ON THE ROUTE TO RECOVERY

A conversation with …

James Hogan, President and CEO, Gulf Air

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38 Low-Cost Carrier Model Continues to Evolve

79 Recent Breakthroughs in Revenue Management
A Comprehensive Strategy

CRM is more than IT or a frequent flyer program. It is a strategy that enables airlines to remain competitive today and in the future. Many carriers have already experienced the benefits of their CRM initiatives and have received a return, understanding that CRM should be considered an investment with short- and long-term results that follow the overall corporate strategic plan. The CRM trend will continue to evolve.

The later airlines start CRM initiatives, the bigger the gap will be with their competition. Addressing CRM issues today position carriers to capitalize on the ongoing recovery and will help airlines manage customers effectively in the future.

Several issues, according to the McKinsey Quarterly, lead customers to downgrade their use of an airline’s products. Such downgrading — choosing fewer or less expensive products or discontinuing a loyalty program altogether — can be addressed through an effective customer relationship management program.

Although CRM and frequent flyer programs are intertwined, CRM with its personalization and holistic approach allows airlines to do much more for an airline than a loyalty program by itself.

In a Time of Cost Cutting, does Investment in CRM Make Sense?

The current challenging economic environment and the continued growth of low-cost carriers has put competitive pressure on the traditional network airlines, which have responded by focusing almost exclusively on cost-cutting measures in order to remain competitive.

And in a challenging economy, many strategic initiatives such as CRM get pushed to the side, and some airlines question whether the time is right for a CRM initiative.

Even in the current climate, a CRM strategy is critical to recovery and future growth because it helps airlines access their competition from its price. An airline’s price structure, schedule and product can be duplicated by competitors, but customer data and customer insight will allow an airline to understand its customers’ issues and to differentiate itself by implementing better services that offer a new level of personalized service, especially compared with low-cost carriers.

That’s not to say that low-cost carriers don’t have a need for a CRM strategy.

Southwest Airlines, for example, a low-cost carrier with few extra amenities, justifiably views itself as customer-service focused. Southwest Airlines has repeatedly fascinated the top of airline customer satisfaction ratings.

Its strategy is based on a customer-service approach, maximizing the “people aspect” and making sure issues with travelers are solved quickly. Southwest is also working to collect more customer data and share it among touch points, creating a single view of the customer in order to offer better service.

“Customer service causes loyalty that can’t be explained by low prices alone,” said Donna Conever, vice president of customer service at Southwest Airlines.

Airlines have struggled with how to effectively measure the returns from their CRM initiatives and to justify their expense. Given the scope of most CRM investments, an airline should take a holistic approach and consolidate results in various areas to determine the effectiveness of the CRM program.

Rather than focusing narrowly on specific areas such as revenue optimization or pricing where there doesn’t appear to be a direct benefit from CRM, but instead looking at the overall performance of the airline, the effectiveness of the program can be gauged.

Customer focus holds the key to increased profitability but also presents challenges. The promise is clear — better treatment of customers will lead to higher profitability.

A McKinsey investigation of 17 airlines in 2003 indicated CRM can improve revenues by between 0.9 percent and 2.4 percent. After deducting the costs, this still leaves large airlines with US$250 million or, for smaller airlines, US$15 million to US$50 million annual improvement.

However, achieving those results requires more than just additional data and analysis. It requires that the information be used to change the way of selling, marketing and serving customers as well as the way the airline interacts with the customer. The primary reason some CRM efforts don’t deliver the expected benefits is that the customer’s perspective is not captured by the employee is overlooked during the CRM implementation. Having more customer data by itself achieves nothing. To be successful, an airline must have an effective strategy and implement the strategy throughout the enterprise.

The Long Night’s Journey into Day

By B. Scott Hunt and Stephanie Hawkins

I t is truly darkest before the dawn, then the airline industry certainly stands on the cusp of a spectacular sunrise.

After a prolonged period of darkness in the industry, many industry experts say that they see the first rays of the sun on the horizon, with increases in metrics such as passenger traffic, load factors and revenue per kilometer.

“Positive growth is expected in 2004, with a bounce back of 7 percent to 8 percent in international RPKs,” said Giovanni Bisognani, director general and chief executive officer of the International Air Transport Association. “Ouragenda for 2004 is designed to turn this positive trend into sustained benefits that will help the industry repair damaged balance sheets.”

The International Civil Aviation Organization also predicts that traffic, after two flat years, will grow this year. The ICAO projects traffic will further increase to 3.3 billion passenger kilometers performed in 2005.

Even in North America, where impacts of the industry downturn have been felt most acutely, there are rays of hope. According to the Air Transport Association of America, an industry truce group, the U.S. industry’s losses decreased from US$11.3 billion in 2002 to US$5.8 billion last year.

“We’re heading in the right direction,” said James C. May, chief executive of the ATA earlier this year.

In January, the ATA reported that revenue from passengers carried was up 5.4 percent year-over-year, exceeding analysts’ expectations. Most of the gains came from international travel, the ATA said.

“We see improvements across the board comparatively speaking against the previous two years,” said Emre Serpen, a senior partner with Sabre Airline Solutions Consulting. “I would say the recovery happened faster than expected. In terms of profitability, European and Asian carriers are doing well. Market growth rates are back on track, load factors are recovering, and there’s general improvement. We still need to be cautious, of course. It’s not like everything is perfect. But there’s improvement.”

The improving global economy and pent-up demand for travel have helped airlines around the world regain their footing. The low-cost segment, which was not impacted to the degree of some of the network carriers, continues to grow and stimulate traffic with low fares and by tapping underserved markets.

Although the recovery appears to be worldwide, it is progressing at different rates in the three regions most dramatically affected by the events of the past three years.

The CRM trend will continue to grow.

Airlines have struggled with how to effectively measure the returns from their CRM initiatives and to justify their expense. Given the scope of most CRM investments, an airline should take a holistic approach and consolidate results in various areas to determine the effectiveness of the CRM program.

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Global Passenger Forecast Summary

<table>
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<td>3.4%</td>
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<td>Total Domestic</td>
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### News Briefs from Around the Globe

**Phuket Air**

Airlines are also beginning to change their focus, Tunnacliffe said. "It has appeared that market share has been more important to many airlines than profitability," he said. "Where I think we’ve seen that change is in the new generation of airlines. Those airlines have been resolute on profit; they don’t do stuff unless it’s profitable. That’s the mindset that ought to be spreading." **North America**

The region most impacted has finally begun to show some positive signs of a comeback. "I don’t know if the dark times have passed, but somebody turned up the dimmer switch a little bit. We’re looking better than we used to, that’s for sure," said Ian Hendrickson, senior partner with Sabre Airline Solutions Consulting. "We’re looking better than we used to, that’s for sure."

**Domestic**

Analysts in the region are also optimistic about the continuing recovery. "I don’t know if the dark times have passed, but somebody turned up the dimmer switch a little bit. We’re looking better than we used to, that’s for sure."

**Europe**

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**North America**

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**Domestic**

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Beginning this year and continuing through 2007, passenger traffic is expected to increase, according to IATA forecasts. The annual average growth rate through 2007, including the declines in passenger traffic in 2003, shows positive growth worldwide of 3.9 percent, led by the intra-Asia/Pacific region.

### Global Passenger Forecast Summary

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic</th>
<th>International</th>
</tr>
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<td>2003</td>
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<td>Europe</td>
<td>31.1%</td>
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<td>Asia</td>
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<tr>
<td>North America</td>
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<tr>
<td>Middle East</td>
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<td>7.3%</td>
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<tr>
<td>Africa</td>
<td>9.0%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Latin America</td>
<td>4.5%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Oceania</td>
<td>5.9%</td>
<td>6.2%</td>
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</tbody>
</table>

### Airline Performance

**North America**

Analysts in the region are also optimistic about the continuing recovery. Airline traffic in the U.S., has fueled traffic on North Atlantic routes, where many of the major European carriers generate a significant amount of their revenue. The strong performance of the major carriers, along with a “fair wind and no major incidents” should return to some level of normalcy in two years.

**Asia-Pacific**

The region most impacted has finally begun to show some positive signs of a comeback. 2003’s traffic fell by 10.9% on average. By 2007, traffic is expected to increase by 10.6%.

**Europe**

The recovery in Europe is expected to be strongest in 2004, with traffic increasing by 7.0%. By 2007, traffic is expected to increase by 6.5%.

**Latin America**

Traffic in Latin America is expected to increase by 6.7% in 2004, and by 6.5% in 2007.

**Middle East**

Traffic in the Middle East is expected to increase by 7.3% in 2004, and by 7.5% in 2007.

**Africa**

Traffic in Africa is expected to increase by 9.0% in 2004, and by 9.6% in 2007.

**Latin America - Caribbean**

Traffic in Latin America - Caribbean is expected to increase by 4.5% in 2004, and by 4.8% in 2007.

**Domestic**

Traffic in the domestic market is expected to increase by 4.9% in 2004, and by 5.1% in 2007.

### Airline Strategies

- **SabreSonic**
  - A business processing solution that helps airlines improve distribution, create greater efficiency in booking capabilities and lead directly to increased revenue.

- **Qik**
  - A business processing solution that helps airlines improve distribution, create greater efficiency in booking capabilities and lead directly to increased revenue.

**Who**

- **Phuket Air**
  - Selected the SabreSonic solution for its reservations and departure control. The solution will help the airline improve distribution to travel agencies, create greater efficiency in booking capabilities and lead directly to increased revenue.

**What**

- **Sabre** AirOps Load Manager and SabreO² Qik business processing solutions.

**Why**

“Phuket Air has experienced exceptional growth in the first two years of operations, and we aim to improve our reservations efficiency and the level of services offered to our customers with this implementation,” said Kanin Phuvastien, senior vice president of Phuket Air. “Sabre Airline Solutions is also allowing more extensive distribution options by our participation in a number of global distribution systems.”
### Regional Outlook 2003—2007: Broad Factors Affecting Passenger Growth Trends

<table>
<thead>
<tr>
<th>Region/Continent</th>
<th>Important Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trans-Pacific</td>
<td>Impact of SARS in 2003, Continued slow economic recovery in Japan, Increasing expansion of North America-Southeast Asia non-stop services.</td>
</tr>
<tr>
<td>North Atlantic</td>
<td>Slow recovery from Sept. 11 event, Expansion of services between North America and Eastern/Central Europe.</td>
</tr>
<tr>
<td>Within Europe</td>
<td>Continued low-cost carrier expansion, Competition from high-speed train links, Extended European Union stimulus traffic between Western and Eastern/Central Europe.</td>
</tr>
<tr>
<td>Europe-Asia/Pacific</td>
<td>Poor outlook for the Japanese economy, Impact of SARS in 2003, Strong and quick recovery, Strong Chinese and Vietnamese growth.</td>
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<tr>
<td>North America-Latin America/Caribbean</td>
<td>Capacity redeployment due to U.S. carriers leading to strong growth in this area, Economic problems in several Latin American countries.</td>
</tr>
<tr>
<td>Europe-Middle East</td>
<td>Serious short-term political and military concerns, Continuing expansion of Dubai as regional hub and tourist destination, Emergence of Doha hub with Qatar Airways.</td>
</tr>
<tr>
<td>Within Asia/Pacific</td>
<td>Impact of SARS in 2003, Strong and quick recovery, Continuing expansion of China's international traffic, Anticipated opening of mainland China-Chinese Taipei direct services.</td>
</tr>
<tr>
<td>India/Middle East</td>
<td>Serious economic problems in key markets, Creation of off-host operations by financially stronger carriers in neighboring countries.</td>
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<tr>
<td>Europe-Africa</td>
<td>Network expansion and fleet renewal by largest African carriers, Some loss of routes due to Sabena and Swissair bankruptcies, Political instability in some key markets.</td>
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<td>Serious economic problems in key markets, Creation of off-host operations by financially stronger carriers in neighboring countries.</td>
</tr>
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### THE HIGH LEVEL VIEW

**News Briefs from Around the Globe**

**Who**
Jardines Aviation Services Group

**What**
Implemented Asia/Pacific’s first new-generation, integrated resource management suite, including the Sabre® StaffAdmin™ employee tracking and assignment system, the Sabre® StaffManager™ automated staff allocation system and the Sabre® StaffPlan™ staff forecasting and planning system, to efficiently manage its resources at Hong Kong International Airport.

**Why**
“JASG required an efficient and centralized staff and equipment planning system for both passenger and ramp handling that would enable a move away from the current non-centralized setup,” said David Clymo, finance director for JASG. “We visited several Sabre Airline Solutions resource management customers throughout Europe and could see similarities with our operations. After an intensive evaluation, Sabre Airline Solutions was proven to offer the best-of-breed customized solution for the requirements of JASG, which was instrumental in the contract win.”

**The Future is Still Cloudy**
Even with the positive signs, “it seems like we’re always right around the corner from something,” he said, recognizing that cost containment will be an ongoing challenge for the industry. “We have potential to be another major setback, or at least the fear of such a force,” Hendrickson said.

**Industry**
Industry experts say there are several factors that could send the industry back into the dark.

- **In the last few years, you could call it the ‘constant shock syndrome’ where there always seems to be an ‘X’ factor you have to be cognizant of.”**
  
**Srom said.**
  
“[You have potentially] SARS, terrorist activity, continued economic problems, the Sept. 11 event, and even now the effects of SARS and the impact it’s had on the market.”

- **Companies are saying, ‘OK, it looks like the markets have stabilized, we know what our future looks like, let’s go out and face those customers and chase those deals,’” he said.**
  
“[But] the region’s airlines have also taken some other steps to regain health such as focusing on long-haul trunk routes, aggressively pricing their product, attacking inefficiencies and rationalizing their fleets.”

- **Still, it will take six to eight quarters of consistent revenue and earnings growth to return to some semblance of health,” Hendrickson said.**

- **“There’s no doubt that the network carriers as we know them are going to have to remake themselves if the marketplace continues to move the way it has with the low-cost carriers bringing products that are of comparable quality into the market with much lower costs,” Hendrickson said.**

- **“It has been more than five years since we have seen economic growth of that magnitude.”**

- **As the economy improves, some of the pent-up demand for travel is being released.**

- **“Companies are saying, ‘OK, it looks like the markets have stabilized, we know what our future looks like, let’s go out and face those customers and chase those deals,’” he said.**

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**Political instability in some key markets.**

**Serious short-term political and military concerns.**

**Continuing expansion of Dubai as regional hub and tourist destination.**

**Emergence of Doha hub with Qatar Airways.**

**Network expansion and fleet renewal by largest African carriers.**

**Some loss of routes due to Sabena and Swissair bankruptcies.**

**Political instability in some key markets.**

** according to Srom, to compete with low-cost carriers going forward, traditional airlines should ensure that they are ‘reexaming their networks and the profitability of each individual part of those networks’ as well as examining the products.**

**Who are the diferent components in their market niche?’**

**Beyond restructuring to address the challenge from low-cost carriers, one of the main themes that could continue to fuel a strong recovery still remains on the horizon.**

“...the world has too many airlines,” Turnacliffe said. “Any other industry faced with these sort of economic conditions, the natural reaction would be consolidation. Airlines would merge. Some airlines would go bankrupt. Some would be acquired. This is very difficult to happen under the current regulatory environment that the airlines operate in, especially internationally. But I think we have to see that change, and we have to see the ability of major airlines to consolidate.”

**Still overall, the future looks bright especially compared with the recent past.**

“I am optimistic,” said Turnacliffe. “I think we're going to see some quite substantial changes in the way the industry operates over the next decade. I think we will see some rationalization as far as the regulatory environment. We will see consolidations in the industry. When that happens, the industry should be stronger. Individual airlines will be more profitable. They will be able to invest more in technologies that they're going to need in the coming years.”

**B. Scott Hunt and Stephani Hawkins can be contacted at scott.hunt@sabre.com and stephani.hawkins@sabre.com.**
they also, in some cases, eclipse the 2000 numbers, so it’s pretty encouraging,” Hendrickson said.

In the U.S. to Latin America sector, revenues are up about 11 percent. In the U.S. to Europe market, the revenue per available seat mile numbers have passed 2000 levels. Even in domestic travel, which is still lagging well behind 2000 levels, passenger levels are climbing.

“Year over year we’ve turned the corner,” Hendrickson said. “Coming from an environment like the one we’ve just experienced, that’s a positive thing.

Much of this growth, he said, is fueled by the burgeoning U.S. economy which in the third quarter of 2003 grew by 8.2 percent — “it has been more than five years since we have seen economic growth of that magnitude.”

As the economy improves, some of the pent-up demand for travel is being released.

“Companies are saying, ‘OK, it looks like the markets have stabilized, we know what our future looks like, let’s go out and face those customers and chase those deals,’” he said.

The region’s airlines have also taken some other steps to regain health such as focusing on long-haul trunk routes, aggressively pricing their product, attacking inefficiencies and rationalizing their fleets.

Still, it will take six to eight quarters of consistent revenue and earnings growth to return to some semblance of health, Hendrickson said.

“The industry really needs to show some earning power and some revenue growth momentum before Wall Street is ever going to recapitalize it,” he said. “We think we’re going to see some quite substantial changes in the way the industry operates over the next decade. I think we will see some rationalization as far as the regulatory environment. We will see consolidations in the industry. When that happens, the industry should be more profitable. Airlines will be able to invest more in technologies that they’re going to need in the coming years.”

Industry experts say there are several factors that could send the industry back into the dark.

According to Srom, to compete with low-cost carriers going forward, traditional airlines should ensure that they are “reexamining their networks and the profitability of each individual part of those networks as well as examine the products. Are they differentiated enough in their market niche?”

Beyond restructuring to address the challenge from low-cost carriers, one of the main themes that could continue to fuel a strong recovery still remains on the horizon.

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