiry.

Therefore, the aim of this paper is to propose a systematic and methodically founded approach to the diagnosis of business model convergence. This study develops a measurement framework that synthesizes airline and strategy studies and identifies relevant dimensions and variables of airline business models. The framework is then exemplarily applied to an initial sample of five German passenger airlines to illustrate its value for empirically assessing the convergence among airlines over time. The paper ends with an outlook to further research.

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## 2. Business model concept

The business model (BM) concept is comparably new in the management area and was devised in the mid-1990s to offer investors a practically accessible, systemic approach to describe and assess a company at a given point in time (Morris et al., 2005; Shafer et al., 2005; zu Knyphausen-Aufsess and Zollenkop, 2007). Closely linked to the rise and fall of the new economy, researchers widely received the BM concept despite severe critique of its usefulness and demarcation from the original strategy term (Doganova and Eyquem-Renault, 2009; Porter, 2001). Still, an overall accepted definition of a BM and its defining components is lacking (Zott et al., 2011).

However, most of the extant approaches follow a similar logic of describing a company using a certain number of constitutional components and sub-dimensions – even though the choice of model layers, component number, and contents of these categories vary widely.

Considering the component layout, the proposed frameworks consist of between three and eight constituting components. Whereas some approaches are mostly similar in their structure and phrasing, others vary significantly. Nonetheless, the common theme of describing the architectural backbone (or value creation system) of the company is observable throughout most of the approaches. Table 1 gives an overview of selected conceptualizations of business models.

Given the aim to provide quick access to the value creation system of a given organization, eventual business model components need to be very general yet comprehensive, and able to grasp the specifics of a value generation process in highly diverse settings of different industries. Therefore, distinguishing a generic and an industry-specific scheme seems useful, where the latter is specified for a given industry context, for example, the airline industry. Such a conceptualization brings four model layers of the BM concept, three for systematically structuring the BM and one (the item layer) for actually measuring it (Fig. 1).

Arguably, the design of the BM component layout should be oriented toward the commonly used distinction of decision levels

of a company, namely the normative, tactical, and operative levels (e.g., Ulrich and Fluri, 1995). These decision levels cover each functional and organizational layer of a company and, thus, comprehensively constitute the firm's value creation system through its cross-sectional and multidimensional character. Similar foundational hierarchical schemes are common for conveying the central concepts in strategic management (see, for example, Grant, 2010).

For the operationalization of the components and their dimensions and elements, note that a business model can be actively designed: the parameter values of its components are subject to conscious managerial decisions. These parametric components are the bases of the business model framework. In contrast, measures to evaluate the efficiency of the components such as load factor, profitability, or punctuality, do not themselves constitute part of a BM scheme, even though they are often used as input factors in studies on airline business models. Rather, such measures are outcomes or performance indicators of distinct business model practices.

Additionally, this paper contends that the proposed BM framework is applicable primarily to the business unit level (in case of a multi-business firm) at which the actual value creation system of the company resides. Therefore, multi-business firms may operate several business models to allow, at the extreme, every business unit to follow quite different value creation logic (Seddon et al., 2004).

## 3. Framework for devising airline business models

This paper derives an airline-specific business model concept rooted in the scholarly literature and in airline practice as follows. Based on synthesizing the general strategic management literature with regard to current business model conceptualizations, the airline-specific scheme is developed by reviewing airline- and transport-related studies. To support the validity of the so-developed airline business model framework, nine semi-structured interviews of 1.5–2 h each were conducted with airline experts. Experts were selected from different companies in the airline industry to gain a broad view on the business model framework by considering not only the airline manager's inside perspective but also, for example, the outside perspective of airline consultants. Different airlines most likely to represent the observable spectrum of airline types were intentionally considered when selecting airline representatives (Table 2).<sup>1</sup>

At the beginning of the interviews, the interviewer(s) and the interviewee reviewed the general approach of describing airlines using an elaborate business model framework and discussed alternative approaches for measuring an airline's strategic and structural design. After establishing a common understanding of the approach, each of the originally proposed model components was sequentially discussed. Interviewers asked whether the interviewee agrees with the components and what might be potential alternatives or additionally needed components. In particular, requirements for a practical application of the model were considered. After the interview phase, the layout of the framework was carefully adjusted based on the results of the interviews.

As a result of the aforementioned approach, the final business model framework is based on three main components that fully describe an airline's value creation system: (1) *the corporate core logic* as the strategic level, (2) *the configuration of value chain*

<sup>1</sup> The focus on German airline experts may constitute a limitation of the transferability of the results. However, this limitation is suggested not to be major given the global nature of the airline industry and the necessary international mobility of airline experts (that is, the interview partners of this study).

**Table 1**  
Selected perspectives on business model components.

Author	Number of components	Main themes
Hamel, 2000	4	Customer interface, core strategy, strategic resources, value network
Alt and Zimmermann, 2001	6	Mission, structure, processes, revenues, legal issues, technology
Weill and Vitale, 2001	8	Strategic objectives, value proposition, revenue sources, success factors, channels, core competencies, customer segments, IT infrastructure
Magretta, 2002	3	Value proposition, customers, revenue sources
Bieger and Agosti, 2005	8	Growth concept, organizational formation, cooperation concept, competencies, coordination concept, communication concept, revenue concept, product/service concept
zu Knyphausen-Aufsess and Zollenkop, 2007	3	Product-market-combination, configuration of value chain, revenue generation mechanism
Richardson, 2008	3	Value proposition, value creation, value capture
Casadesus-Masanell and Ricart, 2010	3	Policy, governance, assets
Al-Debai and Avison, 2010	4	Value proposition, value architecture, value finance, value network

Source: adapted from Morris et al. (2005).

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