

## Strategic alliance in overcoming economic downturn and global market slowdown in airline industry: case of air france

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### Abstrak

The airline industry has been challenged, during the last years, by the opening of the European market, the adjustments required to deal with the new competitive environment and the pressure of the US open skies strategy. European airlines have developed innovative strategies in order to adapt themselves to market growth and competition challenges. During the last decade they have achieved considerable productivity improvements, which now permits the sector to create new jobs. However they still suffer from relative structural fragmentation and financial fragility when compared to their main competitors, notably North-American carriers.

Liberalization and globalization make the market increasingly competitive and require airlines to undertake large restructuring efforts. European Commission authorized state aid as a one-off measure to help national carriers to restructure during the transition to the liberalized single market. This transition is now over. The airline industry suffers from the same handicap as other industries in Europe, justifying general initiatives enhancing the efficiency of the economic environment.

The 11 September 2001 Tragedy no matter terrible should be identified as a one-off event and not a structural crisis. Air France wanted to act quickly while at the same time taking measures that could be easily reversed when needed. It needed quick action while at the same time avoiding over-reaction. Air France announced an adjustment plan on 18 September. which included among other things a freeze on hiring, a reduction in capacity and a number of cost-saving measures. Air France constantly shifted Its capacity regionally as it betted on the fact that the strength of Its hub, Paris/COG 2, allows it to resist the downturn and attract customers to Paris, thus gaining market share.

By the end of November, instead of a growth forecast of 7% over the winter of 2000, Air France had the results stabilized and the winter of 2001 was on the same level as the year before. The capacity reduced less than others but the load factors and the yields, whereas the figures for the European airlines were down 10% and even worse in the U.S.

In general, and despite the huge financial losses it incurred, the European airline industry reacted much better this time than during the Gulf War crisis of 1990-91. This is largely due to greater flexibility in managing capacity and to a certain self- imposed discipline, which avoided a potentially disastrous fares war. In the end the fare structure might be imposed instead, which basically covered the costs.

Though for some other airlines still questionable, the alliances played an important role in helping Air France manage the crisis. In spite of some initial problems between European and U.S. carriers due to what was perceived as dumping practices on the part of the Americans, at a later stage a dialogue was possible on the issue of fares, thus avoiding much heavier losses. In this case, Air France was able to talk to Delta on these Issues after receiving antitrust immunity in January. In the future, the alliances may play an even larger role in minimizing the impact of such event, market slowdown, or even economic turndown.

Overall revenue figures for the industry are still down in the largest markets. There is still a depressed

demand in the U.S. We are also facing additional costs as a result of 11 September, in particular in the areas of security and insurance. Just in terms of insurance, Air France is facing an annual cost increase of around US\$100m.

Airline industry apparently cannot cover its capital costs. The authorities seem to realize it but they easily forget it as soon as the routines clock back. Unfortunately, if traffic decreases, the airports and the air traffic control authorities immediately increase their charges in order to compensate for lost revenue. There is a great imbalance amongst players in the air transport industry.

Part of the blame for this, of course, lies within the industry. The low-cost carriers, for instance, while playing a useful role in opening up a new market segment to aviation are also damaging the industry as a whole. Their product is different, they occupy a niche of their own but in their communication they imply. Air France practiced renegotiation, delivery delay, and restructures operating lease, which enables itself to withdraw aircraft from the fleet without being financially penalized. 11 September obviously spurred the airlines to slightly alter their plans and at least to anticipate some measures. Nine A310s were withdrawn from the fleet of Air France nine months ahead of time. They will be replaced by A330-200s. Two 747-200s and one 767 were withdrawn from long-haul operations, while in the medium-haul sector operating leases on three A321s and one 737-300 were not renewed. The use of short-to-medium term operational leases has given Air France great flexibility in times of crisis. It seems that Air France learned the lesson of 1991 when it received brand-new aircraft that ended immediately parked in the desert.

Strategic alliance is considered to have helped in avoiding cost increases, and building synergic complementary network. Through a code share, one could double a frequency without any spending. This means altogether substantial investment savings. On the cargo side, SkyTeam, for example, has developed free synergies between Air France, Delta and Korean.

The alliances are still a very young phenomenon and they have not yet expressed all their potential.

Common marketing strategies might do the trick, while preserving the identity and image of each partner, will also foster the growth of the SkyTeam brand. The alliance has made much progress over the past three years and the antitrust immunity granted in January will lead to a qualitative jump in its partner relationship.