

## **Chapter 4                      Summary and Discussion.**

The effect of alliances on the factors critical to the choice of airline were ambiguous. An alliance's effect on convenience, schedules, levels of service, reliability and other critical issues depends on the strategic decisions taken by the alliance partners. The only critical factor that is affected positively by the alliance almost without exception are the FFPs that gain momentum with increased route network density.

Low probability in the airline industry has placed increasing pressure on airlines to control and reduce their costs. Alliances have represented one way for airlines to achieve these objectives. In addition, alliances have provided airlines with means of overcoming the restrictions on foreign ownership and capacity under bilateral air service agreements (ASAs) and limited access to airport infrastructure in some markets.

Alliances can potentially reduce the variable and fixed costs of servicing particular routes and the indirect costs associated with operating the airline business. Unit costs may also fall as a result of economics associated with greater traffic density.

The convenience and quality of airline services are important features for many passengers. Alliances can produce benefits for passengers either greater convenience and service quality, or potentially via lower fares. Where these benefits are achieved, alliances may stimulate greater demand for air travel, provide a boost to travel-related goods and services and contribute to increase competitiveness of other industries.

The realisation of these potential gains relies upon airlines passing on the benefits of their alliances to passengers. The extent to which any benefits are

achieved and passed on to passengers will depend upon the level of competition in the market and the potential for individual to exercise their market power through alliances.

There is evidence that alliances have enabled partner airlines to increase and revenues and lower their costs of providing services. However, the traffic and revenue gains appear to have been mainly at the expense of other carriers. Evidence of the benefits to passengers in terms of reduced fares and increased convenience and service quality are less clear. Whilst it is widely acknowledged that benefits to passengers can arise, there has been little attempt to quantify them.

Alliances can be an effective strategy for airlines to increase their traffic and revenues. Although these gains are often relatively small compared to such measures as a carrier's overall international operating revenues, they represent key sources of new traffic and revenue for participating airlines in an industry characterized by razor-thin profit margins. The magnitude of these gains depends on the geographic scope of the code-sharing arrangement and the level of integration achieved by allied airlines. Some are generated by traffic stimulation caused by increased competition among alliances and between alliances and other airlines in the short term. Nevertheless, insufficient data exist to determine whether consumers are paying higher or lower fares as a result of alliances and whether alliances will reduce or increase competition in the long term and thereby lead to higher or lower fares.

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