

Managing Strategic Airline Alliances by Birgit Kleymann and Hannu Seristö

In their book, Kleymann and Seristö analyze a rather new phenomenon: airline alliances. In eleven chapters, they discuss various aspects of managing strategic airline alliances, such as their characteristics, marketing options, success and failure factors, and even strategic options for independent airlines. Here is a short summary of the book.

By Neil Gouw

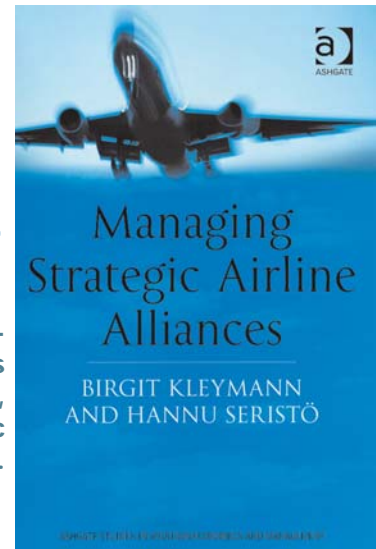
Chapter one describes the characteristics of the airline industry and alliances. It covers the usual topics, such as the history of air transport regulations around the world, the three generic strategies available to airlines (growth, lowest costs, or focus), the different types of alliances between airlines (i.e. codesharing or joint ventures) and the benefits from economies of scale, of scope and of density. After those, the authors delve into several interesting topics, like the two economic characteristics of the airline industry: the high sensitivity of airline cost structures to external factors (such as fuel prices, wage levels and demand) and the high entry barriers to most markets. Furthermore, Kleymann and Seristö distinguish three types of airlines: the Local Champion (i.e. Finnair or SAS), the Long-Haul Carrier (i.e. Air New Zealand or South African Airways), and the Global Connector (i.e. Lufthansa or Singapore Airlines). These types are used throughout the rest of the book. Another interesting topic in the first chapter is the degree of alliance integration and the formality and scope of alliances. They close the chapter with explaining the differences between portfolios of bilateral agreements and multilateral alliance groups, as well with a summary of failed alliance groups and mergers.

The second chapter's main theme concerns the objectives for alliancing, which can be divided into three categories: market-offensive, market-defensive and efficiency-seeking objectives. Each airline has different objectives to form alliances. Local Champions, for example, primarily have market-defensive objectives,

whereas Global Connectors have market-offensive and efficiency-seeking objectives.

Chapter three looks into the dynamics of interdependence. Airlines in an alliance are intertwined and their actions will affect each other. In order to develop the alliance, airlines should relinquish a certain amount of authority to a joint governing entity. The key, however, is to retain the capabilities to survive in case the alliance dissolves. An airline should therefore have acquired certain assets to make it more attractive to potential new partners, or to allow it to be able to survive for a limited amount of time. These assets could be core resources (i.e. dominance of a hub airport, or a large share of a certain market) or linkage resources (i.e. FFP or CRS).

The authors also held interviews with airline managers. The outcomes of these interviews are discussed in chapter four. First, there seems to be no clear recipe for cooperation, since a high number of interviewees mentioned alliance implementation problems. However, although managers do not question alliances as such, it cannot be concluded that airlines are fully embracing alliances. On the contrary, they are considered a necessary evil. Furthermore, when it comes to cooperation, managers will ultimately favor their own airlines in tight situations. There seems to be an 'us-and-them'-mentality among cooperating airlines. At the same time, those same managers made perfectly clear that their airlines are independent units within their respective alliances, with their own corporate cultures.



Airlines that have not (yet) joined an alliance are categorized as independent airlines. Chapter five of the book looks at the strategic options these independent airlines have in order to compete with alliances. Generally speaking, the independents have the same strategic options (mentioned in chapter one) as any other airline: growth, focus and lowest cost. One of the options in the growth-strategy is external growth, which means joining an alliance. Any other option is a viable one for independents. They could focus on a particular customer segment (i.e. business travelers) or on a particular geographic area (i.e. Southern Europe), or they could adopt the lowest-cost strategy.

The marketing aspect of alliances is touched upon in chapter six. Alliances today are primarily marketing alliances. Airlines have spent huge amounts of money on marketing. However, alliances are still unpredictable and unstable. Airlines should therefore be careful putting too much emphasis on the marketing efforts.

How do strategic alliances affect performance? Chapter seven provides us with an answer to that question: it is hard to exactly determine to what extent joining an alliance will affect one airline's performance. Research based on data from 1985-1996 shows that profitability rises by an average of 0.3 percent when joining/forming an alliance. However, there are other soft improvements when joining an alliance, but it is difficult to determine their direct impact on financial results.

Chapter eight lists what financial ben-

efits alliance partners can extract. There are three sources of financial benefits: market-presence related benefits, resource-utilization related benefits, and learning of new and improved practices. Market-presence related benefits are gained because of, for example, a larger catchment area or of higher yields. Resource-utilization related benefits can be accrued, for instance, from high aircraft productivity and from lower costs of procured goods and services (primarily from labor costs). Learning of better practices is an indirect source of benefit, because the end results are financial benefits, either through better utilization of revenues (better productivity) or through higher revenues.

The challenges that a federation governance faces are discussed in chapter nine. Each alliance type has different challenges, such as giving up too little or too much authority. The authors distinguish four basic types of multilateral alliances. In a Type I alliance, each firm in the group has some sort of alliance agreement with every other firm. In a Type II alliance, there are two or more leading airlines that cooperate, while they are fed by smaller carriers (i.e. KLM-Northwest before the accession to SkyTeam). A Type III alliance is an alliance group that already has a structure which belongs to the group, but to no one member alone, comparable to a confederation. A 'forum' acts as a meeting place to maintain a certain uniformity, but every airline is still an independent firm. A Type IV alliance is the most hierarchical alliance in that here members relinquish a significant degree of authority to the alliance group itself, comparable to a federation. A central body is established that 'rules' the member airlines.

The penultimate chapter of the book sums up success and failure factors of airline alliances. Major reasons for alliance failures include: wrong partner selection, overly optimistic expectations, lukewarm commitment, poor communication, undefined roles, loose agreement, little relationship building, weak business plan, lack of alliance experience, and different partner styles. The most important determinants of success for strategic airline alliances are: understanding one's own and other firms' premises and objectives for the alliance, finding suitable partners, building an efficient structure for alliance governance, a certain degree of integration and trust, the

organization's commitment, ensuring a flow of information, performance evaluation, and managing cultural differences.

In the final chapter, the authors take a look into the future. They see three different scenarios: the first scenario is in which the industry will be restructured: mergers and acquisitions are allowed, a few alliances around mega carriers dominate global competition, there is no governmental interference and national identities of carriers are sacrificed. Another scenario is called 'turning back the clock': alliances disintegrate, there is more government control and support, small carriers survive only through government subsidies and national interests are emphasized. The most likely scenario, however, is the third one: slowly lessening regulation, gradually less government interference, three or four major airline groups, more niche carriers, national identity is guarded, and a steady growth of demand.

Reviewer's comments

Overall, the book was very interesting to read, as I have a background in strategic management and in marketing management. I particularly liked the fourth chapter, in which parts of the interviews the authors held with airlines managers were quoted and analyzed. It really gave an in-depth and behind-the-scenes perspective of the current alliance game in the airlines industry. I also liked the comprehensive approach of the book: all (if not, a lot at the very least) strategic options are mentioned and discussed for both independents as well as for (aspiring) alliance airlines.

The major shortcoming of the book is actually already mentioned in the book itself: the airline industry is a fast-paced and ever-changing industry. So it is not hard to imagine that the novelty of the book quickly wears off within one or two years already. For example, Japan Air Lines is used several times as an example of an airline that prefers bilateral agreements rather than joining an alliance. However, just a couple of weeks ago, a press release by JAL announced that the airline will soon join the oneworld alliance. Also, since the book was written in 2003/2004, the authors were clearly still in doubt whether to include KLM in the SkyTeam alliance (the merger between Air France and KLM was mentioned in the book), or to list the now-defunct 'Wings'-alliance as a

fourth 'major' alliance.

Furthermore, I missed a perspective from the aircraft manufacturers on airline alliances. We can safely say that Boeing and Airbus dominate the aircraft market and that they therefore have a certain leverage in the decision-making processes of airlines when it comes to fleet optimization and/or fleet synchronization. What if a few leading airlines in the alliance stick with Airbus, while the other airlines remain loyal to Boeing? Can either aircraft manufacturer persuade an entire alliance group to switch to one manufacturer?

In conclusion: I find the book very interesting to read, despite several shortcomings. It gives you a clear understanding of where the airline industry currently is at, and where it might go from here. Anyone who is interested in both strategic management and in aviation should read this book now, before it gets out-of-date.

About the authors

Dr. Birgit Kleymann is Senior Assistant Professor of Strategy and Organization Theory at IÉSEG School of Management, Université Catholique de Lille, France. In addition to assignments with airlines in Europe and South America, she has worked in internal consulting for a multinational manufacturer of transport equipment and as a sales executive for a manufacturer of transport aircraft. She holds a Private Pilot License and is a Certified Aircraft Dispatcher.

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About the reviewer

Neil Gouw has joined the Airlines editorial team winter 2004/2005. His link with Airlines dates back to the academic year of 1999/2000, when he was the treasurer on the board of Aerius. Neil holds a master's degree in Business Economics.