

The global airline industry: strategic planning

[Business](#), [Strategic Management](#)



An airline industry operates in a strategic environment in terms of a passenger and a goods' movement. Through the concept of a Three Ring Circus (KCI 2002), as a representative of the ' Past, Present and Future' and pertaining to the study of strategic airline industry issues, there are many of the strategies utilized. They are considerate of the above time frames. Unlike the ' Past', the focus has shifted towards some critical drivers in the airline industry, especially in the past two or three decades.

Through the above information, a historical overview of the airline industry is availed affecting dynamically the ' Present'. It concentrates on the available strategic drivers being critical towards shaping the future. The ' Future' (Possible futures) focuses on the potential future drivers or the available strategic advantages in addition to respondent measures from existing airline companies. This pertains to the most economically viable avenues of operations and service provisions (DePamphilis 2008, p. 34).

As an aspect of the corporate strategy, mergers and acquisitions (M&A) in addition to ' Alliances', entail buying; dividing; combining and/or selling of corporate entities in the economic arena. The above measures are often informed by the fact that an entity/ enterprise; in the spirit of economic growth, efficiency and effectiveness, requires a dynamism which may provide for a new location, or a subsidiary or a branch of operations.

Acquisitions entail a ' takeover' or purchase of a business entity by another enterprise being a full purchase (100% buyouts) or a share purchase of the total equity. Through the ' consolidation', two or more entities may combine together forming a new entity as a measure of the future profit making and

economic sustainability. The public or private acquisitions may occur depending on whether the merging entity (the acquired target) is listed on not on a jurisdiction's public stock market. Furtherance is an aspect of the acquisition either for 'friendly' amicable and collaborative terms or 'hostile' takeovers being intended, the costs or resultant consequences notwithstanding (Cartwright & Schoenberg 2006).

Acquisitions are categorized into either of the two aforementioned, depending majorly on the means/ avenues of communication about the proposed acquisition to the targeted entity's employees, a Board of Directors and shareholders. While being friendly, the entities cooperate throughout their negotiations vis-a-vis a hostile takeover, where the target entity's parties are unaware of acquisition. They may be also unwilling to proceed with the transaction. Through acquisitions, a smaller entity is purchased by a larger one, though sometimes the former one may acquire a controlling stake in the latter management.

M & A, in addition to alliances, form the two facets/forms of corporate cooperation regarding the air transportation of passengers. The deregulation of markets served by air transport couriers the US (1978) and later to the EU (European Union 1988) provided avenues for an intensive and increased competition for the air transport returns. Through a rise in Low Cost Carriers, a novel airline business model, both product and price competitions/battles began in earnest (Douma & Schreuder 2013).

Just as other industries, the airline industry suffers from shocks and undercurrents as is best espoused by the occurrence of the September 11th

US terrorist attacks, a global financial crisis and the SARS epidemic amongst others. Such occurrences often have huge repercussions as pertaining to the airline company's financial positioning and balance sheets. Though the global arena is immersed in the ideal of ' Liberalization', the air transport arena continues to be in specific instances. It is highly regulated being espoused by the presence of among others the restrictive ownership powers/ rights and existent bilateral deals/ agreements.

In order for the aviation industry to operate in such environments at the same time trying to cope with the existent business arena, enticing avenues such as alliances and mergers, through the forged entity cooperation are viewed as the best options. Combined evidence is of the suggestion that the ' target' entity stakeholders often acquire ' higher returns' vis-a-vis the ' acquiring' company's shareholders that often than not realize a negative effect concerning the wealth shareholding (Douma & Schreuder 2013).

Effects of such strategic methods such as the M&A have proven to be positive in resultant outcomes, as investors in both parties often receive positive returns. Thus, the above may be the testament to the fact that the economic growth does result presumably through the transfer of assets/monies to more competent management teams in the contemporary arena. Through the above processes, a buyer acquires the ' target entity' shares; and, thus, controlling stake in terms of the company's assets and liabilities existent.

The ' target entity', in turn, receives a liquid capital (cash), which is paid to its shareholders through the process of either dividends/ bonuses or

liquidation. The buying entity often then proceeds to structuring the process through 'cherry-picking', those assets of interest while leaving those that it does not require in addition to existent liabilities. The reason behind would be as a precautionary measure against future liabilities (Kim & Jacobs 2013, p. 78).

Mergers and acquisitions may fall under a 'Horizontal' merger among companies operating in the same business arena. Then there is a 'Vertical' merger, which entails the entity buying out its supplier firm. The third is a 'conglomerate M&A' process, which entails two or more non-associated firms, joining mainly a representative of a capital investment diversification strategy. Objectives of M&A are more inclined towards the acquisition of the same business assets/economic instruments in addition to some complimentary service entities (DePamphilis 2008, p. 67).

For purposes of this report, I will investigate the strategic methods utilized in the recent merger of the US Airways and American Airlines (2013). This effectively creates the biggest global airline company at present. The deal, ongoing as it is, is expected to be sealed during the latter half of the year. It avails a 72% stock ownership to the latter American Airlines' shareholders of the new entity while the US Airways retains the remainder 28%. The remainder will be owned by the target entity's shareholders. This merger will continue using the brand name the American Airlines and will have its headquarter at the latter's Fort Worth offices.

The US Airways, until owned by the US Airways Group, which is headquartered in Tempe, in the state of Arizona. Its operations entail both

extensive domestic and international services; with the destinations throughout the American Republic, Europe, South America and the Middle East region. Being a member of the global 'Star Alliance Network', it utilizes over 250 regional aircrafts in addition to a fleet of almost 350 mainline aircraft jets. The US Airways Shuttle is an American brand name, which provides hourly flights between the states of Boston, Washington, the DC and New York (DePamphilis 2008, p. 56).

Its regional air-transport service, branded the US Airways Express is operated through contracting subsidiary airline firms. Its total employee numbers touching the 30, 000 mark in addition to average 3, 028 daily flights, the acquisition of this firm is a strategic move, made by the American Airlines. The holding will be changed to the American Airlines Group Inc. with the US Airways' management retaining most of their operational positions. It will be headquartered in the American Airlines current the HQ at Fort Worth, Texas.

From a humble start, through a progressively dynamic market arena, the US Airways has expanded from a national courier (American) to a global operator as it is. With the flights to Europe and the Middle Eastern region, it maintains a clinch on this lucrative market being a primary factor in its merger with the American Airlines. Its introduction of the MetroJet service, a competitive single-class subsidiary of its business in the 'low-cost carrier' category which was critical in the expansion of Middle East services, utilized the Boeing 737-200 aircraft, until its acquisition of the newer and, thus, more-efficient aircrafts (Kim & Jacobs 2013).

Through its complete acquisition of the 'Trump Shuttle' services Inc., the US Airways was able to steadily increase its services to the vibrant European arena. Unfortunately, due to its strategic concentration in America's northeast, in addition to the increased operation costs, the prompted advice as to the need for a merger, to sustain the economic and brand name competitiveness. The entry of the 21st century, a foreseen dynamism has not been experienced, since the great American Depression.

Being critical to this era and the past one too, there are the theories of liberalism (in addition to Neo-liberalism) and globalization in tandem with capitalism. These aforementioned ones are rooted in the principles of a 'free market enterprise' pertaining to the provision of goods and services. Primarily, initiated by democracies, the capitalistic nature of the global economic arena has also been shifting towards the non-democratic legal entities.

Furtherance is a classic control theory, which is entailed in the overall efficiency of both the ground and air communications and, henceforth, a service provision. From the manufacturing angle to the communication equipment and system arena, the aforementioned theory is being practiced throughout to gain the most possible advantages and, hence, an economic sustenance (Hamel 1991, p. 137).

Hence, before commencing investigations and pertaining to the above merger, it is noteworthy to consider the immense global and domestic networks present in each individual party's arena of operations. Through a stringent regulation of the global airline arena, it obviously leaves an impact

on the existing firms strategic planning and implementation. The prevalent network effects, being critical in the aviation industry, are fundamental to the overall strategic placement and profitability of an individual player/firm.

The Chicago Convention (1944) entails some rules and regulations as pertained to the global commercial rights to aviation services. This was a mitigation measure against the probable dominance of America and other western states in the global aviation industry. As a result, a host of bilateral Air Service Agreements (ASAs) is present because the Convention has failed to allow the multilateral exchange of air travel rights.

Consequently, the economic regulation of the global aviation industry is governed by the aforementioned ASAs between the governments among others such as logistics present, capacity, aircraft types, frequency, air routes utilized, the presence of tariff regulation and the existent number of aviation firms allowed to operate. The others include the rights to 'code-sharing' between industry players; the rights of an office setup in host countries, provisions present for the existing airline ownership structure, beyond rights. They entail the firm's rights in carrying passengers within a legal entity and a 'cabotage' being the rights to provide services in foreign markets.

With the above, the notion of 'the National airline' is vital as a strategic asset. It is borne to assist the connected economy. Through the strategic options present, an entity may or may not pursue some growth strategies in specific markets. Furtherance may be the existing restriction on a new brand subsidiary service provision of services internationally. The aforementioned

regulatory policies and existing constraints have forced the global aviation industry to experience a number of alliance formations as a means of overcoming the aforementioned regulatory issues (Hamel 1989, p. 139).

While the above 'alliances', they may aid in 'code-sharing and increasing passenger numbers through a 'feeder traffic' from partner firms. They are unfortunately unable to effectively compete against themselves and, this way, the monopoly situations result. The Star Alliance, to which a case study firm belongs to, is the largest global alliance. Through such strategic alliances, the following benefits may result into. A combined economy of specialization and scale; technological advantages, cross-country specialization, a broader market access, strong Branding (brand names), cost efficiency measures, risk sharing, market capacity/ power and the improved service delivery through some seamless networks.

The September 11 attacks (2011) have affected majorly on the global economic arena. Hence, they have impacted on the aviation industry due to the low 'consumer/customer confidence'. For example, the Credit Suisse First Boston (CSFB) of 2002 estimated that the resultant effects of the above ones caused an overall decrease for 30% service demand in the aviation industry. However, the changes present, coupled with raising the fuel expenditure, shrinking profits, stringent government regulation and increases in competitiveness have necessitated a strategic planning based on sustenance and profitability.

Resultant services such as the budget airlines have made the competition intense. Through a future outlook, the airlines are able to concentrate on

such vitals as the maximization of networks, the configuration of strategic alliances and the development of extra entry points or hubs to cater with increase passenger numbers. The customer level abounds with customer expectations for a better quality service provision. Thus, there is a need for hand-in-hand collaboration of both service provision efforts and quality products.

Characteristically, the global aviation industry is a sort of paradox. In terms of control, it is almost on the exclusive nature 'National'. Meanwhile, in terms of operations, it is global in reach (entailing a variant of international players). With the efforts resultant from the deregulation policy, the option of cooperation through mergers, alliances and acquisitions, it has proven the only logical reaction. The US Airways-American Airlines merger is a perfect example of the strategic planning based of future ideals or perspectives (Kambayashi 2013).

Cooperation proves to be an important rational especially after the recent sequence of global crises. On the other part, this is a threat of sudden global shocks. This requires the effective flexibility in quickly salvaging and, hence, increases revenues. The aforementioned merger is reflective of the above ideals being furthered by the low profit margins necessitating the expenditure reduction. The US Airways, having filed for bankruptcy twice under the Chapter 11 of America's bankruptcy laws (2002-2004), it was able to make the major restructuring aimed at cost cutting. However, the still present high expenditure has necessitated a further action.

From the increased fuel cost expenditure, to deadlock some union-employee negotiations, the airline has suffered economically in addition to the aftermath of the aforementioned US attacks foreseeing the extended closure of Washington National Airport. The airline was until then the largest carrier there and the resultant effects included the closure of its subsidiary, the Metrojet network, leading to thousands of job losses. In addition, the resultant employee discontent with the increases of 'sick calls' coming during the 2004-year Christmas season happened. This has caused a public relations' disaster, with a speculation rife as to its prospects of liquidation though the blame later lay with the poor management.

Through tradeoffs, these takeoffs and landing slots in the number of destinations, to Delta Airlines, the US Airways was able to receive the former's slots at Washington National Exchange strengthening each party's presence. In a number of services, the airline, i. e. the US Airways, was able to earn a top position in the concluded 2011-year Airline Quality Rating report (AQR). However, a latter consumer satisfactory report has indicated it as being the least favorable in terms of the wholesome consumer satisfaction (2011).

By merging with the American Airlines, the US Airways through a friendly takeover bid, the two entities have retained a majority of its top management, including the CEO position filled by its person, i. e. Doug Parker. Through what are called as the cooperation specific qualities, the US Airways has given a lifeline to the almost bankrupt American Airlines through the provision of one or more functional and cooperating arenas. Furtherance

is a strategic time frame and component. With the merger, the two entities, i. e. the US Airlines and the American Airlines Co., are able to better improve and secure their competitive advantages (Kanter 2009).

Making a good fit, the two entities have little arenas of overlap being over a couple of flight routes with the little impact as they team up against competitors. By joining the US Airways, the American Airlines will be able to cope with increased passenger numbers, specifically in the eastern United States' region, where the former customers have migrated to competitors, the United Airlines and Delta Airways. It will be able to resume attaining its high revenue returns per available seat-mile ratios. The merger will boost its hitherto weak networks. This means that the two entities combine to gain an access to the larger and more global networks.

The above information is provoked by the fact that both a strategic period and the component aspects were widely consulted and aimed at improving and securing their competitive advantages. Through the proposed corporate planning, the two entities will require to share both potential aspects as well as resources present being relevant to the dynamic contemporary aviation industry. The aspect of the company size ratio vis-a-vis international capacity is prime factors in the contemporary alliance, mergers or acquisitions made (Kanter 2009, p. 121).

The majority of ambitions on a global scale requires the backing through financial capabilities. Bigger entities are, thus, able to fulfill the above easily, unlike smaller being a core reason behind the aforementioned merger. This cooperation is in line with the newly combined entity's global aviation

industry ambitions. Smaller firms are also utilized though this being in the larger picture's background. The US Airways, initially being a part of the confederate alliance, i. e. the Star Alliance, was limited to compromise/ find a consensus agreed by all partners as pertaining to the service provision in the global aviation industry.

With the merger, the US Airways will leave the alliance and concentrate more on its new home of the American Airlines. This merger will enable a resultant entity partake in the estimated four-fifths of America's domestic market. This is dominated by about three carriers offering the full-service flights. Through bankruptcies, the two ones composite the entities, in addition to the existent American mega-airliners, the above ones, having streamlined their expenditure aspects, reduced their expansionist plans and concentrating on the quality service provision. They are only focused and, thus, entitled to future bountiful profit returns (Kim & Jacobs 2013, p. 89).

Despite the above positive outlooks, flight cancellations and delays are expected to increase, further being worsened by computer glitches and failures due to some integration attempts of the two computer communications systems. Also the efficient and, thus, effective reintegration of their total workforces, numbering 113, 000, is a cumbersome affair. All workers, represented by their respective labor unions, will demand at-per or even better employee work standards and remuneration. In addition, the two entities, including terminal services and baggage handling systems, require the seamless integration to effectively and efficiently participate competitively in the global aviation industry.

Fortunately, the positive outlook on the employee labor unions side, which is eager to resolve some pending labor issues quickly and effectively, have come up. It has targeted the corporate accounts passenger and business traveler groups. They are customers that do not mind the increased travel fares, of course, in a proportionate ration to the services offered (Kim & Jacobs 2013, p. 78).

In conclusion, according to my perspective, the merger between the two aforementioned entities, the US Airways and the American Airlines, serves as the best choice in the contemporary global aviation industry. Many positive outlooks abound as aforementioned in regards to the increased logistical and carrier capabilities in addition to boosted increases in the capital funding and employee management and output.

Recommendation

Being a member of top management at the Metro-Jetlink Airlines, a subsidiary carrier in the discount aviation customer base, some critical and wider consultations were necessary to find the best way forward in retaining our competitiveness. The aviation industry, plagued by a variant of issues, has witnessed the increased expenditure costs to relatively slow consumer price increases. While acknowledging the increase in demand for our services, we have over time witnessed loss-making periods that have affected our overall efficiency.

With the limited shareholding capital and not being in a ' big-league of mega-airliners, the option of acquisition is unviable. Thus, the only two

possible options included that a merger or a joining/formation of an alliance. With mergers, we are positive of gaining more capital with the increased passenger volumes and complementary service provisions if merged with a stronger partner entity. On the other side, this is the formation of the alliance as the avenue is also having its positive aspects, though with the greater limitations.

Further, there is an aspect of non-performance when being in the alliance, as overall top management (of the over-arching Alliance), decides on the best way forward (a strategy) compared to individual partner entities. Thus, as a smaller entity, our priorities would be overridden by the larger alliance strategy not satisfying us on our part as a partner entity. The best possible solution then would be a merger (Hamel 1989, p. 139).

Being an entity concentrating on the discount market angle of the aviation industry, a merger with a bigger player, preferably in the corporate passenger and business traveler section of the aviation industry, would be the best option possible. A target example would be the Delta Air Lines Inc., headquartered in Atlanta, Georgia. The airline is operational through an extensive international and domestic network serving to six of the world's seven continents.

With over 5, 000 daily flights, in addition to in average 80, 000 employees' workforce, such a merger would boost our capacity tremendously. Through its hub, the Hartsfield-Jackson Atlanta International Airport, the home to the highest global commuter volume in the contemporary arena, we would be able to inject our capacity in catering for the low-cost domestic routes as a

part of its subsidiary network. As the oldest existent operational airline, its brand name and customer attraction would be boosters to our overall commuter volume numbers (Kambayashi 2013).

As a part of the SkyTeam airline alliance, the Delta Airlines is further enhanced in terms of economies of scale. The capital accumulation capabilities; network system capabilities and the increased commuter destination are all being the positive aspects. As the largest global airline in terms of the scheduled passenger traffic, overall fleet size and revenue returns per passenger-kilometers covered, it would be the best possible choice/investment on the part of the Metro-Jetlink Airlines' management (DePamphilis 2008).

Decisions made have included the necessary resultant restructuring measures, a possible job and the asset losses in addition to losses of controlling stakes once enjoined in a resultant merger. I have personally been of the rationale that such a merger, though at first being negative, would eventually prove to be a wise investment choice as the passenger volumes increase and, hence, profit margins. Being a partner entity, I would still opt for the choice aforementioned, i. e. a merger, and continue as I have stated in sealing a deal with the global entity, i. e. the Delta Airlines.