

WESTJET

Company Synopsis



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INTRODUCTION

Background and History

WestJet is an airline that was founded in 1996 with the purpose of providing a discount airline that still provided excellent customer serviceⁱ. In an interview with CBC, Clive Beddoe (a co-founder of WestJet) discussed that the goal was to have a culture of participation and commitment in order to breed the type of experience he wanted WestJet customers to partake inⁱⁱ. The overarching philosophy behind the brand is “just because you pay less for your flight, does not mean you should get less”ⁱⁱⁱ. This innovative view of what an airline could be has made WestJet into a brand that is widely recognised for its superior customer service.

Just three years after being founded, WestJet held its initial public offering of 2.5 million common shares and continued to add more common shares throughout the years^{iv}. In addition to its well-received issuing of shares, WestJet was appointed one of Canada’s Top 100 Employers in 2002, and received awards for being Canada’s most admired corporate culture for five years in a row - 2005-2009. In 2004, WestJet launched flight services to the United States and later, to the Caribbean^v. In order to provide customers with more options for travel, they began signing agreements with other airlines in 2010. In the same year, WestJet was inducted into the corporate culture hall of fame for achieving Canada’s most admired corporate culture during this long stretch of awards^{vi}.

WestJet has proven its dedication to its customers repeatedly as exemplified by the numerous awards it has received over the years. In 2010, it received first place for Staff Service Excellence in North America^{vii}. In addition, WestJet continues to extend its caring culture into communities through its community investment programs, “WestJet Cares for Kids” and “WestJetters Caring for Our Community”^{viii}.

WestJet’s Vision and Mission

WestJet aims to expand its philosophy of offering superior services at affordable prices and making passengers’ flying experience fun and enjoyable to customers around the world. WestJet also

strives to promote its caring culture to its stakeholders through strategic partnerships, employee empowerment, community and environmental involvement.

These goals and objectives support WestJet's vision "to become one of the five most successful international airlines in the world by 2016, providing guests with a friendly and caring experience that will change air travel forever"^{ix}. WestJet models the success of its company under four areas: people and culture, guest experience, revenue and growth, and costs.

CURRENT SITUATION

Product and Service Offerings

During the year of 2012, WestJet added ten new destinations to its repertoire and signed 17 more partnership agreements with airlines from around the world^x. As a result, WestJet currently offers over 80 destinations across North America, Mexico and the Caribbean. WestJet operates three types of aircrafts, Boeing Next-Generation 737-600, 737-700, and 737- 800, each with guest capacities of 119, 136, and 166 respectively^{xi}. Various ancillary services aboard these aircrafts include pre-reserved seating, inflight meals and drinks, as well as inflight entertainment. WestJet also provides travel packages through "WestJet Vacations", a program that was launched in 2006.

In addition to WestJet's reward program, the company also introduced a frequent flyer program partnership with American Airlines, allowing WestJet passengers with reward memberships to earn WestJet Dollars when they travel via American Airlines or any of its affiliates^{xii}. WestJet is also set to launch a new regional airline, WestJet Encore, in mid-2013 to serve smaller communities^{xiii}. Bombardier's Q400 NextGen turboprop, with a guest capacity of 78, will be used to support this new service^{xiv}.

Recent Accomplishments

In 2011, WestJet was appointed as J.D Power Customer Service Champion and ranked 3rd on Aon Hewitt's Best Employers in Canada. In 2012, WestJet was named as Canada's preferred airline by

TNS Canada and was ranked as one of Canada’s Top 100 Employers by Mediacorp^{xv}. Finally, on an environmental note, WestJet achieved gold certification under the Leadership in Energy and Environmental (LEED) program^{xvi}.

WestJet has successfully ignited a highly engaged corporate culture among its employees. Approximately 85% of eligible employees own shares in WestJet through the company’s employee share purchase plan, demonstrating their personal commitment to the company and its growth^{xvii}. The widely publicized slogan of “Owners Care” is truly an accurate depiction of how employees feel about their company.

Financial Performance

WestJet’s strong corporate culture and customer care focus has been rewarded with strong growth, profitability, and financial stability over the years. For the financial year-end of 2012 (see Table 1), WestJet’s revenue increased by 11.6%, from \$3,071.5 million to \$3,427.4 million. Further, the company’s net income exceeded the previous years by 39%, earning \$242.4 million. WestJet is also well equipped to meet current financial obligations, holding \$1,408 million in cash with a current ratio of 1.38.

Table 1: WestJet Financial Highlights from 2008 to 2012^{xviii}

(\$ in thousands, except per unit data)	2012	2011	2010	2009 ⁽ⁱ⁾	2008 ⁽ⁱ⁾
Financial highlights					
Revenue	3,427,409	3,071,540	2,607,294	2,281,120	2,549,506
Earnings before income taxes	340,229	208,006	133,465	136,796	254,749
Net earnings	242,392	148,702	90,197	98,178	178,506
Basic earnings per share	1.79	1.06	0.62	0.74	1.39
Diluted earnings per share	1.78	1.06	0.62	0.74	1.37
Cash and cash equivalents	1,408,199	1,243,605	1,159,316	994,989	820,214
Total assets	3,746,615	3,473,678	3,383,980	3,493,702	3,268,702
Total long-term liabilities	1,086,457	1,161,604	1,240,285	1,051,912	1,201,382
Cash dividends declared per share	0.28	0.20	0.05	—	—

CURRENT STRATEGIES

Integrated Cost Leadership and Differentiation Strategy

WestJet positions itself as the leading low-fare airline in Canada but also focuses on delivering superior customer service. In terms of managing its low cost structure, WestJet operates mainly variations of Boeing 737 aircrafts to keep maintenance and training costs low. Employees are non-unionized and are

paid below the industry average. However, WestJet offsets this by having a generous employee stock option plan in place as incentive to ensure performance is aligned with business goals. WestJet is also a pioneer in introducing new technologies, including online and mobile check-in and self-service kiosks, to lower operating costs and increase customer convenience.

To integrate differentiation, WestJet promotes a unique corporate culture and guest experience. It facilitates a culture of inclusion by encouraging employees to voice their opinions and take part in business decisions. WestJet leverages its fun and caring culture to continuously improve customer service.

Codeshare and Interline Partnerships

WestJet engages in codesharing and interline agreements with global airline companies in order to expand its network and international presence. These strategic partnerships are intended to attract international travellers and improve service offerings to existing guests. As of 2012, WestJet has established partnerships with over 31 airlines around the world^{xxix}. Some of the most notable ones include American Airlines, British Airways, Cathay Pacific, Air China, and Emirates^{xx}.

Increasing and Improving Service Variety

WestJet continuously makes improvements on existing services and introduces innovative services in order to maintain its guests and attract new market segments. For instance, the launch of the new regional airline, Encore, aims to offer low airfare to smaller, underserved communities. WestJet is also planning to introduce three fare bundles, Econo, Flex, and Plus, each bundle consists of a different mix of fare price, additional services and amenities^{xxi}.

Pursuing a Global Strategy

WestJet is pursuing a global strategy to compete internationally. Local responsiveness is low as its well-known exceptional customer service is standardized and does not change based on the market they serve. WestJet minimizes their costs and maximize the productivity of its people by centralizing their ground operations staff^{xxii}. This allows WestJet staff to be loyal to the airline as opposed to a specific office. Staff can also be moved around to support different airport operations as volume changes at

different times. While other airlines must pay for the land, equipment and utilities for multiple offices, WestJet only pays these costs for one centralized facility.

WestJet continues to deliver on its international expansion strategy to strengthen its position as a strong and fast-growing player in the global market. It strategically partners with select carriers in many major cities, such as China Eastern, AeroMexico, and Emirates. The partnerships not only provide WestJet with seamless access to more destinations but they also lower a significant portion of their operating costs by leveraging established economies of scale and sharing common resources (such as airports, aircrafts and routes)^{xxiii}. This strategy can be difficult to manage given the need to coordinate two companies across borders.

ENVIRONMENT

Though WestJet is highly renowned in the airline sector, it is in competition with many other airlines including but not limited to Air Canada, Jazz, and Air Transat. Beyond the Canadian borders, it also has to compete with several American airlines, as they are able to offer lower prices to more locations than WestJet. Thus, WestJet uses its integrated cost leadership and differentiation strategy in order to remain competitive on pricing as well as customer service. Though other airlines may be able to be more competitive on price, WestJet has an advantage over them with regards to their unique customer service strategy. Because a majority of WestJet's employees are shareholders in the company, they tend to care more about the organization as a whole, demonstrated by the way they treat passengers.

WestJet is facing environmental struggles similar to all other airlines. They face security threats that remain from the events of September 11, 2001 and rising fuel prices as a result of economic crises. Since not all airlines have been able to successfully combat the rising fuel prices, many have been forced to pass the cost along to their customers. As a result of this, customers' expectations of excellent service have risen since they are paying more for flights^{xxiv}.

Since the Canadian government adopted the Open Skies Agreements in 2006, Canadian airlines have gained access to 43 countries around the world through code sharing^{xxv}. This has largely promoted Canadian airline route network expansion while increasing the competition among these market dominators -WestJet, Air Canada, Jazz and Air Transat. However, the large expansion opportunities have prevented new entrants from joining such a competitive industry due to large economies of scale and high investment capital. Codesharing also intensifies rivalry between WestJet and other U.S. airlines, which are operating on similar routes to WestJet but offering lower airfare. Further, consumers have fairly high bargaining power due to low switching costs. This drives WestJet to offer more competitive prices and diverse quality customer service in order to continue building its loyal customer base. Nevertheless, WestJet's profit margin could be potentially affected by increased bargaining power from aircraft suppliers and fuel suppliers. Other lower cost substitutes such as trains, shuttle buses and cars may pose a certain degree of threat for WestJet if time constraint is not a primary issue for travellers when choosing a method of transportation.

STRATEGIC CHALLENGES

Rising Fuel Prices Affecting Cost Containment

As previously discussed, WestJet's bottom line can potentially be affected by current economic conditions, raising fuel prices. Consistent with all airline companies, fuel accounts for a significant portion of WestJet's total operating costs. Since WestJet has positioned itself as a low cost carrier with excellent customer service, it will need to find ways to sustain its competitive pricing in order to maintain its customer base. Further, WestJet must ensure that they properly manage their fuel hedging portfolio and consistently review their hedging program in order to mitigate risks of unfavourable fuel price movements.

Maintaining WestJet's Corporate Culture as Company Grows

As any company grows, it becomes increasingly difficult to ensure that all levels of employees are always acting in line with the company's best interests. The founder of WestJet remarked that it became extremely important to only hire individuals who acted in line with the company's culture, and fire those who didn't (Love, 2012). This is especially important for WestJet since corporate culture is a competitive advantage that serves as their basis for executing superior customer service. Therefore, WestJet needs to ensure that current human resource practices and processes are adequate to attract, screen, and select the right individuals.

Balancing Cost and Customer Service

It is difficult for any corporation to balance the needs of the business with the needs of the customers. Since WestJet is trying to lower internal costs to balance out the additional costs due to rising fuel prices. WestJet will have to be careful to not sacrifice its core differentiator in order to save on internal costs. Further, in order to integrate seamlessly with airline partners, WestJet may need to amend their operating processes or services. These changes can potentially cause WestJet to depart from its own cost structure. Therefore, in addition to finding an adequate balance between reducing costs and offering differentiated features, WestJet should screen for airline partners to minimize the amount of integration needed.

Addition of a New Fleet and Launch of a New Regional Airline

WestJet will face new challenges associated with adding a new fleet and launching its new regional airline, Encore. Since Encore will be concentrating on regional service, different considerations will have to be made regarding pricing, segmentation, scheduling, and many other things. WestJet will also need to be prepared to respond to potential head-to-head competition with Air Canada's regional service, Jazz. So far, Jazz has already responded by reducing their airfares^{xxvi}.

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