

Air Canada/Canadian: consolidation prototype

The demise of Canadian has left Air Canada with a near-monopoly in its domestic market plus a dominant position on transborder routes where it has a immunised codeshare agreement with its Star partner, United. As Air Canada merges Canadian's operations into its own over the next year or so, it will have the opportunity of realising the economic benefits of industry consolidation, acting a sort of prototype for United/US Airways, American/Northwest, British Airways/KLM, etc.. At the same time consumer groups and government will be carefully scrutinising developments, suspecting that their fears about industry consolidation are also going to be realised.

Air Canada and Canadian have been consistently unprofitable since Air Canada was privatised and Canadian emerged from an amalgam of CP Air, Pacific Western and Ward Air in the late 80s. Last year the two airlines' combined net result was a miserable loss of C\$9m.

However, according to Air Canada's own predictions it will soon turn into one of the most profitable of the North American Majors with an average cost base but yields which are second only to those of US Airways. Its forecast for the period to 2005 is summarised below. An immediate profit recovery is envisaged for this year (unfortunately, these figures were revealed just before Air Canada's pilots' union threatened strike action, which looks as if it will go ahead in July). Then the operating margin grows steadily from 3.6% in 1999 to 12% in 2005. Air Canada has also produced a "recession scenario" forecast for cynics who don't believe in steadily increasing airline profits - the impact of that scenario is also summarised below.

What factors lie behind the Air Canada forecast?

First, Air Canada now completely dominates the key domestic markets - transcontinental, "Rapidair" (Toronto-Montreal-Ottawa triangle) and intra-Ontario.

AIR CANADA'S FINANCIAL PROJECTIONS (C\$m)

	1999	2000	2001	2002	2003
Op. Revenue	9772	9568	12305	13419	14277
Op. Costs	9411	8863	11219	12073	12570
Op. Profit	361	705	1086	1346	1707
Non-op. Costs	195	187	267	209	132
Taxes	175	232	381	518	691
Net Profit	-9	286	438	619	884
<i>Net profit - recession scenario</i>		286	438	125	548

Notes: 1999 is sum of Air Canada and Canadian; 2000 reflects Canadian contribution for July-Dec. only.

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It has rationalised capacity in these market - seats offered by AC/CP will be down 18% in summer 2000 compared to last year, and overall market capacity will have been cut by 11%. Some solid fare increases have already been pushed through - up 12% on average last year.

The exception is intra-West where WestJet (see *Briefing*, March 2000) is expanding strongly. There Air Canada continues to lose money. WestJet has plans to move eastwards, establishing a base at Hamilton in Ontario, but Air Canada in its forecast assumes just "limited expansion" by WestJet.

Second, Air Canada/United, no longer having to compete against American/Canadian, has about 75% of the transborder market. Air Canada's transborder revenues have increased by more than 150% and it is now the carrier's highest margin business and largest source of earnings.

Regulatory response

However, Air Canada's success on this route may provoke a regulatory response. The federal government has already responded to consumer complaints concerns by proposing legislation which will give a new Airline Commissioner powers to investigate fares and collusion, fine miscreants and generally re-regulate the Canadian market. Now it may be considering offering cabotage rights to US carriers in order to increase

CAPACITY CHANGES 2000/1999

	AC/CP	Others	Total market
Canada	-18%	39%	-11%
US	15%	WestJet, Transat, Royal	13%
		United, American, Continental, Delta USAirways	
Atlantic	2%	11%	7%
Pacific	11%	Canada 3000, Royal (BA - large reduction)	17%
		Cathay, China, EVA, Air China	

Note: Changes in seats offered in summer seasons

AIR CANADA'S SYNERGIES (C\$m)

Commercial initiatives (unit revenue increases)	358
Schedule-driven savings	225
Customer services	92
Rationalising operations	102
Integrating Regionals	24
IT savings	28
Administration	43
"People"	6
Gross total	878
Negative factors ("cash creep", labour integration, etc.)	-178
Net synergies	700

cross-border competition.

The catalyst for this regulatory change could be strike action by the pilots who are threatening to shut down the airline in July over pay claims and disputes about the division of work between the mainline airline and the regional subsidiaries. Resentment over the last Air Canada strike in the summer of 1998 still lingers.

Third, Air Canada aims to find some C\$700m of synergies resulting from the merger of the two airlines' operations (see table above). Some C\$250m of these synergies fall into a "quick fix" category and should show up in this year's financial results.

Admittedly, the various category titles are not very illuminating, but it is interesting that Air Canada feels able to project this level of improvement - equating to about 7% of the combined airlines' 1999 revenues - without any substantial cut-backs in the workforce and no involuntary relocations of personnel.

The combined carrier will also be able to reduce the high finance costs and aircraft lease rates that Canadian was forced to pay because of its parlous financial state.

Air Canada's management, despite the rumblings from its unions, is projecting a new, confident image, presenting itself as one of the leading US Majors rather than as a semi-European flag-carrier. But the only way in which its strategy can be effectively tested will be in a fully integrated North American market, and Air Canada will resist that development most vigorously.

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Bizjets: what comes after the fractional boom?

When the first business jets arrived in the early 1960s, they represented an elite form of transportation for governments, VIPs, large corporations, and pop stars. This generated a fairly profitable market for the manufacturers. However, annual sales stuck around the \$2-3bn mark (in 2000 dollars) until 1996. But then, a funny thing happened: a mature market tripled. Deliveries in 1997 rose close to \$6bn and close to \$7bn in 1998. In 1999, manufacturers delivered 636 jets worth \$9.2bn. If the new dedicated business jetliners are added (Airbus' A319CJ and Boeing's 737 BBJ) the market was worth well over \$10bn.

The key demand driver for business jets is corporate profits. Typically, business jet demand increases a few years after corporate profits improve, and the US has enjoyed an extended period of economic growth and high profitability. (The business jet market remains focused on North America: over 85% of the world's private business jets are based there.)

Corporations have also changed their attitude towards business aviation. Thanks to regional airline service cutbacks, substantial increases in business fares in recent years and the near abolition of First Class, companies are looking to private aviation as a source of efficiency rather than simply a status symbol.

Demand has also been boosted by the use of new technologies to promote business aviation. In early 2000, one company, Transjet.com, became the first to sell fractional ownership shares online. This approach might be further extended, offering business jet seats, as needed, to passengers with no ownership stake.

New business jet models are expanding business jet capabilities at the high and low segments of the market, and creating attractive new middleweight models for companies that want the latest and best technology. Fractional ownership is bolstering these new models by providing large, up-front orders.

An unprecedented 15 new business jet models arrived during 1995-1999, largely as a result of the development of new engines, especially

Williams International/ Rolls-Royce's FJ44 and BMW/Rolls-Royce's BR700. But there are no revolutionary new engines or other technologies on the horizon. While Pratt & Whitney Canada's PW500 series has just entered service, and Honeywell's AS900 will enter service in 2002, these engines are replacements for earlier business jet powerplants, not product line expansions.

Many of these 15 new business jet models have been accompanied by large up-front orders, often discounted bulk buys from non-end users (i.e., fractional ownership firms). This has driven the market up to its current peak.

Intriguingly, most of these programmes were initiated before the market's explosive rise. Either manufacturers believed that these new products would help stimulate the market, or they had some excellent market forecasters. Right now, the business jet manufacturing industries' biggest problems concern production and completion deliveries. Production lines have been pushed to their limits.

Cyclical peak?

The downside to all of the recent good news, of course, is that mature markets that triple in a few years never stay tripled. Already, we are seeing signs of a market softening. The fleet of available used planes is increasing, and prices paid for these planes are plateauing, if not shrinking.

There are good reasons to expect 2000 to be the high point of the market. Much of the catalyst for market growth has been fractional ownership

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TEAL FORECAST: BIZJET SALES BY MANUFACTURER

	US\$ billions, 2000 basis					
	2000	2001	2002	2003	2004	2005
Bombardier	2.75	2.32	1.88	1.71	1.67	1.60
Cessna	1.52	1.55	1.39	1.24	1.16	1.16
Dassault	1.72	1.65	1.52	1.10	1.15	1.15
Gulfstream	2.21	1.95	1.49	1.03	1.16	1.55
Raytheon	1.11	1.16	1.20	1.17	0.88	0.79
Others	0.37	0.45	0.41	0.34	0.34	0.44
TOTAL	9.68	9.08	7.89	6.59	6.36	6.70

Aviation Strategy

Analysis

companies, rushing to purchase large numbers of new models. This is in effect a first equipment cycle, which has "overstimulated" the market, and in a year or two, it will end.

Nevertheless, the fundamentals are in place for long-term market growth. This is a much broader clientele; despite the uncertainties surrounding fractional ownership providers, the evidence is that they really do grow the market. According to EJA, the leading fractional ownership company, 80% of their clients have never owned a jet. Also, the total number of flight departments continues to increase, even counting each fractional providers as only one department.

Retirements will also play a role. The first business jets arrived in the early 1960s, and most of the early models are still in service-half the Learstars built are still active. Some 25% of the world's business jets are over 20 years old. Assuming a 25-30 year life span for business aircraft, there could be some major increases in new, or at least newer used, business jet demand after 2002-2005 to replace aircraft retiring from the market.

The market no longer caters exclusively to an elite, price-insensitive clientele. Increasingly, it is offering a commodity, complete with price competition (at both the user and manufacturer level). Margins will retreat somewhat from their recent healthy state. And, the question of industry profitability is greatly complicated again by the ques-

tion of fractional ownership.

Fractional ownership firms will soon account for about 10% of the worldwide business jet fleet, and this may rise to 25%. Deliveries of new jets to fractionals are currently running at 15%.

Today, there is really only one true, independent large fractional ownership player-EJA. The other large concerns, Raytheon's Travel Air and Bombardier's FlexJet, are tied to manufacturers and only order planes from those manufacturers. They may be more about asset management and market share manipulation than expanding the fractional ownership market. EJA is also the only fractional emphasising international expansion.

Any kind of concentration of market power in buyers will increase their ability to negotiate lower prices, which would affect manufacturer profit margins. Also, if competition among fractional ownership firms grows, possibly with the emergence of discount fractional players, this will further increase pressure on manufacturer margins.

Another related problem may be the flexibility that fractional companies have when ordering aircraft. If a company buys one or two jets, the manufacturer will enforce the sales conditions and schedule, making deferrals difficult. But fractional companies, with their greater market power, will be able to demand deferrals (and possibly even cancellations) based on prevailing market conditions. So, sales to fractional firms may be somewhat less "firm" than sales to traditional users.

Fractional ownership will also have an impact on market cyclicity. Looking to the commercial jetliner industry for a parallel, there are two alternatives. If fractional companies behave like GPA did in the 1988-1990 market upturn, placing large block orders in anticipation of continued market growth, fractionals will exacerbate market cyclicity. However, if they behave a bit more rationally, like ILFC, they will place large block orders when the market is down and the buyer has the advantage over the manufacturer.

Lastly, because fractional ownership companies emphasise greater utilisation of aircraft, residual values may suffer. If a fractional firm uses a given plane twice as many hours per year as the current norm, values for the entire fleet may well decline from current levels.

TEAL FORECAST: DELIVERIES BY AIRCRAFT TYPE

	2000	2001	2002	2003	2004	2005
Bombardier Challenger	36	32	24	19	16	17
Bombardier Continental Jet	-	3	9	28	32	26
Bombardier Global Express	32	28	22	15	15	14
Bombardier Learjet	91	62	47	40	36	40
Cessna CitationJet	40	46	44	34	62	62
Cessna Citation (other)	136	142	130	112	101	102
Cessna Citation X	28	26	22	22	16	16
Dassault Falcon 900	30	27	27	21	16	16
Dassault F.50/2000	47	48	41	27	38	38
Galaxy	17	18	14	11	10	13
Galaxy Astra	11	10	10	8	7	7
Gulfstream IV	33	32	25	16	19	26
Gulfstream V	33	27	20	15	16	21
New Very Light Models	-	-	-	-	22	60
Raytheon Beechjet/Premier	86	78	70	65	40	41
Raytheon Hawker 800	55	52	42	36	28	30
Raytheon Hawker Horizon	2	11	24	28	24	16
Swearingen SJ30	-	19	24	22	20	22
Total Units	677	661	595	519	518	567

Variations on the low-cost theme

Low-cost airlines in Europe, especially the UK-based ones, tend to be bracketed together. However, there are important differences in their strategies and target markets.

The basic low-cost formula, as established by Southwest, is followed by most of the European clones, at least those that have survived. They have fleet commonality and operate point-to-point with fast turnaround times. Their labour is on competitive rates and is generally highly productive. Distribution and marketing costs are kept down through direct sales and electronic ticketing. There is usually a simple price structure and no frequent flier programme.

Beyond these common features there appear to be four different types of low cost airlines emerging:

- Subsidiaries of the Euro-majors (Type 1);
- Low cost with a high-profile brand (Type 2);
- Aggressively low cost (Type 3);
- Mixed mode scheduled and charter operators (Type 4 - the subject of an upcoming article).

All of these airlines claim to be carrying a reasonable number of business passengers. The proportion of "suits" in the passenger mix is unknown, although it is safe to assume that those Type 1 and Type 2 carriers (see table) with more traditional business destinations and operating at higher levels of frequency will carry a greater proportion than a Type 3. It is, for example hard to envisage many time-sensitive business travellers flying to Frankfurt Hahn, a secondary airport, which is a two hour bus ride from the central business district.

Ryanair, the archetypal Type 3, places emphasis on creating ancillary revenues, not just from in-flight sales, but also from Ryanair selling advertising space on the exterior of its aircraft, (which generates some US\$250,000 per aircraft per year). Other Type 2 and 3s are concerned with maintaining their own brand image associated with their own colour schemes and logos,

though in easyJet's case the logo is a huge telephone number.

Excluding charter revenue, some 10.3% of Ryanair's total revenues were accounted for by ancillary revenues, against 5.5% at Virgin Express, and 2.5% at Southwest. The abolition of intra-EU duty-free will bring Ryanair's proportion down to around 6% this year.

Branding is another area of divergence. Ryanair's main selling point is the low fare. For an airline such as easyJet there are other considerations that call for the product offered to not only compete on price but also on brand image. Thus easyJet offers refunds on excessive delays and uses in its advertising its good on-time performance. The message is becoming more complicated. Chairman Stelios Haji-loannou has a string of Internet cafes, has launched a car rental company under the "easy" brand, and is planing on a move into Internet banking.

Go passengers are informed during boarding and disembarkation announcements that the airline is part of the British Airways Group. Is the airline therefore obliged to have higher standards of cabin cleanliness, more ground staff to cater for delayed flights, lost baggage queries etc than an ultra-focussed low cost carrier? The subsidiary dares not dent the brand image of its parent, though the changes in the parent's status will also affect the subsidiary.

LOW COST CHARACTERISTICS

	Type 1 Go, Buzz, Virgin Express	Type 2 EasyJet	Type 3 Ryanair	Type 4 Air Europa, Spanair
Use of secondary airports	Occasional	Some	Yes	No
Frequency of service	High, up to 6 flights a day	High	Medium	Low
Litigious	No	Yes	Yes	No
Advertising on aircraft	No	Own only	Yes	No
Related brands	Very important	Important	No	Yes
Average load factor	Relatively low (65%)	Middle (70%)	High (75%)	Very high (80%)
Average yield	Relatively high	Middle	Low	Middle
Unit Cost	Relatively high	Low	Lowest	Middle

One test as to how the stock market values low-cost airlines will come when easyJet is floated later this year on the London Stock Exchange. The most obvious valuation comparison for easyJet is Ryanair.

Ryanair has been one of the airline sector's star performers in the past couple of years and is currently trading at about a 20% premium to Southwest. This premium could possibly be justified by the profit per aircraft measure: Ryanair made a pre-tax profit of \$85m for the year ending March 31 2000, or roughly \$2.8m per 737 while Southwest in calendar 1999 made a pre-tax profit of \$782m or \$2.5m per aircraft. More importantly, Europe's low cost carriers have a greater cost advantage over most of the Euro-majors than Southwest does over the US Majors, and hence Ryanair's potential for growth must be even greater than Southwest's.

Will easyJet be awarded a similar rating to Ryanair? Or valued at "just" Southwest ratios? Or be downgraded because of the failures earlier this year of Debonair and AB Airlines? Or could it possibly achieve a higher rating than Ryanair because of its e-commerce associations, in particular the very high proportion of bookings taken over the Internet?

Moving eastwards

The next strategic phase for the low cost carriers will be expansion eastwards, establishing operating points in the largely unexploited continental European market.

EasyJet has acquired TEA in Switzerland and rolled the airline into its low cost formula. With a trebling of the fleet planned over the next three years, easyJet is rumoured to be also setting up more hubs. It has already tried to enter the Dutch market (a bid for Air Holland proved unsuccessful) and is rumoured to be considering expanding there in his own right. If the BA/KLM merger were to go ahead, the regulators would probably give airlines such as easyJet a helping hand by capping the BA-KLM market share of the UK-Netherlands market.

Germany is often seen as a difficult market because of a relatively low level of credit card use, which makes the low cost airlines preferred method of bookings, via the Internet, an issue. Lufthansa's tactics towards Deutsche BA - matching fares and capacity whenever that airline

has attempted to attack new German markets - is a major consideration for new entrants.

Scandinavia has proved a difficult environment for low cost airlines as SAS has proved to be a highly aggressive competitor - witness the demise of Color Air and the problems encountered by Braathens.

France is a very attractive market, with an affluent, travel-orientated population, plenty of airport capacity and only traditional airline competition. But then there is the effect of those invisible barriers to competition that can be erected there.

Italy already has a low cost airline, Air One, although it does not indulge in out-and-out competition with Alitalia. A partial buy-out by Lufthansa is possible. With Alitalia moving the centre of its operations from Rome to Milan, there might well be opportunities for a new entrant at Rome.

It will also be interesting to see whether the Type 1 carriers, as offshoots of national carriers will be encouraged by their parent to not only defend their home market but to expand elsewhere. If BA had attacked the German and French markets via a low cost airline such as Go, rather than using higher cost airlines, Air Liberte and Deutsche BA, its European strategy might have been more successful.

Buzz, KLM's new lower cost subsidiary based at London Stansted, has evolved from KLM uk, which remains as a feeder to Amsterdam. The airline fits into the Type 1 mould, offering three times-daily services on routes to major cities with a schedule that in the words of its CEO, Floris van Pallandt, "caters as much for the business passenger as the leisure traveller".

These Euro-major offshoots could be floated off. Go, it is said, is keen for independence, but whether BA, having legitimised the low cost arena in the first place, may not risk an independent Go potentially cannibalising its European markets.

Virgin Express now has hubs at Shannon and Brussels, but continues to be a poor performer. Its first quarter results to 31st March 2000 showed an increase in net losses from €3.0m to €13.8m, put down to rising fuel costs and the strong US dollar, but not helped by a fall in the passenger load factor from 70.8% to 65.5%. The Chairman's statement summed up the airline's priorities: "to simplify and fix our business".

Air France: proudly introducing SkyTeam

With the publication of the results for the year ended in March, Air France has confounded its critics and shown that it is now a restructured and revitalised airline, at the centre of yet another global alliance - SkyTeam.

In the past decade it has gone through near-bankruptcy, received restructuring help from the French government, agreed by the EC under the one-time last-time rules, and the management has completely turned round the sluggish operations-led carrier to one which is fast approaching being customer-focused and market-led. In that, it is probably very much in the same stage of corporate development that BA was in the mid-1980s, and that Lufthansa was in the early 1990s, respectively before their own privatisations.

Air France finally came to the stockmarket in February 1999, amid much criticism domestically. With a Communist Minister of Transport it was politically inexpedient to refer to the operation as a "privatisation", and the IPO was officially called an "ouverture de capital".

The criticisms at the time among other things related to the lack of a global alliance membership (despite the promises that it would announce the major partner within the year), the remaining majority government ownership, and, despite the successful shares for wages swap deal with the pilots' unions, what appeared to be an attitude of confrontation on labour issues.

As 1999's summer season progressed and as the overcapacity on the Atlantic became exacerbated, further criticism was heaped on the carrier for expanding capacity so strongly in the search of "market share recovery".

Air France increased capacity by 11% overall in the year to March 2000, and by a massive 19% on the Atlantic. Unlike any of the other carriers in Europe, however, it has been able to show a strong increase in unit revenues (up 3.4%). Unit costs only grew by

2% (almost all of which was due to the increase in fuel).

The company announced that for the full year it had achieved a 14% increase in revenues to €10.3bn, and a 42% increase in net income to €354m. The figures for both years include abnormal items. In June 1998 Air France suffered a very damaging pilots' strike which cost it some €200m. In December 1999, there were some very severe storms over Paris which disrupted operations badly and in addition the fuel suppliers at the airports suffered a strike - these two events had an impact of some €32m.

The Euro weakened considerably in the period. This movement was particularly hurtful against the Yen - and the company had to mark to market its yen-denominated debts (this is particularly galling as the debt is long term and the cash inflow in yen more than covers the liability over the remaining portion of the loans). This movement cost the airline another €98m, up from €13m in the prior year period. Overall underlying net income grew by a healthy 12% - or 72% if one were to assume that the rise in fuel prices was

AIR FRANCE'S FINANCIAL COMPARISONS (€m)

	Year to Mar. 99	Year to Mar. 00	% change
Revenues	9,100	10,324	+13.5%
EBITDAR	1,201	1,436	+19.7%
Gross Profit	978	1,176	+20.2%
Operating income	267	358	+34.1%
Net Income	249	354	+42.0%
- 1998 Pilots' strike	198	-	
- Oil suppliers' strike and storms	-	32	
- Disposal of subsidiaries and affiliates	(156)	(184)	
- Foreign exchange impact	13	98	
- Profits on aircraft sales	(61)	(27)	
Underlying net income	243	273	+12.3%
- Impact of fuel price rises	-	145	
Underlying net income before fuel	243	418	+72.0%

abnormal.

So where is this this success coming from?

A strong base of operations

The overriding asset of Air France is its base hub of operations at Paris CDG. Like BA at Heathrow, it has a very large natural catchment area for a good base of point-to-point traffic. By contrast, Lufthansa and KLM are based at airports with relatively small local population areas and consequently have had to build hub-and-spoke transfer operations through their airports.

Moreover, Air France has the unique position of being based at a large airport where there is the political will and backing to provide expansion: the third runway opened in April 1999 and the fourth is due to open in April 2001. Consequently it is in the position to develop the transfer markets on top of its natural point to point markets.

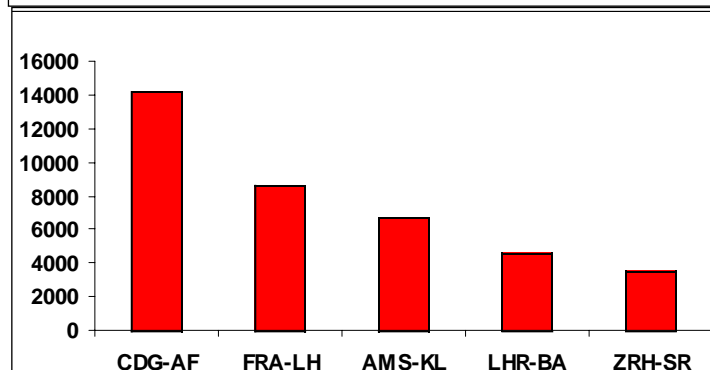
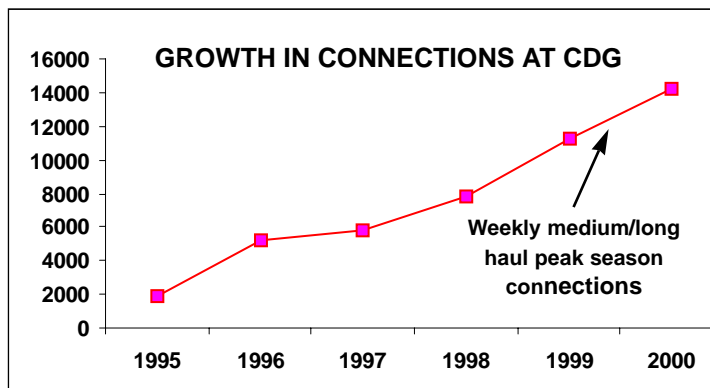
Since implementing the hub strategy with a six wave system in 1998, it has expanded the potential market its network can reach by double. In the current main summer season the carrier is able to offer into the market

some 14,000 weekly short to long haul connections through its hub (with 45min to 2hour connections). This is now nearly twice that on offer by Lufthansa through Frankfurt. In the year ended March, Air France had increased capacity by 11%, and achieved an overall increase in revenues of 14%. However, the revenue from connections through CDG improved by 17% and the income from high yield connecting traffic jumped by 24%.

A revitalised product

In the restructuring process of the past five years, the company has concentrated on getting its operations together. It has cut a significant number of non-performing routes, intensified frequencies on performing routes - with the aim of at least daily on long haul and at least three times a day on short haul. It has significantly increased the proportion of non-stop flights cutting out unnecessary stopping services wherever possible, and it has realigned its schedules to ensure consistency of timing and aircraft type.

As a result its product has improved to the point where it is now at least on a par with any of the other majors in Europe. In its major expansion phase last year it increased the relative size of the premium cabins (partly through the introduction of 777s). As a result traffic revenue grew by 27% on the Atlantic routes while capacity was up by only 19%. On Asian routes, there was a much lower 8% growth in capacity, but as a result of the improving regional economies, it achieved a 23% increase in revenues.



Domestic market

France enjoys the largest domestic market within Europe, ahead of Germany and Spain. Air France controls a 70% share of the market - and a near 80% share of the main trunk routes into and out of Paris. In the past few years it has developed franchise links with a series of regional players to ensure feed and market presence in the smaller routes that it does not want to operate itself - and to this end recently acquired Régional Airlines.

Unlike Germany, the next largest domestic market, France is highly centralised - with all roads and routes leading to Paris. Consequently the domestic hub operations at Paris Orly, and the Paris hub-bypass hub at Lyon are central to the strategy of accessing the market. Given its high share of the domestic services it has an important base of frequent flyers to retain.

However, it does have some competitive pressures - primarily from the TGV, which provides the "low fare" alternative, but also from the independent airline sector. This may intensify now that SAirGroup has acquired major stakes in AOM, Air Liberté and Air Littoral - but forming these three quite high cost and very different airlines into a coherent new version is going to be a very difficult challenge for Swissair.

A new US bilateral, a new alliance

When the company was trying stave off bankruptcy in the early 1990s, France rescinded the bilateral air service agreement with the US. Consequently for a period of 8 years service between the two countries were operated under the principle of comity (in effect before taking off the captain radioed ahead to see if it was OK for him to land). Thus while the bilateral was in abeyance, it was impossible for Air France to be able to sign a deal with any US carrier.

The new bilateral was finally signed and came into effect in June 1998. Air France then started code-share operations with both Continental and Delta. The new bilateral leads to open skies on the Atlantic (for services between the two countries) within five years. Last June the company decided to settle on Delta for its transatlantic partner in its new global alliance.

And on June 22nd this year, Delta, Air France, Aeromexico and Korean Air formally unveiled their long-awaited global alliance, SkyTeam. The launch had evidently been further delayed by news of the KLM/Alitalia breakup and the proposed United/US Airways merger, and it has drawn little response from outside parties as merger talk has continued to dominate the US and

AIR FRANCE NETWORK PERFORMANCE (1999 versus

	Capacity	Rev.
N. America	18.8%	21.4%
Europe	10.3%	17.8%
Asia	5.0%	17.0%
Mid East/Africa	11.8%	14.2%
DomTom	9.7%	14.2%
France	5.7%	8.6%
S. America	14.7%	5.7%
Total	11.2%	15.0%

European scenes.

The immediate offerings of the new alliance include reciprocal lounge access, frequent-flyer base mile accrual and redemption and an expanded network of flights. Additional benefits will be phased in through the end of 2000, followed up by development of cargo cooperation. A global multimedia branding campaign is expected to be in full swing by the autumn, and the Skyteam logo will begin appearing on partner airlines' literature later this year.

There are no plans for cross-equity holdings. However, senior Air France executives have said that, in light of the possible consolidation phase in the industry, equity links are not ruled out.

At this stage the airlines have chosen not to release any specific forecasts of revenue benefits expected from Skyteam. After all, many such attempts in the past have proved wildly inaccurate. Nevertheless, Delta CEO Leo Mullin has suggested that the benefits could be "substantial", given that Delta already generates \$400m annual revenues from its existing alliances. Air France estimates it achieved additional benefit of some €76m already from its Delta links, half way to its targeted €150m.

SkyTeam hopes to differentiate itself from the other alliances by focusing on the customer. It will strive to provide "a consistent level of performance, quality and detailed attention to customer service" and will offer full reciprocity for elite-status frequent-flyers (similar to Star's but more generous than oneworld's).

The airlines say that customer research indicated that "many travellers believed

there was something missing in previous airline alliances - attention to the individual passenger". This is easy to believe as, even though travellers appreciate the benefits of FFP linkages, other surveys have shown that the public perception of alliances generally is not very favourable.

The SkyTeam campaign features the tagline "Caring More About You". Advertisements, which take the form of multi-cultural jigsaw puzzles with the piece showing a passenger's head missing, ask "What's missing in airline alliances?" , the answer to which is "You".

Whatever the passenger makes of this advertising hype, the emphasis on service is a politically astute move (at least in the US, where declining service standards continue to be hot items on lawmakers' and regulators' agendas), getting it successfully implemented is a tough task. As previous alliances have shown, the real problems are motivating employees to perform and achieving uniformly high standards - a process that can take years.

With its combined 174.3m annual passengers and 6,402 daily flights to 451 cities in 98 countries, the four-member SkyTeam is much smaller than Star and somewhat smaller than oneworld. But the new grouping benefits from a potentially powerful hub structure.

In addition to CDG, SkyTeam has Delta's hub at Atlanta, the world's largest, Aeromexico's Mexico City hub, Latin America's largest, and Seoul's new Incheon Airport, Korean's future base.

The growth potential enjoyed by Korean at its Seoul base makes it an attractive Asian partner for a global alliance - in terms of access to the north east Asian market and connections from the US to the south east Asian market. The first phase of the new Incheon airport is due to open in March 2001, and when the third phase is completed by 2010, the airport will have the capacity to handle 200m passengers a year. Incheon also offers potential as a cargo hub.

Another plus-point for Skyteam is that the core team has already mutual experience gained from previous codesharing and other cooperative ventures. Delta, Aeromexico and Air France have codeshared since the

mid-1990s and, in many ways, see SkyTeam as a "natural evolution" of their partnership.

A worrying aspect is Korean's poor safety record - three fatal crashes since 1997 and numerous smaller incidents. A year ago Delta stopped placing its own passengers on Korean's flights (though Korean puts code-share passengers on Delta flights).

Nevertheless, Delta now says that full codesharing with Korean will resume "fairly soon" as Delta is satisfied with the progress made by Korean with safety issues. A respected ex-Delta executive, David Greenberg, has been in charge of Korean's flight operations.

SkyTeam expects to be in contact with a "limited number" of candidates and announce additional members before the end of the year. One of the most likely early entrants is Czech airline CSA, which has expressed strong interest.

The gaps in SkyTeam's global coverage are South America and southern Asia. The problem is that there are no unattached strong airlines in either of those regions that could be immediate candidates.

While Aeromexico's coverage of Latin America will be adequate in the short term, a strong partner in a major South American country like Brazil would be desirable. One interesting option is a possible future combination of TAM and Transbrasil - the third and fourth largest airlines which have signed an operational agreement as a potential first step towards a merger.

One possible Southeast Asian candidate is Thai, which is currently a Star member but whose future privatisation could lead to a shift in global alliances. Air France and Delta combined are likely to make a bid for 10% of the airline to ensure its membership of SkyTeam.

Air France has also continued to publicly express interest in cooperating with Alitalia (following their unsuccessful talks three years ago). The "demerger" of KLM/Alitalia has now vastly improved Air France's and SkyTeam's chances of luring Alitalia.

SkyTeam aims to move quickly into the number two position and hopes to eventually catch Star. Overtaking oneworld and keeping Wings firmly behind may not be that hard - as long as those two alliances remain separate.

KLM: its unequal struggle to join the Euro-elite

KLM has always struggled in its attempts to join the European elite, because size does matter. The European scheduled full service airlines have always fallen into two groupings, in size if not always in terms of profitability. Air France, British Airways and Lufthansa are 58% bigger on average in terms of RPKs than the next largest European carrier, KLM, and 61% bigger in terms of annual revenues than the next largest European carrier, SAir Group.

The failed merger with Alitalia, which would have ranked the combined airline second behind British Airways in RPK terms and third ahead of Air France in terms of annual revenues, was, it now appears, the last gasp attempt for super-stardom in its own right. Chief executive Leo van Wijk's statement to the effect that KLM is looking for an airline partner and that KLM would be happy to play a junior role in such a partnership suggests that KLM has downgraded its ambitions. Of Europe's second-tier flag-carriers only SAir Group, with its strategy of building up a portfolio of minority stakes in smaller airlines, still has the ambition to join the big three.

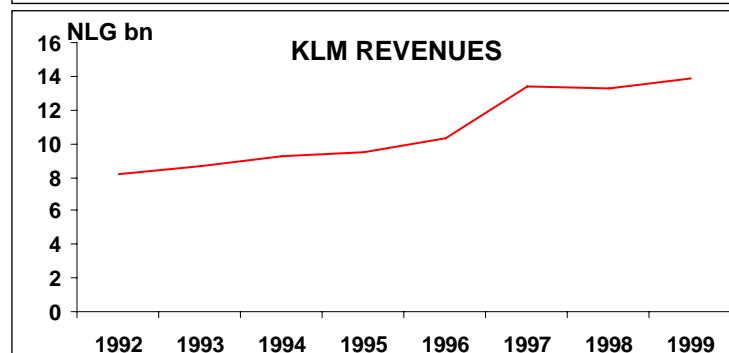
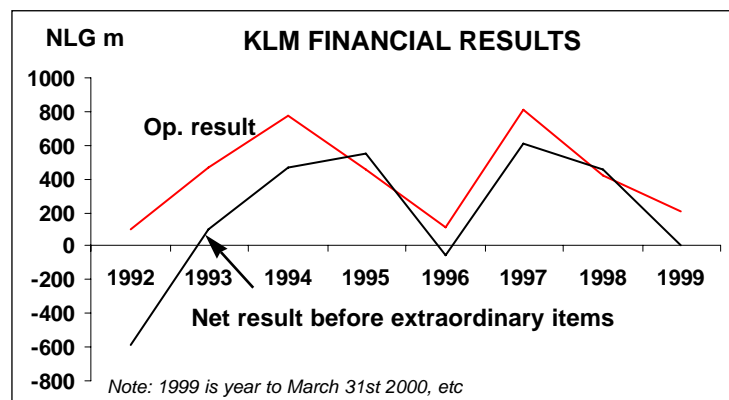
During the 1990s KLM enjoyed two great advantages over most of its rivals. First, KLM had in Schiphol one of Europe's premier hubs in terms of quality and convenience (operating as a single terminal). Second, the Netherlands was ahead of the game in signing an open skies agreement with the US in 1992, and negotiating anti-trust immunity in 1993, which has allowed KLM and Northwest (and more recently Continental) to become industry leaders in terms of alliance development.

The Schiphol hub growth strategy worked well for a period. The single terminal and the operational freedom to build up a six-wave system made using KLM and Schiphol an attractive proposition for connecting and transfer passengers. Moreover, KLM was offering this product at a time

when many of its closest competitors were in financial and strategic disarray.

In the mid-90s, with KLM uk (previously Air UK) successfully siphoning off traffic from the UK, and using other airlines such as KLM Cityhopper, Eurowings and Air Excel to enhance its network reach, KLM went for growth. Between 1995 and 1998 KLM increased its intra-European ASKs by an average of about 11% a year.

This growth surge, however, depended more and more on attracting price-sensitive transfer traffic. As neighbouring competitors such as Air France and Sabena began their recoveries, and BA, Swissair and Lufthansa also adopted growth strategies aimed at capturing transfer traffic market share, things began to go wrong for KLM. Also, the Asian crisis affected KLM more than the other European flag-carriers because of its relatively high exposure to Southeast Asian markets.



Yet Schiphol itself remains a jewel in KLM's crown. The airport continues to win awards from business travel magazines. Environmental and safety issues have been resolved which means that the airport can handle expected traffic growth in the near future at least. And following an agreement with the Dutch Government signed in December 1999, the airport is being prepared for privatisation, which may result in a more favourable pricing regime for KLM.

Profit decline

KLM's results have been on a steady decline since 1997/98 when KLM recorded a pre-tax profit, before extraordinary items, of NLG 531m (\$238m). That year was very successful thanks to what has proved a one-off set of factors.

In 1997/98 KLM added 5% capacity, but traffic rose by 8% boosting the overall load factor by 1.9 points to a record 77.9%. Unit costs rose by what would now be regarded by an unhealthy 4% but remarkably KLM's yield jumped by a dramatic 10%. So despite the first signs of weakness in the Asian markets, KLM enjoyed a 20% increase in passenger revenues and a 13% increase in cargo revenues. Unfortunately for KLM 1997/98 has proved to have been a statistical blip and when profits have been in sharp decline.

In the past two years KLM has recorded overall load factors that remain well above the European airline norm, 75.1% in 1998/99 and 76.7% in 1999/00. And, excluding fuel, KLM has been able, thanks to its cost cutting programmes, to show reasonable cost discipline.

However, KLM suffered in 1998/99 from a sharp downturn in its yields, with a year-on-year fall in unit revenues/ATK of 4.9%. Adverse currency movements added to its problems, and airline's pre-tax profits (excluding extraordinary items) more than halved to NLG 244m.

In 1999/2000 the downward trend continued with KLM recording a pre-tax loss (before extraordinary items) of NLG 38m (\$17m). Although KLM was able to reverse the decline in yields, a like-for-like increase

in the annual fuel bill of NLG 235m largely accounted for the move from profit to loss.

Cost attack

KLM is now concentrating on a drive to reduce its unit costs. The airline has stated that it "expects no material improvement in the current operating environment" which it can be taken to mean that yields will continue to fall in real if not actual terms. A rise in the airline's break-even load factor for the year 1999/00 to 75.1% from 70.7% a year earlier is a major cause for concern.

The cost reduction programme has three themes:

- Network rationalisation;
- Evaluation of activities on the basis of the value they generate; and
- Temporisation of investments (ie, don't spend any more money)

KLM will freeze capacity growth this summer and forecasts a 5% fall in winter 2000/01 capacity. Eight unprofitable routes are being eliminated and seven aircraft (four widebodies and three narrowbodies) will leave the fleet. These actions are expected to improve network results by an estimated NLG 200m.

The capacity shrinkage will be accompanied by a trimming of staffing levels. KLM is also seeking in its own words (or those perhaps of its management consultants) to reduce overhead by "de-complexing organisation and processes". An additional NLG 500m in cost reductions are being sought which, again in KLM's words will "stop the bleeding". These measures have a short-term focus but KLM recognises that "further structural measures are necessary" if the airline is to remain competitive.

The results of the cost saving programme are already bearing fruit. Excluding fuel and currency, KLM produced a 3% fall in unit costs in the fourth quarter of the last financial year. So, despite near record fuel price levels (which had a negative impact on the quarter of NLG 128m), KLM recorded a year-on-year NLG 55m improvement in operating profits. The year-on-year gains were achieved thanks to a NLG 150m increase in traffic and a NLG 47m improve-

ment in yields.

With improving market conditions, thanks to a more restrained capacity policy of KLM's major competitors, and the cost improvement programme, KLM is forecasting an improvement in operating profits in 2000/01.

Vanguard management and the alliance experience

KLM management has tried to be at the vanguard of strategic airline thinking. KLM has always been regarded as a market leader, at least by European standards, in terms of its development of its hub and spoke system, introduction of cost saving programmes, alliance development, use of regionals to provide feed, and its emphasis on the cargo market.

KLM has come to a similar analysis of the market as BA, recognising the need to concentrate on the most profitable segments and downsize or outsource the low-yielding segments. Although KLM made headlines by announcing that it was downsizing its operation in 2000/01 in order to improve its average yields, KLM had long since abandoned its high growth strategy. In 1998/99 capacity growth, measured in ASKs, increased by only 3.3% and in the last financial year by 2.6%.

BA and KLM are companies that know each other well. The two airlines held merger talks in 1991 that collapsed the following year when the two parties could not agree about valuations. In the light of BA's recent problems, it is interesting to note that in 1992 KLM was asking for 35-40% of the merged vehicle, while in the current round of talks it will reportedly be content with a 30% share.

Failure to do a deal with BA did not deter KLM to its efforts to gain a larger platform in Europe. In 1993 KLM was central to the planned Alcazar project that would have seen KLM join forces with Swissair, SAS and Austrian, but once again valuations proved an insurmountable hurdle. So KLM management concentrated their efforts across the Atlantic.

The relationship between KLM and

Northwest was very strained at board level during the period KLM when had a shareholding in Northwest. However, at an operational level KLM and Northwest have proved very amicable partners. Northwest and KLM have in effect operated as one carrier on the North Atlantic, pooling all revenues and costs. In this operation they have achieved far more than any other transatlantic pairing.

In 1997, the board-level differences between KLM and Northwest were resolved when Northwest agreed to buy back KLM's 19% stake (which was completed in 1998), and both carriers signed a ten-year co-operation agreement.

KLM has sought to extend its sphere of influence in Scandinavia. Its purchase in 1997 of a 30% stake in Norway's largest domestic carrier, Braathens, provoked an aggressive war with SAS. Braathens bought two Swedish carriers, Transwede in 1997 and Malmo Aviation in 1998, and KLM had encouraged Braathens to mount a serious challenge to SAS in its home markets.

Unfortunately for KLM, SAS has proved an aggressive competitor with deep pockets and Braathens has been forced to withdraw some capacity in the Scandinavian markets (see *Aviation Strategy*, March 2000). A bloodied Braathens recorded a \$80m net loss in 1999.

KLM uk, which KLM has used as a feeder of UK traffic over its Schiphol hub was bought outright by KLM in 1997. Unfortunately for KLM uk, its main hub at Stansted has become the low cost airline centre in the UK, with rapidly expanding Go and Ryanair operations. KLM's response in January 2000 was to launch its own low cost airline, Buzz, which in effect split KLM uk in two. Many expect that Buzz will eventually take-over most if not all of KLM uk operations. Whether Buzz, which operates a fleet of BAe 146 aircraft, will prove a success remains unknown. KLM hopes are that Buzz will break even in 2001,

In 1996, KLM took a 26% in Kenya Airways, which was privatised at Kenya Shillings 11.25. Unfortunately Kenya itself is in crisis with drought, famine, rampant crime and an economy in recession.

KLM's equity links with the Dutch

KLM FLEET PLANS

Current fleet	Orders	Remarks	
737-300	17		
737-400	19		
737-800	4	9	4 in 2000, 5 in 2001
737-900	0	4	2001 delivery
747-200		10	
747-300		2	
747-400	20	4	2000-2003
767-300	12	1	2000 from ILFC
MD-11	10		
Total	94	18	

Source: ACAS

Government were minimised in 1998 when the airline bought back its 8.5m shares (about 12% of the airlines equity), at the same time acquiring 4.8m participation certificates from the KLM Flight Personnel Pension Fund Foundation.

The decision, which was made when KLM's shares were trading in the low NLG 90s was made because KLM had a large cash surplus following the sale of its holding in Northwest. The fact that the shares hit a low of NLG 39.3 earlier this year makes this, with the benefit of hindsight, a very expensive buy-back operation. Moreover, KLM has continued to use its surplus cash resources to buy back its own shares: in the past two years KLM has redeemed NLG 1bn of its shares resulting in a 50% decrease in the number of shares outstanding.

The deal with Alitalia that was first announced in December 1997 and abandoned on April 28th 2000 (for details of the KLM/Alitalia virtual merger structure, see Aviation Strategy, September 1999). The reasons given by KLM for its abandonment were serious concerns over the development of the Malpensa hub and delays in the Alitalia privatisation programme. Perhaps more importantly, KLM felt that Alitalia's poor financial performance (the Italian carrier recorded a net loss equivalent to US\$124m in 1999 and the first quarter of 2000 saw a further loss of US\$74m), coupled with perhaps an closer insight into Alitalia's senior management team, led to KLM's decision to withdraw.

The BA question

Given KLM's and BA's chequered history

with regard to alliances, what are the chances of success this time around?

First of all it should be noted that the two management appear to be taking the venture very seriously. Getting some clarification on the regulatory front is obviously a priority, and to this end, Leo van Wijk and Rod Eddington have visited Competition Commissioner Mario Monti to outline their merger plans.

The key to this merger is cost savings rather than putative revenue enhancement through route rationalisation. According to an analysis by Chris Tarry of Commerzbank, the immediate target for a merged airline would be a reduction of 16,200 employees from a combined BA/KLM workforce of 98,000.

This would generate annual savings in the order of \$850m (about 4% of joint revenues). Then further savings could be achieved through route rationalisation and the removal of some aircraft from the joint fleet - estimated at an annual saving of around \$50m per aircraft.

However, there is a substantial cost associated with this rationalisation. Assuming redundancy packages reflecting two and half year's pay, this could add up to \$1.6bn.

There appear to be no quick fixes through transferring traffic from London to Amsterdam. Tarry points out that, as KLM's average break-even load factor is about eight points higher than BA's, it would find additional low-yield traffic to be intrinsically unprofitable,

If a merger does take place, however, there should be some possibilities for yield enhancement - if only because a element of competition would be removed from the European market. Then the carriers could perhaps harmonise their downsizing strategies.

All in all, there may be just too many uncertainties and potential conflicts, both from the regulators and the unions, for this merger to go ahead. Both sets of managers are under pressure to produce results for their shareholders, and diverting precious management time into this project may not be acceptable.

Eurowings: independence plus multiple partnerships

When two small German provincial carriers, Dortmund-based and Nuremberg-based NFD, merged to form Eurowings at the beginning of 1994, few would have predicted that within five years it would grow into Europe's fourth-largest regional airline. It is also the largest independent regional, as the three biggest - Crossair, Lufthansa CityLine and KLM uk - are wholly or majority owned by Euro-Majors.

A more than doubling of revenues and an unbroken sequence of positive operating results and net profits in the last five years, albeit on a small scale, reflect a successfully diversified regional strategy built on a mix of scheduled and charter operations. Moreover, operating cashflow has been increasing healthily.

Eurowings had to negotiate a difficult 1999 through over-capacity in the market, inflating oil prices, and a strengthening of the US dollar, which led to an increase in aircraft-related costs, the financial result remained positive, but somewhat below plan.

Although operating revenues increased by 3.1% to Dm 729m (\$380m), compared to the previous year, the operating result dropped from Dm 15m to just over Dm10m. The net profit, however, was up from Dm5m to Dm8m (\$4.2m). The anticipated figures provided for operating revenues of Dm 759m, an operating income of Dm34m and a net profit of Dm13m. Cash flow increased by Dm 10.5m to Dm 50.1m, due to higher depreciation as a result of its fleet renewal.

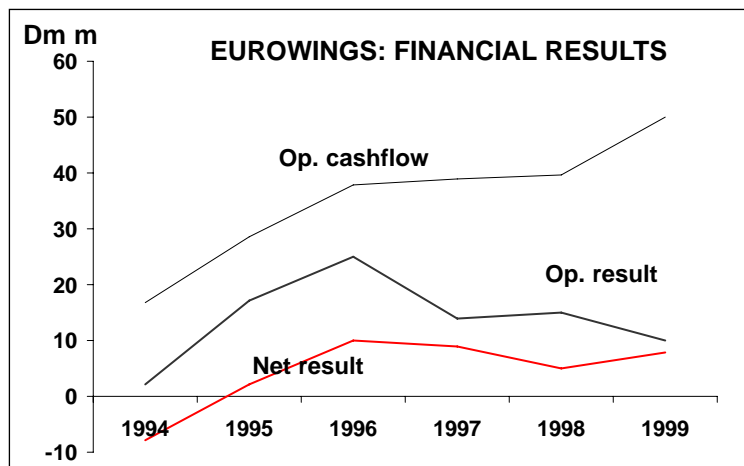
Compared to the strong growth of flights operated in conjunction with KLM/Northwest Airlines to Amsterdam, services flown in co-operation with Alitalia to Milan-Malpensa, and with Air France to Paris-Charles de Gaulle, did not meet expectations. However, earnings from its partnership activities increased by 26.8% to DM 346m (\$180m). Average earnings on scheduled services decreased by 7.8% over 1998, and there

was also a reduction in revenue from charter services, mainly due to the discontinuance of two routes flown for Air France.

Concentration on its core business were at the forefront of the airline's business strategy in 1999 to position the airline for the coming years. As a result, the tour operator activities of subsidiary Eurowings Touristik were abandoned; another subsidiary, Eurowings Aviation, was re-integrated, and the sale of its third-party maintenance company, Nayak Aircraft Service, was concluded in January 2000.

In a period when most smaller operators have gratefully accepted the embrace of the dominant national airline, Eurowings has kept Lufthansa and other suitors at arms length. It has gained about a 5% share of the domestic market. But its real growth has come largely from forming relationships with several European majors without losing its independence, and from adding a still expanding short-haul holiday charter business to its scheduled services network.

Eurowings' chief executive Friedrich-Wilhelm Weitholz, who took over last year from long-time head Reinhard Santner, believes the airline can sustain partnerships with several airlines. Eurowings is a partner of the KLM/Northwest alliance, as well as Alitalia and Air France. In co-operation with



REVENUE BY SECTOR (Dm millions)

	1994	1995	1996	1997	1998	1999
Own schedules	258	276	231	240	288	222
Partnership traffic	45	84	163	204	235	347
Charter services	13	50	57	122	163	136
Others	0	18	28	20	20	24
TOTAL	316	428	479	586	706	729

KL/NW, Eurowings operates from 11 German cities into Amsterdam, while feeding the Air France hub at Paris CDG from six points in Germany.

With Alitalia, it operates on three routes, from Hanover and Nuremberg to Milan-Malpensa, and from Stuttgart to Rome. In spite of the break-up of the KLM/Alitalia partnership, Eurowings' relationship with Alitalia continues, but it is not yet known if the present route structure will be affected. Eurowings estimates that in 1999 it carried 1.1m passengers on KLM associated flights, which contributed most to its growth, 275,000 for Air France, 90,000 on Alitalia code-shares, and another 200,000 on wet-lease contracts.

While international flights grew substantially in 1999 through partnerships and the strengthening of its own activities in Eastern Europe, passengers on domestic connections actually fell from 839,000 the previous year to 758,000. But in overall terms, Eurowings improved its total by 4.6% to 3,034,000. This includes about one-fifth of the total generated by its holiday charter flights, which serve around 25 destinations in the Mediterranean and the Canary Islands, flown on behalf of German tour operators. Charter flights are operated from all major German airports, and from Salzburg in Austria.

Fleet strength in the last three years has remained fairly constant, with only minimal capacity increases. The scheduled fleet totals 37 aircraft, including 17 ATR42s, ten ATR72-210s and ten BAe 146s, while four A319-100s are used on charter flights, with one more due for delivery in March 2001. Some BAe 146s are also put on charter flights at weekends when not required for scheduled services. About half of the fleet is owned, with the other half leased, mostly

through BAE Systems.

Eurowings plans to replace most of its turboprop aircraft with new jets, probably retaining only the newer ATR42-500s for its feeder services

into Amsterdam. The BAe 146s will also be replaced when the leases run out at the end of 2002. The airline is evaluating all models on offer from Bombardier, Embraer, Fairchild and BAE Systems, but is likely to opt for the manufacturer which is able to offer a complete family of aircraft covering the 50-seat, 70-seat and 90-seat capacity range. Eurowings says it needs about 30 aircraft, with ten of each size.

The airline favours a wide cabin, which would hand the advantage to the Fairchild family (528JET, 728JET and 928JET), but much will depend on early delivery of the 50-seat type, which is required first. The airline is examining various options to finance this \$500m fleet acquisition programme, with an IPO or the sale of a stake by majority shareholder and chairman Dr Albrecht Knauf, being the most likely outcome.

Says Weitholz: "The customer expects the same service from regional airlines as from majors. Regionals have to invest considerable amounts of money in their product and service, yet cannot offer the same seating capacity as larger airlines to reduce the cost per seat. The competition is growing, and keeping its own brand is really difficult and only possible if an airline can concentrate on different business segments, not only one. Eurowings concentrates on independent scheduled traffic, co-operation traffic and tourist charter flights."

Holding a market position below the global networks and becoming the preferred airline for the business traveller, is the vision the airline has set itself for the next five years. Maintaining independence is evidently important to the management but it may prove difficult to reconcile this aim with the capital expenditure required for expansion with new regional jets.

Route profitability analysis: the interior design process

This is the third in a series of articles on building an effective approach to route and network profitability measurement. The first (February 2000) laid the foundations by setting out the underlying principles for development of this critical source of management information. The second (June 2000) supplied some of the system mechanics (or to follow the building metaphor further, the wiring and plumbing) by discussing methodologies for managing cost and revenue allocations to routes.

This article focuses on the customised "interior design" or rather, the challenges of presenting outputs that are useful, consistent and understood. After all, if management does not know how to interpret what is being presented, all the investment of time and money will again have been in vain.

Now we are at the interface with the users, the challenges become cross-functional. User needs become different even though the base information sources and flows should be the same. Sales will use available information and reports in a very different way than network planners, the finance department or senior management.

For instance, Sales managers may focus on detailed understanding of revenue and yield performance by sales channels and regions - right down to individual agent or agent chains. Network planners may focus on trends in the profit and revenue generating performance of routes and the network.

At the top, senior management must have the right information to enable them to identify issues, to ask the right questions of line managers - to take a "helicopter" view.

The first and foremost thing to avoid? We have seen one set of monthly reports in which senior management were presented with the following for a year-on-year comparison of yield:

- Route Profitability report - up 2%;
- Sales Performance report - up 5%;
- Financial report - down 3%.

It is no surprise that management in this

case spent too much of its time debating number reconciliation and not enough time making good decisions. Answer: start again with article one.

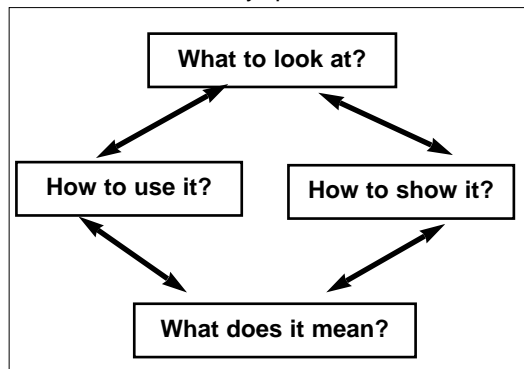
Most airline managers in today's business environment need the following:

- Fast reporting of changes in the market place;
- A focus on profit;
- An ability to dig behind and analyse profit issues;
- Visibility of the impact (forecast) and performance (actual) of decisions; and
- A sound and common basis for decision-making.

To accomplish this, many leading edge airlines have a well-developed "Report Strategy" that:

- Defines the key measures for driving management decisions;
- Focuses the airline on common, clear, consistent and visible goals;
- Delivers a suite of standard reports for specific user groups;

The Report Strategy ultimately addresses for the airline four key questions:



If consensus and clarity is not achieved for any one item, the virtuous circle is broken and the value added of the reports can be called into question.

Hence developing such a Report Strategy will take time. Leading airlines typically quote a period of up to 4-5 years before a stable set of "core" management reports are established

and consistently used. At one major European carrier, four senior management level MIS users were taken off-line for three years to create and implement the data flows and reporting architecture.

These four questions must be asked and answered at three levels within the organisation.

At level one, senior management must be provided with an overview of the whole network, with mechanisms incorporated to capture and highlight poor or declining performance - an early warning system.

At the more detailed third level, the reports and data architecture must support sophisticated analysis. Here, the frequent user is into designing and parameterising his/her own detailed analyses. Ad-hoc report building and user-friendly interfaces are the rule of the day.

It is in the middle "Standard Report" arena for business unit heads and senior managers that a rigorous process and approach to using information can really add value. Consistency and transparency in decision-making across functions makes for more rapid and accurate action.

There are two prerequisites to success in building the Report Strategy.

First, senior management must set a vision of their priorities and the measures that must drive the airline's performance. This vision should determine the focus and content of the whole report structure in a cascade effect. From these primary measures, all the necessary supporting reports can be designed for the next level:

- Follow-on "drill-down" reports to give answers

or at least further insight on performance changes;

- Business unit reports with their specific activity and performance measures driven by the high-level vision.

Second, the airline must establish a centralised control or guardianship over data definitions. Too often, terms such as gross revenue and net revenue have completely different inclusions/exclusions across and even within departments. The management team must be able to develop a common language and understanding of key measures. The guardian is often the Finance group, with the definitions being agreed by a cross-functional user group.

What to look at?

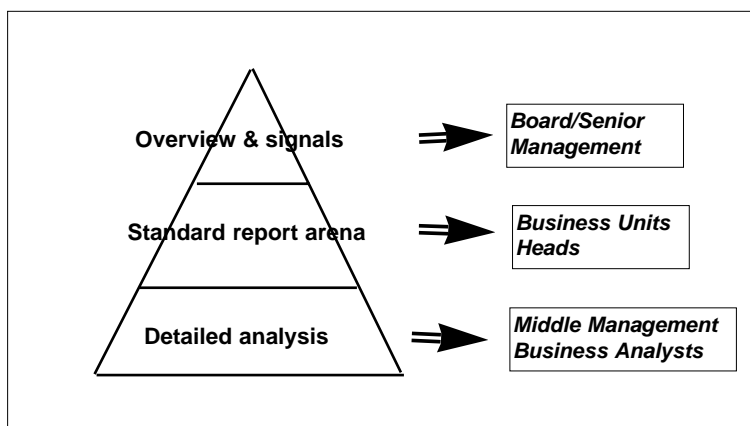
The key measures of performance for airlines will have significant commonality across different types of airlines. All should and will include the basics such as passengers, load factor, revenues, yield and capacity, with trend comparisons across months and year-on-year. Most should and will also have comparisons against plan.

The more contentious issues include:

- Measurement of hub/network effectiveness including connecting revenue impact and spill effects;
- Which profit or contribution levels to be presented; and
- Incorporation and allocation of cargo revenue/profitability.

There is a large variety of terminology used to describe "connecting revenue". The goal is obvious - to understand the network contribution of each route by measuring the revenue that flows from or onto other routes. After all, there are many where the pure point-to-point traffic would not sustain on-going viability/profitability.

The large US carriers have been focused on network and connecting effectiveness for so long that some literally ignore sales performance as a driver of revenue in the domestic market. The schedule is seen as the revenue generator and very little time is spent worrying about sales: "I'd rather do without a sales force for all the impact they really have" says one senior executive.



The design and selection of levels to be reported should be driven by one simple question: can management take decisions and action based on the information presented? We have seen airlines with the number of reporting levels varying from two to twelve. In the first instance, there was perhaps too little transparency and in the second, most of the levels presented were meaningless in terms of providing "actionable" information.

Analyses will be required at what may usefully be called activity levels:

- Passenger activity: to help understand the true incremental cost of carrying a passenger (e.g. meal, handling, transfer charges, in-flight services, and maybe fuel burn);
- Flight activity: to help assess the profit earned by operating the flight, including the incremental costs incurred (fuel, landing fees, crew allowances etc.);
- Fleet activity: to understand the economics of operating the fleet, by including the incremental fleet costs (aircraft ownership, crew salaries and training etc.);
- Network activity: to identify network profitability by including items such as sales costs; and
- Airline activity: to measure profitability including all overhead costs.

Five levels is probably too many for primary, senior management reports but will be necessary for the real analysts who work daily with the system (e.g., network planners).

The marginal cost of carrying a passenger is nice to know but can be dangerous. The most obvious use is to define what is the absolute minimum price that can be charged for a ticket. While this might be interesting, it is probably undesirable that this value should be released or used by the sales force. Down to

four levels!

At the other end, many purists believe it desirable to allocate all costs, including overheads, down to the route level. The allocation method (block hours, RPKs etc) then raises significant debate because of the danger of bias. The simplest model is to say overheads = x% of revenue and that the network should make this contribution. Down to three useful, actionable levels!

How to show it?

The visual presentation comes down to individual/corporate preferences. Clarity and ease of read are the goals. Graphics are easier to view but there are many who like to see the numbers. Distribution issues may also arise - standardising and controlling via the intranet, for instance.

What does it mean?

Interpretation is helped by two main elements. First, the common definitions enable a common language and understanding to be developed over time. Second, each primary report should have a short commentary to highlight key factors such as:

- Significant events influencing data;
- Change in data assumptions, inclusions and exclusions from previous reports; and
- Data health warnings.

How to use it?

Here, standardisation of reports by user group is key. *If* the airline has the right actionable measures, the right cascade into business unit activity, with transparency and consistency in the information, then the use - decision-making - becomes easier and more powerful.

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Aviation Strategy

Macro-trends

EUROPEAN SCHEDULED TRAFFIC

	Intra-Europe			North Atlantic			Europe-Far East			Total long-haul			Total international		
	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %
1992	129.6	73.5	56.7	134.5	95.0	70.6	89.4	61.6	68.9	296.8	207.1	69.8	445.8	293.4	65.8
1993	137.8	79.8	57.9	145.1	102.0	70.3	96.3	68.1	70.7	319.1	223.7	70.1	479.7	318.0	66.3
1994	144.7	87.7	60.6	150.3	108.8	72.4	102.8	76.1	74.0	334.0	243.6	72.9	503.7	346.7	68.8
1995	154.8	94.9	61.3	154.1	117.6	76.3	111.1	81.1	73.0	362.6	269.5	74.3	532.8	373.7	70.1
1996	165.1	100.8	61.1	163.9	126.4	77.1	121.1	88.8	73.3	391.9	292.8	74.7	583.5	410.9	70.4
1997	174.8	110.9	63.4	176.5	138.2	78.3	130.4	96.9	74.3	419.0	320.5	76.5	621.9	450.2	72.4
1998	188.3	120.3	63.9	194.2	149.7	77.1	135.4	100.6	74.3	453.6	344.2	75.9	673.2	484.8	72.0
1999	200.0	124.9	62.5	218.9	166.5	76.1	134.5	103.1	76.7	492.3	371.0	75.4	727.2	519.5	71.4
Apr 00	17.2	11.4	66.3	19.3	15.3	79.5	11.3	8.8	77.7	42.2	33.1	78.4	62.5	46.8	74.8
Ann. chng	4.7%	12.3%	4.5	8.5%	14.0%	3.9	2.7%	7.7%	3.6	4.8%	12.5%	5.4	5.0%	12.7%	5.1
Jan-Apr 00	65.7	38.5	58.6	70.2	50.9	72.5	45.3	34.8	76.7	162.7	121.4	74.6	240.5	168.2	69.9
Ann. chng	7.4%	7.5%	0.1	8.8%	9.6%	0.5	3.6%	5.3%	1.2	5.8%	8.3%	1.7	6.5%	8.6%	1.3

Source: AEA.

US MAJORS' SCHEDULED TRAFFIC

	Domestic			North Atlantic			Pacific			Latin America			Total international		
	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %
1992	857.8	536.9	62.6	134.4	92.4	68.7	123.1	85.0	69.0	48.0	27.4	57.0	305.4	204.7	67.0
1993	867.7	538.5	62.1	140.3	97.0	69.2	112.5	79.7	70.8	55.8	32.5	58.2	308.7	209.2	67.8
1994	886.9	575.6	64.9	136.1	99.5	73.0	107.3	78.2	72.9	56.8	35.2	62.0	300.3	212.9	70.9
1995	900.4	591.4	65.7	130.4	98.5	75.6	114.3	83.7	73.2	62.1	39.1	63.0	306.7	221.3	72.1
1996	925.7	634.4	68.5	132.6	101.9	76.8	118.0	89.2	75.6	66.1	42.3	64.0	316.7	233.3	73.7
1997	953.3	663.7	69.6	138.1	108.9	78.9	122.0	91.2	74.7	71.3	46.4	65.1	331.2	246.5	74.4
1998	960.8	678.8	70.7	150.5	117.8	78.3	112.7	82.5	73.2	83.5	52.4	62.8	346.7	252.7	72.9
1999	1,007.3	707.5	70.2	164.2	128.2	78.1	113.2	84.7	74.8	81.3	54.3	66.8	358.7	267.2	74.5
Apr 00	84.9	62.4	73.5										31.0	23.6	76.1
Ann. chng	3.4%	5.7%	1.6										7.5%	12.8%	3.5
Jan-Apr 00	339.1	234.1	69.0										118.1	86.1	72.9
Ann. chng	5.8%	5.4%	-0.3										4.8%	7.4%	1.7

Note: US Majors = American, Alaska, Am. West, Continental, Delta, NWA, Southwest, TWA, United, USAir. Source: Airlines, ESG.

ICAO WORLD TRAFFIC AND ESG FORECAST

	Domestic			International			Total			Domestic growth rate		International growth rate		Total growth rate	
	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK %	RPK %	ASK %	RPK %	ASK %	RPK %
1992	1,305	837	64.2	1,711	1,151	67.3	3,016	1,987	65.9	3.0	4.6	15.1	15.3	9.5	10.5
1993	1,349	855	63.3	1,785	1,205	67.5	3,135	2,060	65.7	3.4	2.0	4.4	4.8	3.9	3.6
1994	1,410	922	65.3	1,909	1,320	69.1	3,318	2,240	67.5	4.6	7.9	6.9	9.4	5.9	8.8
1995	1,468	970	66.1	2,070	1,444	69.8	3,537	2,414	68.3	4.1	5.4	8.5	9.4	6.6	7.8
1996	1,540	1,043	67.7	2,211	1,559	70.5	3,751	2,602	79.4	4.9	7.4	6.8	8.0	6.0	7.8
1997	1,584	1,089	68.8	2,346	1,672	71.3	3,930	2,763	70.3	2.9	4.5	6.1	7.2	4.8	6.1
1998	1,638	1,147	70.0	2,428	1,709	70.4	4,067	2,856	70.3	3.4	5.2	3.5	2.2	3.4	3.4
*1999	1,733	1,196	69.0	2,557	1,814	71.0	4,290	3,009	70.2	5.9	4.3	5.3	6.1	5.5	5.4
*2000	1,810	1,244	68.7	2,715	1,922	70.8	4,525	3,165	70.0	4.4	4.0	6.2	5.9	5.5	5.2
*2001	1,868	1,273	68.1	2,837	1,992	70.2	4,706	3,265	69.4	3.3	2.3	4.5	3.7	4.0	3.2
*2002	1,923	1,291	67.1	2,961	2,049	69.2	4,883	3,339	68.4	2.9	1.4	4.3	2.8	3.8	2.3
*2003	1,973	1,353	68.6	3,093	2,187	70.7	5,066	3,540	69.9	2.6	4.8	4.5	6.7	3.7	6.0

Note: * = Forecast; ICAO traffic includes charters. Source: Airline Monitor, July 1999.

DEMAND TRENDS (1990=100)

	Real GDP					Real exports					Real imports				
	US	UK	Germany	France	Japan	US	UK	Germany	France	Japan	US	UK	Germany	France	Japan
1992	102	98	102	102	105	113	103	112	109	110	107	101	115	104	96
1993	105	100	100	101	105	117	107	106	109	112	117	104	108	101	96
1994	109	103	103	104	106	126	117	115	115	117	131	110	117	107	104
1995	111	106	105	106	107	137	126	122	123	123	141	115	124	113	119
1996	114	108	107	107	111	152	135	128	128	126	155	124	127	116	132
1997	118	112	110	109	112	172	146	142	142	138	177	135	136	123	132
1998	122	115	113	112	109	173	150	152	150	135	196	144	147	133	121
1999	127	117	114	115	111	179	150	155	153	135	220	151	152	136	122
*2000	131	120	117	118	112	191	156	164	162	142	239	158	159	143	126

Note: * = Forecast; Real = inflation adjusted. Source: OECD Economic Outlook, December 1999.

Aviation Strategy

Macro-trends

COST INDICES (1990=100)

	Europe						US					
	Unit revenue	Unit op. cost	Unit lab. cost	Efficiency	Av. lab. cost	Unit fuel cost	Unit revenue	Unit op. cost	Unit lab. cost	Efficiency	Av. lab. cost	Unit fuel cost
1991	106	109	103	105	108	88	100	102	102	101	103	84
1992	99	103	96	119	114	80	98	100	101	107	108	75
1993	100	100	90	133	118	82	101	98	99	116	115	67
1994	100	98	87	142	123	71	98	94	101	124	125	62
1995	99	97	86	151	128	67	99	93	98	129	127	61
1996	100	101	88	155	135	80	102	94	98	129	126	72
1997	102	105	85	148	131	81	104	94	100	129	129	69
*1998	107	105	84	151	127	71	108	96	106	127	134	61

Note: * = First-half year. European indices = weighted average of BA, Lufthansa and KLM. US indices = American, Delta, United and Southwest. Unit revenue = airline revenue per ATK. Unit operating cost = cost per ATK. Unit labour cost = salary, social charges and pension costs per ATK. Efficiency = ATKs per employee. Average labour cost = salary, social costs and pension cost per employee. Unit fuel cost = fuel expenditure and taxes per ATK.

FINANCIAL TRENDS (1990=100)

	Inflation (1990=100)					Exchange rates (against US\$)						LIBOR 6 month Euro-\$	
	US	UK	Germany	France	Japan	UK	Germ.	France	Switz.	Euro**	Japan		
1991	104	106	104	103	103	1991	0.567	1.659	5.641	1.434	0.809	134.5	5.91%
1992	107	107	109	106	105	1992	0.570	1.562	5.294	1.406	0.773	126.7	3.84%
1993	111	109	114	108	106	1993	0.666	1.653	5.662	1.477	0.854	111.2	3.36%
1994	113	109	117	110	107	1994	0.653	1.623	5.552	1.367	0.843	102.2	5.06%
1995	117	112	119	112	107	1995	0.634	1.433	4.991	1.182	0.765	94.1	6.12%
1996	120	114	121	113	107	1996	0.641	1.505	5.116	1.236	0.788	108.8	4.48%
1997	122	117	123	114	108	1997	0.611	1.734	5.836	1.451	0.884	121.1	5.85%
1998	123	120	124	115	109	1998	0.603	1.759	5.898	1.450	0.896	130.8	5.51%***
1999	125	122	126	116	108	1999	0.621	1.938	6.498	1.587	1.010	103.3	5.92%***
*2000	127	126	127	117	108	Jun 2000	0.662	2.068	6.935	1.639	0.946	105.5	6.85%***

Note: * = Forecast. **Source:** OECD Economic Outlook, December 1999. **Euro rate quoted from January 1999 onwards. 1990-1998 historical rates quote ECU. *** = \$ LIBOR BBA London interbank fixing six month rate.

JET AND TURBOPROP ORDERS

	Date	Buyer	Order	Price	Delivery	Other information/engines
ATR	Jun 9	Air Dolomiti	3 ATR 42-500s		4Q00	+ 4 options
Airbus	-	-	-			
BAE Systems	-	-	-			
Boeing	Jun 29	Southwest	94 737-700s	\$4.5bn	2002-2012	Plus 25 options Plus 171 purchase rights for 737NGs GE 90-115B engines
	Jun 27	EVA Airways	4 777-300s, 3 777-200s			
	Jun 8	Cathay Pacific	1 777-200 1 747-400F		4Q00 2Q01	
	May 30	ILFC	50 737NGs			Conversion of options
Bombardier	Jun 12	Horizon Air	5 CRJ700s	\$130m		
	Jun 9	GECAS	15 CRJ200s, 25 CRJ700s, 10 CRJ900s	\$1.3bn	2002-2006	+ 100 options
Embraer	Jun 13	LOT	9 ERJ145s			Includes conversion of 6 options
	Jun 7	GECAS	50 ERJ170s			+ 100 options for ERJ100s/190s
Fairchild	Jun 7	GECAS	50 728JETS	\$1.4bn	2003+	+ 100 options
	Jun 7	KLM alps	5 428 JETS, 3 328JETS		2001-2003	
	Jun 6	Bavaria Leasing	5 928JETS, 2 728JETS			+ 2 928JET options & 2 728JET options

Note: Prices in US\$. Only firm orders from identifiable airlines/lessors are included. MoUs/Lols are excluded. **Source:** Manufacturers.

Aviation Strategy

Micro-trends

	Group revenue	Group costs	Group operating profit	Group net profit	Total ASK	Total RPK	Load factor	Group rev. per total ASK	Group costs per total ASK	Total pax.	Total ATK	Total RTK	Load factor	Group employees
	US\$m	US\$m	US\$m	US\$m	m	m	%	Cents	Cents	000s	m	m	%	
American*														
Jul-Sep 98	4,583	3,958	625	433	65,920.1	48,093.9	73.0	6.95	6.00	21,457	9,739.3	5,466.1	56.1	89,078
Oct-Dec 98	4,152	3,857	295	182	64,317.3	43,811.6	68.1	6.46	6.00	19,805	9,526.7	5,060.1	53.1	90,460
Jan-Mar 99	3,991	3,954	37	158	62,624.3	41,835.4	66.8	6.37	6.31					
Apr-Jun 99	4,528	4,120	408	268	67,313.8	47,945.9	71.2	6.73	6.12					
Jul-Sep 99	4,629	4,603	547	279	67,972.2	48,792.9	71.8	6.88	6.26					98,700
Oct-Dec 99	4,477	4,206	271	280	65,751.2	44,328.2	67.4	6.81	6.41					
Jan-Mar 00	4,577	4,365	212	132	64,392.8	43,478.4	67.5	7.11	6.78					104,500
America West														
Jul-Sep 98	499	453	46	22	9,884.3	7,108.3	71.9	5.05	4.58	4,665	1,240.4	746.9	60.2	11,600
Oct-Dec 98	507	470	37	20	10,037.2	6,491.9	64.7	5.05	4.68	4,335	1,261.2	688.1	54.6	11,687
Jan-Mar 99	520	469	51	26	10,135.4	6,485.5	64.0	5.13	4.63	4,263				
Apr-Jun 99	570	494	76	42	10,446.0	7,204.8	69.0	5.46	4.73	4,724				
Jul-Sep 99	553	511	41	22	10,522.9	7,502.8	71.3	5.26	4.86	4,896				
Oct-Dec 99	569	532	37	29	10,594.0	7,307.8	69.0	5.37	5.02	4,822				11,575
Jan-Mar 00	563	552	11	15	10,440.8	6,960.5	66.7	5.39	5.29	4,612				12,024
Continental														
Jul-Sep 98	2,116	1,973	143	73	31,609.9	24,049.4	76.1	6.69	6.24	11,655	3,801.8	2,542.9	66.9	40,082
Oct-Dec 98	1,945	1,817	128	66	30,557.4	21,273.3	69.6	6.37	5.95	10,637	3,664.5	2,339.0	63.8	41,118
Jan-Mar 99	2,056	1,896	160	84	30,938.8	22,107.0	71.5	6.65	6.13	12,174				
Apr-Jun 99	2,198	1,942	256	137	32,448.3	24,009.1	74.0	6.77	5.98	11,493				
Jul-Sep 99	2,283	2,071	21	110	34,711.0	26,380.3	76.0	6.58	5.97	11,922				
Oct-Dec 99	2,158	2,073	85	33	33,771.2	24,094.4	71.3	6.39	6.14	11,347				
Jan-Mar 00	2,277	2,223	54	14	33,710.2	24,143.0	71.6	6.75	6.59	11,201				
Delta														
Jul-Sep 98	3,802	3,250	552	327	59,017.9	45,242.3	76.7	6.44	5.51	27,575	8,486.8	5,196.9	61.2	75,722
Oct-Dec 98	3,448	3,128	320	194	57,810.9	39,947.7	69.1	5.96	5.41	25,531	8,244.1	4,699.3	57.0	76,649
Jan-Mar 99	3,504	3,148	356	216	56,050.3	39,163.9	69.9	6.25	5.62					
Apr-Jun 99	3,957	3,315	642	364	57,957.3	43,422.1	74.9	6.83	5.72					
Jul-Sep 99	3,877	3,527	350	352	60,710.8	45,528.3	75.0	6.39	5.81	27,183		5,258.2		72,300
Oct-Dec 99	3,713	3,705	8	352	58,265.1	40,495.3	69.5	6.37	6.36	25,739				
Jan-Mar 00	3,960	3,605	355	223	57,093.8	39,404.4	69.0	6.94	6.31	25,093				72,300
Northwest														
Jul-Sep 98	1,928	2,204	-276	-224	32,406.3	24,295.8	75.0	5.95	6.80	11,148	5,107.4	3,058.6	59.9	50,654
Oct-Dec 98	2,212	2,404	-192	-181	37,947.0	26,534.3	69.9	5.83	6.34	12,962	6,125.2	3,588.9	58.6	50,503
Jan-Mar 99	2,281	2,295	-14	-29	37,041.3	26,271.8	70.9	6.16	6.20					
Apr-Jun 99	2,597	2,333	264	120	40,541.5	30,900.2	76.2	6.41	5.75					
Jul-Sep 99	2,843	2,472	370	180	43,194.5	33,562.1	77.7	6.58	5.73					
Oct-Dec 99	2,555	2,461	94	29	39,228.3	28,618.2	73.0	6.51	6.27					
Jan-Mar 00	2,570	2,573	-3	3	39,486.0	28,627.4	72.5	6.51	6.52					
Southwest														
Jul-Sep 98	1,095	891	204	130	19,762.1	13,620.3	68.9	5.54	4.51	13,681	2,519.0	1,420.4	56.4	25,428
Oct-Dec 98	1,047	888	159	100	19,763.0	12,603.4	63.8	5.30	4.49	13,291	2,504.1	1,317.4	52.6	26,296
Jan-Mar 99	1,076	909	167	96	19,944.0	12,949.2	64.9	5.40	4.56	12,934				
Apr-Jun 99	1,220	966	254	158	20,836.9	15,241.7	73.1	5.85	4.64	14,817				
Jul-Sep 99	1,235	1,029	206	127	21,903.8	15,464.0	70.6	5.64	4.70	14,932				
Oct-Dec 99	1,204	1,050	154	94	22,360.7	15,047.8	67.3	5.38	4.70	14,818				27,653
Jan-Mar 00	1,243	1,057	155	74	22,773.8	15,210.2	66.8	5.46	4.77	14,389				27,911
TWA														
Jul-Sep 98	863	839	24	-5	14,293.8	10,531.3	73.7	6.04	5.87	6,273	1,999.7	1,150.0	57.5	21,848
Oct-Dec 98	747	813	-66	-79	13,452.4	8,731.6	64.9	5.55	6.04	5,574	1,863.7	982.8	52.7	21,321
Jan-Mar 99	764	802	-38	-22	13,352.4	9,205.2	68.9	5.72	6.01					
Apr-Jun 99	866	848	18	-6	14,274.4	11,130.9	78.0	6.07	5.94					
Jul-Sep 99	876	935	-59	-54	15,188.0	11,524.3	75.9	5.76	6.16	6,928	1,957.0	1,248.6	63.8	20,982
Oct-Dec 99	809	913	-104	-76	14,501.6	9,687.1	66.8	5.58	6.30	6,038				
Jan-Mar 00														
United														
Jul-Sep 98	4,783	4,088	695	425	73,913.5	56,283.7	76.1	6.47	5.53	23,933	11,255.3	6,847.4	60.8	94,270
Oct-Dec 98	4,281	4,090	191	54	70,620.9	49,484.4	70.1	6.06	5.79	21,616	10,774.4	6,182.8	57.4	94,903
Jan-Mar 99	4,160	4,014	146	78	67,994.5	46,899.8	69.0	6.12	5.90					
Apr-Jun 99	4,541	4,108	433	669	71,573.6	50,198.9	70.1	6.34	5.74					
Jul-Sep 99	4,845	4,226	619	359	74,043.0	55,628.0	75.1	6.54	5.71	23,765				96,700
Oct-Dec 99	4,480	4,286	194	129	70,715.9	49,172.2	69.5	6.34	6.06	21,536				96,600
Jan-Mar 00	4,546	4,294	252	-99	68,421.1	46,683.5	68.2	6.64	6.28	20,141				96,100
US Airways														
Jul-Sep 98	2,208	1,938	270	142	23,267.3	17,639.5	75.8	9.49	8.33	15,290	3,166.1	1,898.2	60.0	40,660
Oct-Dec 98	2,121	1,943	178	104	23,318.8	16,112.3	69.1	9.10	8.33	14,202	3,171.1	1,754.5	55.3	40,664
Jan-Mar 99	2,072	1,983	89	46	22,745.8	15,405.8	67.7	9.11	8.72					
Apr-Jun 99	2,286	2,007	279	317	23,891.7	17,557.5	73.5	9.57	8.40					
Jul-Sep 99	2,102	2,213	-111	-85	23,006.6	17,205.6	71.7	8.76	9.22	13,984				40,613
Oct-Dec 99	2,135	2,256	-121	-81	24,705.9	16,714.2	67.6	8.64	9.13	14,075				41,636
Jan-Mar 00	2,098	2,237	-139	-218	24,250.3	15,568.7	64.2	8.65	9.22	12,804				42,727
ANA														
Jul-Sep 98	3,399	3,355	44	73	42,415.9	27,404.4	64.6	8.01	7.91	21,449				
Oct-Dec 98														
Jan-Mar 99														
Apr-Jun 99														
Jul-Sep 99														
Oct-Dec 99														
Jan-Mar 00														
Cathay Pacific														
Jul-Sep 98														
Oct-Dec 98														
Jan-Mar 99														
Apr-Jun 99														
Jul-Sep 99														
Oct-Dec 99														
Jan-Mar 00														
JAL														
Jul-Sep 98														
Oct-Dec 98														
Jan-Mar 99														
Apr-Jun 99														
Jul-Sep 99														
Oct-Dec 99														
Jan-Mar 00														

Note: Figures may not add up due to rounding. 1 ASM = 1.6093 ASK. *Airline group only.

Aviation Strategy

Micro-trends

	Group revenue	Group costs	Group operating profit	Group net profit	Total ASK	Total RPK	Load factor	Group rev. per total ASK	Group costs per total ASK	Total pax.	Total ATK	Total RTK	Load factor	Group employees
	US\$m	US\$m	US\$m	US\$m	m	m	%	Cents	Cents	000s	m	m	%	
Korean Air														
Jul-Sep 98	TWELVE MONTH FIGURES													
Oct-Dec 98	3,283	3,063	219	212	58,246.4	40,190.3	69.0	5.64	5.26	25,557		9,480.0		17,050
Jan-Mar 99														
Apr-Jun 99														
Jul-Sep 99														
Oct-Dec 99														
Jan-Mar 00														
Malaysian														
Jul-Sep 98	TWELVE MONTH FIGURES													
Oct-Dec 98	1,966	2,258	-292	-183	45,442.3	30,592.9	67.3	4.33	4.97	13,709	6,649.0	4,030.0	60.6	
Jan-Mar 99														
Apr-Jun 99														
Jul-Sep 99														
Oct-Dec 99														
Jan-Mar 00														
Singapore														
Jul-Sep 98	2,232	2,013	219	278	41,466.2	29,456.2	71.0	5.38	4.86	6,240	7,693.4	5,225.2	67.9	
Oct-Dec 98	SIX MONTH FIGURES													
Jan-Mar 99	2,421	2,130	291	341	41,725.5	30,843.7	74.9	5.80	5.10	6,537	7,958.5	5,540.3	69.6	
Apr-Jun 99	SIX MONTH FIGURES													
Jul-Sep 99	2,577	2,259	317	346	43,145.7	32,288.3	74.8	5.97	5.24	6,752	8,251.9	5,852.7	70.9	
Oct-Dec 99	SIX MONTH FIGURES													
Jan-Mar 00	2,459	2,203	256	439	44,582.6	33,430.1	75.0	5.51	4.94	7,030	8,665.8	6,185.7	71.4	
Thai Airways														
Jul-Sep 98	TWELVE MONTH FIGURES													
Oct-Dec 98	2,858	2,695	163	136	51,788.0	37,642.0	72.7	5.52	5.20	16,331	7,309.0	5,097.0	69.7	
Jan-Mar 99														
Apr-Jun 99														
Jul-Sep 99														
Oct-Dec 99														
Jan-Mar 00														
Air France														
Jul-Sep 98	5,088	4,894	194	228	49,724.0	38,070.0	76.6	10.23	9.84					
Oct-Dec 98	SIX MONTH FIGURES													
Jan-Mar 99	5,550	5,552	-2	56	51,394.0	38,242.0	74.4	10.80	10.80					
Apr-Jun 99	SIX MONTH FIGURES													
Jul-Sep 99	5,249	4,889	360	316	56,934.0	43,896.0	77.1	9.22	8.59	20,600				
Oct-Dec 99	SIX MONTH FIGURES													
Jan-Mar 00	4,831	4,430	401	41	55,508.0	41,650.0	75.0	8.70	7.98	19,200				
Alitalia														
Jul-Sep 98	TWELVE MONTHS FIGURES													
Oct-Dec 98	5,152	4,432	720	235	51,638.4	35,427.2	68.8	9.98	6.86	24,103			18,825	
Jan-Mar 99	SIX MONTH FIGURES													
Apr-Jun 99	2,074	2,132	-58	-14										
Jul-Sep 99														
Oct-Dec 99														
Jan-Mar 00														
BA														
Jul-Sep 98	4,034	3,601	433	357	46,792.0	35,543.0	76.0	8.62	7.70	12,608	6,533.0	4,630.0	70.9	64,106
Oct-Dec 98	3,585	3,431	154	-114	44,454.0	29,736.0	66.9	8.06	7.72	10,747	6,277.0	4,111.0	65.5	64,608
Jan-Mar 99	3,343	3,481	-138	-119	43,544.0	29,537.8	67.8	7.68	7.99	10,285	6,130.0	3,933.0	64.2	64,366
Apr-Jun 99	3,527	3,378	149	302	45,813.0	32,032.0	69.9	7.70	7.37	11,733	6,437.0	4,215.0	65.5	65,179
Jul-Sep 99	3,933	3,742	191	49	47,465.0	35,873.0	75.6	8.29	7.88	12,983	6,690.0	4,689.0	70.1	65,607
Oct-Dec 99	3,473	3,476	-3	-112	45,347.0	30,192.0	66.6	7.66	7.67	11,084	6,469.0	4,270.0	66.1	65,800
Jan-Mar 00	3,097	3,281	-184	-247	44,533.0	29,328.0	65.9	6.95	7.37	10,778	6,253.0	4,041.0	64.6	64,874
Iberia														
Jul-Sep 98	TWELVE MONTH FIGURES													
Oct-Dec 98	4,451	4,100	351	356	45,041.6	32,520.0	72.2	9.88	9.10	21,753		3,740.0		22,065
Jan-Mar 99	TWELVE MONTH FIGURES													
Apr-Jun 99	3,712	3,659	53	179	50,227.6	34,606.8	68.9	7.39	7.28	21,877				
Jul-Sep 99														
Oct-Dec 99														
Jan-Mar 00														
KLM														
Jul-Sep 98	1,865	1,675	190	121	19,363.0	15,984.0	82.6	9.63	8.65		3,359.0	2,583.0	76.9	33,586
Oct-Dec 98	1,673	1,661	12	-15	18,476.0	13,767.0	74.5	9.05	8.99		3,214.0	2,415.0	75.1	33,761
Jan-Mar 99	1,550	1,670	-120	-45	17,716.0	13,294.0	75.0	8.75	9.43		3,088.0	2,284.0	74.0	33,892
Apr-Jun 99	1,626	1,547	79	37	18,778.0	14,302.0	76.2	8.66	8.24		3,253.0	2,427.0	74.6	34,980
Jul-Sep 99	1,731	1,596	135	32	19,630.0	16,083.0	81.9	8.81	8.13		3,352.0	2,640.0	78.8	35,226
Oct-Dec 99	1,450	1,479	-29	-17	19,014.0	14,434.0	75.9	7.63	7.78		3,280.0	2,550.0	77.7	35,128
Jan-Mar 00	1,361	1,436	-75	-142	18,627.0	14,084.0	75.6	7.31	7.71		3,238.0	2,453.0	75.8	35,348
Lufthansa***														
Jul-Sep 98	3,528	3,167	361	198	26,929.0	20,681.0	76.8	13.10	11.76	11,198	5,231.0	3,748.0	71.6	54,695
Oct-Dec 98	2,929	2,106	823	96	25,530.0	18,259.0	71.5	11.47	8.25	9,819	5,204.0	3,676.0	70.6	55,368
Jan-Mar 99	3,301	3,210	91	64	25,445.0	17,942.0	70.5	12.97	12.62	9,658	4,972.0	3,435.0	69.1	56,420
Apr-Jun 99	3,322	3,012	310	97	30,500.0	22,279.0	73.0	10.89	9.86	11,444	5,626.0	3,993	71.0	53,854
Jul-Sep 99	4,049	3,677	382	184	31,335.0	23,866.0	76.2	12.92	11.73	11,891	5,699.0	4,142.0	72.7	
Oct-Dec 99	3,398	2,964	434	378	29,120.0	20,313.0	69.8	11.67	10.18	10,807	5,503.0	3,930.0	71.4	66,207
Jan-Mar 00	2,831	2,742	89	11	28,599.0	19,781.0	69.2	9.90	9.59	10,355	5,422.0	3,751.0	69.2	
SAS														
Jul-Sep 98	1,283	1,152	131	127*	8,283.0	5,843.0	70.5	15.49	13.91		5,714			26,553
Oct-Dec 98	1,368	1,266	102	46*	8,116.0	5,089.0	62.7	16.86	15.60		5,431			27,071
Jan-Mar 99	1,203	1,227	-24	-3*	8,062.0	4,713.0	58.5	14.92	15.22		5,017			27,110
Apr-Jun 99	1,357	1,294	63	60*	8,466.0	5,571.0	65.8	16.03	15.28		5,580			27,706
Jul-Sep 99	1,173	1,150	23	12*	8,450.0	5,667.0	67.1	13.88	13.61		5,589			27,589
Oct-Dec 99	1,210	1,083	127	138*	8,227.0	5,210.0	63.3	14.71	13.16		5,536			
Jan-Mar 00	1,145	1,179	-34	-33*	8,253.0	4,992.0	60.5	13.87	14.24		5,314			28,060
Swissair**														
Jul-Sep 98	SIX MONTH FIGURES													
Oct-Dec 98	2,187	2,070	117	165	20,476.8	15,391.3	75.2	10.68	10.11	5,277				10,396
Jan-Mar 99	SIX MONTH FIGURES													
Apr-Jun 99	1,932	1,877	55	57	23,411.0	16,130.0	68.9	8.25	8.02	7,784				10,715
Jul-Sep 99	SIX MONTH FIGURES													
Oct-Dec 99	2,344	2,272	72	125	21,934.0	16,839.0	76.8	10.69	10.36	6,081				
Jan-Mar 00														

Note: Figures may not add up due to rounding. 1 ASM = 1.6093 ASK. *Pre-tax. **SAirLines' figures apart from net profit, which is SAirGroup. ***Excludes Condor from 1998 onwards. 4Q+ data are on IAS basis.

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