

# ascend

Taking your airline to new heights

ON THE ROUTE TO RECOVERY

*A conversation with ...*

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# Faring Well

## AIR NEW ZEALAND REVAMPS ITS FARE STRUCTURE

*A Conversation with Ralph Norris, managing director and chief executive officer, Air New Zealand*

**A**ir New Zealand has had a remarkable reversal of fortune in the past three years.

After the demise of its Australian-based subsidiary, Ansett, in 2001, the airline was on the brink of closing its doors until it received a recapitalization package from the New Zealand government, which is now the majority shareholder.

But any thoughts that the airline's biggest challenges were behind it were quickly dispelled. Like the rest of the industry, it was suddenly confronted with the impact of terrorism, war and disease — with a resulting significant drop in revenue.

Industry observers wondered if Managing Director and Chief Executive Officer Ralph Norris had taken on mission impossible when he was appointed in February 2002.

Under Norris' stewardship, Air New Zealand has quickly accomplished what many of its competitors have been unable to achieve — a return to healthy profits.

In the 2003 fiscal year, it earned NZ\$220 million (US\$150 million) in net profit before taxes and unusual items and also had an operating cash flow of NZ\$523 million (US\$363 million).

Airline officials attributed much of its financial success to "changes in the airline's business model that underpin that performance."

Among the changes introduced as part of a new strategic business plan, Air New Zealand completely

revised its domestic and trans-Tasman pricing structures to simplify and lower fares, repositioned its long-haul international service and purchased new A320 aircraft. The airline also introduced a number of customer-service initiatives, such as enhanced online booking, improved frequency, faster check in and boarding, and is now looking to improve border processing on international flights, provide better recognition of loyalty and add new in-flight offerings. The airline is also making changes to its crew uniforms and will introduce a new uniform with "a more contemporary stylish look

[to] be reflective of our Kiwi culture" in the next 18 months.

In December 2002, the airline announced another key component of its long-term strategy: a proposed alliance with Qantas Airways of Australia. The alliance would see Qantas eventually own up to 22.5 percent of the New Zealand flag carrier.

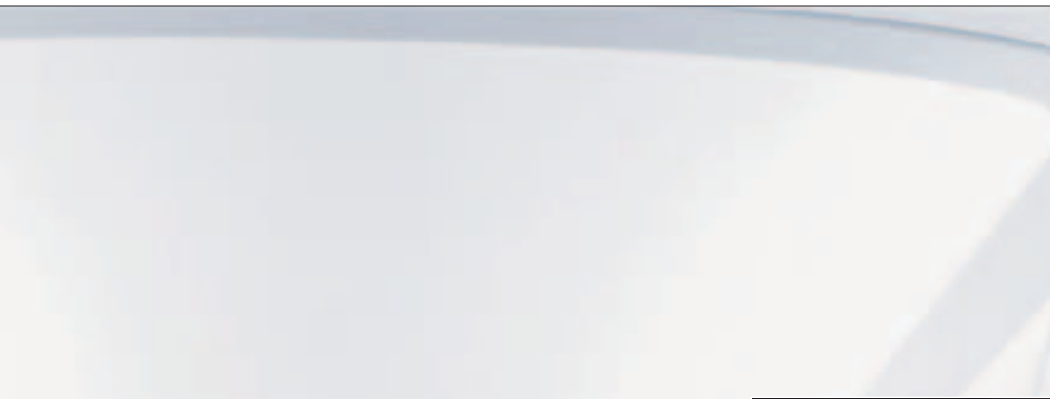


**Ralph Norris has led Air New Zealand through the development of a new strategic plan that included completely revising its domestic and trans-Tasman pricing structures.**





AIR NEW ZEALAND



All photos courtesy of Air New Zealand



As part of its in-flight customer amenities, Air New Zealand's cabins support personal entertainment options such as portable DVD players.



Air New Zealand has upgraded its fleet by purchasing new A320 aircraft, which are configured to include 138 seats in their economy-class cabins (left).

Competition regulators on both sides of the Tasman have rejected the alliance. However, the airlines have appealed these decisions and will argue their case later this year.

Air New Zealand officials have argued that the alliance is necessary to "ensure the future of Air New Zealand as part of a viable and globally competitive airline industry."

Norris recently discussed the changes the airline has made and how those changes are positioning the airline to adapt to the new world of commercial aviation.

**Question: Why did Air New Zealand recently revamp its domestic fare structure?**

**Answer:** Simply because we needed to ensure that Air New Zealand remained competitive against other airlines. Not only was Qantas already aggressive in the market, we were facing the entry of several low-cost carriers, such as Pacific Blue, Australia's Virgin Blue international brand.

**Q: Other than lowering fares, what changes — such as with aircraft types, catering or cabin classes — have you made in your domestic service?**

**A:** One major change is the commitment to the upgrading of our fleet. We will retire six 737-300s, which will be replaced with A320s. Five of these A320s are already in service, with another 10 on order. We also have options with Airbus to add a further 20 A320s.

Other changes include the introduction of Express Class on domestic routes, which has radically transformed our business.

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Photo courtesy of Air New Zealand



Response to Air New Zealand's revised fare structure has helped the airline reach new heights. As a result of implementing its Express Class, passenger figures increased 40 percent during the past 14 months. The airline also launched a similar program, Tasman Express, on flights between New Zealand and Australia, which led to a passenger increase of 15 percent following its introduction.

Express Class is a one-class service with excellent customer service and light refreshments, usually on flights of 40 to 60 minutes.

**Q:** How has Express Class impacted business and leisure travel?

**A:** Express Class has transformed Air New Zealand. We've found that we have new people flying as the cost is less prohibitive, which includes people flying for business purposes. We conducted extensive customer focus

groups before any changes were implemented to ensure that changes were to be done the right way. One of the key things that came from those focus groups was that there was no requirement for business class on the short domestic routes. Express Class allowed us to focus on customer requirements, which offer passengers value and face-to-face service.

**Q:** How has lowering fares with Express Class impacted your finances?

**A:** Express Class has been a significant platform for our growth in passenger numbers while also improving our productivity. For example, our passenger figures have increased 40 percent (compounded) since the introduction of Express Class, while during the same time Internet sales for domestic tickets has gone from 3 percent to 45 percent. Further, at the airport we have introduced self-check-in kiosks, which are used by up to 50 percent of passengers. This is a huge reduction in distribution and staff costs.

**Q:** What has been the reaction by New Zealanders to the new, low-fare Express Class domestic service?

**A:** The response has been very positive, which is reflected in our compounded passenger numbers — up 40 percent from 14 months ago. What we found in focus groups was that customers were prepared to trade off certain things for lower fares. For example, as many of our domestic routes are just 40 to 60 minutes,

## THE HIGH • LEVEL view

News Briefs from Around the Globe

### Who

Qantas Airways, Aeroflot  
Russian Airlines, AeroMexico  
and Gulf Air

### What

Upgraded to a new calibration tool for the *Sabre® AirFlite™* Profit Manager designed to enhance forecasting of airline passenger demand, traffic, revenue and costs. The tool, a graphical user interface-based add on, streamlines the calibration of market information.

### Why

The more powerful calibration tool provides features such as an enhanced market-size estimation method that improves leg-level forecast accuracy, a utility that enables users to determine which itineraries in a market will be built, and a utility that enables users to choose a flight leg and quickly see which inbound and outbound connections are valid.

"In today's extremely competitive global market, making right deci-

sions quickly is more important than ever," said Amr Junaid, systems project leader of commercial planning and network development for Gulf Air. "With the new calibration tool offered by the *Sabre® AirFlite™* suite of planning and scheduling solutions, we can reduce the time it takes to gather market calibration information and concentrate more on analyzing that data and making decisions that allow us to introduce more profitable routes and schedules." **E**

we discovered that the provision of meals was not a requirement by our passengers, if that meant fares would be lower.

**Q: How has business and leisure traffic between Australia and New Zealand been impacted by Tasman Express, the revised trans-Tasman pricing structure?**

**A:** We fly 1.5 million passengers per year on the trans-Tasman route. This is a reasonable figure for us, and it's one we have seen increase by 15 percent. Again, this is significant. This is a very competitive route for Air New Zealand as there are 13 other carriers flying the Tasman. We knew business-class customers liked options, so we kept full meals and newspaper service. While in economy, we offer light meals and beverage service.

**Q: What goals did you have with Tasman Express? Has the new fare structure achieved them?**

**A:** The main goal was to have a model that enabled our operation to run at a low cost but was also price competitive. Most airlines usually cut fares without cutting costs, which of course means yields will suffer. We made

changes such as Express Class and Tasman Express. We knew that these changes were sustainable and based around profitability and robust performance.

“This is a business that is tough, and the value that needs to be provided to customers has risen.”

**Q: What do you believe would have been the fate of Air New Zealand without the fare restructuring of Express Class and Tasman Express?**

**A:** Air New Zealand could not have continued. We created significant changes to improve productivity, and we needed a platform to remain competitive to new entrants, in particular low-cost carriers.

**Q: Given the success of the new fare structure on domestic and trans-Tasman routes, why do you still want to form an alliance with Qantas?**

**A:** We require a joint venture to improve the platform that supports the business. Both airlines will be appealing the decision in their respective countries, Qantas in May and Air New Zealand in July.

**Q: Why do you think regulators initially resisted the alliance?**

**A:** Regulators do not understand the speed of change in international aviation. This is a business that is tough, and the value that needs to be provided to customers has risen. The new technology, more efficient aircraft, it all costs, but it all benefits the customer. If we look around the world, many airlines are seeking mergers: KLM and Air France, Iberia and British Airways, Lufthansa and European airlines. If first-class aviation infrastructure is required, it needs to be done through greater scale, such as through mergers and alliances. The last thing the industry needs is to become unattractive to investors because airlines will not be able to raise capital to reinvent and meet the needs of the customer. It's especially important in this part of the world, as we need that infrastructure to survive.

**Q: How have you changed your strategy for long-haul international flights?**

**A:** We are very focused on long-haul flights, but we do not aim to be all things to all people. Our long-haul fleet is relatively young; it is the configuration — from a passenger's view — that is out of date. We currently have a traditional configuration and have made a decision to upgrade to state-of-the-art configuration — including our 747-400s — with lie-flat beds in business class, in-seat entertainment in both business-class and economy-class cabins, and the replacement of our 767-300 fleet.

**Q: What other changes have you made to your overall strategy in order to compete effectively in the new airline environment?**

**A:** We have very much focused on our people, who were on their knees staring bankruptcy in the face. Our focus was to improve their morale in the belief that the company can be successful because of the people standing behind it. **E**

Photo courtesy Air New Zealand



Air New Zealand offers more than 470 domestic flights per day, serving 25 New Zealand communities. The airline, which operates a total of 89 aircraft, also serves more than 20 international routes, including London, Tokyo, Honolulu and Los Angeles. The airline is upgrading its long-haul aircraft to include lie-flat beds and in-seat entertainment.

## +count it up

**140** Number of passengers who flew on the inaugural Singapore Airlines flight from Los Angeles to Singapore in February. The 16-hour flight and its 18-and-a-half-hour return represent the longest scheduled commercial flight in the world at 7,937 nautical miles.