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A Conversation With
Leo van Wijk, Chairman,
SkyTeam

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The Avianca logo features a stylized bird icon composed of three overlapping curved lines in purple, yellow, and red, positioned to the left of the word "Avianca" in a large, white, sans-serif font.The TACA logo consists of the word "TACA" in a bold, blue, sans-serif font, followed by a graphic of five red, curved lines that resemble a stylized bird or a wing.

Two Is Better Than One



Avianca-TACA merger forever alters Latin America's airline environment

The "merger of equals" between Avianca and TACA substantially changed the landscape of Latin America's aviation industry.

■ By Lauren Lovelady | *Ascend* Staff

While much of the world's aviation industry has struggled in recent years, the emerging Latin American airline industry has experienced above-average traffic growth. Many industry analysts and the region's airline executives believe there is still significant growth potential, especially for carriers willing to rethink their strategies and operate proactively.

As with the rest of the global market, the current trend in Latin America is toward airline consolidation. This would result in fewer, bigger and stronger carriers that are better able to withstand competitive pressures, economic downturns, volatile fuel prices and other challenges.

Even airlines with successful individual brand identities, such as Avianca and TACA, are forming partnerships to capitalize on opportunities to:

- Obtain stronger market position,
- Develop geographically diversified networks,
- Offer increased choices and more efficient connections to passengers,
- Enable reinvestment in product offerings to improve customer service.

Merging Strategically

In February 2010, privately owned Colombian flag carrier Avianca formed a strategic merger with Grupo TACA, an El Salvador-based airline that has been owned by the Kriete family since 1961. Avianca holds a 67-percent stake in the partnership, while TACA has 33 percent. The new management team overseeing the

partnership draws equally from both carriers. Despite the seemingly inequitable share distribution, the partnership has been called a merger of equals. It is specified as such under the shareholder agreement governing it.

"Avianca and TACA are successful brands in very distinct markets," said Estuardo Ortiz, chief operating officer for Avianca-TACA. "Both airlines have unique strengths, and each makes an equal contribution apart from pure numbers."

TACA brings to the table international operations experience, with O&D networks across South, Central and, particularly, North America. The carrier also has expertise in the management of a multi-carrier and multi-hub business model across a number of countries. Avianca has a strong presence in Colombia and other South American markets. Its wide-body aircraft operations open the door to new passenger and cargo opportunities from San Salvador and Lima.

More than operational compatibility, the carriers also share similar customer and brand strategies, including a commitment to high-quality service. In addition, both airline cultures focus on talent development within their respective operations.

"The talent and commitment of the people of Avianca and TACA, aligned with the same objectives and similar cultures, is a major advantage," said Ortiz. "With these shared strengths and values, the new airline group will be able to capture synergies faster and create value sooner."

"The partnership will capitalize on two of the best-known airline brands in Latin America



Photo: TACA

TACA And Avianca The new merger partners seldom compete for customers given that there is only a 1 percent overlap between their route networks.



Photo: Avianca

Merger Of Equals While Avianca holds a 67-percent stake in the partnership with TACA, the two still consider it a merger of equals.

with world-class product offerings, strong hubs and complementary networks, as well as two uniquely entrepreneurial and service-oriented cultures with highly motivated employees.”

The strategic merger, however, does not create a single airline — at least at this time. Both TACA and Avianca have strong customer bases. This makes their individual brands valuable assets that they plan to retain for the foreseeable future. Because there is only a 1 percent overlap between the two carriers’ route networks, Avianca and TACA rarely compete for the same passengers or revenues.

“We are focusing on harmonizing the service levels and standards so we can deliver the exact same customer experience at both airlines,” Ortiz said. “Then, and only then, will we consider having only one brand, and it will be based on customer research and in the best interest and success of the airlines.”

Instead, the focus is on the creation of synergies to build a financially strong partnership with the opportunity to generate myriad synergies and provide more stability for the approximately 12,000 employees now part of the new airline company. The merger will also generate new cost savings in the range of 2 percent to 3 percent as the two carriers renegotiate supplier contracts.

A key step in the creation of uniform service standards is the simplification and upgrade of the airlines’ combined fleet of 129 aircraft. A fleet renovation process will phase out Avianca’s current Fokker aircraft and

replace them with newer, more efficient planes in terms of capacity and fuel consumption.

“We are in the process of defining a single Airbus A320 configuration for the partnership that utilizes each airline’s best practices in terms of avionics and interiors,” Ortiz said. “This will provide us with great synergies. However, we don’t feel it’s necessary to move to a single fleet type. Instead, we are looking into an optimal combination of aircraft to serve our five-year and long-term network plans.”

Altering Latin America Aviation

The impact of the merger — the first in Latin America — reaches well beyond the two carriers’ daily operations. It significantly alters the landscape of the region’s aviation industry and creates an airline network comparable to the size and scope of some U.S. and European carriers.

Together, the airlines offer more than 100 destinations throughout Latin America — the largest number of any airline. In addition, there are further opportunities for more efficient connections, increased frequencies and the expansion of services within the Americas and to Europe through Avianca-TACA’s Bogota, San Salvador, San Jose de Costa Rica and Lima hubs.

“Avianca-TACA took the first step in Latin America,” Ortiz said. “And we expect to see that trend continuing as we did last year with the announcement of a merger between LAN and TAM. We operate in an emerging region with a growing economy, resulting in an

increased demand for air travel. It makes sense for airlines to continue to look for partnerships to capture most of the ever-growing markets.”

Recent acceptance of Avianca-TACA into the Star Alliance further solidifies the partnership’s standing in Latin America. And it opens the door to myriad global opportunities through the 28-member alliance.

“Becoming part of the largest and most important global alliance is a major step forward in our commitment to establish our airline as the best in the region, supported by our operational standards and exceptional service,” Ortiz said. “We will be able to offer our passengers travel alternatives to approximately 200 countries.”

The carriers project a continued growth in passenger traffic resulting largely from its ability to capture new market opportunities and

High Flight

“We operate in an emerging region with a growing economy, resulting in an increased demand for air travel. It makes sense for airlines to continue to look for partnerships to capture most of the ever-growing markets.”

— *Estuardo Ortiz, chief operating officer, Avianca-TACA*

improve service offerings rather than from drawing market share away from other Latin American carriers. While the merger provides Avianca-TACA with a competitive edge in the region, particularly if seat capacity eventually outpaces demand for travel, the focus is more on building a profitable network and stimulating economic growth. The combined airlines carry around 15.4 million passengers annually, and an effort is being made to communicate the benefits of the merger to each one. Customer reaction, Ortiz noted, has been very positive.

"We recently entered the Peru domestic market, for example, with the objective of developing that market to reach its full potential by offering more options to passengers and therefore positively stimulating tourism and business travel within the country," he said.

"As we grow, we naturally increase employment opportunities in the countries where we operate," Ortiz said. "Our employees benefit from the partnership's greater geographical diversity and stronger platform for career development."

Key To Success

Both airlines have previous experience with the acquisition and consolidation of several smaller carriers into their current business models. Even so, the strategic merger of the two Latin American carriers has not been without challenges.

"Without a doubt, a multi-carrier business model has several complexities," Ortiz said. "However, our past experiences have taught us how to manage this type of model, and we believe we are very well positioned to unite Avianca-TACA under a similar business model."

A critical component in the success of any merger, he said, is a well-designed roadmap of the implementation. For the Avianca-TACA

partnership, this includes a comprehensive three-year synergistic plan detailing specific priorities and resources. A continued focus on the base business of operating an airline is important throughout the transition as well.

"The key success factor," Ortiz emphasized, "is about people and change management. You must prioritize, focus, watch the day-to-day operations and take care of people."

Envisioning The Future

Many aviation industry analysts and airline executives worldwide, including Ortiz, believe the industry will further consolidate as increasing numbers of carriers realize the benefits of mergers, alliances and partnerships. In the Latin America region alone, there will most likely be two or three major carriers in the years to come.


In addition, revenue-sharing and joint-venture initiatives with U.S. and European carriers may soon develop in the region. This provides Latin American airlines with the benefits of partnerships without the complexities of traditional mergers and acquisitions.

"Partnering two compatible airlines allows the parties to combine the best practices, the best talent, the best strategies and the best experiences

from each airline," Ortiz said. "Growth opportunities are increased, and protection against a volatile industry is enhanced. When a merger is well executed, competitive advantages can be enormous and truly strengthen the airlines."

As for the Avianca-TACA strategic partnership, the roadmap has been developed, the journey is underway, and the destination determined.

"We have a short-term focus with a long-term vision. Our vision is clear: To be the preferred Latin American airline around the world and the best place to work while generating superior value for our shareholders," Ortiz said. "We believe we have all the elements to fulfill that vision."

"We have been very successful in the past as separate airlines, but we are convinced we are more competitive and more sustainable after the merger." 

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+count it up

87.6

The percentage of 2010 on-time arrivals for U.S. carrier Hawaiian Airlines, which had the highest on-time performance last year followed by United Airlines with 83.1 percent and AirTran Airways with 82.1 percent, according to the U.S. Bureau of Transportation Statistics.

25

The percentage of which all company's sales are dependent on air transport, according to enviro.aero. The website said 70 percent of businesses report that serving a bigger market is a key benefit of using air services.

0.2

The percentage increase of workers employed in December 2010 over the same period in 2009 by U.S. scheduled passenger airlines, according to the U.S. Bureau of Transportation Statistics.

6.7 million

The approximate number of direct tourism jobs that are supported by the spending of international visitors arriving by air, according to enviro.aero. As such, air transport helps improve living standards and alleviate poverty.

3,754

The approximate number of airports served by airlines through a route network of several million kilometers managed by approximately 160 air navigation service providers, according to enviro.aero.

20 decibels

The amount by which aircraft entering today's fleet are quieter compared to aircraft 40 years ago, according to enviro.aero. A further 50 percent reduction in noise during takeoff and landing is expected by 2020.