

# Service innovation through unbundling in the Airline industry ~ the strategies of ANA and Icelandair

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## 1 Objective

The airline industry is nowadays exposed to heavy competition, consolidation, high cyclicity, etc. Airline economics are characterized by low marginal costs and services that are mostly perishable, which creates large incentives to sell unsold capacity at low prices. Recombinative innovations are a major mode of innovation that is frequently used in services. Unbundling of services has become increasingly prevalent in the last decade in the aviation business first at LCC(Low Cost Carriers), but more recently at legacy airlines. In the case of unbundling, characteristics of pre-existing services are separated. Cusumano and Gawer (2002) coined the concept ‘platform leadership’ and studied the dynamics between technology platforms and innovation networks. Amadeus and other GDS platforms are integrated databases and host systems that coordinate all airline and airport applications. The research objective is to explore the factors affecting unbundling into certain value-added services at legacy airlines. We aim to explore the following factors affecting unbundling decisions .1.Distribution platform ability 2.Competitive environment 3.Revenue management or business reasons 4.Alliance or code-share reasons

## 2 Method

First, we review literature related to unbundling in service innovation. Second, we analyze the airline industry in general to understand recent trends and factors affecting unbundled services. Third, a qualitative analysis is made of the strategies towards unbundling services at ANA and Icelandair by conducting interviews with senior managers in the areas of IT, distribution and marketing. We chose to look at three recombinative innovations at the respective airlines: Prepaid seat selection, Prepaid extra legroom, Prepaid baggage

## 3 Results

Icelandair can be regarded as a carrier that likes to follow both imitative and offensive strategy in unbundling of services. However, sometimes when it wants to follow offensive strategy it is limited due to size and platform innovation abilities. When deciding on new ancillary services at ANA, it looks at two dimensions, brand compatibility and revenues. ANA can be regarded as following a defensive or imitative strategy regarding introduction of unbundled fares in the Japanese market.

## 4 Conclusion

This research reveals how unbundling of services has taken place both in general, and specifically, at two airline network carriers – ANA and Icelandair. Although, they both use the same platform, AMADEUS, somewhat different strategies towards unbundling services were identified. Unbundling at Icelandair was in certain cases delayed due to platform technology availability but less so at ANA

## References

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