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Capitalizing on Consolidation

After its merger with two smaller airlines, a larger, more competitive China Eastern Airlines looks to draw on its new strengths to become a more dynamic factor in the world airline industry.

■ By Hans Belle and
Peter Wu | *Ascend* Contributors

As the worldwide airline industry continues to undergo dramatic changes, many experts and analysts have spoken of a need for carriers to consolidate their operations to increase competitiveness.

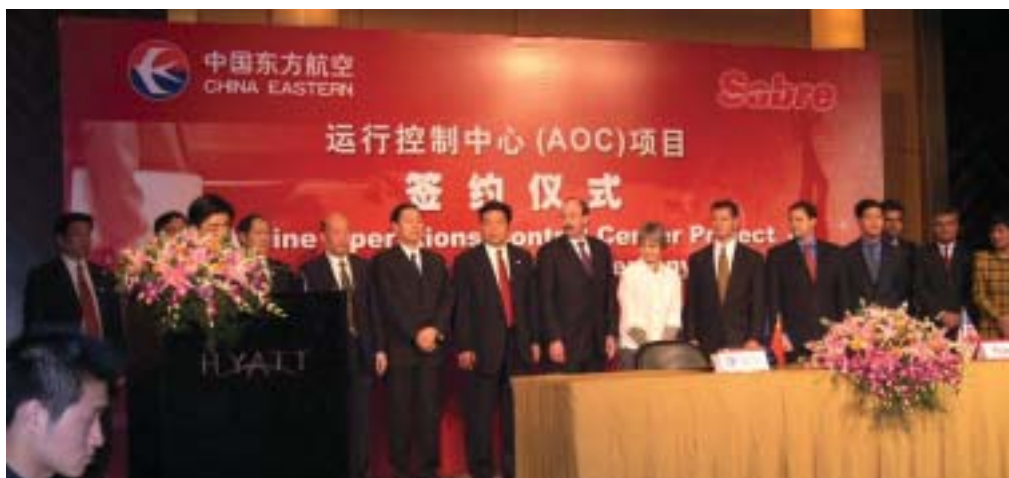
While airline consolidation remains largely an abstraction for much of the world, in China it is already a reality. Three years ago, the Civil Aviation Administration of China announced that it would merge 10 of the nation's airlines into three roughly equal groups in order to strengthen the domestic industry. Each group would be centered on one of the nation's three main carriers: Air China, China Eastern Airlines and China Southern Airlines.

Now, with its consolidation largely complete, a restructured China Eastern Airlines is poised to further raise its profile on the international aviation

“As a result of the consolidation, China Eastern has approximately 40 percent of the domestic Chinese aviation market.”

landscape and also to take advantage of events such as China's entry into the World Trade Organization.

Through consolidation with China Northwest Airlines and Yunnan Airlines,



Executives from China Eastern Airlines and Sabre Airline Solutions announce an agreement for the airline to use the technology provider's flight operations suite to help integrate its airline operations center.

Shanghai-based China Eastern has “set off for a new future,” company officials said.

Before the consolidation, the “huge number, small size and lack of core competitiveness” of the nation's multiple domestic carriers hampered the growth of China Eastern and other Chinese airlines, the company said. Consolidation has helped China Eastern “achieve rapid expansion, implement its business diversification strategy and form new mainstay lines of business, thus becoming the new starting point for future expansion.”

Consolidating with two smaller carriers has given the combined airline

the resources to compete more effectively. As a result of the consolidation, China Eastern has approximately 40 percent of the domestic Chinese aviation market. The combined China Eastern group controls ¥47.3 billion (US\$5.7 billion) in assets, including 142 aircraft. The group also has a combined 25,000 employees, and it serves destinations throughout China as well as Asia, Europe, America and Australia.

By 2005, thanks to consolidation, the airline predicts it will have 180 large- and medium-sized passenger and cargo aircraft generating ¥24 billion (US\$2.9 billion) in revenue.

China Eastern said it sees the merging of the Chinese aviation industry as an opportunity to “build an air transportation system of core competitiveness; realize rapid, sustained and healthy growth; improve market competitiveness quickly; fully participate in international competitions; and establish a world-recognized brand in the air transportation industry.”

As part of its growth strategy, China Eastern plans to improve the profitability of its home Shanghai marketplace. The airline also plans to concentrate domestically on Shanghai, Beijing and Guangzhou while further developing the Xian and Kunming markets. The airline also plans to strengthen international routes and develop cargo transport lines in Hong Kong as well as other parts of Asia, Europe and the United States.

The airline group also plans to pursue a diversification strategy that incorporates importing/exporting, financial services, hotels and tourism, and air catering.

As it prepares itself to compete domestically and internationally, China Eastern plans to standardize its fleet planning, marketing strategies, services, training and maintenance across the organization.

In conjunction with its new standardization strategy, the China Eastern group has invested in new technology, including decision-support tools to help integrate its systems operation control center.

China Eastern announced in April that it would integrate its flight operations into an airline operations center in order to improve efficiency, improve communications among departments and enhance the airline’s ability to respond to irregular operations.

Captain Wu, Yu Lin, senior vice

president at China Eastern, said the integrated AOC will streamline operations, enabling the airline to compete more effectively in the consolidated Chinese aviation marketplace.


“Our ultimate aim is to reduce reporting lines in order to drive cost reduction,” Wu said. “We expect this to be achieved by the continued improvement of our operations and the reduction in our aircraft utilization costs.”

The AOC will integrate the airline’s flight scheduling, flight planning, crew rostering, payload and dispatch departments, which will work seamlessly through an integrated suite of software provided by Sabre Airline Solutions, including *Sabre® AirOps™* Movement Manager, *Sabre® AirOps™* Dispatch Manager and *Sabre® AirOps™* Load Manager.

By using integrated systems, China Eastern will streamline data entry, data management and data integrity, resulting in superior operational control. Before integration, China Eastern main-

tained several systems, which often resulted in the duplication of tasks to accommodate each individual tool. Integration will also benefit the airline during irregular operations, helping it efficiently return to its published schedule as quickly and cost-effectively as possible.

The operational heart of the airline, the AOC includes the airline’s movement control, flight planning, flight tracking, load planning, meteorological function and data integration departments.

Announced in April, the contract with China Eastern Airlines brings to five the number of carriers in the region utilizing Sabre Airline Solutions for integrated operations centers. Other carriers include Cathay Pacific Airways, China Southern Airlines, Air New Zealand and Virgin Blue. 

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As part of a government-ordered consolidation, China Eastern Airlines joined with two other carriers — China Northwest Airlines and Yunnan Airlines — to form one of the three largest carriers in China.