

Partners When It Pays

A LOOK AT GLOBAL ALLIANCES AND WHAT THEY MEAN TO YOU

YOU'RE FAMILIAR WITH major airline alliances: Oneworld, Skyteam and Star. Essentially, these are alliances that let carriers work more closely together—aligning schedules and interline agreements, providing their respective loyalty club members with reciprocal benefits. In short, it's a way for separately owned airlines to approximate being a single entity. It means they can give customers the convenience of more integrated scheduling, while still enjoying certain economies of scale and critical mass.

But there are other sub-alliances between individual carriers. There's one such link between American Airlines and Airberlin. JetBlue Airways, which sits atop one of the U.S.'s biggest international gateways, JFK International, has alliances with several foreign carriers—Aer Lingus, El Al, Emirates, Icelandair, LAN, Lufthansa and Virgin Atlantic—as well as with two domestic carriers: American and Cape Air. Alaska Airlines has agreements with 14 other carriers, including British Airways, Cathay Pacific, KLM, Air France, Korean Air, Air Pacific, LAN, Icelandair, Qantas, PenAir and Kenmore Air.

The rationale behind these partnerships is similar to that of the global alliances, which is to work closely with other carriers in order to flow as many passengers as possible through a system. Although global alliances are designed to give carriers as large a reach as possible, geographic gaps exist within those alliances. Oneworld, for example, has no west-central Europe carrier; it does have Iberia in the south and Finnair in the north. Airberlin, which probably will achieve full membership in Oneworld at the end of this year or the beginning of next year, fills that gap. Meanwhile, American, also a Oneworld member, struck a tactical relationship with Airberlin to fill that geographic void.

Similarly, Lufthansa's investment in JetBlue in 2007 filled what was then a gap in New York for the Star Alliance, of which Lufthansa is a member. Lufthansa needed a strong presence in New York to help feed incoming traffic throughout the U.S., as well as to pull passengers from throughout the U.S. into its international network. The merger of United and Continental, which brought Continental's strong presence in Newark into the Star Alliance, may mean Lufthansa has less of a need for JetBlue.

JetBlue's powerhouse position in JFK is also what makes it so attractive to unaligned carriers



AMERICAN AIRLINES AND AIRBERLIN HAVE A "SUB-ALLIANCE." PICTURED IS THE GERMAN CARRIER'S AIRBUS A321.

in Europe and elsewhere, such as Aer Lingus.

"Alliances are still trying to fill in the gaps," says Mo Garfinkle, chairman, CEO and president of GCW Consulting, an aviation consulting firm in Washington, D.C. "Until they do, individual members are taking self-action within the parameters of the alliance requirements."

Jet Blue is so attractive that even American is partnering with it in order to take advantage of the carrier's network out of JFK on domestic routes. The benefit for consumers is that they've got smoother transfers, better connections and more ways to earn frequent-flyer miles as well as redeem them. It's not as good as a full-bore alliance but it's better than a mere interline agreement, says Garfinkle.

Another factor in these alliances is the rise of the low-cost carrier. Major U.S. and European airlines are struggling to compete domestically with low-cost carriers, which are gaining market share at the network carriers' expense. The easiest place for the network carriers to grow is internationally.

"So now we see smaller carriers beginning to align with major airlines over the oceans," says Patrick Murphy, partner in the Washington, D.C.-based aviation consulting firm Gerchick-Murphy Associates.

Even Southwest Airlines has a limited agreement with the Mexican carrier Volaris. You can book a trip using both Southwest and Volaris. However, you can't earn or redeem Southwest's RapidRewards points with the Mexican carrier. Eventually, the low-cost carriers are going to expand internationally through alliances, says Murphy. Their fleets and business models aren't made for international business, he says, but their formidable domestic networks can take incoming international travelers and feed traffic back to international carriers to points around the world.

It's the sort of thing that helps airlines' bottom lines, but what does it mean for consumers? There had been concerns that airline alliances are a form of consolidation that would be bad for consumers, because it would lead to reduced choice and higher prices. But competition remains.

"These alliances and all this networking appear to have increased competition, not decreased it," says Murphy. "There may be fewer players but all these alliances overlap each other extensively," he says. "They compete pretty aggressively over the Atlantic."

The end result is efficiency for the airlines and more convenience for their/your customers. @

