

LEAPS AND BOUNDS



Vietnam Airlines



Photos courtesy of Vietnam Airlines

A Conversation With ... Pham Ngoc Minh, President and Chief Executive Officer, Vietnam Airlines

More than five decades ago, Vietnam Airlines began service with a mere five aircraft, which, based on its steady growth and success, was all the foundation it needed. Since then, the thriving Vietnamese carrier, once known as Vietnam Civil Aviation, has grown significantly and continues to do so. Today, it operates 49 aircraft — with plans to expand to 104 aircraft by 2015 — and serves 20 domestic and 41 international destinations.

Contributing to the record aircraft orders for the world's two largest and most prominent plane makers, Airbus and Boeing, Vietnam Airlines last year placed orders for 10 Airbus A350-900 XWBs — scheduled for delivery during 2014 and 2015 — as well as 20 single-aisle Airbus A321s. It also expects to receive more than 30 Boeing 787-9 Dreamliners between 2013 and 2019.

The added capacity will support the carrier's continued progression as well as Vietnam's anticipated passenger traffic growth, which is expected to more than double to 32.4 million by 2020.

Last year, the Vietnam flag carrier provided air transportation for 8 million passengers and brought in US\$1.25 billion in revenue. That's a tremendous leap from the 500,000 passengers it carried and US\$50 million it earned annually nearly 30 years ago. And this year, Vietnam Airlines was off to an exceptional start with revenues for the first half of the year of US\$728.8 million, a 27 percent increase from the same period last year.

Despite the airline's many accomplishments and continued evolution, it faces daily challenges such as out-of-control fuel costs, a possible shortage of pilots, government-regulated domestic fares, aircraft delays and steep competition.

But these issues won't keep Vietnam Airlines President and Chief Executive Officer Pham Ngoc Minh from pushing ahead to brighter days for his airline. In addition to its regional subsidiary, Vietnam Air Service Company, and its booming cargo business that moved 115,380 tons of cargo last year (an 8.5 percent increase from the previous year), the airline will launch low-cost VietAir later this year to compete with the region's budget operators and private start ups.

The introduction of the LCC is one of many initiatives Minh and his executive team has underway. A priority, given price restrictions enforced by the local government, is to review and restructure the carrier's route network based on profitability.

Minh, who joined Vietnam Airlines 28 years ago and last year took the reigns as the carrier's president and CEO, recently visited with KC Teo, regional director for Vietnam, Singapore and Indonesia for *Sabre Airline Solutions*®, to discuss his methods for maintaining a prosperous business and overcoming many of the concerns facing his airline.

Question: Since it began operations in 1956, Vietnam Airlines has truly transformed into an affluent airline, supporting Vietnam's ever-growing travel and

tourism industries. What are some of the key changes the airline has undergone during the last several decades that has led to such success?

Answer: Several key initiatives that contributed to the success of Vietnam Airlines include adopting the latest technology in fleet expansion to have a young and modern fleet, making a strategic investment in major markets of Vietnam's tourism, and focusing on a strategically developed network of long-haul flights and local and regional connections. The airline is fully ingrained with Vietnamese traditional culture — a distinctive identity — to be differentiated from the rest.

Q: What is driving the growth of the travel and tourism industries in Vietnam, such that passenger traffic is expected to more than double by 2020? And what impact will this growth have on Vietnam's economy and future stability?

A: Vietnam is continuously achieving remarkable macroeconomic performances: its annual gross domestic product growth forecast for the next few years is averaging around 7 percent to 8 percent, and foreign trade and foreign direct investment continue to rise sharply. Vietnam is considered a safe destination in the region for tourism and investment, staying untouched by terrorism and tsunamis. Our government invests in the development of infrastruc-



In support of Vietnam's anticipated passenger traffic growth, which is expected to more than double to 32.4 during the next decade, Vietnam Airlines will expand its fleet from its current 49 aircraft to 104 planes by 2015.

ture and facilities (travel accommodation, airport) while continuing to develop distinctive tourism products. Substantially rising living standards of the people of Vietnam equates to higher demand for travel. Being the second-most popu-

lous country in Southeast Asia (currently around 84 million), Vietnam possesses a great opportunity for development, particularly in the transport industry, which will significantly contribute to the economy's stability and growth in return.



In August, Vietnam Airlines President and Chief Executive Officer Pham Ngoc Minh (right) and Tom Klein, Group President of Sabre Airline Solutions® and Sabre Travel Network® signed two multi-million dollar deals for the carrier to receive advanced technology including SabreSonic® Customer Sales & Service.

Q: You recently compared your airline to Philippine Airlines and Malaysia Airlines and stated that your mission is to become more like Cathay Pacific Airways, Singapore Airlines or Thai Airways International. What initiatives have you put in place to achieve this objective?

A: We have firm plans to expand and modernize our fleet: 104 and 150 aircraft by 2015 and 2020, respectively, including Boeing 787, Airbus A350, Boeing 777, Airbus A321 and Airbus A320. We will continue to improve services as well as maintain our current network with convenient schedules and continue to expand and add new international and domestic destinations. From now to 2020, we'll ensure the average growth rates of 12 percent per year. We'll sustain more than 30 percent of the market share of international tourists flying to and from Vietnam and over 55 percent of the domestic market share.

We'll continue to satisfy all requirements for an international airline as an International Air Transport Association member, with a long-term strategy focused on safety, service quality and efficiency.

Q: With your recent aircraft orders, your fleet will nearly double during the next several years raising concerns about a shortage of pilots to operate these aircraft. What is your strategy for ensuring there are enough trained pilots for these additional aircraft as they arrive?

A: Our main objectives include offering attractive opportunities and good working environments to pilots (both foreigners and Vietnamese), setting up a pilot training center in Vietnam, recruiting students for pilot training, and employing simulation equipment to shorten training time. We will also enhance cooperation with international partners to train pilots.

Q: Do you have similar concerns about staffing your aircraft with flight attendants or ground personnel? If so, how will you address these personnel issues?

A: We will address these staffing concerns by offering a good working environment, leveraging recruitment from different trusted sources for training and enhancing cooperation with international partners to train flight attendants.

Q: Last year, your fuel expenses represented 24 percent of your total operating costs, and this year it will likely more than double. What steps are you taking to offset these additional costs to help protect your bottom-line results for the year?

A: We are taking numerous steps to protect our bottom line, including:

- Restructuring and rationalizing our international and domestic flight network by adjust-



In addition to expanding its fleet to support the rapid air transportation growth in its home country, Vietnam Airlines also takes steps to ensure its passengers travel in comfort. Its reclining seats geared with high-tech amenities sets the airline apart from many of its competitors.

ing flight schedules based on in-depth market analysis, imposing flexible fare policies and optimizing capacity utilization to increase sales of passenger and cargo; intensifying the route efficiency research and analysis to support the operations and management;

- Encouraging measures to increase revenue in all business sections and subsidiaries of the corporation;
- Reviewing overall investment plans — Cutting down and deferring investment projects;
- Strictly controlling the workforce — Postponing new recruitment except experts for long-term service, restructuring workforce to increase productivity; applying 42 working hours a week policy; adjusting and rationalizing salary structure; and developing a reward system for economical practices;
- Taking drastic measures to cut costs and increase savings with specific criteria such as a fuel-saving program; adjusting customer services that minimized affects on service quality; cutting down 10 percent to 20 percent regular costs on all items; and developing programs for efficiency in maintenance and repair of aircraft, engines and spare parts inventory.

Q: What long-term results do you expect to realize with the launch of your low-cost carrier, VietAir? And what impact do you believe the start-up LCC will have on your current competition?

A: The LCC will generate new traffic. Generally, the LCC and legacy [carriers] will focus on different market segments and support each other to better serve market demand.

Q: There appears to be a hardship on domestic routes because the local government sets your fares. What are you doing to convince the government that this regulation will have a significant, negative impact on your balance sheet if rates aren't adjusted to reflect the high fuel costs? If the fares aren't adequately adjusted and the government doesn't allow the proposed fuel surcharge, what are your options to keep from losing money on domestic routes?

A: As of Aug. 15, our government has allowed airlines to collect a fuel surcharge on domestic routes. Vietnam Airlines is a network carrier and our financial result is calculated on the whole network performance (some routes may themselves make losses, but they contribute greatly to the whole network). We are also very much aware of our mission as the national flag carrier: to contribute to the stability and growth of the country. There will be an appropriate time when adequate adjustments will be made by the government.

Q: Next year, you plan to operate your own flights to the United States that are currently being operated through your codeshare agreement with American Airlines. What additional U.S. routes are you considering?

A: Presently, we are still on course with our plan to launch service between Ho Chi Minh City, Vietnam, and Los Angeles, California. After that, we will study the possibility of directly operating to another destination in the United States.

Q: You have codeshare agreements with a number of other carriers worldwide. Which other international routes are you considering operating on your own?

A: Apart from the United States, we are considering opening new routes such as Ho Chi Minh City/Hanoi, Vietnam-London; Ho Chi Minh City/Hanoi-Shanghai/Beijing, China; Ho Chi Minh City-Mumbai, India; Ho Chi Minh City-Brisbane, Australia; and Ho Chi Minh City-Doha, Qatar.

Q: In addition to codeshare agreements, what are your thoughts about possibly joining one of the three global alliances?

A: Vietnam Airlines doesn't currently belong to any airline alliance but has been in discussions with SkyTeam. Vietnam Airlines currently codeshares with founding SkyTeam member Korean Air as well as China Southern Airlines, which joined last year.

Q: Technology is often essential in helping an airline evolve and prosper. How has technology helped your airline succeed? What role do you feel technology will play in the future growth of Vietnam Airlines?

A: Adopting the latest technology has helped Vietnam Airlines ensure safety, service quality and efficiency as well as refresh its image as a young, modern airline. In the future, technology will remain our key component to move forward and stay competitive.

Q: With a continuing need to cut costs, how can your employees help reduce costs and save money for their airline? What type of employee initiatives do you have or are you considering implementing to help control costs?

A: No airline would be successful without its employees' commitment and contributions toward the company's goals, especially in this crisis period of the airline industry. At Vietnam Airlines, apart from different training provided, by inspiring a very ambitious vision and expansion plan from top management to employees, utilizing technology at work, with fine-tuned working procedures, implementation of rationalized salary structure, and reward system for productivity and economical practices, our employees are highly motivated to dedicate themselves to the comprehensive cost-saving program in all business processes of the airline.

Q: With recent aircraft orders, a start-up LCC, talk of purchasing a freighter if the need arises and the many other future plans you've outlined, you're obviously in it for the long haul. Where do you see your airline in five to 10 years, and how will you get there?

A: With firm orders for latest-technology aircraft, a clear vision and other ambitious expansion plans, we are confident and ready to move forward and remain among the top three airlines in our region in terms of business scope and competitive capacity. Above all, the growing young and modern fleet will be the key component to get us there. **F**