



INTER OFFICE MEMO

FILE:
TO: Manager, Market Research and Product Development
FROM: Marketing Research Manager
DATE: February 21, 1984
SUBJECT: PWA and Deregulation

INTRODUCTION

The purpose of this study is to identify some of the major areas to be addressed by PWA in order to face a situation of deregulated environment and survive through it.

These suggestions have been put together on the basis of research into studies made in the U.S.A. and Canada after the U.S. Deregulation Act of 1978 was implemented.

THE PROBLEM DEFINED

The major danger for us under deregulation is the free-for-all entry into the air transportation market. We, as PWA, shall have to contend with the major carriers, the third level carriers, the eventual new entrants and any coalition arising between various levels of carriers.

The key to survival in such an environment is to be ready with contingency plans based on a philosophy of quick and flexible response before the "deregulation act" is legislated.

EXPECTED REACTIONS

- a) Air Canada will be basically against deregulation but will have to readjust in order to survive especially if it loses part or all of the protection it enjoys under the federal umbrella.
- b) C.P. will try to invade the regional feeder markets to compete with A.C. as well as ourselves (I suspect Dan Colussy to follow his same policy at PA, namely match feeder routes with international routes to feed traffic in both directions).
- c) Wardair is prisoner of its large aircraft. All it can do under such circumstances to fill its aircraft is to compete heads on with AC and CP on the transcon market. It may face severe undercutting from AC and CP on the transatlantic market, as has happened to Laker Airways from other deregulated scheds on the same route.
- d) The ABC charters could disappear because of undercutting by the scheds but the ITC's will probably survive.

- e) Regional carriers and new entrants will respond and fare better in terms of ROI than the majors. But again here there will be one battle for the survival of the fittest and another among the majors trying to control the minors as a result of what they have learned from the U.S. experience.
- f) PWA may be getting more competition from the third level carriers than from the majors. The latter are already in a dominating position in the major markets. In most of our smaller markets we will probably face pack-of-wolves style attacks. These "wolves" will consist of a combination of independent third level carriers, third level carriers allied with major carriers and new entrants.
- g) The new entrants, with no structural costs will compete aggressively for price sensitive customers in dense markets and corridors.

PWA'S STRATEGIC RESPONSE

NOW

- a) Discuss the effects of deregulation on PWA and the eventual consequences with senior unions officials.
- b) Survey the availability of pilots, aircraft mechanics and other key operations personnel on the market (military and private) to face any future developments on this front.
- c) Prepare a contingency advertising campaign aimed at stifling any perception on the part of our passengers that increased competition between airlines will result in "cutting corners" in maintenance.
- d) Prepare for expected airport congestion in terms of gate allocations resulting from the increased number of carriers using the airports.

THE ROLE OF MARKETING

1. Under deregulation, marketing departments become the major players and the flexibility of their actions and reactions will act as a rudder.
2. Keep cool, level headed and avoid becoming a new routes Pacman.

PROTECTIVE TACTICS

It was noticed in the U.S.A. that, after deregulation, airlines serving secondary cities have generally been more profitable than those serving uniquely high load, long haul routes between major cities.

Therefore, and since we do fall in this category in most of our network, our first line of action should be to defend ourselves through adoption of the following measures among others:

- a) Establish pooling agreements with Time Air and other selected third level carriers operating within our network.
- b) Support Time Air's eventual bid to acquire additional equipment.
- c) Design our major terminals in such a way that it is cumbersome for passengers to transfer to other airlines that offer the same service ("Once you've got them, keep them").
- d) Every possible effort must be made to interconnect and crossfeed the system through proper scheduling.
- e) If we decide to withdraw from a market that may still have future potential, we must make sure that we put an "ally", otherwise our competitors will be given a greater opportunity to expand in our own backyard.

OFFENSIVE TACTICS

- a) Prepare a contingent of stations we may want to serve and a fall back plan in case actual passenger and revenue levels do not match our forecasts.
- b) Prepare blueprints for extending the B767 routes within Canada, and probably on charters to Europe, when the aircraft is type certificated for cross atlantic flight.
- c) Introduce a variation of BAT on routes with heavy competition.
- d) Enter into pooling and interline agreements with foreign carriers.
- e) Franchise PWA in other areas of Western Canada either to existing third level carriers or by helping new entrants with technical expertise, management and integrate their system with ours (i.e. their aircraft will carry our name and liveries).
- f) Introduce a frequent flyer program.
- g) Play a dual role within our geographic area, one as a major carrier vis a vis third level carriers by extending our wings over them, the other as a small carrier by allying ourselves with the major carriers.

LABOUR RELATIONS

- a) Deregulated industries must make it clear to the Government of Canada that while it deregulates the industry, it must re-regulate labour relations at the same time to ensure a reasonable working environment and avoid labour-management unrest.
- b) The government must leave to management some prerogative in managing its own employees according to its needs.
- c) Contrary to all practices, in times of financial hardships it would be better to leave salaries as they are but increase labour productivity by rotating employees according to needs.
- d) Identify employees who are "idea generators" and put them at the task of developing ideas, and those who are "idea sorters" and let them study the business potential of the ideas generated by the first group. This is to be done within each department, with the aim of keeping the initiative and flexible response in a deregulated environment.

FINANCIAL QUESTIONS

- a) Due to the increased risk of destabilization of the air transport industry in a deregulated environment, access to capital will be difficult and expensive. Therefore, PWA may want to raise income capital funds which will be unobtainable for many years to come.
- b) A continuous system for analyzing the cost structure of each route must be put in place to enable us to monitor the performance of every route on an ongoing basis and plan our marketing moves accordingly.

MISCELLANEOUS

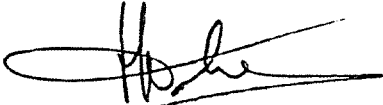
- a) Keep watching the developments of the XD-YC rapid train ideas with the intent of joint venturing in the project along the lines of the Lufthansa and German Rail line between Düsseldorf and Frankfurt.
- b) Monitor the government's intention vis a vis air service north of 60° N.
- c) PR must constantly maintain PW's name in Canadian and U.S. Trade publication (not just advertising) and constantly project the image of a safe, friendly and efficient airline.
- d) Automatic pricing and scheduling operations.
- e) Enhance market intelligence.
- f) Quality Assurance becomes a continuous process.

Manager, Market Research and Product Development
February 21, 1984
Page Five

POSTSCRIPT

Herewith attached is an analysis of passenger and cargo volumes and revenues by station and city pair. The analysis was performed by descending order of rank in order to facilitate our market consolidation as well as entry and exit.

A second study will be released at a later date aimed at identifying third level carriers operating within our network.

A handwritten signature in black ink, appearing to read 'H. Eltaher', with a long horizontal flourish extending to the right.

H. Eltaher

HE/sv
C2/04SV/N

Encl.