

**The Benefits of Airline Global Alliances:  
An Empirical Assessment of the Perceptions of Business Travelers**

**Kevin Goh & Mark Uncles**

School of Marketing  
UNSW

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Address for correspondence:

Professor Mark Uncles; School of Marketing, UNSW, Sydney NSW 2052; phone: +61-(2)-9385-3385; fax: +61-(2)-9663-1985; e-mail: [m.uncles@unsw.edu.au](mailto:m.uncles@unsw.edu.au)

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# **The Benefits of Airline Global Alliances: An Empirical Assessment of the Perceptions of Business Travelers**

## **Abstract**

Many claims have been made concerning the benefits of airline global alliances, often from the viewpoint of airline operators. By contrast, the focus of this paper is an empirical study of the perceptions of consumers. Studied first are the perceptions that business travelers have of the benefits of global alliances. Results show that a sizeable minority are unsure of the benefits or hold at least some misconceptions. This varies depending on the nature of the benefit and the type of respondent. Results also suggest that no major differences are perceived in the benefits offered by competing global alliances. Second, the importance of global alliance benefits in determining airline choice by business travelers is considered. Relative to other benefits, alliance benefits are not seen as particularly important.

## **Keywords**

Global alliances; Airline alliances; Business travelers; Air travel

## **Airline Global Alliances**

Strategic alliances have become a key feature in many sectors of the economy, from manufacturing to service industries. Forces in the global marketplace increasingly require companies to collaborate with local and overseas partners for market efficiency and responsiveness (Bartlett and Ghoshal 1987, Ohmae 1989). Firms in strategic networks, it is argued, will enjoy significant market advantages (Day 1995, Achrol and Kotler 1999).

This trend is echoed in the development of alliance activities within the airline industry. Nowadays most airlines participate in some form of strategic alliance (Gallacher 1999a,

O'Toole 2000). In July 1994, there were more than 280 alliances between 136 airlines (Airline Business 1994). Six years on, in July 2000, this number had grown to 579 alliances between 220 airlines (Airline Business 2000). The view is that airlines that do not participate in alliances will be severely disadvantaged (Mak and Go 1995, Li 2000), and carriers left out of major alliances may find themselves forced into becoming niche players (Oum and Park 1997).

In general, studies on alliances have focused on strategic and operational issues pertinent to the firm, such as partner selection, types of alliance, management issues and partner relationships (see Varadarajan and Cunningham 1995, Bergquist et al. 1995, Faulkner 1995, Perlmutter and Heenan 1986, Bucklin and Sengupta 1993). Specific research into alliances in the airline industry has also mostly concentrated on the firm perspective. Past studies have considered: factors that affect the operational success of airline alliances (Bissessur and Alamdari 1998); marketing and policy implications (Glisson et al. 1996); the impact of traffic output (Park and Zhang 1998), cargo services (Morell and Pilon 1999) and economic output (Park 1997, Oum et al. 1996).

Much less attention has been given to the consumer perspective. Potentially, answers to questions such as: 'What are the perceived benefits of global alliances to consumers?', 'Are these benefits seen as important?' and 'Will membership of an airline to a global alliance drive airline choice?', have important managerial implications. Yet, there is a lack of published empirical research to answer these questions. The primary focus of this study, therefore, is to explore the impact of global alliances from the consumer perspective.

The paper is on two parts. The claims made concerning the benefits of airline global alliances are reviewed from the viewpoint of air travelers, as against airline operators. Then there follows an empirical study of these claims, where we examine the perceptions that business travelers have of the benefits, and go on to consider the importance of these benefits in determining airline choice. In doing so, the focus is on multilateral alliances among networks of airlines, termed 'global alliances', and not bilateral agreements

between airlines. Examples of these multilateral global alliances include Oneworld and Star Alliance.

### **Benefits of Airline Global Alliances – From the Consumer Perspective**

The relatively recent formation of airline global alliances means there are few scholarly papers that have reported on the benefits of these alliances from the consumer perspective. As such, the benefits cited here are those that have been stated by the alliances themselves – these are taken from press releases, trade publications and the homepages of Star Alliance and Oneworld (Table 1). The main benefits common to both alliances are: (a) greater network access; (b) seamless travel; (c) transferable priority status; (d) extended lounge access; and (e) enhanced frequent-flier program (FFP) benefits.

*(a) Greater network access.* Wider route networks should attract passengers because of the preference of travelers for extensive networks (Driver 1999, Morell and Pilon 1999). Kandampully and Duddy (1999) suggest that consumer loyalty and consumer retention can be enhanced by offering product and service packages assembled through networks of relationships, which collectively add value to the offer. Thus, an airline should be able to offer greater value to customers by extending its network of relationships with other airlines. At the very least, an alliance airline can offer more itinerary choices to its passengers than non-alliance airlines of similar size (Mak and Go 1995, Oum and Park 1997, Vowles 2000, Sultan and Simpson 2000).

*(b) Seamless Travel.* A much-touted benefit is the concept of seamless travel (Youssef and Hansen 1994, Rhoades and Lush 1997). The current belief in the airline industry is that passengers want seamless travel when transferring from one airline to another (Bissessur and Alamdari 1998). This is commonly achieved with codesharing, where an airline attaches its designator code to a service operated by another airline (Burton and Hanlon 1994, Pender 1999). Codesharing has been positioned as a consumer-oriented initiative (Driver 1999, Sultan and Simpson 2000). Star Alliance, which permits member carriers to share profits and revenues through a formula-based system, offers extensive codeshare flight options for its consumers, promising quick transfers and convenient

check-in procedures. Even Oneworld, with more limited bilateral codesharing, promises customers a measure of seamless travel through smoother transfers (Gallacher 1999a).

Moreover, as transfers incur the risk of missing connections and the loss of baggage (Veldhuis 1997), having coordinated flights in global alliances can reduce consumer perceived risk and increase service levels. In addition to the convenience of seamless transfers, if the passenger decides to change flight plans at the last moment, he has the option of transferring to a variety of routes, airlines and schedules of the alliance network. Hence, there is flexibility for last minute changes to flight plans. This could be an important benefit to customers, especially those flying on non-direct long-haul flights.

*(c) Transferable priority status.* Airlines have often accorded preferential treatment in the form of priority check-in, baggage handling, reservation waitlist and airport standby, in their push to retain their most valued consumers. For the consumer, priority status achieved with one alliance member is now extended to all the partner airlines, offering greater access to priority benefits from a variety of airlines.

*(d) Extended lounge access.* Global alliances also emphasize reciprocal access to alliance partner lounges as another benefit for the executive traveler with ‘priority’ status. Prior to the formation of global alliances, the ‘priority’ consumer could only use the lounge facilities of the airline with which he was flying. Now ‘priority’ members can gain access to a much greater number of lounges: Oneworld offers more than 250 lounges (Oneworld 2000) and the competing Star Alliance has more than 500 lounges in their network (Star Alliance 2000).

*(f) Enhanced frequent-flier program (FFP) benefits.* The 1998 OAG survey reported that 94% of respondents belonged to at least one FFP, and that 59% belonged to three or more programs. In the past, FFP benefits accrued under one program were not transferable. With the formation of global alliances, frequent flyer points and other benefits can now be accrued with any airline within an alliance, eliminating the need for membership of multiple frequent flyer programs – unless the frequent flier particularly wishes to join more than one alliance. This means that FFP members can achieve priority status faster

by accruing points under one program. In addition, with the expanded network offered by an alliance, redemption of points for awards can be made with any alliance partner for a greater variety of destinations (Hanlon 1996). Moreover, as FFPs become increasingly ubiquitous and indistinct (Driver 1999), the opportunity to earn and redeem benefits through global alliances is seen as another attempt to differentiate the numerous FFPs (Gallacher 1999b).

### **Benefits of Airline Global Alliances – From the Operator’s Perspective**

The consumer perspective is the focus of our study, but we note in passing that there are several very powerful arguments in support of airline global alliances that arise from an operator perspective (Mak and Go 1995, Oum and Park 1997, Rhoades and Lush 1997, Weber and Dinwoodie 2000). Specifically, global alliances offer at least four main benefits to operators: (a) market access to overcome restrictions over route access and airline ownership imposed by national governments; (b) cost reductions and economies of scale, scope and density; (c) coordinated schedules and prices to optimize the demand for, and capacity of, each flight; and (d) opportunities to reshape industry structure and to raise barriers against new entrants. These benefits do not necessarily improve the offering for consumers, but – undeniably – they are powerful drivers of alliance formation. While these are not reviewed any further here, they should be kept in mind.

### **Airline Global Alliances – A Breakthrough for Consumers?**

Taking account of all these factors, there appear to be two contrasting perspectives. One view is that global alliances offer consumer benefits that substantially favor certain airlines. These benefits are perceived and valued by consumers and hence affect consumer attitudes to, and choice of, these airlines. A contrasting view is that global alliances are primarily driven by firm-based factors and not by consumer perceptions of any benefits that may or may not accrue. Indeed, by offering a portfolio of alliance airlines, perhaps operators are only facing up to the fact that consumers often make use of a repertoire of carriers. Enhanced benefits may only serve to maintain the repertoire or nudge consumers to modify their choices at the margin. Hence, are global alliances a breakthrough for consumers? Or, are they becoming just another hygiene factor for the airlines? That is, a standard feature that becomes a necessary but not sufficient condition

for any operator in the airline business. This remains to be seen, but the following study is an attempt to explore some of these issues.

### **Research Objectives and Questions**

The empirical study has two research objectives. First, to investigate the perception that business travelers have of the benefits of airline global alliances. Three specific research questions are considered (RQ1 to RQ3 below). Second, to investigate the importance of global alliance benefits in determining airline choice by business travelers – one specific research question is considered (RQ4). We concentrate on consumer *perceptions*, with the assumption that something akin to a hierarchy-of-effects model is at work. Namely, if a traveler is to respond to communications about alliance benefits he/she will go through a series of steps: initial awareness of the benefits, knowledge of them, a desire to take account of them and, finally, an impact on travel choices (Rossiter and Percy 1997).

*RQ1: Are business travelers aware of the benefits of the airline global alliances?* This question seeks to determine the level of customer awareness of the various global alliance benefits. Measures provide insight into consumers' overall awareness of the benefits and give some indication of the effectiveness of marketing communication programs that focus on these benefits. Awareness is generally seen as a necessary prerequisite for any successful marketing communications program. The claim is that if consumers are not aware of the benefits they cannot be expected to change their attitudes or re-examine their airline choices in any meaningful way. This is a standard claim in communication studies, although it should not be read as saying un-recognized benefits are of no value to travelers (e.g., there could be real gains in service quality from a more efficient hub-and-spoke operation, as a result of airline alliances, even though travelers might not be aware of the link between operational efficiency and improved levels of service).

*RQ2: How do business travelers rate the benefits of the airline global alliances?* Given the publicized benefits of the global alliances for the consumer, how have they evaluated these benefits? Have the benefits, as promised by the global alliances, lived up to expectations? Dennis (2000 p 76) cautions that 'most airports are not designed with airline alliances in mind and multi-terminal operations can create a major bottleneck to

efficient ground handling', hence diminishing the promised benefits of seamless travel. Barrett and Howarth (1998) restate this point, arguing that the actual experience of the business traveler is in contrast to the ideal scenario of seamless travel. This is due to the fragmented value chain where airports, air traffic control providers and support operations fail to work as a cohesive unit to meet the needs of airline consumers.

*RQ3: To what extent do business travelers perceive the benefits of the two major airline global alliances to be different?* Alliances are characterized by different levels of commitment and complexity. Oneworld is based on consumer marketing (i.e. co-branding, lounge access, customer support and integrated frequent flyer programs). The Star Alliance takes advantage of more than just consumer marketing, giving emphasis to extensive codesharing, coordinated schedules and route planning, joint pricing and inventory management, integrated information technology, integrated frequent flyer programs and joint purchasing (Gallacher 1999b, Ionides 1999). Despite these apparent differences, as alliances evolve, so the clear distinctions start to disappear. Therefore, whether business travelers perceive differences between the two major global alliances – Star Alliance and Oneworld – may provide insights into the success of global alliances as a differentiating tool.

*RQ4: How important are the benefits of global alliances in determining airline choice for business travelers?* Assuming the global alliance benefits are indeed important to travelers, it is anticipated that there would be a concerted effort on the part of those customers who rate the benefits as important to choose airlines that belong to the same global alliance in order to maximize their benefits (e.g. enhanced FFP benefits and priority status). We formally test the proposition that business air travelers who rate the global alliance benefits as important will have a greater propensity to choose airlines in the same global alliance, compared to those who do not rate the benefits as important.

## **The Data**

A cross-sectional self-completion survey was administered to a sample of Australian business travelers. Similar survey instruments have been used in related studies (e.g. Alamdari 2000, Browne et al. 1995, OAG 1998, Proussaloglou and Koppelman 1999,



Sultan and Simpson 2000). There are well-documented limitations with such data (e.g. low response rates, self-selection bias, prior conditioning, question order bias, acquiescence bias, problems in recalling previous behavior, etc.), but various procedures were used to try to minimize these problems. For instance, four techniques were used to increase response rates: a personalized cover letter, with endorsement from the sponsoring business school; incentives, in the form of book prizes; a follow-up letter; and inclusion of a self-addressed reply-paid envelope. A declared pre-test was used to test for, and rectify, conditioning effects. With the main survey, four different versions of the questionnaire were used to test for any order effects. Reverse-coded questions were included to minimize the problem of acquiescence bias. To assist in answering questions, respondents were invited to check a comprehensive list of airlines in regard to air travel over a specific time period.

The population of interest comprises business travelers, who collectively make a very significant contribution to the bottom-line of most airlines. They fly more than other travelers, usually at the expense of their employers and are less price sensitive (Bender and Stephenson 1998, Stephenson and Fox 1993, Mason and Barker 1996). In addition, this is a primary target for FFPs and, by extension, global alliance benefits. The sample itself was drawn from an Australian business school alumni list, with the typical respondent being in a middle-level executive position. Analysis of travel frequency, job roles and demographics enabled the appropriateness of the sample to be checked.

The survey instrument was developed in three stages. First, the benefits of global alliances were distilled from analysis of academic journals, the homepages of airlines and global alliances, the trade and popular press, and advertising and promotions materials. Second, measures from the extant literature were used to design the questionnaire, in order to obtain information on travel habits, awareness, choice determinants, attitudes to global alliances, and classification variables. Most questions related to business travel, but a few questions went into greater detail regarding a respondent's business or pleasure air travel. To reduce the task load, a randomly selected 75% of the sample received the additional business questions and 25% received the pleasure questions. A further two versions of the questionnaire were created to test for question order effects (each of these

being randomly allocated to half the sample). Third, a declared pre-test was used to check the questionnaire structure and the sequence, meaning and clarity of questions.

Some 221 usable replies were obtained (a response rate of just over 17%). No significant differences were observed across the four versions of the questionnaire, so all responses were pooled. Half the sample was in senior or middle management, almost 20% were in top management, and a quarter were in a professional role. There were an equal number of male and female respondents. While the sample cannot be described as homogeneous, it fulfils the requirement of being focused on business travelers.

In addition to demographic questions, a number of air-travel specific questions were asked to help profile the sample. These are briefly reported next. Over 90% of respondents stated a preference for at least one airline: 14% mentioned just one airline, 27% named two, and 50% mentioned three. The airlines stated most, in rank order, were Qantas, Singapore Airlines, British Airways, Cathay Pacific and Ansett. The latter was still operational at the time and travelers would not have been aware of the airline's financial difficulties. A much smaller percentage (55% of respondents) stated a preference for at least one global alliance. Of these, the majority mentioned Oneworld (which includes Qantas), compared to a smaller number mentioning Star Alliance (which included Ansett).

With regard to FFPs, the vast majority of respondents were members of at least one program. On average, respondents were members of two programs. This figure is somewhat lower than US and European norms, but is consistent with independent descriptions of the Australian business traveler (OAG 1998). Three-quarters stated that the benefits remained personal to the traveler; the bulk of other respondents said there was no company policy on this matter or they were unsure, and only 5-6% said FFP benefits remained the property of the company.

## **Survey Findings and Discussion: Research Objective 1**

The focus here is the perception that business travelers have of the benefits of global alliances. We report on awareness levels, the rating of benefits, and the distinctiveness of these benefits across alliances.

*RQ1: Are business travelers aware of the benefits of the airline global alliances?*

Respondents were presented with ten statements and asked to state, in their opinion, whether the statements were ‘correct’ or ‘incorrect’ with regard to the benefits of airline global alliances. They were also allowed to select an ‘unsure’ option. Table 2 lists the global alliance benefits, the corresponding statements used in the survey, and the responses. In general, there are reasonable levels of awareness of some of the benefits; however, misconceptions also exist.

On average, 60% of respondents were aware of the various benefits, with the remaining 40% either unsure or incorrect (25% were unsure and 15% incorrect) (all figures in the paper are rounded for clarity of presentation, however statistical tests were performed on un-rounded data). Respondents had greatest awareness of the ability to accrue FFP points on any airline within an alliance (83% correct). This was followed by greater network access (70% correct). Airlines have focused their advertising and promotion efforts on these two beliefs, so perhaps this result is not surprising.

The question with regard to codesharing had the highest number of incorrect answers (36%). This high percentage of incorrect responses is indicative that some respondents have misconceptions of the various benefits. For example, although the term ‘codesharing’ is commonly used by airlines, 36% of respondents had the mistaken belief that codesharing by alliance partners meant that consumers had a better chance of flying on planes owned by their preferred airlines. It is important to note misconceptions because they might affect how consumers perceive the overall product offering and, more importantly, they might influence expectations. The brand image of an airline may be damaged if consumers are unknowingly placed on aircraft operated by alliance partners instead of their preferred airline and if standards of service among codesharing airlines are variable (Driver 1999). Recently, criticisms have arisen over the potential

deceptiveness of this arrangement to consumers (Peguillan 1996, Pender 1999, Hemphill 2000).

Considering the distribution of responses, 77% of respondents demonstrated awareness of at least half of the various global alliance benefits. That, of course, means roughly one quarter were *not* aware or were incorrect in their beliefs. A significant difference ( $t = 3.14$ ,  $p = .00$ ) in levels of awareness was observed between respondents who had flown in the last 12 months (mean = 6.4) and those who had not (mean = 5.1). These respondents are likely to have had far greater exposure to communications from the airlines about alliance benefits, as well as opportunities to directly experience the benefits. Also, a significant difference ( $t = 6.42$ ,  $p = .00$ ) was observed when comparing those who stated a preference for a specific global alliance (mean = 6.7) and those who had no stated preference (mean = 4.9). This is reassuring news for those airlines that have been attempting to build awareness of their alliance initiatives.

*RQ2: How do business travelers rate the benefits of the airline global alliances?*

This question relates to the rating of global alliance benefits. The majority of respondents agree that global alliances have resulted in greater network access and enhanced FFP benefits – 62% ‘agree’ or ‘strongly agree’ (Table 3). Many respondents, however, were uncertain of the benefits specifically targeted at very frequent fliers and high-FFP status members, such as seamless travel, extended lounge access and transferable priority status. In these cases as many were uncertain (an average of 40%) as were in agreement (average 42%).

Due to the large number of ‘uncertain’ responses for some benefits, a tabulation of uncertain responses was undertaken to determine if uncertainty was related to FFP status (not shown). As expected, the percentages of ‘uncertain’ responses were lower for travelers who had achieved the highest level of FFP status. To develop this theme further, a benefit index was created for each respondent by summing all seven benefits listed in Table 3. The danger of this approach is that it may ‘average out’ important variance, but the purpose here is simply to obtain an overall impression of the benefits-FFP linkage. To test whether the rating of benefits was related to FFP status, an ANOVA between the

benefit indexes of respondents with different levels of FFP status was conducted. The result was not significant ( $F = 0.99$ ,  $p = 0.40$ ). Therefore, it is inferred that the primary targets of global alliances, the high-FFP status members, do not necessarily rate the benefits any higher than lower status members.

To test if the rating of benefits was related to preference for a global alliance, an independent samples t-test was conducted comparing the benefit index of those who stated a preference for global alliances and those who did not. The results were also not significant ( $t = 1.56$ ,  $p = 0.12$ ). It appears that while those stating a preference for a specific global alliance are somewhat more aware of the benefits (RQ1), they do not show any difference in their rating of the benefits (RQ2). This, in turn, may restrict any attempt to use alliances to instill preference and offer distinct services to consumers – themes that are taken up next.

*RQ3: To what extent do business travelers perceive the benefits of the two major airline global alliances to be different?*

To determine if either Oneworld or Star Alliance enjoys any competitive advantage from the global alliance benefits, this question examines if business travelers are able to differentiate the benefits offered by the two alliances. An average of 63% of respondents indicated uncertainty in differentiating the various benefits offered by the two major global alliances, Oneworld and Star Alliance (Table 4). This is not uncommon in highly competitive ‘parity’ markets, although it is of concern to brand managers. Consumer uncertainty affects evaluation of brands (Bettman and Park 1980, Smith and Bristol 1994) and increases perceived risk in purchasing the brand (Ghosh et al. 1995, Mitra et al. 1999). Choi and Kim (1996) hypothesize that consumer uncertainty leads to the use of quality surrogates, such as establishment age and organization size. This means that established service providers enjoy a competitive advantage over newly established smaller providers. With such a high percentage of uncertainty among respondents, it is expected that consumers would most likely remain with the incumbent airline or market leader. The research findings indicate that Qantas, being the incumbent national carrier and market leader, was the most cited preferred airline and had the most popular FFP program. It follows that Oneworld (which includes Qantas as a member) would logically

enjoy the advantage of being the preferred global alliance, which was also found to be the case.

The mean for each global alliance benefit, excluding the ‘not sure’ responses, is presented in the last column of Table 4. This shows that respondents do not perceive any differences in benefits offered by the two alliances. To all intents and purposes the benefits of Oneworld are seen as almost identical to those of Star (mean responses above 4 on a 5-point scale are high, so the effect is strong). If consumers do not perceive any difference in benefits offered by the two competing alliances, the value of an airline being part of a specific global alliance may not be a discriminatory factor for consumers. Such non-discriminatory factors tend to be redundant choice determinants and are eliminated prior to choice deliberations (Chernev 1997). Furthermore, Dick and Basu (1994) suggests that ‘the lower the perceived differentiation among competitive offerings, the less the likelihood of loyalty formation’ (p 110). This raises doubts about the effectiveness of airline alliances to instill exceptional loyalty to particular airlines, although it leaves open the possibility that alliances can help incumbent airlines to defend, consolidate and entrench their positions.

### **Survey Findings and Discussion: Research Objective 2**

The focus here is on the importance of global alliance benefits in determining airline choice by business travelers.

*RQ4: How important are the benefits of airline global alliances in determining airline choice for business travelers?*

Respondents were asked to consider their needs for both business and pleasure flights, and to rate a list of 20 factors affecting airline choice. The list was assembled from a variety of past academic studies (Alamdari 2000, Browne et al. 1995, Uncles and Dowling 1998) and commercial surveys (OAG 1998, IATA 1999, Redmile 2000). Four factors directly relating to global alliance benefits were embedded in this randomized list. Table 5 lists the mean ratings of these four factors (in bold-italics), among the other 16 factors, in descending importance.

It is apparent that the global alliance benefits do not rate particularly highly. Seamless travel rated sixth most important, behind reputation for safety, reliable baggage handling, most direct routes and fewest stopovers, staff friendliness and helpfulness, and modern aircraft fleet. Other global alliance benefits such as network access and extended lounge access rated 14<sup>th</sup> and 15<sup>th</sup> in the list. Whether the airline was part of a global alliance rated 18<sup>th</sup> among the 20 factors. This finding is consistent with previous studies of Australian business travelers, where functional factors are rated above FFPs in terms of their relative importance (e.g. OAG 1998, Uncles and Dowling 1998).

Although the findings reveal the relatively low importance of global alliance benefits (in terms of consumer perceptions), it might be argued that only certain categories of business traveler would appreciate the benefits. To investigate this, an index was formed by summing the ratings for the four global alliance factors from each respondent (with a minimum score of 5 and a maximum of 20). An independent samples t-test was carried out to determine if those respondents who stated a preference for a global alliance rated these factors as being more important, compared to those who did not state a preference for any alliance. The result of the test was significant at the .05 level ( $t = 3.89$ ,  $p = .00$ ). An ANOVA was also carried out to determine if respondents who had attained the highest level of FFP status rated the benefits as more important than those with lower FFP status (note that comparison was made for the first stated FFP membership, therefore no account was taken of multiple FFP membership). The analysis revealed a significant difference ( $F = 3.71$ ,  $p = .013$ ) between those who have attained the highest level of FFP status ( $n = 16$ , mean = 15) and those at the lowest level ( $n = 70$ , mean = 12).

These tests show that high-status FFP members place greater importance on global alliance benefits. However, does this impact their choices? To investigate further, we considered the proposition that business travelers who rate global alliance benefits as important will have a greater propensity to choose airlines in the same global alliance (compared to those who do not rate the benefits as important). To test this proposition, the sample was split into two groups: those who rated global alliances as important (index score greater than 12) and those who did not (index score less than eight). The propensity to choose airlines in the same global alliance was measured in terms of 'share of category

requirements' (SCR is a standard measure of consumer loyalty: if the benefits give rise to greater loyalty we would expect a higher SCR for those who rate the benefits as important, compared to a lower SCR for those who rate the benefits as less important). An independent-samples t-test was conducted between the two groups and the mean SCR of the two major global alliances (Table 6). Respondents who rated the global alliance benefits as important attributed a marginally higher SCR towards the global alliances than those who did not rate the benefits as important; however, the differences in SCR were not significant at the .05 level.

Similar results were observed using a purchase probability measure (not shown). Respondents who rated the benefits as important assigned a somewhat higher probability of flying with airlines of the same global alliance. But, again, the differences were not significant at the .05 level.

In general, therefore, business travelers in the sample do not rate alliance benefits as particularly important, compared to more basic functional factors such as reputation for safety. However, those who stated a preference for a global alliance, and those who had attained the highest level of FFP status, rated alliance benefits somewhat more highly than other respondents. That said, even business travelers who rate global alliance benefits as important do not have a greater propensity to choose airlines within the same global alliance compared to those who fail to rate the benefits as important. The implication is that global alliance benefits are not very important influences on SCR and purchase probabilities, even among those who give greater importance to the benefits. One explanation for this is that business travelers' evaluations of the benefits are below expectations (e.g. in principle some travelers might value seamless travel, but in practice they find that travel is not seamless, and therefore they are inclined to concentrate on traditional factors such as direct routes and fewest stopovers). This finding should be of concern for operators, because their efforts to encourage greater loyalty may be undermined by unmet expectations.

## **Limitations and Extensions**



Before summarizing the main implications, a number of limitations and extensions are discussed.

*(a) Global Alliance Benefits.* The list of benefits was derived from promotional materials of the airlines and alliances, and therefore it reflects the claims of operators. As shown, consumers are not necessarily aware of these claimed benefits, nor do they necessarily see them as important. To complement this work, it might be useful to conduct in-depth qualitative research with business travelers. This would enable fuller investigation of the benefits sought by travelers, their perceptions of current benefits, potential disadvantages and other nuances. A similar approach with other key persons in the decision-making process might also repay investigation.

*(b) Consumer and Firm Perspectives.* The focus of this paper has been consumer perceptions, partly because these have been neglected in earlier work. However, as noted earlier, there seems to be a compelling drive for airlines to form global alliances, but largely from an organizational setting. Therefore, there would be value in exploring both the organizational and consumer perspectives within the confines of a single study in order fully to understand the effectiveness of global alliance strategies (Durme 2000). Another aspect of the interplay between organizational and consumer issues arises from the role of intermediaries such as travel agencies, booking clerks, online services, etc. While our survey gathered some background information about these, intermediaries were not the focus of the study.

*(c) Sampling Issues.* The findings relate to the perceptions of Australian business travelers. Given limited access to databases, a purposive sample was used to isolate these travelers from a business school alumni register. While many checks were made to ensure the appropriateness of this sample, given the population of interest, there is scope to verify this using other samples. For instance, airline-specific databases might be used (although these have their own sources of bias). Another issue related to sampling is the response rate. Considerable efforts were made to achieve a satisfactory response rate (for example by issuing reminder notices). Analysis of variance and Chi-square tests between the responses received before and after the reminder notice revealed no significant

differences in the samples. Tests of this nature are regarded as an indirect check on whether respondents differ from non-respondents (the argument being that tardy respondents often have similar characteristics to non-respondents).

*(d) Changes over Time.* Global alliances are evolving, with new alliances forming and the composition of existing alliances changing. The use of longitudinal studies with multiple time frames might help in the assessment of global alliances. For instance, what are the short-term and longer-term gains to those operators who are first to innovate through new consumer benefits? This question is hard to answer without recourse to longitudinal studies and even then it may prove difficult to analyze because of the impact of unanticipated events. In this regard, we note that the survey was administered before the collapse of Ansett and prior to the events of September 11<sup>th</sup> 2001. In the short-term these events prompted tactical promotions by carriers, but over time these have given way to more enduring campaigns and a renewed interest in global alliances.

*(e) Market Specifics.* At the time of our survey the major rivals in the Australian airline market were Qantas-BA and Ansett-Air New Zealand, with Singapore Airlines, Cathay Pacific, Thai and others having much smaller local market shares. Since the demise of Ansett in the latter quarter of 2001, and the failure to launch Ansett II in the first quarter of 2002, airlines such as Virgin have come to greater prominence. Thus, the market can be described as competitive, but with very uneven market shares. This situation is not particularly unusual given the strength of national and regional carriers in so many markets. Where this strength is related to country-of-origin effects it raises the question of how the desire of consumers to support a particular national carrier is affected by the carrier's decision to join forces with other airlines (Bruning 1997).

Much of the promotional activity for global alliances has transcended traditional market boundaries. Promotions with a "coverage" theme ran in markets as diverse as Mexico, U.K. and Australia. The web-sites of Oneworld and Star Alliance have been open to scrutiny by customers from anywhere in the world. Comment about, and interest in, these alliances has come from varied sources across the globe. For these reasons we would not expect our findings to be materially different in other markets. The only exceptions might

be in unusually competitive markets (e.g., in certain locations in the U.S.) – something that deserves further investigation.

Finally, there are questions about sub-markets. This study, which focuses on a relatively homogenous sample of business travelers, has, to a certain extent, avoided segmentation issues. Nevertheless, an important extension would be to address segmentation explicitly (see Bock and Uncles 2002, Table 1).

### **Final Discussion: Managerial and Policy Implications**

There are several very powerful firm-based drivers of global alliance formation. Notably, market access, cost reduction, coordination and opportunities to reshape industry structure. These drivers are not necessarily designed with consumer service in mind, although there can be spin-off benefits (e.g., the hub-and-spoke operations at Amsterdam, Chicago, New York/Newark or Frankfurt/Main may have become more efficient as a result of alliances, thereby reducing operating costs and improving overall service quality – a fact that may or may not be recognized by travelers). By contrast, other initiatives have been explicitly advertised and publicized as consumer benefits. We have focused on these in our study. In particular, emphasis has been given to the benefits accruing from greater network access, seamless travel, transferable priority status, extended lounge access and enhanced FFP benefits – all of which are not only designed to be recognized by travelers, but also intended to give some operators differential advantages over others.

These claims give rise to a number of questions: ‘What are the perceived benefits of global alliances to consumers?’, ‘Are these seen as important?’, and ‘To what extent will membership of an airline to a global alliance drive airline choice?’. In response, we find something of a mixed record. Benefits that are actually noticed and used may serve to maintain the repertoire or nudge consumers to modify their choices at the margin. This may be of value to business travelers, as well as assist established airlines seeking to defend their position in competitive markets. However, it does not represent a fundamental shift in traveler perceptions, attitudes and behavior. In fact it appears that by offering a portfolio of alliance airlines, operators are facing up to the fact that consumers already make use of a repertoire of carriers.

Collectively, these findings pose a number of implications for management. How effective was the \$70 million spent by Oneworld on its initial marketing communications (Oneworld 2000)? Where should attention be concentrated in future? Are there policy implications too? For operators we believe there are several messages.

First, clear marketing communications are needed to explain what the benefits are and correct any misconceptions. The record at present is mixed, as revealed by results to RQ1. Because the relevance of these benefits will vary among business travelers, a key component of clearer marketing communication is likely to be a degree of customization (airlines such as Qantas already use email and personalization technologies to reach specific target groups).

Second, expectations must be managed carefully. There is no advantage in informing travelers of benefits that prove difficult for them to obtain – this will simply result in skepticism and frustration (as remarked upon by Driver 1999, Peguillan 1996, Pender 1999, and Hemphill 2000). The pattern of responses to RQ1 and RQ2 suggest that this may be a problem, as it has been in the past with other aspects of airline travel (e.g. difficulties in obtaining frequent-flier rewards). If expectations continue to rise, the implications could be quite wide-ranging (including, for instance, the need to re-design airports to enable travelers to maximize alliance benefits). The reaction of disgruntled consumers to the write-off of accumulated benefits at the time of Ansett's collapse illustrates the problems that can arise if expectations are not managed.

Third, operators should recognize the inevitable – namely, it is unlikely that membership of a major alliance will strongly differentiate one airline from another. This is evident from the results for RQ3 which show that business travelers are either unsure whether there are differences between the two major alliances, or firmly believe they are almost identical. The suggestion here is that the success of a global alliance is more a function of the market position of its members than any appeal in its own right (which appears to be consistent with views put forward by Choi and Kim 1996 and Proussaloglou and

Koppelman 1999). This is not to say the alliances are structurally the same, but rather that in the eyes of customers they are seen as the same.

The absence of perceived differences also raises questions about the ability to sustain any first-mover advantages that a player may have. We note that Star Alliance entered the Australian market in 1998 when Ansett became an alliance member. Qantas, together with 3 other airlines, formed Oneworld a year later in 1999. Over time, the benefits of these schemes appear to have become hygiene factors. Like FFPs, consumers expect the benefits, but offering them is not a sufficient reason for business travelers to fly with one airline rather than another. The history of loyalty schemes could be repeating itself (Dowling and Uncles 1997, Fournier et al. 1998, Uncles et al. 2003).

Fourth, we would not predict any fundamental change in behavior – given the relatively minor role of alliances in airline choice. This seems to be the message from RQ4. For final customers, what matters most are the basics – safety, baggage handling, direct routes, few stopovers, etc. Alliances, to the extent that they have a role to play, are only likely to impact choices by addressing these basics or by influencing intermediaries. Whitaker (1998, p 9) may over-state the point, but his sentiment appears to be correct: ‘Few airline customers could care less about airline alliances, and even fewer can keep track of the constantly changing alliance landscape. All they care about is getting from A to B safely and efficiently’.

On a broader level, the existence of global alliances is interlinked with some important public policy issues. For instance, if one of the primary reasons for these alliances is to circumvent the regulated structure of world aviation markets, then any move to liberalize markets and develop ‘open skies’ agreements may make global alliances redundant. Any consumer benefits would be lost, or they might have to be met using other mechanisms. Taking all these conclusions into account, the outlook for alliances is equivocal.

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**Table 1: Benefits of Global Alliances**  
(Information from the homepages of Star Alliance and Oneworld, 2000)

Star Alliance	Oneworld
<p>"The <b>Star Alliance</b> network was formed to better meet the needs of frequent international travellers. Following extensive research with these valuable customers, we learned what they want and expect. That is why we offer you, as a <b>Star Alliance</b> Gold or Silver member, worldwide status and privileges, a seamless experience, and convenient global access. Along with our consistent focus on safety and security, we provide tangible benefits every time you travel with each of the <b>Star Alliance</b> network carriers.</p> <p><b>Lounge Access*</b> Making every minute count is part of the <b>Star Alliance</b> seamless travel experience. We understand the value of an oasis of calm where you can relax or continue to conduct business.</p> <p><b>Priority Status*</b> Making privileged status really count, the <b>Star Alliance</b> network offers you priority treatment on any <b>Star Alliance</b> flight right from the time you check-in.</p> <p><b>Priority Endorsement Waiver</b> Making an unexpected change of plans is hassle-free through the network's ticket endorsement waiver policy. With a <b>Star Alliance</b> flight leaving every 12 seconds, flexibility is guaranteed.</p> <p>In fact, we make every mile on qualifying <b>Star Alliance</b> flights count as a matter of principle. We make travel as rewarding as possible for you across all of our member airlines, and your affiliation with the <b>Star Alliance</b> network ensures you will reach elite status within your frequent flyer program much faster, as every mile counts toward your elite status. You can also redeem miles/points/km for reward travel with any of the <b>Star Alliance</b> network airlines."</p> <p><b>*Available to Star Gold (Top-tier) members only</b></p>	<p>"As an alliance we can offer you benefits that are beyond the reach of our individual networks.</p> <p><b>More people to support you</b> Together we employ over 250,000 people in over 135 countries. Our employees will be there to help you, on the ground and in the air, wherever your journey takes you in the <b>Oneworld</b> network of over 650 destinations around the globe.</p> <p><b>Greater rewards for frequent flyers</b> If you are a member of American Airlines AAdvantage, British Airways Executive Club, Canadian Plus, Cathay Pacific Marco Polo Club, Finnair Plus, Iberia Plus or Qantas Frequent Flyer, you will find that the rewards and privileges of membership have been greatly enhanced.</p> <p>You will earn miles in your particular program whenever you travel on eligible flights and fares of the <b>Oneworld</b> alliance airlines. Qualifying flights will also count towards the maintenance or advancement of your tier status. And, when you are ready to redeem your miles, you can do so to over 650 destinations worldwide.</p> <p><b>Smoother transfers</b> We place great emphasis on the service we provide, in flight and on the ground, especially to passengers with onward connections.</p> <p><b>More value</b> The <b>Oneworld</b> Explorer product brings a new simplicity to planning round-the-world itineraries to your choice of over 650 destinations. By treating the continents of the world as individual stepping stones, fares are based on the number of continents you visit and your class of travel. Nothing could be simpler.</p> <p><b>Access to airline lounges</b> The <b>Oneworld</b> alliance airlines provide over 230 lounges across the globe. If you are a top-tier member of one of our frequent flyer programs, you will have access to our lounges prior to departure."</p>

**Table 2: Responses to Statements regarding Global Alliance Benefits and Membership**

<b>Global Alliance Benefit</b>	<b>Survey Statement</b>	<b>Correct (%)</b>	<b>Incorrect (%)</b>	<b>Not sure (%)</b>
<i>Greater Network Access</i>	A global alliance airline can offer more itinerary choice to its customers than non-alliance airlines of a similar size. (True)	70	15	15
<i>Seamless Travel</i>	A global alliance can offer extensive code sharing flight options for its customers, promising quick transfers and convenient check-in procedures. (True)	64	9	27
	Codesharing by the alliance partners means customers have a better chance of flying on planes owned by their preferred airline. (False)	40	36	24
<i>Transferable Priority Status</i>	“Priority” status achieved with one global alliance member is now extended to the partner airlines, offering greater access to priority check-in, baggage handling, reservation waitlist and airport standby facilities. (True)	65	12	23
<i>Extended Lounge Access</i>	“Priority” customers of a global alliance airline can gain access to an executive lounge of any of the partners. (True)	56	15	29
<i>Enhanced FFP Benefits</i>	With the formation of global alliances, frequent flier points can be accrued from any airline within an alliance. (True)	83	5	11
	It is normal practice for frequent-fliers to earn twice as many points from their nominated airline than from other partner airlines on the same route. (False)	54	8	37
	While it is possible to earn frequent flier points on any airline in the global alliance, a customer can only redeem points on one nominated airline within the alliance. (False)	42	23	36
<b>Average Awareness (Benefits Statements only)</b>		<b>59</b>	<b>15</b>	<b>25</b>
<i>Global Alliance Membership</i>	Ansett Australia is a member of the Oneworld global alliance. (False)	61	7	32
	Singapore Airlines is a member of Star Alliance. (True)	55	5	40
<b>Overall Average Awareness (Benefits and Membership Statements)</b>		<b>59</b>	<b>13</b>	<b>28</b>

**Table 3: Responses to Ratings of Global Alliance Benefits**

<b>Global Alliance Benefits</b>		<b>Strongly Disagree (1)</b>	<b>Disagree (2)</b>	<b>Uncertain (3)</b>	<b>Agree (4)</b>	<b>Strongly Agree (5)</b>	<b>Mean Response</b>
<i>Greater Network Access</i>		0.5	16	21	51	11	3.6
<i>Seamless Travel</i>	<i>Quick Transfers</i>	2.3	18	40	39	0.9	3.2
	<i>Flexible Flight Schedules</i>	3.2	17	35	43	2.3	3.2
	<i>Convenient Check-in Procedures</i>	1.4	23	40	33	2.7	3.1
<i>Transferable Priority Status</i>		0.5	12	44	37	5.9	3.4
<i>Extended Lounge Access</i>		0.0	14	39	44	3.2	3.4
<i>Enhanced FFP Benefits</i>		1.4	11	26	56	5.9	3.5
<b>Average</b>		<b>1.3</b>	<b>16</b>	<b>35</b>	<b>43</b>	<b>4.5</b>	<b>3.3</b>

**Table 4: Responses to Perceived Differences of Global Alliance Benefits  
Between Star Alliance and Oneworld**

Global Alliance Benefit		Extremely Different (1)	(2)	Somewhat Different (3)	(4)	Almost Identical (5)	Not Sure	Mean (Excluding "not sure" responses)
<i>Network Access</i>		0.5	6.8	15	8.2	20	51	3.8
<i>Seamless Travel</i>	Smooth transfers	0	1.4	2.3	12	22	63	4.5
	Flexibility of changing flight plans	0.9	0.9	3.7	11	18	66	4.3
<i>Transferable Priority Status</i>		0	1.4	4.6	6.8	16	71	4.3
<i>Extended Lounge Access</i>	Number of Lounges	0	2.3	7.3	9.5	14	64	4.2
	Facilities	0.5	1.4	7.3	8.2	19	67	4.1
<i>Enhanced FFP Benefits</i>		0.9	1.8	7.3	10	21	59	4.2
<b>Average</b>		<b>0.4</b>	<b>2.3</b>	<b>6.7</b>	<b>9.3</b>	<b>18</b>	<b>63</b>	<b>4.2</b>

**Table 5: Mean Rating of 20 Factors affecting Airline Choice (N = 221)**  
(1 = Not at all important, 5 = Extremely important)

Factors*	Mean	Std. Dev.
1. Reputation for safety	4.4	.79
2. Reliable baggage handling	4.1	.82
3. Most direct routes and fewest stopovers	4.0	.90
4. Staff friendliness and helpfulness	3.9	.85
5. Modern aircraft fleet	3.9	.96
<b>6. Seamless travel as promised by global alliances</b>	<b>3.8</b>	<b>.95</b>
7. Convenient departure and arrival times	3.8	.90
8. Attentive Service	3.7	.85
9. Flexible schedules	3.6	.82
10. Quick check-in	3.6	.95
11. Good in-flight food	3.5	.91
12. Cheapest available fare	3.3	1.03
13. Large number of FFP points	3.3	.98
<b>14. Extensive network served by global alliance</b>	<b>3.1</b>	<b>.98</b>
<b>15. Unlimited lounge access on global alliance network</b>	<b>2.9</b>	<b>1.20</b>
16. Good executive lounge facilities	2.9	1.11
17. Fully reclinable seats	2.9	1.18
<b>18. Airline part of my preferred global alliance</b>	<b>2.8</b>	<b>1.02</b>
19. Onboard phone/fax	2.0	1.01
20. Onboard email	2.0	1.00
<b>Average</b>	<b>3.4</b>	<b>0.96</b>

\*Factors in **bold-italics** relate directly to Global Alliances

**Table 6: Comparison of SCR of Global Alliances between Respondents who rated the Global Alliance Benefits as Important and those who did not.**

	Are global alliance benefits important? (n)		t	df	p
	Yes	No			
SCR of Oneworld	.71 (100)	.68 (30)	-0.49	128	.62
SCR of Star Alliance	.58 (79)	.55 (18)	-0.43	95	.67