Organization of Transport and Storage Processes in Logistics Enterprises Functioning in the Łódź Region – Study Results

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In the paper, the consequences of the influence of globalisation on the market of air transport are assessed. It is shown that alliances and code-share agreements constitute fundamental elements of this process. Basic stimuli and their results were analysed and the outcome shows that the aim of global corporations is integrating companies, markets and economic systems into a homogeneous system encompassing the whole world. The aim of this paper is to present the significance of alliances and code-share agreements in the development of globalisation of air transport. Critical analysis of literature and deduction were used, which allowed to formulate appropriate conclusions and recommendations. Additionally, the method of assessment of complexity of relations between air transport and socio-economic phenomena was used. The identification of processes and sources of competitive stimuli along with barriers in functioning, and the development of both, the sector of air transport and the market as a whole were also taken into consideration. The analysis of activity of subjects forming the global market of air transport services under the conditions of growing competition was made. **Keywords:** air transport, strategic alliances, code-share agreements.

1. INTRODUCTION

Along with the processes of air transport liberalisation and globalisation, there is a continuous need for searching new forms of cooperation between transport companies and constant coordination of market relations. In this area, multilateral alliances and bilateral air transport agreements are important, as they constitute crucial mechanisms which consequently enable to increase the number of benefits from these partnerships. The range of such air transport agreements mainly involves improvements of the air transport market, because it stimulates the income of all subjects which take part in passengers’ service, namely haulers, travel agencies and other companies responsible for production for air sector. In this system, mutual benefits between all cooperating subjects are fulfilled as one stream of income that is generated by the air transport market without which the existence and development of the abovementioned subjects is impossible and meaningless. Thus, revenues of non-aeronautical subjects is highly dependent on the economies of scale of transport. Apparently, this obvious fact constitutes one of indices of the air transport market characteristics and effectively of its transformations in the 21st century. The purpose of this paper is to show the importance of partnership and code-share agreements within the development of air transport globalisation by using critical analysis of literature, observing functioning of subjects which construct the global market of air transport, and formulating conclusions and recommendations through deduction.

2. STRATEGIC ALLIANCES IN THE AIR TRANSPORT SECTOR

Experiences in partnership show that the most profitable way of surviving a crisis is being part of an alliance or a code-share agreement, which enables to increase the share in the global market of transport. Owing to optimal coordination of connections, flexible pricing, being a member of the Frequent Flyer Programme (FFP), and sharing a common service base and system of funding, such a partnership allows to increase the income. Opportunities within such system arise mainly by:
– acquiring a new trade area,
– preventing bankruptcy of a company which is in a bad financial situation,
– limiting costs of advertising,
– limiting financial risks,
– expanding knowledge,
– working with the same specialists from different scientific fields as another company,
– improving company protection from being fused or taken over\(^1\).

Because of these reasons, alliances in air transport are gaining more and more participants. This has become even easier since international barriers are removed and more convenient conditions of competition in the international markets are observed. Such an alliance allows to consolidate the sources, enlarge the quantity of returns to scale, strengthen the key competence, and lower costs of research, which constitute a prominent tool used for debilitating the consequences of the global crisis and building advantage over potential competitors\(^2\).

A strong position and expansion of partnership blocs in the international market is a consequence of potential which consists of a number of members involved, passengers served, many aircrafts owned and cooperation with other countries and target airports maintained. A description of the biggest strategic alliances in civil air transport is presented in table 1.

Contemporary conditions of the global market favour the growth of importance of transnational

<table>
<thead>
<tr>
<th>Alliance</th>
<th>Number</th>
<th>Passengers per year (million)</th>
<th>Aircrafts</th>
<th>Flights per day</th>
<th>Target countries</th>
<th>Target airports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Star Alliance</td>
<td>28</td>
<td>641</td>
<td>4,657</td>
<td>18,500</td>
<td>192</td>
<td>1,330</td>
</tr>
<tr>
<td>Sky Team</td>
<td>20</td>
<td>462</td>
<td>2,971</td>
<td>15,900</td>
<td>175</td>
<td>1,000</td>
</tr>
<tr>
<td>Oneworld</td>
<td>15</td>
<td>557</td>
<td>3,560</td>
<td>14,000</td>
<td>161</td>
<td>1,016</td>
</tr>
</tbody>
</table>


According to M. Romanowska, in contemporary relations there is major tendency to enter into an alliance with a view to divide markets into income areas, generating methods for exploitation of these incomes and acquiring the advantage in competition by coordination of partnership enterprises. Such a system of relations presents that an alliance is an association between companies which plan to accomplish common aims they share\(^3\). Strategic alliances which also function in air transport are an important factor in pursuing companies’ goals. Their character and significance are presented in a multifaceted way by E. Marciszewska who claims that “a strategic alliance is a long-term operation of two or more air carriers that are members of an international market game competitive in its nature. The aim of this game is strengthening competitive position of companies not only with regard to its competitors but also to its suppliers and customers, which at the same time preserve organisational and legal independence.”\(^4\). A similar interpretation is presented by A. Sulewicz in a definition according to which “a strategic alliance is a form of international strategy accomplishment between at least two partners which preserve autonomy they agreed on beforehand and they remain independent units in operations which are not within the scope of their agreement. Accomplishment of corporate strategies means achieving strategically significant competitive aims and working in a profitable manner by exploitation of resources and administrative structures for mutual interest of partners”\(^5\).

Contemporary conditions of the global market favour the growth of importance of transnational corporations and strategic alliances. Within this


environment the companies build new standards of market quality and this whole procedure is called coopetition (sometimes spelled “coopertition” or “co-opetition”). Coopetition may be briefly described as simultaneous existence and interaction of cooperation and competition in the process of achieving long-term goals. It should be emphasised that for global strategic alliances pro-cooperative partnerships are predominant in a chain of coopetitive relations, whereas pro-competitive relations characterised by rivalry are less reinforced.

Such a cooperation, as a part of an alliance, changes competitive position of a company in a significant way towards external and internal subjects. What can be observed is weaker intensity of confrontational forces within one sector, stronger position of the allies as a result of changing character and structure of behaviour, and improvement of tendering position towards the suppliers. Alliances broaden effective cooperation in the most prominent fields of their activity. According to Z. Pierścionek “advanced fields of cooperation are developmental research, introducing new products (or services) to the market, entering a new market, making mutual production capacity available and exchanging technologies”.

Optimal realisation of the abovementioned goals often leads to creating the most advanced form of legal-organisational unit, namely a joint venture. The process is usually ended with a fusion or taking a company over by another one, and it means a complete integration of the allies.

The character of alliances shows that forms and methods of their functioning are dependent on the level of competition intensity which is the major factor in the air transport market when it comes to a subjective structure, a form and a way of conducting an activity, and to a strategy of gaining advantage on the global market.

This has an essential influence on the growth of significance of a particular alliance in the market, which results from the benefits obtained from the cooperation of members of this alliance. Moreover, partners preserve a significant level of their identities and the majority of competition determined beforehand. Additionally, at the cost of weakening internal competition, commercial potential of the members of the alliance increases, which is a result of resources and skills synergy.

M. Romanowska claims that “[...] an alliance is characterised by relations between its members where competition is continuous, but it is consciously limited at a particular time and a determined area of activity” for the purpose of increasing the effectiveness of alliance work. Areas in which effectiveness of alliance activity increases are illustrated in picture 1.

Agreements between partners always involve voluntary enterprises of different range – from the simplest to the most complex. The choice of the form of agreement depends on the goal which members want to achieve in the particular market. The function of these agreements is extending the market of services, multiplying capital connections and combining entire companies or their parts only. The major goals of an alliance in the air transport sector are international expansion and entering international and intercontinental markets. Other significant agreements are: dealing with

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benefits from the scale of their activity, sharing the risk, and limiting the competition and obstacles proposed by the political economy.\textsuperscript{10}

The abovementioned reasons resulted in growth of the number of alliances being created in the first decade and the half of the second decade of the 21\textsuperscript{st} century in the sector of air transport. The forecasts of strategic analysts, according to whom in the nearest future there will be only three global groups of air transport companies – British Airways, Lufthansa Deutsche Airlines and Air France (all belonging to KLM Group) – are a proof of strength of alliances. Therefore, “[...] coordination of activities, instead of buying the company out, fusing it or taking it over, is the essence of strategic alliance functioning and thus, it contributes to activities coordinating functioning of the whole market”\textsuperscript{11}.

Among many reasons for creating alliances there are four which are fundamental, namely:

– taking protective actions towards the competitors which have easier access to new technologies, recent innovations, and more experienced shareholders,

– aiming at acquiring the position of the leader by activating processes which can enlarge resources and strengthen the advantage of the organisation towards other units in the market,

– perform activities which aim at strengthening company’s prominence in competitive environment, for example, becoming a dominant unit, which determines the highest quality of standards within the field of its activity,

– being ready to transform economic system of the company which is a member of an alliance in the most advantageous and optimal way, which is an exceptional opportunity for companies that occupy less part of the market than other ones\textsuperscript{12}.

Total coordination of such an undertaking is currently possible only for the biggest alliances: Star Alliance, OneWorld and Sky Team.

Attempts of coordinating this range of market relations are made also within one continent and establishment of European Open Skies Agreement is an example of such an attempt. Under the terms of this project, air transport companies try to standardise fiscal, technical and social policies, make the market more available and come up with an idea of imposing external costs of transport on particular units fairly\textsuperscript{13}. Owing to various forms of alliance connections, various possibilities of alternative configurations of the elements of market competition and intersectoral collaboration arise. This causes a change of character of mutual relations by strengthening the position of partners compared to their competitors, suppliers, customers and the level of risk. Moreover, one of the consequences is redefinition of rules within competitive system in the sector by creating a structure which “[...] is something in between competition and fusion, as it contains elements of cooperation and competition. Members of an alliance keep their organizational identities and autonomous strategies”\textsuperscript{14}. Cooperation between the allies is established with a particular reason and it mainly aims at “[...] improving enterprise management, entering the market in a more efficient way, coordinating a particular field of activity more effectively, acquiring a better competitive position and performing a fusion or taking over a particular field of activity”\textsuperscript{15}. Therefore, this is a very prominent range of operations which can strengthen cooperation between companies leading to concentration of the sector and taking actions in the market. In such a situation, each signatory can carry out one’s individual goals in accordance with particular opportunities which are determined by the form of the alliance. This means that:

– members of an alliance obtain benefits from economies of scale and accumulated competence and simultaneously they retain their autonomy,

– alliances allow to make use of the strategic synergy effect owing to relatively precise outline of the cooperation area.

\textsuperscript{10} Hawlena J., Konkurencja na rynku lotniczych przewozów pasażerskich w warunkach globalizacji, Prace Naukowe Uniwersytetu Ekonomicznego w Katowicach, Katowice 2012, p. 51.


\textsuperscript{13} A. Ruciński, \textit{Transport lotniczy...}, op. cit., p. 179.


\textsuperscript{15} Ibidem.
– alliances are easily reversible, as they enable their members to withdraw some selected strategic decisions, which is significant from the point of view of a diversified company during the management of the portfolio of its activities,
– in an economically unstable environment being a member of an alliance lowers the risk of making a bad investment, as the responsibility is divided between partners,
– partners obtain numerous benefits as they make significant information available to each other, such as sharing new technological solutions, expressing their vices and virtues and conducting an easier benchmarking,
– alliances overcome barriers connected with entering new sectors (especially political barriers), they lead to vertical integration, extend access to resources, technologies, capital, channels of distribution, markets and methods of management.\footnote{M. Romanowska, Alianse strategiczne..., op. cit., pp.195 - 201.}

An essential feature of alliances is opportunity to sell complementary services, which allows their members to specialise in sectors which are also complementary to each other.

3. CODE-SHARE AGREEMENTS AS A TOOL USED FOR THE AIR TRANSPORT MARKET DEVELOPMENT

An efficient development of the air transport market should be conducted in such a way that free and unlimited exploitation of international airspace should be done and regular alliances of air transport companies should be made. There is an estimated number of air transport companies which could not have participated in an integration with stronger partners and consequently, they were forced to find a different way of cooperation.\footnote{A. Cheng-Jui Lu, International Airline..., op. cit., p. 223.} In such a situation, the most efficient solution can be a two-sided code-share agreement, which is claimed to be the fundamental tool used for market expansion and for building common marketing strategies.

A free range of making such agreements is the major advantage which favours the development of globalisation, as this does not limit the possibilities of making many-sided code-share agreements with other alliances for members already belonging to a particular alliance.\footnote{A. Radomyski, Razem łatwiej..., op. cit.. p. 29.} Cooperation of air transport companies based on such agreements is a kind of a trade agreement in which partners handle destinations selected in contract using either their own or a combined code and number of flight. They can also sell tickets to all customers for a selected flight, even though they do not handle this flight. The code on the ticket must be the same as the code in the contract and this must be confirmed by IATA. A code-share agreement allows companies to operate simultaneously on many markets, which is why it has become an attractive form of cooperation between air transport companies in the expansion of the market. Their major advantage is connecting global and local operations which constitutes an important tool used for constructing global networks and creating competitive environment. These agreements have become dominant devices used for international cooperation. They are commonly made, because the form and the range of interaction are flexible, so the conditions of the agreement can be easily adjusted to demands of both, potential and real customers, and capabilities of air transport companies which plan to build a global network of connections.

According to Żylicz, code-share is “[...] a way of selected marking of flights which happens when some seats on an aircraft of one air carrier are taken or booked by passengers of another air carrier for a particular price determined in the contract. Each carrier uses its own coding of flights it is responsible for”\footnote{Żylicz M., Prawo lotnicze międzynarodowe, europejskie i krajowe. LexisNexis, Warszawa 2011, p. 43.}. Such a definition of a code-share agreement is limited to technological and financial relations only, but it is a profitable way of cooperation, especially at early stages of the agreement, and it finally leads to strengthening trading connections. These agreements are usually made to extend the network of global connections easier and to coordinate traffic at airline hubs and at local airports. Extending the network of air transport connections belongs to the major range of functioning for air carriers and it determines their position in the market, the number of passengers served, and the general effects achieved.

A code-share agreement is a form of cooperation used both, in strategic alliances of air
carriers and beyond these alliances. Its work is based on coordinating a highly extended chain of transport connections (including connecting flights) which are consecutively operated by several air carriers. These agreements function as a positive element of coordination and management of the air transport market which constantly develops and extends. Consequently, the incomes of air carriers increase.20

Observation of the global market of air transport shows that alliances and code-share agreements develop as substitutes of capital connections21. The opportunity to compete for an attractive offer is bigger when it appears in a strong group than in an individual work. Therefore, for members of an alliance it is easier to reduce negative cost factors, suggest a lower price to a customer and guarantee a higher quality of services. Big air transport corporations start to appreciate companies which have a smaller trade potential, but which operate in countries with higher level of economic growth and in peripheral parts of the world. What proves that this phenomenon is mutually profitable is joining carriers from Asia, Eastern Europe and South America to already existing alliances. Owing to such practices, stronger members can freely access new and absorptive markets, and less prominent carriers can get significant profits from cooperation with strong and well-known brands. These leading companies have good reputation in the market and access to segments of the market demand which are not available for smaller companies before joining the alliance.

Assessment of such processes and their results shows that alliances and code-share agreements, which are very popular in air transport, stimulate developmental activities and coordination inside and between branches. They replaced institutional mechanisms which operated before and used administrative and imperative methods22. The notable dynamics of the development of passenger transport, network of connections and airports prove that the abovementioned agreements are efficient. Carriers which are partners in alliances, code-share agreements or blocked space agreements can make use of aircrafts more efficiently, have better access to all segments of consumers, can extend the range of offers and manage flights in a more flexible way23.

What can be difficult in passenger transport is filling all possible seats during returning flights, as it is connected with losing some profits and lowering exploitation productivity. Code-share agreements are the most efficient tool, which can improve the situation and increase the number of seats taken. They are also a useful marketing instrument of globalization, when a less recognizable carrier offers its services under a well-known and respectable brand. For such agreements this is a common situation, as flights of other carrier are sold by another one as its own.

However, despite many advantages, cooperation in code-share agreements is not evaluated unanimously. Research conducted by two American research centres, namely GAO (General Accounting Office) and GRA (Gellman Research Associates), presented that in fact, agreements are more profitable for consumers than for carriers which gain relatively less benefits. Nevertheless, what is commonly emphasised in economic assessment is “[...] reliability of a company, transparency and clarity of its services, observing the rules of luggage service, compensation, and exceptional situations (delayed or cancelled flights, etc.)”24.

The level of income of all members involved in the agreement is the outcome of many factors, namely the scope (economics of space), the density (economics of density), improvement in the comfort of travelling and extensive care at the airport. The beneficiary receives the following advantages:

- a single check-in and automatic transfer of luggage on each airport,
- shortened time of waiting for the next flight,
- collecting Frequent Flyer points which add up and can be used further on,
- taking responsibility for the whole itinerary by one carrier (one ticket for all flights in the itinerary)25.

Code-share agreements allow their members to increase the number of markets on which their services can be offered, enhance their availability, which can result in the intensification of air traffic in the whole network of connections, and finally accumulate the benefits from both practices.

Consequently, marginal costs of flights are lower and competitiveness of air carriers allied rises compared to the results achieved by companies beyond alliances. The assessment of economic results of code-share agreements shows that they highly influence the level of competition. Increase of potential and growth of network of connections are a profitable marketing and financial consequence of these agreements. In this way, numerous airlines had a chance to conduct a global strategy of development, which led to a considerable shift of conditions in competition within the whole sector of air transport.

Airports are another beneficiaries of code-share agreements. Their incomes increase, owing to an improving condition of network of connections without the necessity to increase their own costs. They are a source of improvement of numerous elements of trading activity, especially because of claiming new global passengers and reaching the most distant local markets with the carriers’ offer. As a result, a system of cooperation that is based on such agreements is definitely heading to globalisation of markets. Possibility of entering these markets by new companies without need to involve their own fleet and using another airline’s fleet instead is favourable in this matter. Getting the rights to operate selected flights, connections and markets is a strategic action which allows to overcome regulations and barriers. As a consequence, obstacles on the way to creating global network of air transport services are diminishing.

4. CONCLUSIONS

For air transport companies extending their services in their own markets and in the markets of their allies is the most important. It is particularly essential when it comes to the range of using new forms based on unique technologies, different system of organisation, more attractive features of products offered, simplified system of distribution and a modern marketing which protects standard and individual diversifications of customers’ needs from changes. These goals are easier to achieve when partners start to cooperate. An increasing number of alliances and code-share agreements in air transport is a feature of this sector and this results in creating new elements of globalisation and facilitating activities of signatories in a competitive market of air transport. Since they are efficient, they constitute a driving force for the development of globalisation. They are used the most often and the most willingly by companies to construct the global strategy for the development of the air transport market. Subjects which miss the very moment of entering the system of the alliance can further find themselves beyond the main current of the process of global consolidation of partnerships cooperation.

The development of alliances increases the economic potential of their members and influences mobilisation of all carriers’ activities, especially the low-cost ones which are exposed to market elimination the most. However, influence of this group of carriers on the process of globalisation is limited, although there are intercontinental flights offered by these carriers available.

Constructing big strategic alliances is justified in the contemporary conditions of the development of the world market of air transport. Strong alliances are in possession of tools which allow them to quickly and thoroughly predict and assess changes in economic situation and competitive actions of other subjects in the market. Moreover, they can adjust to changeable conditions of economic environment. One of their merits is their activity in business sector, which develops fast and brings profits. What is also advantageous is their possibility to create an offer characterised by high standard of quality, which is particularly required in medium- and long-distance flights.

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