Canada's Best: WestJet

by Ken Donohue

WestJet Airlines started operations in 1996 with 200 employees, three Boeing 737-200s, and served five cities in western Canada—hence its name. Skeptics had a field day. How could a snappy start-up take on Canada's two large established airlines: Air Canada and Canadian Airlines?

BRIAN MCNAIR

The smallest 737 in the WestJet fleet is the 119-seat Dash 600.

That was 13 years ago. Calgary, Alberta-based WestJet (IATA: WS/ICAO: WJA—*Airways*, March 2009, May 2003 & January 1999) now has 7,500 employees, operates 81 aircraft, with firm orders for 54 more (with five due by year-end), and serves 66 cities in more than ten countries throughout North America and the Caribbean. Canadian Airlines has disappeared, having been acquired by Air Canada in 2000 (*Airways*, January 2001). The latter, Canada's largest airline, was under bankruptcy protection for 18 months between 2003 and 2004; now, with poor financial results, speculation is rife that Air Canada will once again seek protection from creditors while it tries to restructure again.

WestJet, in contrast, is the most profitable airline in North America, and one of the top airlines in the world where financial performance is concerned. In fact, WestJet is poised to become the number one airline in Canada in terms of market share. A decade ago, talk like that would have had you laughed out of boardrooms. Sure, WestJet was turning the industry upside down with an innovative business model, but it was seen as a niche carrier serving the western part of the country. Canada's power base—politically and economically—has always been in the East.

How can WestJet succeed while others cannot? While it may sound overly simplistic and a bit of a cliché, WestJet's success is rooted in its employees. While some companies say this, WestJet lives it. "Our people, WestJetters as they are known, are our brand," remarks Bob Cummings, the airline's executive vice-president guest experience and marketing. "It's the commitment and engagement of them and how they make our guests feel that contributes to our success." Cummings, who was excited to come to an organization that has an excellent reputation for its morale and service orientation, joined WestJet in 2005, and assumed his current rôle a year later.

While WestJet's people are a big part of its success, the airline's business model—operating a single aircraft type, stimulating traffic at underserved airports, and being non-union—has been the energy behind its growth.

Although originally modeled on the US low-fare leader, Southwest Airlines, as the Canadian airline has grown it has started to benchmark against other successful companies. To that end, WestJet has spent some time recently with Disney. "Like us, people are a big part of their business model," says Cummings. "We also completed a service study to compare other industry leaders, such as Costco and Starbucks, and we measure very well against those companies."

While WestJet is non-union, staff members are encouraged to provide input on product development and business decisions. They also benefit from profit-sharing, and the airline will match up to 20% shares in

WestJet flies an average of 383 flights a day. The longest is 6hr 19min from Vancouver to Honolulu.

the company that are bought by employees. WestJet even capitalized on the notion of their staff as owners in a successful advertising campaign.

"We want to align the interests of our employees with the business," says Cummings. "And we support our employees by budgeting a million dollars annually for our Care Department to organize parties and other employee get-togethers." Whether it's a profit-sharing party, or renting a movie theatre, or inviting families to wash airplanes, WestJet believes in the old adage that if you look after your people, they'll look after the business. Cummings admits that as the airline becomes bigger, it is more difficult to pull everyone together as they could in the early days.

Following Air Canada's takeover of Canadian in 2000, WestJet was presented with an opportunity to expand into eastern Canada, and established a base in Hamilton, Ontario, approximately 40mi (65km) south of Toronto. True to the airline's business model at the time, the airport in Hamilton was underserved, and while WestJet moved its eastern hub to Toronto's Pearson International Airport in 2004, Hamilton is still an important city on the airline's network.

"The move to Toronto was one of the biggest things the airline agonized about," recalls Cummings. "The Canadian market is only so big, and if we were to develop both the leisure and business market, and continue

Flight attendants Jaime Messina and Dana Strilkiwsky prepare a snack and beverage service. About 83% of WestJetters own shares in the company.

growing, we needed to have a big presence there." Thirty-two million passengers each year make Toronto the nation's busiest airport, and exorbitant landing fees make it one of the world's most expensive—not somewhere that low-cost carriers would normally establish a hub. But the airline felt the benefits outweighed the cost, and Toronto is now WestJet's second-largest focus city, with more than 70 flights a day.

In 2004, WestJet made its foray into the US market, with flights to San Francisco, Los Angeles, Phoenix, Tampa, Fort Lauderdale, Orlando, and New York-LaGuardia. The latter was dropped after less than a year, although the airline now serves Newark Liberty International Airport. "One of the challenging things in opening new routes is getting the gates and space we want," says Cummings. "We're now at the size that we can negotiate with airports to get the times that work for us, but it still took us two years to get the time we wanted at Newark." In 2006, Nassau, Bahamas, became WestJet's first destination outside Canada and the USA. A year later, the airline pushed further south with flights to México, the Dominican Republic, and St Lucia.

Cummings tells *Airways* that new areas of North America are always a challenge, in the sense that the airline needs to understand and respect the local business culture. It's often difficult to impart the unique WestJet style on some of the contract staff and baggage handlers who work for the airline in some of the destinations that have less frequent service. "We're adapting our business model in some of these places," says Cummings. "At some of our bigger bases, such as Los Angeles and Orlando, we have our own people, and we have been able to bring some of our Mexican staff to our Calgary base for training."

WestJet's network plan takes it to 2013, at which time it expects to be operating 111 aircraft, and if everything goes as planned will increase its Canadian market share to 45%. To get there, WestJet will increase capacity by 50%, much of it dedicated to the Canadian market, with a couple of new destinations and increased frequencies on existing routes. "We are well positioned," boasts Cummings. "When we start a new route we are able to fill seats quickly. People have an affinity for WestJet and

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Captain Steve Bulteel, who has been flying for WestJet for six years, on a preflight walkaround at Toronto. At the turn of the century WestJet had a 7% market share to Air Canada's 77%. Today the score is WestJet: 36%; Air Canada: 57%

appreciate the value we offer." A study for WestJet by Leger Marketing, one of Canada's most reputable research companies, concluded that WestJet is Canada's preferred airline, according to 49% of those asked during the survey; Air Canada was preferred by 35% of respondents.

Cummings admits competition is good for everyone, because it forces companies to adapt and sharpen their business models. "A healthy market benefits everyone," he says, in response to a question about Air Canada's precarious financial situation.

While WestJet has been the darling of the Canadian airline industry, everything hasn't gone the airline's way. In 2004, WestJet was accused by Air Canada of espionage, when it reportedly accessed a private website more than 200,000 times during a ten-month period and improperly gained access to Air Canada's key flight operations data. This was undertaken with the knowledge and direction of the highest management levels of WestJet. The two-year legal battle ended in an out-of-court settlement when WestJet admitted to the charges, and paid C$5.5 million (then US$4.9 million) in legal and investigative fees to Air Canada and donated C$10 million (US$9.1 million) to charity. A senior WestJet executive resigned over the issue.

This incident was merely a blemish on the airline's reputation. A more pressing concern, though one that WestJet downplays, is the delay in a code-sharing

A 737-800 at Los Angeles. For the current winter schedule, WestJet has added 11 destinations and three new countries, plus many route pairings between Canada and México.

agreement with Southwest Airlines that was signed in 2008, and was scheduled to be implemented by the end of 2009. "Southwest's decision to delay implementation of the full code-sharing agreement is disappointing, but understandable in the current economic climate," Cummings tells *Airways*. "We support Southwest's decision and look forward to resuming discussions with them when the time is right."

From a business perspective, the agreement with Southwest will mean opportunities to share purchasing, ground handling, marketing, and selling to corporate accounts. For WestJet's customers it means access to Southwest's network of 65 cities in the USA. Likewise, Southwest passengers would have a comparable partner for destinations throughout Canada.

Given the delay, WestJet is activating a code-share agreement with the Air France-KLM Group. As part of this inbound interline arrangement, Air France-KLM passengers can connect to WestJet's Canadian network. The airline also has a partnership with Hawai'i's Mokulele Airlines (*Airways*, November 2009), offering WestJet customers access to the Hawaiian inter-island network. Cummings also hints that more such pacts are likely in the near future.

Using its current model, WestJet is confident that it will continue to see four to five more years of healthy growth. The airline will soon begin charting an updated long-term strategy, and Cummings says that the idea of introducing a new aircraft type won't be ruled out.

WestJet has successfully tapped into demand from underserved airports. Abbotsford, 42mi (68km) east of Vancouver, is one of these. When WestJet started service to this Fraser Valley airport in 1997, it was the first time in 20 years that a scheduled jet carrier had started a totally new destination in Canada. Before WestJet arrived, Abbotsford was known as an industrial airport that hosted Canada's largest air show. Thanks to WestJet's vision, the airport now sees more than 500,000 passengers each year.

Cummings explains that there are really three categories of airports that WestJet serves. The first comprises the country's large airports, such as Vancouver, Calgary, Toronto, and Montréal. Then there are those such as Hamilton, Kitchener, and Abbotsford that have a significant population base, but that have traditionally been neglected. The third category of destinations—like Comox or Deer Lake, which have populations of less than 20,000—would, on the surface, defy regular 737 service. "We are able to stimulate the local economies of some of these small communities," says Cummings. "The logic may suggest that these towns don't have a critical mass, but we make it work by developing strong relationships."

WestJet has set a lofty goal for itself. Not content with simply being Canada's best airline, it strives to be one of the top five airlines in the world. "In 2006, we revisited our vision statement and looked at the next ten years," says Cummings. "We looked at our successes and what we could become without losing the fabric and culture behind our success, and our ultimate goal is one of the top five international airlines."

While it is easy to say that you would like to be one of the top airlines in the world, what does that mean and what would it look like? WestJet set about developing an internal scorecard with three categories—business results, people and guests, and completion—to help the airline achieve its goal. The first category is about profit margin, and while there is a lot of volatility in this, according to WestJet it has been in the top four for the past two years.

Cummings admits that the second category is difficult to measure, while noting that the company has looked at methods from around the world. The airline's completion rate—not canceling flights, on-time performance, and delivering baggage to passengers within 15 minutes of arrival—rounds out the scorecard. "We'll never be the largest airline in the world, but we feel we can be one of the best airlines in the world," asserts Cummings.

Historically, WestJet has eschewed the trappings of traditional air carriers, but is poised to introduce its own frequent flyer program early in 2010. "We have people that fly with us six and ten times a year, but we don't have a rewards program," explains Cummings. "Ours will be different than others, based on dollar spend."

WestJet prides itself on its customer service, which to its credit is better than most airlines. Sometimes it's the little things that make the difference between an average airline and a good one. For example, on a recent flight with my family, the check-in agent noticed that we were travelling with two young children, so she blocked off an entire row of six seats for us. With all of the airline's accolades, often forgotten is that WestJet is still a LCC. While passengers are offered a complimentary soft drink and package of cookies, the airline has a modest buy-on-board program. This was never a big issue when the airline was flying short stages, but as it expands across Canada, to Hawai'i, and into the Caribbean, passengers are spending more hours onboard. To be fair, however, most airlines in North America have lowered their product levels to the low-cost model, doing away with meal service on many routes. WestJet offers 24 channels of seat-back satellite TV on each of its single-class 737s, along with pay-per-view television programming and movies. There are some limitations to the satellite TV because the signal is lost over large stretches of ocean.

Although WestJet's low-cost model allows it to weather economic storms better than some airlines, it is not immune to this global quagmire. "There is no question that we have seen, and have been negatively impacted by, a global softening in demand for travel and travel products," notes Cummings. "We have committed to our WestJetters that we will do everything in our power to avoid layoffs. Instead, we are working closely with them to find ways to trim C$25 million [US$23.1 million] from our annual operating budget. So far, they have come up with some excellent suggestions and we are taking a serious look at every one of them." WestJet has no plans to cut routes, although flight frequencies may be adjusted.

Carrying more than 14 million passengers a year, and with one of the best on-time performance rates in North America, WestJet has been profitable in all but a handful of quarters in its 13-year history. A remarkable achievement given the formidable challenges the industry has faced over the past decade. Expect more of the same from an airline that has become one of the world's most successful airlines. ✈

Fast Facts—WestJet Airlines

IATA: WS **ICAO**: WJA **IATA/ARC:** 838 **Radio:** *Westjet*

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Cities served: **Canada**: Abbotsford, Calgary, Charlottetown, Comox, Deer Lake, Edmonton, Fort McMurray, Grande Prairie, Halifax, Hamilton, Kamloops, Kelowna, Kitchener-Waterloo, London, Moncton, Montréal, Ottawa, Prince George, Québec City, Regina, Saint John, Saskatoon, St John's, Sydney, Thunder Bay, Toronto, Vancouver, Victoria, Winnipeg, Yellowknife
USA: Atlantic City, Fort Lauderdale, Fort Myers, Kaua'i (Lihue), Honolulu, Kona, Las Vegas, Los Angeles, Maui (Kahului), Miami, New York (Newark), Orlando, Palm Springs, Phoenix, San Diego, San Francisco, Tampa
México: Cabo San Lucas, Cancún, Cozumel, Ixtapa/Zihuatanejo, Mazatlán, Puerto Vallarta
Caribbean:
Bridgetown, Barbados; Cayo Coco, Cuba; Freetown, Bahamas; Holguín, Cuba; La Romana, Dominican Republic; Montego Bay, Jamaica; Nassau, Bahamas; Punta Cana, Dominican Republic; Puerto Plata, Dominican Republic; St Lucia (Hewanorra); St Maarten [Sint Maarten], Netherlands Antilles [Nederlandse Antillen]; Providenciales, Turks and Caicos; Varadero, Cuba

Founded: June 27, 1994 (as 616373 Alberta Ltd); name changed to WestJet Airlines Ltd May 30, 1995
Start date: February 29, 1996
CEO: Sean Durfy
Ownership: Publicly traded company (TSX: WJA)

Fleet

Type	Nº	Seats	Engines
Boeing 737-600	13	Y119	CFMI CFM56-7B-22
Boeing 737-700	58	Y136	CFMI CFM56-7B-22; -22/3; -24/3
Boeing 737-800	10	Y166	CFMI CFM56-7B-26; -26/3

On Order

Boeing 737-700	52	due 2009 (4), 2010 (4), 2011 (7), 2012 (7), 2013 (6), 2014 (6), 2015 (10), 2016 (8)
Boeing 737-800	2	due Dec09, 2010