
The Canadian Airline Industry: Airlines, Airports and Aviation

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Address to WESTAC-Van Horne Institute Conference

Edmonton, November 17-18, 2004

Organizational Themes

- Insufficient revenues
- Regulatory burden
- Capital funds
- Restructuring air carriers

Airlines – the business models

■ Air Canada

- Emergence from CCAA in 'good shape'
- Capacity reduced, load factors up
- Yield improvements, traffic up
- Costs reduced - \$2 Billion (labour, suppliers, and plane lessors – 25 % one time reduction)
- Refocused to long haul, redefined domestic presence
- New fleet direction

Airlines – the business models

- WestJet, Canjet, Jetsgo
 - Load factors mixed but traffic and capacity up
 - Costs – mixed pressures from factor prices ↑ and improved productivity ↓
 - New aircraft being introduced
 - Expansion into US
 - Growing share of seat capacity-40%
 - Can the market support all the players
 - consolidation happens with LCCs also e.g. Belgium

Evolutionary Business Models

- Legacy carriers
 - US collective debt of \$100 B and losses of \$25 B since 9/11
 - Bankruptcies – United, USAirways, ATA and Delta, Northwest & Continental are teetering
 - Yield has dropped from 13¢ to 11.25¢
 - Air Canada out of CCAA, pressures in Europe but Asia, Middle East, and Australia/New Zealand or OK
 - BUT *the future will be different*

New World of *Legacy* Airline Business

- Revenues
 - New fare structure-no more yield management
 - Redesign networks to focus on International
- Costs
 - Cost pressures from factor prices, product design and product delivery
 - Reduced density economies from increased competition
 - Redesign hubs to connect
- Balance product complexity with costs

Evolutionary Business Models-LCCs

- Ryanair ≠ easyjet ≠ WestJet ≠ Virgin Blue
≠ Southwest ≠ JetBlue
- Will emerge with 35-45% of domestic market
 - Retreat of FSC and growth of LCCs capacity
- Exogenous cost pressures – fees, charges
- Mixed fleets (737 & RJ) new routes and market competition for FSCs
- Simplicity – product, process, organization – this is changing

Airports you have known?



Airports

- Good news
 - NAP and devolution has moved us in the right direction
 - Evolution from public utility to modern business well developed
 - More customer driven and less operational driven
 - Marketing is not considered nonsensical
 - Growing opportunities with liberalized markets

Airports

■ The Bad News

- NAP did not go far enough – privatization
- NAP failed to view airports as nodes in a network – a system – not just nodes
- Lease agreements are inefficient and ill-founded
- 1995 Open Skies Ok but insufficient for strategic initiatives
- Ill defined capital markets for non-NAS
- Proposed C-27 intrusive and a giant leap backwards

Airports – The Future

- What should happen
 - Privatization with light handed regulation
 - Freedom to develop their businesses
 - Innovation in pricing – competition works!
 - Incentives to strategically partner with carriers within their business model – complexity versus simplicity
 - Government policy hindering market development
 - Open skies would provide many opportunities

Aviation System

- Pricing should reflect incentives not just financing – e.g. NavCan
- Pricing innovation stifled by IATA and ICAO focus on costs in supply chain not on strategic partnering
 - Minimize sum of costs
- Opportunities with multi-lateral initiatives
- Need a system of performance measures

Forces at Work-North America

- Canada
 - Economy doing well
 - Lease Payments, fees and charges need a review
 - Gov't 'liberalization' policy may signal new players
- Canada-US
 - AC faces threats from LCCs north-south
 - US economy
 - Chapter 11 - state aid to redundant capacity
 - Falling \$ will prompt more domestic travel less international – mixed affects

Forces at Work-International

- Long haul international may be a refuge for AC until liberalization
- Domestic feed for long haul via 'connect points not 'hubs'
- Alliances may give way to mergers but not at any cost – competition works!
- Multi-lateral negotiations a possible threat

Final Thoughts

- Synthesize government policies
 - Trade-industry-transportation
- Synthesize government policy to facilitate evolutionary business models
 - Consolidation, ownership, market access
- NAP should be consistent with policy affecting airlines
- Demographics will play a major role for carriers and airports

Thank you!

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