# Overcoming Adversity

Thai Airways is fighting back against government turmoil, terrorist bombings and a decade of mismanagement to get back into the black.

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**Thai Airways Airbus A380**
*Thai Airways*

For an airline whose primary market is tourism, a military junta and terrorist bombings definitely impact the bottom line. While those events have affected Thai Airways' financial situation, they are not the main problem.

The real issue, according to its new president, is a decade of management chaos. The results being a 2014 net loss of THB15.57 billion ($441.5 million) on revenues of THB203.89 billion, following a THB12 billion loss in 2013.

Passenger traffic dropped 12.5% to 19.1 million in 2014, while load factors dropped three points to 62.4% in 2014.

The problem began with a steady erosion of the airline's profitability when its ecosystem started to change 10 years ago, according to Thai Airways president Charamporn Jotikasthira. In an interview with *ATW* in Bangkok, Jotikasthira said that outside interference and changes in politics created an environment of decisions constantly changing. This, in turn, produced what he called a lot of silos: divisions within the airline with each silo just taking care of its own business.

“And once you see the silos, there is no cross cooperation,” Jotikasthira said. “A lot of expertise on how to run an airline is thrown away. So the focus on what we can do best for the company is not there,” he said.

Jotikasthira was brought in as president at Thai Airways in December 2014 to turn things around based on a reorganization plan developed by the airline’s board and Thai management, and approved by the state enterprise policy committee. Jotikasthira has a strong financial background, having earned an MBA from Harvard University and served as president of the stock exchange of Thailand. While his title at Thai Airways is president, he is essentially operating as a CEO, CFO and CIO.

The plan establishes a program that will first stop the bleeding, then strengthen the company’s competitive business advantages and build long-term sustainable growth.

“Our restructuring plan is no different than plans at [All Nippon Airways or Japan Airlines]. It’s just that we need to be as effective as they are. There is still a lot of inertia in each organization not to change, but we just have to keep going,” Jotikasthira said.

One of the key elements in getting managers to change how they work is both a blessing and a curse. Managers believe the government will not allow the airline to fail. The government’s ministry of finance has 51.03% equity interest in the airline.

While Jotikasthira said there has been a lot of progress made, “that does not mean that we have succeeded yet, because each [manager] still believes that whatever we do, the government will always back us up, always save us. In the first quarter [of 2015], we made lots of progress, but that’s because it was new. But then it started to go back to the idea of being saved. We are not there yet, we still have lots of work to do,” he said.

He is now holding town hall meetings “of about 300 people each, about 10 events every three months, just to tell [the employees] what the progress is so far.”

**Crisis management**

The efforts being made are starting to show results. While the problem of terrorism and the May 2014 military coup didn’t help, “they are no more,” Jotikasthira said. However, just to be sure, the airline has established a crisis management operation center to monitor any developments of incidents, such as a terrorist bombing that could impact its operations.

This provides measures that can provide immediate actions to be taken to mitigate the impact of those incidents.

The airline's profitability has also improved since the military junta took over the government, stabilizing the political and economic situation.

Jotikasthira noted that passenger growth in tourism to Thailand is "steady again" at about 30%, following a 7% decline to 24.8 million in 2014. Passenger growth for the airline is around 18%-19%.

For the period January-August 2015, passenger traffic rose 7.8% over the same 2014 period to 12.67 million. Available seat-kilometers only rose 0.3%, although revenue seat-kilometers rose 8.4% to 40.15 million. Load factors increased 5.5 points from 73.9%.

The Star Alliance member has now taken several steps to get back on sound financial footing. One of the first was a THB50 billion cash infusion from a series of debenture issues that were fully subscribed, Jotikasthira said.

Despite some early reports that this was a government bailout, "the government did not give us anything," Jotikasthira said. "[In 2015] we needed to raise 50 billion baht, so we did that. We can stand on our own two feet. We only asked the government for its blessing," he said. However, Jotikasthira did note that there are sources within the government who can help if needed, "but this year we don't need to bother them." The cash will be used for normal operating expenses, including getting rid of older airplanes and buying new ones.

A portion of the THB50 billion raised will be spent on a mutual separation plan (MSP) providing early retirement for 1,401 employees. A voluntary retirement was required, as the airline is not allowed to fire anyone, Jotikasthira said. The money spent on MSP was "worth it" since the breakeven point is only two years. However, the airline "has to stay lean," so even once the airline recovers, employment will not go back up.

### Capacity decrease

The airline was to sell 42 aircraft during 2015, with an expected decrease in capacity of about 15%-20% compared to 2014, although it only decreased ASKs by 9.5% last summer, to be followed by another 5% in winter 2015. "Winter is our high season, so we are not aggressively shrinking to that 20%. I wish we could shrink more, but our commercial planners believe they can get back up on the high season," Jotikasthira said.

The airline had fewer than 90 aircraft at the end of 2015, down from 102 at the end of 2014. The airline has 14 aircraft on order, consisting of 12 Airbus A350-900s and two Boeing 787-9s. The A350 deliveries are planned for June 2016-May 2018, while the 787-9s are scheduled for delivery in 2017.

Another cost savings plan has been the closing or reduction of non-profitable routes. Services to Los Angeles, Madrid, Moscow and Australia have been dropped, although long-range planning is for those routes to come back, Jotikasthira said. Flights were reduced to Frankfurt and Paris, with one London flight stopping and added back in for the winter season.

On London, Jotikasthira said "we think we know how to handle London now."

For one thing, the airline is focusing on group sales, something it has not done before. "Thai Airways was lucky in the last 30 years in that Thailand was a destination where people wanted to go. So every flight could easily be half full without doing anything," Jotikasthira said. "But to breakeven today, you need 75%. And the difference between 50% and 75% is the ability to do group sells. That is how you fill up the plane, so now we need to do it," he said.

One problem was a traffic shift in the market, moving from Europe to Asia. There was a 10% drop in air travel from Western Europe during the first half of 2015. While European traffic was dropping, China traffic was growing rapidly, increasing 108% during 2014, but dropping slightly following the bombing in a Bangkok shopping area last August. Japan and India are still growing at 16.6% and 17%, respectively, Jotikasthira said.

A major adjustment has been made to the high-density passenger North Asian routes, with the Airbus A380-800 being put on routes such as Bangkok-Hong Kong and introducing Boeing 787-8 on flights between Bangkok and Tokyo.

For Southeast Asia routes, seen as a "high growth" region, the airline replaced Boeing 737-400s with Airbus A320-220s. The 737s will be decommissioned.

However, reducing fleet numbers and abandoning unprofitable routes is only part of the solution. "To its credit, Thai Airways' management realizes this," senior aerospace analyst at Forecast International Ray Jaworowski said. "The airline must increasingly generate business on routes where Thailand can be a viable connecting point rather than a destination, even to the extent of entering carefully targeted new markets in order to achieve this," Jaworowski said. "In addition, Thai Airways can attempt to build and enhance mutually beneficial teaming arrangements with the Gulf carriers, where possible."

Roughly 80% of Thai Airways passengers are O&D. "That's the problem," Jotikasthira said. "We could be a great hub here, but the connecting flights with our own fleet is not good. But that can be easily fixed—so from now on we will be competing more with Singapore, Hong Kong and Malaysia to Australia," he said.

**A mixed blessing**

One reason Thai Airways does little hubbing with regional or low-cost carriers (LCCs) is that it operates solely out of Suvarnabhumi International Airport in Bangkok, while the regional LCCs tend to use the lower-cost Don Mueang International Airport (DMK). He noted that passenger growth with the LLCs is almost 50%.

Thai Airways owns 100% of Thai Smile, a regional carrier that feeds it through Suvarnabhumi. But it also owns 39% of NOK Air, a regional LLC that serves DMK.

Thai Smile has costs that are about 25% lower than Thai Airways', "so it allows us to expand the network more fully. Otherwise we would have to close so many routes because of the competition from the LLCs. Now we are able to maintain many routes so our international passenger can benefit by connecting to all the key destinations in Thailand, IndoChina, China and others," Jotikasthira said.

He considers the LLCs to be a bit of a mixed blessing. "If it weren't the LLCs, it would be someone else who was trying to be more efficient, so it is unavoidable. So how do we live with that? The way I see it, first it gives us a wake-up alarm so we can be more efficient, but at the same time, it is an opportunity for people to move from [other airlines]," Jotikasthira said. "Once [passengers] start to fly, particularly long distances such as to China or Japan, they will not always stay with LCCs. They will upgrade themselves. So it is up to us to upscale them to our carrier. I think the LCCs expand the industry so we don't have to advertise ... We just have to advertise from the LCCs to our aircraft. That is much easier because our product is much better," he said.

Thai Airways has also been impacted by competition from Middle East carriers such as Emirates Airline, Etihad Airways and Qatar Airways, especially for passengers traveling between Europe and Thailand, Jaworoswski said.  "Traffic data indicates that these passengers are increasingly stopping at airports in the Middle East before traveling onward, with this traffic largely being borne by the big three Gulf carriers rather than by Thai Airways," he said.

While Thai Airways has made some limited progress in 2015, more needs to be done to increase revenue, Jotikasthira said. "The carrier has made strides in the areas of fleet rationalization and route network consolidation. Thai Airways also benefitted in 2015 from increased passenger traffic and low fuel prices.  However, should fuel prices begin to rise, this would only make the airline's restructuring efforts more difficult," Jotikasthira said.

He that a major goal of the airline for improving the airline's bottom line is to increase RPKs while improving yield management. "We want both at the same time, but even though we were able to sell 70% load factor, our yield was dropping too much. So I'm struggling with that. It will take time to fine tune it."

In the first half of 2015, passenger yield dropped 8.46% to THB2.49 compared to the same period in 2014. Passenger yield for all of 2015 is budgeted at THB2.63.

While the airline's primary market is tourism, it is starting to focus more on the business traveler. "Business traffic is very small, but we have a separate department now to take care of the corporate market," Jotikasthira said.

The airline launched a new A380 business class service to London's Heathrow in November followed by the same service on its Boeing 777-300ER to London Dec. 1. The new standard of business service will continue to be introduced on all of Thai's flights.

The new service will include amenities such as "dine on demand," a five-star restaurant type of service with individualization of cuisine and onboard preparation, a short snacking menu based on Thai street food that will be available at any time during the flight, and a "luxury bed and comfort experience" for intercontinental flights of 5.5 hours flight-time or more. "Our target is to bring our business class to number one in the world," Jotikasthira said.

### Belly cargo only

Cargo at Thai Airways has been in a slump the past few years. Cargo dropped 4.4% in freight tonne-kilometers to 2.453 billion. Revenue dropped from THB24.515 billion to THB23.601 billion. As a result, the airline has grounded its two Boeing 747 freighters and will carry only belly cargo.

Even going belly cargo only, it was still a rough go, with profitability starting only during third quarter 2015. The airline currently leases any additional capacity it might need, as well as leasing out its own belly space to other carriers.

“We also wholesale our belly space to others,” Jotikasthira said. “Now we have more cooperation with other airlines. We can focus on the customer and we take orders regardless of whether we have the belly space or not. If [we do not], we can put it in someone else’s belly. That is how we can lock onto a customer. For them, as long as we can serve them and send their goods to their destination, they don’t care what aircraft they are put on,” he said.

Produce is a major market as well as high-tech cargo. “There are a lot of manufacturers here that export around the world, so now we are more focused on them,” Jotikasthira said.

Even with a military junta in place, Thailand is going all out to increase business investment in the country—both in the form of new manufacturers coming in and outside companies selling into Thailand.

Unfortunately, one stumbling block is the lack of a good free trade zone. “We have one major project with the government trying to revamp our free trade zone again because our cargo system is hampered by certain old laws. We need the appropriate legislature to create a proper free zone similar to [that which] other countries have,” Jotikasthira said.

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