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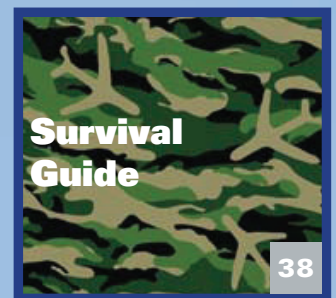
Taking your airline to new heights

A Clear Vision

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The KISS Principle

Low-cost carriers from all corners of the world are incorporating characteristics from the traditional airline model, such as codeshare agreements and frequent flyer programs, to more effectively compete. And at the same time, established network carriers are stripping away some of their conventional attributes and implementing low-cost carrier strategies for the same reason.

■ By Lynne Clark | Ascend Staff

KISS — or “Keep it simple, stupid” — is the empirical principle that most systems will work best if they are kept simple rather than made complex. It’s also the principle behind a business strategy that has made low-cost carriers pose a serious threat to traditional full-service airlines.

But in today’s economic environment of over capacity, fluctuating fuel prices and growing worldwide economic recession, even the most dedicated KISS advocates are acquiescing to a 21st-century spin on KISS — “Keep It Simple And Smart.” Smart meaning that many of today’s LCCs are straying from their no-frills roots by adopting some strategies typical of network carriers such as offering frequent flyer programs and entering into codeshare and interline agreements as well as joining other types of alliances. These alliances are possible, in part, to nimble new technologies that accommodate changing business models.

Love And KISS

After nearly 40 years of uninterrupted profit making, Southwest Airlines, the world’s most successful proponent of KISS, introduced complexity into its business model when it announced last year two new codeshare agreements. In June, the Dallas Love Field-based carrier announced an agreement with Canadian low-cost carrier WestJet to codeshare on cross-border flights beginning late this year. In November, it announced plans to enter a codeshare agreement with Mexican airline Volaris. Under both new agreements, Southwest’s Web site will become a distribution channel for existing WestJet and Volaris flights. In addition, the carriers most likely will cooperate on frequent flyer programs, ground handling and cargo.

Analysts say the moves make sense. While Southwest Airlines has long dominated the low-cost field, economic pressure is forcing changes previously not considered including wide-ranging cuts to its workforce and expansion beyond its tried-and-true formula of point-to-point service and simple fare structures.

“We are continuing to look for ways to expand our network through international codeshare partnerships, and we are excited to team up with Volaris to offer our customers access to attractive Mexican destinations,” Bob Jordan, Southwest Airlines executive vice president of strategy and planning, said in a November press release. “Volaris has a stellar reputation for being a highly efficient airline with a dedication to customer service, which makes it a natural fit for Southwest Airlines.

“We recently announced our decision to enter the international market with Canadian carrier WestJet, and we will continue to work diligently to broaden our international codeshare service even further,” Jordan said.

Commenting on the WestJet agreement, one industry blogger said, “This little agreement with an almost-unknown (outside of Canada) airline and Southwest could be the beginning of a worldwide network of budget flights, which the flying public has overwhelmingly decided is the future of commercial aviation.”

Hybrids Emerging To Keep It Simple And Smart

The drastic change in attitude toward codeshares at Southwest Airlines has captured the attention of low-cost carriers worldwide, many of which have modeled themselves after Southwest Airlines, result-

ing in a new breed of hybrid carriers. These hybrids, according to a 2007 study by *Sabre Airline Solutions*[®], are more numerous than traditional LCCs (see related article on page 23 of Ascend 2008 Issue No. 1 via www.sabreairlinesolutions.com). Of the 123 budget carriers the study examined, 59 percent offered products and services that strayed beyond the sphere of a pure low-cost model.

Adopted practices include international routes, using the global distribution system, codeshare agreements, connecting services, multiple fares available at any time, advanced ticketing procedures, multiple aircraft types, multiple classes of service, interline agreements and long-haul destinations.

Only 41 percent of the airlines studied remained pure LCCs, selling point-to-point routes on one-class travel, using simple fares, with no codeshare, on the same aircraft type.

The hybrid carriers are profitable and popular. In 2007, these airlines flew 64 percent of passengers looking for budget air travel.

The research identified easyJet, Germanwings, Norwegian Air Shuttle, bmibaby, KD Avia, Centralwings, Blue Panorama Airlines and Flybaboo as hybrid airlines now along with Southwest Airlines, jetBlue Airways, WestJet, AirTran Airways, Virgin Blue and GOL Linhas Aéreas Inteligentes.

The LCC segment is one of the most competitive in the airline industry, and this has spurred many pure LCCs to explore new ways of evolving their businesses to remain competitive and sustainable. For many, this has meant adopting some full-service carrier business practices to help grow their

passenger bases and expand their reach in the marketplace, although they have often added their own twist on how these business practices are implemented.

Blue Meets Green

JetBlue Airways and Aer Lingus put a twist on traditional codeshare agreements when they announced in 2007 “the world’s first tie up between two international low-cost carriers.” The innovative partnership is a Web-based alliance that enables Irish and U.S. customers to book a single reservation between Ireland and more than 40 continental U.S. destinations, connecting through jetBlue Airways’ home base at New York’s John F. Kennedy International Airport.

When the tie up was announced, Aer Lingus and jetBlue Airways stressed their agreement did not go quite as far as traditional alliances because there was no codesharing deal to allow them to sell seats on one another’s planes as if they were their own. The partnership is also not an interline arrangement because there is no pro-rate agreement. Instead, the two carriers are simply combining their cheapest one-way Internet fares with each carrier receiving its portion of the ticket. The carriers transfer bags, something many low-cost carriers refuse to do, but they claim transfer costs are minimal because they operate at adjacent terminals at JFK.

Virgin Blue: 10 Alliances And Counting

At its inception in 2000, Virgin Blue did not have interline or marketing alliances with any other airline. But after the collapse of its domestic competitor Ansett, the low-cost carrier began the first of many alliances by signing a codeshare agreement with United Airlines. The agreement allowed United Airlines’ customers to fly from the United States to any of Virgin Blue’s Australian destinations that United Airlines did not already serve.

In 2006, in an effort to be more competitive with rival Qantas Airways, Virgin Blue expanded cross-carrier relationships, forming frequent flyer agreements with Emirates, Hawaiian Airlines and Malaysia Airlines.

The same year, Virgin Blue announced a plan to operate up to seven flights a week to the United States using California’s Los Angeles International Airport or San Francisco International Airport, saying that the route was needed to make the airline as profitable as possible. After three years of negotiations between U.S. and Australian regulators, an open-skies agreement emerged giving Virgin Blue’s long-haul spin-off, V Australia, permission for 10 flights a week between Sydney Airport and LAX, which the carrier began operating earlier this year.



Photos courtesy of Airbus



Since 2002, Virgin Blue has taken advantage of interline and codeshare agreements to expand its reach and more effectively compete. It first partnered with United Airlines, and most recently, it has entered into an interline arrangement with Vietnam Airlines, bringing its codeshare and interline agreements to 10.



In November 2007, Virgin Blue announced an interline deal with international carrier Garuda Indonesia, offering easy transfer from a domestic Virgin Blue flight to an international Garuda service departing from Australia's Perth, Melbourne, Sydney or Darwin.

Most recently, Virgin Blue announced an interline agreement with Vietnam Airlines, which allows passengers to fly from Melbourne and Sydney to Ho Chi Minh City, Vietnam, then transfer easily to any of the 41 international and 18 domestic destinations served by Vietnam Airlines.

"This agreement with Vietnam Airlines brings the number of Virgin Blue codeshare and interline agreements to 10," said Virgin Blue Chief Executive Officer Brett Godfrey. "It's a significant new association as it means Virgin Blue guests will now have the option of convenient travel to one of Asia's most interesting and popular destinations. We are pleased to be partnering with a reputable carrier such as Vietnam Airlines, to offer more choice for leisure and business travelers."

AirAsia X

AirAsia, Asia's largest low-fare, no-frills airline, pioneered low-cost traveling in the region. It was also the region's first airline to implement fully ticketless travel and unassigned seats. In January 2007, AirAsia further demonstrated its pioneer thinking when it affiliated with AirAsia X (previously known as FlyAsianXpress), a long-haul, low-cost carrier to cover destinations more than four hours in flight duration from Kuala Lumpur, Malaysia.

A series of strategic investor relationships has put AirAsia X on solid financial ground, allowing it to expand beyond its original Australian Gold Coast Airport destinations. The carrier has secured rights to land in China, Korea and west Asia, with future expansion plans that include India, the Middle East and Europe. Its European expansion was confirmed in December when executives announced the launch of direct service flights from Kuala Lumpur to London, which began in March and operates five times a week.

Network Carriers Respond

While low-cost carriers are borrowing some moves from network carrier playbooks, network carriers are incorporating some low-cost carrier strategies themselves in hopes of remaining competitive.

"As we are in a recession that is becoming worse, there is going to be an impact on air travel," said Bruce Zirinsky, a bankruptcy attorney who spoke to reporters about the state of the industry last December. "There is already shrinking

demand and if that continues, it is fair to say we will see more consolidation."

Lucrative business from international business travelers is forcing strong international alliances.

American Airlines lost its status as the world's largest airline last year with the merger of Delta Air Lines and Northwest Airlines. An alliance by rivals United Airlines and Continental Airlines is putting additional pressure on American Airlines.

Airline economists predict other sizeable U.S. airlines could possibly make headlines with mergers this year including US Airways, Southwest Airlines, Northwest Airlines and jetBlue Airways.

Across the pond, merger mania and low-cost subsidiaries are taking off. British Airways is in talks with Iberia and has recently launched its own budget carrier. Last June, OpenSkies made its inaugural flight using a single Boeing 757 transferred from British Airways' fleet. The flight demonstrated that British Airways was doing more than taking advantage of the recent E.U.-U.S. open-skies agreement. It was testing a new business model by applying the low-cost structure of a budget carrier to a more upscale product.

"Low cost doesn't mean low fares," British Airways Chief Executive Officer Willie Walsh told reporters. "There is a lower cost base, but it's still a premium product."

OpenSkies is unique in that it combines the perks of a traditional carrier — including oneworld membership, more legroom and electrical outlets — with slimmed-down staffing levels, fewer expensive benefits and a chance to simplify complex operating systems that are entrenched in flagship carriers. The idea is to attract budget-minded corporate travelers who don't want to give up all of the amenities of the front cabin.

Iberia is another example of a network carrier adopting its own budget airline. In 2006, the Spanish flag carrier bought an 80 percent stake in Clickair where it directed all of its short-distance passengers, except those from its Madrid, Spain, hub. The airline has been successful, say experts, because of Clickair's efforts to keep Iberia — and its network mentality — at arm's length.

In January, the European Commission gave conditional clearance for closer ties between Iberia, Clickair and Barcelona, Spain-based Vueling. Vueling, named in 2006 among Europe's best low-cost carriers, started restructuring in 2007 to enhance profitability. Last July, Vueling and Clickair announced plans for a full merger to create a carrier better equipped to tackle stiff competition and high fuel costs.

Agreements And IT Requirements

For an airline, regardless of its business model or strategic partnerships, it is just as important to have robust computer systems as it is to have a modern fleet. Creating flight schedules, providing fare information, making reservations, offering electronic ticketing, effectively managing passenger check-in, changing a booking or giving credit for frequent flyer miles are impossible without sophisticated information technology.

Today, many airlines have their own IT systems that are unique to them, even though tasks are similar. However, when they act in concert, in an alliance, for example, the use of different hardware and software by individual member airlines poses major problems, making it time consuming, expensive and complex for them to achieve their common goals.

Regardless of the form an airline agreement takes — codeshare, alliance, interline or joint venture — decision makers should look for synergies in network, business and systems compatibility to avoid an historically dismal track record of past airline partnerships. Network and business compatibility evaluations are relatively simple when compared to the complexities of systems integration.

Philip Wang, principal management consultant for *Sabre Airline Solutions*, suggests that before airlines enter into an agreement, they should evaluate IT compatibility by analyzing four key operating systems:

1. Reservations and ticketing systems — Do the systems enable free sell and interline e-ticketing?
2. Revenue accounting systems — Can they handle the type of interline billing settlement that both partners want to use?
3. Check-in systems — Does the check-in system handle interline through check-in?
4. Web sites — Do both airlines' Web sites display, reserve and ticket codeshare flights and multi-leg interline itineraries on top travel portals and each partner Web site?

"Without this kind of system compatibility, the partnership can become very costly in terms of investment and lost opportunity," Wang said. ■

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