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Strategic alliances between airlines and airports—theoretical assessment and practical evidence

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Abstract

Strategic alliances are now widespread. This paper shifts the focus from alliances among airlines toward strategic alliances involving passenger airlines and airports. Following a conceptual path analyzing motives, potential benefits and problems, potential fields of cooperation are identified along with three basic classes of airline–airport alliances. Capacity-based, marketing-based, and security based cooperation models are assessed with regard to benefits for the participating airline and airport partners. This expands the existing literature that has largely neglected the airline–airport relationship and its potential for developing their respective competitive strategies. The case of the alliance between Lufthansa and Munich airport serves as an illustration.

Keywords: Airlines; Airports; Strategic alliances; Business strategy

1. Introduction

Strategic alliances among airlines are now common in the aviation industry and are frequently seen as a response of airlines to changing economic and regulatory conditions. These conditions, however, change for airports as well, and airport companies have been confronted with profound governance changes over the last decade (Carney and Mew, 2003). Theory and practice debate thus centers around questions regarding models and potential benefits of alliances among airport companies on the one hand and between airports and airlines on the other.[1] Although horizontal alliances between airlines have been extensively addressed in the literature (Agusdinata and de Klein, 2002; Brueckner, 2003; Pels, 2001; Oum et al., 2000) vertical alliances between airline and airport companies have attracted only marginal attention.[2]

From a strategic perspective, the basic motive for forming an alliance is gaining and sustaining competitive advantage for the participating companies (Das and Teng, 1999). This over-riding objective can be differentiated into a variety of sub-motives, inter alia cost and risk reduction and the access to new markets (Albers, 2000; Ebers, 1997).

This paper explores the neglected relationship between airlines and airports from a strategic management perspective. Especially, it seeks to explain the potential benefits of alliances between passenger airlines and their hub-airports.

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[1]We define an alliance as any voluntarily formed, contractual collaborative arrangement between two or more independent companies with the declared intention of improving long-term competitiveness and thereby enhancing overall performance (Albers, forthcoming; Knoblich, 1969; Das and Teng, 2000).

[2]Regarding alliances between airport companies, *Pantares*, the strategic alliance between Fraport of Germany and Schiphol Airport of the Netherlands, has been the only airport alliance so far. Regardless of the ambitious expectations the partners had before entering into this partnership, this alliance has mainly shown the limits of this kind of inter-airport cooperation. For various reasons, the expected benefits have largely not been realized.

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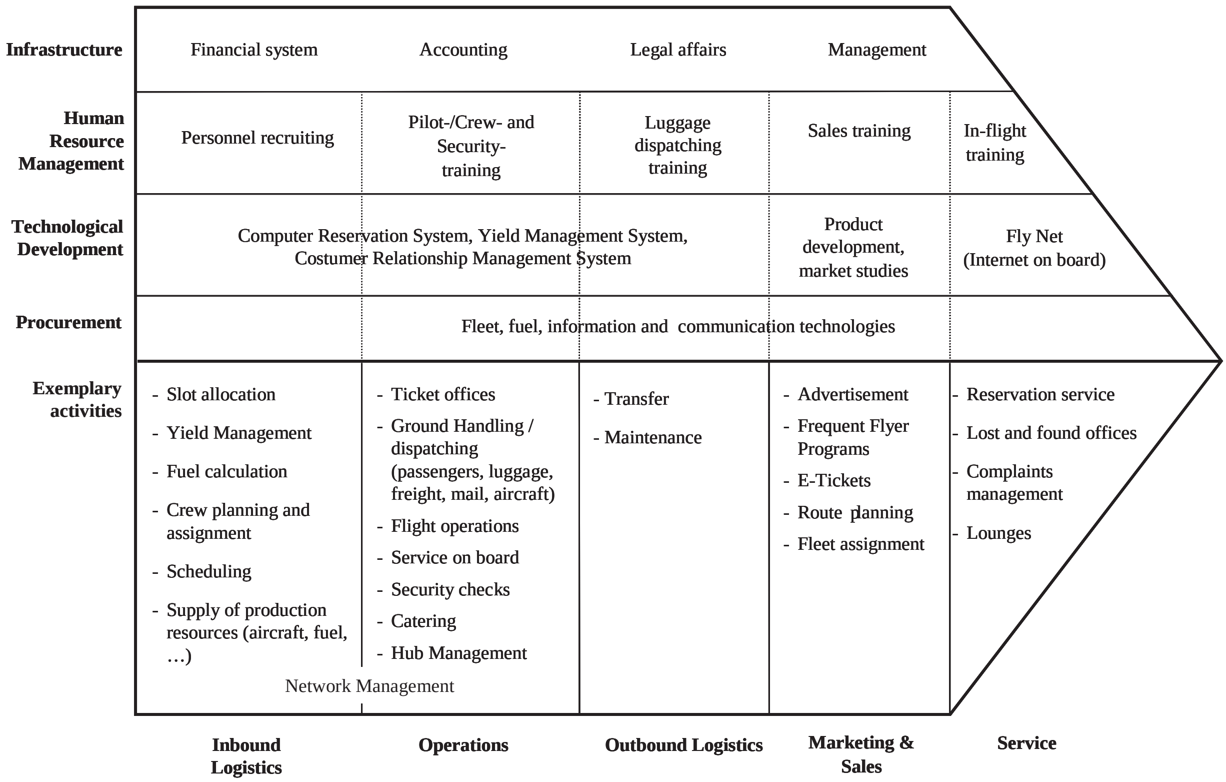

Fig. 1. Value chain of the airline.

2. Conceptualization of airline and airport business processes

In producing air transport services, airports act as providers of the on-ground infrastructure for flight operations while airlines offer the transportation services per se. Regardless of the division of labor within the production of their product air transport services, airlines and airports focus on the same targets with quality of service being a defining variable. In aviation, quality is mainly a function of punctuality, reliability and service. International passenger airlines tend to be rather homogenous in terms of sales, service and transportation quality in the air. Competition is more likely to be seen in terms of ground services and in this sense airports are partners in their activities.

The concept of the value chain developed by Michael Porter (1985) offers a useful way to grasp the strategically relevant activities that are important to successful partnerships involving airline and airport companies.

In the value chain, companies' primary activities are distinguished from support activities. Primary activities are those that involve the creation, sale transfer and after-sales assistance of the product, whereas support activities are those that enable the performance of the primary activities. The generic primary activities identified by Porter are inbound logistics, operations, outbound logistics, marketing and sales, and service. The support activities are not distinct for different industries and cover the functions of procurement, human resource management, technological development, and infrastructure.

Cooperation among firms is not restricted to specific elements or forms of activities; primary, as well as support, activities can involve cooperation by firms. Major strategic benefits, however, are normally reaped by cooperating in primary activities that are distinctive for the industry under consideration. The focus, therefore, is on primary activities of airport and airline companies, and on the passenger side of the aviation industry.

The generic value chain of an airline is illustrated in Fig. 1. Within each airline category specific activities are presented to provide a basic understanding of the underlying complexity and requirements of the various processes.

Within the airline's value chain, special attention should be set onto the primary activity of operations since this includes the hub management function. If an airline configures its route network as hub-and-spoke-system, hub management (as part of its network management) is of special importance (Doganis, 1991). It affects all conceptual, coordinating and operational tasks for optimizing the quality of hub services. The most important factors influencing hub quality are