THE END OF

July brought news of three multibillion-dollar merger deals: Hudson’s Bay acquired fellow retailer Saks for $2.9 billion, pharmaceutical provider Perrigo paid $6.7 billion for biotechnology leader Elan, and Omnicom and Publicis announced plans to merge into a $35 billion advertising giant.

In the same period, the European Commission approved a proposed $11 billion merger between AMR and US Airways Group. Pending approval of the U.S. Bankruptcy Court judge and U.S. antitrust regulators, the world’s largest airline could emerge as soon as next month.

This last merger was the end result of a long and torturous process. AMR was the last “legacy” airline to enter bankruptcy. By the time it did, in November 2011, it was too late to preserve its independence. The bankruptcy court approved US Airways’ merger proposal rather than allowing AMR to remain independent. For years, AMR had operated at higher costs than its peers, many of which had passed through bankruptcy several times as they abrogated labor agreements and restructured billions of dollars of debt. TWA, for example, filed for bankruptcy three times before merging with AMR in 2001.

If approved, the AMR-US Airways merger will be the seventh major airline merger since 2005. Many airline experts believe the industry has finally concentrated to the point where carriers can address overcapacity effectively and deliver better financial results. This improvement comes from curtailing service and raising prices. Unlike other forms of transportation, airline capacity is not homogeneous.

Whereas liner shipping and truckload companies compete in almost all markets, airlines are frequently concentrated around their network hubs. Between them, AMR and US Airways have numerous routes that represent a large majority of overall capacity. In the largest, Philadelphia-Miami, they account for 98.3 percent. These corridors are likely to see the largest price increases.

Liner shipping companies have learned something from the airlines. By unbundling services previously included in base transportation rates, airlines have made bag checking, seat selection and rebooking profitable enterprises in their own right. Ocean carriers haven’t been as successful, though they have managed to “discuss” these arrangements without running afoul of antitrust law.

Mergers aren’t always the answer, of course. YRC had an extended near-death experience brought on by a series of poorly planned — and disastrously executed — mergers. Canadian Pacific Railway is looking to divest a large portion of the DM&E it acquired in 2008. CP Ships and Fritz were industry superstars because of rapid growth through mergers — until they imploded (in accounting ignominy) because of one or two deals too many. XPO Logistics’ $18.1 million second quarter loss has some industry observers wondering if CEO Brad Jacobs will oversee a similar nightmare.

Most observers agree that the industry most in need of consolidation is liner shipping. Many carriers, however, participate in this industry for reasons other than pure financial gain — geopolitical concerns, mercantile interests and national security among them. The cultural barriers to be bridged — even between two companies from the same nation — are often insurmountable. Earlier this year, merger talks between German carriers Hapag-Lloyd and Hamburg Sud came to nothing.

The industry’s biggest news recently was the formation of the P3 Network among the world’s three largest carriers: Maersk Line, Mediterranean Shipping Co. and CMA CGM. Although this alliance won’t reduce competition, it will provide the three with significant economies of scope and scale that can be used to compete further on price — and perhaps finally get some of the financially weaker lines to withdraw.

Interestingly, the P3 lines are all European. Despite European airline consolidation, industry financial benefits among these airlines haven’t arisen as they have among U.S. airlines. As a result, carriers such as British Airways, KLM and Lufthansa have pursued alliances aggressively to improve their competitive position.

Perhaps the ocean carriers need to look upstream at the steel industry, which also is suffering from global overcapacity. Nobody wants to withdraw capacity and allow its competitors to benefit. The business has been forced to survive on very small margins generated by very large volumes. It’s become a “conversion” business rather than a value generator.

Transportation often has created financial value, and mergers have long been part of that process. The liner shipping industry, however, has stubbornly resisted economic rationalization. Past alliances have often been preludes to mergers that failed to create value. It will be interesting to see if the P3 Network is a game-changer or if it just heightens the stakes in an industry trapped in a perpetual status quo. JOC

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