

University of Economics, Prague

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Title of the Bachelor's Thesis:

Strategic Analysis of the Air Astana Company

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D e c l a r a t i o n o f A u t h e n t i c i t y

I hereby declare that the Bachelor's Thesis presented herein is my own work, or fully and specifically acknowledged wherever adapted from other sources. This work has not been published or submitted elsewhere for the requirement of a degree programme.

Prague, May 1, 2016

Signature

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Abstract:

The main goal of this bachelor thesis was the implementation of the strategic analysis and further formulation of strategic comments and recommendations for the Air Astana Company. This goal was reached by the identification of the strength and weaknesses of the company and opportunities and threats that can influence the company from the external environment. The work is divided into theoretical and practical parts. In the theoretical part was described the theory of strategic management, strategy and different types of strategic analysis. Whereas the practical part is focused on the application of various types of strategic analysis for the Air Astana Company. In the conclusion were summarized all results of the strategic analysis of the Air Astana Company and provided strategical recommendations.

Key words:

Strategic Management, Strategic Analysis, PESTEL, SWOT, Porter's 5 Forces Analysis

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Introduction

Air Astana Company was established in the year 2001 and conducted its first flight on the 15th of May 2002 year. The company has two main shareholders, the Government of the Republic of Kazakhstan and BAE Systems PLC from the UK. The 51% of shares owned by Samruk-Kazyna National Welfare Fund and BAE Systems PLC has 49% of shares.

In May 2015 the company for the fifth time completed the International Air Transport Association's Operational Safety Audit (IOSA). Also in October 2015 was completed the European Aviation Safety Agency's Third Country Operators certification approval, which allow to maintain the fleet according to the standards and requirements. Nowadays Air Astana operates over 60 international and domestic routes with a fleet of 30 western aircraft. The staff consists of 4300 qualified professional workers. (Air Astana Company, 2014).

In recent years the airlines industry of Kazakhstan significantly increased the volume of traffic, the airlines market in Kazakhstan became more and more attractive. This significant growth in the demand for the airline transportation implies further steps for the development of airlines industry, which will include re-equipment of the modern aircrafts, development of the ground infrastructure, implication of the new information technologies. It became important and necessary to consolidate the airline industry and eliminate the excessive administrative barriers. In comparison to the last ten years, now the airline transportation is one of the largest sectors of the world economy.

The airline industry of Kazakhstan is only started to grow and develop. There are 3 leading companies in the market, such as Air Astana Company, SCAT Airlines and Bek Air. Moreover the absolutely leader in the transportation volume and number of destinations is unquestionably the Air Astana Company.

Due to this fact the strategic analysis of the leading company in the airline industry in the Kazakh market "Air Astana Company" will be current.

The choice of this topic was made by the author because of the several reasons. First of all, to get the possibility to better understand and deeper learn the field of strategic analysis, its structure and main principles. Secondly, according to the example of the leading company in Kazakhstan implement theoretical knowledge gained from the books into practice.

Structure

In the first chapter will be described the basic concepts and theoretical information about the strategy, strategic management, strategic analysis, vision, mission and goals of the company.

The second and third chapters consist of the precise information and structure of

organizational environment analysis of the company that is divided into external and internal one. The external environment analysis is further divided for the macro and microenvironment.

The forth chapter contains the theoretical information of integrated analysis of the external and internal environments. In this chapter are represented the results of external and internal analysis and it is shown how these results can affect the company and its strategy.

The fifth chapter starts with the practical part that contain the basic information of the Air Astana Company, its mission, vision, goals and values.

In the sixth chapter are implemented 2 important analyses: the PESTEL Analysis, which is implemented for summarizing the all macroeconomic external factors that can affect the company and influence its position in the market. The second analysis is the Porters 5 Competitive Forces Analysis that is performed for making the overview of the microeconomic external environment of the Air Astana Company.

In the seventh chapter is implemented the microeconomic analysis that combines the data about competitors, suppliers, customers and financial analysis of the company.

In the eights chapter is written about the integrated analysis of the external and internal environment, the result is represented in the SWOT Analysis. Also there will be information about types of the company's strategy and plans for the future.

Finally, in the conclusion will be the summary of the results concerning the 3 main problems of this bachelor thesis and author will provided special recommendations and comments for the Air Astana Company on the basis of the obtained results.

Methodology

In the process of conducting research the theoretical data was connected with the empirical evidences. The deductive research data was used for firstly learning the theory and further its implications using qualitative methods. Secondly were used different types of analysis, which helped to prepare a precise conclusion, based on the received data.

Goal

The goal of this bachelor thesis is to make strategic analysis of the airline company in Kazakhstan focusing in Air Astana Company.

The problems of the thesis

1. To explore and study the variety of methods of strategic analysis of the chosen company
2. To implement all explored methods in the example of Air Astana Company
3. In the conclusion make the overview of the results of the strategic analysis concerning the Air Astana Company and provide recommendations for future improvements.

Theoretical Part

Chapter 1 Basic Concept and Definitions

First of all, before turning to the methods, instruments and forms of providing strategic analysis, it is necessary to determine its concept and its place in the system of strategic management.

Concerning this topic is written a lot of literature, but it is very contradictory, because every author understands strategic analysis in a different and special way. For disclosure of the concept of strategic analysis, its methods, instruments and forms of providing, it is necessary to reveal the following concepts:

- Concept of Strategy
- Concept of Strategic Management
- Place of the Strategic Analysis
- Concept of Strategic Analysis

1.1 Strategy

Strategy is mostly defined as a coordinated and integrated set of actions and commitments that are designed to exploit core competencies and gain a competitive advantage. (Hitt, 2009, p. 4).

The word strategy has a Greek origin “strategos”; this applies to the military and combines in its word structure: “stratos” (the army) and “ago” (to lead). In military theory was firstly used and described the history and basic concepts of the strategic planning. The main aim of military and business strategy consider the process of gaining competitive advantage. (David, 2010, p. 21)

As a many other terms from the field of management, strategy is a widely used concept, which can have a different meaning for each person. Even the well-known professional theorists diverge in the determination of strategy, because the strategy is a very dynamic process and the change of time, technologies, markets and competition can change and highly influence it.

The most comprehensive definition of the strategy can be considered the definition of Henry Mintzberg (Mintzberg, 1998, p. 37), the main approaches for this determination are:

- Strategy as a Plan: deals with the actions of the head of the company’s development management that can set a direction of the company. It determines the final state and prepares the plan of actions for different time intervals. The strategy development consists of identifying the goal and making the long-term plan;

- Strategy as a Ploy: considers the area of direct competition, where the tricks, threats and maneuvers are used for prevailing among competitors. This aspect of strategy represents its dynamic structure;
- Strategy as a Pattern: focuses its attention on the action, which reminds that every concept needs to be implemented. In this role it leads to the concepts like convergence, achieving the consistency and stability in the actions of organization;
- Strategy as a Position: Orientates to the review of an organization in its real environment, which includes the competitive processes. It chooses the most favorable position for the company on the market;
- Strategy as a Perspective: Considers the questions about the collective actions and intentions and targets to review the conditions, in which this or another intentions are spreading in the group that eventually became the collective values and norms.

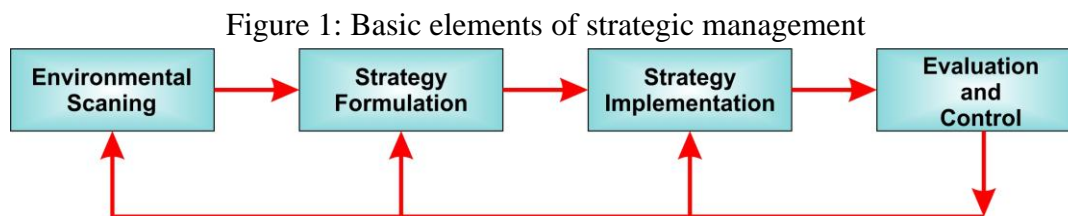
1.2 Strategic Management

Strategic Management Process is the selection of decisions, actions and commitments that are necessary for achieving the strategic competitiveness and earn the maximum returns. (Hitt, 2009, p. 24).

It is possible to define the strategic management as the science and art of formulating, implementing, and evaluating cross-functional decisions, which allow an organization to reach its goals. (David, 2010, p. 6)

There are 4 basic elements of strategic management (Figure 1), which are

- Environmental Scanning
- Formulation of the strategy
- Implementation of the strategy
- Evaluation and Control



Source: (Wheelen, 2012, p. 15)

Environmental Scanning is the process of evaluation, monitoring and spreading information gained from the analysis of external and internal environment to key persons within the organization. The main purpose is to determine strategic factors, which will influence the organization in the future. One of the ways of environmental scanning is the implementation of SWOT analysis, which means Strength, Weaknesses, Opportunities and Threats of the organization. Opportunities and Threats are the external environment

factors that are not in the short-run control by board of directors and top managers and these variables form the context in which the organization exist. The internal environment of the organization consists of Strength and Weaknesses, which are within the company and form the context where work is done.

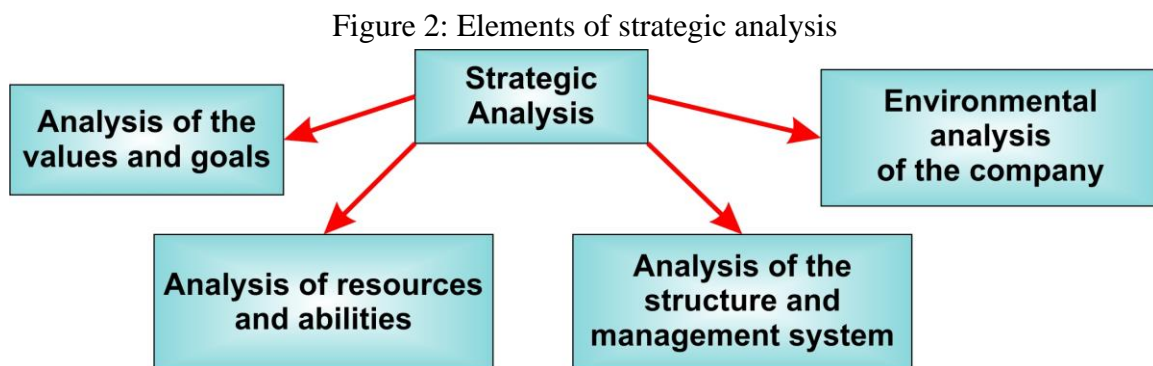
Formulation of the strategy is the development of long-term goals for the efficient management of the company, including Strength, Weaknesses, Opportunities and Threats. The main steps of strategy formulation include the process of defining the vision, mission, and corporate objective, development the strategy and special policy guidelines.

Implementation of the strategy is the stage when specified strategies and policies are put into action using budgets and special programs. This process includes changes in the structure, culture or management principles of the organization. Strategy implementation often made by lower- or middle-level managers under the control of top managers.

Evaluation and Control is the final process when corporate activities and performance results are checked for the possibility to compare the results that the company achieved. Managers from all levels compare the results and identify for themselves what was reached and what mistakes were made for improvement their work in the future.

1.3 Strategic Analysis

With regards to the strategic analysis, different authors include in it various components. The most common approach comprise with the following elements (Figure 2).



Source: (Grant, 2013, p. 23)

Thus it is possible to say that strategic analysis is the first step of strategic management that consists of different parts, such as analysis of values and goals of the company, its resources and abilities, management system and structure and also the environmental analysis of the company.

1.4 Vision, Mission and Goal of the company

Vision

"A corporate vision can focus, direct, motivate, unify, and even excite a business into superior performance. The job of a strategist is to identify and project a clear vision."

—**John Keane**

What do we want to become?

Vision is the guiding philosophy of the organization, the justification for the existence of the company, not the goal itself, but rather a sense of the main goal of the company. Vision is the perfect picture of the future, a condition that can be achieved under the most favorable conditions. Vision defines the level of claims in the strategic planning process. The basis of the vision is constituted by the SMART goals.

In developing the vision of the company managers should determine:

- How they see the future of their company
- In which direction it should develop
- What will be in the future used technology, goods and customers
- A position in the industry the company has to take in the long-term perspective

“Vision without action – is a dream
Action without vision – is a nightmare”

- Japanese proverb

Mission

"A business is not defined by its name, statutes, or articles of incorporation. It is defined by the business mission. Only a clear definition of the mission and purpose of the organization makes possible clear and realistic business objectives."

—**Peter Drucker**

Mission of the organization is the expression of organization's philosophy and the meaning of existence. The mission usually declares the status of the organization, how it works, what are the management's intentions. It tends to the future and shouldn't depend on the current state of the organization. The mission of the organization is formed by senior management, which is fully responsible for its implementation by setting up and realization of the organization's objectives.

The focal point of the mission is to answer the questions: What is the main purpose of our business?

F. Kotler believes that the determination of the organization's mission should take 5 factors into account, such as (Kotler, 2012, p. 60):

- History of the organization;
- Style of behavior and mode of action of owners and managers;
- The state of the environment;
- The resources that the organization can use to achieve its goals;
- Distinctive features, which organization possess.

Goal

The goal is a particular state of the individual characteristics of the organization in the future, the achievement of which is desirable for the organization and towards its accomplishment the activities are directed. Setting targets translate the strategic vision and direction of the company in specific tasks associated with the production and performance of the company. Goals are the obligation of the administrative apparatus to achieve certain results at the scheduled time.

Chapter 2 Analysis of the organizational environment of the company

The object of strategic analysis is the organizational environment of the company, which consists of external and internal environment that can determine the company's ability to achieve its goals. The external environment of the company also divided to the internal and external macro environment.

2.1 Analysis of the external environment

Another important element of strategic management and planning is analysis of the external environment. Threats that the companies face in the process of doing business and opportunities, which are provided to the companies are all part of the external environment.

Analysis of the external factors helps to develop strategic solutions by providing different algorithms of interaction with the environment in short-term and long-term perspective, which is necessary to achieve the objectives.

External environment usually divided into 2 parts: microenvironment and macro environment.

2.2 Analysis of the macro environment

One of the key elements of strategic management is the analysis of the external environment and market monitoring.

The threats that can overtake the company and the opportunities that are provided are all represent in the macro business environment. The external environment of the company includes different competitors in the market, material and product providers, rapidly changing tax laws, social cataclysms and many other factors, which can influence the business. At the same time the company should have customers and material resources that is necessary requirement for doing business.

Analysis of the external factors helps to develop strategic solutions by providing special ways of interaction with the environment of the company in the short and long term that will maintain potential of the company needed to achieve the objectives.

The external environment can be divided into 2 parts: the macro- and microenvironment. If in the macro-environment it is difficult to significantly influence and control the processes, the dynamics of the microenvironment may directly depend on the choice of company's strategy.

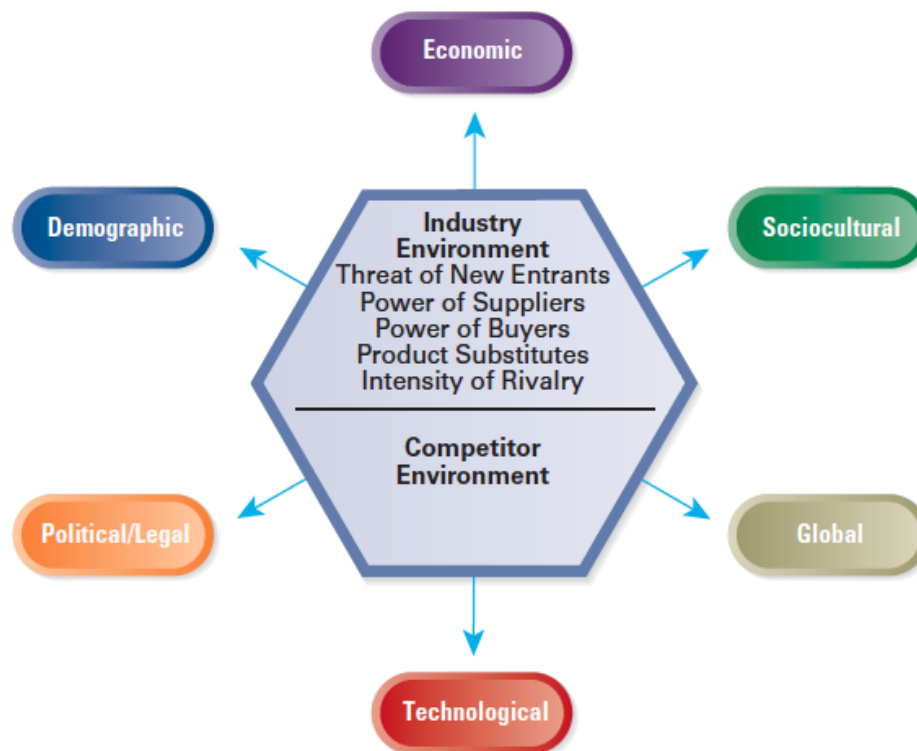
In the analysis of the external environment within which the company operates, it is possible to select a number of factors that influence the possibilities of its development.

Macro environment is the environment that indirectly effects the organization and includes different factors that don't concern the short-term plans, but can significantly affect the long-term decision. The macro environment includes all forces that can affect the existence and prosperity of the organization.

For this purpose can be used the PESTEL analysis, which considers factors like (Figure 3):

- Political;
- Economic;
- Social;
- Technological;
- Environmental;
- Legal.

Figure 3: PESTEL Analysis



Source: (Hitt, 2009, p. 35)

2.2.1 Political factors

Political factors determine the level in which a government can seriously affect the different types of business and a certain industry. (Johnson, 2008, p. 55) Usually the political factors include:

- The political situation in the country;

- Stability;
- Loyalty of state's authorities;
- Protectionism in the sector;
- Administrative barriers;
- Tax policy;
- Fiscal policy;
- New regulation based on the new implemented laws;
- Trade policies.

2.2.2 Economic factors

In order to develop the right strategy, the management of the company needs to know what are the economic conditions of the activities are available in the region:

- Growth rate of the country and particular sector of the economy;
- Market development dynamics;
- Inflation and unemployment rates;
- Investment and tax policy;
- Policy on wages and prices;
- The tax base;
- The economic situation in the region;
- Income levels;
- Customs policy;
- Interest rates.

As the world economy significantly affects the life and activity of the company and provides the long-term effects, it is important to carefully evaluate overall economic processes, for example: rising unemployment and inflation rates. (Ferrell, 2014, p. 70)

2.2.3 Social factors

The company's activities are often substantially depends on various society's attitudes and cultural values. (Hill, 2015, p. 72)

Numbers of social factors, which influence the company's activity, are:

- Demographic situation in the region;
- Age and gender structure of the population;
- Cultural environment and moral values;
- Religion;
- The level of education.

In addition, to the social factors can be attributed also the lifestyle of the employees, the degree of their involvement in the solution of internal management problems, the relationship between employees standing on different level of hierarchy,

various risks, fears and etc.

2.2.4 Technological factors

Scientific and technical achievements seriously alter the functioning of the firm's environment. There are new products and technologies, which certainly increases competition in the market. (Johnson, 2008, p. 55) Many companies regularly monitor the trends in scientific and technological progress that has a positive impact on their activities. Scientific and technical development changes consumer lifestyle, improve the quality of consumer satisfaction. Scientific and technical innovations appear in design, distribution and sales, marketing, thereby affecting the overall strategy of the organization.

Types of technological factors:

- New information technologies;
- New equipment standards;
- Product innovations;
- New types of products.

2.2.5 Environmental factors

Currently, there is an increasing trend of companies for paying attention to the state of the surrounding environment. Therefore, the range of issues associated with its protection plays an important role in the strategic planning of many industries and companies. (Kotler, 2012, p. 103) This factors are crucial for the industries related to tourism, agriculture and farming.

The environmental factors include:

- Climate;
- Geographical location of the company;
- Global changes in the climate;
- Weather conditions;

2.2.6 Legal factors

Changes in legislation can directly affect a lot of business activities. (Hill, 2015, pp. 72-73) The legal factors are divided to external and internal. The external factors include legal rules, which can affect the environment of the business, while the internal factors can consider certain policies maintained by the companies for themselves.

For example:

- Safety standards;
- Labor training laws;
- Consumer laws;

- Antitrust laws.

Summary:

The PEST analysis can help to analyze and keep in mind wide range of factors, which can affect Air Astana Company in the long-term perspective; it can be the opportunities and threats of the external environment for the company in the future. The disadvantage of this method can be the fact that everything in today's world is rapidly changing; because of that it can be difficult to predict what types of developments can affect the organization in the future. Therefore it is necessary to constantly analyze the external factors and offer new solutions for the company's improvement.

2.3 Analysis of the microenvironment

For analysis the microenvironment can be used the Porter's 5 forces method. Michael Porter's 5 forces framework is the analysis of the company's industry and introduction of different techniques that help to analyze its dynamics. This is the type of approach that is used for developing and guiding formulation of the business strategies (Figure 4).

Figure 4: Porter's 5 forces analysis



Source: (Hitt, 2009, p. 35)

Porter's 5 forces analysis was developed for accessing the profit potential of the industries.

Five forces include:

- The threat of new entry;
- The threat of substitutes;

- The power of buyers;
- The power of suppliers;
- The extent of rivalry.

The main point of this analysis is that if these 5 forces are high, it will mean that industry is not attractive for entering in it, also for the companies, which already operate in the market the chance to make a good profit will be low, because there will be very high competition.

2.3.1 The threat of new entry

The degree of competition in the industry can be highly influenced by the way of how easy new firms can start to operate in the market that mainly depends on the level of the existing barriers for entering the new market. If the barriers to entry are very high, it is the big advantage for the existing competitors, because it will mean more reliable support against new competitors who want to enter their industry. (Johnson, 2008, p. 61)

Barriers to entry can be:

- Access to supply (distribution channels): usually in many industries manufacturers have the control over distribution channels based in customer/supplier loyalty and also through vertical integration. For example nowadays in some industries new competitors can overcome the barriers using new technologies like e-shops for selling their products directly to the customers;
- Economies of scale can be very important in some industries. If the existing competitor reached large-scale production, for new entries will be very costly to compete and match them. Economies of scale can be in the industries like automobile industry, fast moving goods industry;
- Level of experience also affects companies who want to enter new market, because existing competitors have cost advantage over the new comers due to more experience of efficiently doing their business;
- Differentiation also affects the number of new entries, because according to this approach firm should provide products and services with higher perceived values than the competitors. Differentiation can reduce the threat of new entry, because of the high customers' loyalty.

2.3.2 Threat of substitutes

First of all, substitutes are products and services that are same or similar to another product according to the consumer's point of view. Substitutes can reduce demand for the products' class, because of the customers switching to the alternative product. (Hill, 2015, p. 58)

There are 2 important term about substitutes:

Extra-industry effects are the main substitution concept. Substitution can come only from the outside. If the threats of substitution will be high, than the less attractive the industry will be.

The performance/price ratio is the ability of product to deliver performance for its price. Substitute is expensive but effective threat, because it offers performance advantages that customer's value. Products with lower performance/price ratio are more desirable, excluding other factors.

2.3.3 The power of buyers

Customers play an important role for any business to survive. But if customers have high bargaining power it can be hard for suppliers to make the profit. There are different conditions, which influence buyers' power, for example:

- Low Switching costs, according to these condition buyers can easily switch between different suppliers, because of their strong position;
- Concentrated buyer's means the industry in which few large companies perform almost all sales and therefore buyers' power can be increased. For example industries like grocery sector in which there are few retailers who perform and control all sales;
- Buyer competition threat is the situation when the buyer has possibility to acquire facilities for supplying itself, which makes buyer more powerful. This situation is called backward vertical integration, which may occur if buyers are not satisfied with prices or quality of supplied goods. (Johnson, 2008, p. 62)

2.3.4 Power of suppliers

Suppliers are providers of necessary inputs for the industry, such as: raw materials, equipment, and labor, which are needed for the final goods and services production. (Hill, 2015, p. 56) The factors, which increase supplier's power, are inverse to the factors for buyer power. Factors positively influencing supplier's power are:

- High switching cost is the condition in which it is very costly to change one supplier to another. This condition negatively affects buyers, which became more dependent and relatively weak;
- Concentrated suppliers are the position where only few producers dominate the supply and therefore suppliers are powerful than buyers. For example: iron ore industry is controlled by a few large producers, this make steel companies be more dependent and have weak negotiation position;

- Supplier competition threat is the process in which suppliers have an enough power of cutting out buyers who are acting as intermediaries. This process is called forward vertical integration that means moving up closer to the final customer.

2.3.5 The extent of rivalry

Lower barriers to entry will lead to increase the number of rivals. If the competitive rivals will be more in the industry it will negatively affect the existing competitors. (Hill, 2015, p. 51)

Competitive rivals are the organizations, which offer similar products and services for the same customer group. For example: KLM and Lufthansa are the rivals.

There are different factors affecting the degree of competitive rivalry in the industry, such as:

- Industry growth rate: low growth markets often associated with competition in prices and low profitability. The industry life cycle can influence growth rates and therefore competitive conditions;
- Competitor balance: if the competitors are approximately equal by their size there is a danger of high competition as one of the competitors would like to take the dominant position in the market. While in the less rivalries industries there are one or two dominant players and the small organizations, which can compete with the large ones directly;
- High fixed costs: industries with high fixed costs require high investments and initial research tend to be highly rivalries;
- High exit barriers: the existence of closure or disinvestment opportunity affects rivalry and increases it. Exit barriers can be high because of the high investments in specific assets like equipment or plant, which the others will not buy;
- Low differentiation: in this situation rivalry will be increased, because only the only way to compete in the industry is by price.

Summary:

5 Forces Analysis allow the company to assess the attractiveness of the market in term of possibility to gain the profit. For the new firms this analysis helps to determine the potential threats, which company can face while entering the market.

Chapter 3 Analysis of the Internal Environment

One of the important elements of strategic management and planning is the internal environment that usually involves the whole firm and factors that are in the scope of organization and have a direct and permanent impact on it.

The strategic analysis of the internal environment is aimed to assess the potential of the organization and its position among the competitors, to reveal its competitive advantages, strength and weaknesses and to define the problems that company can face.

3.1 Analysis of suppliers

The right choice of the reliable suppliers plays the important role in the company's success. This type of analysis includes the principles of the suppliers portfolio formation, analysis of role of suppliers for the company, formulation of the special requirements for the suppliers and etc.

3.2 Analysis of customers

This analysis includes the study and determination of the target customers in regard to the potential product or services. Also it includes the development of the strategy for promotion of new products and services in the market and for the sales promotion of the already existed group of product.

3.3 Competitor Analysis

Competitor Analysis is the final stage of external environment assessment. For the firm it is important to choose the right character of its positioning in the market and the ways of detuning from the competitors. It can be achieved by evaluation of the current situation in the market and identification of the main factors, which determine the market leaders.

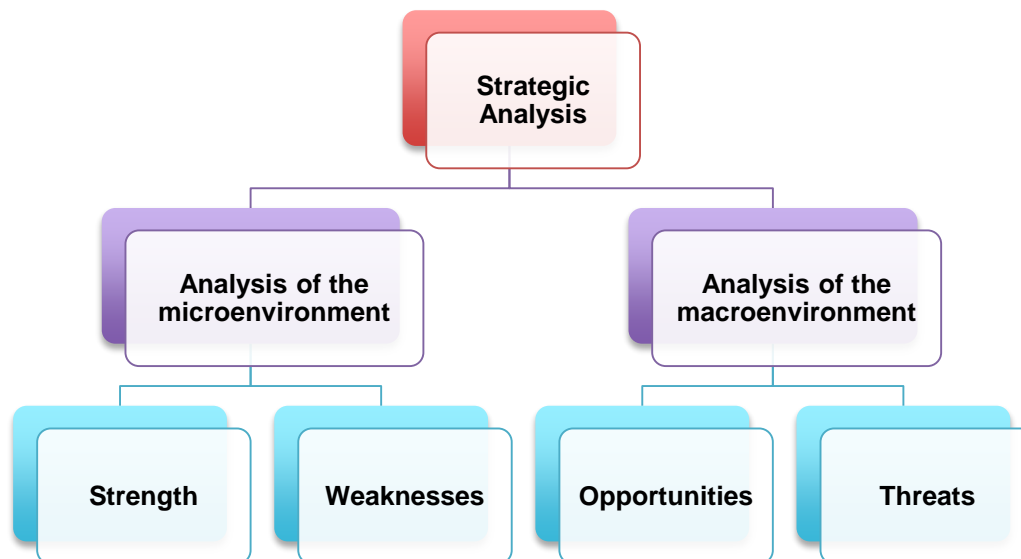
Chapter 4 Integrated Analysis of the external and internal environments

After the assessment the state of the company and its competitive environment can be made the most important analysis that determines the strategic position of the company. In this stage the SWOT analysis can be implemented.

4.1 SWOT analysis

In order to assess the company's actual situation on the market and its strategic perspective, it is necessary to analyze the strength and weakness of the company as well as its external threats and opportunities using SWOT analysis. (Ferrell, 2014, p. 96) This analysis can show how well the company's strategy is consistent with its market opportunities and internal resources (Figure 5).

Figure 5: Strategic Analysis



Source: (Wheelen, 2012, p. 57)

Abbreviation of the SWOT analysis means:

- Strength – internal characteristics of the company that provide the competitive advantage in the market or the more advantageous position in comparison with competitors;
- Weaknesses – internal characteristics of the company that impede business

- growth, interfere the product to lead in the market and are uncompetitive on the market;
- Opportunities – capabilities of the company. External environmental factors that can positively influence the growth of the business in the future;
 - Threats – external environmental factors that may weaken the competitiveness of the company on the market in the future and also lead to reduced sales and loss of the market share.

Strength and weaknesses can be controlled by the company, because they are analyzing internal environment, but opportunities and threats are part of the external environment and cannot be controlled by the company.

Goals of the SWOT analysis

- Identify the strengths and weaknesses of the company compared with the competition;
- Identify opportunities and threats of the external environment;
- Assign the strength and weaknesses with opportunities and threats;
- Formulate the main directions of the enterprise development.

SWOT analysis includes both the internal and external environment. Internal environment's structure cover different areas, such as: financial performance and resources, production facilities and capacity, product quality, product availability, market share, human resources, customer perceptions, organizational communication. While the external environment collect the information on the market about customers and competitors, economic conditions, social trends, government regulations and technology.

Chapter 5 Practical Part

5.1 Basic characteristic of the company

Air Astana Company	National airline of the Kazakhstan
Legal Name	JSC “Air Astana”
Headquarters of the airline	Located in Almaty city

Airline Company “Air Astana” was registered in the 2001 year and in 15th of May 2002 year completed its first flight Almaty – Astana.

The company is a joint venture between the National Welfare Fund “Samruk-Kazyna” (51%) and the British company BAE Systems PLC (49%), formed in October 2001.

The inaugural ceremony was attended by President Nursultan Nazarbayev and Sir Richard Evans, which represented the two main shareholders, the Government of the Republic of Kazakhstan and BAE Systems PLC of the UK.

The partnership shareholders remained stable during the whole history of the airline company development.

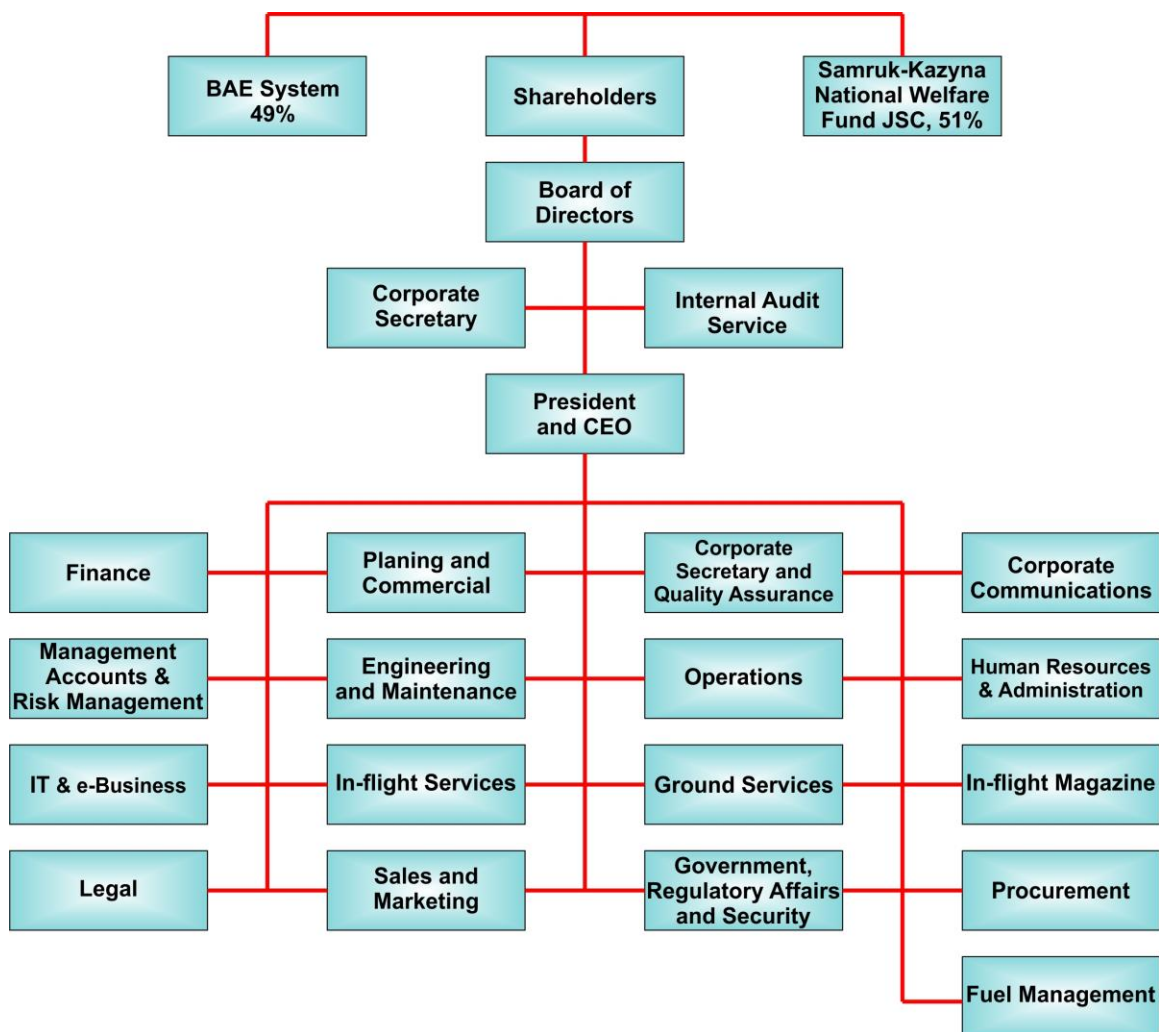
The stable was also the mission of the company “to ensure international and domestic airline services according to the high standards of safety and customer services, to be able to serve and supplement the Kazakhstan needs”, one of the countries with the high rates of economic development.

It is the only company in the Kazakhstan, which has certification for the implementation of technological maintenance of the aircrafts according to the EASA requirements. Air Astana Company is a full member of the International Air Transport Association (IATA) and it in September 2015 year successfully passed the fifth international audit on operational safety (IOSA).

Today airline fleet consists of 30 Western-made aircrafts, the average operating age of the aircraft is 6,9 years. The route network includes more than 60 domestic and international flights. Air Astana Company’s highly qualified staff, which comprise of more than 4300 employees, consists predominantly of local and also the experienced foreign staff. Since the year 2005 Air Astana Company is headed by the Peter Foster that works as the executive director in the field of aviation business for more than 30 years. President of the airline company is accountable to the board of directors.

Air Astana placed the order for the purchase in the company’s property the aircrafts, such as Boeing 787, Boeing 767, Airbus A320 and Embraer 190. This acquisition in the future will increase the quantity of aircrafts to 36 units by the end of 2017 year and to 43 units by the year 2020. Having a fleet of modern aircrafts, an extensive line of technical and service innovations, which were made for providing more reliable and comfortable flights within the Kazakhstan and also outside the country, Air Astana today recognized explicitly as one of the leading companies in the CIS airline companies (Figure 6).

Figure 6: Organizational Structure of Air Astana Company



Source: (Air Astana Company, 2016)

Air Astana Company provides the domestic and international flights to 64 different destinations from the Almaty and Astana international airports.

Company has been awarded the 4 star Skytrax rating for 3 consecutive years and it is the only 4 star airline carrier in Eastern Europe and CIS.

The airline assessment process and ranking awards involves more than 800 different aspects of providing services of each company, while the ranking is assigned from 1 to 5 stars. Most airlines in the world are awarded as 3 and 4 stars, and only few international companies were awarded the rating of 5 stars. Also Air Astana Company was awarded as the Best Airline in Central Asia and India in the years 2012, 2013 and 2014. In December 2014, Air Astana Company was the first Central Asian airline that won an Air Transport World's Airline Market Leadership award.

In the year 2014, the Air Astana Company provided 40 international and 19 domestic routes, also including 2 seasonal ones. Additionally, the company has code-sharing agreements with different airlines, such as Asiana Airlines, Air India, Austrian Airlines, KLM, Etihad Airways, GTK Rossiya Airlines (Aeroflot group), Turkish Airlines and in the August 2015 Air Astana Company announced the new codeshare agreement with Bangkok Airways. Also it has the interline partnership agreements with more than 100 other airline companies, so the clients can choose over almost 400 destinations worldwide.

5.2 Mission, Vision, Goals and Values

Mission

From the Heart of Eurasia Air Astana Company are building one of the finest airlines in the world.

The mission of the company to ensure international and domestic airline services according to the high standards of safety and customer services, to be able to serve and supplement the Kazakhstan needs. Also the company is committed to become a leader in terms of transparency and promotion of international best practices in corporate governance.

Vision

Air Astana was created 15 years ago on a vision of creating an airline, which would be different from another average airlines at the time in the CIS. Now the look at the company shows the results of the efforts and put into perspective the day-to-day challenges that airline faces.

Goals

1. To implement the highest international safety standards.
2. To be the most reliable airline in the region, which implements the high standards of customer services and operational reliability.
3. Make the profitable growth and improvements of the fleet, route network, product and business processes by paying attention to the interests of the company and its customers.
4. To work with regards to the high standards of integrity and business ethics in dealings with customers, business partners and colleagues.
5. To recruit, appraise, promote and reward staff according to the individual achievements of the workers, professional qualifications and collective contribution and give them opportunity to develop themselves to the maximum potential.
6. To be a socially responsible organization
7. To be a global ambassador for Kazakhstan and become the one of the Kazakhstan's most respected companies by fulfilling company's mission, making contributions to the country's social and cultural development and preservation of the environment.

Values

There are number of values that organization revealed for itself and wanted to adhere to this values. These include: Hospitality, Efficiency, Activity, Reliability and Trustworthy.

Hospitable

This means that employees of organization should treat and refer to the any person with whom they will be in contact, for example: colleagues or clients, as a guests. They should be warm, friendly and tactful, and always be willing to help.

Efficient

Means that for the company it is important to produce high quality results with style and knowledge. One of the company's goals is to maximize skills and use the time efficiency.

Active

Employees of the company should always be active, which means to anticipate and respond to all need of customers and their colleagues. It is important for workers to do things in the best way according to their abilities and always look for different ways of improvement.

Reliable

One of company's values is to produce reliable and consistent quality of all activities and always keep the promises.

Trustworthy

Employees of the company should behave in certain way to be honest to everyone and never compromise their integrity. Which in result will lead to customers and colleague's trust.

According to these values Air Astana Company in the 2014-year introduced the new program that is named HEART (Hospitable, Efficient, Active, Reliable and Trustworthy). It was established, because of the commitment to develop the best practices in management of the company. Under this program the Air Astana Company revised the its mission, goals and values that every employee should follow and demonstrate every day with their customers and colleagues.

Chapter 6 Analysis of the organizational environment of the company

6.1 Macro economic analysis PESTEL

6.1.1 Political factors:

Government support for national carriers

The government of Kazakhstan represented by the National Welfare fund “Samruk Kazyna” owns 51% of company’s shares. Also in the 2015 year, according to verified news portals, it became known that the company Air Astana would not be included in the list of companies for its further direction to the competitive environment and privatization. Since it is known that if airline shares will not be owned by the state or its citizens, the rights to perform international flights to foreign countries would be limited. This means that there is a strong state support that will continue to positively affect the performance of the company and its operations. (Tengri News, 2015)

Security Control

Air Astana successfully passed the safety compliance certification procedure IOSA International Air Transport Association (IATA). Air Astana was certified by European Aviation Safety Agency (EASA) to perform aircraft maintenance on the requirements according to the directive 145. Therefore it can be argued that the company provides the necessary security controls. (TRANSPORT; Air Astana may hold IPO in 2017 - 2018, 2016)

In transport and communication complex of the country air transport takes the important place from the point of view as the development of international relations with another countries and maintenance of competitiveness of transit capacity of the country in general.

Membership in the international organization

In 27th of July 2015 year Kazakhstan become the official member of WTO international organization; this membership will be the incentive for domestic airlines, especially for the Air Astana Company to enter into the international market of passenger’s air transportation, which will require Air Astana Company to search of new opportunities for preservation of share in the local market and expansion to the foreign countries. (BBC Russia, 2015)

Political situation in Kazakhstan

According to the international rating agency Standard & Poor’s the political situation in Kazakhstan is remaining stable and there is very low possibility of emergence of the political conflicts and protest movements. This stability can positively affect for the Air Astana Company’s performance. (Socio-political Newspaper "Time", 2013)

Furthermore, political situation in another countries can significantly affect the airline traffic of the Air Astana Company to these countries. For example, Air Astana entered the Ukrainian market in the 2013 year after the Aerosvit collapse, however because of the complicated political situation in the Ukraine Air Astana made regulations of its flights, which in the result reduced Almaty – Kiev routes from 6 times to 3 times per week, while Astana – Kiev routes were all canceled (Air Astana Company, 2014).

In Kazakhstan in the 16th of July 2015 was implemented the process of liberalization of visas. This visa-free policy extended to the 10 most important markets for the Air Astana Company, for which Spain, Italy, Germany, United Arab Emirates, Singapore, UK, France and other countries refer. This liberalization process can significantly impact the transfer traffic growth. (Embassy of the Republic of Kazakhstan in the Federal Republic of Germany, 2015)

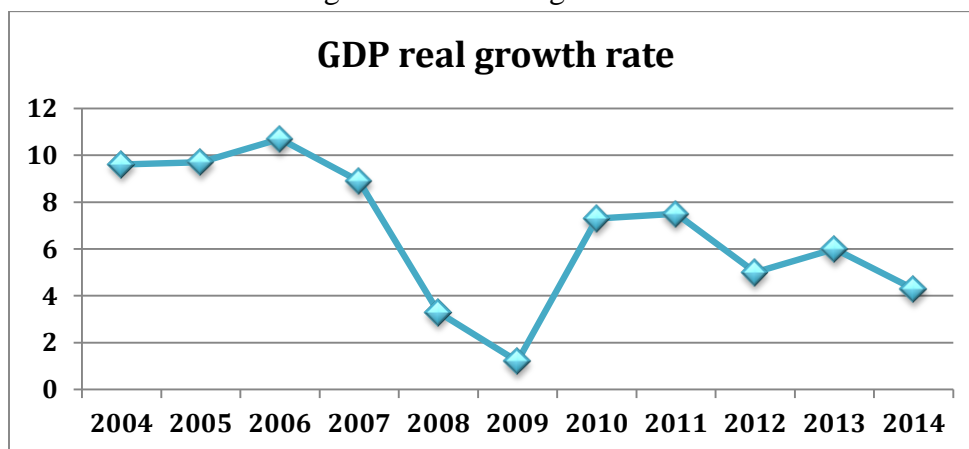
6.1.2 Economic factors

Main economic indicators

Aviation had always occupied and still occupies a very important role in the development of the country. Especially it is important for Kazakhstan, because it is located in the crossroad of Europe and Asia, and has a large geographical spread.

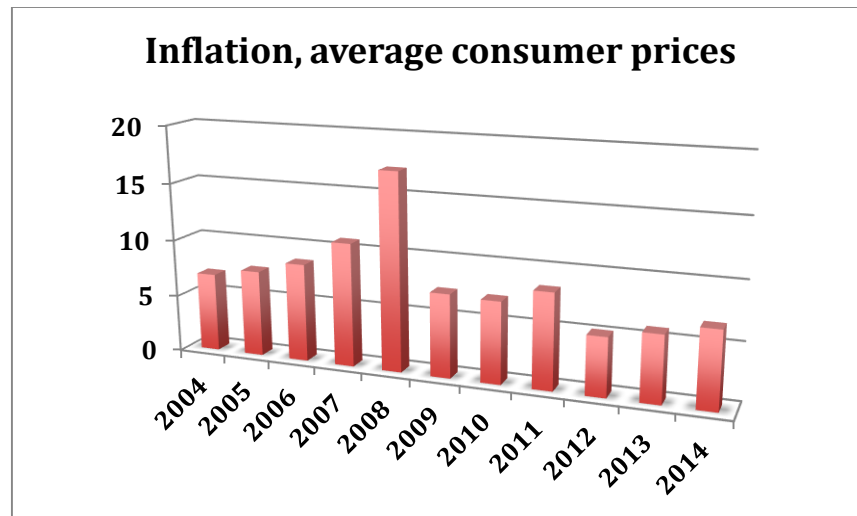
One of the main factors that have an impact on the Air Astana airlines is the current GDP at market price that equals to 217.9 billion dollars and also total population, which is equal to 17.29 million dollars. (The World Bank, 2016)

Figure 7: GDP real growth rate



Source: (The World Bank, 2016)

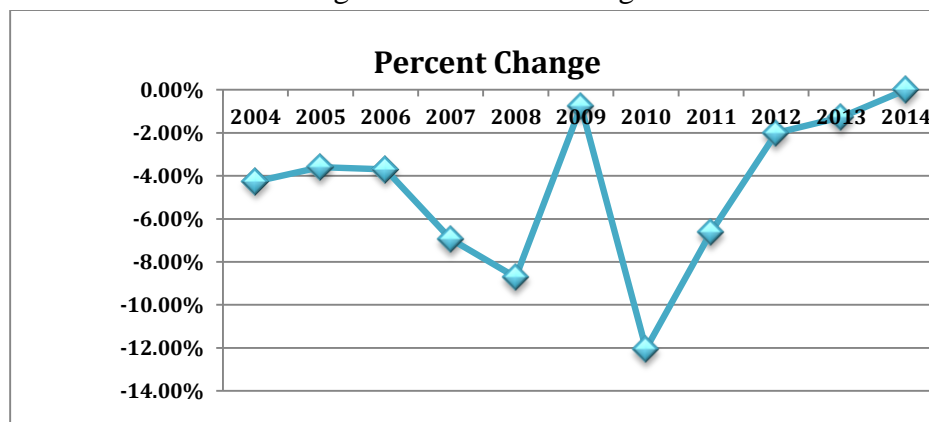
Figure 8: Inflation, average consumer prices



Source: (The World Bank, 2016)

Economic factors affecting the volume of passengers using airlines are first of all income of the people, which respectively means salary. According to the statistical data of World Bank, Kazakhstan is the country with incomes above the average, which means that big part of the citizens can afford transportations using services provided by Air Astana Company. Also according to the WB prognosis in Kazakhstan there has to be a moderate increase of the growth rate to 1.1% in 2016 in comparison with 0.9% in the previous year.

Figure 10: Percent Change



Source: (The World Bank, 2016)

Today economic situation of the Kazakhstan not in the good position because of the low commodities prices, Russia's protracted recession and China's slowdown, all this factors hit the economy of the country.

Another economic factor that can significantly affect Air Astana Company is devaluation of Tenge (KZT). For example, on the February 2014 year the national currency Tenge

was devaluated by 19% in order to stay competitive in comparison with another countries, especially with Russia, which Ruble was also declining. But this process of devaluation enforced Air Astana Company to re-evaluate its debts, which resulted in 47,8 million USD. (Air Astana Company, 2014)

Airline company market is very cyclical and highly depends on the economic situation in the country. The worldwide economic downturn that recently happened, which also resulted the financial crisis in 2008 was affected in decrease of worldwide passenger levels in 2009 of 2.4% also in decrease of volumes of cargo by 8.8%, and also the revenue declined to 16.5%, because of the reduction of prices for covering the fixed costs. In 2008 was also observed negative influence due to the rise in oil prices. (Eurostat Statistics Explained, 2016)

Oil production and prices

Dynamics of the passenger traffic closely connected with the dynamics of real GDP and income of population. The largest expenses for the firms in airline industry are a fuel costs. According to the head of department of IATA aviation fuel Lasanta Subasingkhe, the high cost of aviation fuel increases the operational costs of air transport when flying from Kazakhstan that leads to higher cost of air tickets and cargo transportation and as a result limits the air traffic of the country. The IATA reported that lack of the competition in Kazakhstan market of supply of aviation fuel has led to market price which is 30-40% higher than the level that could developed with competition. Therefore, existence of competition in the market of supply of aviation fuel at the airports will reduce operational costs by 5-7% that in transfer to the cost of transportation will make about 4.5 – 5%. Elasticity of demand in Kazakhstan is estimated as 0.9 therefore this reduction will lead to increase in the international passenger traffic by 3.5 – 5% (Bekmagambetova, 2014).

Beneficial effect on the economy of Kazakhstan will render the beginning of oil production on the Kashagansky offshore field, stabilization of oil prices and recovery of the economy in Russia and other countries in CIS region.

According to the Global Petrol Prices information

Starting from the 14th of February Air Astana Company started to lower ticket prices for domestic flights, because of the carrier decision of cutting the fuel surcharges by 20% for domestic flights (Prokopenko, 2015).

Fuel prices for aviation have fallen by 40% in the period of last 18 months. Nevertheless the equivalent of airline's USD expenditures in Tenge have increased due to the devaluation process of national currency, according to Peter Foster. (TRANSPORT; Air Astana may hold IPO in 2017 - 2018, 2016)

6.1.3 Social factors

Nowadays it became popular to go for vacation to different countries, especially countries with the warm climate and good service conditions, and it can be problematic to reach this countries without using airplanes. Also in the business industry when the process of globalization starts the national borders became more transparent and firms try to carry out their activities in different territorial regions. In this case air transportation is used not as luxury way of reaching their destination but as the most suitable and quick way of transportation.

Wages fund in Kazakhstan in the period from January to September 2015 year increased for 5.7% (4 trillion tenge) comparing with the previous year. The average nominal wages for this period equals 122.1 thousand tenge. The level of salary of citizens in the country can influence the popularity and the ability of people to use airline industry and buy air tickets. (Wages Statistics, 2016)

In Kazakhstan there is a tendency of increasing the number of students that study abroad, which also can influence the Air Astana Company and increase demand for the international routes to Russia, CIS countries and Europe.

Negative factors

Also one of the negative factors influences the company is uncontrolled growth of the agencies that work in the air transportation industry in Kazakhstan and CIS countries.

Another negative factor, which can influence the level of clients of Airline Company is the level of unemployment in 2015 was equal to 5, but in 2016 year it equals to 5.1%.

Figure 9: Unemployment rate in the Kazakhstan



Source: (The World Bank, 2016)

Summary:

The changes in social factors, customer's preferences and the level of unemployment and salary can highly influence the company's profitability and the number of clients.

6.1.4 Technology

Development of technology can highly influence airline industry. In order to be competitive in the market, airline companies need to implement new programs and new technologies in all aspects of their business.

Innovations

One of the latest technological changes in airline industry, which is important to mention are electronic tickets, boarding passes with barcodes, possibility to buy tickets online and etc. All this changes make the process of buying tickets and travelling more easy and comfortable for the customers that also can positively affect the popularity and big demand for airline industry.

Also in 2014 corporate website of the company was re-launched with a broader interface, which can also be supported by mobile application for more convenient and efficient use for the customers.

Internet technologies allow Airline Company to reach a larger group of consumers this fact positively affected the further growth of clients.

Since the 3rd of February 2015 Air Astana announced the new sleeping economy class in the Boeing-757, which flight from Astana to London and Frankfurt and in the 29th of March to Paris. This new class will provide for the passenger the higher level of comfortability during flights.

Aircraft fleet

Air Astana Company operates the modern aircraft – the Embraer E190, the A320 family, the B757 and the new B767 and plans to introduce the Boeing 787 Dreamliner, which provide the company with the most modern fleet in the region. In the last 5 years period the average age of the aircraft fleet was decreased from 11,4 to 5,5 years in the 2014 year. Thereby the Air Astana Company's fleet age can be favorably compared with another airlines globally and with airlines that fly in the CIS region.

ERP

Also in the 2014 year was upgraded the enterprise resource planning system of the company that included the improvement of the Hyperion planning and budgeting, inventory management for engineering implementation, and also the TRAX and AIMS systems of the company. (Air Astana Company, 2016)

6.1.5 Environmental

Nowadays a lot of scientists and reseachers started to analyze the impact of air transport on the environment. Due to this studies all airline companies should comply with the special standards and norms to decrease the negative influence on the environment.

According to the Air Astana official website it is important to mention that Air Astana Company is the one and only Airline Company, which operates with Airbus A319/A320/A321 types of aircrafts. These types of aircrafts are very comfortable, ecologically friendly, fuel-efficient and with low level of harmful emission.

According to the annual report of 2013 year, 99% of Air Astana's carbon emissions come from secondary sources like ground support facilities and equipment. (Air Astana Company, 2013) IATA organization calculated the airline industry makes a minimal contribution to global environment pollution, in consequences the Air Astana Company decided to reduce carbon emissions by 3 methods:

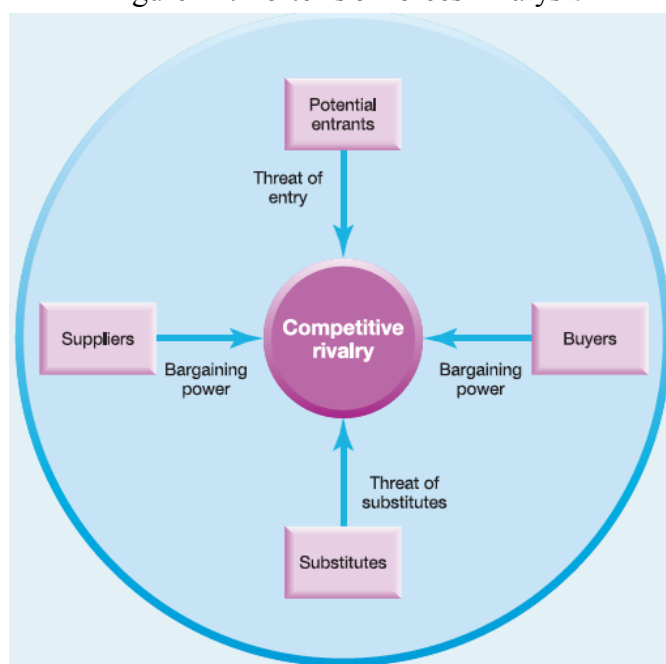
- To operate more fuel efficient aircraft
- To modify the current fleet
- To make more efficient flights

6.2 Analysis of the microenvironment

Porters 5 Competitive forces

The competitor's forces are one of the market's main characteristics. Competitive forces can affect position of the company in the market according to the competitors and as well as the overall success of the organization (Figure 11).

Figure 11: Porter's 5 Forces Analysis



Source: (Gerry Johnson, 2008)

6.2.1 Competition in the industry

In Kazakhstan as well as in other countries the competition in the airline industry is conducted among several companies, which are Bek Air, Qazaq Air, SCAT airlines and etc. Each company has its own strategy and tactics for attracting clients, for example it can be the high level of services, guarantee of the comfort throughout the flight, reasonable prices for the air tickets and etc.

The competition between different airline firms exists, because they use different methods for improvement its position in the market. These measures include: changes in the price policy, improvement of service for the customers, special ways of registration and sales of tickets.

But Air Astana Company is the most popular and the most preferred company among the total population of the country. In the 2014 year Air Astana has proven its professionalism and high quality of work and provided services, which are consistent to the international standards; these facts affected the permission to perform flights to the European Union destinations. Air Astana Company for this moment is the only one company, which can conduct international flight to European Union. As well the company provides for their clients variety of domestic and international flight to 19 domestic and 40 international destinations, including the seasonal ones. (Air Astana Company, 2014)

It is important to mention that according to the Table 1 quantity of the passengers is increasing every year.

Table 1: Number of passengers

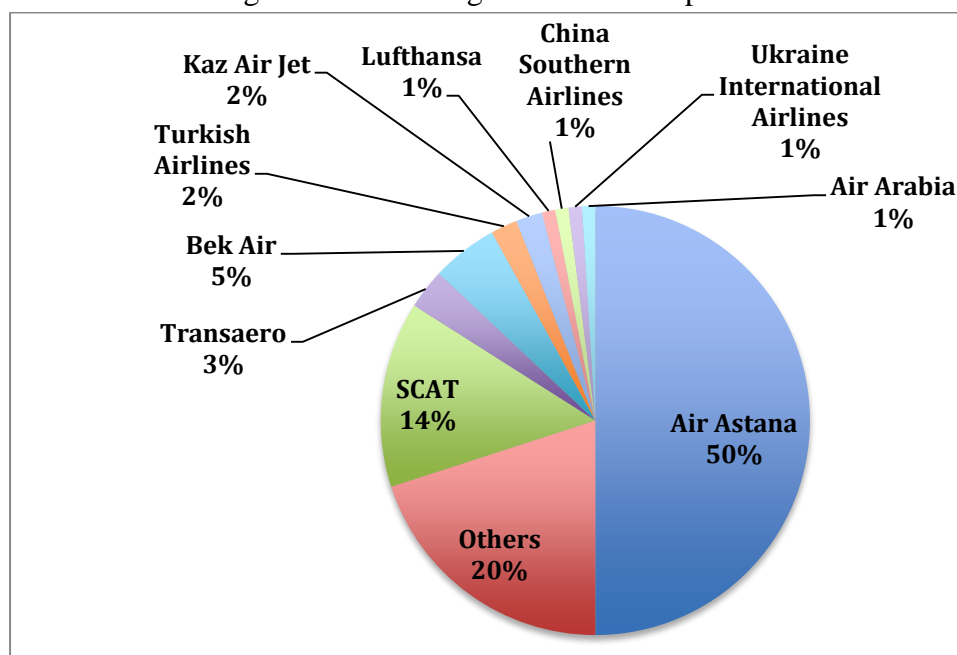
Years	2008	2009	2010	2011	2012	2013	2014	2015
Number of passengers (millions)	2.3	2.2	2.6	3	3.3	3.7	3.8	3.9

Source: (Air Astana Company, 2016)

In case of Air Astana Company it is important to predict the future competitors actions and to be ahead of them in development of the company and increasing its share in the market.

According to the information from annual report of Almaty International Airport 2014, 50 % of the all passenger flights in the 2014-year were performed by Air Astana Company (Figure 12).

Figure 12: Percentage of airline companies



Source: (Almaty International Airport, 2014)

6.2.2 Threat of emergence of products substitutes

Substitutes of the services, which Air Astana provides, can be other ways of transportation, for example motor transport, railway, water, bus and etc. All this types of transport can satisfy the needs of airline company's clients – need for movement from

one place to another. Existences of a large amount of possible substitutes of air transportation significantly increase the competition in these industries.

In this case Air Astana Company has to influence the quality of services, time of transportation, improve the comfortableness for clients, expand the variety of directions, make the price for the tickets more affordable, offer different ways of purchasing the tickets and because of all this facts consumers will give preferences to air transport.

In Kazakhstan the length of railways exceeds 15 thousand km and has 16 abutting points, such as 11 with Russia, 2 with Uzbekistan, 1 with Kyrgyzstan and 2 with China. The competition with railway type of transportation can be high, especially for the domestic flights within the country, because railway type of transportation is cheaper and can be more cost-effective for the passengers than air transportation. But despite this fact according to the information from the annual report of JSC “National Company “Kazakhstan Temir Zholy” the national railway company it is known that passenger miles (including private carriers) in 2014 year was equal to 18317 million pas-km, but it turned off by 4.2% from the year 2013 when passenger miles were 19125 million pas km. There is a decrease in demand for passenger transportation by rail, which strengthens the competitive position of air transportation. (JSC National Company "Kazakhstan Temir Zholy", 2014)

The main advantages of air transportation among other types are the shorter time and more comfortable way of movement. Air Astana has a reputation for excellent quality of service, which proves 4-Star Skytrax every year ratings since 2012 year; the company team continues to invest in creating a superior ground and in-flight experience through technology and training.

The usage of personal motor transport was growing in the last years due to the fact that process of devaluation of the national currency and the international economic crisis significantly affected the population of the country. People began to reduce their expenses that affected also the tourism industry within the country, because citizens started to give more preferences to the leisure activities in the Kazakhstan, where tourism industry is growing, new hotels and places with good service conditions already exist in the market.

6.2.3 Threat of new entries

For all airline companies and Air Astana is not an exception, the possibility of appearance a new competitors is not very significant, because the conditions for entering this market are very high and it will require a big expenses, especially in the beginning. The largest costs are connected with formation of airpark and in the future this airline business will require further capital investments. Also very expensive will be the technologies regarding registration of the flight, luggage receiving, costs for services of airport and aircrafts.

For Kazakhstan citizens the name of the company Air Astana means the reliable

air transportation that provides high quality services. Company's long and successful existence in the market influences the customer decision to give its preferences and choose to fly with Air Astana. In Kazakhstan people trust more to the companies according to their reputation and people reviews.

But at the same time in the Kazakhstan local market in April 2015 year was established the new regional airline company, which will focused on providing the domestic flights within the country. This company was introduced by "Samruk-Kazyna JSC", which owns 100% of its shares. The company's fleet consists of new turboprops aircrafts of the latest generation Bombardier Q400 NextGen. The main mission of the company is to consolidate all regions in Kazakhstan and further improve the economic development of these regions. (Qazaq Air, 2016) This new player can lead to the future competition in the field of domestic routes for the Air Astana Company.

6.2.4 Power of suppliers

The main suppliers of Air Astana Company are the airports, because they accept planes, provide runways, carry out joining of the flights and other activities. Formation of reliable network of air transportation without failures depends on effective work and good established relationships of air carriers with airport authority.

Despite this the airline company has an extremely dependence on suppliers of fuel, because fuel expenses take approximately the third part of all costs for transportation. (Air Astana Company, 2014) The increase in the fuel prices will force the company for looking some ways of decreasing the costs of transportation or to raise the price for the air tickets.

Also board power suppliers tend to increase their prices by the reason of recently price growth for food and drinks in the market due to devaluation of the national currency tenge. But the Air Astana Company can't increase their price for the services that may also affect the financial characteristics of the company and lead to increase of the company's expenses and further some losses.

Growth in the prices compels the airline to straight away increase the salary of workers, who work as a service or technical assistants in the airline company.

6.2.5 Power of buyers

In Kazakhstan consumers of airline industry are from various groups of population, which differ from each other according to the purpose of trips, their income and priorities.

The most general segmentation of the market allows dividing it into 2 groups: the business passengers and the traveling ones. To analyze the competitiveness of the company it is important to analyze the customers and their preferences, because every airline company offer transportation from one place to another, but depending on the

price of the trip, trip duration, quality of provided services, the schedule of the flights, safety and comfort conditions during the trip clients can give preferences to special company. For every company one of the main goals is to increase the number of customers.

Air Astana offers their clients tickets with special prices according to how many days are left before the flight. Also customers give preferences to the Air Astana Company, because of company's reliability and safety conditions, people trust this airline.

There can be competition in the market if another companies will provide special services that will be new in the market, in order to avoid it company should always monitor the situation in the market and develop its activities according last trends in this industry.

7 Microeconomic Analysis of the Air Astana Company

7.1 Competitors

Competition in the airline industry in Kazakhstan is not so high, because this industry is only started to grow.

Because the Air Astana Company provide more than a half of all company's flights to the domestic destinations (Air Astana Company, 2016), it is important to make a comparison with local companies, which also operate in the domestic routes. The main competitors of Air Astana Company in the domestic routes are: Bek Air, SCAT Airlines and Qazaq Air.

Bek Air

It is the first low cost company in Kazakhstan, which was established in 1999 year.

It is based in Uralsk city.

Nowadays it is the third company in Kazakhstan in the internal transportation.

In 2015 Bek Air transported more than 750.000 passengers.

In 2014 the company has taken nearly 11% of country's air transport market.

The company's air fleet consists of 7 airplanes Fokker-100 with 108 seats.

Mission of the company: to provide safety, effective and affordable for the citizens air transportations in Kazakhstan and beyond.

The Company provides domestic regularly flights between different cities of Kazakhstan and also Moscow, Saint Petersburg, UAE, Turkey, Mongolia and China. (Bek Air Company, 2016)

SCAT Airlines

It is one of the largest companies in Kazakhstan.

It's headquarter is situated in Shymkent city.

The main hubs are in Aktau, Almaty and Astana.

Company performs passenger transportation within the country and to the CIS countries, Turkey, Thailand, China, UAE, India, Malaysia, and Vietnam.

In this moment air fleet consists of 65 aircrafts, 60 of which is owned by the company. (SCAT Airlines, 2016)

Qazaq Air

It is new regional air company for serving domestic flights in Kazakhstan.

Joint Stock Company Fond of the national welfare "Samruk-Kazyna" owns the company's 100% shares.

The company was established in April 2015.

The main mission of the company is to consolidate all regions in Kazakhstan and further improve the economic development of these regions.

The air fleet of Qazaq Air consists of new turboprops aircrafts of the latest generation

Bombardier Q400 NextGen. (Qazaq Air, 2016)

In the year 2014 the key player in the passenger transportation in the Kazakhstan market still remains the company Air Astana. Despite the fact that, unlike the SCAT Company in the year 2014 Air Astana didn't lead in the number of routes, nevertheless the share of the airline accounted for 64,4% of all transported flights in the country. The second position in the market occupied the SCAT airline company, which services were used by 26,18% of passengers. And Bek Air Company, which transported 11% of all passengers, took the third place. The competition in the domestic routes can increase, because of the establishment of the new Qazaq Air Company, which as well as Air Astana is owned by government and will provide its operations specifically in the local market.

As the Air Astana Company is the international airline carrier, it is important to reveal the major competitors of the company in the world perspective and make a comparison of basic characteristics.

The main competitors in the international routes are Aeroflot Company, Turkish Airlines, and Etihad Airlines; all these companies have a code sharing agreement with Air Astana and operate their flights in the similar directions (Table 2).

Table 2: Basic characteristics of the airline companies in the 2014 year

	Air Astana	Aeroflot	Turkish Airlines	Etihad Airlines
Number of routes	19 domestic 41 international	24 domestic 51 international	45 domestic 219 international	111 destinations
Fleet of the airline company	30 planes	155 planes	261 planes	110 planes
The average age of the fleet	5,5 years	4 years	7,2 years	5,8 years
Number of staff	4000	18981 employee	19902 employee	24347 employee
The loyalty programs	Nomad Club	Aeroflot Bonus	Miles & Smiles	Etihad Guest
Number of passengers in the 2014 year	24 million	34,7 million	54,8 million	14,8 million

Source: (Air Astana Company, 2014) (Aeroflot Group, 2014) (Turkish Airlines, 2014) (Etihad Airlines, 2014)

According to this table, it is noticeable that Air Astana Company lags behind in all basic characteristics, but despite the fact that the company was established relatively recently it is continuously growing and starts to become the real competitor to these big airline companies. If the company develops every year in the future it will be able to achieve the same or even higher results. Also it is important to mention that the Air Astana Company has one of the youngest aircraft fleet among its competitors.

In order to take the leading position in the market, Air Astana Company needs to:

- To carry out work of improvement the quality and the range of provided services;
- Expand the geography of flights (route optimization both in the international routes and inside the Kazakhstan);
- Enlarge fleet of the company.

7.2 Suppliers

Aviation fuel

2014:

In 26th of March 2014 signed an agreement with Kuwait Petroleum International Aviation Co Ltd., Air BP Limited, ADNOC Distribution, Chevron Products Company, China National Aviation Fuel Supply Co. Ltd, LLP „Triumf 2003“ and LLP „Astana Petroleum Oil“.

In 28th of March 2014 Air Astana signed a major contracts with Joint Stock Company “Lukoil”, “Petrosun” and “Gazpromneft-aero” for the procurement of aviation fuel.

Also it was signed a deal with “Sheremetyevo” and companies Petrol Ofisi A.S. and Air Total International SA CJSC for the procurement of jet fuel for delivering it in the wing of the aircraft. (Air Astana Company, 2016)

2015:

In 9th of November 2015 Air Astana signed an agreement for procurement of aviation fuel with JSC „Lukoil“ and “Gazpromneft-aero”.

2016:

In the 18th of March 2016 was made the contract with JSC “Sheremetyevo” and companies Petrol Ofisi A.S. and Air Total International SA CJSC

Moreover the Air Astana Company every year allows the local fuel companies to participate in the tenders and the winner will have a chance to provide their aviation fuel for the company. (JSC National Welfare fund "Samruk Kazyna", 2016)

Catering Services

There are different catering companies, which provide their services for the Air Astana. For example, if flights are made from the international airport of Almaty the catering services are provided by the company “Almaty Catering Services LLP”, which was founded in 1997 and functions according to the ISO 9000 standards. The Almaty Catering Services provide their services to all airlines that fly from the Almaty

International Airport by serving the republican airlines and also foreign companies, such as British Airways, KLM, Lufthansa, Turkish Airlines and others. LLP “Almaty Catering Services” every year insures its responsibility to the airlines for providing good services, quality of food and responsibility for causing some damages for airline companies because of the catering workers by European insurance companies. It works in accordance with the rules of sanitation and hygiene of European Association of onboard food producers. (Almaty International Airport, 2016)

Another food supplier is DO&CO. It is the premium brand that provides diverse types of catering services including airline, international event, restaurants, lounges and hotels catering. Airline Catering generate for the company the most number of sales. DO&CO Company set the new standards for the airline catering in the premium segment with the 28 gourmet kitchens worldwide. The company established the concept “Flying Chef” is very successful and became expanding further. Turkish DO&CO deals and provides their services to Air Astana as for the third party customer. (DO&CO The Gourment Entertainment Company, 2015)

Also the catering services for the Air Astana Company offers “Aero-food Catering” company, which provide its services in the international airport Sheremetyevo. This company has a partnership agreement with the Air Astana Company. (Aerofood Catering Russia, 2016)

In the July 2014 year Air Astana was awarded for “the best onboard service in the Central Asia and India”. (Air Astana Company, 2014)

Leasing Companies

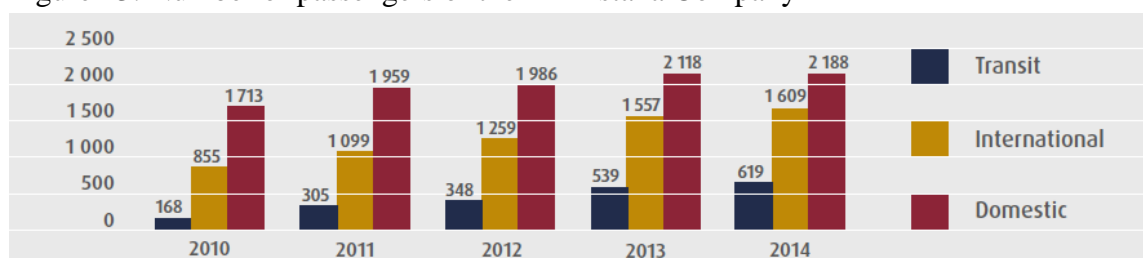
- ILFC - in the period of 2006 – 2008 years Air Astana Company acquired Airbus A320 and 2 first wide-body Boeing 767-300ER to the aircraft leasing;
- Jetscape Inc – in the 2011 year the company introduced 2 Embraer 190 aircrafts;
- Aircraft Lease Corporation (ALC) – in the 2011 year Air Astana Company leased 1 Embraer 190. In the June 2015 year Air Astana singed the contract for the supply of 4 single-aisle aircrafts Airbus A320 neo. (Air Astana Company, 2016)

7.3 Customers (Air Astana Company, 2014)

- Residents of Kazakhstan and other countries

According to the annual report of 2014 year, the number of international, transit and domestic passengers grows each year. Number of passengers that flight within the country is slightly larger in comparison with the international routes. Also the airline company offers the air transit transportation through the Almaty and Astana international airports (Figure 13).

Figure 13: Number of passengers of the Air Astana Company



Source: (Air Astana Company, 2014)

- Tourists and Visitors of the country

In the end of 2013 year the company introduced program “Air Astana Holidays”, the goal of the program was to attract international tourists to Kazakhstan” for transit and final destination. The program provided transfers, hotels and city tours. Another type of the customers is an international tourist.

- Engineers and technical specialists

In the May 2015 was opened training center for engineers in Almaty city. Training programs offer 26 specialist-engineering disciplines and also a course on Airbus A320 maintenance.

- International and local airlines

One of the Air Astana department deals with maintaining and providing technical services for the all aircraft fleet of the company and also for its components and equipment. Engineering and Maintenance department provide its services not only to Air Astana Company, it helps with the technical support to another international and local airlines.

7.4 Financial Analysis

Analysis of the most important financial indicators of Air Astana Company in comparison with the main competitors, such as Aeroflot Company, Turkish Airlines and Etihad Airlines (Table 3).

Table 3: Main financial characteristics of the companies

	Air Astana Airlines	Aeroflot Company	Turkish Airlines	Etihad Airlines	Global
Region of operations	Asia, Europe	Asia, Europe, North America	Asia, Europe, North America, South America,	Asia, Europe, North America, South America, Africa, Australia	World

			Africa		
Revenue	934,780 million USD	4 746 million USD	11 000 million USD	7 600 million USD	751 000 million USD
Operating Profit	98,491 million USD	167,136 million USD	476,6 millions USD	241 million USD	50 100 million USD
Operating Expenses	894,7 million USD	4576 million USD	62,56 million USD	6 276 million USD	713 000 million USD
Net profit	19,453 million USD	446 million USD	845 million USD	73 million USD	19 900 million USD
EBITDAR	209,902 million USD	721,959 million USD	2 044 million USD	1139 million USD	
Number of passenger aircrafts	30 planes	155 planes	269 planes	177 planes	24 000 planes
Total Revenue Passengers	7 549,907 million USD	67 121,7 million USD	54 675 million USD	68 600 million USD	365 billion USD

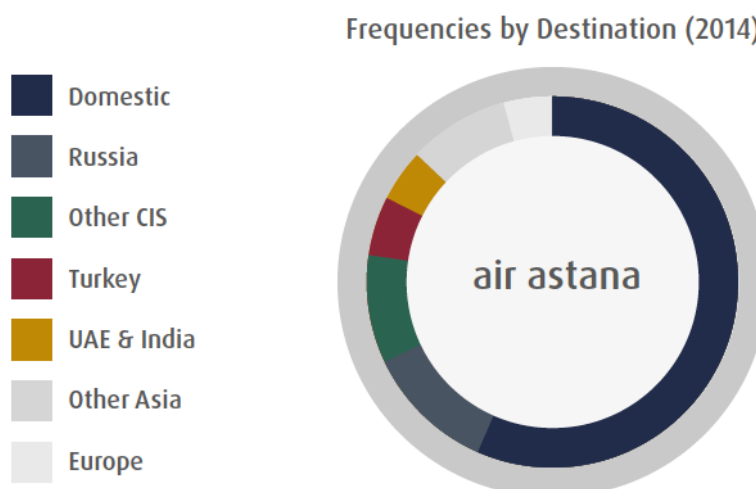
Source: (Air Astana Company, 2014) (Aeroflot Group, 2014) (Turkish Airlines, 2014) (Etihad Airlines, 2014) (The Statistics Portal "Statista", 2016)

To perform the financial analysis the Air Astana Company was compared with the 3 main international competitors, such as Aeroflot Company, Turkish Airlines and Etihad Airlines. All these companies operate in the similar routes and Air Astana has code-sharing agreement with these airlines, which require special standards for services level and safety conditions that should be achieved by both airlines. In the Table 3 of main financial characteristics of the company it is shown that Air Astana lags behind its competitors, especially on such indicators as: revenue of the company, net profit and the number of passenger aircrafts. But the company is continuously developing and in the future it plans to equalize its financial performance with the main competitors.

These competitive companies were chosen according to the Figure 14 about the Air Astana frequencies by destination in the year 2014. As it is shown in the graph the most number of flights were made to the domestic routes than to the Russia with approximately 25% of total international seats, CIS countries, Turkey, UAE & India and further to Asian countries and Europe.

Air Astana serves 7 directions to Russia.

Figure 14: Air Astana frequencies by destination, 2014 year



Source: (Air Astana Company, 2014)

Table 4: Financial Indicators of Air Astana Company (2011-2014 years)

	2011	2012	2013	2014
Revenue	772,883 million USD	875,075 million USD	966,9 million USD	934,780 million USD
Operating Profit	69,282 million USD	76,162 million USD	72,214 million USD	98,491 million USD
Operating Expenses	703,601 million USD	789,9 million USD	894,7 million USD	836,3 million USD
Net profit	61,260 million USD	61,076 million USD	51,364 million USD	19,453 million USD
EBITDAR	146,857 million USD	160,273 million USD	173,657 million USD	209,902 million USD
Number of passenger aircrafts	26 planes	26 planes	30 planes	30 planes
Total Revenue Passengers (RPK)	5 828,398 million USD	6 397,846 million USD	7 452,866 million USD	7 549,907 million USD

Source: (Air Astana Company, 2012) (Air Astana Company, 2013) (Air Astana Company, 2014)

According to the Table 4, it is seen that Net Profit of the company significantly decreased in the period of 2013-2014 years, because of the monetary assets and liabilities revaluation that was followed by the devaluation of Tenge (KZT) that also led to the 47,8 million USD of unrealized losses.

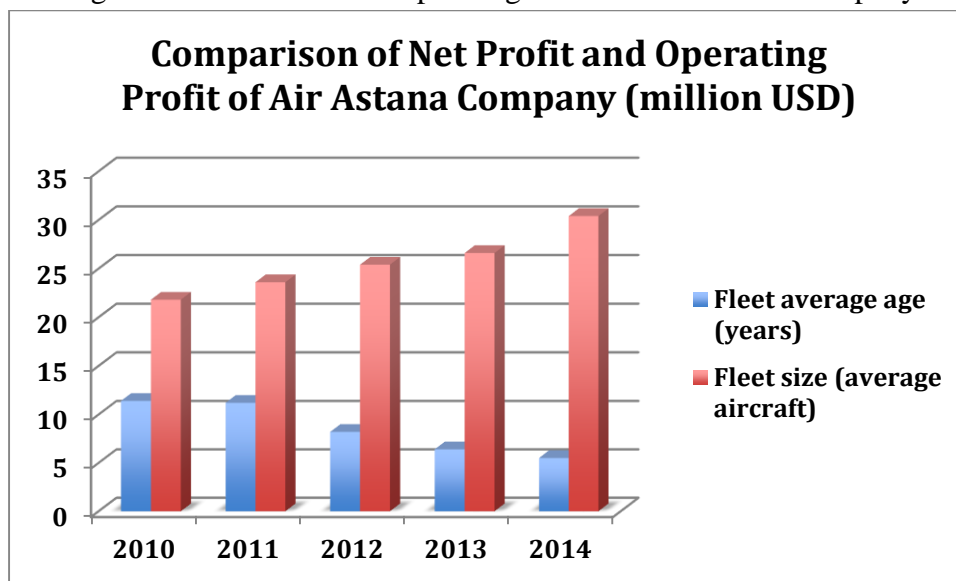
But the newly implemented cost measures, increase of the efficiency and transit

passenger growth in the 2014-year resulted in the highest operating profit, which company had in its history and it was equal to 98,491 million USD.

The total revenue passengers and EBITDAR indicators as can be seen from the Table 5 are continuously growing every year.

Air Astana Company increased its aircraft fleet from 26 planes to 30 planes.

Figure 15: Net Profit and Operating Profit of Air Astana Company



Source: (Air Astana Company, 2014)

8 Integrated Analysis of the external and internal environments

8.1 SWOT Analysis

8.1.1 Strength

More than a half of the passengers, which were served by the local operators in the last year, were transported by the largest airline company of the country. Its traffic was equal to 3,8 million people, which increased by 2% in comparison with the year 2014. The carrying capacities of the operator have been increased to 6%. (Kazinform Information Portal, 2016) In this way the share of the national carrier in the market was 64,4%.

The only company in the Kazakhstan, which is certified for the implementation of technological maintenance of the aircrafts according to the EASA requirements. Moreover the agreements of technical maintenance are made with Boeing, Airbus, Fokker, Rolls Royce, Lufthansa Aero and GE. In the last few years for the equipment of technical center airline company spent around 500 thousand USD and for the spare parts approximately 7,7 million USD. The Air Astana Company obtained the possibility to use the opened stock of spare parts in the amount of 33 millions USD from the AJW, Air France and STORK Fokker. (Sergey Domnin, 2012)

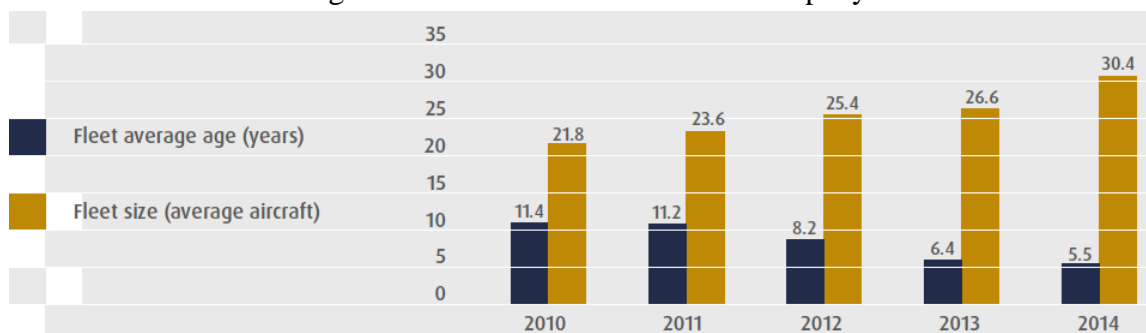
Professional employees and managers

HR department actively involve the young students to become pilots, cabin crewmembers and employees of the airline company. Air Astana has agreements with 12 universities for providing the on-the-job training for students. The Ab-Initio pilot training program is creating a pool of a highly qualified and experienced Kazakhstani pilots comparable with that of any major international operator. (Air Astana Company, 2016) Membership in the world well-known associations and code-sharing agreements with well-known airline companies

- Member of International Air Transport Association (IATA);
- In June 2014 Air Astana becomes a full member of the Association of Asia Pacific Airlines (AAPA);
- Member of IATA Clearing House;
- Membership in Flight Safety Foundation. (Air Astana Company, 2014)

Fleet of the company is one of the youngest and modern in comparison with local and international airlines (Figure 16). One of the company's goals is the modernization and improving the efficiency of Flight Park, purchasing and leasing the new and more efficient aircrafts from the well-known and reliable companies.

Figure 16: Fleet of the Air Astana Company



Source: (Air Astana Company, 2014)

Also Air Astana Company pays a lot of attention to the implementation of different technological innovations. For example, Air Astana corporate website is the largest e-commerce operation in the country in terms of the revenue and it is the main channel, which allow to communicate with customers. (Air Astana Company, 2016)

8.1.2 Weaknesses

Not large geography of flights

In comparison with the main international competitors, which operate in the same routes, Air Astana lags behind in the number of routes that these airline companies offer (Table 3).

Flight delays

Periodically occur the passenger complaints about the flight delays. These flight delays airline company explains by the various factors. Such as weather conditions, especially in the cities that is located in the north part of the country. Another cause is that the development of aviation infrastructure in the country is not in the high level. Airports of the country are not fully equipped with the necessary machinery and technologies, as well as the state of runways is not always in a suitable condition. Also cause of the flight delays can be technical conditions of the aircrafts and since not all airports can offer the aircraft maintenance, the airline company has to call the technical professionals from other cities, this process takes a plenty of time. (Aviation portal of Kazakhstan, 2013)

High-ticket prices in comparison with other local airlines and consumer population opportunities

The Forbes Journal has revealed that the airline company uses its monopoly position and inflates the prices for the tickets. In particular, excessive pricing can be noticed on the route Almaty – Astana, where airline tickets cost 22 thousand tenge (KZT)

while SCAT Airlines and Bek Air provide this flights with the cost of 15 thousand tenge (KZT). (Bykov, 2012)

Starting from the 22nd of August 2015 year, Air Astana Company increases its tariffs by 25% for the international flights due to the fact that operations in global airline industry are implemented mainly in USD, including procurement and leasing of aircrafts, technical maintenance, spare parts, aviation fuel, insurance and other costs. (Tengri News, 2015) As the company most of the revenue receives in tenge (KZT), it is necessary to increase tariffs to meet its debts.

8.1.3 Opportunities

Growth in demand for air travel

According to the International Association, which recently announced that the demand for the air transportation in the world continues to grow, for example IATA forecasts that 31% increase of the passenger demand will be in 2017 year. With regards to international traffic the top ten fastest growing countries in terms of international traffic looks like: Uzbekistan, Russia, Kazakhstan, Turkey, Oman, China, Vietnam, Saudi Arabia, Azerbaijan and Pakistan. (IATA Organization, 2013)

The expansion of the geography of flights

In the 2015 – 2016 years Air Astana Company signed 2 code-share agreements with Bangkok Airways and Hong Kong Airlines, this agreements allows the Air Astana customers to book tickets to Hong Kong destinations, such as China, Indonesia, Japan, Taiwan and Vietnam; and also to reach the world-class tourist destinations, for example Samui, Phuket and Krabi. Bangkok Airways provide their flights to the Bangladesh, Cambodia, India, Laos, Malaysia, the Maldives, Myanmar and Singapore. (Air Astana Company, 2016)

8.1.4 Threats

Competition growth

Competition in the airline industry can highly affect the company. Since the establishment of new Qazaq Air Company, in the domestic routes the leadership position can be under the threat, because government plans to collaborate with well-known and experienced international partner, who will lead and help with regulating the efficiency and quality of provided services. (Forbes Journal Kazakhstan, 2015)

Also in the international market all companies make all efforts to improve the position of the company in the market, modernize their fleets, adopt new technologies and etc.

In this industry continuous development place the very important position.

Sharp slowdown in the economic growth

Economic situation in the country can affect the whole company and also the customers. For example, in the result of last devaluation process Air Astana Company increased its flight prices by 25%, (Tengri News, 2015) which negatively affected the demand for the airline tickets. In this period passenger traffic grew only by 3% in the 2014 year and was equal to 3,8 million USD. Revenues of the company decreased by 3% from the 967 million USD to 933 million USD in 2014 year. (Air Astana Company, 2014)

High prices for aero fuel

According to the data from annual report it is known that more than a half of all expenses Airline Company is paying for aviation fuel, consequently it can be assumed that any change in the price of aviation fuel can significantly influence the expenditure of the company, ticket prices and also its position in the market. (Air Astana Company, 2014)

Unpredictability of geopolitical events

According to the latest events the threat of geopolitical events, for example wars, terroristic attacks, political conflicts, epidemics and some natural disasters can highly affect all airlines in the world. As in the 2014 year Air Astana suspended its flights because of the danger of flying over the areas where the hostilities took place, especially after the tragic fall of the Malaysian aircraft in the 17th of July 2014 year. (RIA News, 2014)

8.2 Internationalization strategy:

Air Astana Company makes a purchasing of international aircrafts, because this aircrafts satisfy the international safety and technological requirements. The fleet of the company comprises modern Airbus A319, A320, A321, Embraer 190, Boeing 767 and 757 aircrafts. (Air Astana Company, 2014)

8.3 Integration strategy:

Air Astana Company is actively expands its geography of the flights. The company today has a code-sharing agreements with very experienced and large companies, such as: Asiana Airlines, Austrian Airlines, Air India, Turkish Airlines, Etihad Airways, KLM, GTK Russiya Airlines (Aeroflot Group) and starting from the August 2015 made a new agreement with Bangkok Airways and with Hong Kong Airlines in January 2016. (Air Astana Company, 2016)

Five years ago the Air Astana traditionally relied on the Kazakh and outbound international markets, in that period company didn't have transit passengers and the

inbound demand was very limited. One of the company's goals was to reduce the dependence on the domestic market by providing transit traffic. It was the extended home market strategy that was mainly directed to develop regional connections between Central Asia and CIS countries.

In recent years Air Astana decreased its domestic flights because of the expansion to the international market, which resulted in the only 35% of revenues of the company generated by the domestic routes. Out of the 65% revenue that was generated from international flights, 25% are from European routes, 20% from Asia and 20% from regional routes also including Russia. (CAPA Centre for Aviation, 2015)

Air Astana business plan for the 2016-year plans to add new destinations for the company, which are Tehran in Iran and Ulan Bator in Mongolia. (CAPA Centre for Aviation, 2015)

Airline Company has in the future plans to add capacity to China, by providing new flight route to Shanghai. As well in the business plan of the company is further increase capacity of flights to London by increasing in from 3 times per week to 6 times weekly. (CAPA Centre for Aviation, 2015)

9 Recommendations:

In this bachelor thesis were implemented different types of strategic analysis. On the basis of these analyses will be provided special recommendations regarding the company strategy and its activities.

Strategy of the company should be focused on improvements in 4 main directions:

Finance:

- Air Astana Company should reduce its costs that can be made by using the fuel efficient aircrafts and further development of fuel conservation program for the reduction of environmental footprint, costs and emissions
- Increase the possibilities of earning revenue and increase the net profit
- Increase the impact of the company assets usage, which can be achieved by optimization of the airline routes and effective allocation of labour resources

Business processes within the company:

Air Astana should increase its market share by:

- Continually expanding the geography of flights
- Negotiate and cooperate with the world leading airline companies for concluding the code-share or joint venture agreements in the future
- Creating the convenient flight frequency and schedule
- Effective work with the airports concerning the reception and service of the aircrafts
- Concentrating on the most popular destination
- Provide the high level of safety for passengers and crew according to the international standards

Customers:

Air Astana Company should primarily target their services to the customers according their preferences: quality of services, prices for the airline tickets, services, convenience of ordering and purchasing the tickets. These activities can be implemented by:

- Modernize the aircraft fleet and adopt the new technologies to remain competitive in the market
- Pay much attention and improve all processes to minimize time delays
- Differentiate the variety of services, establish different type of fares by orienting to the various customer groups
- Further implement the new technologies, which will simplify and make the ordering and purchasing process more convenient

Education and growth:

To stay competitive to the market very important to provide the professional services for the customers, such as tickets selling, services on the board and at the airports, baggage claim and etc.

- Provide special trainings for the employees, air stewards and pilots.
- Expand the range of programs on the board
- Improve the motivation system of the staff by focusing on saving of costs and effectiveness of operational activities

10 Conclusion

The goal of this bachelor thesis was to implement the strategic analysis of the Air Astana Company. In the beginning of this work were set 3 main problems.

The first problem concerned the study and gathering of appropriate theoretical knowledge about the different types of strategic analyses and methods that can be used in practice.

The second problem included the implementation of all learned methods and analyses into practice specializing in the Air Astana Company. In this thesis were accomplished: PESTEL Analysis, which showed different ways of how the external environment can affect the airline company. Nowadays the external environment is relatively stable, but the economic situation in the world, decrease of oil prices and recent devaluation process can negatively affect the airline industry and Air Astana Company in particular.

To prevent this situation the airline company should focus on the effective allocation of the labor resources, reduction of costs and also on the establishment of the good relationship with the potential aviation partners.

Also was performed the Financial Analysis in which the basic financial indicators of Air Astana Company was compared with the international competitors that have the code-sharing agreement with Air Astana Company.

The Porter's 5 Forces demonstrated how suppliers, customers and competition in the market affects the Air Astana Company. The number of clients of the company is increasing every year, which reveals the right direction of the company's strategy. The suppliers of the company are one of the leading organizations in their industry, which in the professional level provide their services. Regarding the competition, Air Astana is the leading airline company in the Kazakhstan, which also tend to be the best airline among the international competitors. SWOT Analysis revealed the main strength and opportunities of the organization, on which the company should base their activities and further develop these factors, meanwhile the weaknesses and threats indicated the problems of the Air Astana that must be solved.

The third problem of the bachelor thesis required the overview of the obtained results, conclusion and author's recommendations for the Air Astana Company. Finally, it is possible to conclude that 3 main problems of the thesis were solved.

Appendix

Table 1: The main theoretical approaches to the management system of the organization regarding the content of the strategy

The main representatives of scientific schools	The vision of the strategic process	The most effective methods and approaches in the strategy development
Design School Selznich (1957) Newman (1951)	Strategies as the process of comprehension	The maximum account of the characteristics and development of the company
Planning Ansoff (1965)	Strategy as the formal process	Structuring and formalization of the decision-making process within the policy of the company
Positioning Hatten and Schendel (in the middle of the 1970 th) Poster (1980, 1985)	Strategy as an analytical process	Analysis of the competitive position of the company; assessment of the relationship between the strategy and results; matrix methods of analysis
Entrepreneurial Shumpeter (1934, 1950) Cole (1959)	Strategy as the process of fore sign	Operational modification of the strategy; the usage is limited because of the more higher cost of error in comparison with business units
Cognitive Simon (1947, 1957) March (1958)	Strategy as a mental process	The dependence of the content of strategy on the developer's cognitive style of thinking, identification of the bottlenecks that interfere the adequate assessment of the company's position
Learning Lindblom (1963) March and Cyert (1963) Quinn (1980) Hamel (1990)	Strategy as a developing process	Active management of the changes; maximum mobilization of the individual potential for realization of the company's policy
Power Allison (1971) Pfeffer and Salancik (1978) Astley (1984)	Strategy as the process of negotiation	Addition of the promising strategies with the purpose of lowering aggression from the external and internal environment
Culture Rhenman (1973)	Strategy as a collective process	Substantiation of the mission and global goals of company's development;

Normann (1977)		identification of the intangible resources development; mechanisms of the social consensus during the strategy justification
External environment Freeman (1977) Pugh et al. (1968)	Strategies as the reactive process	Detection and forecasting of the environment characteristics that limit strategic choice of the company
Configuration Chandler (1962) Mintzberg (1979)	Strategies as the transformation process	Describe the relatively consistent implementation of the strategy within the stable position that are violated by the random and dramatic jumps to the new state

Source: (Michael A. Hitt, 2009, p. 25)

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