

Can the Netflix Business Model Actually Work for Commercial Aviation in Central Europe? It is Complicated!

Summary of the Case

The case discusses SurfAir's entry into the European market. SurfAir is a California-based subscription-only airline, serving business routes with small aircraft. For a flat fee, subscribers can fly as much as they want on SurfAir's network. The case describes their entry into the market entry and development of their network, as well as changes in their business model. Whilst SurfAir initially operated one jet on their Zurich-London route, this route was soon discontinued. Instead, SurfAir partnered with another jet operator offering single seats. In December 2018, a little more than a year after starting their European venture, SurfAir closed their European operations. This case illustrates SurfAir's business model, describes their entry into the European market, and allows students to develop an understanding of reasons why the venture was not successful in this context.

Teaching Objectives and Target Audience

This case study is directed at students on courses in Tourism and/or Business Management with a focus on Aviation Management and/or Strategic Management. While we are initially targeting the case study at undergraduate courses, it can also be used for postgraduate tourism-related courses.

The teaching objectives are:

- To assess the advantages and disadvantages of the novel (disruptive) business model
- To evaluate the challenges associated with route and network planning in commercial aviation
- To assess the role of intercultural aspects in aviation marketing
- To analyze and synthesize a variety of information
- To clearly present findings to an audience

Teaching Approach and Strategy

Students were asked to read the case text in preparation for the session. The following video links might be useful in helping students to contextualize the case:

- <https://youtu.be/KGs7aUOVaWc>
- https://youtu.be/7DDiOtdnx_M

After the students had been divided into small groups, they were given fifteen minutes in which to re-read the case, clarify any issues and decide on their thoughts as a team. Thereafter, the case study questions were randomly allocated to the groups (one question per group). Student groups were instructed to prepare their answers in the form of a short presentation and were encouraged to make use of multimedia tools to increase the effectiveness of their presentations. Presentations were held during the same session.

- Re-reading and clarifying of case: 15 minutes
- Discussion and preparation of case: 45 minutes
- Presentations: 5 minutes per group
- Discussion and wrap-up: 20 minutes

Analysis

Possible answers to the case study questions are discussed in this section of the teaching note. It needs to be noted that the answers provided below are suggested answers only and that others may also be correct. The answers provided below are intended to be considered as a starting point from which discussions with students may arise.

1. Using an appropriate framework, such as the Business Model Canvas, critically analyze SurfAir's business model, pointing out the advantages and disadvantages of SurfAir's business model and identifying major risks.

Understandably, answers may differ from group to group. Students may be likely to develop a Business Model Canvas similar to the one on the following page.

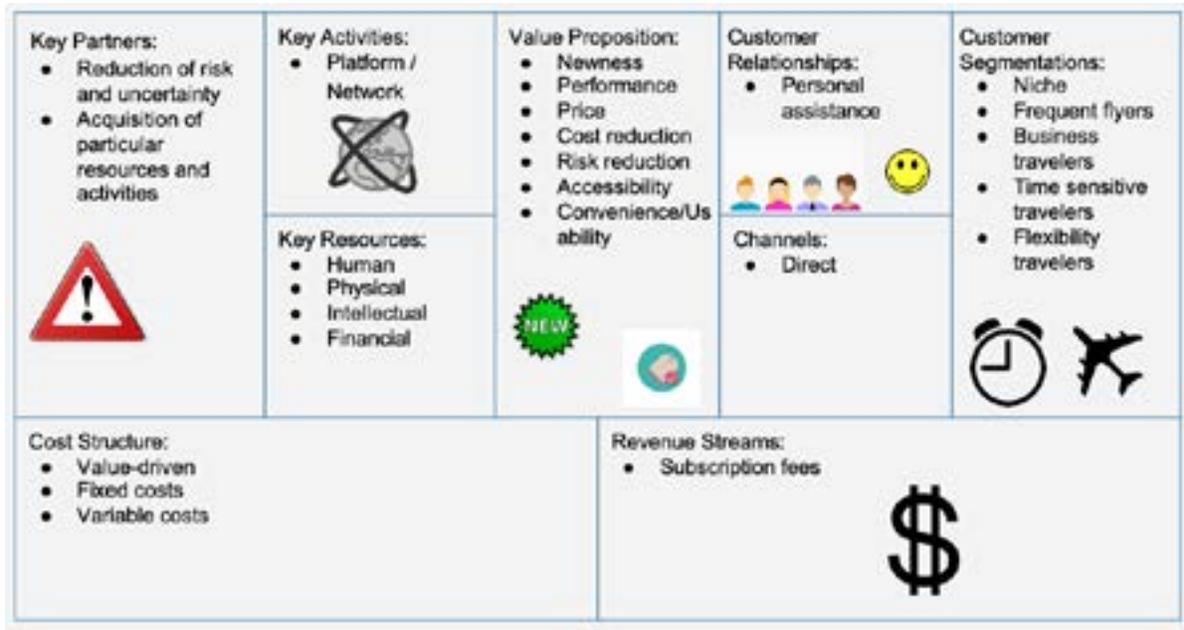
Advantages of the business model may include:

- Passengers' perspective:
 - An easy and convenient way of booking
 - Flexibility, as there are no cancellation fees
 - Saves time and reduces cost
 - Access to premium check-in, lounge, and private jet
 - Additional services can be booked
- Airline's perspective:
 - Company doesn't own fixed assets, allowing a lean cost structure

Disadvantages presented by students may include:

- Passengers' perspective:
 - First come - first served policy in connection with the limited capacity of the aircraft
 - Airline's perspective:
 - No branding of aircraft
 - The subscription-based model might be harder to sell
2. When bringing SurfAir to Europe, their management learnt the unexpected lesson that Swiss customers are less open to new business models, compared to customers in North America. Using relevant theory, explain the variation in openness between these cultures.

Customers in Switzerland are known to be more skeptical and cautious when compared to other western cultures. Whilst the case text briefly touches on cultural differences between North



American (USA) and Central European (Switzerland) cultures, students may use Hofstede's (2001) model to explain the differences that were observed, especially in terms of individualism and long-term orientation. The Swiss rate significantly lower on the individualism dimension and much higher in terms of long-term orientation than their US counterparts. In individualist cultures (such as the USA), using a private jet as a sign of professional success may thus be more socially acceptable.

Scoring highly on long-term orientation (Switzerland) suggests that this culture prefers to maintain time-honored traditions and norms while viewing change with suspicion (Tajeddini & Trueman, 2012). Those whose culture scores high, on the other hand (USA), are more pragmatic and open to new developments, such as buying a subscription for air travel.

- Subscription models are not a new idea. However, they have not yet widely been applied to air travel. Develop credible and feasible ideas of how SurfAir could convince their target market segment to sign up for the service.

This question is intended to trigger students' creativity and innovativeness. Ideas to reduce potential clients' perceived risk could include:

- Implementing a risk-free trial period
- Using testimonials in marketing and advertising
- Offering generous cancellation policies in case subscribers' circumstances change (e.g. change of job or personal developments leading to differing travel patterns)

If an in-depth discussion on benefits and disadvantages of value networks and value chains is sought, the following articles

might be beneficial (see full references in the list of references):

- Peppard and Rylander (2006)
- Fjeldstad and Snow (2018)
- Fliess (2009)

- In light of revenue management and how traditional airlines use it to segment their markets and maximize revenue, critically evaluate SurfAir's subscription model from a commercial standpoint. Commercially, 'traditional' revenue management approaches would only make sense up to a certain point due to the limited capacity of the aircraft. In light of this, SurfAir's strength (offering high flexibility) then also becomes one of its major weaknesses: subscribers cannot be assured of getting a seat on their desired flight due to the limited capacity of the planes themselves. Consequently, the business model largely differs from other subscription-based products and services (see question 7) in terms of capacity. From a cash flow perspective, the model chosen is interesting, however, for an airline. Once sold, the subscriptions guarantee steady revenues that can be precisely forecast.

In light of the capacity issues and the very limited route network that was offered, the model offered by SurfAir may not have been suitable for the European market at this time (as time has shown).

- Using SurfAir's price structures and comparing them with those of a full-service jet provider (such as NetJets), prepare a rough estimate. How many paying members do you believe SurfAir would need to serve a route like Zurich-London on a twice-daily schedule?

A rough calculation and online research will show a current market price of roughly CHF 7,000 for a one-way flight from London

to Zurich on a 6-seater jet. Offering a twice-daily service, 5 days a week, would thus require a member base of some 190 paid subscriptions. Although it is safe to assume that SurfAir was able to fly at rates below the market price, the rough calculation shows that a significant customer base is required to maintain a route – especially with a clientele that expects regular services.

6. When marketing their service, SurfAir segmented the market by a number of criteria. Critically evaluate the approach chosen (appealing to Star Alliance Gold Status holders and American Express Platinum Card holders) and develop alternatives as to how the target population could have been approached.

In general, the underlying rationale certainly allows for the relevant target segments to be addressed. SurfAir, however, offered a free flight to all Star Alliance Gold Status holders. While Star Alliance Gold status is only attained with a significant amount of annual air travel, the target segment is not sufficiently homogenous. It is evident that only a very small number of Star Alliance Gold status holders would consider subscribing to SurfAir’s services.

Students may be creative in discussing other ways to gain access to high-net-worth individuals, such as by collaborating with banks or luxury goods retailers.

7. Similar to a telephone provider, SurfAir sells subscriptions. Critically discuss differences in scalability by contrasting these services.

Most subscription systems have the benefit of having almost unlimited capacity (telephone providers, Netflix, etc.). High fixed costs (developing and upholding the network) are combined with very low variable marginal costs (signing up a new user). In this sense, the network can grow almost endlessly and, as such, become very profitable. As mentioned in question 4, this is where SurfAir’s business model is greatly different. Capacity is not only very limited: it is also small in absolute terms. Combined with passengers’ expectations of high frequencies and a diverse route network, its limited scalability becomes evident.

8. Using relevant literature or websites, briefly elaborate on barriers to entering the European Commercial Aviation industry. What are the main challenges when setting up a business in this context?

Barriers to market entry are generally low. Contrary to public opinion, not much capital or special certifications are needed since operations can start by wet-leasing aircraft from existing operators (Hsu, Chao, & Huang, 2013). As in SurfAir’s case, an airline does not necessarily need to hold an Air Operator’s Certificate (AOC). This question may also be used to direct the discussion towards finance and investments in tourism management, since significant investment is required in order to set up commercial aviation operations.

Feedback

The case study was evaluated with international tourism management students in a classroom setting. Using the case study for group-based presentations worked very well since it offered the students an opportunity to share what they had learned and experienced, and disseminate their findings to their peers.

Date	Number of students	Location	Session length
21.11.2018	26, Aviation Management, undergraduate	Switzerland	120 minutes

Positive aspects of classroom pilots:

- Students reacted positively to the topic and writing style of the case study.
- Students understood the objectives of the case study and had a general understanding of the situation.
- Offering time to clarify and re-read (15 minutes) in-class to review items and ask any questions was appreciated.
- Group work revealed that international students were able to bring cultural aspects into discussions.
- The case context provided a good basis for a balance of specialist knowledge and reflection in replies.
- Students gained a firmer grasp of the differing business model as case study discussions progressed in-class.
- Students were challenged with some of the questions since the case deals with a specialist topic. This is not necessarily a weakness – students commented that they enjoyed not having all the answers at their fingertips, but rather were motivated to find supporting evidence on their own to facilitate class discussions. This was also an opportunity to have a lively discussion with the instructor and reflect on how different industries operate within the tourism sector.
- Discussion with the instructor allowed students to express their ideas and provide insight into the issues mentioned in the case study. This discussion included examples of areas for students to probe into.
- There appeared to be strong interest from students to understand this type of operation – this sector is not one which is usually covered (based on feedback from students in the classroom).
- Students reacted positively to the context of airlines and airports. They liked the topic since they were all familiar with aviation and were curious to know more about its business models.
- Participants linked theory to the case – the example used was the Business Model Canvas.
- Students brought cultural aspects of the case into their

discussions, notably with regard to the differences between North American and European cultures as suggested in one of the discussion questions.

- Aspects to improve upon, based on experience during classroom pilots:
- Take more time to review the specifics of aviation management with students and discuss these issues.
- Allow more time to present the context of the study and familiarize students with the business environment of airline-based operations.
- Introduce students to the airline context and how network development is undertaken – some students are not familiar with this.
- Engage in a more in-depth discussion of the geographical and contextual situations of operations in Europe, to put things into sharper focus for non-European use of the case.

Suggested Reading

While the aviation industry is of great interest to most students in the field of tourism and hospitality management, it can be challenging to acquire a basic understanding of this complex sector. Depending on the context in which the course is intended to be used, the following suggested reading might be beneficial in helping students to understand this field:

Cento, A. (2008). *The Airline Industry: Challenges in the 21st Century*. Heidelberg: Springer Science & Business Media.

Wensveen, J. (2018). *Air Transportation: A Management Perspective*. London and New York: Routledge.

Wittmer, A., Bieger, T., & Müller, R. (Eds.). (2011). *Aviation Systems: Management of the Integrated Aviation Value Chain*. Heidelberg: Springer Science & Business Media.

Bieger, T., Wittmer, A., & Laesser, C. (2007). What is driving the continued growth in demand for air travel? Customer value of air transport. *Journal of Air Transport Management*, 13(1), 31-36.

Notes

This case was made possible through the generous co-operation of SurfAir Europe. The case is intended as a basis for class discussion rather than to illustrate either effective or ineffective handling of management situations. Although this study has a number of limitations (e.g., lack of access to company documents such as financial statements, marketing plan, training and operation information), we wish to draw attention to an issue that we believe is of fundamental concern to the advancement of research on this topic in the aviation industry. Specifically, we believe that the current approach to disruptive business planning is limiting. Finally, we would like to express our gratitude to the anonymous reviewers who provided us with valuable comments.

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