

# STRATEGIC MANAGEMENT AND LOGISTIC OPERATIONS OF THE ALLIANCE OF AIRLINES: ONEWORLD CASE STUDY

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**Abstract** Strategic business management extends significantly into the logistics processes. Global companies need to maintain their competitive advantage through cooperative activities. This often means collaboration between companies which are in normal conditions, direct competitors. This paper examines and presents the situation of airlines in the United States of America that have created a strategic alliance to expand the potential market for all customers of individual companies. The use of strategic management in similar competitive/cooperative relationships helps to create synergies. From the perspective of the future strategy, the main goal of the process is primarily to connect the internal logistics processes between the individual companies, and subsequently achieve the expansion of the customer base, or to enrich the supply presented for customers of various companies in the strategic alliance. Another important aspect of this collaboration is a marketing survey of customer requirements. In particular, the new trends in transportation, providing up to date information, transparency of the ordering system, improving transport links, and others that the customers require. Effective interconnection of strategic management, logistic operations and marketing of the individual cooperative companies stimulates the creation of synergies, mainly in terms of strengthening the strategic competitiveness on a global scale (new value for customers, growth of market share and the increase of revenues for the cooperative subjects).

**Keywords:**

logistics,  
strategy,  
management,  
competitiveness,  
cooperation.

## 1 Introduction

Cooperation is a joint venture of American Airlines, British Airways, Iberia and Finnair, launched in 2010, includes 15 global airlines (Oneworld 2019, *Businessstraveller* 2013). The relationship was defined formally, i.e. by signing a joint commercial contract. It defines a common share in the management, pricing, transport capacity, coordination of flight schedules and revenue sharing. The purpose of the joint venture has been to work together on transatlantic flights to strengthen global competitiveness in over 400 destinations. Collaboration helps the companies to strengthen their competitive advantage over global airline alliances like SkyTeam and Star. The European Union had taken an interest in the joint venture and conducted controls to assure that this relationship falls into the framework of monopoly immunity. But despite their cooperation, individual companies act as separate entities (Europa.eu 2010). Companies have introduced a loyalty program for customers with the possibility to collect points in various categories. The collected points could be exchanged for free flights and passengers could also choose the class of seats (Nemoletenky 2019). Loyalty programs were designed to target both business customers and regular travelers. This represented a free incentive program designed to reduce travel costs for small and medium sized companies. Customers registered in this program earned points for each flight using any one of the collaborating airlines. Depending on the number of points earned, members could select the appropriate free flight with a particular flight class. Companies made it clear that earned rewards in the form of air tickets do not have to be used by a particular customer but can also be donated. The program aimed to attract new customers from the small and medium-sized companies, thus fighting competition and gaining a competitive advantage through gaining new customers (*Businessextra* 2019). To achieve more comfortable and better travel, collaborative companies have introduced a single, transparent reservation system that is characterized by a combination of sales force- more flight offers for customers, more affordable air tickets, cross-selling- selling tickets through the competition) and harmonization of flight routes (shortening the flight routes and reducing the number of transfers (*Aviationstrategy* 2010, *Flytransatlantic.com* 2019, *Wikipedia* 2019). The main goal of the collaboration was defined as providing more convenient and better customer travel. To achieve said goal reservation benefits are utilized. The booking systems of individual airlines within the framework of the Fly Transatlantic cooperation are fully integrated and transparent. This brings more flexibility and

faster exploration of multiple flight options to the customers. For example, if a customer books multiple flights from different partner companies, they will create one well-arranged ticket for each flight. This well-arranged ticket will also be available in electronic format for the individual companies. Individual companies share up to date information, e.g. about the current flights, flight conditions, food provided, etc. and creating global support within many resorts when it comes to common customer issues, for example flight connections (Flytransatlantic 2019).

The cooperation strategy also focuses on cost savings in the concept of wider flight range or. coverage, which in turn creates a better offer for passengers. By reducing costs, companies want to achieve a global competitiveness in comparison with fast growing, low cost competitors like easyJet and Ryanair. Companies use modern technology and software like for example smartphone applications to communication and cooperation with the customers. They can create a better flight offer with a single reservation system, allowing passengers to fly almost anywhere in the world. Through the comfort and services, they provide, companies strive to meet customers' needs in the most efficient way possible, what primarily leads to customer loyalty. The joint integration of products and services within the Oneworld Alliance brings several synergic effects:

- New value added for the customers by simplifying the service.
- Maintaining and even increasing market share.
- Increase in the number of passengers for the individual airlines participating in the joint venture.
- Growing customer loyalty.
- Overall growth of income for all of the participating companies.

## **2 Materials and Methods**

A prerequisite for the exploration of synergies within the connections of strategic management, logistics and marketing in the selected case is a comprehensive content analysis of the examined phenomenon. With the use of desk research, it was possible to mapping the specific environment of the selected case. By deduction, it was possible to analyze this environment in detail and describe the essential areas of investigation. This analysis served to depict the cooperative environment elements and processes of the mutually competitive companies. Examining the case represents a qualitative approach to analyzing the business environment.

Subsequently, the synthesis of knowledge about the given problem is used and specific starting points are formulated. The current collaborative environment points to several significant links between strategic business management and the logistics operations of other businesses, between businesses and their common customer base, the strategic management of the cooperative activities of businesses, and others. Based on the pre researched focused on the issue of cooperation we present the following are the main findings. The cooperation links point directly to the emergence of synergistic effects, which need to be studied to validate our claims and formulate strategic management recommendations. The selection of the cooperation link was based on the following criteria: international environment achieved success of the cooperation strategy, interesting and atypical cooperation environment with the involvement of logistic processes. The cooperation of airlines in the joint venture Oneworld is an excellent research subject precisely because of the existence of both cooperative and competitive relationship at the same time. Companies have been able to reduce the cost of their services and offer customers a better product than their other competitors.

### **3 Results and discussion**

Practical experience in logistics is important for making recommendations for the business system functioning. Logistic operations ensure the availability of the right product, with the right quality, at the right time, at the right cost and to the right customer (Dybskaya and Sverchkov 2017). Its importance is currently growing, the business environment is looking for new ways to solve problems, be more productive with lower costs and better meet customer expectations. An efficient system requires stability with regard to the partners, flexibility within certain defined limits, interconnection of all parts towards the management of the company and the customer. Logistic transport processes enable customers to meet their needs, so they can move them from one location to another. However, customers are not products or semi finished products that need to be delivered to production. With the Oneworld alliance, the partnership was built to: change service delivery, modify the reservation system, improve the quality of service and expand the portfolio of airline destinations. The complex logistic service should consist of a combination of three elements: efficiency of logistics coordination, efficiency of customer service and an overall business efficiency (Spillan et al. 2013).

The current trend in transportation is not only to focus on the lowest costs but also to apply transportation in an environmentally harmless way to entice the customer to choose the transport services of the company. The current trend is also to focus on providing some added customer value.

The threat to companies is the everincreasing competition that force them to apply new strategies. One of them is cooperation and creation of strategic alliances. However, companies are having trouble aligning internal processes. Like for example their logistic processes. Nevertheless, the establishment of close cooperation relationships represents a huge opportunity for many commercial companies. Cooperation interactions are supported by mutual relationships between the participating companies, as well as their links to the environment (Rollins, Pekkarinen and Mehtälä 2011).

Cooperative links are currently going through several significant changes. Promoting and staying in today's globalized market is a problem for many companies. Strategic management, logistic operations and marketing under the conditions of co-operating companies are among the most interesting areas for research. It represents a difficult task to compare and evaluate overall performance, internal management processes and management decisions, results and complex impact when it comes to individual collaborative interactions. One of the most developed areas of cooperation are the supplier-consumer relations (Soviar, Holubčík and Vodák 2018). It is important to create ecosystem of cooperation connections.

Research by Rollins et al. highlights the importance of building close relationships, open and seamless communication in sharing knowledge between buyer and logistic service provider. It is also important to link knowledge between the buyer and the provider. On the other hand, it points to the disadvantage of building investment based relationships (Rollins, Pekkarinen and Mehtälä 2011).

Similarly, the Oneworld alliance placed the customer first. It created the joint reservation system only on the basis of feedback gained by developing a close relationship with the customer.

Politis et al. (2014), considers customer satisfaction as a dynamic parameter that can change due to changes in the current market (changing preferences and expectations of customers). This situation is important for the implementation of the customer monitoring system and the setting of a dynamic business strategy and changes in the logistics operations of the company. The branding process is based on building and development of the brand's awareness between consumers (Soviar et al. 2019). It helps customers to understand all company process and attract attention.

McInerney lists the strategic alliance with customers in the supply chain as one of the three most important kinds. Mentioned alliance must be built on the cooperation of all parts of the supply chain, from production, through distribution, to the end customer.

Managers decide how to interact with the competing and cooperating companies in their common environment. In the current state of the business environment, a cooperative strategy is emerging as an appropriate approach to counter the dynamic nature of the environment. Strategic thinking of managers must be guided in the context of the current global environment, which is characterized by the dynamic changes and the increasing number of mutually influencing cooperative and competitive interactions both in the wider market and the internal environment of the company.

Dybskaya and Sverchkov (2017) propose a process for creating a rational distribution network that decides the target configurations, meets the requirements of the company's strategic objectives, and mainly helps to clarify the requirements of a comprehensive logistic network. According to the authors, the problem is the weak link between strategic and practical aspects (cost optimization, customer logistic level) and the distribution network.

Companies have recognized the path to the competitive advantage of providing better, more different and more efficient services at competitive prices (McInerney 2003).

Creating an alliance containing logistic processes of competitive subjects can also create a synergic effect in a narrower sense. Normally logistic operations and supply chain management are handled by a collection of internal teams responsible for a smooth sailing of logistic operations.

Said teams must utilize cooperation and teamwork principles in an efficient way to give their company an edge over its competitors (Stranzenbach et al 2014). In this case, even though teams are created by internal employees of the company, they still come from multiple departments. This makes them a cross functional team and makes them responsible for task such as: purchasing, storing and delivering the goods needed. The diverse nature of the teams and the complex nature of their tasks makes them ideal candidates for the utilization of cooperation and teamwork in order to achieve synergic effects. Said principles are incredibly important in order to efficiently coordinate the processes of purchasing, storing and delivering the goods. Achieved synergic effects make the company more agile and resilient, what helps it react quicker to the changes in its broader environment (Sandberg, Abrahamsson 2011).

The correct utilization of cooperation principles between the logistic teams have been shown to contribute to the overall supply chain satisfaction (Menon 2012). Inadequate cooperation between the individual teams can also represent one of the most important inefficiencies when it comes to the supply chain management (Perry, Qynne 2013).

Since the logistic teams inside one company are naturally accustomed to the concept of cooperation and synergy, they are ideal candidates for bringing their skills to the next level. Said fact also makes the process of logistics and supply chain management ideal for cooperation initiatives like joint ventures, clusters, partnerships and others. Cooperation can occur both between the different companies inside one supply chain or as it was in the presented case, between natural competitors.

In both cases the principles of cooperation and teamwork already utilized by the employees responsible for the logistic processes and supply chain management are only brought to another level. In this case logistic teams don't cooperate only with other teams inside their own company but also with other teams from other companies. One of the most common ways to achieve an effective cooperation

between different companies is to create teams functioning as boundary spanners. Boundary spanners represent both cross functional and cross company teams (Stock 2006). Research has also found that in order to improve the cooperation between different companies and create a stronger synergic effect, it is beneficial for the individual companies to encourage their employees responsible for cooperation to create interpersonal and interorganizational investment in cooperation (Day 2000).

Based on a comparison of the results from the Oneworld case study and selected authors dealing with the research into the company logistic operations, we have defined two very important approaches to the strategy of corporate governance. Based on all the information obtained we also propose third strategic approach, namely Strategy focused on creating synergic effects in the cooperating companies. The findings could be summarized as follows:

*Strategy focused on lowering the logistic costs*

This strategy fulfills the importance of cooperation partnerships by enabling the merger to more effectively manage the costs of individual companies. By reducing costs, companies also try to achieve returns to scale because they can create a better offer of flights while passengers can get almost anywhere. This gives them significant advantage over competitors which operate as an individual company. By striving to reduce costs, companies not only seek to increase profits, but also aim to focus on a customer who can, thanks to lower costs, enjoy more affordable tickets and experience greater customer convenience.

*Strategy focused on customer satisfaction*

The companies strive to satisfy the needs of its customers in the most efficient way possible through the high comfort and quality of services provided, leading primarily to their loyalty, long term company sustainability and ultimately to the profitability of the company. The value of the services provided to the customer lies in the high standard of aircraft and airport equipment. The company's motto is: "Turn off and allow us to take care of you". They strive to create a place of relaxation and comfort for the customer in this way. As there is a trend of globalization nowadays, people travel across the world, and the high added value is the interconnection of the different modes of transport.

### *Strategy focused on creating synergic effects in the cooperating companies*

Strategic management represents knowing the right decision and heading for a road that will lead to eventual success. The synergistic effect in the cooperative relationship presented in the article is important for increasing, improving and developing individual companies in the alliance. The following identified elements of strategic management help to create and keep the synergistic effect: clearly defined and common objective for cooperation; effective and efficient communication; building a common market reputation and customer awareness; integration of different business environments as trust, culture, exchange of information; and support of logistic operations as part of a common product solution for customers.

If the company wants to achieve synergy through its strategic management, it is necessary to continuously deal with the defined areas of strategic links management of the cooperating companies and their parts. Synergy in the researched case had favorable effect in the areas of:

- Increase in the market competitiveness,
- Support of new solutions finding (products, services, innovation),
- The right combination of capabilities and knowledge of cooperating partners.

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