The Canadian Low-Cost Machine

Canada's leading low-cost airline set to mark 20th anniversary as one of the world's most successful carriers

by KEN DONOHUE

TWENTY YEARS AGO, long before low-cost carriers became fashionable, Canada's WestJet Airlines (WS) took to the skies. It was February 29, 1996, and, at the time, Canadian Airlines (CP) and Air Canada (AC) were fighting each other for market share and their own survival.

Who would be foolish enough to start an airline in such a chaotic and uncertain environment?

Clive Beddoe, a businessman with interests in Calgary and Vancouver, lamented the high cost of travel between the two cities. On the two major carriers, fares for the one-hour flight cost upwards of $600. A Pilot himself, Beddoe purchased an eight-seat twin-engine Cessna 421 and began flying his business colleagues between Calgary and Vancouver. Selling the extra seats, he soon realized that there was a demand for the service.

It wasn't long before a close business friend came to Beddoe and told him he should start an airline. Although he laughed at the notion, Beddoe asked colleagues to pull together a business plan. Six months later, he saw the plan and was impressed. But neither Beddoe, nor anyone else in his group, had any experience in running an airline. Selling some extra seats on a single Cessna hardly filled the bill. In a 1998 interview, Beddoe told me that what they needed was a frustrated senior executive from the US, perhaps someone from Southwest Airlines.

Instead of getting a tired executive to run the company, they tapped into one of the brightest minds in the airline industry: David Neeleman of JetBlue and Azul—and now TAP Portugal—fame (*Airways*, December 2015), who was then beginning to make a name for himself. Neeleman agreed to sit on the airline's Board and mentor the fledgling startup while Beddoe assumed the role of Chief Executive.

The airline started with three former Pacific Western Airlines (PW) Boeing 737-200s, serving five destinations in western Canada. The model was Southwest Airlines: fly a single aircraft type to point-to-point destinations, maintain a low-cost structure, and offer lower fares, thereby stimulating traffic.

Fast forward to today: WestJet operates 140 aircraft and serves 90 destinations. It's become one of the most respected brands in Canada, winning numerous awards for its customer service and corporate culture.

WestJet has consistently been one of the world's most profitable airlines. The second quarter of 2015 was the 41st consecutive one of profitability—a lofty achievement, considering that profit has eluded many in the industry. The key has been its ability to adapt its business model to the demands of the market and to the changing face of the industry. For instance, in 2013, it launched the Encore brand, operating Bombardier Dash 8 Q400 aircraft to smaller communities or on routes that wouldn't have been efficient with the Boeing 737. And it surprised many by expanding service to Europe, with seasonal flights to Dublin (DUB), Ireland, and Glasgow (GLA), Scotland.

1 PHOTO: WESTJET

The St. John's (YYT)-DUB route was the airline's first foray into Europe, chosen because of the strong cultural and historical ties between Newfoundland and Ireland. One in five Newfoundlanders has Irish roots, and there is a great deal of traffic, both leisure and business, between the two countries every summer. The non-stop YYT-DUB service has proved to be the most successful in WestJet's history, the airline says, with load factors averaging well over 90% over the course of the schedule. No other route had ever sold as quickly; some 12,000 tickets were purchased in the first 24 hours alone.

The Glasgow (GLA) route launched in 2015. It, too, was a success. One-third of Nova Scotians have Scottish ancestry, so linking Nova Scotia's capital, Halifax (YHZ), with GLA was a natural choice. The carrier expects to launch a Boeing 767 service to London Gatwick (LGW) this year.

AN UNEXPECTED OUTCOME

Two decades ago, Beddoe and his colleagues could never have imagined the WestJet of today, but the airline has always had a measured approach to growth. Although Canada is the world's second largest country by area and spans five time zones, the country has a relatively sparse population of just 35 million. After WestJet had grown the domestic market for two decades, there was only a finite number of cities it could operate with its initial fleet. Instead of remaining unyielding in operating a single type of aircraft, the airline shifted its thinking.

Rather than stick with the growth limits of the Boeing 737, a second fleet type would allow WestJet to play across more segments and become more of a national carrier—while still owning its carefully cultivated low-cost niche.

1 Since its origins the Boeing 737 has been the mainstay of Westjet's fleet. The airline operates all but one Boeing 737 Next Generation variants.

PHOTO: AUTHOR 2

"We drew circles around the major cities in Canada and looked at the range of the Boeing 737; we concluded that we would hit a barrier at 30 cities in Canada," says Bob Cummings, the airline's Executive Vice President, Commercial. "Unlike Southwest Airlines, which can keep growing with the larger US market, we realized that future growth meant looking at utilizing smaller aircraft and serve smaller communities that had only been served by a monopoly and correspondingly high fares."

ENCORE: THE Q400 SUBSIDIARY

WestJet Encore, a fully owned subsidiary, began operations in 2013, flying 78-seat Bombardier Dash 8 Q400 aircraft. At first serving a handful of cities in western Canada, Encore expanded to eastern Canada in 2014. Boston (BOS) is Encore's first US destination, with service from Halifax (YHZ) and Toronto (YYZ).

"With the Q400, we could grow our Canadian market to 60 cities, and lower fares to smaller cities," says Cummings. "We can now serve the 30 million Canadians who live within 100 miles of any airport we operate from." WestJet had considered proposals from both Bombardier and ATR, and felt that turboprops like the Q400 offered the right choice for speed, efficiency, and comfort compared with small regional jets.

A contest was held among WestJet employees to name the new regional carrier, and 'Encore' won out. Encore is a French word that is also used in English, so plays well in both of Canada's two official languages. For the airline, the name is philosophically like a second coming of WestJet.

There are various regulatory reasons why Encore was developed as a separate subsidiary, but the airline follows a master brand strategy. The livery on the Q400s is the same as that on the mainline carrier's aircraft.

"We're not spending money to develop a separate brand," says Cummings. "WestJet Encore is denoted in marketing, and when guests book their flights they know what to expect from the type of aircraft, but they will still get the same WestJet service that we've become known for."

The seat pitch on the Q400 is 30 inches, with the first 10 seats reserved for *Plus* fare passengers. Pilots and Flight Attendants are dedicated to the Q400s, while Maintenance Staff are dual-certified on the 737 and Q400. Sixty percent of all passengers traveling on Encore connect in one of WestJet's 737-equipped cities to complete their journey.

With WestJet's growing network covering much of Canada, the US, Mexican vacation destinations, and the Caribbean, speculation arose: would WestJet start flying wide-body aircraft to farther places? Just a few years ago, such a suggestion would have been laughable. The airline thrived because it didn't stray far from its core model, and

BOB CUMMINGS

Bob Cummings is the Executive Vice-President, Sales, Marketing and Guest Experience, Bob's responsibilities include corporate development, network planning and scheduling, revenue management, airline partnerships, marketing and communications, sales, distribution (including call centres), guest experience planning, web business and WestJet Vacations. A native of Edmonton, Bob achieved his undergraduate degree in 1989 from the University of Victoria, followed by his MBA from Queen's University in 1992.

PHOTO: ANDREW CLINE · YYZ 3

operating a single type of aircraft was part of that. Sure, it had added a second aircraft type with the Q400, but that made sense because it could open the market to smaller communities. Wide-body aircraft presented wholly different challenges.

WIDE BODIES JOIN THE FLEET

WestJet took the big step in August 2015, accepting delivery of the first of four ex-Qantas Boeing 767-300 aircraft. Equipped with 262 seats, the aircraft will sport the airline's slightly revised livery, which now includes a stylized blue and teal maple leaf located in front of the WestJet title and is soon to be applied to the entire fleet. A 24-seat *Plus* cabin in the front of the aircraft offers more legroom in a 2-2 configuration, with complimentary meal service among the amenities.

The airline is currently operating the 767s on transcontinental flights to YYZ, and on nonstop service to Hawaii from Calgary (YYC) and Edmonton (YEG). "We want to be very careful and use this time to learn how these new aircraft work within our operations, before launching them on our new service to LGW in May 2016," Cummings says.

Initially, WestJet will offer 28 weekly flights to LGW from six Canadian cities. With seats now on sale, a price war has begun. A peak summertime fare on WestJet from Vancouver (YVR) to LGW is showing for C$850 (US$634), while Air Canada's fare to LGW is C$1,065 (US$795). Prices this low are unheard of on this route in peak season.

The airline's reputation is riding on the success of its LGW flights, and, while some might see this as a grand experiment, WestJet has actually kept the investment relatively small as a hedge in case things don't work out—opting for just four Boeing 767s exceeding 20 years of age, and launching with seasonal service.

As WestJet moves from being solely a low-cost operator to one that appeals more to the mass market, there is a push to lure more business travelers. "We have a tough competitor that is able to attract a large part of the business market, so we don't want to do anything that compromises our ability to do what we do well," says Cummings. "But, since we have done particularly well in western Canada attracting business travelers with our high flight frequencies

4 PHOTO: WESTJET

2 The arrival of Encore in 2013 allowed WestJet to reach more destinations in Canada and the United States.

3 Four former Qantas (QF) Boeing 767s are set to operate Westjet's long-haul destinations to Hawaii and Europe.

4 The *Plus* Cabin in Westjet's 767 fleet will have a 2+2+2 configuration to accomodate 24 seats.

and the good connectivity we've developed out of YYC and YYZ, it made sense for us to add relevant products and features to capture some of the business market."

The airline has a dollar-based rewards program that is very simple, with no blackout dates, and it recently looked at the space inside its aircraft and dedicated the first three rows to its *Plus* category, blocking off the center seat with a work console. The airline knows it can't compete head to head with Air Canada's Business Class, but it hopes to attract the value-conscious business traveler.

5 PHOTO: TREVOR OGLE • SXM

Acknowledging that fares change depending on a number of factors, I chose a random date to compare WestJet's *Plus* fare from YVR to YYZ (which was more than double its lowest Economy fare), with Air Canada's Business Class fare on that carrier's Airbus A320 service. Air Canada cost CA$2,400 (US$1,790) more than WestJet's *Plus*.

A UNIQUE PEOPLE-ORIENTED CULTURE

One of WestJet's strengths has been its people. The airline's front-line employees are encouraged to make quick decisions for the benefit of customers, without needlessly seeking approval from managers. When WestJet began operations in 1996, unburdened by the history that can sometimes impede legacy carriers, the airline was able to develop its own culture, and it revolved around people. The concept, from the start, was that WestJet wanted its employees to think of themselves as partners and to be as much a part of the company as the CEO. That's why you'll see Pilots helping clean the cabin during turn-arounds in a profit-sharing program that has delivered more than $400 million to employees, and an employee-share purchase plan that makes them owners of the airline.

More than 85% of WestJet employees have shares in the company, collectively making them the largest group of shareholders. Maybe because of these strategies, the airline has remained non-union, although, over the past year, there have been two separate union drives from the associations representing Flight Attendants and Pilots. The latest saw 55% of WestJet's 1,250 Pilots vote against forming a union.

Noting the unionization push, the airline's executives acknowledge that there have been difficulties as the airline has grown, but stand by the company's core principles, such as involving employees when the airline makes changes, profit sharing, share purchasing, celebrating successes, and having fun.

"We now have more than 11,000 employees, and so it's more difficult to communicate and connect with each other than it once was," says Cummings. "With three fleet types now, we are

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6 PHOTO: BOMBARDIER

WESTJET BY THE NUMBERS

WORLD RANKING (LCC)
#13
Per total seats offered

TRAFFIC
+7.8%
(2014 VS. 2015)

FINANCE
284 MILLION
NET PROFIT
(+5.7% than 2014)

SEAT CAPACITY
+5.3%
(2014 VS. 2015)

FLEET
132 + 89*
*FUTURE ORDERS

5 WestJet's first scheduled service outside Canada and the United States began in 2006, to Nassau, Bahamas. Currently, the airline serves over 20 destinations in the Caribbean.

working with our employee associations to better understand how employees flow between aircraft types and the sophistication of operational rules, along with other issues."

Cummings tells *Airways* that the unions have always seen WestJet as a bit of a cherry and have tried hard to unionize it. He admits that the airline's size and complexity of operations generate the need for more formalization, but stresses that it's not a hostile environment within the company. WestJet has even looked to Disney to see how that 100,000–employee company maintains it values while still reaching its staff.

AIMING INTERNATIONAL EXPANSION

While WestJet is a household name in Canada, building the brand internationally is inherently more difficult. Cummings acknowledges using US partners Delta (DL) and American Airlines (AA) to help reach certain markets. The airline also has codeshare agreements with an attractive list of carriers, including Qantas (QF), Cathay Pacific (CX), British Airways (BA), and KLM (KL).

"It's definitely a measured approach, but people in other markets trust us," he says. "We've been in the US for some time, and we get feedback from our Flight Attendants about having a lot of Americans traveling on our flights and liking our product; however, when we think of expanding into Europe, we need to learn how point-of-sale works in those markets." DUB and GLA have been stepping stones into Europe and, with LGW being added to the network, the opportunity for additional flights to Europe can't be discounted.

WestJet says that its biggest challenges are competition and the softening economy, especially in its home province of Alberta, which relies heavily on the oil and gas sector. "The good thing about the airline business is that we can move capacity around," Cummings says. "One positive in the downturn in the energy sector has been lower fuel costs."

SHINING IN A TOUGH MARKET

WestJet's success contrasts dramatically with the long list of airlines that tried to grab a piece of the leisure market in Canada and failed. In relatively unpopulous Canada, there is only so much pie to go around and, with WestJet and Air Canada each taking large pieces, it was really just the

7 PHOTO: CHRISTIAN ORDANZA

8 PHOTO: AUTHOR

9 PHOTO: PHILIP DEBSKI · YHM

6 WestJet Encore cabin crew pose in front of the 500th Dash 8 built during the delivery ceremony held last July.

7 Since 2004, WestJet and Disney have had a close commercial relationship. Since 2013, two WestJet aircraft wear custom-painted Boeing 737 featuring special Disney themes: Mickey Mouse Sorcerer and *Frozen*.

8 WestJet offers a Buy on Board menu for most of the flights longer than two and a half hours. Service in *Plus* cabin is complimentary.

9 WestJet's check-in counters at Hamilton's John C. Munro Airport in Ontario (YHM).

PHOTO: AUTHOR

WestJet and Air Canada Rouge are some of the players in the highly-competitive and dynamic Canadian leisure market.

crumbs that were left for the rest, which thought that it would be easy to fill some seats and make a go of it. However, poor management decisions, a weakened global economy, and high fuel prices grounded most of these airlines and, in some cases, left passengers stranded.

Zoom (Z4), Jetsgo (SG), Harmony (HQ), Skyservice (5G), Zip (3J), Roots Air (6J), Greyhound Air, Tango, and recently CanJet (C6) are among the Canadian airlines that have failed over the past decade or so. The biggest to fall was Canada 3000 (2T), once the darling of the Canadian charter market and the largest charter airline in the world, with over 90 destinations worldwide. However, by 2001, the carrier had taken on too much debt by acquiring two other airlines and expanding to long-haul destinations in Australia, the Cook Islands, and India. Then came a sharp decline in revenues following September 11, 2001, coupled with skyrocketing fuel prices. The collapse came with no warning for travelers or employees.

Other carriers expanded too quickly and out of their core market. Still more tried to emulate the WestJet model. One even offered $1 fares. All failed.

Cummings says that you always need to be paranoid about your competitors. For instance, AC has made an aggressive thrust into the leisure market—WestJet's core market—with its new Rouge (RV) subsidiary. RV has even begun low-cost, long-haul service to Asia, operating a Boeing 767 to Osaka (KIX), Japan, from YVC. Sunwing (WG) and Air Transat (TS) are also strong competitors in the leisure market. And then there are the potential competitors who are floating the idea of an ultra-low-cost carrier in Canada.

FAST FACTS | WESTJET

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SUBSIDIARIES:
WestJet Encore

CEO:
Greg Saretsky
EMPLOYEES:
11,500
FOUNDED:
1996
FFP:
WestJet Rewards
PASSENGERS:
19,700,000 (2014)
LOAD FACTOR:
81.4% (2014)
FLIGHTS / YEAR:
-
CARGO / YEAR:
-

FLEET

TYPE	NUMBER	CONFIGURATION
Boeing 737-600	13	C18 / Y101
Boeing 737-700	58	C18 / Y118
Boeing 737-800	37	C18 / Y156
Boeing 767-300	(4)	C24 / Y238
Bombardier Dash8 Q400 (Encore)	23	Y78
Total	**132**	

DESTINATIONS

DOMESTIC: Abbotsford, Brandon, Calgary, Charlottetown, Comox, Deer Lake, Edmonton, Fort McMurray, Fort St. John, Fredericton, Gander, Grande Prairie, Halifax, Hamilton, Kamloops, Kelowna, Kitchener-Waterloo, London, Moncton, Montréal, Nanaimo, Ottawa, Penticton, Prince George, Quebec City, Regina, Saskatoon, St. John's, Sydney, Terrace-Kitimat, Thunder Bay, Toronto, Vancouver, Victoria, Whitehorse, Windsor, Winnipeg, Yellowknife.

INTERNATIONAL: Boston, Bridgetown, Cancun, Cayo Coco, Chicago, Cozumel, Dallas, Dublin, Fort Lauderdale, Fort Myers, Fresno, Georgetown, Glasgow, Hamilton, Havana, Holguín, Honolulu, Houston, Huatulco, Ixtapa, Jacksonville, Kahului-Maui, Key West, Kingston, Kona, La Paz, La Romana, Las Vegas, Liberia, Lihue, London, Loreto, Los Cabos, Los Angeles, Manzanillo, Mazatlan, Mérida, Miami, Montego Bay, Monterey, Myrtle Beach, Nassau, Negril, New York City, Ocho Rios-Runaway Bay, Orange County-Anaheim, Oranjestad, Orlando, Palm Springs, Pensacola, Philipsburg, Phoenix, Port of Spain, Providenciales, Puerto Plata, Puerto Vallarta, Punta Cana, Riviera Maya, Sacramento, Samaná, San Diego, San Francisco, San José, San José del Cabo, San Juan, Santa Clara, Sarasota, St. John's (Antigua), Tampa, Varadero, Vieux Fort, West Palm Beach, Willemstad.

"We think we have a good thing with our cost structure and how we differentiate with our guests," says Cummings. "We have a beautiful brand, one that has been built on lower price and a better quality product, and we'll continue to build upon that."

Over the past two decades, WestJet has proved the skeptics wrong. They said that the airline would never get off the ground. Then they questioned the airline's expansion into Eastern Canada, traditionally an AC stronghold. But, quietly, WestJet has grown its network across Canada, the US, the Caribbean, Central America, and three destinations in Europe.

WestJet has nurtured a strong brand and culture to create a loyal following. Its growth has been thoughtful and measured. Here's high hopes for another good 20 years! – **KD**