



AVIATION CLUB OF THE UK

Address by **ROB GURNEY, CEO oneworld**

Thursday, 9 February 2017,
Institute of Directors, Pall Mall, London

Please check against delivery

As a someone proudly born in London, but who this great aviation industry of ours has taken far and wide away from this remarkable and amazing metropolis, it is always a great pleasure to return – apart from anything, to see what Sadiq Khan is doing with all the council tax I continue to pay him even though I don't actually live here any more! So thank you very much for doing me the honour of opening the club's batting in this new year of 2017.

I know that many of the illustrious names who have gone before me in addressing the Aviation Club have focused on the challenges facing their businesses in particular and our industry in general – foot-shooting air travel tax regimes and shortcomings in infrastructure, along with near monopoly suppliers in many parts of the supply chain and uneven playing fields around the world... But I am going to take a different tack today. For I am here to celebrate – and it won't take very long for you to find out why, if you haven't already worked it out... ..To celebrate, and to gaze into the future. But before looking ahead, I invite you first to cast your mind back - back 18 years, to 1999.

Bill Clinton's freshly acquitted in impeachment proceedings. George W Bush announces he will stand for the US Presidency, while a new political movement is established to challenge for that US top job – the Reform Party, led by real estate magnate Donald Trump. Yes, I'm talking 18 years ago... In Europe, war rages in the Balkans. Boris Yeltsin resigns as Russian President, leaving Vladimir Putin in charge. The Franc, Deutsch Mark, Peseta, Lira and Guilder make way for the Euro. At its debut, a pound would buy you US\$1.63 or EUR 1.42 Brent crude's US\$ 10 barrel. The IT industry coins it in as the world prepares to confront the Millennium Bug.

Australia wins both the Cricket and Rugby World Cups. I used my Aussie rather than my British passport that year! Lance Armstrong triumphs for the first time in the Tour de France, while Manchester United edges out Bayern Munich in arguably the most thrilling European Cup final in Barcelona. The biggest selling single of the year - Britney Spears' Hit Me Baby One More Time. It could be the theme tune for most airline CEOs! And the biggest grossing movies included Shakespeare In Love and Notting Hill.

In the aviation world, TWA – remember them? – had just sealed the biggest aircraft order in its history – for 125 Boeing 717s (remember them?!) and Airbus A320s. And as February 1999 took off, the **oneworld** alliance was born. Which makes this our 18th birthday. You got it – the celebration!



For many of us in this room, I hazard that our 21st was more of a landmark than our 18th, but today, in many countries, reaching the age of 18 means you have achieved maturity. And so it is with **oneworld** – and indeed global airline alliances overall.

When **oneworld's** conception was first announced, at a press conference just across the Thames here in London, its five proud parents – American Airlines, British Airways, Canadian Airlines International, Cathay Pacific and Qantas – were, frankly, privately unsure how long global alliances would be around. But here we are, nearly two decades on... Our purpose is little changed – to add more value for individual airlines and their customers than any single carrier can on its own. More about that shortly...

Like any youngster, our formative years were about growing. We added lots of new members and, like other alliances, lost a few along the way. So, from that initial quintet, our membership has almost tripled, to 14 today. As at the beginning, they include some of the biggest and best names in the industry. Let me remind you briefly of who they are, and what they mean to **oneworld**:

- Your home carrier British Airways – with of course its base here in what remains the world's number one business city.

Its fellow **oneworld** founding airlines:

- American Airlines, after its recent merger with US Airways, the biggest airline in the world's biggest single air travel market, the USA – and of course the largest airline globally.
- Cathay Pacific, the home carrier of Asia's World City, Hong Kong.
- And Qantas – the world's most experienced longhaul carrier, which has undertaken an amazing transformation programme.

Then, in the order in which they joined:

- Finnair – with which you are familiar after hearing from its Pekka Vauramo just a few months ago.
- Iberia – BA's merger partner in IAG and the leading airline between Europe and Latin America.
- LATAM – the leader in Latin America, created through the recent merger of LAN and TAM.
- Japan Airlines – based of course in that other global financial powerhouse Tokyo.
- Royal Jordanian – the leader in the Levant region and the first from the Arab world to find a home in any of the global alliances.
- S7 – widely regarded as the most advanced and customer focused airline in Russia and the Commonwealth of Independent States.
- airberlin, the number two airline in Europe's biggest economy, Germany.
- Malaysia Airlines, who I visited in Kuala Lumpur two weeks ago and was deeply impressed with the work that CEO Peter Bellew and his team have done as they transform the airline.
- Qatar Airways – one of the world's fastest growing and most highly regarded airlines and the only one of the Gulf Big Three to be part of any global alliance.
- And SriLankan Airlines, the first from the Indian sub-continent to join any of the global alliances.

14 high quality carriers, with a combined network focused on connecting the places frequent international travellers most want to visit and it particular the world's leading business cities. In addition, we also have around 30 of what we call affiliate members – generally regional carriers with strong links with our full members – American Eagle, the regional wing of American Airlines, in the USA for instance... British Airways franchisees Comair in Southern Africa and SUN-AIR in Denmark... Cathay Dragon in China.

We are not the biggest global alliance – but we do think we are the best, and our performance in the various industry award schemes seems to support that contention, with more “best airline alliance” trophies on our mantelpiece than the other two alliances combined. Among the key reasons we have achieved this recognition are the quality of the member airlines and their commitment to deliver what **oneworld** promises.

Together as **oneworld**, our members and affiliates can take you to more than a thousand airports in 150 plus countries, served by almost 14,000 departures a day. That’s the equivalent to a **oneworld** flight taking off or landing somewhere around the world every three seconds 24/7. Collectively, they fly around 3,500 aircraft, and, with total orders for another thousand, you can tell they are determined to offer young, modern, efficient and the most environmentally friendly fleets.

In the year **oneworld** was born, our member airlines boarded a total of 175 million customers. That rose to 550 million last year, equivalent to more than the population of the European Union. Many millions of those passengers fly on multi-sector journeys requiring transfers between two or more **oneworld** member airlines – and this is really what **oneworld**, or indeed any global alliance, is all about: connecting airline networks together to make it as smooth and as easy as possible for customers to reach many, many more places than any one airline can offer on its own.

Take BA as an example. It’s one of the world’s leading international airlines, operating to some 250 destinations in 90 or so countries. With its IAG stablemate Iberia, that rises to around 285 destinations in 105 countries. But through **oneworld**, BA can offer its customers travel to more than three times as many places - 1,000 plus, as I’ve mentioned, in total.

And with the world becoming increasingly a global village, many more people these days want, or indeed need, to travel to more places than ever before. Aviation Club members know only too well the regulatory red tape that prevents an airline from operating in any market it may wish to – even if it could afford the investment needed for a fleet to fly a truly global network on its own. So being part of a global alliance is the only way that an airline can offer its customers this kind of truly global network – and avoid losing them to a competitor who can provide that kind of worldwide reach.

That’s why most of the leading network carriers are now part of one of the three global alliances – and why multinational organisations are today so interested in signing travel contracts with alliances rather than with individual airlines. Indeed, all but one of the 20 biggest network airlines flying today are global alliance members. The single exception? A hint. You heard from its CEO at your December lunch – and I worked for him until last year! If you spread the net a little wider and look at the world’s 50 biggest network airlines, you’ll find there are just nine of them currently unaligned.

Which brings me to first question the media usually ask - whether we’ll be adding any new member airlines. Our existing roster provides what I strongly believe is the most attractive global alliance network there is. Although there are a few regions where we are interested in building our presence further, with few of the sort of airlines that **oneworld** has traditionally targeted as potential candidates now available, the scope for adding recruits, along the lines we have done in the past, is limited.

With the global alliances largely mature in terms of membership, the focus is now on delivering more value. Much of that value is from retaining and gaining revenue for our member airlines. The bulk of this incremental revenue flows from alliance interline feed – revenues delivered from one **oneworld** airline to another by those connecting passengers.

In **oneworld's** first year of operation, our member airlines reported combined revenues from their passenger activities just shy of US\$ 39 billion. That has risen by 275 per cent to US\$ 108 billion dollars last year. But those alliance interline revenues have grown twice as fast - up 540 per cent, to US\$ 5.4 billion. And, by the way, if that alliance interline revenue was an airline in its own right, it would be the world's 30 largest. Throughout **oneworld's** lifetime, those alliance interline revenues have totaled some US\$ 50 billion.

Across our member airlines, alliance interline feed now represents 5 per cent of their total passenger revenues – twice the proportion as in **oneworld's** early days – and, by our analysis, a higher proportion than either the other two global alliances achieve. That is a significant contribution in an industry where profit margins are not the greatest – IATA predicts an industry average net margin of only 4.1 per cent in 2017.

...An even more significant contribution, it could be argued, than at apparent initial face value. For one of our bigger member airlines considers every dollar of interline revenue worth another dollar of what it calls "revenue opportunity" – with all that interline feed making more routes, frequencies and overall capacity viable.

There is a strong case too for arguing that this interline feed has helped our member airlines shore up their load factors, by almost 12 percentage points in **oneworld's** lifetime – from an average of 69.9 per cent in 1999 to 81.4 per cent in our latest full year.

And this interline feed it is what the revenue management guys describe as good revenue, too – disproportionately at the high yield end.

If you can stomach more figures... Our member airlines currently account for 18 per cent of the industry's total global capacity. In terms of revenue, they punch above their weight with an almost 20 per cent share. We do even better in what we consider our prime fishing ground - the markets between the world's leading business cities. Here **oneworld** has more than a 26.5 per cent share of air travel spend. Members of the three global alliances together, by the way, now share a more than 75 per cent slice of that particular cake.

So, critically, our scale and presence across leading business travel flows and the quality of our member airlines deliver a market share and yield premium in the crucial segment that we focus on, business travellers who need to utilize multiple airlines.

Which serves as a smooth segway to **oneworld's** customer offering... And time now for some audience participation... If you are a member of any **oneworld** airline's frequent flyer programme – the BA Executive Club, American AAdvantage, or whatever, may I invite you to raise a hand... Thanks... You're in good company. Worldwide, there are more than 175 million cardholders in **oneworld** airline frequent flyer programmes –That's more people than live in the world's eighth most populous country. It's Bangladesh, in case you are interested. Many more people than in countries like Russia, Japan or Germany.

And now please leave your hand raised if you are a TOP TIER cardholder in any of those frequent flyer programmes, what we call in **oneworld** terms Emerald or Sapphire – that’s BA Executive Club Gold or Silver. It seems have quite a few significant **oneworld** customers in this room... So clearly I’m preaching to the converted. On behalf of all of us from **oneworld** and our member airlines in this room, thank you for your loyalty. Hopefully, YOU are fully aware of all the special privileges to which you are entitled when flying with any **oneworld** member airline...

In a nutshell, the benefits that come with their airline frequent flyer programme status are extended to whenever and wherever you fly on whichever **oneworld** member airline throughout the entire **oneworld** global network – reward earn and burn, tier status points, lounge access, priority check-in and boarding, fast track security lanes, additional baggage allowances and so on. For you, as a customer, our aim is to make it as smooth, easy, comfortable and rewarding wherever you fly throughout our global network. For our airlines, the aim is to encourage you to keep your air travel spend within the **oneworld** family.

Now, like anyone celebrating their 18th, this is not just a time for celebration, but also for looking to the future. So what lies ahead for **oneworld**? Some question whether global alliances will be around in another decade from now, whether they will continue to generate value for their member airlines – and it is absolutely right to ask that question. The simple answer is that global alliances need to innovate and adapt if they are to remain relevant. **oneworld** has, of course, innovated and adapted over its 18-year life – but, let’s be frank, to nowhere near the same extent as our member airlines, the industry overall or the marketplace.

Most of our member airlines have undergone fundamental restructuring, some of them in bankruptcy protection. Meantime, we’ve seen consolidation, cross investment and formation of synthetic joint ventures and businesses, aligning economic interests of alliance partners and enabling efficiencies and delivering significant consumer benefits that would otherwise not be possible. Within **oneworld** alone, British Airways has merged with Iberia, American with US Airways, LAN with TAM... Qatar Airways now holds 20 per cent of IAG and 10 per cent of LATAM.

When **oneworld** was created, there was just one joint business in the alliance – between British Airways and Qantas, which I happened to manage at the time... Today, there are more than half a dozen of them in place or pending, covering a variation of nine **oneworld** partners.

I have seen the value build of the various forms of commercial cooperation presented in the pyramid format, similar to “Maslow’s hierarchy of needs” – with these joint business arrangements at the top of the pyramid. But I view it a bit differently. Those cooperation models are operating in an alliance ecosystem. And airlines need to embrace all forms of cooperation, be they interline, code-share, membership of large alliance groupings, JVs or cross equity.

Single carriers simply cannot offer a sufficiently comprehensive network to meet the needs of their customer franchises. JVs tend to be geographically focused, and cross equity partnerships are generally bilateral. Only multilateral alliances are truly global in nature and scope.

Back 20 years ago, the price of air tickets included everything – baggage, in-flight food and drinks, seat selection.... Since then, we’ve seen unbundling and the emergence of ancillary revenues. Digital technology is helping simplify service delivery – and making it more personal.

As our member airlines have adjusted their operating models and removed complexity and cost, some of alliance's original requirements have become more challenging for them to deliver. And a few of our members have taken parts of their business out of their global alliance, launching low-cost, or value-based, subsidiaries – Qantas' Jetstar, JAL's Jetstar Japan, Iberia's Click, now part of IAG stablemate Vueling. But at the same time, our partners continue to invest, in new aircraft and outstanding new products and services, particularly in the premium cabins.

The wider industry too has undergone fundamental changes. Back in 1999, who could have predicted the impact the Gulf carriers would come to have on the industry? Back then, my former employer Emirates was... how can I describe it?... something of a fringe player. Qatar Airways was just a couple of years old, with a fleet of barely more than a couple of aircraft. Etihad was merely a glint in the eyes of the emir of Abu Dhabi. At the budget end of the market, Southwest was the only low cost carrier with much presence. easyJet, Wizz, Air Asia, they didn't exist. Ryanair was in the very early days of its low-cost reincarnation. It didn't even have a website in those days...

But then none of us had smartphones, or tablets. Mark Zuckerberg was still at school, and Twitter was just something our little feathered friends did. None of us could imagine the risks and benefits of the advocacy (or not!) platform that social media provides... It's amazing, when you look back, ladies and gentlemen, the extent to which the world in which we live and do business has changed in such a relatively short period of time...

So, as **oneworld** looks to the future we need to ensure we offer a customer value proposition relevant for the 21st century with simplicity of execution and delivery for our member airlines. For our existing member airlines, our priority is on – let me say it again - identifying how we can add more value. As for customers, the marketplace is becoming increasingly segmented. So we need to consider how we develop alliance propositions that are relevant, attractive and compelling to all these increasing segments.

Our aim, as we look towards our 21st birthday and beyond, is clear - to position **oneworld** as the undisputed alliance leader, offering an unmatched combined network by the best collection of travel providers, delivering magnetic alliance services and benefits to customers and that are simple for our carriers to deliver – while creating incremental value that our member airlines simply do not want to be without. Thank you for your attention.