

Executive leadership



Presented to

Jean-Cyril Spinetta & Leo van Wijk, Air France-KLM



Jean-Cyril Spinetta and Leo van Wijk

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When it comes to mergers the airline industry has a poor track record. All the more remarkable then that not only have Air France and KLM merged, but that by most measures it is proving a success.

The judges of the *Airline Strategy Awards* have tracked the progress of Air France-KLM since the merger was consummated in May 2004. Every year since then the judges have debated the merits of the move. None have been in any doubt that it is a landmark event, representing the world's first true cross-border merger of two major carriers, which along the way created the world's largest airline group with revenues of €23 billion (\$31 billion) for the year to March 2007.

Indeed, the vision of the central figures that forged the deal, Air France's Jean-Cyril Spinetta and KLM's Leo van Wijk, has been constantly praised. But vision alone was not enough to persuade the judges, up until now. "The deal has tremendous potential, but it will take a long time to come through," said a judge in a previous year. "The jury is entirely out," said another. "They have done little in terms of putting the two businesses together."

It was always the intention of Spinetta and van Wijk to take a cautious and conservative approach to the integration of the two businesses. They were only too aware of political and labour sensitivities in Holland. A rushed merger that neutered the KLM brand and Amsterdam Schiphol route network would be a serious own goal.

For Spinetta, speaking to *Airline Business* in mid-2004, there was real logic to the deal. "Our common target was and is to build up a real European entity. I have always been convinced that there was a contradiction between the European single market and the fragmentation of the European airlines."

The first three years of the merger have

been marked by a tight focus on achieving synergies between Air France and KLM, through what they describe as "strict co-ordination" between the two. In-fighting between top managers at each carrier has been avoided by forbidding talk about how the organisation will be structured in the future. "Trust and respect are two words we are hearing a lot," says a senior Air France executive of the working atmosphere between the two managerial teams.

This work has concentrated on co-ordinating schedules and route development at the two hubs, Amsterdam and Paris Charles de Gaulle, to create a combined network; merging the frequent-flyer programmes; merging the commercial teams in the cargo business and at outstations;

and creating synergies in IT, engineering and maintenance and purchasing.

In a strong growth market, where group revenues grew by 7.6%, Air France-KLM saw its operating profit rise nearly a third to €1.24 billion in the year to March, a margin of 6.3%. For the next three years, as the integration of the business deepens, the targets being set are even more ambitious. There is also a €1.4 billion cost-saving programme being rolled out.

This year the judges chose to recognise the magnitude of the achievement of Spinetta and van Wijk. One judge picked out the excellent working relationship between the two men as a key factor in the merger's success. Another said: "They have done an exceptional job in making the merger happen. It is a remarkable achievement and they will learn how to create performance with this animal."

And the judges are anticipating more progress, noting the merger is still young. As one judge says: "A few years is a heartbeat in the airline industry." Spinetta and van Wijk hope they are putting the roots down for a long lasting legacy.

Mark Pilling

Past winners

2006

Gerard Arpey, American Airlines

2005

Geoff Dixon, Qantas Airways

2004

Willie Walsh, Aer Lingus

2003

Rod Eddington, British Airways

2002

Xabier de Irala, Iberia

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"Our target is to build up a real European entity"

Jean-Cyril Spinetta, chairman, Air France