An Analysis of the Challenges of Aligned and Unaligned Airlines in Aviation Industries
การวิเคราะห์การแข่งขันระหว่างสายการบินที่อยู่ในและนอกกลุ่มพันธมิตร ในอุตสาหกรรมการบิน

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บทคัดย่อ

เป็นเวลามากกว่าสองทศวรรษ ที่สายการบินมีการตกลงในข้อสัญญาหรือความร่วมมือระหว่างกัน โดยมีแรงผลักดันจากสองปัจจัยหลักคือกระแสโลกาภิวัตน์และการเปิดเสรีทางด้านการบิน โดยมีเป้าหมายหลักคือการเพิ่มรายได้ให้แก่สายการบิน หลังจากการก่อตั้งพันธมิตรการบิน การแข่งขันระหว่างสายการบินด้วยกันเองมีน้อยลง แต่การแข่งขันระหว่างพันธมิตรสายการบินกลับเพิ่มมากขึ้น โดยพันธมิตรการบินจะเน้นการแข่งขันด้านเครือข่ายและความครอบคุมของเส้นทางการบิน การเป็นสมาชิกของพันธมิตรการบินนั้นก่อให้เกิดประโยชน์มากมาย แต่อย่างไรก็ตามสายการบินขนาดใหญ่หลายสายการบินก็ไม่ได้เป็นสมาชิกของพันธมิตรการบินใดๆ ซึ่งสายการบินดังกล่าวมิเพียงแต่ต้องต่อสู้กับสายการบินด้วยกันเอง หากแต่ยังต้องต่อสู้กับกลุ่มพันธมิตรการบินด้วย วัตถุประสงค์ของบทความนี้คือนำเสนอการแข่งขันของสายการบินนอกพันธมิตรการบิน การจัดการความกดดันของสายการบินที่อยู่นอกพันธมิตรการบิน และการจัดการของภาครัฐที่ควรมีต่อการเพิ่มการแข่งขันในอุตสาหกรรมการบิน โดยบทความนี้จะวิเคราะห์ในสี่ประเด็นหลักได้แก่ หนึ่งพันธมิตรการบินและสิทธิประโยชน์ของการเป็นสมาชิก สองการแข่งขันของสายการบินที่อยู่นอกพันธมิตรการบิน สามสถานการณ์ของพหุภาคีพันธมิตรการบินและการควบรวมสายการบิน และสุดท้ายคือบทบาทของภาครัฐในการควบคุมพันธมิตรการบิน

คำสำคัญ : การแข่งขัน, สายการบินที่อยู่ในและนอกพันธมิตรการบิน, อุตสาหกรรมการบิน

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ABSTRACT

More than two decades, an international airline business formed the agreement by two external factors namely, globalisation and liberalisation (deregulation). One of the main reasons is to increase revenue. After the establishment of an airline alliance, the competition among airlines is less than an individual firm against an individual firm. In addition, the competition between airline groups is arising and they are mainly competing on networks. To become a part of an airline alliance gives many benefits to the members. However, there are a large number of airlines in the world which are not the airline alliance members. Those airlines have to compete against not only an airline but also the airline alliances. The objective of this paper is to present the challenges of the carriers out of the airline alliances, how the airlines out of the alliances manage the pressure from alliances, the government should control the alliances and encourage more competitive airline business. This paper will discuss and evaluate four main areas; firstly, alliances and benefits of the members; secondly, the challenges of the airlines out of the alliances; and thirdly, the situation of multilateral alliances and mergers; and finally, role of the government in controlling the alliances.

Keyword : Challenges, Aligned and Unaligned Airlines, Aviation Industries

Introduction

There are differences of the modern and traditional alliances in cooperation. The traditional cooperation mainly concerns with cost, capacity, traffic and revenue, while the modern alliance focuses on flying routes and services. However, there are 4 basic categories of the alliances:

- Global alliances of medium and large airline, e.g. Star alliance, One world, Sky Team, Wings;

- Intercontinental alliances, e.g. KLM, Northwest and Kenya Airways;

- Regional alliances, e.g. the Qualified alliance led by Swissair;

- Domestic alliances, e.g. Air China and Shanghai Airlines

There are many forms of alliances, but the major aim of the alliances is to increase more revenue. The three largest alliances which are Star Alliance, One world, and Sky Team have been formed by multilateral airline with complexity structure and including some governance forms. Therefore, it can be called as 'multilateral alliance'. Whereas, 'bilateral alliance' is only two partners of the alliances with less complexity and low governance. In 2016, the three largest alliances consisting of Star Alliance, One world, and Sky Team have occupied 61.2% of the world RPK (Revenue Passenger Kilometres). The percentage of Star Alliance, One world, and Sky Team occupying the world RPK was 23%, 20.4%, and 17.8% respectively. According to the figure, the alliances seem to dominate the aviation industry due to being part of a multilateral

alliance, and the alliances allow aligned airlines to exploit scope and density economies across geographical boundaries (O'Connell and Williams, 2011).

There are various reasons why airlines would like to form the alliances. The most important factors are:

- Expansion of a seamless service network: most of airlines would like to provide comfortable and convenient services to their passengers. Alliances can expand those needs without a large amount of money. Because aligned airlines are not necessary to establish a new operational route or to build a new base in every country where they would like to fly to because they can utilize those services from the partner airlines.

- Traffic management among partners: it could load and transfer the passengers without having more their own aircrafts.

- Cost efficiency: the alliances can assist the members to reduce cost of the operation by utilising can the economic benefits of their partners to increase, traffic density and economies of scope. For example, they can share the airport facility, technology, and advertisement.

- Improvement of service Quality: the airline's service quality has been improved by some efficient management of the alliances to increasee flight frequency, offer more convenience flight schedule, and increase the number of on-line connections.

The challenges of non-alliance members

As mentioned previously, Star Alliance, One world, and Sky Team have occupied more than a half of the world RPK, therefore, the airlines out of the alliances may not compete the market share from alliances easily. In term of route, a partner airline's total traffic and routes increase more than those of non-alliance members especially for international routes. In addition, alliances have a strong inducement to domestic passengers to connect to international routes. Therefore, many passengers would like to use the services from the partner airlines rather than non-partner airlines because the passengers could get the benefits from using the alliances service such as:

- There are many flight options within the same alliance.

- Convenience of flight connection by sharing the facilities of airline alliances for baggage transfer, terminal, and lounge.

- It is possible for the passenger to get the lower fare.

- The passengers could use the benefits from frequent flyer program with their route in the same alliance. The more benefits from using alliance services are the obstacles for the airlines of non-alliance members. Moreover, airlines with a large network are able to set the lower price in the new market or set the higher price in the less competitive route.

According to regional workshop on air transport regulatory policy of ICAO, the large alliances have significant influences on non-alliances members such as:

- 50 – 60 % of scheduled traffic of both domestic and international routes have been controlled by global alliances. The results would increase the competition among alliances. Additionally, it would create strong impact on unaligned airlines.

- When more airlines become a part of the large alliances, the alliances would have more power in the market.

- They have impacts on regulatory measure, passengers, and operational staff.

- The cross-border mergers and acquisition could be done easier because of liberalization, and this would be a long term for supporting the global alliances

As a result, carriers of non- alliance members must encounter not only route and service network competition but also the price competition. Standing alone in the aviation industry would complicate to compete with alliances. Therefore, airlines, which are not being part of the global alliances, usually establish the agreement as a code - sharing for expansion of their routes and services. It is one of the best ways to competes with the alliances (Doganis, 2006). For example, Virgin airline has code shares with Air New Zealand, Etihad Airways, Delta Airlines and Singapore Airlines. According to the code share agreement, the destination of Virgin airline would increase from approximately 60 destinations to more than 400 destinations covering the world (Virgin Australia, 2011). Moreover, price, schedules, marketing, sales, lounge, and frequent flyer point would be shared for improving operational efficiency. The code sharing will also support the growth of the number of passengers because of a strong global network.

Another example of the unaligned global airlines is Emirate Airlines. The geographic of the hub of Emirate Airlines in Dubai would be benefits them to expand their operation because the connectivity of route network (Taneja, 2010). They can connect to all continentals. For instance, passengers in the six cities in the United Kingdom can connect to nine cities in India and four cities in Australia via Dubai (Taneja, 2010). The statistics of RPK in 2016 indicated that Emirates has been ranked in the fourth airline in the world with 25.6 billion annual passengers of RPK. Interestingly, the first 3 ranked airlines are the global alliance member: American Airlines (29.2 billion passengers); United Airlines (28.3 billion passengers) and Delta Airlines (27 billion passengers). Whereas, Emirates is a remarkable airline of non- global alliances.

The situation of multilateral alliances and mergers

There was the declination in the number of alliance members, while the number of airlines mergers is increasing. Therefore, the expansion and benefits of alliances would decline, and cooperation with the airlines, which have the specific aim in a

long-term, would be more complicated (O'Connell and Williams, 2011). The main reasons for the failure of the aviation industry in the future are asymmetry of benefits, irreversibility of commitments, eroding option value, and cumbersome decision-making (Iatrou and Oretti, 2007). There are several possible aspects that alliances may break-up. One of major factors is an influence on losing a high cooperation of multilateral alliances. It would lead the airlines likely to doing for their own benefits more than for alliances. Being a part of alliances could make that airlines lose some control on their customer management which is the most important factor for each airline.

On the other hand, recently the world's largest carrier, United Airlines merged with Continental Airlines, British Airways and Iberia, the flag carrier of Spain. The reasons for mergers of those airlines are efficiency improvement, synergies, cost reductions, scale benefits, and better control over operations. Moreover, mergers are less complicated without the competition. In addition, the increase of the cooperation cost for alliances would be another factor to put a pressure on the alliance structure of mergers or acquisition. The mergers would provide benefits for shareholders, employees, and customers and the efficient competitive potentials in the aviation market. It could cut their operation cost of the airlines by reducing the number of fights to some destination. For example, Cincinnati city in the United State of America had a significant descend in the number of flights because the influence from airlines mergers between Delta Airlines and Northwest Airlines.

Role of the government in controlling alliances

Open skies policy is a challenge for airlines around the world. It increased economic competition and the flag carrier would be protected by their own government more difficultly. In the United State of America and Europe, the threat in the open competition of mergers and alliances has cause many problems. In United State, The State Department believed that the competition arising from open skies service agreements and it outweighed the risks of inherent competition in code-sharing and other alliance features (Doganis, 2006). In fact, the government of the United State believed that the open skies liberalization was sufficient for the competition. Conversely, the European commission took the view that only an open sky bilateral would not make certain for competition both in the existing carriers and new entrants (Doganis, 2006). Whereas, in the South East Asia, ASEAN Single sky policy is not activated completely due to several obstacles. First, the airspace is divided by rules of each country which cannot be combined into a single aviation market. Therefore, these issues must be discussed and solved by cooperation of the ASEAN government. Second, each country in ASEAN sees its benefits in different aspect and some country is not ready to join

the single sky policy. Third, there is a different in a quality of infrastructure in each country. Therefore, the single sky policy in ASEAN would encounter economic challenges and conflicts among national interests.

Doganis (2006) states that in the future, the airlines will more affiliate and the number of carriers in the aviation markets would be decreased due to the influence on liberalized market from mergers and alliances. Therefore, when the competition in the major market is between the network and network rather than airlines and airlines, the transport authority should regulate the competition of alliances and mergers. There are different perspectives to generate the competition in the market for example, to encourage the foreign carriers, the fifth freedom or the sixth it's not clear what the author means). freedom would be advantages.

It may be true that the benefits of bilateral or multilateral alliances are overwhelming to most airlines and countries, but we cannot ignore that those agreements would impact on the small airlines or non-alliances members to compete in the market more difficult because those alliances would monopolize in routes and airport slot. Therefore, the governments should control and ensure that there is a market share or airport slot available for create a competition among airlines both alliances member and non-alliances member. For instance, the United State believed that open skies would be enough to encourage the competition, while European commission indicated that after airline done mergers or alliances, they should give up some airport slot for increase competition and encourage the new entrant.

Conclusion

Alliances have been established due to various factors, but the element key is to generate the revenue or to form the marketing group. More than a half of the world RPK has been belonged to the three largest global alliances group. It can be clearly seen that alliances have a strong impact on airlines out-side alliances. To compete with alliances, non-member alliance airlines should offer high frequency flight by establishing the agreements for example code – sharing and mergers. These agreements would allow those airlines to expand their routes and services. Recently, mergers are more popular than being a part of global alliances. However, alliances still monopoly in many routes around the world, therefore, the government should control the access of alliances to each airport to ensure that the competition is equal.

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