ZIP Bringing bright colors to Canadian skies.

by Ken Donohue

KEN DONOHUE

Historically, most of Canada's wars were fought in the eastern part of the country. But a new war has begun in western Canada with Air Canada's new discount airline, Zip, taking on Canada's most successful airline, WestJet (page 18). If recent events are any indication, the fight for air passengers looks set to be a scrappy one, as both airlines try to increase market share in a fragile and turbulent industry.

The respective generals in this story have a shared history, which provides added intrigue. But the one who some might think should hold a grudge, does not; while the other talks as if he does. Stephen Smith, president and CEO of Zip, served in the same position at WestJet for a short time, before the airline's founder and former CEO, Clive Beddoe, unceremoniously replaced him. But if Smith believes he is a subject of injustice, he does not show it. He talks instead about learning experiences, and moving forward, and building a new airline. Beddoe, on the other hand, snipes at his rival, sounding more like a soldier looking over his shoulder than the confident airline executive who has built a successful and loyal following.

If the first battle is about communications, score one for Zip—or make that Zip one/WestJet zip! Unlike WestJet, which was characterised by months of unreturned telephone calls, and interviews for *Airways* that were supposed to be rescheduled but were not, Zip is about open and businesslike communications.

On August 22, 2002, after years of idle talk and speculation, Air Canada finally launched its new low-fare brand, Zip Air, a wholly owned subsidiary. With its palette of brightly colored aircraftæin shades of fuchsia, baby blue, lime green, and orange, for exampleæZip wanted to be a different kind of airline from the start. “We didn’t want to be your normal airline with lots of white down the side of our aircraft, and we also didn’t want to have ‘jet’ or ‘air’ in our name,” muses Stephen Smith, as he sits at his desk answering questions from *Airways* and signing employees’ paychecks. “We wanted there to be no preconceived notions about what Zip should beælike Buzz and Go.” Although, maybe those are not the best examples considering Go is now no-Go following its recent merger with easyJet and Buzz has been snapped up by Ryanair.

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Steve Smith of Zip is enthusiastic that the new airline can create its own culture.

After Air Canada (AC) acquired its bitter and long-time rival, Canadian Airlines, in 1999 (*Airways*, January 2001), the Canadian government placed a few caveats on Air Canada before the deal could be cemented. One of those was that AC was not allowed to start a discount airline in eastern Canada until September 30, 2000. If another low-cost carrier started in Hamilton, Ontario, before that date, then Air Canada could not start its own low-cost operation until September 2001. As well, to allow established low-fare airlines in western Canada—specifically WestJet—to develop, AC was prevented from establishing such a subsidiary in the west until 2001.

Zipping into the skies, though, was not as easy as coming up with a catchy name and splashing some brightly colored paint on the side of an airplane. There were numerous hurdles that Smith and his team had to overcome, but the most challenging was to bring labor costs in line with the revenue expectations of a low-fare airline.

The Canadian Union of Public Employees (CUPE), which represents Air Canada flight attendants, threatened to delay Zip’s launch until an agreement was made. Initially, CUPE argued that any AC employee transferred to the discount operation should be covered by the same contracts as those working for the parent company. The union also expressed concerns over jobs that its members would be performing. As with most low-cost carriers, flexibility is paramount to a successful operation, and Zip wanted to retain job description elasticity for its flight attendants to perform other tasks as needed, such as ticketing and check-in. A deal

Unlike Zip, Tango, Air Canada’s other low-fare brand, operates on its parent’s certificate.

GARY TAHIR

was finally reached not long before the airline's launch. An agreement was also made with the Air Canada Pilots Association, which would see its members flying for Zip at reduced pay and different working conditions than at the mainline airline.

However, the agreement limits Zip to 20 aircraft—currently Boeing 737-200s that Air Canada acquired with its takeover of Canadian Airlines. The pilots *Airways* spoke to do not seem to have a big problem with this. Captain Dave Eccott, who began his career more than 20 years ago with CP Air, forerunner of Canadian, enjoys working for Zip despite a modest cut in pay. "I can't speak for everyone, but it's like working for a little airline again," says Eccott. "If I have a problem I just call up the chief pilot or Stephen Smith." Chris Hinrich, a first officer with Zip, echoes his colleague's sentiments: "It's great here…kind of like a little family." Hinrich came to Zip more because of a desired change in his way of life. He was flying Air Canada Airbuses out of Toronto, and wanted to return to the West Coast, where he grew up. "And I really wanted to fly the Boeing 737," enthuses Hinrich. "It's a pilot's 'planeæall hands and feet." Hinrich says the pay cut is so modest and thinks that some people have blown it out of proportion. "There are guys who were working with Canadian before it was taken over by Air Canada, and they had taken pay cuts up to about 50 percent just to keep that airline flying."

Checking in at Vancouver for a flight to Edmonton is made easy by using Air Canada's express check-in kiosks. Complimentary newspapers are available at the gate, and the Zip crew is cheerful and helpful, but not over-the-top. No jokes are told or games played, as might be experienced on other low-fare carriers. While waiting at the gate and taxiing to the runway, the latest pop hits replace that all too familiar 'elevator music'. There is lots of legroom, but inside the aircraft little to distinguish it as uniquely Zip. Air Canada's in-flight magazine is available in each seat pocket. One passenger is pleasantly surprised to learn that we are departing early. "I've never heard of a flight leaving early," he enthuses. I ask a lady sitting next to me if she minds flying in a baby-blue airplane. She replies that she had not even noticed it.

PHOTOS: HENRY TENBY

MARK McWHIRTER

Bright colors have been part of Zip's identity since its launch. Zip recently introduced a new image that combines white and the bright signature colors on the tail of the 737s.

The unions were not the only ones sceptical of Air Canada and its new airline. Many Canadians have struggled to understand Air Canada's multi-brand strategy, seeing its new low-fare carrier simply as a counter to WestJet's success. It has not helped that Air Canada's reputation within the country has taken a beating, as its share of the domestic industry has risen to 80% since its acquisition of Canadian Airlines. "Zip is all about keeping Air Canada in the short-haul marketplace," says Smith. "Air Canada has lost a lot of money in western Canada…it's important to reduce costs and stay in the marketplaceæwe can do that through Zip." Smith notes that Canadians are usually sceptical of new things, adding that market research tells the airline that passengers like its product. He further suggests that scepticism, if there ever was any, is slowly disappearing.

Smith bristles at the notion that Air Canada is watering down its own brand image by creating different airlines. “Air Canada and Zip are two different products,” he stresses. “It’s no different than hotels that have different brands.” What confuses some people, though, is that AC has two discount brands—Zip and Tango. Air Canada introduced Tango in November 2001, and calls it “a separately branded service that offers passengers a no-frills air travel alternative complementing Air Canada’s full service operations.” Sounds a lot like Zip. But there are some important differences.

Zip Air has a separate operating certificate, management structure, and pays market rates for services it might obtain from Air Canada. Zip is a ‘replacement capacity carrier’ for AC, which means that Zip is replacing AC mainline service on selected routes. Tango, on the other hand, is a separate brand, but flies on the Air Canada certificate as well as on some of the same routes.

“I know exactly what Zip is,” declares Smith. “Is Zip different than WestJet?æYes. Is Zip different than Tango?æYes. Is Zip different than Air Canada?æYes.” He emphasizes that Zip has some unique selling points. Passengers have more legroom than on other low-cost Canadian carriers, they have free advanced seat selection, they can accrue and redeem points in Aeroplan, AC’s frequent-flyer program, and they have a connection to AC’s vast network.

In an earlier telephone interview with Clive Beddoe, president and CEO of WestJet, *Airways* told him of its intention to talk to Stephen Smith about his airline [Zip]. “It’s not Stephen Smith’s airline,” Beddoe shot back. “It’s Robert Milton’s [president and CEO of Air Canada] airline. He just does whatever Robert Milton tells him to do.” But when *Airways* mentions this to Smith, he just laughs and says that he was glad that Clive knows everything that goes on at Air Canada. “Make no mistake about it, Zip is a wholly owned subsidiary of Air Canada. I talk regularly with Robert Milton…we often talk about route development, but I have the autonomy to make decisions about this airline,” Smith counters.

Stephen Smith has been in the airline industry for nearly 20 years, but says it all happened through circumstance rather than having a long-time passion for aviation. “I wish I could tell you that I’ve wanted to fly ever since I was 16, but it didn’t happen that way,” admits Smith. “When I graduated with an MBA, I was given offers from Xerox, Bell Canada, and Air Canada. They were all similar jobs, offering the same kind of money, so I asked myself what could I do in my spare time? I could make photocopies, or I could make long-distance telephone calls, or I could fly around the world.” Thus Smith began working as a financial analyst for Air Canada. After nine years, he became the CEO of Commuter Express, a small airline based in Toronto. One of his first jobs was to change the airline’s name to Air Toronto. Smith soon found himself back at Air Canada, and then with the airline’s regional carrier, Air Ontario.

In March 1999, WestJet’s founder and CEO, Clive Beddoe, stepped aside and welcomed Stephen Smith aboard to lead the successful discount carrier. Eighteen months later, the ‘marriage’ was over and Smith was dumped and replaced by the airline’s former head. Beddoe publicly criticized Smith’s management style, claiming that it did not fit with the WestJet culture that is absolutely the cornerstone of the airline’s success. There was talk about Smith’s top-down autocratic manner, which did not mesh with the team atmosphere at WestJet’s head office.

When *Airways* asks about his time at WestJet, Smith is very open and conciliatory. “I have no regrets. I learned something and it was a great experience,” he says. “It was never a leadership issue. There may have been some personality conflicts, but an employee survey suggested there were some leadership style problems even before I arrived.” Smith is proud of his accomplishments at WestJet. During those 18 months, the airline increased its fleet from 11 to 23 aircraft, went public, and the profile of the airline was raised.

Airways also asked Clive Beddoe about this much-discussed ‘WestJet culture’ that apparently clashed with Smith’s way of working. He provided a list of ‘motherhood’ statements that could apply to any company: honesty; commitment; willingness to do whatever it takes to get things done; energy; teamwork; commitment to fellow employees; easy going; hard working; and diligent.

On the other hand, Smith does not believe that an organization’s so-called culture can be described with a simple list of feel-good statements, but says that stories can often illustrate it. He shares one example where there was an issue at WestJet with flight attendants wearing jewellery. “Instead of having an edict come from the top, we brought together a number of flight attendants and asked them to develop guidelines on this particular issue. They came to us with a policyæeveryone was contributing,” he maintains. “A further manifestation of the WestJet culture is celebrating their successes, and profit-sharing is one way they do that.”

Smith, though, is interested in developing a successful culture of his own at Zip, and is committed to creating an environment driven by the involvement of its employees.

Fast Facts—*Zip Air*

IATA: 3J **ICAO**: ZIP **Radio**: *Zip*

Hangar 101, Floor 3B
8050-22nd Street NE
Calgary, AB
T2E 7H6

Admin: +1 604 270 5676
Fax: +1 604 276 3433
Res: 1 866 432 1947

Internet: www.4321zip.com

Cities served: Abbotsford, Calgary, Edmonton, London, Montréal, Ottawa, Vancouver, Victoria, Winnipeg
FFP: Aeroplan

Founded: April 2002
Start date: September 22, 2002
CEO: Steve Smith
Employees: 275
Ownership: Air Canada

Fleet

Type	**No**	**Seats**	**Engines**
Boeing 737-200	10	Y117	P&W JT8D-9A/-17/-17A

10 more to be transferred from Air Canada by Nov 2003

"Our employees need to be aligned with the goals of the company," he explains. "No customer service company can succeed without it, and we've been able to do that at Zip." Sometimes it is the little things that matter. On Thanksgiving, Christmas, and New Year's Day, baskets of goodies are sent to the hotels of Zip employees who are away from their families.

Calling Zip a true start-up is a bit of stretch. Even Smith admits that the AC connection has been a benefit. Air Canada funded the airline and provided a lot of infrastructure. "There is no way we could build an airline as quickly and as successfully as we have in today's marketplace without the support Air Canada has provided," he concedes. "It's unbelievable reallyæwe were handed the routes and the passengersæall we have to do is fly the 'planes."

Success is a relative notion when it comes to the first few years of any airline. Smith reveals that Zip had an average load factor of just over 50% up to early this year, but notes that number is improving following the addition of service to Victoria, Abbotsford, Montréal, and Ottawa.

Clive Beddoe is less than complimentary about Air Canada's new airline. "Zip is an appalling failure. Their loads are less than 40 percent, and we've seen an increase in traffic on the routes that Zip flies." But Beddoe seems to forget that even WestJet experienced teething problems when it began operations, and few analysts at the time expected WestJet would succeed. Smith shakes his head when *Airways* mentions Beddoe's assessment Zip. "What does he think he is, a junior market analyst? Beddoe is a smart man, but why does he have to go around trashing other airlines?"

When *Airways* asks Smith why he thinks Zip would be a success when the likes of United, Delta, and British Airways have experimented unsuccessfully with low-fare subsidiaries, he responds: "There has been a fundamental shift towards value in the marketplace. The new marketing reality is VFRævisiting friends and relatives. What most people want on a short-haul flight is a reliable airline and affordable prices." Smith also notes that recent advances in the Internet have reduced the cost of ticketing through online bookings. "Operating Zip as a subsidiary outside Air Canada will also aid in our success," he asserts. "We have new in-flight staff and a whole new culture. Other airlines have tried doing this within their existing organizational structures and it hasn't worked." Indeed, at the airline's Calgary corporate headquarters, this is self-evident. Except for a few small offices along one wall, there is an open plan to the working environment and the ventilation pipes overhead are brightly painted in 'Zip green-and-orange'.

When Air Canada first talked about starting a low-fare operation, Hamilton, an underused airport, 42mi/68km west of Toronto, was first mentioned as a possible base, but Calgary was eventually chosen. Smith tells *Airways* that Calgary was selected because Air Canada had some excess hangar and office space at the airport. "There were some significant savings by us using this, and the fact that WestJet is based in the same city had nothing to do with our decision. It just made economic sense. "We also like the entrepreneurial spirit in Alberta and Calgary."

Smith has a simple answer as to why many established airlines have had trouble replicating some of the successes of smaller low-fare carriers. "Large airlines often focus on meeting the needs of the frequent or business traveller. They get onboard, read a newspaper, get on their computer, or want to sleep. They don't necessarily want the flight attendants chatting to them. The frequent traveller sees the flight as a means to an end," explains Smith. "Low-fare carriers, on the other hand, attract the visiting friends and relatives crowd, and they see the flights as an event in itself, and want to have a little fun."

Zip is here for the long-term, stresses Smith. "This has not been an inexpensive creation," says Smith. "We have invested in people and real estate, and we'll be here as long as the marketplace wants us." Smith reiterated his comment that the airline industry has seen a remarkable shift toward value and points out that Wal-Mart does not close down when the economy improves. Smith's short-term goal is for Zip to be consistently profitable, which it hopes to be, month-to-month, by the middle of 2003. Zip is preparing to aggressively expand, with its sights set on flights across Canada and to the United States. Smith wants his team to continuously improve the Zip brand, and has some lofty ambitions. "If we can run the best customer service airline in North America…if we do that and make a profit with energetic and highly motivated employees, then we'll have a wonderful product." ✈

KEN DONOHUE

WestJet Keeps Soaring

by Ken Donohue

GARY TAHIR

WestJet leases ten Boeing 737-700s from GE Capital Aviation Services (GECAS) and will receive an additional 28 aircraft through January 2006.

When *Airways* last featured WestJet Airlines (January 1999), the carrier was barely two years old, yet it was changing almost everything entrenched in the Canadian airline industry. The company had a simple plan, one that was modeled on Southwest Airlines: offer reasonable fares; create a fun working environment; and fly to some under-served destinations. WestJet was a success from the start. Apart from a dispute with Transport Canada early on, in which the airline voluntarily grounded its fleet for 17 days, WestJet has been a success and has forced other airlines, notably Air Canada (*Airways*, Jan/Feb 1998), to rethink the way it does business in the short-haul market.

Five years ago, WestJet was busy carving out a niche of its own in western Canada, while the country was still being served by a duopoly comprising struggling Canadian Airlines (*Airways*, January 2001)—at the time Canada's second largest airline—and Air Canada. There were a host of other domestic and international charter and scheduled carriers, such as Royal Airlines, Canada 3000 (*Airways*, September 1998), and Air Transat. But within a few years, Canadian, Royal, and Canada 3000 would all become bookends in aviation history, leaving WestJet in the enviable position of Canada's second largest airline.

In a previous interview with *Airways*, Clive Beddoe, WestJet's president and CEO, was asked if the airline would expand into eastern Canada. He replied that WestJet had no interest in expanding to that part of the country, but also mentioned that long-term planning in the airline industry encompasses about ten days. By June, WestJet will serve 26 cities across Canada, including a dozen in eastern provinces, linking the Pacific Ocean with the Atlantic. "The failure of Canadian Airlines, and its subsequent acquisition by Air Canada, provided us with a golden opportunity to expand across Canada," Beddoe tells *Airways* in a recent telephone interview. "We have no regrets about expanding as communities have welcomed us."

Staying true to its goal of flying to under-served communities (most destinations, especially in eastern Canada, have previously had limited air links), WestJet has turned little-used John C Munro International Airport at Hamilton, Ontario, 42mi/68km west of Toronto, into its eastern hub. "Hamilton is a low-cost, uncongested airport," remarks Beddoe. "It was a natural for us…there was no other scheduled passenger traffic." Between 1999 and 2001, Hamilton experienced a 2,000% increase in passenger traffic, a direct result of WestJet's arrival. The TradePort International Corporation, a private company, which is responsible for the airport's operation, is aiming for five million passengers by 2005.

Wherever WestJet goes, others tend to follow. This is especially true in Hamilton, where other passenger airlines are now serving the city, but Abbotsford, British Columbia, about 45mi/72km east of Vancouver, was the first test. When WestJet began flying to this airport—better known as an industrial center, or for its popular bi-annual air show—the airline was sure it had done its homework. And right it was. From the first flight, Abbotsford has been a success for WestJet, begging the question why had it not been served before? When competitors noted the accomplishment, they too began service. When it was still in operation, Canada 3000 offered flights from this airport, and today Air Canada, Central Mountain Air, Helijet International (*Airways*, September 2001), and Air Transat all serve Abbotsford.

In May 2002 WestJet made the long anticipated jump to Canada's largest airport, Toronto's Pearson International Airport—*Airways*, August 2000). "Toronto is an important destination for us, but it is a spoke, not a hub, for our operations," explains Beddoe. "There are some added challenges for us at Toronto. It is a high-cost airport, and we need to plan for congestion. We spend a lot of time on the ground and taxi times (are) where you can get beat."

While WestJet has steadily been building its route network, it has also constructed a new corporate center at Calgary, complete with 167,000sq ft (140,280m²) of hangar space that can accommodate four of the airline's 30 Boeing 737s. "We simply outgrew our old facility," relates Beddoe. "The new one was built specifically for our needs." WestJet performs its own maintenance at Calgary and also owns flight simulators for the 737-200 and 737-700.

Although the airline continues to soar, there are some issues that are building like a prairie storm. Biggest is the continual increase in taxes and fees, which are shouldered by passengers. Beddoe has made this issue a very vocal and public one as he rallies for support, and the attention of various agencies—most notably the Canadian government—to review and reassess these charges. The airline introduced the 'Ridiculous Fares, Ridiculous Fees' campaign to illustrate this concern. A C$6 roundtrip ticket was offered between Calgary and Edmonton on eight flights on one day. The total cost of the 45-minute flight jumped to more than C$80 when the taxes and fees were added. Only 240 seats were sold at that price, even though 1,000 were available. "We have seen some success from our efforts, but we know that it is hurting traffic, especially on ultra-short-haul flights," admits Beddoe.

The Canadian government has taken a beating from airlines and the public over its implementation of a flat-rate Air Traveller's Security Charge of C$24 (US$16) on a roundtrip ticket, three times the amount that US airlines are required to collect. Small airlines, or those serving short-haul markets, such as WestJet, argue that the added fee has discouraged air travel. Some contend that extra charges should be proportional to the airfare paid. "The government has to understand that as the rail industry was important to the development of Canada in the late 1800s, so too is the air industry in the 21st century," says Beddoe. From March 1, the tax was reduced by 40% to C$14, but neither WestJet or Zip believe that is sufficient to stop the drain of passengers switching from air travel to their cars for shorter trips.

While increased taxes and fees have forced the airline to cut back service on some routes, it is still moving ahead with expansion plans, and increasing its fleet. Like most start-up discount carriers, WestJet began operations with older Boeing 737-200s, but has recently begun to acquire newer models. WestJet currently has an all-737 fleet of 38 aircraft, 15 of them -700s. The airline notes that its costs have been reduced, in part, by operating the newer and more efficient aircraft. By 2006, all the 737-200s will be gone.

The year 1999 saw the beginning of many changes at WestJet. In a move that surprised many, but not himself, Beddoe stepped aside as the airline's president and CEO. "I felt there were people in the industry that had greater knowledge, so I thought I would give someone else a chance to lead the airline," he explains. "I told myself from the beginning that I would do that, but I also assured the board that I would always come back if it didn't work." At the time, Beddoe thought Stephen Smith, who worked for Air Canada, and had experience running small, regional airlines, was the best person. But the relationship soon soured, and 18 months later Beddoe was back in charge.

WestJet made some significant strides during Smith's tenure, including taking the company public. "We have had no regrets about going public," says Beddoe. "We wanted to provide some liquidity for our shareholders and raise capital for expansion." WestJet stock was issued at C$10, and has been a strong performer on the Toronto Stock Exchange, trading as high as C$22. But the airline's share price has since fallen more than 30%. Beddoe blames the weak North American travel market, and the increase in security charges, for a slowdown in traffic that has investors nervous. When *Airways* asks Beddoe if the airline feels increased pressure since going public, he replies: "Pressure isn't the right word. We have a responsibility to our shareholders and the public."

Since first taking to the air in 1996, WestJet has been a leader in the Canadian airline industry. It has challenged all pre-existing assumptions and, in doing so, has attracted a loyal and supportive following, especially in western Canada. The airline has done what few airlines in the world have been able to doæturn a profit. With the announcement of its 2002 results, WestJet celebrated its 24th consecutive quarter of profitability. A few weeks before WestJet began operations, Hollis Harris, then president of Air Canada, stated that two new discount airlines [WestJet and Greyhound] would "nosedive into oblivion." He was right on one account. But today, almost certainly even Harris would concede that WestJet is a success story, having forced his former airline, and the industry as a whole, to reconsider the way they do business. ✈

Fast Facts—WestJet

IATA: WS **ICAO**: WJA **IATA/ARC**: none **Radio**: *Westjet*

5055 11th Street NE
Calgary, AB
T2E 8N4

Admin: +1 403 735 2600
Fax: +1 403 219 6189
Res: 1 800 538 5696

Website: www.westjet.com

Cities served: Abbotsford, Calgary, Comox, Edmonton, Fort McMurray, Gander, Grande Prairie, Halifax, Hamilton, Kelowna, London, Moncton, Montréal, Ottawa, Prince George, Regina, St John's, Saskatoon, Sault Ste Marie, Sudbury, Thunder Bay, Toronto, Vancouver, Victoria, Windsor, Winnipeg

Traffic: 2002 (2001)
Passengers: xxxxxx (4,670,000); load factor: 73.2% (74.7%)
RPMs: 3.41 billion (2.24 billion); ASMs: 4.65 billion (3.00 billion)
Financial: 2002 (2001)
Revenue: C$680 million (C$478.4 million); net profit C$51.8 million (C$36.7 million); average yield: C$0.20. (C$0.21.4)

Founded: 1995
Start date: February 29, 1996
Chairman: Clive Beddoe
Employees: 2,400
Ownership: Publicly traded on Toronto Stock Exchange (WJA)

Fleet

Type	No	Seats	Engines
Boeing 737-200	23	Y120	PW JT8D-15A
Boeing 737-700	15	Y140	CFM56-7B24

Ordered

Boeing 737-700	23	delivery through January 2006 (+56 options)

GARY TAHIR

Currently, WestJet operates 23 Boeing 737-200s, with two scheduled to be retired this year.

Ironically, given that rival Zip uses some former Canadian Airlines Boeing 737-200s, WestJet still flies this original Pacific Western airplane (CF-PWW, now Fleet No 736/C-GWJG).

DEAN DIDUR