



Photo: Alexei Kudikov

“Customer management is the direction in which we can compete”

Ilya Aleksandrovsky, Director, S7, describes how his airline is playing to its strengths

How does the concept of customer management fit in to the development plans of S7?

We have named this year the “year of the customer”, and we have turned our attention to that, rather than concentrating on mergers, alliances or acquiring aircraft.

We have to understand how we differ from our competitors. At the moment, all the airlines in Russia are doing the same thing – importing aircraft, opening new routes. We cannot compete on price, because we don’t have a 300m royalty or an artificial monopoly. We only have our brains – and the only way that we can differentiate ourselves is in terms of making the customer feel better when they use our services, than when they use the services of our competitors. We are living in a world of commodities, which all do more or less the same thing. We are convinced that customer management is the direction in which we can compete.

Do you compete with Aeroflot on domestic routes?

Yes, Aeroflot is our main competitor on domestic routes.

Is the competition fair?

It is difficult to comment, but there are several things that make this competition unfair.

The industry is globally unfair, as there are several things which Aeroflot is allowed to do and which we are not. This is a fact that we cannot change in the coming three to five years.

For example, Aeroflot receives royalties from foreign airlines. However, maybe this will stop, because it is a condition of Russia joining the WTO and there is now a strong incentive to move on this.

Also, you have to understand that Aeroflot is under the protection of very biased air transport agreements between

countries. They imply that only Aeroflot can fly on certain routes, that they can have more frequencies than other airlines. So, for example, we cannot fly from Moscow to London because of international agreements.

These agreements are very protective, and that is one of Aeroflot’s main assets.

S7 is the first Russian airline to use online booking. Why have you decided to innovate with this?

I believe that we should adapt to customers. There are a lot of customers who we think are ready to buy online, but they are not being offered this service. Therefore, we are creating a new segment of distribution. It is important to be the first.

The second reason for this move is cost savings – online booking is a direct channel, so it means that we don’t pay commission, which in Russia still costs about 6% of revenues.

The third reason is that it is a very significant way to attract customers from around the world. If you live in Canada, how can you buy a ticket to Irkutsk? We believe that it will bring new passengers to the airline.

Direct technologies are the way of the future and the sales agents will stop charging the airlines, and charge the passengers instead.

What are the levels of internet use in Russia today?

It differs sharply. Some people say that online usage stops at the Moscow ring-road! Big cities have 40-60% of citizens using the internet, and the new generation are all internet users. For them is like using a knife and fork. In the regional cities, it gets worse and worse. There is no broadband and in some cities there is only one provider, who charges incredible amounts.

What are the objectives of S7’s shareholders?

We are interested in expanding internationally, but as I explained, we are dependent on the government, the EU and so on to change international agreements. We have little influence over those obstacles, so we have to be ready to use any chance if it presents itself.

In the meantime, we are expanding internally, opening domestic routes. We are buying better planes and selling off Russian ones because of their poor fuel consumption. We take Airbus 310s and Boeing 737s.

Why did you change the name of the airline?

Siberia has a strong regional association, but in fact 80% of our traffic goes from Moscow. Secondly, with the re-branding we tried to be brighter. Also, you cannot register Siberia as a trademark – there is a hockey team, a construction company, and an oil company, all called Siberia. S7 is our IATA code.

At the same time, we reorganised the company to make it more effective, and split it into seven groups – including technical services, ticket sales, tour products and so on.

This should make the company more stable, transparent, and manageable. We try to outsource as much as possible and move on the front line of modern business methods. To have all these operations in one company is very difficult and hard to measure. S7 is the head office for the group. To survive and develop we have two methods – cost reduction and customer service. Everything else, buying new aircraft, selling aircraft is technical.

We think that we will continue to grow and that the management will allow us to withstand difficult times. 