

In response to the many new challenges it's faced during the past few years, Mexicana Airlines has made highly strategic changes to its commercial side of the business as well as experienced great success from its low-cost subsidiary.

By Michael Mankowski and Michael Reyes | *Ascend* Contributors

Redefining



“For several years now, Mexicana Airlines has been implementing a strict restructuring plan that places particular emphasis on maintaining the quality of services.”

— Manuel Borja, chief executive officer, Mexicana Airlines

As the world's fourth-oldest airline still in operation, Mexicana de Aviación has seen its share of prosperity and challenges throughout its 86 years of taking to the skies. Today, Mexicana Airlines and its wholly owned low-cost subsidiary, Click de Mexicana, form Mexico's largest international airline group and the region's leader between Mexico and the United States. Buoyed by Mexico's growing economy and geographically positioned next door to the world's largest economic engine, Grupo Mexicana is poised for great success.

Yet despite this enviable position in the global airline industry, Grupo Mexicana has faced some of its toughest challenges in recent years. In addition to the ever-present and constantly growing burden of fuel costs, the entire character of the Mexican marketplace has changed during the last three years. What was a decades-long operating environment of stability for Mexico's two traditional giants — Mexicana Airlines and rival AeroMéxico — has today become a free-for-all of hyper competition.

Growing Headwinds

As has been the case around the world — from the United States and Brazil to India and nearly anywhere healthy yields existed — new operating models have emerged to challenge traditional carriers that had been flying comfortably for decades. Be it low-cost carriers, niche carriers with specialized concepts such as all-business class cabins or value-focused hybrids, there is no doubt that a new wave of challengers has entered every major air travel marketplace in the world. And Mexico is certainly no different — except perhaps for the speed in which the upstarts have emerged.

During the last five years, a rapid loosening of regulatory restrictions governing Mexico's airlines, coupled with massive foreign investment in a developing economy only growing as trade increased with the United States, led to a boom in new domestic Mexican carriers.

To most local residents who are regularly exposed to saturating billboards and airwaves from the streets of Tijuana to Cancun and every major population center in between, the region's airline names — Avolar, ALMA, Interjet, Volaris, VivaAerobus and a handful of others that have either started flying or have significantly expanded operations since 2005 — are familiar. As one airline chief executive officer famously noted, “The number of airlines operating domestically in Mexico doubled in a year's time.”

With so many new faces competing for traffic, actual domestic capacity grew a staggering 30 percent from 2006 to 2007, which, until now, was unheard of not only in Mexico, but anywhere else in the world.

And who is the biggest target of all the newcomers? The established carriers, of course. But beyond the added competition at home, Mexicana Airlines found it was being pressured on all fronts. No strangers to the perils of well-funded



Photos courtesy of Mexicana Airlines



As part of its ongoing, strict restructuring strategy, Mexicana Airlines focuses heavily on maintaining and enhancing the quality of products and services it offers customers. In doing so, the carrier will place deep emphasis on improving its internal processes to ensure the utmost level of service is consistently provided across the entire organization.

competitors with non-legacy business models (and non-legacy costs to match), the major U.S. carriers have consistently been slashing domestic capacity during the last five years to insulate themselves from revenue-eroding domestic price wars. Where did all that capacity end up? Much of it has been shifted to international routes, including many destinations in Mexico, where U.S. network carriers are finding yields to be slightly more resilient than in the domestic United States.

So during the course of the last two years, Mexicana Airlines' management team has been plunged into what nearly amounts to a worst-case scenario:

- Rapidly expanding domestic capacity (and declining yields) due to airlines such as Interjet, Volaris and Aviacsa;
- U.S. network carriers fortifying their presence in Mexico with gateway hubs, such as Delta Air Lines' new "mini" hub in Los Angeles, California, for north/south traffic flow plus increasing Atlanta, Georgia-Mexico service, and Continental's and American's large and expanding Mexican networks from George

Bush Intercontinental Airport and Dallas/Fort Worth International Airport, respectively;

- Alaska Airlines' continued penetration to Mexico's beach destinations and entry to Los Angeles-Mexico City market (Mexicana Airlines' largest U.S. route);
- Frontier Airlines' expansion of Mexico service from Denver, Colorado, and secondary U.S. cities to Cancun;
- Expanded U.S. LCC service to Cancun (JetBlue, Spirit);
- AeroMéxico's initiation of a Buenos Aires route (Mexicana Airlines' only long-haul international service);
- Limited slot availability at Mexico City Benito Juárez International Airport for expansion;
- New passport rules by the U.S. government requiring U.S. citizens to carry a passport for travel to and from Mexico and Canada.

Competing Domestically: Making Things "Click"

What has Mexicana Airlines done to react to its many challenges? Its biggest initiative to compete

domestically hasn't been a reaction at all, according to Isaac Volin, Mexicana Airlines' chief commercial officer.

"It should be remembered that Mexicana Airlines launched the country's first [low-cost carrier] three years ago: Click de Mexicana," he said.

In 2005, Mexicana Airlines' leadership foresaw big changes ahead and proactively made a bold move, opting to launch Click de Mexicana with a single fleet of all-economy-class Fokker 100s serving selected domestic markets.

"Despite difficult market conditions, aggressive competition and high fuel prices, the business model of this subsidiary has proven extremely successful, maintaining a high occupation factor and serving routes punctually and efficiently with 100-seat aircraft in a single 'Coach Plus' configuration," Volin said.

Volin, who initially came to Grupo Mexicana as Click's CEO, is also quick to remind that with a 34-inch seat pitch, the wholly owned LCC boasts the most legroom in the industry.

And the Click investment has proved worthwhile, providing Mexicana Airlines with a weapon against all new domestic entrants. The airline that started with 10 Fokker 100 aircraft serving 16 destinations will have 25 F100s serving at least 25 cities by the end of the year.

Redefining Its Commercial Business

Beyond building a low-cost option to compete domestically, Mexicana Airlines recognized the pressing need to completely restructure its commercial strategy to remain competitive globally.

"For several years now, Mexicana Airlines has been implementing a strict restructuring plan that places particular emphasis on maintaining the quality of services," said Mexicana Chief Executive Officer Manuel Borja. "As such, we have chosen to concentrate on improving internal processes."

Faced with an unprecedented combination of market forces jeopardizing the airline's revenue streams, Mexicana Airlines needed to confront those significant "internal processes" to protect itself going forward.

In reinventing its commercial strategy, the carrier chose to build on an asset that any airline around the world would envy: a hub at the center of a city with 20 million people.

With a huge source of local demand in the world's second-largest metropolis, Mexicana Airlines had always focused on bringing travelers to and from Mexico City. But to compete more effectively with large international carriers, the airline decided to double down on its Mexico City hub, with a focus on connecting passengers from its 50 destinations through Mexico City and "aim to add new routes to Europe while holding on to its leading position in the Mexico-U.S. market," according to Borja.

The airline's management team responded with a three-pronged approach aimed at solidifying its position at Mexico City:

- A top-down transformation of its revenue management department,
- Midterm network realignment,



- Overhaul of its sales and distribution department.

Last year, as part of its revenue management transformation and its commitment to establish Mexico City as the premier hub for the region, Mexicana Airlines moved forward with transitioning from a leg-segment revenue management approach to an origin-and-destination revenue management concept.

Aiming to accomplish such an impactful move, Volin led the revenue management team and attacked each route, one by one, by creating route game plans:

- Strategic overview,
- Specific goals,
- Market profile (trend analysis, financial performance),
- Current status and SWOT analysis,
- New pricing and inventory strategies,
- Measurable action plan for every route, including goals for local and connecting traffic.

This rigorous analytical market approach led to a reversal of revenue trends during the region's 2007 summer and established a new standard to manage market performance within the department.

After the market review process and revenue trend reversal, the revenue management team focused on internal process improvement centered on the new O&D revenue management concept, new pricing procedures and reorganization of the department along functional lines, managing demand, flights and pricing from the region-focused structure.

The transformation of the revenue management department lasted seven months and improved the company's revenue performance by more than US\$90 million from the depressed revenue position of early 2007. And just as important, it allowed Mexicana Airlines to avoid the fate of several of its larger competitors north of the border.

With the revenue management processes in place to handle increased passenger flows through the Mexico City hub, the next order of business was reworking the entire schedule to maximize the carrier's revenue in light of the new emphasis on connections as incremental revenue.

Beginning with the summer of 2008, the carrier retimed its entire schedule to create more connection possibilities among domestic Mexico, the United States, Canada and Latin America.

This initiative was not without major challenges. In terms of a global hub, Mexico City is a relatively small, landlocked, slot-restricted airport with little opportunity for future capacity growth. In addition, Mexicana Airlines battles major competitor AeroMéxico at the very same airport, thus minimizing its own opportunities for expansion. Nevertheless, Mexicana Airlines' planning group reworked the entire schedule to emphasize connecting banks with an expected annual benefit of millions of dollars in purely incremental revenue.

By the end of 2007, the carrier also looked to boldly capitalize on its ongoing restructuring by initiating the consolidation of the Mexican aviation market; whereby it submitted a bid to purchase rival AeroMéxico and form a single Mexican international carrier capable of competing with domes-

tic LCCs and the ever-growing international mega carriers.

Despite presenting a compelling case to the Mexican aviation authorities, Mexicana Airlines was rejected from participating in the process and eventually withdrew its offer due to anti-competitive issues raised by the government.

With the removal of the AeroMéxico offer and its revenue management transformation and network planning adjustments in place, Mexicana Airlines embarked on an overhaul of its sales and distribution department.

Over a period of eight months, beginning in November 2007, Mexicana Airlines' management focused its efforts on all key areas of the organization to align it with industry best practices and enable it to outperform the competition in the new landscape. To achieve this standard, the management team focused on:

- Defining a new leisure sales strategy for the United States to Mexico's beach markets,
- Completing a complete review of its city ticket office distribution network,

HIGHLIGHT

Click's growth has allowed Mexicana Airlines to redeploy many aircraft to more lucrative international markets ...

- Increasing direct distribution capabilities by improving mexicana.com's structure and usability,
- Conducting a re-examination of the carrier's long-standing preferred travel agency discount program,
- Initiating extensive sales training,
- Completing a comprehensive overhaul of its sales organization to a "flatter" structure with better-defined accountability,
- Realigning corporate goals between pricing/revenue management and sales,
- Creating a new travel agency incentive structure to better align agency revenue performance with commission payouts this year.

To date, the sales department overhaul has resulted in millions of dollars in annual benefits due to quick hits such as organizational streamlining as well as the aggressive redesign of the commission program away from the traditional philosophy of up-front discounts. As Mexicana Airlines continues implementing its overhaul plan, further benefits will be driven by improved business processes for gener-

ating sales revenue while simultaneously controlling the cost of sale.

Charting A New Course

What does the future hold for Mexicana Airlines? While the redesign of the entire commercial strategy will remain an ongoing process, the carrier is already reaping the rewards as it plans for the future.

Thanks to the runaway success of Click, the carrier has been able to grow the wholly owned LCC to the point that it is used to replace traditional domestic Mexicana Airlines service in many cities. Click's growth has allowed Mexicana Airlines to redeploy many aircraft to more lucrative international markets such as Canada, further strengthening its network with new destinations.

"Grupo Mexicana is in the process of expanding its presence in the international market," said Adolfo Crespo, the carrier's senior vice president of customer service and corporate communications, "with new flights to Calgary and Edmonton in the thriving Canadian province of Alberta, which began in June."

And those new routes to Europe that CEO Manuel Borja referenced? While not yet certain, trans-Atlantic operations would continue to bolster Mexicana Airlines' international presence as it readies itself for its next big move: repositioning itself in the global industry by joining the **oneworld** alliance.

In April, in a strategic move to further bolster its revenue, Mexicana Airlines, and its Click subsidiary, were formally invited to join **oneworld**, a process the carrier estimates will take 12 to 18 months to complete, and it is sponsored by partners Iberia Airlines and American Airlines.

This development is expected to strengthen Mexicana Airlines' offering for current and future customers while providing **oneworld** partners with an expanded network in Mexico and Central America flown by the region's leading airline.

As has been the case around the world, these are turbulent times to run an airline, and Mexico's entire airline industry has felt the pressure more than others for a variety of reasons. Most importantly, the speed and depth of domestic Mexico's structural changes were more accelerated than perhaps anywhere else in the world. The rapid liberalization of the country's air transport market has put tremendous pressure on incumbent carriers to evolve. Mexicana Airlines, reinventing itself with its experienced and nimble management team, has proven willing to adapt based on its bold moves of the last three years. Clearly, the carrier is in it for the long haul, as it is finding new solutions to ensure it not only survives, but prospers in this difficult and dynamic marketplace. **F**

Michael Mankowski is project manager and senior consultant and Michael Reyes is project manager and management consultant for Sabre Airline Solutions® Consulting. They can be contacted at michael.mankowski@sabre.com and michael.reyes@sabre.com.