“Alliances and JV’s: What’s in It for Me?”
April 2011
Perry Cantarutti – Senior VP - Europe, Middle East and Africa
Delta Air Lines
• Types of Airline Partnerships/Combinations
• Branded Alliances
• Joint Ventures
Types of Airline Partnerships/Combinations
## Alliance Partnerships take various forms

### Types of Partnerships

<table>
<thead>
<tr>
<th>Alliance Benefits</th>
<th>Bi-Lateral</th>
<th>Enhanced Bi-Lateral</th>
<th>Branded Alliances</th>
<th>Joint Venture</th>
<th>Merger</th>
</tr>
</thead>
<tbody>
<tr>
<td>Codeshare</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Reciprocal Frequent Flyer Benefits</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Cooperative Scheduling</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>No Internal Competition</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Joint Sales, Revenue Management, Sales</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Shared Bottom Line</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>One company / One Staff</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Example</td>
<td>Delta &amp; Royal Air Maroc</td>
<td>Delta &amp; Alaska</td>
<td>STAR</td>
<td>DL-AF/KL-AZ JV</td>
<td>Delta &amp; Northwest</td>
</tr>
</tbody>
</table>


Cooperation: The Basic Promise

Customers
- FFP Benefits
- Lounge Access

Airlines
- Cost-effective Network Reach
- Enhanced Revenues
Branded Alliances
• Branded alliances provide benefits to both customers and airlines
  – Customer benefits:
    o Broader FFP benefits
    o Lounge access
    o Seamless travel
    o Global awards and recognition
  – Airline benefits:
    o Further network reach
    o Increased FFP attractiveness
    o Potential cost savings

Global Branded Alliances Comparison

<table>
<thead>
<tr>
<th>Members</th>
<th>Sky Team</th>
<th>Star Alliance™</th>
<th>OneWorld</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>13</td>
<td>28</td>
<td>12</td>
</tr>
<tr>
<td>Aircraft</td>
<td>3,385</td>
<td>4,023</td>
<td>2,473</td>
</tr>
<tr>
<td>Annual Passengers</td>
<td>384M</td>
<td>603M</td>
<td>336M</td>
</tr>
<tr>
<td>Employees</td>
<td>316,445</td>
<td>402,208</td>
<td>311,830</td>
</tr>
<tr>
<td>Countries Served</td>
<td>169</td>
<td>181</td>
<td>150</td>
</tr>
<tr>
<td>Destinations</td>
<td>898</td>
<td>1,160</td>
<td>750</td>
</tr>
<tr>
<td>Daily Departures</td>
<td>~13,000</td>
<td>~21,000</td>
<td>9,381</td>
</tr>
</tbody>
</table>
Branded Alliances Are Not without Issues

- Each airline has a different set of rules and regulations:
  - Passengers can be easily confused
  - Codeshare passengers may be handled differently in the event of irregular operations or delays and cancellation

- Customer experience is not necessarily consistent
  - In-flight product
  - Customer Service

- Many allied airlines still compete with each other, inhibiting a deeper cooperation

- Increased size and number of airline partners make it harder to find common vision and consumer proposition
Joint Ventures
What do I Mean by Joint Venture?

- Airline Joint Ventures (JV’s) are a more intensive form of cooperation than traditional alliance partnerships (i.e. SkyTeam, STAR Alliance) and are becoming more commonplace in the airline industry.

- The US, EU and other governments have approved several Anti-Trust Immunity (ATI) agreements for Transatlantic travel. ATIs give legal protection to the involved airlines to cooperate, allowing a JV to be formed.

- Governments have approved JV’s because they can bring benefits to both the customer and the airline.

- Airline JV’s started with Northwest and KLM, and have been expanding:

  - NW-KL sign JV
  - EU-US Open Skies
  - DL/NW-AF/KL sign JV
  - AC-UA/CO-LH granted ATI
  - AA-BA/IB begin revenue sharing

Coordinate commercial activities that drive value for the JV:

- Network
- Revenue and inventory management
- Sales and distribution
- Cost synergies
- Customer experience
- Expansion
<table>
<thead>
<tr>
<th>Alliance</th>
<th>Transatlantic capacity share</th>
<th>Destinations – Europe, North America</th>
<th>Major Hubs</th>
</tr>
</thead>
<tbody>
<tr>
<td>SKY TEAM</td>
<td>27%</td>
<td>134, 265</td>
<td>AMS, ATL, DTW, MSP, JFK, CDG, FCO</td>
</tr>
<tr>
<td>DELTA AIRFRANCE</td>
<td>28%</td>
<td>125, 305</td>
<td>AMS, ATL, DTW, MSP, JFK, CDG, FCO, FCO</td>
</tr>
<tr>
<td>STAR ALLIANCE</td>
<td>21%</td>
<td>117, 180</td>
<td>DFW, JFK, LHR, MAD, MIA, ORD</td>
</tr>
</tbody>
</table>
### AF/KL-DL-AZ Joint Venture: The Fruits of Cooperation

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Network Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Over $10 billion in estimated annual revenues</td>
<td>• Nearly 500 destinations in 88 city pairs</td>
</tr>
<tr>
<td>• Revenues and costs shared 50-50</td>
<td>• 250 daily transatlantic flights / widespread hubs</td>
</tr>
<tr>
<td>• 5000 joint sales contracts</td>
<td>• Over 1600 weekly nonstop flights</td>
</tr>
</tbody>
</table>

#### JV Administration
- Shared governance via the Steering Committee
- 11 Working Groups

#### Network Scope
- 33 European stations, 26 North American stations (to be updated)

#### Capacity
- ~27% of total transatlantic capacity

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### One Great Network

[Map of the world with connections showing the network scope of AF/KL-DL-AZ Joint Venture.]
A Joint Venture Brings Customer Benefits

• Schedule
  – More frequencies and routings for customers
  – Enhanced coordination of schedules results in tighter connections

• Network
  – More destination opportunities due to point of sale strength of each partner

• Fares
  – Competitive fares across a broader network
  – Fare sales

• Frequent Flyer
  – Broader accrual, redemption and upgrade opportunities

• Customer Experience
  – Comparable in-flight products
  – Broader network of customer service touchpoints due to linked IT systems
A Joint Venture Brings Airlines Benefits

• Schedule
  – Better use of limited airport slots

• Network
  – Airlines can offer profitable flights from more than just their larger hubs
    o Seattle or Memphis would likely not have a direct flight to Amsterdam without the cooperation synergies that the DL-AF/KL-AZ JV offers
  – Fleet optimization enables flying to new city pairs

• Fares
  – More multiple routings are encouraged because the revenue is shared

• Customer ‘Stickiness’
  – More utility for customers means greater share of wallet
  – Enhanced contracting with corporate customers and travel agency partners

• Cost Control
  – Opportunity for joint purchasing
  – Leverage existing infrastructure and organization
So What’s Missing?

- **Staff and Employee Awareness**
  - It is critical that frontline employees understand that all JV customers should be treated the same as ‘own customers’

- **Full Integration of tools/technology – service recovery**
  - Tools must work seamlessly across JV operations and for all customers

- **Product Harmonization**
  - Aiming towards a standardized product will further enhance the metal-neutral travel experience
Four Airlines, One Customer