

# United Airlines: Trans-Pacific Service

By Anne G. Pepper

Colin D. Murray, vice president-North Pacific of United Airlines, has been with the company for 26 years. He arrived in Tokyo in 1981 to help lay the groundwork for the company's Pacific operations. Two years later, United began flights on this long-desired route. Today, having taken over Pan American's Pacific service in 1986, United holds an 18% trans-Pacific market share.

The parent company, UAL, Inc., had consolidated operating revenues of \$9.2 billion in 1986. Of this, United Airlines posted a total of \$7.1 billion.

**Q:** Can you tell us, for a start, how and when United entered the Japanese market?

**A:** We had been trying for about 16 years to get into the Japanese market. It had been our ambition for a long time to become a part of the Pacific economic growth. Eventually, we got in in April 1983, with service from Seattle to Tokyo and Seattle to Hong Kong. And then, in February 1986, United took over Pan American's Pacific routes.

**Q:** What were the major obstacles standing in the way of your entering this market?

**A:** Bilateral negotiations. And the fact that the routes we wanted were initially awarded to other carriers, who flew them for a short time and then withdrew from the market. I don't think we could have ever gotten the authority we have without acquiring Pan Am's Pacific division. Certainly, it would have taken us many, many years and a great deal of effort.

**Q:** When United took over Pan Am's Pacific routes, the company said that it hoped to double the revenue passenger miles within five years. How are you progressing toward that goal?

**A:** We're well along the way. We're certainly up by at least 25% on the Pacific routes.

**Q:** What was United's operating revenue last year, and how many revenue passengers did you fly?



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**A:** Total revenue for United Airlines, not UAL, Inc., was \$7.1 billion. We flew over 50 million revenue passengers.

**Q:** What is United's trans-Pacific market share, and how do you rank compared to other airlines on that route?

**A:** At present, United has 18% of the market. Japan Air Lines (JAL) has 49%, Northwest 23%, and the rest is held by other carriers. So we're still the new kid on the block.

## Coping with regulation

**Q:** What do you find to be the special characteristics of the Japanese market?

**A:** The Japanese market is a peculiar market for us because, unlike other markets where we operate—principally the U.S.—the Japanese market is quite regulated. In the U.S. we have deregulation, such that airlines can fly where they want to and charge what they want to.

In neither case is that true in Japan. Now, flying where we want to is a subject for negotiation between governments, and that's common throughout the world. Also common throughout much

of the world is a lack of freedom in pricing. We're seeing some signs of that changing in Europe, but it has not changed in Japan. Fares are subject to the approval of the Japanese government.

**Q:** What other forms of Japanese government regulation have affected your operations here?

**A:** Those are the principal ones, although effectively, capacity at Narita Airport and Osaka Airport was subject to constraints beyond our control.

**Q:** Do you feel that constraints in this area operate equally as heavily on Japanese airlines?

**A:** That's a very difficult question. I don't have a lot of evidence to say that they don't. I believe—and this is a personal opinion—that neither airport is at its peak capacity. I believe that operated somewhat differently, more flights could be accommodated at both airports.

**Q:** If airlines operating in Japan were subject to less government regulation, what would you like to see United do?

**A:** There are any number of things we'd like to do. Foremost on the list would be more landings and takeoffs. I



would like to increase the frequency of flights from Narita to Hawaii, which I have the authority to do by bilateral agreement. I would like to fly from Osaka to Hawaii, which I have the authority to do. And I would like to fly to some other Asian destinations beyond Japan, which I also have the authority to do.

## Stiff competition

**Q:** *What is United's strategy for dealing with the competition in Japan, both from JAL and from other American carriers?*

**A:** Japan is a very competitive situation. Obviously, it isn't as competitive as other parts of the world in terms of price, but it has a great deal of competition in terms of schedule and frequency, and also service.

JAL is an excellent airline: It's run very well, it performs very well, it's very safe, and altogether is a worthy competitor. Obviously, they have a corner on . . . being Japanese. They can be immediately more Japanese to passengers than can a non-Japanese carrier. In our case, we've chosen to attempt to portray a welcoming, American kind of service. This is working well, because our results are ahead of where we had planned to be. I guess that's a measure of acceptance from the traveling public in Japan.

The great thing about competition is that it keeps us all on our toes. It makes us a better airline, as it does the ones that are competing with us. It also stimulates the market; more people fly. We're out there telling people in Des Moines, Iowa: "You should go to Japan." It would be very difficult for JAL to do this. So the number of airlines serving the segment—the competition—really stimulates more people to fly.

**Q:** *And what about dealing with your American competitors?*

**A:** Northwest, of course, is a very fine airline, especially in the Pacific. They've been here for many years, and they're very tough. But we're used to competing with American airlines; we compete all over the U.S. with them. We carry over 50% of the domestic U.S. market to Hawaii, in the face of extremely heavy competition. So competing with U.S. carriers is a normal part of our daily regimen. Once again, competition is a good thing. It's good for us, it's good for them and, probably most importantly, it's good for the passengers.

**Q:** *What form of advertising have you found to be most effective in Japan?*

**A:** Japan, as you know, is a very difficult advertising country. In part because the

noise level is so high. Where else can you find newspapers with 7–8 million daily circulation? The reach of the media in Japan is pervasive. What other country in the world would have comic books with a circulation greater than the *New York Times*? We've found that a judicious mix is best. We're into television, particularly into advertisements during golf events.

At the same time, you can't be in Japan without being into print advertising. We've had a great deal of success with our print advertising. The one thing we haven't done very much with is radio. At the moment, it's less potent than radio in the U.S., one reason being that more people here travel by public transportation.

**Q:** *How do you find working with tour operators in Japan compared with those in other countries where you operate?*

**A:** I'm very impressed with the tour operators in Japan. They're highly professional, very sophisticated buyers, very sophisticated advertisers and sellers. We have to work very hard to satisfy them; their standards are high. For example, if we are working with the Japan Travel Bureau, they have to be quite certain in their own minds that their customers are getting exactly what was advertised.

Tour packagers here are much more sophisticated than they are in many other countries. They're inventive; they look for market segments. They're not passive presenters of tour products; they develop very imaginative packages.

**Q:** *What percentage of your outbound passengers from Japan are members of a group tour?*

**A:** It's approximately 80%. It's a major portion of our business here, and one that has helped us a great deal and that occupies a lot of our time.

**Q:** *Do you carry more passengers from the U.S. to Japan, or vice versa?*

**A:** The load factor varies seasonally. In general terms, we should carry more passengers from the U.S. to here, since our network in the U.S. is so vast. At the moment, though, we're carrying more people from Asia to the U.S.

**Q:** *How much of this situation do you attribute to the strong yen?*

**A:** That's a tough one. Some of it, to be sure. I think the strong yen has undoubtedly influenced the number of Japanese who are traveling for pleasure. There is talk of air travelers going up 9%, or perhaps even into a double-digit figure, which is certainly related to the strength of the yen. Business activity is also a factor. As the strong yen causes more Japanese businesses to go offshore, this affects us too.

At the risk of sounding as if I'm criticiz-

ing my own company, I think we could pay more attention in the U.S. to travel to the Orient. It's very difficult to sell that idea because the Pacific, in its totality—as far as United is concerned—is a very small part of the whole. For example, take United's departures out of Chicago's O'Hare Airport. Pacific departures represent two a day out of some 420. But the point I'm making to the head office is that one round-trip passenger from Narita to New York's Kennedy is worth 76 round-trip passengers from San Francisco to Los Angeles.

**Q:** *What is United doing to promote travel from the U.S. to Japan?*

**A:** We're doing a lot. One of the principal things we're doing is a Royal Pacific Cultural Exchange that we instituted at the time of the Pan Am acquisition. This is in conjunction with sister cities. We are promoting cultural exchanges between these cities, and are providing people with transportation to do it. The response has been absolutely marvelous. In fact, the PR people in Chicago won the Golden Quill Award for this from the International Association of Business Communicators.

**Q:** *In your five years here, what have you found to be the most difficult aspect of doing business?*

**A:** For me, what has been most difficult is learning how business is done here. It's very necessary to be patient here. If I've learned one thing in five years, it's a degree of patience.

## Asian-Pacific expansion

**Q:** *What trends do you see in the Pacific market in the short run?*

**A:** On the North Pacific runs, there are additional competitors entering the market: Delta out of Atlanta and Portland, and American out of Dallas. So we're getting some of the service that's needed across the Pacific.

In the short run, I don't see any change in the Japanese government's attitude to pricing. It's good, though, that they've announced they're reducing fares out of Japan by 10%, because the disparity between what it costs to cross the Pacific in either direction is ridiculous.

I believe that traffic between Japan and the U.S. will continue to increase. I think we have tremendous destinations that are of great interest to the Japanese, and I'm looking for another healthy increase in the numbers of Japanese passengers flying to the U.S.

**Q:** *And what do you see for the long run?*

**A:** I'm not really that good at predicting. I can tell you what I hope to see;



whether it'll come to pass or not I don't know. I would hope to see a great deal less regulation of the market by governments. I don't know that this will come to pass, but I think there will be pressures to bring it about. I think the fact that the EC is making moves toward liberalizing competition will eventually have an effect on other countries, including Japan. I think it's a good thing; I think the participants—and more importantly, the traveling public—will benefit.

I would like to see competition not only regarding flights and fares but also in computer reservation systems. We have proposed an Apollo computer reservation system associated with the travel agent bank settlement plan in Japan.

This is in the face of a great deal of opposition from JAL. I think this opposition is wrong. I don't think we will be the only airline attempting to provide such a system, and I think it will benefit the market and the public.

**Q:** *What are your thoughts regarding the new Kansai airport in Osaka?*

**A:** A 24-hour airport, such as proposed, is something that is needed. I think it's unfortunate that the initial stages of building it were handled in such a way that, manifestly, foreign would-be participants could not participate. I think there's one foreign participant who has a subcontract for \$220,000. That is absolutely ludicrous. If they have to open an office it'll use up their \$220,000.

I think that the opening of such things as the completion of the construction of the new Kansai airport is something that Japan must come to grips with. Otherwise, there is the possibility that a Japanese construction company wanting to build in New York won't be able to. And I would have to say that they deserve a reaction of that kind.

We're looking forward to serving the new Kansai airport, but we would feel a lot better about it if this new international airport would pay some attention to the IATA technical groups who are trying very hard to give them advice based on their experience around the world. But we stand ready to serve Kansai, and we would like to increase our service to Kansai. We intend to do so as soon as we have the permission.

**Q:** *What are your company's future plans in Asia?*

**A:** We want to become a significant force in aviation in the Pacific. We judge that we have a fairly good beginning, and we'd like to expand that. It's difficult because we have to work within the context of bilateral negotiations, but we will be actively pursuing any and all opportunities. If you ask me what I'd like the most, I'd like to get the Tokyo-Chicago route. I'd start flying it tomorrow morning. And there are many, many other places that are in our plans, as and when we're able to get them.

**Q:** *Will the Seoul Olympics have any effect on your plans?*

**A:** Indeed. Just in April, as a result of bilateral negotiations, we were able to start nonstop service between Seoul and Chicago. I hope by the time of the Olympics we'll have service from Seoul to one other point in the U.S.

**Q:** *What advice would you give to foreign companies desiring to enter the Japanese market?*

**A:** I am a great believer in what Ambassador Mansfield says. I think that the Japan-U.S. relationship is the most important relationship in the geopolitical world. It's one that's fraught with difficulties, but those difficulties are capable of being surmounted. I would urge anyone coming in here in a commercial endeavor to study the country well, not to accept no for an answer, to get as many good Japanese employees as possible — — — and *ganbarimasho* (let's try hard).

I think foreign companies can succeed here. Are there things in the way, artificial things? Well, of course there are. We have to work very hard to remove these artificial constraints. But at no point should we allow the relationship to be harmed.

