White Paper:

Examining key financial ratios among scheduled airlines in Canada

Tim Glowa
Tim@Glowa.ca

September 7, 2001

Table of Contents

Executive Summary

This paper examines and compares the three major scheduled airlines in Canada.

Since the acquisition of Canadian Airlines by Air Canada (Toronto: AC) in July 2000, the airline industry in Canada has been constantly evolving. WestJet (Toronto: WJA), the Calgary based discount airline, has emerged as a major competitor by establishing services right across Canada. Canada 3000 (Toronto: CCC), shedding itself of its charter airline status, has evolved into the second largest airline in Canada (by purchasing Royal Airlines and CanJet), and is actively expanding its network and improving its product offering.

The financial health of each of these three competitors is examined.

WestJet is by far the airline with the best financial health. WestJet recorded the highest profit of any airline in Canada for its most recent year-end, and dominates its competitors on several key measures including: liquidity, long term debt to capital, return on sales, and profit margin. By the end of 2001, Air Canada will challenge its domination as Canada's low cost airline by launching its own discount airline.

Canada 3000 is, for the most part, considered to be the second healthiest airline in Canada. The strong point for Canada 3000 is its asset utilization; the airline has the highest load factor and asset turnover of any carrier.

Conversely, Air Canada is struggling. Since acquiring Canadian Airlines, the integration of the two companies has not produced the cost savings that were expected. Despite having over 70% market share in Canada, the airline lost $82 million in 2000.

Introduction

The purpose of this paper is to examine the financial health of the three dominant airlines in Canada; WestJet (Toronto: WJA), Air Canada (Toronto: AC) and Canada 3000 (Toronto: CCC). Although there is another airline, Air Transat, which operates in Canada, since it is a charter operation, it has been excluded from this analysis.

All figures presented in this paper are in Canadian dollars. As of September 12, 2001, US$1=$1.56 Canadian.

This paper is outlined as follows:

- First, a brief discussion of the history of commercial aviation in Canada
- Second, a presentation of the financial ratios comparing WestJet, Canada 3000 and Air Canada
- Third, a discussion of the financial ratios for WestJet, Canada 3000 and Air Canada
- Fourth, an examination of airline specific ratios for WestJet, Canada 3000 and Air Canada.

Background – The Airline Industry in Canada

With the Air Canada takeover of Canadian Airlines in July 2000, there has been much speculation and discussion in Canada about the future of the airline industry. The struggle between Canadian Airlines and Air Canada, both fierce competitors, is symbolic of the very deep division present within Canadian culture. Air Canada, a former Crown Corporation and headquartered in Eastern Canada, was given favorable financing at the time of its privatization in the early 1990's. The Government of Canada decided that, in order to help the airline get over the transition from Crown Corporation to public company, it would remove all debt. As such, Air Canada was launched with a brand new fleet, and not saddled with the burden of having to pay for it.

On the other hand, Canadian Airlines was based in Western Canada, and was often viewed by Western Canadian's as its little airline. Formed out of the union of Pacific Western Airline and Canadian Pacific in 1986, and expanded several years later through the purchase of the Edmonton based charter Wardair, Canadian Airlines was an expert at loosing money. In the last ten years of its existence, Canadian showed a profit once; a modest positive net income in 1997 of $5.4 million. Despite the widespread belief of imminent ruin and provincial government bailouts, Canadian remained a symbol of the western Canadian underdog challenging the eastern Canadian establishment. Traditionally, Canadian Airlines was the dominant carrier flying between points in Western Canada, while Air Canada owned the market in eastern Canada. Fortunately for Air Canada, the population in Eastern Canada is significantly larger.

After restructuring its financial operations in 1995 after near collapse, Canadian was saved through a $100 million lifeline investment from American Airlines. In exchange for using the SABRE reservation systems, American agreed to remain on as a minority investor, although much of the expertise from American flew directly from Dallas into Calgary in the form of senior management.

It is under this chaotic situation that Clive Beddoe, founder of WestJet, decided to, as it turned out, drive the final nail in the Canadian Airlines coffin by launching a small regional low cost airline out of Calgary, directly competing with Canadian and Air Canada on the short haul routes between Edmonton, Calgary, and Vancouver. Initially, both Air Canada and Canadian dismissed WestJet Airlines as an upstart competitor, doomed to failure like so many other airlines in Canadian history (like the short lived Greyhound airlines in the mid-nineteen nineties, and the even shorter Roots Airline in the spring of 2001).

The WestJet business model, however, was different. It was modeled after Southwest Airlines, and included the following items:

- Low cost fares intending not to compete with the larger airlines for the business customer, but rather attempting to lure traditional non-travelers; people who could either “sit on their couch” for a weekend, or travel and visit friends.
- Provide a minimal level of service, resulting in lower costs. The thinking is that for a flight with a duration of 1 hour and 30 minutes, passengers will forego inflight entertainment and meals in favor of lower prices.
- Keep wage and salary costs low by hiring non-unionized employees
- Minimize the inventory of spare and replacement airplane parts needed by standardizing the fleet. In this case, only fly Boeing 737 aircraft.
- Minimize the cost to service the passenger by only accepting electronic tickets, and forego traditional paper tickets. This also reduced mail-out costs from central reservations.

Utilizing this business model, WestJet commenced operations on February 29, 1996, serving Vancouver, Kelowna, Calgary, Edmonton and Winnipeg with three used 737 aircraft[1]. The introductory price of a one-way flight from Calgary to Edmonton was $29, down from $290 with Air Canada or Canadian. A one-way flight from Calgary to Vancouver would cost $89, compared to a $500 return fare on Canadian Airlines. Canadian and Air Canada had no choice but to match these fares.

Canadian Airlines was in a difficult financial squeeze. It needed to maintain flight frequency between Calgary and Edmonton with Vancouver in order to feed its lucrative transpacific routes between Vancouver and Hong Kong, Tokyo, Taipei, and Beijing. However, simply matching fares with WestJet, while struggling with the higher costs associated with operating a full service airline, resulted in increasing losses. In fact, one internal report that circulated at Canadian attributed a $60 million year loss, on the Calgary, Edmonton, and Vancouver triangle alone, directly as a result of WestJet.

In addition to WestJet and Air Canada, Canadian Airlines faced additional competition from low priced charter carriers, namely Canada 3000 (now a publicly traded full service

[1] See: www.westjet.com/corphome

airline), Royal Airlines, and Air Transat[2]. Although these charter airlines traditionally seek leisure traffic by focusing on European routes in the summer-time, and sunnier destination (like Mexico and the Caribbean) during the winter-time, this distinction has changed in recent years. Canada 3000, after purchasing Royal Airlines for $65million in March of 2001 and the failed upstart discount airline CanJet for $7million, expanded its route frequency on key destinations within Canada, and obtained scheduled airline status. Further, Canada 3000 operates the most modern fleet in Canada, has launched a frequent flyer program in an effort to attract price sensitive business travelers, and recently introduced C3 service, its version of business class. Further, in 1998, Canada 3000 expanded its point of sale distribution system by joining the CRS global reservations system through SABRE, Galileo/Apollo, Amadeus and Worldspan.

Under this competitive environment, and mounting debt, Canadian Airlines needed to do something. During previous restructurings in the mid 1990's, the provincial Governments of Alberta and British Columbia provided loan guarantees to protect jobs and maintain the presence of an airline in Western Canada. However, times have changed. In 1999 the Government of Alberta stated that it was no longer in the business of being in business, and refused to extend any more credit to Canadian Airlines. The Federal Government of Canada, controlling the national transportation act in the interests of the public, refused to adjust the level of foreign ownership for Canadian based airlines; American was not allowed to invest further. The solution for Canadian Airlines was to partner with Onex corporation (www.onex.com, Toronto: OCX), which specialized in "building shareholder value by creating global leaders in undervalued but attractive industries"[3], and collectively launch a reverse takeover of Air Canada.

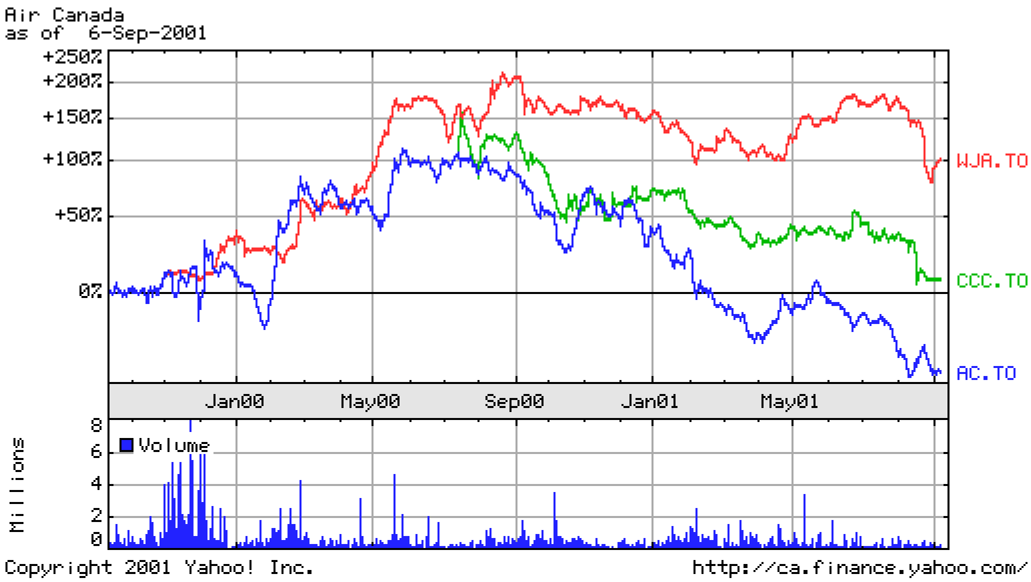
Despite the best intentions, the struggle for Canadian skies proved too much for Canadian Airlines and Onex; Air Canada raised millions in financing from Star Alliance partners United Airlines and Lufthansa, and effectively outbid the Canadian/Onex team. For the first quarter of 2000, the last time results were reported, Canadian lost $255.9 million dollars, and needed an emergency cash infusion from Air Canada to continue operations during the transition period[4]. Subsequently, Canadian Airlines became a subsidiary of Air Canada in July 2000, and eventually sought court protection in July 2000[5].

On the other hand, WestJet, fueled by a successful IPO in December 1999 that raised $25 million on the issuance of 2.5 million shares ($10/share initially, trading at $24.12 as of July 30, 2001) continues to expand. It now serves 17 cities from coast to coast, with a fleet of 23 aircraft, and has placed orders for an additional 94 new Boeing 737's to be delivered over the next eight years[6].

Over the past two years, WestJet has had the highest share prices of any airline, as illustrated with the graph below:

---

[2] Royal Airlines was subsequently acquired by Canada 3000 in 2001.
[3] see: www.onex.com, and company profile
[4] www. newswire.ca/releases/may2000/01/c0477.html
[5] www.newswire.ca/releases/july2000/05/c1308.html
[6] WestJet press release, dated May 25, 2001.



Presentation of the Ratios

The graph compares Air Canada, WestJet Airlines and Canada 3000. Note: Canada 3000 2001 results are for the year-end, dated April 30, 2001. Since the company went public in 2000, these are the only results available. For Air Canada and WestJet, the year-end is December 31st.

	Air Canada		WestJet Airlines		Canada 3000	
	2000	**1999**	**2000**	**1999**	**2001**	**2000**
Liquidity Ratio: Current Ratio	0.62	0.84	1.02	1.21	0.73	0.85
Capitalization Ratio: Financial Leverage	30.76	18.72	1.86	1.97	3.29	6.73
Long term debt to capital	0.37	0.47	0.12	0.16	0.004	--
Profit: Return on Sales	-0.01	0.02	0.09	0.08	0.02	0.01
Profit: Return on Assets	-0.01	0.02	0.09	0.08	0.04	0.05
Profit: Return on Equity	-0.26	0.39	0.17	0.17	0.13	0.36
Asset Turnover:	0.95	0.95	0.99	1.09	2.15	4.23

Discussion

Liquidity Ratios:

Current Ratio = current assets / current liabilities

Generally, current ratios greater than one indicate a measure of liquidity; this indicates that the company has enough short-term assets (defined as cash, short term investments, accounts receivable, prepaid expenses, and inventory) to meet its short-term financial obligations. In the case of airlines, short-term obligations (liabilities) include bank debt, accounts payable, advanced ticket sales, non-refundable passenger credits, and the current portion of long-term debt or leases.

In the case of Air Canada, the current ratio declined in 2000 to 0.62 from 0.84 in 1999. This indicates that, in both years, the current obligations exceed the ability to pay for them, and in fact, the severity of this situation is getting worse, rather than better. This could point to a potential cash flow problem in the future.

For WestJet, the current ratio, although still greater than one, also declined from the previous year, from 1.21 in 1999 to 1.02 in 2000. Since this ratio is above one in both years, it indicates that the airline has some flexibility through the ability of current assets to cover current liabilities. However, the decline witnessed from 1999 to 2000 should be monitored in the future because if similar declines continue, the ability to meet short-term obligations could be jeopardized.

For Canada 3000, the current ratio declined from 0.85 in 2000 to 0.73 in 2001. These ratios are lower than those of WestJet, but an improvement over the performance of Air Canada. Since the ratio is below 1.0, this indicates that the current liabilities for Canada 3000 exceed its available current assets.

Capitalization Ratios:

Financial leverage = (total liabilities + owners equity) / owners equity or

Financial leverage = total assets / owners equity

In 2000, financial leverage for Air Canada increased from 18.72 the previous year to 30.76. This indicates that the airline is using more debt that the amount invested by its owners, and is therefore highly leveraged. Normally, in a profitable company, with the presence of higher debt levels, the financial ratio is much higher because a smaller amount of owner's equity is present. However, since Air Canada is not a profitable company, this indicates that the leverage is not being utilized effectively. In both years, and the ratios are significantly higher than 2, which indicate the extensive use of debt.

WestJet, on the other hand, displays more stable financial leverage ratios. In 2000 the figure was 1.86, and in 1999 it was 1.97. This indicates more of a balance between the equity provided by the owners, and the debt incurred by the company. As mentioned above, leverage can be a positive item, if it is put to profitable use.

Similarly, the financial leverage ratio for Canada 3000 declined to 3.29 in 2001 from 6.73 in 2000. Since the airline is profitable, this indicates that the airline is using its financial leverage effectively.

Long term debt to capital

Long term debt to capital = long term debt / (liabilities + owner's equity) or

Long term debt to capital = long term debt / total assets

For Air Canada, the LTDC ratio declined from 0.47 in 1999 to 0.37 in 2000. Since both of these figures are higher than for WestJet, there are two positive signs for Air Canada. First, the level of debt relative to assets in both years is still below 0.50, which is positive. Second, the LTDC is declining. On the other hand, the airline industry, and air travel in particular, is not a very stable industry. Specifically, travel, both from business and leisure passengers, is one of the first items to decline in times of economic contraction. Therefore, the ratios for Air Canada are certainly more risky than those for WestJet.

Looking at WestJet, we see that the LTDC ratio is relatively stable; 0.12 in 2000 and 0.16 in 1999. This demonstrates, relative to Air Canada, a more conservative approach to debt utilization.

For Canada 3000, the 2000 LTDC ratio is 0.004, demonstrating, relative to both Air Canada and WestJet, an extremely conservative approach to debt utilization. This is likely to be indicative of Canadian's conservatism in business.

Return on Sales (profit margin)

Return on sales = net income / sales

The return on sales, or profit margin ratio, is the percentage of each sales dollar, on average, that is profit. Industries (supermarkets and airlines) with lower profit margins rely more heavily on higher customer volumes.

Profit margins generally declined for all three airlines from 1999 to 2000. Of the three airlines compared, WestJet recognized the highest profit margin (0.09 in 2000, up from 0.08 in 1999). Comparatively, Air Canada has the lowest return on sales among airlines in Canada; -0.01 in 2000, down from 0.02 in 1999. Canada 3000 realized a slight increase in return on sales, from 0.01 in 2000 to 0.02 in 2001. This indicates that the Canadian Airline industry is far from prospering.

WestJet clearly demonstrates the highest profit margins in the industry. This indicates the airline is able to recognize more income (or profit) from each sales dollar, primarily as a result of lower expenses. The lower profit margins, protectionism limiting foreign investment, and high capital costs in the Canadian airline industry as a whole, should be sufficient barriers to entry for many startups.

Also interesting is the calculation of total revenue to expenses:

	Air Canada		WestJet Airlines		Canada 3000	
	2000	**1999**	**2000**	**1999**	**2001**	**2000**
Total revenue / expenses	1.03	1.06	1.19	1.18	1.03	1.03

This ratio is very stable for all three airlines. A figure greater than 1 indicates that the company is generating an operating profit since revenue exceeds expenses. In the case of Air Canada, this figure shows a modest positive operating return. This is true; in 2000, Air Canada realized an operating income of $86 million (down from $377 million in 1999). However, in the case of Air Canada, net income is affected negatively by net interest expenses (-$282 million), and amortization of deferred foreign exchange (-$24 million).

For this ratio, WestJet is clearly the industry leader. Its ratios of 1.19 and 1.18 are not only stable, they are significantly higher than Air Canada or Canada 3000. This confirms that the airline's commitment to lower costs is an important and profitable strategy.

Return on Assets

Return on assets = net income / assets or
Return on assets = profit margin x asset turnover

This ratio reflects the rate of return that each dollar of asset generates for net income. In effect, this ratio will illustrate how effectively the assets of the corporation are being utilized. In the cases of the airline industry, the majority of airlines purchase rather than lease their aircraft. Given the high capitalization costs associated with acquiring these assets, it is important to understand how effectively they are being utilized.

The return on assets for Air Canada declined from 0.02 in 1999 to –0.01 in 2000. Similarly, this ratio declined for Canada 3000 from 0.05 in 2000 to 0.04 in 2001. For WestJet, on the other hand, this ratio is higher, and improving; 0.08 in 1999 to 0.09 in 2000.

Return on Equity

Return on equity = net income / owner's equity

This ratio represents the return on the owner's investment. Return on equity is probably the most widely used measure of how well a company is performing for its shareholders. It is a relatively straightforward benchmark that is easy to calculate, works for the great majority of industries, and allows investors to compare the company's use of its equity with other investments. Return on equity, for most companies, certainly should be in the double digits, and value investors often look for 15 percent or higher. A return of more than 20 percent is considered excellent[7].

For Air Canada, the ratio declined from an impressive 0.39 in 1999 to –0.26 in 2000. The negative sign indicates that Air Canada lost money through the year; never a positive component of any financial statement.

The return on equity for WestJet remained constant at 0.17 in both 1999 and 2000. This indicates that the owners are consistently achieving a return on their investment.

The return on equity ratio for Canada 3000 in 2000 was an impressive 0.36, nearly as high as Air Canada. However, like Air Canada, the return on equity for Canada 3000 declined in the next year to 0.13. This may be as a result of decreased demand caused by the economic slowdown prevalent in Canada since the fall of 2000. While both Air Canada and WestJet, who have a year-end that corresponds to the traditional calendar, the 2001 results for Canada 3000 include an extra three months during the economic slowdown.

Asset Turnover

Asset turnover = sales / total assets

This ratio, which is simply sales divided by assets, can show both how capital intensive a business is, and how well it uses assets to produce revenue. Some businesses – for example software makers – can generate tremendous sales per dollar of assets. Electric utilities and cable TV firms, airlines, and steel makers, on the other hand, require a huge asset base to generate sales.

For Air Canada, this figure is 0.95 in both 1999 and 2000, while for WestJet, this ratio declined in 2000 to 0.91 from 1.09 in 1999. Canada 3000 has the highest asset turnover; 2.15 in 2001, down from 4.23 in 2000. This indicates that Canada 3000 has the best asset utilization in the Canadian airline industry.

---

[7] please see: http://moneycentral.msn.com/investor/home.asp

Airline Specific Ratios

In addition to an analysis of the financial ratios, there are a number of airline specific ratios that illustrate the health and viability of each carrier. A selection of these important ratios is presented below:

	Air Canada		WestJet Airlines		Canada 3000	
	2000	**1999**	**2000**	**1999**	**2001**	**2000**
Revenue Passenger Miles (millions)	35,658	24,242	1,453	902	6,839	6,143
Available seat Miles (millions)	49,229	33,970	1,906	1,249	8,167	7,236
Passenger load factor	72.4%	71.4%	76.2%	72.3%	83.7%	84.9%
Yield per revenue passenger mile (cents)	19.5	19.8	22.9	22.5	14.1	12.3
Average stage length (miles)	1,157	1,014	419	383	--	--
Aircraft	241	158	23	16	34	15
Revenue per passenger carried	$457	$424	$98	$89	$295	$258

Revenue Passenger Miles

Revenue passenger miles (RPM) is a measure of passenger traffic, calculated as the number of revenue passengers multiplied by the total distance flown, and is show in millions.

This statistic provides an overview of how dominant Air Canada is within the Canadian aviation industry. The RPM for Air Canada increased to $35,658 for 2000, up from $24,242. WestJet recognized an improvement in RPM from $902 in 1999 to $1,453 in 2000. The RPM for Canada 3000 also increased from $7,236 to $6,839.

Available Seat Miles

This is a measure of total passenger capacity, calculated by multiplying the total number of seats available by the total distance flown.

This statistic reflects the overall capacity each airline has in the marketplace, and reinforces how large a player Air Canada is (ASM of 49,229 in 2000, up from 33,970, an improvement of 44.92%). WestJet is the smallest player, but is expanding aggressively; its ASM in 2000 was 1,906 up from 1,249, an improvement of 52.60%. Canada 3000 is in the middle, and is not expanding as heavily as Air Canada or WestJet; its ASM in 2000 was 7,236, and in 2001 8,167, an increase of 12.87%.

Load Factor

The load factor is a measure of total capacity utilization, calculated as the proportion of total available seat miles occupied by revenue passengers. Essentially, this measure indicates how full, on average, each of the airlines' planes are. Like empty hotel rooms at the end of the night, vacant seats on an airline in flight represent a lost opportunity; this lost revenue can never be recovered.

Both Air Canada and WestJet have an average load factor of between 72% and 76%. The load factor increased for both airlines compared to the previous year. Canada 3000 has the highest load factor of any airline in Canada at 83.7%. This confirms that Canada 3000 has the highest asset utilization rates (see the discussion on assets turnover above) of any airline in Canada.

Yield per revenue passenger mile (YPRM)

Yield per revenue passenger mile is a measure of unit revenue, calculated as the gross revenue generated per revenue passenger mile. In general, yield refers to an output from capital.

WestJet has the highest YPRM at around $0.23; this measure is relatively stable from pervious years. Air Canada has a slightly lower YPRM at $0.20. Canada 3000 has the lowest YPRM at $0.11.

Revenue per passenger carried (RPPC)

The final ratio examined is the average revenue generated per passenger flown. This measure is calculated by dividing the total revenue by the number of revenue passengers flown.

With an RPPC of less than $100, WestJet has the lowest average ticket price of any airline in Canada. Air Canada, at over $450, has the highest. Canada 3000 is in the middle; its RPPC is slightly less than $300.

Conclusions

The airline industry is a challenging industry to operate in. Not only are profit margins thin, and capitalization costs high, but also it is extremely susceptible to changes in economic conditions. As consumer confidence declines, so too does the need for passenger travel. The landscape in Canada is metaphorically strewn with failed airlines, including Greyhound Airlines, Canadian Airlines, and Roots Air.

Although it is important to compare the financial ratios of one firm against others in the industry, it is very difficult to examine these ratios without understanding the context of the industry itself. Although there are three scheduled airlines currently operating in Canada, each has a different competitive strategy. Therefore, in a sense, each airline, by targeting unique segments, is competing indirectly with the others. Despite these competitive differences, each airline discussed in this paper has a unique competitive advantage. These advantages are highlighted and reinforced throughout this paper:

- Air Canada, as the dominant airline in Canada has the largest fleet, and greatest network, of any airline. Flying from a point in North America, Air Canada connects passengers to destinations in Asia, the South Pacific, South America, Europe and India. As the ninth largest airline in the world, Air Canada is targeting business travelers. Although its financial health is the lowest of any airline in Canada, there are several factors that can explain this. First, Air Canada has the highest cost structure of any airline. Second, the purchase and subsequent integration of Canadian Airlines in July 2000 resulted in significant investment expenditure, both in terms of money, and also management time.

- Canada 3000, formerly the charter airline, is aggressively staking its claim as a full serve scheduled airline by establishing regular services between major points in North America, while minimizing its dependence on leisure / holiday passengers. Canada 3000 is extremely effective at keeping its planes full, and has the highest load factor of any airline.

- WestJet, founded as a discount airline in Western Canada, has spread its wings across Canada, and currently services points from Vancouver Island to New Brunswick. The major competitive advantage WestJet has is its ability to generate healthy profits while maintaining lower costs, and passing these savings on to it's customers in the form of lower priced tickets.

Clearly, WestJet is the healthiest airline in Canada. The financial health of WestJet has not gone unnoticed by its competitors; the ever changing Canadian airline industry will soon see another change as Air Canada launches its own discount airline to compete directly with WestJet. This discount airline is expected to be operational by the end of 2001.

A separate challenge facing Air Canada, as the dominant carrier in the industry, is to convince the Government of Canada that the industry is working. As consumer complaints rise, so too will the pressure on Ottawa to relax its limitations on foreign ownership of airlines in Canada. One model being proposed is the Australian one. Australia is served by three competing airlines:

- Qantas which operates both domestically and globally,
- Ansett which flies within Australia and to selected locations in New Zealand and Asia[8].
- Virgin Blue, which is owned by Virgin Airlines, but operates as an independent company in Australia, and flies strictly within Australia by delivering a high quality but low cost product.

[8] Interestingly, after this paper was first written, Ansett announced on September 14, 2001 that it is having financial difficulties.

One thing is certain; the face of the Canadian airline industry will continue to change in the months and years ahead.
As the airline industry changes in Canada, the needs of passengers change as well. Each of the existing scheduled airlines in Canada has carved out a niche segment:

- Air Canada: Servicing major and minor centres in Canada and major global destinations, focusing on frequent business travelers.
- WestJet: Servicing major centres in Canada, focusing on price sensitive customers.
- Canada 3000: Servicing major centres in Canada, focusing on leisure traffic and holiday packages to sunny winter or European summer destinations.

As industry consolidation continues several things must happen. First, both Air Canada and Canada 3000 must recognize the benefits of their acquisition. For these purchases to be successful, they must be profitable. This is accomplished by increased revenues and/or decreased costs, mostly through recognizing economies of scale by decreasing the cost to serve each customer.

The financial analysis conducted at this point in time uncovered that WestJet is the most profitable carrier in the country. While this is true, in fairness to Air Canada and Canada 3000, both airlines reported significant one time acquisition costs in the latest annual report. A more complete evaluation should be conducted in 2002 to determine whether the economies of scale have been recognized, and to examine financial results without accounting for significant acquisition and merger expenses.

Once this secondary analysis has been completed, it will be possible to identify any potential gaps in service presenting opportunities for either additional domestic or foreign carriers.

About the author

Tim Glowa is President of North Country Research Inc., (www.ncResearch.com) a Calgary based strategic marketing science company. He can be reached via email at Tim@Glowa.ca

