CHAPTER 6

AIRLINE BUSINESS STRATEGY

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Airlines are notorious for providing lower returns on investment when compared with other corporations. As a result, airline executives implement business strategies aiming to obtain higher than normal financial returns. With the liberalisation process that airlines have enjoyed around the world, some carriers have been quite creative in fostering new approaches in terms of their business models, product differentiation and cost reduction. In addition, because of the international multiple-business related nature of airline operations (which includes aircraft manufacturers and maintenance, distribution channels, and airport logistics), these characteristics make airline strategic management a very complex exercise. A number of approaches have been used to explain strategic issues related to airlines. One of them is Shaw's (2011) application of Porter's classic Five Forces model to the airline industry, a framework for analysing competitive forces, for instance, rivalry, substitution, new entry, power of customers, and power of suppliers. Scholars have also focused their attention on analysing airline strategic decisions relating to a number of managerial issues, with a particular emphasis on mergers and alliances (Gudmundsson and Lechner, 2011; Iatrou and Oretti, 2016).

This chapter is structured into four main sections. The first one provides some generic strategies. The second section focuses on airline differentiation strategies and niche products, mainly charter and leisure carriers. The third section tackles growth strategies, examining the four distinct strategies proposed by Ansoff's Matrix: market penetration, product development, market development and diversification. The fourth section considers different strategic growth methods, including organic growth, mergers and acquisitions, industry cooperation, franchising. In order to illustrate these concepts, examples from airlines around the world are discussed. The chapter concludes by extracting from this discussion lessons that can guide future trends in the airline industry.

Generic strategies

The deregulation of air transport in different parts of the world has resulted in airlines becoming more susceptible to the pressures of competition. Before deregulation, the industry was predominantly characterised by a wide network of destinations where passengers flew in comfort and luxury. Airlines operating in that environment projected a brand associated with status, perks and, as a consequence, an expensive product affordable only to a few. This business model is traditionally called the full-service network carrier (FSNC). In contrast, in most countries, the deregulation process resulted in the flourishing of airlines, operating with diverse business models. The most common airline business model following deregulation is the low-cost carrier (LCC). LCCs try to focus on providing an efficient and punctual service while eliminating unnecessary costs and perks, offering only the basic elements required for a safe flight. As a result, LCCs are associated with low airfares. With the airline industry maturing in the deregulated environment, new airlines are entering the market, based on a variety of business models that fall between the traditional FSNC and the emerging LCC models. These new airlines

are usually called hybrid airlines (Corbo, in press). This section defines in more detail the various airline business models, providing examples from well-known airlines.

Prior to the first airline deregulation process that took place in the USA during the late 1970s, most airlines operated as FSNCs and were usually government-owned enterprises. Governments viewed these airlines as vehicles for advancing their national interest, flying either domestically or internationally. They were also called national or flag carriers. Examples include Air France, Air New Zealand and British Airways, which operated under some form of legislative protection as part of their respective national governments. With the wave of privatisation in many countries around the world during the 1980s, in large part due to financial pressures on governments to focus on core activities, many governments sold their stakes in their airlines, with British Airways being among the first to be privatised in 1986. Air New Zealand was privatised a few years later, in 1989. The 1990s were characterised by the emergence of a new competitive threat in the form of LCCs, while the 2000s saw airlines operating in an environment with record high fuel prices, increasingly stringent security measures, an overcapacity of airline seats and intense competition in almost every domestic and international market.

One of the key characteristics of the FSNC model is the hub and spoke network, with routes concentrated on one or more major hubs that connect the rest of the network using radiating spoke services. A number of FSNCs have taken this approach to a global scale by joining strategic alliances offering code-share and interline ticket agreements to connect hundreds of destinations in dozens of countries. Hence, global marketing and distribution alliances such as Star Alliance, oneworld and SkyTeam were formed.

Because of the superior product offered by FSNCs, these airlines predominantly target the corporate and government sectors as well as individuals who are frequent flyers and are prepared to pay a premium fare for air travel. These airlines offer loyalty schemes such as frequent flyer programs (FFPs) to enable their frequent passengers to collect and redeem points for free flights and other products and services. FFPs often offer partnerships such as with other airlines, banks, mobile phone companies and retailers who buy frequent flyer points and use them to reward customers for their loyalty.

LCCs started with Southwest Airlines in the USA in late 1970s, then proliferated into Europe in the 1990s and to most countries in the world in the 2000s. LCCs have become well established, particularly in domestic markets and also in the medium-haul international markets, notably in Europe, Asia and Australasia. Establishing long-haul LCCs has proven to be a very difficult exercise, considering the challenges of providing sufficient comfort required by passengers flying more than nine hours and of working out the complex logistics approach required to set up such operations (Whyte and Lohmann, 2015a). Whilst there are some features common to all airlines deploying the LCC model, the sector is not homogenous with carriers modifying the model according to their location and market. LCCs generally opt for a single-class service with a narrow seat pitch, basic terminal facilities without the use of air-bridges if possible and fast turnaround times in order to increase the utilisation of their fleet. A number of LCCs have unbundled the air travel product to its bare basics, making passengers pay for any extra product or service. Examples include requiring passengers to pay for selecting pre-assign seats, in-flight meals, entertainment and checked hold baggage.

In order to resist the LCCs' attempts to penetrate the FSNC market, a number of FSNCs have tried to establish their own LCC subsidiary. However, several attempts to establish low-cost carrier-within-a-carrier strategies have resulted in unprofitable businesses because of the inability of FSNCs to foster a truly LCC organisational culture within their established subsidiaries (Whyte and Lohmann, 2015b). Successful examples include Jetstar and Scoot established respectively by Qantas and Singapore Airlines, while cases of failed attempts include British Airways' Go Fly and United Airlines' Ted.

As airlines continue to mature in a competitive and deregulated environment, not only have traditional FSNCs departed from their established models, but LCCs have also developed variations in terms of picking and choosing attributes from both FSNCs and LCCs (Klophaus et al., 2012). The challenges of defining these new business models as either FSNCs or LCCs has led to the establishment of hybrid airlines (Whyte and Lohmann, 2016). Jetstar, for example, takes advantage of its parent airline Qantas to blend low-cost traits with FSNC product differentiation, including operating from major airports, seeking route expansion beyond short-haul operations and using travel agents and other commissionable sources as a distribution channel (Whyte and Lohmann, 2015b). Customer relationship marketing (CRM), including the introduction of FFPs, has been implemented to win repeat business. UK-based LCC easyJet, for example, now offers optional extras such as speedy boarding and the use of airport lounges, while New York-based JetBlue has broadened its route portfolio and introduced new products to attract higher-yielding passengers. Its premium intercontinental product Mint offers lie-flat beds, thereby arguably having more in common with a traditional FSNC product than a LCC product. At the same time, FSNCs have started charging for certain perks that in the past were free such as checked bags and complimentary hot meals.

With FSNCs and LCCs becoming increasingly indistinguishable, separating their differences is less obvious making a re-evaluation of how both models are classified timely (Lieberman and Asaba, 2006; Bell and Lindenau, 2009). Homogenization of the business model has been taking place through two principal methods. In the first, imitation takes place where firms mirror each other's strategies to avoid falling behind. In the second, market convergence, the previously blatant differences between FSNCs and LCCs (e.g. relating to pricing, product offering, fleet and network design) are blurred, moving to the mainstream middle and offering products and services that are a lot more similar. Within the two mainstream business models, there is a myriad of airlines utilising the best of each model, differentiating themselves through labour costs, fleet structuring or even creating a subsidiary to realise profitable gains.

In order to better represent this new reality, academics such as Daft and Albers (2013) and Lohmann and Koo (2013) proposed a spectrum where airlines can be classified in terms of their business models in a simple one-dimensional proposition. Using data from airlines based in the US from 2008 and 2009, Lohmann and Koo (2013) mapped out the airline business spectrum of nine US airlines (AirTran, Alaska, American, Continental, Delta, Hawaiian, JetBlue, SkyWest and Southwest). The results of this study, based on six different indices (see Table 1) show that carriers such as AirTran and Southwest were placed closer to the LCC model whereas firms such as American and Delta were shown to be closer to the FSNC model. While these results only confirm the overall perception of these airlines business models, the ability to spot airlines in the

middle of the spectrum, or the so called hybrid airlines, is of value, notably visualising the position of JetBlue, SkyWest, Hawaiian and Alaska along the spectrum. Also valuable is the opportunity to dissect how all airlines perform in terms of each of the indices used. A subsequent similar study updated these results by examining the managerial and operational indices of US carriers in the years 2011-2013, focusing on the results of post US carriers' mergers and the Global Financial Crisis (Jean and Lohmann, 2016). Evidence from this more recent study suggests that US carriers that went through a merger process came out with a stronger position towards FSNCs. With the exception of SkyWest, the remaining four airlines (American, United, Delta and Southwest) all increased their Revenue Index towards the FSNC end of the spectrum. Three airlines (American, United and Southwest) increased their average index in terms of connectivity (impacted by factors such as average daily departures per airport, total number of destinations served and average sector miles), with market growth occurring from merger expansion. As FSNCs are primarily identified in this study through their revenue and connectivity indices, Southwest, post-merger with AirTran, respectively had a 22 and 23 per cent increase towards the FSNC end of the spectrum. Prior to the merger, Southwest operated a single fleet type but with the merger moved to a multiple fleet type. This caused a shift in their corporate strategy where Southwest increased its position along the continuum by 4 per cent. This pattern suggests that post-merger, there is a tendency to shift towards the FSNC model with an increase in their overall operations and corporate size.

Table 1. Averaged benchmarked values for the six indices (2008-2009).

	AirTran	Southwest	JetBlue	SkyWest	Hawaiian	Alaska	Continental	American	Delta	<i>SD</i>
Revenue	0.19	0.32	0.26	0.46	0.50	0.61	0.66	0.67	0.83	<i>0.21</i>
Connectivity	0.27	0.47	0.47	0.56	0.61	0.48	0.53	0.66	0.72	<i>0.13</i>
Convenience	0.70	0.58	0.83	0.27	0.35	0.40	0.61	0.61	0.41	<i>0.18</i>
Comfort	0.31	0.56	0.40	0.65	0.21	0.71	0.57	0.56	0.54	<i>0.16</i>
Aircraft	0.37	0.23	0.24	0.59	0.60	0.41	0.51	0.79	0.73	<i>0.20</i>
Labour	0.14	0.36	0.38	0.17	0.54	0.55	0.79	0.83	0.71	<i>0.25</i>
<i>SD</i>	<i>0.20</i>	<i>0.14</i>	<i>0.22</i>	<i>0.19</i>	<i>0.16</i>	<i>0.12</i>	<i>0.10</i>	<i>0.11</i>	<i>0.15</i>	
<i>Average</i>	<i>0.33</i>	<i>0.42</i>	<i>0.43</i>	<i>0.45</i>	<i>0.47</i>	<i>0.53</i>	<i>0.63</i>	<i>0.65</i>	<i>0.66</i>	

Source: Lohmann and Koo (2013).

Airline differentiation strategy and niche products: charter and leisure carriers

Among the various airline business models, one that has operated in a much less regulated environment is that of charter, non-scheduled services. Buck and Lei (2004, p.73) define charter airlines as predominantly serving "leisure routes [...], carrying clients for tour operators [with a particular focus on the...] seasonal, locational and event-specific nature of leisure tourism [, enabling...] charter air services and travel companies to achieve economies of density [... to...] reduce passenger unit costs". While charter airlines operate all over the world, Europe, in particular, has provided a perfect regulatory and socioeconomic environment for this type of differentiation strategy. Charter flights are particularly well suited to flying the short international routes that service the seasonal market of European sun-seekers, most notably the wealthier markets such as the British and German travellers (Lobbenberg, 1995). In both countries, very large tour operators have established their own charter airlines, with successful operations from companies such as First Choice and Thomson in the UK that belong to the German TUI Group and are expected to operate under the single TUI name by 2018. Perry (1994) has mapped out a number of mainstream and niche airline operators flying for tour operators, including: (1) very large mainstream charter airlines, some of which fly to dozens of destinations worldwide; (2) small in-house airlines operating a handful of aircraft; (3) non-aligned or less-aligned airlines that serve high-quality niche markets for smaller tour operators requiring an out-house carrier; (4) wholly owned charter subsidiaries of FSNCs; (5) specialist niche operators focusing on small aircraft targeting less-popular and non-mainstream destinations; and (6) seat-only level brokers and specialists booking predominantly foreign carriers, particularly during the peak season.

The air inclusive-tour industry's success in using charter flights is attributed to the ability of operators to control the distribution channels, either through physical stores (still predominant in the UK even in the current age of electronic distribution channels) or online reservation systems. This provides them with buying power, used against smaller accommodation providers based in less-developed countries in Europe or overseas and a deregulated air transport environment fostering the flourishing of a myriad of different types of airline business models (Evans, 2001a). In a number of countries, charter flights have also been offered in isolation from other tourism products, nearly competing with LCCs in the budget leisure travel segment.

Charter airlines have a number of different operational strategies in comparison to traditional carriers. One example is that while LCCs ground their airplanes during off-season periods, holiday charters opt to outsource their fleet through wet lease arrangements (i.e. when an airline leases an aircraft to another airline or business broker also offering complete crew, maintenance, and insurance). de Wit and Zuidberg (2016) report that LCCs such as Ryanair, ground at least 20 per cent of its aircraft during their winter season.

Growth strategies

After liberalisation and deregulation of air transport markets in different parts of the world, airlines started to develop different strategies for market growth and increased profit. Some of these strategies are more commonly used by FSNCs, while others are mostly deployed by LCCs. This section discusses different strategic directions adopted by airlines, providing examples from FSNCs, LCCs and hybrid carriers.

Strategic planning is often used to set priorities, strengthen operations and ensure that companies work towards establishing goals. The strategic direction of airline companies can be successfully measured by using The Ansoff Matrix. Igor Ansoff, a Russian/American mathematician, applied his work to the world of business in order to help managers consider the growth of their business, either through existing or new products and markets (Martinet, 2010). The Ansoff Matrix is based on four distinct strategies: market penetration, product development, market development and diversification (see Figure 1). All of these strategies are used in the airline industry.

Figure 1. The Ansoff Matrix.
Source: drawn by the authors based on Ansoff (1957).

Market penetration

Market penetration is a strategy used by companies to increase their market share. It is usually used by an airline company to grow its market share by focusing on its existing markets and product range. When there is an opportunity for further growth in a particular market, market penetration is found as an appropriate strategic direction (Dale, 2016). Some of the strategies used to increase market share include more aggressive pricing policies, an increase in supply or the introduction of new products and services.

A global trend among FSNCs fostering market penetration includes the establishment of LCCs, through a carrier-within-a-carrier strategy (CWC). The CWC strategy, also called dual-brand strategy, was taken by Qantas with its subsidiary Jetstar. In this particular case, the positive results have inspired other companies to implement the same strategy. According to Whyte and Lohmann (2015b), the Jetstar model is a very basic proposition whereby the airline focuses on a low-fare market position which is achieved through direct sales, self-service, user-pay offerings, a simplified fleet structure and a lean and accountable business culture. This planned approach emphasizes a long-term, highly systematic and deterministic process of strategic planning, aiming to achieve the best fit between the organization and its environment. This strategy was implemented in an incremental way, with Jetstar emerging from being a purely domestic carrier into an international one. In the international market, the airline started by operating first to New Zealand, targeting the trans-Tasman market before purchasing wide-bodied aircraft to serve Asia and Hawaii. Jetstar also benefits from a well-established strong parent owner that has the

engineering, technical, planning, financial and marketing capabilities to support its subsidiary airline.

Despite the success enjoyed by the Qantas group, many attempts to develop a successful CWC strategy have failed as the demise of Continental Lite, Delta Express, Shuttle by United, Song, Ted, Tango, Go Fly (Go), bmibaby, Freedom Air, and many others have shown. However, CWCs have succeeded in the Asia-Pacific region, which hosts some of the best initiatives of CWCs (Pearson and Merkert, 2014). These include Singapore Airlines' subsidiary, Scoot; Malaysian Airlines' subsidiary Firefly; Korean Air's subsidiary JinAir; and All Nippon Airways' subsidiary, Peach.

Market development

The market development strategy involves offering existing products to new segments, new users and new geographies (Johnson et al., 2008). By following this strategic direction, airline companies enter new markets using its existing products. Because the success of the market development strategy is highly dependent on market research and planning, airline analysts play an important role in developing this strategy. There are numerous industry examples of successful market development strategies being employed by airline companies, including Emirates and Singapore Airlines (Lohmann et al., 2009), but also other Middle East carriers such as Qatar Airways.

By developing Dubai as an international and intercontinental hub, Emirates established an alternative to the traditional European airline hubs such as London Heathrow Airport, Amsterdam Schiphol and Frankfurt Airport. In the past, many European airlines have used these airports as gateways from smaller airports serving long haul destinations. For example, instead of flying Budapest-Amsterdam-Singapore-Sydney, today passengers can choose a more convenient route with only one stop in Dubai. In 2016, Emirates operated over 150 direct routes across six continents from its hub at Dubai Airport. Additionally, Emirates owns the largest Airbus A380 fleet in the world with 71 of these mega aircraft serving 36 destinations (The National, 2015). Because of Emirates' strategic air route planning, Dubai is heavily promoted as a destination, and thanks to the developed air route network, is a logical stopover destination for many long haul travellers.

One of Emirates' competitors, Qatar Airways, is applying a similar strategic direction by opening new international routes. As recently as 2011, Qatar Airways launched fifteen new routes, and another nine in 2012, many of which were not served by either Emirates or Etihad (Mayasandra, 2011), their direct competitors in the Middle East. Currently, Qatar Airways operates to more than 150 destinations, and with fourteen new routes starting in 2016, and another seven to commence operations in 2017 (Qatar Airways, 2016). Furthermore, a new-build airport in Doha, which is specially designed to accommodate A380 aircraft, suggests that Qatar Airways is working towards becoming the dominant airline in the Middle East (O'Connell, 2011).

Another interesting example of market development is Singapore Airline's project called Capital Express. As from September 2016, for the first time in Australia and New Zealand's history, their national capital cities will be served by non-stop flights. In fact, this route is the first

international route originating at Canberra Airport for more than a decade. The new route, Singapore-Canberra-Wellington, will complement Singapore Airline's existing network in Australia that so far includes Adelaide, Brisbane, Melbourne, Perth and Sydney, with additional flights to Cairns and Darwin service by its subsidiary SilkAir (Canberra Airport, 2016). Singapore Airlines has used a wise strategy of developing a unique route such as Capital Express to enter a new market. As it is currently the only international flight serving Canberra it has opened an unexploited market. Also, breaking the long-haul Singapore-Wellington flight into two parts allows more flexibility in terms of aircraft choice and route profitability.

Product development

The product development strategy is implemented when the company brings a new or modified product or service to the existing market. Product development can be the consequence of changed passenger preferences or a convenient way to attract new passengers and compete. This strategic direction is one of the best ways to compete with others, especially through innovation. Interestingly, some airline product development innovations can become a service standard. One of those examples is on-board Wi-Fi, which was a dream only a decade ago. Today, a number of airlines offer free Wi-Fi on-board including Emirates, JetBlue, Norwegian, Turkish Airlines, Air China, Philippine Airlines, Hong Kong Airlines and Nok Air. The convenience of having the Internet connection during the whole flight might help to attract a certain group of passengers such as business travellers who might be willing to pay extra for this service (some airlines are offering it for free). Even though this product has not yet reached its full potential, it is expected that in the future on-board Wi-Fi will be a component of regular service.

Other airlines are competing to attract different passenger segments such as families with young children. Offering family-friendly services has proven to be a win-win strategy. Not only do these passengers have higher satisfaction rates, but also do passengers travelling without children. For example, a Sydney Morning Herald poll identified crying babies as the top irritant on planes (Small and Harris, 2014). As a response to this issue, a new, free service called Air sky nanny was introduced by the Gulf Air (Gulf Air, 2016). This family-friendly product was later also offered by Etihad Airways on their long haul flights, as well as their partner company, Air Serbia, on their first long haul flight between Belgrade and New York.

As one of the world's leading airline companies, Emirates has one of its strategies to be the first airline to introduce new products (Nataraja and Aali, 2011) - something that has distinguished it from other airlines. For example, Emirates was the first commercial airline in the world to offer an inflight spa and free shower facility to first class passengers on their Dubai to Sydney and Dubai to Auckland flights operated on the A380. As a Middle East market leader, Emirates is constantly challenged to expand its market and develop new products before its competitors (McKechnie et al., 2008).

Diversification

Diversification as a strategic direction can be defined as an organization's expansion out of its current products and markets into new areas (Yashodha, 2012). It is important to mention that a diversification strategic move can be related or unrelated to its current offerings. Related

diversification is represented by the entry into a new market with a new product, which is related to the core business activity, while unrelated diversification represents the entry into a new market with a new product that is unrelated to the core business (Dale, 2016).

The most common airline related diversification strategies involve cargo; maintenance, repair and overhaul; catering; information technologies; and leisure management (Redpath et al., in press). The main aim of this strategic direction is to support passenger operations and improve the quality of existing services. A successful industry example of extended related diversification can be found in the case of easyJet, a British budget airline company and the second largest LCC in Europe according to the number of passengers carried. Established in 1995, it was the first company established within the easyGroup. Since 1995, easyGroup has expanded their business by opening new 'easy brand' companies, mainly in the area of travel, leisure, accommodation and hospitality (Rae, 2001). Today more than 60 different brands are part of easyGroup.

The Virgin Group is a noteworthy example of unrelated diversification. The Virgin group has more than 200 companies that range from Virgin Bridal Stores to Virgin Airlines. Virgin is recognised as a famous brand with travel, entertainment and lifestyle as its core business areas (Vincent, 2010). Unrelated diversification involves taking high risks and requires new operational systems and structures to be applied as a part of the strategy.

Different strategic methods

After deciding on its strategic direction, the airline will identify and adopt an appropriate strategic method. Most business studies identify the following strategic methods (Dale, 2016): organic growth, inorganic growth through mergers and acquisitions, strategic alliances, and franchising. This section discusses each of these strategic methods and its implications for the airline industry.

Organic growth

Organic growth as a strategic method involves expanding the organisation's market or products by using its own resources. In comparison to inorganic growth, where growth is achieved through mergers and acquisitions, organic growth has its own advantages and disadvantages. Some of the main advantages are full control over the expansion plan, an increase of market share and improvement of customers' retention (Dale, 2016). On the other hand, in comparison with other strategic methods, organic growth can be a slower process with a risk as competitors can apply external/inorganic growth strategies with faster results. Companies focused on the organic growth method have a great potential to accelerate sustainable innovations, but this requires well-organized top-level strategic leadership (Ronald, 2005).

The literature has identified a number of examples of organic growth strategies in the airline industry. A classical often cited case is Southwest Airlines which for over 30 years has been profitable by growing its business by meticulously expanding its network to selected destinations, while at the same time developing a very specific organisational culture (Boyer et al., 2002; Gittell, 2003; Ronald, 2005). Nevertheless, Southwest Airlines merged with AirTran in late 2014, outlining two major benefits of this acquisition: (1) access to Atlanta (the largest

airport in the USA in terms of passenger numbers); and (2) instant access to international markets in Latin America and the Caribbean operated by AirTran (CAPA, 2015).

Another successful organic growth example is Emirates. Based in Dubai, Emirates is the fastest growing Middle East carrier and one of the most profitable airline companies in the world (Nataraja and Al-Aali, 2011). Emirates has experienced a constant growth rate in terms of air fleet, number of operated destinations and flight frequency without reporting a loss since its establishment in 1985. These results have positioned Emirates as a world-leading airline company. Figure 2 illustrates Emirates' growth over its main competitors, Etihad and Qatar Airways. Emirates had an exponential growth of available seat kilometres (ASK) of 99 per cent between 2010 and 2016 (CAPA, 2016) and a 636 per cent growth in its fleet between 2000 and 2015 (Schonland, 2015). Furthermore, in the financial year 2015/2016, Emirates operated to 151 destinations from Dubai and carried 51.9 million passengers (The Emirates Group, 2016). Since Emirates is not part of any formal airline alliance nor has it pursued any mergers or acquisitions, the company's success is based on an organic growth strategy.

Figure 2. Middle East carriers annual ASKs, 2006-2016.
Source: Used with permission from CAPA (2016).

Even though Emirates is still the leading Middle East and world airline company, some business analysts predict that it has reached limits of organic growth (Galani, 2012) and that it is time to consider another growth strategy. The fast growth of its competitor Qatar Airways provides credence to the advantages of change management and the implementation of new strategies that follow the driver of competition (Dale, 2016). In 2011, Qatar Airways overtook Emirates in the

number of destinations served and has grown more than twice as fast (23 per cent) as Emirates (CAPA, 2016).

Mergers and acquisitions

Mergers and acquisitions are common inorganic strategic growth methods. Even though these two strategic directions have the same ultimate goal of effective and quick growing market share, they comprise very different processes. A merger is a strategic decision of two or more companies to combine their resources and to become one organization, while acquisition occurs when one company purchases the assets of another (Dale, 2016). The main potential issue of this strategic decision is a failure of the successful integration of the combined companies. This issue can be overcome through a well-structured operation management plan that can bring together different business philosophies.

In today's highly competitive and turbulent aviation market, mergers and acquisitions are often considered as an effective way of surviving financial crises (Merkert and Morrell, 2012) or achieving a fast recovery. Some of the key reasons for airlines to seek out a merger or acquisition are stagnation or slower growth; a limitation on growth outside the home market; getting access to slots at key airports; or network expansion (Merkert and Morrell, 2012). The US market provides a clear example of successful mergers and acquisitions where a number of airlines were saved from financial loss by taking over another airline. The study conducted by Jean and Lohmann (2016) analysed the results of eight US companies between 2011 and 2013, after the Global Financial Crisis (GFC) and after a number of mergers. Their results show that post 2009, the merged airlines' position moved closer to the FSCN end of the business model spectrum. The Revenue Index (a measure of an airline business that comprises a number of benchmarks, see Jean and Lohmann (2016) for more details) of all merged airlines (i.e. AirTran, Southwest, Continental, American, Delta) increased, except for SkyWest. Individual airlines (i.e. Alaska, Hawaiian and JetBlue) that did not merge during the post GFC period moved towards the LCC end of the spectrum.

Meanwhile, in the European aviation market, the merger between KLM and Air France is considered as one of the most important market changes. According to European Union law, a proposed merger between two or more airlines must be notified to the European Commission (Németh and Niemeier, 2012). Since 1995, when the first relevant merger case occurred (Swissair/Sabena), the point of origin/destination (O&D) approach was used by the European Commission to assess the airlines market position (Németh and Niemeier, 2012). According to this approach every combination of a point of origin and destination is considered to be a disjoint market from the customer's standpoint. During the analysis the Commission looks not only at the direct flights between two airports, but also all other different transport possibilities in that market. In the case of the KLM and Air France merger (2004), a network competition analysis was used for the first time, instead of the traditional O&D approach. The uniqueness of this merger case where Air France and KLM belonged to different global alliances was expected to create a mega-merger containing four of the world's largest airlines (Air France, KLM, Delta and Northwest) (Brueckner and Pels, 2005). This case emphasizes that the mergers and acquisitions strategy opens a door for new business cooperation such as global alliances.

Strategic alliances

Industry cooperation as a strategic direction is evident in many industries. One of the most active sectors within this strategic direction is the airline industry (Evans, 2001b). Airline alliances as a form of industry cooperation can be defined as the sharing of resources between two or more airlines, with the aim of mutual benefit, efficiency and market growth (French, 1997). The development of strategic airline alliances is strongly connected with the globalisation of tourism (Page, 2005). Even though the majority of alliances were formed after 1992 (Bennett, 1997), the early stages of alliance development go back to 1970s (French, 1997). Some of the main features of strategic alliances developed by airlines include code-sharing, joint services, joint marketing, franchise agreements and frequent-flyer benefits (French, 1997). If airline alliances are analysed from the hierarchical perspective, the main types would include bilateral form, code-sharing, joint activities, marketing alliances and open skies, with open skies as the most dynamic form of commitment (Wang et al., 2004).

As mentioned earlier, airline alliances influence not only the overall performance of partner companies, but also the tourism industry. Destinations such as Australia, which is a long distance destination from most of its potential tourism markets (apart from New Zealand), are most likely to experience the impact of alliances. Different forms of transport partnerships on a destination level play a significant role in competitive positioning (Page, 2005). The research conducted by Morley (2003) emphasised the following positive effects of airline alliances on Australian tourism: a decrease in fares; a reduction in total travel time; easier connections; more efficient marketing for Australia as a tourism destination, and more convenient air service scheduling. The recent boom of Chinese tourists visiting the Gold Coast in Australia supports this view. The benefits of new financial alliances between HNA Aviation Group, which owns Hainan Air, and also has a stake in Virgin Australia, are already visible through a 32 per cent increase in Chinese tourists on the Gold Coast between June 2015 and June 2016 (Doherty, 2016).

Franchising

Franchising is a business model method where one company grants another company the right to use its branding through a licensing agreement. The second company then sells the first company's products or services according to the rules and guidelines established by the first company. Franchising is a common practice in many industries (Price, 1997) but it is less common in the airline industry. In the USA in the mid-1980s and in Europe in the 1990s, franchising was used as a strategic response by the airline industry to the deregulation of air transport. The airline franchising model does not differ markedly from other sectors. From the European practice, one airline (the franchisor) sells to another airline (franchisee) its brand (aircraft livery and interior, crew uniforms, customer service and flight designator code), together with other intellectual property and know-how (Denton and Dennis, 2000). As in other industries, there are certain benefits and risks for both franchisor and franchisee. The main benefits for the franchisee include purchasing a well-known brand (Denton and Dennis, 2000) and gaining access to the franchisor's sales system and all additional support and training (Pender, 1999). The main benefit for the franchisor is a cheap method for extending the brand presence with minimal financial risk (Denton and Dennis, 2000). Also, there are some

disadvantages for both parties with the biggest risk that any negative or impermissible activities carried out by the franchisee will reflect badly on the franchisor's brand.

Airline franchising, like airline alliances, has substantial implications for tourism. Franchising is a successful way for FSNCs to compete with charter carriers on important tourism routes (Pender, 1999). For example, British Airways handed the majority of its Mediterranean tourist routes to its franchisees, allowing these other airlines to offer lower standards more suitable to the leisure market. Another important implication of airline franchising is present in the development of peripheral regions, which rely heavily on air transport services. Pagliari (2003) explored the case study of the Highlands and Islands of Scotland and the benefits that accrued for this region from the British Airways Express franchise agreement with BA CitiExpress and Loganair in 1994. The process of franchising these two companies by British Airways terminated the existing competition between those carriers and created a development-ready environment.

Conclusion

Strategic business decisions affect a wide range of managerial and operational areas of any airline. As discussed in this chapter, airlines have used a number of different approaches to suit their business decisions in accordance with their markets, regulations and business models. The examples provided in this chapter illustrate that in recent decades, airlines are becoming more creative in adjusting their strategies. For example, it is no longer a straightforward exercise to identify airlines as purely belonging to one of the traditional business models such as FSNC or LCC. Many airlines are adopting aspects of both FSNC and LCC models in order to become more competitive, with the establishment of individual hybrid models along the FSNC-LCC spectrum.

In terms of alliances, mergers and acquisitions, airlines similarly do not follow a one model fits all solution. While in the 1990s and early 2000s survival was associated with the airlines needing to belong to one of the major global strategic alliances, a number of the emerging players like the Gulf carriers grew independently or negotiated specific operational strategic agreements such as the one established between Qantas and Emirates. The Kangaroo route enables these airlines to feed the route between Australia and Europe via Dubai, instead of Asia. Another example from Australia is the case of Virgin Australia which has established partnerships involving, for example, code-sharing and reciprocal FFPs with several airlines in different parts of the globe (e.g. Delta, Etihad, Singapore Airlines and Air New Zealand), outside the structure of one of the main airline alliances (i.e. Star Alliance, oneworld and SkyTeam). Also, while the airline sector is far from becoming a truly multinational business across the world, new forms of mergers and acquisitions are becoming more evident, as regulations become more flexible to enable airlines to compete for markets in different regions. Airlines in the European Union can now operate without a number of regulatory constraints, while groups like Latam (created through the merger between Lan Chile and Tam Airlines) form a powerful airline in South America. Also the Virgin-branded airlines (Virgin America, Virgin Atlantic and Virgin Australia) stretch their presence in different countries. Southwest Airlines, which grew organically for many decades, has undertaken its first ever merger – with AirTran. It seems that the future ahead for airline business strategies is one of unpredictable opportunities, with airline strategic managers innovating even more in the decades ahead in the 21st century.

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