

Philippines LCCs: Cebu Pacific Leads the Way

by Ken Donohue



Today's ubiquitous low-cost airline model originated in the USA, but 16 years ago that idea was imported to Asia when Philippine airline Cebu Pacific took to the skies in March 1996 with Douglas DC-9s, with a humble network serving three domestic points: Manila, Cebu, and Davao (Airways, September 2010, June 2002 & Jul/Aug 1997). Today, Cebu Pacific is one of Asia's largest low-cost carriers flying to 34 cities in the Philippines and 18 international destinations. In fact, Cebu Pacific now serves the most routes in the Philippines, and carries more passengers than arch-rival Philippine Airlines (Airways, April 2012).

Cebu Air had received a 40-year franchise to operate domestic and international air transport services in August 1991, but the company lay dormant until acquired by John L Gokongwei Jr, a leading Filipino businessman of Chinese birth. After experiencing LCCs in the USA, he thought the Philippines would be ripe for the same concept. Given that the Philippines has an emerging economy, 90 million people, and comprises some 7,000 islands, there would appear to be justification. But a good idea alone doesn't necessarily make for success.

"Our challenge initially was competing with Philippine Airlines," says Candice Iyog, the airline's vice-president marketing and distribution. "They were the only airline in the country, and people had come to expect certain amenities when travelling by air, so we needed to first educate the public to win them over." Like other LCCs around the world, Cebu Pacific, the name chosen for the business, would forgo some things people had come

'PinaSaya!
 Enjoy our seat sales to all domestic destinations & more!
 Sale Period: Sep. 20-21, 2011

DOMESTIC SEAT SALE FARE

Travel Period: Oct. 15, 2011-Jan. 31, 2012

Cebu to: **Bacolod, Boracay (Caticlan), Butuan, Cagayan de Oro, Clark, Davao, Dipolog, Dumaguete, General Santos, Iloilo, Legazpi, Ozamiz, Pagadian, Puerto Princesa, Siargao, Surigao, Tacloban or Zamboanga**
Cagayan de Oro to Iloilo NEW!

P0.88

Davao to: **Cagayan de Oro, Iloilo or Zamboanga**
 Zamboanga to: **Tawi-Tawi NEW!**

P288

Manila to: **Calbayog, Catarman, Cauayan (Isabela), Coron (Busuanga), Laag, Legazpi, Naga, Puerto Princesa, San Jose (Mindoro), Tuguegarao or Virac**

P488

Manila to: **Bacolod, Boracay (Caticlan), Cebu, Dumaguete, Iloilo, Kalibo, Tacloban, Tagbilaran or Roxas**

P688

Manila to: **Butuan, Cagayan de Oro, Cotabato, Davao, Dipolog, General Santos, Ozamiz, Pagadian, Surigao or Zamboanga**

P888

MURRAY E KIRKUS

Eye-catching advertisements with almost unmatched fares regularly appear in national newspapers and have undoubtedly contributed to Cebu Pacific's success.

to expect—hot meals, drinks, newspapers, blankets and pillows—in exchange for lower prices. In fact, when the airline started operations, its fares were up to 50% less than those offered by PAL.

By 2001, then serving 18 domestic destinations, Cebu Pacific launched its first international route with double-daily service between Manila and Hong Kong. In its first nine years, Cebu Pacific was winning customers over to its brand of low fares and 'fun' air travel, while making money. But in 2007, as fuel costs rose, the airline was forced to reflect on its entire operation. "We had a lot of inefficiencies, and we were running a kind of hybrid airline," Iyog tells *Airways*. "We called ourselves a low-cost airline, but we offered meals and premium seating on international flights."

Cebu Pacific decided that in order to remain a viable business it needed to adopt a LCC approach across its entire network. This meant increasing ancillary revenue through fees for seat selection, baggage, food and drink, and merchandise. Today, these extra charges account for about 8% of the airline's revenue, and is a key element of the business plan. Cebu Pacific acquired new Airbus

A320s, and instead of selling most of its tickets through travel agents, as in the past, distribution was brought online.

"Re-fleeting was critical," admits Iyog. "More fuel-efficient aircraft, with more seats, allowed us to continue offering low fares."

Those decisions propelled Cebu Pacific into one of the world's most successful LCCs. Proof came when it raised PHP23.3 billion (\$539 million) in an over-subscribed initial public offering in October 2010, making it the largest international IPO float by a LCC.

Since then, Cebu Pacific has been making money by filling its airplanes and grabbing 50% of the domestic market, and 15% internationally. The airline carried close to 12 million passengers in 2011, a 14% increase over the previous year, and has an ambitious goal to boost that to 17 million by 2014. These numbers are remarkable considering that five years ago the airline flew less than four million people.

While Cebu Pacific will continue to expand domestically, it is overseas where the airline sees strong growth. Xiamen, Fujian Province, China, and Hanoi, Vietnam, were added to the network in March, as well as a route



ROB FINLAYSON



ROB FINLAYSON

Cebu Pacific will have ten Airbus A319s (top) and 23 A320s in service by year-end.



MURRAY E. KIRKUS

Filipinas are known for their friendliness and Cebu Pacific's personnel are no exception, as the smiles on these cabin attendants attest.

between Kalibo and Hong Kong for customers wanting to travel to Boracay. Kalibo's longer runway means it can handle jet aircraft, while the closer airport to Boracay, Caticlan, cannot. Thrice-weekly service between Manila and Siem Reap, Cambodia, begins on April 19.

To match the network expansion, Cebu Pacific is adding aircraft. At the end of 2011, the airline had 19 Airbus A320s, ten Airbus A319s, and eight ATR 72-500s. Another ATR and four more A320s arrive in 2012, with another 20 A320s due through 2016. Last August, a contract was signed for 30 A321neos, with options for an additional ten; this is the biggest single order by a Philippine airline.

"We were never focused on becoming the biggest," Iyog tells *Airways*. "Our goal was to drive down fares, and

be the best in the markets we serve." Like similar airlines around the world, Cebu Pacific has succeeded by being true to the low-cost vision of stimulating demand. In the past, the prohibitively high level of air fares meant that most of those Filipinos who could afford to travel between islands could do so only by ferry. And with lower prices and an expanding economy, there is ample opportunity in the Philippines to continue the pace of growth.

Despite Cebu Pacific's recent success, Iyog says that the airline is continually looking at ways to improve service. It is one of the few airlines not only honest about on-time performance, but willing to make the information easily available. "Posting this on our website is important to us," stresses Iyog. "Eighty-five percent on-time performance is the standard that we would like to meet." Cebu Pacific didn't meet that goal any time during the past year, although in 2010 it achieved an annual median rate of 88%.

While there are several factors that can negatively affect an airline's on-time performance, Iyog believes that air traffic congestion in Manila is often a contributing factor, and has a domino effect throughout the day. "The airport could do more to ease congestion. The government is developing a plan to create rapid exit taxiways, which would increase movements from 45 to 60 per hour, improving throughput." Iyog also feels that general aviation, which accounts for 15% of the airport's capacity, should be moved away from Ninoy Aquino International Airport.

Cebu Pacific has near exclusive use of MNL's Terminal 3, which is the newest and largest terminal. Construction began in 1997, and though it was scheduled for inauguration in 2002, legal disputes delayed the opening until 2008, when Cebu Pacific was the first to operate out of the terminal on July 22, 2008, with a flight to Caticlan (Boracay). All of the airline's operations were transferred on August 1 that year.

"We are generally happy with Terminal 3," reveals Iyog. "Not everything is operational, but it's newer, and offers more space. We are working with the airport



CEBU AIR



AIRBUS SAS

CEO Lance Gokongwei recently announced Cebu Pacific's intention to expand worldwide with a fleet of Airbus A330-300s.

authority to improve customer experience, like adding more seating.”

Passengers would probably like to see more reliable Wi-Fi service, which the airport promotes as being complimentary throughout the terminals, but in this writer’s experience service was ‘spotty’ enough to render it useless. In fact, the only reliable Wi-Fi service was through one of the terminal’s merchants. There has been some talk that all international flights would move to Terminal 3, displacing Cebu Pacific’s domestic operations, but no final decision has been made.

Separately, Cebu Pacific CEO Lance Gokongwei—son of the airline’s founder—has indicated that company parent JG Summit Holdings is keen to participate in the Aquino government’s Public-Private-Partnership program, especially when the latter auctions airport amenities. “JG Summit is looking at all (infrastructure) projects. Our keen interest is on the airport side...it’s an area we are familiar with. We have to look at the terms of reference for the Puerto Princesa, Bohol, Mactan and Cagayan de Oro (airports).”

While the majority of Cebu Pacific’s flights operate out of Manila’s main international airport, it is also developing a significant presence at Clark-Diosdado Macapagal International, a former US air base, with flights to Cebu, Hong Kong, Singapore, Bangkok, and Macau. And Cebu Pacific doesn’t think the distance from Manila to Clark—43mi (70km)—is an issue, because the catchment area for the latter airport is quite large. “People in Manila will say it’s too far, but we don’t look at Clark for people in Manila,” Iyog explains. “We want to attract people from northern Luzon, who otherwise would have to travel a long distance to Manila to fly internationally.” So far the strategy seems to be working as Cebu Pacific is the leading airline operating out of Clark.

Gokongwei is also confident that the Philippines will regain its FAA Category 1 safety rating and be taken off the banned country list by the European Union; indeed, in January he announced the intention to lease up to eight Airbus A330-300s with which to spread its wings at the end of next year to the Middle East, starting with Saudi Arabia, and Guam and Palau. The prize is the 11 million Filipino expats worldwide.

“We want to continue to be the leading airline in the Philippines and strengthen our position,” says Iyog. “I’m proud that as a Filipino airline we are one of the best low-cost carriers in the world. We have made flying affordable and fun, and we are committed to that vision.” ➔

Fast Facts—Cebu Pacific (Cebu Air dba)

IATA: 5J **ICAO:** CEB **IATA:** 203 **Radio:** Cebu Air

Airline Operations Center Building Tel: +63 2 852 2328
Domestic Road
Pasay City
Philippines 1301

Website: www.cebupacificair.com

Network

Domestic (34): Bacolod, Boracay (Caticlan), Busuanga (Coron), Butuan, Calbayog, Cagayan de Oro, Catarman, Cauayan (Isabela), Cebu, Clark, Cotabato, Davao, Dipolog, Dumaguete, General Santos, Iloilo, Kalibo, Legazpi, Laoag, Manila, Naga, Ozamiz, Pagadian, Puerto Princesa, Roxas, San Jose (Mindoro), Siargao, Surigao, Tacloban, Tagbilaran, Tawi-Tawi, Tuguegarao, Virac, Zamboanga

International (18): Bandar Seri Begawan, Bangkok, Beijing, Busan [Pusan], Guangzhou, Hanoi [Hà Nội], Ho Chi Minh City [Thành phố Hồ Chí Minh], Hong Kong, Jakarta, Kota Kinabalu, Kuala Lumpur, Macau, Osaka (KIX), Seoul (ICN), Shanghai, Siem Reap, Singapore, Taipei, Xiamen

Traffic

Passengers: 11.94 million including 9.22m domestic (2011), 10.4 million (2010), 8.8 million (2009), 6.7 million (2008)

Financial

Total revenue: PHP29.1bn (2010), PHP23.3bn (2009), PHP19.7bn (2008)
Net income: PHP6.9bn (2010), PHP3.3bn (2009), PHP3.2bn (2008)

Founded: August 26, 1988

Start date: March 8, 1996

CEO: Lance Gokongwei

Ownership: CPAir Holdings (65.57%), non-Filipino investors (25.89%), Filipino investors (7.42%), JG Summit Holdings (Gokongwei family) (1.08%)

Fleet

Type	Nº	Seats	Engines
ATR 72-212A (500)	8	Y72	PWC PW127M
Airbus A319-112	10	Y156	CFMI CFM56-5B5/P
Airbus A320-214	21	Y180	CFMI CFM56-5B4/P

On order

ATR 72-212A (500)	2		
Airbus A320-214	23	due 2012 (3), 2013 (7), 2014 (6), 2015 (6), 2016 (1)	
Airbus A321neo	30	due 2016-2021	
Airbus A330-300	8	due 3Q13-2016 (lease)	

In-flight with Cebu Pacific

Flight: 5J897
Route: Manila-Nino Aquino International Airport (MNL)–
Caticlan/Boracay (MPH)
Aircraft: ATR 72-500

Arriving at MNL after a 14-hour flight I needed to transfer from Terminal 2 to T3. Before departing for the Philippines I had read that the airport operates a shuttle between the terminals, but because of its unreliability some suggested it would be better to take a taxi when transferring. With about five hours between flights, I decided that time was on my side, so I chose to take the shuttle. Little did I know that I would wait more than an hour. Eventually, it wasn't an airport shuttle that delivered me to T3, but a bus operating on behalf of the Marriott Hotel, which happened to be going to the terminal.

Terminal 3 is bright and spacious, with the majority of counters dedicated to Cebu Pacific, whose staff dress casually yet smartly in tan-colored pants and yellow shirts.

With only a carry-on bag, I found the check-in counter for no-checked bags, and received a boarding pass within a few minutes. I was then directed to the end of the counters where I was weighed. Next, I wandered around the mezzanine area filled with shops and restaurants. The terminal isn't fully operational, and there is a large section still to be developed for more retail services.

I then went to security, where a Cebu Pacific employee weighed my bag. He told me it was too heavy for carry-on and I would have to check it; apparently, there is a



Check-in at Terminal 3.

5kg (11lb) limit. So, I had to return to another counter where I was forced to pay US\$10 to check the bag. When purchasing a ticket online, you can choose to pay for checked baggage at that time, which is discounted over the fee charged at the airport. Because I have travelled with that bag on several airlines around the world, I assumed I could carry it on.

Once through security, I walked down a long corridor to Gate 133, which is located downstairs. There were four gates, and the waiting lounge was crowded, but boarding was very efficient. Thirty minutes before departure, we boarded a bus that took passengers to the remote stand where the ATR was waiting. Pop music was playing in the cabin as we entered; part of the airline's commitment to make flying fun. The cabin was extremely warm, and the crew apologized for the temperature and said it would be adjusted once airborne.

My destination was Caticlan, a small airport on the northern tip of Panay Island, 2km (1.2mi) from the vacation island of Boracay. This is one of Cebu Pacific's most popular routes, with up to 14 flights a day from MNL. Because of the



Cebu Pacific operates eight ATR 72-500s.

short runway at MPH, only smaller aircraft are permitted to operate. Apart from Cebu Pacific, airphilexpress (Air Philippines), SEAIR, and new entrant Sky Pasada provide service. Turbojet types must use Kalibo, 40mi (64km) from Caticlan, and a 90-minute transfer by bus or taxi.

We taxied out on time at 0855, and after 15-minutes stopped on the taxiway to Runway 06. An announcement from the cockpit notified us that there would be a short delay on account of air traffic congestion. At 0930, we took off for the one-hour flight, and climbed into the hazy sky to a cruising altitude of 17,000ft.

I spent much of the time talking with my seat-mate, Ronald, who was traveling to Boracay for a long-weekend vacation with his wife and three children. The airline's in-flight magazine, *Smile*, offered insightful articles, while light meals, snacks, and drinks were available for a nominal fee. Cabin attendants played a game with passengers, the winners receiving some Cebu Pacific 'swag'.



PHOTOS: KEN DONOHUE

Less than an hour after departure from Manila, we passed over Boracay and its famed White Beach, where most of the hotels and restaurants are located. The island is 7km (4.3mi) long, and at its narrowest 1km (0.62mi) wide. Boracay's sandy beaches and appropriately hued 'aquamarine' water looked inviting. Not unlike the 'Checkerboard' approach to Runway 13 at Hong Kong's now-defunct Kai Tak—albeit much less impressive and dramatic—the airplane headed toward the surrounding hills around Caticlan before making a left turn and lining up for Runway 06. After landing, the cabin filled with the sounds of the Black Eyed Peas singing: 'I got a feeling that tonight's gonna be a good night'. And with that, another load of visitors emptied onto the tarmac, many having their photo taken in front of the Boracay Airport sign.

Given its proximity to Boracay—lauded as the most popular destination in the Philippines—the airport at Caticlan is very convenient. In an effort to accommodate larger aircraft, the San Miguel Corporation was recently awarded a 25-year contract to rehabilitate and operate the airport, which currently sees more than 700,000 passengers a year. In addition to a recently opened new terminal, the runway will be lengthened from 900 to 2,500m (2,952 to 8,202ft), with other operational enhancements. Also proposed is a jetty port that will allow transfers from the airport to the small boats that whisk passengers to Boracay, a hotel, and convention center.

Overall impression

The only dark clouds over this travel experience were the unreliable inter-terminal shuttle system, and not being informed, during two earlier interactions with Cebu Pacific customer service staff, that I would have to check my carry-on bag. Nevertheless, Cebu Pacific's success speaks for itself—year-on-year increases in traffic, new aircraft orders and routes, and a profitable business model. The airline strives to offer a safe, fun-filled flying experience, and in that regard it certainly delivers. ➔



PALMS OF BORACAY

Boracay's 4km (2.5mi)-long White Sand beach is lined by hotels and resorts, such as *The Palms of Boracay*.