

## Air China – The Quintessential Chinese Brand



Air China aims to become a global Chinese airline brand dedicated to excellent operations, service levels and quality across the entire organization. A feasible business challenge for the Air China boardroom and management team that requires immense attention to leadership and execution of the growth strategy across the entire global organization.

As the only official flag-carrying airline in the country and the only airline granted preferential treatment by the Chinese government in international operations, Air China is currently positioned as one of the most recognizable global Chinese brands. With nearly 49 million passengers and 310 active aircrafts (August 2014), Air China had 900 daily departures and served over 149 airports in 29 different countries in 2013 alone.

Following their 2007 entrance into the Star Alliance (United Airlines, Singapore Airlines, Asiana Airlines, Turkish Airlines, ANA, Swiss, Lufthansa among many others), their customers can now enjoy up to 1269 locations in 192 countries all backed up by the premium worldwide reputation of the Star Alliance brand.

While the Chinese government owns a majority share, Air China is a publicly traded company listed on the Hong Kong, Shanghai, and London Stock Exchanges with a market capitalization of close to 8 billion USD. The company has holdings in Cathay Pacific, Air Macau, Shenzhen Airlines, and a variety of other regional carriers. While the singular brand Air China is neither the largest Chinese carrier in terms of most annual passengers, nor by the most kilometers flown, their position as an international carrier and a member of the Star Alliance make them a better known Chinese brand in much of the Western world.

The fleet of Air China comprises 310 aircrafts and 226 aircrafts on order, and the aircraft fleet has an average age of 6.5 years.

In addition to their passenger services, Air China also runs a cargo operation under the name Air China Cargo, which was consolidated with the cargo services of Air China and Cathay Pacific in 2011. Air China Cargo has a current fleet size of 13 aircrafts (August 2014), but has 9 aircrafts on order. Air China Cargo aspires to double their fleet size over the coming years.

The flight operations of Air China and Air China Cargo are based out of Beijing Capital International Airport.

### How was Air China formed?

The CAAC (Chinese Aviation Administration of China) was originally both a national aviation authority in China, similar to the FAA in the United States, as well as a commercial carrier. In 1988, the Chinese government decided to suspend commercial services and act solely as the national aviation authority. Air China was formed in 1988, as a result of that decision to split the CAAC's operations into six separate airlines (Air China, China Eastern, China Southern, China Northern, China Southwest, & China Northwest).

Air China was given the chief responsibility of long haul and intercontinental flights, and as a result, took over the CAAC's long haul aircrafts (Boeing 747s, 767s & 707s). Air China was also branded as the only flag carrying Chinese Airline and was given the responsibility for providing special flight services for senior government officers on official visits to other countries. Through a number of mergers and acquisitions over the years, Air China has grown to include some of those other brands.

The Air China logo is a phoenix made up of the letters VIP as well as the words "Air China" in English and in Chinese calligraphy as written by former Chinese reformist leader Deng Xiaoping. The color is the traditional Chinese red which implies auspiciousness, completion, peace and happiness, and the colour aim to express Air China's sincere passion to serve society and endlessly pursue safety.

## The Air China brand

Air China aims to set its brand apart in two main ways: Safety and service. Safety is the first and highest level of their service model, and believing that prevention is the best enforcer of safety, Air China has invested in some of the most extensive pilot training facilities and programs throughout the Chinese aviation industry. A Boeing 737 is used exclusively for pilot training alongside cockpit simulators and other advanced training equipment. Nine out of ten airline incidents are caused by violations of rules and regulations, which is why processes and safety compliance are strictly enforced at Air China.

The first and only fatal crash of an Air China aircraft was in 2002, which was due to inclement weather and miscommunication from the air control tower, ultimately killing 129 of the 166 people on board. Yet, despite the negative effect of the crash to their reputation, Air China has been able to maintain one of the best safety ratings and records throughout the region.

Beyond Air China's emphasis on safety, they have been able to set themselves apart by increasingly delivering on the service side of their business. The Air China brand aims to provide a high level customer experience on the ground and while airborne across all touch points of the brand.

The Air China service philosophy focuses on what the airline call their "Four C's of Service": Credibility, Convenience, Comfort and Choice. The airline ultimately wants to provide excellent value to each customer through a high quality level of service. As a result, the management team of Air China has started to position the brand as a premium carrier with an affordable price in the Chinese aviation market. The overall aim is not to focus premium service exclusively on first class passengers only, but to provide the very same quality and convenience for all their passengers.

## The Air China brand: SWOT Analysis

Air China is an internationally known brand with a clear trajectory of growth over the past decade. From 2002 to 2012, Air China has increased their annual passenger rate from six million to 49 million largely from their double-digit growth within China. In 2013, Air China carried 51 million domestic and international passengers with an average load factor of 81%.

Although they have been rapidly growing, the majority of this growth has been as a result of incredible market growth rather than a dramatic change in their market share. As the rate of growth in the Chinese market is slowing down, Air China's growth is slowing down too. The stagnation of the domestic market poses a threat to Air China, therefore the company will need a new strategy to expand and thrive in perhaps the most competitive industry in the world, and they can do this by further differentiating themselves.

Air China's membership in the Star Alliance will help the company connect to new international passengers that book tickets through partnering carriers, a strength that can help the company counter slow domestic market growth. Although they are able to ticket Chinese passengers through existing marketing channels (travel agencies, company website, [elong.com](http://elong.com), [ctrip.com](http://ctrip.com), etc.), the brand also needs to expand its influence to new passengers as well as provide additional convenience. Additionally, Air China has strength to utilize its participation in the Star Alliance and build its brand further in the global market.

International demand for flights to China is an unprecedented opportunity that will help Air China maximize its Star Alliance participation. Foreign carriers have rapidly expanded to include multiple international routes into China. However, Air China has not expanded their international routes at the same rate. In order to attract new foreign passengers, Air China needs to enhance their marketing efforts on their long haul routes from the United States and Europe to take advantage of increasing international travelers to China.

In order to achieve this, Air China must strengthen its brand power – especially to attract international passengers that do not have a strong brand preference for Air China or are most likely not to have any brand affinity with Air China at all. The current Air China website is outdated and portrays a poor quality, and low budget brand image. The imagery detracts from the high quality, service-oriented brand equity they aim to present as part of the long-term Air China strategy.

In the last few years, the Air China “self-service” sales have risen from 2% to 13% of their total revenue, and they need to develop their digital presence and activities to meet the same standard of other carriers and expand globally.

On top of the 49 million passengers that fly under the Air China brand, their subsidiaries and partners (including Cathay Pacific) fly more than 25 million more passengers annually, accounting for one third of the total revenue for the corporation. With their regional familiarity, these subsidiaries are an additional strength of Air China for potential growth. Although each of their regional carriers have a local brand value where they are respectively based, maintaining those other brand images takes away resources from increasing the intrinsic brand value of Air China.

In the Chinese market, the expansion of the new high-speed rail system is another threat to domestic airlines because these trains are extremely safe, reliable, and affordable. As the domestic market for air travel slows its rate of growth over the next several years, competition between domestic airlines will increase and Air China will need to differentiate themselves on price, value, and service, in order to maintain and earn additional market share.

## **Where is Air China headed?**

With the increased competition in the marketplace, Air China is executing plans to further separate themselves from competition by increasing the value they add to their customers with premium service. They are upgrading planes and in-flight cuisine, as well as maintaining an average lifetime of less than seven years for the aircrafts in their fleet.

They currently average around 95 employees for each of the aircrafts in their fleet, which is above industry average (discount carrier Ryanair in Europe has 28 employees per plane and Southwest Airlines in the United States has 79). This allows them to have better service for their passengers on the ground and in the air. With their focus on service and quality, they will need to manage their expenses and the additional workforce to maintain an affordable price point to fill their seats. While they have more employees per plane than most carriers, they do have significantly less than China Eastern and China Southern at 195 and 166 respectively.

This lean structure will be an advantage as they grow and domestic competition increases.

## **The Air China key challenges**

Air China is facing some key strategic challenges which the management team and the organization need to

address in order to build and sustain a strong brand:

**Human capital and service levels:** While Air China's brand focus is on adding value with high quality service, this can only be delivered by the human capital they employ, which cannot be expected to transform automatically. Ultimately, human resources will limit their growth. In order to maintain a high level of service, they need to attract the best employees in the industry by providing industry leading compensation, training, job stability, assurance of longer term employment, along with a rewarding and growth-oriented work environment. As a high-end airline in China, Air China must maintain a balance between differentiating themselves with outstanding service and in-flight amenities, and sustaining a reasonable price point in order to compete effectively.

The growth of China has also brought rise to discount carriers such as Spring Airlines, which have increased expectation of getting a large discount on premium carriers. Air China must find a way to keep excellent human capital on board while keeping costs at a reasonable level in order manage customer expectations on ticket prices and overall price levels.

**Cater effectively to core customers:** In the most highly saturated industry in the world, Air China needs to be able to set itself apart from competition. While they have utilized the Chinese government as a crutch to prop them up throughout the years, they are starting to realize that continued growth in the airline industry will not come from inefficiencies around cheap flights with average service, but from a dedicated focus on sustained innovation.

Emirates Airlines is a great case for Air China to consider, given the company's roots growing in emerging markets and utilizing government assistance. What has made Emirates successful is that they have used innovation as a way to keep buzz propelling them to the top. Emirates passengers continue to talk about their business class and first class bars, the first class on-flight showers, consistent and frequent upgrades given to loyal customers, and about Emirates first-class delivery of service. These attributes are derived from the Emirates training college that not only teaches and infuses cultural awareness and service proficiency, but enable flight crews to present luxury service to all customer segments.

While Air China is not necessarily aiming to serve Emirates' type of customers, it has a great opportunity to better service their target customers. The majority of Air China's passengers are businessmen and also Chinese government officials, who are willing to pay a premium price for Air China's high-quality service.

Air China must find ways to provide a great, overall brand experience. The airline must particularly aim at making flights easier for passengers flying on business, as new technology has enabled airlines to offer Wi-Fi, cell calls, printing, showering – all inflight. Air China must integrate new technologies and amenities to their flights to differentiate themselves from other Chinese airline carriers and to maintain brand loyalty for these customer segments.

Turkish Airlines is another rapidly rising global airline brand which Air China can get inspiration from, and learn how to effectively globalize an airline brand. Despite intensive global competition, Turkish Airlines has been able to create a far-reaching airline brand in only a few years since they decided to embark on global expansion of the company.

**Expand target segments:** Air China must cater better to international tourists and broader business segments, as the brand need to compete overseas and find effective ways to counterstrike domestic threats. Air China currently offers more than 100 flights from Beijing to 19 European destinations every week, which is a good start to expanding and catering to global demands. However, the key must be to effectively provide great Air China service to global passengers – given that China is rapidly rising. Air China has much to gain from positioning itself to be the top airline to fly on a Chinese destination.

Air China must also expand its target segment to Chinese passengers. By year 2020, it is estimated that 200 million Chinese will travel abroad, which is twice the number of that in 2013. Tapping into this market is a huge untapped opportunity. However, the growth of China has also brought rise to discount carriers such as Spring

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Air China must find a way to maintain excellent service and quality, while keeping costs at a reasonable level in order to manage customer expectations on flight prices.

**Revitalize the Air China brand:** Given the nature of the airline industry, it is important that Air China looks to restructure their communications and marketing efforts in order to attract new customers, reassure old customers, and instill some of the brand values that they want to project moving forward. Especially, in order to expand their influence over international passengers, creating and maintaining a reputable brand image is even more important as passengers can be more sceptical of airline brands from countries other than their own.

**Manage the Chinese country-of-origin:** Country of origin is very important, and brands that globalize often forget about the importance of the roots and culture. Made in China will eventually become globally accepted and a positive trait for Chinese brands, but till that happens on a broader global level, Air China needs to work hard to overcome any negative or skeptical perceptions related to the Chinese country of origin. Air China simply has to commit itself to excellent quality, ensure safety and provide good governance in all aspects of operations and business.

Air China can get aspiration from Singapore Airlines which is the strongest and most iconic, global airline brand. The rise of Singapore as a nation also saw the global rapid expansion of Singapore Airlines. The airline has become the face of Singapore with the iconic Singapore Girl known for high quality in all matters of operation and excellent service levels. Air China will eventually serve the same purpose for China and become a flying face of the Chinese nation and culture helping to transform positively the country of origin perception of China.

**Enhance impact of marketing:** Air China needs to enhance the impact of their marketing tactics incl. the presence of the brand on all relevant digital platforms. The Air China brand needs to create an easy-to-use webpage that gets people to where they need to go easily and effortlessly – both in Chinese and English. Given the move towards smartphones and other handheld devices, a dynamic mobile application would be useful as it can enable customers to check-in early, pull up their boarding passes, and access flight information among many other critical digital features.

**Revitalize the Air China logo and corporate identity:** While the Air China logo very much touches upon the Chinese heritage and culture, the company could truly benefit from a more fresh and unique makeover, while maintaining the “Chinese” aspects of the current logo and corporate identity.

**Improve data analytics incl. Big Data:** Air China can benefit from enhanced usage of data analytic programs and ride the wave of social media marketing. By utilizing modern analytics and big data, they can track and better understand consumer buying behavior, attitudes towards the Air China brand and how potential customers flow through the brand funnel. Data analytics and Big Data will become invaluable at targeting core customer segments more effectively and cost efficiently.

**Enable extensive viral marketing:** In the new era of social media, marketing and advertising do not necessarily have to be expensive anymore.

Many airlines have found inexpensive ways of generating buzz through digital strategies and word-of-mouth. Think how Emirates have benefitted from the viral marketing created by their sponsorships. Virgin Airlines and Air New Zealand found incredibly creative ways to run through the safety instructions at the start of the flight. Virgin uses dancing flight attendants and Air New Zealand uses Betty White to add comic relief to the otherwise monotonous set of safety instructions.

Air China could adapt similar marketing tactics – utilize social media to create an online competition to increase customer interaction, and perhaps utilize online advertising that applies analytics to target the right kind of customer, making sure they spend more on who they want to, instead of taking out an expensive ad in The New York Times – which might target the wrong customer altogether.

Taking some of these new strategies into consideration could prove to be a powerful way to differentiate the Air China brand from global competition, ultimately assuring continued success moving forward.

## **Conclusion: Air China can become a global, iconic brand**

Air China has a long history and tradition as the quintessential “Chinese” airline of choice domestically. This tradition, along with their international presence since 1988 and long haul capabilities, has set them apart from other Chinese airlines, but their value ultimately comes from a dedication to a high level of service and safety.

Their growth over the past decade was due to the extreme growth of the Chinese aviation market, and as with many Chinese brands, government favoritism. Moving forward, they will need to further differentiate themselves as a premium brand in order to earn business and growth in an increasingly competitive marketplace over the next decade.

Taking advantage of the increasing interest in China as a rising, influential economy, and a global destination and also utilizing their participation in the Star Alliance are some ways that the Air China brand can achieve strong growth.

As with many other Chinese companies, talent retention is a problem, so training and reward programs should be dedicated, as the right talents is likely to be their most valuable resource in the years to come. All global airlines are working hard to attract and retain the right talent, and Air China needs a dedicated strategy for this as well.

While Air China may have had a head start in terms of the flight routes in order to retain customers, they will need to show a higher commitment to service, rather than look for automated routes of efficiency.

In addition, to fend off domestic threats and take advantages of its strength and opportunities, Air China must not only cater to existing target passengers, but also broaden its horizon to strongly appeal to international passengers and the rapid number of Chinese tourists traveling domestically and in particular to global destinations.

Revitalizing the brand is crucial to achieve sustained growth, and recreating the website, utilizing data analytics, and putting efforts towards viral marketing are some recommended steps, so that Air China can ultimately become the quintessential Chinese brand across the globe.

For many Chinese companies and their executives, branding is viewed as a tactical exercise, treated as advertising and promotion, and mostly it is a communication activity run by a marketing department. But to build a strong global Chinese brand, the branding and marketing function needs to be elevated to a whole new level and Chinese CEOs and business leaders need to take the lead. Air China needs to ensure that marketing and innovation takes center-stage throughout the entire organization which will eventually enable Air China to become an iconic, global brand.

It is a reachable business challenge that the executive leadership of Air China should take seriously over the coming 3-5 years in order to further enhance and sustain the Air China brand equity and finally become the quintessential Chinese global brand.