A Conversation With Pham Ngoc Minh, President and Chief Executive Officer, Vietnam Airlines, Pg 18.

American Airlines’ fuel program saves more than US$200 million a year

Integrated systems significantly enhance revenue

Caribbean Nations rely on air transportation
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.
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

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— Manuel Borja, chief executive officer, Mexicana Airlines
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ing many destinations in Mexico, where U.S. net-
work 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);
- AeroMexico’s initiation of a Buenos Aires route
(Mexicana Airlines’ only long-haul international ser-
vice);
- Limited slot availability at Mexico City Benito Juarez
International Airport for expansion;
- New passport rules by the U.S. government requir-
ing 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 fore-
saw 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, aggres-
sive competition and high fuel prices, the business
model of this subsidiary has proven extremely suc-
cessful, 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 worth-
while, providing Mexicana Airlines with a weapon
against all new domestic entrants. The airline that
started with 10 Fokker 100 aircraft serving 16 destina-
tions 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 press-
ning 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 concen-
trate 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 car-
rier 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 manage-
ment department,
- Midterm network realignment,
Profile

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.

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