

EXPLORING THE ROLE OF ALLIANCES, AGREEMENTS AND PARTNERSHIPS IN THE AIRLINE INDUSTRY; THE CASE OF APG NETWORK WITHIN THE ROMANIAN MARKET

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Abstract

During the last years, the airline industry had a dynamic evolution, due to significant changes such as: the liberalization of air traffic with two important consequences, the development of the hub and spoke model, as well as the emergence of low-cost companies; the commercialization and privatization of airports; the evolution of technology. In order to be competitive in this new context, taking part of an alliance or network, creating a partnership or an agreement became a key strategy for airlines and as well as other stakeholders involved.

This article examines the different partnerships in the airline industry, starting from code-share agreements between airlines or the emergence of airline alliances as a consequence of the hub and spoke system up to the more recent airline-airports partnerships, code-share agreements involving low-cost companies or airline representation agreements for several (new) markets.

The case study of APG Network will be examined, in order to emphasize the role of GSAs (General Sales Agents) in the development strategy of airlines. Moreover, a questionnaire was distributed among travel agencies and airlines operating in Romania, to identify their perception on APG and its impact on the Romanian market.

Keywords: airline alliances, GSA, airline representation, network, APG

1. Introduction and context of the study

Over the last years, the airline industry has been confronted to many changes such as: the liberalization of air traffic, the development of low-cost airlines, the commercialization of airports. As a consequence, the whole airline industry with all its key players have been undergoing a reinvention process, in order to adapt to the new environment.

Partnerships became an important element of the development strategy of both airlines and airports and several types of agreements have been identified, each corresponding to different evolution stages of the industry. The development of the hub-and-spoke system corresponded to the emergence of interline and code-share agreements between airlines, the development of low-cost airlines determined agreements between low-cost and traditional carriers and the commercialization of airports has been one of the factors which determined partnerships between airlines and airports. The partnerships can be observed both on a vertical and horizontal level and get more diverse as the industry becomes more complex. An example of a recent type of partnership is represented by the collaboration between airlines and GSAs (General Sales Agents), which are third parties, representing them on different markets.

This article focuses on identifying the main types of partnerships in the airline industry and the main objectives of the paper refer to:

- Determining the dynamics behind the existing partnerships in the airline industry
- Identifying the different strategies adopted by airlines
- Determining the efficiency of GSAs based on a research done in Romania, using APG Romania as a case study

In order to achieve the mentioned objectives, an analysis of secondary data included in various scientific journals and publications has been made, as well as a primary data collection through a questionnaire applied to Romanian based travel agencies and airlines regarding APG Romania.

2. Vertical and horizontal partnerships in the airline industry

The extensive cooperation between international carriers in the provision of service started as a strategic response to restrictive bilateral agreements or cross-border airline mergers [1], in the context of a highly regulated international aviation [2].

The liberalization of air traffic determined important changes in the competitive structure of the airline industry [3] and the existing business models. The hub-and-spoke networks emerged as a result of airlines optimizing their route structure and mergers, acquisitions and liquidations were consequences of airlines necessity to strengthen their dominance and expand their market coverage [4].

Airlines have gathered around several types of alliances, from agreements consisting of limited cooperation through frequent flyer programs to code-sharing practices, which involve sharing costly assets [5].

The first type of partnerships were the joint ventures between airlines which offered an attractive option for interlining, taking into consideration that a single airline's network does not have the capacity to comprise all possible flight combinations [6].

A more advanced form of cooperation between airlines is code-sharing, which allows one airline's flight to be included into the schedule of partner airlines [6].

Through code-share arrangements, airlines can market and sell seats under their code on flights operated by other carriers and therefore complement their network, reduce competition, feed traffic to their hubs [7]. Code-share arrangements can generate revenue through market expansion, improved connectivity, traffic feeds, multiple listings on Computer Reservation System (CRS) screens and can reduce costs as a result of increased traffic, equipment sharing or joint advertising [7].

Multi-airline code-sharing agreements determined the emergence of the global airline alliances, which were a result of partnerships between US and EU carriers [6].

Global airline alliances are the most visible form of cooperation in the airline industry. The three most important airline alliances are Star Alliance (28 airlines, 1300 airports, 689.98 passengers transported annually), SkyTeam (20 member airlines, 1062 destinations and 665.4 million passengers transported annually), and Oneworld (14 airlines, 1015 destinations, 556.8 million passengers annually). Despite large passenger numbers, global airline alliances are facing fierce competition from low-cost carriers, Gulf-based airlines, and other international airlines [8], which determines alliance airlines to engage in additional agreements with other member airlines to enhance their competitiveness [8].

Code-sharing partnerships are usually complemented by agreements to jointly use airport facilities [6]. A direct consequence of airline alliances was also the emergence of Frequent Flyer Programs [2].

Alliance partners can also reach a further degree of cooperation, through revenue sharing and joint price setting agreements, determining also a joint coordination of scheduling [6].

During the last years, another type of partnership emerged, as a consequence of the entry of the low-cost carriers and the evolution of their specific business models. While most of the low-cost airlines operate on secondary airports, in order to minimize costs, some of them focus on major airports and important tourist destinations [9], [10]. In this context, low-cost airlines operating on hub airports was the first step in developing code-share agreements between low-cost carriers and traditional airlines [11].

At the same time, partnerships in the airline industry are not only horizontally oriented, but also vertically, connecting airlines with airports.

In the existing literature, several types of relationships can be identified between airlines and airports:

- Signatory airlines - airlines become the guarantors of the airport's finance, through a signed “use-and-lease” agreement [4],[12]
- Airlines own or control airport facilities [4], [12]
- Long term usage contract [4] long-term terminal leases and long-term negotiated charges for the use of airport facilities [12]
- Airport revenue bonds [4]
- Concession revenue sharing [12]

Nowadays, the emergence of a new low-cost business model and the development of secondary/regional airports have determined an increased airport competition and forced airports to lower the fees and become more efficient.

Airlines grew in price sensitivity and choosing an airport with lower fees became a part of their development strategy. Airports are pressured to fit the low-cost operating model and its key requirements, such as lower fees or the flexibility to negotiate them, reduced congestion, quick turnaround times, maximizing the aircraft utilization [13], [14].

Moreover, low-cost carriers are less dependent on airports, considering that they operate point-to-point flights and do not usually have connecting services. In this context, they can easily switch airports, which increases their bargaining power in negotiating fees [4].

Another challenge that airports face nowadays is capacity shortage and congestion, as a result of the air traffic growth. Capacity constraints determines differential impacts on the airlines operating on the airport, with a dominant carrier controlling the main key resources [4].

In this context of increasing concentration in the supply of air services and market polarization around some carriers, dominance allowed carriers to gain bargaining power and to develop a bilateral-monopoly airport-airline relation [3], [15].

Developing a partnership with a dominant carrier also helped airports to be competitive in an environment where they face competition both from adjacent airports being allocated the same catchment areas and major airports competing for connecting traffic [4].

Moreover, airports have recently been undergoing a process of commercialization and privatization, following the growing pressure to be less reliant on government support and more self-sufficient [4]. As a consequence, airports started adopting a more business-oriented approach [19], [4].

Airports began developing their own commercial and innovative strategies, in order to exploit as many revenue generating opportunities possible [16], [12]. Commercial revenue is the key to sustaining regulated aeronautical activities of airports, and commercial revenue sharing with airlines, also represents an important source of profit improvement [12].

According to Oum, Fu [4], new patterns of airport-airline relations have emerged, focusing on concession revenue. As an example, Ryan Air started to cooperate with the leading airport parking company BCP [4] and sharing parking revenue became a condition when choosing the airports the

airline operates on. Another example is the case of the Lufthansa holding share in Munich Terminal 2, where the profit generated from stores and catering is shared between FMG and Lufthansa [4].

By creating an airport-airline combination mechanism, airports can secure their future traffic and revenue and airlines can benefit of support and preferential treatment by securing key resources and gaining competitive advantage [4], [3].

Another type of new partnership is represented by the air–rail intermodal agreements, which emerged as a consequence of the “rebirth” of the rail industry, the changes in the airline industry and airports’ capacity to accommodate intermodal forms of transportation [17]. Some of the advantages of this kind of agreement are: providing wider access to airline services, substituting unprofitable short flights, achieving environmental targets [17].

In the past, another type of vertical partnership with hotels, tour operators and car rental companies was frequent in the airline industry [18]. Although nowadays, airlines are more oriented towards cost-minimization strategies, there are still many examples of agreements between airlines and car rental companies, even hotels and DMOs, when developing a “stopover” program.

An horizontal partnership, this time, at the airport level is represented by airport cooperation. In the context of an intensified air traffic, airport congestion and capacity shortage, as well as increased airline and airport competition, cooperation between two or more airports could improve customer services and the operational efficiency of the airports, through a more efficient traffic allocation [4].

New types of partnerships emerged also within the airline distribution chain, through General Sales Agents (GSAs), which are third parties to whom airlines have delegated the general authority in a defined territory (IATA). GSAs bring market knowledge and sales processes and provide sales, marketing and ticketing for airlines in different regions where they are not physically present.

2. APG Romania – Case study

APG is the world’s largest GSA airline representation network, with 107 offices worldwide, in 178 countries and with over 200 partner airlines.

Founded by 5 European General Sales Agency organizations, APG manages airline sales and marketing representation and among different products, offers an interline electronic ticketing (IET) program.

In order to determine the efficiency of APG Romania, it is important to determine its impact on the Romanian market and the way its products are perceived. For this purpose, a questionnaire was distributed to travel agencies and airlines operating in Romania. 116 Romanian based entities participated in the questionnaire (107 Travel Agencies and 9 Airlines). The responses were gathered on-site (Romanian Tourism Fair – APG Booth) and online (email to APG Romania database). Regarding the category of customers of the organization in which they operate, more than half of those questioned, stated that they represent business consumers (62.93%).

According to the respondents, APG Romania is one of the best-known Airline Representatives in Romania, preceded only by Tal Aviation.

Regarding the degree of knowledge of APG Romania, a significantly higher frequency was noted for “Very familiar” (28%) and “Moderately familiar” (27%), but only a small percentage admit being “Extremely familiar” (7%) with APG.

The most known of APG products are GSSA – General Sales and Services Agency and IET – Interline E-ticketing.

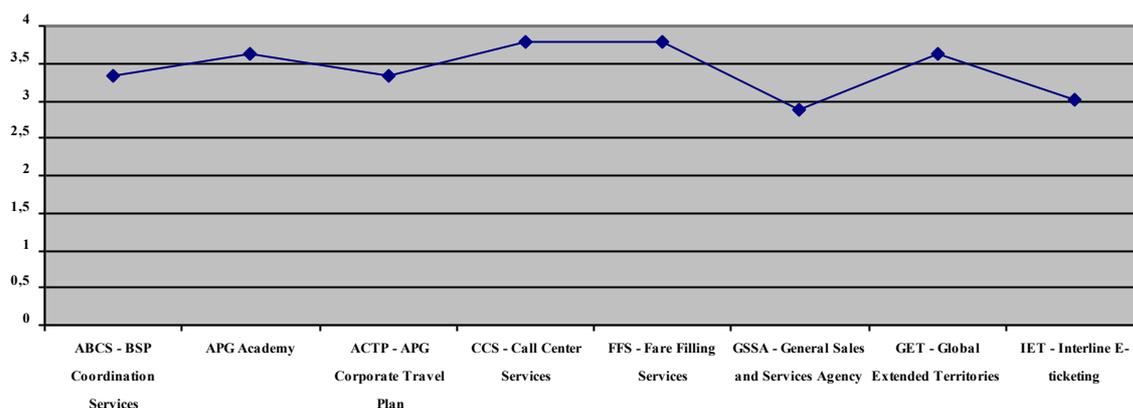


Fig. 1.

APG's products (1 for the most known and 5 for the least known)

Source: by authors

The GSSA product offers world standard commercial representation and management services. From all of the services offered, the best-known are: ticketing and reservation facilities (78 answers), full sales and marketing activities (30 answers) and negotiating commercial agreements (25 answers).

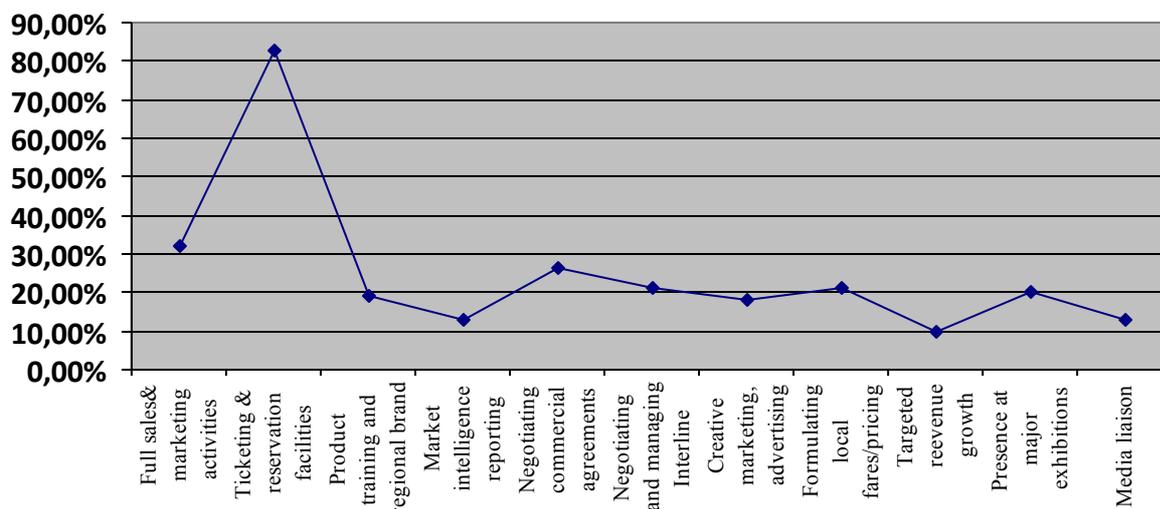


Fig. 2. Best known GSSA products

Source: by authors

The most appreciated APG product on the market is IET. With APG IET solution, airlines can sign only one IET contract with APG Airlines, which gives them the possibility to have interline revenues without signing dozens of bilateral agreements.

The most relevant suggestions to the question “What could APG do to improve its products?” are:

- Be more responsive to specific market requirements
- Much more airline representation
- Marketing/Be present more on the market/more communication/commercials
- Come up with competitive products/Bring more airlines into their portfolio
- Relationship with the travel agents
- More airline partners
- More GSSAs

Regarding the communication tools used, the respondents considered that “Communication Using social media channels” need improvement (44%). However, also a significant percentage of them indicate that the website should be improved.

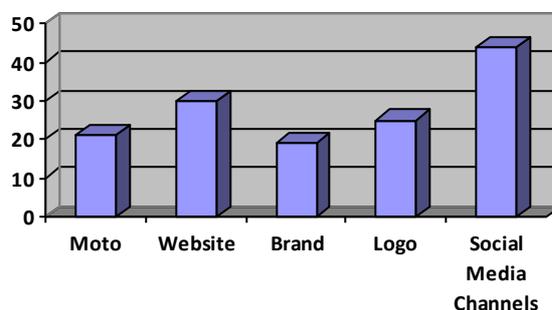


Fig. 3. APG Communication tools needing improvement
Source: by authors

APG is one of the most well known GSAs on the Romanian market. Its most successful products are the GSSA and the IET, which suggests airlines increasing interest in choosing representation on certain markets through GSAs, as well as the advantages of being a member of a network with an interline e-ticketing hub. With over 200 airline partners and 84,000 IATA and ARC travel agencies, IET brings advantages to both airlines and travel agencies, helping them increase revenue through interline agreements with key players.

The Romanian Market is familiar and satisfied with the APG products, still, most of the respondents consider that the marketing strategy and the communication channel used could be improved and the services offered diversified by increasing the number of participating airlines, accessing new markets and developing a closer relationship with the travel agents.

5. Conclusions

Alliances and partnerships have always represented a solution in order to become more efficient and to increase the competitiveness of airlines. Over the last years, the changes which occurred contributed to the development of new types of partnerships both on a vertical and horizontal level.

Partnerships between low-cost and traditional airlines, airlines and trains reshaped the competition within the industry and were instrumental in developing new products.

Agreements between airlines and airports and between airports redefined the competition between both airlines and airports, improving as well operational efficiency through effective traffic allocation.

GSAs represent another important type of partnership in the airline industry, which allowed airlines to reach new markets in a more efficient way. The impact of the APG Network on the Romanian Market goes even on a deeper level, considering that, besides offering airline representation, it also provides several successful products, such as IET. This products allows both airlines and travel agencies increase their revenue, through one single agreement but access to a wide network, counterpart to having signed many bilateral agreements.

Table 1. Partnerships in the airline industry

VERTICAL	Airline-Airports	<ul style="list-style-type: none"> ➤ reduce risk ➤ internalize demand externalities ➤ gain competitive advantages ➤ increase revenue
	Airline – GSAs	<ul style="list-style-type: none"> ➤ minimize costs (sales, marketing) ➤ increase revenue (interline agreements with key players) ➤ reach new markets
	Airline - rail	<ul style="list-style-type: none"> ➤ wider access ➤ substituting short-flight and focusing on long-haul flights
	Airline – hotels, car rental, tourism organizations	<ul style="list-style-type: none"> ➤ increase revenue ➤ improve their visibility ➤ attract more customers
HORIZONTAL	Code share agreements	<ul style="list-style-type: none"> ➤ market expansion ➤ improved connectivity
	Airline alliance	<ul style="list-style-type: none"> ➤ traffic feeds ➤ reduce costs (increased traffic, equipment sharing/joint advertising) ➤ lower competition
	Airport – airport	<ul style="list-style-type: none"> ➤ improve customer services ➤ improve operational efficiency ➤ efficient traffic allocation

Source: by authors

Considering the dynamics of the airline industry, new changes are constantly expected to appear and they will definitely lead to new types of agreements and partnerships. Nevertheless, besides the advantages, there are several concerns regarding the negative impact of these partnerships on the airline and airport competition, an important aspect being the possible entry barriers to new competitors.

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