Air Canada and Zip Air

AIRLINE HOPES TO CUT COSTS, REGAIN MARKET SHARE
PATRICK BRETHOUR AND KEITH MCArTHUR, GLOBE AND MAIL, 2002, APRIL 20, PP. B1, B6

Air Canada unveiled its long-awaited discount carrier yesterday, but warned that customers shouldn’t expect fares to immediately be lower than those already offered by Air Canada. Steve Smith, president and chief executive officer of Zip Air Inc., said the new airline is being created to cut Air Canada’s costs — not to reduce fares. ‘Right now, the price is already low, particularly in this market,’ he said, adding that prices could fall over time as the new airline reduced expenses. Observers see the wholly owned subsidiary as a way for Air Canada to lower labour costs and win back market share it has lost in recent years to Calgary-based WestJet Airlines Ltd. Mr Smith said a new business model is emerging in the airline market — as it has in retailing — where lower-cost, no-frills service becomes the norm.

He said the full-service model for short flights is ‘going the way of the dinosaur.’ Zip is aimed at meeting that challenge in the low end of the market, he said.

Zip’s costs will be at least 20 per cent lower than those at Air Canada’s comparable mainline flights, in part because Zip’s employees will be making less money than their counterparts at Air Canada. Mr Smith said wages will be competitive with Zip’s competitors in the low-cost market. ‘For the employees, they have to understand that they will be working for zip,’ he joked. Pamela Sachs, president of Air Canada component of the Canadian Union of Public Employees, said the union will mount a legal challenge to Air Canada’s attempts to pay so-called B-scale wages to Zip employees. ‘Air Canada gives zip by zapping its employees. They are hurting the very people who have worked so hard for them and for so long,’ she said.

Other cost-cutting measures at Zip include offering snacks instead of meals, providing no in-flight entertainment and operating only one kind of plane. There will also be less room between seats — 32 inches or 33 inches — although the seats will still have more leg room than the smallest seats at WestJet. The reduction, along with the elimination of business-class seats, will allow Zip to add 17 seats to the 100 seats in the Boeing 737-200. (WestJet has 120 seats in its Boeing 737-200s). The company will operate independently of Air Canada, although it will buy maintenance services from its parent, as well as using the larger company’s pilots.
HR STRATEGY – CASE STUDY: ZIP-AIR

Air Canada and Zip Air

1. How would you describe Zip Air’s Competitive Strategy?

2. How would you describe Zip Air’s HR Strategy?

3. How well do you think Zip Air’s HR Strategy supports its business plans?

4. Do you think that Zip Air will be able to mobilise its employee’s competencies and commitment to achieve competitive advantage?

Consider your own organisation...

5. Identify three key organisational objectives

6. How effectively (and in what ways) does your organisation’s HR Strategy support the attainment of those objectives?

Please be prepared to feedback your views on the above to each other.