

# ascend

Taking your airline to new heights

## *JET STREAM*

A conversation with Wolfgang Prock-Schauer, the chief executive officer of Jet Airways.



### Special Section

#### FUELING UP

A look at the rising cost of fuel and its effect on the industry.



#### INSIDE

6	Turboprops make strong comeback
36	WestJet saves US\$5 million annually
78	GOL scores big in Latin America

# *JET STREAM*





Photos courtesy of Jet Airways

A conversation with  
the chief executive  
officer of Jet Airways ...

## Wolfgang Prock-Schauer

The 1993 birth of Jet Airways left an undying imprint on India's air transport industry ... one that would forever change travel and tourism in a country that previously relied primarily on the nation's two state-owned carriers and rail service. When the Indian government first permitted private airlines to operate, the ultimate impact carriers such as Jet Airways would have on the domestic air transport industry may not have been obvious. But in a little more than a decade, the Mumbai, India-based airline, has become one of the nation's leading carriers, operating in excess of 330 flights a day to 44 destinations, with an estimated 30 percent share of India's domestic air travel market.

In addition to flying the youngest aircraft fleet in Asia — a mix of Boeing 737 next-generation aircraft, Airbus 340-300E and A330-200 and modern turboprop ATR72-500s — Jet Airways possesses numerous appealing attributes that has earned it "superbrand" status (meaning it has established the finest reputation in its field).

The first airline in India to receive the World Travel Market Global Award and four-time recipient of the H&FS Domestic Airline of the Year Award, Jet Airways offers exemplary in-flight services to its club premiere and economy classes including fresh juices, refresher towels, choice reading materials, hot meals, snacks, unaccompanied minor assistance and special gifts for children.

When the government further relaxed restrictions and permitted private carriers to compete on long-haul routes, Jet Airways seized the opportunity and now flies to Colombo, Sri Lanka; Kathmandu, Nepal; Singapore; Kuala Lumpur, Malaysia; and London, England.

Wolfgang Prock-Schauer, a native of Austria who has a master's degree in economics and business administration from the University of Vienna, became chief executive officer of Jet Airways in June 2003. A veteran of more than 20 years in the airline industry, Prock-Schauer was executive vice president of network management, alliance and long-term planning with Austrian Airlines prior to joining Jet Airways, and he has also served as chairman of the Star Alliance management board.

During his tenure at Jet Airways, the airline not only expanded internationally but also had a successful initial public offering in February 2005. Jet Airways operates 58 aircraft, has ambitious international growth plans and is the clear market leader in domestic India.

**Question:** Since its founding only 13 years ago, Jet Airways has quickly overtaken the established government-owned carriers to become the market leader in India. How did the airline become so successful so quickly?

**Answer:** Jet Airways entered the market in May 1993 with a clear mission: "Jet Airways will be an airline that is going to upgrade the concept of domestic airline travel — be a world-class domestic airline."

Our business model recognizes that building a world-class airline involves an ability to continuously introduce innovations and upgrades in products and services, keeping in mind explicit as well as implicit customer requirements.

Key focus areas for the airline include:

- Meeting specific requirements of the business traveler segment: Besides providing



Photo courtesy of Jet Airways

**Jet Airways operates the youngest aircraft fleet in Asia, including the Boeing 737-800, and flies to 44 domestic and six international destinations. The 737-800, which can seat 162 to 189 passengers, can fly 260 nautical miles farther, consume less fuel and carry 12 more passengers than its competition.**

a comprehensive network including convenient schedules and effective connectivity, the “Club Premiere” class onboard domestic flights enjoys strong brand equity for superior services and air travel experience. A dynamic frequent flyer program, Jet Privilege, seamless connectivity with through check in, and interlining agreements with major international carriers and lounge facilities are useful value adds for the busi-

ness traveler. The “Premiere” class on our long-haul London sector has also been well received and appreciated for the quality of our products and services.

- Composing the fleet strategically: The airline has consistently focused on maintaining a young fleet (current fleet age being about 5.2 years) as well as a homogenous fleet, thus taking advantage of economies of scale, reduced maintenance costs, reliability of operations and increased passen-

ger confidence in the airline. With aircraft equipped with state-of-the-art technology and simplified maintenance procedures, effective responses to market developments are expedited. Besides, scheduling is more efficient, leading to improved aircraft utilization.

well as on the ground) and high reliability. The utmost importance given to cabin crew training and grooming helped the airline create a unique reputation for world-class service. It also created a distinct niche in the minds of passengers about an airline with very high service delivery standards. In-flight services including specially designed menus, an in-flight magazine of international standards, *JETWINGS*, and carefully designed promotions in coordination with other premium consumer brands have differentiated the airline from its competition comprehensively.

- Adding value: The airline introduced various value-added services, which have contributed to enhanced brand equity. Some of these services include Jet Mobile (automated flight schedules and delay alerts over cellular phones), Jet Kids (a program designed to make flying enjoyable and memorable for children) and Jet Escapes (composite travel packages to various tourist destinations in the network). Jet Boutique offers our passengers the opportunity to shop for premium and exclusive products while they relax onboard our international flights. Sky Screen, our customized in-flight entertainment channel on long-haul international routes, combines the best of entertainment options, covering every preference catering to different passenger profiles. These and various other initiatives continue to contribute to the overall dynamic equity of the brand.

Besides consistently maintaining exemplary safety standards and a high degree of technical dispatch reliability (more than 99 percent), Jet Airways has endeavored to continuously harness the power of information technology to introduce innovative products and services, increase service delivery efficiency and reduce costs.

Our focus on maintaining our leadership in the domestic market leads to constant tracking of the airline’s performance, consumer feedback and quick reaction to the evolving needs of air travelers. Close to 94 percent of Jet Airways’ passengers have rated the various services as “excellent” or “good” during 2005 and 2006, thus providing testimony to the airline’s relentless efforts to achieve higher standards of service.

One of the reasons Jet Airways has succeeded in its mission of building a world-class airline has been its practice of benchmarking its products and services against the best practices of leading international airlines. Jet Airways is constantly studying the performance targets achieved by various airlines in different areas of the aviation business and borrowing best practices to achieve the same levels of efficiency and performance.

## “Jet Airways aims to see the Indian subcontinent at the forefront of progress in civil aviation not only in the Asian region, but also at a global level.”

— Wolfgang Prock-Schauer

ness traveler. The “Premiere” class on our long-haul London sector has also been well received and appreciated for the quality of our products and services.

- Focusing on nurturing the brand: Jet Airways has grown to signify a coveted benchmark in respect of airline services in domestic travel, thus establishing its position as a “world-class domestic airline.” Today, as we are placed on the threshold of expansion into the global arena, Jet Airways has positioned itself as embodying the “Spirit of New

India” — representing a young, resurgent and progressive India, which is a key front-runner in global development.

- Emphasizing on customer comfort and satisfaction: Jet Airways places high emphasis on customer satisfaction and is focused on creating added value in respect of every aspect of service, such as choice of aircraft, aircraft interiors, passenger needs (both onboard as



**Q:** In a world where the low-cost carrier model is becoming more prominent, why have you elected to operate a more premium-service carrier?

**A:** In the Indian context, since about 80 percent of operational costs are fixed, irrespective of the business model and as there is no specific infrastructure support, such as secondary airports, we believe that operating a low-cost model remains difficult. Fuel costs in the case of domestic operations are about 70 percent higher than international benchmarks due to excise duties, tax composition and higher margins charged by oil companies. Landing and navigation costs are also about 60 percent higher as compared to benchmark countries. Start-up costs, including higher compensation for skilled personnel such as pilots and engineers add to the operating costs of new carriers that do not enjoy the benefits of economies of scale initially. However, the cost per seat advantage for no-frills carriers is 20 percent to 25 percent, which is primarily on account of a higher number of seats packed onboard; there are also some cost savings in distribution and catering because of the no-frills concept.

The cost difference of no-frills carriers versus full-service carriers in India is less significant than in Europe and North America. We believe that around 60 percent of the Indian domestic market is constituted by business travelers with specific requirements in terms of air travel products and services. Jet Airways remains the preferred carrier for business travelers, offering multiple frequencies on major metro and secondary routes along with convenient schedules. Apart from a superior business-class product onboard, Club Premiere, our comprehensive frequent flyer program (which is more than 700,000 members strong) also has tie ups with major international carriers for redemption of mileage points, through check ins and interlining, offering end-to-end air travel solutions to our passengers.

Our comprehensive yield management system enables us to optimally allocate our inventory among the six levels of discounted fares that we offer in our economy class, so as to maximize revenue per departure. Thus, we are able to cater to different passenger profiles and segments.

Our strategy is aimed at maintaining our market leadership as well as consistently providing a superior product to our passengers domestically and internationally.

**Q:** How are you able to offer premium services profitably?

**A:** While we are focused on maximizing our revenue per departure as well as increasing our unit revenue, we are consistently focused on reducing our per-unit cost of operations. Jet Airways has



Photos courtesy of Jet Airways



Exceptional, well-trained, professional crewmembers and customer service representatives have helped earn Jet Airways numerous awards for service excellence, including "India's Most Popular Domestic Airline" and "Best Customer Service."

achieved a 25 percent increase in overall productivity as measured by available seat kilometers per employee during the last three years and a reduction of 15 percent in overall unit cost, excluding fuel, during the same period. Innovative strategies toward creating value for customers and

building a strong brand are hallmarks of Jet Airways' operations throughout. We are also constantly monitoring our competitive landscape and responding to challenges posed not only by various business models operating in the industry, but also changing customer perceptions and expectations.



Photo courtesy of Jet Airways

Jet Airways operates more than 330 daily flights with its fleet of 60 aircraft including 47 classic and next-generation 737-400/700/800/900, three Airbus A340-300E, two Airbus A330-200 and eight modern ATR 72-500 turboprop aircraft.

**Q: How has the ongoing liberalization of India's air transport industry benefited Jet Airways? What further liberalization do you expect in the industry?**

**A:** We support the improvement of India's aviation environment, which is necessary for the sustained growth of air transportation and is essential for our country's journey toward becoming an economic superpower. The government has already taken some bold steps to address a range of issues that affect all airlines and ultimately the traveling public. Key policy reforms have been initiated, which have resulted in significant positive impact on the domestic aviation market:

- Permission for private carriers to fly to international destinations,
- Increase of foreign direct investment limit to 49 percent (investment by foreign airlines is not permitted),
- Initiation of measures to improve the aviation infrastructure,
- Privatization of Mumbai and Delhi airport management,
- Permission to hedge fuel prices for uplift at international destinations.

Notwithstanding some of these measures, infrastructure constraints as well as shortage of skilled manpower continue to be important concerns that could impact industry growth, especially in view of the continuous increase in capacity. Infrastructure constraints at key airports such as Mumbai and Delhi have resulted in about 5 percent to 10 percent increase in the average flying time for airlines, adversely impacting operating costs, especially additional fuel and maintenance costs. It has also resulted in reduced on-time performance and consequent inconvenience to passengers due to delayed flights. The annual impact of this additional burden on costs adds up to approximately US\$80 million for the industry. Availability of skilled personnel such as pilots

and engineers also remains a cause of concern. For example, around 2,000 additional pilots will be required considering the proposed fleet expansion/induction by airlines in India, as per published reports. Flying schools in India today are not equipped to meet this large-scale demand.

Even as noticeable progress has been made during the past year, including initiatives toward airport development and modernization, important concerns such as overcapacity on major routes, infrastructure and resource constraints, and a high level of input costs need to be specifically addressed. These measures have to be implemented swiftly to support further growth of Indian aviation.

Inevitably, we expect that there will be consolidation in the market, which will help restore stability in the domestic aviation industry. A rational approach toward pricing across the industry along with more stringent financial health checks at inception stages for start-up carriers would help in creating a stronger domestic aviation sector.

**Q: As more new airlines come on the scene, how will you maintain your market share?**

**A:** Jet Airways has redefined the tenets of domestic air travel in India during the past 13 years. We are now looking forward to extending our ability to combine best industry practices with innovative service delivery channels to the international spectrum as well.

The airline will remain focused on providing maximum value to its passengers. While continuing to provide the most convenient schedules and services to business travelers, we will also consolidate and strengthen our position as India's preferred carrier. We believe that our product effectively

caters to the requirements of both business and leisure travelers.

Five new airlines have commenced operations in the past 16 months in the domestic market. We believe that airlines in India today, irrespective of their business models (whether no frills or full service) are operating under similar market conditions characterized by capacity growth in excess of demand as well as a high-input cost structure. Our strategy going forward is aimed at maintaining our market leadership as well as consistently providing a superior product to our passengers domestically and internationally. Our strong domestic network enables us to provide seamless connectivity to our passengers and effectively supports the expansion of our international network. We are also consistently focused on reducing per-unit cost of operations. We believe that for all airlines, there is significant pressure of costs, and this is something that we have been constantly working on to keep our unit costs low or further reduced to be able to effectively compete in the market and maintain margins.

**Q: Do you see the market becoming over saturated with other carriers?**

**A:** While we expect capacity increase in the Indian domestic market to continue to induce demand in the near term, the market is expected to grow at around 25 percent during the medium term (during the next three years). Considering the current environment and future growth potential for domestic aviation in the country, we believe that the Indian market provides enough room for two to three full-service carriers, one to two no-frills operators and one to two regional players.

**Q: Do you anticipate more international carriers trying to tap into the India market?**

**A:** Like other Asian countries, especially China, India offers tremendous growth potential, particularly due to the fact that its flying population is still miniscule compared to the overall population. International traffic into and out of India is expected to grow at around 20 percent during the next three years, thus forming a potential market for international airlines.

International airlines are increasingly commencing direct operations to various Indian destinations besides Mumbai and Delhi, which is a positive development for Indian air travel. This has also helped increase international feed traffic on the domestic network, both behind and beyond.

Existing bilateral agreements with various countries also offer scope for Indian carriers to introduce and augment services to these countries while allowing international carriers to tap into Indian markets. It



is also important to continuously establish such agreements, keeping in mind the need for Indian carriers to take advantage of growth in international traffic to and from India to various destinations.

Besides, intensifying competition also results in better airline product and service delivery systems as well as competitive price options for passengers. This scenario poses a challenge for Indian carriers to upgrade their services as well as sharpen their competitive edge to effectively counter competition at a global scale.

**Q: How much room is there for continued growth in the domestic India market?**

**A:** The medium-term gross domestic product growth expectation is at 8 percent a year for India. The Indian domestic air travel market is expected to grow at around 25 percent during the next three years.

Supported by a growing section of affluent middle-class population, which is currently at around 300 million and expected to reach 400 million by 2010, the Indian economy is also increasingly opening up to global economies (ASEAN, Europe, United States, China). Increased domestic and foreign investments and high level of business confidence in the economy are combined with growth in urbanization and increasing levels of disposable income and savings. The tourism potential in the country is still underutilized and offers great potential for development.

Positive demographics reflect growth of the educated, market savvy, youthful middle class with increased disposable income and favorable credit availability, thus resulting in an increase in consumption — retail as well as private utilities such as telecom, software, transportation, energy and banking. This also results in an increase in capital expenditure and investments including housing, capital goods, financial products and insurance.

The Indian domestic market is, therefore, positively placed for growth over the medium term.

**Q: Do you anticipate global alliances pushing to gain a foothold in the India marketplace?**

**A:** With the Indian market showing significant growth potential in terms of domestic and international traffic, airlines operating in this market certainly are attractive for global alliances.

**Q: Do you anticipate Jet Airways becoming a member of a global alliance?**

**A:** Jet Airways has not entered into any established alliances, such as Star, oneworld or SkyTeam. We maintain good

relations with major international airlines across all the alliances.

We have built a flexible approach toward developing bilateral partnerships with major international operators in respect of schedule coordination, maintenance of aircraft, interlining and other operational tie ups to derive maximum benefits in terms of passenger convenience as well as operational efficiencies. We are in the process of evaluating and establishing route-specific coordination with various international airlines in regard to our operations. We believe that this approach will provide the airline with access to a wider market base.

**Q: How long do you think it will take for India's air transport industry to mature?**

**A:** Even as the Indian domestic market continues to witness sharp increases in capacity in the short term, which in turn is resulting in higher levels of growth in traffic induced by very low fares, we expect this situation to stabilize in the next year or two. The industry is expected to grow at 20 percent to 25 percent during the next few years. However, growth in the industry will depend on various factors such as infrastructure constraints and availability of resources including skilled manpower. Therefore, we are still far away from being a mature industry.

In that context, growth does not automatically translate into profitability of operations. Various external estimates suggest that airlines in India are expected to post a cumulative loss of close to US\$500 million during the financial year 2006-07.

Even as the scenario remains critical during the next year or two with possibilities of a shakeout, Jet Airways, as the strongest carrier, is well positioned to go through this phase and capitalize on the opportunities ahead of us.

**Q: Do you see more traffic moving from rail to air as the economy continues to grow?**

**A:** Yes. Airfares dropping to competitive levels with rail fares have resulted in increased migration of rail traffic into air travel. However, we believe that some of the airlines are offering seats at prices that do not even cover the cost of operations, resulting in increased losses. Therefore, it is important to swiftly address issues related to capacity addition in excess of demand, high input cost structure as well as availability of infrastructure and skilled resources to create a conducive operating environment. This will help sustain growth in real demand in air traffic as well as increased migration of rail traffic into air travel.

**Q: What impact do you think factors such as global outsourcing, increasing tourism and expatriate travel will have on the future of India's air transport industry?**

**A:** We expect the above factors to positively impact India's air transport industry. Increased exchange of people and resources augur well for growth in air travel.

**Q: What role do you see Jet Airways having in the future of the more liberalized airline industry? How do you see the Indian aviation industry shaping up in the next 10 years? What position will Jet Airways have in the country's market place?**

**A:** We recognize that growth in air transport is key to the development of any region and have charted our network expansion keeping in mind the growth patterns and development needs of different regions in India. The airline continuously monitors traffic growth patterns of various regions in the country to capitalize on development opportunities, stimulate as well as take advantage of market growth. We support the efforts of the government as well as other private entities in respect of some of the above concern areas, including airport infrastructure and facilities development.

Our goal is to remain the market leader and be India's preferred carrier. While we expect to maintain and strengthen our well-established domestic network, we will also be looking to build up our international operations with a network connecting India with key destinations such as the United States, Canada, the United Kingdom, South Africa, Kenya, Mauritius, points in China and Southeast Asia, and some points in Europe. We will combine our strong domestic network with our international network, giving us a unique competitive advantage. Our strategic partnerships with other carriers also ensure enhanced connectivity for our passengers travelling within and out of the country.

We also expect concerns in respect of infrastructure to be addressed in the next few years. While privatization of Mumbai and Delhi airports has set the pace for concerted efforts at improving airport infrastructure, completion of greenfield airport projects at Hyderabad and Bangalore as well as modernization of other key metro and non-metro airports will provide impetus to develop civil aviation in the country.

We will endeavor to redefine the standards of civil aviation, both domestically and internationally. Jet Airways aims to see the Indian subcontinent at the forefront of progress in civil aviation not only in the Asian region, but also at a global level. Geographically, India's airports are well positioned to play a role as international transit hubs. **F**