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A Conversation With ...
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United They Stand

In a little more than 10 years since the birth of the three main global network alliances, each, with its own set of objectives, has achieved significant results during the last decade.

By Janet Kimoff | *Ascend* Contributor

In the mid to late '90s, the concept of the global airline alliance was conceived as a way to generate competitive advantages and provide much greater geographical presence and reach for carriers of all shapes and sizes around the world. With Lufthansa German Airlines providing much of the impetus and leadership, the Star Alliance in 1997 was the first truly global aggregation of airlines to approach coordinated marketing and service delivery through broadly accepted techniques including codeshares and honoring one another's loyalty programs on a worldwide allied scale.

But it didn't take long before the Star Alliance encountered hefty alliance competition with the 1998 formation of **one**world, led primarily by global mega-carriers American Airlines and British Airways.

And SkyTeam, originally consisting of only four carriers and nominally headed by Delta Air Lines, then joined the simmering global-alliance competition in 2000.

Now, a full decade into the 21st century, how are the global alliances performing?

Different Strokes

The three main global alliances each possess a basic difference in their management approach. Star put together a centralized management group based in Frankfurt, Germany, that today is some 75 strong. SkyTeam and **one**world pointedly avoided creating such a sizable separate alliance hierarchy.

"We don't think of the alliance structure as 'loose,' but rather as 'self governing' as opposed to having a central corporate infrastructure," Paul Matsen, then senior vice president of marketing at Delta Air Lines, told *Airline Business* in September 2004.

And in the same article, Mike Lenz, then a managing director at American Airlines, said, "With us, **one**world is an 'overlay' as opposed to a structure like that at Star."

Management structure is definitely a point of divergence among the global alliances. Whether structural differences are the reasons for varying results, however, must remain subject to conjecture — particularly since even the results themselves must be carefully analyzed prior to drawing highly subjective conclusions.

Star Out Front

While the extent to which management style has shaped and otherwise influenced the various alliances' relative levels of success can be debated at length, Star's position as the perennial frontrunner generally cannot.

By the final quarter of 2009, Star stood as the largest of the three alliances in terms of the vital statistics of revenue, traffic and capacity (over 50 percent more seats than SkyTeam and over 90 percent more than **one**world). Since the beginning of the decade, Star membership increased twofold to 26 members, capacity and revenue grew by just over two-thirds, and traffic more than doubled.

Star began its history as the most geographically diverse of the global alliances. Nearly 10 years ago, 40 percent of Star Alliance capacity was situated within North America (largely the capacity of United Airlines), 23 percent within Asia and 22 percent within Europe. Of the remaining 15 percent of seats, just over one-quarter were on the lucrative North Atlantic markets. But Star had little to no presence in Africa or the Middle East.

During the past decade, Star has focused on filling these gaps. And entering fiscal year 2010, the 26 members of the Star alliance consisted of two African, seven Asian, 12 European, one Middle Eastern and four North American carriers. Of Star's total capacity, 10 percent now touches either Africa or the Middle East.

Star's capacity within North America, Asia and Europe still represents more than 80 percent of the alliance's total seats. Asia's weighting, however, has increased to 26 percent, while North America's share has dropped to 35 percent and Europe's share to approximately 20 percent of overall Star seats.

oneworld's North Atlantic Foundation

From the start, **one**world wagered heavily on the combined strength of its two main carriers, American Airlines and British Airways, and their significant presence on the crown-jewel North Atlantic routes — where, as of July 2000, just over 6 percent of the alliance's capacity was situated.

At the outset, **one**world's geographical composition was somewhat similar to Star's, with 39 percent of **one**world's combined capacity within North America, a lesser 13 percent within Asia and 28 percent within Europe. The **one**world alliance also lacked presence in Africa and the Middle East.

By the end of last year, **one**world consisted of 11 members — up from eight members in 2000. Despite this fairly small increase in membership, **one**world managed to grow capacity by almost 30 percent, traffic by 80 percent and revenue by 42 percent.

As of January, **one**world membership consisted of three Asian, four European, one Middle Eastern and three carriers from the Americas.

The alliance's capacity composition had changed significantly. While North America remained **one**world's largest component at 31 percent (despite an 8 percent drop during the previous decade), Asia became its second-largest region, representing 28 percent of combined seats, while Europe's weighting dropped to 19 percent.

And **one**world's presence in Africa and the Middle East had improved with the addition of a Middle Eastern partner, but overall only 4 percent of the alliance's capacity touched these regions.

Throughout the 10-year period starting in 2000, much of **one**world's focus was devoted to fighting still-unresolved antitrust battles. Did this overt focus distract attention in any way from growing the alliance? Or perhaps it was the group's collective philosophy of how best to expand that effectively limited its membership growth.

"We're not about getting to a certain number of member airlines," **one**world managing partner John McCulloch told *Airline Business* in 2004. "Each airline in **one**world has to have a strong enough brand identity in its home country and around the world. So we don't have to be too concerned about filling regional gaps with new members."

Five years later, the alliance remains true to its primary objectives.

"As we enter our second decade, the alliance's strategy remains the same: focusing on quality rather than quantity and on adding value for our member airlines and their customers," McCulloch said in a February 2009 oneworld press release.

SkyTeam Joins The Fray

At the end of 2000, the newly formed SkyTeam alliance consisted of only four members. It was the least geographically diverse international alliance of the three, with 67 percent of its seats situated within North America, 13 percent within Europe and 9 percent within Asia. The alliance had no presence in South America, Africa or the Middle East.

But during the next several years, SkyTeam as a group apparently determined to roll up its figurative sleeves and work diligently to make up for its late start.

By 2009, the alliance had more than doubled its full membership — to nine carriers: two Asian, five European and two North American. The alliance's traffic and revenue had both more than doubled. Also, SkyTeam managed to surpass **one**world in size based on capacity (by 28 percent), passengers (by 13 percent) and revenue (by 4 percent).

While still the least geographically diverse, SkyTeam reduced its North American concentration from an original two-thirds down to less than half of overall seats. And it increased Asia and Europe capacity weightings to just over 20 percent each.

Seat Allocation By Region

Region-Pairs	STAR 2000	STAR 2009	STAR 2009 + Proposed new members	ONEWORLD 2000	ONEWORLD 2009	ONEWORLD 2009 + Proposed new members	SKYTEAM 2000	SKYTEAM 2009	SKYTEAM 2009 + Proposed new members
Within Africa	0%	2%	2%	0%	1%	1%	0%	1%	1%
Africa-Asia	0%	0%	0%	0%	0%	0%	0%	0%	0%
Africa-South America	0%	0%	0%	0%	0%	0%	0%	0%	0%
Africa-Europe	0%	1%	1%	1%	1%	1%	1%	2%	2%
Africa-Middle East	0%	1%	1%	0%	0%	0%	0%	0%	0%
Africa-North America	0%	0%	0%	0%	0%	0%	0%	0%	0%
Within Asia	23%	26%	26%	13%	28%	29%	9%	22%	24%
Asia-South America	0%	0%	0%	0%	0%	0%	0%	0%	0%
Asia-Europe	2%	2%	2%	2%	2%	2%	1%	2%	2%
Asia-Middle East	0%	0%	1%	0%	0%	0%	0%	0%	0%
Asia-North America	2%	2%	2%	1%	2%	2%	2%	1%	2%
Within South America	3%	0%	5%	2%	3%	3%	0%	0%	0%
South America-Europe	0%	0%	0%	1%	1%	1%	1%	1%	1%
South America-North America	1%	1%	1%	5%	5%	5%	1%	1%	1%
Within Europe	22%	19%	18%	28%	19%	18%	13%	21%	21%
Europe-Middle East	1%	3%	2%	1%	1%	1%	0%	1%	1%
Europe-North America	4%	4%	4%	6%	4%	4%	5%	5%	4%
Within Middle East	0%	2%	2%	0%	1%	1%	0%	0%	0%
Middle East-North America	0%	0%	0%	0%	0%	0%	0%	0%	0%
Within North America	40%	35%	31%	39%	31%	31%	67%	41%	40%
Grand Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: OAG July 2000 and July 2009 seats

Seat allocation by geographic region for the three global airline alliances, Star, oneworld and SkyTeam, has changed exponentially between July 2000 and July 2009.

The Verdict

Based on expanding alliance composition and seat/mile statistics, it's undoubtedly fair to conclude that the international alliances have succeeded in improving their global reach and achieving substantial growth for their members.

But what does each alliance's geographical composition represent in terms of future growth potential? And which alliance commands the greatest share of the largest and most promising regions?

With Asia anticipated by many to eventually lead the way out of the recession — and the Middle East the only region to have shown recent statistical year-over-year growth in double-digit percentages — these areas may be reasonably judged to offer the most immediate promise of further significant short-term growth.

And if that's the case, Star appears best-positioned among the three major international alliances to reap the largest share of benefits.

Based on traffic, the top regions out of 21 defined and reviewed were Asia, Europe, North America and South America. Combined, these regions represented more than 80 percent of worldwide 2009 traffic. Star controlled a greater share of capacity compared to SkyTeam and **one**world in four of the five top region-pairs (the one exception was South America).

Of the top 10 regions (representing 93 percent of worldwide traffic), Star commanded a larger share in seven, including the Middle East.

SkyTeam had the second-largest share in five of the top 10 markets and led in one region (Africa-Europe).

And **one**world dominated the South America region and the South America-North America region pair, and it came in second for Asia and the Middle East. It held the smallest share in the remaining six region pairs.

Something to watch closely is the continually shifting makeup of the various global airline alliances. Among recent salient issues, of course, was the membership affiliation of Japan Airlines (JAL announced in February that it would remain a member of **one**world, rather than switching its membership to SkyTeam).

Additionally, numerous carriers are either strongly considering or are already committed to join the various alliances, either as full-fledged voting members or as associate (non-voting) members.

And a significant shift in outlook for the different alliances occurs when the proposed carriers are included.

Under best-guess (as to near-future alliance makeup) scenarios, Star dominates eight of the 10 top regions. And it's second in the other two regions.

SkyTeam controls the next-largest share of capacity in six regions, including Asia, where SkyTeam edges out **one**world for the No. 2 ranking. **One**world's overall position could deteriorate further as, in addition to the Asia shift, it might lose its dominant position in Latin America to Star.

Region-Pairs	STAR	ONEWORLD	SKYTEAM	COMBINED 3
Within Africa	25%	3%	6%	34%
Africa-Asia	27%	10%	9%	46%
Africa-South America	57%	0%	0%	57%
Africa-Europe	14%	7%	19%	40%
Africa-Middle East	27%	2%	1%	31%
Africa-North America	29%	0%	33%	63%
Within Asia	21%	13%	12%	46%
Asia-South America	13%	39%	0%	52%
Asia-Europe	30%	18%	19%	66%
Asia-Middle East	7%	2%	1%	10%
Asia-North America	38%	19%	22%	79%
Within South America	0%	7%	0%	7%
South America-Europe	12%	21%	27%	60%
South America-Middle East	0%	0%	0%	0%
South America-North America	19%	34%	14%	67%
Within Europe	19%	9%	14%	43%
Europe-Middle East	28%	6%	7%	42%
Europe-North America	32%	18%	25%	75%
Within Middle East	19%	3%	0%	22%
Middle East-North America	26%	4%	7%	37%
Within North America	29%	13%	22%	64%
Grand Total Average	**22%**	**11%**	**15%**	**48%**

Alliance Share Of Total Capacity — 2009

On average, Star Alliance makes up 22 percent of total seat allocation by geographic region, while SkyTeams follows at 15 percent and oneworld with 11 percent. Combined, the three global airline alliances, as of July 2009, comprise nearly half of the industry's total capacity share.

While membership within each alliance is far from stable (for example, with Continental Airlines recently moving to Star from SkyTeam and Japan Airlines finally deciding to stay with **one**world, after months considering a potential switch to SkyTeam), the three alliances combined represent a formidable force.

The members of the three major global alliances (including proposed new members) control more than half of the world's capacity and close to half of the passengers.

This significant influence includes managing 64 percent of capacity within North America, 55 percent within Asia, 44 percent within Europe, 31 percent within Central/South America, 22 percent within the Middle East and a whopping 75 percent of seats on the North Atlantic.

Given the alliances' pervasive scope, it becomes more and more difficult to construct a business hypothesis under which nonaligned carriers will be able to access significant global growth opportunities.

As carriers continue to clash against government authority over regulatory issues (including route and/or airport slot rights, foreign-investment limits and outright mergers), international routes and flow traffic represent an alternative to trying to compete effectively against low-cost carriers in domestic market share.

Also, as carriers reduce capacity in response to the economic downturn, alliances offer an option to supplement the carriers' diminishing schedules.

"In a world where you're not allowed to do full mergers, this [forming airline alliances] is the next-best thing," British Airways Executive Vice President Simon Talling-Smith told Reuters last July.

And **one**world's February 2009 statement that it had generated more than US$3 billion in incremental revenue from alliance fares and sales activities alone during the last decade further demonstrates the significant potential of alliance membership despite regulatory constraints.

At least through the current period of continuing economic distress, global-alliance membership should be considered an even more critical element of any individual carrier's survival tactics. And in the broader-range picture, alliance membership could also prove critical to many carriers' medium- and long-term growth strategies.

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