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ON THE ROUTE TO RECOVERY

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On the Route to

RECOVERY

Photo courtesy of Gulf Air





A
CONVERSATION
WITH ...
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PRESIDENT
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GULF AIR

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hen the board of Gulf Air met at the end of 2002, after facing more than a year of crisis, conflict and economic chaos, it stood at a crossroads. But rather than throwing up their hands in the face of daunting challenges, board members took the bold step to launch an ambitious three-year strategic recovery plan. The plan, named Project Falcon after the carrier's emblem, represents a plan that will "restore Gulf Air to its position as one of the world's leading airlines," according to the official announcement of the project.



Photo courtesy of Gulf Air



Under the leadership of James Hogan, chief executive officer of Gulf Air, the airline has embarked on an ambitious three-year recovery plan — Project Falcon — designed to maintain the airline's position as a world-class carrier in the Middle East region. The plan includes brand development, fleet reconstruction, network restructuring, alliance membership and enhanced customer service.

At the time the Project Falcon plan was approved, Gulf Air President and Chief Executive James Hogan said it was "one of the most comprehensive and important documents the airline has ever compiled."

The pillars of the recovery plan include brand development, fleet reconstruction, network restructuring, alliance membership and enhanced customer service. The plan also contains a strong focus on profitability and improving cost structures. As part of the plan, the airline's owners — the nations of Abu Dhabi, Bahrain and Oman — injected BD90 million (US\$238 million) into the airline, reaffirming their commitment to Gulf Air as their national carrier.

In the first year of the plan, Gulf Air, founded in 1950, established its new corporate identity; launched Gulf Traveller, an all-economy, full-service subsidiary; and introduced a five-star chef service in its first-class cabin as well as the Gulf Air Sky Nanny, a professional childcare service on long-haul flights. It also introduced self-service check-in kiosks and service to several new destinations, which required it to expand its fleet by leasing six aircraft. And in this, the second year of the plan, Gulf Air, which serves more than 45 cities in 34 countries and is considered the only true pan-Gulf carrier, expects to break even financially.

Hogan recently discussed Project Falcon, the changes it has brought and the prospects for the future.

Question: You're half way through your three-year recovery plan. Are you on track with where you expected to be at this point?

Answer: In terms of the three-year plan, we undertook to reduce the losses to BD20 million (US\$53 million) by the end of 2003, breaking even in 2004 and returning to profitability in 2005.

The first year of the program has been one of unprecedented change and innovation at Gulf Air, resulting in a strengthened financial position and much higher market visibility.

We have met our financial target for the first year, achieving a 50 percent decrease in our losses from BD40.6 million (US\$108 million) in 2002, and our balance sheet is much more robust. However, more importantly, we have done everything we said we would, astounding even the greatest skeptics, who believed we would not be able to achieve even half of what we set out to achieve.

In a challenging year, affected by regional tensions, the war in Iraq and the damaging severe acute respiratory syndrome, a year in which most airlines have been downsizing and cutting capacity, we have achieved positive growth with record passenger figures.

Q: Had you not implemented this plan, where would Gulf Air be today?

A: In May 2002, when the board approved a further capital injection and initiated the process to formulate and implement a restructuring strategy, the airline was all but written off. The bold scope and nature of the measures we have implemented during 2003 have contributed to our continued existence and improved position.

The cumulative effects of the growing and increasingly competitive market in which we operate regionally and the general state of the global airline industry would undoubtedly have spelt a death knell for Gulf Air as it was at the beginning of 2002.

Q: Why was it necessary to have a recovery plan that takes three years?

A: Although we have managed to achieve a great deal in one year, there is obviously still work to be done in our aim to be a world-class airline and achieve profitability.

Experience has shown that real change is not an overnight process. If it is to be more than cosmetic (on the surface), it has to occur at every level within the organization, and this is a slower, sometimes painful process.



Photo courtesy of Gulf Air



As part of the airline's efforts to develop its brand in conjunction with Project Falcon, Gulf Air recently unveiled a new livery for its four types of passenger aircraft: A340-300, A320-200, A330-200 and the 767-300E. The airline serves more than 60 destinations around the world.

We have implemented stricter fiscal discipline and procedures to regulate corporate governance alongside more efficient business processes, and product and service innovations geared at serving our customers better.

The three-year plan is evidence of a commitment that goes beyond a quick fix that would not be sustainable in the future. That is why we have invested significant amounts in the numerous and diverse initiatives, including the new livery, the rebranding process, the worldwide contact center, the new lounge, a state-of-the-art information technology infrastructure, improved training programs, and product and service enhancements. These will ensure

the long-term, enduring success of the change.

Q: What are the goals of Project Falcon? How will you measure the success of the program?

A: The stated aim of Project Falcon is to turn Gulf Air into a world-class airline that operates on a commercially successful basis. The success of the strategy to date can be measured in our stronger financial position and increased market visibility. We have surprised the industry and the market by the speed and scope of change in the first year. We have met all our objectives and delivered on all the elements of the plan we undertook to implement in 2003.

However, I believe the numbers speak for themselves. The losses are down by 50 percent, in line with our first year's target. The success of this customer-centric strategy is evident in increased customer confidence and higher passenger numbers. In 2003, we achieved record passenger numbers and, in August, record figures for the 53 years of operation.

Q: What have been the greatest challenges and the biggest successes of the plan?

A: On its own, the process of turning an airline is a significant challenge, but it should be seen against the global context of the present airline and aviation industry, which since Sept. 11, 2001, has faced problems of its own, including a nervous and depressed travel market, heightened security, regional tensions and conflict, and also SARS.

The ever-changing and dynamic market demands corporate flexibility and the ability to respond intuitively as changes occur. This can only be achieved from a position of fiscal strength and product confidence. The challenge of Project Falcon is to achieve this flexibility and freedom.

Another challenge we face is marketing the region in which we operate. While the region has cultural richness, natural beauty and, most importantly, unique Arabian hospitality, these assets are largely unknown in the rest of the world and are more often than not obscured in the mass of negative publicity on the regional tensions. It is part of our challenge to dispel these incorrectly held perceptions and market this region, specifically our owner states.

The greatest success of the plan to date has been the return of our customers, who are central to our business.

THE HIGH LEVEL view

News Briefs from Around the Globe

Who

Bangkok Airways

What

Selected the *Sabre*® *Flight Control* suite for small, medium-sized and low-cost airlines to create a system operations control center. The airline is implementing the *Sabre*® *AirOps*™ Dispatch Manager and the *Sabre*®

FliteTrac system. These products will be integrated with the *Sabre*® *AirOps*™ Load Manager, which Bangkok Airways implemented at the beginning of 2003.

Why

"Bangkok Airways aims to have a system operations control center, which will improve our yield and lower our

optimization costs," said Alain Bergeron, flight control director at Bangkok Airways. "With the introduction of this latest Sabre Airline Solutions product suite, we are once again able to integrate with our in-house technologies in order to improve our efficiencies. All this while still adhering to government and airline guidelines." **E**

The renewed customer confidence and record passenger numbers in a difficult travel and tourism market demonstrate that our efforts to address customer requirements are being recognized and experienced.

Q: How much does Project Falcon rely on enabling technology to aid your recovery?

A: Technology plays a vital role in facilitating our customer-centric vision. We have a strong, visionary IT team, which is supported by global technology partners and some of the finest software and hardware available in the market.

The past year has seen our suite of electronic products and services enhanced by the introduction of the region's first electronic check-in kiosks at the airports in Bahrain, Abu Dhabi, Dubai and Oman. Other innovative services we have recently added include worldwide traveler notification via short message service and the downloadable electronic timetable.

Technological innovation reached its highpoint in September when the region's first worldwide customer contact center was opened in Oman. Endorsing our commitment to employing and empowering owner-state nationals, the staff hired to implement the first stage of the contact center are all Omani citizens. When it is fully operational, the center will employ about 300 people.

Q: How has Project Falcon positioned you to take advantage of the emerging industry recovery?

A: We are better equipped in every way to move forward into the next phase of our strategy and the prevailing market. We are energetic and bold, and coupled with our strengthened financial position and committed staff,

we are positioned to take advantage of the improving marketplace.

Q: How does your recovery plan help differentiate you from your competition?

A: Project Falcon made provisions for a rebranding program designed to create a unique niche for us. Implemented in April 2003, the redefined brand is based on Arabian hospitality and values, and in moving forward, it is our aim to differentiate ourselves from our competitors by building on our strong cultural, geographic and historic links with the region. The plan will also ensure that we strengthen and consolidate our position as a strong regional player.

Q: You announced that you planned to lease several aircraft as part of Project Falcon. Will leasing as opposed to buying aircraft play a bigger role in your recovery?

A: Not necessarily. Fleet and network expansion are linked to the requirements of our customers, and in meeting these needs, we will do whatever is commercially beneficial and viable for the airline.

Until we conclude our aircraft evaluation, aircraft leasing will meet our incremental capacity requirements.

Q: How do innovative steps such as launching Sky Nanny and Gulf Traveller fit into the recovery plan?

A: They are indicative of two things. In the first instance, they represent the spirit of innovation in the airline, but more importantly they demonstrate our commitment to our customers. The various product and service innovations are designed to surprise and delight our diverse customers and to create a memorable travel experience while meeting the dif-

ferentiated needs of the multi-segmented market in which we operate.

Q: Does Project Falcon position you for the long term, or do you envision a need to reevaluate and develop a new plan at the project's conclusion?

A: Change is a continuous process, and it would be naive at the end of three years to believe that we "have arrived." While the three-year plan was designed to attain very specific goals, we will continuously evaluate our strategy and evolve in response to the current requirements of the market and its various segments and customers to remain relevant.

In short, Project Falcon is updated on a regular basis to ensure that we always have a three-year plan.

Q: How does Project Falcon prepare you for unforeseen industry challenges?

A: By creating flexibility and freedom, through good corporate governance, strict fiscal disciplines and streamlined business processes, we can respond more effectively to the dynamics of the market and to any unforeseen industry or global challenges.

Q: How has Project Falcon positioned you to succeed in the future?

A: The progress of change and the visible results have inspired people and given them confidence in our ability to win. This confidence and belief will be vital ingredients in our future success.

Q: How will the airline of five years from now differ from the airline today?

A: Gulf Air will be a commercially successful, world-class airline providing service that is based on the values of Arabian hospitality. **E**

THE HIGH • LEVEL view

News Briefs from Around the Globe

Who

Thai Airways International

What

Selected the *Sabre*® *AirCrews*® Crew Management suite to address all phases of its crew management operations from long-term crew resource planning through day-of-operations crew tracking. The system enables the

airline to react quickly to situations such as competitor activity and changes in crew rosters and flight cancellations.

Why

"Our aim is to implement a world-class crew management solution that is able to support decision-making capabilities based on a number of

scenarios," said Knok Abhiradee, president of Thai Airways. "With the *AirCrews* suite, Thai will be able to respond quickly to a variety of situations with minimal impact to our customers and simultaneously benefit the crew through better pairing and supporting work preferences." **E**