Qantas in Transformation
Address by Qantas CEO Alan Joyce
American Chamber of Commerce
Sydney, 8 August 2012

Qantas has a very special relationship with the United States.

America has been at the heart of the Qantas route network since the 1950s, when we first began flying Boeing jets across the Pacific.

Today the Qantas Group operates more than 40 direct services each week between Australia and the United States, to Los Angeles, Honolulu and our new hub in Dallas/Fort Worth.

We are by far the biggest airline in the trans-Pacific market and still the only carrier to operate from Australia beyond the US west coast.

And of course we have great partnerships, with Boeing, GE and American Airlines, to name just a few.

So I'm delighted to be here at the American Chamber of Commerce today.

Less than a year ago, I announced the biggest transformation at Qantas since the airline was privatised in 1995, with our five year plan for Qantas International.

Our platform for change is strong.

We have an investment grade credit rating, more than $3 billion in cash, a debt to equity ratio of 56%, our underlying full year result will be profitable, our brands are strong, and we have an estimated 85% of the Australian corporate market.

We have the two most profitable airlines in the domestic market; one of the world's most successful loyalty programs; and Jetstar internationally which is rapidly becoming the biggest revenue-earning low cost carrier in the Asia-Pacific.

To put that in perspective: many airlines around the world would be very happy if they could say the same.

One of the reasons why Qantas is an iconic Australian company is our history.

And if our history tells you one thing, it's that we have always had to change to survive and prosper.

The reason Qantas has lasted this long is because its founders Hudson Fysh, Paul McGinness, Fergus McMaster, and other leaders over time, have had the courage to take the big, transformative decisions to succeed, often against vocal opposition.

Qantas was formed in 1920, but the company was only made viable in 1922 because McGinness and McMaster aggressively pursued and won the tender for the Charleville-Cloncurry air mail.

Where others saw a tiny mail service in the back of beyond, McGinness and McMaster saw a link between the east coast of Australia and Darwin, then the gateway to Australia, as they embarked on their far-sighted quest to launch an international air service.

Or take the early 1930s, when Hudson Fysh sat around the table with some other small Australian airlines.

Their aim: to form an alliance to work with Britain's Imperial Airways and get international services off the ground.

But it was clear to the practical Fysh that it was not going to work.

So Fysh took the aggressive step.

He went separately to Imperial Airways and struck the deal that launched Qantas as an international carrier, providing the Singapore-Australia link in the UK-Australia air service.

After the Second World War, lack of capital left Commonwealth ownership as the only realistic survival option, even though it led to the demise of the original Qantas holding company in Queensland.

Many were horrified that our pioneering company was falling into deadweight government hands.

Fysh said that there were all sorts of "dire predictions" about the inevitable failure of Qantas.

Well it didn't fail, but that's because Fysh was able to persuade Prime Minister Ben Chifley that Qantas should turn away from British aircraft and instead purchase US-built Lockheed Constellations.

Fysh had to fight to get this commercially essential decision over the line.

He tracked the Prime Minister down to Victoria Barracks in Melbourne.

Chifley smoked his pipe, pondered, and showed Fysh a telegram from British Prime Minister Atlee begging him not to go with the Americans.

Finally Chifley gave in: "We'll give it a go".

Imagine if Fysh had given up.

The British aircraft that Qantas was under pressure to purchase had serious design flaws and poor payload economics.

And of course, Qantas went on from that decision to become the first airline outside America to fly the Boeing 707 and enter the jet age.

Just as people feared nationalisation would kill Qantas in 1947, many equally feared the privatisation of 1995.

As the economy opened up, Australian governments could no longer justify using taxpayers' money to fund the airline.

Some still believe Qantas should be in Government hands: actually, some union leaders - and even MPs - talk as if we still are.

Not surprising when you consider that 50% of our pilots and 70% of our engineers have been with Qantas since before 1995.

But that era is long gone and will never come back.

And if we had not been privatised we would never have been able to fund our massive fleet renewal program: since I became CEO we have taken delivery of 114 new aircraft, about one third of our fleet.

More than 50% of those aircraft went to Qantas, and 75% of the capital expenditure.

A few years ago we faced another big challenge with the arrival of the low cost airline model.

We defied the critics and responded with Jetstar.

People like Richard Branson and Brett Godfrey said it would never work; that Qantas would never be able to produce a truly competitive low cost carrier.

Well it's been such a success that it is not Qantas but Virgin that has given up on the low cost model.

While I take a great interest in our Qantas past, my focus, of course, is on our future.

Right now Australia is going through a profound structural transition that again demands a major response.

Qantas International, like the manufacturing industry, retail, and tourism, has been hit by the post-GFC triple whammy: high fuel prices, the high Australian dollar and the economic downturn in major markets like Britain, Europe and the United States.

Between 2002 and 2008, the Aussie currency averaged 73 cents but since 2009 it has averaged 93 cents. Today it is at $1.05.

Jet fuel before the GFC averaged $87 per barrel, but since then it has averaged $106 per barrel (and that's in Australian dollars, so even our high currency has not fully mitigated the fuel price impact).

And this triple whammy compounds the aviation-specific challenges: our high legacy cost base, our end-of-the-line geography and our small population.

Modern long-haul aviation dramatically favours carriers with large hub airports.

They can pull in travellers from all over the world and send them on to their final destinations.

So we have to change to succeed.

The good news, as I said, is that our transformation starts from a strong base.

Qantas Domestic is the leading airline in Australia with the best network, frequencies, loyalty program and customer experience.

It will continue to improve, to be best for business, and for the hard-working resources industry.

We define corporate accounts as those valued at over one million dollars spend each year.

Over the past financial year we renewed 171 accounts and signed up 48 more, including nine won back from other competitors.

Just four were not renewed.

Qantas Domestic has outperformed the competition in on-time arrivals every year since I've been CEO, and we have seen record levels of customer satisfaction.

Jetstar Group is now one of the fastest growing airlines in the Asia Pacific.

It's got a great brand, high network connectivity and massive growth potential.

Jetstar, and Jetstar Asia based in Singapore, already fly into nine cities across Greater China.

I was recently in Tokyo for the launch of Jetstar Japan - five months early, with more than 250,000 tickets sold over four months and based on a capital-light model working with strong local partners.

Jetstar Pacific is being strengthened via a new partnership with Vietnam Airlines.

We are working with China Eastern to form Jetstar Hong Kong which will be another milestone in the evolution of Jetstar, and a landmark for Australia's business presence in China.

The Qantas Frequent Flyer business provides stable and very profitable returns.

It penetrates most Australian households, has seen double digit earnings growth over the past three years, and has the most attractive premium partners, including Woolworths, Optus and most recently David Jones-American Express.

Which brings us to Qantas International, which has taken the full force of the challenging international economic and aviation dynamics, and dragged down our results.

That is why we are moving at speed to execute a dramatic five-year transformation plan.

Our aim is to return our international operations to financial good health, maintain and enhance the premium quality of our Qantas domestic and international operations, and ensure that a strong and integrated Qantas continues to be a proud icon of Australia in the world.

What you have seen in media headlines may have left you with the impression that our response to the challenges before Qantas is to retreat, or just cut back.

That's not the case.

We are undertaking a wholesale transformation of Qantas to make it better and stronger, the premium Australian airline for our times.

This encompasses our use of technologies, our processes, our partnership arrangements, the way we train our staff, and how we deliver consistent and valued results for our customers across both Qantas Domestic and International.

It's about building a Qantas that can continue to be Australia's great airline at home and in the world. A year ago I said this was based on four pillars.

- Opening gateways to the world, through close partnerships with leading airlines;
- Growing with Asia;
- Being best for global travellers; and
- Building a strong, viable business to create shareholder value.

Let me talk to the first two objectives, then the second two.

Our gateway strategy uses partnerships to provide our customers with a seamless global network – extending our reach while restraining our costs.

There’s our very successful Dallas/Fort Worth hub which fans out across America through partnership with American.

Santiago is our new South American hub with LAN our partner.

Partnering with British Airways out of Hong Kong and Bangkok means we have been able to pull out of major loss making routes, and retired six 747s.

Growing with Asia – especially China – is important to Australia, to our customers, and to Qantas.

I have said before that we have a gap, because our current schedule is predicated mainly on travellers transiting through Asia en route to Europe.

However, with existing partners Jetstar, China Eastern, JAL, Jet Airways and Cathay Pacific, we do take our customers to and between the largest Asian hubs.

Now, to partnerships more broadly.

Qantas is recognised in the aviation world as an alliance specialist.

We have been a pioneer in this area.

But we only enter partnerships when we have the right arrangement for the long term.

In the current economic environment, taking our time with this part of our agenda will clearly not undermine our broader transformation plan.

Now to the second two pillars, which focus on the customer experience and on solid business performance.

Here we arrive at the core of our transformation which is about our customers, our people and extracting costs.

Our domestic and international Qantas customers want a great product, both in the airport and on board the aircraft.

They want modern, intuitive service – world class service which is distinctly Australian.

We aim to deliver just that all the time.

Which is why we have embarked on a wholesale, multi-year program of investment, training and innovation.

By the end of October, our international fleet will include 12 A380s and nine Boeing 747s with award-winning all Marc Newson interiors.

We are investing in new, bigger and better international lounges in Los Angeles, Singapore and Hong Kong.

We have award winning wine cellars in the sky and Neil Perry food.

We launched our A380 connectivity trial across the Pacific earlier this year.

We keep adding value.

We launched our inflight magazine iPad app this year which was rated number one free app in Apple's Newsstand for two weeks.

Last month we launched Hooroo.com, a new online accommodation booking service.

For Qantas domestic we will roll out the extremely popular Q Streaming product across our B767 fleet with iPads in every seat, and we're offering more opportunities for upgrades than ever before.

We've opened up more regional lounges, boosted services to Canberra, Tasmania and East Coast routes, and created booking facilities for mobile phones.

New Boeing 737-800 and Airbus A330 aircraft have entered the fleet.

Our average fleet age is now the youngest it has been since privatisation – younger than the fleets of Cathay Pacific, Lufthansa, and the three major American airlines.

We're bringing more exclusive benefits to our customers, such as our wine sales via epiQure by Qantas Frequent Flyer.

We're creating unique experiences like bringing Chef Heston Blumenthal to meet our Qantas food and wine community members.

Then there's the investment in our people.

By the end of 2012, 11,000 Qantas domestic and international frontline staff will have completed our new customer service training program.

Safety is our first priority and that will never change.

Nor will the professionalism of our staff.

But we are shaking up the service culture, loosening the ties, giving our people greater opportunity to freestyle and respond to our customers and their needs.

We have put in place a ‘closed loop’ feedback system that allows us to evaluate our service based on advice from a panel of almost 13,000 Frequent Flyers.

Passengers volunteer to complete a survey shortly after their flight and their comments are immediately available to front-line Qantas staff, so they know how they are performing, and can factor improvements into their next journey.

We have asked some of our best people to become in-flight coaches, and observe and mentor cabin crew in flight.

Customer feedback on those flights is fantastic, and our people are loving the opportunity to showcase their skills.

We are giving all our check-in agents greater autonomy about decision making to care for our customers.

Using blogs and discussion groups they can test ideas and learn what works in different situations.

This is a multi-year, multi-layered project, but we are already seeing results beyond our expectations.

We will continue to invest where it matters – in our people and for our customers - and innovate and simplify where-ever possible.

And of course we must lower our cost base.

Here we are also making productivity gains through measures to streamline and consolidate, to improve process efficiencies, and to capitalise on new technologies.

Over the past year our progress has been extensive:

- We are consolidating our heavy maintenance bases from three down to two.

- We have agreed to sell two of our seven catering centres.

- We’ve introduced new processes to eliminate unnecessary checks on our new aircraft.

- In line with our partner Lufthansa’s decision, we are winding down the LTQ engine maintenance facility.

- We’ve consolidated various supply chain, component maintenance and operation control functions.

- We are also working through many smaller measures that will increase efficiency and productivity, such as using iPads to give our pilots instant access to forms, manuals, flight plans and charts, and save on the cost and weight of manuals inflight.

From these initiatives, and others that we have announced, we expect to achieve around $300 million in annual savings.

We estimate the equivalent of 2,800 full time roles are going as a result of the transformation initiatives undertaken so far.

To put this in perspective, Qantas, excluding Jetstar, had 26,000 full time equivalent employees at the end of June this year.

Of course, a number of affected individuals will find new roles within growth parts of the company.

There is no doubt that the cost of transition is big.

We will release our annual result later this month, and as we advised the market, we will deliver an underlying profit but a statutory loss, which will reflect the cost of the industrial dispute, the high fuel price, and importantly, the size and pace of the transformation of Qantas.

It is the price we pay for a rapid and massive transition in our business, in making it stronger and better.

In less than a year much has been achieved.

We have the right strategy, we are executing at speed, we are seeing early results, and the benefits will flow within the next 12 months.

We said we would return Qantas International to profit in three years, and that over five years our Qantas flying businesses combined would exceed their cost of capital.

We stick to our commitment.

The transformation is on track.