

A MAGAZINE FOR AIRLINE EXECUTIVES

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As Russia continues to emerge into a more open economy, the nation's airliners are benefiting from the change. For the year, revenues per kilometer in the Russia market are up 7 percent, passengers boarded are up 6 percent and cargo volume is up 3 percent.



From Russia, With Success

Despite an industry-wide downturn, a growing market and innovative practices have helped Russian carriers maintain growth and profitability.

■ By Inna Kizenkova | *Ascend* Contributor

to continue — the country's Civil Aviation State Services says the aviation crisis in Russia is over, projecting that the industry in 2003 will grow between 5 percent and 10 percent, continuing to build on the about 10 percent growth in 2002.

So, how have the Russian carriers managed to excel during a time when the rest of the industry has battled to keep its head above water?

One of the main advantages enjoyed by Russian carriers is the country's continuing emergence into a free marketplace. After years of stagnation under the Soviet-planned economy and a decade of adjusting to a free market, real incomes of Russians are increasing and the Russian middle class is growing.

The continued move toward an open economy gives Russia an underdeveloped market with enormous potential. Analysts estimate the potential Russian air travel market at 90 million passengers boarded, although only 26.5 million, just 29 percent of the total potential market, were boarded in 2002. Because air travel is still seen as somewhat of a luxury in Russia, many people have yet to

discover its convenience. Yet, the average middle-class Russian has similar preferences for travel as his or her Western European counterpart, indicating that the growth of this segment will likely mean an increasing demand for travel, particularly air transportation.

The move to a free economy caused an explosion in the number of carriers operating in Russia. However, the past few years have seen consolidation

“The continued move toward an open economy gives Russia an underdeveloped market with enormous potential.”

within the industry — the number of airlines declined from a high of 393 in 1994 to 235 in 2002 — as some airlines acquired smaller carriers, some went bankrupt and some were unable to meet more stringent licensing requirements implemented by the country's Civil Aviation State Services. In 2002, the five largest airlines controlled 48 percent of the market and the top 25 carriers controlled 80 percent.

While much of the airline industry continued struggling in 2002 to cope with the lingering effects of the severe economic downturn, Russian air transportation bucked the trend thanks to an expanding economy that enabled more travelers to take to the skies.

For the second consecutive year, Russian carriers overall reported profits as well as growth in the numbers of passengers boarded. For the year, revenues per kilometer in the Russian market were up 7 percent to US\$64.5 billion, passengers boarded increased 6 percent to 26.5 million and cargo volume increased 3 percent.

The positive trend is also expected

But beyond the natural market growth, Russian carriers have excelled by taking aggressive and innovative approaches to expand their businesses.

Many of the nation's leading airlines have targeted financially troubled but strategically positioned airlines for takeover, enabling them to grow through mergers and acquisitions. Siberia Airlines, for example, increased its passengers boarded by 41 percent — to 2.69 million — in 2002 in part by acquiring Moscow-based Vnukovo Airlines. The rest of the industry increased its passengers boarded by only 6 percent. Siberia, founded in 1992, also has signed interline agreements with British Airways and Japan Air System.

One of the largest domestic airlines in the Russian Federation, Siberia has also taken steps to improve its customer service, increase aircraft utilization and boost its on-time performance. The airline, which in the first half of 2003 increased its flights by 8 percent and carried 18.4 percent more passengers, offers amenities such as free transportation from the airport to downtown Moscow for passengers on certain flights. Such efforts helped the airline become the first Russian carrier to earn a Flight International Aerospace Award for corporate strategy, which recognizes companies for alliances, mergers, restructuring programs and other business strategies that have reshaped or revitalized the industry, turned around a company or opened significant new markets.

The airline also modified its ticket return and change policy to be more customer-focused, introducing a less restrictive policy regarding exchanges and returns of tickets for trips in Russia and the Commonwealth of Independent

States. For example, certain tickets that are popular among business and summer leisure travelers can be returned up to three hours prior to departure with only a 15 percent fee rather than the standard 25 percent. This policy is aimed at increasing the loyalty of leisure travelers during the highest demand season. To also appeal to frequent flyers, the airline launched Sky Seven, an incentive program for loyal repeat customers offering points that can be used for free flights, service upgrades and other benefits.



Siberia Airlines is experimenting with a low-cost offering on its Nizhny-Novgorod to Moscow flights. The airline expects to earn US\$1 million annually from the route.

Although the Russian market presents several obstacles to the standard low-cost carrier model — the lack of fuel-efficient aircraft, secondary airports and Internet ticket sales — Siberia is looking to fill the low-cost niche by offering no-frills, short-haul flights for lower fares ranging from

US\$10 for economy class to US\$80 for business class.

The airline has begun experimenting with no-frills service on its 40-minute Nizhny-Novgorod to Moscow flight, targeting business travelers who usually make the 420-kilometer journey by train. The airline expects to earn US\$1 million annually from the route.

Along these same lines, the airline is trying to boost its load factors through innovative programs, including a special offer of US\$5 tickets from Nizhny-Novgorod to Moscow for passengers connecting there to one of Siberia's international flights.

The airline whose name was synonymous with air travel in Russia during the days of the Soviet Union, Aeroflot Russian Airlines, has also taken steps to capitalize on the growing desire for air travel. As a flagship carrier for the nation, Aeroflot still has the largest overall market share at 21 percent. The airline, established in 1994 as the successor to the Soviet airline formed in 1923, inherited a large fleet, customer base, brand equity and network from its predecessor. But this was a mixed blessing.

The fleet was outdated, with the majority of aircraft unable to meet International Civil Aviation Organization technical standards, and the airline's reputation for safety and customer service lagged its western counterparts.

Aeroflot, however, recently launched a US\$250 million fleet renovation initiative, including the addition of several western jets. By December 2005, Aeroflot's fleet will include 18 Airbus A319/A320s, nine Boeing 767s and 50 Russian-made aircraft. And the airline is also revamping its network to be more efficient. In the days of the Soviet Union, the government would greatly subsidize unprofitable routes



simply to maintain an international presence. Faced with fierce competition, Aeroflot has cut the most unprofitable routes, even though it resulted in a drop of 342,000 passengers. Despite that drop, the airline's profits actually increased from US\$8.6 million in 2001 to US\$74.2 million in 2002, and the airline projects a US\$100 million profit for 2003.

The airline also projects its load factor will increase from 68.8 percent in 2002 to 70 percent. Aeroflot Deputy General Director Lev Koshlyakov has said the carrier expects passenger numbers in 2003 to rise about 5 percent, a total of 250,000 to 260,000. He also said that in addition to restructuring the fleet and reducing lease costs, the airline's next step would be to use more economic planes to reduce spending on fuel.

In addition to renovating its fleet and route network, the airline's


long-term strategy includes:

- Reducing aircraft leasing costs,
- Adding and enhancing information technology,
- Optimizing its resources,
- Rebranding the airline,
- Improving customer service.

And the airline, which plans to join the Sky Team global alliance this year, is even using its frequent flyer program, Aeroflot Bonus, to reward travel agents who book flights on the airline.

One of the nation's oldest airlines, dating back 70 years, Pulkovo Aviation Enterprise increased its passengers boarded by more than 2 million, 10.2 percent, in 2002. The airline, 100 percent owned by the federal government, uses only Russian-built aircraft and is the largest airline in the northwestern region of the country. The enterprise, which also operates Pulkovo Airport in St. Petersburg, offers a special "transfer" program for its customers

traveling across Russia and abroad. Participants receive a 20 percent to 40 percent discount for domestic flights and up to 30 percent discount on international flights connecting through the airline's hub at the Pulkovo Airport.

As the Russian airlines have adapted to the rough and tumble airline industry, they have taken great strides toward becoming globally competitive. The nation's carriers are taking the industry's best practices and giving them a Russian flavor, customizing them to meet their unique needs. Their growth during the past two years reflects their experience, knowledge and determination to win in the Russian market and be a significant player on a worldwide scale. 

Inna Kizenkova is a member of the Sabre Airline Solutions Marketing Strategy and Services group.

THE HIGH • LEVEL view

News Briefs from Around the Globe

Who

Chicago Express

What

Successfully introduced a system to enable online preferential bidding for more than 200 flight crewmembers. Crews submit scheduling preferences via the Internet each month. These preferences are entered in a proprietary lexicon and can include specific days off, generic days off (weekends, for example), specific trip assignments, generic

assignments (long trips, short trips or specific layover cities) or daytime considerations (no early starts or late returns).

Why

Using the PC-based preferential bidding system, a part of the Sabre® *Flight Control* suite for small-, medium-sized and low-cost airlines, Chicago Express ensures that crews are assigned duties to which they are fully qualified and which do not conflict with other non-flying activities, such as train-

ing and vacations. The introduction of preferential bidding is part of an overall plan for automating Chicago Express' systems operations control functions using the *Flight Control* suite.

"Preferential bidding has been a useful tool in our continuing commitment to improving on crewmembers' quality of life while enhancing our operational efficiency," said Captain Scott Hall, vice president of operations for Chicago Express. 