

# Case study star alliance

Education



1) Which developments in the global airline industry made possible the creation of strategic alliances? Airlines started to develop strong strategic alliances right at the same time as the deregulation of the industry was implemented. The European Commission put third Package into effect in 1993. The trend followed the preceding one that occurred several decades ago in the US (signature of the us airline deregulation act in 1978). This meant a total market opening and the dismantling of the protectionist framework operating since the 1940's.

Another major reason was the approbation of code sharing agreements by the US DOT, that allowed airlines to expand their route networks and to offer their passenger routes under coordinated times in certain markets. As demand for air travel is inextricably linked to the strength of the economy, global events occurring in the 1990's had a huge impact in airlines' strategies. Perhaps the biggest reason for the airlines getting into alliances was the Gulf War in 1991-1992, where airlines in general saw slump in air traffic and sales.

The other one was the economic recession that hit not only Europe, but also the world. People had less money, therefore flew less and seats in the airplanes were empty. The industry recovered very quickly, though, after this and even went to the highest sale in mid 1992. After that traffic went down again and was always on a downhill ride especially after 9/11. " Two things matter to airlines - the amount of empty seats on their planes, and the cost of getting those planes into the air. Reducing these two factors leads to profits, and in recent years, the industry has been struggling," enunciated Lord Marshall, Chairman of British Airways in 2002.

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People are afraid to fly, more than that, they fear flying with the companies that were flown into the World Trade Center, such as American Airlines or United Airlines. The attacks led to a worldwide recession, as well as to bankruptcy of several famous airlines such as Swissair or Sabena. Now that the fear of flying again is mostly gone out of the people's heads, and where numbers in air traffic are rising again another threat, probably the biggest, to the "normal" airlines is emerging: Low-cost carriers.

2) What were the strategic objectives of S. A.? Were they met? Is the Alliance's overall strategy successful? All airlines had different reasons for joining the alliance but the common thread that linked them all was the desire to expand their geographic network in the most efficient way. Star Alliance members agreed on this commonality and virtually overnight increased the range of their services. One of the reasons that the range of services or the ability to cover every corner of the world was so important was that a customer can fly to any major city with the same airline company. Therefore the customer can become a "Frequent Flyer" and be loyal to the company.

Code-share arrangements also allowed for flexibility in terms of route decision making. By having such a close arrangement and understanding of partner schedules, airlines were able to depend on partner airlines to cover various routes that were a more logical fit both logistically and financially. Alliances were also a great way to force carriers' local strengths to build up the entire network's market presence.

The structure also presented flexibility to alliance members. Such flexibility could be seen in their opportunities to negotiate a broad range of agreements with non-alliance members. An example of one of these agreements was the ability to share mileage points across both frequent flyer programs. The concept of alliances logically sounds like a great idea. It creates many more options and opportunities from the customer perspective. Alliances seem to be established in this industry culture that it would almost be a useless effort for new comers to be on their own. The potential overhead reductions and the ability to rapidly increase service offerings make it very interesting both financially and logistically speaking.

3) Why do companies such as Ryan Air or Easyjet survive without being part of an alliance? Which type of airlines needs to join an alliance? The emergence of the low cost airlines has modified the traditional market. They created new markets, new strategies, and new competition conditions. Ryan Air and Easy Jet are the two most successful of them. They succeeded to enter a very competitive market and to steal market shares to the major companies. Operating on a different business model, they offer no frills during the flight and use a point-to-point transit system. They created their own routes and links that major carrier haven't already gone or abandoned because of cost reduction. The low cost revolution had a big impact on the consumer's habits. They are now major actors in the Flight market.

All of those are the reason of their success so why give it all up. Today alliances are reserved to major long haul airlines struggling and low-cost companies that did not succeed to established itself on the market and capture enough market share. Their business model is based on reducing

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cost the most possible. Getting into an alliance implies sharing some of your profits. For those reduction cost driven companies it is not possible as their whole business is based on strict management that can't be changed one bit.