



Construct a Operation Mode, Initiate a New Transition Chapter

**—Low-cost transition practice of a subsidiary of a traditional
airlines group**

China United Airlines Zhang Lanhai

Contents



1

Brief introduction of CUA's Development

2

“Dual Modes” of CEA and Low-cost Transition Practice of CUA

3

Policy Support for the Development of Low-cost Carriers

I: Brief introduction of CUA's development

CUA currently has a fleet of 27 airplanes of the B737NG model and its passenger volume in 2014 expects to exceed 6 million person-times.



Originating from the military

When established in 1986, CUA was under the guidance of the Air Force of China. CUA was suspended when the Central Military Commission ruled in 2002 that the military shall not be involved in business, and later in 2004 transferred to Shanghai Airlines and China Aviation Supplies Holding Company.



Growing in Shanghai Airlines

CUA restarted operation with its first flight to Wuxi on October 20, 2005 after being transferred to the companies. Its fleet grew from 1 airplane up to 10 airplanes in 2010.



Expanding in China Eastern

CUA entered CEA as China Eastern and Shanghai Airlines incorporated. On November 26, 2012, CUA finished joint restructuring with China Eastern Hebei Subsidiary. In the past four years, CUA's fleet grew 128% annually on average, and its passenger volume expanded 123% annually on average. In 2013, Nanyuan Airport ranked the 38th among the 193 civil airports in terms of passenger volume.



Flying in the future

Low-cost transition and the new airport in Beijing

CUA announced its low-cost transition on July 2, 2014, becoming the first state-owned carrier of low-cost transition in China. By the end of this year, its fleet will grow up to 31 airplanes. After the new airport comes into service, CUA will totally move to the new airport for operation. By the time, CUA, with the planned fleet of 80 airplanes and the passenger volume of 23 million person-times, will become one of the major base carriers of the new airport.

II: “Dual Modes” of CEA and Low-cost Transition Practice of CUA

During CUA’s transition practice, the strategy of “Dual Modes” has been running through from the beginning. It refers to both the combination of the two modes including “all-service operation mode” of CEA and “low-cost operation mode” of CUA, and the brand-new practice of integrating the traditional mode and the low-cost mode during the internal transition process of CUA.



II: “Dual Modes ” of CEA and Low-cost Transition Practice of CUA

“Dual Modes ” of CEA

- “Dual-brand”--CEA and CUA, emphasis on the independent brand of CUA



II: “Dual Modes ” of CEA and Low-cost Transition Practice of CUA

“Dual Modes” of CEA

- Differentiation of CEA and CUA in terms of total transport conditions, air route network etc.



- CEA’s differentiated management and control system for CUA produces more rights and room for CUA

II: “Dual Modes ” of CEA and Low-cost Transition Practice of CUA

CUA’s low-cost transition practice

- **CUA’s low-cost transition is a process of gradual exploration, and eventually will deliver a unique low-cost mode matching with CUA’s characteristics.**
 - **During the transition process, the two modes of both the traditional and the low-cost are coexisting.**
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II: “Dual Modes ” of CEA and Low-cost Transition Practice of CUA

“Dual Modes” of air routes: traditional operation routes and low-cost routes coexist

- Select some routes for pilot low-cost operation, including
 - ⚡ New total transport conditions
 - ⚡ Direct marketing through mobile phone APP platform
 - ⚡ low ticket prices with discount of 20%-40% and
 - ⚡ Seat selection service
 - ⚡ Catering service
 - ⚡ One person, multiple posts
 - ◇ Trial operation of turnaround flight cleaning by crew members
 - ◇ Trial operation of ground service guiding by crew members
 - ◇ Trial operation of onboard commodities promotion

II: “Dual Modes ” of CEA and Low-cost Transition Practice of CUA

“Dual Cores” of air routes: traditional operation routes and low-cost routes coexist

- Set up corresponding separations in the terminal buildings of Nanyuan Airport special for low-cost area and processes of pilot flights



Layout of Ground Floor of Nanyuan Airport Terminal

II: “Dual Modes ” of CEA and Low-cost Transition Practice of CUA

- ◆ **Within 2-3 years CUA’s traditional flights and low-cost flights will coexist. Transition to the LCC will be gradually made according to the actual situations.**
 - ◆ **Dual-layout in terms of airplane models: from 2016, new airplanes with only economic class will be introduced and will coexist together with the current model.**
 - ◆ **Marketing channels: direct marketing and distribution marketing both exist.**
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II: “Dual Modes ” of CEA and Low-cost Transition Practice of CUA

- ◆ **“Dual Modes” of internal mechanism: including personnel recruiting and compensation system etc..**
 - ‡ Introduce the market-oriented mechanism by restructuring the marketing department.
 - ‡ Open public recruitment will be conducted for more than 10 key positions in the marketing department and annual compensation mechanism is available.
 - ‡ Full-marketization will be gradually realized.

The low-cost transition is a long-term mission with complexities, requiring phased steps and consistent efforts. It is planned to use a period of 3-5 years to gradually finish the low-cost transition of all air routes, and then the internal management mechanism and personnel recruiting mechanism will also transform.

III: Policy Support for the Development of Low-cost Carriers

It is suggested that preferential measures for low-cost carriers be made in terms of policies, resources and operation etc. to encourage the growth of the low-cost carriers:

Policies:

- ≡ Different charging models for LCCs
- ≡ More detailed categories of the charging
- ≡ Preferential policies for new airplane purchase

Resources

- ≡ Provide concrete support for low-cost carriers to open international and regional routes
- ≡ Schedule resource: specify a certain ratio of newly added schedules to low-cost carriers
- ≡ Build new terminals for low-cost carriers and expanded airports
- ≡ Adding more schedules in Nanyuan Airport based on integration of Beijing, Tianjin and Hebei and positioning of the functions of the four airports in the three regions.

Operation: guarantee for rapid turnaround flights

- ≡ Optimize airport processes
- ≡ Optimize air traffic control

Remarks

“On low waves sail far, in supportive winds fly high”

As a wholly-owned subsidiary of CEA and the first state-owned carrier of low-cost transition in China, over the past three months, the transformation of CUA has been a concern of all walks of life in society. We also feel all passengers' expectation and wishes for the successful transformation of CUA. Hereby, please allow me to express my appreciation for your attention and expectation on behalf of all CUA staff! We are determined to make most use of all possible opportunities to explore a low-cost transition route suitable for the civil aviation of China with CUA's characteristics under the leadership of the authorities and with the support from civil aviation peers, and to make more contributions to the effective implementation of CEA's mix operation strategy of “Dual-Core Mode and Multiple Brands”, and the smooth realization of a powerful civil aviation industry!



CUA

Thank You!

China United Airlines Zhang Lanhai
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