Troubled Royal Air Maroc has made a dramatic recovery with a 38% passenger increase for just a 6% rise in costs. This feat was achieved with no increase in staff and reduced fleet numbers. The airline now boasts one of the widest margins between unit revenues and costs in the industry.

RAM boosts traffic 38% and maintains costs

Royal Air Maroc's (RAM) amazing economic recovery has gone largely unnoticed in the past three years. While the industry has focussed on the US and the Asia Pacific, small carriers, such as RAM, have successfully implemented cost reduction and revenue-enhancing strategies and made strong recoveries. RAM, a government-owned airline, has not only made a dramatic recovery, but also enjoys the envious position of not carrying any substantial debt, and without relying on subsidies.

Turnaround

RAM had stagnated at the beginning of the 1990s. In 1992 its traffic base was 2.2 million passengers and 4.64 billion revenue passenger kilometres (RPKs). While traffic barely changed over the next two years, unit yields fell during what were the most challenging years of the decade. A small, but respectable, annual profit of $2.8 million in 1992 slumped to a loss of $79 million in 1994.

RAM's recovery programme and subsequent success reversed this to a passenger volume of 3.05 million in 1998. Profits were $63 million in '97 and $41 million in '98, representing 11.6% and 7.3% of annual revenue.

Mohamed Hassad was appointed Chief Executive in 1995. He immediately boosted traffic by implementing competitive fares and marketing alliances, while using existing fleet and staff capacity.

Despite a decrease in unit yields, the plan successfully reduced unit costs at a faster rate. Passenger numbers increased by 38% between 1992 and 1998 and RPKs rose by 32%. Yet RAM's fleet, staff and pilot numbers have remained virtually unchanged over the same time. This combination saw unit costs fall by 18% over the six years while unit revenues declined by just 10%.

Probably the most impressive aspect of RAM's recovery has been its improvement in staff and aircraft productivity. RAM's strategy has not just been one of attacking obvious cost difficulties (with the battles with staff unions that typically result). The airline has also been honest about its weak geographical and market position.

Marketing strategy

In 1992 air fares were high. Morocco is not situated near large population centres with rich economies and RAM's route network and low frequency schedule had little attraction for regular flyers.

The reduction of unit costs faster than the fall in unit revenues was only made possible by improving asset and staff productivity. Traffic stimulation was therefore needed to make better use of existing fleet capacity.

RAM's network serves a former French colony and French-speaking population. It consists largely of routes into France, while half the carrier's traffic is based on tourism coming into Morocco's multiple destinations.

Prior to Hassad's appointment, RAM's operating schedule was based on low-frequency high-fare operations on its route network. Hassad's first move was to form a codeshare agreement between RAM and Air France to stimulate traffic. The latter was a natural choice because of RAM's dependence on traffic from France. The agreement gave RAM the usual advantages of codesharing. "We can sell tickets virtually anywhere now, since Air France has such a wide distribution network," explains Hassad. "The agreement also gives us access to several computer reservation systems (CRSs). The agreement also means we can optimise our flying schedule with Air France and this has been particularly important in stimulating traffic.

"This has been accomplished through RAM and Air France both pulling out of French-Moroccan routes on which one or the other had low frequencies and letting the other higher frequency carrier fly the route exclusively. That meant each airline increased frequencies on routes. This has stimulated traffic, improved some efficiencies and increased available seat-kilometres (ASK) capacity without requiring additional aircraft or staff," says Hassad.

Examples of RAM's previous schedule was its service to Lyons, on which RAM had four weekly flights and Air France two. RAM withdrew from this route and Air France now operates the route daily. Through the codeshare agreement RAM has an allocation of a percentage of the seats on the sector.

"We now operate on the same basis on routes to Marseille, Bordeaux, Toulouse and Nice. RAM operates these routes and we allocate some of the seats to Air France," explains Hassad.

RAM now has four alliances. The others include Iberia, TWA and Gulf Air, all of which were concluded in 1998. The Iberia codeshare allows RAM to feed and gain traffic from Iberia's latin-American network. The codeshare with TWA provides RAM access to the US domestic market via TWA's JFK hub into which RAM flies.

"We are now negotiating with Egyptair and might form a partnership with them later this year. This will allow us to get traffic flow from the Middle East, Sudan, Jordan and Syria," explains Hassad.

Growth and revenue

The majority of RAM's 32% RPK traffic occurred in the past two years. Traffic growth was minimal between 1992 and 1996 and even negative in some years. Following Hassad's restructuring plan, RPKs increased by 7.5% in 1997 and 16% in 1998.

Passenger numbers in 1995 were virtually unchanged from 1992's performance. Following implementation of Hassad's marketing strategy, passenger numbers increased 7.2% in 1996, 9.4% in 1997 and 17.8% in 1998. "We have experienced very high rates of traffic growth compared to the US market, which is a mature one," explains Hassad.

This growth has come from a variety of means. In addition to stimulation through better marketing, the airline has also taken advantage of organic business and tourism traffic growth and the stimulating affect of increasing capacity on routes. Despite a rise of 28% in ASKs, the faster rise in RPKs has seen an increase in load factor by 2.5 percentage points to 68.5% in 1998.

The stimulating effect of lower fares has seen revenues increase overall, but has allowed unit revenues to fall by 10%. Despite this, costs have only risen by 6.4% and have been spread over 28% more ASKs. This has pushed unit costs down by 18%.

Revenue in 1992 was 4,788 million Moroccan Dhirams (Dh) in 1992 and Dh5,475 million in 1998, a rise of just 14% over the period, half the level of increase in ASKs. In contrast, costs only rose by Dh309 million over the same period to Dh5,073 million.

The overall affect has been a reduction in unit yields from Dh0.68 per ASK to Dh0.61 per ASK in six years; a fall of 10%. The Dh : $ exchange rate over the six years has seen the Dhiram weaken, making US$ revenue growth weaker than Dh revenue growth.

Despite the airline's impressive achievements, its unit revenues in 1992 were much lower than western carriers. The reduction in unit revenues has increased this gap further still. The airline's unit revenue reduced from 8.0 cents per ASK in 1992 to 6.31 cents per ASK in 1998, or 3.9 cents per available seat-mile (ASM). This is less than half that typically achieved by US and European carriers.

"It is difficult for us to improve our market shares," explains Hassad. "We operate to cities in Europe, Africa, the Middle East and North America. We recognise that we compete with some formidable incumbents with huge market presence. This meant we had to rely on lower fares and better marketing to stimulate traffic and have had to accept a drop in unit yields."

ROYAL AIR MAROC OPERATING AND FINANCIAL PERFORMANCE 1992–1998

Year	1992	1993	1994	1995	1996	1997	1998
Passengers 'ooos	2,213	2,231	2,264	2,205	2,363	2,586	3,046
ASKs million	7,028	6,862	6,971	7,244	7,460	7,815	8,941
RPKs million	4,644	4,720	4,831	4,815	4,912	5,282	6,214
Passenger fleet size	28	28	31	27	27	27	28
ASKs/aircraft 'ooos	251	245	225	268	276	289	319
Staff	5,556	5,749	5,664	5,431	5,337	5,320	5,429
Pilots	333	341	338	337	342	346	360
Dh revenue 'ooos	4,788	4,864	4,913	4,724	4,748	5,122	5,475
Dh costs 'ooos	4,764	4,852	4,959	5,075	5,235	4,739	5,073
Dh profits 'ooos	23.86	12.11	-46.85	-350.62	-487.21	382.55	401.32
Revenue Dh/ASK	0.68	0.71	0.70	0.65	0.64	0.66	0.61
Cost Dh/ASK	0.68	0.71	0.71	0.70	0.70	0.61	0.57
$ revenue million	560	527	532	549	546	542	564
$ costs million	557	525	537	589	602	501	523
$ profits million	2.79	1.31	-5.07	-40.71	-56.05	40.48	41.38
Revenue c/ASK	7.97	7.68	7.63	7.57	7.32	6.93	6.31
Costs c/ASK	7.93	7.66	7.70	8.14	8.07	6.42	5.85

Asset utilisation and costs

While a fall of 10% in unit revenue has been tolerated, the key to RAM's recovery strategy has been a drop of 18% in unit costs. This increased the gap between revenues and costs and has led to the high profits in 1997 and 1998.

Unit cost reduction has been particularly attributable to two main factors. These are the use of a smaller aircraft fleet to provide 28% more ASKs, and with use of the same number of staff.

RAM's fleet was actually smaller by two aircraft in 1998 than it was in 1992. This has resulted in a sharp rise in RPK productivity per aircraft of 36%.

This improvement in aircraft productivity was not achieved by taking up slack in previously low levels of aircraft utilisation in the early 1990s. On the contrary, RAM's aircraft utilisation in 1992 was similar to most airlines in Europe and North America in 1992. The airline's subsequent improvement in scheduling gave it the opportunity to increase utilisation. "Average utilisation for the 737 fleet increased from about seven flight hours (FH) per day in 1992 to an average of 9.7FH per day in 1998. We want to increase this to 10.0FH per day in 1999," says Hassad. "Our fleet utilisation was therefore just as good as most other carriers in the early 1990s and became better than virtually any other carrier by the end of the '90s.

"We achieved the same with our 757s, which we use on the heaviest European and medium-range routes. Utilisation climbed to 12.3FH per day in 1998, which is higher than most airlines achieve with their youngest long-range aircraft," notes Hassad. "We want to take this higher to 12.9FH in 1999."

RAM's aircraft fleet ASK productivity matched Southwest's performance in 1998. RAM has achieved some of the highest annual utilisations and seat-mile productivities in the industry for its 737 and 757 fleets.

In 1992 RAM had a fleet of 25 passenger jets and three ATR42s. The jet fleet included two 707s and eight 727-200s. The carrier was already operating two 757s, three 737-400s and four 737-500s. ASKs achieved per aircraft were 281,000.

RAM modernised its fleet over the years and phased out its 707s, 727s and many of its 737-200s. The fleet in 1998 comprised 28 aircraft, including three ATR42s. The airline's 737-400 and -500 fleets had grown and the carrier had also taken delivery of two 737-800s. By 1998 ASK aircraft productivity had grown by 36% to 319,000.

RAM's fleet productivity is comparable to Southwest's, which has 273,000 ASKs per aircraft per year. Yet RAM's fleet includes both larger and smaller aircraft than Southwest's purely 737 fleet. Southwest has the reputation for extremely high efficiency of utilisation of its aircraft assets. It also has a single class and higher seat density configuration. In contrast, RAM has a two-class configuration on its short- and medium-haul fleets. RAM's business class on its 737s and 757s is four-abreast seating and thus is similar to first class on most other carriers. RAM's relatively small seat numbers on its 737s and 757s illustrates how productively it is using its fleet compared to the most efficient airlines.

RAM's staff numbers and pilots have remained virtually unchanged since 1992. Yet staff and pilot productivity has climbed. RPKs per staff member increased from 836,000 in 1992 to 1,128,000 in 1998, a rise of 35%. Pilot productivity increased by a similar proportion.

Unit costs in 1992 were Dh0.68 per ASK in 1992, rising to Dh0.70 per ASK in 1996. Total costs fell by more than Dh700,000 in 1997 and ASKs rose sharply. Unit costs were down to Dh0.58 per ASK by 1997 and Dh0.57 in 1998. In US$ terms, cost performance in later years was about 6.0 cents per ASK, or 3.73 cents per ASM.

The effects of RAM's strategy have been to widen the gap between unit costs and yields to more than most airlines ever achieve. In its best year, the airline's unit costs were 88% of its unit revenues in 1997. Costs climbed quite steeply in 1998, when the airline took delivery of two 737-800s.

Further progress

RAM's performance is impressive. Despite the fact that the Moroccan government owns a majority share in RAM, the airline has not received any subsidies and has restructured itself entirely on the merits of its own management. Moreover, RAM has a fuel price disadvantage of about 10% compared to airlines in western Europe.

Now that RAM has accomplished a wide margin between unit revenues and costs, it has to devise a strategy for the future. The airline currently distributes tickets through the Amadeus CRS. "We have a Moroccan company for Amadeus distribution," explains Hassad.

"We have looked at electronic ticketing. We are aware that it has already started in the US market, but it is too early for us to say how successful it might be for us," says Hassad. "We have already started to sell tickets on the Internet in the US and Europe at the beginning of this year. We might consider ticketless travel, but only on domestic Moroccan flights to begin with. Despite Internet distribution, we still mail tickets to passengers in the US and Europe."

RAM's objective is to master the technique of electronic ticketing in its domestic markets first. "It is still a new concept and we need time for it to reach maturity," explains Hassad. "It is also too early to say how much the technique will reduce costs and we also need to see how viable it will be and what percentage of our traffic can use it. So far we have discussed the issue with IBM and Siemens and have been testing electronic ticketing machines."

The reduction in costs and an improvement in asset utilisation would seem to make it difficult for RAM to achieve further cost reductions. It has set a goal of further cost reductions of 20% for the next five years. The company hopes to achieve this through further improvements in productivity.

Electronic ticketing could be another contribution to cost reduction, but RAM is unable to gauge the magnitude of the benefits it could bring. Like other carriers, it may find the benefits are larger than initially expected. Airlines have found that because of reduced distribution and ticketing costs, fares can be reduced, thus stimulating traffic. The perceived ease of booking tickets also stimulates further traffic growth.

RAM's traffic growth in the past years has been accelerating. This is the typical initial effects of codesharing. The high rates of growth imply that traffic will continue to increase at a dependable level in 1999, and the airline is forecasting another 34% increase over the next five years. This should provide it with enough scope to maintain a large enough gap between unit revenues and costs.

RAM's asset utilisation has reached the point at which the airline will soon have to increase its fleet and staff numbers if it is to service much more traffic. AC