

Cathay Pacific Airways– The value of company image in tough times

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Cathay Pacific successfully retained the flag-carrier status in Hong Kong, the Special Administrative Region of China, after the British government handed over Hong Kong to the Beijing government in July 1997. Then Cathay Pacific aggressively capitalized on emerging opportunities in the regional and globally.

According to Mr. Alan Wong, the company's General Manager of Corporate Communication, one major opportunity is to initiate some direct flights from/to mainland China to/from various cities globally and/or some international flights stopping over Hong Kong,.

The airline's renowned safety records and quality cabin service compare favourably with those of mainland airlines. Maintain and improving upon these records will help to secure Cathay Pacific's status as Hong Kong's flag carrier.

However, the road to business success is seldom straightforward. Airlines all over the world have faced a challenging business environment. Cathay Pacific has managed to ride out the storm, substantially attributable to its well-built brand name that is proven to be an invaluable intangible asset facilitating effective crisis management.

Blockage to continual success

When the industry signaled its downturn, before the middle of 2001 pursuant to a slow economy triggered by the financial turmoil beginning in 1997, the shrewd pilots of the Cathay Pacific intended to exploit the situation to demand substantial pay rise.

The pilots' August 2001 roster listed 26 cancelled return flights a week, more than nine times as many as June. In July 2001, Cathay Pacific had again been plagued by an industrial action of the pilots that cost the airline \$350 million. An industrial recruitment ban has since been instituted by International Federation of Airline Pilots through its 95 member associations, representing more than 100,000 pilots, on taking jobs with Cathay or helping train pilots for the airline.

Yet bad news seldom came alone. The global industry downturn was further hit by a disastrous blow on September 11 – the tragedy of Al Keda conspirators plunging

two aeroplanes into the two blocks of World Trade Center in New York. A serious drop in air traveling followed for a period of time. A number of airlines ran into over-capacity problems or even financial difficulties. Cathay Pacific in October 2001 only had a passenger load of 64.5%, substantially below the airline's break-even 72%. Simultaneously, Cathay Pacific was at the time one of only three airlines in the world that did not receive any form of insurance or subsidy support from the government, whereas the other airline competitors received billions of dollars of subsidy from the government. Cathay Pacific anticipated annual revenue from passenger business amounting to that of 1992 even though the number of aeroplanes increased from the then 45 to 67 in 2002.

Above average remuneration package for quite some time

It was under such adversary conditions that Mr. Tony Tyler, Cathay's director of corporate development said on May 10, 2002 that the company was confident in its legal position regarding the sacking of 50 pilots, and the airline did not expect difficulty in its plan to hire 60 overseas pilots by the end of 2002 despite the industrial recruitment ban. "... because the terms and conditions our airline offers to pilots are generally better than those of other airlines. Moreover, the industrial action had been founded on unreasonable grounds: pilots demanding a rise of 20% to 30% in remuneration, whilst most other jobs scarcely attained a salary increase of 2% to 3%," said Mr. Alan Wong, General Manager Corporate Communication in June.

Existing company image revealed one way out

As regards the psychological barrier since the September 11 tragedy, Cathay Pacific saw one way out as to fall back on its company image, resorting to the public's confidence in the airline. Aggressive promotional flights reminded the public of the pleasant flight experience bringing time-saving, punctuality benefits. Specifically, the airline launched a series of activities to increase the frequency of passengers taking Cathay Pacific's international flights, enjoying its quality service at the same time. The publicity so built up enabled the airline to be voted the third year Asia's best airline in April 2002 in a magazine's SuperBrands 2002 Survey. SuperBrand winners are selected in a region-wide poll of the magazine's subscribers.

The backdrop to the series of activities was the airline's well received regional growth strategy campaigned under a "Heart of Asia" slogan, and the strategic alliance started with her leading role in OneWorld, the global alliance founded among national airlines such as British Airways, Qantas, American Airline since 1999. The rapid increase to eight allies in the subsequent three years' time has further secured Oneworld's global posture, broadening the public readiness to buy into Cathay

Pacific's marketing efforts since late 2001 backed up by her well received company image.

Overcoming psychological barrier by reviving passenger ridership

Passenger ridership should not decrease – commercial activities have for some years been becoming more globalized. Increasing international business activities means increasing need for across-the-country border business trips, by land, sea, and/or air wherever great distance is in question. Growing affluence in developed or developing countries has fueled tourism for some periods. The industry slow down since early 2001 could attribute to cyclical economic factors. After September 11, an psychological factor added to the barrier. Regular booster flights can be one remedy – personal feel of safety, comfort and sense of attained economy might overcome psychological barrier arising from fear caused by very remote but real chance of repeated terrorism.

Marketing strategies to rebuild the momentum to travel again

For this purpose, Cathay Pacific launched on January 25, 2002 “The World’s Biggest Welcome” campaign to boost tourism that would involve all Hong Kong residents. Ticket winners were determined in a free-to-enter lucky draw in which all Hong Kong ID cardholders over the age of 18 could take part. On February 6 Cathay Pacific sifted through more than one million entry forms to draw the final 9,891 winners in “The World’s Biggest Welcome” lucky draw. 10,000 free return inbound tickets from Cathay Pacific were granted to winners to invite their nominee to visit, 2,000 from North America, 2,000 from Europe, 1,500 from Australia/New Zealand & South Africa, and 4,500 from Asia and Middle East. This effected a boost to the tourism industry by bringing ‘together far-flung family and friends’ amidst hard times since last year. The target is to create satisfaction to potential passengers amidst a difficult time. When words of mouth testify experienced satisfaction, the crisis will have been turned into an opportunity as other airlines are still struggling to survive the crisis.

Benefiting from continual public image-building sponsorship

Prior to “Biggest Welcome” campaign, the company continued in mid-January to be the title sponsor for 2002’s *Cathay Pacific International Chinese New Year Parade*, being the fifth consecutive annual parade’s title sponsor. Such image building events, together with other similar publicity-building efforts such as being the title sponsor for the Hong Kong season of the award-winning stage musical *Miss Saigon*, being the official carrier for the Hong Kong Philharmonic Orchestra, and being a co-title

sponsor for the annual Hong Kong Cricket Sixes, have helped strengthen the company image by means of publicized social commitments.

Commitment to social responsibility

Apart from conscious efforts to strengthen the company image, Cathay Pacific takes the opportunity of its own early recovery to publicize in May 2002 creating 1,300 new jobs including 1,000 cabin crew, 235 pilots and about 60 ground employees in the next two years. Offering jobs at a time badly needed in the community further adds to a socially responsible company image. The better than expected outcome of crisis management “activities” has proven an effective strategy to prepare a company for a testing time.

Leading position in industry recovery

Cathay Pacific notes itself to be on the leading edge of industry recovery: The airline carried 972,925 passengers and 66,430 tonnes of cargo in May 2002, up 2.1% and 21.0% respectively from the same month last year.*

American Airlines in the first quarter of 2002 largely contributed to the net loss of \$548 million (c.f. net loss of \$43 million in 2001) of its parent company AMR Corporation. During the same period, United Airlines largely contributed to a net loss of \$510 million (c.f. net loss of \$313 million in 2001) of UAL Corporation, its holding company.

Singapore Airlines reported a 61% drop in net profit for the year ended March 2002. Both its passenger and cargo business have been poorer.

*See “Cathay Pacific releases May traffic figures” dated June 17, 2002, “Press Room”, www.cathaypacific.com as of June 30, 2002 at 6:00 p.m.