

## Case Study

# “Travelling ticketless with e-ticket”

Is the going so easy for Scandinavian Airlines?



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*“It is time to have a fresh look at the whole air transportation system. The network carriers’ can no longer afford to operate within the traditional framework of fragmented answers and isolated solutions. We can no longer simply explain the inefficiencies of a fragmented approach both in terms of policy costs and financial costs to our consumers and other stakeholders.”<sup>1</sup>*

*Leo M. van Wijk  
KLM President & CEO  
AEA Chairman 2002*

## **1. Airline Industry Overview**

Association of European Airlines (AEA) traces its history back to 1952, when the Presidents of Air France, KLM, Sabena and Swissair formed a joint study group, shortly afterwards expanded with the addition of BEA (a forerunner of British Airways) and SAS.

For most of AEA's history, membership was limited to IATA<sup>2</sup> member airlines. This rule was relaxed in 1981 to allow Luxair to complete the full set of EU flag-carriers. AEA has had in all 36 members: three (Balkan, Sabena, Swissair) have suffered corporate failures, two (BEA and BOAC) merged into British Airways and two (British Caledonian and UTA) were taken-over by BA and Air France respectively.

The European Air transport Industry comprises more than 130 Airlines, a network of over 450 airports and some 60 air navigation services providers. The demand for air travel in Europe increased three fold between 1980 and 2000, and is set to double by 2020. Over 1.6 million passengers worldwide use the world’s Airlines for business and leisure travel. Research indicates that by 2010, this number could exceed 2.3 billion.

Air transport forms a unique global network linking people, countries and cultures and plays a vital role in the future integration and development of Europe. It is increasingly accessible to a greater number of people who can now afford to travel by air for leisure and business purposes.

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<sup>1</sup> Association of European Airlines Annual Report 2002

<sup>2</sup> International Air Travel Association, founded in 1919, brings together approximately 280 airlines.

## **1.1 Aftermath of the September 11 episode**

The effects on the airline industry of the terrorist attacks in the USA on September 11, 2001 were immediate and devastating. For the Association of European Airlines (AEA), The North Atlantic route was contributing about USD 36 Million per day and accounting for more than 20% of total receipts<sup>3</sup>. This event also brought in its wake breaches of airport and on-board security in ways that existing systems had not been designed to cope with. Since this date, procedures in the USA, in Europe and worldwide have been reviewed and revised in ways both obvious and invisible to the passenger.

In adapting to these new requirements, the European airlines and their customers have been affected in a number of ways. To the customer, earlier check-in deadlines and lengthier security procedures have led to longer overall travel times. More time is spent at the airport means more congestion in the terminals. Intensified physical checks, additional random searches and lengthy screening interviews have all added an air of intrusiveness. Different national rules about what or may not be carried and different procedures for different destinations have also led to confusion. The main operational consequences of tighter security measures have been longer turnaround times, a higher incidence of delay and consequently the loss of some connecting possibilities due to the need to lengthen minimum transfer times.

The extraordinary events of September 11, occurring during the period of substantial depression in the AEA carriers market has led to the production of exceptionally poor results.

For the first time in the almost 50 years that AEA has been in existence, a European national airline has ceased operations. Not one, but three. In early 2001, Balkan Bulgaria Airlines stopped operating, after a troubled transition from state control to foreign ownership. Even more dramatic were the closures of Sabena in the late 2001 and Swissair in early 2002.

In broader terms, the deterioration in the general results of Airlines can be attributed almost exclusively to the decline in demand both before and especially after September 11. This is the quagmire SAS Group of Airlines finds itself in.

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<sup>3</sup> Association of European Airlines Annual Report 2002

## 2.0 The Scandinavian Airlines Group AB<sup>4</sup>

*“We are living in a time of great change and I know that there is a considerable strength in the SAS Group. The brand is still very strong, and our business is guided by such solid values as reliability and respect, with focus on the customer. But we have to work smarter and abandon old routines and ways of thinking. This is a daunting challenge and we know what is expected of us. I am convinced that the will and strength to make the necessary changes exist in the Group.”*

*Jorgen Lindegaard  
President and CEO of SAS Group in  
his Annual Report 2002*

### 2.1 Group Overview

Scandinavian Airlines System (SAS)<sup>5</sup>, formed in 1946, is a consortium of the three national airlines (SAS Danmark A/S, SAS Norge ASA, and SAS Sverige AB) that offers the Scandinavian market a broad and profitable range of airline services, particularly business travel. In 1946, Denmark, Norway and Sweden pooled their resources to form an airline that would be able to compete effectively with the private and national airlines of Europe and North America. This partnership of three countries coming together to carry one flag is in the ratio of Denmark 2/7, Norway 2/7 and Sweden 3/7. This Group is owned by 50 percent between private individuals and governments and it is listed on the three Scandinavian Stock exchanges.

In 2001, SAS Group flew more than 24 million passengers to 92 destinations in 31 countries. It has more than 343,400 flights each year. The number of transported passengers increased during the period January-December 2002 by 33.4% compared with 2001 from 24.9 million to 33.3 million and by 37.7% in the fourth quarter as a result of the acquisition of Braathens and Span air. With this 2002 figure, the SAS Group is currently the fourth largest airline group in Europe. The various airlines in the SAS Group are positioned in the market segmentation of the industry that has begun. Intercontinental traffic is handled by Scandinavian Airlines and it is on those routes that the number of passengers grew by 16% to 1.4 million.

The SAS Group AB is the Nordic region's largest airline and travel Group. The SAS Group offers air transport and related services from its base in Northern Europe. The group consists of the following and their respective areas of activities:

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<sup>4</sup> SAS Group is the parent company of SAS AB

<sup>5</sup> This is the formal company which grew up to become the SAS Group

- **Scandinavian Airlines** comprises passenger transport services including the production company SAS Commuter.
- **Subsidiary and Affiliate Airlines** comprise other Airlines within the Group. Braathens which is 100% owned, Spanair<sup>6</sup> which is 74% owned, Wideroe which is 99% owned and Air Bothnia which is 100% owned.

**Affiliated companies** include airBaltic, Skyways, Cimber Air, British Midland and Air Greenland.

- **Air Support Businesses.** The business areas include the business Units SAS World Sales, SAS Technical Services, Scandinavian Ground services and SAS Cargo Group.
- **Airline Related Businesses** include Scandinavian IT Group, SAS Trading, SAS Flight Academy, Jetpak, European Aeronautical Group, Rampsnake, SAS Media and Travel Link.
- In the **Hotels business Area**, Rezidor SAS Hospitality (REZAS) conducts the SAS Group's hotel business. The company works with four brands, Radisson Hotels and Resorts, Country Inn and Park Inn.

The subsidiary and affiliated airlines in the SAS Group have come a long way in their effort to achieve greater cost efficiency but this work continues for them as well since the weak market and tough competition will require the efficiency enhancement of the companies to continue surviving.

The Group's operating revenue of the year 2002 amounted to SEK<sup>7</sup> 64,944 Million, an increase of 26.3% over the 2001 figure of SEK 51,433 Million. Out of this SAS AB contributed for SEK 37,163 Million which is 44% of the group total operating revenue for 2002.

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<sup>6</sup> Spanair has been accepted as the new member of the Star Alliance as at April 2003

<sup>7</sup> Swedish Krona (plural kronor) is denoted by the international currency symbol SEK

## **2.2 The SAS Group's business Concept, Mission, Vision and Objectives**

*"The SAS Group has a strong position in an important Northern European Airline market. To retain this position in today's and tomorrow's increasingly tough competitive situations, the Group must be able to offer air travel at significantly lower fares than the Group has been to do until now."*<sup>8</sup>

Jørgen Lindegaard  
President & CEO,  
SAS Group

### **Business Concept and Mission**

- The SAS Group's key task is to offer passenger air transportation.
- To strengthen the market value, the SAS Group will also engage in the airline related businesses.

### **Vision**

- Only invests in companies that are competitive and the customer's preferred choice.
- Develops employees, services and brands to the benefit of its customers.
- Shall be recognized as the most attractive investment among European Airline Groups.

### **Objectives**

- Achieve on average a CFROI<sup>9</sup> of at least 20%.
- Increase operating revenue by at least 2 % points per year more than the market for Association of European Airlines.

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<sup>8</sup> SAS Group Annual Report 2002

<sup>9</sup> Cash Flow Return On Investment Model is the key to gauging corporate performance and shareholder value

### 3. Scandinavian Airlines System AB<sup>10</sup>

*“Scandinavian Airlines’ personnel can stand tall and feel proud of their achievements. They are working for a very strong company, which I know from experience, shows its real strength when the going gets tough. The current situation is difficult; the market is declining and competition is intensifying, but we must adapt to the new conditions,”<sup>11</sup>*

*Sören Belin,  
Chief Operating Officer  
Scandinavian Airlines.*

#### 3.1 Company History

The parent companies of Scandinavian Airlines were established in 1918 in Denmark, 1924 in Sweden and 1927 in Norway but Scandinavian Airlines System was finally established in 1946. It was the first airline to introduce Caravelle jets into scheduled services from Copenhagen to Beirut in April 26, 1959. In 1965; SAS was the first airline to introduce European-wide electronic reservation system (SASCO) in February, 1965.

Due to dint of hard work, it was accorded the Europe’s most punctual Airline by Association of European Airlines in 1982 and also awarded the Airline of the Year Prize for 1983 by Air Transport World in New York. More so, SAS is one of the founding airlines of Star Alliance<sup>12</sup>, the first truly global airline network formed on May 14 1997.

Scandinavian Airlines AB (SAS AB), a vertical industry in transportation, is a member of the SAS Group conglomerate. In a study conducted from 1992 to 2001 by Merrill Lynch, a financial Analyst Group, they concluded that Scandinavian Airlines is the core airline in the conglomerate because its market is not fully deregulated, has strong market position and lack strong competition. Coupled with these, it has strong franchise, brand and concepts. SAS AB is the Nordic region’s largest listed airline and travel group. Scandinavian Airlines provides services within Scandinavia and to/from Europe, North America and Asia.

The number of destinations in 2002 was 86 of which 8 were intercontinental destinations. Intercontinental traffic grew rapidly in 2002 and the introduction of the Airbus on several long-hauls for example all routes to Asia and between Copenhagen and New York have been successful of late. However, European and Intra-Scandinavian traffics performed weakly as the recovery is considerably taking longer than expected and also the weak performance of the business travel market.

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<sup>10</sup> A member of the SAS Group

<sup>11</sup> SAS Group Annual Report 2002

<sup>12</sup> Star Alliance established in May 1997, is a global airline network of about 16 Airlines coming together.

Effective February 15, 2003, Sören Belin, was appointed to succeed Jørgen Lindegaard as Chief Operating Officer (COO) of Scandinavian Airlines. As leader of the Group's largest company, Sören Belin is also a member of SAS AB's Group Management. He joined SAS from the consulting firm Carta Booz Allen & Hamilton, where he was a partner and worked with the process of change within Scandinavian Airlines, among other projects. Prior to that, in 1990-95, Belin was employed by SAS within the company's station operations and between 1993-95, he was responsible for SAS station operation in Sweden.

Jørgen Lindegaard, President and Chief Executive Officer (CEO) of the SAS Group have this to say on Sören Belin's appointment; " *Following an extensive recruitment process, we have finally found the right person to shoulder the challenges faced by Scandinavian Airlines. Sören Belin has solid hands-on experience of our sector and is highly competent to lead the process of change that is of special significance to us at the present time.*" <sup>13</sup>

### **3.2 The Four Concepts of SAS**

Uncomplicated and flexible travel is the core of what Scandinavian Airlines offers to its customers and these are based on time, value for money, flexibility and frequency of flights. The four customer concepts which form the basis of this Airline's customer services are the following:

- **Short haul flights:** Efficient transportation in the home market.
- **Medium haul flights:** Efficient travel to and from European destination.
- **Long haul flights:** An intercontinental travel concept experience.
- **Scandinavian light:** Value-for-money travel concept offering simple solutions.

The concept is based on six components.

- **Scandinavian Airlines traffic system:** The best connections to and from destinations popular with Scandinavians.
- **Scandinavian Airlines price concept:** A clear price concept based on customer demanded and what customers are willing to pay for.
- **Scandinavian Airlines customers service:** We care about our customers and stay by our services, a concept embodied in living up to our brand
- **Scandinavian Airlines travel options:** Traveling with Scandinavian Airlines should be simple and quick
- **Scandinavian Airlines Travel Service:** An enjoyable and comfortable flight
- **Scandinavian Airlines Loyalty Concept:** Creating long-term customer relationship.

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<sup>13</sup> SAS Press Release February 02,2003

### **3.3 The Products**

Scandinavian Airlines have a number of different products online, some include the following:

- **EuroBonus:** This product is a bonus system for frequent flyers. SAS Euro Bonus' paramount strategy is to develop a long term and profitable relationship with travelers.
- **Travel Pass and Travel Pass Corporate:** Travel Pass is a prepaid product entitling the cardholder to travel between selected destinations or within specified zones. Travel Pass Corporate is a special product for companies in which all trips are charged after they have been completed. Travel Pass is available for domestic travel in Sweden, Norway, Denmark, on routes between the Nordic countries, to/from Scandinavia, Finland and United Kingdom and to selected European destinations.
- **SAS Corporate Card** is a travel and payment concept for both the company and its travelers to be launched in Denmark, Finland, Norway and Sweden. SAS Corporate Card offers the company an administrative tool with a superior overview, control and statistics over all travel and entertainment expenses.
- **Pleasure Ticket:** Travelers can book this ticket on the internet. The price given is always the lowest available matching the criteria customer states.
- **SAS youth tickets** are valid for persons who have not yet reached their 26th birthday.

### **3.4 Payment for ticket**

With payment, customers can pay by card, via an Internet bank or by invoice. Different rules apply to different tickets.

Customers buying tickets via the Internet can choose between the following payment methods: Internet banks in Denmark: Nordea Solo; Internet banks in Finland: Nordea Solo; Internet banks in Sweden: Nordea Solo, SEB Privat, and SEB Corporate and Föreningssparbanken Card: Visa, MasterCard, Euro card, Dankort (in Denmark only), Diners or American Express.

### **3.5 Other value-added services**

Scandinavian Airlines has already developed several SMS (Short Message Service) For instance; all travelers can easily order information regarding arrival and departure times for the day's flights. Passengers using Travel Pass or Travel Pass Corporate can register once and then automatically receive SMS detailing arrival or departure times of booked flights.

According to Peter Söderlund, Director of Product Development on Ground at Scandinavian Airlines; *"Time is often scarce for travelers, as soon as we know that a bag is delayed, the customer can also receive this information."*

SAS also offer customers with a Personal Digital Assistant, the possibility to download a personal timetable. Customers can get their own tailor-made timetable from their PDAs.

Peter Söderlund has further promised that *"more mobile services can be expected in future. They will be even more innovative in the next generation of mobile phones."*

## **4.0 History and background of e-Ticket**

Back in 1995, e-ticketing has seen rapid expansion since it was first recognized as a major opportunity by the airline industry. In North America, the product has become almost common place and represents, for some carriers, more than 40% of ticketed bookings. Elsewhere airline implementations have been many and various with carriers continuing to introduce the product in a number of their markets.

Some carriers, most notably in the USA, now sell e-tickets as their default method of ticketing and only if the passenger requests a paper document will a traditional paper ticket be issued. Since its inception, the use of electronic ticketing has grown at a rapid pace.

In Europe, this idea of e-ticketing was first started by Lufthansa Airlines in 1999 when the Lufthansa Group decided to sharpen its focus on the development of e-business.

E-ticketing offers the opportunity to realize significant savings in ticket distribution costs, revenue accounting and billing processes, and in the reduction of handling costs associated with paper tickets. For the customer potential benefits are numerous, especially when the product is aligned with the explosion in electronic commerce utilizing airline and other service provider's on-line Internet booking platforms.

E-ticketing itself offers a foundation for streamlining of airline distribution and airport processes the benefits of which can be passed on to the traveling public. For example

some airlines believe that the Integrated Circuit Card (Smart Card)<sup>14</sup> will radically change travel through airport formalities. Additionally airlines believe that the smart card can be used for identification and access purposes. This is of importance given that electronic ticketing is not necessarily a "paperless" product.

Most passengers still want or need a hard copy Passenger Receipt, and most airlines still have to deliver a paper Boarding Pass. A number of government regulations, as well as the Warsaw Convention on liability, require that various "Notices" be provided to passengers. It is not inconceivable that a smart card could be the provider of this information and might also be used at self-service kiosks to obtain the notices and necessary boarding documentation.

Standards evolution continues to play a major role with airlines coming together at the ATA/IATA Electronic Ticketing Working Group at least twice a year. Here the airlines have begun to focus on the delivery of electronic ticketing in the airport environment and especially as it impacts third party ground handling companies. Ground handling raises specific operating issues that are not necessarily documented within the resolutions. Furthermore it raises the issue of how multiple airlines can effectively communicate electronic ticketing data and provide consistent customer service.

Several airlines have implemented interline electronic ticketing which enables the transfer of an electronic ticket issued by one carrier so that it can be used by another carrier. To date these interline transactions are restricted to bi-lateral agreements between one or two carriers and are usually with commercial partners and alliance members. Full multi-lateral interline electronic ticketing is still in its infancy however IATA and SITA have teamed up to provide just such a solution. It is available today and we are looking for our first customers to trial this new service. E-ticketing is still considered hot property because it lays the foundation to take advantage of Internet bookings, smart cards and self-service kiosks

Since its inception the use of e-ticketing has grown at a rapid pace. Some carriers, most notably in the USA, now sell e-tickets as their default method of ticketing and only if the passenger requests a paper document will a traditional paper ticket be issued. More and more carriers world-wide are adopting electronic tickets and still more are actively looking into the possibility of introducing electronic ticketing. Following on from this, technological advances allow for self service check-in and reservations changes through hand held devices such as WAP<sup>15</sup> phones and PDAs<sup>16</sup>.

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<sup>14</sup> Smart card is any card with the capability to relate information to a particular application such as a magnetic stripe, optical, memory and microprocessor cards

<sup>15</sup> Wireless Application Protocol is an advanced intelligent messaging services for digital phones.

<sup>16</sup> Personal Digital Assistants are devices used for storing names, phone numbers, writing e-mails and listening to music.

## **4.1 SAS and the e-Ticket**

As indicated earlier, SAS was not the first mover in this ticket less traveling industry. The e-ticket was introduced by SAS in August 1997 but it was not fully promoted until two years ago. The reason for this delay in implementing this strategy was the fact that there were some internal issues to be solved. Associated with many strategic changes with the introduction of e-business, there were some misconceptions within and among its staff. When asked about the delay in the implementation, Lena Stromback, Checking Department and Traffic Assistant indicated that, *“The reason for this gap was due to the fact that SAS staff did not know how to use the new e-ticket .No one at SAS wanted it, hard to understand and hard to learn but after charging 50 SEK for a paper ticket, SAS had to educate their staff knowing that now more customers would use the internet and choose e-ticket”*.

## **4.2 SAS E-ticket-What is it?**

E-ticket is an electronic ticket stored in SAS' ticketing system. With E-ticket there is no need for customers to pick up or carry paper tickets when traveling. To identify a booking, one of the following cards can be used as a form of identification: SAS Euro Bonus card, SAS Corporate Card, Access, Air plus, Carte Blanche, Diners card, MasterCard, Premier, Swedish Bank card, Lufthansa Miles & More, Air Travel card, American Express, Danish Dankort, Euro card, Passage, Swedish köpkort and Visa.

A booking for a trip can be made on the SAS web site, through a travel agency (selected travel agencies in Scandinavia only) or via SAS Direct. The customer can choose an E-ticket instead of a paper ticket. When booking the customer will be asked to enter the card number, as this will serve as identification upon check- in at the airport.

If a passenger uses a credit card as a form of identification it is not necessary to use the same card as form of payment. A new feature is the possibility to include more than one person on the same card, for instance by adding a family member.

The card is used to identify the booking when a customer checks in at the airport. The easiest way for a customer to check-in is through a self service device. The card is inserted into the device, which issues a boarding card and, if necessary, baggage tags (maximum two pieces of luggage).Customers traveling on domestic routes without luggage can go directly to the gate and check in using the card in a gate reader or if preferred, can check in at the check-in counter. However, in the following cases, the customer has to use a check-in counter: when the booking contains more than one person on the same card or when the customer is traveling with more than two pieces of luggage.

E-ticket is currently available on all domestic routes within Denmark, Norway and Sweden, and between the Scandinavian countries. E-ticket can also be used to Amsterdam, Brussels, Paris, London, Aberdeen, Manchester, Milan and all SAS and Air Botnia destinations in Finland. E-ticket is also available on all SAS and Lufthansa routes between Scandinavia/Finland and Germany. For travel to the United States, you can choose E-ticket to New York, Chicago, Washington and Seattle. SAS is constantly working to increase the number of routes to make travel simpler and more flexible.

In Scandinavia, E-ticket is salable by SAS and selected travel agencies. Outside Scandinavia, E-ticket is salable by SAS offices only.

In these turbulence times SAS finds itself, it is determined to have 50% of its customers booking on line and 70% adopting and using the e-ticket system.

### **4.3 E-Ticket as a value added service**

Despite the fact that SAS had competitors offering this service to travelers, SAS did not feel that this concept of traveling ticket less was something they were forced to do also. They did it because it was natural thing to do in this ever changing face of the airline industry. The company deems it expedient as one of the solutions to cut down transactions costs.

Again, the focus was on the customer as the company thought that it would offer a more comfortable, easier and time saving travel .To Siw Nilsson of Customer Information Desk, SAS Luleå Station *“thus it was a value added service by SAS to the customer because a customer chooses SAS because of its timetable and fares and if they do want to travel with SAS it was better having an e-ticket too.”*

More so, customers can no longer loose their tickets so easily; can choose not to interact with staff and do not have to pay for the ticket from the same place they were traveling from. However, a customer who wants to make changes in destinations on the ticket does not have to visit a virtual office as SAS can effect this transaction electronically when an e-mail is sent or a call is made to SAS nearby office. Another option available is the customer to visit a travel agency where this can also be changed on his/her card. Before this, the travel agency has had to send to the customer a new ticket or the customer has to be at the airport earlier so that this change can be effected there.

Commenting on the progress of e-ticket, Johan Åhlén, the Project leader, Scandinavian Airlines' Marketing Department indicated that, this concept is paying off and further stressed that, *“Our customers have quickly realized that it is convenient to travel ticketless. They save time and avoid the administrative fees linked to a paper ticket. Currently, about 70% of the students travel ticketless compared with just 25% a year earlier.”*

With regards to this value added service, SAS has been able to reduce its distribution and transaction costs drastically. The cost of producing and issuing paper tickets before the introduction of e-ticket was 5 US Dollars and this has reduced to the barest minimum. This has also improved worker effectiveness and efficiency because with fewer customers in queues for paper ticket means less workload for the staff at the desk. Staff can then have the opportunity to attend to other pressing issues.

## **5.0 Distribution concept, the business model and its impact on the e-ticket**

In Sweden, there are about 1000 travel agencies and out of this number 25 are the Norrbotten region. All of them in Sweden sell SAS tickets. 80% of tickets sold are done through the Travel agencies whilst 20% are done through SAS own outlets. All the travel agencies which sell SAS tickets used to enjoy a commission of 4% on each local ticket issued and 7% on international tickets.

On June 13, 2002 SAS announced that it was introducing a new distribution concept in Scandinavia. This pronouncement was made effective on January 1, 2003. By doing so, the airline then started to apply net prices, while reducing prices by an amount equivalent to the previous commission. This means that the price of traveling with SAS varies according of the customer's choice of sales channel –through a travel agency or via the Internet – and level of service.

Against this background, SAS Airline and travel agencies then began to charge for their services, as most Scandinavian travel agencies already do. As the price of traveling with SAS varies according to the customer's choice of sales channel and level of service, it therefore became less expensive to book via the Internet than via telephone sales.

*“Our assessment is that, this concept will lead to increased pricing competition and greater efficiency in the travel industry, which will benefit travelers,”* explains Søren Jespersen, who is responsible for SAS Airline's Sales.

This decision, to SAS, was taken after extensive discussions with travel agencies and industry associations. The rationale behind these extensive discussions is articulated by one of the divisional head of SAS.

*“The travel agencies are SAS Airline's largest and most important sales channel and we are investing in long-term cooperation with them,”* says Søren Jespersen. *“It is therefore particularly pleasing that the new structure has received strong support from most of the parties involved.”*

With the introduction of the e-ticket, speculations were rife among business analysts and this brought in its wake anxiety and concerns because this new development was interpreted that, customers will no more go to the Travel Agencies but will do everything on the internet hence leading to cannibalization. Lena Stromback of the Checking

department explains that,” *No, it’s not like that; the e-ticket came long before SAS stopped the commission system. Though, the staff did not want to learn the new system, Travel agencies accepted e-ticket long before SAS did because they are susceptible to change as they deal with different airline group”.*

Lena went further stated,” *e-ticket did not prompt the new distribution channel. Customers were booking on the internet prior to the introduction of e-ticket. E-ticket was just added to the already existed sales channel”.*

To SAS, there was nothing like a conflict and it appreciated the move by these travel agencies to welcome this new development and started to work with it immediately. Siw Nilsson, Head of Customer Information Helpdesk, Norrbotten Region further clarified that “*SAS is an old company who has had paper tickets throughout its life time and changing to electronic ticket was a hard task for the customers more than the travel agencies.”*

When contacted on this issue of whether SAS is not taking business from the travel agencies, Brita Jodereus, The Manager of Ticket Travel Agency, Luleå, was very emphatic about the following:

*“We have not felt any loss of customers since SAS started applying e-Ticket. The reason for this can be that, customers who visit us are those who want more than just a plane ticket; they want a “package” including hotel, car rentals and breakfast. Even SAS sales outlets exist no more and some customers who used to visit SAS office have been coming to us of late”.*

She further has this to say on the portion of the potential customers she thinks may adopt the internet channel easily and therefore will not patronize her agency:

*“The core group of people who are enjoying the e-ticket now may be students and the youth who are very fanciful with new technology and in as much as the middle and old aged people who always want to see physical and paper ticket exist, we will continue to be in business”*

On the contrary, Lena Stromback was with a different view with regards to customers’ or users’ adoption of the e-ticket.” *It is easier for students and also fashionable for them” to wipe a card”; to the old people, it is cheaper and to the middle-aged, very skeptical about the use of credit card”.*

Asked about why there is the need to retain these travel agencies in this new sales channel, Siw Nilsson commented,”*there will always be the need for these Travel agencies for now because of complex journeys. Not all journeys can be made with the e-ticket and even customers who want to enjoy commuter service after dis-embarkment cannot use the e-ticket. The system is not synchronized. Again, some customers would like to talk to people always”.*

## **6.0 The challenge**

The challenge of SAS is that the e-ticket is not synchronized, not even within the Star Alliance<sup>17</sup>. Customers now have to use the paper ticket outside the service corridor of SAS.

SAS wants customers to book and make reservations on the internet but the site is hard to navigate, not all information is in English and even not everyone has a computer at home. SAS is promoting the internet usage and e-ticketing but in reality they always must offer the customer a channel for personal interaction.

For now, it is not possible to plan complex travel tours by using the e-ticket. Customers would like to have a “one-stop centre” for all their travel arrangements in terms of accommodation, commuting, nourishing and tourism reservations. As the customer today is more complex than before, integrating all these into one package will make the customer satisfied.

## **6.1 The future outlook**

SAS is now looking at the possibilities to integrate its e-ticket system into other airlines so that customers can truly travel ticket less. The next stage of this e-ticket development is the addition of other destinations; the connection of members within the Star Alliance group and also adding Airport Taxi and Coach operating companies to support the customer commuter system.

The Triple alliance between Lufthansa, SAS and United Airlines that was approved by the European Commission in October 2002, gave a clear signal with regard to competition and was a step to further strengthening this concept. This decision has a groundbreaking significance for the aviation sector. Lufthansa Chairman and CEO Jürgen Weber said,”

*“The EU commission has acknowledged that alliances have clear benefits for the customer and are not an obstacle to competition. This decision will strengthen our international competitiveness. Above all, it provides legal stability and a secure planning framework and means that customers can continue to rely on a consumer-friendly alliance based on large route network with well-connecting flights and short flights times.”*

The SAS Group is also implementing two restructuring programs, with a total earnings effect of SEK 12.8 billion prior to 2005. It is estimated that the additional measures will

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<sup>17</sup> Star Alliance was established in May 1997. The member airlines are Air Canada, Air New Zealand, ANA All Nippon Airways, Austrian Airlines, bmi, Lauda Air, Lufthansa, Mexicana Airlines, SAS, Singapore Airlines, Thai Airways International, Tyrolean Airways, United Airlines and VARIG Brazilian Airlines

result in further cost savings of SEK 6-8 billion.” *These measures are necessary for the Group’s ability to compete and will represent a healthy platform for future expansion. We have achieved excellent results in negotiations with all of the unions, except for cabin employees. Agreements have been signed with 35 of the 39 unions and the SAS Board has assigned us to complete the discussions with the remaining parties,”* says Jørgen Lindegaard, SAS’s CEO, who continues: *“We are aware that flight competition in Scandinavia will be intensified and we must therefore be well-equipped for the future. We must be able to offer additional and less expensive travel in the Scandinavian market. The ambition is to enhance the traffic with additional routes from Stockholm and Oslo.”*<sup>18</sup>

At full effect, the restructuring steps will reduce Scandinavian Airlines’ average unit costs by approximately 30 percent, which corresponds to the goals established for the new restructuring measures.

In all these challenging times in which the world wide aviation finds itself, Scandinavian Airlines plans to become the first airline in 2004 to offer Internet connection on board intercontinental flights.<sup>19</sup>

Scandinavian Airlines has therefore signed a letter of intent with Connexion by Boeing to install broadband services on board its entire long-haul fleet. According to the agreement, SAS will, in 2004, be one of the first airlines in the world to offer this service .

*“The Nordic region is one of the world’s most highly developed IT areas. This means that being able to communicate easily while in the air ranks high among passengers’ requests,”* explains Jens Willumsen, who is responsible for Marketing & Product Management at Scandinavian Airlines. *“Many customers want to be able to work on board and that involves being in two-way contact with the rest of the world. A solution now exists that will be able to meet these expectations.”*

SAS passengers will be able to connect their PCs and PDAs and use the Internet on-line while aboard. Those who are able to log onto their companies’ intranets and send and receive e-mail with attachments will also be able to do this in the air.

*“SAS is making long-term efforts to provide freedom of choice for customers,”* says Jens Willumsen. *“Travel should be easy and today we offer services such as ticketless travel, automated devices for booking and check-in, and seat selection via [www.scandinavian.net](http://www.scandinavian.net). Passengers should be able to manage their travel arrangements via the Internet whether at home, in their offices, at airports and hotels, or onboard.”*

*“SAS has consistently led the market in introducing passenger-focused, value-added services,”* said Scott Carson, President at Connexion by Boeing. *“With this agreement, SAS, which serves a highly IT mature part of the world, has once again proven its commitment to offering leading-edge mobile communications.”*

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<sup>18</sup> Lufthansa Press Release October, 2002

<sup>19</sup> SAS Press Release April 4, 2003

SAS is one of the airlines to have specified requirements for Connexion by Boeing's broadband product. The goal has been for customers to be able to work efficiently aboard. Information security is ensured using the same technology as on the ground. The new system is designed not to interfere with other technology on board the aircraft and this will be certified by the Scandinavian authorities.

Contrary to the expectations of SAS, the US credit rating institute, Moody's Investor's Service, has downgraded SAS's credit rating to BA1 for the Group's senior implied rating, a downgrade of the credit rating by one level.<sup>20</sup> The downgrade is based on such aspects as the uncertain situation in which the airline industry in general finds itself as a result of a low level of economic growth, which affects the demand for air travel. A further factor of uncertainty was the development in Iraq and concerns surrounding the effects of the SARS<sup>21</sup> epidemic on travel.

Against the backdrop of these, the questions that are then posed are:

Would it not be possible for SAS to dis-intermediate the entire Travel Agencies for the distribution chain so that it can deal with the customers directly and hence reducing the cost of ticket (less the margins of the Travel Agencies) in order from them to stay competitive in this era of airline price war?

What are some of the steps that SAS can take in order to sustain this new way of doing business in an IT dense region where it finds itself and to capture a reasonable share of the international market in order to reap the best from the internet technology?

Is internet the only gateway solution to the economic woes Airlines such as SAS finds themselves? Can there be other new ways of doing things that can be deployed to lift this Airline from the doldrums?

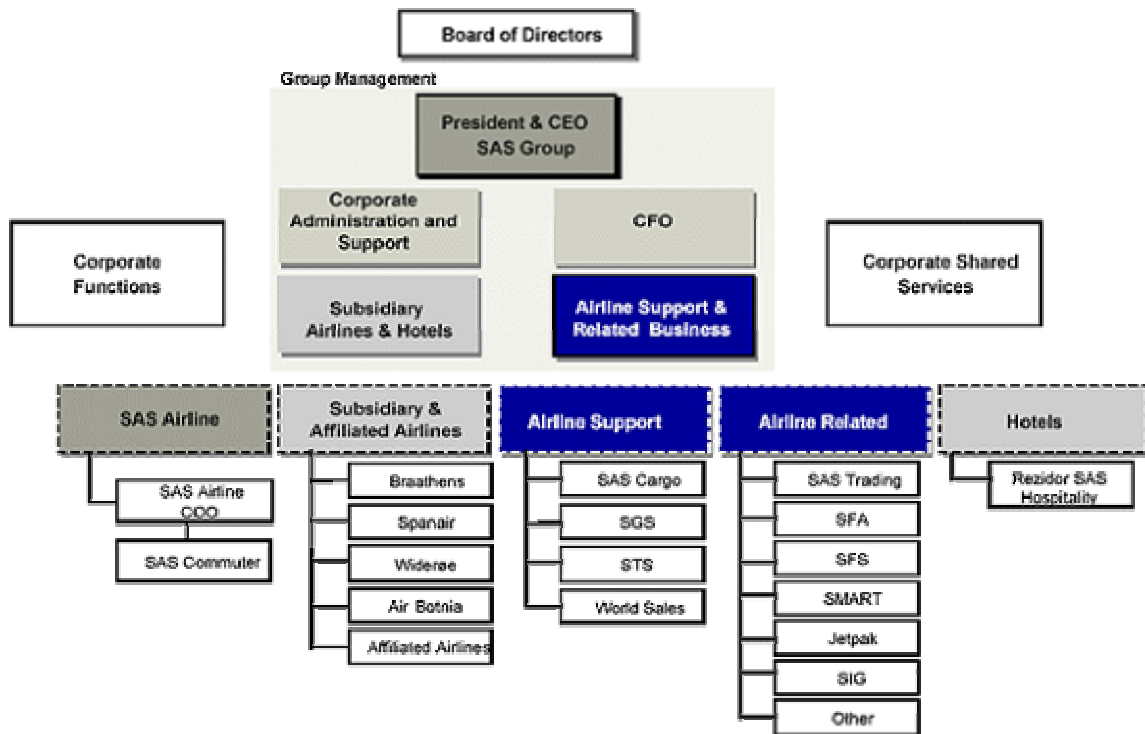
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<sup>20</sup> SAS Press Release on the Internet April 11, 2003

<sup>21</sup> Severe Acute Respiratory Syndrome is a respiratory illness that has recently been registered in Asia and North America.

# APPENDIX I

## ORGANISATIONAL CHART OF SAS GROUP



## APPENDIX II

### THE HOME PAGE OF SAS AIRLINES

The screenshot shows the SAS Airlines website in Microsoft Internet Explorer. The browser's address bar displays the URL: `https://ibp2.scandinavian.net/planandbook/searchAvailView.asp`. The website's main navigation bar includes links for **Plan & book**, **Offers & news**, **Corporate travel**, **EuroBonus**, **Travel info**, and **About SAS**. There are also links for **Timetable** and **Help & contact**.

The **Plan & book** section is the central focus, titled "Plan & book your flights here". It features a search form with the following fields and options:

- Type of travel:** A dropdown menu currently set to "Select".
- Leaving from:** A text input field.
- Going to:** A text input field.
- Round trip:** A dropdown menu.
- Find destinations:** A button with a right-pointing arrow.
- Shortest travel time:** A dropdown menu.
- Outward:** A dropdown menu for departure time, currently set to "00:00", with a **Calendar** icon.
- Return:** A dropdown menu for return time, currently set to "00:00", with a **Calendar** icon.
- Next:** A blue button at the bottom right of the form.

On the left side of the page, there is a **Log in** section with fields for **Username (3-10)** and **Password (6-12)**, and links for **Log in problems?** and **New user? Sign up!**.

Several promotional banners are visible on the right side:

- Shoppa i en storstad! London fr 1.195:- Sommarpriser till 43 städer** - Accompanied by an image of a man in a white suit sitting on a chair.
- Se Sverige i sommar fr 750:-** - Accompanied by an image of a green field with white flowers. Text below reads: "I juli månad kan du resa inrikes till specialpriser som startar på 750:- tur och retur." with a link **→ Fler erbjudanden**.
- Nyheter** - A section header for news.
- Betalningstjänsten "Bank online" upphör** - Text: "SAS upphör med betalningsalternativet "Bank online" fr.o.m. den 01 juni 2003 på grund av ett för lågt nyttjande av denna tjänst."
- Från Bromma till Köpenhamn** - Text: "Med start 12 maj kan du flyga med SAS från Bromma till Köpenhamn och vidare ut i världen." Accompanied by an image of a SAS airplane.
- Affärspriser till Europa** - Text: "Med våra nya affärspriser till Europa har du större möjlighet att själv påverka priset." Accompanied by an image of a flight information display board.
- Fler nyheter** - A link at the bottom of the news section.

The browser's status bar at the bottom shows the current page URL: `http://www.scandinavian.net/EC/Api/Home/FrontDoor/0,3479,50%3DDBB690522A44401F_AEDA7232D7A8F29B%26MKT%3DSE,00.html`, the system clock at **2:45 PM**, and the **Internet** icon.

## APPENDIX III

### Interview Guide- SAS Airlines

1. When was the E-Ticket introduced?
2. Why was the E-Ticket introduced?
3. Are there any competitors?
4. Are you the first mover?
5. What is the total number of travel agencies SAS is dealing with?
6. What were the channel intermediaries before the introduction E-Ticket?
7. What was the reaction of the staff when the E-Ticket was introduced in terms of job security?
8. What was and is the reaction of the travel agencies when this disintermediation was introduced?
9. How is SAS managing this channel conflict to its barest minimum?
10. Is there any value added with the introduction of E-Ticket?
  - company's point of view
  - customers point of view
11. What is the customer's adoption rate towards the E-Ticket?
12. What is the way forward for the E-Ticket?

Others:

What prompted the new distribution channel? Was it the introduction of the e-Ticket or what?