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Finnair's competitiveness from 2014-2019

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Abstract

Nowadays, aviation has become intense industry, with companies constantly being challenged to compete against each other and improve their competitiveness. The case company Finnair was chosen for this study, due to its well-known image and the significance of the company on the economy of Finland.

The objective of the study was to determine reasons for variations behind Finnair's competitiveness during two time periods. The first section focused on the years 2014 to 2017 and studied the increase in the company's competitiveness, followed by the decrease in competitiveness from the years 2018 to 2019.

The study was executed by gathering secondary data from news articles and databases. This information was then analyzed with the chosen framework: Porters Five Forces. The framework was utilized by comparing Finnair's changes and occurrences with the company's biggest competitors to see if the cause of fluctuations in competitiveness were inflicted by internal or external factors.

The results of the study implicated that the company is constantly affected by the changes in the economy, retailers and the increment of supplies and increasing costs inside the company. Reduction in internal costs such as the cost reduction program and the decline in the jet fuel market price between the years 2014-2017 helped to generate an increase in Finnair's competitiveness. Lower costs can be contributed to lower ticket prices resulting to growth in number of passengers. Starting from 2018 company was challenged with substantial growth in personnel costs and market jet fuel price as well as adversity in accelerating competition.

Keywords/tags (subjects)
Finnair, Competitiveness, Airline industry, Aviation, Finland

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Tiivistelmä

Nykypäivänä ilmaliikenne on luonut intensiivisen toimialan, jossa yritykset joutuvat jatkuvasti kilpailemaan toisiaan vastaan ja kehittämään kilpailukykyään. Tapausyritys Finnair valittiin tutkimukseen johtuen sen tunnetusta imagosta ja yrityksen merkittävästä vaikutuksesta Suomen talouteen.

Tutkimuksen tarkoituksena oli löytää syitä muutoksiin Finnairin kilpailukyvyssä tutkimusvuosina kahdella eri aikavälillä. Ensimmäinen osuus keskittyi vuodesta 2014 vuoteen 2017 ja tutki nousua yrityksen kilpailukyvyssä, tämän jälkeen seurattiin laskua kilpailukyvyssä vuodesta 2018 vuoteen 2019.

Tutkimus toteutettiin keräämällä materiaalia toissijaisista lähteistä, kuten uutisartikkeleista ja tietokannoista, jotka tämän jälkeen analysoitiin valitulla teoreettisella viitekehyksellä, joka oli Porters Five Forces. Viitekehystä hyödynnettiin vertaamalla Finnairin muutoksia ja tapahtumia yrityksen suurimpiin kilpailijoihin ja selvittämällä, olivatko syyt muutoksille kilpailukyvyssä aiheutuneet sisäisistä vai ulkoisista syistä.

Tutkimuksen tulokset osoittavat, että yritys on jatkuvasti vaikutuksen alainen talouden muutoksista, jälleenmyyjien ja tuotteiden lisääntymisestä sekä kasvavista kustannuksista yrityksen sisällä. Vähennykset sisäisissä kustannuksissa, kuten kustannusten vähentämisohjelma sekä lasku polttoaineen markkinahinnassa vuosina 2014-2017, edesauttoivat tuottamaan kasvua Finnairin kilpailukyvyssä. Alemmat kustannukset mahdollistavat edullisimmat hinnat lentolipuissa mikä johti kasvuun asiakasmäärässä. Vuodesta 2018 lähtien yritys kohtasi haasteita, koska kustannukset kasvoivat, ja nämä kustannukset liittyivät henkilökuntaan ja polttoaineen markkinahintaan. Haasteita toi myös vastoinkäymisiä lisääntyneessä kilpailussa.

Avainsanat (asiasanat)
Finnair, Kilpailukyky, Ilma-ala, Ilmailu, Suomi

Muut tiedot

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1. Introduction

"In today's turbulent economic environment, competitiveness has become more important than ever for a firm's survival and success."

-Akben-Selcuk (2016)

In the growing world of people and industries, firms face challenges of how to compete with thousands of companies that offer the same service. Globalization has given an option to choose service providers from all over the world. In the recent years, not only firms' stable financial records or success prove how competitive the firm actually is. The biggest indicators in firm level competitiveness in modern age is its innovativeness, the quality that the company is able to provide and ethicalness in the firms' visions and actions. (Depperu & Cenato 2020)

1.1 Background

Nowadays, aviation and airline companies have changed the way we travel and created a massive and intense industry. According to the International Air Transport Association (IATA), in 2016 there were an astonishing amount of 3.8 billion air travelers, and it has been predicted to grow up to 7.2 billion passengers by 2035. IATA also predicts that airfare will decrease in the upcoming years, which will increase air travel even more rapidly. This is attributable to the aggressive growth of low-cost airlines, a category that doesn't include the topic company Finnair, but we can see how Finnair leads competitiveness in other categories than airfares.

When considering the topic of airline competitiveness, there are many factors to take into account. Aviation markets are related to the country's economic state and their customer target groups. For example, countries whose populations are young and expanding quickly are estimated to have the fastest-growing aviation markets (Oxley 2017). Location and tourism play a weighty part on airline competition, according to United Nations World Tourism Organization, for example in 2016 Chinese travelers spent $261 billion on tourism abroad. Since 1988, Finnair has carried more

than 2.65 million passengers to China on the Helsinki-Beijing route and in 2018 Finnair beat all other European airlines in providing 38 weekly flights to seven destinations in China (Tao 2018).

In the thesis, the study was about Finnair's competitiveness and focusing on the years from 2014 to 2019 and their up's and down's in these certain years. Starting with 2014, Finnair had three main focus ideas: the conclusion of their cost-reduction program in cooperation with their personnel, the practical implementation of the commercial strategy and restoring the company's profitability (Finnair Annual Report 2014). Most markable action in 2014 was Finnair's massive cost reduction with the goal of saving on total of 18 million. Plan was carried out with cutting down staff's salaries, adding up to pilots and stewardess salary being cut down 10%, but they still agreed on a contract to work 15 hours more monthly. (YLE 2014)

The year of 2015 was considered as a new era for Finnair in many ways and it also was the year where company's profit went back to positive. Main highlights were strategy update, ordering the first of the 19 state-of-the-art A350-900 XWB aircraft, feeder fleet development plan, Investments in cargo terminal and WIFI connections and Norra ownership arrangements. (Finnair Annual Report 2015) Airbus A350 XWB aircraft was main development for the company in 2015. Finnair was the first European airline to operate this aircraft and it gave company possibility to increase operational efficiency and flexibility through optimized crew utilization, centralized spare parts purchasing and more streamlined maintenance programs.

In 2016 Finnair continued moving in the right direction, but not enough remarkable rate. The company updated their growth strategy and decided to focus on profitable growth, customer experience, people experience and digital transformation. They started recruiting new personnel including two job positions at the executive board level for the heads of customer experience and digitalization. 2016 was a significant year for the company from the perspective of sustainable development. Finnair concluded emissions agreement by the International Civil Aviation Organization with aiming to tackle international aviation emissions. (Finnair Annual Report 2016)

2017 was remarkable year for Finnair considering growth in air travel and passenger traffic. Finnair increased its passenger numbers by over one million and flew almost 12 million passengers. During this year Finland's tourism grew, which affected positively in Finnair's passenger numbers, especially in Asian markets. This gave company an opportunity to open more new routes and once again hire more employees.

In 2018 Finnair faced more challenges with competition intensifying, the price of jet fuel spiked, and future growth rate of the global economy became more uncertain (Finnair Annual Report 2018). Finnair announced that they were having a new CEO, who would start his job at the beginning of 2019. Issues were still challenging the company in 2019, which we can see from their notably decreasing stock markets starting from May 2018. In this research, we want to get deeper knowledge and the reasons behind these up's and down's in mentioned years.

1.2 Motivation for the research

Finnair has been the leading airline company of Finland for the last 96 years which has affected the country's economy and internationalization dramatically. For the past 10 years Finnair has still been the leading and one of the safest airline companies of the world (Finnair 2019). The objective of this study was to analyze and find out what were the reasons for Finnair's stock increase from 2014 to end of 2017 and decline from the beginning of 2018 till the end of 2019. Our study will provide the reasons and explanations on Finnair's changing competitiveness based on the dramatic stock market ups and downs. The literature about the airline company was mostly centralized on recent events and annual reports of Finnair.

The airline industry has an astonishing impact on country's economy. Finnair is Finland's only national airline company which has been increasing Finland's competitiveness and globalization throughout the years of operating. Since tourism is still one of the main growing sources of livelihood in Finland (Business Finland 2019), it's important to understand how it affects the national airline of our country and furthermore our country's economic well-being.

Economics and impacts of different industries on the country's economic situation have always interested us especially, when it affects the nation, we live in. Finnair has enabled the country's tourism to grow by opening huge variety of races all over the world from China to America. Hence, by the new routes it has positively pertained to Finland's GDP. It will be interesting to learn how opening routes to China affect the growing tourism e.g. in Lapland, Finland. Implicating our knowledge about economy and industry clusters, critical research skills and high motivation will help us to make an elaborative study on the chosen subject. The prime motivation for us was to give deeper insight on the reasons and aftermaths of events that happen in the world and inside the country, which have an impact on the company's profit earning capacity and stock market performance. We were interested in the years from 2014 till 2019, where the changes in Finnair's stock markets were drastic (see Figure 1. Below).

Figure 1. Finnair's stock chart from 2014- 2019 (Yahoo Finance 2020)

1.3 Research questions

"Unanswered questions aren't threats; they are challenges and catalysts."

-Wright

For the chapter 1.3 we were to come up with research questions that would support our study and help us find logical outcome based on the sources we found related to company's competitive advantages and disadvantages from the years 2014 till 2019. The research questions we formulated were:

- What were the reasons for Finnair's increase in competitiveness from 2014 to end of 2017?
- What were the reasons for decline in competitiveness from the beginning of 2018 till the end of 2019?

The approach for our study will be longitudinal and qualitative research by nature. The reason why longitudinal study suits this thesis the best is because we are exploring changes in competitiveness of Finnair from several years (2014-2019) and by using longitudinal approach it will give us insight of these 5 years of Finnair's economical changes. The qualitative approach suited our research because it gives holistic picture of the connections between variables and gives much more deeper explanations to phenomenon. (Crossman 2020)

1.4 Structure of the thesis

Our thesis and its structure are constructed around our two research questions which were "What were the reasons for Finnair's improvement in competitiveness from 2014 to end of 2017?" and "What were the reasons for decline Finnair's competitiveness from the beginning of 2018 till 2019?".

Thesis begins with the background chapter followed by literature review part where we open up about our main indicators, keywords and what these means and how they can be apprehended. Chapter 3 called “Methodology” explains chosen research approach and reasons why this certain framework suits best for our project. This chapter describes data collection and the analyzing of it. This is followed by chapter 4 “Results” where main finding is shared and answers to research questions as its main purpose is to present facts. Finally comes discussion chapter which includes suggestions, comparisons and reflections. This chapter involves summary of the findings and discussion about the reliability of the thesis. Chapter 5 will also include suggestions related to the research questions and explanation who would get most advantage from the findings.

Figure below shows our research procedure:

Figure 2. Overall research process

2. Literature review

2.1 Meaning of competitiveness

For this part we are going to briefly summarize the meaning of competitiveness. There are several definitions considering the word “competitiveness”. The world economic forum (2016) defines it as “the set of institutions, policies and factors that determine the level of productivity of a country”. Word competitiveness is usually incorporated with the use of word “productivity”. Productivity is important because it has been found to be the main factor driving growth and income levels. And income levels are very closely linked to human welfare. (Cann 2016)

Another definition for competitiveness from Scott (1985) is that “For the company, competitiveness is the ability to provide products and services as or more effectively and efficiently than the relevant competitors. In the traded sector, this means sustained success in international markets without protection or subsidies. Although transportation costs might allow firms from a nation to compete successfully in their home market or in adjacent markets, competitiveness usually refers to advantage obtained through superior productivity.

Measures of competitiveness in the traded sector include firm profitability, the firm's export quotient (exports or foreign sales divided by output), and regional or global market share. In the traded sector, performance in the international marketplace provides a direct measure of the firm's competitiveness. In the non-traded sector, competitiveness is the ability to match or beat the world's best firms in cost and quality of goods or services (ibid).

“Companies achieve competitive advantage through acts of innovation. They approach innovation in its broadest sense, including both new technologies and new ways of doing things. They perceive a new basis for competing or find better means for competing in old ways. Innovation can be manifested in a new product design, a

new production process, a new marketing approach, or a new way of conducting training". (Porter 1990).

2.2 Competitiveness in airline industry

"The airline industry is a highly competitive market to operate in with thin margins, a significant amount of regulations, vulnerability to trends, seasonality and global economic cycles, price pressures and challenges to break even. Simultaneously, customer expectations are increasing together with the pressure to reduce cost and improve fuel-efficiency and operations. The airline industry is as close to perfect competition as it could be, with multiple competitors, little or no boundaries and various markets for airline tickets" (Klementtinen 2016).

The main transportation services that airlines provide are cargo-and passenger transportations also other additional services that might improve better experience while travelling in air. The revenue that the airline gains from transporting cargo ranges between 8%-12%. On the other hand, the most important source of income for airline industry is the passenger revenue which ranges from 75%-80% from total revenue of airline company.

The airline industry affects largely the GDP (gross domestic product) growth, industrial productivity number, disposable income and consumer confidence. Airline industry is highly competitive, and many things effect on its profitability. Things such volatile costs of fuel which affects 30% of total expenses and driven by fluctuating crude oil prices. (Cederholm 2019).

International Air Transport Association (IATA) is the trade association for 290 airlines, and IATA estimates that there will be an average of 4.1% annual growth in the airline industry in terms of passenger usage for the next 20 years. This means that the demand for air transportation would more than double by the year of 2034 climbing up to 7.3 billion people carried by air (already 4 billion in 2019). (IATA 2014).

Now -a -days consumers pay more attention to the quality instead of the price. The increasing number of low-cost airlines has obligated airlines to regenerate their strategy in order to compete with the LCC's. (Fageda, Jiménez & Suárez-Alemán 2014)

2.3 Measuring competitiveness

Measuring company's competitiveness has always been hard to do for various reasons. The theoretical framework is the structure that can hold or support a theory of a research study and introduces and describes the theory that would explain why the research problem under study exists. Theories are formulated to explain, forecast, and understand occurrence and often to challenge and expand existing knowledge within the limits of critical assumptions. (Abend 2008.) Yet, measuring competitiveness is rather complicated since, actions taken by other company may not be effective for the other company.

In the business context, competitiveness should be measured while considering achieved goals in the past as well as present (Man 2002). If the transaction costs are high for the company, that might lead to unreliable barometer to measure market share. According to European commission's final report (2018) concerning measurements of competitiveness, the indicators of competitive performances of company can be measured in 7 different ways:

- **Market share**

  Most candid way of measuring company's performance on the competitiveness level is compering the market shares. Competitiveness's foundation is the profitability of the company. There are two main ways to measure market shares: physical terms or monetary terms

- **Export share**

  Export share is about company's capability to sell its products in another country which has bigger demand for the product compared to the home market.

- **Profit margin**

  Profit margin well in correlating with market share.

  Profit margin can be a good indicator if the company is only offering several products to the market, which makes it easier and less risk-free to switching costs of the products since the company has acquired dominance in the product industry. However, using profit margin as an indicator of companies that offer big variety of products is not the best option.

- **Return on capital employed**

  Return on capital employment is a neutral way of measuring both tangible and intangible assets are taken in account at replacement value. Notwithstanding, it is hard to collect solid data which leads to different numbers around business's and countries.

- **Market structure**

  Indicates the intensity of competition regarding pricing of the products as well as the characteristics of competition within the market.

  Measuring with market structure contains several points such as: number of competitors, what type of competition, demand and supply relations.

- **Survival**

  Survival can be seen as an age indicator. Survival shows companies capability to sell their products at minimum price, simultaneously, covering the cost of the production for a longer period of times. Survival isn't always seen as a positive indicator for the company and certainly not the most stable indicator. Older company that is competing in an intensive new-age market might stumble if similar products outrun the old company's offerings.

- **Growth**

  Typical way to measure competitiveness on a firm level is growth. Growth can be indicated as a performance of the company and how successfully it has been able to

increase its sales and size. If using growth as a right method to measure competitiveness that would mean that all the big companies are most likely successful which in reality is not a solid fact. Size isn't always reliable way to report company's performance.

2.3.1 An integraded asset performamce model

The integrated asset performance model is a notional way of measurement that can be used for recognizing and finding development areas of performance indicators to meet the objectives of any performance measurement effort. As a wide point of view the performance measures can generally be divided into 3 categories that are: effectiveness, efficiency and appropriateness -measures. (Parker 1993.)

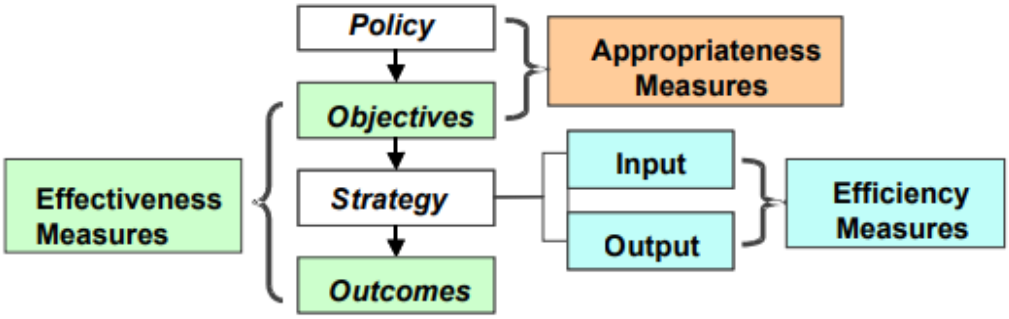

Figure 3. An integrated asset performance model (Parker 1993)

According to Then and Tan (2004) "asset performance indicators used by organizations from both the public and private sectors can be grouped under five broad categories or facets of performance measures" (The EPFS model):

- Economic measures: The Economic part of performance is associated with strategic level decisions that aims to optimize value for the obtained money from the property assets. Requirements for the management are determined

by the demand of considering physical facility regulations to longer-term business plans. The objective is to assure advantageous resource distribution and affordable and economical regulation of property resources in agreement with market offerings and business plans.

- Functional measures: The Functional part is associated with management level decisions that are associated and influential to the desired working environment and workplace standards. The objective of measurement is to secure possibility of functional space for expected service demands as well as possible. Suitability for property resource and demands can be measured in terms such as locational distribution, type and size of the buildings.

- Physical measures: The Physical side is associated with successful and productive management of operational aspects related to continuous asset management. The goals of measurement are led by the need to maintain asset value, ensure that asset condition won't create any operational risks and accountabilities, and to assure that occupancy costs are rational.

- Service measures: The Service part is connected with decisions and operations related to quality sighting by customers and the quality of overall service. The aim of measurement is to make sure that the business context and organizational culture are accordingly reflected in aspects of service and are lined up with main business demands. Measures in this aspect are normally substitute and often subjective indicators of performance conducted from the perspective of clients and customers related to corporate facilities and support services.

- Environmental measures: The Environmental side is associated with the impact of customers, the community and ecological environment while building assets. Measures in this aspect are expected to involve observing sustainability targets such as projects, government and national levels.

The five categories mentioned above of integrated asset performance concept can be applied for:

- Satisfy stakeholders perspectives of performance
- Help to select suitable key performance indicators
- Help with describing wanted data requirements for certain key indicators
- Prescribe stable review of asset performance

2.3.2 Copenhagen Business School (CBS) framework

Copenhagen Business School (CBS) describes competitiveness as complex concept about defeating competitors in qualifying for an order and getting it with good conditions so the company eventually makes a surplus. Copenhagen Business School created model of competitive-ness covering the key variables that can be viewed in model below (CBS 2016):

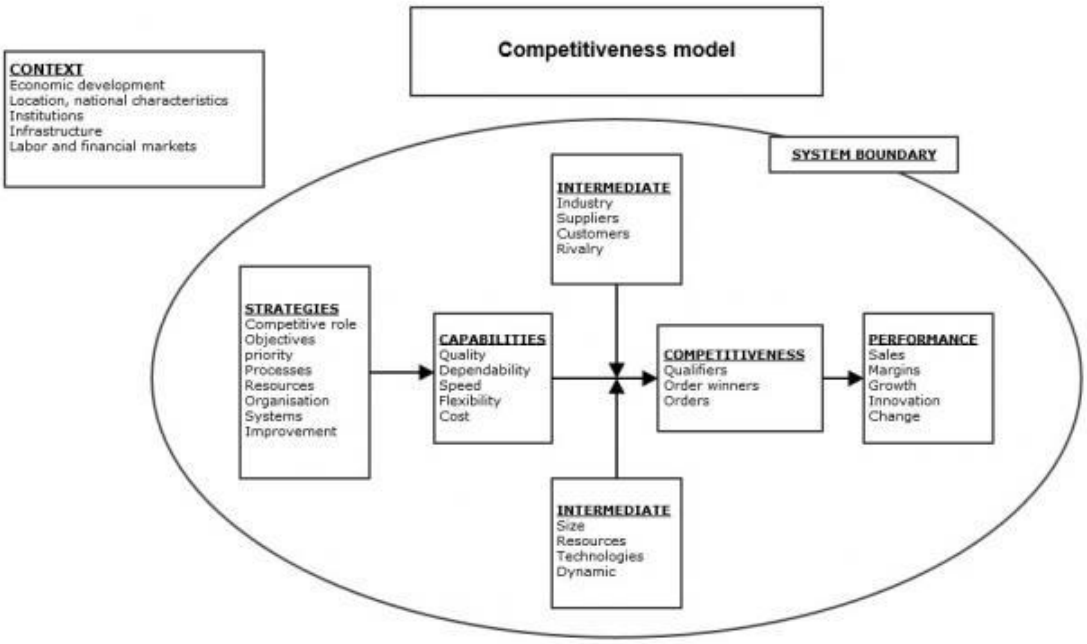

Figure 4. CBS model (Copenhagen Business School 2016)

The company or organization must deliver quality, reliability, tempo and flexibility while also being as cost effective as much as possible. These capabilities are developed based on strategies for example on innovation, ongoing improvements, methods, location, physical and financial resources. These factors play different roles in different industries depending on company features such as size and different capabilities such as industry characteristics like rivalry amongst competitors and supply structures. This whole competitiveness of the firm is depending on external or context factors such as economic development, national characteristics, cultural values, societal institutions and infrastructure. (ibid)

2.3.3 PESTEL framework

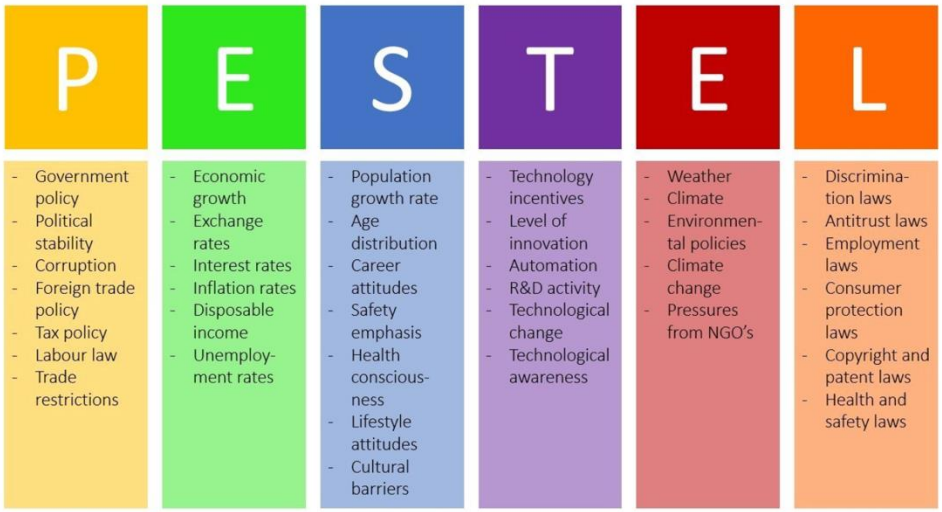

Figure 5. PESTEL framework (B2B)

Airline companies are faced not only by internal challenges but also external challenges. Various things can be affecting single airline industry and on its profitability. PESTEL framework is an example to use to see and analyze the risks and factors that affect airline industries external strengths and weaknesses.

"Most industries are very sensitive to changes in the PESTEL factors. However, the factors aren't controlled directly by the companies in the industry. Companies are forced to alter their business models, pricing, revenue, and cost structures to suit

their customers' changing needs in different economic conditions. As a result, knowledge of the trends and the economic life cycle can help predict external opportunities. It can also predict risk factors of investing in the industry" (Cederholm 2014)

According to PESTEL Analysis, PESTEL (also known as PEST or PESTLE) is a framework used in measuring company's performance from the macro economical perspective. PESTEL is divided in six categories such as economic factors, political factors, social factors, technological factors, environmental factors and legal factors. Each of these categories have sub-categories that help to define the factors that influence the performance of certain company.

A PESTEL analysis or PESTLE analysis (formerly known as PEST analysis) is a framework or tool used to analyze and monitor the macro-environmental factors that may have a profound impact on an organization's performance.

2.4 Theoretical framework

> *"Strategy is about setting yourself apart from the competition. It's not a matter of being better at what you do – it's a matter of being different at what you do"*
>
> -Michael E. Porter

Competition is often looked narrowly and unequivocally by the executives nonetheless it's much more complex and multidimensional (Porter 1979). Theoretical framework Porter's five forces was created by Michael. E. Porter, a Harvard Business school professor, in order to analyze industries strengths and threats that they face in competition with other companies within the same industry. Structure of the framework varies depending on the industry field (Porter 2008). Most importantly the framework was established to determine the level of competitiveness and help the company to understand how to ensure long-term profitability (Chappelow 2020)

The model is divided by five forces which are:

1. Threat of entry

   Threat of new entrants' facility to entry a new market or an industry. The main goal is to gain market share and volume When there are more than one company competing in the same industry, it is hard to obtain profits since the newcomers might provide better offers to make them stand up. Moreover, it can be challenging for new entrants to reach the same status because of the existing companies' advantage.

2. Rivalry among existing competitors

   Rivalry among existing competitors indicates the existing competition between other companies within the industry. It is hard to compete in an industry to obtain profits when there are many substitute products and services. There are also changing supply and demand in the field which affects the company's competitiveness.

3. Power of suppliers

   Power of suppliers enables for company to provide high cost products or poor-quality substantials to their purchasers. When certain company has demand because of their status, they can sell the products at any price desired. This affects the purchasing part by diminishing turnout since they have to pay more to the certain supplier to obtain the product.

4. Power of customers

   Power of buyers describes the power of the consumers to demand better quality or lower prices which affects the company's profitability. Either way

the company is going to suffer monetary loss when the consumer has possibility to bargain.

5. Threat of substitute products

Threat of substitute indicates when there is more than one company competing in the same industry which gives the consumers possibility to substitute the products or services to achieve cheaper prices or better quality.

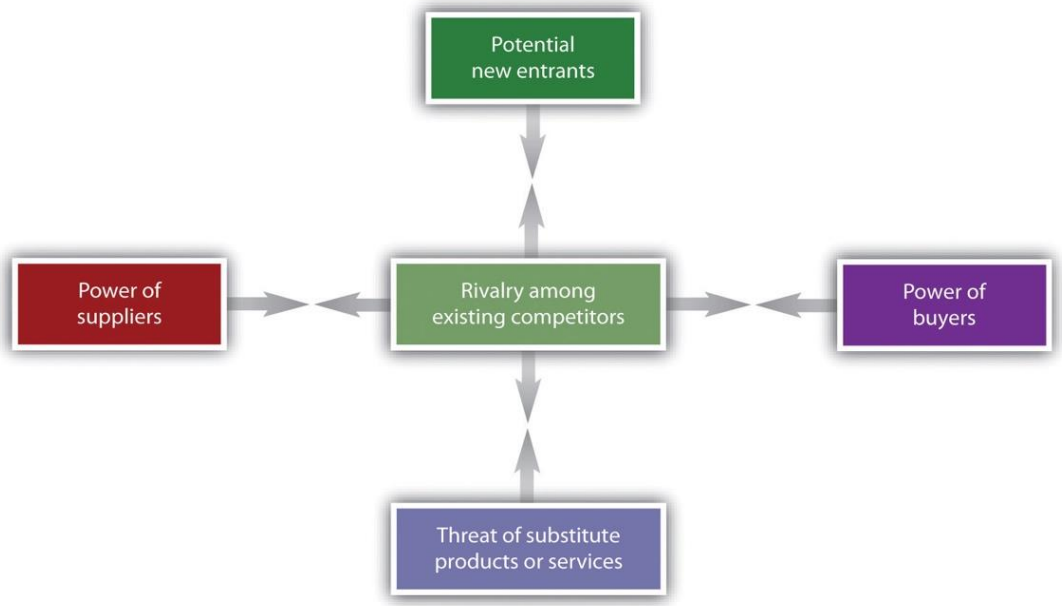

Figure 6. Porter's five forces of industry-based competitiveness measure (Porter 1979)

3. Methotology

3.1 Research approach

Research methodology is the procedures which are chosen to understand and analyze the topic; hence the objectives and context are main parts to consider when choosing right kind of methodology. In this case questions for this study were:

- What were the reasons for Finnair's increase in competitiveness from 2014 to end of 2017?
- What were the reasons for decline in competitiveness from the beginning of 2018 till the end of 2019?

This research approach is a longitudinal case study of reasons behind Finnair's competitiveness from 2014 to 2019. In this research longitudinal studies measure particular individual occurrences over lengthy periods of time combined with collection of qualitative data of any exposures and outcomes in airline industry or in Finnair as a company. Choosing longitudinal approach for this study provides usefulness for evaluating the relationship between risk factors and the development of these risks and the outcomes over different periods of time. Longitudinal study gives ability to see changes and developments during these research years.

Qualitative approach is most viable in this study case, since its objective is to understand how different variables has affected particular company, which in this case is Finnair's competitiveness, and not trying to create any new kind of theory. Qualitative Research can be used to gain an understanding of underlying reasons and creating hypotheses considering research questions. In this study case the data collection methods include deciphering data and individual interviews. Some common challenges that might come with qualitative data analysis are sample size, interviewees

being bias and The Hawthorne Effect which can be described as “Participants in behavioral studies change their behavior or performance in response to being observed” (Koks 2015).

3.2 Research context

In the following chapter the research context will be discussed based on the empirical study earlier and the reader will have more in depth glimpse of the case company and its industry where it operates as well as how different factors. In the literature review the reader got familiar with the airline industry and factors that may affect its competitiveness.

The year of 2014 was rather difficult year financially for Finnair. The company faced a major drop in their turnover with 7,2% compared with the previous year of 2013. The factors affecting the turnover were drastic drop in passenger traffic unit revenue which is calculated by dividing passenger traffic revenue with sold capitakilometer. International competition and strengthening of the Euro in comparison with other important revenue currencies of Finnair affected its diminishing turnover in 2014. (Lentoposti.fi 2014).

Although, Finnair faced domestic struggles within the company, the industry also suffered various problems. In 2017 airline industry was predicted to face challenges concerning rising fuels costs and labor expenses. Fuel and diesel are the biggest expenses for the airline industry, their costs affect the volatile economy of the airline company. Consumers are faced with changing prices that are most likely caused by changes in fuel prices. In 2018 the fuel prices were 20% more expensive than previous year of 2017 which affected all of the airlines (see Figure 3). Jet fuel prices are expected to average $81.6 per barrel (up from $65.6 in 2017). Thus, fuel was expected to constitute roughly more than 20% of the airline’s operational cost in 2018 (up from 18.8% in 2017). Political uncertainties likewise affected the airline industry

on regional as well as global level (Brexit in Europe and regional tensions in Gulf region). (IATA 2019).

Figure 7. Finnair's stock chart from 2014- 2019 (Yahoo Finance 2020)

Finnair's stock chart from years 2014-2019 (see Figure 8 above) was compared with Lufthansa's stock chart from 2014-2019 (see Figure 9 below). There were noticeable similarities in the years 2017, which was the year of competitive growth for Finnair and Lufthansa as well as the peak in the year 2018. However, Finnair's competitive advantage dropped dramatically and fast compared to Lufthansa's stable growth. Nevertheless, Finnair caught up with Lufthansa for a short period of time until they both faced major drop following with more so stable decrease in competitiveness.

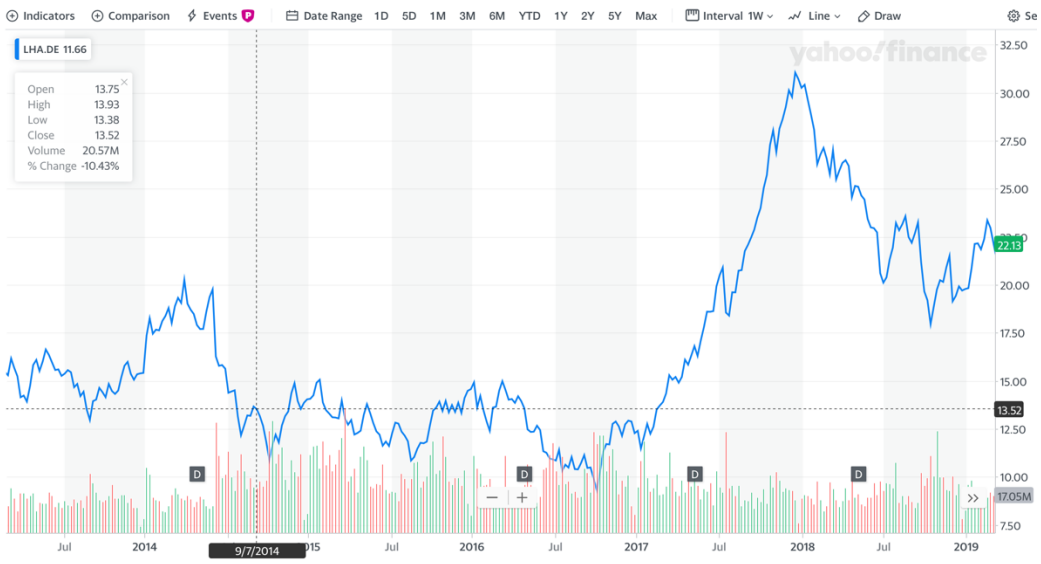

Figure 8. Lufthansa's stock chart from. 2014-2019 (Yahoo Finance 2020)

However, the demand for flights grew in 2018 with 6.6% compared with previous year of 2017 in Europe (ibid). Often airline companies face monetary losses when predicting fuel price for the future is hard. Travelers will book their flights in advance which might not end up being beneficial because of changing prices of the fuels by seasons (Morgan 2018).

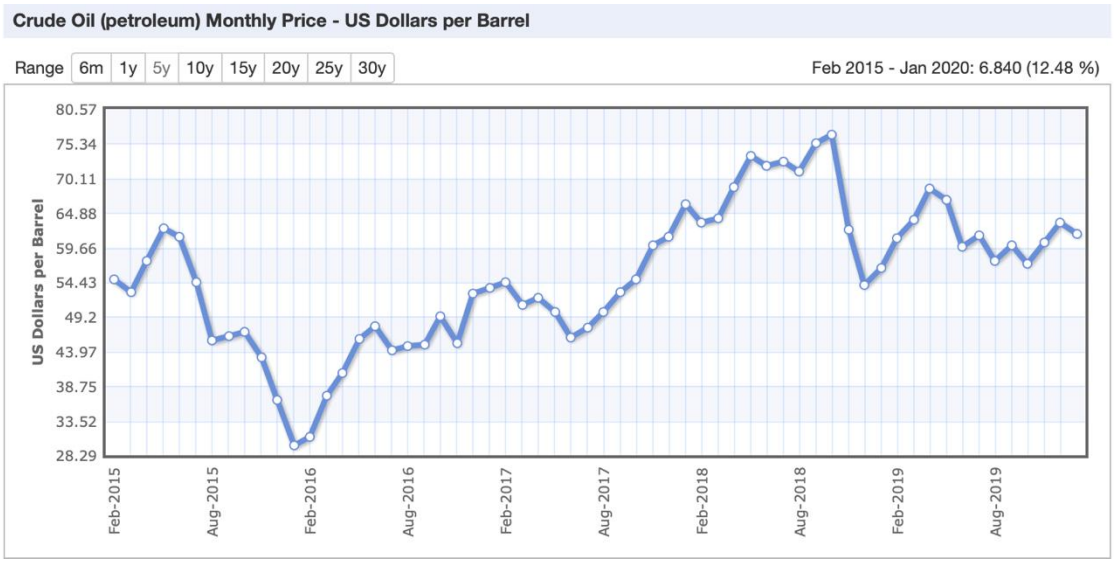

Figure 9. Crude oil comparison by US dollars per barrel from February 2015- August 2019. (IndexMundi 2020)

Study mainly focused on the Finnair an its competitiveness but in order to give boarder picture of events that cause the decrease and increase in the competitive advantage in the specific airline company it is important to include internal data as well as external from the industry. By comparing two major EU based airline companies, Finnair and Lufthansa, the effects of events and internal factors can be compared with each other and see in which cases the airlines were depended on the stability of the airline industry and where not.

3.3 Data collection

In this research the data was collected and elaborated by using secondary data. The chosen framework, Porter's Five Forces analysis, was exploited when gathering data to help reach research objectives and answers to the research questions. Data collection started first with accumulating secondary data throughout the research years, from 2014 to 2019, and then intention was to implement primary data with interviews to help find similarities between primary and secondary data. For this study case there were no interviewees, since case company Finnair only gives interviews to media outlets.

Secondary data analysis involves a researcher using the information that someone else has gathered for his or her own purposes. Researchers leverage secondary data analysis in an attempt to answer a new research question, or to examine an alternative perspective on the original question of a previous study (Foley 2018). Using secondary data gives a great deal of advantages with its way of being cost effectiveness and the large amount of data being available. When using secondary data, the researcher is able to save remarkable amount of time, money and other expenses, when the data is already collected and analyzed by someone else. Especially when conducting longitudinal study using secondary data has substantial effect, since companies and government has collecting and save data for long periods of time.

Secondary data used in this research were published data such as books, journals, documents, Finnair's annual reports and surveys. These sources of data provided both qualitative and quantitative data to be used to find answers for the study's research questions. The secondary data used in this research study was collected by using various websites in internet and JAMK's library. Most used source for secondary data was Finnair's annual reports published during research years 2014 to 2019.

Primary data is new information collected specifically for your purposes, directly from people in the know. Data is collected from main sources by using methods like interviewing people in the known/industry. (Wolf 2016)

As mentioned above, for this research there were no ability to collect any primary data since case company Finnair do not give out interviews for anyone else expect professional media outlets.

3.4 Data analysis

This chapter describes the used data analysis technique and overall process in this research to understand and analyze variables through the chosen framework. Data analysis is the process of applying techniques to describe and evaluate the accumulated data. Main goal is to provide a good understanding of a research objective by revealing the different patterns from the data used in qualitative data analysis.

Chosen data analyzing technique for this research was content analysis. It is a common analysis used to analyze verbal or behavioral data. This data can consist of documents or communication artifacts like texts in various formats, pictures or audios/videos from numerous different sources (Perez 2019).

Qualitative data analysis can be conducted through different steps and the procedure starts with transcribing and organizing the data. This means collecting and converting all data to textual form to understand and extract sense out of them. Important part for analysis is to organize the data to be suitable for the objective and questions of the research. Validating the data is ongoing and important part throughout the whole process. For successful research it is crucial to ensure the vitality and reliability of the data.

Next step comes with coding the data according the variables from chosen framework Porter's five forces analysis. Coding provides increasing efficiency in the research. Chosen coding procedure for this study case was descriptive coding that refers to summarizing the central theme of a data (Chapman 2018).

Final step comes with concluding the data analysis which means ensuring that the research outcomes matches the research objectives/questions and provides reader with an understanding of the research and its results.

3.5 Verification of the results

Validity

The study aimed to answer two research questions which was succeeded. However, at times the links between some changes on competitiveness were hard to indicate because of lack of data about specific period of time. Since often changes in airline company is connected with other competing companies within the industry due to events that occur in the world, theoretical framework was chosen which could answer questions on the industry level. This type of approach will give broader picture of when the increase and decrease of competitiveness was caused by internal factors or external.

Reliability

To ensure reliability of this study we used various reliable sources found on the online databases. Authors ensured the reliability by comparing data and relying on the most trustworthy source which was cited or has been verified. Study was conducted using only secondary data, hence access to the interviewees was denied. This factor made the data collection more challenging since the trust was put on the sources found online. However, authors found their way out of this issue and were able to recover reliable articles and studies made previously which ensured good quality study about the subject. Another factor that affected the number of sources was its geological location. When comparing volume of studies made of e.g. Lufthansa, German- based airline company (previously mentioned on page 20) and Finnair, Finnish airline, the difference is significant. Germany with population of 83,783,942 (Worldmeter 2020) and Finland with population of 5,526,774 (Statistics

Finland 2020) can reassure that there are less previous studies made about Finnair than Lufthansa. Nevertheless, there was enough data to create trustworthy data triangulation.

By using various sources found online and in book authors can reliably say that same data would be used by other researchers and outcome would be the same regarding the findings. The sources where limited, since not many studies have been made from the company that was chosen for this study.

Objectivity

Research was conducted by using secondary data. By using various sources found online and in book authors can reliably say that same data would be used by other researchers and outcome would be the same regarding the findings. The sources were limited, since not many studies have been made from the company that was chosen for the study. In this study authors used objectivity in the findings and remained neutral while observing and analyzing the collected data from various reliable sources. However, with the knowledge and experience the study was based on can lead to human errors or difficulty to observe the data as neutral as possible.

4. Results

This chapter describes results in-depth regarding the two research questions and research findings considering these. Result chapter is divided in to two parts following the research years, to help to understand changes and main happenings affecting company. First chapter deals with years from 2014 to 2017 and narrates the reasons for company's increase in competitiveness. Second chapter considers years from 2018 to the end of 2019 explaining reasons behind company's decline in competitiveness. Porter's Five Forces analysis framework (see Figure 10) is exploited in both of these chapters to understand gathered data and answers to the research questions. By using this model, company's key competitive forces can be divided into 5 sections, to help to determine Finnair's strengths and weaknesses.

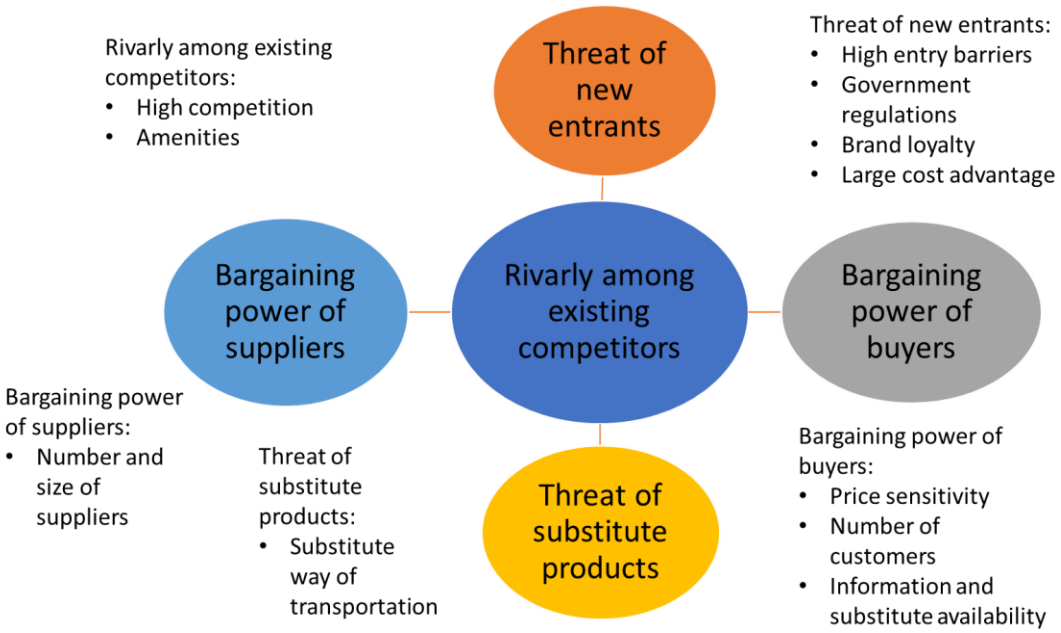

Figure 10. Porter's Five Forces analysis of Finnair

4.1 Reasons behind competitiveness increase

In this sub-chapter the study will concentrate on the reasons and factors that affected Finnair's increase in competitiveness on domestic as well as on the foreign level. In 2014 until 2017 Finnair was able to increase competitiveness level which can be seen in Figure 6 on page 19 (Finnair's stock chart from 2014- 2019). The takeoff started gradually in 2014 until the peak at the end of 2017.

Rivalry among existing competitors

The airline industry has always been highly competitive industry. Airline traffic itself is very sensitive to changing conditions which affects the competitiveness of the company (Finnair 2015). Since demand for traveling by air and increasing number of travelers in the world, company faces difficult times when competing on the industry level. Finnair has divided itself in two categories which are air traffic within the Europe and air traffic between Europe and Asia. Finnair is still leading airline industry in

distant haulage, but it does face competition in short-distance haulages. Competitive advantages for Low cost carriers (LCC) are profitableness. In distant haulages such as China, Japan and other Asian countries Finnair competes with quality, comfortableness and customer service.

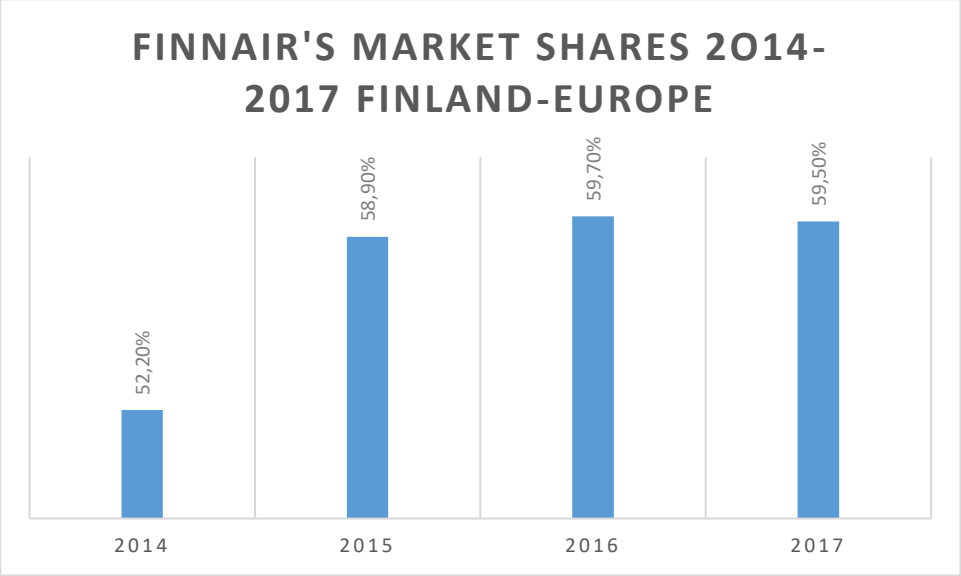

Figure 11. Finnair's market shares European flights 2014-2017 (Finnair- konsernin osavuosikatsaukset 2014-2017)

When taking in account the volume in what Finnair operates in airline industry in Europe, it's beneficial to see the market share of the company compared to the years. Comparison of market shares gives holistic picture of how and on what volume company operates in certain area and industry in certain amount of time. (Hayes 2019) When looking at Finnair's operations in Europe market shares from the years 2014-2015 can be seen major improvement. Global economy and sanctions for Russia affected Finland's economy negatively (Huovari 2014) which lead to poor year for Finnair. Poor economic situation affected Finnair's domestic as well as international flights (Finnair 2014). 2015 was good year for Finnair, since they started their cost reduction program and enjoyed continuing low fuel prices with other airline companies. Also, straightening of Asian currencies in relation to Euro. In the year 2016 (59,7%) the market share among the passengers flying from inside the Europe grew with 0,8% compared with previous year of 2015 (58,9%). European flight traffic continued as normal but biggest changes were met in Asian market. Petrol prices took

off which created uncertainty amongst the company. Flights to Turkey faced setback because of Turkeys coup d'état in July of 2016.

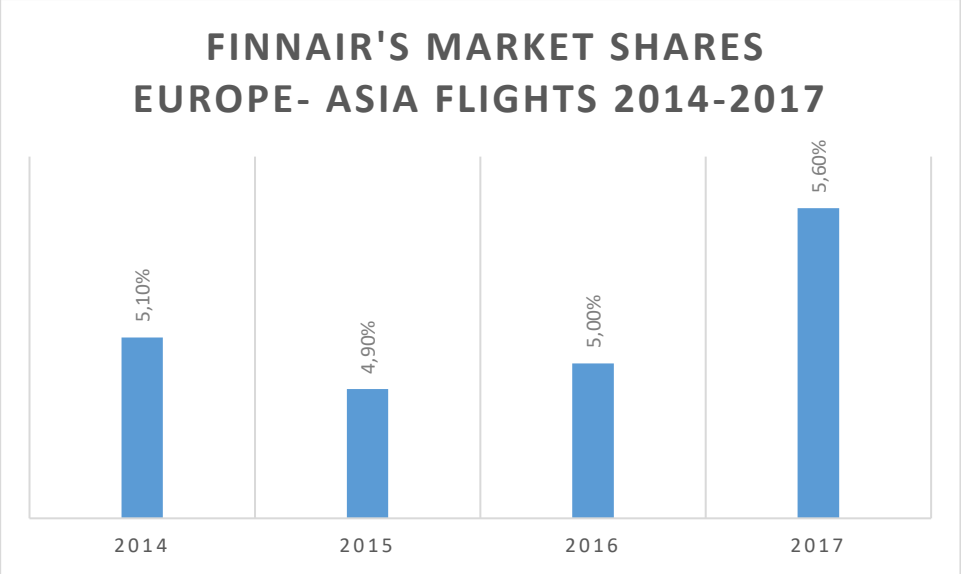

Figure 12. Finnair's market shares Europe – Asia flights 2015-2017 (Finnair – konsernin osavuosikatsaukset 2014-2017)

Finnair has enhanced their connections from Europe to Asia with several tactics. By increasing connections to Asia, Finnair is able to profit from the big population of Asian terrains. In 2014 Finnair's board set a strategy to double revenues from Asian traffic by the year 2020. Finnair aimed to improve connections and traffic which goes through Helsinki and improve Finland in the eyes of investors who want to invest in Finnish companies and make it more profitable to one's interested in investing in Finnish businesses. Moreover, in 2014 Finnair started a partnership with its **one**world (An alliance of 13 leading airline companies such as American Airlines, British Airways, Qatar Airlines and Iberia Airlines (**one**world 2020)) affiliates Japan Airlines and British Airways on 1st of April 2014 to engage connections from Europe till Japan. (Finnair 2014). In the summer season of 2014, Finnair had over 78 flights per week to Asia as well as in the winter season.

In October of 2015 Finnair invested in new contemporary A350 XWB- wide- body aircraft, which enhanced Finnair's cost competitiveness likewise customer satisfaction of Asian passengers. (Finnair-konsernin osavuosikatsaus 2015). In 2014 Finnair invested in bettering the airplanes with several new features: seats that would fold

completely into laying position as well as improvements in the business class of the plains. Finnair opened a new Premium Lounge in August of 2014 in the Helsinki- Vantaa Airport, which is accessible for the holders of Finnair plus Platinum and Gold card members as well as other OneWorld alliances card holders. (Finnairin osavuosikatsaus 2014).

Threat of new entrants

Threat of new entrants is high in the airline industry hence of the processes, regulations and restrictions in the airline industry. Finnair has faced a lot of competition within the industry especially because of Low Cost Carriers such as Norwegian for the past years. However, Finnair has invested in many improvements to ensure long costumer relationships and customer satisfaction. Finnair can be seen as high-quality airline company and it has been awarded for being the Best Airline in Northern Europe' for the 9th year in a row by Skytrax (Skytrax 2018).

Finnair facing threat of new airline company which would operate from Helsinki is quite unlike. Establishing a new airline company is rather difficult and risky process to begin with. Founding an airline industry has many regulations and rules such as: securing routes, leasing aircraft, employment, web pages etc. at the same time the company should be following restrictions and laws. (McGee 2017).
In Finland the process is multidimensional: Commercial airline industries required processes can last up to half year or longer because of the careful inspection. Companies often need to update or change certain things to fit into requirements. Process follows Global (ICAO) and European (EU, EASA, JAA) policies and procedures. All in all, establishing a commercial company comes with high barriers and the process strict, time consuming and obligates for financial capital (Traficom 2020, Poptravel.fi 2013).

Finnair offers great value in exchange for the money. Finnair has been expanding its routes to Asia by adding more flights and destinations to choose from. However, this has awoken competition between Finnair and Asian airline companies who are also

expanding their routes to varies continents (Finnairin osavuosikatsaus 2014) This has forced Finnair to renew their strategic game and offer the services that customers are waiting to get. In 2016 Finnair was the only European airline company who had straight flights to Japanese metropoles. Finnair stated in 2016 that they are aiming to deliver the best quality long haul business class flights out of all European airline companies (Finnair Annual report 2016). All of these aims, and plans confirm that Finnair has clear vision for its future and other companies might find hard to compete with.

Bargaining power of customers

Definition of this means the power and possibility for the customer to switch from one airline carrier to another. In the past decade third-party booking websites and apps, such as Skyscanner and Momondo, have reached significant popularity between customers. These kinds of programs provide customers a chance to compare prices and flight time between all airline carriers. Smart consumers have the ability to create intense price competition for Finnair and its competitors such as Ryan Air, Air Baltic, Norwegian and Lufthansa.

Finnair's annual reports from 2014 to 2017 shows stable growth in company's number of passengers, which reader can see in figure 13.

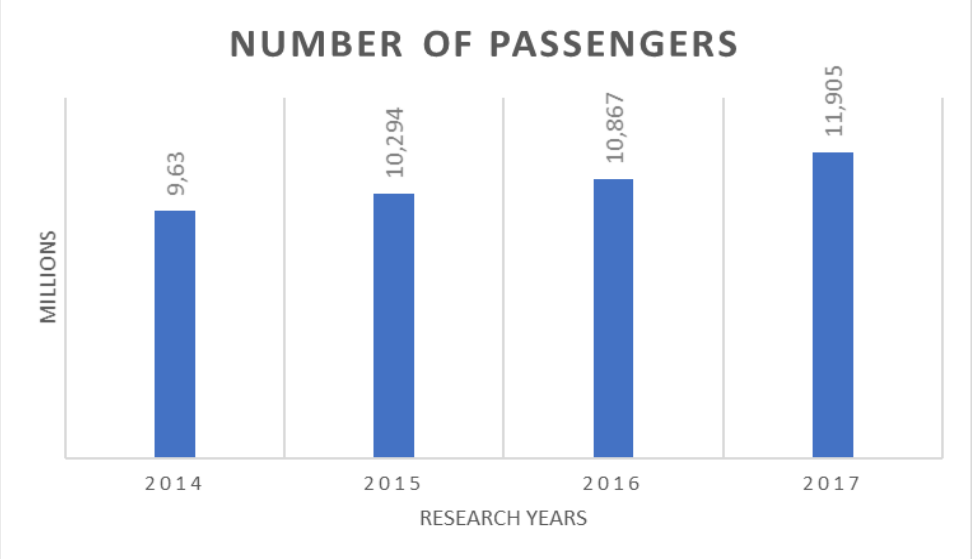

Figure 13. Number of Finnair's passengers 2014-2017 (Finnair annual reports 2014-2017)

Finnair assured steady growth in number of passengers by introducing The Finnair Plus program in 1992, that gives customer opportunity to earn points from scheduled flights with Finnair and those provides Finnair Plus members valuable offers and benefits. This is great way to ensure customers are more brand loyal towards Finnair and more reluctant to switch for another carrier.

Finland's biggest travel agency Aurinkomatkat belongs to Finnair concern. Vacations booked through Aurinkomatkat uses Finnair's flights and agency collaborates with The Finnair Plus program. This kind of facility provides benefits for a customer who want's scheduled vacation with hotel and flights combined. For example, in 2017 Aurinkomatkat brought 214 thousand passengers for Finnair (Finnair annual report 2017).

The most viable way to respond to bargaining power of buyers is conducting market and customer researches. Finnair started measuring customer experience via Net Promoter Score (NPS), that provides the core measurement for customer experience and predicts business growth. NPS analyzes customers responds scale from -100 to 100, with as higher the result the better. Finnair adopted it as one of the company's key performance indicators, supporting the work in the customer experience area (Walton). Finnair's NPS in 2016 was 43%, it continued to grow up to 47% in 2017 and was predicted to grow up to 50% in 2018. Reasons for good customer satisfaction comes from multiple sources. In 2014 Finnair started Sky Bistro -concept to increase customer contentment by providing wide range of products and meals for passengers to order either preflight or during the flight. Customers were also satisfied with Finnair's ground services and fluency with layovers and chancing the aircraft. In 2017 Finnair upgraded their lounge areas in Helsinki-Vantaa airport and provided cultural Finnish food in their long-distance flights.

Threat of substitute products

The definition of substitute products doesn't mean compensatory product or airline carrier, but it's way of providing costumer substitute way of travelling. Biggest threat in this area considering Finnair were internal flights for example from Helsinki to Oulu. When using this route as an example there are many things to consider. First and usually most substantial part for consumers comes with the price of travelling. Other factors to consider are time of travel and the ecology of the way of travelling.

Comparing train and flying from Helsinki to Oulu we can see that flying would save measurably time with fly time being 1hour (plus time used in check-in) and train travel time being around 5,5hours (weather conditions may affect this). Using train would be more green way of travelling, but if customer don't have the ability to spend that much time travelling then flying would be the obvious option. Price of the travelling has differences with train tickets being sold around 40€ depending if there are special sales and Finnair's flight ticket being around 130-150€. Despite this fly route from Helsinki to Oulu is the most popular internal flight and from 2014-2017 each year had over million travelers flying with Finnair on this route.

Bargaining power of suppliers

Describes the ability of suppliers to determine the price of the product. In airline industry the list of suppliers is longer compared to list of the buyers. This creates bargaining power for the airlines, especially Finnair being substantial size airline which makes the company a prominent customer.

One of the most affective industries affecting Finnair as a company is the jet fuel industry, since fuel cost accounts one third of Finnair's total costs. In autumn 2014 started substantial decrease in the price of jet fuel due to a decline in the market price of fuel and a decrease in capacity, occurrence that continued all the way to the end of year 2017 (see Figure 14).

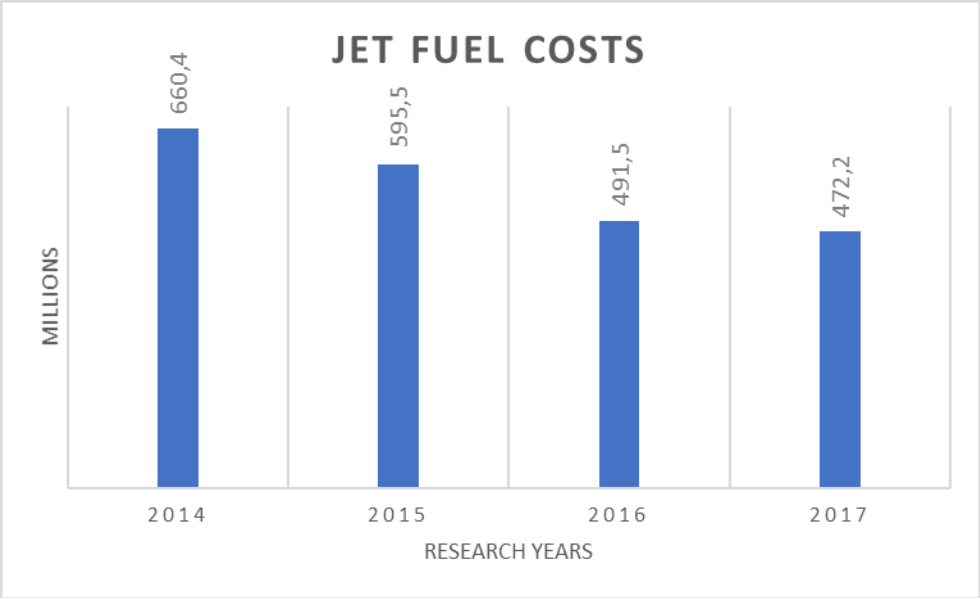

Figure 14. Finnair's jet fuel costs 2014-2017 (Finnair annual reports 2014-2017)

Decrease in the price of jet fuel and the consequences of this was passed on to lower flight ticket prices to ensure stable growth in number of customers and shows support in Finnair's financial performance in research years.

Finnair set goals in 2009 to ensure growth in financial and environmental sustainability by reducing its CO2 emissions by 20% per one hundred-ton kilometers. Company is cooperating with industry executives to develop and allow boarder use of biofuel and to overall reduce the climate impacts of aviation (Finnair annual report 2009). As a part of reaching this goal, Finnair flew to UN Climate summit in New York 2014, by using biofuel mixture, manufactured from cooking oil. Obstacles that company would face with using biofuel mixture, comes with its poor availability and price being triple than the ordinary fuel. Finnair pursued these objectives in 2015 by introducing the new A350 XWB aircraft that is more energy efficiency than its predecessor with its fuel consumption and carbon dioxide emissions being lower.

This transaction leads to another one of the Finnair's biggest investments being acquisition of aircraft and leasing payments. This was shown in 2016 with Finnair investing 7 new fuel-efficient A350 XWB aircrafts. All of the new aircraft were supplied from Airbus, aerospace product manufactory, that Finnair have used as one of their

main aircraft suppliers all the way from 1988. During research years 2014-2017 tangible assets related to aircraft acquisition costs were related to Airbus A350 investments.

As mentioned earlier in 1.1 chapter “Background” Finnair started remarkable action in 2014 with implementing cost reduction program aiming to save total of 18 million euros. This plan was executed by cutting down staff’s salaries, total of pilots and stewardess salary being cut down 10%, but they still agreed on a contract to work 15 hours more monthly (YLE 2014). This event could be seen in Finnair’s staff cost being equable from year 2014 to 2016 (see Figure 15).

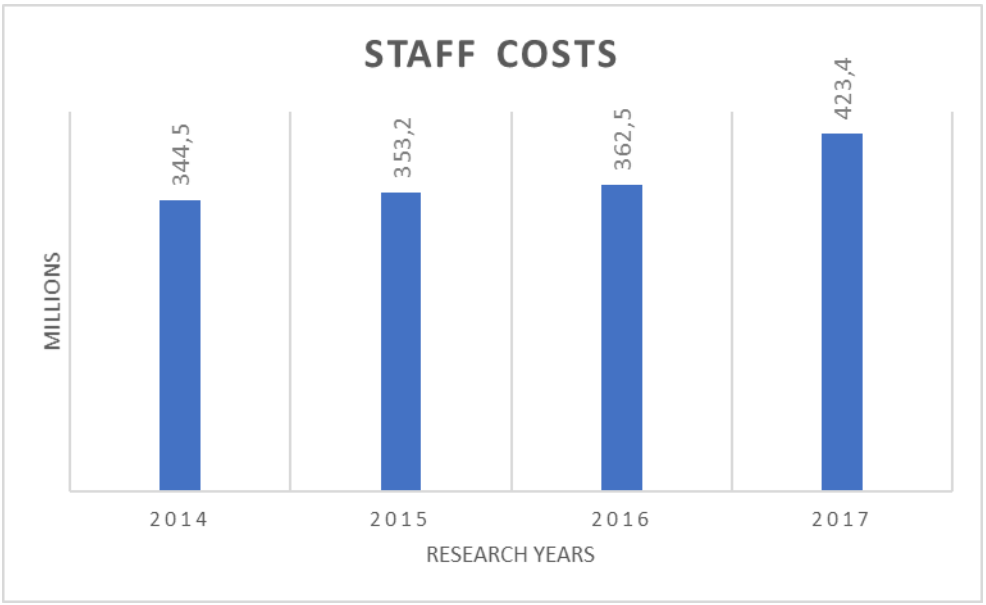

Figure 15. Finnair’s staff costs 2014-2017 (Finnair annual reports 2014-2017)

Since staff cost have substantial effect on company’s total revenue, cutting down these costs have positive effect on Finnair’s competitiveness. In exchange of cost reduction, Finnair offered their cabin personnel protection from redundancies for the next two years.

4.2 Reasons behind decline in competitiveness

In this sub-chapter reader will have more in-depth facts about what lead to the decline of the competitiveness in Finnair in the years of 2017-2019. The following years were at the same time rewarding to Finnair. However, Finnair collided with global issues which affected its competitiveness.

Rivalry among existing competitors

Airline industry is remaining one of the most competitive industry in the world. Low cost carriers are breaking through by offering better service for less of money and other competing airline companies fly to the same destinations with the same price. Companies, such as Finnair must recognize its strengths and weaknesses in order to compete with other airlines cost efficiently and creating strong bond between the company and customers. Consequently, rivalry among existing competitors is high. Finnair faced difficulties in the years of 2018-2019 which lead to its decline in competitiveness when observing stock-markets.

In 2019 3 new Asian airlines started operating in Helsinki-Vantaa airport: Sichuan Airlines, Tibet Airlines and Juneyao Air. Finnair didn't acknowledge competition or pressure because of these new airlines. Finnair cooperated with Juneyao Air with codeshare- liaison in which you can book your flight from the airline companies page but the plane that will transfer you into the final destination might be different. Finnair has strong believe in their services. Being the first airline company from Europe which had straight flights to Asia (Bangkok and Tokyo 1976). The growth in the Asian market is explained with high interest of Asian travelers who are interested in Finland's remote nature and in aurora borealis. (MTV uutiset-Kauppalehti 2019).

Below are two figures with pillars from each year from 2016-2019, which indicates the market shares in Finnair. In this sub-chapter authors wanted to incorporate years 2016 and 2017 which gives better perspective about the changes.

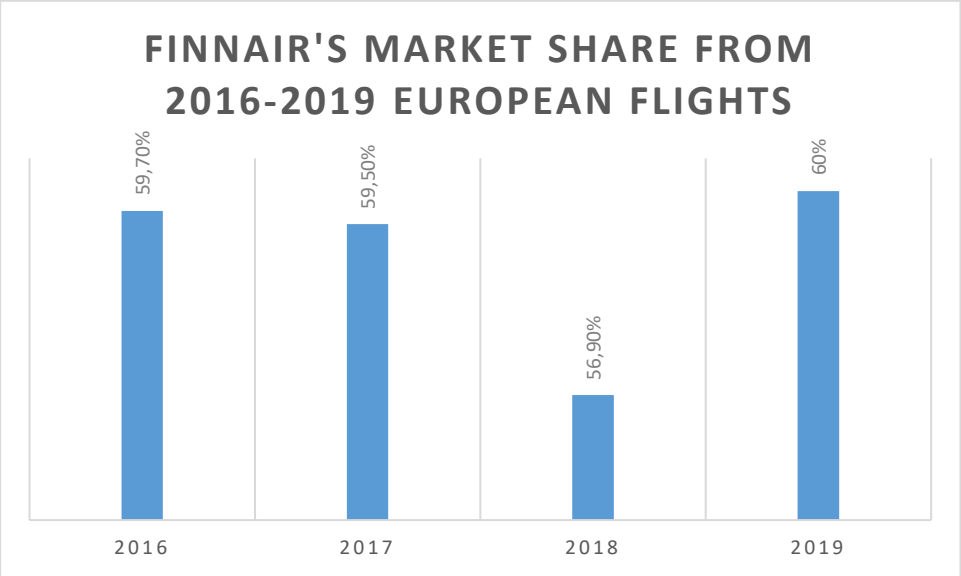

Figure 16. Finnair's market share from 2016-2019 European flights (Finnair-konsernin osavuosikatsaukset 2016-2019)

When comparing the market shares of Finnair from the years 2016-2019 we can see a major drop in the market share within the European traffic (see the diagram below). In 2017 the market share was 59,50% whereas in 2018 it dropped majorly to 56,90%. The reasons behind this decrease were uncertainties in the world's economy and the peak in the fuel costs which affected the overall expenses of Finnair in 2018 with 20% out of 692,5 million € (138,5 million €) (Finnair konsernin tilinpäätöstiedote 2018). Whereas in 2017 they were 19% out of overall expenses 642,2 million € (122 million €) (Finnair konsernin tilinpäätöstiedote 2017). In 2018 there was overwrought competition between European flights and flights to the Mediterranean countries. Warm weather in the domestic affected the profit and market share of Finnair, consequently, people stayed in Finland instead of travelling to other countries.

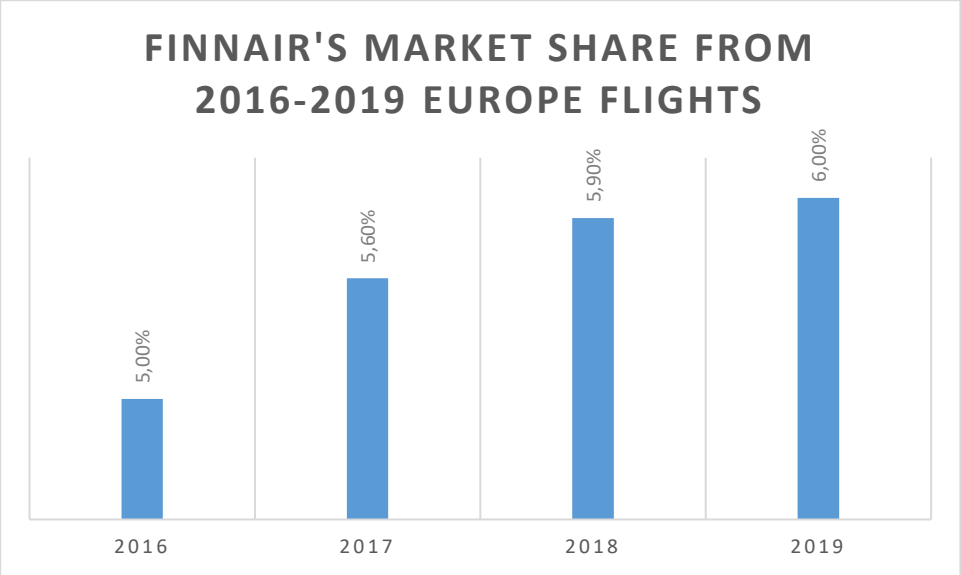

Figure 17. Finnair's market share from 2016-2019 Europe flights (Finnair- konsernin osavuosikatsaukset 2016-2019)

Finnair has been growing its capacity in the Asian market since the year 1976 when it opened its first route to Bangkok, Thailand. Ever since Finnair has been expanding its market to Asia and makes it one of the biggest airline company operating Europe-Asia route. (news.cision.com 2017). In 2017 and 2018 Lapland was chosen to be the number one destination amongst Finnair's Chinese customers (Finnair vuosikertomus 2017). Extreme weather conditions in South-Asia resulted in floods, heatwaves and tropical storms (Citrinot 2017). These conditions affected Finnair with delays and cancellations (Vartinainen 2018). In the beginning of 2019 Finnair faced some obstacles in the Asian traffic because of the trade war between China and United States of America, therefore, that brought uncertainties also in the airline companies around the world including Finnair (Finnair vuosikertomus 2019). However, the demand on the main market sector increased in the 2019.

Threat of new entrants

Threat of new entrants in the airline industry is high. Airline industry is highly competitive, and it is easy to get trampled by the existing companies who have gained their visibility and customer loyalty. However, in 2018 Finnair was introduced to 3

new Asian based airline companies: Sichuan Airlines, Tibet Airlines and Juneyao Air. Nevertheless, Finnair didn't see them as threat because of its strong build base in the Asian market (MTV uutiset- kauppalehti 2019)

Bargaining power of customers

In recent years airline industry constantly faces more challenges with competition inside the industry, due continuously updating online programs and mobile apps to use to purchase travelling tickets while comparing different airline carriers and prices.

Finnair moved their customer service to more digitalized era with providing fast and easily accessed service online through chat services. As mentioned before Company measures customer experience via Net Promoter Score (NPS) to support the work in customer service. NPS had steady growth in customer experience with previous research years, reaching its peak in 2018, following with remarkable decrease in year 2019 (see Figure 18).

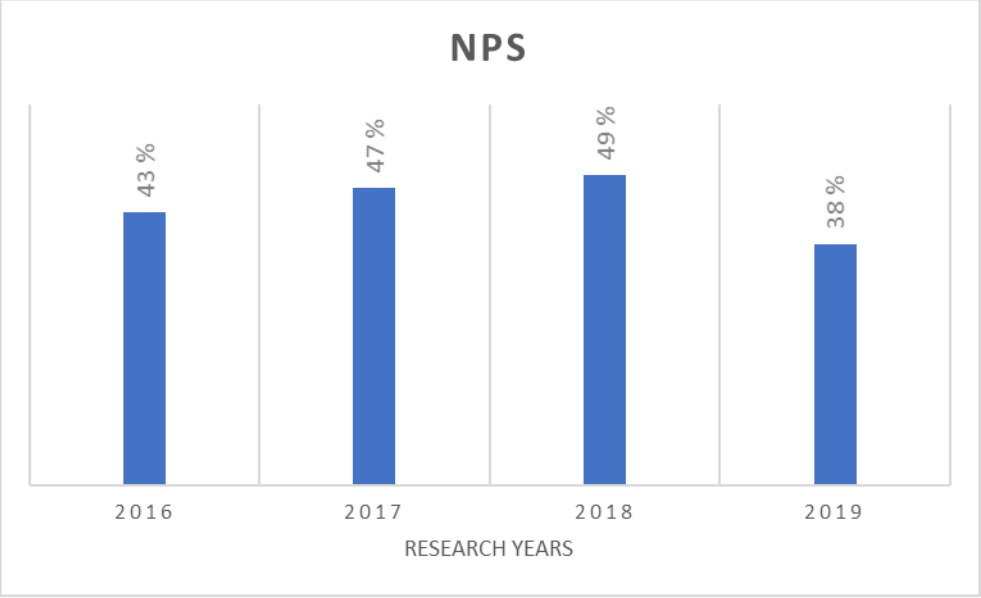

Figure 18. Finnair's Net Promoter Score (NPS) 2016-2019 (Finnair annual reports 2016-2019)

When customer is answering to NPS enquiry they answer to “On scale from 0 to 10, how likely would you...” questions, and by combining answers together company can see ranging from -100 to 100. As higher end result as possible is more desirable.

Reasons declaring the increase in NPS score and reaching its peak in 2018 comes with many attributes. In 2018 Finnair provided wireless internet connection on its Airbus aircrafts, to offer their passengers more pleasant flight experience and opportunity to work while flying. Company was voted North Europe’s best airline in enquiry, considering customer service during flights and service in the airport, provided by Skytraxin World Airline Awards.

Remarkable decrease in 2019’s NPS was outcome of many different factors. Passengers felt reducing in quality of customer service, multiple delays with flight schedules and Finnair neglected to pay delay compensations which gave company bad press in Finland’s media. In 2019 company took part in Finland’s postal system strike with cancelling 276 flights, most of them being international flights affecting almost 20 000 passengers. Some of Finnair’s biggest competitors such as Lufthansa and Turkish Airlines also cancelled their flight from Helsinki-Vantaa airport, other competitors like Norwegian continued with their flights.

Number of passengers continued to grow steadily from previous research years (see Figure 19) but despite this as we can see earlier in Figure 6. Finnair’s stock chart from 2014- 2019 company lost their competitiveness due other factors affecting negatively in company’s performance.

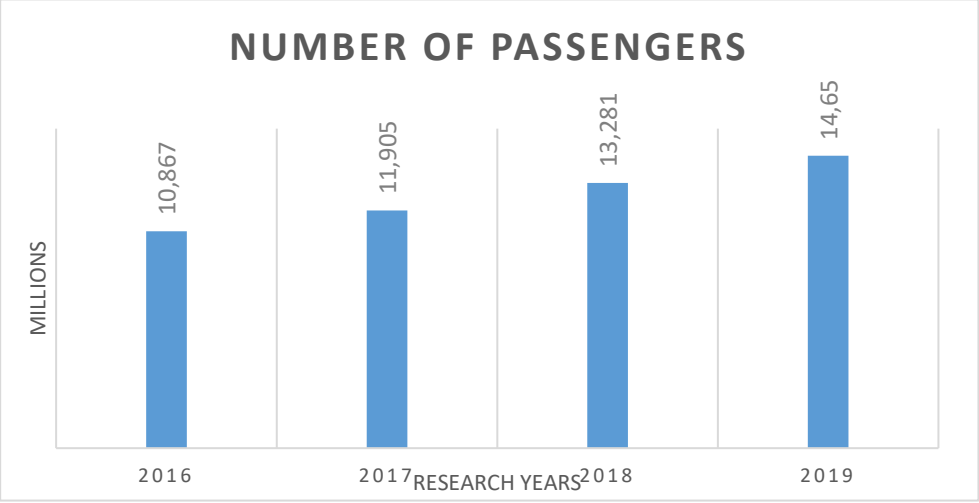

Figure 19. Finnair’s number of passengers 2016-2019 (Finnair annual reports 2016-2019)

Threat of substitute products

As mentioned earlier substitute products signifies the alternative way of traveling, which was demonstrated by comparing cost and the duration of the journey with flying from Helsinki to Oulu compared to traveling with train.

In recent years the awareness of sustainability and emissions generated by air service has become more influential and affecting in customers way of traveling. Passengers who are determined to the ecological way of traveling and resisting climate change might choose train travel over flying. When researching calculations of carbon dioxide emissions of transportation, we can see that distance from Helsinki to Stockholm is 440km and emission with train for this passage would be 1 kg CO2 / 440km compared to airplane emissions being substantial 207 kg CO2 / 440km (Lamminen 2018). Finnair faces these ongoing challenges with updates in aircraft, e.g. fuel-efficiency A350 XWB aircrafts invested in 2016, and carbon capture projects.

It Is predicted that more and more people are refrain from flying in the future, due climate change and air service emissions. For example, Flight-free campaign started in Sweden in 2018 aiming to encourage people not to fly and already at the end on 2018 it had reached 15 000 people (Saner 2019). Campaign has already spread around in multiple countries in Europe and in Australia, Canada and USA, additionally the amount of people joining is predicted to grow up to 100 000.

As shown earlier in Figure 19, the number of passengers flying with Finnair has steadily grown but the environmental effects are coming more powerful and active topics daily, as a result menacing the airline industry.

Bargaining power of suppliers

As mentioned before, fuel cost is one of Finnair's most significant expense item affecting on total costs and therefore the increase of fuel prices influences on company's revenue and competitiveness. According to Finnair's annual report the market price for jet fuel in 2018 was 29% higher than in the comparison year and 18% higher in 2019 (see Figure 20).

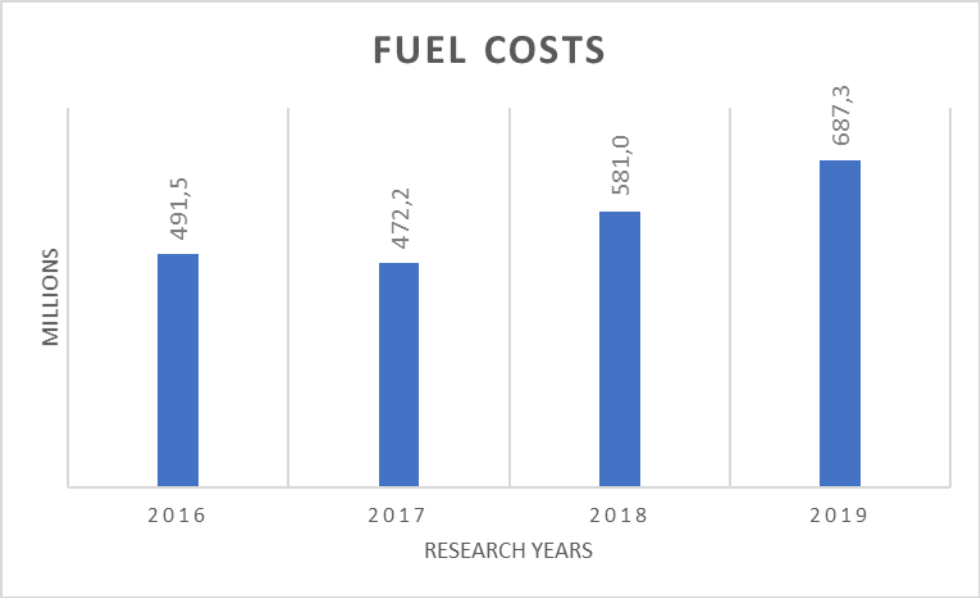

Figure 20. Finnair's fuel costs 2016-2019 (Finnair annual reports 2016-2019)

To fight against rising fuel costs and finding way to use more expensive but sustainable choice of aviation fuels, in 2018 Finnair conducted study about customers opinion about fuel emissions and sustainable aviation fuels. Results of the study shows that most of the passengers who answered the survey would be willing to pay to reduce air travel emissions but wanted the profits go straight to environmental work or organizations. In early 2019, Finnair provided their customers new service with option to choose to support either the use of biofuels or carbon capture initiatives when they are flying with Finnair. Passengers will have to alternatives with either purchasing biofuel to be included and blended on another later flight or choose sum of their choice support a carbon capture project. For this project Finnair chose to partner up

with SkyNRG from Holland and with Nordic Finance Corporation (Finnair annual report 2019).

Jet fuel cost wasn't the only cost decreasing company's competitiveness since there were substantial growth also in staff costs compared to earlier research years (see Figure 21).

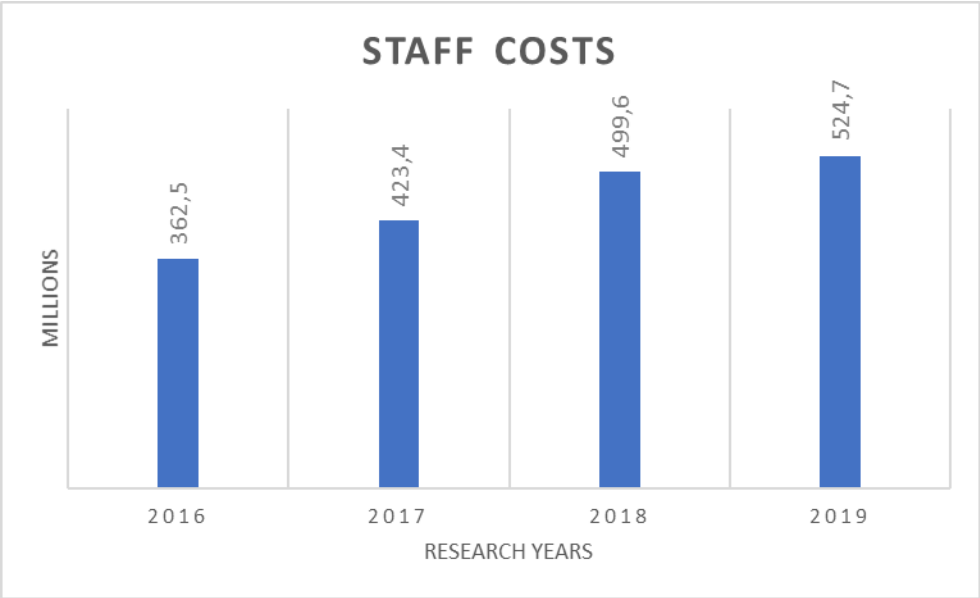

Figure 21. Finnair's staff costs 2016-2019 (Finnair annual reports 2016-2019)

According to Finnair's annual reports staff costs increased 2,4% in 2018 and 7% in 2019. Reasons affecting the increase in costs comes with the capacity growth and number of employed people growing 6,5% in 2019 and all costs related to employees training and related travel costs.

5. Discussion

Airline industry is one of the most competitive sectors of business in the world and it affects positively companies and the nations. However, the industry is extremely volatile to every possible change, regulations, weather conditions, domestic issues, foreign altercations and variable costs which could have an impact on the demand for

this type of transportation. Finnish airline company, Finnair, faced multiple obstacles throughout the research years 2014-2019. Whereas the years 2014-2017 were nascent years for Finnair for number of reasons: after 2017 Finnair was faced with e.g. strengthening of currencies and mounting petrol costs which took a toll on Finnair's stock markets and competitiveness. Despite the global issues Finnair was able to improve countless of services and provide in the alliance of OneWorld over 900 destinations.

The main aim of the research was to provide reasons and answers behind the increase of competitiveness of Finnair in the research years 2014-2017 and the decline of the competitiveness of Finnair from 2018-2019. After carefully reviewing the literature the following research questions were formulated:

- What were the reasons for Finnair's increase in competitiveness from 2014 to end of 2017?
- What were the reasons for decline in competitiveness from the beginning of 2018 till the end of 2019?

In order to answer the research questions, qualitative and longitudinal approaches were the most relevant and optimal options. Due to limitations the study was executed by using only secondary data. Because of the restricted data, the secondary data was observed and analyzed carefully and critically in order to get the most accurate results for the research. For the collected secondary data, a framework was chosen Michael Porter's five forces framework (2008).

5.1 Summary of the main findings

Fluctuations in Finnair's stock chart (see Figure 1) were used as a base when dividing the research in two parts, increase in competitiveness from 2014 to 2017 then followed by decrease from 2018 to 2019. In this research we can see that Finnair as a

company is often affected by the happenings that are ongoing in the industry, such as fuel fares, regulations and competition with other airlines.

Main factors generating Finnair's increase in competitiveness starts with remarkable cost reduction program inside the company starting 2014 and leading up to savings with total of 18 million euros. Finnair were able to attain major improvement in Europe market shares emerging from 52,2% in 2014 to 58,9% in 2015, percentage represents total sales earned by Finnair in certain market (Europe air traffic) giving overall picture how well company operates in Europe against its competitors. To compete against competitors, Finnair constantly updated their operation by different improvements such as aircraft updates (fuel-efficiency Airbus 530 airplanes), modernizing their services on ground (lounges, customer service) as well as off ground (sky bistro, flight punctuality) and expanding their flight routes. Airline industry was able to benefit from decrease in jet fuel price starting in 2014, due decline in market price while decreasing in capacity. Consequence of decrease in fuel cost was forward to lower flight ticket prices, ensuring the growth in the number of passengers (see Figure 19). Overall, from research years 2014-2017 Finnair was able to operate in airline industry with lower fuel cost and less personnel expenses while improving flight routes, updating aircraft and rising number of passengers.

Research years 2018 and 2019 focuses on the decrease in Finnair's competitiveness. Competition in airline industry grew substantially in Europe, affecting negatively in Finnair's market share in European traffic due uncertainties in the economy. Number of passengers continued to grow, but on the other hand the customer satisfaction decreased. As mentioned earlier, Finnair uses Net Promoter Score (NPS) to calculate customer fulfilment, with goal of reaching as high result as possible. As we can see in Figure 18, company's NPS score faced markable drop towards year 2019. Reasons for decrease in customer satisfaction comes with multiple flight delays, missed compensation pays and impaired quality of customer service. Finnair faced challenges with remarkable increase in costs related to fuel and personnel. Overall, in years 2018 and 2019 Finnair competed in airline industry with growing profit and number of passengers, facing adversity with growing competition and increasing costs.

5.2 Practical implications

This chapter describes how the findings of the research could be implemented and used in development in competitiveness for airline company. Main challenges facing Finnair's competitiveness were rising costs mainly due to personnel and fuel expenses. As mentioned earlier, these are most significant expenses affecting company revenue. With green travel becoming more current topic, company can face challenges with the economic use of fuels with more ecological fuel options being more expensive, leading many companies to the pollutant option. To confront the sustainability issues related to fuels, Finnair has already conducted services where passengers can support either the use of biofuels or carbon capture initiatives when they are flying with the company. It can be expected that these kinds of options and programs will grow in the future.

Another remarkable expense is personnel costs which have understandable grown with the amount of flights and passengers increasing. Finnair conducted cost reduction program of saving total of 18 million euros already in 2015, and similar cost reductions might face company also in the future to ensure the steady revenue by cutting down expenses if possible.

Currently company measures the customer satisfaction via Net Promoter Score where passengers answer on scale from -100 to 100 "how likely would you" -questions creating a scale for customer contentment. In the future to create more accurate and detailed questioner gives company an opportunity to see what positive and what negative with customer experience was and demonstrates the critical improvement objects instead of focusing overall NPS score.

5.3 Assessment of the results in the light of literature

The study was mainly based on the competitiveness of Finnair from the years 2014 until the end of 2019. There have been similar studies about Finnair as well as about competition but those two haven't been covered in the same study earlier. Airline industry is highly dependent on regulations, seasons, global economic situations, global pandemics as well as weather conditions. Customer satisfaction has risen the demand for not only good quality but also affordable prices. This has led airline companies to adjust strategies to become cost efficient while still providing the best possible service (Klemettinen 2016).

Theoretical framework that was used for this study (Michael Porter's five forces 2008) helped to insinuate the findings. The results were similar to the Porter's findings e.g. the threat of entry was low since many already existing companies developed their strategy and upgraded their performance while new entrants found it hard to compete in the same industry/market (Porter 2008).

Since there were no previous studies related to the topic of this study, authors had to come up with conclusions based on the two connecting subjects: Finnair and competitiveness.

5.4 Limitations of the research

One of the biggest challenges of this study were the limitations. The issues were related mainly with primary data collection and access to the articles and online books because off the paywalls. It was disappointing that we were denied from many useful and beneficial sources because of this issue. Nevertheless, after careful and time-consuming research this wasn't an issue anymore. Accessible books, articles and news provided us with very trustworthy data which helped us with finding the answers to the research questions and learn about airline industry in general. Authors used reliable official sources such as IATA (The international Association for Technology and Automatization) and Finnair.

Another, and the most problematic dilemma, was the lack of primary data. Authors reached out to several professionals from Finnair as well as employees from airline industry but with no success: not one possible interviewee reached back. That led to difficult decision to continue the research without any primary data. One of the issues was related to the volume of studies made earlier.

As mentioned earlier in the study (chapter 3.5 reliability) the issues were faced while searching for earlier studies made from Finnair. One main factor affected this phenomenon: Finland's geological location. In the country with such a small number of populations also affects the amount of studies made from the subject. This made our work more difficult since most of the information needed to be found without any back up research from earlier years.

The secondary data for the study was collected from reliable sources and by using data triangulation the authors were able to execute as much bias as possible with cross check verification. However, most of the data was based on one trustworthy source since other similar sources weren't found anywhere. In those cases, we had to rely on our source criticism. Additionally, subjectivity of the authors was carefully analyzed to cut possible bias and false information.

This study was mainly based on the focus company which is located in Finland but works internationally around the world. The case company is highly dependent on Finnish laws, regulations, population, economical state and so on. Airline industry is highly competitive area of business which requires knowledge and understanding the operational differences in the companies depending of their geological position. Companies from small countries require better tactics and know-how in order to survive since the demand is much more restrained. On the other hand, the company of country with ample population the demand for services rise and the appreciation of quality lowers. This study could be implicated for the future researches about airline industry in general but additionally for study which is fixated on airline company which is located in smaller or more remote area. It is understandable that big companies such as British airlines, Lufthansa wouldn't get much benefit out of this research

since the demand for their services is stable all year round hence big population. Finnair highly depended on tourism and foreign travelers because the population is so small. This might not be the case in big countries. Regardless, the study can be useful for other airline companies to identify with the decisions and enchantments Finnair has done in order to became one of the most leading airline companies despite all the trouble and issues in the past. Company regularly invests in new ideas and improves their business activity in order to remain attuned to the times.

5.5 Recommendations for future research

For the future, expanding the research and perhaps getting deeper look in competitors annual reports, revenues and changes instead of focusing mainly on case company, would give boarder view of what is occurring in the industry. With generating longitudinal study, happenings in economy has and will continue to have remarkable impact on airline industry. If studying Finnair's competitiveness in the future, it is important to consider future occasions that this research didn't take in consideration. Including primary data in the research would be essential with its possibility to provide personal opinion and visions, that researchers can't find with secondary data.

Overall, when producing research about company's competitiveness, it's main key issues and objectives will modify depending on the happenings during chosen research years.

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