REPORT PREPARED FOR:

Air New Zealand

REPORT TITLE

Business Model Analysis

BY AUTHOR NAME

Yidan Deng, Yao Gui, Yanze Li, Zheng Liu

POSTGRADUATE DIPLOMA IN BUSINESS

APMG 8119: DIGITAL ENTERPRISE

ASSOCIATE PROFESSOR DR. NITIN SETH
CONFIDENTIALITY AGREEMENT

You are a student at Unitec enrolled in the Digital Enterprise course (APMG 8119). As part of the course requirements you are expected to contact companies and may receive a briefing on their business activities and digital initiatives of the companies involved in this course (referred to collectively as “the companies”). Some of those materials and information may be commercially sensitive. It is imperative that all such information (referred to as confidential information) is kept confidential. In essence this means you must act in a way which preserves the confidentiality of that information.

If the companies you contact for information require an undertaking from you, please provide this undertaking that the information shared by the company will be used for academic purpose only (for completion of your assignments in APMG8119 Digital Enterprise paper).

By signing this agreement you agree that:

1. The fact you obtained information about the companies while you are studying at Unitec indicates that the information is “confidential information”. This applies to information you hear or read, even if you are not told the information is confidential and even if the information is not marked “secret” or “confidential”.

2. All technical and other confidential information and all notes on, and copies of technical and other confidential information disclosed by any of
the companies to you whether in electronic or any other form is confidential information.

3. Confidential Information:
   - May be used solely for the purposes of the study you are engaged in while you are at Unitec;
   - Must be kept confidential; and
   - May be disclosed only to other students on the course who need to know (Group members) that information and to Unitec staff teaching the course.

4. Your obligations in relation to the confidential information will not end when your time at Unitec ends but will continue whether or not you remain a student at Unitec.

I undertake to comply with all the obligations set out in this agreement which I have read and understood.

Name: --------------

Signature: ----------------- Date: --------------

Please sign and return or copy to Dr. Nitin Seth, Unitec Institute of Technology and to the respective company.
AUTHOR CONTACTS

Name: Yidan Deng
Mobile: 022 3223303
Email: sophiadeng03@gmail.com
Student ID: 1506433

Name: Yao Gui
Mobile: 021 1362380
Email: gy0608@gmail.com
Student ID: 1502145

Name: Yanze Li
Mobile: 022 4661881
Email: yanze0708@gmail.com
Student ID: 1498645

Name: Zheng Liu
Mobile: 021 1018457
BUSINESS MODEL ANALYSIS OF AIR NEW ZEALAND
1. Business background

Air New Zealand (Air NZ) is the largest national airline in New Zealand. It is headquartered in Auckland and operates mainly international and domestic air transport operations. In May 1999, Air NZ became a full member of the Star Alliance. It provides air transport services for passengers and cargo on international routes in New Zealand, Australia, the Pacific Ocean, Asia, North America and the United Kingdom.

Shareholding structure

The New Zealand government is the largest shareholder of Air NZ and owns 52% of the shares. The other shares are held by New Zealand and international institutional investors primarily in the United States, Europe, Australia and Asia.

Competitors and competitive advantages

The major international competitors are Jetstar and Qantas, as well as Qantas' partner Emirates. Furthermore, their main competitive advantages include five aspects.

1. Alliance-driven Pacific Rim network.
2. Strong corporate brand and renowned Kiwi service culture.
(3) Excellent domestic network.

(4) The successful Airpoints program, which rewards and commends loyal Air NZ’s customers.

(5) The modern fleet has contributed significant operational efficiencies.

**The digital marketing of Air New Zealand**

Consumers can buy Air NZ tickets online in three channels: online travel agencies, website, and mobile phone app. Consumer trends include increased use of online channels for searching and booking, the use of multiple devices, and the growing popularity of social media. It means that the next battlefield is the digital space. Therefore, as customer demand and competition continue to increase, online ticketing will become an important sales channel for the aviation industry.
2. Revenue

According to Air NZ financial reports for the last two years, their revenue mainly comes from four different channels. The most significant one is passenger revenue (85%), followed by the cargo revenue (6.5%), other revenue (4.5%) and the contract services revenue (3.2%).

<table>
<thead>
<tr>
<th>Operating Revenue</th>
<th>2017 $M</th>
<th>2016 $M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger Revenue</td>
<td>4,376</td>
<td>4,481</td>
</tr>
<tr>
<td>Cargo</td>
<td>335</td>
<td>349</td>
</tr>
<tr>
<td>Contract Services</td>
<td>164</td>
<td>172</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>234</td>
<td>229</td>
</tr>
<tr>
<td>Total</td>
<td>5,109</td>
<td>5,231</td>
</tr>
</tbody>
</table>

Fig.1 OPERATING REVENUE OF AIR NZ 2017 & 2016

The passenger revenue is from the sale of tickets to passengers. Air NZ transport hundreds of millions of passengers to different destinations around the world every year, and also include various codeshare and alliances arrangements with other airlines revenue.
Air NZ provides air cargo services around the world, geographically divided, with the core areas being New Zealand, then Australia and the Pacific Islands.

According to KPMG Digital Business Model (KPMG, 2009) will identify risks and opportunities distinctly under Air NZ’s revenue components.

![KPMG Digital Convergence Equaliser](image)

Fig.2  KPMG’S DIGITAL CONVERGENCE EQUALISER FOR AIR NZ

This revenue is at high risk as more competitors are offering more routes and even offering higher flight frequencies. Moreover, the price of tickets offered by some airlines is lower. Some customers want to spend less, even if they know the service will be different. On the other hand, Air NZ has many
opportunities. If they plan to open more routes and increase flight frequency allocation, they will attract more customers to travel with them.

Contract services revenue comes from some of the individual priority services that Air New Zealand offers to its loyal business customers. For example, if a company signs a contract with them each year, the company will receive a discount code, and they will get a fare that is cheaper than the average retail price. Besides, this can provide some special services for their business members, such as better lounge services, additional airpoints and more.

The main risk of this benefit is that if contract services users can find lower prices in the market, they may still choose airlines with cheaper fares in order to control their spending. Moreover, Air NZ only provides a minimal number of route support in certain areas due to geographical restrictions, so even contract services users have to choose other airlines.

Other revenue includes lounge revenue, Koru membership subscription, commissions and fees during the services are provided, Air NZ always provide the best lounges in New Zealand. Moreover, they could have more cooperation with other premium lounges in various countries around the world. To make sure Air NZ members can get more benefits.

**Key findings**
The primarily revenue of Air NZ definitely come from all passengers, because Air NZ is the biggest civil aviation airlines in Pacific Ocean area, passenger transport is the most important mission for them. Cargo service is as same as the passenger transport, this is another important revenue sources. If Air NZ planning to open more routes or set up more services center in different place will help increase both of revenues. There are two more revenue are other revenue and contract services revenue, include membership services fees, signed company services, commission and so on.

3. Cost

According to the table, Air NZ spent a majority of expenditure on labour cost, followed by fuel cost, aircraft operation cost, sale and marketing cost, maintenance cost, passenger service cost and others.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour</td>
<td>1261</td>
<td>1225</td>
<td>1193</td>
<td>1151</td>
<td>1068</td>
</tr>
<tr>
<td>Fuel</td>
<td>827</td>
<td>846</td>
<td>1089</td>
<td>1120</td>
<td>1204</td>
</tr>
<tr>
<td>Maintenance</td>
<td>321</td>
<td>350</td>
<td>320</td>
<td>285</td>
<td>302</td>
</tr>
<tr>
<td>Aircraft operations</td>
<td>556</td>
<td>531</td>
<td>466</td>
<td>424</td>
<td>419</td>
</tr>
<tr>
<td>Passenger services</td>
<td>266</td>
<td>246</td>
<td>220</td>
<td>212</td>
<td>222</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>352</td>
<td>348</td>
<td>303</td>
<td>280</td>
<td>274</td>
</tr>
<tr>
<td>Foreign exchange loss/(gains)</td>
<td>6</td>
<td>(112)</td>
<td>(79)</td>
<td>(45)</td>
<td>(7)</td>
</tr>
</tbody>
</table>
### Online and offline cost

Air NZ spent more expenditure on offline cost (labour, fuel, aircraft operation). Sale and marketing involved both online and offline cost:

Online: search engine advertisements, own website operating and management, OTA distribution.

Offline: newspaper, TV, radio advertisement.

### Labour

Labour cost remained the highest perspective and continuing rise for Air NZ in recent four years. Air NZ needs to pay pilots who fly, flight attendants who serve passengers, mechanics who maintain the aircraft safety, security guards and other ground personnel who maintain the flights and ground service operation. Adding employees and rising wages are the significant risk of this perspective. The rise in labour cost is good performance due to the sustained growth in more labour productively. Thus, the equilibrium for wages and productively will achieve labour cost efficiency.

### Fuel

Fuel cost is the second highest expense of Air NZ. It depends on the price of oil and tax. Fuel cost is directly proportional to flight duration and capacity. The
significant risk of this perspective is increasing oil price. As is known to all, all airlines include Air NZ contract fuel hedging to protect the oil floating prices. (Lim, S. H., & Hong, Y., 2014) Hence, if the oil price decline, the loss will be incurred. So that, fuel hedging will require Air NZ to predict the future oil price direction.

Aircraft operations

Aircraft operations include all costs related to aircraft flying operation, ground service operation and system operation. Air NZ operations focus on providing the products and service to customers. The risks of this perspective are flexible due to the unexpected costs may incur in each operation section. Such as temporary landing due to the weather condition or aircraft fault or others. Efficiently minimise the cost risk is necessary. For example, prepare every mission, standby every emergency whatever it happens.

Maintenance

Air NZ maintenance the order of air transportation, flights time on the schedule, aircraft sustain reliable performance and so on. The highest risk of maintenance of Air NZ is aircraft safety. Maintenance the lengthen of aircraft lifetime and purchase new aircraft will be the most costs. Hence, this perspective requires high technical demand.

Sales and marketing

Air NZ invest millions on in the worldwide markets every year. Advertising, promotion and PR to achieve active brand awareness. The significant risk is
making a wrong positioning decision. Intelligent segment market and identify customers in order to specific advertising, pricing, promotion, distribution strategies.

**Passenger service**

Air NZ provides air transportation inflight and ground handling services, cabin meals and entertainment services and so on. Poor quality service could be causing customers to slip away. Training every position employees is the crucial element to avoid the unexpected cost.

**Key findings**

The primary costs that affect Air NZ are labour and fuel. Due to operating cost continue to rise, Air NZ has increased both domestic and international airfare. Operations, maintenance, sales and marketing, passenger service and other expense are also the fixed expenditure of Air NZ. Furthermore, under the influence of the global economic downturn, the foreign exchange has brought 6 million loss in the last financial year.
4. Value creation analysis

a. The company’s current approach to value creation.
Based on Air NZ's revenue and cost analysis, the current value creation is summarised in the Canvas business model.

**Fig.4 THE BUSINESS MODEL CANVAS FOR AIR NZ**

**b. Value creation**

According to Air NZ's annual report, their mission is "to promote New Zealand and its people." Internally, Air NZ's employees built an excellent team and make great efforts in their respective positions. Besides, Air NZ's workplace is full of fun and energy, and this environment allows everyone to play the most important role and be more efficiency.
From a customer perspective, the company offers them a range of values. In Air NZ's Airpoints program, user behaviour is collected through the data centre, customers can also use points to spend and redeem tickets, and some additional value.

<table>
<thead>
<tr>
<th>Internal organisation perspective</th>
<th>External customer perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terminal and route</td>
<td>Many route options</td>
</tr>
<tr>
<td>appropriate price</td>
<td>Price commitment</td>
</tr>
<tr>
<td>Seamless service</td>
<td>Flight on time</td>
</tr>
<tr>
<td>expert</td>
<td>Optional service</td>
</tr>
<tr>
<td>Efficient team</td>
<td>High quality experience</td>
</tr>
</tbody>
</table>

**Fig.5 VALUE CREATION FROM INTERNAL AND EXTERNAL PERSPECTIVE**

c. Implications of the approach to value creation

Air NZ's website provides customers with seamless experience in checking flights and booking flights. However, Air NZ website is currently only a traditional airline platform and does not provide good social interaction opportunities between customers. Within five years, we recommend further developing the company's social network and creating an online communication community that provides a social platform for customers to exchange information on flights, travel, and life. Within ten years, we recommend that all the functions of the website be implemented on the mobile phone, optimise the process of querying and booking, and digitise the steps of each experience as simple, humanised and personalised as possible.
d. Theoretical implications.

Based on the mentioned Model Analyses, the business model of Air NZ is built.

![Diagram showing the business model of Air NZ]

Fig.6 OPERATING EXPENDITURE OF AIR NZ 2013 TO 2017

e. Managerial Implications

From the analysis results, the author's suggestions are as follows:

(1) Pay more attention to the communication needs of customers, and establish a platform for customers to communicate, such as Facebook's community or online forum.
(2) Design different content on different social platforms, such as uploading more videos on youtube that can convey corporate values, posting more popular comments on twitter, and reaching more potential customers in different channels.

(3) Air New Zealand’s labour cost is the biggest expenditure. It is recommended to improve its intelligence in employee management and replace the simple and repetitive work with machines to reduce costs and achieve higher profits.

5. Conclusion
As the country's largest state-owned air transport company, Air New Zealand has a high reputation on consumers, but in the face of competitive pressure from foreign airlines, digital technology investment will become a favourable channel for its sustainable development. Through an analysis of the annual report, it can be concluded that its operating costs include two necessary labour and fuel. The primary source of income is domestic and international passenger services.

Based on an analysis of cost and revenue streams, Air New Zealand has developed an Internet ticketing system to provide customers with convenient travel services. It not only enhances the competitiveness of enterprises but also promotes and strengthens the brand of the company through digital technology. However, there are still some problems with the consumer online experience service, such as the imperfect interaction system between the website and the consumer, which will affect customer satisfaction and lead to a decline in loyalty. Besides, there is a lack of communication channels between users and users, and users cannot exchange information and evaluate websites. An official online community or forum can solve this problem well.

Therefore, in a highly competitive digital marketing environment, improving the website interaction system will be the next important task for Air New Zealand.
REFERENCES


7. Air NZ's competitors on domestic market
8. Emerging business models to help serve tomorrow’s digital tribes, KPMG

Appendices

REPORT PREPARED FOR:
Air New Zealand
REPORT TITLE
Air New Zealand Business Model Analysis
BY AUTHOR NAME Yao Gui
Yidan Deng
Zheng Liu
Yanze Li

MBUS/POSTGRADUATE DIPLOMA IN 
BUSINESS
APMG 8119: DIGITAL ENTERPRISE
Semester 2, 2018

>>APMG 8119: DIGITAL ENTERPRISE
Air New Zealand Background

Industry and Market Analysis
Air New Zealand established in 1940, based in Auckland. Became the member of the Star Alliance since 1999.
Air New Zealand Background

Shareholding Structure

- New Zealand Government: 52%
- New Zealand institutional investors: 9%
- International institutional investors: 35%
- Retail investors: 4%

Market share by airline

It is more difficult for Air New Zealand capacity (40% of international total) to be shifted to operate between other countries than foreign carriers' capacity.
Air New Zealand Background

Competitive advantages

- Alliance-driven Pacific Rim network
- Strong corporate brand and renowned Kiwi service culture
- The successful Airpoints program
- Excellent domestic network
- The modern fleet has contributed significant operational efficiencies

Air NZ Revenue Structure

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Involves</th>
<th>Risks</th>
<th>Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger</td>
<td>Air Tickets Sale</td>
<td>High price Limited air routes</td>
<td>More routes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>More Cooperates</td>
</tr>
<tr>
<td>Cargo</td>
<td>Air Cargo Transports</td>
<td>Limited routes</td>
<td>Cooperate with other air cargo services company</td>
</tr>
<tr>
<td>Contract</td>
<td>Contract Air Transports</td>
<td>Small local market</td>
<td>Provide more services and benefits</td>
</tr>
<tr>
<td>Other</td>
<td>Lounge, Koru Membership, subscription and etc.</td>
<td>High enter requirements</td>
<td>EXCLUSIVE ACCESS</td>
</tr>
</tbody>
</table>
Air NZ Cost

**Air NZ cost structure**

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Involves</th>
<th>Risk</th>
<th>Cost Efficiencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>labor</td>
<td>salaries, wages, employee benefits</td>
<td>Adding employees and rising wages</td>
<td>Equilibrium for wages and productively</td>
</tr>
<tr>
<td>fuel</td>
<td>Oil spent</td>
<td>Increasing oil price</td>
<td>hedging</td>
</tr>
<tr>
<td>Aircraft operation</td>
<td>airport dues, line servicing, air navigation</td>
<td>Flexible reasons</td>
<td>Efficiently minimize the cost risk</td>
</tr>
<tr>
<td>Maintenance</td>
<td>air transportation, flights time on schedule</td>
<td>Maintenance aircraft lifetime and purchase new fleet</td>
<td>high technical</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>advertising, promotion, PR</td>
<td>Making wrong positioning decision</td>
<td>Intelligent segment market and identify customers</td>
</tr>
<tr>
<td>Passenger service</td>
<td>meals, inflight service, cabin crew trip expenses</td>
<td>Poor quality service</td>
<td>Well training every position employees</td>
</tr>
</tbody>
</table>

Air NZ Cost

**Online & Offline Cost**

- Offline cost - labor, fuel, aircraft operation.

- Sales and marketing involved both:

  Online: search engine advertisements, own website operating and management, OTA distribution, etc.

  Offline: newspaper, TV, radio advertisement, etc.
### Simplified Generic Business Model for Air NZ

**Suppliers**
- 1. Aircraft Manufacturers
- 2. Fuel Supplier
- 3. Meal and services
- 4. Airports

**Service Provider**
- Air NZ

**Customers**
- Individual
- Business
- Distributor

**Partners**
- Star Alliance
- Codeshare
- Airports

**Flow of Product** ———
**Flow of Information** ———
**Flow of Money** ———

### Value Creation Analysis

<table>
<thead>
<tr>
<th>Internal organisation perspective</th>
<th>External customer perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terminal and route</td>
<td>Many route options</td>
</tr>
<tr>
<td>appropriate price</td>
<td>Price commitment</td>
</tr>
<tr>
<td>Seamless service</td>
<td>Flight on time</td>
</tr>
<tr>
<td>expert</td>
<td>Optional service</td>
</tr>
<tr>
<td>Efficient team</td>
<td>High quality experience</td>
</tr>
</tbody>
</table>
Recommendation

(1) Communication between customers
(2) Different content on different platform
(3) AI (reduce labour cost)