

CONSOLIDATION IN THE AIRLINE INDUSTRY: THE DELTA-NORTHWEST MERGER

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ABSTRACT

The airline Industry has been consolidating starting with the merger between Delta and Northwest airlines in 2008 followed by the merger between United and Continental in 2010. Recently AMR has been in talks with U.S. Airways for a possible merger. There have been arguments for and against these mergers but there has been no concrete framework to analyze these mergers. This paper provides one possible framework to analyze these mergers. The paper uses the information available in the merger documents in the Delta-Northwest merger document to estimate the synergies from the merger and looks at how the synergies would be shared between Delta and Northwest shareholders. The paper uses free cash flow and comparative company analysis to value Northwest Airlines, the target company. Based on the calculation of Herfindahl-Hirschman Index, the paper examines the case for competition vs. consolidation in the airline industry. The results in this paper indicate that the success of the airline mergers would be critically dependent on whether the anticipated synergies of the merger would be realized or not.

Keywords: *Merger, Synergy, Herfindahl-Hirschman Index, Airline Industry, Competition.*