Good air canada: a great survival story case study example

Engineering, Aviation

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The purpose of this case study is to explore the reasons behind the growth and advancement, of a corporation in aviation industry that has successfully evolved, in spite of technological advancements and challenges since 1937. Air Canada is a case in example how a fully government owned company can go on to become the best airlines in North America, and a force to reckon with in the whole of the world. From humble beginning in 1937, with a fleet of Lockheed L-10A, it now has the most modern fleet in North America. I would like to stress, that their failures and testing times are more noteworthy than their moments of glory.

The courage they showed in transition through deregulation; in responding from threats from American carriers; through privatization; botched-up merger; bankruptcy; and subsequent restructuring are worthy of a case in them.

I would particularly like to mention their strategic management approach during the time of bankruptcy. They beautifully demonstrated their ability to cut cost where they were necessary, and to make capital investment with future in mind. In particular, their idea of retiring their old fleet, and spend on an entirely new one that will take them into the future.

Air Canada’s predecessor, Trans-Canada Air Lines (TCA) made its maiden flight on September 1st, 1937. That 50 minute flight operated by Lockheed L-10A carried two passengers and mail from Vancouver to Seattle. In 1964, Trans-Canada Air Lines, had grown to become Canada’s national airlines, and switched its name to Air Canada. However, it was only in 1989 that it became fully privatized; it started getting traded at Toronto Stock Exchange

(TSX) under the symbol “ AC-B. TO”. Due to its persistent effort, it is now counted among the 20 largest airlines in the world and employs almost 27, 000 people. It is based out of Montreal, PQ.

However, it went from being a monopoly to an atmosphere of almost complete deregulation. This was borne out of growing demand for less regulation in the airlines industry in the mid-70s. Therefore, the Air Canada Act, 1977 removed all the special privileges from Air Canada, and made it an independent crown corporation. This act allowed for direct competition with CP Air on all transcontinental routes. In 1978, it received further jolt when U. S. airlines industry got deregulated and passengers started taking advantage of lower fares being offered by them. Around the same time, Air Canada witnessed fleet expansion with inclusion of new Boeing B727, B747, and Lockheed Tristar jets.

Later in the 90, Air Canada again faced financial difficulties due to rising fuel prices, post Persian Gulf War. In response to this challenge, it restricted its operations, reduced management, and hired a new CEO from the U. S. It also moved its corporate head-quarters to Montreal airport, which was closer to the operations. As a consequence of these steps, Air Canada had returned to profitability by the year 1994.

In the year 1995, in response to the new U. S. - Canada open skies agreement, Air Canada added 30 more routes to the U. S. Next, in the year 1997, it took a path breaking step of being the founder member of Star Alliance, which allowed it code-share with other alliance members. And, around the same time it consistently earned profits, totalling to $ 1 billion between 1997 and 1999.

However, things have not been smooth throughout; in September 1998, their pilots went on strike demanding better wages. Further, in 1999, the relaxation of aviation rules by the Canadian government, threw up new challenges for Air Canada. In order to prevent American Airlines from taking over their biggest rival, Canadian Airlines, they too had to step in the race. It was only in the year 2001 that Air Canada successfully acquired its largest rival, the Canadian Airlines. This made Air Canada the twelfth largest airlines in the world at that time. However, Canadian Airlines financial problems that Air Canada inherited came out to be worse than expected. This was reveled when it got access to former's financial statements. This uncomfortable merger did go through, and was not smooth as it resulted in flight delays, lost baggages, and other issues that needed to be ironed out at the last moment. Further, by the time they were able to improve the services, the global downturn took its turn. This turn of fortune saw it going back in red in the year 2001 and 2002.

As a result of these changes in the external environment, Air Canada went into bankruptcy protection in April 2003, which lasted for 18 months. During this period, it also encountered hostile take-over bid by Cerberus Capital Management and Victor Li's Trinity Time Investment. Both the bidders were rejected they wanted to amend the employee pension agreements, something that was vehemently by Canadian Autoworker (CAW), the chief union representing the employees. Finally, it was Deutsche Bank which offered Air Canada financial package of $850 million. The deal entails cutting back on $200 million, which was in addition to $1. 1 billion that the unions had agreed previously. The deal went through after last minute effort by the leaders of the airlines and the union.

As a part of restricting, ACE Holding became the parent company of reorganized Air Canada. To promote the airline further, Celin Dion, the popular Canadian singer, became its brand ambassador. She also recorded a special number, which appeared on the airlines commercial. Also, as a part of fleet rationalization process they retired their old B747 planes in favour of A340s. Further, they also unveiled a new paint scheme that gave it a new and fresh look.

Next, as a major fleet replenishment initiative, particularly with regards to its long-range wide body fleet, it placed an order with Boeing for the purchase of 18 Boeing 777 aircrafts. The order of 18 was broken down into; 10 -300ER models, which are high capacity variants; 6 -200LR, which are ultra-long range Worldliners; and 14 Boeing B787-8, which are light weight very fuel efficient planes. Further, in 2007, Air Canada exercised its further options with regards to B787-8, taking the total order to 50. This will make it the largest operator in North America and the third largest in the world after Qantas and ANA of Japan. And it can exercise an option for another 16 more Boeing B777-300ER, taking the total order to 34.

Regarding its strategy of rationalizing its narrow body fleet, Air Canada ordered 45 Embraer ERJ-190 and 15 ERJ-175. It also holds options for another 60 ERJ-190. These jets are expected to replace some of the older A319s and A320. As they replace these jets, they'll also replace the routes operated by them, which are primarily domestic and those to the U. S. Most recently, its regional subsidiary, Air Canada Jazz, will be renamed as " Air Canada

Express". Also, they are diverting their older B767s and A319s towards a ' low-cost-leisure-carrier' by the name of ' Rouge'.

Outcomes

The years of efforts, trials and tribulations has made Air Canada, Canada's largest airlines with lights within Canada, to the U. S., and to other international destinations. In the year 2012, Air Canada with it regional partner, Air Canada Express, flew almost 35 million passengers to 175 destinations across five continents. Being a founding member of Star Alliance, a global alliance of major airlines, it offers a very comprehensive transport network.

As recently as 2013, it has started a new subsidiary by the name of Air Canada Rouge to service 13 holiday destinations in Europe, Central America, and Caribbean. It plans to expand the destinations further to 23. To enhance travel experience, it is now offering Premium Economy class on select international destinations. This service was started from the first of five Boeing B777-300ER to enter service in July 2013. It also redesigned its frequent flier recognition program, Altitude, from March 2013 onwards. The benefits include upgrades to Business Class cabins, greater checked baggage allowance, exclusive partner offers and access to their lounges. These members continue to benefit from Air Canada's partnership with Aeroplan. Through this partnership, they can redeem points with 150 partners in financial, retail, travel sector etc.

Air Canada is also financially sound at this moment. For the year ending December 2012, their operating revenue was $12, 120 million; operating income was $437 million; revenue per passenger miles (RPMs) was 55, 646 million; available seat miles (ASMs) 67, 269; and their passenger load factor (plf) was 82. 7 percent. It has a 350 strong fleet of aircrafts, including those of its subsidiaries.

Future Expectations

In the year 2013-14, it plans to further expand the destinations of Air Canada Rouge, its subsidiary, to 23. These new destination will include vacation spots in Mexico, Florida, and Las Vegas. Also, all their new B787-8 centering the service will have the new Premium Economy class of seating. To further strengthen their fleet, they have another 41 planes on order.

Air Canada maintains three major hubs in Toronto (CYYZ), Montreal (CYUL), and Vancouver (CYVR). Through these hubs they offer " streamlined, customer-friendly experience with dedicated transit facilities providing easy security clearance and smooth connections." Its biggest hub, which is in Toronto, offers domestic, trans-border, and international connections under one roof. This allows for global connections to passenger transferring across continents. Recently, they have made improvements to their baggage process so that their customers can have better experience while transiting between the U. S., Europe, Asia, and South America via its hubs in Canada. They also have an excellent, self-managed website that offers their clients all the necessary tools so that they can manage it themselves. Tools include and are not restricted to booking flights, flight passes, car rental, and hotel bookings. The website is customizable according to 24 countries, and in seven languages. To further enhance the passenger experience, they are launching more non-stop flights in international destinations. For example, the launched year round non-stop service to Istanbul and Seoul, through its subsidiary, Air Canada Rouge, it launched seasonal service to Venice and Edinburgh. In addition, they added a daily flight to Beijing from Toronto and Vancouver, and made their flight from Calgary to Tokyo a daily service. They also marked their smaller Bombardier Q-400 Next Gen aircraft for services to Western Canada. Also, they increased service to New York. They also have capacity purchase agreement with various regional carriers such as Jazz Aviation, Sky Regional Services, Air Georgian Limited, and Exploits Valley Air Services (EVAS).

All these recent developments, paint as strong future for Air Canada.

Discussion

It is really noteworthy how a company, which was always under the government protection, reacted to changed circumstances after becoming a crown corporation. It speaks volumes of the strength of leadership of organizations undergoing such a change. The change encountered by their leaders would require a case study in itself. This is all the more credible considering all the changes came so soon. Not only did the deregulation bring their largest competitor to an equal footing, the soon to be followed cross border agreement exposed them to competition to American carriers. Lessons learnt from such testing time should be a valuable asset in strategic management and leadership.

Another change, which they encounter and is worth a discussion, is their privatization. This privatisation was necessitated by need for capital. Again, it is great challenge for leadership to step out of habit of depending on government for funds, and gather courage to raise funds from initial public offering. This change requires an all-together different experience and mindset. And is a great test of leadership of their President and CEO. This challenge was shortly followed but sudden rise in global oil prices. I believe, their hiring of an American executive as a CEO was a great step to transition through the change.

Another major learning experience would be merger with Canadian Airlines. Particularly, the merger problems that resulted from the lack of clarity about Canadian's financial reports. I am pretty sure the regulatory authorities would have taken suitable measures since then, but it is still worth a debate. Especially, how critical it is to bring all the information on the table before the discussions about mergers begin.

Further, the eighteen month period of bankruptcy protection is definitely a landmark period for them. Even though they had to go through bankruptcy, the deliberate and concerted steps they took were quite remarkable. This shows the grit of their leadership, the validity of their strategic vision, and their belief in execution of the strategy. Their strategy was remarkable, in the sense that they applied all round approach, including rebranding and hiring of a brand measures. It was just not cost cutting, but strategic cost management.

Lastly, their efforts towards fleet rationalization are credit worthy. As stated previously, they didn't just cut costs, but managed their resources strategically. Rather than continuing on with their existing fleet - which was depreciated and paid up – they went for newer fuel efficient aircraft that will save them money in future. Also, noteworthy is their development of three major hubs for domestic, trans-border, and international flights. And, the effort they made to promote Toronto, as an efficient hub for those crossing continents.

Conclusion

As it is evident that Air Canada has stood the test of time and challenges it came across its little below century of its life. It conclusion we feel that the key to the success of Air Canada, in all these trials and tribulations, has been the grit of its leadership teams. Also, a big learning experience is the need for thorough homework, well before the merger talks begin. Further, a major learning experience for the corporate world would be how to handle bankruptcy. Instead of short-term cost cutting measures, they should take strategic high road. They took steps to increase value and experience for their customers. Therefore, their handling of the bankruptcy is a classic case of strategic management. Finally, they ended their bankruptcy with very intelligent fleet rationalization process. Consequently, they now, and in foreseeable future, have the most modern and fuel efficient fleet in North America.

With this background, we can say with great amount of confidence that Air Canada has positioned itself well to remain one of the most efficiently run airlines in the future.

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