

The Remaking of Swiss International



An Interview with Christoph Franz,
Chief Executive Officer, Swiss International Air Lines Ltd. (SWISS), Basel

EDITORS' NOTE After completing studies in Germany, France, and the United States, graduating with a doctorate from the Technische Universität Darmstadt (Germany), Christoph Franz joined the German national airline Deutsche Lufthansa, where he undertook a number of assignments dealing with strategy, sales, and controlling in Germany, France, and Turkey, and implemented a major turnaround project. In 1994, he left Lufthansa to join the German national railway Deutsche Bahn, where he held a variety of key positions during a nine-year tenure. He was appointed to his current position in April 2004.



Christoph Franz

COMPANY BRIEF Based in Basel, Swiss International Air Lines Ltd. (SWISS: www.swiss.com) is Switzerland's national airline, serving 69 destinations around the world, from its Zurich hub and from Basel and Geneva international airports, with a fleet of 69 aircraft. In 2005, the airline agreed to be acquired by the German national carrier Deutsche Lufthansa AG, but it will continue to provide quality air services linking Switzerland with Europe and the rest of the world. SWISS is a member of the Star Alliance airline network.

Since you became CEO of the airline in 2004, you have changed it considerably. The German air carrier Lufthansa currently owns 49 percent of SWISS. Will that change in the future?

It's already predefined that Lufthansa will take over 100 percent of the shares, in order for the maximum of synergies in this partnership to be exploited. But, for the time being, we are bound by the existing bilateral air service agreements between Switzerland and third countries. In many of these agreements, the right to fly to third countries is linked to a majority national ownership. So at this point in time, we are going back to different countries to make sure we can keep up our services to those countries once we have majority non-Swiss ownership.

When Lufthansa takes over, will you remain the CEO of the airline?

Yes. There is nothing linked to this change of ownership. The 51 percent majority share is held in a Swiss foundation, which was created to maintain Swiss ownership during this transition period.

You have substantially improved the airline since becoming CEO. How did you do that?

I think we are clearly benefiting from the heritage of the old Swissair. Switzerland has a long tradition of civil aviation, but the bankruptcy of Swissair and the creation of SWISS was a very difficult time for everyone involved, and particularly for our employees. We had to shrink the size of the company by 40 to 50 percent. But the good news is that we have been able to turn the company around without going into

Chapter 11, by the way, which is a regulation that does not exist in Switzerland. We're now making profits – in fact, we are one of the more profitable carriers in Europe. At the same time, we've been able to improve the quality of our offering. Consequently, I believe that now is the right moment to more actively communicate that SWISS is back on stage: that we have a top product and we have very loyal clientele all over the world. It's also important for us to attract new passengers – people who are not used to flying SWISS.

The airline is led by a group of young executives, most of them in their 40s.

Yes, that's right. We have quite a young management team, but it's a team of people with very sound management experience. For instance, our Chief Operating Officer, Manfred Brennwald, has spent his whole career within the airline business. So we have the necessary experience on board, and at the same time, we have a dynamic team that is willing to focus on growth again, now that we have turned the company around. We have recently made the decision to add additional aircraft to our fleet. For this reason and others, I think we'll see growth that's superior to the average market growth during the next two or three years.

Some people compare SWISS to British Airways, and it has been said that you're even better than British Airways in some areas. That's quite an accolade.

Yes. I think that our product is a high-quality product, and we clearly aim to be regarded as one of the highest-quality carriers here in Europe. British Airways is a benchmark, and it's also a challenge. We are embracing the challenge: We not only deliver a very good product these days, but we are continually upgrading our product in order to stay competitive. Switzerland is famous for its hospitality, and hospitality is also one of our corporate values. Hospitality, reliabil-

ity, and quality – we want to live those values for our passengers.

Now that the airline has become profitable, how will you make it even better? This is a difficult time for the airline industry, with high fuel costs and fears about security.

Absolutely. I think every airline is facing challenges of that nature at the moment. What is really difficult is the fact that today, on a worldwide scale, the profit you can make in the airline industry doesn't reflect the risk inherent in the airline industry. We are looking at profit margins of around 5 percent, and that's in a very favorable economic situation worldwide. The whole industry has to think about the next downturn. We have to go on thinking, on a global scale, about how to improve the quality and the profitability of our business.

How can you improve the quality of your offering when you're already up on the same level as British Airways?

We are making major investments to refurbish our existing product on board. This winter, we will refurbish our A319 and A321 aircraft. Last year, we refurbished our A320 fleet. We are also upgrading our regional aircraft. And next year, we are planning to undertake a major upgrade of our business class offering in our A330 and our A340 aircraft. So this is a continuous process.

At the same time, we're always thinking about how we can improve our food and beverage offering, and, probably most importantly, the training and qualifications of our flight crew members. That's important because of our emphasis on hospitality. Personal service is a major challenge for every airline, because the airline business has changed into a mass-transport business. Today, everybody is a member of the jet set. In times gone by, ordinary people never considered air transport as a means of transportation, because it seemed very, very expensive. Today, many people in Europe can fly to a European capital for the weekend for only a few dollars.

When you redesign the cabins, what colors will you use?

We will basically stick to the existing spectrum of colors, which is closely linked to the beauty of the landscape of Switzerland.

The interiors used to be gray.

In our continental aircraft we use gray leather for the seats, but in the intercontinental air-

The indispensable Swiss International crew



craft, the leather is brown, like the earth. We will also use some blue, like the sky.

That sounds very conservative, and quite subdued.

Absolutely. In this sense, we are not a fancy airline; we're a conservative airline, where you get what you expect. We don't overstretch ourselves, but we do like to offer a very solid experience. Once on board, we like our passengers to feel at home. It's about feeling cozy; it's not about the latest designs. We want to build upon our reputation for reliability, and we want customers to feel at home.

How do you individualize the customer experience?

We're a relatively small airline, and our size allows us to take a more personal approach to our customers, which is very rare in the mass-transport industry. We try to individualize the service we deliver to our customers, and we do so in a way that really surprises them. Today, you don't expect to get the personal attention of the flight attendants, but that's exactly the type of individualized service that customers get when they enter our aircraft.

It's certainly true that when you come aboard a SWISS plane, the crew members seem happy to see you. This is not the case on many airlines. How do you create that sense of welcome?

As I mentioned earlier, we benefit from a longstanding tradition of hospitality in this country, and particularly in Swissair. Swissair was always regarded as one of the top-quality airlines in the world, and we are living up to that expectation today, as Swiss International Air Lines.

Plus, we have highly qualified people on board, and we also have a tradition of training people to maintain a very positive attitude toward our customers. We truly regard them as guests on board our aircraft. This difference is not only noticeable when you enter the aircraft; it's also noticeable when you receive your food. Our flight attendants will not disappear afterward; they will come back and ask you if you want to have another glass of juice or whatever. So the kind of attention we dedicate to our clients is clearly a positive differentiating factor.

What frustrates you the most?

The most frustrating thing in this industry, clearly, is the fact that in order to be profitable, you need to be constantly working on your cost position. The whole industry is currently facing a tremendous challenge in keeping airlines running while the relative cost of fuel is going up. In our case, fuel has risen from around 12 percent of our total running costs to around 25 percent of total costs. So this is making a big, big difference. We need to take all the measures we can to keep the airline profitable, and this means going back to our suppliers, and also going back to our staff to ask them to work additional hours, to ask them for salary cuts, etc. This is a very unpleasant part of the business.

In your tenure as Chief Executive, what else do you hope to accomplish?

I hope that we will be able to achieve above-average growth compared to the overall market, and compared to the other hubs in the Lufthansa group. We intend to achieve a very competitive position in the heart of Europe, and are favored by our geographic location. Zurich is basically in

the center of this continent. We need to extend beyond our home market, Switzerland, and reach many European markets.

Another positive element is that Zurich is a smaller airport than many other hubs, and has excellent infrastructure. Changing aircraft in Zurich is very easy: It's very convenient and fast. We have a wonderful shopping center in the airport, which is unique in Europe, and the fact that Switzerland is not a member of the European Union opens up the opportunity to do real duty free shopping, which you are not able to do when you are traveling within the European community. In addition, we currently serve six U.S. airports with direct flights: Los Angeles, Miami, Chicago, Boston, John F. Kennedy Airport in New York, and Newark Airport in New Jersey. The U.S. is by far the biggest market for us, and New York is the most important intercontinental destination we have. So I feel that SWISS will be able to achieve above-average growth, and will reestablish its reputation as one of the top brands in the industry.

You have five children and you drive a Volkswagen bus. For the CEO of a major company, you seem very modest.

Yes. I think when you're in a turnaround situation, you'd better be modest, because things are difficult. You should set the right example to your employees, and show them how you want them to behave. I think this is an important aspect of leadership. I also think that being modest is part Swiss leadership culture – we are not too outspoken. Ultimately, delivering results is the most important thing. ●

Swiss International in flight