

## Experiencing Turbulence at New Heights

Once upon a time, there was a little airline. Founded on unbridled entrepreneurial zeal, fueled by economically sound business models and thrust into commercial airline lore via caring, competent and happy people – WestJet’s humble beginnings in 1996 have taxied the company to a staggering third of the Canadian domestic air travel market, and now serves 86 cities in 19 countries with the first flights into Europe set to begin in June 2014, raising inevitable new challenges and opportunities.

### Evolution

Calgary-based WestJet finds itself in 2014 flirting with the very real prospect of fleet expansion into wide-bodied planes, and network growth into major European hubs would appear to be a natural evolution for the company. Indeed, some analysts and investors are probably saying, “what took you so long?”, a question which might in turn be answered by the adage “slowly but surely”. Note the milestones as chronicled in the WestJet Backgrounder; milestones which were only achieved when prevailing environmental forces permitted and when the deep and passionate legion of owner/employees agreed to proceed. Not included on the Backgrounder, due to currency of events, is the launch of WestJet’s regional subsidiary “Encore” and its steadily growing network into small-to-medium Canadian markets. Soon to be added to the list will be WestJet’s first trans-Atlantic flight – Toronto to Dublin (via St. John’s) beginning in June 2014.

### Culture of Care

Some would suggest that the now legendary “WestJet Cares” mantra was easy to execute and communicate when the company consisted of a sparsely populated network of five destinations and 220 employees. Yet how can skeptics argue the ongoing kudos heaped upon a culture which still wins customer service awards despite employing over 9,000, while connecting millions of guests to over 80 destinations in North America, Mexico and the Caribbean? In fact, awards arrive almost as fast as inbound traffic at Pearson International. Here are some highlights:

- 2014 Value Airline of the Year (Air Transport World magazine)
- 2013 Gold Stevie Award Best Transportation Company (American Business Awards)
- 2013 Chairman's Circle Award: WestJet Vacations (CPSC)
- 2013 Canada's Most Preferred Airline (Leger Marketing)
- 2013/2012 Canada's Most Attractive Employer (Randstad)
- 2013 WestJet RBC MasterCard ranked #1 in Canada (Money Sense magazine)

Thus, the fear that global growth and an award-winning service culture are somehow mutually exclusive seems somehow unfounded. At the same time, WestJet employees and leadership alike are no doubt preparing for the challenges of keeping their patience as a virtue, maintain the fun culture and their entrepreneurial lure for adventure at full capacity as the retrofit for international growth commences.

## Lofty Ambition

It is important to note that despite a steadfast grip on a one-aircraft business model (which helped WestJet deliver consistent profitability from day one), global penetration involving bigger, longer-range planes has been on the radar for some time. For years, the corporate vision has been readily available for all to see plainly:

*“By 2016, WestJet will be one of the five most successful international airlines in the world, providing our guests with a friendly caring experience that will change air travel forever.”*

Bold statements like this are not intended to be realized through short haul domestic travel and free snacks. Clearly, the writing has been on the wall almost since WestJet reached the proverbial comfortable cruising altitude, and navigated through the inevitable turbulence of an airline start up. Now, as it inches closer to 2016, which by no mere coincidence marks its 20<sup>th</sup> anniversary, WestJet seems ready to pursue international business as well. As President/CEO Gregg Saretsky more diplomatically puts it, Canada “deserves” two national carriers.

Barely one year ago WestJet executives were reserved regarding the question of international expansion. They found themselves downplaying the prospect of an expansion into long-haul travel, particularly in light of their then yet-to-be-launched short haul carrier, Encore - the latter of which came with a 20 plane purchase commitment to Bombardier for smaller turbo-prop planes. That said, leaders such as Executive VP Sales, Marketing and Guest Experience Bob Cummings couldn't resist musing on the prospect of global markets. “The intoxicating growth of China, India, and parts of South America certainly create grounds for discussion at some point.”

The January 2014 announcement of WestJet's foray into Europe was only surprising in that it was going to happen onboard the medium-haul Boeing 737 workhorse – a narrow-body craft not typically associated with trans-Atlantic travel. The rest of the decision, however, was somewhat academic, considering that it had been establishing international relationships and gaining valuable intelligence through a strategically designed set of code share and interline agreements with several well established international airlines including Hong Kong-based Cathay Pacific and the legendary British Airways. These agreements were seeding the skies for what could one day become WestJet airspace as well. By the end of 2013, WestJet had inked over 30 such partnerships – each in its own way adding as much to the airline's knowledge capital as to its financial bottom line.

Not to be lost in the mixed euphoria of taking on the world, WestJet currently operates a perfectly profitable airline, with financial commitment to growth at home in Canada. And don't look now, but just as WestJet aggressively pushes Encore eastward, Toronto upstart Porter Airlines has promised to defiantly head west in an apparent competitive collision course with WestJet. Somewhat significantly, Porter has already outlived the handful of wide-eyed airlines which once upon a time claimed primed to cut WestJet out of the picture. While they failed, Porter has survived, armed, ironically enough, with some best practices borrowed from the WestJet instruction manual. So how does WestJet allocate required resources to take care of business in its own backyard, while charting its course around the rest of the planet?

## Next Steps

CEO Gregg Saretsky contends Ireland is neither an experiment nor a competitive play. It marks, in his words, “a new chapter” which will see the leap to wide body planes and global network expansion. In a year-end interview with the Calgary Herald, Saretsky was in blue-sky thinking mode, with the world as WestJet’s oyster. “Not just to Europe, but I think once you make the investment in that aircraft, you can go to Asia, you can go to South America, you can go to a lot of places.” In the same breath, however, he remarked upon the enormity of reaching that objective, while estimating the timeline to be within 5 years. “What I’ll say is,” he concluded, “airlines get in trouble when they grow too fast, or try to do things that are really a leap of faith without really understanding what they’re getting into.”

So what is WestJet really getting into? The following is a non-exhaustive list of factors that WestJet’s leaders are potentially plotting on a SWOT chart.

1. WestJet will surpass the 10,000-employee milestone in 2014.
2. Unionization, something the WestJet culture has proudly avoided, is a potential threat through movements organized by some pilots and flight attendants.
3. The long-haul international market (accessible only with wide body planes) is valued at \$10B.
4. Competition is fierce. Air Canada currently accounts for 33% of aircraft seats leaving Canada, compared to WestJet’s 14% which is entirely deployed to American, Caribbean and Mexican destinations. The remaining market is allocated amongst everything from charter/tour packages to global giants such as US based United, Delta and American.
5. Aircraft prices. The following table, obtained from Boeing.com itemizes its “price list” for wide body aircrafts ranging from the 767’s to the 787 (aka Dreamliner).

<b>767 Family</b>	<b>Price (in millions)</b>
767-300ER	185.8
<b>777 Family</b>	
777-200ER	261.5
777-200LR	296.0
777-300ER	320.2
<b>787 Family</b>	
787-8	211.8
787-9	249.5
787-10	288.7

(Source: www.boeing.com)

6. Additional variable costs: airport landing fees, tariffs, security etc.
7. Regulations: international air transport association (IATA) regulations, local and federal aviation regulations.
8. Economic fluctuations resulting from Canada’s volatile energy sector and its unstable currency.
9. The roll out of Encore continues eastward, expanding its network and moving a respectable number of guests almost effortlessly.
10. Cost-cutting of \$100M was announced in 2013, to be delivered by year-end 2014 – a trajectory the airline says it is on pace to meet, if not exceed.

With 18 years of transporting millions of travelers over countless miles, WestJet has no doubt accumulated the industry experience required to take the necessary logistical steps. Moreover, financing the acquisition of these costly, wide body planes would also be within the grasp of a firm with exceptional cash reserves,

steady share-value growth and impeccable credit – all of which provide a plethora of sound payment options. Finally, even when accounting for all the barriers associated with international expansion, the risks seem buffeted by the ROI evident in a market currently producing in excess of \$10B annually, and facing future growth. In fact, of all the potential challenges standing in the way of WestJet's successful penetration of brave new worlds, the "people" issue is perhaps the most concerning.

## Can Owners Continue to Care?

Since its inception, WestJet employees (known as WestJetters) have been the lifeblood of the brand. Business efficiencies may have delivered profitable results, but the culture of care delivered the travel experience guests loved – and were in turn motivated to spread positive word of mouth.

As each new plane was christened, each new destination added to the network and as landmark milestones such as its IPO, launch of WestJet Vacations and Encore were added to the growing legend, (which the 2012 annual report appropriately labeled "Building Momentum"), hundreds of new employees were being brought in. And nothing indicated the commitment to the brand more than the new hires' 85% buy-in to the WestJet stock option package. There was seemingly no disenchantment, no disillusion. Happiness was as palpable as the envelopes personally handed to each owner during the company's annual profit-sharing parties. And yet...

The cost of growth is often well-hidden. Masked by the glow of success, it lurks behind the financial metrics which otherwise demonstrate productivity, efficiency and most important – profitability. How many times have we, as individuals, consciously or otherwise, chosen to ignore a lurking issue when all other indicators are positive? Even the most successful organizations are prone to such hidden costs - hiding in hallways and parking lots, percolating in coffee line ups.

But if ignorance is toxic, admission is the tonic. And for their part, Saretsky and his team will not pretend issues do not exist.

"If there was one thing that's been a bit of a surprise this year, it's that the pace of change has brought with it a certain amount of anxiety for people," he said in the Calgary Herald interview. "I think as a leadership group, we need to make sure that people feel we're really looking out for them, that we're really taking care of them. ... The business model may have morphed and there's some anxiety, but at the end of the day our job is still to deliver the best product to our guests, and we can only do that when our people feel like we've got their backs."

But how do you cover the backs of 10,000 employees? Certainly, the larger an organization gets the more challenging it is to keep them connected. As available economics of scale force the airline to make radical changes such as reducing the crew-to-passenger ratio and geographically segmenting employees into "crew bases" located in Vancouver and Toronto (removed from Calgary headquarters), change and physical disconnects can be breeding grounds for rumour and negativity.

And then there's the "u" word. A small group of WestJet pilots, calling themselves the WestJet Professional Pilots Association featured an open letter to WestJet pilots on a recently established website, published in the first quarter of 2014. The following is the opening paragraph of that letter:

*Our airline is undergoing immense change. These changes are exciting and ultimately good for our long term futures. No employee group has more to lose if WestJet does not succeed. It is important to understand that the people whose names you see on the list below (and several others), have volunteered their time and efforts because they believe the evolution of our representational structure is a critical step we must now take to ensure the long term success of our airline and our careers.*

While the sentiment can hardly be described as hostile (and even hints at collaboration), it illuminates a line in the sand which appears to be forming between the organization and one of its more high profile employee groups. Saretsky surmises that the anxiety in this and other pockets of the growing employee base is a direct and perhaps necessary evil of growth.

## The Challenge

Over the last 18 years WestJet's growth pattern has been like a series of well-planned point-to-point flight paths; calculated, methodical and cautious. WestJet's stated vision of being "one of the five most successful airlines in the world" requires transformative, rather than incremental, change.

WestJet has said on record, in no uncertain terms, that it will make this change by expanding into international markets. The grassroots growth strategy with Encore is almost one year in and rapidly moving along on schedule. But while Fort St. John, Brandon, Thunder Bay and dozens of new Canadian markets become woven into the WestJet route map, the colossal opportunity (and risk) of Europe, Asia, and South America wait in the wings.

How does WestJet hold on to the corporate culture, which made it an aviation industry rock star, media darling and Canadian aerospace game-changer? Can it endure the growing pains, and how should WestJet leadership effectively communicate their growth plan to their internal stakeholders?

The unique in-flight experience is WestJet's competitive advantage, and is entirely dependent on a happy, confident workforce. How can WestJet maintain a high-performance level of employee engagement, and produce the same in flight guest experience whether jetting to London, Ontario or to London, England?

The five year window has opened, and how WestJet navigates through some expected turbulence ahead will rely on leadership "having the backs" of all WestJetters, and WestJetters caring enough to believe this is so.