

# ascend

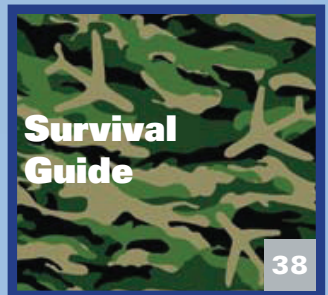
Taking your airline to new heights

## A Clear Vision

A Conversation With ...  
Sean Durfy, Chief Executive  
Officer, WestJet Airlines,  
Page 16.



### Special Section



**8** Japan Airlines takes steps to improve its environmental performance

**21** Delta Air Lines/Northwest Airlines merger impacts regional carriers

**44** Airlines have three basic options to raise capital

# Aeroflot's Revolution



A thorough examination of Aeroflot Russian Airlines through an extensive turnaround exercise has helped the carrier reinvent itself and once again become a top player in the world's air space.

■ By Barbara Childs and Luc Lachoix | *Ascend* Contributors

**AEROFLOT**



*Russian Airlines*



When it comes to Aeroflot, the old adage, “You can’t teach an old dog new tricks,” is far from the truth. This 85-year-old airline has lots of tricks up its sleeve. Just ask the people who make up Russian-based Aeroflot, one of the oldest airlines in the world. Founded in 1923, Aeroflot began flying re-equipped warplanes domestically and internationally to destinations in Germany.

Since the 1991 dissolution of the USSR, Aeroflot has been transformed from a state-owned bureaucracy into a semi-privatized airline that ranks among the most profitable in the world. The carrier operates scheduled passenger flights from Sheremetyevo International Airport in Moscow to 52 countries serving 96 destinations in Russia, Africa, Asia, Europe, the Middle East and North America.

Aeroflot has seen a significant financial improvement during the past several years, both in earnings and number of passengers carried. Last year, Aeroflot increased the scope of its work by 13.5 percent over the previous year, carrying nearly 9.3 million passengers (5.7 million international and 3.6 million domestic), which is higher than the industry-average indicators. Despite the 50 percent increase in fuel expenses, the company’s income has grown by more than 26 percent.

The remarkable revenue gains can be attributed to a number of things. Beginning in early 2000, Aeroflot began redefining itself as one of the world’s safest and most reliable airlines, hiring consultants for a rebranding project that included new livery and uniforms for flight attendants as well as a promotional campaign launched in 2003.

In addition, the carrier began upgrading its fleet of western-built aircraft, which today includes 52 Airbus A319, A320 and A321 jet planes for short-haul flights in Europe as well as 11 Boeing 767 and two Airbus A330 planes for long-haul routes.

Aeroflot’s transformation can also be attributed to forward thinking by Dmitry Gorbатов, the carrier’s director of revenue management. The Russian market was becoming more highly competitive from entry of both low-cost carriers and network carriers, and Aeroflot needed to redesign its business plan. Dmitry recognized an opportunity to considerably improve Aeroflot’s revenue management practices, organization and revenue gain performance.

To help leverage this opportunity, Dmitry worked with *Sabre Airlines Solutions*® to develop and implement a commercial turnaround project, in which a team of consultants worked closely with Aeroflot’s revenue management department and identified four key areas — processes, organization, people, and reports and measures

— the airline would focus on improving financial performance.

A look at the carrier’s revenue management in 2004 showed it had a long way to go to adopt industry best practices, processes and tools. But perhaps the biggest challenge was convincing the then 81-year-old organization’s executive team that a culture and leadership shift was essential if it was to become a premier airline in the 21st century.

### Giant Leaps Begin With Baby Steps

Aeroflot’s commercial turnaround project team first tackled the more objective challenges of change: processes as well as reports and measures. It began by initiating a broad review of revenue management and other commercial practices. Pricing, distribution, revenue integrity, commercial planning and sales processes were all thoroughly evaluated. In addition, the team looked closely at how Aeroflot’s systems, were helping achieve industry performance standards and commercial objectives.

Based on the team’s findings, it was determined that:

- The company must develop market-based teams comprising employees who would embrace ownership and accountability,
- New processes must adhere to industry best practices while leveraging the use of existing revenue management solutions,
- A benchmark system should be implemented to measure performance and translate issues into actionable practices,
- Department boundaries should be examined and clarified,
- A “culture of performance” should be adopted to develop ownership and accountability of the commercial results by all team members.

“Close analysis of all these issues caused apprehension among department staff members who saw just how much change would need to happen if Aeroflot was to become a competitive new airline,” said Dmitry. “The natural tendency is to prefer status quo. People were naturally defensive about learning new technologies and processes as well as assuming new responsibilities.”

The commercial turnaround project team upgraded to newer versions of *Sabre*® *AirMax*® *Revenue Manager*, *Sabre*® *AirMax*® *Group Manager* and the *Sabre*® *AirPrice*™ *System*, and then it began tackling people and organizational challenges by training the airline’s staff and showing them data-based results. Employees attended pricing and revenue management workshops where they learned the theory behind the technology and then received hands-on training.

“For example, analysts were trained to use *Revenue Manager* and *Group Manager* for new business processes with an emphasis on systems adjustments and how to address performance issues,” Dmitry said. “Over a period of time, they received additional training and hands-on assistance as well as mentoring support.”

Even after completing training phases, many systems users remained skeptical and old practices were still widespread. To create confidence among these employees, *Sabre Airline Solutions*’ consultants conducted tests on selected flights and markets using new practices and applications. When the team measured high-yield spill during high seasons and low-yield spill during off-peak periods, results showed clearly that the new revenue management method increased revenue. The result? Organizational buy-in.

### The New Aeroflot

After undergoing significant growing pains, Aeroflot today is reaping the rewards of improved work processes, a more balanced work load, and better teams and reporting relationships. In addition, the carrier reports significantly healthier revenues, which it attributes to the revenue management intervention. Last year, Aeroflot experienced a net revenue gain of 10 percent, or US\$145 million, using *Revenue Manager* and its revenue management practices. It now looks forward to capitalizing on this success by expanding revenue management capabilities and refining technology as it relates to point-of-sale control and origin-destination revenue management.

Aeroflot’s revenue management team experienced a revolution of its practices in just a few short years. It was successful first because the carrier had executive commitment and its ongoing support. Second, the carrier was persistent and team members were extremely dedicated. Third, there was and continues to be ongoing collaboration between Aeroflot’s revenue management team and *Sabre Airline Solutions*.

“The rewards are concrete, and the new revenue management environment positions Aeroflot to face the challenges of today’s environment and to reach superior commercial performance,” Dmitry said. ■

*Barbara Childs is an account director serving Russian airlines and Luc Lachoix is an airline consulting principal for Sabre Airline Solutions. They can be contacted at [barbara.childs@sabre.com](mailto:barbara.childs@sabre.com) and [luc.lachoix@sabre.com](mailto:luc.lachoix@sabre.com).*