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Taking your airline to new heights



SkyTeam:



Caring More About You

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Leo van Wijk, Chairman,
SkyTeam

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During its first decade, SkyTeam, the industry's youngest global alliance, more than tripled its membership and doubled its number of daily flights. What began in 2000 as a four-member alliance, including founders Aeroméxico, Air France, Delta Air Lines and Korean Air, now has 13 member airlines with several newcomers scheduled to join this year and next.

Coinciding with its 10-year anniversary, SkyTeam made tremendous strides toward expanding its global network last year. In June, it welcomed Vietnam Airlines and TAROM. This year, China Eastern and China Airlines will climb aboard, along with China Eastern-owned Shanghai Airlines.

Next year, Aerolíneas Argentinas, Garuda Indonesia, Middle East Airlines and Saudi Arabian Airlines will establish SkyTeam membership. Going forward, the alliance plans to further strengthen its footprint in additional regions including Southeast Asia, India and Latin America.

SkyTeam's continued growth is paramount to its 395 million annual passengers who currently have access to 13,000 daily flights to 898 destinations in 169 countries. Adding carriers from untapped locations will give its customers access to many more markets at lower fares.

SkyTeam's slogan, "Caring more about you," is heartfelt. The alliance diligently focuses on the needs and desires of its customers and strives to provide the best possible service across its network, which has paid off. For five consecutive years, SkyTeam has earned Best Airline Alliance by *Global Traveler* magazine.

The magazine conducts an annual reader survey to determine the best airlines and airports in the world. In 2009, nearly 26,000 readers responded to the survey, which included 60 categories. SkyTeam continues to win this prestigious award based on the results of the survey.

"We are honored that the readers of *Global Traveler* have selected SkyTeam as Best Airline Alliance for the fifth consecutive time," said Fatima da Gloria de Sousa, SkyTeam's director of brand and communications, who accepted the 2009 award on behalf of the alliance. "This confirms that our premium customers continue to value the benefits of our strong global network, which offers them unparalleled connectivity and seamless travel. As we continue to focus on steady growth and meeting our customers' needs, we are confident that we will be back for more awards in the future."

Clearly, it's nothing but a success story for SkyTeam, its member airlines and its most-valued asset ... its customers.

In a recent interview with Gordon Locke, vice president of portfolio marketing and strategy for *Sabre Airline Solutions*®, SkyTeam Chairman Leo van Wijk shares his ideas about several key aspects of the SkyTeam alliance

including expansion plans, technology strategies and industry consolidation.

Question: While most airlines have some form of partnership with other airlines, such as codeshare agreements, many have yet to join a global alliance. Why is now a good time for an airline to join a global alliance?

Answer: It's not necessary, or possible, that all airlines will join a global alliance. It depends very much on your strategy. If you have a local strategy, then an alliance is not necessarily the thing to do. But if you want to participate in the global game, or if you have a customer base that increasingly has global travel requirements, then joining an alliance makes a lot of sense.

Given that alliances during the last decade have shaped up to a size that there are no longer many empty spots, it makes sense for airlines that have that global ambition or global need to consider joining an alliance now to not miss the boat, so to speak.

Highlight

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— Leo van Wijk, chairman, SkyTeam

Q: When selecting an alliance, what are an airline's main considerations in determining the right fit?

A: From an airline perspective, you must determine what your customer base really requires in terms of access to markets. That may be different for various airlines around the globe. Then you look for the alliance whose members offer the best fit and the best access to those markets.

At the same time, if you operate in a certain part of the world that serves a lot of

global travelers, you look at markets that most frequently serve your country. Linking to carriers from those countries will offer new feeds to your system.

You can do this on a bilateral basis, but given that the most important global airlines operate in alliances, it's not always easy to just have bilateral relationships. Most of these airlines look at these questions in the alliance perspective.

Q: What does SkyTeam deem most important when determining which carriers are ideal for membership?

A: On behalf of the membership, we look for the right spots. Which markets are not currently served by our members? In which markets do they have an interest because their customers travel to these parts of the world?

To give you two very clear examples for SkyTeam, one is India. We don't have a partner in India. It's an important subcontinent with potentially large growth, a lot of international global businesses and growing businesses.

New, domestic carriers are becoming international players, so that market is of particular interest to us from a joined membership position. In that market, an Indian carrier makes sense for SkyTeam.

Currently, we don't have a South American partner. Aerolíneas Argentinas will effectively join in 2012. And it makes sense to look for additional partners in that region.

Q: How involved is the process of joining your alliance?

A: We currently have more than 100 membership requirements that cover multiple areas. They range from creating bilateral relationships to codeshare agreements and frequent flyer program linkage. These are key attributes for customers to really have benefits from an alliance. But we also have requirements about the signage of SkyTeam to be available in airport areas, on publications of airlines, et cetera.

Another important element is the joint service standards that we have to make sure customers have as seamless as possible travel experience. Last and certainly not least are the requirements for IT link ups because they are the basis for providing service and giving customers the benefit of having a seamless experience.

It's not an easy process. That's why it takes time. It depends on the level of bilateral relationships that have already been developed by the time a carrier enters the alliance.

Q: What services does SkyTeam offer that assist airlines early on so they understand the considerations of joining the alliance and what the process involves?

A: We provide assistance through the SkyTeam office, by helping airlines understand the requirements. In some cases we also assign within the membership a particular sponsor of the new member. The member airline helps the

new member fulfill any requirements. There are a team of specialists from the various members to provide support throughout the entire process of entering SkyTeam.

It's not just a quick, simple process. Quite a few things have to be arranged. But there is a lot of experience and support available within the membership to help a new airline member.

Q: Many airlines have the perception that it's too expensive for small and mid-size carriers to join a global alliance, yet they may need it to effectively compete. What are options for smaller carriers to join an alliance without taking a hard hit on the bottom line?

A: We conduct an extensive analysis to determine the potential benefits an alliance can offer to a particular airline. That varies from airline to airline. We have different levels of membership to accommodate smaller airlines so they aren't overburdened with requirements and costs. That ensures the hurdle rate for smaller airlines is as low as possible.

Q: How has your alliance transformed since it began a little more than a decade ago?

A: SkyTeam started with four members in 2000. During the first decade, we grew to 13 members. By 2012, we'll have more than 20 airlines. We have covered most parts of the world, but there are still some white spots. So, in terms of size, we have grown significantly.

During the last couple of years, we have invested a lot of energy in creating a strong position in China ... the strongest thinkable.

Also, there's an area that hasn't gotten a lot of attention but makes SkyTeam quite unique. The North Atlantic joint venture that was created in 1992 between KLM and Northwest Airlines was considered the most developed alliance in the world. As members of SkyTeam, we basically now have the oldest and most developed partnership. That has now been extended to Delta after taking over Northwest and Air France as well as Alitalia on the North Atlantic.

So we have a very strong and deep alliance that goes well beyond just having codeshares in exchange of frequent flyer miles. I think that is really where the emphasis is going to be in the future ... offering better services.

Q: What are some untapped benefits that could be gained as your alliance continues to grow and evolve?

A: There are many limitations to the exchange of frequent flyer miles and, generally speaking, there are more opportunities within a frequent flyer program than in between frequent flyer programs. That's where a significant step forward can be made.

Also, when looking at the management process of interlining, alliances so far have not gone all the way to the point where they do it for themselves. That's where KLM and Northwest have really developed the joint venture to a point

... where it goes way beyond these types of things.

We really have come as close as possible to the seamless travel experience by aligning our processes. We have created much broader IT links to exchange information about passengers who are traveling throughout the alliance network.

I think that's the way forward, but there's a lot still to be developed to compete for the same customers. In essence, global alliances are overlapping to a large extent in major markets.

Q: SkyTeam earned the "Best Airline Alliance" Global Traveler Award five years in a row. How does SkyTeam differentiate itself from oneworld and Star Alliance? What are the top selling points of SkyTeam versus the other two global alliances?

A: I strongly believe the differentiator is going to be in the degree of cooperation and seamlessness you can achieve within the alliance. That's why our strategy involves closing the gaps as well as creating the highest level of seamlessness.

Pointing again to the experience we have between KLM and Northwest, we have developed that already ... for almost 20 years. Of course, that's not been an easy process. It's difficult to give up part of your own decision-making

process and work in the best interest of the group.

It also requires anti-trust immunity because entering into joint sales requires an attitude that is not necessarily easily adopted by independent allies that have tried to survive in difficult times. That really is an important element to make further progress in better serving your customers.

Naturally, we have made our mistakes, but over the years, we have developed a scheme that is not easy to replicate because it's not necessarily in documents. It's very much in attitude and behavior, and that's why I strongly believe that to be the main differentiator over time.

Q: Of the three global alliances, SkyTeam currently falls in the middle in terms of annual passengers, destinations, number of members, etc. What are the advantages of not being the largest global alliance? Why, in terms of size, is bigger not always better when it comes to airline alliances?

A: I don't believe that size beyond a certain point matters. As I said, we have the No. 1 carrier in the United States. We have the No. 1 carrier in Europe. And with our Chinese partners, we have the strongest position in the Chinese market.

Whether we have 40 airlines or 28, or whether we have 10 percent more passengers



SkyTeam Expands In 2000, SkyTeam comprised four founders, Aeroméxico, Air France, Delta Air Lines and Korean Air. By next year, the alliance will have nearly five times its original membership.

doesn't matter. At this point, size does not create a differentiator.

Q: Technology is vital to the success of any carrier, and syncing up systems among alliance members often presents a challenge. What plans do you have for increased future integration of IT systems among your member airlines? What are your thoughts about an alliance needing a common platform?

A: Having started out 40 years ago at KLM in the IT department, it's one of my main areas of interest. I strongly believe that we're living in a world where it is impossible to think that all the airlines will migrate to the same IT platform.

When we developed the Air France-KLM-Northwest relationship, there was a need for a much greater exchange of information than was necessary in a normal hierarchical interline relationship. In the early days, we developed hard-wired links that have proven to be inflexible over the years if you have to allow for changes, developments or new carriers.

Moreover, we have a situation where we link our systems progressively with more and more partners outside the airline industry. This requires all kinds of link ups and has basically led to the whole debate about open architecture, which has to be the basis for a free-serve relationship. That is basically what we work on in SkyTeam ... to create open-architecture solutions among the airlines.

We still see possibilities for the part of software that is required to support the connectivity and the management of the processes among the airlines on a joint basis. We are able and willing to develop joint software for the membership if that is the best solution. But that will still be in an open-architecture environment where it will be connected through open architecture with the existing platform of the airlines.

That goes back to your earlier question about smaller airlines. They don't necessarily have the same sophisticated systems as Delta and Air France. New members with a relatively low level of IT sophistication require quite a bit. And it could make a lot of sense for these airlines to develop jointly the type of software that is required to increase the seamlessness of our cooperation.

Q: SkyTeam members use a number of systems from Sabre Airline Solutions®. How important is it that member airlines forge partnerships with single vendors when possible, including technology, catering, ground handling, etc.?

A: It's important that when a new member joins an alliance and has a requirement to upgrade its IT, that it doesn't do it in isolation. In doing so, however, it should work with a limited number of vendors that are commonly used within the alliance. It makes a lot of sense for new things to be developed to support the alliance.

There are significant savings we can achieve in this area. That means we'll use a limited number of vendors that can provide the best connectivity to the most common existing platforms. And then you end up with less than a handful.

Q: Airline mergers and acquisitions have become more and more prevalent. What are your overall views about mergers and industry consolidation?

A: Mergers between airlines on the same continent make a lot of sense because there is a lot to be gained. There are a lot of synergies. Mergers between carriers on different continents have a significant amount of complexity. In principle, they're still not allowed, and I don't see that changing very quickly. I don't see that the Chinese government will allow Chinese carriers to be taken over or merged into Delta Air Lines or Air France-KLM, and vice versa.

Q: What impact do mergers have on the industry as a whole?

A: In the past, a large number of airlines were basically dictated by regulators that didn't allow cross-national airlines to really operate. While this is disappearing, and alliances are filling in the gaps to a large extent, the normal line carriers that try to do the same thing in terms of network operators will have significant difficulties to survive because they don't enjoy the same benefits.

If you're a regional niche carrier such as Alaska Airlines, the chances of survival are greater. But, if you're a relatively small carrier in Europe, for instance, your chances to survive outside an alliance are next to none.

So you likely have to come in with a different business model such as the low-cost carrier. Although after so many years, we're seeing that low-cost carriers over time have lost their competitive advantage. Some are becoming hybrids and others are thinking about developing networks to continue to have the growth they have previously enjoyed. In most cases, certainly in the United States, they have lost their advantage over network carriers.

In the end, in 10 years from now, we will have, in my opinion, a significantly lesser number of carriers. The survivors will either be in an alliance, part of an alliance or operating in a different business formula.

Q: This marks your 40th year in the airline industry. In what way has your extensive airline background contributed to your success in leading the SkyTeam alliance? What are the guiding principles you set forth for the alliance?

A: I can only speak about my own experience, and that has served me well over the years. A deep understanding of this complex industry is very helpful. We have seen in many carriers that relative outsiders have come in and tried to come to grips with the complexity of our industry. That's not easy

to say the least. It's not impossible, but it's not easy.

So, a deep understanding of the processes, and they're very much linked. It's not easy to delink, for instance, the engineering and maintenance process from operating an airline. It can be done, but given the marginal business, you have to be extremely careful if you do that because you can easily lose a lot of money rather than gain by outsourcing.

It's been helpful that I've been able to be in different positions during the first 20 years of my career. I started out in IT. Then I moved to cargo handling, cargo marketing, passenger marketing, and then strategy and corporate development before I became one of the top executives for KLM. I know the business in detail inside out, and that helps to understand where you have to move it forward.

Q: What key objectives would you like to achieve during your stint as SkyTeam chairman? What do you want to see SkyTeam achieve long term?

A: We operate in a regulatory environment that has shaped airlines in a way that they're not easy to transform into airlines that can also be successful in this time and day. That requires a good understanding of how you can transform that airline. It requires a good visionary mind to see where the opportunities are to be more successful than others.

These are two key attributes I'm trying to bring to SkyTeam. I'm trying to bring that experience and know how to build SkyTeam into the best alliance for the future.

Q: Given 2010 was SkyTeam's 10th anniversary ... and we congratulate you ... tell us what 2020 will look like for SkyTeam.

A: I see an alliance that is not necessarily much larger. I think in numbers, we'll be over 20 members. But I don't see it in 2020 to be 50 because the other 30 airlines, except for a few white spots that I already pointed at, are not going to add a lot.

Managing overlapping airlines make it difficult to manage in an alliance, because they don't have the same interest. They're competing more than there are synergies in incorporating.

Our main mission for the next 10 years is to make sure that the customer benefits we can offer as an alliance will increase beyond code-share and frequent flyer programs and that we really try to create as much as possible a seamless service. And there's a lot to be gained there, but it is a complex issue ... certainly in different cultures managing such a process. But we have a template that we have developed on the North Atlantic and that serves SkyTeam well to really use it as the way forward to become a stronger and, in my opinion, hopefully the leading alliance at the end of this decade. **F**