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Aircraft Ground Handling Market in Russia

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1. Introduction and Background Information

The world is boundless. Trade crosses borders and international experience, knowledge and connections are very important and useful for trade and future business development. The aviation sector is probably the most international and boundless branch at the world market. After all, airlines are providing flights to all possible destinations on earth! An airline does not have its own personnel at all its destinations. In case it has not, a carrier will use the services of a ground handling company that provides aircraft ground handling services. This includes all the services with which an aircraft is provided from landing to departure and consist of:

- passenger handling (check-in, boarding, lounges, directing passengers);
- baggage handling (sorting out and transporting of baggage);
- ramp handling; (loading and unloading baggage, de-icing, fuel and oil handling);
- load control and dispatch (load planning, directing flight);
- freight and mail handling.

To be a successful ground handler, it is no longer enough to operate at just one location. So, globalisation has extended to ground handling too. Ground handling companies are continuing to increase their size and network in the face of the global growth in customers and embark on the adventure of external growth. Asia has a dynamic economy. This new growth territory attracts the major ground handling companies.[1] However, don't they overlook a very interesting market on their way to the east?

Russia has a strong economic diversity due to factors such as climate, geographic situation, population density, presence of (raw) materials and certain industries. This makes the country very interesting for exporters and foreign investors. The country is not only a large market; it is also strategically well situated between Europe and Asia. Lower labour costs and the presence of wealthy natural resources such as oil, timber, gas and metals also contribute to market attractiveness. Russia ended 2005 with its seventh straight year of growth, averaging 6.4 percent annually since the financial crisis of 1998.[2] This achievement along with a renewed government effort to advance structural reforms have raised business and investor confidence in Russia's economic prospects. Western airlines do see these prospects and are launching more and more flights to destinations in Russia. Therefore, I believe that Russia is a potential market for ground handling services.

However, ground handling agencies still have insufficient knowledge of the Russian market, while there might be opportunities. To successfully launch a product or service one should examine their market through research. The purpose of this final paper is to do this by identifying market opportunities and constraints.

The central question is:
What are the opportunities for global independent ground handling agencies in Russia with regard to aircraft ground handling services?

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[1] Penauille Servisair, *Penauille Serviceair 2006-2010 Company Project.* Manchester, Penauille Servisair, 2006, January.

[2] Central Intelligence Agency. (2006, January 10). Russia Economy-Overview. [Online]. Central Intelligence Agency. <http://www.cia.gov/cia/publications/factbook/geos/rs.html#Econ> [2006, February 1].

In order to answer this question, I will need to answer the following **sub-questions:**

- What are the market features of the Russian aviation sector?
- Which region(s)/airport(s) has/have the best potential market?
- Who are the potential customers of ground handling companies?
- Who are the present suppliers of ground handling services in that region/at those airports?
- What are their strenghts and weaknesses?
- What are their needs and are those needs already met?
- Which external factors influence market attractiveness?
- What would be the size of the market available?
- Is the market growing?
- What is the intensity of the competition on the Russian aircraft ground handling market?

The next chapter will discuss the market features in the Russian aviation sector to get acquainted with it. It includes information about air traffic from and to Russia, carriers, airports'condition, restrictions and further development. The third chapter provides a regional analysis to find opportunities in Russia through its regions and airports, in view of the future workplace and the economic diversity. I will look for Russia's best prospective market with regard to aircraft ground handling activities. The fourth chapter contains information about the potential customers: who they are, what they need and expect. Competitors are identified in chapter five by looking for opportunities in their weaknesses through competitive-oriented as well as customer-based methods. The sixth chapter describes all possible factors that carry much weight with the market attractiveness, such as macro factors, which can be hardly influenced by organisations, aggregated market factors that determine the market attractiveness by means of market size and market growth and finally branch structure factors to determine the intensity of the competition on the Russian ground handling market. The last chapter presents my conclusion and recommendations.

Research is based on a combination of primary and secondary data resources. I used extensive desk research to examine information that has already been collected for some other purpose. Sources included branch reports, trade publications on web sites and market analysis based on the largest and most accurate airline schedules. Furthermore I gathered information by means of field research. The results of questionnaires to airlines, expert interviews and e-mail responses provided me with specific information related to the central question. Therefore I had contact with airlines and global ground handlers.

2. Market Features of the Russian Aviation Sector

In order to investigate the opportunities and constraints for global-orientated ground handling companies in Russia it is necessary to get acquainted with the country's aviation sector. Therefore, this chapter will describe the market features.

After decades of restrictions on travelling abroad during the Soviet period, many Russians are now using the opportunity to travel on business and as tourists.[3] According to OAG, the global travel and transport information company, Russian international passenger traffic is largely concentrated on European destinations with weekly 465 frequencies in 2003. The traffic between Russia and Europe grew significantly with the enlargement of the European Union. Around 75 percent of all Russian passenger traffic is directed towards European airports. In 2002, 4.3 million passengers traveled between Russia and Western Europe and 1 million passengers between Russia and Central and Eastern Europe. The highest proportion of air traffic is between Russia and Germany, respectively followed by Spain, France, Great Britain and Finland. Poland and the Czech Republic also have significant traffic with Russia.

Russia currently has 215 registered carriers, including 55 state-owned airlines carrying around 37 million passengers yearly. Aeroflot dominates the international market. In the domestic market it faces competition from the others. Siberia airlines is the leading Russian domestic passenger carrier.[4]

The number of Russian airlines is expected to decrease in the next years. It so happens that the Russian airlines still operate many old aircrafts, which are not matching the international environment and safety standards. Second, the Russian government has announced plans to improve competition of Russian and foreign carriers by liberalising the domestic air transport market. Besides liberalisation, the principal objective of the Russian government is to develop domestic air transport through major restructuring in order to increase efficiency and quality of services.[5]

The Russian aviation market has long been characterised by a restrictive approach. Market access is strictly limited and the State continues to play an important and influential role in the aviation sector with respect to designation, frequencies, capacity, and routes. The sector has been suffered by Siberian overflight payments which affect services between Europe and the Far East. European airlines operating via Siberia (to and from the Far East) have to pay 220 million euros yearly to receive approval for those flights. The transit over Siberia is essential for European airlines to gain economic profitability. Russia is the only country in the world where such payments have to be made. These payments are applied neither in a transparent manner nor to all Russia's trading partners. Due to this discriminatory approach the European Union and Russia signed a bilateral agreement to make the system of Siberian overflight charges cost based, transparent and non-discriminatory by 2013 at the latest.[6]

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[3] Visit Britain. (2005, September). Leisure Market Profile Russia Getting the Best from the Market [Online]. <http://www.tourismtrade.org.uk/Images/Russia_tcm12-11804.doc> [2006, January].
[4] Spitkovsky, Ilya. (2005, april). Airlines operating in the Russian Federation. [Online]. BISNIS. <http://bisnis.doc.gov/bisnis/bisdoc/0504RFAirlinesListing.htm> [2006, February 1].
[5] DG Trade. Trade Barrier Fische Trans-Siberian royalties. (2004, October 07). In *Market Access Sectoral and Trade Barriers Database*. [Online]. European Commission.

The Russian aviation sector has also been troubled by overdue maintenance. Most Russian airports need renovation and modernisation. In order to fulfil the increasing demand of capacity the Russian aviation sector needs to solve its current problems and develop an improved aviation infrastructure. The transport strategy adopted by the Russian government is investing 1 billion euros till 2010 to overcome the situation. It also supports privatisation and commercialisation of airports, which will result in a comparable quality level to western airports.[7] Untill now most Russian airports operate as joint enterprises with local airlines. An optimisation of the airport network in the whole country is another part of the strategy. Improving the functioning of airports is necessary to the successful development of the civil aviation sector in Russia, because well-developed aviation links to the main international destinations are essential for its trade relations and thus for the development of the Russian economy.

Russia could be a country with a potential market for aviation services: the huge proportions of the country and the lack of a well developed road and railway system require more domestic air traffic and make air transport one of the most important transport modes in Russia. However, the troubles in overdue maintenance and the still restrictive market environment are interfering with the expansion of air services in spite of growing demand. Confronted with increased demand and foreign competition, the Russian government has announced reforms in the sector including gradual liberalisation of the domestic market and airline privatisation aimed at increasing national and international competition to improve efficieny and quality of services. I believe that competitive pressures between airlines on domestic and international routes will bring about positive changes in the Russian aviation sector in the next years. Therefore I believe that Russia offers good prospects for aviation service providers, like ground handlers.

[7] EVD Internationaal ondernemen en samenwerken. [Online]. Ministerie van Economische Zaken. <http://www.evd.nl/info/publicaties/printing_overzichten/lob_sec.asp?Landen=rsf&rubrieken=(alleen%20sec)%20en%20(ecs,kas)&sorteercode=niet%20leeg&iaantal=50&sortering=sorteercode> [2006, February 2].

3. *Regional analysis*

The Russian market is very extensive. The total surface area comes to seventeen million square kilometres and is characterised by a great economic diversity. Therefore it is impossible to enter the entire Russian market in one go. How to tackle this huge and complex market? Airports contribute significantly to the economic and social development of the regions they serve. Therefore, I believe that the best way is to find opportunities in Russia through its regions and airports, in view of the future workplace and the economic diversity. In this chapter I will look for Russia's best prospective market with regard to aircraft ground handling activities.

According to Central Intelligence Agency's (CIA) last figures of 2004, Russia counts 2,586 airports. Seventy of them are working civil international airports (appendix 1) and could be considered as potential operating fields for global ground handling agencies.[8] However, the Russian Transport minister Igor Levitin believes that this number of international airports is too much. This is why he intends to reduce the number to eight hub airports as main international transit hauls over several years to optimise the airport network to international norms. It is expected that through this restructuring project the transit volume via hub airports will rise five-fold to three to four million passengers anually.[9]

International transit hauls Russian Federation

exhibit 1 source: CIA

As indicated on exhibit1 above the international transit hauls from west to east are:

1 Krasnodar;	4 Novosibirsk;
2 Moscow (3 airports: SVO, DME, VKO);	5 Krasnoyarsk;
3 Yekaterinburg;	6 Khabarovsk.

[8] Ministerstvo Transporta Rusiskoy Federatso Federalnoye agentstvo bozdushnavo transporta. (2006, January 18). [Online]. Ministerstvo Transporta Rusiskoy Federatso Federalnoye agentstvo bozdushnavo transporta. <http://www.favt.ru/airports_pma.php> [2006, February 4].

[9] MosNews. (2005, July 08). Russia to Reduce Nmber of Airports-Transport Minister. *MosNews*. [Online]. <http://mosnews.com/news/2005/07/08/rusairports.shtml> [2006, February 2].

The airports of Novosibirsk, Krasnoyarsk, and Khabarovsk are situated along the transiberian railway and could be transformed into transit hubs in order to serve new and existing transcontinental routes. Those regions have, however, no further economic interests. Cities such as Moscow, St. Petersburg, Yekaterinburg and Samara do have this economic interest because of their consumer compilation and behavior, intellectual potency, administrative structures, production capacities, infrastructure and innovation. Airports attractive for foreign investors are according to the Federal Airport Development Program situated in those most economic developed regions in the European (western) part of Russia. However, due the planned reduction in the number of international transit hauls, the airports of Moscow and Yekaterinburg have the best prospects.

Besides economic prospects, I undertook a desk analysis of the traffic at the airports previous mentioned to assess the proportion of each airport's traffic that might be available as a market for an independent ground handling organisation. For this purpose I used the official MAX OAG airline schedules database to estimate the market, based on the anually operating, departing, passenger flights.

Number of anually passenger flights

Airport (code)	No. of international flights	No. of domestic flights	No. of total flights
Khabarovsk (KHV)	886	4,693	5,579
Krasnoyarsk (KJA)	417	6,309	6,726
Novosibirsk (OVB)	2,764	9,646	12,410
Yekaterinburg (SVX)	2,190	9,646	11,836
Sheremetyevo (SVO)	**90,937**	**39,211**	**130,148**
Domodedovo (DME)	**27,427**	**42,549**	**69,976**
Vnukovo (VKO)	2,659	19,136	21,795
Krasnodar (KRR)	886	8,239	9,125

Table 1

The Moscow airports Sheremetyevo and Domodedovo are clearly the bussiest in Russia, serving 130,148 and 69,976 flights per year respectively. Both airports had to adapt to market conditions and reduced governmental subsidies by implementing cost-cutting measures, using its own funds for initial stages of reconstruction and attracting more airlines. Although Sheremetyevo still is Russia's main international airport it has experienced a fall in traffic volumes due to the fact that foreign airlines, which previously have not made scheduled flights to Russia have chosen Domodedovo for its modern facilities and great accesibility from the city centre. Sheremetyevo currently includes two terminals and two runways. Despite its capacity and reputation, Sheremetyevo needs to improve its facilities to be able to compete with the airports of the Commonwealth of Independant States and Europe. Both terminals are working at the limit of their capacity and aircrafts are forced to stay in line waiting for departures. There is a renovation plan for the repair and construction of existing and new runways, building a new international terminal, renovating the existing terminals and improving the airport infrastructure. Questions remain, however, about when this plan will be implemented and how it will be financed.

On the contrary, Domodedovo airport is rapidly expanding. According to expert forecasts, Domodedevo is considered to be one of the most promising Russian airports and has potential to equal or even overtake Sheremetyevo as Moscow's main international airport in the next few years. The passenger terminal features the most modern facilities. Further improvements of the airport are planned until 2020 to strenghten its position as an international hub in Europe. The first stage of the development program has to be finished this year and will result in an enlargement of the existing passenger terminal, an expansion of luggage reclaim areas, increase in the amount of check-in desks, new lounges and fully automated luggage handling system with security control. As soon as traffic grows up to 16 million passengers, which is expected in 2007-2008, the airport will build a second terminal for international flights.[10]

With regard to economic perspectives, future passenger traffic and airline movements, Moscow Domodedevo airport eventually has the best prospects for being transformed into Russia's biggest Euro-Asian transit-hub. That is why I expect this airport to be the best prospective market with regard to aircraft ground handling activities.

[10] Domodedovo International Airport. [Online]. Press-releases. <http://www.domodedovo.ru/en/main/news/press_rel/?ID=761> [2006, March 07].

4. Customer Analysis

After selecting the best prospective market I will continue with the customer analysis, since it is an essential element in identifying opportunities. This analysis provides namely insight into potential customers. Therefore, starting point in this chapter is to answer the following question: who are the potential customers? Second, I will present their needs and requirements.

4.1. Potential Customers

The potential customers of ground handling organisations are passenger carriers that are or will be operating to and from Domodedovo airport and who need one or all ground handling services with which an aircraft is provided from landing to departure, like passenger handling, baggage handling, ramp handling, load control and dispatch, and finally freight and mail handling.

Currently 64 passenger carriers fly to and from Domededovo airport. The majortiy is running a regular service on, but charters are included as well. 52 of those passenger carriers are registred in the OAG MAX data analysis, which is a tool of the global travel and transport Information Company, providing airline schedules of more than 800 of the world's passenger and cargo airlines. This number includes 24 international airlines. Appendix 2 presents the list of OAG registred passenger carriers operating to and from Domodedovo International airport and recently welcomed carriers.

4.2. Needs and Requirements

What do those airlines require from a ground handling organisation? In order to answer this question I conducted a questionnaire among international airlines. According to the interrogated carriers a ground handler should be ISO-certificated in the first place. Simultaneously, qualified and well-educated staff should provide the agreed services for a reasonable price. Offering a complete handling package and/or a global network are/is very appreciated as well. Considered as less important, but still required by the interrogated carriers is the availability of modern ground support equipment. A good reputation and long-term relationship seems to be expected, rather than required. Finally, the relationship of the ground handler with the carriers' alliance partners and their strategic depending number of handled aircrafts are considered as important in a choice for a ground handler.

The number of potential customers available at Domodedovo airport is promising and thus an interesting opportunity. However, without meeting certain customer requirements, the opportunities will be limited and then it becomes hard to survive and prosper. ISO-certification, an extensive training program for staff and a reasonable price are needed to meet the minimum requirements of airlines. By offering a complete service package, a global network and/or modern equipment the opportunities for a ground handling organisation will increase.

5. Competitor Analysis

In this chapter I will identify the competitor(s) at micro level by looking for opportunities in the weaknesses of the competitor(s) through competitive-oriented as well as customer-based methods. Those opportunities could lead to a competitive advantage.

5.1. Competitive-oriented Analysis

Only one ground handling organisation is operating at Domodedovo International airport: East Line Handling, which is part of the East Line Group, the active investor and operating company of the airport. East Line Handling was established as unified operator responsible for all ground services handling at Domodedovo.[11] It offers all kind of ground services for airlines.

The table below analyses the competition on the basis of information of East Line Handling on its web site and airport surveys of Skytrax from competitor point of view. The table indicates factors that are of major concern in the ground handling sector. It goes without saying that the strengths and weaknesses of East Line Handling must be compared with a ground handler's own strengths and weaknesses in order to determine what their own relevant capabilities are.

Competitor-oriented scores of success factors (1= very strong, 5= very weak)

Factors	East Line Handling
Human Resources training, motivation, educational level, loyalty/turnover, knowledge	1
Management Flexibility, expertise, experience	3
Marketing Service quality, market knowledge, reputation, relationship	2
Market position market share, global network	3
Finance Cash flow, equity, ROE, current ratio	unknown
Ground support equipment Modern, innovative, efficient	2

Table 2

In general East Line Handling has reasonable scores. In particular the results for human resources, marketing and equipment look very well. East Line Group's aim for Human Resources is to strengthen and enhance the potential of its staff, to create a solid and well-educated team of responsible and efficient employees that are able to respond to ever-changing market requirements. The majority of the employees are graduates of universities or colleges. A detailed training program for further professional development is implemented to achieve the Group's aim. Besides, East Line Group implements a motivation program based

[11] Domodedovo International Airport. [Online]. East Line Group. <http://www.domodedovo.ru/en/ > [2006, March 07].

on the actual contribution of its employees. Higher salary and better social benefits depend on the performance of an employee and its value to the Group.[12]

Since East Line Handling is improving its service level it is attracting more Russian and foreign carriers. The main focus of East Line Handling is the ground support quality level which is achieved through improved efficiency of resource management, ground support services, standardisation and modern and innovative technologies.[13] East Line Handling was the first Russian handling agent and was covering all types of services. Therefore it was able to gain knowledge, experience and to build up a relationship with its customers.

For a new entrant it is consequently hard to gain a competitive advantage on above described factors, since the scores of a global player would probably be on an equal level. Additionally, East Line Handling enjoys the mutually beneficial cooperation with Domodedovo International airport, which is operated by its corporate parent: the East Line Group. Consolidation of various ground facilities within one company could increase the efficiency of operations and hence the quality of services provided for airlines. Nonetheless, there is a chance that East Line Handling scores lower in the field of management and market position as a global player. Domodedovo airport is interested to approach foreign enterprises for its management expertise and experience, which means that it is not in the house yet. Despite of East Line Handling's monopoly position in Russia, it has no market share in other geographic areas. This in contrast to a global player that is able to exploit its global network.

5.2. Customer-based Analysis

To check if above mentioned view is in correspondence to the perception of the customers, I analysed the competition from the point of view of international airlines operating to and from Domodedovo by conducting questionnaires. The results are presented in the table below.

Customer-based scores of success factors (1= very strong, 5= very weak)

Factors	**East Line Handling**
Handling services	2
Reputation	2
Long term-relationship	4
Multiple years of experience	3
ISO-certification	1
Extensive training program for staff	1
Modern ground support equipment	1
Global network	5
Price	3
Complete handling package	1
Transfer services	2
Arabic speaking staff	5

Table 3

[12] Domodedovo International Airport
[13] Domodedovo International Airport

Again, the strengths and weaknesses of East Line Handling must be compared with the perception that customers have of the relevant ground handler in order to determine its own relevant capabilities.

As table 3 presents, East Line Handling scores very well on the factors that are considered as most important to an airline, such as ISO-certification, training program for staff, a complete service package and its implementation. As concluded in chapter 4 the opportunities for a ground handling organisation will increase when its customer is able to benefit of a global network of the ground handler. Then again East Line Handling still scores very low with this success factor.

After all, the passenger experience and satisfaction are interesting to analyse as well; passengers are the indirect customers of a ground handling agency. The direct customer, that is to say the airline, will be sastisfied in case its passenger is treated well and friendly at the check-in and/or lounges and when the baggage is handled rapidly and correctly. The next customer opinions on the Skytrax forum present a positive satisfaction level of East Line Handling at Domodedovo International Airport:

Alberto Pezzotti:	*"Check in facilities both for domestic and international flights are hassle free."*
Bill Sullivan:	*"Fast baggage handling."*
Asley Crump:	*"Courteous staff, speaking English."*
Martin Miller:	*"Friendly business lounge staff."*[14]

Altogether, East Line Handling is a serious competitor. It has sufficient, qualified and or modern resources at its disposal. In addition, airlines as well as passengers are satisfied with the services they provide. Since it is expected that the services of a global player will be on an equal level, it would be very hard for a new entrant to distinguish from East Line Handling. Also the beneficial cooperation with Domodedovo International airport is doubtless to East Line's advantage. Nevertheless, some interesting weaknesses turned up during research. East Line Handling scores low in the field of management and market position and is interested to approach foreign enterprises for its management expertise and experience. Furthermore, it is not able to offer its customers a global network. Here, I see opportunities for new entrants. In order to achieve a competitve advantage one should exploit and develop its managment expertise, experience and global network, which are not being exploited by East Line Handling yet and will be hard to do so.

[14] Skytrax. [Online]. Skytrax Online Surveys. World Airport Survey. <http://www.airlinequality.com/Airports/Airport_forum/dme.htm> [2006, April 10].

6. Branch Analysis

All possible factors that carry much weight with the market attractiveness are described in this chapter. Conclusions concerning the market attractiveness are of significant importance for an organisation in its decision to enter and invest in a new market. This chapter is divided into three parts, since there are three groups that influence the market attractiveness. The first part discusses the macro factors, which can be hardly influenced by organisations. The second part presents the aggregated market factors that determine the market attractiveness by means of market size and market growth. The branch structure factors determine the intensity of the competition on the Russian ground handling market, which concludes the third part of this chapter.

6.1. Macro Factors

Macro factors are factors that can be hardly influenced by ground handling organisations. Nevertheless, these factors could result in opportunities or threats in the economic, social-cultural, technological and political field. These factors are mostly related with each other; the eventual opportunities and threats come up when the macro factors are combined.

Economic factors
Economic factors are important, because it can influence the extent that western ground handling agencies are willing to invest in the Russian market. Therefore the Russian economic policy, the economic situation and customer demand are being discussed.

Russian economic policy is based on the Gref plan that was created by German Gref, the Secretary of economic affaires in the year 2000. The plan is running for 10 years and contains structural reforms which are necessary for a stable market economy. A goal is to improve the investment climate. The plan contains topics such as property rights, simplification of legislation concerning registration and licenses for enterprises. Simplification of tax legislation and driving back of the inflation and bureaucracy, prevent corruption, emphasizing growth in the service sectors, reform of judicial organisation and reorganisation of natural monopolies are also part of the plan.[15] The most large and medium sized companies are denationalised, but the privatisation process should be concluded in 2008. In the aviation sector the privatisation led to the origin of economic monopolies which does not stimulate the creation of a free market.

The plan also contains macro-economic objectives that should be met when all previous mentioned intensions will be achieved. One of them is to redouble the gross national product in the year 2010 in relation to 2000. Further, the foreign investments have to increase yearly with 13 to 16 billion US dollars between 2005 and 2007. International trade becomes more and more important because it contributes to Russia's business development and economic growth. The strong growth of the last years is due to the income of high oil prices. The Russian economy depends for a large part on the performances in the oil sector and is strongly

[15] EVD Internationaal ondernemen en samenwerken. [Online]. Ministerie van Economische Zaken. <http://www.evd.nl/info/publicaties/printing_overzichten/lob_sec.asp?Landen= rsf&rubrieken=(alleen%20sec)%20en%20(ecs,kas)&sorteercode=niet%20leeg&iaantal=50&sortering=sorteercode>

related to the tendency of the world market. According to The Russia Business Forecast Report the Russian economy will grow by an average of 4.9 percent annually in 2006-2010. This year, an economic growth of 5 percent is expected.[16]

The Russian aviation sector has to do with increasing volumes because of general growth in traffic, increases in international routes and increasing number of flights. Because of this growth in international traffic, many of Russia's international airports have reached the limit of their capacity and have been looking for funds to finance expansion and upgrade their level of services. The growth of the airline industry is sure to continue. More flights, more passengers, bigger aircrafts and international standards are what airlines want.

Social-cultural factors
The aviation sector has been going through some massive changes. Social-cultural factors are related to those changes, as well as norms and trends within the branch and are presented below.

A very outstanding feature is the fact that Russian consumers and enterprises prefer western products and services.[17] Those are being perceived as status, prestige, better quality and/or suppliers are more experienced. Larger airports would like to approach foreign enterprises, because their expertise is needed to participate in an international environment.[18]

Furthermore, focussing on core competences is a trend that is seen all over the world. Also among airlines who more often decide to outsource their ground handling services to independent specialist companies. Airlines would like to cooperate closely with a limited number of ground handlers due to cost and synergy advantages.[19] Collaboration with a ground handler can namely provide benefits such as:

- punctual arrivals and departures;
- minimum turnaround times;[20]
- possibility to extend handling services to other stations;
- streamlined communication channels to exchange information, questions and problems.

Even so independent ground handlers have to take into account that it is not allowed to own their own equipment. In Russia ground handling equipment, materials and means belong to the airport owners. The dominant position of the airport operator could rise to various forms of abuse, whereby the airport could combine ground handling services with products that a third party handler could not offer. Only cars, the services to offer and staff are out of the airport operator's control. That brings me on to the fact that Russian employees are skillful. In

[16] EVD Internationaal ondernemen en samenwerken. [Online]. Ministerie van Economische Zaken. <http://www.evd.nl/info/publicaties/printing_overzichten/lob_sec.asp?Landen=rsf&rubrieken=(alleen%20sec)%20en%20(ecs,kas)&sorteercode=niet%20leeg&iaantal=50&sortering=sorteercode> [2006, February 2].
[17] EVD Internationaal ondernemen en samenwerken. [Online]. Ministerie van Economische Zaken. <http://www.evd.nl/info/publicaties/printing_overzichten/lob_sec.asp?Landen=rsf&rubrieken=(alleen%20sec)%20en%20(ecs,kas)&sorteercode=niet%20leeg&iaantal=50&sortering=sorteercode> [2006, February 2].
[18] Nouwen, Pieter. (2006, January). (Number 150470). BM1 Rusland luchtvaart: Westerse techonogie neemt hoge vlucht. [Online]. EVD.<http://www.evd.nl/info/zoeken/ShowBouwsteen.asp?bstnum=150470&location=/info/landen/land.asp?land=rsf> [2006, January 1].
[19] Swissport International Ltd. (April 2000). *Swissreporter*. [Online], issue 4. <http://www.swissport.com/download/publications/swissreporter_2000_4.pdf> [2006, January].
[20] The needed time to complete the ground handling service between arrival and departure.

Russia, especially in Moscow, there is a very high literacy rate and education levels are very high, because much value was attached to education during the Soviet Union.

Finally, low cost carriers are popping up in the market and it is expected that this concept is not going to end.[21] This has consequences for handling low cost carriers, since the aviation sector has to deal with financial difficulties due to high fuel prices. This makes airlines look for cost reductions with all suppliers so that the price becomes a very important factor in negotiations. In order to win accounts, handlers have to offer very low prices which results in lower profit margins.

Technological factors
Technological factors could lead to important changes in the aviation sector and thus bring opportunities or threats along for ground handling agencies.

Domodedovo Airport has passenger examination equipment, boarding airbridges, baggage conveyer belts and carousels, information technologies and automated check-in counters at its disposal. Those modern facilities make the work for a ground handler easier, but more importantly it is time- and cost saving, since less personnel and maintenance are needed.

Political factors
Political factors do have a great influence on the market attractiveness. On the one hand, political interference could exercise restraints, while on the other hand; it could mean an opportunity in the development of a market.

The opening-up of the Russian market is such a political factor. However, the Russian airports have been partly privatised and it even led to the development of economic monopolies instead of a free market. In addition, the Russian Ministry of Transport proposed to privatise all airports where the government does not have stakes. Concerning Domodedovo airport, the state does own stakes for 2 percent. The other 98 percent belongs to East Line Group who became a strategic investor and is managing all the airport facilities. Last year, the privatisation contract for airport building facilities has been declared invalid by the Moscow Ninth Arbitration Court of Appeal, so that the airport is open again for nationalisation.[22]

Before starting ground handling activities in Russia an organisation should be in possession of a bank guarantee. With that guarantee it is able to apply for a general license at the State Civil Aviation Authority in Moscow, which is an department of the Ministry of Transport of the Russian Federation. The next step is to obtain a ground handling license from the airport board. This license can only be issued when the organisation has at least one client, financial reserves and a labour agreement.

The economic environment of Russia is sensitive for the EU-enlargement. Because of the enlargement, Russia became a direct neighbour of the European Union. This has consequences for imports and exports and trade with new and old EU members, which offers

[21] Gale Group Inc., On the up: for many European respondents, 2004 brought growth and consolidation. (2005). In *lexis-nexis*. [Online]. Lexis-Nexis. <http://web.lexis nexis.com.ezproxy.hhs.nl:2048/professional/print?dd_jobType=spew&> [2006, January 6].

[22] FK Novosti. Privatise All. (2005, 31 March) In *FK-Novosti Financial Control*. [Online]. <http://www.fcinfo.ru/themes/basic/materials-rfcm-index.asp?folder649592.7&query =airport> [2006, 08 March].

opportunities for ground handling services. This means namely more flights from/to Russia. At the same time the enlargement could be a threat, since European airports are undercutting Moscow's dominant status as a gateway to the Commonwealth of Independent States.

The stimulation of foreign investments is an important objective of the Russian government to improve the Russian economy. The Foreign Investment Law guarantees a right to invest and to gain revenues, as well as a right to profit from such investments, and sets forth the foreign investors' terms of business activity in the Russian Federation. Further, foreign investors can purchase stocks or participate in the privatisation process. After the payment of taxes and other mandatory duties, foreign investors have the right to transfer profits abroad. The law offers protection to all forms of foreign investments and regulates equal treatment of foreign and Russian investors, although certain restrictions can still be imposed to defend the country and its population. Finally, the investors are protected for a seven-year period against changes in the federal tax law and other regulations that could affect the investment. In Russia, the following forms of foreign investments are approved:[23]

Forms of Foreign Investments

Form	How?	Peculiarities
Representative office	License; Registration at State Registration Chamber at the Russian Federation Ministry of Justice or Chamber of Commerce and Industry	Representing body with supportive function (commercial activities not allowed), VAT privileges
Branch office	Authority; Registration at State Registration Chamber at the Russian Federation Ministry of Justice	Subdivision of foreign legal entity. All activities have to be stated in the statutes.
Subsidiary	share partnership or limited liability company	→one shareholder →min. of two companies of one corporate parent as founders; max. 50 participants; charter capital not less than the amount equal to 100 times the statutory monthly wage
Joint Venture	open stock company or closed stock company or limited liability partnership	→ no limitation of shareholders; charter capital not less than the amount equal to 1000 times the statutory monthly wage → max. of 50 shareholders charter capital not less than the amount equal to 100 times the statutory monthly wage
Acquiring shares of existing company	acquiring shares	/
Independent company	Registration	Property right of land and building

Table 4

Any foreign company that has business activities in Russia must register at the local tax authority, if operations exceed 30 calendar days a year. No fees are charged for this registration, but it has to be completed within five days after receipt of the registration

[23] Baker & MC Kenzie. Doing Business in Russia. (2005). In *www.bakernet.com*. [Online]. < http://www.bakernet.com/NR/rdonlyres/3675963C-1DF9-49B1-95DB-3253FDE48D2D/38333/DBIRussiaMarch2005.pdf> [2006, February].

documents. The organisation will have to supply incorporation documents and a bank reference. Essentially, all documents from a legal entity must be notarised and legalised. Any document supplied in a language other than Russian must be accompanied by a notarised translation.[24] The company may want to be accredited by an authorised body, like the State Registration Chamber, Russian Chamber of Commerce, Ministry of Foreign Affairs or the Ministry of Finance. Although it is not required, accreditation may facilitate such tasks as getting multiple-entry visas or work permissions.

Foreign organisations have to report their activities and income on a monthly basis to the local tax authorities. Every fiscal year a financial statement needs to be put together by a qualified accountant.[25]

That brings me on to the tax legislation. The kind of tax being levied on profit depends on the legal status of the organisation and if it is a permanent establishment. The tax legislation has been improved during its reforms. For instance, several taxes, including the regional sales tax, the withholding tax and the turnover tax, were abolished. Additionnally, reduced tariffs were introduced to some fields. The maximum corporation tax rate has been decreased from 35 to 24 percent and became one of the most favorable tariffs of the industrialised countries.[26] The VAT has been reduced as well from 20 to 18 percent and applies to the sale of goods, work, and services in the state. Furthermore, Russia has entered into ratified bilateral treaties with 66 countries (appendix 3) for the avoidance of double taxation. Nonetheless, every organisation has to pay the new Unified Social Tax about the employee’s salary which can differ from 26 to 2 percent.[27] The tax on dividends rose from 6 to 9 percent. Foreign entities further pay a land use tax per hectare of leased land on average. Furthermore, foreign organisations have to take into account that the Tax Code sets forth 3 levels of taxation: federal, regional, and local. Some tax rates are being divided in those three levels which makes the system very complicated.

As far as financial transactions are concerned, the ground handler has to be aware that all local transactions have to be calculated and paid in rubles. On the contrary, international payments have to be offered and calculated in convertible currencies, since the ruble is not externally convertible. Those payments always have to be paid by transfers via commercial banks that are authorised by the Central Bank.[28] The global ground handling organisation will mainly deal with local transactions through payment of tenancy, taxes and wages. International airlines make international payments in euros or US dollars to the ground handler. Assuming that the ground handler will use those revenues for local payments it will be concerned with the risks of depreciation of currency values. The ruble has stabilised and actually appreciated. According to the ministry of Economics of the Russian Federation the

[24] EVD Internationaal ondernemen en samenwerken. [Online]. Ministerie van Economische Zaken. <http://www.evd.nl/info/publicaties/printing_overzichten/lob_sec.asp?Landen= rsf&rubrieken=(alleen%20sec)%20en%20(ecs,kas)&sorteercode=niet%20leeg&iaantal=50&sortering=sorteer code> [2006, February 2].

[25] Gosudarstvennaya Registratsionnaya Palata. [Online]. Ministerstvo Justitsi Rossojskoj Federatsi. < http://www.palata.ru/cgi-bin/get_page.cgi?pid=58> [2006, March].

[25] EVD

[25] Upravlenye federalnoy nalogovoy sluzjby rossy. [Online]. Upravlenye federalnoy nalogovoy sluzjby rossy. <http://www.nalog.ru/index.php?topic=reg_np> [2006, 07 March

[26] EVD

[27] Upravlenye federalnoy nalogovoy sluzjby rossy. [Online]. Upravlenye federalnoy nalogovoy sluzjby rossy. <http://www.nalog.ru/index.php?topic=reg_np> [2006, 07 March].

[28] EVD

ruble rate will increase with an average of 4 percent of the next three years, which could result in exchange losses.

Foreign ground handling organisations should further be aware of the broad set of laws regulating labour relations between employers and employees that currently exist the Russian Federation Labour Code.[29] The low salaries of 60 to 160 euros per month and the high education level could be very attractive for foreign ground handlers to hire local staff.

According to Baker & McKinsey employees must be compensated in Russian rubles: payments in a foreign currency are prohibited. Salaries must be paid at least once every half a month or on a date set by the individual employment contract. In case of delay an employer is obligated to pay compensation and employees may stop working if payment has been delayed for more than 15 days. A written employment contract in Russian, setting out the basic employment terms, duties and obligations must be signed by each employee working in Russia. As a rule, employment contracts are to be entered into for an indefinite period of time. A definite term employment contract does exist as well, but such contract cannot be enforced for a term longer than five years. Besides, it may only be executed when the conditions of work make it impossible for the parties to enter into an indefinite term contract. The imposition of a probationary period must be specifically stated as well. An employer has the right to establish a three-month probationary period for a new employee. As an exception to this rule, an employer may establish a six-month probationary period for employees hired for certain top executive positions.[30]

As usual, the termination of a job has to be in written form. An employee has to give due notice of two weeks, while an employer should inform the employee at two months' notice. Employers are responsible for keeping labour books for each employee and making all recordings in it in a timely manner when the employment lasts over five days. A labour book is a document that contains information about a person's employment history. It confirms an employee's right to a state-provided pension and other benefits. The employer must return the completed and stamped labour book to the employee on the last day of employment. If this is not done, the employer may be penalised.[31]

Employers are also required to keep a record of all time worked by each employee, including any overtime. The regular workweek is 40 hours. Any time worked over 40 hours is classified as overtime. The total amount of overtime is limited to 120 hours a year. Employees under the age of 18, pregnant women, women with children under the age of three and disabled employees are protected and have certain limitations with regard to overtime. Employees in Russia are entitled to an annual paid vacation of at least 28 calendar days per one year of work (without holidays). If the employee has worked for an employer for at least six months he/she may use his/her vacation time at once. Further, it is allowed that at least one part of the yearly vacation could be 14 days joined together.[32]

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[29] Way to Russia. (2004). Personal legalization of foreign employees in Russia. [Online]. <http://www.waytorussia.net/business/employees.html> [2006, March].

[30] Baker & MC Kenzie. Doing Business in Russia. (2005). In *www.bakernet.com*. [Online]. < http://www.bakernet.com/NR/rdonlyres/3675963C-1DF9-49B1-95DB-3253FDE48D2D/38333/DBIRussiaMarch2005.pdf> [2006, March].

[31] Baker & MC Kenzie.

[32] Baker & MC Kenzie.

As to the system of sick leave, employees cannot be dismissed by their employer during a sick leave period and have the right to receive sick leave compensation, which is funded by the employer's contributions to the ealier mentioned Unified Social Tax. Currently, the amount of compensation paid to the employee during such sick leave is set at between 60 and 100 percent of the employee's earnings, depending on the employee's uninterrupted work history. After his/her recovery the employee needs to submit a medical certificate.[33] In cases of a labour-related injury or occupational disease, the amount of sick leave compensation is 100 percent of the employee's earnings.[34]

A company wishing to hire foreign workers must receive authorisation from the Moscow Migration Service[35] and register their employees. The authorisation fee is equal to one minimum monthly wage for each foreign worker once a year. Duration of the permission is one year and may be renewed annually. Further, a valid Russian work visa and a work permit are required for foreign nationals before they may start working in Russia. Currently in Moscow, the procedure for obtaining a permission to hire foreign nationals and individual work permits may take from three to five months. Additionally, an employer must pay a deposit of an one-way ticket on the basis of aeroflot-tariffs from Moscow to the capital of the employee's home country.[36]

When the macro factors of Russia are analysed, one can say the environment remains complex and risky due to its rules, regulations and exchange rate risk. A ground handler is not allowed to own its own equipment. It depends on the airport operator which could rise to various forms of abuse. The airport could combine ground handling services with products that a third party handler could not offer. This could lead to problems in gaining market share. Besides, it so happens that Domodedovo airport is open for nationalisation again, which could re-close the market again for building facilities. Nevertheless, I have an optimistic vision for Russia's future with regard to the aviation sector. Russia is heading the right way, since many of its economic trends are pointing in a positive direction. In addition, the state has implemented a series of economic reforms to improve the investment climate. My positive view is reinforced by specific market trends. Russia is an attractive market due to its relatively inexpensive well-educated labour force. Besides, Domodedovo airport is very interested in foreign services due to its expertise and experience. In addition, airlines decide to outsource ground handling services to specialist companies due to cost and synergy advantages. That is why they prefer to cooperate with a limited number of ground handlers. Modern facilities at the airport make the work for a ground handler easier and results in time and cost-savings, since less personnel and maintenance is needed. On the whole, I see plenty of opportunies in the macro envirionment.

[33] Baker & Mc Kenzie.
[34] Egorov, Vladislav. National Labour Law Profile: Russian Federation. (2002, January) [Online]. International Labour Organization. < http://www.ilo.org/public/english/dialogue/ifpdial/ll/rus.htm> [2006, March].
[35]Vista Foreign Business Support (19989-2005). Employment of foreign nationals in Russia. [Online]. <http://www.vfbs.ru/migration.htm> [2006, April].
[36] Baker & Mc Kenzie

6.2. Aggregated Market Factors

Aggregated market factors are defined on the basis of market size and expected market growth. Those factors are important, because large and growing markets are more attractive than small markets that discontinue to grow, since higher turnover results could recover the costs on the investments made.

To identify the size of the potential market I took the number of carriers, its traffic throughput and the number of competitors into consideration. As previous chapters indicate, 52 OAG registered airlines are operating from and to Domodedovo airport. 24 of them are international carriers. Together they provide 69,976 flights annually, from which 27,427 international flights. Those flights are handled by one service provider. Comparing these figures with Amsterdam airport, this total number of flights is served by three independent ground handling organisations, each handling an average of 23,000 flights annually. According to senior ground handling officer Mr. M. Renooij from Penauille Servisair Amsterdam, a ground handling organisation has right to exist when it is able to handle 20,000 flights approximately (appendix 4). Taking previous figures into consideration, the number of handlers that an airport can support should be two till three, which is confirmed by Mr. Renooij. This means that Domodedovo airport has capacity available for at least one additional ground handling provider.

With reference to market growth, air transport is one of the most important transport modes in Russia. According to the Russian Ministry of Transport, passenger air transport grew by 16.6 percent in 2004 and for 2005 a growth of 8.5 percent was expected.[37] Huge distances, unsatisfactory railroad services and highway infrastructure ensure that the role of air transport will continue to grow.[38] The International Air Transport Association (IATA) confirms this forecast and indicates that Russia's civil aviation market will experience annual growth rates of 5.8 percent.

Concerning market size and market growth I can conclude that Domodedovo airport is a substantial potential market, keeping in mind that above mentioned figures only contain the registered airlines in the OAG market analysis. The actual size of the market is therefore even larger.

6.3. Branch Structure Factors

A market becomes less attractive as the competition becomes more intensive. It so happens that strong competition will lead to more marketing activities and thus increased costs, so that the profitibility becomes comparatively low. To determine the intensity of the competition on the Russian aircraft ground handling market I analysed the branch structure factors by examining the sources of competition with the Porter's five forces framework.[39]

[37] Ministerstvo Transporta Rusiskoy Federatso Federalnoye agentstvo bozdushnavo transporta. (2006, Januari 6). [Online]. Ministerstvo Transporta Rusiskoy Federatso Federalnoye agentstvo bozdushnavo transporta. <http://www.favt.ru/carriage/> [2006, February 5].

[38] Konstantinova, Irina. (2005, May). *Airport Development in the Russian Far East.* [Online]. <http://www.bisnis.doc.gov/bisnis/bisdoc/0605RFEAirports.htm> [2006, January 8].

[39] Adapted from Johnson, Gerry: Exploring Corporate Strategy. 2005, Prentice Hall Financial Times, p. 80, 7th edition.

Porter's five forces framework

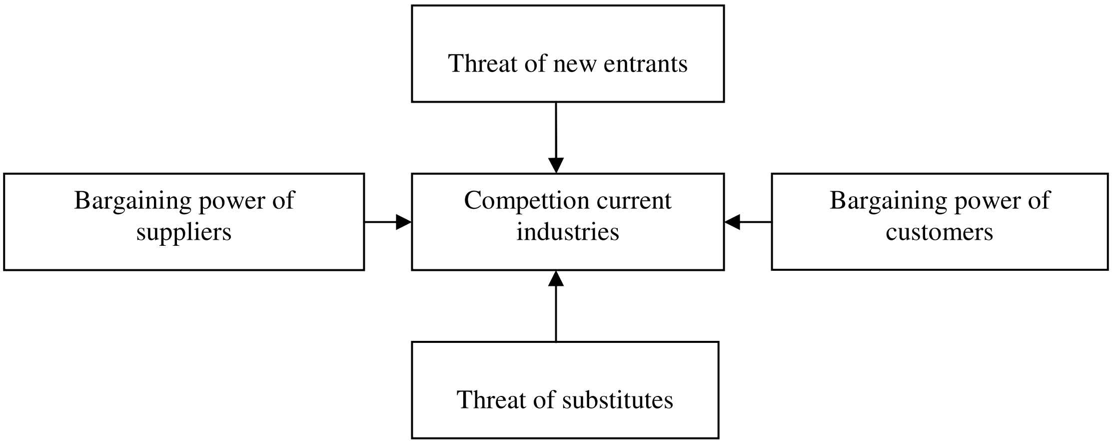

Exhibit 2

Threat of new entrants
The threat of new entrants is limited, due to that Russia is an unknown market with substantial entry barriers. For a long time the market was regulated with legal restraints on competition. Still, it is very much in hands of the airport and its affiliated companies. In spite of increasingly faced deregulation and privatisation, the major ground handling companies are focussing on Asia with its dynamic economy.

Bargaining power of suppliers
The bargaining power of suppliers is high, since independent ground handlers are not allowed to own their own equipment. They will have to deal with the monopoly of the airport operator. The involvement of the airport operator could rise to various forms of abuse of its dominant position, whereby the airport could combine ground handling services with products that a third party handler could not offer. This could lead to serious problems in gaining market share.

Bargaining power of customers
With an additional service provider, the bargaining power of airlines will increase, since they can use new handlers as a tool to negotiate better deals. In current times airlines have to choose the best value for money. Airlines define the price and then competition is on price. They shop around and expect the quality level to be good. Nevertheless, the role of the ground handler is a vital one. It is very important that airlines work together with them, since independent handlers have an advantage from their multi-airport offerings, providing the abiltiy either to cross-subsidise operations between different countries or to offer a wider geographic network and hence more attractive service to international airlines.

Threat of substitutes
The threat of subsitutes is small. Due to the great distances and underdeveloped road and railway system air traffic is not expected to be replaced by other transport modes. In addition, airlines continue to focus on their core business, so that ground handlers have several opportunities to substantiate its ability to take over airline services and/or functions of various carriers, delivering higher performance at lower cost. This has a positive impact on the carrier's income statement and is therefore a good reason to team up with a flexible market leader instead of self-handling.

Competion current industries
There is limited competitive pressure on the independent handler, when its competitor will not be an commercial option for some airlines. Whereas an independent handler may not directly compete on price with a local player, it could certainly do so on experience in airline functions, management skills and full service packages. Within global players huge investments are done to streamline the interface with airlines and to save them costs. Airlines concentrate on fewer handlers and are forming long-term relationships which lead to those cost savings and other substantial synergies. A small local handler could not match that.

The majority of the external sources do not form a strong threat. However, the dominant position of the airport operator seriously reinforces the intensity of the competition. Under those circumstances I can conclude that the competitive nature of the ground handling sector is substantial.

7. Conclusion and Recommendations

In chapters 2 and 3 I anaysed the Russian regions in order to intentify market features and the best prospective market with regard to aircraft ground handling services. From this starting point I was able to examine the key issues from the business environment in the field of potential customers, competitors and the aviation sector. In this chapter I will present those opportunities and threats in order to solve the problem of insufficient knowledge of the Russian ground handling market by answering the central question that was stated as follows: **What are the opportunities for global ground handling agencies in Russia with regard to aircraft ground handling services?** Finally, I will give recommendations how a ground handling organisation could enter the Russian market.

When a global ground handling organisation decides to provide services in Russia, I recommend to set up a business in Moscow at airport Domodedovo. According to the regional analysis this airport enjoys the best opportunities due to its economic perspectives, (future) passenger traffic and airline movements.

With the help of previous analyses I was able to build up a picture of the external environment of the ground handling market in Russia. The table below summarises its key issues.

Opportunities and Threats

Opportunities	Threats
Promising number of potential customers	Beneficial cooperation of East Line Handling with Domodedovo airport
Opening up of the market through privatisation and commercialisation of airports	Expected decrease in number of Russian airlines due to liberalisation/privatisation
Foreign investors are protected by improved foreign investment law	Lower profit margins that not cover cost in case of price competition
Huge distances, unsatisfactory railroad services and highway infrastructure ensure that the role of passenger air transport will continue to grow	Serious problems in gaining market share due to substantial competitive pressure caused by the dominant positon of airport operator with regard to ground support equipment.
Airlines are outsourcing ground handling services and prefer long-term relationships with a limited number of suppliers due to cost and synergy advantages	Domodedovo airport is affected by the risk of renationalisation since the privatisation contract for airport building facilities has been declared invalid by the Moscow Ninth Arbitration Court of Appeal
Capacity available at Domodedovo airport due to the number of flight movements and one service provider	Increased competion by European airports as gateway to the Commonwealth of Independent States due to EU-enlargement
Russian market is interested in funds, services, expertise and experience of foreign enterprises	Exchange rate risk
Comparatively inexpensive and well-educated personnel available	
Modern equipment and facilities available	
Possibility to exploit global network	

Table 5

As presented above, there are plenty of opportunities in the Russian aircraft ground handling market. However, the final decision of a ground handler to enter the Russian market depends on its objectives and the extent to which its strenghts and weaknesses are relevant to and capable of dealing with the threats or exploiting the opportunities in the business environment. Obviously, this is different for each organisation. Essentially, a global ground handler should generate options that use its strenghts or overcome its weaknesses to take advantage of opportunities. For example, it could compete on expertise and experience in airline functions, management skills and full service packages. In general, huge investments are done within global players to streamline the interface with airlines and to save them costs. Airlines concentrate on fewer handlers and are forming long-term relationships which lead to cost savings and other substantial synergies. A small local handler could not match that, while a global player is able to exploit its global network. Size and network of a ground handler are important to an airline, because with a wide portfolio the carrier never feels isolated.

Next, an organisation could generate options that use its strenghts or that minimise its weaknesses to avoid threats. That brings me on to the, at first sight, most suitable entrance strategy: forming a strategic alliance where East Line Handling and the global player share resources and activities. At first sight, I believe this kind of joint development is suitable, since a global player might not be able to cope with the complex and risky environment alone. The difficulties of successfully operating a business in Russia over a sustained period are too great to overcome without a partner. In addition an alliance allows each party to concentrate on activities that best match their capabilities: a global player needs to obtain materials, equipment and facilities of East Line Group and East Line Group needs funds, expertise and experience. These may be available through cooperation. Moreover, by forming a partnership with East Line Handling one could avoid exchange rate risk by using local funding sources where possible. A partnership can lead to cost reduction, an improved customer offering and thus the opportunity to achieve a strong and positive presence in the market place meeting the expectations of the airline community. There are a variety of types of alliances from loose arrangements of cooperation to formal ones. To avoid problems and to dilute risk it is recommended to choose for a formal relationship where organisations remain independent but set up a newly created organisation that is jointly owned: Joint Venture. East Line Handling could provide equipment, labour and entry to the Russian market. While the global player provides management expertise, finance and its global network.

Besides the suitability of the entrance strategy, the success or failure of it depends on the acceptability and feasibility of the strategy as well: will the performance outcomes be in correspondance with the expectations and does the organisation have the resources and competences to implement the strategy? So, in case a global ground handler decides to enter the Russian market I reccommend to carry out follow-up research on entrance strategies and its acceptability and feasibility.

With help of this report the problem of insufficient knowledge of the Russian aircraft ground handling market is solved. One should always keep in mind that the Russian business situation is changing very rapidly, and that, in general, it is improving. It should be clear that there is a great potential in Russia, both as a market and as a resource. However, unlocking that potential will not be easy. It will require patience, flexibility, and innovative approaches to joint business. I believe ground handling organisations with these attributes are likely to be very successful.

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List of Appendices

Appendix 1

List of International Airports in Russia

1. Abakan
2. Anadir
3. Anapa (Vityazevo)
4. Archabgelsk (Talagi)
5. Astrachan (Harimanove)
6. Barnaul
7. Belgorod
8. Blagoveschensk
9. Bratsk
10. Bryansk
11. Vladivostok (Knevichi)
12. Vladiskavkaz (Veslan)
13. Volgagrad (Gumrak)
14. Voronezj (Chertovitskoye)
15. Yekaterinburg (Koltsovo)
16. Ivanovo
17. Irkutsk
18. Kazan
19. Kalingrad (Chrabrovo)
20. Kemerovo
21. Kogalim
22. Krasnodar (Paschkovski)
23. Krasnoyarsk (Yemelyanove)
24. Kursk
25. Magadan
26. Magnitogorsk
27. Maykop (Chanskaya)
28. Maykop
29. Machachkala (Uytasch)
30. Mineralniye Vodi
31. Moscow (Vnukovo)
32. Moscow (Domodedovo)
33. Moscow (Sheremetyevo)
34. Murmansk
35. Nalchik
36. Neryungri (Chulman)
37. Nizjnekamsk (Begoshevo)
38. Nizjne Novgorod (Strigino)
39. Novosibirks (Tolmachevo)
40. Omsk (Centralni)
41. Orenburg (Centralni)
42. Orsk
43. Perm (B. Cavino)
44. Petrozavodsk (Besovets)
45. Petropavlovsk-Kamchatski
46. Provideniya Bychta
47. Pskov (Kresti)
48. Raduzjni
49. Ramenskoye
50. Rostov-na-Donu
51. Samara (Kurumoch)
52. Saint Petersburg (Pulkovo)
53. Saratov
54. Cochi
55. Stravrapol (Shpakovskoye)
56. Surgut
57. Ciktivkar
58. Tver (Migalovo)
59. Tjumen (Roschino)
60. Ulan-Ude
61. Ulyanovsk (Vostochni)
62. Ufa
63. Khabarovsk (Novi)
64. Cheboksari
65. Chelyabinsk (Balandino)
66. Chita (Kadala)
67. Elista
68. Yuzjno-Sachalinsk
69. Yakutsk
70. Yaroslavl (Tunoshna)

Appendix 2

List of Passenger Carriers operating to and from Domodedovo International Airport

OAG Registered

	Name	Code	Country of origion
1.	Aeromist-Kharkiv	HT	United Arab Emirates
2.	Aircompany Karat	V2	Russia
3.	Aircompany Polet	YQ	Russia
4.	Airlines of Kuban	GW	Russia
5.	Air Malta	KM	Malta
6.	Air Moldova	9U	Russia
7.	Airport Bratsk JSC	BRP	Russia
8.	Altyn Air	QH	Kyrgyzstan
9.	Armavia	U8	Armenia
10.	Astair	ZA	Russia
11.	Astrakhan Airlines	OB	Russia
12.	Aty rau Airways	IP	Kazakhstan
13.	Azerbaijan Airlines	J2	Azerbaijan
14.	Bashkir Airlines	V9	Russia
15.	British Airways	BA	Great Britain
16.	Brussels Airlines	SN	Belgium
17.	Bulgama Air Enterprise	BGM	Russia
18.	Dalavia Far East Airways Khabarovsk	H8	Russia
19.	Dnieprovia JSA Co.	Z6	Russia
20.	Domodedovo Airlines	E3	Russia
21.	Donbassaero	7D	Ukraine
22.	El Al Israël Airlines	LY	Israël
23.	Emirates	EK	United Arab Emirates
24.	Eqypt Air	MS	Egypt
25.	Georgian Airways	A9	Georgia
26.	Germania Fluggesellschaft	ST	Germany
27.	Iberia	IB	Spain
28.	Kalningradavia	KD	Russia
29.	Kogalymavia	7K	Russia
30.	Krasnoyark Airlines	7B	Russia
31.	Kyrgyz Airways	KH	Kyrgyzstan
32.	Kyrgyzstan Airlines	R8	Kyrgyzstan
33.	Magadan Airlines	H5	Russia
34.	Omsk avia Airlines	N3	Russia
35.	Orenburg Airlines	R2	Russia
36.	Perm Airlines	P9	Russia
37.	Pulkovo Aviation Enterprise	FV	Russia
38.	Qatar Airways	QR	Qatar
39.	Russian Sky Airlines	P7	Russia
40.	Samara Airlines	E5	Russia
41.	Saratov Airlines	6W	Russia
42.	Siberia Airlines	S7	Russia

	Name	Code	Country of origion
43.	Swiss	LX	Switzerland
44.	Transaero	UN	Russia
45.	Turan Air	3T	Azerbaijan
46.	Turkmenistan Airlines	T5	Turkmenistan
47.	Ural Airlines	U8	Russia
48.	Utair Aviation JSC	P2	Russia
49.	Uzbekistan Airways	HY	Uzbekistan
50.	Vietnam Airlines	VN	Vietnam
51.	VIM Airlines	NN	Russia
52.	Yamal Airlines	LLM	Russia

Carriers recently welcomed at Domodedovo International Airport

	Name	Code	Country of origion
1.	China Eastern Airlines	MU	China
2.	Eurofly S.P.A.	GJ	Italy
3.	LTE Airways	LTE	Spain
4.	LVOV Airlines	UKW	Russia
5.	Spanair	JK	Spain
6.	SunExpress	XQ	Turkey

Appendix 3

List of Countries with Bilateral Treaties with Russia

1. Albania
2. Armenia
3. Australia
4. Austria
5. Azerbaijan
6. Belarus
7. Belgium
8. Bulgaria
9. Canada
10. China
11. Croatia
12. Cyprus
13. Czech Republic
14. Denmark
15. Egypt
16. Finland
17. France
18. Germany
19. Hungary
20. Iceland
21. India
22. Indonesia
23. Iran
24. Ireland
25. Israel
26. Italy
27. Japan
28. Kazakhstan
29. North Korea
30. Korea (Rep.)
31. Kuwait
32. Kyrgyzstan
33. Libanon
34. Luxembourg
35. Macedonia
36. Malaysia
37. Mali
38. Morocco
39. Moldova
40. Mongolia
41. Namibia
42. Netherlands
43. New Zealand
44. Norway
45. Philippines
46. Poland
47. Portugal
48. Qatar
49. Romania
50. Serbia and Montenegro
51. Slovakia
52. Slovenia
53. South Africa
54. Spain
55. Sri Lanka
56. Sweden
57. Switzerland
58. Syria
59. Tajikistan
60. Turkey
61. Turkmenistan
62. Ukraine
63. United Kingdom
64. United States of America
65. Uzbekistan
66. Vietnam

Appendix 4

Interview with Mr. M. Renooij, Senior Ground Handling Officer from Penauille Servisair Amsterdam

Date: 12 April 2006

- How many flights are arriving annually at and departing from Schiphol?
  There are about 400,000 fights operating to and from Schiphol per year. Schiphol is competing with London Heathrow, Paris Charles de Gaules and Frankfurt Fraport. Fraport is still the leading European hub for passenger transportation.

- How many flights are operating annually to and from Frankfurt?
  I estimate more than 500,000 flights per year. I do not remember the exact number. I read that they expect 660,000 flight movements in 2015.

- How many airlines are flying to and from Schiphol?
  Approximately 100 carriers. Mostly scheduled carriers, but also charters. That is why I can not tell the exact number.

- Is the handling of charters different from scheduled carriers?
  In general we perform the same actions. It depends on the handling agreement we have with the airline, the purpose of the flight, is there a next flight scheduled etc. The difference mainly is that scheduled airlines require a faster turnaround.

- What is the minimum number of carriers to handle? The number of carriers are not important. The number of flights are. One carrier operating many flights provides us more work than than many carriers operating a few flights.

- How about low-cost carriers?
  Low cost carriers require no cleaning, but again, in general we perform the same actions.

- How many ground handlers are in general active at an international airport?
  That is a hard question. This depends on many things, such as flight movements, number of airlines providing self-handling and airport operators providing services, their capacity.

- From how many flights a ground handler has right to exist?
  Let's see... I think about 20,000 flights a year, when I compare the flight movements with the number of handlers at Schiphol and other European airports. At Schiphol we are one of the four handling organizations:
    1. Penauille Servisair: 25,000 flights
    2. Aviapartner: 15,000 flights
    3. Menzies Aviation 30,000 flights
    4. KLM 330,000 flights

  KLM provides their own handling and the handling of partner airlines.

- Are those global players?
  We offer ground services at 175 airports worldwide. Menzies is operating worldwide as well. Aviapartner only in European countries. Other global players are Swissport, Fraport, ASIG and WFS.

- So, taking flight movements into consideration, 70,000 flights are available to three independent ground handling organizations. The maximum number of competitors based on 70,000 flight movements is three. So, Moscow Domodedovo airport should have capacity for at least two ground handling organizations if it is operating about 70,000 flights?
  Yes, that is correct.

- What is the average price for:

service	price
Passenger handling	
Baggage handling	
Ramp handling	
Load control and dispatch	
Freight and mail handling	

This depends of many factors. Sometimes particular services are provided free of charge in order to be able to compete and to win a tender. The average price for the total package is about 1200 euros.

- What is the minimum price for:

service	price
Passenger handling	
Baggage handling	
Ramp handling	
Load control and dispatch	
Freight and mail handling	

Depends of client and ground handling agreement.

- Average cost-overview of aircraft handling?
  The total operating cost per flight is about 1000 euros, it might be even more.

- This means you have small margins. How can the company survive?
  A low margin or a deficit are counterbalanced through higher profits at other airports. At Schiphol we have to deal with high airport fees, which affects our expenditure. Furthermore, income of additional services with high margins cover the cost. Like de-icing for example. However, the income depends on weather conditions and could be disappointing.

- Minimum requirements that an airport needs to meet? (e.g. certain equipment, office-space, etc.)?
  For a handling organisation? Just the basis facilities are required. Actually, every airport is suitable.

- I would like to know how important certain factors are for a ground handler in its decision to enter a new market. What is the order of importance for the following factors?

Factor	**order**
Market size	1
Market growth	1
Threat of potential entrants	2
Bargaining power of buyers	4
Bargaining power of suppliers	3
Intensity of competitors	2
Threath of substitutes	5

- Could you explain this order of importance?
  Handling companies would not seek to exploit markets unless there is a prospect of a profitable operation. Therefore, the size of the market available and its growth is a concern of ground handlers, together with the degree of competition. A relative small market at some airports have an impact on the finances of ground handling companies. To gain market share services are offered below price, which results in a very low level of profitability. Then, the level of competition should not be widened further.

  Thank you for your time and explanation.