

Riders on the storm

INTERVIEW WITH GASTÓN AZCÁRRAGA AND MANUEL BORJA

CHAIRMAN AND CHIEF EXECUTIVE OFFICER, RESPECTIVELY, GRUPO MEXICANA DE AVIACIÓN



GASTÓN AZCÁRRAGA is a graduate of Harvard Business School and Universidad Anáhuac in Mexico City. He is member and former Chairman of the Consejo Mexicano de Hombres de Negocios (Mexican Business Roundtable).



MANUEL BORJA is a graduate of Iberoamericana University and the University of Texas at Austin. He has sat on a number of corporate boards and currently holds a seat on the boards of Grupo Posadas and Grupo Mexicana.

These may be turbulent times for the global aviation industry, but whereas many recently-founded airlines have fallen by the wayside, one of the world's longest established carriers, Mexicana, is investing not only in new international routes and improving its service but, as of mid-March 2009, has launched a new regional airline MexicanaLink. As Grupo Mexicana's CEO Manuel Borja says: "Mexicana believes in Mexico, which is why the company has decided to invest in and expand its operating infrastructure as part of a business strategy we began implementing three years ago to help us remain competitive and offer our customers the best possible services." The new airline, operating from its hub at Guadalajara airport where the group's maintenance base has recently been reopened, joins Mexico's leading carrier Mexicana and its subsidiary MexicanaClick, which caters mainly for low-cost domestic flights, to form a new force in Latin America's aviation industry.

Moreover, the launch of Mexicana's first service to Europe earlier this year, with direct flights from Mexico City to London and Madrid, indicates that the airline's growth strategy goes beyond consolidating its position within the domestic and regional markets. "I would say that Mexicana's position today", says Borja, "could be likened to being the spinal cord of the Americas, as we fly throughout the continent from Canada to Argentina. We are the airline that has the fullest coverage of the Americas – including an extensive range of flights into the United States – and we have continued to extend our network. So the point came when we needed to start connecting that spinal cord with other places, and the two destinations that really made sense were London and Madrid."

Borja says they chose London for the inaugural transatlantic flight "because it is a growing market in which previously British Airways was the only scheduled airline with direct flights. What is more, our studies suggested that at least 50 per cent of passengers on the London-Mexico route had to travel indirectly through different gateways, so there was insufficient coverage. We saw that as an opportunity, especially as we believe we have a very good product." Mexicana's non-stop service to Madrid followed soon thereafter, this being the largest passenger volume route between Mexico and Europe where previously the dominant players were Iberia and Aeromexico.

Both Manuel Borja and Chairman Gastón Azcárraga, whose leading hotel business Grupo Posadas acquired the previously state-owned Mexicana in late 2005, are proud of the airline's long history of service since it was founded in 1921. But some observers have questioned whether Mexico having two long established international carriers will remain viable during the current downturn, and some have raised the previously mooted idea of a merger between Mexicana and Aeromexico. "It just doesn't make sense for a country the size of Mexico to have more than one legacy airline", observes Azcárraga, "especially when there are low-cost airlines that basically set the prices for competitors." He sees the current economic crisis as throwing up long-term opportunities for the stronger players in the aviation industry. "It depends how serious the crisis is", he says, "but I expect that eventually we will see some of our competitors that are over-leveraged being unable to meet their obligations and heading toward bankruptcy, which makes them more susceptible to the idea of mergers. So what we have is the opportunity to grow in a big way, though we do not expect something like that to happen this year. Maybe next year. There is no need to rush." Moreover, Azcárraga is a realist about the possibilities of acquisition-led growth. "Even though it may make sense to merge with Aeromexico", he says, "I don't know whether it could go ahead. It is complicated to put together a structure like this, to convince the authorities and the shareholders."

Manuel Borja points to the far-reaching changes implemented at Mexicana during the three years since it was privatised, in terms of improving cost competitiveness, levels of passenger service and the interconnectivity of its flight networks – as the basis for its comparative strength today. "When we acquired Mexicana", he says, "we found a company with a very well positioned brand, but it was run like a governmental entity, with its main focus on serving the public rather than being a profitable operation. The choice of new destinations, for example, was more a political issue than one based on sound economics. The company was simply not cost competitive, and this at a time when Mexico's aviation industry expanded very rapidly from just two dominant players to more than fourteen airlines in the space of just two years. So during the first year we focused hard on reducing costs with the result that we are now an extremely efficient legacy carrier, having

reduced our operational costs below those of our main competitors like Aeromexico and American Airlines.”

But cost competitiveness is just one leg of the new Mexicana's three-pronged strategy. The second was to generate more revenue through improved sales. “As a duopoly it was easy to sell”, Borja remembers, “but with the arrival of new, low-cost competitors we needed to change the way we were selling. So from the second year we started working on sales forces and really targeted our markets. This was combined with more effective revenue management. The third leg is improving our service and product, because for an established carrier like Mexicana to compete against the lowest cost carrier purely on price would be crazy. What matters is the price-to-value relationship, so we are now working on further improvements to Mexicana's already award-winning passenger service.”

Gaston Azcárraga argues that some of the management disciplines developed through running his successful hotel group Grupo Posadas, such as yield management, apply equally to airlines. “Basically you have a high fixed-cost structure, so the commercial process, the sales channels you use, the discounting aspect of it, are very similar. And looking to the future, the increased use of the web and electronic distribution systems, again there are similarities between the hotel and airlines industry, and we intend to take advantage of them.” Manuel Borja adds that in both of these service industry the product being sold, whether it is a hotel room or a seat on a plane, are “perishables”, in the sense that “if a sale is not made it is gone forever”. The ability to manage that process, combined with the ability to provide a consistent standard of service expected by the customer, is crucial. “We are bringing that knowledge from years in the hotel industry to Mexicana”, he adds, “in order to achieve higher and more uniform levels of service throughout the airline.”

An important part of this service, and the value offered

to customers is, according to Borja, ‘connectivity’. “As a national flag carrier”, he says, “we need to provide our customers who fly all around the world with seamless connectivity. That is why the new flights to London and Madrid add value to what we offer our clients, because from there you can fly onwards to practically any other destination in Europe, Asia or Africa.” And while the current European routes are only expected to contribute up to 3 per cent of revenues, Borja argues they do far more for public's perception of Mexicana as a global airline. Moreover, he expects “the growth in trade between Europe and Mexico to allow us to allocate more planes to these markets in the near future”. A further boost to Mexicana's connectivity will come from its joining the Oneworld alliance of major international airlines and adopting the same Amadeus reservations and airport handling system as other Oneworld members like Iberia and British Airways, thereby opening up the possibilities of code sharing on routes where they do not directly compete and enabling Mexicana to make a far more compelling offer to its own customers.

Chairman Gaston Azcárraga is confident that Mexicana and its regional subsidiaries can continue to grow, both in terms route network and market share, even in these uncertain times. The key, he argues, “is having the flexibility and ability to adapt to whatever happens, and in this respect maintaining cashflow is crucial.” Indeed, he believes that “not sticking to a preset strategy can make a lot of sense”, and that when market conditions are changing very rapidly a successful company's “reactions need to be very fast”. Mexicana, he says, “is a company that has the culture and ability to react swiftly, we have made a lot of progress regarding that, and I feel confident that we are going to be able to adapt.” And with so many airlines undercapitalised and facing difficult markets, he is sure that for those which have retained sufficient cash “there are going to be new opportunities.” **F**

The launch of Mexicana's first service to Europe earlier this year indicates that the airline's growth strategy goes beyond consolidating its position within the domestic and regional markets



MexicanaLink: newest addition to the Mexicana stable of low-cost, regional and international airlines