

P R O F I L E New Skies, New Challenges

Akio Kondo is the president of All Nippon Airways, Japan's second-largest airline company. The company was for many years confined to only domestic airline services, but deregulation enabled it to make its first international flight in 1986. Although it is the leader in domestic airline services, ANA remains a newcomer in the international market, where it is dwarfed by the nation's No. 1 international carrier, Japan Air Lines. Kondo has the responsibility to see that ANA maintains its domestic mastery while expanding its overseas routes.

Question: *All Nippon Airways (ANA) flew its first international flight in 1986, and you have been able to add to your international routes since then. You seem to be making rapid progress in your drive to become an international air carrier.*

Kondo: Ever since it was founded 36 years ago, ANA has wanted to participate in the international arena. Finally our dream has come true. We were also very lucky that we went international during a period of economic expansion, and had many more passengers than originally forecast. But although our load factor figures for this year have been outstanding—over 70%—ANA is still very new to international aviation, and we have not yet reached the point of actually making money on these overseas routes.

We had originally expected to start making a profit on our international routes in three or four years, but we were not prepared for the immense amount of bilateral red tape involved in dealing with each country that you want to fly into or over. Also, most of the popular destinations are already well served by Japan Air Lines (JAL) and the other leading international airlines, and it will take time for us to establish ourselves in the market. Consequently, our expansion is proceeding a little slower than we planned.

Q: *JAL has been operating for so many years that the name has become synonymous with Japanese aviation overseas. That must be a very tough reputation to compete against.*

A: When civil aviation got its start in postwar Japan, the government's policy was to have a single international flag carrier, and this policy went unchanged until two years ago, when ANA was granted permission to fly internationally. Under the protective arm of the government,

JAL used its monopoly position to become the biggest airline in the world in terms of revenue-tonnage-kilometers. Although it will not be easy for ANA to compete against this giant, I think we are tougher as a result of having been purely a private enterprise since our inception. We're used to competing for market, and this is to our advantage.

Q: *Have you had any special problems in training your flight attendants and ground personnel for going international?*

A: Yes, we have. This would have been difficult under the best of circumstances, and we had extremely short notice. There was less than a year between the time we heard informally that we would be allowed to start flying internationally and the time we actually received official approval in January 1986.

Even so, we were able to get the necessary training done and the first flights to Guam, Los Angeles and Washington went without any snags. We were especially fortunate that Nippon Cargo Airlines (NCA) contracted with ANA in 1985 to let our pilots get some hands-on flying experience on their cargo planes. This was very

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good practice and a great confidence-builder, since it meant our pilots were able to accumulate about a year of international flying before carrying passengers for ANA. We are very grateful to have had this relationship with NCA.

Q: *I realize this is a difficult question in light of the fact that so much depends on government-to-government negotiations, but what do you think the future holds by way of new routes for ANA?*

A: America is, of course, the largest market in the world for international air travel. ANA already flies to Los Angeles and Washington D.C.—two of the most important cities in the United States. And we would like to get approval for a route to Hawaii, a very popular destination for Japanese tourists, as soon as possible; but that, of course, hinges on negotiations between the U.S. and the Japanese government. We are also hoping for routes to San Francisco and New York, given the large number of both business and tourist travelers to both cities. We hope this will happen soon.

There is also very brisk demand for flights between Japan and Southeast Asia. Bangkok and Singapore are both too important to ignore, and we already have plans to offer flights to Bangkok starting next April. And given Europe's popularity with Japanese tourists and businessmen, London and Paris are on the top of our list there, and we are scheduled to start serving London by next July. But we feel that the only way we can compete is to offer a nonstop service direct to London, and we are still working on negotiations for rights to overfly Siberia. We are pushing the Japanese government on this and doing everything we can ourselves, and we are confident that these overflight rights will come through.

Q: *Let me turn now to the domestic market, which also seems to be getting more and more competitive. Given the tide of deregulation, what does the future hold for ANA here at home?*

A: There are three major factors contributing to changes in Japan's aviation policy: the increase in the number of Japanese carriers serving international routes, the deregulation of domestic air travel and the privatization of JAL. Opening Japan's domestic airways to freer competition is definitely going to result in a more competitive market. Last year JAL started competing with us on several routes that we previously had to ourselves. The problem is that the Tokyo and Osaka airports are already quite congested, and it is getting very hard to obtain take-off and landing rights there. Giving rights to one carrier means taking them away from another, so

the competition does not generate new demand but just shuffles the same demand among the competing airlines. This is not the way competition is supposed to work.

Because of limited takeoff and landing capacity, Japan has had to fly jumbo aircraft domestically, even on short routes, to meet demand. Flying smaller aircraft on a more frequent schedule would give the customer more flexibility as far as departure times go, but we cannot do that in Japan. If we could match our services to what the market wants—and I think we will be able to later—this should also increase the demand for air travel.

Another big problem is that we are making money on only about 30% of our routes, with the remaining 70% in the red. A company should be able to drop its unprofitable routes, but it is not so easy for companies in Japan to disregard what the citizens of outlying areas might think. This is in contrast with America, where they are freer from public concerns and follow a more profit-oriented, free-market philosophy. If a route is not making money, management does not waste any time getting rid of it. Americans do not see anything wrong with this, but Japanese society would never allow it. That is one problem in Japan, and one reason why market principles do not have that much impact on what happens.

On the surface it seems to be a free market, but in actuality there are other, stronger forces present. The government needs to be careful that it does not end up distorting the market with partial deregulation. I agree that airline deregulation is necessary, but it has to be done properly for it to work.

Q: *You mentioned jumbo aircraft, and it occurs to me that these are mostly imports.*

A: Yes indeed. The Japanese airline industry has done a lot to ease the trade friction that has developed over Japan's exports. Just at ANA alone, we have already purchased 137 planes from the United States—116 from Boeing and 21 from Lockheed. In addition, we have another 15 on order from Boeing that are going to cost us about \$2 billion. This is a lot of money we are talking about here—even apart from all the money spent by Japanese tourists—and it goes a long way to mitigate the trade imbalance. Frankly, I am a little puzzled that this does not get more attention than it does.

Another thing that bothers me is the American government's "Fly American" policy. As I understand it, U.S. government officials are only allowed to fly aboard U.S.-flag airlines. I wish the

government would change its policy on this, at least to include American aircraft flown by non-U.S. carriers.

Q: *The physical limitations that Japanese airlines must deal with should be alleviated somewhat when the Haneda improvements are completed in Tokyo and the new Kansai International Airport goes into operation in Osaka. When that happens, your only problem will be how to compete in a deregulated market. How much further do you think airline deregulation will proceed in Japan, and will it result in a more efficient market and better service for the consumer?*

A: Given the social constraints, Japanese deregulation has not resulted in much benefit to the consumer up until now. And it probably won't in the future unless these social constraints can be alleviated.

In America, air fares have been completely deregulated. As a result, fares differ depending on the season, the day of the week, and even the time of day—and fares are not even uniform within the same flight and class. This makes for some very low-priced fares—\$99 from New York to Los Angeles, for example. This is really loss-leader-type retailing, however, since the airlines cannot afford to let everybody fly for the same rock-bottom prices. Typically, these low fares are limited to, say, only 30 seats on any one flight, and once those seats have been sold, the price reverts to “list price.” If we were to bring this system to Japan, it would lead to all sorts of problems. If a passenger found out the person sitting next to him on the flight only paid half of what he did, he would raise all kinds of objections. Likewise, if the price were reduced during the off-season, everyone would argue that the low price should be available year-round, since it obviously does not cost the airline any more to fly during the peak season.

This type of layered price structure works fine in the United States, but there is too high a priority on equality for it to be accepted in Japan. Japanese travelers are just not receptive to the idea of paying different prices for what is seen as basically the same service, and this makes the deregulation of airfares and the resulting price flexibility a difficult proposition to sell in Japan.

Q: *Another very important facet of air travel is the safety factor. Do you have any special thoughts on the subject of air safety?*

A: Safety is not something where you can say, “If we do this, we have safety.” It just does not work that way. Safety is a matter of everybody in the whole organization conscientiously following

the correct procedures all the time every day and always thinking ‘safety.’ And any time new in-flight avionics or anything else becomes available that can make the flight safer, the whole fleet should be fitted. Even though safety is very expensive, I think we get our investment back in terms of increased demand. Safety is very much a human-factor concern, and we are doing everything we can to ensure that everybody at ANA is safety-conscious.

Q: *Civil aviation is very small-scale in Japan. This is in contrast with America, where it is not unusual for grade-schoolers to learn to fly light aircraft. How does this lack of a large population of aviation-oriented individuals affect the Japanese airline industry?*

A: It means we do not have a large pool of people with flight experience to draw on, and so we have to train our own people from scratch. In America, the airlines have a huge pool of military-trained pilots to choose from, and they are generally able to hire the cream of the crop. In Japan, on the other hand, very few of the pilots trained by the Japanese Self Defense Forces elect to move into commercial aviation. Of course, there are some, but not nearly enough to supply us with the pilots we need. So we have to train our pilots ourselves, usually from the very start. It is hard to complain about this situation, since it is the result of so many different factors, but it does put us at a disadvantage compared with airlines in most other countries.

Q: *Having read your curriculum vitae, I see that you have spent your whole career in the airline industry. So far, we have talked mostly about that industry. Now though, I would like to get away from ANA and find out what kind of a person you yourself are. Are there any particular pearls of wisdom that you can offer us—any mottoes that you live by?*

A: In all honesty, I am not really a motto kind of person. I think one of the most important things top management should keep in mind is that a company should be a good place to work. You need to break down the hierarchical barriers between people so that anyone can talk to anyone else, no matter what their ranks or positions. That is the kind of atmosphere that a company should strive to develop. Harmony within an organization is critical to that organization's success, and if a company's harmony breaks down, that company is on the road to disaster. I firmly believe that maintaining harmony within ANA will help us to scale the heights before us, and I am always working to see that all of our employees share this philosophy. ■

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