

# Strategic Vertical Alliance?



Airport

Airline

## 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.

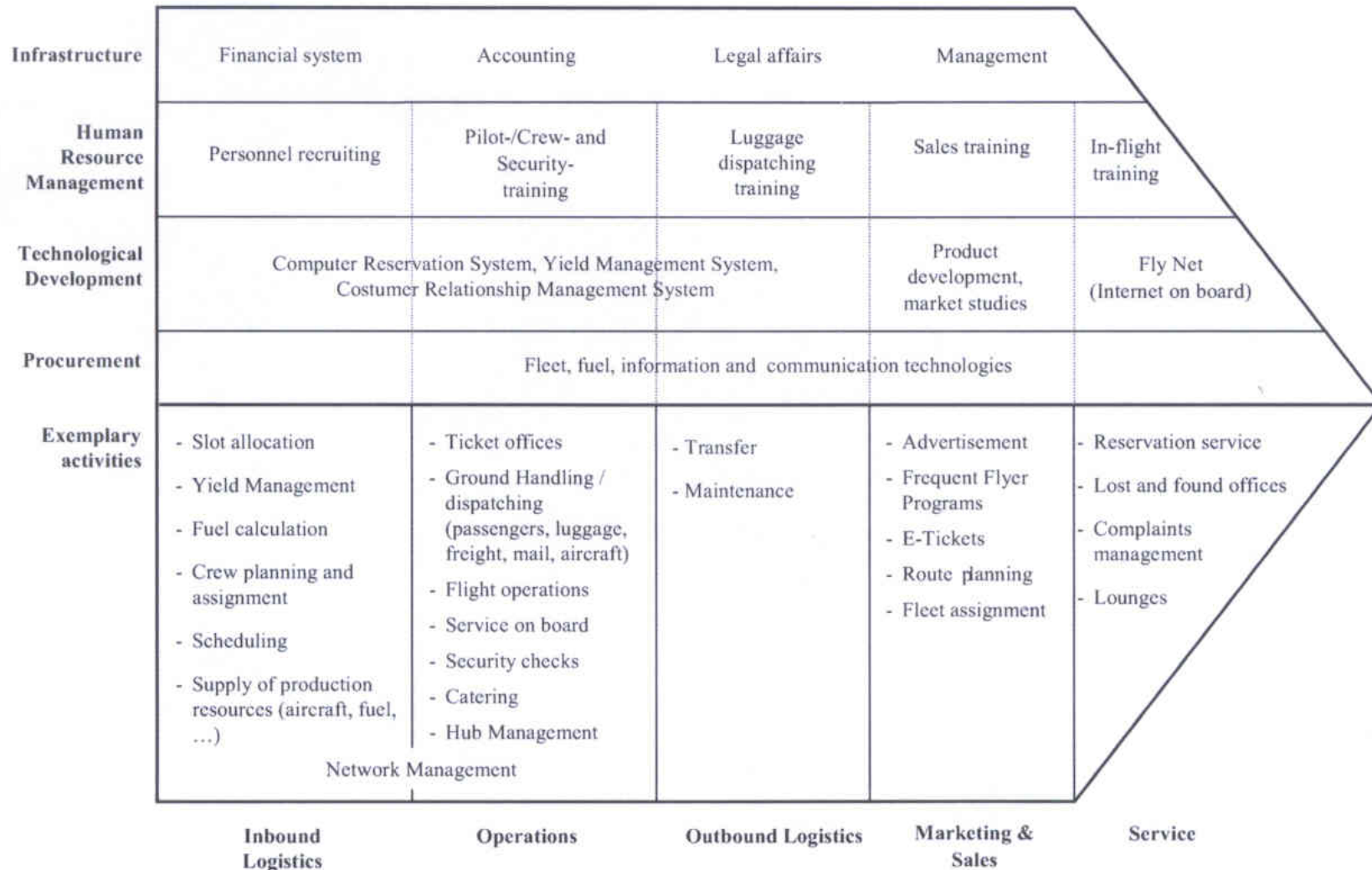
Competition is more likely to be seen in terms of ground services and in this sense airports are partners in their activities.

**Major strategic benefits 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.

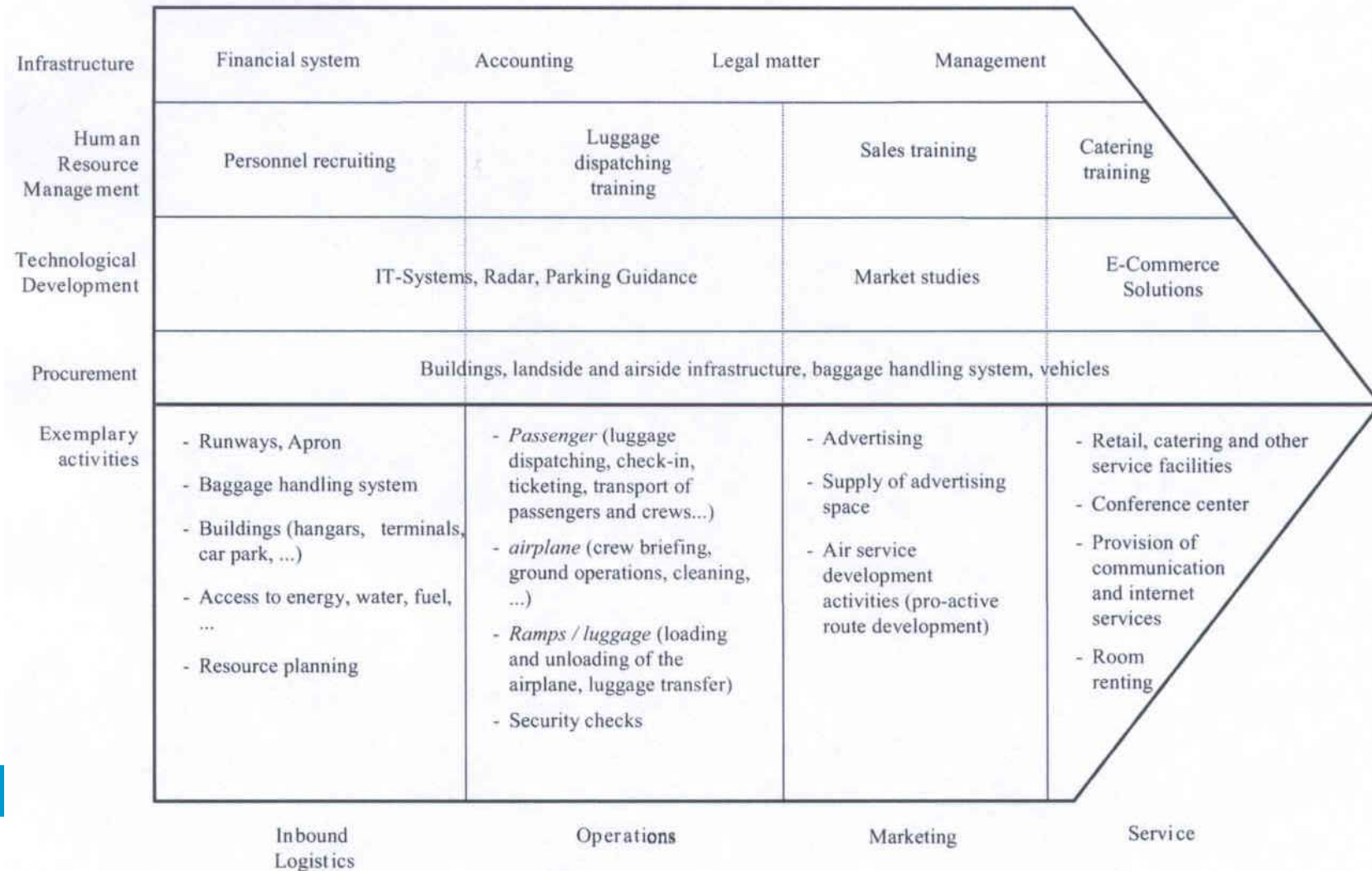
**It seems that in the air transportation market airlines should drive airports!**

# Airline Value Chain



Delft University of Technology

# Airport Value Chain



## Airport Activity Matrix

Objectives / Primary Activities	Punctuality		Quality of transfer connections	Accessibility of the airport	Prices and charges	Service	Security	Variety of destinations, frequency and flight times	Image of the airport and the airline	Slot availability	Marketing activities	Access, quality and availability of facilities	Frequent Flyer Programs and airline alliance policy
<i>Airport</i>													
Inbound Logistics	X	X	X	X					X	(X)		X	
Operations	X					X	X		X	(X)			
Marketing					(X)				X		X		
Service						X			X				



# Airline Activity Matrix

Objectives \ Primary Activities	Objectives											
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<i>Airline</i>												
Inbound Logistics				X			X	X				
Operations		X	X			X		X				
Outbound Logistics								X				
Network Management & Marketing & Sales	X	X						X		X		X
Service					X			X				



## Improving Capacity by Reciprocal Tuning

Harmonization and integration of technical infrastructure, as well as closer coordination of operational procedures, can reduce irregularities and improve punctual departures.

These measures represent relationship-specific investments that are not costless and will not be borne by a partner unless continued commitment can be assured.

Punctuality of arrivals may also possibly be improved if air traffic authorities were integrated into the alliance!

**It appears that the primary benefit for the formation of airline-airport alliances is the reduction of uncertainty for both partners.**

Alliance formation expresses a long-term commitment of the airline to the airport and vice versa.

Strategic alliances combine advantages of flexible, long-term collaboration at a reasonable and foreseeable risk while promising long-term benefits for both partners.

There is a *commitment to coordinate strategic decisions by the partners for their mutual benefit.*

## Co-operation

Potential fields of more “**intensive**” cooperation among airline and airports fall into three major categories:

capacity,  
marketing and  
security.

Capacity-oriented cooperation appears to be the most promising area for strategic alliances.

- AIM:
  - Minimize total of individual operational costs
  - Maximize total of the accrued values by creation of synergies
- Joint measures for each business process creates synergy
- Integration of value chains by reorganization of capacity creates synergy

# Characteristics of synergy:

- Complexity: simple ..... difficult
- Realization: slow ..... fast
- Cost reduction: low ..... high
- Revenue: decrease ..... increase

# Objective and Elaboration of Research Questions

- Which major factors determine synergy between airlines and airports?
- How could specific related business processes of airports and airlines be reorganized for mutual benefit, including required governance?
- Does vertical inter organizational relationship between airport and airline contribute to synergy?

# Type of theory

- Transaction Cost Exploitation  
(Resource Based View)
- Strategic Choice  
(Stakeholder)  
(Organizational learning)  
(Institutional)

# Type of integration

- Joint venture
- Network
- Consortia
- Alliance
- (Trade Union)
- Interlocking Directorate

## Outsourcing!

# Type of process

- Dependency → Integration
- Redundancy → Elimination
- Hampering → Mitigation
- Helping but separate → Coordination

# Analysis

- The major functions and processes of an airline and airport according to the value chains
- The similar or like functions and processes of an airline and airport
- Whether these functions and processes interact or are mutually interdependent or not, and why not; include identification of existing inter organizational relationships

## Analysis (2)

- Compare and contrast these interactions between the respective segments of the functional organisation leading to definition of similar or like areas and processes or practices as well as dissimilar functions and processes
- Possible effect on operational costs and “bottom line” of the airline or airport

# Analysis outcome will be different when addressing relationships between:

Hub airport & main carrier airlines or

An airport & any airline making use of the airport

# Identify Recommendations for Additional Inter Organizational Relationships

- Increase the number of interactions of similar or like functions and processes with the (hub) airport or (main carrier) airline
- Define the feasibility for an appropriate inter organizational relationship with respect to specific functions and processes
- Identify functions and processes which could be synergized

# Practical deliverables

The airline or the airport should obtain:

- An increased awareness of value of “shared functions and processes” with hub airport or main carrier
- Guidance for method to select appropriate functions and processes for a synergy with hub airport or main carrier

# Theoretical deliverables

- Insight in effect of shared functions and processes in a synergetic relationship
- Utilization of insight in general method to determine appropriate action

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