

SHOULD GARUDA INDONESIA JOIN THREE MAJOR AIRLINES ALLIANCES : STAR ALLIANCE, ONE WORLD AND SKY TEAM

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ABSTRACT

This research was conducting in 2005 to analyse the need of Garuda Indonesia to join airlines alliance. Situational analysis is conducted illustrating where Garuda Indonesia in 2005. In the external environment, Garuda can look forward to and hence prepare for the ASEAN open skies to commence operation as soon as this decade. At the core of the report following the Garuda SWOT analysis (indicating the strengths, weaknesses, opportunities and strengths), the strategic plan, and Garuda's ambition is identified as being to be the strongest carrier in Asia Pacific within next five years. The strategic solution is provides two alternatives, to join an alliance group- supporting material further emphasises the importance of this move, and the other option is to not join an alliance and have the Indonesian carrier rather capitalise on seeking and/or maintaining current bilateral agreements with other carriers.

INTRODUCTION

An alliance, arguably, is the most important emerging form of global airlines as airlines have the ability to widen market reach, share risks and scarce resources, improve product quality and customer service, and hence, increase profitability (Oum, Park and Zhang 2000). Asia-Pacific economies depend heavily on the airline industry, with the volume of international scheduled air passenger traffic expected to increase to nearly 400 million passengers by the year 2010 (Oum and Yu 2000). The airline industry has traditionally been bound by numerous regulations, on both technical and economic contexts, and most international carriers have been working within rigid frameworks set by air services agreements (ASAs). Flag carriers, to overcome the above handicap, came up with the solution of forming alliances thus providing convenient and seamless services to

diversified destinations (Kleymann and Seristo 2004).

The research formulated in this paper has come up from the very idea of Garuda Airlines' perceived evolution as one of the major international airliners. It would be hard for the airline to set up efficient traffic systems in a foreign land.

Towards the conclusion of this assignment solutions will be put forth concerning whether Garuda should join an alliance or not, as well as the rationale behind each solution.

GARUDA INDONESIA AIRWAYS OVERVIEW

Garuda, an airline fully owned by the Indonesian Government in 2005, commands over 50 percent of the Indonesian domestic market, as per the company website (August, 2005). As it expands its range of customer services and code-share agreements with other

airlines, is becoming a significant player in the international travel market. Garuda currently flies to 30 domestic (21 cities served by Garuda Indonesia and nine cities served by Citilink, a sub-brand of Garuda Indonesia) and 24 international destinations. To serve its expanding market, Garuda has 40 offices throughout Indonesia and offices in 38 cities throughout the world with representative offices in a further 13 cities.

While the international airline industry as a whole has still not yet fully recovered from recent turbulent events such as the WTC bombing in New York, the Bali bombing, the SARS scare and the war in Iraq, according to Garuda website (2005) it has still managed to increase its passengers volume, from 6,887,536 passengers in 2002 to 7,229,072 in 2003. Of these 5,516,586 were domestic passengers and 1,712,486 were passengers in the international sector, Garuda website (2005).

RESULT AND DISCUSSION

A. INTERNAL ANALYSIS

1. OPERATION.

According to the Garuda Indonesia website (August, 2005), the carrier has 57 aircraft consisting of three B-747-400s, six A-330-300s, twenty six B-737-400s, seventeen B737-300s, and five B737-500s. Flight International (2005) report that Garuda Indonesia and the Boeing Company have agreed to sign a US\$ 2 billion agreement which focuses upon the development and modernization of Garuda Indonesia's fleet through operations of 10 Boeing 787-8 Dreamliners and 18 Boeing 737 New Generation series. This brand new fleet will be part of efforts to enhance Garuda Indonesia's business and service.

2. NETWORK

In 2005 Garuda Indonesia has 21 domestic destinations with 9 Destinations

served by Citilink Garuda Indonesia flies to 23 International destinations. In Asia, Garuda flies to Bangkok, Beijing, Hong Kong, Ho Chi Minh City, Kuala Lumpur, Seoul, Singapore, Shanghai, Guangzhou (Canton), Tokyo, Nagoya, and Osaka and Fukuoka. Garuda website (2005). In the South-West Pacific Garuda flies to Auckland, Adelaide, Brisbane, Darwin, Melbourne, Perth and Sydney. Middle-East destinations are Jeddah, Dhahran and Riyadh. Garuda suspended the flights to Amsterdam, its last destination in Europe, last February; Garuda website (2005).

3. MARKET SHARE

The airline commands over 50 percent of the Indonesian domestic market and, as it expands its range of customer services and code-share agreements with other airlines, is becoming a significant player in the international travel market, Garuda website (2005). Though the airline hopes to concentrate on its domestic routes, currently international operations account make up 55 percent of Garuda's revenue. At the same time, domestic operations provide 45 percent of the revenue, Garuda website (2005).

4. FINANCIAL

Garuda's total debt now is approximately US\$ 822 million, according to Bisnis Indonesia (2005), US\$ 650 million of which was on foreign currency. After rescheduling US\$53 million bonds, the state owned airline planned to restructure US\$520 million export credit which was equivalent to IDR10,800 per US\$ in a bid to reduce its debt burden. Garuda booked an operating profit of IDR52 billion in the first seven months of 2005. However, the company suffered a combined loss of IDR366 billion, Bisnis Indonesia (2005). In 2004, Garuda booked a net loss of IDR811 billion due to the

higher operating cost as well as higher price of oil. The operating cost of the company, meanwhile, had increased to IDR10.87 trillion last year, compared to IDR8.69 trillion on the previous year (Bisnis Indonesia, Aug 2005). Garuda Indonesia is to ask the government for a financial bail-out, although the minister for state enterprise has floated the idea of merging the airline with the countries two other state-owned carriers (Flight International, Aug 2005). In the meantime Garuda was studying the possibility to merge the airline with two other airline companies, PT Merpati Nusantara Airlines and PT Pelita Air Service, in a bid to help the company to regain its profit amidst the increasing price of oil. The Government might take the decision in February next year (Bisnis Indonesia, Aug 2005).

5. TRAINING

Garuda Indonesia airline has a training programs for building and developing more effective organisation in the workforce. The programs concentrate on improving managerial and technical skills of the employees and include courses in 5 different categories: Flight Operation Training, Technical Training, Cabin Crew Training, Commercial Training, and Management Training, Garuda website (2005). Together with IATA Learning Centre, Garuda do Airline Management Programs, Leadership Training Programs and Supervisory Training Programs. More over, programs like 7 Basic Habit Programs and the development of an ISO-9001 management system for the Garuda Aviation Training (GAT) facility have been already successfully arranged. Company holds numbers of simulators for F-28, A-330, DC-9, DC-10, B 747-200, MD-11 and B 737-300/400 and provides static and motion mock-up of narrow and wide body aircraft (including sliding escape and

swimming pool for emergency-procedure practice) Garuda website (2005). To provide better service to customers, Garuda constantly improves the performance of frontline airline service. This include Language training programs in English, Japanese, Mandarin and some others languages. For developing interaction skills of in-flight crew, a new program called "Cabin Human Interaction Management (CHIME)", has been expanded and implemented, Garuda website (2005).

6. BRAND

Garuda's have already received various awards from the airline industry and from the business community; this shows that its achievements have been recognized at home and abroad. The most recent and prestigious award airline won in 2001 was: the Air finance Award (Deals of the Year), the Experiential Marketing @ Emotional Branding Award (EXEM Award), the Indonesian Customer Satisfaction Award (ICSA) the Innovator : Crises Busting Award (from Travel Weekly Magazine), and its second Amsterdam Airport Schiphol Punctuality Intercontinental Airlines Award, Garuda website (2005). In the year 2002 awards won were: the Airbus Reliability Award, the Indonesian Best Brand Award, the Indonesian Customer Satisfaction Award (ICSA) and the Indonesian Most Admired Companies (IMAC) Award, Garuda website (2005). Garuda airline won the Joint Airworthiness Authorities Certificate (JAA), an Indonesian Best Brand Award, another Indonesian Customer Satisfaction Award (ICSA) and the Indonesia's Most Admired Companies Award in the transportation category. Garuda was also nominates as "The best in building corporate image" by Frontier and Business Week in 2003.

7. PRODUCT AND DISTRIBUTION

Inflight service of Garuda Indonesia is on the same level with world's best airlines. It has been developed in response to research into passenger preferences on each specific route. As a result, flights in every sector such as European, Southwest Pacific, Asian, etc offer in-flight entertainment, menus and reading material according to preferences which are most attractive for passengers traveling in that specific sector, Garuda website (2005). In addition, airline presents a wide-ranging of services to facilitate customer convenience and comfort. A good example is a centralized call centre which is open 24 hours a day, seven days a week and provides a "one stop" information and reservation service. In recent time Reservation service has been accompanied by internet and mobile phone reservations with the option making payment through the internet, mobile phone or through ATMs, Garuda website (2005). Garuda also has a Garuda Frequent Flyer (GFF) program and benefits are free tickets through the accrual of points for miles travelled. At the present Garuda has started Valet Service for business class travellers. That includes use the executive lounge at the same time as Garuda valet staff handles all check-in details on their behalf, Garuda website (2005). Garuda already has Express airline which provides a shuttle service on busiest routes. Nowadays, Garuda's is

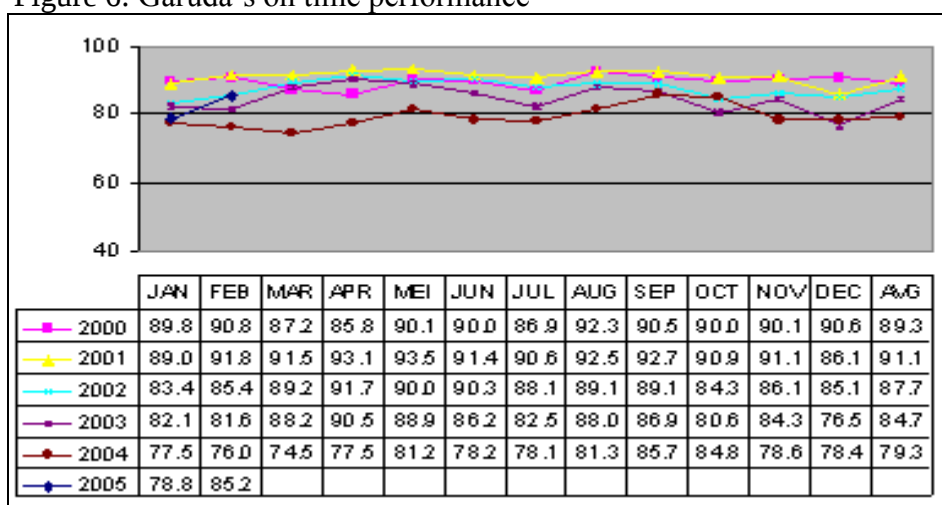
settling up a new service Citilink, for all economy class "no frills" service. It links main Indonesian cities and those flights could be paid by using a special Citilink card. Garuda for domestic flights, as well as some other international airlines, has newly introduced a flexible pricing policy, where ticket prices vary depending on length of validity, Garuda website (2005).

8. CUSTOMER SERVICE

Providing passengers with safe, punctual, comfortable, and pleasant air travel is a Garuda's core brand value. Garuda passes itself as a "people-based service industry" in which human resources play the key role, this is further illustrated in Garuda's monitoring of on-time performance displayed in Figure 6 below, Garuda website (2005).

Garuda has formed a work culture called "smile 'n care" which represents the values and guidelines for every Garuda employees in the each day performance of their tasks and encapsulates values: sincerity, motivation, innovation, loyalty, empathy, competence, commitment, attentiveness, reliability, and efficiency. There are also some professional development programs going for Garuda staff. As a result of those programs, Garuda achieved ISO 9001 Quality System certification for Aviation Training and Education, Garuda website (2005).

Figure 6: Garuda's on time performance



Source: Garuda website (2005)

B. EXTERNAL ANALYSIS

1. REGULATOR AND POLITICAL ISSUES

Southern and South-Eastern markets of Asia remain heavily regulated. In Indonesia, the regulatory body is Directorate General of Civil Aviation under the Ministry of Transportation. "Economic ministers from the Association of Southeast Asian Nations (ASEAN) are unlikely to declare an open-skies policy until 2010 though some members of the block have World Trade Organization (WTO) commitments to begin reforming tourism and aviation services in 2006", Atimes website (2005). The ASEAN open skies policy (involving carriers: Indonesia, Brunei Darussalam, Malaysia, Singapore, Thailand, Philippines, Vietnam, Myanmar and Laos), will enable members of the 10 countries to work towards giving their national carriers unrestricted intra-ASEAN access

between capital countries according to the following schedule:

Phase 1- commencing at the beginning of 2005, and continuing till the end of 2007

Phase 2-commencing at the beginning of 2008 and continuing till the end of 2010.

Phase 3- commencing at the beginning of 2011 and continuing till the end of 2012. These phases allow for the achievement of the Road Map target of Open Sky by 2015 allowing for a degree of flexibility in timing, Forsyth, King, Rodolfo & Trace (2004). Members have agreed to aim for complete liberalisation of air services; this would include loosening the grip on ownership restrictions by as early as in the next decade. This policy would lead to the following, Forsyth (2004):

- More competition between airlines;
- More scope for airlines of a third country to serve on a route between two other

Countries; and

- More flexibility for airlines to develop their routes and networks as they choose.

According to the Wall Street Journal Europe, (2005), since Indonesian deregulation many new airlines have been established in the market, like mushrooms growing in winter, to compete with Garuda. Lion Air is one of the results of deregulation in Indonesia and has grown rapidly since it began operations in 2000. Now, Lion Air has become the country's second largest airline in terms of passengers carried.

2. COMPETITION

Based on Hoover's Company Profiles (2005), the key competitors of Garuda Indonesia Airways are Malaysian Airlines, Singapore Airlines and Thai Airways. Others competitors are Cathay Pacific, Japan Airlines, Air Paradise and Qantas. Garuda's main domestic competitor is Lion Mentari Airlines, which has spend \$3.9 billion USD to buy 60 new Boeing 737-800 and 737-900 aircraft as part of an ambitious plan to transform itself into a major player in Southeast Asia's increasingly crowded market for regional budget air travel, The Wall Street Journal Europe, (2005).

Figure 7: GARUDA INDONESIA AIRWAYS COMPETITORS

Direct Competitors	Competing Routes
Cathay Pacific (Oneworld)	Jakarta – Hong Kong.
Japan Airlines	Jakarta – Tokyo, Bali – Tokyo.
Korean Airlines (Skyteam)	Jakarta – Seoul.
Malaysia Airlines	Jakarta – Kuala Lumpur, Medan – Kuala Lumpur, Bali – Kuala Lumpur, Surabaya – Kuala Lumpur.
Qantas and Australian Airlines (Oneworld)	Bali – Sydney, Bali – Brisbane, Bali – Darwin, Bali – Melbourne, Bali – Perth.
Saudi Arabian Airlines	Jakarta – Riyadh, Jakarta – Dhahran, Jakarta Jeddah.
Singapore Airlines and Silk Air (Star Alliances)	Jakarta – Singapore, Surabaya – Singapore, Bali – Singapore, Medan – Singapore, Singapore – Beijing, Singapore – Shanghai, Singapore – Bangkok, Singapore – Hong Kong, Singapore – Ho Chi Minh City.
Thai Airways (Star Alliances)	Jakarta – Bangkok, Surabaya – Bangkok, Bali – Bangkok.
Air Paradise	Bali – Osaka, Bali – Sydney, Bali – Melbourne, Bali – Perth, Bali – Brisbane, Bali – Seoul.
Lion Air	All domestic route, Jakarta-Singapore, Singapore – Ho Chi Minh City, Bali – Seoul.

Source: various airlines websites (2005)

“Historically, commercial emphasis in the Asia/Pacific region has centred on long-haul development, while intra-Asian business has remained underdeveloped. Flag carriers have viewed neighbouring operators as major competitors, making their government owners reluctant to relax market restrictions, according to the Australian consulting group Centre for Asia Pacific Aviation (CAPA)”, Goold (2005).

C. SWOT ANALYSIS

1. Strengths.

- New aircraft fleet and new order for Boeing 787,
- Subsidiaries going strong,

- Expansion of Citilink for increasing market share,
- Recognition as prestigious brand within Indonesia,
- New joint venture with Lufthansa for IT solutions.

2. Weakness

- E-ticketing not implemented yet in 2005,
- Stronger brand recognition for competitors,
- Financial loss in previous fiscal year,
- Lack of Internet distribution,
- Lack of OTP (On Time Performance)
- Lack of promotional activities, internationally

g. FFP only for Indonesian citizens and temporary residents

3. Opportunities

- a. Potential market in Europe and North America,
- b. More passengers in Indonesia and Asia-Pacific to count on
- c. Open sky policy within ASEAN countries
- d. Bail-out by the Government at all times of need.
- e. New MOU with Singapore
- f. High scope for tapping tourists in South-East Asia

4. Threats

- a. Liberalization of Asian market
- b. Expansion of Lion Air
- c. Strong competitor brands in South-East Asia.
- d. Natural disaster and terrorism
- e. Increased supplementary flights by competitors.

D. STRATEGIC PLAN

Garuda is no longer merely as an air transport facility moving people and cargo from one place to another, but as a comprehensive travel business that provides high quality of services. Besides focusing on domestic market, Garuda Indonesia is currently strengthening its international network, especially in the regional, Asia Pacific and Middle East market.

Other changes have resulted from the implementations of Garuda's Aviation Business Model. This model has had broad reaching implications for all aspects of Garuda's operations including cost cutting through improved efficiency, marketing decisions such as flexible pricing, co-branding, expansion of distribution channels, and expansion of routes and improving service levels. Preparations have

also been made to implement company-wide adherence to Good Corporate Governance.

Since June 1988, Garuda Indonesia has been undergoing many significant changes to secure shareholder confidence, employee dedication, and ultimately, total customer satisfaction. Beginning with the 1998 Consolidation Program, Garuda has revitalized virtually every aspect of each succeeding corporate rehabilitation plan in every year thereafter, Garuda website (2005). While total customer satisfaction is Garuda's ultimate goal, all these meticulously designed improvement programs are also envisioned to prepare Garuda Indonesia for eventual complete privatization by the year 2006, Garuda website (2005). In a span of less than two years, Garuda Indonesia has a revitalized corporate culture, higher Seat Load Factors (SLF), improved On Time Performance (OTP), increased yields and profitability, and a growing base of satisfied customers. Energized by these "small victories" Garuda Indonesia is now determined to better identify customer needs; to provide the best possible service, and to deliver this service more efficiently than any other organization, Garuda website (2005).

Garuda Indonesia finds itself in a more dynamic and highly competitive world. Significant and consequential changes are taking place in the aviation industry as a result of changing customer preferences, technology, deregulation, and privatization. The construction of more traffic efficient airports, the Internet and larger capacity aircraft, are changing the manner in which people plan trips, purchase airfares, and travel, Garuda website (2005).

The further liberalization of the airline regulatory environment will also allow the entry of more airlines and tighten profit margins in an already highly competitive industry. These and other similar

developments ultimately determine the strategy by which Garuda Indonesia is to remain competitive, Garuda website (2005). It is believed that an airline should be more than just a transport service. Hence, Garuda Indonesia's new mission is to deliver a total travel experience, Garuda website (2005). To achieve this, Garuda must be responsive to the market demands and be adept to adapting to those changes, to keep ahead of the competition in today's age of modern air travel Garuda website (2005).

1. Financial rehabilitation

Garuda needs to carry out a Rehabilitation Program intended to normalize all aspects of its operational activities in 2006. The Program has to take care of several aspects namely, Operations, Service and Revenue Enhancement, as well as Effective Cost Management and Effective Management. Through this effort, the airline can hope to improvise on its on-time performance levels, seat load factor yield, positive operations and cash flow, as well as increased profits.

2. Efficiency Program

This program is intended to raise organizational profitability in an optimal manner, focused on increasing efficiency in all aspects of Garuda activities. It can be achieved by applying efficiencies in all aspects of company performance such as organizational efficiency, administration, operations, finance and procurement, through the creation of an efficient organizational structure, work methods, systems and procedures, as well as nurturing of a positive attitude.

3. Expansion and Development Program

This plan concentrates on the airline's routes, services and products, as well as

its fleet, preparing Garuda to become the domestic market leader, and preparing for competition within the international market place. It falls in line with the company's privatization procedures and becoming a public company in 2005. In response to this program, competitors will make adjustments to increase flight schedule for the international traffic plans

4. Cashing in on increasing tourism

Already the biggest block of Asian travellers, outbound Chinese tourists are enjoying the fruits of their booming economy and cashing in on relaxed visa entry rules abroad that will create a new generation of group tours dwarfing the 1970s Japanese travel explosion. "The World Tourism Organization predicts 100 million Chinese outbound travellers by 2020. Such rapid growth has enormous implications for airline and airport capacity," Sydney-based Centre for Asia Pacific Aviation (CAPA) noted in a recent report. "Airlines around the world are already adding new capacity to China to meet the rising demand, particularly to Europe", Attimes website (2005).

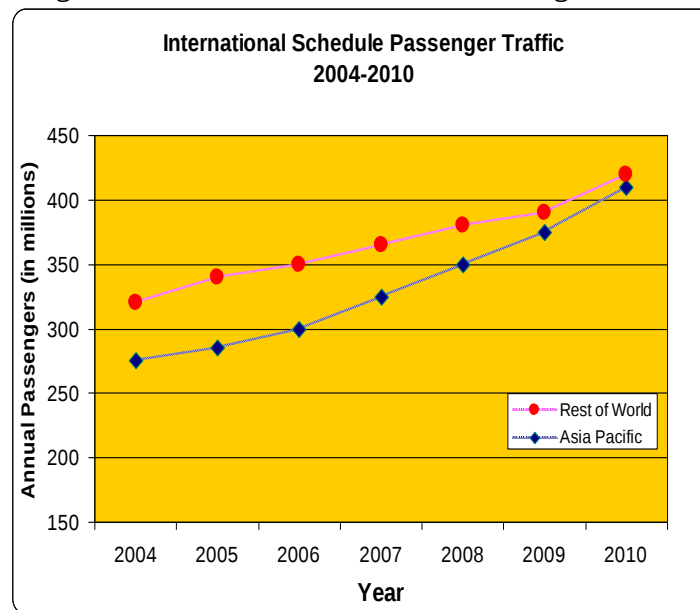
As shown in the figures 12 and 13 below, the projected international passenger traffic for Asia-Pacific in 2010 comes close to that of the Rest of the worlds. This clearly suggests that Garuda, being an Asia-Pacific airliner, can cash in on the heavy volume of passengers in the years to come (Oum and Yu, 2005).

In response to Garuda's expansion in Asia-Pacific route, competitors will add more codeshare agreements on passenger services with other Asian carriers and increase frequency.

In response to Garuda initiating talks with alliance groupings, competitors which do not belong to any alliance grouping will similarly explore multilateral alliance possibilities for

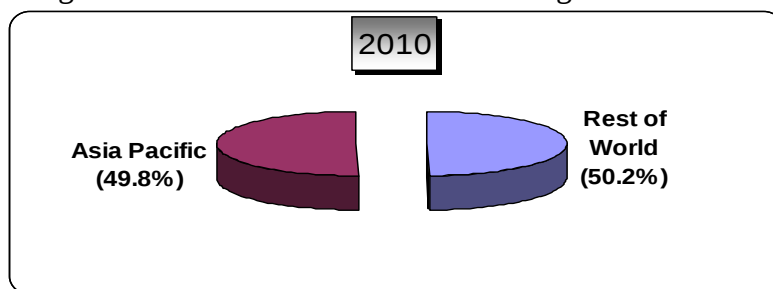
multinational passenger operations. Competitors continue to will launch supplementary flights to various international destinations as well as engage in fleet strengthening

Figure 12: International Schedule Passenger Traffic



Source: Oum and Yu, 2005, p7, Asia-Pacific Air Transport Forecast 1998-2010, 1995

Figure 13: International Schedule Passenger Traffic 2010



Source: Oum and Yu, 2005, p8, taken from Asia-Pacific Air Transport Forecast: 1980-2010. Geneva: IATA, 1997

Various South-Eastern carriers (SIA, Malaysian, and Thai) will strengthen/reinforce their existing network to Europe and North America. The competitor airlines enter into vigorous code-share agreements to counteract Garuda's moves. Competitors will also aggressively cater to providing

passengers with Classier and competitive product offerings from competing airlines

E. STRATEGIC SOLUTION

1. Reason for Airline Alliance formation

According to Oum, Park and Zhang (2000), there are numerous reasons why airlines form strategic alliances, and the most common and the most important are:

a. Expansion of Seamless Service

Network

b. Traffic feed between Partners

c. Cost Efficiency

d. Improvement of Service Quality

e. Marketing Advantage: Frequent Flyer

Program and CRS display

f. Advantage of Market Power

Cooperative Pricing.

2. Importance of joining airline alliance

According to a Merrill Lynch report (2000) four evolving trends which would have long-term implications for the airline industry are alliances, distribution, regional jets and management's focus on enhancing shareholder value. That explains why Garuda should join one of the major alliances. The move could help the airline in widening its network and distribution, thereby adding incremental profitability and offering the opportunity for cost savings.

3. Why Garuda should join an alliance

a. Increasing its geographic network

An alliance creates a network of virtual destinations. For instance, Garuda could use the code-share of another airline and offer sales through Computer Reservation Systems to regions where it doesn't fly and the other airline does. Thus, with the help of alliance code-share, Garuda will have better access to many millions of potential new customers. Also, an alliance partner can be chosen since it serves a part of the world that

currently is a void in its route network.

Alliance networks are attractive to multinational corporations interested in a single global travel vendor and to the international business passenger interested in frequent flyer plans.

b. International markets restricted by bilateral

In the international marketplace, air routes, frequency and fares are governed by bilateral which came out of the Chicago Convention in 1944. Today, the industry continues to be restricted from free market operation in many countries due to the restrictive nature of their bilateral. Antitrust immunity allows two companies to act as one with regard to designing, pricing and selling the product. Restrictive bilateral are a major reason to form an alliance, and they are also an ongoing hurdle.

c. Cost-effective market development

The cost of operating in a new market could be quite high. If the fixed costs seem to be insurmountable, the alliance path could be an attractive alternative. Sometimes, the venture could start reaping profits in the first few days of operation, and also by employing minimal Garuda employees.

d. Maintaining presence in key markets

Garuda is currently losing money in some routes, but these are also the routes which cannot be abandoned. Rather than completely withdrawing from the market, Garuda could make use of its alliance to make its presence felt.

e. The Bottom Line – Enhanced Revenue Growth

Alliances prosper since they redirect route traffic in favour of the alliance partners. This protects or raises revenue and offers cost savings potential. Another major benefit of an alliance is increased revenue. It could be due to increased passenger flow in an already-developed market, or by a new service that would not have been possible without the code share/alliance.

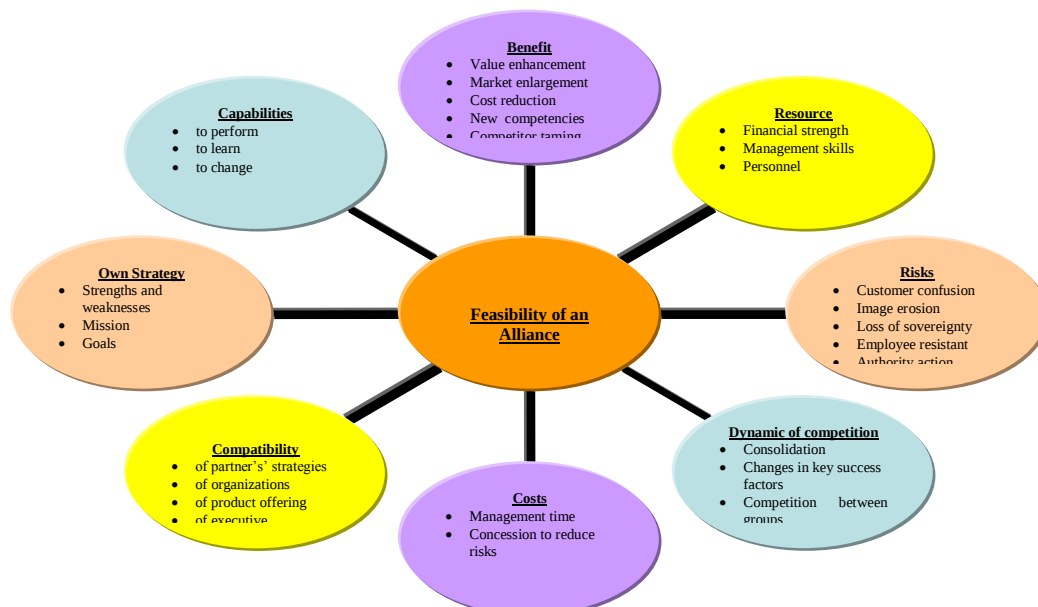
From Garuda's perspective the purpose of a global brand simply should be to build preference and thereby gain market share, both from corporations and individual travellers.

Alliance can help reap huge savings through better asset utilization. Joint aircraft purchasing is another area with immense cost savings potential. This

justifies the alternate solution of joining an airline alliance, which will be beneficial or Garuda, Figure 14 explains more benefits about entering an alliance.

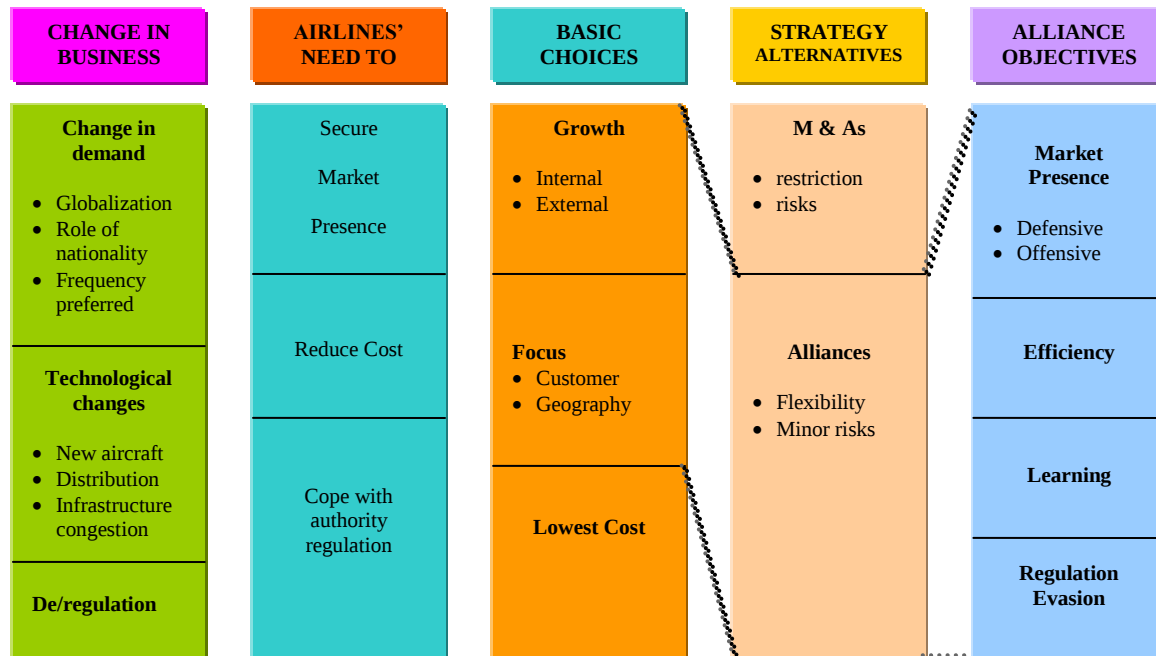
From the figure 15 below, Garuda is already in the "strategy alternatives" stage, the following stage will put Garuda in a position to enter into an alliance group in "alliance objectives". Garuda can reap large benefits from joining an alliance apart from the global recognition and hike in status. Garuda airlines subsidiaries are likely to gain revenue from member airlines for suing their support staff, aircraft maintenance and other facilities. Garuda can also profit from group aircraft orders placed by alliance members.

Figure 14: Assessing the Feasibility of Alliance Membership



Source: Kleymann & Seristo, 2004, p99, Managing Strategic Airlines Alliance.

Figure 15: Framework of international airlines alliances dynamics



Source: Kleymann and Seristo, 2004, p40

4. Selecting an alliance group

There exist three major global airline alliances- Oneworld, Star Alliance and Skyteam. According to Albracht (2005), these three alliances are expected to account for almost 80% of the total airline capacity by the end of 2005. Nineteen of the world's biggest top twenty largest airlines are now members of one of the alliances.

- a. Star Alliance brings together 16 world airlines, Air Canada, Air New Zealand, ANA, Asiana Airlines, Austrian, BMI, LOT Polish Airlines, Lufthansa, Scandinavian Airlines, Singapore Airlines, Spanair, TAP Portugal, Thai, United Airlines, US Airways and Varig. It is not advisable that Garuda consider to join this particular alliance group because other South-East Asian carriers, Thai

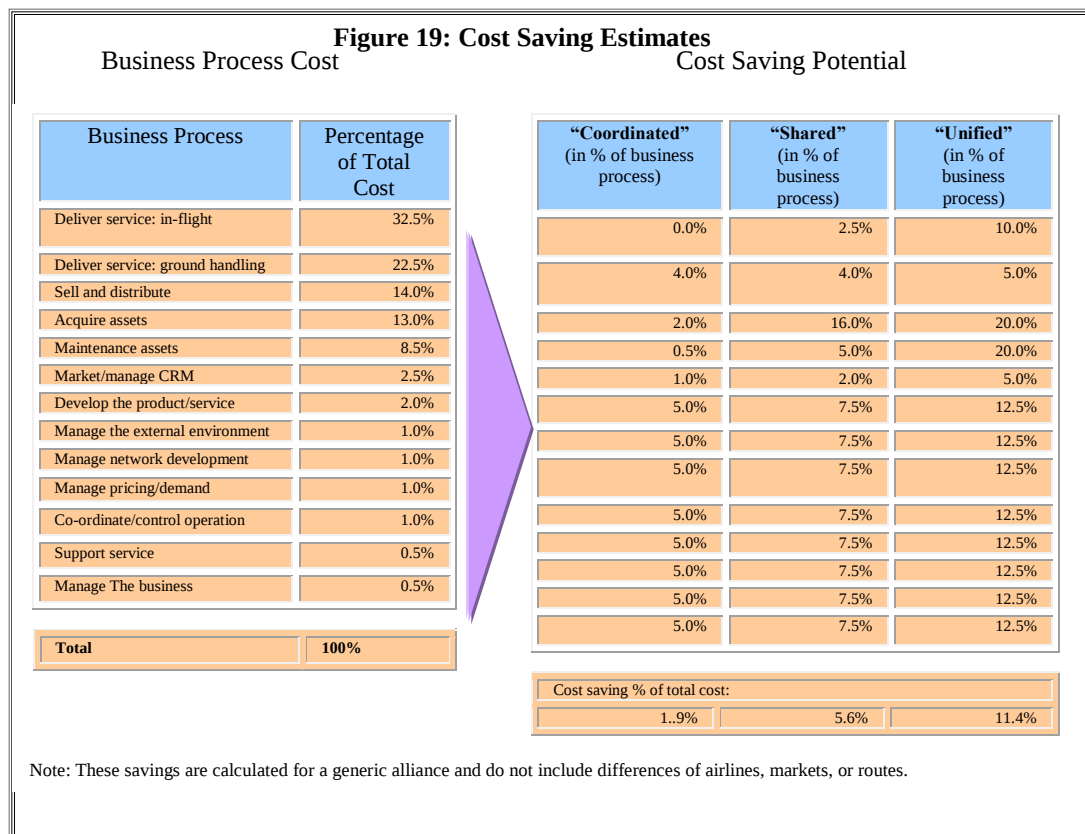
Airways and Singapore Airline. Should Garuda join this group, routes would overlap in South East Asia resulting in less benefit which could be achieved through the alliance group.

- b. The Oneworld alliance group of eight airlines, American Airlines, Aer Lingus, Lan Chile, Cathay Pacific, British Airways, Qantas, Finnair, Iberia is a viable option to join, but in joining this alliance group there is no sponsorship of member airlines because Garuda does not have close ties with the existing member airlines
- c. SkyTeam, the third option, is made up of nine member airlines KLM, Air France, Aeromexico, Alitalia, Continental Airlines, Czech Airlines, Delta, Korean Air, North West Airlines. This is the most complimentary alliance for Garuda

because they don't have an alliance partner based in South East Asia. For Skyteam to add Garuda as a member would increase the network reach of the alliance group in South East Asia. This would, in turn, be beneficial for both Garuda and Skyteam. Garuda has close ties with current members Korean Airlines and KLM. Reason being they share common routes, Garuda have code share agreements with Korean Airlines and they share the same terminals. Both carriers also use the same ground handling company with Garuda known as

Gapura. Gapura is a subsidiary of Garuda. Garuda will also be in a better position to receive sponsorship within Skyteam because of the two current members. Should Malaysian Airlines, which is also currently considering joining Skyteam, chose to join the alliance, this will not pose as a threat for Garuda because they are currently alliance partners of Garuda to many routes between Malaysia, Indonesia and Europe.

The cost benefits of joining this alliance are indicated in figure 19 below.



According to appendix 3, Skyteam operates within 'shared model'. Hence Garuda joining the group will cut down Garuda's cost by 5.6% as

illustrated in the figure above. Joining Skyteam will give Garuda a global recognition; this advantage lies

parallel with Garuda's future aspirations.

5. Not Joining Any Alliance Group

In the past airline alliances have had poor success records. They were found to be unstable and often short lived. Research indicates that as recent as 1997, 55% of airline alliances disintegrate within 3 years.

The major reasons for alliances failures, which Garuda could fall victim to, are identified by Kleymann and Seristo (2004):

- a. Wrong partner selection
- b. Overly optimistic expectations
- c. Lack of warm commitment
- d. Poor communication
- e. Undefined roles
- f. Unclear value creation
- g. Loose agreement
- h. Little relationship building
- i. Weak business plan
- j. Lack of alliance experience
- k. Differing partner styles.

Generally alliances misfire because airlines fail to recognize the following four truths

- a. Alliances are more like diplomatic and hard-headed pairings than exclusive bilateral marriages.
- b. Integration of alliances and mergers are very different from each other.
- c. Goals, Duration, Resources, Contribution and values have the potential to differ dramatically reducing the possibility of having a single fitting governance model
- d. There is a necessity for alliance expertise to be spread throughout the organization and not just based on a small cadre of experts.

In Garuda deciding not to join an alliance group it must take measures to establish more bilateral agreements with current and potential partners in exploring financially beneficial reciprocation. This could prove

as a challenge as regulatory competitive laws act as barriers and not all airlines would like to sign a code share and/or other agreements to become potential partners in order to enhance competition for e.g. Garuda and Singapore Airlines not desiring to have any partnership relation reason being each airline believes their brand value carries more weight than the other.

CONCLUSION

Arguments influencing the ultimate proposal to join an alliance group have been presented. The supporting argument shed light on the benefits of improved geographic network, the fact that international markets are currently restricted by bilateral agreements, cost-effective market development and enhancing maintenance presence in key markets. However the bottom line is that alliances prosper since they redirect route traffic in favour of the alliance partners. This protects or raises revenue and offers cost savings potential. In the selection of alliance group to join, it was decided that Star alliance would not be a viable option for Garuda, as the group already has members in other South-East Asian countries, namely Thai Airways and Singapore Airline. One world would be a workable option, however it was discovered that Garuda does not have ties or relations with any of the members, which although this may not necessarily pose as a disadvantage for Garuda, it is not advantageous either. In Garuda joining Skyteam, the carrier can reap more benefits than disadvantages. The fact that Skyteam does not have an alliance partner based in South East Asia, and Garuda has close ties with current members Korean Airlines and KLM puts Garuda in an advantageous position.

In the alternate solution to not join an alliance group, the reasons attributed to possible failure were identified as possible wrong partner selection, having overly optimistic

expectations, Luke-warm commitment and poor communication among others.

However, of the two strategic solutions, it was established that Garuda would be in a better position if it were to join an alliance group.

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