

“We are undergoing a very serious, radical change of the entire business model of the company”



Valery Okulov, General Director, Aeroflot describes the ongoing transformation from a production company to a service company

What are the challenges of running a company which has one foot in the state sector and one in the private sector?

This business now is living through very hard times. But the more complex the situation, the more it is of interest to the international community. Our business is operating in a rather shifty environment. To be successful, one has to adjust quickly to the situation. That is why we are undergoing a very serious, radical change. I mean a radical change of the entire business model of the company. Previously, Aeroflot was not a commercial entity at all. And in order to become commercial, we had to radically change the model and flights. Then we had to undergo a rather painful change in the management system. We had to get rid of some of Aeroflot's traditional routes. We also focused Aeroflot on the internal market – on the former Soviet Union countries. Just two years ago, we had only two flights to St Petersburg, now we have about 25. Our internal routes are our first priority. That is the reason why we have two grades – we

would like to have two complementary schemes, one international, and one domestic. Now, in the situation of soaring fuel prices, we have to have a fleet which is less energy dependent. That is one of our priorities.

In order to ensure stable flights between Europe and the Far East, we have to set up a very good hub at Sheremetyevo.

That is why there is the project for a new terminal at Sheremetyevo – which will combine domestic and international flights.

In order to be attractive to the passengers, we are re-branding the Aeroflot brand and we aim to change, positively, the Aeroflot image. It is a very serious undertaking. It has been going on for two years already.

We now have a new product for mid- and long-range routes. It is based on three values: ‘from Russia’, ‘Russian hospitality’ and ‘reliability’. All these three values are equal – there is no number one value. Also, there are new uniforms for the attendants, a new menu, new chairs and a renewed air

fleet. The most serious challenge, which is quite hidden, is to transform Aeroflot from a production company to a service company with a focus on people.

Have you learned from other international airlines?

Of course, we carefully watch our colleagues and competitors. The most dramatic experience which I have seen was the PanAm story. Like Aeroflot, at one time, it was focused entirely on international business. The crisis in international flights brought about the end of the company. That influenced me when we decided to move towards domestic flights – so that we could have two feet: one in the international business, one in the domestic business. We learned a lot from Quantas in terms of security and reliability of the flights. Asian experiences are also very important for organising the service for the passengers – Singapore Airlines, and Emirates in particular. We are also watching carefully the low-cost airline experience. But this experience is well known to the big Soviet Aeroflot – because it was one big budget airline!

How does the business break down in terms of profits and revenues between domestic and international flights?

Over 80% are international revenues. The share of domestic revenues is going up gradually. Our plan is to have 30% from domestic sales by 2010.

How do you overcome initial negative perceptions about Aeroflot to get passengers on to the flights?

We have to use various channels of communication to bring this idea to the people. First, we have to demonstrate the positive changes and the results of the changes which we have made in previous years. Last year we had a rather aggressive advertising campaign. This year, we have less money for advertising. But this is not the most effective channel of communication. All the means that we deploy, the re-branding etc, are all vehicles to bring the information to the people. I think that we have found a very good slogan for the people: 'sincerely yours'. In Russian, this has a very good connotation in the national tradition. It is very interesting that the idea was put forward not by our market experts, but by questions asked of our employees and passengers.

Are there plans to expand on the number of Airbuses and Boeings? Or will you keep a large number of Russian planes?

There is no alternative to the modern western made aircraft at the moment. The winner will be the company that can switch quickly to a new, energy saving fleet. All companies, even if the economic situation is very serious and money is tight, will try to modernise their fleets as quickly as possible.

How many planes can you replace each year?

About 12 – that is our plan.

As a semi-nationalised industry, is there pressure to keep open unprofitable routes?

This is not exactly the case. Our short range routes are in fact helping the long range routes. We get a number of transit passengers. Our model envisages not only bringing people to Moscow, but a focus on transit. As to the government has a majority share in the company, I should say that investors and banks consider it an advantage. Because this an

additional guarantee of financial stability. In our leasing contracts, with our loan agreements, there is a clause which says that if the relationship with the government changes, this could be a cause to review the contract.

How important are your Moscow-London routes?

There is obviously a shortage in our flights to London. At the moment we have 17 a week, which is short of what we would like. This is not just because of the number of Russians travelling; it is a fact of life that London is the business capital of the world. Quite a number of meetings and conferences, including those focused on aviation, are being held in London. And, if a meeting is held in London, I know it is important.

We, at Aeroflot, have a unique security product: it is a bio detector for finding explosives and drugs. We produced a unique breed of husky and jackal

Will there be a time when Aeroflot will be wholly privately owned?

There are no such plans at the moment. I think that in the short to mid term, there will be nothing done about this. The most important issue is not privatisation but the most efficient use of the government share. I think that the French government used its share very effectively, especially when they bought KLM. The share of the French government in Air-France was reduced from 57% to 40%, and they used the proceeds to buy KLM. After the deal, the value of the 40% became more than the 57% because of the increasing capitalisation.

What oil price are you using to base your model for next year?

It is a crazy situation. In our economic model we see the rise of fuel prices by

16%. But it is quite difficult to make a reliable forecast because all the experts produce different figures. There is one sure thing: the prices are not going to go down.

National Reserve Corporation owns part of Aeroflot. It has been a dream of Alexander Lebedev to revive the aircraft manufacturing industry in Russia. Is this possible?

We shall not try and proceed in this business. We shall proceed with our hard, complex job and the plans of building a joint aircraft corporation are good. This corporation and aircraft building in general are aiming at two areas: First of all the production of a competitive aircraft for the international market. This is our chief project which is a regional aircraft. Then there will be joint cooperation with the producers in the area where we can not put forward something competitive.

Have you had to implement extra security measures in the last couple of years? How has this impacted on costs?

Traditionally, our security measures were tighter than in the United States prior to September 11. Our doors to the cabins have always been steel. The security checks have become more serious and detailed. This produced an effect on the costs of the company. First of all, this was related to increasing the staff. Then we had to organise additional training. As for additional security equipment, it is bought by the airports and it doesn't effect our costs.

At Aeroflot, we have a unique security product: it is a bio detector for finding explosives and drugs. In the '90s we produced a unique breed of husky and jackal. Later the government stopped providing funds to the laboratory, so we took it under our wing. The results are amazing. The sensitivity of these dogs is much higher than any other breed. At the moment there is no device, which can detect plastic explosives, but these dogs can. The only shortcoming is that they can't work around the clock – they have to have a rest after two hours.

Have you introduced them to other airlines?

There is a huge lobby in the world which is pushing for very expensive, cumbersome, detectors and they block the way to other technology. 