International Alliance Evolution: U.S. Carrier Perspectives on Alliance Network Benefits

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Overview

- Evolution of Alliances
- Recent Solidification of Three-Alliance World
- Continuum of Alliance Models
- Network Benefits of Alliance Model
- How Alliances Have Impacted Carrier Asset Distribution
- Commercial Challenges of Mega-Alliances

Alliances as we know them today began with U.S. deregulation and the Open Skies Initiative…

- Various bilateral c/s relationships existed in 1980s
- True alliances initiated by NW/KL with 1993 ATI
- Star in 1997 was first alliance with worldwide scope
- oneworld forms in 1999, Skyteam in 2000
- AF/KL merger in 2004 adds CO, KL, NW to Skyteam
- Alliance focus expands from transatlantic to Asia
- India remains an open issue
- Some large carriers resist full membership: VS, EK
- Recent “stopping of music” dynamic with several large and small carriers migrating to three mega-alliances

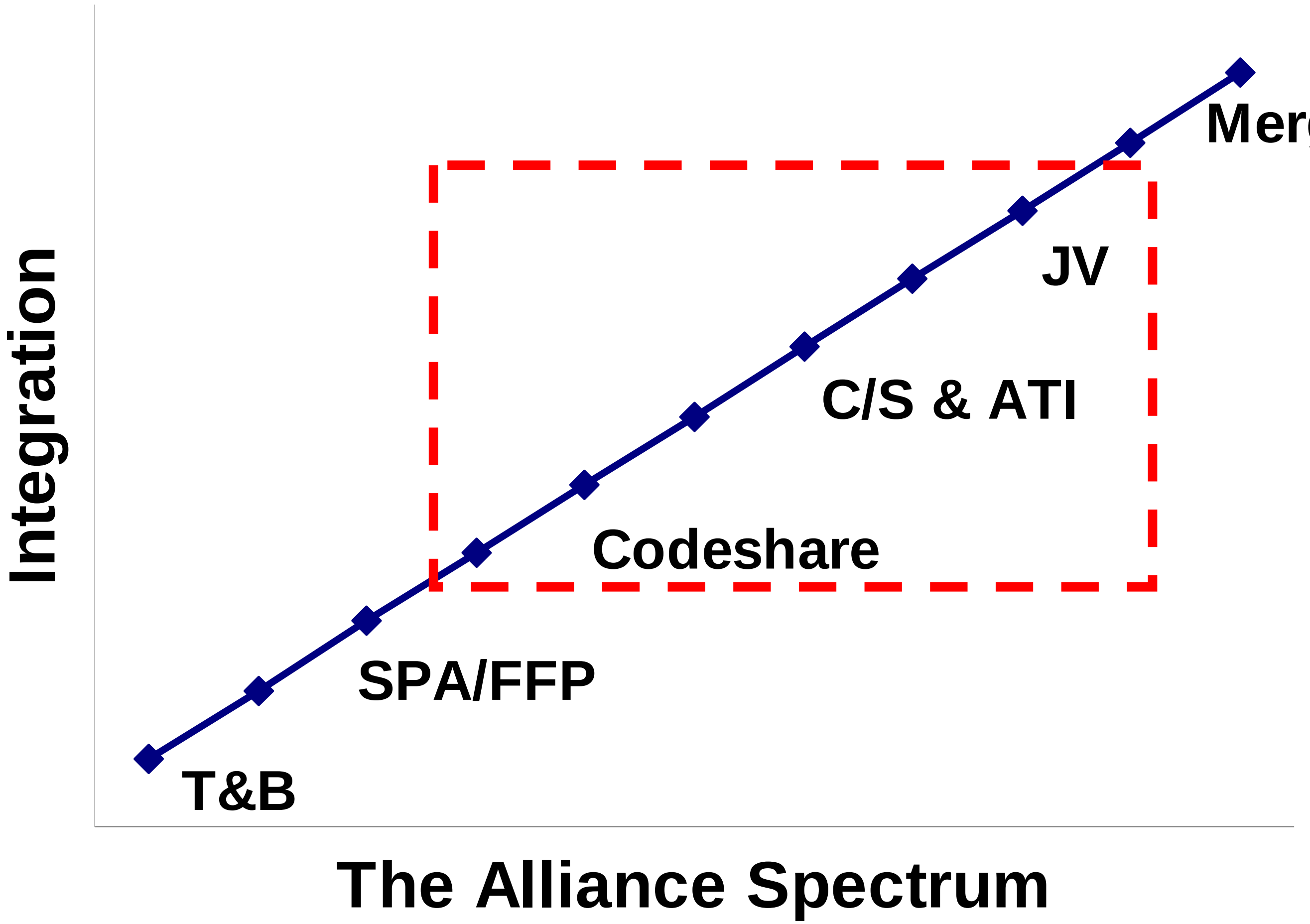
…And became aviation's answer to globalization in an environment only partially deregulated

- Airlines in the 1980s faced many constraints
  - Partially deregulated U.S. industry and restrictive ownership rules elsewhere inhibited mergers
  - Inflexible ASAs, capital demands of aviation prohibited meaningful network expansion
- Airlines adapted by forming alliances
  - Allowed network reach, seamless service and product demanded by customers
  - Open Skies and ATI grants allowed schedule, price and product standardization and harmonization
- Evidence of deepening relationships: common IT, cross-handling, MUOR (lounges, connectivity, cost savings), FFP

The industry has coalesced into three large alliance groupings

AEROMEXICO.
SKY
AIR CANADA
Aer Lingus
oneworld
Lufthansa
AIR FRANCE
STAR ALLIANCE
SAS Scandinavian Airlines
AEROFLOT
Russian Airlines
LOT POLISH AIRLINES
AmericanAirlines
Alitalia
FINNAIR
ANA
LAN
KLM
BRITISH AIRWAYS
IBERIA
SINGAPORE AIRLINES
AIR NEW ZEALAND
Continental Airlines
bmi
SOUTH AFRICAN AIRWAYS
TAP PORTUGAL
KOREAN AIR
ASIANA AIRLINES
中国南方航空
CHINA SOUTHERN
UNITED
swiss
中國東方航空
CHINA EASTERN
CATHAY PACIFIC
nwa.
Spanair
QANTAS
US AIRWAYS
Austrian
THAI
Delta
الملكية الأردنية
ROYAL JORDANIAN
AIR CHINA
中國國際航空公司
MALEV Hungarian Airlines
CSA CZECH AIRLINES
JAL

Alliances span several models…



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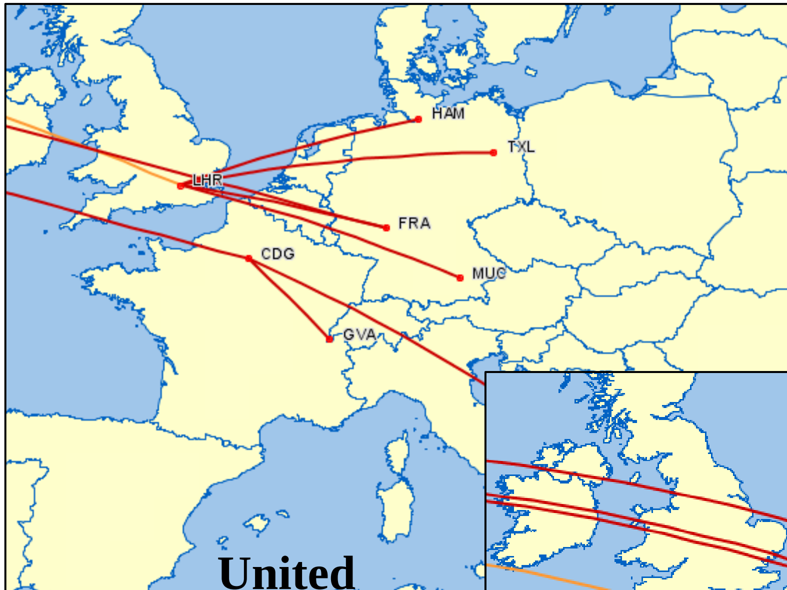
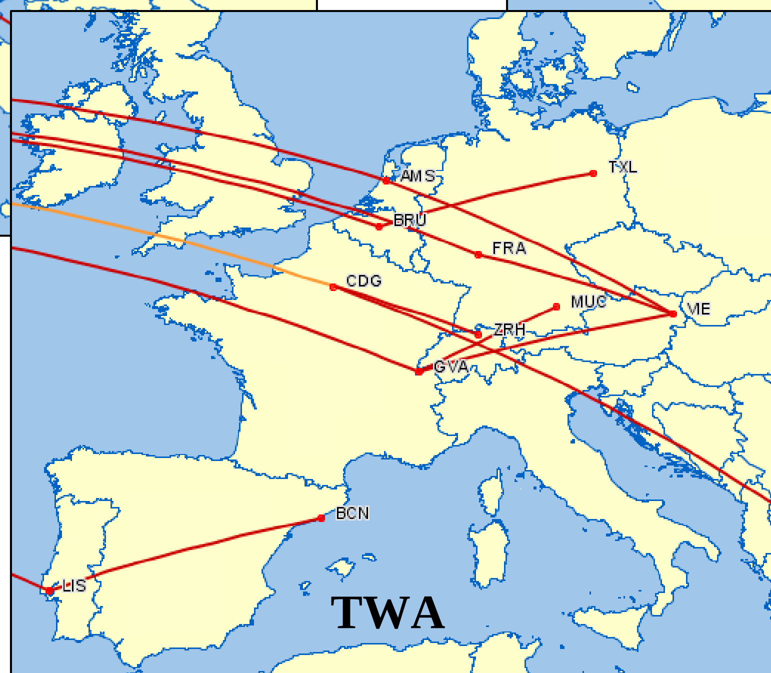
… All of which seek to maximize network benefits which accrue to members

- Expansion of reach into thin markets
- Eradication of unprofitable overseas mini-hubs
- Aggregation of Market Variances
- Foot in the door leads to later investment with own metal
  - Or limitation of impact on network deletions in favor of other opportunities
- Network hedging in face of competitive threat
  - United Airlines India Example

Reaching thin markets before alliances: the old way (1994)





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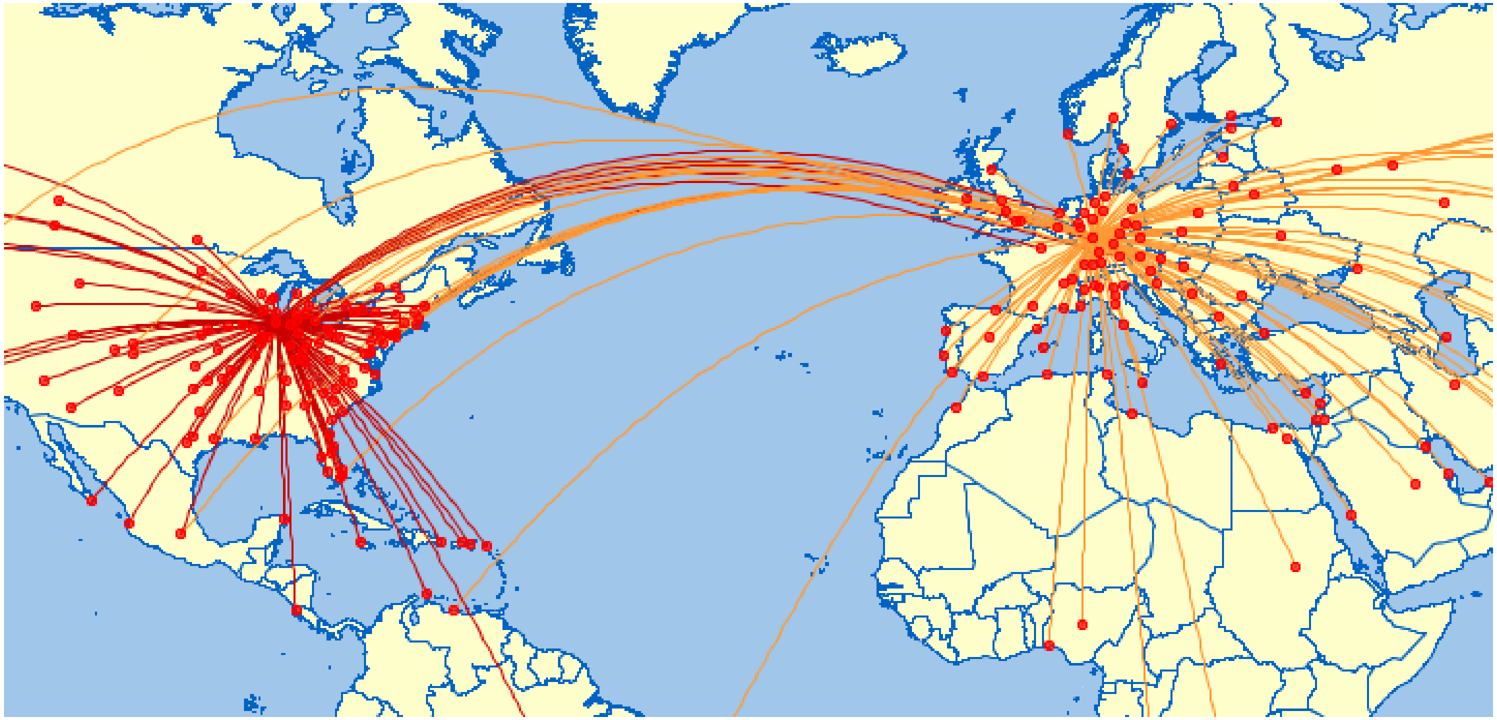
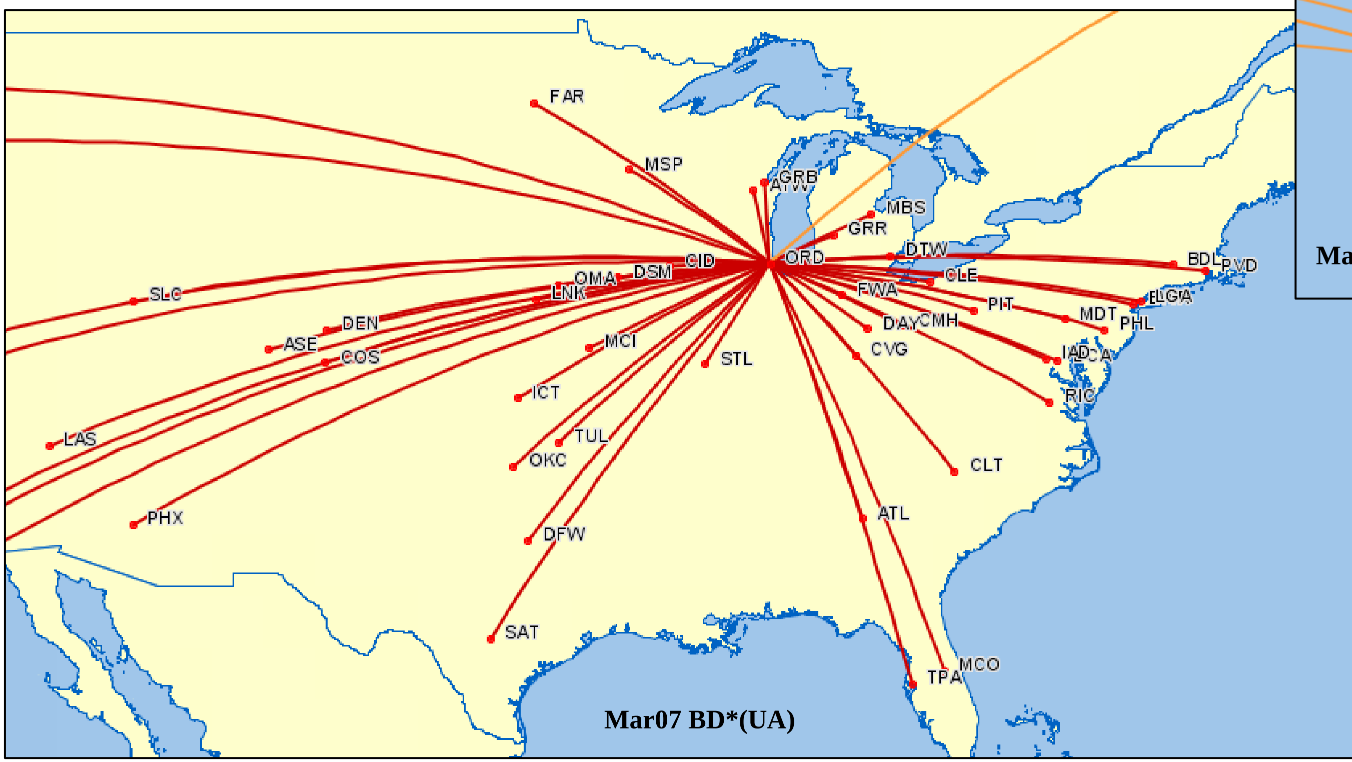
Reaching thin markets with alliances

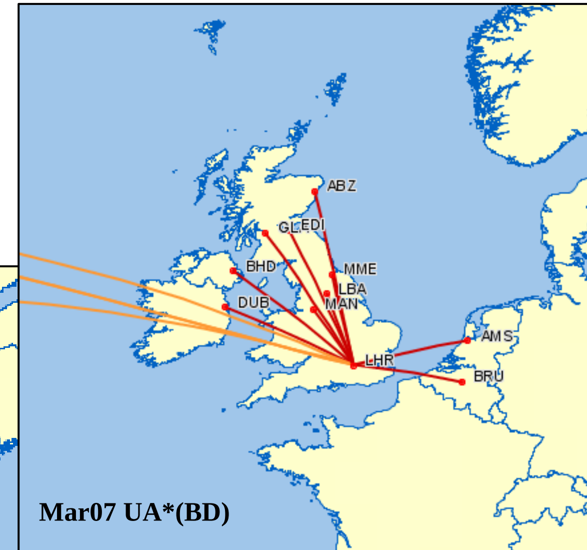


One Unified Network: UA/LH Example

- Cost effective
- Leverages POS strengths
- Customer focused

United and bmi benefit from each other's networks to support long-haul flying





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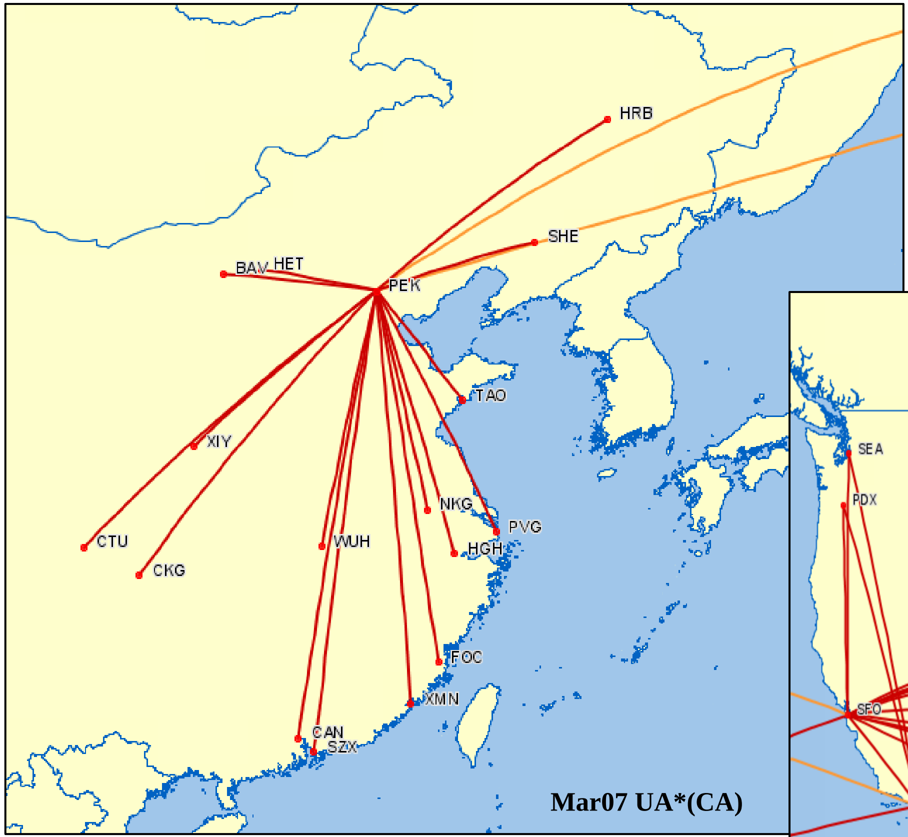
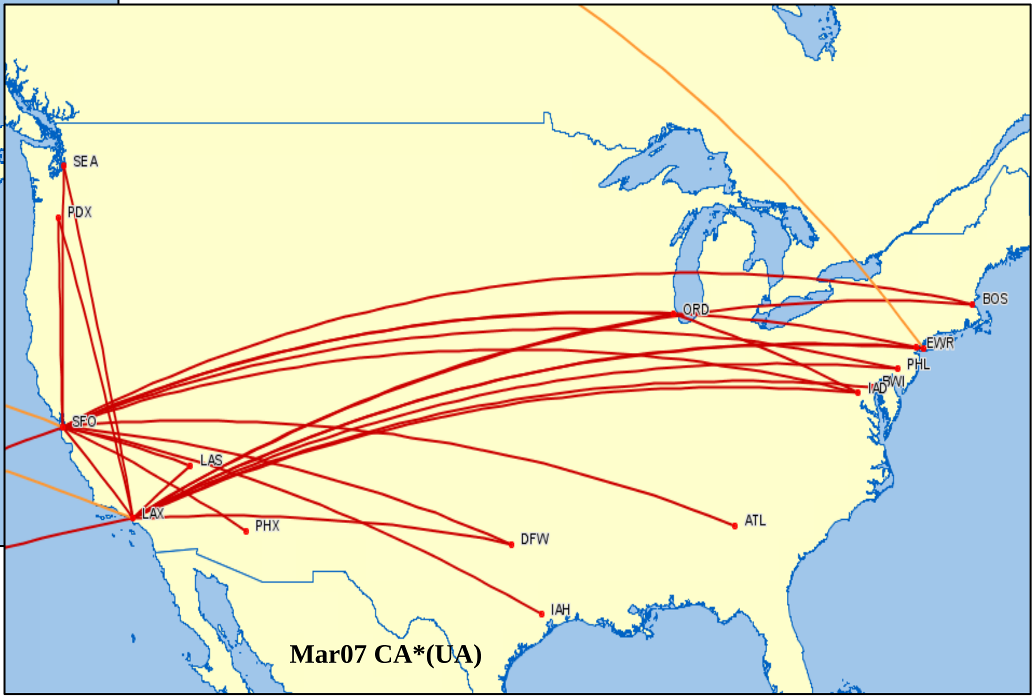
Similarly, United and Air China can expand reach in a highly regulated market through codeshare





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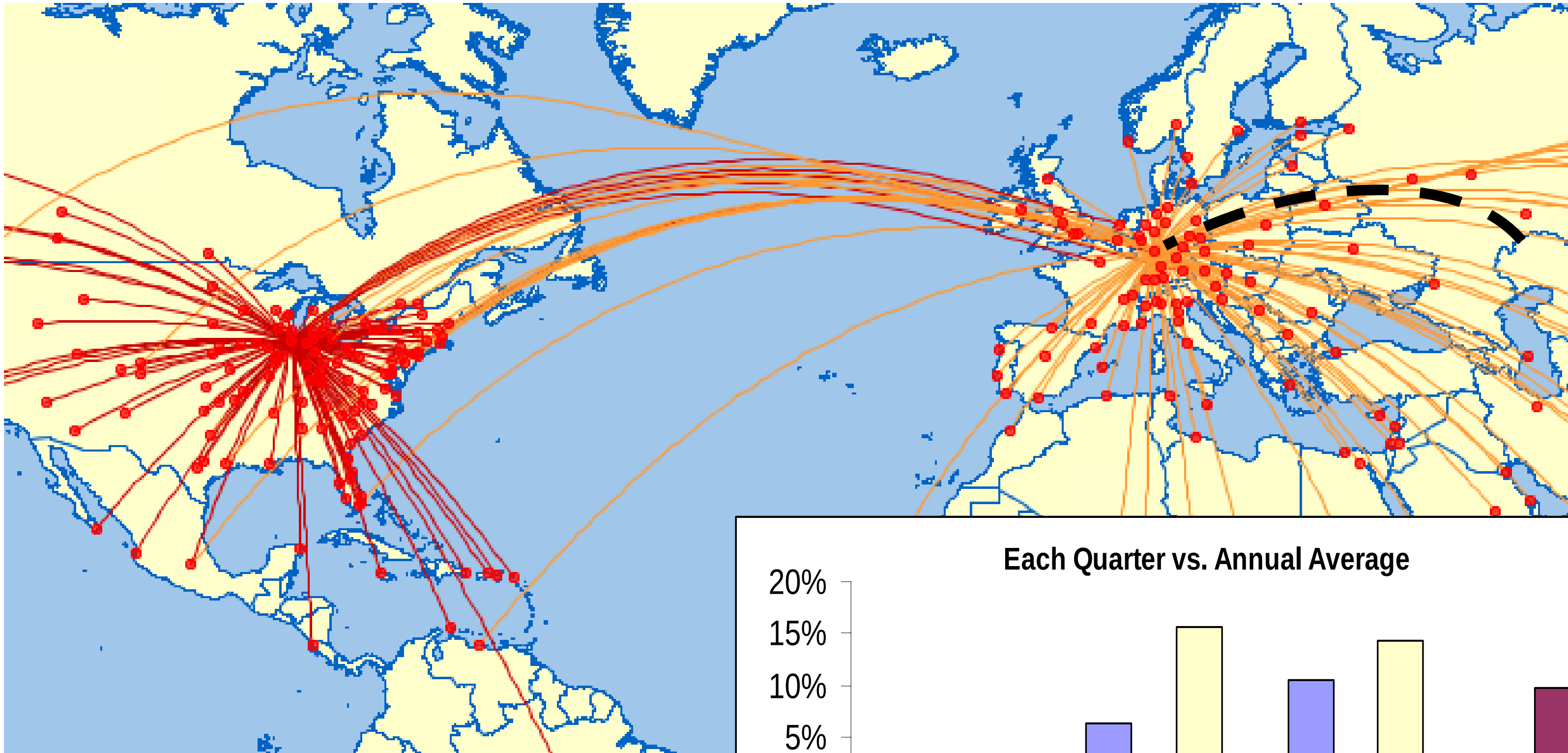
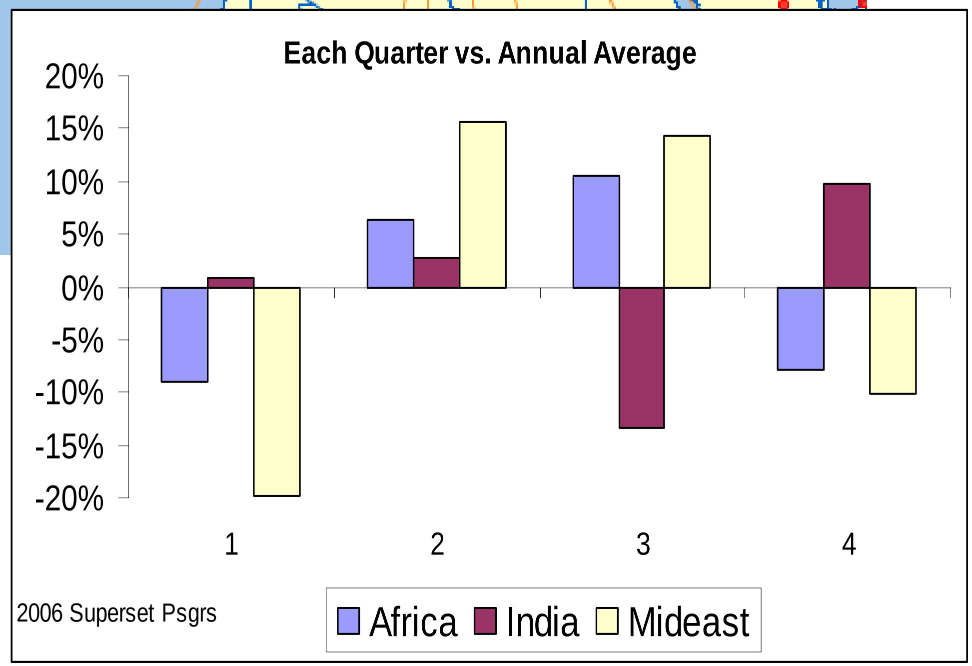
Alliances allow aggregation of demand variances



Seasonality is mitigated by network diversification



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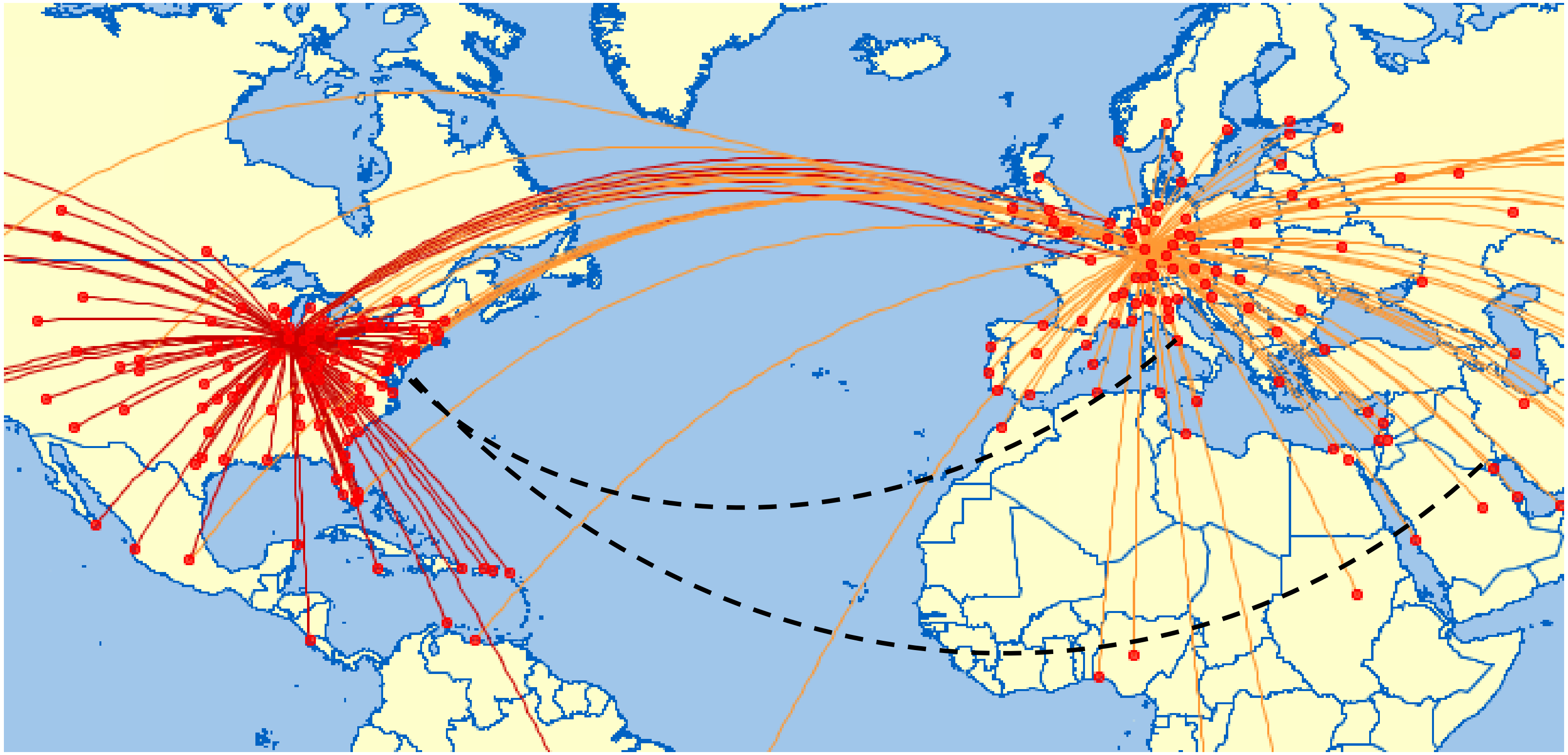
Alliances promote market development



Dulles-Kuwait and Dulles- Rome

- Build presence
- Leverage partner history in POS

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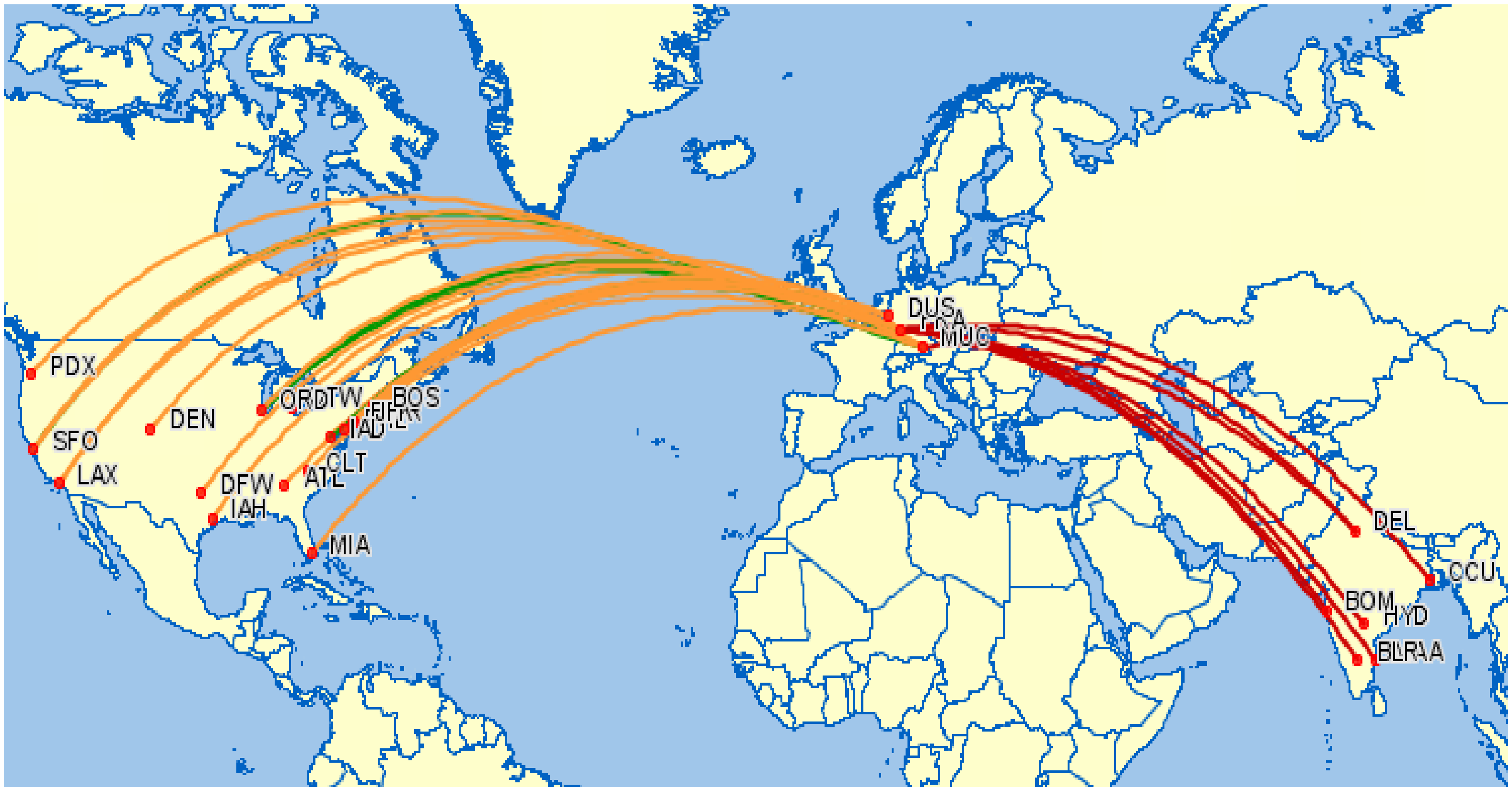
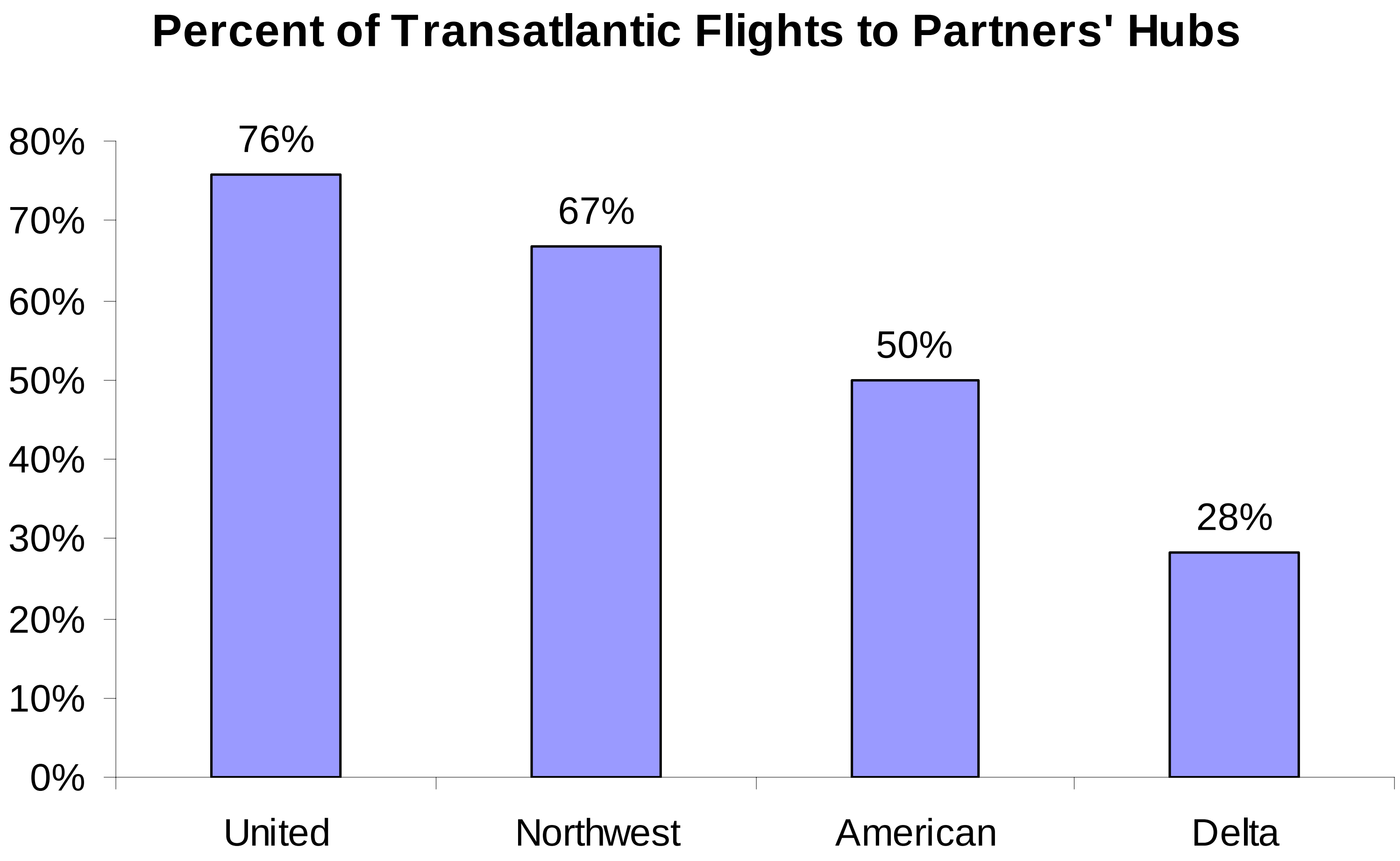
And allow carriers to address competitive threats through network hedging

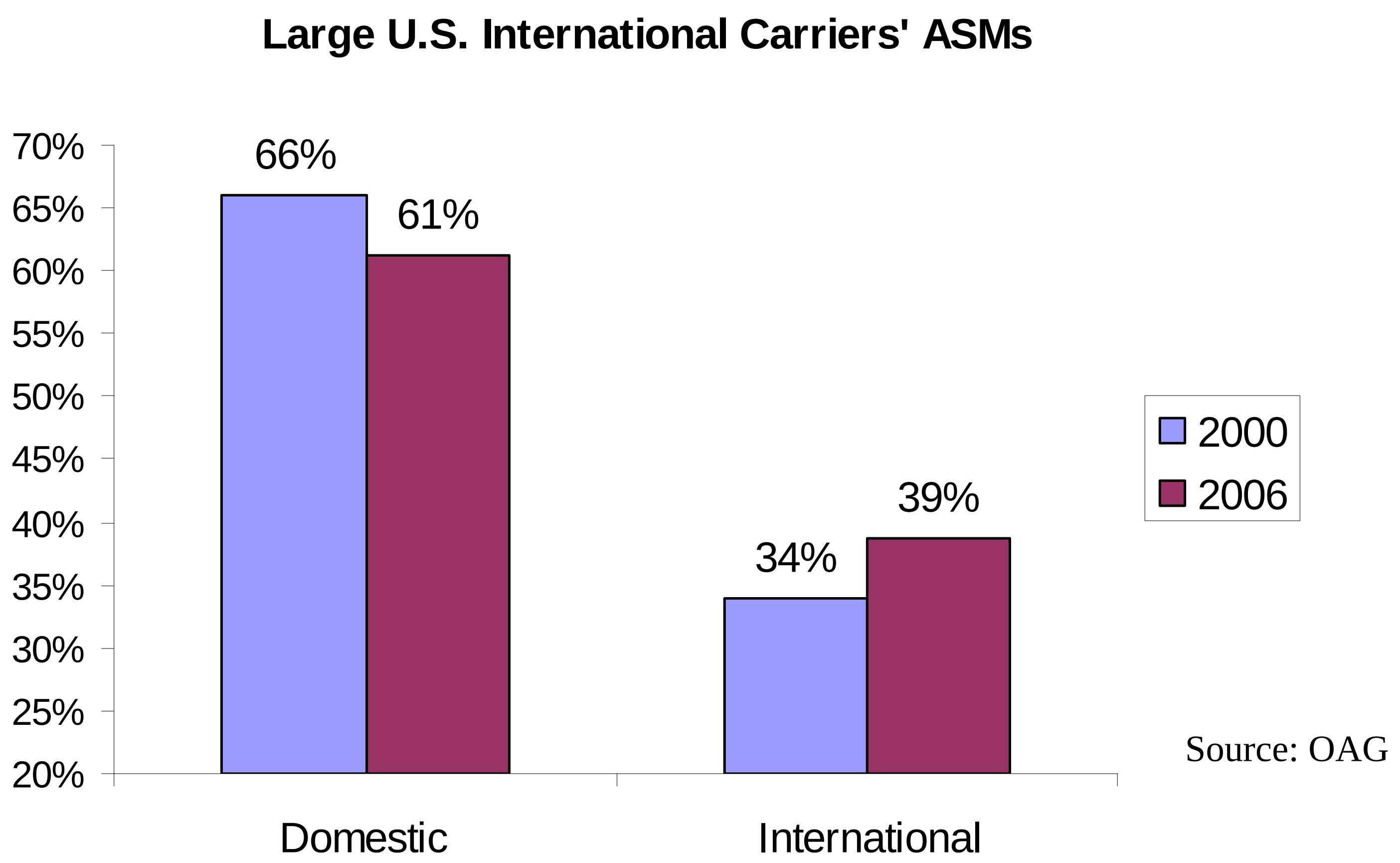


As a result, most carriers focus on maximizing their input through partner hubs



Source: OAG March 07

One challenge results: alliances promote shift to international expansion



Recently healthy domestic environment creates potential dearth of feed access for international missions

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Summary

- Alliances are reaching a mature state in their current form
- All but a few carriers are coalescing around one of the three major alliance groupings
- Alliances can take several forms depending on the desire for seamlessness and stickiness
- Alliance networks have largely replaced off-shore flying and most thin market flying
- Alliances provide for easier market entry and exit and mitigate demand fluctuation
- Alliances can be a tool to address competitive threats without investing own metal
- Alliances support long-haul flight development
  - Secondary effect of reaching saturation load factor in short-haul feed markets

Thank you!

Questions?

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