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Significance of Strategic Alliances; the Case of Airline Alliances

ABSTRACT

This article is poised to explain the significance, analyze and understand the relationships that are established between partners of a strategic alliance. The analysis conducted was modeled on the example of airline alliances. Airlines decide on operating as alliances due to economic benefits which they would not be able to reach on their own. In the result of their cooperation, these entities produce beneficial synergistic effects. It should be noted that by starting cooperation within an alliance, those entities still remain competitors. The analysis provides a comparison of three largest airline alliances: Star Alliance, SkyTeam and Oneworld. The article contains a summary of the most important conclusions of the analysis.

KEY WORDS: strategic airline alliance, air transport, consolidation, enterprise, globalization

STRESZCZENIE

Istota aliansów strategicznych na przykładzie aliansów lotniczych

Celem artykułu jest objaśnienie istoty, analiza i poznanie związków, jakie zachodzą pomiędzy partnerami aliansu strategicznego.

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W przeprowadzonej analizie za model przyjęto przykład aliansu lotniczego. Przedsiębiorstwa lotnicze decydują się na działalność w formie aliansu, ponieważ osiągają korzyści ekonomiczne, których nie byłyby w stanie uzyskać samodzielnie. W wyniku współdziałania podmiotów zachodzi pozytywny efekt synergii. Podejmując współpracę w formie aliansu, należy pamiętać, że przedsiębiorstwa współdziałają, pozostając równocześnie konkurentami. W analizie dokonano porównania trzech największych aliansów lotniczych: Star Alliance, SkyTeam oraz Oneworld. Artykuł zawiera zestawienie najważniejszych wniosków przeprowadzonej analizy.

SŁOWA KLUCZE: strategiczny alians lotniczy, transport lotniczy, konsolidacja, przedsiębiorstwo, globalizacja

Introduction

The ongoing process of globalization and the ensuing growing competition of enterprises force market participants to seek new solutions to sustain their operations and explore new markets. It should be noted that to face the challenges of a new market situation, consolidations as well as other forms of partner activity emerge. The situation on the market exerts a decisive impact on the formation of strategic alliances.

Air transport is extremely capital-intensive, and yet very competitive. In addition, the expectations of passengers of airline carriers continue to grow. Hence, strategic airline alliances are perceived as a response to that situation. Due to their specific character and great significance of air transport for the countries, airline alliances have become a common form of operation. Those alliances are extremely flexible in terms of common perception of internal policy.

Alliances have a consistent internal structure and one mechanism working in the common interest. International policy within the area of transport is by no means simple and unambiguous, as it involves large differences in state policies in the realm of strict control of the access of foreign carriers to countries airspace, and concern for their domestic market. There also is another aspect, i.e. facilitating unrestricted operation of airlines beyond the borders of their home countries. Therefore, liberalization of aviation policy facilitates removing the obstacles and barriers to conducting aviation activity, with the resultant common access to air transport via budget carriers. Joining airline alliances facilitates compliance with the set requirements stipulated by the development of economy on the global scale.

This article aims to explain the significance of relations between partners in a strategic alliance, analyzing their motives and trying to understand them. Airline alliance allows increasing economic benefits for companies due to the synergy effect.

The hypothesis set forth in the article asserts that strategic alliances enhance the economic potential of airlines. The assumed theory stipulating that cooperation of a few entities helps to reach greater benefits than if they operated on their own was verified.

The hypothesis was verified by the case study of three largest airline alliances operating on the global market. The analysis helped to visualize the dependencies among Star Alliance, SkyTeam and Oneworld.

The concept of a strategic alliance

There are numerous definitions of the strategic alliance circulated by the source literature. Nonetheless, they are ambiguous due to the specific character of such cooperation. M. Bengsson and S. Kock perceived cooperation as simultaneous competition and cooperation among the engaged competitors,[1] and even coined the term "coopetition."

The notion of an alliance can be explained either in the broad or narrow meaning of the word. In the broad definition, alliances can be joined by the current or potential competitors as well as suppliers or clients. This means that almost any cooperation may rest on the premises of an alliance. In the narrow meaning, alliances may pertain to a limited number of enterprises which become real or potential competitors.[2] Nonetheless, it should be noted that each alliance involves at least two enterprises which remain independent from the legal point of view, and yet they employ a common strategy.[3] Consequently, the enterprises cooperating within the alliance framework are competitors working to reach common benefits.

Strategic alliances are characterized by three rudimentary features:[4]

1 M. Bengsson, S. Kock, *Cooperation in Business Networks-Cooperate and Compete Simultaneously*, "Industrial Marketing Management," No. 29 (2000), pp. 411-426.

2 A. Pietruszka-Otryl, *Motywy tworzenia aliansów strategicznych przedsiębiorstw*, "Zeszyty Naukowe Akademii Ekonomicznej w Krakowie", No. 647 (2004), p. 116.

3 E. Todeva, D. Knoke, *Strategic Alliances and Models of Collaboration*, "Management Decision," Vol. 43, No. 1 (2005), pp. 123-148.

4 J. Kraciuk, *Alianse strategiczne jako sposób konsolidacji przedsiębiorstw*, SGGW, "Prace Naukowe," No. 28 (2005), p. 498.

- fragmentation—alliance agreements generally pertain solely to a fragment of activity of alliance partners, and each enterprise conducts their own business irrespective the part covered by the contract;
- transfer of assets within coalition framework: in order to deliver their common projects, partners are obliged to provide tangible and intangible assets to the alliance. These include capital, infrastructure, knowledge, competencies or skills;
- integrity: cooperation agreement is so precise that amendments to the clauses require changes to other provisions.

J. Rymarczyk lists the following features of strategic alliances:[5]

1. A wide scope: the operation of enterprises taking part in the alliance focuses on numerous market segments (the whole market or a part thereof).
2. Cooperation of alliance partners: cooperation extends over a long timeframe, and enterprises concentrate on new, or potential directions of their functioning.
3. The number of partners: deciding on common, at times conflicting interests with a large number of partners proves to be extremely difficult.

As pointed out by J. Kraciuk, alliances are characterized by a number of specific features:[6]

1. Concluding an alliance is possible after prior consent of all the parties—the consent expressed by a written contract drawn between the parties or any other form admissible by applicable law in a given country.
2. Alliances join two, or more enterprises over a precisely defined territory of operation, scope of action or a project: those enterprises remain independent from the legal and formal point of view. To become operational, the made decisions must be approved by all alliance partners. Hence, it is prerequisite to set up decision centers responsible for coordination of cooperation to assure that all partners to the alliance function properly in organizational terms.
3. An alliance allows the partners reaching the benefits derived from concentration—the partners enjoy economies of scale by concentrating their forces on activities stipulated by the agreement.
4. By cooperation within the framework of an alliance, airlines face the inherent risk of conflicting interests and divergent targets—whilst the parties remain formally independent, the major targets

5 J. Rymarczyk, *Internacjonalizacja i globalizacja przedsiębiorstw*, PWE, Warszawa 2004, pp. 203-204.

6 J. Kraciuk, *Alianse strategiczne*, op. cit., pp. 501-502.

for which an alliance was set up are agreed by the partners, only to become the common targets for the whole group.

5. Enterprises make alliances to enjoy mutual economic benefits, while retaining individual targets of each member of the alliance. The legal provisions of the contracts remain individual for each member of the alliance. It is also easy to terminate the contract at any time, which provides an opportunity to withdraw from joint operations of an alliance as well as a possibility to return to them.

In line with the analysis of the definitions furnished by source literature, it may be concluded that strategic alliances present a special legal form of contracts and coalitions between the entities operating on a certain economic market.

Each alliance must have a clearly defined objective. An overall goal for all parties to the deal is maximization of profits. The ultimate goal for alliances is reaching tangible economic benefits and strengthening market position of alliance members. It should be noted that alliances do not have to be made by companies coming from the same sector of industry. Alliance members should fairly share their knowledge, and yet, maintaining an economic and formal balance among alliance members is prerequisite for the contract to survive. Once that balance is shaken, there is an inherent risk of a takeover, either friendly or hostile, where the stronger entity seizes control.[7]

The motives for making strategic alliances

Making alliances has become more and more common. To survive on the market, the enterprises more and more often seek new lines of activity. The ongoing globalization of markets, due to the progress made in IT and communication technologies, has become one of the major reasons for making alliances.

The concept of globalization, despite its common application, has various meanings and embraces numerous aspects of economy and social life. As shown in many publications, globalization is the major factor facilitating a free flow of services, capital, labor and it influences the interaction of various social, cultural and political norms.[8]

7 J. Cygler, *Alianse strategiczne*, Difin, Warszawa 2002, p. 28.

8 H.A. Wako, *Economic Globalization, Institutions and Development.Essays on Aid, Foreign Direct Investment and Trade*, Datawyse 2018, p. 2.

Bringing the cited definition to the subject of considerations, it should be noted that enterprises must build their strategy of development and competition taking into account the current and future state of their environment, and their own potential for making use of the opportunities whilst counteracting the potential threats. As shown by the observation of the current market situation, in order to survive, an enterprise must search and enter new markets. The inherent high costs that are involved and the risk of failure indicate that a single enterprise is not able to shoulder them in full.

The ever-increasing risk of launching on foreign markets is aggravated by the growing competition. Enterprises adequately respond to the new situation on the market by deciding on operation within the framework of an alliance. Such form of cooperation allows sharing the costs and risk with the chosen partners.[9]

Airline alliances are peculiar by preserving autonomy and independence of all their members. Hence, even though partners compete with one another, they still realize common goals which could not be pursued once the alliance partners decided to operate on their own. A dynamic advancement of technology impeded the application of advanced solutions due to insufficient financial resources of enterprises. This is especially apparent in the hi-tech sectors of industry such as informatics, biotechnology and telecommunication.

The tab for launching a new version of a product can be very high. An enterprise, even if it is a market leader, may not shoulder such high costs of product development. The main determining factor propelling alliances is the fact that the costs and risks involved in the implementation of innovations are borne by a larger number of partners. Another reason for making strategic alliances is care for customers, who have increasing expectations towards quality and price of services.[10]

In light of the discussed considerations, it should be noted that global sectors are characterized by international competition, and the position of an enterprise in one country is dependent on its position in other countries.

The sectors of industry that demonstrate the greatest effect of globalization include aviation, computer industry, automotive industry, telecommunication and chemical industry. A significant feature of alliances is that each of the alliance members sustains its independence and autonomy. In other words, the members of alliances come together to reach

9 M. Romanowska, *Alianse strategiczne przedsiębiorstw*, PWE, Warszawa 1997, p. 43.

10 S. Zajas, B. Stefaniuk, *Alianse lotnicze*, Akademia Obrony Narodowej, Warszawa 2012, pp. 16-18.

common goals whilst preserving their autonomy and protecting their own interests.[11]

Strategic alliances involve both competition as well as cooperation, that is to say they are made among current or potential competitors. Hence, operation within that format requires the partners to cooperate for the duration of the alliance. It should be noted that the agendas are both explicit and hidden, short-term and long-term. The entities making alliances may be guided by specific agendas related to e.g. a geographic location. Apart from geographic location and economic premises, the agendas for making alliances include legislative differences, tourist attractiveness and national considerations.[12] Alliances, being a form of cooperation, are conducive to the process primarily due to synergy effect, i.e. the rule that says the whole is greater than the sum of its parts.[13]

The types and significance of strategic alliances within airline services sector

Similarly, to the classification observed for management, where the goals are divided into strategic targets, tactical objectives and operational goals, airline alliances are divided into strategic ones, i.e. concerning long-term targets, and tactical ones, i.e. related to the implementation of short-term goals. Long-term strategic targets are most important for airline industry. Long-term alliances are poised to optimize operations and implement core objectives over a longer period.[14] However, it should be noted that in line with the current research results, strategic alliances are more proper than tactical ones.[15]

The strategic alliance in aviation is understood as a long-term undertaking, where two or more parties operating on the international competitive market sign a contract. In this case a minimum 5-year time frame is assumed, although the duration of the contract is not determined by formal or procedural premises. Strategic agenda of such partnership aims

11 J. Kraciuk, *Alianse strategiczne*, op. cit., pp. 500-501.

12 J. Cygler, *Alianse strategiczne*, op. cit., p. 34.

13 B. Kaczmarek, B. Glinkowska, *Tworzenie grup kapitałowych i aliansów strategicznych*, Wydawnictwo UŁ, Łódź 2012, p. 5.

14 S. Zajas, B. Stefaniuk, *Alianse lotnicze*, op. cit., pp. 24-25.

15 G.R. Milne, E.S. Iyer, S. Gooding-Williams, *Environmental organization alliance relationships within and across nonprofit, business, and government sectors*, "Journal of Public Policy & Marketing," Vol. 15 (1996), pp. 203-215.

to strengthen its position with competitors, suppliers and customers whilst sustaining entity's organizational and legal independence.[16] As explained by source literature, long-term strategic alliances are not the same as short or mid-term ones, and each of them has a peculiar significance. It is considered that short and mid-term alliances provide more freedom, require lesser exchange of assets, are more stable and less prone to conflict.

Short-term alliances are poised to maximize profits over a short period of time.[17] It should be noted that if the alliance lacks long time strategic perspective, its partners are not likely to gain much. Short-term alliance contract breeds strong distrust and it is characterized by the defensive stance of partners.[18]

The criteria for functioning of enterprises should be considered in the analysis of airline alliances. Within that scope, there is a clear distinction into capital and marketing alliances. The former requires one of the partners to have a stake in the capital of another. Over a long time, horizon, control exerted on the partner to alliance is a natural consequence. A stake in capital may be unilateral or mutual. In turn, marketing alliances consist in combining marketing potential to increase competitive edge, i.e. reaching tangible benefits generated by mutual improvement of the strengths of the partners. In practical terms, it boils down to setting up projects defining common areas of operation. Joint marketing operations may involve exploitation of aircraft or planning air transport. S. Zajas and B. Stefaniuk provide the following examples of alliance contracts:[19]

1. *Blocked space* (designating some passenger seats which are then blocked for the carrier partner; in practical terms, flights are made in the livery of one carrier according to the instructions of another to carry its passengers and freight on its account).
2. *Code-share* (designating a separate flight number by each alliance partner).
3. *Pool* (it denotes a certain type of cooperation, i.e. joint flights made by the carriers with the use of their own aircraft, in line with the principle that the revenues generated by the flights will be allocated to a joint account, either in part or in full).

16 E. Marcinkowska, *Globalizacja sektora usług transportu lotniczego*, SGH, Warszawa 2001, p. 79.

17 I. Szymajda, *Konkurencja w transporcie lotniczym. Prawo europejskie. Problemy dostosowania prawa polskiego*, Liber, Warszawa 2002, p. 39.

18 M.K. Rich, *Requirements for successful marketing alliances*, "Journal of Business & Industrial Marketing," Vol. 18 (2003), pp. 447-456.

19 S. Zajas, B. Stefaniuk, *Alianse lotnicze*, op. cit., p. 25; M. Żylicz, *Prawo lotnicze, międzynarodowe, europejskie i krajowe*, Wydawnictwo Prawnicze LexisNexis, Warszawa 2002, pp. 320-322; I. Szymajda, *Konkurencja w transporcie lotniczym*, op. cit., p. 39.

4. *Joint operations* (common use of the aircraft, of one or more carriers, on joint account, with the sharing of costs and receipts pursuant to the provisions stipulated by the contract, commonly with the use of a common livery).
5. *Franchising* (the license granted by one carrier to another to operate flights which are partially owned by one carrier. The license is granted for a fee and it gives a temporary right to sell services under the providing carrier's logo).[20]

As far as marketing alliances are concerned, it should be noted that they usually refer to mutual cooperation within the broadly understood organization of flights. In practical terms, this includes booking for the passengers of airlines. The main objectives of such cooperation comprise handling, check-ins, ground technical maintenance, overhauls, operational and technical support. In some case, the cooperation extends to mutual purchase policy.

In practice, there are also multifunctional *strong alliance option* contracts which involve a strong cooperation of airline carriers. Such contracts stipulate that even though the carriers preserve their identity, they strive to create a global carrier network. Alliances are created in stages, and the carriers begin by coordinating the flight schedules so that to avoid doubling of destinations.

The next stage involves common booking systems, check-ins and loyalty programs. Once those have been unified, the carriers agree on common tariffs and carrier capacities. The ultimate stage involves cost-cutting operations such as shared investment projects and setting up purchase groups. Another example includes ceding certain operations to partners. This type of cooperation is encumbered with a certain risk once a party to the contract decides to withdraw or terminate the contract. Such practice is most common for the related parties.

In summary, the presented above types of contracts help to strengthen the position of alliance partners against other competitors on the air transport market. Joint operation within the framework of alliance allows reaching better passenger seating rates which translates into higher efficiency of connections. For companies operating within the framework of alliance, winning a passenger is the ultimate goal. It has been proved that airline alliances have remained an unbeatable form of carrier activity. A global operator, i.e. the one that can pick passengers from various destinations in the world, must ensure a trip between remote destinations where a passenger is obliged to use only his services. Previously mentioned booking systems,

20 S. Zajas, B. Stefaniuk, *Alianse lotnicze*, op. cit., pp. 25-56.

sale of tickets and check-ins facilitate travel on a single ticket stock, where a passenger checks-in his luggage at the departure airport to the final destination and receives boarding passes for all legs of the trip.

For this moment, there are some airlines which do not belong to any major alliance. Emirate airlines have always stood the ground that they do not want to be a part of any formal alliances such as Star Alliance, Oneworld or SkyTeam due to the fact that their development plans and freedom in launching innovations would be in peril, and the scope for individual agreements negligible[21]. It is presumed that the share of alliances in the aviation market will grow owing to greater economic prospects, and a better offer for the customers.

Case study of major contemporary airline alliances

At the onset of the 1990s, major airline operators realized that acting alone, they would not be able to meet all their customers' expectations. They observed that they should pull their resources to reach greater efficiency and generate economies of scale. Initially they decided on code-share contracts which proved to be insufficient over a longer period. Airlines required unified procedures, mostly IT systems, check-ins and global cooperation. These premises have become the driving factor for airline alliances.

In simple terms, airline alliance is an agreement between several or even a dozen airlines, usually from several continents, which ensures continual cooperation between the carriers. Such alliance aims to unify the passenger service system by creating, among others, common for all airlines check-in desks, coordination of flight schedules ensuring passengers a reduced waiting time for another call or having a common booking system, as well as the possibility of collecti ng prizes through loyalty programs during flights with all cooperating lines.

Currently there are three major airline alliances operating in the world:

- Star Alliance (established in 1992);
- OneWorld (established in 1998);
- SkyTeam (established in 1999).

Star Alliance™ is the first and the largest airline alliance with the global reach, providing 18,500 regular flights from 1,330 airports located in 182 countries.[22] In mid-1990s, Lufthansa, the largest air carrier, started

21 More in: https://businessinsider.com.pl/firmy/strategie/star-alliance-oneworld-skyteam-sojusze-linii-lotniczych/nwjepw2 (access: 31.10.2018).

22 https://www.airnewzealand.com/star-alliance (access: 30.10.2018).

intensifying cooperation with air carriers all over the globe. The intention and the objective of the airline was commencing cooperation and drawing up partnership contracts with air carriers on the global scale.

In the initial stage of the project, Lufthansa embarked on the policy of cooperation with airlines which demonstrated similar business policy, convergent interests, and which provided similar, high standards of service. Within the framework of cooperation with four airlines, in 1997, Lufthansa set up Star Alliance whose primary objective was to provide better service to customers around the globe. Airlines coordinated their flight schedules, which often shortened total travel time for passengers. As a result, clients within one combined flight service could change one airline from the Star Alliance group to another.

This objective was reached by ticketing the whole leg of the flight and issuing boarding passes for further flights, even if the passengers were to board the aircraft of a different member of Star Alliance. This has become the first, all-world airline alliance which allowed access to the global network of flights. The alliance facilitated shorter, flexible, reliable and trouble-free travel.[23] The alliance responded to customer needs and growing customer dissatisfaction resulting from the hassle of changing planes and tedious steps that had to be taken before switching to another carrier. The passengers were yearning for better access to waiting lounges, loyalty programs honored by numerous carriers, and short waiting time for the connecting flight. Those expectations helped to elaborate a new approach to the organization of air transport.

In the first year of the alliance, five airlines became the members and founders of the enterprise: United Airlines, Scandinavian Airlines,[24] Air Canada, Lufthansa and Thai Airways. In 2003, the alliance was joined by Polish Airlines LOT.[25] As stipulated by its charter, Star Alliance was to ensure unlimited travel experience to its clients.[26]

Currently, Star Alliance brings not just clout, but also tangible economic benefits generated by cutting costs and sharing risk. Not only is it the largest alliance, but also a paragon of strong competitive position among air carriers on the global aviation market.

The alliance groups many largest global airlines as well as smaller, regional carriers. It should be noted that each airline preserves its individual

23 https://www.sasgroup.net/en/alliances-and-partners-star-alliance/ (access: 06.11.2018).

24 https://www.sasgroup.net/en/alliances-and-partners-star-alliance (access: 06.10.2018).

25 https://www.staralliance.com/documents/20184/680657/Star+Alliance+History/7880d0ac-455c-5ee6-4832-ee69e8037ff8 (access: 02.10.2018).

26 H. Chwistecka-Dudek, W. Sroka, *Alianse. Strategiczne problemy teorii i dylematy praktyki*, Biblioteka Menadżera, Kraków 2000, p. 183.

style and cultural identity, thus bringing to the alliance wealth of variety and multicultural aspects. All Star Alliance partners strive to maintain uniform, superior safety standards and customer service care.[27]

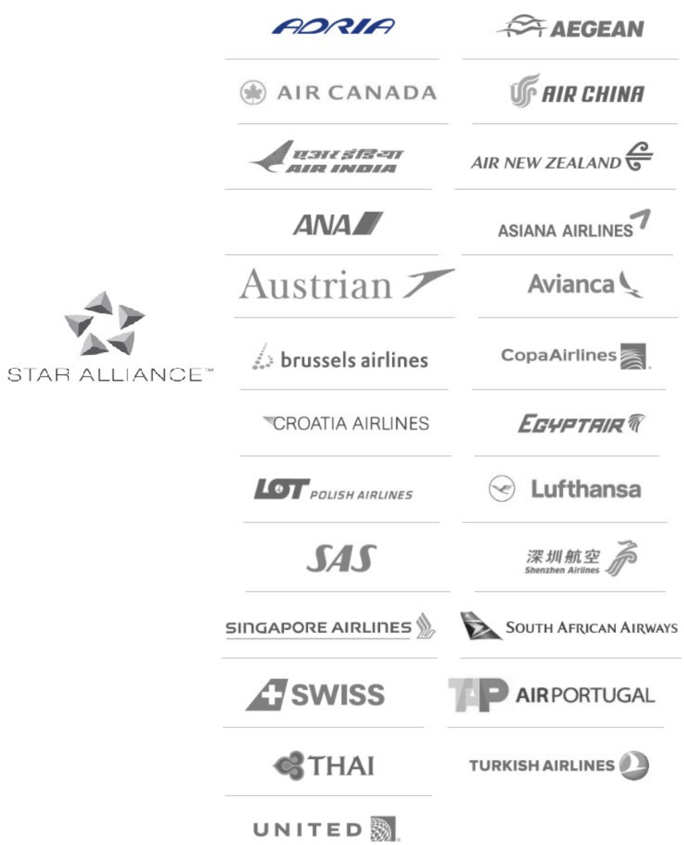
Members of Star Alliance (as of November 2018)[28]:

1. Adria Airways
2. Aegean Airlines
3. Air Canada
4. Air China
5. Air India
6. Air New Zealand
7. ANA
8. Asiana Airlines
9. Austrian Airlines
10. Avianca
11. Avianca Brasil
12. Brussels Airlines
13. Copa Airlines
14. Croatia Airlines
15. Egypt Air
16. Ethiopian Airlines
17. EVA Air
18. LOT Polish Airlines
19. Lufthansa
20. SAS
21. Shenzen Airlines
22. Singapore Airlines
23. South African Airways
24. Swiss International
25. TAP Portugal
26. Thai Airways International
27. Turkish Airlines
28. United

27 https://www.staralliance.com/en/member-airlines (access: 03.11.2018).

28 https://www.airnewzealand.com/star-alliance (access: 03.11.2018).

Figure 1. Logos of Star Alliance™ members



Source: Author's own elaboration on the basis of: https://www.staralliance.com/en/member-airlines (access: 03.11.2018).

OneWorld® is another airline alliance grouping 13 leading global airline. The carriers of OneWorld provide 13,000 flights daily to over 1,000 destinations all over the world. OneWorld® was launched in 1999 by combining American Airlines, British Airways, Cathay Pacific and Qantas within the alliance framework. Since then, the alliance extended its reach by Finnair and Iberia in 1999, LAN (currently LATAM) in 2000, Japan Airlines and Royal Jordanian in 2007, S7 Airlines in 2010, Malaysian Airlines and Qatar Airways in 2013, and Sri Lankan Airlines in 2014.[29]

29 https://www.oneworld.com/general/about-oneworld (access: 03.11.2018).

OneWorld® strategic alliance implements the vision of generating more value for the clients, shareholders and staff than other airlines which are not grouped within that alliance. The mission of the alliance includes[30]:

- making global travel smoother, easier, better value and more rewarding;
- offering travel solutions beyond the reach of any airline's individual network;
- providing a common commitment to high standards of quality, service and safety;
- delivering its airlines with savings and benefits greater than any can achieve by itself.

The list of members of OneWorld® strategic alliance includes (as of November 2018)[31]:

1. American Airlines
2. British Airways
3. Cathay Pacific
4. Finnair
5. Iberia
6. Japan Airlines
7. LATAM
8. Malaysia Airlines
9. Qantas
10. Qatar Airways
11. Royal Jordanian
12. S7 Airlines
13. Sri Lankan Airlines

30 https://www.oneworld.com/news-information/oneworld-fact-sheets/introduction-to-oneworld (access: 06.11.2018).

31 https://www.oneworld.com/member-airlines/overview (access: 03.11.2018).

Figure 2. Logos of airlines which belong to OneWorld® strategic alliance

Source: Author's own elaboration on the basis of: https://www.oneworld.com/general/about-oneworld (access: 03.11.2018).

SkyTeam ranks third among global airline alliances. It offers its clients 16,609 flights daily to 1,074 airports in 177 countries.[32] The alliance brings to the clients more flights to various destinations, with higher frequency and better air connections.[33] Global SkyTeam was set up in June 2000 by four airlines: Aeroméxico, Air France, Delta Air Lines and Korean Air. In time, the alliance was joined by some other airlines. SkyTeam plans to launch connections to every destination in the world. It offers convenient connections in Europe, the US, Asia and Africa.[34]

SkyTeam groups the following members of the alliance (as of November 2018):

1. Aeroflot Russian Airlines
2. Aerolineas Argentinas
3. AeroMexico
4. AirEuropa
5. Air France
6. Alitalia
7. China Airlines
8. China Eastern Airlines
9. China Southern Airlines

32 https://www.skyteam.com/en/about/ (access: 03.11.2018).

33 http://nph.ceair.com/muovc/main/en_HK/Static_pages/AboutSkyTeam.html (access: 03.11.2018).

34 https://www.skyteam.com/en/about/history/ (access: 06.11.2018).

10. CSA Czech Airlines
11. Delta Air Lines
12. Garuda Indonesia
13. Kenya Airways
14. KLM Royal Dutch Airlines
15. Korean Air
16. MEA (Middle East Airlines—Lebanese airlines)
17. Saudi Arabian Airlines
18. Tarom Romanian Air Transport
19. Vietnam Airlines
20. Xiamen Air

Figure 3. Logos of SkyTeam strategic alliance airlines

Source: http://nph.ceair.com/muovc/main/en_HK/Static_pages/AboutSkyTeam.html (access: 03.11.2018).

Conclusions

The analysis has shown undisputed benefits derived from participation in airline alliances. By means of strategic alliances, airline companies enhance their economic benefits owing to the synergy effect. Joint operations of companies generate much higher benefits than it would have been possible once they operated alone. This is particularly apparent in case of airline alliances.

Star Alliance group was the first on the market to join five independent carriers, aiming primarily at providing a better service to customers across the globe. In the result of such cooperation, Star Alliance managed to cut total time of air travel by coordinating its flight schedules. OneWorld, who came second as a global airline alliance, envisioned being the first to generate better value for clients, shareholders and the staff than other airlines operating beyond its framework.

By making alliances, its members could operate more efficiently, providing a better service to their passengers and flying to destinations which could not be reached by other airlines. In addition, airlines grouped within an alliance could offer more attractively priced tickets whilst upholding highest standards of service. SkyTeam, the third global airline alliance, was launched in 2000 in response to the changing environment. Setting up that alliance allowed its passengers enjoying better air connections and higher frequency of flights to more diverse destinations. SkyTeam comes first in terms of reaching every destination in the world. Consequently, the clients are encouraged to use the services of the airlines grouped within the framework of that alliance. As a result, the alliance has more clients, growing revenues and profits.

The motives pushing airlines to making alliances mostly included cutting costs and boosting revenues by providing clients with convenient services.

Air transport is extremely capital-intensive and highly competitive. Alliances that are made help the airlines to meet those requirements, and that business format allows sharing costs and risk with the chosen partners. A single airline, even if it is a market leader, is not able to shoulder such high costs. Within the alliance framework, those costs and the risk involved in the implementation of innovations are spread among a greater number of partners.

The foregoing analysis explains the significance of alliances and its importance for the alliance partners. It proves the hypothesis that by making alliances, airlines increase their economic potential. Once a few entities decide to cooperate, they reap greater benefits through synergy effect than if they decided to operate on their own. When the members of the alliance combine their forces by power of a contract, they enjoy the economies of scale.

Nonetheless, it should be noted that even though alliance members operate independently, their main targets stipulated by the alliance are agreed upon by all of them.

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