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STRATEGIC COMPETITION AND COOPERATION

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ABSTRACT

Competition is often regarded as the ultimate solution for market efficiency. In certain sectors, however, market imperfections together with scale and scope economies lead market participants to establish some sort of cooperation efforts in order to maximize the common benefit of the cooperating partners. We argue that this is increasingly the case with the air transport industry. One reason for founding an alliance is to allow its members to prepare themselves to be fit for competing in the global arena and to stay strong in order to protect the home turf.

In this article we analyse the economic rationale behind strategic alliances in the air transport sector, namely emphasizing the individual contributions and collective benefits of airlines when merged within a specific alliance for cooperation purposes. The several possibilities of cooperation agreements between air carriers are also analysed, as well as some of their managerial implications.

Finally, the implications for tourism and the prospective medium-term trends for the airline sector are also taken into consideration for the immediate future of this competitive market, notwithstanding the competitive pressures ahead, namely the ones stemming from IT innovation and increasing energy costs.

Keywords: tourism, air transport, competition, cooperation, strategic alliances

1 INTRODUCTION

Many industries have realised that fostering continuous face-to-face competition battles leads companies to financial exhaustion, intellectual emptiness and general worse preparedness to new stages of competition and innovation. Also, this type of



competition does not secure the company the lowest cost, the best products or the highest profits.

In fact, many multinational companies have found that the best way to compete in the long run is through collaboration, hence leaving destructive competition aside as a structural option. Companies may then generate value added for customers and stakeholders, by selectively sharing and negotiating control, costs, capital, market access, information and technology with competitors and suppliers. However, this does not mean that competition ceases to exist; it is quite the opposite, as evidenced by computer and commercial aircraft markets.

Yet, competition in the airline industry is a relatively recent phenomenon, since one has to consider that the aviation sector has moved over the last quarter of the twentieth century from a patchwork of individual and state protected companies to a liberalized system of globally interconnected corporate organizations (see Martin and Voltes-Dorta [1] and Nijkamp [2]). The increasing liberalization of the skies both in Europe and in the US over the last few years has in turn impacted positively in the price-competitiveness of the traditional tourism packages and therefore deserves to be carefully assessed through a comprehensive approach.

In this paper, we start by briefly referring to the everlasting symbiotic relationship between the evolution of aviation and the development of the tourism phenomenon. The concept of strategy and strategic alliances is then considered by addressing possible types of partnership, management and key factors in benefit sharing. In particular, analysis will focus on strategic alliances in the air transport sector, with emphasis on the benefits and contributions of an airline to an alliance and the types of agreement in place between air carriers. Finally, the trends envisaged for the sector are also taken into consideration.

2 TOURISM AND AVIATION: A SYMBIOTIC INTERACTION SINCE EVER

Tourism has only become a global phenomenon when the benefits of aviation have evolved from a privilege of a few to a market service available to all. In fact, air transport and tourism have always been interlinked; with tourism being a driving factor for and often a catalyst of change in air transport; most notably throughout the development of new business models such as charter airlines or low-cost carriers



(Biegera and Wittmer [3]). At the same time, the evolution of air transport opened new destinations and tourism potential by allowing customers to perform long-haul excursions, on one hand, and significantly expanding demand, on the other hand, once that deregulation occurred and free market competition has set in.

As Reggiani, Nijkamp and Cento [4] clearly summarize, the aviation sector has traditionally been a publicly controlled industry, with a high degree of government intervention, for both strategic and economic reasons. This process started back in 1919, with the Paris Convention stipulating that States have sovereign rights in the airspace above their territories, which lead to the necessity of establishing a series of bilateral agreements between countries willing to be flied over by international airlines. The subsequent Chicago Convention (1944) introduced a distinction between various forms of freedom for using the airspace, ranging from the 1st freedom (the right to fly over the territory of a contracting State without landing) to the 8th freedom (the right to transport passengers and cargo within another State between the airports in that State).

Consequently, the airline sector ultimately became overregulated and inefficient. More recently, however, the inevitable deregulation process started to materialize. In fact, as it became increasingly evident that the liberalization of air services between countries generates significant additional opportunities for consumers, shippers, and the numerous direct and indirect entities and individuals affected by such liberalization, a collective consciousness started to evolve and gain advantage among both market agents and regulators. Conversely, it became also evident that restrictive bilateral air services agreements between countries was stifling air travel, tourism and business, and, consequently, economic growth and job creation.

Under this background, in the USA, the Airline Deregulation Act (1978) set the tone for a clear market orientation of the aviation sector, and around a decade later in Europe a series of gradual steps (so-called packages) have been introduced – under the political guidance of the European Commission – to ensure a full deregulation of the European airline sector by the end of the twentieth century, based on an integrated airline market ruled by fair competition and sound economic growth.

The latest and decisive step in this deregulation process was the Open Skies Agreement signed in Washington between the USA and Europe on the 30th of April 2007. This



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agreement entered in force on the 30th of March 2008 and has since then played a decisive role in the opening of more opportunities for air companies on both sides of the Atlantic to increase their financial viability and market shares in a free competition for the skies across the Atlantic.

This changing trend in regulatory regimes in the European airline sector has increased competition in the marketplace and prompted various new actions and strategies of European carriers in the past decade, such as mergers, take-overs and alliances. Yet, fierce competition has also led to the financial exhaustion of several existing carriers (as was the case with Swissair and Sabena). More competition in a free market in Europe has largely had the same effects as in the USA in the past, notwithstanding the fact that flag carriers managed to keep a large share of the European air transport market.

Furthermore, in the 1990s the world saw an unprecedented economic change. Along with the Berlin Wall, many other frontiers came down. Virtually overnight the world was full of new opportunities to travel and to do business. Suddenly it became possible to share work on a global scale and to build new business relationships from continent to continent. At the same time the Internet created a global village, making communication easy, fast and inexpensive while facilitating globalization, which created travel patterns far beyond the traditional economic centers such as Tokyo, New York, Hong Kong and Frankfurt.

As a result of the above, the European aviation market is now a place of increased competition, leading, on one hand, to gains in economic efficiency and lower prices and, on the other hand, also stimulating companies to engage into strategic alliances to reinforce their competition strengths. The tourism market benefits directly from this process both through lower prices and market expansion (new destinations and routes).

3 STRATEGIC ALLIANCES IN GLOBAL MARKETPLACES

The business world is usually portrayed as strongly competitive: to survive, a company needs to achieve a better effective performance than competitors and be ready to annihilate its opponents.

This climate of permanent conflict is not, however, necessarily the most effective and common way of competing. Based on their own experience, companies have found that



they need to know when and how to compete. In fact, to know when and how to cooperate is of the essence.

In historical terms, export companies from industrialised nations sought to form alliances with companies from less developed countries, where they would be able to place and trade their products. These agreements were often conducted to gain access to markets in less developed countries, whose governments impose restrictions and local requirements to the entry of foreign companies.

As of the 1990s, leading companies from several parts of the world entered into strategic alliances, in order to strengthen their mutual capacity to serve total geographical areas and move towards global market participation. However, the projections of a few, that by 2000 there would only be a dozen major competitor networks in each sector, did not materialise.

According to Freire [5], a strategic alliance is translated into a collaboration agreement between two or more companies, with the purpose of complementing their competences, by pursuing a common project, over a given period of time.

The formulation of strategic alliances builds on three basic elements: the maintenance of the independence of each partner; the sharing of strategic resources; and the establishment of a validity period.

Not all strategic alliances will cover the same objectives. These are determined by allied companies and may comprehend the expansion of the trade position; the acquisition of technology, commodities and components; cost-cutting efforts, the sharing of scale economies; response to local government pressure (e.g. in China and India foreign companies are required to have local partners); the filling of gaps in terms of technical expertise or manufacture; and the creation of standards. In technology-based industries, such as aerospace, the rapidly growing international collaboration mirrors the companies' wish to have access to the various technological competences. This notwithstanding, there is certainly a common purpose to any alliance, which is to create better conditions for all partners involved.

Depending on the pursued goal, alliances take the form of joint research and development, joint acquisitions, production and marketing arrangements, vertical partnerships, licensing, joint ventures and shareholding. Alliances do not always involve



formal agreements; they can often be entirely informal, although this is not always explicit.

The impact of alliances on the industry's competitive nature can be considered at two levels. Firstly, there are the relationships between different groups of strategic alliances and, secondly, the relationships within the alliance itself have to be considered.

The first level focuses on the fact that the various alliance groups are competing among themselves and/or with individual companies, and it is important that, when making decisions, a member company takes into consideration the competitiveness of allied companies as well as the relative strength of firms integrating competitor groups. By channelling their competitive energies towards the common rivals of allied companies, alliances are affecting competition. Also, it is also worth stressing that alliances may offset corporate competitive disadvantages, influencing an industry's competitive strength/structure.

The second level shows the different degrees of influence that companies exert within the membership alliance, with existing dominant and non-dominant partners. The latter obviously intend to reach the leaders' state of competence, while the former seek to expand their influence on the industry.

4 STRATEGIC ALLIANCES IN THE AIR TRANSPORT SECTOR

A strategic alliance is an opportunity for an airline carrier that comprises a management challenge requiring a set of resources, mostly in terms of human talent and updated information, but also involving control and distribution systems.

It is clear-cut that alliances pursue different objectives and do not develop the same competences as airlines. Jaan Albrecht (Beting [6]), who has been appointed President of Star Alliance clearly states that "we are not and we will never be an airline. We will not pasteurise our product, nor standardise our images. That is a responsibility of airlines, which we definitely are not". Strategic alliances are built on the premise of creating more value for each air carrier, originating in the extended network coverage and in operation coordination. They are assumed to perform sales leveraging, allowing cost cutting and restricting competition. Alliance partners are contractually bound to sell their partners' seats and services, often through preference in the reservation systems of travel agents, ensuring better access to the market.



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Cost-cutting can be attained through a better deployment of resources, scale economies and investment maximisation. Airports from different geographical areas, such as London, Paris, Warsaw, Bangkok or Tokyo, tend to have a separate area assigned to alliances. This is the case of the new Los Angeles airport terminal, which has 15 boarding gates for the exclusive use of Star Alliance members. Another way of cutting costs is to increment code sharing services, as proven by Austrian Airlines, which decided to interrupt flights from Wien to Chicago, redirecting passengers to New York, from where they would depart served by United Airlines, but maintaining the flight code of Austrian Airlines. The company continued to serve that market with no need to use its Airbus A330 in the mentioned route, which resulted in a huge resource saving.

Allied airlines seek to offer the same type of ground service in the various countries, with a certain degree of standardisation, so that passengers do not feel uncomfortable or odd in an airport served by a partner. Or even to offer the possibility of being in the same terminal. Narita is the first major international hub in Asia where passengers find most Star Alliance members collocated in one terminal. The effect on connecting times is dramatic. Transfers between international flights have been reduced to 45 minutes, down from approximately 100 minutes. Narita was followed by Bangkok and other cities are expected to follow.

Figure 1 below lays out the tasks expected of a member company and, on the other hand, which benefits it is expected to eventually reap.

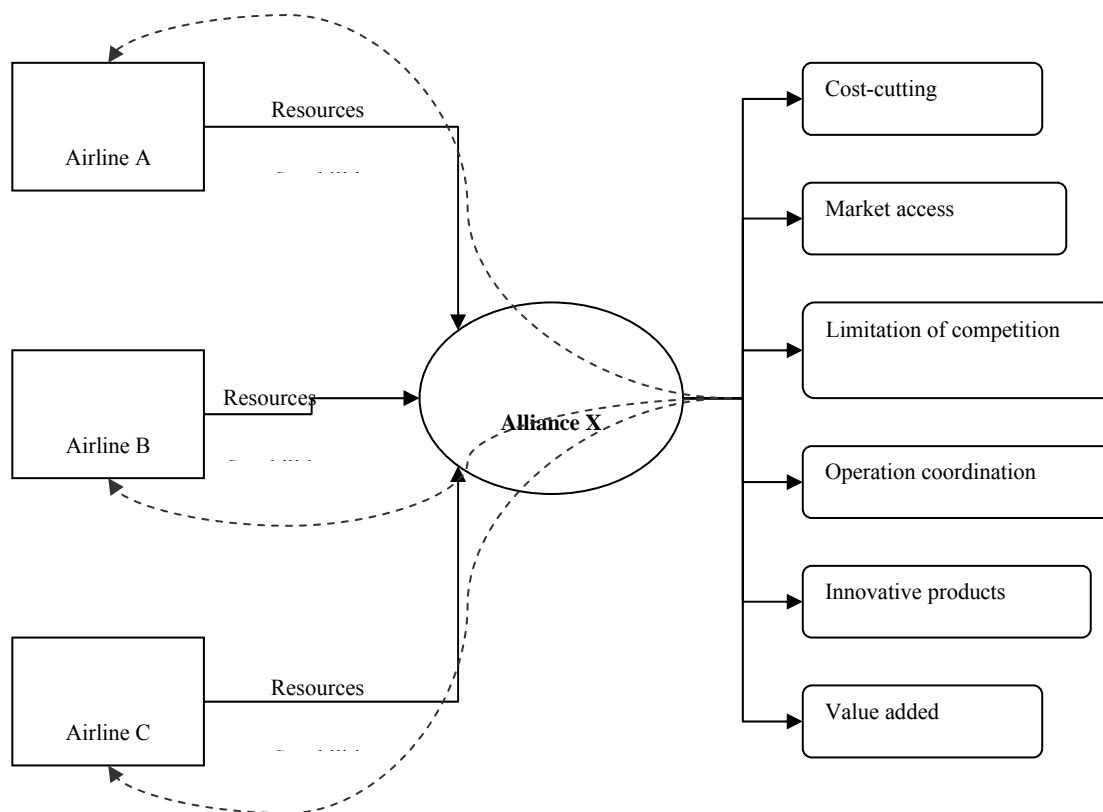


Figure 1 - Contributions and benefits of an airline integrating an alliance

According to a paper by Iatrou and Alamdari [7], in 2002 companies believed that belonging to an alliance brought about an increased occupancy rate, and higher revenue and profits. If they had chosen to continue not to be part of an alliance this could have meant a loss of traffic for allied companies, which would place them in a situation of competitive disadvantage. This is confirmed by Kleymann [8], who concludes that airlines, by seeking to form alliances, are making a necessary defensive move.

More people want to fly to more places more easily and for greater value, however a single airline will not be able to serve all the markets its customers wish for. It is constrained to serve this demand by government restrictions and business economics. Whereas it is part of an alliance it will be able to offer the services required without having to increase costs. Moreover it will be able to achieve substantial efficiencies through working more closely together, especially in financially difficult times as we are living today. Alliances also help improve airlines' revenues and provide opportunities for growth, by feeding passengers between members' networks.



Alliances may allow for the specialisation of a company, enabling it to concentrate on forecast products without wasting resources. However, this creates a certain degree of dependence vis-à-vis the alliance itself. Should it fail, the company will be in a situation of competitive disadvantage, e.g. in relation to a market it may have abandoned. Companies need therefore to understand this independence/dependence duality and be guided by an approach that does not excessively depend on the alliance of which they are members.

The positioning of airlines vis-à-vis strategic alliances has evolved, given that in the 1980s they were only considered for simple immediate growth, access to new markets and the possibility of circumventing bilateral restrictions. The air transport industry up until then was not liberalised, and this hindered the development of air carriers along the same lines as other industries. The sector saw high losses in the early 1990s, due to the decline in air transport demand, and again early this decade (in the wake of the terrorist attacks on 11 September, unfavourable economic conditions and the SARS epidemic). This boosted the potential for strategic alliances, given that it allowed partner companies to gain access to their partners' customers without having to create new services or purchase more aircraft, giving rise to increased revenue and profits for airlines.

A number of companies attempted to strengthen their market position through the merger or acquisition of rival air carriers, consolidating operations under a brand name. SAS - Scandinavian Airlines (SAS) acquired its Norwegian competitor Braathens, and American Airlines acquired the distressed airline TWA - TransWorld Airlines (TWA).

By endeavouring to protect national interests, legislation has not allowed for an unlimited growth of airlines in foreign countries, which has also fostered the emergence of strategic alliances. Iatrou and Alamdari [7] illustrate the example of non-European air carriers, which may only acquire up to 49% of an European company, with no chance of gaining a dominant position. The same holds for the United States, although the limit in this country is much stricter, i.e. a share of only 25%.

An air carrier gains a strong position in an alliance if it dominates an attractive, highly profitable market, entry into which is, however, difficult, due to its being geographically remote or to cultural barriers. This occurs even in case of a deregulation situation. The



Japanese airline ANA - All Nipon Airlines is a partner of Star Alliance, having opened access to that important market. In turn, ANA - All Nipon Airlines cut down the number of its intercontinental flights and started offering them through partner airlines.

Airlines may also reach a strong position in an alliance if they offer a series of different connections to specific markets. This is the case of British Airways, Air France or KLM - Royal Dutch Airlines (KLM).

4.1 The impact of the airline alliances

Most of the studies being carried on the impact of the airline alliance are on the North Atlantic route as this is a major market for them.

Civil aviation between United Kingdom and United States of America was regulated by an agreement signed in 1977, the Bermuda II, which established the flights to be operated to Heathrow airport. There were two airlines from each country operating, American Airlines, British Airways, United Airlines and Virgin Atlantic. The fares were approved by the governmental agencies of each country.

In 2001 American Airlines and British Airways announced that they intended to form an alliance, therefore asking for antitrust immunity to both United States and Europe. Their intention was already proposed in 1997, however unsuccessfully. If the agreement was authorized the alliance could dominate the markets between the major cities in the United States and London. According to US General Accounting [9] both airlines had 52% of non-stop flights between the two regions and 61% between the United States and Heathrow airport.

If this agreement was authorized there should have been 196 to 267 new slots to compensate the anticompetitive effects of the proposal as an Open Skies agreement, by itself, could not ensure the possibility of new companies entering this market.

Albeit the mentioned air carriers guaranteed that the alliance would bring the passengers benefits, as they would have more services, including the connection to other continents from London, the loss of independent competitors leads to power misuse and higher fares.

With the extension of the Open Skies policy signed between the European Union and the United States, in 2007, it was foreseen that the number of passengers would rise by



26 millions as any European airline would be authorized to operate from any country in the European Union and more carriers could operate to Heathrow airport (BBC [10]).

Pitfield [11] considers that it will be very unlikely that the agreements made under Open Skies policy will result in passengers traffic increase or in more competition as the global alliances may operate as an entry barrier in the North Atlantic route.

In his study he comes to the conclusion that market in the North Atlantic route tends to be more concentrated, therefore diminishing competition and enlarging alliance market power. Between Frankfurt's airport and Chicago's airport Star Alliance inhibited competition, in spite of the goals of the Open Skies policy.

Competition reacts to the formation of strategic alliances, because these threaten market share of the operating airlines or alliances. On the other hand competition should decrease on interhub markets of the same alliance.

Cost reduction as a result of combined operations and density economies on interhub routes may establish lower fares for the allied partners, which is an interesting advantage for the passengers.

4.2 Types of agreement between airlines

IATA defines an airline alliance as the participation of three or more companies in a commercial relationship or joint venture, where an identified product is promoted under a single trade name or brand, by airlines or their agents. The use of a common brand or name causes alliance services to be recognised in airports and other locations with enforced bilateral agreements.

French [12] considers that collaboration agreements between airlines may include one or every accomplishable possibility of partnership, partly depending on the size of the strategic alliance. For an alliance to be considered strategic one must assess its degree of cooperation and worldwide coverage. Airlines are willing to share their resources with one or more companies, with benefits for all partners, rendering their capacity supply more efficient and making it reach far into the market. Alliances vary in their degree of commitment and distinguish from each other in terms of code sharing, joint services, block reservations, marketing agreements or joint marketing, joint fares, franchising



arrangements, schedule coordination, wet lease, frequent flyer benefits, cooperation and reciprocity, inter alia.

The most common type of agreement between airlines is, in fact, code sharing, accounting for almost two thirds of contracts signed between companies. It applies to the whole allied company network, to some members, or even to single routes within alliances. Besides the additional services offered, the great advantage of code sharing is that it makes it possible to highlight the flight in the computer reservation system's lists, thereby obtaining a more favourable display position.

4.3 Current strategic alliances

Strategic alliances share common goals, such as distinctive features that imply exclusiveness, in contrast to simple networks of partners with no formal integration. More than two third of the international airline industry are organised in alliances. The industry has inherited the model and there is no sign on the horizon that the model is losing its strength.

Airlines integrating a given alliance restructure the flight connections they serve, especially intercontinental flights, guiding their operations towards hub airports, granting partner companies flight connections to secondary cities. For 20 years SAS airlines has been serving 36 intercontinental locations from Copenhagen, although a few only once or twice a week and with a several stops; in 2004 it served only eight, but almost all on a daily basis, totalling more flights than before.

It is instrumental for alliances to have partners in every major geographical area in the world, so as to be able to easily access any area. In the oneworld alliance Finnair and Iberia cover the far north and south of Europe, with Iberia also reaching the Latin American market. Local partners define key hubs par excellence. In Europe, however, there is duplication in coverage by each alliance, given that in historical terms each country had its flag carrier with one or more hub airports.

There are three global airline alliances that held together about 70% of the market in 2007. Star Alliance had 27,7% of the market, followed by SkyTeam with 23,9% and oneworld reaching 19,6% (European Commission) [13]. The remainder 30% are from non-allied airlines such as Emirates, China Eastern Airlines or Virgin Atlantic Airways. The airline alliances continue to attract more air carriers, especially from emerging



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markets as China and India. Weber [14] believes that the number of strategic global airline alliances will not increase unless there are some changes in the current legislation.

The members of the current strategic airline alliances are shown in Table 1. There are airlines coming in and out of the alliances and some have even joined the competition, such as Continental Airlines and Mexicana.

Table 1: Members of the current strategic airline alliances and year of entrance.

Star Alliance	SkyTeam	oneworld
United Airlines (1997)	Air France (2000)	American Airlines (1999)
Lufthansa (1997)	Delta (2000)	British Airways (1999)
SAS – Scandinavian Airlines (1997)	Aeromexico (2000)	Cathay Pacific (1999)
Air Canada (1997)	Korean Air (2000)	Qantas (1999)
Thai Airways International (1997)	CSA, Czech Airlines (2001)	Canadian Airlines (1999/2000)
Varig Brazilian Airlines (1997/2007)	Alitalia (2001)	Finnair (1999)
Air New Zealand (1999)	KLM Royal Dutch (2004)	Iberia (1999)
ANA – All Nippon Airways (1999)	Continental Airlines (2004/2009)	LAN – Latin American Airline Alliance (2000)
Austrian Airlines (2000)	Northwest Airlines (2004/2008)	Royal Jordanian (2007)
Singapore Airlines (2000)	Aeroflot (2006)	Malév Hungarian Airlines (2007)
bmi – British Midland (2000)	Air Europa (2007)	JAL - Japan Airlines (2007)
Mexicana Airlines (2000/2004)	Copa Airlines (2007/2009)	Mexicana (2009)
Asiana Airlines (2003)	Kenya Airways (2007)	
Spanair (2003)	China Southern Airlines (2007)	
LOT Polish Airlines (2003)		
US Airways (2004)		
Blue 1 (2004)		
Adria Airways (2004)		
Croatia Airlines (2004)		
TAP Air Portugal (2005)		
Swiss International Air Lines (2006)		
South African Airways (2006)		
Shanghai Airlines (2007)		
Air China (2007)		
Turkish Airlines (2008)		
Egypt Air (2008)		
Continental Airlines (2009)		
Brussels Airlines (2009)		

Source: oneworld/ SkyTeam/ Star Alliance (2010).

4.3.1 “Star Alliance”. Air Canada, Lufthansa, SAS, Thai Airways International and United Airlines launched Star Alliance on 14 May 1997, thus creating the first global airline alliance, as a result of several previous successful agreements between some of these companies. As of October 1992, when Air Canada and United Airlines signed an



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alliance agreement, there were a succession of partnership contracts at various levels between a number of companies, namely at the level of joint marketing, code sharing flights and schedule coordination.

The launch of Star Alliance was targeted at facilitating global air transport, focusing on the coordination of flight connections, making them simpler, with no delays for customers, and extending frequent flyer benefits to the whole network, including lounge access for executive classes at the airport.

The alliance is currently composed of the founding airlines, in association with Air China, Air New Zealand, ANA – All Nipon Airways, Asiana Airlines, Austrian Airlines, bmi – British Midland, Brussels Airlines, Continental Airlines, Egyptair, LOT Polish Airlines, Shanghai Airlines, Singapore Airlines, South African Airways, Spanair, SWISS, TAP Portugal, Turkish Airlines, US Airways and the regional companies Adria Airways, Blue 1 and Croatia Airlines. Adherence by this type of airline allowed for the expansion to other regions and other types of customer, thereby improving the competitive positioning of members. It covers 1 077 destinations throughout the world, having carried 603 million passengers in 2009 and serving 175 countries.

With the strategy called “moving under the same roof” the airline members are placed at the same airport terminal, making the transfers and luggage easier. The reduction in the number of passengers that lost their connection flight or baggage allowed a saving of ten million euro in a year.

Table 2 illustrates the increase of countries, destinations, daily departures, passengers, fleet, lounges e members. This augment was due mainly to the adherence of new airlines, namely Continental Airlines, which in last October left SkyTeam.

Table 2: The global alliance Star Alliance.

Star Alliance	2007	2009
Countries	155	175
Destinations	855	1.077
Daily Departures	16.000	19.700
Passengers (000)	406.000	603.500
Fleet	2.800	3.993
Number of Lounges	650	980
Members	17	23+3

Source: *Star Alliance* (2009).



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4.3.2 “*Skyteam*”. On 22 June 1999 Air France and Delta Airlines signed a long-term strategic agreement, which laid the foundations for a great global alliance. In August that year they launched the SkyTeam Europe Pass, with the purpose of offering simplicity and speed, low prices and the possibility for customers who visited multiple destinations in the European continent to earn additional frequent flyer points.

Precisely a year after the signing of a strategic agreement between Air France and Delta Airlines, the setting-up of a new consumer-based global alliance was announced. At the time SkyTeam counted on the participation of Aeromexico, Air France, Delta Airlines and Korean Air. In this period, the alliance offered 6,402 daily flights to 451 destinations in 98 countries. Its major concern was to provide a consistent level of performance, quality and detailed attention, customer service wise. Hence the slogan “Caring More About You”.

However, the alliance was not limited to passenger traffic agreements. In September 2000 partners decided to widen the scope of the cargo handling contract.

SkyTeam is composed of Aeroflot, Aeromexico, Air France, Alitalia, China Southern Airlines, CSA - Czech Airlines, KLM – Royal Dutch Airlines, Delta Airlines, Korean Air, Air Europe and Kenya Airways. The 11 companies offer 13,133 daily flights to 856 destinations in 169 countries, having lost their positioning as leaders in the number of daily flights offered.

The progress of the global alliance SkyTeam can be confirmed in Table 3. Between 2003 and 2004 there has been a major growth (33% of the destinations and 82% of the daily departures), due to the adherence of KLM, Continental and Northwest in September 2004. Continental Airlines and Copa Airlines left the alliance in October 2009, which is related to the decline between 2008 and 2009 (5% and 22% for the same items as above).

Table 3: The global alliance Skyteam.

SkyTeam	2000	2002	2003	2004	2005	2006	2007	2008	2009
Countries	98	114	115	130	133		162	169	169
Destinations	451	512	493	658	684	728	841	905	856
Daily Departures	6.402	8.000	7.858	14.300	15.207	15.000	16.400	16.787	13.133
Passengers (000)	176.300	228.000		341.000		373.000	428.000	462.000	384.000
Members	4	6		9	9	10	11		9+2

Source: *SkyTeam* (2009).



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4.3.3 “oneworld”. On 21 September 1998 five world market leader airlines announced the setting-up of a new customer-oriented global alliance. American Airlines, British Airways, Canadian Airlines, Cathay Pacific Airways and Qantas Airways intended to raise the standard of air travel worldwide. With this purpose in view, they would use the name and logo of the *oneworld* alliance in addition to the airline’s identification in airports and in other information signs, schedules and printed materials. Companies committed to carry out joint advertising campaigns in key markets around the world, to help implement the alliance’s slogan “oneworld revolves around you”.

Approximately ten years after, the alliance currently comprises Cathay Pacific Airways, Qantas, Finnair, Iberia, Japan Airlines (JAL), Malév, LAN and Royal Jordanian, in addition to American Airlines and British Airways with their 17 affiliated companies. They offer flights to 727 destinations in 142 countries, having carried more than 320 million passengers in 2009; it offers more tariffs and products than any other competitor.

It is illustrated in Table 5 oneworld’s progress. In 2008 most of the items have decreased compared with the previous year, especially due to the economic world crises, that started in 2007. As a consequence of this situation the results were negative in 2009 for the first time in the history of the alliance. RPK was the only item that maintained an increasing pattern along the period.

Table 5: The global alliance oneworld.

oneworld								
	1999	2000	2004	2005	2006	2007	2008	2009
Countries	138	134	134	132	141	142	134	142
Destinations	632	559	576	595	673	689	664	727
Daily Departures			7.526	8.110	9.011	9297	8.951	8.368
Passengers (000)	147.000	209.000	223.100	242.577	309.249	321.855	318.591	329.887
RPK (million)			499.146	554.208	676.734	707.807	720.492	750.950
ASK (million)			679.087	738.754	909.383	931.797	929.385	976.536
Load Factor				75%	74,4%	76,2%	77,5%	77%
Fleet	1.524	1.852	1.855	1.982	2.412	2.339	2.228	2.269
Employees	220.986	269.100	236.400	248.179	264.932	263.350	275.991	295.532
Total Revenue (million dollars)				60.193	84.797	93.625	102.957	97.997
Passenger Revenue (million dollars)				49.232	63.159	71.178	77.563	
Operational Profit (million dollars)				2.948	2.599	4.463	6.593	-728
Net Profit (million dollars)				1.340	1.278	2.444	4.589	- 1.746

Lounges	223	340	392	392	392	487	531	550
Members	5	8	8	8	10	10	10	10

Source: oneworld (2009).

Allied companies recognise that being part of an alliance enables them to provide their customers with more services and benefits, which they would not be able to provide on an individual basis. This includes a widened network of routes and the opportunity to earn and redeem frequent flyer miles and points throughout the whole network. In addition, they consider that the existing relationships between allied airlines are intensifying.

Charts 1 and 2 illustrate developments in airline alliances from 2002 to 2004 and from 2007 to 2009 at the level of countries served per alliance. SkyTeam records rises by 21%, the most significant increase while oneworld is the leader in the first reference period. Star Alliance reaches a 13% increase and the leadership in the second reference period.

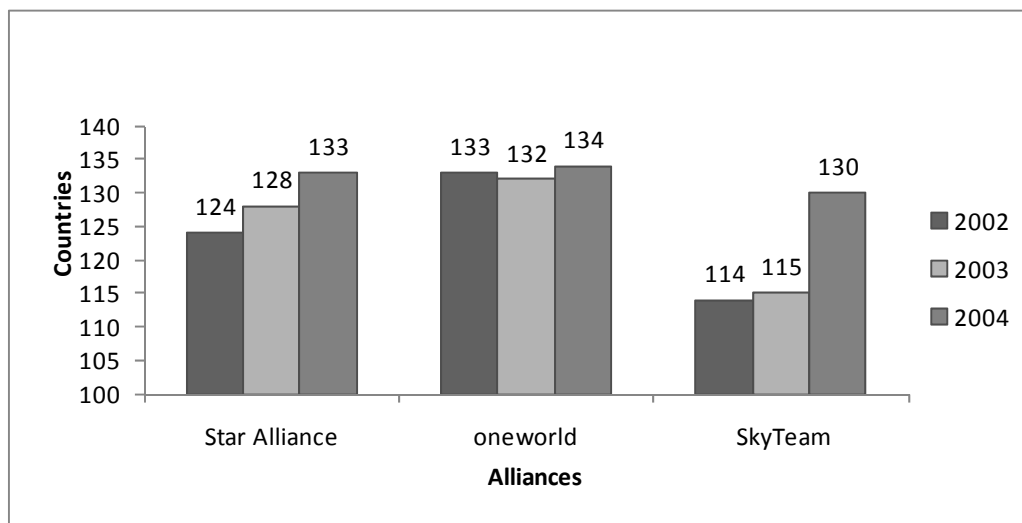


Chart 1 – NUMBER OF COUNTRIES SERVED PER ALLIANCE BETWEEN 2002 AND 2004.

Sources: Oneworld/SkyTeam/StarAlliance.



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Universidade da Madeira, Funchal

Colégio dos Jesuítas, 8 a 10 Julho 2010

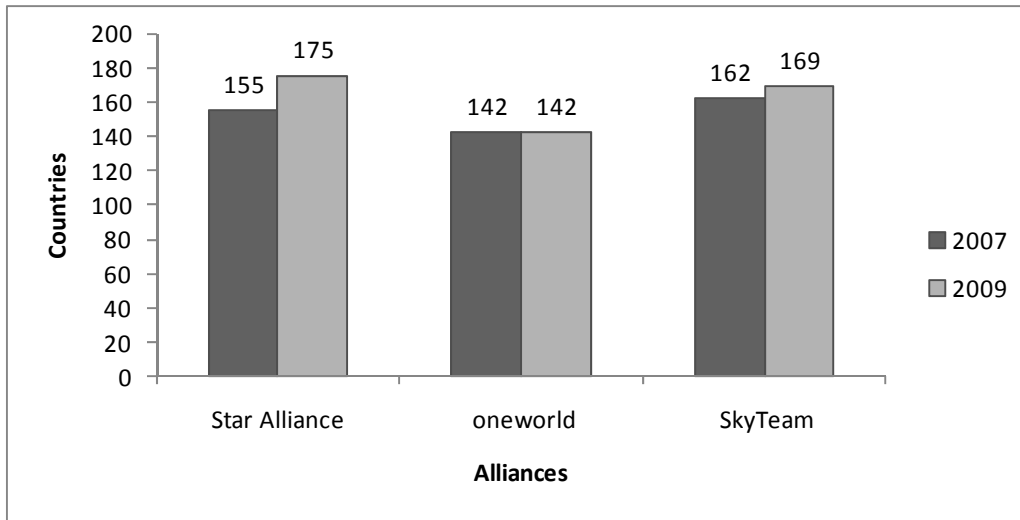


Chart 2 – NUMBER OF COUNTRIES SERVED PER ALLIANCE BETWEEN 2007 AND 2009.

Sources: Oneworld/SkyTeam/StarAlliance (2009).

Charts 3 and 4 show developments in airline alliances from 2002 to 2004 and from 2007 to 2009 at the level of destinations served per alliance. SkyTeam saw the highest raise by 29% however Star Alliance is the leader in the first reference period. This alliance maintained leadership in the second reference period experiencing a 26% increase, which is largely due to the adherence of Continental Airlines in October 2009.

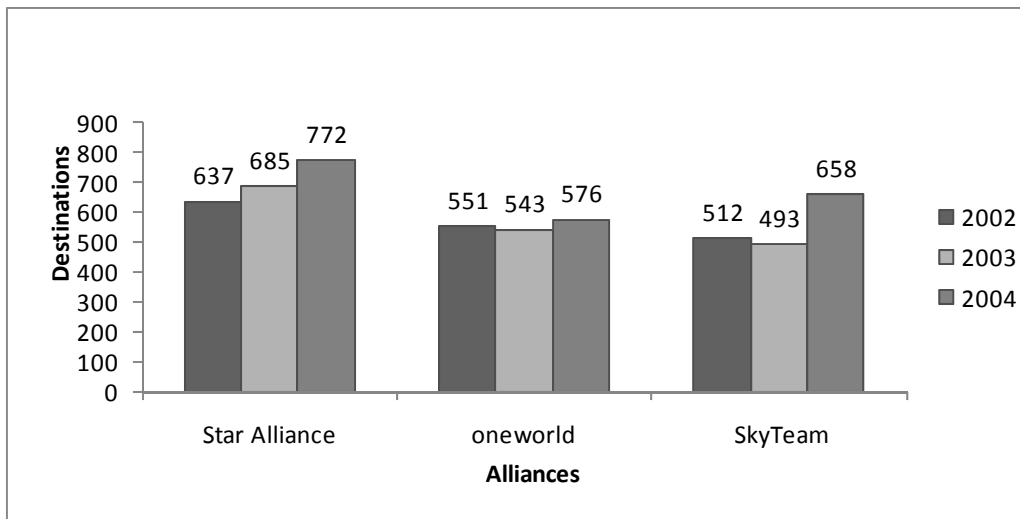


Chart 3 – NUMBER OF DESTINATIOS SERVED PER ALLIANCE BETWEEN 2002 AND 2009.

Sources: Oneworld/SkyTeam/StarAlliance.

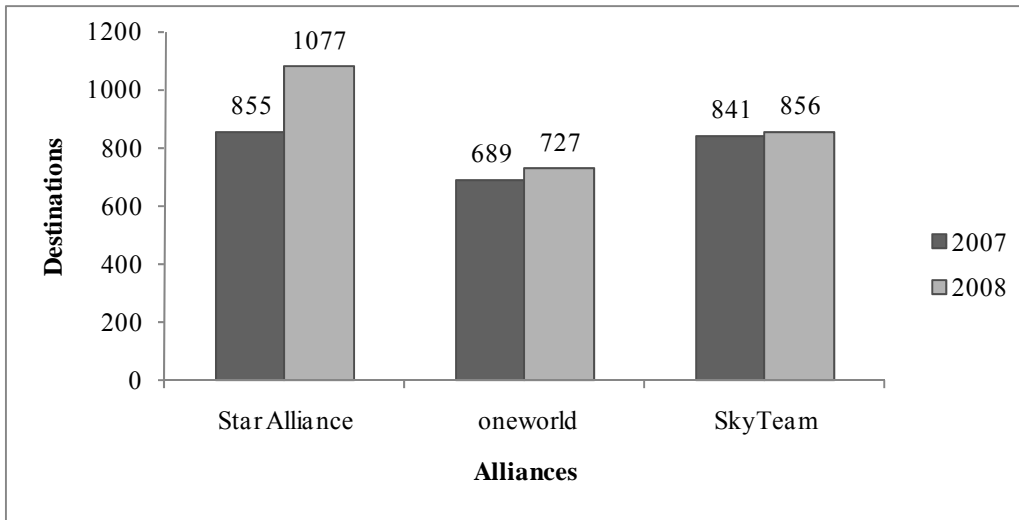


Chart 4 – NUMBER OF DESTINATIONS SERVED PER ALLIANCE BETWEEN 2007 AND 2009.

Sources: Oneworld/SkyTeam/StarAlliance (2009).

As regards daily departures, developments are similar to previously illustrated data, with the oneworld alliance declining in 2003 and recovering somewhat in 2004 in terms of daily departures per alliance, as shown in Chart 5. It still does not have as many daily departures as it did in 2002. SkyTeam saw a remarkable 89% increase from 2002 to 2004, and Star Alliance grew by 41%. The fact that SkyTeam recorded such a high growth level is due to the adherence of KLM, Continental and Northwest in September 2004.

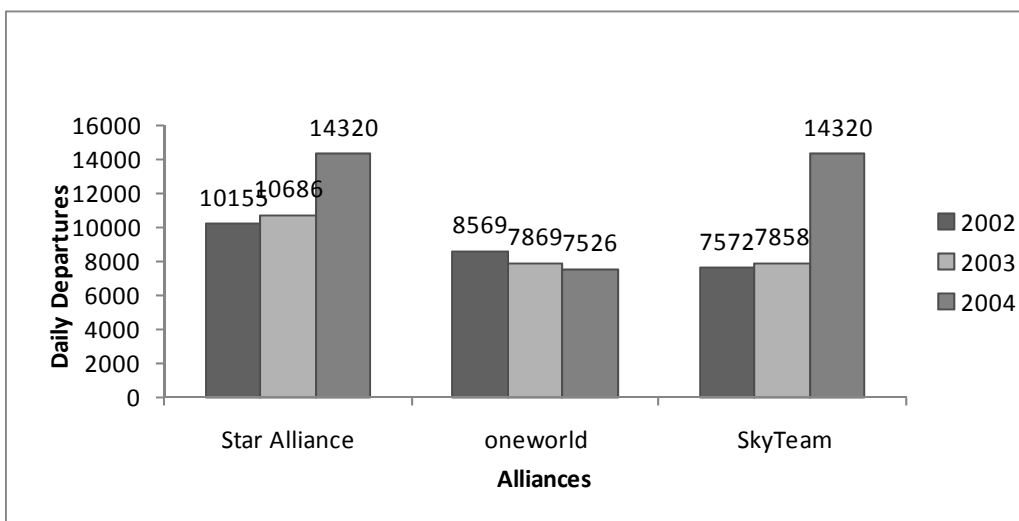


Chart 5 - DAILY DEPARTURES PER ALLIANCE BETWEEN 2002 AND 2004.

Sources: Oneworld/SkyTeam/StarAlliance.



For the period from 2007 to 2009 SkyTeam changes the growth tendency that it had been experiencing and suffers a 20% decrease as illustrated in Chart 6. Also decreasing is oneworld diminishing 10% as a consequence of the crisis occurred in this period. Opposite to its competitors is Star Alliance, which saw an increase of 23%, mainly due to the adherence of Continental Airlines as signed above.

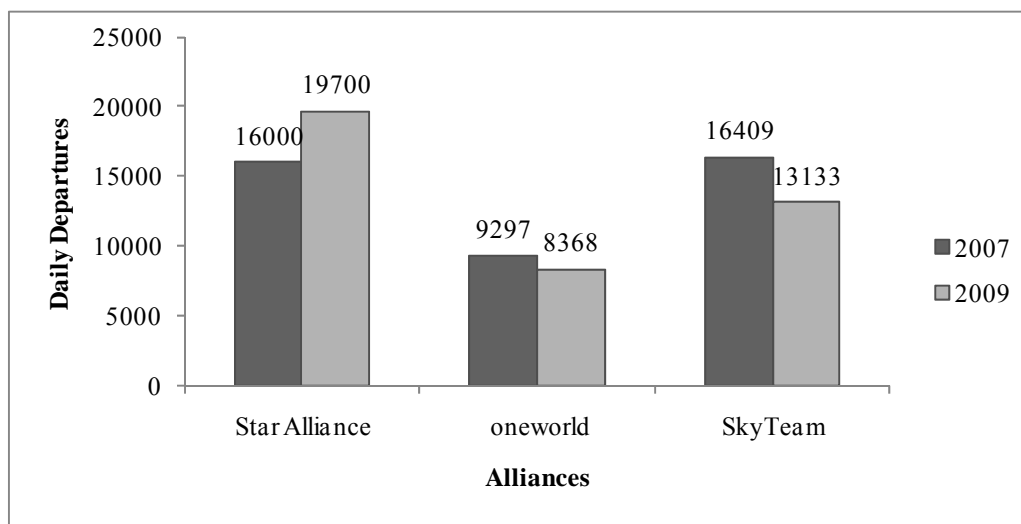


Chart 6 - DAILY DEPARTURES PER ALLIANCE BETWEEN 2007 AND 2009.

Sources: Oneworld/SkyTeam/StarAlliance (2009).

4.3 Trends of strategic alliances in the air transport sector

Developments in strategic alliances have been ongoing and seem to have reached the first development stage, given that there are still numerous aspects worthy of review, as a result of errors identified in the past, which the industry is now seeking to refine and improve.

Brueckner [15] argues that European air transport industry observers are of the opinion that the flag carrier system has introduced too many air carriers into a relatively small geographical area. A viable option is the consolidation of the European industry, with recourse to crossborder mergers, a possibility brought about by deregulation in the European Union.

If this option materialises and given that air carriers belong to different global alliance groups, new realignments will occur at corporate level, similarly to KLM and Northwest, founding members of the Wings alliance. With the merger in 2004 of Air France and KLM, partners in distinct strategic alliances, KLM and its partner Northwest



joined the Air France alliance, SkyTeam. The global alliance was thus consolidated by the presence of four of the major world airlines.

Dennis [16] advocates that mergers between major companies belonging to distinct alliance groups may contribute to reduce competition or monopolies in specific locations, where a few airlines hold a dominant position. The author stresses that if alliances do merge (as a consequence of the merger of companies integrating it) there may be a return to an industry where all air carriers cooperate with each other (similarly to the IATA agreement). Hence, smaller companies are more protected in terms of market access and smaller hub airports are favoured.

Average-sized cities are expected to be less served by flag carriers, given that these cannot offer the synergies of the main hubs and are exposed to competition from low-cost airlines, which in 2003 held 15% of the intra-European market. This will not occur in cities where flag carriers have a strong competitive position.

It follows that the consequences of airline alliance group strategies will have a bearing at the level of airports and local economies. The attractiveness of a city as a location to implement and carry on business depends directly on its accessibility. If regular transportation is not ensured, this may lead companies to transfer to more accessible cities in terms of air transport, thereby contributing to a rise in the region's unemployment. The commercial aircraft manufacturer Boeing relocated its head office from Seattle to Chicago, given that the latter supplied direct air transport services.

In fact, the geographical patterns of demand no longer determine the design of alliance networks; instead, the strategies developed are an increasingly decisive influence to locations for industrial development and economic activity.

Airlines have also abandoned a number of routes and are expected to continue redefining their flights according to the stance of the alliance to which they belong, so as to jointly create competitive advantages. The SAS airline operated to Hong Kong from Copenhagen. However, it changed its service in favour of Star Alliance flight connections via Bangkok with Thai Airways or via Frankfurt am Main with Lufthansa.

Dennis [16] claims that up until now strategic alliance groups continue to seek more efficient ways of organising themselves, given that the level of integration within



alliances is far from being perfect and it is likely that airlines within the same alliance continue to compete, neglecting their partners' strategies.

Even the other airline industry trend, consolidation, will happen because it is inevitable. But consolidation will happen more on a regional scale, in the United States, in Europe and later on, maybe, even in Asia. It will remain up to the strategic decisions of each individual member, if, when and how to engage into deeper consolidation.

According to the World Tourism Organisation (WTO), most flights would be served by one of the three alliances groups – mega-alliances – by 2010, if major companies achieved their goals, thus implying a decline in competition. This would entail a serious risk for passengers, if these groups decided to divide world regions among themselves, creating spheres of major influence, contributing to the weakening of non-allied competitors, and causing a rise in the value of fares.

Albers [17] defends that in the future there should be alliances between airlines and airports, as a way of responding to increased competition, for it will allow both parties to develop competitive advantages. The alliance between Lufthansa and the Munich airport guaranteed the preference in slots for the airline and a reduction in costs and risks for the airport, given that part of the investment was ensured by Lufthansa.

5 CONCLUSIONS

Today tourism is a global phenomenon with a substantial and factual economic importance in an increasing number of countries around the world. The role of air transport in the wide spreading of the tourism phenomenon is sometimes so obvious and common sense that it tends to blend in the history of aviation itself.

However, the increased competition in the air transport market stemming from the deregulation process started in Europe in the late eighties prompted a series of new actions and competitive strategies from European carriers in the past decade, such as mergers, take-overs and alliances. As a result of this process (supply shock), a new dynamic market equilibrium occurred, with increased quantities and lower prices, benefiting tourism and travel.

The air transport market is characterized by having a limited number of supply agents. This somewhat oligopolistic nature of the market implies that competitors often tend to



regard certain forms of strategic cooperation as a more efficient way of competing. The increasing number of alliances established among air transport companies in the recent past is a trend reflecting this tendency to enrol into cooperative games in an increasingly competitive industry.

The conditions for the occurrence of mega-alliances between major air companies – as well as the eventual merging of existing alliances – exist therefore in the market and will eventually reinforce over time. Airports will most probably engage also into cooperative agreements with airlines, evolving to global alliances in order to ease the competition effort and keep pace with the competitive advantages acquired.

Small market niches will probably remain to be explored by low-cost airlines, which are flexible enough (namely in terms of the cost structure) to continue to benefit from the residual demand from official carriers, apart from their own competitiveness for well established destinations. In this sense, the most efficient low-cost airlines will continue to face important sources of competitive pressure from the most consolidated airline strategic alliances, namely on what regards domestic and short distance flights.

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