CASE STUDY 2

THE GROUNDED KANGAROO? AN ANALYSIS OF QANTAS

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In November 2008, Alan Joyce took the helm of Qantas as chief executive officer (CEO), replacing Geoff Dixon to become the youngest CEO in the history of Australia's national airline carrier. Since his commencement, Qantas endured significant operating challenges, culminating in declining profitability from a record pre-tax profit of A$1.4 billion in August 2008 to a statutory loss of A$245 million during 2011–12, its first since privatising in 1995. Natural disasters, spiked oil prices, deregulation and increased foreign carrier competition, worsening employment relations, — along with the introduction of carbon tax legislation in July 2012 — have created significant challenges for Qantas.

History and growth of Qantas

Queensland and Northern Territory Aerial Services (QANTAS) Limited was established in Winton, Queensland, in 1920 and expanded quickly as a transportation carrier. Through increased market exposure — from expansion of domestic and international air networks — and a value proposition built upon a reputation for safety, operational reliability and customer service, Qantas became one of Australia's most recognised brands.[1] Qantas delivered significant profit before tax increases between the 2006 and 2008 annual reporting periods, culminating in its 2008 record profit, an increase of 45.9 per cent on the previous year's figures. Qantas chairman Leigh Clifford indicated that an increase in domestic and international demand, along with yield and seat factor improvements, resulted in increased corporate profitability.[2] 1

A significant change, however, in the operating environment was on the horizon. With darkening economic forecasts globally, focusing on declining economic growth and output, rising unemployment, diminishing disposable income and rising operating costs, Qantas' record profit run was not to last. Pre-empting a downturn in global economic conditions, Leigh Clifford indicated 'rising fuel prices and weaker economic conditions may have a negative impact on flying businesses over the coming year'.[3] Indeed, external environmental influences decimated profit returns during the following financial year, with profit before tax plunging to A$181 million, a 90 per cent decline on the previous financial year.[4] CEO Alan Joyce commented that in recent years Qantas had been hit with a 'triple whammy' of high fuel prices, a rising Australian dollar and a major economic downturn in strategic markets (i.e. those of the United Kingdom, Europe and the United States).[5] In response to the International Air Transport Association forecast of global aviation industry losses of upwards of $9 billion during 2009 amid worsening economic conditions,[6] Qantas was decisive in its implementation of a number of operational tactics to limit the negative fallout from the global financial crisis (GFC). In particular, the executive committee utilised an effective hedging strategy to partly mitigate the rising cost of crude oil, (which had doubled in cost to US$140 per barrel). In addition, group liquidity was increased through debt and equity advances, aircraft orders were deferred or cancelled, and cost efficiencies were increased through capacity reductions via grounding of aircraft, headcount reductions and an executive pay freeze.[7] Furthermore, economy and business fares on key domestic routes rose by four and ten dollars respectively in a bid to boost profitability.[8] The resulting implications of countering fallout from the GFC and improved operating conditions resulted in Qantas trebling before-tax profit to A$377 million during the 2009–10 financial year.

Industrial relations at Qantas

While profitability of Qantas is influenced by external environmental variables, internal forces also influence corporate profitability. Qantas is no stranger to the consequences of deteriorating employment relations. A bitter dispute between executive management and engineering workers in 2008 led to customers experiencing significant punctuality issues, which in turn negatively affected 'on-time' performance.[9] Protracted industrial action led to public perceptions of the Qantas brand dropping to record lows.[10] This was acknowledged in Leigh Clifford's 2009 annual chairman's report:

> ... protracted industrial action undertaken by the Australian Licensed Aircraft Engineers Association between May and July 2008 harmed Qantas' punctuality, productivity, costs and reputation and full recovery took many months.[11]

Indeed, industrial action that has seriously affected airline schedules has traditionally had a very negative impact on share price.[12]

Within a challenging competitive environment, Joyce's aim remains for Qantas to become a 'profitable group with a growing international division'.[13] To do so, Qantas has strategically targeted Asia as a growing and profitable region. Traditionally, Qantas International obtained significant revenue from Trans-Pacific routes between Australia and the United States and on the 'Kangaroo Route' between Australia and the United Kingdom. However, in recent years, increased international competition — specifically from state-sponsored airlines — has seen Qantas' outbound market share plummet from a 35 per cent high to 18 per cent in 2012.[14] To establish a greater presence in Asia, Qantas has committed to restructuring Qantas International, through establishing a premium hub in the Middle East and establishing a full-service premium airline based in Asia under a new brand. Restructuring Qantas International will necessitate a headcount reduction of approximately 1000 workers, affecting positions across management, pilots, cabin crew, engineering and airport administration.[15]

Worker discontent regarding corporate restructuring caused increased industrial relations hostility during 2011, with union leaders warning that protracted pay negotiations — along with disputes over Qantas' plans to create a premium-service airline in Asia — could drag on for another year.[16] The industrial conflict intensified during 2011 due to labour outsourcing, a key cost-efficiency platform in the transformation of Qantas International. This led to Alan Joyce's extraordinary 31 October decision to ground the entire domestic and international fleet, and lock out workers. Qantas indicated that industrial action had resulted in financial losses of A$68 million and affected 71 000 passengers through flight delays and cancellations.[17] However, such a decision forced Qantas and three warring unions — the Transport Workers Union, the Australian and International Pilots Association and the Australian Licensed Aircraft Engineers Association — into mediation. Fair Work Australia (FWA) deliberated and deemed the current bargaining period terminated, which resulted in a reversal of worker lockouts and a ruling allowed a further 21 days of negotiation between Qantas and the three unions. Negotiations collapsed within hours of the 21-day deadline, necessitating binding arbitration through the industrial relations umpire Fair Work Australia.[18] Fair Work Australia's ruling included a 3 per cent pay increase (originally recommended by Qantas) to be backdated to July 2011 for TWU employees but rejected TWU's proposal for a 20 per cent cap on the use of contract ground staff and for non-permanent workers to be paid the same as full-time employees.[19] While no agreement was reached between the airline and the Australian Licensed Aircraft Engineers Association (ALAEA) prior to the 21-day deadline, FWA conducted conciliation between both parties, with ALAEA reaching an agreement with the airline that the status quo would continue for any matters that could not be agreed.[20] In contrast, the Australian and International Pilots Association launched legal action in the Federal Court challenging the industrial umpire's decision to ban industrial action after Qantas' grounding. The Federal Court dismissed the pilots' application, ending industrial action by all three unions.[21]

The implications of Joyce's decision to ground the Qantas fleet have been widespread. Financially, the cost of the decision has run into tens of millions; and there is the potentially irreversible damage to Qantas' brand and reputation to consider.[22] The Qantas brand is about perception, and a key to successful branding is trust.[23] With over 80 000 passengers stranded across the entire Qantas network during the grounding, trust in brand Qantas was significantly tarnished. As one commentator put it:

> brands are risk reduction mechanisms ... When you look at an airline and you ask yourself: Virgin, Jetstar, Qantas — you ask which one is going to get me home, so you're asking 'Can I trust the brand[?]' — this has been seriously compromised [24]

The collateral damage from Qantas' grounding was broader than disgruntled customers. Complementary businesses throughout the Australian travel and tourism industry were also negatively affected by the grounding. Tourism and Transport Forum chief executive John Lee indicated that the tourism industry could not afford for the current industrial campaign to continue, given the industry has had to contend with natural disasters, a strengthening Australian dollar enticing Australians to travel internationally rather than domestically, reduced buying power of international visitors and weakening economic conditions.[25]

Additional stakeholders affected by Qantas' grounding were the employees. An industry-wide employee engagement survey undertaken by the Australian Licensed Aircraft Engineers Association (ALAEA), surveying almost 3000 industry employees, indicated that Qantas' overall employee engagement rating of 32 per cent was significantly below its direct competitor, Virgin Australia, which had a rating of 76 per cent.[26] However, Qantas dismissed the findings of the survey, commenting that such findings were at odds with Qantas' internal survey findings and in no way reflected user engagement levels of the company's 30 000 employees. Regardless, employee satisfaction levels among Qantas employees were at a low prior to the 2011 grounding, with Qantas' long-haul staff having the lowest scores on record — about 14 per cent.[27] Indeed, protracted industrial unrest and simmering resentment between parties results effectively in debilitating staff morale.[28]

Not all Qantas stakeholders were negatively affected by Joyce's decision — Qantas' loss was Virgin Australia's (VA) gain, with VA on hand to offer assistance to passengers stranded by the grounding. John Borghetti, Virgin Australia's CEO, stated that Qantas' grounding provided an opportunity for Virgin Australia to hold on to a portion of the additional 30 000 passengers it carried during the three days in which Qantas aircraft were non-operational, no doubt helped by Virgin's workforce volunteering to help out during the disruption.[29] Essentially, the business outcome from Joyce's decision to ground the fleet and lock out workers was a migration of clients to VA and a loss of market share for Qantas, from 63 per cent to 58 per cent.[30] As reliability of performance and service expectations is what

QUESTIONS

1. How would you classify Qantas' approach to corporate social responsibility/stakeholder management? Explain your reasoning.
2. Brand names are a form of reputational asset: their value is in the confidence they instill in customers. What is your perception of the Qantas brand? How can Qantas attempt to rebuild its brand?

Based on your reading of this case study and your review of Qantas' homepage (www.qantas.com.au), what generic business strategy is Qantas pursuing? Explain your reasoning.

Mintzberg's description of strategy as possessing an unplanned dimension introduces the idea of emergent strategy. Explain how the concept of emergent strategy has evolved at Qantas.

5. Which macro-environmental forces have influenced the profitability of Qantas? Explain your reasoning.

Introduction – brief statement positioning company/industry of which it is part

Industry analysis: Profitability – 5 forces , competitor analysis, Macro environmental factors, competitor analysis –

Company corporate strategy

Company Business strategy –

Strategic leadership evident?

Questions to answer if not already done.

Current position of this company/industry – since case written

Conclusion – future of the company/industry

Min of 8 suitable reliable current acceptable sources

See course outline for presentation and marking

ALSO 5 minute summary in class to other students