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THE TRANSFORMER

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Choosing a Model

Today, a successful airline can take many different forms, but there are many factors to consider when choosing the right business model.

■ By Lauren Lovelady | *Ascend Staff*

Hundreds of airlines around the globe participate in online travel sites such as Travelocity, LastMinute.com, Expedia and Orbitz, displaying their fares, destinations and services to approximately half a billion people worldwide with Internet access. Even airlines that don't subscribe to these travel sites usually have their own Web sites. With the proliferation of information, it's no wonder today's consumers are more savvy and knowledgeable than ever before. They know what kind of service they want and expect, which airlines offer it, and what it will cost. The question is: Do airlines know what their customers want and how to provide it to them at a reasonable price?

Based on amenities offered to travelers, today's airlines generally fall into three service-level categories:

- Low-cost carriers — A surge in passenger demand for inexpensive, reliable and

safe service has helped establish low-cost airlines as viable competitors for today's traveler dollars. In general, no frills — pillows, blankets, movies or meals — are offered and none are expected. Overhead costs are kept to a minimum, and air travel is moved in the direction of mass transportation.

- Full-service carriers — Demand for business travel is once again on the rise. And travelers who spend countless hours in airports and airplanes are often more than willing to pay for upgraded service, including meals, onboard entertainment and technology, and larger, more comfortable seating on aircraft as well as the privacy of airport lounges.
- Hybrid carriers — Growing in popularity, these airlines offer lower fares combined with services and amenities — which may

be offered complimentary or for a price — such as entertainment, Internet connectivity and meals. Some hybrid carriers offer “buy-on-board” shopping, an emerging trend in air travel today.

A number of airlines are now experimenting with and attempting to replicate the hybrid carrier formula, particularly onboard shopping. It's important to remember, though, that trends are usually cyclical. What may seem to be a good idea now may not be such a good idea two years down the road. The challenge for airlines, then, is to know their brand — their service reputation, what their customers expect, and the initial and long-term investments needed to either maintain or change service levels as well as passenger expectations. Once an airline has decided its true mission, it can select the appropriate business model.

Runway Models

More airlines are focusing on customer service whether they are low cost, hybrid or full service. Three leading airlines model how customer service can be a key differentiator.

■ By Lauren Lovelady | *Ascend Staff*

Low-Cost Carrier: Ryanair

Ryanair's Web site says it all — “FLY CHEAPER.” Known for its scrappy, unconventional and sometimes controversial style, Europe's star low-cost airline books a whopping 98 percent of its reservations through this site. Ryanair's service focuses on frequency and reliability at the lowest possible cost. The homepage of its Web site clearly displays lists of destinations and fares that can be viewed in 19 languages. In addition, travelers can obtain substantially reduced rates on rental cars, hotel accommodations, travel services and rail services through the site. If a competitor offers a lower fare on one of its routes, Ryanair will automatically lower its fare in response.

In addition to being Europe's low-cost leader, Ryanair also takes pride in its on-time performance, customer service and baggage-handling records. On average, the airline misplaces less than one bag per 1,000 passengers — the lowest number of incidents in the European airline industry. Its passengers and the media have taken notice as well. In 1998, Ryanair was voted “Airline of the Year” by the Irish Air Transport Users Committee and the “Best Managed National Airline” by *International Aviation Week*. And most recently, *Airline Business* cited the carrier as the world's top airline for operational efficiency, punctuality and customer service.

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When the decision is made, airlines should strive to maintain that business model as consistently as possible.

So before deciding to remove the pillows and blankets from aircraft, begin charging passengers for snacks and meals, and retrofitting the fleet with personal seatback DVD players, consider some issues and challenges.

In General

- How will adding, reducing or eliminating a service or amenity impact the airline's brand, cost and fare structure? Will it draw more passengers to the airline or drive business to other carriers? Will the airline's employees and passengers perceive it as an upgrade in customer service or a reduction?
- Is this type of change appropriate for the countries and cultures in which the airline operates?

- Is it conducive to the airline's fleet types and the length of each flight? Some older aircraft types simply cannot be retrofitted with personal DVD players and Internet connectivity without spending millions of dollars. And while passengers may not miss pillows and blankets on hour-long flights, they'll certainly be looking for them during trans-Atlantic flights.

Food and Beverage Service

With more and more airlines eliminating traditional food and beverage service in favor of offering buy-on-board snacks and meals, several issues must be considered:

- Is the airline looking for a way to dramatically reduce costs, while still offering service to those customers willing to pay for it? If so, charging for meals and snacks may not be the best solution. Establishing and maintaining an in-flight retail operation requires a

great deal of time and investment. There's the issue of inventory control. A process must be put in place to account for all food and beverages sold by cabin crews and replenished by vendors at various airports. In addition to their other duties, cabin crews are now responsible for collecting money and ensuring it is handled properly, which means additional training. While an airline may pat itself on the back for generating an extra half a million dollars last year in revenue by selling on-board products, it may not realize that it costs an additional US\$750,000 to make it work.

- Can the airline offer passengers good quality, healthy snacks, meals and beverages at reasonable prices? Armed with the knowledge that many airlines have eliminated free food and beverage service in flight, a number of passengers now choose to purchase

A strong focus on customer service, on-time performance and low fares has earned Ireland-based low-cost carrier Ryanair several prestigious industry awards during the last few years. Most recently, the airline was referred to by *Airline Business* as the world's top airline for operational efficiency, punctuality and customer service.





food in the terminal to bring onboard. Many popular food and beverage outlets now operate franchises in airports worldwide. If passengers can obtain meals and snacks they know they like from a reliable establishment, why chance paying almost the same amount for questionable items onboard?

Entertainment and Technology

Traditionally, in-flight entertainment has consisted of movies and recorded television programs made available to passengers via headsets that plug into seat arms — sometimes for a small fee. Advances in technology are now enabling airlines to customize entertainment for passengers using seatback DVD players, satellite television programming, power ports for Internet access, and handheld systems that play movies, music videos, TV shows, local and national news, and video games on small screens.

Photo courtesy of Boeing



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How does an airline that has the lowest fares from 14 bases to 249 routes throughout 20 European countries also rank No. 1 in customer service while generating a profit? It is not by providing free gourmet food and beverage service, extravagant business-class seating or frequent flyer perks to its customers, as some might think. Although Ryanair did provide these services and amenities in the 1980s, when it initially began flying, it decided change was necessary. After three years of rapid aircraft and route expansion coupled with intense pricing competition, Ryanair was dealing with substantial losses. Following Southwest Airlines' low-fares model, Ryanair restructured and re-launched its operations in 1991, becoming Europe's first low-cost carrier. Free drinks and meals were scrapped; however, passengers may now purchase them onboard. Business class and the frequent flyer program were eliminated.

Ryanair simplified its fleet so that it consisted of a single aircraft type designed to streamline and lower the cost of crew training and maintenance. Its current fleet comprises more than 100 Boeing 737-800s, with firm orders for 125 more. These next-generation aircraft will enable Ryanair to double in size, carrying more than 70 million passengers by 2012, and will reduce fuel usage by 45 percent per seat. This is especially important because Ryanair recently guaranteed travelers that it will never apply a fuel surcharge to its low fares.

At the time of its restructuring, Ryanair also changed its operational strategy. The carrier began frequent point-to-point service on short-haul routes to secondary and regional airports with convenient transportation to nearby population centers and travel destinations. This transformation continues to benefit Ryanair's business in numerous ways. Point-to-point operations reduce the opportunities for passengers' luggage to be lost and their connections missed while at the same time, the airline avoids the costs of providing connecting service for "through" passengers and their luggage. Short-haul routes (the average Ryanair flight is 1.2 hours) eliminate the need for the carrier to provide the "frill" services sometimes expected by passengers on longer flights. As well, aircraft utilization and operational efficiency are at an all-time high. Without the traditional food and beverage service, less time for clean up and restocking inventory is required between flights. When combined with its strategy of operating at less-congested airports, Ryanair has achieved an average 25-minute aircraft turnaround time and established an on-time performance record that recently surpassed the best U.S. carriers.

Ryanair's no-frills service also means no reserved seating on its flights. However, passengers are assigned numbers once they complete the check-in process at the airport, and those with earliest check-in times are allowed to board flights first and choose their seats. If a flight is delayed or cancelled, passengers must purchase any food or accommodations on their own. Because it does not overbook flights, Ryanair has greatly reduced the possibility its passengers will be involuntarily denied boarding. In addition, the carrier avoids entering into alliances, believing it should bear total responsibility for its passengers' travel experiences.

Perhaps the best description of Ryanair's service philosophy is found on the carrier's Web site as part of its "Passenger Service and Lowest Fares Charter":

"Ryanair believes that any passenger service commitment must involve a commitment on pricing and punctuality and should not be confined to less important aspects of 'service,' which is the usual excuse the high-fare airlines use for charging high air fares. We believe we can do better. That's why the Ryanair pricing, punctuality and service commitment is a far superior passenger service commitment. We provide all of the essential customer services, but clearly, we do not provide all of the back-up services ('expensive frills') that these high-fares carriers promise. But then with our lower prices and better punctuality, 99.9 percent of our passengers won't need them."

Full-Service Carrier: Emirates

Based in Dubai, Emirates delivers the level of service expected from the city that's the hub of commerce and tourism for the Middle East and home to the world's first seven-star hotel and richest horse race. Since its first flight in 1985, today's fastest growing intercontinental airline has received more than 250 international awards, many focusing on the excellence of its services and amenities. One of its slogans, "First Class Whenever You Fly," reinforces the airline's commitment to making air travel a luxurious experience for its passengers.

Recently, Emirates won "World's Best Airline In-flight Entertainment" at the World Airline Awards, based on survey responses from more than 1 million people and 85 nationalities. Because Emirates operates many long-haul flights — 77 destinations in 54 countries

Some airlines offer these amenities for free, while others charge passengers a small to moderate fee. Still, others see little benefit in providing these services due to their fare structures and/or flight lengths. Before deciding to invest in one or more of these entertainment and information systems, airlines should explore their options:

- Can the existing aircraft in a carrier's fleet be retrofitted to provide passengers access to the newest in-flight entertainment and technology? Is the airline willing to make what is often a large initial investment to do so? If the expense is too great, should only part of the fleet be retrofitted and, if so, how is that determined? Will enough people want to pay the access fees onboard to eventually recoup the cost? Some passengers don't mind paying a small fee for such services, but others have already stated that they can see a movie in a theater less expensively than the US\$10 to US\$12 fees some airlines charge.
- Although some handheld devices do not require retrofits to operate, there is still the issue of inventory control and maintenance. Should the airline lease or purchase the devices? Who will maintain this technology and approximately how much should an airline expect to pay annually for daily passenger use and the occasional misuse and abuse of the equipment?
- Once again, there is the issue of cabin crew training. In addition to collecting passenger fees for access to entertainment and technology, should flight attendants then be responsible for knowing how to operate the devices and providing compensation when they don't meet passengers' expectations? These challenges require additional training.

Airlines should approach the services and amenities they offer to passengers as marketing opportunities, not short-term solutions for reducing costs or magic bullets for increasing revenues. When approached as marketing opportunities, services can be offered in a way that connects with passengers in the environment in which they've chosen to fly. After all, few people would order a hot dog in an upscale restaurant, but they would wait in line for one at a ballpark. At the same time, most people only fly two or three times each year and often on the same airline. Nothing alienates an airline's passengers more than to be provided services one time and then be required to pay for them during the next trip. Customers are looking for consistency — delivered at a reasonable cost with efficiency and expertise. **E**

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in Europe, the Middle East, the Far East, Africa, Asia, Australia and New Zealand — in-flight entertainment is a major focus for the airline. In 1992, it became the first airline in the world to offer personal televisions in all classes. Today, it is investing nearly US\$10 million per aircraft to provide each traveler with the latest personal information, entertainment and communications system, featuring 500 channels of the newest movie releases as well as movie classics; Disney films for young flyers; and feature films from Arabia, Asia and the Far East. Television channels broadcast comedy, drama, arts and sports, and audio channels feature music from around the world as well as stand-up comedy. There are also dedicated movie, fashion, music, comedy and children's programming for Arabic customers. The carrier's 40 in-flight games challenge and entertain passengers. For a minimal fee, passengers with Wi-Fi equipped laptops can send and receive e-mail from any seat or make telephone calls from individual handsets. In-flight entertainment, though, is only part of Emirates' extensive package of services and amenities.

Emirates believes the service it offers on the ground is as important as the service it offers in the air. Complimentary chauffeur service is available for first- and business-class passengers to and from the airport, as well as to and from hotels for travelers with overnight layovers. Recently, this service was offered to first- and business-class customers flying on one of Emirates' codeshare partners. For Emirates, alliances with carefully selected airlines give its passengers a wider variety of travel options than the airline could possibly offer on its own.



Photos courtesy of Airbus



Above Left: For Emirates, today's fastest growing intercontinental airline, in-flight entertainment is at the heart of its customer excellence commitment. More than a decade ago, the Dubai-based carrier became the first airline in the world to offer personal televisions in all classes. **Above:** In addition to its low fares, friendly service, assigned seating and ticketless travel, New York-based jetBlue operates modern aircraft equipped with leather seats and DirectTV programming for each customer as part of its objective of "bringing humanity back to air travel."

For passengers needing visas in advance of travel, Emirates has trained staff in offices worldwide who work with immigration authorities in Dubai to prepare and submit the necessary paperwork and monitor the approval process. At Dubai International Airport, first- and business-class travelers, as well as gold and silver members of Skyward (Emirates' frequent flyer travel management program) receive the airline's red-carpet treatment. They are met at curbside by Emirates' concierge service and ushered to an exclusive check-in lounge equipped with 24 check-in counters, eight of which are dedicated to passengers with only carry-on luggage. After passing through nearby immigration and security checks, these passengers may then relax in Emirates' luxurious first- or business-class lounges, open 24 hours a day. In addition to offering the traditional complimentary food and beverages, these lounges also have catered snacks and hot meals, guest bedrooms with private shower facilities (first class), single occupancy bedrooms with shared bathrooms (business class), massage chairs, designated smoking and non-smoking areas, large plasma television screens, workstations, baby-changing facilities and Skywards service desk. Designated kiosks in the terminal also enable frequent flyers to check their own accounts. To avoid inconveniencing its passengers, many of whom are business travelers, Emirates' policy is to close boarding gates 15 minutes before departure to help its flights operate on schedule. The airline's complimentary "Good Morning London" program, an alternative to chauffer service, allows first- and business-class travelers arriving at London's Heathrow and Gatwick airports to relax in Delta Air Lines' arrivals lounge at the Le Meridien Hotel. Shower and changing facilities are available as well as a continental breakfast. Passengers traveling to central London are then given a free one-way first-class ticket to Victoria Station.

Once in the air, Emirates' multilingual cabin crewmembers, comprising more than 95 nationalities, deliver personalized service in all cabin classes of its modern fleet of comfortably equipped Boeing 777s and Airbus A330-200s, A340-300s and A340-500s. Emirates' Web site, customized for 35 countries, reveals that its on-board services and amenities are by no means limited to its in-flight entertainment program. In fact, rather than publishing lists of fares, the airline provides details about its cabin service; storage space; seat configuration, recline and pitch; and dining and beverage options for all three classes aboard each aircraft type in its fleet. Some of the newer airplanes feature fully enclosed first-class suites with beds, revolutionary lighting to help reset body clocks and minimize jetlag, and room service, allowing passengers to phone the galley to order meals for delivery

at their seats at specified times. Sample menus, designed by internationally renowned chefs and customized for various destinations and dietary and religious needs, are displayed on the site as well. Business-class menus change frequently to accommodate the high percentage of executives who fly on Emirates. The airline's goal is to ensure that each of its flights is not simply a means of getting from point A to point B but is itself an enjoyable experience.

Although much of Emirates' focus is on the executive traveler, the airline also caters to families and travel groups. All aircraft have diaper-changing stations and baby cribs; children's programming on in-flight entertainment systems with smaller, brightly colored headsets; and kid-friendly menus that include hamburgers, chicken nuggets, fish sticks, French fries, fruit and potato chips. Birthday cakes may even be ordered in advance for children. In addition, Emirates has created Skysurfers for its younger frequent flyers, ages 2 to 16. Skysurfers earn and redeem mileage points for free flights, books, toys and trips to Dubai's Wild Wadi Water Park, and they have access to a members-only Web site with electronic cards, screensavers, travel quizzes and journals, and a mileage calculator.

Group travel can be a hassle, but Emirates created its Group Travel Service to minimize delays and confusion. The service arranges for advance airport check in, pre-printed boarding passes, special baggage tags for easy identification, meals for special religious or dietary requirements, cabin crewmembers who speak the group's language and pre-paid celebratory beverages and chocolates on most flights. Large groups wishing to sit together in flight may request to do so in advance, and Emirates will place headrest tags on each seat, print the group's menu with a company logo or club emblem and take a group photo with the cabin crew.

Given the consistency and style in which Emirates' delivers these services and amenities, it's not surprising that the airline has a loyal customer following, especially among those who log many miles in flight. In return, Emirates rewards its customers for their loyalty with extraordinary, award-winning attention to each aspect of their travel experience.

Hybrid Carrier: jetBlue Airways

Leather seats, live TV and low fares. It's an unlikely combination for a single airline, but one that seems to work for jetBlue Airways. The New York, New York-based airline is among a growing number of carriers carefully studying what air travelers want and then developing innovative operational and marketing strategies to fulfill their desires. In fact, jetBlue Chief Executive Officer David Neeleman routinely works in-flight as a member of the cabin crew, asking passengers what they like about the airline and what they would change.

The carrier, which turned a profit within its first year of operation, describes itself as a "low-fare, low-cost passenger airline, which provides high-quality customer service." It took to the air in 2000 with the goal of "bringing humanity back to air travel." Its product — new planes, leather seats, DirectTV programming for every customer, low fares and friendly service — is straightforward and described in detail on its Web site, which is its main business driver. All seats are assigned, all travel is ticketless, all fares are one way and an overnight stay is never required.

To keep distribution costs low, as well as fares, jetBlue encourages travelers to make bookings directly via the carrier's reservations Web site, which lists fares by destination and gives step-by-step instructions for completing the process, or by contacting its toll-free telephone number. To further encourage online reservations, the airline established TruBlue, a flight gratitude program. Strictly an online program — no cards for customers to lose or statements to file and no overhead costs for jetBlue — TrueBlue awards points to travelers based on the length of their trips. Flights booked online automatically receive double points. When a customer earns the total number of points needed for a free trip, notification is provided via e-mail. A recent agreement with American Express also enables travelers to earn points by using the jetBlue card issued by the credit card company.

With the exception of its base at John F. Kennedy International Airport, jetBlue flies primarily to and from less-congested secondary and regional airports with lower operating costs, encouraging higher aircraft utilization and quick turnarounds. The airline currently operates 316 flights a day to 32 destinations in 13 states, Puerto Rico, the Dominican Republic and The Bahamas. For each of these destinations, the carrier's Web site provides dining, accommodation and attraction information, along with security and travel guidelines, including recommended airport check-in times, baggage limitations and security screening requirements.

In another cost-saving move, jetBlue offers only beverages and snacks, even on its longer flights. After talking with air travelers, the airline found that meal service was the least of their concerns. Instead, more attention was focused on aircraft boarding and unloading procedures, cabin comfort, and in-flight entertainment. With that in mind, jetBlue plans to continue growing its current fleet of 77 single-class Airbus A320 aircraft by adding eight A320s and seven Embraer E190s (also single class with leather seats) this year. New aircraft are more reliable and efficient, enabling jetBlue to spend less money and time on maintenance and lower its fuel costs. A first in the U.S. airline industry, all jetBlue aircraft have bulletproof cockpit doors and security cameras installed in passenger cabins for increased passenger and crew safety. Customers can take virtual tours of the A320s interior and exterior on jetBlue's Web site.

Each aircraft seat is equipped with DirectTV, offering up to 36 channels of live satellite television programming free of charge. On most flights longer than two hours, a selection of movies and features from Fox InFlight is also available. Travelers can print out programming guides from the carrier's Web site in advance of their flights. jetBlue also recently launched an "airplane yoga" program designed to increase passenger fitness and calm jittery nerves. A "Crunch Fitness airplane yoga" card is placed in every seatback, illustrating easy-to-assume in-flight positions.

One of jetBlue's goals is to ensure getting on its flights is a hassle-free experience. To assist with this endeavor, it encourages customers to check in online for flights via its Web site from their home or office computers up to 24 hours in advance, but no less than 90 minutes before their flights. With online check in, travelers can confirm, select or change seat assignments, as well as check baggage by following detailed instructions. Once at the airport, luggage may be taken to the self-service bag drop counter before going through security checkpoints. In addition to traditional ticket counters, jetBlue also has quick check-in stations for customers with only carry-on items, or travelers without luggage may use self-service kiosks to conveniently print their own boarding passes.

Because of its unique service offerings, jetBlue's name and image are big sellers with its passengers. The carrier's Web site features an online store and catalog, offering a variety of merchandise including jetBaby bucket hats, a jetBlue lunch box, T-shirts featuring its tailfin patterns and a laptop travel briefcase. For passengers in a time crunch, the site also features artist-rendered postcards of various destinations that can be sent via e-mail. JetBlue gift certificates may also be purchased online.

Although still a relatively young carrier, jetBlue established a strong foothold in the U.S. airline industry. Based on the Skytrax 2005 Airline of the Year survey, jetBlue was recently named the "World's Best Low-Cost Airline," and *The Wall Street Journal* gave it top honors in airline quality. The J.D. Power and Associates Reports 2005 Airline Satisfaction Index Study also recognized jetBlue as the top U.S. airline in terms of customer satisfaction. Recognizing its technological achievements, *Business Week's* 2005 Annual Design Awards presented the silver award to jetBlue's self-service check-in kiosks, and *Wired* magazine named the airline as one of "The *Wired* 40 masters of technology and innovation." It seems jetBlue has found a winning combination. **E**

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