



Airline franchising in Europe: benefits and disbenefits to airlines and consumers

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Abstract

Franchising has become an increasingly important commercial strategy for Europe's airlines as they seek to strengthen their position in the deregulated marketplace. This paper examines the practice of airline franchising in Europe since its inauguration by British Airways in 1993 and its subsequent adoption by most of the other major carriers. The advantages and disadvantages for both franchisor and franchisee airlines are investigated, drawing upon evidence from the operation of scheduled air services in Europe. Consideration is then given to the benefits claimed for consumers and the effect of franchising on competition. A generally positive picture arises, particularly in international markets. There are however incipient signs that where franchising leads to one major carrier becoming too dominant in its domestic market, the scope for competition and new entry is becoming suppressed. © 2000 Elsevier Science Ltd. All rights reserved.

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1. Introduction

1.1. Background

Franchising, whereby one company licences its identity or product to another, is a widespread practice in many sectors of industry and commerce around the world (Price, 1997). It took off in the US airline industry in 1984–1985.¹ In Europe, it has long been common for small airlines to operate some or all of their services on behalf of national flag carriers (Civil Aviation Authority, 1995). In the 1980s, British Caledonian had established a network of small UK airlines to feed their services from Gatwick. Developments in Europe in the 1990s have

taken franchising a step further than this type of co-operation towards a more complete embracing of the major carriers' brands. This can be viewed as a strategic response of the airline industry to the deregulation of international air transport within the EU in 1993 and its subsequent extension to domestic markets in 1997 (The Single Market Review, 1997).

Airline franchising as it is practised in Europe today essentially involves one airline (the franchisee) gaining the right, in return for a fee, to assume the public face or brand of another (the franchisor), together with the associated intellectual property and know-how, and receive the services which go with it. Elements of the brand include aircraft livery and interior, crew uniforms, method of customer service delivery and flight designator code. Services provided to the franchisee include the sales and reservations systems of the franchisor, its revenue accounting and yield management systems and access to its frequent flyer programme. The franchisee airline retains operational independence, flying under its own Air Operators Certificate and generally taking its own decisions on routes, schedules and pricing. There is normally an agreement not to compete head-to-head with the franchisor and also co-operation to maximise feeder traffic. The commercial risk of the franchised flights continues to lie with the franchisee however.

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¹The Allegheny Commuter system dates back to 1967 but in 1984–1985 all the major carriers rushed to affiliate regional partners. This was driven by the Civil Aeronautics Board ruling that the Computer Reservation Systems could give listing priority to on-line connections over interline ones. By 1987, 45 out of the 50 largest commuter airlines were code-sharing (Davies and Quastler, 1995). The distinction between franchising and code-sharing in the US is somewhat unclear but Wells and Richey (1996) lists the major partnerships and brands. Many of the regional airline associates are now wholly owned by the major carriers.

Table 1 sets out the extent of involvement of European airlines in franchising in April 1999. With the exception of the British Airways (BA) franchises, all these arrangements have been set up since October 1996. It is important to distinguish the franchise operations listed from numerous other commercial relationships that exist between Europe's airlines including wet lease, code-share, etc. (Endres, 2000).

There are few examples of franchising arrangements other than by EU airlines within the EU or US airlines within the US. Comair, British Airways' franchise in South Africa, is one of the rare exceptions. This situation is strongly influenced by traffic rights. A service franchised to a foreign carrier might be considered as being by the foreign franchisor (and hence denied traffic rights) rather than the local franchisee who possesses these rights. Although nationality of the aircraft would be satisfied, nationality of the airline might not (Mendes de Leon, 1992). Unlike code-sharing or block-spacing with multiple codes, this is particularly a problem with franchising where only the foreign franchisor's code is carried (Naveau, 1999). When Deutsche BA operated international services from Berlin in the mid-1990s, it used only the BA code to Stockholm and Madrid but was forced to use only the DI code to Moscow and St Petersburg. Although South Africa seem to be happy to allow Comair to operate as British Airways on both domestic and international routes, other nations such as France and Switzerland require that both franchisor and franchisee must possess the necessary bilateral rights. The US position is that they would not allow an agreement which amounts to effective commercial control. This seems to have been sufficient to deter airlines such as BA or Virgin from attempting to franchise a US carrier.

1.2. Nature of franchising agreements

Individual franchise agreements are normally commercially confidential. However, the respective obligations of franchisor and franchisee are known in general terms. The responsibilities of the former include the provision of manuals on customer service procedures, the provision of training, advice on how to do things the franchisor airline way, access to the frequent flyer programme and feedback to the franchisee on the results of audits of its technical operations, security and customer services.

The obligations of the franchisee generally include operating in accordance with the franchisor's style and to its standards, the provision of information to the franchisor, the purchase of goods (e.g. uniforms, baggage tags and other branded items, catering 'rotables', in-flight magazines and public signage) from nominated suppliers and the arrangement of adequate insurance cover. An Annex to the agreement normally lists those routes which will be flown under the franchise: this can be added to during the franchise period, which appears to vary from

Table 1
Airline franchisors and franchisees in Europe, April 1999^a

Franchisor	Franchisee	Date franchise commenced
British Airways	CityFlyer Express	August 1993
	Brymon	August 1993
	Maersk Air UK	August 1993
	Loganair	July 1994
	British Regional Airlines	January 1995
	GB Airways	February 1995
	Sun-Air	August 1996
	Comair	October 1996
Air France	British Mediterranean	March 1997
	BASE Airlines	March 1999
	Jersey European	October 1996
	Proteus	August 1997
	Gill Airways	October 1997
Lufthansa	Brit Air	October 1997
	CityJet	April 1999
	Augsburg Airways	October 1996
Alitalia	Rheintalflug	August 1998
	Cimber Air	March 1999
	Azzurra Air	March 1998
Iberia	Minerva	February 1998
	Air Nostrum	May 1997
Air Liberté	Flandre Air	January 1999
	Air Normandie	April 1999
Régional Airlines	Air Normandie	April 1999
easyJet	easyJet Switzerland	April 1999

^aSource: European Civil Aviation Conference (ECAC) Task Force on Franchising, based on data provided by ECAC Member States and their airlines.

between 5 and 10 years. Separate sub-agreements cover the provision of revenue accounting services and inventory management.

The franchisee pays a fee for the use of the franchisor's intellectual property (the licence fee), together with a fee for services received (training, revenue accounting, etc.). These services are normally charged for at a fixed rate plus a rate per passenger processed. The formula for the franchise licence seems to vary more. In the case of British Airways, some franchisees pay BA an amount per passenger they carry, others pay according to the amount of feed provided by the franchisee to BA, the density of the route and the brand value of BA in the countries concerned. BA plan that in future fees should reflect the contribution to the franchisee's profitability made by the agreement (Woodrow, 1999).

The degree of information provided to passengers about which airline will actually be operating the service varies substantially. Early research on code-sharing, such as a survey of German travel agents by Beyhoff (1995) suggested consumers received incomplete information on

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