

# AIRLINE ALLIANCES IN AIR TRANSPORT

Juraj Vagner

The text presents existence of global airline alliances in the world of the air transport, which are being established in order to better connection, capacity of airlines and availability of final destinations. The article provides description of the possible aspects of cooperation within airline alliances in general and specific forms of cooperation within existing alliances. Possible pros and cons of cooperation in airline alliances are analysed, too.

**K e y w o r d s.** air transport, airline alliances,, Frequent Flyer Program, Sky Team, One World, Star Alliance

## 1 INTRODUCTION

Alliances of air transport operators, at this time, are one of the most popular forms of cooperation, which leads up to the supply globalization and distribution of air transport services between more airline operators.

This is the trend, which continues constantly and is forced by effort to achieve economical benefits and strengthen economic balance and competition of airline operators associated in the alliance, and an effort to negotiate capital regulation restrictions. The onset of liberalisation and deregulation of world air transport and resulted changes in international legislation, but the pressure of increased competition in air transport afforded opportunity for alliances establishment. One of the main ideas of alliances establishment is possibility of transport to all parts of the world, the global coverage and the global alliance resulted from it. The principle of global alliances consists in the airline operators' connection, where each operator provides its own services in specific part of the world or region and interlocks each other. Optimum is minimalization of competitions, but this condition in practice is only part of performance.

## 2 HISTORY OF GLOBAL ALLIANCE COOPERATION

In the early 90's some theories appeared about next five to ten years all companies, which will not part of some alliance will defunct, because they could not compete. Since this time on the alliances have been established and abolished and despite their strong influence it can't be said that there was no space for functioning of independent companies. One of the arguments is cardinal

expansion of some non-integrated companies (for example the Emirates), just like the fact that some classic airliners decided to maintain successful way of bilateral alliance connections development, which brings bigger freedom of choice.

Excessive ambitions of some companies' top management in field of alliance cooperation appeared to be fatal by time – for example, Swiss airline operator Swissair, whom bankruptcy caused collapse of Belgian company Sabena, where 49 % of stocks belonged to Swissair. The main source of Swissair problems was in its long term unreal ambitions to create own independent capitally connected alliance of air transport operators Qualiflyer, despite of fact that Swissair had neither strength nor national market to make such a step. For all that, Swissair had bought small airlines since 1997 and was creating trade agreements with very heterogeneous group of other air operators. Thus, it got in financial troubles and was unable to cover its own liabilities and the ones of newly acquired companies.

Other example of creation of airline alliances is new and, for this time, deficiently verified phenomenon, is the breakdown of very ambitious global alliance project Wings. The main cause of breakdown was the conflict between two members KLM and Alitalia. Deficiently assigned and later badly functioning relations of both sides was the sole cause of this conflict. Decision of alliance cooperation must be resulted from the real appreciation of each airline's abilities and position and potential gains in the global alliance. Accession to one of the alliances, in spite of attractive and gain promising business, is not a guaranty of really increased results. Very important fact is that the mere existence of airline alliances does not cause generation of new demand.

### 3 PRINCIPLES OF ALLIANCE COOPERATION

The scope and depth of cooperation in all alliances is different, basically, there are some fields, which are described in next paragraphs.

#### 3.1 Timetables coordination

Alliance partners harmonise the offered capacities on the main destinations. This harmonisation increases economical results of each airline. The transport abilities offered for passengers are optimized, as they can make use of all possible airlines within one alliance. However, the advantages offered by one airline operator can remain untouched (bargain prices, FFP bonus, check in for whole trip in the first departure point etc). Operating expenses can be decreased by coordinating capacities.

#### 3.2 Reservation and checking systems unification

Access to all information about reservations is enabled. Passenger will get help from any alliance partner and all of alliance companies can handle them like their own client.

#### 3.3 Consecutive prices of alliance's destination offer

In the basic combination of two operators' tariffs, the sum price is always very high, resulted from traditional rules. That is why partners within the alliance should negotiate the so-called point-to-point prices, which are lower. For instance, flights from Europe to Australia are provided by two airline operators within alliance cooperation with transfer in Asia.

#### 3.4 Common Frequent Flyer Program (FFP) creation

The majority of airline operators is operating their own FFP to ensure loyalty of own passengers. Very important effort of each alliance is creation of own FFP, or allow all alliance companies use FFP advantages of each airline operator between each other for their clients. Passengers are awarded for their loyalty by using the services of any alliance member. By this way, attractiveness of the FFP for passengers is increasing rapidly.

#### 3.5 Alliance cooperation by additional services for passengers

In the field of providing services, for example priority check-in, priority reservation confirmation, allowance for special waiting lounges using, discount in selected hotels accommodation or services of some car rentals.

#### 3.6 Fleet and maintenance capacities unification

In the more advanced types of alliance cooperation there is an effort to unify fleets, what can bring maintenance specialization and common usage of personnel (pilots, cabin crew, and maintenance staff – especially rotation of replaceable components). The final results can be in decreased operating expenses.

#### 3.7 Integration and sharing other activities

This is about sharing support activities in the air transport process, for example: common marketing, common sales offices, catering, handling etc. The next possibility can be the integration of miscellaneous development activities.

## 4 MAIN AIRLINE CONSORTIUMS

Nowadays, three main consortiums of airlines operate with various forms of collaboration. These are Star Alliance, Sky Team and One world.

#### 4.1 Star alliance

In year 1997, a group of five airlines (Air Canada, Lufthansa, Scandinavian Airlines System, Thai Airways a United Airlines) joined in order to create something unseen – alliance that brought common networks in domain of check-in services, access, air tickets and other services, which serve to improve and achieve higher level of comfort in travelling experiences for all customers. Alliance's main headquarters is located in Frankfurt am Main, Germany. It consists of 21 worldwide airlines and 3 regional airlines. Globally the alliance offers more than 19 700 flight per day into 1077 destinations in 175 countries. The member companies transport altogether some 603.5 million passengers every year. A bulk of 458 817

employees ensure provision of services, and the fleet is composed of 3993 airplanes. In the year of 2007, Star Alliance was proclaimed the best alliance in Business Travellers Awards.

#### 4.2 Sky Team

Sky Team is an alliance of airlines from various countries. It is the second biggest aeronautic alliance in the wake of Star Alliance. Sky Team was founded on June 22nd 2000 by airlines Aeromexico, Air France, Delta Air Lines and Korean Air. Main headquarters of this alliance is situated in Amsterdam, Netherlands. All in all, the alliance offers more than 13 133 flights a day into 905 destinations in 169 countries. Approximately 384 million passengers are transported every year by member airlines. Providing of alliances a service is daily ensured by 316 445 employees and airplane fleet that consisting of 3140 aircraft.

#### 4.3 One World

The One World started its operations on February 1<sup>st</sup> 1999 by collaboration of airliners such as the British Airways, American Airlines, Canadian Airlines, Cathay Pacific Airways and Qantas Airways. From this date on, airlines cooperate on miscellaneous improvements aiming to gradually raise the quality of services and preferences. The managing company resides in Vancouver, Canada. In 2007, alliance got expanded by entering of Japan Airlines, Royal Jordanian and Malév Hungarian Airlines as member operators. Nowadays, alliance One World flights into roughly 727 destinations in 142 countries. It performs almost 9000 flights a day, thus making together more than 330 million passengers in combined fleet of over 2200 planes. It is the only alliance, which has full connection to Qantas airline and also the only one having a member settled in region of South America (LAN Airlines). In 2007, member of this collaboration earned 7,8 billion US dollars compared to loss of 2,2 billion dollars at Star Alliance and deficit of 7 billion dollars at Sky Team. Today the consortium consists of 11 proper member airlines and one airline is anticipated to enter One World.

One World was elected the world best airline alliance in years 2002, 2004, 2005 winning the Business Traveller Awards and proclaimed the leading alliance of airlines seventh time in a row in 2009 World Travel Awards. One World is the 3rd biggest airlines alliance with Star Alliance and Sky Team. Member and associated airlines cooperate in order to offer integrated services for the most part by way of using usual terminals and by standarding system of loyalty programs. This alliance, in spite of being probably the smallest one, is up-to-date and especially in economic thinking. They realized that being in alliance doesn't mean only to have right timed and organized flights, but also that they can accomplish more as a group. For instance at buying airplanes they can save more money when they order on a larger scale.

## 5 ADVANTAGES AND DISADVANTAGES OF AIRLINE ALLIANCES

Joining of airlines into alliances brings pros and cons for each entering corporation, but also for the alliance itself. This can't be always recognized in advance, but have to be taken into consideration.

### 5.1 Advantages of membership for airline

Marketing preferences represent the main source of contribution from being member in some of global alliances at the present time. Along with onward liberalization of air transport, it is anticipated that advantages would expand into different areas, for example:

- Acquiring market dominance by coordinating flight systems by increasing frequency and favouring bid of prices
- Organizing global marketing shares
- Ensuring high standard of services in the whole alliance network
- Increasing efficiency of loyalty program
- Enabling, particularly the smaller members, better access to the market dominated by larger alliance partners.

- Opportunities for centralized purchasing of airplanes, fuel, catering and aviation equipment maintenance.

## 5.2 Disadvantages of membership for airline

Naturally, membership in global alliance has its dark side, too. Among them are mostly potential increases in overhead expenses (costs of alliance management and coordination); high expenses for unification of processes and IT systems inside the alliance; delay some decision-making processes; risk of degradation to the image of all alliance members in case of problems (accident, financial instability, other negative publicity) of one of the members; coordination of departmental pressures a effort to balance conditions to maximal level in alliance. Membership in global alliance most probably worsen the position of an airline when extending bilateral cooperation with airlines that aren't members of the global alliance (members of other alliance) – an example can be Lufthansa's resignation from lucrative cooperation with CSA, mainly caused by entry of the CSA into Sky Team alliance.

## 5 CONCLUSION

At a glance, alliances don't differ from one another, only in their inner structure, business-operation strategies; therefore also their priorities when realizing various ideas are quite different. For instance, in the Star Alliance there apparent efforts to gain as many airlines as possible; the managing team is detached and it is not staffed by exclusively of member airlines employees. And, vice versa, the Sky Team alliance has the philosophy of cooperating only within the alliance membership and also adheres to the principle that final number of members should be limited between 12-15, thus helping management to higher when deciding about introduction of new elements into their activities.

## BIBLIOGRAPHY

- [1] PRŮŠA J a kol.: Svet leteckej dopravy, Galileo CEE, 2008, ISBN 978-80-8073-938-6
- [2] <http://cz.skyteam.com/news/facts/index.html>
- [3] <http://www.oneworld.com/>
- [4] <http://www.staralliance.com/en/>

## AUTHOR ADDRESS

Juraj Vagner Ing., Technical University of Košice,  
Faculty of Aeronautics, Department of Flight Training,  
Rampova 7, 041 21 Košice, Slovakia,  
E-mail: [Juraj.Vagner@tuke.sk](mailto:Juraj.Vagner@tuke.sk)