TAP Air Portugal: Cleared for Takeoff – A Case Study on the Turnaround Process over the 2016/2017 period

Gonçalo Neves

Dissertation written under the supervision of Professor Nuno Cardeal

Dissertation submitted in partial fulfilment of requirements for the MSc in Business Administration, at the Universidade Católica Portuguesa, June 2018.

Abstract

Title: TAP Air Portugal: Cleared for Takeoff – A Case Study on the Turnaround Process over the 2017/2017 period

Author: Gonçalo Neves.

Keywords: Turnaround; Airline Industry; Strategic Alliances.

The dissertation herewith presented, in the form of a case study, follows the main actions undertaken by TAP Air Portugal during the 2016/2017 period, as part of its turnaround process, first initiated with the completion of the privatization plan.

TAP Air Portugal is the main Portuguese carrier and one of the country's flag companies. However, throughout its history, it always had to deal with structural instability and a series of internal and external constraints that obstructed the company's adaptation.

In the end of 2015, the privatization process of the airline and the holding group was concluded with the Atlantic Gateway Consortium being the selected candidate. The arrival of the new private shareholders was instrumental to guarantee not only the financial sustainability of the Portuguese carrier, endowing the airline with higher levels of operational efficiency and agility, but also its competitive positioning in an increasingly global market.

The case works as a learning instrument through which students will have the chance to apply the strategic frameworks and concepts learned during class to a real business scenario of a company that underwent a turnaround process. Hopefully in the end, among other aspects, they will be able to understand not only the rationale behind a certain decision and its strategic fit with the company's orientation but also the significance of incorporating the industry's trends into the business plan.

Resumo

Título: TAP Air Portugal: Cleared for Takeoff - A Case Study on the Turnaround Process over the 2017/2017 period

Autor: Gonçalo Neves

Palavras-chave: Turnaround; Indústria Aeronáutica; Alianças Estratégicas

A dissertação apresentada, sob a forma de um estudo de caso, acompanha as principais acções levadas a cabo pela TAP Air Portugal durante o período de 2016/2017 como parte do seu processo de turnaround iniciado com a conclusão do plano de privatização.

A TAP Air Portugal é a principal transportadora aérea portuguesa e uma das empresas de bandeira do país. No entanto, ao longo de sua história, sempre teve que lidar com alguma instabilidade estrutural e com uma série de restrições internas e externas que dificultaram a adaptação da empresa.

No final de 2015, o processo de privatização da companhia aérea e da holding do grupo foi concluído, sendo o consórcio Atlantic Gateway o candidato selecionado. A chegada dos novos accionistas privados foi fundamental para garantir não só a sustentabilidade financeira da transportadora portuguesa, dotando a companhia de maiores níveis de eficiência e agilidade operacional, mas também o seu posicionamento competitivo num mercado cada vez mais global.

Este caso funciona como um instrumento de aprendizagem através do qual os alunos terão a oportunidade de aplicar os frameworks e conceitos estratégicos aprendidos durante as aulas, a um cenário real de uma empresa que passou por um processo de turnaround. Espera-se que no final, entre outros aspectos, os alunos sejam capazes de entender não apenas a lógica por trás de uma determinada decisão e a sua adequação estratégica com a orientação da empresa, mas também a importância de incorporar as principais tendências da indústria no plano de negócios.

Acknowledgments

The delivery of this thesis project signals the end of my academic journey, at least in the foreseeable future. A journey that had its more challenging and yet rewarding moments when, nearly five years ago, I set foot in this university that has given me the chance of meeting some remarkable people and consolidating friendships that started way back. The student I was over these five years would have not been the same if my former school and professors, throughout high school and before, had not prepared me to what I would face. So, I leave here my acknowledgment to them, with a particular mention to my high school mathematics teacher that influenced me much more than he probably thinks.

I want to thank to Professor Nuno Cardeal, my thesis advisor, for the support, guidance, availability and feedback that he always so kindly gave over this semester. The process of writing this case study, and respective teaching notes, was definitely made it "easier" with his orientation.

I also would like to thank Dra. Paula Canada and Dra. Maria João Baptista, Director and Assistant Director, respectively, of TAP Air Portugal Sales and Marketing department, for their availability, insights and contribution to my understanding of TAP´s business strategy.

To my friends.

Lastly and most importantly to my family for all the obvious reasons and some more.

"There is no greater education than the one that is self-driven"

(Neil deGrasse Tyson)

List of Contents

List of Abbreviations

ASK: Available Seat Kilometers

FSC: Full Service Carriers

KSF: Key Success Factor

LCC: Low Cost Carriers

RPK: Revenue Passenger Kilometers

ULCC: Ultra Low Cost Carriers

List of Exhibits

List of Figures

I. Case Study

On November 12, 2015, the Portuguese government approved in legislation the resolution that concluded the privatization process of TAP SGPS, SA.

After 17 years of a few failed attempts, TAP became a private company with the alienation of 61% of its capital stock to the consortium Atlantic Gateway, jointly owned by airline industry tycoon David Neeleman[1] and transportation businessman Humberto Pedrosa[2]. Despite the fact three months later, the new Portuguese government in office decided to reverse the privatization process, so that the State could assure a position of 50% in the holding of the group, TAP remained and still is today for that matter, a privately managed company subject to the laws and regulations of the private sector.

Throughout this decade and a half, TAP struggled to survive and adapt to a series of challenges and constraints coming from inside and outside the company. Now, under this new ownership paradigm shift and with a turnaround business strategy to be put in place, TAP was cleared for takeoff and carry the name of Portugal up in the air as one of its main flag companies.

1. TAP Air Portugal

The Early Years

The first Portuguese airline carrier was established on March 14, 1945, by initiative of Humberto Delgado, at the time general-secretary of Civil Aeronautics. During the year and an half that followed, all the necessary conditions to start operations were being prepared with the purchase of the first two aircrafts and the creation of the Pilots General Course. On the 19th of September 1946, the first commercial route was operated between Lisbon and Madrid and three months later began the *Linha Aérea Imperial*, connecting Lisbon to Luanda and Lourenço Marques[3], at the time the most important cities within the Portuguese Colonial Empire.

In the years that followed, going into the 1950s, TAP continued to add destinations to its business and in 1953 the first major change in the company structure occurred when it shifted from the entirely public domain to becoming a public limited company[4]. This paradigm

---

[1] Founder of JetBlue Airways and Azul – Linhas Aéreas Brasileiras, where also takes on the position of CEO.
[2] Owner of Portuguese Barraqueiro Group, that manages over 30 companies in the transportation industry.
[3] Renamed Maputo in 1976.
[4] SARL – Sociedade Anónima de Responsabilidade Limitada

remained over the two subsequent decades, coinciding with the entrance of the industry in the "Jet Era", new routes and flights and a few distinguishable awards and important milestones in the company's history.

Nationalization and a Decade of Mixed Feelings

With a staff of over 9000 employees, TAP reached the end of 1974 having carried 1.5 million passengers to more than 40 destinations in a fleet of 32 state-of-the-art aircrafts. However, the company was caught in the wave of nationalizations that struck the Portuguese economy after the military revolution of April 25 and returned to its original condition of a state-owned corporation.

TAP enters the 1980s with a new name – TAP Air Portugal – and logo to carry it along a decade of expansion and fleet modernization where it stands out as one of the world's most renowned airlines in providing maintenance services for other carriers' aircrafts. Despite this progress, TAP was always more often a source of losses than it was of profits and the conversation of going private resurfaced in the public discussion again in 1991, with the alteration of the group status to a publicly traded company[5] with the State assuring a 51% minimum stake in the event of a future privatization.

A New Cycle with Fernando Pinto

Everything was set to alienate a 34% stake to SwissAir and a team of managers, led by Fernando Pinto, was brought in to handle that transaction, when the deal was shut down due to the fragile financial situation of the buyer that ended up in its bankruptcy. It was 2001 and TAP faced severe challenges from the lack of cash to pay salaries to the impossibility of the State to put more money in the company due to European regulations, all exacerbated by the industry-wide airline crisis following 9/11.

But the company fought back with the expertise and know-how of Fernando Pinto at the helm and soon after TAP started to register profits for the first times in years. His mission was always to manage the organisation with the intention of selling and the opportunity came knocking again in 2012. Under international bailout, the Portuguese executive reopened the process of privatization with a sole bidder, German Efromovich's Synergy Aerospace Consortium. The deal was cancelled on the last minute due to the lack in presenting a bank guarantee and once again everyone involved had to wait for the next (and final) chapter.

[5] Sociedade Anónima de Capitais Maioritariamente Públicos

Cleared for Takeoff

In the year of 2015, the privatization process of TAP took the central stage in the political arena and set the tone in the civic debate. The initiative went through several stages with three groups of investors stepping up and presenting their offers. Amidst the controversy and turmoil, the Portuguese government announced in June the decision to sell a 61% equity stake of TAP SGPS, SA to the Atlantic Gateway Consortium of Humberto Pedrosa and David Neeleman, decision which waited until November to be effectively formalized in legislation. Shortly three months after, the new executive in office engaged in conversations with the new owners to renegotiate the parameters and conditions of the privatization. The situation was handled with the sense and sensibility that it required, since what was in stake was the survival of the airline and the holding group.

A Memorandum of Understanding – that opened the door to a joint State-Atlantic Gateway effort and focus to endow TAP with higher levels of efficiency, competiveness and sustainability and clarified the new structure of the group, with ParPública[6] retaining a 50% stake, Atlantic Gateway 45% and the remaining 5% being spread amongst TAP's workers (Exhibit 1**)** – was celebrated in February 2016, with the State promising a privately managed company along a no-interference policy and the private Consortium reaffirming the commitments they had took on, namely towards TAP's employees and reassuring the maintenance of the company in Portugal.

2. Industry Overview

Combining Traffic Growth and Profitability – was 2017 Aviation's sweetest spot ever?

In 2017, the airline transportation business, driven by a broad-based pick-up in economic conditions as well as incentives from lower airfares, continued to impel a decisive contribution to the development of the world economy, promoting a global integrated connectivity through the establishment of over 700 new routes and empowering more than four billion passengers with a rejuvenated freedom to grow by virtue of the positive impacts of globalization – the creation of business opportunities with no boundaries of geography and the stimuli to innovation.

[6] Participações Públicas, SGPS, SA - Portuguese state mechanism to manage equity stakes in public companies going through privatization processes, giving support along the way under the government-approved frames

The passenger global traffic results for the year[7] showed that, globally, the demand, in terms of RPKs (Exhibit 2) registered an evolution of +7,6% when compared to 2016, significantly exceeding the 10-year average annual growth rate of 5,5%. Additionally, the full year offered capacity rose 6,3%, motivating a load factor increase of 0,9 p.p to set a record calendar-year high of 81,4%. This result shows the investment and efforts of airlines companies in maximizing demand capture. Throughout the year, a deceleration in the intense pressure over the yield[8] was registered, driving air travel to be more affordable and accessible. However, the downward tendency continued – a decrease of 1,5% - explained by airlines growing their capacity in anticipation of increased demand.

Main Trends and Challenges

Oil Prices

Volatility in fuel prices is at the same time the single most important, uncontrollable input cost and source of risk to the airline industry. With fuel costs accounting for roughly 15-25% of the cost structure – and for LCCs this represents 40% or more – a steady reduction in the price of oil made a substantial difference to the shape of the industry over the last 2-3 years. Airlines have banked on the historically low fuel prices and interest rates to lower fares (Exhibit 3) - thus pushing the carriers to increase capacity - in the process of adding extra stimulus to passenger traffic growth. And it paid off: profits achieved record levels, in an industry where "*three years of sustainable profits is a first*" (IATA CEO and General Director, Alexandre de Juniac), load factors keep going up and traffic grown off the charts. Moreover, the benefits of lower fuel prices have been further enhanced by greater fuel efficiency of the new operated aircrafts.

This tendency of descent has been interrupted in 2017 (Exhibit 4), with the price/barrel rising above the $67 threshold for the first time in two years in December 2017. Oil prices averaged a $54,2/barrel in the year, a 21,5% increase from 2016 (where it averaged $44,6/barrel) and jet fuel prices registered a $65,6/barrel average in 2017 against the $52,1/barrel in the year before (+25,9%). Whether this trend will continue, invert or stabilize is something to pay close attention as 2018 takes its course - for now, January and February closed, respectively, with a $69,08 and $65,32 barrel/prices[9].

[7] Source: IATA – International Air Transport Association
[8] Average fare per passenger per mile
[9] Sources: IATA and Bloomberg

From Low Cost to Ultra Low Cost

A major role in the remarkable expansion of the aviation business over the past decades has been played by LLCs whose growth has been connected hand-in-hand with the deregulation of the airline industry, which prompted and encouraged a favorable environment for these carriers to thrive at, stealing at the same time traffic from the legacy carriers but also creating a lot of additional new traffic from people that started flying and were not used to before. Operating point-to-point networks, LCCs follow a no-frills, low fares business model, characterized by only one aircraft model, limited in-flight services or frequent-flyer programs, etc…, all designed to have a cost advantage over FSCs (Exhibit 5).

However, by focusing on cost efficiencies and unbundled service offerings, a new emerging trend has been finding its way – ULCCs. What is the difference between ULLCs and LCCs? To put it simply, the former have lower costs and unit revenues – by means of lower base fares – than the latter and guarantees a substantial share of their operating revenues by selling isolated, ancillary services. Whether or not these carriers will manage to subsist is something only time will tell, since research conducted showed that they are three times more likely to abandon a market within two years of entry than LCCs[10].

Global Airline Alliances – Have they reached a Saturation Point?

Since the establishment of StarAlliance in 1997 that the role of global alliances grew increasingly important in helping drive deeper consolidation and co-operation within the industry. It allowed airlines to access new markets by tapping into a partner's under-utilized routes and slots and provided current markets with defense mechanisms through seat management capacity and economies of scale across operational areas. Today, all 3 major alliances[11] have a very comprehensive network that spans 62 airlines and serves every continent. With this maturity came a slowing in the recruitment of new members and despite the fact that each alliance has some markets not being served, there may just not exist a need to go there, either by already existing secondary synergies within the current affiliate-members or the lack of a viable potential new partner.

The black sheep are the LCCs that by virtue of their specific business characteristics have been left out of these alliances. However an emergent set of carriers, that we would typically consider low-cost, are becoming more full-service in certain aspects of their operations – the

[10] Bachwich, A. R., & Wittman, M. D (2017) - The emergence and effects of the ultra-low cost carrier (ULCC) business model in the U.S airline industry, *Journal of Air Transport Management*

[11] StarAlliance, OneWorld and SkyTeam

so called “Hybrid Carriers”, from which German Wings or AirAsia are turning an example of, starting to offer add-on services they were not used to in the past - and thus with this changing market conditions, new affiliate-membership options that would accommodate these carriers are being thought, giving the flexibility to serve local and regional areas without the need of a full membership.

Need to Innovate Business Models

Modern consumers crave and demand for authentic and personalized experiences. They seek greater value from products and services and have changed and redefined the relationship with the things we own and consume. The concept of ownership has itself been modified with greater emphasis being placed on sharing models and platforms, face-to-face interactions and a profound refuse of “one-size fits all” technology and experiences.

Under this paradigm, the airline industry - aside the arrival of LCCs and the introduction of alliances - has seen few major changes to their business models over the past 30 years. The airlines’ struggle for differentiation is evident as we witness to more and more LCCs and ULCCs offering optional add-ons services to customers, trying to compete closely with FSCs. This trend is leading to a morphing in the competitive positioning driven by the market’s maturity and the varied needs of customers segments. Some FSCs as a response have started to operate segmented airlines under their corporate umbrella, a hybrid approach particularly efficient in emerging markets. Whilst customers expect more personalized solutions, there is a potential for airlines to take advantage of advances in automation and consumer attitudes.

Digitalization and Big Data

Data is key and companies with control of it will have a decisive competitive edge. Airlines will not be able to build brand loyalty without having access to passenger data. Two strategic anchors are needed: to use data to understand customers’ needs and use digitalization to enhance and improve operations while building comprehensive digital marketing capabilities to stand out in a crowded market.

A second key aspect that has entirely changed the customer journey is the growth of mobile. Everyone being a “fingertip away” brings with it a real chance to tackle this by placing the customer at the centre of the airline. The rise of mobile, digital and social provides airlines with the opportunity not only to create engaging experiences to travelers but also to drive more personalized interactions and rapidly improve customer service scores.

3. TAP Air Portugal's Turnaround Business Strategy

With the completion of the privatization process, TAP received a breath of fresh air. Upon the arrival of the new private shareholders, the company was hanging in the balance with no cash to pay salaries and with 80€ million in short-term debt to suppliers. Underinvestment, and the impact it had on the fleet and product quality, the urgency in keeping up with the competition in a push to reduce costs and the need to adapt the commercial model to new industry conditions were some of the severe challenges TAP had to face. It was clear the commitment between the Portuguese State and Atlantic Gateway to rethink the long-term strategy of the airline and to join efforts in order to provide the organization with higher levels of competiveness, resourcefulness and sustainability.

In an endeavour to assure the development and establish a stronger, financially healthier company that could develop into a global example and reference, a new strategic business plan, that included alterations in Fleet, Network, Product and a Capitalization Plan, was drawn and put in place effectively starting in early 2016. The plan follows **three** strategic linchpins:

➔Renovation and Expansion of the entire Fleet;

➔Consolidation of TAP's Growth and Increase the Focus on the Lisbon Hub;

➔Evolution of the Commercial Model and Improvement of the Customer Experience.

Renovation and Expansion of the entire Fleet

"It was the beginning of TAP's modernization (...) offering huge gains in efficiency and allowing us to stay competitive with lower costs per offered seat"

(Paula Canada, TAP Air Portugal's Sales & Marketing Director)

The cornerstone of TAP's turnaround and development strategy had to start with the upgrade and expansion of the company's fleet, in an investment to guarantee its future that would totalize over 8Billion dollars, only possible due to the financial resources brought by the new shareholders. Without it, the process of opening new routes to markets where TAP Air Portugal wanted to grow at would not be possible, the customer experience could hardly be improved and the current position in strategic markets could not be consolidated.

The first decision of the new owners was to place an order of 53 new aircrafts to be delivered in stages until 2025 (Exhibit 6):

➔14 Airbus 330-900 Neo for the long-haul flights;

➔39 Airbus A320 Neo for medium-haul routes (15 A320 Neo + 24 A321 Neo).

These two models, that were the basis around which the entire network of the airline was being designed, are expected to start arriving in the second semester 2018 and will have a much greater autonomy and flexibility, allowing to hold medium and long-haul flights at a reduced cost per passenger, thus enabling a cheaper operation when travelling to the United States and Brazil, two of the company's major markets and to where most investment is being channeled.

In the meantime however, TAP put hands into work:

- →The gradual renovation of the existing fleet began in September 2016, introducing significant improvements in comfort, in-flight entertainment and efficiency, not only to better homogenize to a certain degree the current fleet with the new models that were ordered and will start arriving in 2018 but also to align the product with the direct competitions' and improve the overall customer experience. This makeover was completed by the end of 2017 and not only introduced higher levels of efficiency but also unveiled a new design and configuration to the executive class;
- →The current long-haul fleet was reinforced with three new aircrafts that, by virtue of turning viable the opening of new routes and allowing the increase in the flight frequency to some destinations, were shortly after already being put in daily flights to the cities of Boston and New York.

Along the changes inside the cabins, TAP Air Portugal was also the first European carrier to introduce Airbus' Sharklet technology in the air wings of its A320 aircraft family fleet (Exhibits 7 and 8). This intervention, that improved the aerodynamics of the aircrafts which in turn translated in a reduction in fuel consumption, reduced CO2 emissions and extended operational life, was conducted in the group's Maintenance Unit in Brazil. The acquisition of this unit back in 2005 has been over the years a target of major backlash since it always represented a source of losses to the financial health of the group but it was justified with the potential value of the maintenance business in a strategic, strong-growth market such as Brazil. Today, it is the leading maintenance aircraft company in Latin America, with signed contracts to install this very same Sharklet technology in the fleets of Qatar Airways and KLM and provides high-quality standard services to companies such as Lufthansa or American Airlines. This tradition of international recognition that TAP's maintenance services have, has been around since the 1980s. With only one accident involving casualties in its history, the Portuguese carrier is consistently in the safest airlines list and, in an industry unlike any other where safety is paramount, the skills and know-how of the company's staff represents an undisputable source of value.

Additionally in March 2016, former Portugália Airlines[12] was rebranded into TAP Express. The investment in the regional airline aimed at guaranteeing an across-the-board consistency with TAP's group brand and product, reinforcing its commercial identity and facilitating the group subsidiary's operations in the short, mostly domestic, and medium-haul routes that require a higher frequency of flights and would not be efficiently sustained with larger aircrafts. In similar way to the parent airline, the entire regional fleet of TAP Express underwent a much needed substitution. The entire upgrade translated in more available seats, lower cost per seat, a 40% savings in fuel consumption and in international recognition, with the "Airline of Year 2017" award from the European Regional Airline Association being handed to TAP Express, signaling a well-succeeded process of renovation that started with the privatization and still has room to grow.

Consolidation of TAP's Growth and Increase the Focus on the Lisbon Hub

In order to guarantee the future of the airline, the Operational Plan required changes in network design and capacity[13], in a continuous effort of improvement for a significantly sound and enhanced financial performance.

Over the 2016-2017 period, a regular performance evaluation has been conducted to TAP's routes and flights portfolio, proceeding with the necessary adjustments to the current existing markets and complementing with the thorough assessment and opening of new, viable destinations. The reinforcement of the Lisbon Hub was priority number one with the strategic position of the city assuming a source of incontestable value due to its central location that can serve as a connecting-link, assuring frequent air bridges between Europe, America and Africa and thus capturing the potential increment of traffic amongst these three regions. With this in mind, the proposition of increased focus in the Hub is outlined in three key simple elements:

- →Develop the flight connections;
- →Increase the offer in long-haul services;
- →Improve reliability by operating a more consistent schedule.

---

[12] A Portuguese carrier that was bought by TAP SGPS back in 2006 and operates mostly domestic routes but also international short and medium-haul flights.

[13] Totaling 34 countries served by 88 destinations, 30 more than when TAP joined the StarAlliance back in 2005

As part of the signed Memorandum of Understanding with the Portuguese government, the new ownership committed to continue operating every domestic route and to increase the capacity between Lisbon and Oporto. As a result, on March 2016 it was launched the Air Bridge connecting the two Portuguese biggest cities, offering a high frequency shuttle service, with hourly flights at a competitive price in new upgraded TAP Express aircrafts, that after only one year and half had already transported 1 million passengers.

Also in 2016, TAP Air Portugal reopened the flights to Guinea-Bissau, reinforcing the commitment undertaken to serve the Portuguese expression countries while bolstering the strategic positioning in one of the main markets for the company, Africa and strengthened the connections with our *Hermanos* in the east. The Spanish market represents 12% of the total number of passengers transported and TAP assures the transportation of 40% of the passengers that fly between the two countries, with 217 weekly services on a 85,5% load factor. With the new direct link to the city of Vigo, the number of served cities in Spain increased to 11: Alicante, Asturias, Barcelona, Bilbao, Coruna, Gran Canaria, Madrid, Malaga, Seville and Valencia.

This orientation saw new chapters being written over the course of 2017:

→The reach of TAP Air Portugal was extended to Toronto with five weekly flights starting on June 10, stressing the continuous path of growth to North America;

→In Africa operations to Abidjan, the largest city of Ivory Coast, began and increased frequencies to Dakar and Marrakech were added.

→In Europe, with the intent of diversifying and amplifying the airline's portfolio, Las Palmas, Stuttgart, Koln, Budapest and Bucharest became members of TAP's direct network.

Fuel the US, Consolidate Brazil

"We started doing in the U.S. Market what we once did in Brazil almost 15 years ago, breaking new ground, and in 2-3 years we count on having 10 destinations in the U.S."

(Paula Canada, TAP Air Portugal's Sales & Marketing Director)

The plan of expansion to the North-American market was inaugurated on the summer of 2016, with daily flights being operated with the brand new Airbuses A330 to Logan Airport in Boston and JFK in New York. This offer, put together with the existing American network to Newark (NY) and Miami, not only incremented the number of direct routes between both countries, signaling the strategic bet in the U.S market, but also allowed to serve the interests of the Portuguese immigrants in the east coast, proving the commitment assumed by TAP in the privatization process to never neglect the interests of these communities. The airline closed the year of 2016 having transported 472 thousand passengers to the United States and recorded a 54,5% increase in the following year, totaling 729 thousand passengers. The trailblazing path being conducted in the United States, in similar fashion to what the company did several years ago in Brazil, is clearly delivering promising results and TAP Air Portugal is already studying the possibility of start flying in the coming years to Chicago and San Francisco, taking advantage of the partnerships with the low-cost American carrier JetBlue Airways, that has two of its main hubs[14] precisely in Boston and New York (JFK) and so can "feed" these airports, TAP is flying to and from, with traffic originated in other north-American regions.

In Brazil, the strategy assumed a different nature. In 2017, TAP Air Portugal consolidated its well-established position as the leading European airline travelling to this destination (Exhibit 9), position which will have to be defended and fortified in the coming years against the threat of new competition posed by European FSCs that turned their compass into the Atlantic to compensate some losses they have been suffering from the Asian markets,

"We need to create in Brazil a strong barrier to the entry of our direct competitors: every European FSC flying there"

(Paula Canada, TAP Air Portugal's Sales & Marketing Director)

The biggest country in South America accounts for 25% of TAP's sales and the invigoration of flight frequency and routes over the past two years, with over 90 weekly flights by the end of 2017, allowed the company to transport 1.6 million travelers (+14%) in this same year. Brazil is a particular market TAP Air Portugal has built a deep knowledge and understanding off over 15 years of operations and is reflected not only in the way TAP Management has learned to deal with the volatility of the country's economy and purchasing power index, but also in how the company's strategy is adapted to a specific socio-economical scenario – there is a class that is never affected by the turmoil felt and when the Brazilian market is down and cheap, TAP learned to sell the country in Europe to tourists, whereas when the market is vigorous the opposite happens, the aircrafts are filled in Brazil with travelers heading to Europe.

[14] Airports used by some airlines to concentrate passenger traffic and flight operations, serving as a transfer point

Despite different approaches, these two markets are bounded by a common factor. Aimed at targeting these long-distance passengers, travelling from the United States or Brazil with destination to Europe and Africa, the programme *Portugal Stopover* was launched in 2016 encouraging these travelers to enjoy their passage through Portugal, to discover and visit our country, by staying up to five days in Lisbon, Oporto, Algarve, Madeira or Azores. During the first year it brought 70.000 tourists to these regions and it was voted as the best Stopover programme in the world by Global Traveler USA (Exhibit 10). The direct, coalescent strategic connection TAP has been establishing and consolidating over the last two years with the American market, North and South respectively, has proven quite successful and still has room to grow and mature, especially when we take into consideration the synergies and code share agreements celebrated since the privatization with the intent to stimulate demand and facilitate the link between both sides of the Atlantic - with JetBlue Airways, the sixth largest carrier in the US and with Azul - Linhas Aéreas Brasileiras, third biggest Brazilian airline in number of passengers and number one in destinations offered - that complement the vast network of affiliate-members and strategic allies TAP has virtue of belonging since 2005 to StarAlliance, the leading global airline alliance.

Evolution of the Commercial Model and Improvement of the Customer Experience

"*More transparent, agile, flexible and closer to the passenger*" (Paula Canada, TAP Air Portugal's Sales & Marketing Director). This motto set the tone to implement a business and commercial model that has evolved not only to improve and optimize the flight experience, through the investment in on-board comfort and fleet modernization, but also to provide more options to customers with the creation of new products and services, in addition to the trip and in line with the needs of the passenger.

A new, more buoyant and dynamic commercial policy, that made available to customers in both TAP's direct and indirect distribution channels, an extensive, recently-launched offer of ancillary services that defined the beginning of a Customer Choice model, with passengers selecting the services and benefits associated with the respective commercial rate (Exhibit 11), was implemented and involved the offer of fairly competitive market prices for destinations in Europe and Northern Africa[15]. The introduction of these "branded fares" allowed TAP Air Portugal to keep up with the direct competition; however the company went a step further, being the first airline to introduce this policy in the intercontinental flights. In

[15] A 34% average reduction in the lowest fare, air fees included, that translates, for instance, in 39€ and 33€ for a Lisbon-London and Lisbon-Paris flights, respectively

this fashion, TAP became more competitive in the lower-fare segment of the market where it's up to the customer to choose, in a simple and transparent way, the service level best suited to the trip in question, exclusively paying for the price best corresponding to the type of product that he values – "Choose How You Want to Fly, Pay Only What You Need". This new approach needed six months to be thoroughly elaborated until it was effectively put into practice on September 1, 2016. It also presented the opportunity for TAP to reach out to a younger segment that didn't have before – the company was instead seen as the airline for the families and the corporate passenger; a segment to which price is the main driver of the decision and to whom air travel is seen as a commodity.

Furthermore, the frequent-flyer programs celebrated both with the StarAlliance partners – the Victoria Program - and the carriers JetBlue and Azul constitute an important part in the revitalization of the new commercial policy, providing incentives for passengers to travel with the company by accumulating miles that can be discounted on subsequent trips, thus helping grow and establish towards the brand TAP a degree of loyalty that becomes paramount in a particularly price-driven industry.

Additionally, the focus on the customer was translated into a series of initiatives launched around the same time:

- →The Project Flying for Gold, aimed at improving the Gold customer's experience, by supporting the improvement of service quality and the resolution of irregularities, rewarding loyalty;
- →The initiative Listening to the Customer, which put elements of TAP's management in touch with its most regular customers, to actively listen to their main remarks, opinions and suggestions and to act directly upon this feedback;
- →The NPS (Net Promoter Score), the metrics with which passengers' satisfaction level can be measured, was implemented allowing TAP to hear from its customers, promoting a broader knowledge about the different moments of their experience with the company and thus enabling a rapid, targeted intervention when it's needed;

The introduction of the NPS metric exemplifies how TAP Air Portugal has been increasingly integrating and embracing the digital in its communication strategy, after all, these days knowing the customer is a very powerful weapon at the disposal of any company. Today, 40% of TAP' sales are originated in the digital platform, flyTAP and roughly 50% of the communication budget is channeled towards digital tools that not only allow for a much better optimization and control of the investments made but also enable the company to know almost everything about its customers, which flights have they been searching, why they didn't conclude the purchase, etc… Going forward,

"*Everything is going to change with the new regulation to protect the individual's privacy. Under the new legal frames, we are developing new digital initiatives to interact more closely with our client, (...) while paying attention to the overall sentiment in social media".*

(Paula Canada, TAP Air Portugal's Sales & Marketing Director)

The incorporation of the digital, despite contributing to the strengthening of the company's brand[16], does not have an across-the-board diffusion within TAP's current segments – Leisure and Corporate. The Corporate client is far less digitally prone, relying to a great extent on the company's indirect channels, mostly travel agencies that give the support that he needs when travelling. The Leisure passenger is entirely different - circa of 70% of the sales within this segment are made online.

The adjustment of the passengers' expectations was the most difficult aspect to deal with. Other airlines were able to successfully create new subsidiary lower cost carriers within their corporate umbrella (Lufthansa with GermanWings, for instance), thus coordinating the strategy of each carrier with what each segment expected. TAP does not have the size or the structure to do so and has no choice other than continue balancing the requirements of both segments. To pursue and achieve lower competitive prices against the low-cost carriers, the cost per seat would have to go down. TAP Air Portugal proceeded with the transformation of some short and medium-haul aircrafts that, at the same time that increased 12 seats per plane also required losing one of the kitchen aisles. This scenario required a downgrade at the service level, especially when it comes to the space between seats and the food served on board. The latter represents the major source of concern. The passenger when travels low-cost was used to not having a meal on board but when he flew with TAP that was part of the service. Now, in the medium-haul routes the Leisure passenger that travels in Economic class is only served a cold sandwich – "*trying not to disappoint the TAP passenger has been our greatest challenge over the past two years*" (Maria João Baptista, TAP Air Portugal's Assistant Sales & Marketing Director).

[16] TOP 10 best airlines in the world, voted by e-Dreams customers; Fourth Most Loved airline in the world on social media, according to a survey carried out in the U.S. and published in Fortune magazine.

Having two fundamentally different types of passengers with inherent distinctive profiles also constitutes a great challenge to the overall communication strategy of TAP Air Portugal. The headquarters general orientation is adapted to the local language of each market and type of passenger. The Corporate segment is practically restricted to Portugal, whereas abroad, U.S and Brazil especially, TAP goes looking for the Leisure traveler and communicates selling the destination Europe and not Portugal itself, to solidify the Lisbon Hub as an entrance point.

"We have different ways to communicate according to the market in question but overall it pretty much lives around the Portugal Stopover (...) In Europe we sell the destiny Americas and in the Americas we sell the destiny Europe"

(Maria João Baptista, TAP Air Portugal's Assistant Sales & Marketing Director)

4. Main Challenges

Despite the successfully-implemented turnaround business strategy that has been put in place over the last two years and that will continue to set the agenda for the short-medium term, the future of TAP Air Portugal is not without challenges to deal with and obstacles to tackle.

The most glaring source of constraint, that is already curbing the ability of the company to go even further in its path of growth, financial sustainability and consolidation, is the saturation and limited capacity of the Lisbon airport. For several years that the conversation around building new facilities to increment the air traffic in Lisbon is being debated and we have yet to see if the recent pressure, from TAP, ANA[17] and air travel operators, backed upon the obvious need that exists, to start the construction of Montijo airport is going to effectively lift off the ground. However, no sooner than 2019 will the construction eventually take off and until then, by virtue of the 38 operations/hour limit in the Lisbon site, TAP Air Portugal will have to manage, for instance, limitations in opening new routes or in increasing the frequency to other destinations. The airport has also "suffered" with the huge boost in tourism that Portugal has received in recent time that put in plain sight the true boundaries of the infrastructure.

This lack of availability and response from the airport also brings up to the surface the impossibility of other airlines to start operations flying to Lisbon, since there is just no slots to accommodate them, and the problem of punctuality (Exhibit 12). The latter is a priority for TAP's management team to address, considering the emphasis this metric has on the

[17] Member of the group VINCI Airports, ANA is the company responsible for managing the Portuguese airports' infrastructures

passengers' overall travel experience, and represents a test that also involves the airport infrastructures and air navigation.

It is safe to say that for any given industry, some of the most fundamental challenges that arise and that a company needs to tackle are originated by how competitors act and interact. Contrary to what one may think, TAP's management points out that the biggest concern for the company's projects and idea of growth does not come from the low-cost carriers but rather from other long-haul airlines. Despite the new commercial policy introduced, TAP Air Portugal is not going after a low-cost model but instead maintains the focus on a differentiated offer that can guarantee to the passenger another level of comfort, safety, care and efficiency. The severe challenges TAP needs to keep an eye on are posed by the competitors operating long-haul routes, particularly those flying more frequently from Europe to North and South America, since these two markets represent the current (Brazil) and prospective (USA) engines to the company's strategic path. These big European FSCs, such as Lufthansa or AirFrance, have turned eyes into the Atlantic following the hit they suffered with the advent of the Persian Gulf airlines (Emirates, Qatar Airways) that, by virtue of very competitive fares, "stole" a lot of the traffic to Asia from the European FSCs. Being predominantly a long-haul airline, with the medium-course routes just complementing and promoting the connectivity, TAP Air Portugal's priority lies on developing new, competitive products and service features to compete within this market.

5. Outlook

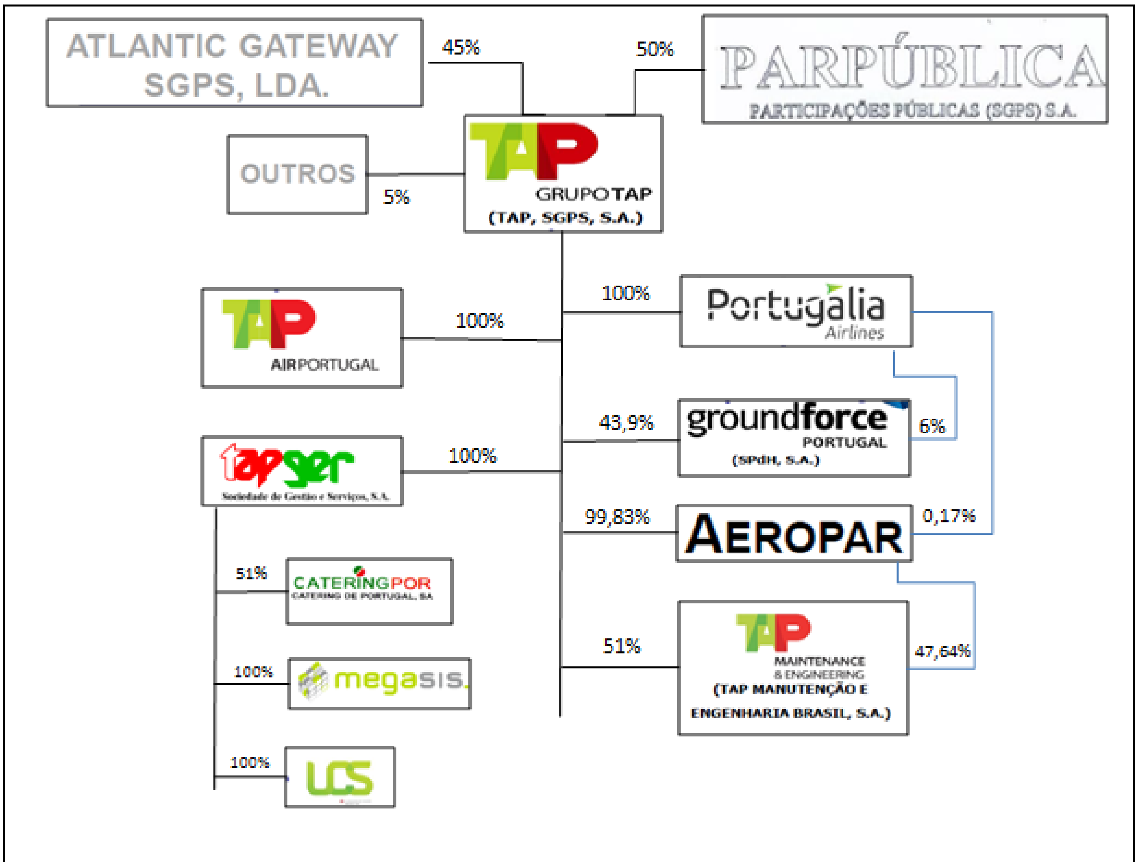
2017 ended with TAP transporting over 14M passengers (+19,7% than 2016), achieving a record 3€ Billion in sales and tripling the net profits of 2016 to register 100,4€ million, while the group TAP, SGPS closed in the green for the first time since the acquisition of the Maintenance and Engineering Unit in Brazil back in 2005.

The start of 2018 brought a new, highly-experienced management team, coming from the Brazilian airline Azul, to the helm of TAP Air Portugal, committed with carrying on the implementation of the strategic plan delineated in the privatization process as one of the key drivers for action, contributing to the development of the domestic economy and assuring the sustainability of the company in face of the challenges and opportunities that lie ahead.

As the year proceeds, from the 53 ordered, the first aircrafts will start arriving, bringing with them more leeway to continue with the course from the past two years; the airport in Oporto will have a greater number of flights both domestically and overseas and, within the constraints of capacity at the Lisbon site, new routes will be open - Florence and Nouakchott (Mauritania) - and existing ones with more demand will be bolstered.

How is TAP going to approach the events coming from outside and inside the company and how can these influence its strategic guidelines? Will TAP in 2018 continue growing in number of passengers and revenues and if so, for how long will this trend continue? Is it fruit of the circumstances or a result of a foundational and organic orientation?

II. Exhibits - Case Study



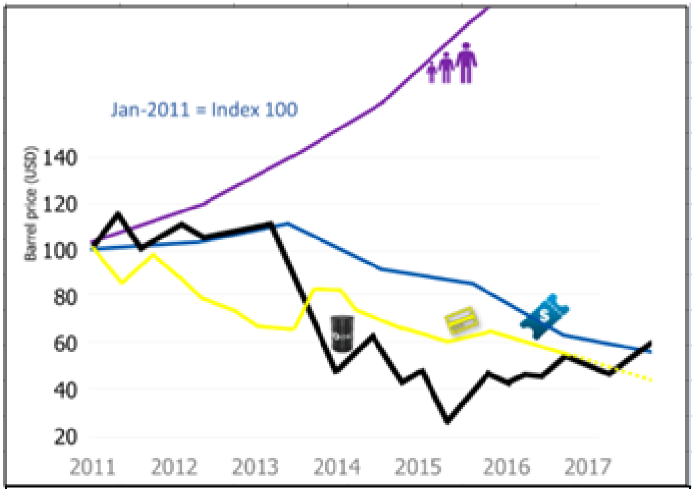
Source: Group TAP consolidated report 2017

Exhibit 1- Group TAP shareholder structure

Airline Metrics	
RPK	measures actual passenger traffic
	Number of Revenue Passengers x Total Distance Travelled
ASK	measures available passenger capacity
	Seats available x Total Distance Travelled
Load Factor	measures the capacity utilization of public transport services
	RPKs / ASKs
Yield	is the average fare per passenger per mile
	Passenger Revenues / RPKs

Source: IATA - International Air Transport Association

Exhibit 2 - Airline industry key metrics

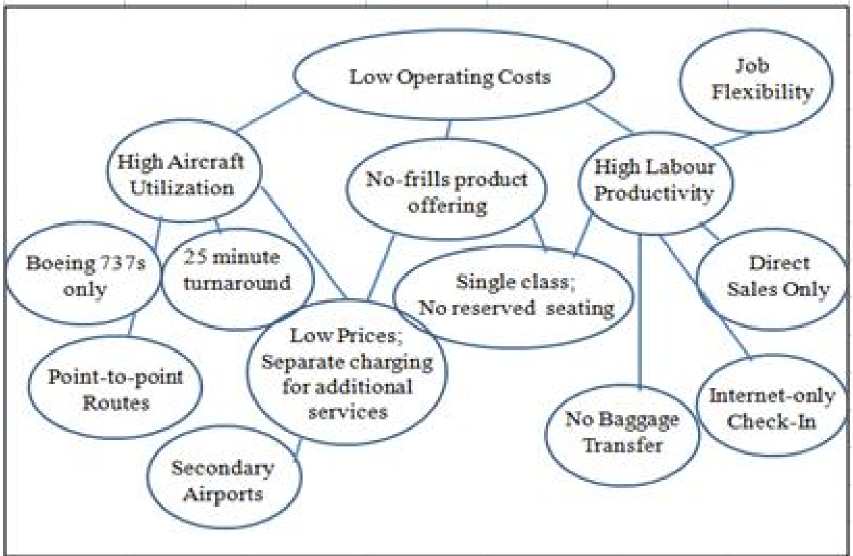


Source: CAPA - Centre for Aviation

Exhibit 3 - Correlation between air fares (blue) and oil prices (black)

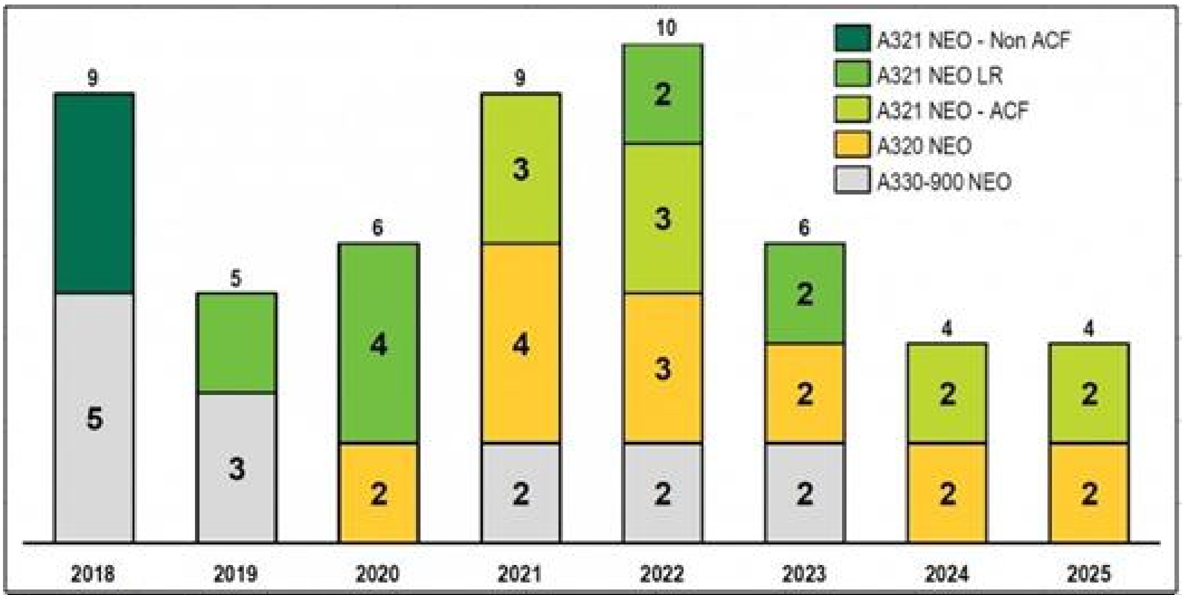
Source: Bloomberg

Exhibit 4 - Evolution of oil prices in 2017



Source: Grant, Robert. M (2016) - *Contemporary Strategy Analysis*

Exhibit 5 - Low-cost carriers' business model



Source: Group TAP consolidated report 2017

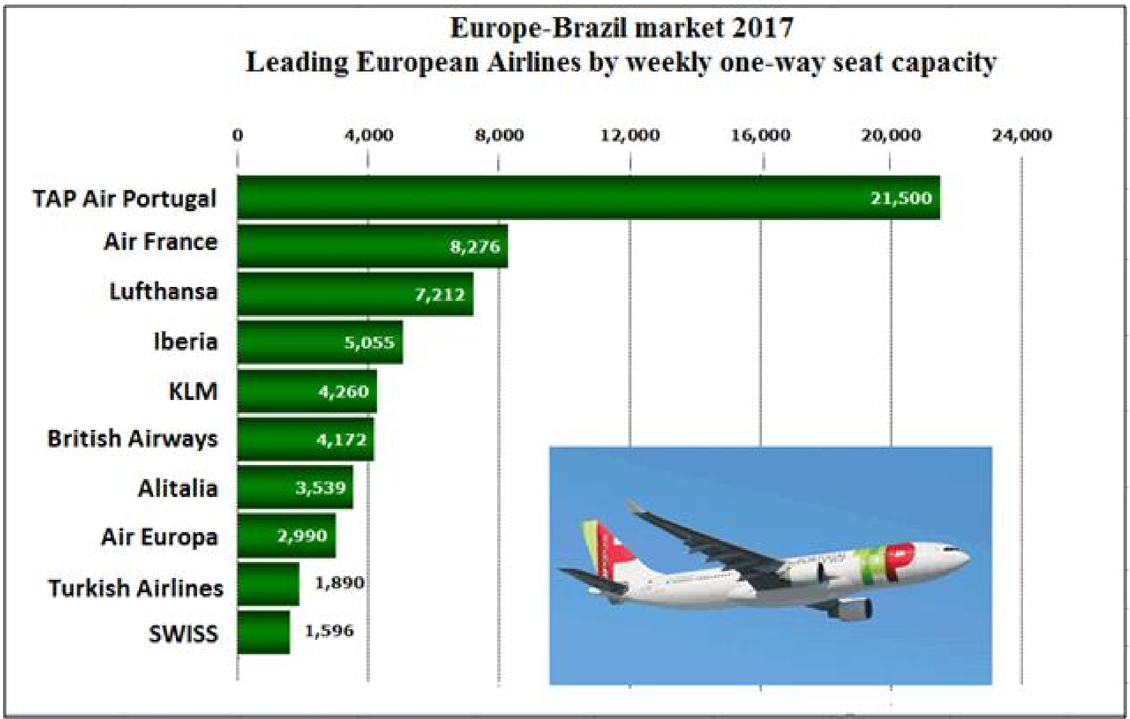
Exhibit 6 – Schedule for the gradual reception of the new aircrafts

Source: www.tapairportugal.com/pt

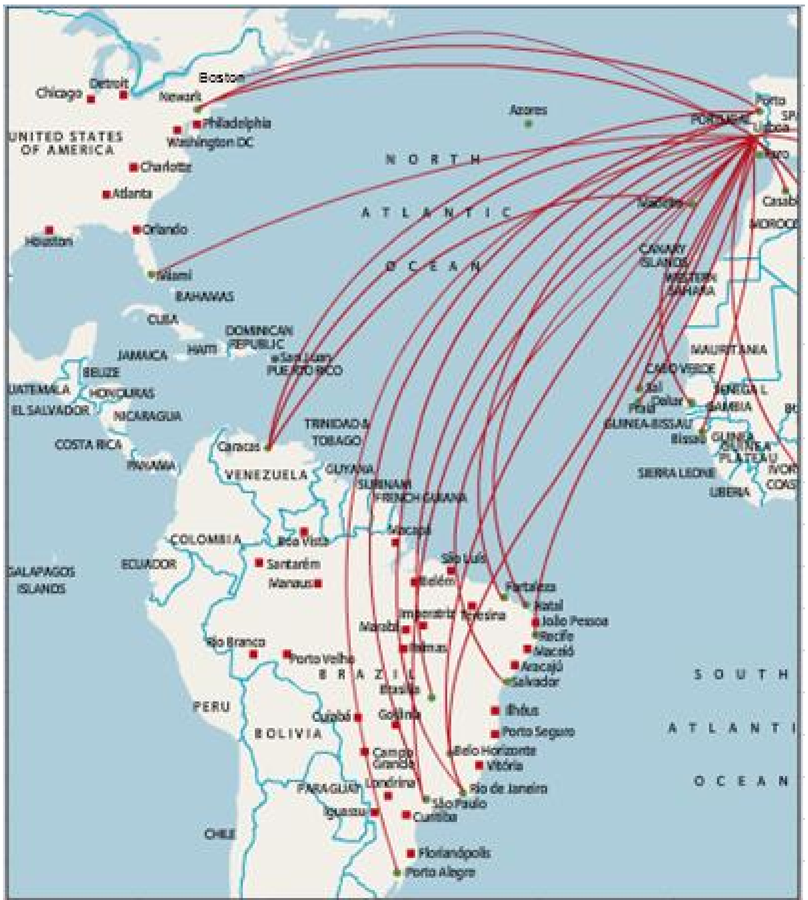
Exhibit 7 – TAP's aircrafts chairs before (left) and after (right)

Source: www.tapairportugal.com/pt

Exhibit 8 – New Executive class design (left); Sharklet Technology in the aircraft wings (right)



Source: CAPA - Centre for Aviation



Source:www.airlineroutemaps.com

Exhibit 9 – European FSCs in the Brazilian Market (up); TAP's network in the American continent (down)

Source: www.tapairportugal.com/pt

Exhibit 10 - Portugal Stopover

DISCOUNT	BASIC	CLASSIC	PLUS	EXECUTIVE	TOP EXECUTIVE
The fare offering the best price for those traveling with just hand baggage.	For those that want the best price without forgoing hold luggage.	For those who prefer to place their baggage in the hold and choose their seat.	The fare for those looking for more comfort and flexibility.	The right choice for those who want more comfort and special treatment.	Complete flexibility from the moment you make your reservation to the moment you arrive, with complete exclusivity.
10% Miles	50% Miles	100% Miles	150% Miles	150% Miles	200% Miles
Hand baggage (1 piece up to 8kg) (a)	Hand baggage (1 piece up to 8kg) (a)	Hand baggage (1 piece up to 8kg) (a)	Hand baggage (1 piece up to 8kg) (a)	Hand baggage (2 pieces up to 8kg each) (a)	Hand baggage (2 pieces up to 8kg each) (a)
1 publications from the digital kiosk (b)	Hold baggage (1 piece up to 23kg) (c)	Hold baggage (2 pieces up to 23kg each) (d)	Hold baggage (3 pieces up to 23kg each) (e)	Hold baggage (2 pieces up to 32kg each)	Hold baggage (3 pieces up to 32kg each)
Meals	2 publications from the digital kiosk (b)	Reserve standard seat	Reserve standard seat and front row seats (f)	Reserve seat at any time	Reserve seat at any time

Source: www.tapairportugal.com/pt

Exhibit 11 – TAP Air Portugal's bundled fares, "Choose How You Want to Fly, Pay Only What You Need"

28/03/2018

Pilots have not flown on days off and holidays between March 24 and 28, causing cancellations, unforeseen stopovers and delays. "Pilots have been flying on gaps, vacations and days out of planning. At the moment, they feel that the company is not recognizing the effort, especially in salary terms" says a union source, noting that the situation evidences "the lack of personnel" that the company crosses. Now, in the midst of wage negotiations, the union defends the use of backlogs.

Due to the lack of pilots, the company had to resort to the of use charter aircrafts to solve long-haul connections. There were TAP passengers required to make an unscheduled stop before arriving at the destination, this when they had planned a direct flight; there were those who had to wait for the next flight to arrive, with a delay, at their destination.

Source: Agência Lusa

10/04/2018

TAP reported today it is hiring almost 500 employees, to join the company staff already this year, counting 170 pilots and about 300 cabin crew members.

Source: Agência Lusa

13/04/2018

TAP Air Portugal canceled 557 flights during the first quarter, with 365 cancellations being registered in March only, according to data provided by UK-based statistics firm OAG, which releases monthly reports of airline and airport punctuality.

In the monthly public report, OAG statistics showed that in March 1.6% of TAP flights were canceled and 57.6% of arrivals were not delayed for more than 15 minutes, in a month with 10.875 flights. In the punctuality ranking, the carrier ranked 151st amongst 156 companies.

In the statistical analysis of 1.194 airports in March 2018, Lisbon was in the 1.176th place of punctuality (47.7% of departures without delays and 1.3% of cancellations). In terms of movements, with 8.318 flights the airport of the capital was the 82nd infrastructure, among 1.200, to count more connections.

Source: Agência Lusa

Exhibit 12 – Cancellations; Union talks and Punctuality

III. Literature Review

1. Strategic Alliances

Strategic alliances can assume many distinct forms. In common, the desire to exploit complementarities between the resources and capabilities owned by different companies. For most firms, the rationale behind alliances formation is in allowing the firms to specialize in a limited range of capabilities while enabling the exploitation of other specific opportunities that require a wider range of capabilities (Grant & Baden-Fuller, 2004).

Forming strategic alliances not only help improve operational areas, enhance the economies of scale or create a competitive environment that facilitates the superior performance of the firms but also offer a major advantage to the parties involved, flexibility - they can be created and dissolved fairly easily, their scope and purpose can change according to the changing requirements of the parties and typically involve modest investments (Grant, 2016).

In the specific case of the airline industry, the deregulation in the USA added to the liberalization in Europe to lead airlines in a path of deeper consolidation and greater focus on their competitive ability, by engaging in the formation of different varieties of alliances (Németh & Niemeier, 2012). For the purpose of this case study, focus should be restricted to two variations: Codeshare Agreements and Global Strategic Alliances.

Codeshare Agreements

Codesharing is an agreement involving two airlines (which may be members of an alliance or not), whose main feature is a shared flight schedule, and whereby one carrier (the operating carrier) allows another (its codeshare partner) to market and sell seats on some of the operating carrier's flights. Wider agreements can also encompass joint marketing and frequent-flyer programs, as well as shared airport facilities. Other benefits of this form of alliance come from the access to higher volumes of passenger traffic, the enhancement of flight connections and the higher levels of efficiency delivered to travelers (Lazzarini, 2007).

Global Strategic Alliances

Global strategic alliances, a broader form of alliance involving more than a few airlines, emerged in the second half of the 1990s with the establishment of StarAlliance in 1997, which constitutes with OneWorld and SkyTeam the three major worldwide alliances. The recruitment of new joiners gradually increased over the years until recent time, with the industry witnessing a slowing down in the pace of new members – the last entry was back in

2014. Each alliance creates its key hub by making sure a partner exists in each major region around the world in order to strengthen their global network connections, nonetheless there is no suggestion that airlines do not compete with their alliance partners (Dennis, 2005).

Overall, the advantages of strategic alliances to member airlines include:

- →Leverage for the members to expand their network, or geographical scope, beyond their home market. This home market is also a possibly attractive resource for alliance members;
- →Protect existing markets and provide market penetration to underutilized traffic or slots, increasing load factors (Morrish & Hamilton, 2002);
- →Raise entry barriers for rivals, increasing routes linked with partner airlines;
- →Reduction in unit costs from economies of scale, such as using joint facilities, purchasing and IT systems;
- →Economies of scope: higher flight frequency and connections to new markets, enabling alliance member's airlines to offer more route choices and convenient connections for travelers (Oum & Park, 1997);
- →Protect subsidiaries from being lured into joining other airline networks and create brand loyalty (Morrish & Hamilton, 2002), all of which contribute for competitive advantage.

Problems and Risks

According to Barney and Hesterly (2008), despite being a possible source of competitive advantage, airline alliances can be unstable, originating threats and uncertainty:

- →Inability to fulfill the commitments promised, as a result of value misrepresentation;
- →The moral hazard of the under-delivery of skills and abilities from alliance partners;
- →Holdups through the exploitation of partners such as undisclosed partnerships and relationships.

2. Industry Key Success Factors

Industry Key Success Factors (KSF) corresponds to variables that, depending on the business' management, allow some companies to distinguish themselves from the competition by creating higher value to customers (Eisenhardt & Martin, 2000). By first identifying the probable key factors for success and then screening them by proof or disproof, it is often possible for the strategist to penetrate fairly quickly to the core of the problem (Ohmae, 1982).

Grant (2016) summarizes the previous research, conducted by the aforementioned authors, Ohmae (1982) and Eisenhardt & Martin (2000), in a two-stage framework, whereupon one will be able to determine, analyze and have a better overall understanding of an industry's KSF:

→First Stage: Analysis of Demand: *What do our customers want?* If the rationale upon which costumers choose amongst rival offerings is recognized, then one can identify the Key Purchase Factors that confer success upon the individual firm.

→Second Stage: Analysis of Competition: *What does a firm need to do, which elements should bet on, to survive competition?* This question implies that one examines the nature of competition in the industry - how intense is it and which are its key dimensions.

3. SWOT Analysis

The SWOT framework classifies the various influences on a firm's strategy into four categories – Strengths, Weaknesses, Opportunities and Threats. The first two relate to the internal environment of the firm, primarily its resources and capabilities; the last two relate with the external environment (Grant, 2016).

SWOT analysis is one of the most common strategic tools employed by firms to better design a strategy for their businesses and is useful in driving organizations to successfully compete in the market by distinguishing themselves from the competition. Conducting this SWOT analysis helps identifying the opportunities that should be taken advantaged off and potential threats that must be mitigated, by leveraging a company's strengths while minimizing its weaknesses.

4. Ansoff's Matrix

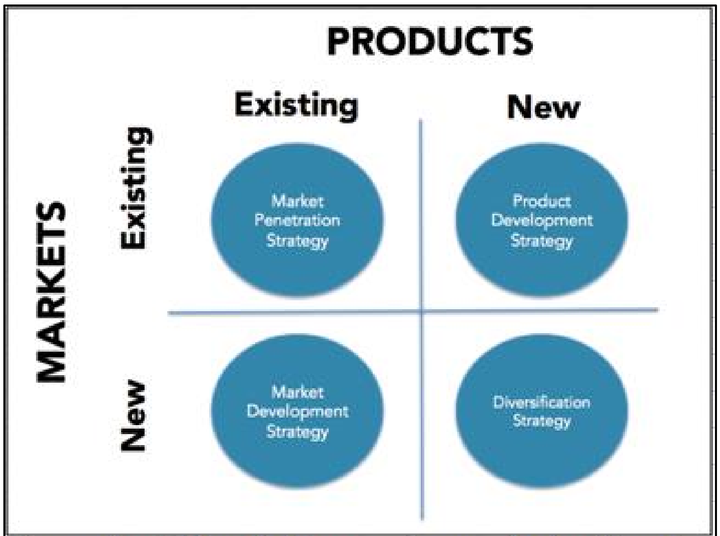
The Ansoff's Matrix (Figure 1) - named after Harry Igor Ansoff - provides a framework for companies to devise strategies for future growth, outlining four possible paths: Market Penetration, Market Development, Product Development and Diversification (Ansoff, 1987):

→Market Penetration: occurs when a company tries to sell more of its existing products in the markets where is already operating. In other words, it goes after an increase in its market share.

→Market Development: this option consists in extending the current product portfolio to new markets (geographies, countries) or new areas of the existing market (new market segments).

→Product Development: with this strategy, a company pursues growth by developing a new offer of products that will fundamentally serve and target the markets where the company is already present at.

→Diversification: the most disruptive and riskier path, involves both product and market development and ultimately delivers new developed products to new, still unaddressed markets.



Source: Ansoff, Harry I. Corporate Strategy. London: Penguin Books, 1987, page 86

Figure 1 - Ansoff's Matrix

5. Competitive Advantage

Competitive advantage can ensue from lower cost or differentiation (Porter, 1990) and, combined with the scope of activities for which a firm seeks to achieve them, can lead to three generic strategies for an above-average performance. From a purely economical standpoint, one firm possesses a competitive advantage over its competitors when it earns (or has the potential to earn) a persistently higher rate of profit (Grant, 2016). In a less economic angle, a firm reaches a position of competitive advantage when is able to consistently outperform and create higher value than of its rivals (Schoemaker, 1990). Here, value can be defined as the difference between the perceived benefits gained by the customer that purchase a firm's products/services and their full economic cost (Barney & Hesterly, 2008).

Ultimately, for the purpose of this case study, the concept of competitive advantage to be employed and discussed is the one that follows, whereby competitive advantage can be attainable when (Cardeal, 2014):

→A firm employs, more efficiently than its competitors, its resources and capabilities, therefore obtaining a inferior economic cost that ends up being reflected on the delivery of the same perceived value to customers for a lower cost;

→An organization uses its resources and capabilities to deliver products with the same production cost than of its rivals, although with higher benefits and perceived as superior, result of a strategic bet on a differentiated offer.

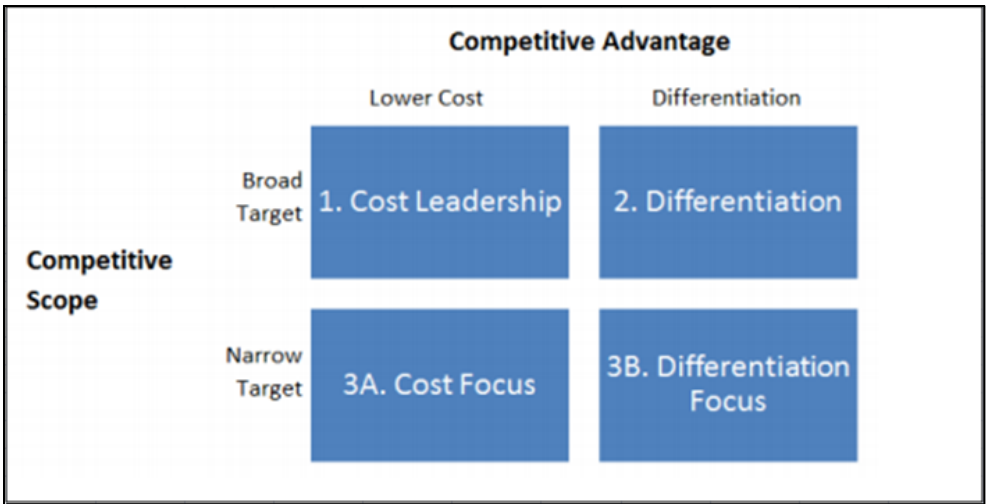
→A company combines the previous two methods, attaining higher perceived added value at a lower cost than competitors.

6. Porter's Generic Strategies Framework

Porter (1980) proposed and developed a framework (Figure 2) with three/four potentially successful generic strategies for creating a defensible position and outperforming competitors in any given industry, thus achieving a situation of competitive advantage: overall cost leadership, differentiation and focus, with the latter subdivided into cost focus and differentiation focus. Firms oriented towards specific strategies should ultimately outrun firms that are "stuck in the middle" (Porter, 1980).

Cost leadership strategies aim at achieving a competitive advantage by minimizing the cost to the firm of delivering products and services relative to competitors. It's not enough for the firms pursuing this path to be amongst the lowest-cost producers, they need to be confident of their ability to achieve and sustain this number one position, otherwise they will get exposed to wider attacks from other firms undercutting prices. Differentiation strategies involve creating and offering a product/service that is acknowledged industry-wide as unique in the market, hence reducing the threats of cost competition and permitting the firm to command higher than average prices. Compatible with either cost or differentiation strategies, the aim of focus strategies is to concentrate on a narrow segment (whether particular customer groups, geographic markets or product line segments) and gain either a cost benefit or superior products within that segment, so that firms can be both efficient and effective in their narrower strategic targeting than their competitors (Porter, 1980).

However, despite the influence of the Generic Strategies framework to the field of strategic management, it has been subject to criticism for being oversimplified, out-dated and inconsistent and for lacking depth in examining rivalry and attention to context (Polo & Weber, 2010).

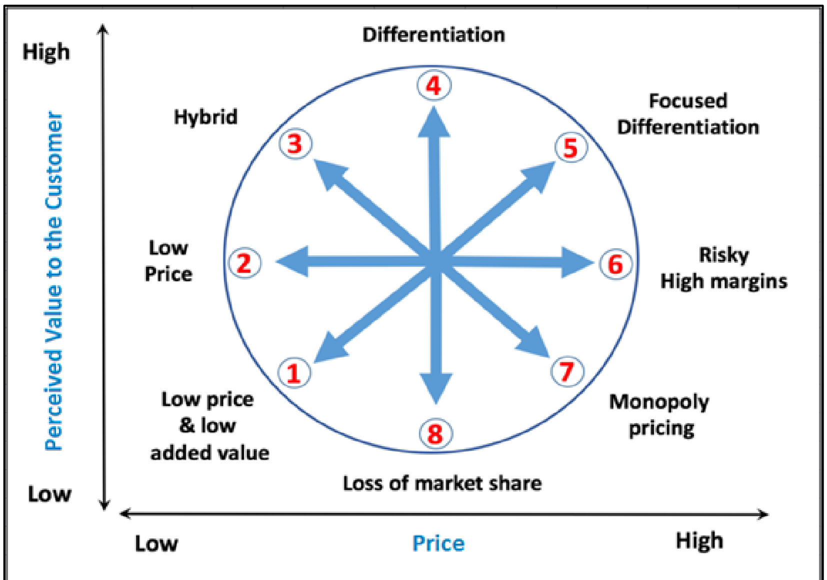


Source: Porter, Michael E. Competitive Strategy: Techniques for Analyzing Industries and Competitors. New York: Free Press, 1980, page 39

Figure 2 - Porter's Generic Strategies

7. Bowman's Strategy Clock

As an elaboration of the Porter's Generic Strategies, Bowman and Faulkner (1997) proposed a model that explores the options for strategic positioning (Figure 3). Resorting to a diagrammatic representation, the Strategy Clock framework illustrates eight possible strategic paths an organization can follow to position a product and achieve competitive advantage, based on two continuous variables, Price and Perceived Value to the Customer.



Source: Bowman, Cliff, and David Faulkner. Competitive and Corporate Strategy. London: Irwin, 1997, page 37

Figure 3 - Bowman's Strategy Clock

<u>Position 1</u>: the product is not differentiated and despite the low price, the customer perceives very little value;

Position 2: Requires a cost minimization strategy to be successful; competition is usually intense;

Position 3: Good added value to the customer, involving the combination between reasonable price and acceptable product differentiation;

Position 4: Offer the customers the highest level of perceived added value; branding and product quality play a key role in this strategy;

Position 5: High perceived value leads customers to pay high price levels for products following this positioning;

Positions 6, 7 and 8: These are uncompetitive, likely to fail strategies where the price paid is above the perceived added value to the customer.

IV. Teaching Notes

The following chapter is for instructor's eyes only and presents a set of guidelines that may serve as support to the instructor when leading the class discussion of this business case study. However, it is worth mentioning that these are general recommendations, subject to the different interpretations and conclusions that may arise during the provided time for the discussion.

This case study was written and developed on the first semester 2018 and so, in an ever-changing business environment, is nothing but natural that in time, not only new information about the company arises but also new, more relevant theoretical frameworks and ways of analyzing come to be considered and applied.

1. Synopsis

Established in 1945, TAP Air Portugal is the first Portuguese airline carrier and one of the country's main flag companies. From early on and throughout its course, there has always been a lack of stability in the company structure, with several changes over the years from the public to the semi-private sphere, changes that were most times influenced by political-ideological reasons of the various governments in office.

TAP has always been more of a source of losses than of profits, struggling to adapt to a series of internal and external challenges that have appeared over the years. Ultimately, the delicate situation in which the company fell on was solved in 2015 with the privatization of the airline carrier and the holding group to the Atlantic Gateway Consortium.

With the injection of fresh new capital, a new strategic business plan was put in place to grow the airline into a position of financial health, sustainability and competitiveness. This case study, highlighting the main actions taken over the period 2016-2017, presents how this goal is being pursued, and although the seemingly promising future that may lie ahead, challenges and constraints may present themselves in TAP Air Portugal's path. The question is how will these be approached and addressed.

2. Teaching Objectives

The present case study provides students with the opportunity to apply to a real business scenario, of a company that underwent a turnaround process, their acquired knowledge of strategic frameworks and theory from previous classes, namely the Ansoff Matrix, Porter's Generic Strategies, Industry Key Success Factors, among others. By providing specific details on how and why a certain decision was made, this business case will help students overcome any confusion there may exist about this topic, often caused by the lack of concrete examples, illustrating the rationale behind a specific call and the overall fit in TAP's broader strategy.

Another goal is to shed some light over the importance of paying attention and integrating industry trends in a company's business plan. Furthermore, in the specific case of TAP Air Portugal and the airline industry, strategic alliances play a fundamental consolidation role, and hopefully the benefits and some risks of these partnerships also become clear with this case study.

3. Suggested Assignment Questions

To help students analyzing and critically think about the case study, the following suggested questions are presented to them, providing the opportunity to apply their class knowledge.

a) Which advantages TAP Air Portugal experiences from its membership in the leading global strategic alliance and the codeshare agreements it celebrated? Are there any risks? Also, how has TAP been integrating (or not) the main trends of the industry in its business strategy?

b) Identify in the case which are the Key Success Factors in the airline industry.

c) Examine and determine TAP Air Portugal's main strengths and weaknesses, opportunities and threats, and then proceed with a SWOT analysis.

d) Analyze TAP Air Portugal's strategic growth decisions.

e) Which are TAP Air Portugal's sources of competitive advantage and what have been the business strategies adopted to get to that position?

4. Analysis and Discussion

a) Which advantages TAP Air Portugal experiences from its membership in the leading global strategic alliance and the codeshare agreements it celebrated? Are there any risks? Also, how has TAP been integrating (or not) the main trends of the industry in its business strategy?

Over the years, TAP Air Portugal has enjoyed several benefits derived from the celebrated codeshare agreements with Azul and JetBlue Airways and the membership in the StarAlliance organization:

→**Market penetration** and **Network expansion:** In a period where the company was starting to bounce back from the industry-wide crisis following the attacks of 9/11, having joined the leading global airline alliance back in 2005 contributed to the overall improvement of TAP Air Portugal's financial situation by stretching the company's reach to new markets and destinations. From the 58 airports TAP flew to, in the moment of affiliation with StarAlliance, the Portuguese carrier started to continuously add new points to its network totaling 88 destinations across 34 countries, in the moment this case study is written. More recently, the codeshare program with JetBlue became an important part of the company's strategy within the United States. In the coming years not only TAP expects on expanding its direct network to the cities of Chicago and San Francisco but will also continue being "fed" and receive passenger traffic from JetBlue operated flights originated in other north-American regions that will ultimately serve its hubs in the east coast and from there departure in TAP aircrafts heading to Europe. This same logic is applied to the Brazilian market. Here TAP Air Portugal, which has been building over the last 15 years an already comprehensive network of served cities, finds in its codeshare partner Azul, the airline with more destinations offered inside Brazil, the perfect ally to pursue this strategy of "feeding" the hubs and then fly to Portugal and/or Europe.

→**Higher volumes of traffic** and **Entry barriers for rivals:** The former, stimulated by demand, has recently translated in 2017 in a 14% and 54,5% passenger increase in the Brazilian and North-American markets, respectively, while the latter is a collateral consequence of the well-established partnerships, particularly in Brazil where TAP has more than 15 years of experience and knowledge, thus making it more difficult to other European carriers to build the same sort of agreements with the local airlines.

→**Enhancement in the flight connections** and **Brand loyalty:** In a long-haul connection, if a traveler books a flight directly from point A to C, passing through B as a connection link (typically a hub), instead of booking separately a flight from point A to B and another from B to C, he will have a greater level of convenience not only reflected in the check-in process and luggage procedures but also in the possibility of accumulating flying-miles to be used and discounted in subsequent trips. Frequent-flyer programs and partnerships tend to go hand-in-hand and the former is an efficient way to generate and create brand loyalty in an industry that is mostly price-driven, by creating a stimulus to travel with the same carriers in the future.

Despite the advantages TAP Air Portugal has benefited from, it is questionable whether or not these types of airline partnerships and agreements have reached a saturation point. That might be certainly true when we consider the three major global alliances and it will be difficult for TAP and other airlines to squeeze any additional benefits if there aren't any new members joining in. However, codeshare agreements have a different, lighter nature and TAP will continue to experience their benefits both in the U.S, where there is still a big market to explore and break new ground at, as in Brazil, a country the company knows really well and with whom has a deep relation.

Additionally, an effort has been put forward over the 2016/2017 period to incorporate the main industry trends within the business strategy of TAP and not neglect what is happening on a Macro level:

→In the digital realm, the initiatives the company launched, namely the NPS metric, were aimed at promoting a deeper knowledge about the customer and their flight experience. In this manner, TAP hears from its customers in a more personal interaction that facilitates the intervention when there is a problem to address. Also, to create engaging experiences with the passenger, half of the overall communication budget is already being channeled towards digital tools and the online platform flyTAP is responsible for 40% of the airline's sales, an upward tendency that will continue to be verified.

→The industry-wide need to innovate the business model to compete more closely with LCCs is reflected in the new commercial policy of the company. TAP started offering more personalized solutions to the passenger by implementing a "branded fares" system where is the customer that chooses the type of fare that he needs, receiving the service level correspondent to the price paid.

b) Identify in the case which are the Key Success Factors in the airline industry.

In the discussion of this question, it would help making the analysis clearer if a distinction between the Corporate and the Leisure Segment was made. In the end, the industry KSFs will have common elements for both and even the Competition Engines are fairly similar, however in the first stage of the analysis, identifying the Key Purchase Factors, these two segments value some different aspects that should be distinguished.

Corporate Segment

Key Purchase Factors
Safety & Reliability
Service Quality & Convenience
Comfort & Personalized solutions
Support in the purchase moment

Competition Engines
Dynamic Indirect Channels
Brand Engagement
Partnerships & Competitive Product
Access to passenger data
High quality maintenance services

Industry KSFs
Superior Service & Competitive Product
HR Expertise → High quality maintenance services
Partnerships & Agreements
Knowing the customer and what he needs

Figure 4 - Industry KSFs - Corporate Segment

Leisure Segment

Key Purchase Factors
Safety & Reliability
Affordable Price
Service Quality & Convenience

Competition Engines
Partnerships
Brand Engagement
Competitive Price & Product
Access to passenger data
High quality maintenance services

Industry KSFs
Efficient Cost Management
Competitive Product
Partnerships & Agreements
HR expertise → High quality maintenance services

Figure 5 - Industry KSFs - Leisure Segment

Expert human resources to provide reliable and high quality maintenance services, Partnerships & Agreements and Competitive Product are the three common factors to both segments TAP should focus on to be successful and competitive on the long-run. Additionally, to address and create value for the Leisure traveler, a segment that places a great deal of attention to price as the main driver of its decision, it's important to have an efficient cost management to sustain lower costs, thus enabling TAP to set more affordable prices and better compete with its rivals. This factor isn't as decisive for the less price-sensitive Corporate segment that flies in executive class and expects superior service and a detailed approach to what they need and require.

c) Examine and determine TAP Air Portugal's main strengths and weaknesses, opportunities and threats, and then proceed with a SWOT analysis.

In the previous question, the identification of the industry KSFs allowed to understand the market's main drivers by signaling the variables that could allow TAP to set apart from the competition, thus creating higher value to the customer. However, by themselves these variables are only that, variables. It is imperative to have a strategic fit between the airline's strengths and the identified KSFs, so that the former can be leveraged to excel in the latter, while guaranteeing the weaknesses are minimized in the pursue of the same goal.

After a comprehensive internal and external examination, the presented SWOT analysis will assist in determining and better understanding the best options going forward.

Strengths	Weaknesses
• Management and owners expertise • State-Private joint effort • Maintenance services prestige and recognition • Safety reputation • Partnerships & Codeshare Agreements • Operational efficiency and flexibility of new fleet • Strategic position of the Lisbon hub • Leading European airline in Brazil	• Downgrade at service level in medium-haul routes • Limited capacity of Lisbon airport • Punctuality (lack of) • Recurrent union conflicts and lack of personnel

Opportunities	Threats
• Air travel growth • More affordable air travelling • Growth of digital and mobile → put the customer at the centre of the airline and drive more personalized interactions • Portugal "in vogue"	• Oil prices rising • LCCs competition in medium-haul routes • European FSCs increasing competition in the long-haul routes, especially Brazil • On the long-run, possible resurface in the society of the Private vs. Public Sphere debate

Figure 6 - TAP Air Portugal's SWOT

Currently, TAP is well-prepared and aligned in its strengths to address the identified KSFs and deliver superior value to the passenger. From the three common factors to both segments detected in question b), the first one was the need to have experienced and skilled HR to deliver high quality maintenance services. TAP clearly has a match between its strengths and the necessary requirements to outrival in this domain, virtue of its solid reputation for safety and reliability gathered over the years and the know-how and recognition of its maintenance unit personnel. The significance that the passenger places on Partnerships & Agreements is related with the convenience these provide, from the moment of selecting a destiny among a bigger range of options to the booking procedures or the travel connections. Some of TAP stronger suits meet these demands. Not only is TAP a valuable partner to other airlines and respective passengers, result of the company's hub's central position to capture traffic amongst Europe, America and Africa and the leadership position assumed in Brazil, but the Portuguese carrier also greatly benefits from the synergies and agreements celebrated (as we have seen in question a)). Lastly, in order to have a Competitive Product that would allow, first, to keep up and second, to outperform competition, TAP needed a renovation that translates today in a modern, renovated fleet which offers higher flexibility, autonomy and lower costs per seat, allowing TAP to stay competitive in its operational efficiency, and in a new commercial policy that rendered new dynamics to the company's strategy, providing more product options to the passenger and in line with their needs.

However, there is an alarming concern regarding the lack of punctuality. This issue is TAP's main weakness that undoubtedly undermines its ability to generate value for the passenger, directly affecting the Competitive Product variable and jeopardizing the customer experience while negatively reflecting on the company's image. Another weak point, although a temporary one, that impacts the same KSF, is the service downgrade registered in the medium-haul flights on the food served on-board and the space between seats. This adjustment in the passenger's expectations has been the biggest challenge TAP has dealt with but it's something that with time will progressively be readjusted as the traveler becomes more familiar and informed about these changes, knowing beforehand what he can count on and fit accordingly.

In what concerns the external analysis, TAP is well-positioned to take advantage of the macro opportunities coming its way. The industry has been witnessing over the last 3/4 years to an impressive recover. Air traffic has been growing with load factors going up, while the prices have become more affordable banking on the historically low fuel prices. As the growth of digital and mobile shapes a new competitive landscape within the industry, TAP has embraced this key feature into its business strategy, implementing a series of instruments and initiatives that drive more personalized interactions and place the TAP passenger at the centre. Finally, Portugal has been making headlines around the world and this "trend" has been bringing, year after year, record numbers of tourists to the country and passengers to TAP's flights. Nonetheless, despite the influential contribution this "boom" in tourism had to the company's turnaround and financial performance, it also exposed, as a collateral effect, one of TAP's weaknesses, the limitations of the current airport.

Concerning threats that can affect the company's path, the primary one is posed by the competition from European FSCs flying long-haul, especially those targeting Brazil. These carriers started betting on the Atlantic routes after suffering a hit in the Asian markets, where the Gulf companies like Emirates are extremely competitive. TAP should remain aware and not overlook this scenario, despite being the European leader in Brazil and having a tremendous knowledge of this market. In the medium-haul routes, TAP's new commercial policy, by reaching out to a younger segment and offering attractive tailor-made fares to what each passenger values, was exactly implemented to address the threat of the LCCs competition. To conclude, it's important to mention that currently, having both the State and private shareholders on the same side is undoubtedly positive for TAP in terms of the balance it provides but also the added value each party brings. However, throughout the history of the company there has always been little stability around its condition; conflict, sometimes ideological, of Private vs. Public sphere. In the long run, if new governments with different ideas take office, will the debate resurface in society and can the condition of the company change again, bringing a source of turmoil and instability?

d) Analyze TAP Air Portugal's strategic growth decisions.

To almost every business turnaround scenario there is a first component of retrenchment and a second of growth. In the case of TAP however, the former didn't really occur since the financial liquidity brought by the new shareholders avoided the need to take measures in that direction, such as closing routes or laying off employees. To analyze the latter, the devised growth decisions, students should employ the Ansoff Matrix. In the case, it's possible to find examples of three strategic paths: Market Penetration, Product Development and Diversification.

Market Penetration

Upon guaranteeing that the viability of the current destinations was assured, TAP proceeded with the expansion of its network, opening new routes and reinforcing higher-demand markets.

In North-America, the airline started flying in 2016 to Boston and JFK airport in New York, and in 2017 to Toronto. Furthermore, in the U.S, TAP not only counts on having within 2-3 years, 10 direct destinations, with Chicago and San Francisco being the most likely additions, but also takes advantage of the codeshare agreement with JetBlue. In Brazil, TAP operates over 90 weekly flights and transported 1.6 million passengers in 2017. Over the 2016/2017 period, the company invigorated the flight frequency in some routes and the codeshare program with Azul, in the same operational rationale as established with JetBlue in the north-American market, enabled reaching to additional destinations.

In Europe, the airline besides reinforcing its reach in a market that represents 12% of TAP's total transported passengers, Spain, also amplified its portfolio of destinations in Central Europe. Whereas in Africa, TAP reopened flights to Guinea-Bissau, started operations to Ivory Coast and added frequencies to Dakar and Marrakech.

Product Development

Before the privatization process, the underinvestment TAP's management had to deal with seriously impacted the product quality of the airline, creating a severe need to develop a new, competitive product offer in line with the passenger's needs that would improve the flight experience and adapt to the industry's conditions.

The first step was to renovate the entire fleet, either by purchasing new aircrafts or renovating those which could still be operationally used. The goal was not only to increase TAP's operational efficiency, but also to align the product with the most direct competition and enhance the overall customer experience. The second was centered on a new commercial policy by virtue of which, TAP became more competitive in the lower-fare segment of the market. This "branded fares" system, by giving the passenger the power to choose the service level best suited to what he needs in a particular trip, paying only what he values, proved to be instrumental in the strategic path of sustainable growth and financial consolidation.

Additionally, two initiatives were put in place. The programme *Portugal Stopover* took off in 2016, facilitating the link between both sides of the Atlantic and targeting long-distance passengers from the U.S and Brazil to encourage them to discover and stay in Portugal for a few days. Aimed at the domestic market, the Air Bridge between Lisbon and Oporto was launched, also in 2016, offering a high-frequency shuttle service in renovated TAP Express aircrafts, the regional airline of the group that operates mostly short, domestic flights and medium-haul routes.

Diversification

The component of diversification in TAP's growth strategy wasn't about extending the new product portfolio to new geographic markets but rather to new segments of existing markets, particularly one the company didn't have before, the younger segment - the new commercial policy presented TAP with the opportunity to attract the young traveler whose choice is mainly driven by price.

e) Which are TAP Air Portugal's sources of competitive advantage and what have been the business strategies adopted to get to that position?

In the analysis of this question, after exploring the potential sources of competitive advantage, students should apply Porter's Generic Strategies framework and proceed with Bowman's Strategy Clock. The latter will explore narrower, more defined strategic paths thus complementing the former's broader, more generic evaluation of possible strategies to achieve competitive advantage.

The leadership position amongst European carriers in Brazil, along with the deep knowledge and understanding of this market the company has, can be valued as a source of competitive advantage for TAP Air Portugal. As we have seen, the Persian Gulf airlines started stealing a lot of traffic in the Asian markets from the European FSCs. Such circumstances prompted an increasing number of these airlines to expand their presence to the Atlantic routes, with South America, a market always somewhat overlooked, assuming a key role to compensate the verified losses. Virtue of over 15 years of experience as well as established operations and dynamics, TAP may be able not only to employ, more efficiently than the competitors, its resources and capabilities in the Brazilian market to reach an inferior cost, but also to attain a higher perceived added value. Additionally, these competitors' aspirations can very likely be hampered if they encounter some entry barriers caused by the well-established network TAP has in Brazil, supported to a great extent by the partnership agreement with Azul.

In fact, the partnerships and agreements TAP celebrated, which have been reinforced over the last two years, constitute a valuable strategic component to create a defensible position, outperform competition and ultimately achieve competitive advantage, while a shifting environment towards globalization and consumer-focus has made of frequent-flyer programs a key ingredient into establishing brand loyalty, offering a differentiator against competitors. TAP relies on these programs with its alliance partners and codeshare allies to provide loyalty rewards that stimulate a repeated purchase by reducing the customer's flying cost with the accumulation of points for future discount, thus representing an effective barrier to switch for passengers since they have more to lose.

Having strategic allies and an effective network that provides more capacity and load factors, increases the flight frequency and traffic through the hub and deters new entrants in a market, are strategic imperatives for firms seeking to achieve competitive advantage via a focused differentiation strategy.

Furthermore, the operational efficiency of the new acquired fleet and the reputed maintenance services TAP has in-house, and consequently without the need of sub-contracting to another company, can be esteemed as a source for competitive advantage to the company, enabling TAP to achieve lower operating costs than its direct competitors. At the same time, the central position of the Lisbon Hub, in a strategic point to capture traffic between three continents, and the safety standards and reliability TAP gathered over the years, might constitute valuable attributes in delivering a more beneficial, perceived as superior product, result of a oriented bet in a differentiated offer.

TAP Air Portugal's strategy, over the analyzed period of 2016/2017, can be characterized in its essence as an example of focused differentiation, according to Porter's framework. A focus strategy requires that airlines take into account what is considered most important for their customers and when done well are quite efficient and effective in creating a defensible position within an industry. This is what TAP has been doing. The airline's scope of activities is a narrower target than most of its rivals and does not compete on cost in the same fashion as LCCs do. However, it's not a pure focused differentiation strategy either, since as we have evaluated in the previous paragraphs, TAP can also be cost competitive in some areas. This reflects the need of applying Bowman's Strategy Clock, to narrow down and hopefully reach a more suitable conclusion. I would classify TAP strategic positioning as Hybrid. Overall, this path is translated on the customer receiving good added value, involving a combination between reasonable price and acceptable product differentiation to achieve competitive advantage.

V. Conclusion

Over the most recent years of my university studies, one of the topics that always interested me the most in the field of strategic management was how companies re-build themselves in the face of struggle and adversity? Which measures should be taken and what needs to be prioritized to put an organization back on the right track?

TAP Air Portugal presented itself to be the quintessential example and working on this thesis project over the last couple of months gave me the opportunity to come in close contact with the reality of the company and thoroughly understand not only the way in which the turnaround process over the 2016/2017 period was conducted, but also the rationale behind the decisions taken and the overall fit and implication of such in TAP's broader strategy.

Having analyzed this case, I can conclude that the objectives outlined by the new shareholders, at the time of the privatization, were achieved and TAP regained a financial health and an operational competitiveness as, arguably, it never had in its history. The airline still has room to grow and consolidate its path in the next challenging years as a series of potential threats the company can't neglect appear.

The Portuguese carrier has a solid position in the markets of focus, pursuing a Hybrid strategic positioning in the quest for competitive advantage and benefiting from: a strategic fit between its main strengths and the industry KSFs; the advantages gathered virtue of the celebrated codeshare programs with its partners, in the United States and especially in Brazil; a renovated, modern fleet that allows TAP to stay operationally competitive and a new, dynamic commercial model in line with the passengers' needs and aimed to adapt the airline to new industry conditions.

In future research, it could be interesting to assess TAP Air Portugal's performance under the future light of any new frameworks and tools at that time may exist in the field of strategic management to analyze scenarios of turnaround. Also, it's likely that the airline industry may change more than what can be imagined today and within such context, which new challenges will arise and how will be dealt?

VI. References

"2017 Marked by Strong Passenger Demand, Record Load Factor." IATA - International Air Transport Association. Accessed March 4, 2018. http://www.iata.org/pressroom/pr/Pages/2018-02-01-01.aspx.

Ansoff, Harry I. *Corporate Strategy*. London: Penguin Books, 1987.

Bachwich, Alexander R., and Michael D. Wittman. "The Emergence and Effects of the Ultra-low Cost Carrier (ULCC) Business Model in the U.S. Airline Industry." *Journal of Air Transport Management* 62 (2017):155-64.

Barney, Jay B., and William S. Hesterly. *Strategic Management and Competitive Advantage Concepts and Cases*. Pearson Practice Hall, 2008.

Bowman, Cliff, and David Faulkner. *Competitive and Corporate Strategy*. London: Irwin, 1997.

Cardeal, Nuno. *Pensamento Estratégico*. Lisboa: Universidade Católica Editora, 2014.

Dennis, Nigel. "Industry Consolidation and Future Airline Network Structures in Europe." *Journal of Air Transport Management* 11, no.3 (2005):175-83.

Economic Performance of The Airline Industry, End of the Year Report. IATA - International Air Transport Association, 2017.

Eisenhardt, Kathleen M., and Jeffrey A. Martin. "Dynamic Capabilities: What Are They?" *Strategic Management Journal* 21, no.11 (2000):1105-121.

"Evolution of Oil Prices" Bloomberg. Accessed March 4, 2018 https://www.bloomberg.com/energy.

Future of Aviation Industry. IATA - International Air Transport Association, 2017.

Grant, Robert M., and Charles Baden-Fuller. "A Knowledge Accessing Theory of Strategic Alliances." *Journal of Management Studies* 41, no.1 (2004):61-84.

Grant, Robert M. *Contemporary Strategy Analysis*. West Sussex, UK: Wiley, 2016.

Kletzel, Jonathan, Bryan Terry, and Jim Bohlman. *Commercial Aviation Trends - Digitize and Reassess Your Competitive Position*. PWC – PricewaterhouseCoopers, 2017.

Lazzarini, Sérgio G. "The Impact of Membership in Competing Alliance Constellations: Evidence on the Operational Performance of Global Airlines." *Strategic Management Journal* 28, no.4 (2007):345-67.

Morrish, Sussie C., and Robert T. Hamilton. "Airline Alliances - who Benefits?" *Journal of Air Transport Management* 8, no.6 (2002):401-407.

Németh, Adél, and Hans-Martin Niemeier. "Airline Mergers in Europe – An Overview on the Market Definition of the EU Commission." *Journal of Air Transport Management* 22 (2012): 45-52.

Ohmae, Kenichi. *The Mind of the Strategist*. New York: Penguin Books, 1982.

Oum, Tae Hoon, and Jong-Hun Park. "Airline Alliances: Current Status, Policy Issues, and Future Directions." *Journal of Air Transport Management* 3, no.3 (1997):133-44.

Polo, Edison Fernandes, and Wilson Weber. "Competitive Generic Strategies Evolution and the Importance of Michael E. Porter." *Revista De Gestão* 17, no.1 (2010):99-117.

Porter, Michael E. *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. New York: Free Press, 1980.

Porter, Michael E. *The Competitive Advantage of Nations*. New York: Free Press, 1990.

Schoemaker, Paul J. H. "Strategy, Complexity, and Economic Rent." *Management Science* 36, no.10 (1990):1178-192.