

Wishing on a star

Varig of Brazil is buoyant about its future as a member of the Star Alliance



GUY NORRIS/RIO DE JANEIRO

VARIG IS ENTERING one of the most pivotal periods in its 70-year history. After successfully struggling to turn its fortunes around in 1996, the Brazilian flag carrier figuratively hitched its wagon to a star in 1997 when it joined the growing band of airline members of the Star Alliance.

"We celebrated our 70th birthday in May this year and, for the next 70 years, I think our membership of the Star Alliance will be the most important thing," says Varig president and chief executive Fernando Pinto. The airline signed a letter of intent to join the Alliance on 14 May, but entry was delayed until 26 October while Varig honoured the remaining few months of its agreement with Delta Air Lines – an agreement which was terminated as part of the tie-up with the Star Alliance.

Pinto sees his airline's membership as a "win-win" situation for all parties. It plugs Varig into the Alliance's global network which, excluding other new entrant Singapore Airlines, spans 642 worldwide destinations and transports 184 million passengers a year with 6,692 daily departures on 1,446 aircraft. Varig's direct contribution to this includes 390 daily departures with 82 aircraft carrying 9.7 million passengers a year to a network of 122 destinations.

As Brazil straddles the Tropic of Capricorn, Varig's enrolment also provides the Alliance

with its first southern-hemisphere-based member as well as much wider access to Latin America. In subtle recognition of this, the "Star" symbol of the Alliance – which at first represented five airlines (Air Canada, Lufthansa, SAS, Thai Airways International and United Airlines) – is said now to represent the five continents.

"There is a lot of development still to be done, but already it is starting to look good," says Pinto. "Even though we're all talking about cutting our costs, the first priority is to serve the passengers better. So we plan to adjust our schedules to fit the others closely, bring our check-in areas closer together and adjust our baggage system to enable one single check-in process. There's a lot to be done, but you have to make it easier for the passenger by offering a superior service. This will help us build up higher-yield traffic and earn more revenue. You must also remember that, even though we are in this together, we still compete."

STAR FIT

Membership of the Alliance therefore dovetails neatly with the two main drivers of Varig's existing improvement plan – those of growing levels of higher-yield traffic and lowering costs. The introduction of a yield-management system, and the reconfiguring of the fleet with increased executive-class seating in the second quarter of 1996, marked the beginning of the airline's

recovery process. Revenue losses dogged the airline right through to May 1996, when the revised strategy began to take effect. Profitability, nevertheless "...continues to stand out as a major concern", adds Pinto, who says that attacking costs will remain a priority. "We've gone a long way already towards achieving our goals of cost reduction and we are fine-tuning that process now," he says.

Varig's costs had been "...threatening to get out of control", mainly because of the airline's collective salary settlement of December 1995. The carrier's dramatic restructuring plan put into effect in 1996 allowed it to trim costs by \$140 million during the year and further savings are expected from continued measures which have been taken throughout 1997.

One such measure is Varig's continued swing towards operating leases. Under this type of lease, an aircraft is not recorded under permanent assets and neither are the financial obligations recorded under long-term liabilities. This has the effect of reducing artificial distortions which drastically alter the perception of the airline's true economic health. For example, the 1996 results show a loss of Real 63.9 million (\$58 million), based on accounting principles accepted in Brazil as the basis for corporate legislation. Taken another way, however, in terms of constant purchasing power (or full monetary restatement), the airline recorded a healthy profit of Real 97.1 million.