

CAPTAIN MAPS FLIGHT PLAN TO FAVOURITISM

Virgin Australia's engaging boss has met the difficult challenges facing the airline industry with gusto, even tackling a former Queensland premier head-on over policy



The day John Borghetti delivered Virgin Australia's half-year results, staff at the airline's Brisbane headquarters were busy sandbagging the property. With the city facing a major deluge, Virgin employees were hoping to safeguard the complex from the fast-rising Breakfast Creek that had previously flooded in 2011. Had Borghetti been there instead of Sydney, he would've rolled up his sleeves, kicked off his shoes and lent a hand too. Famously hands-on, the son of Italian immigrants is a great believer in teamwork and unfailingly credits his employees with each of Virgin Australia's achievements.

For Borghetti, every new business account won, the airline's rise to the top of the on-time performance stakes and its high customer satisfaction rating is testimony to the hard work and commitment of employees.

He knows the relevance of the frontline to the bottom line, and impresses on staff the importance of customer service – a lesson he learned working in his father's coffee shop in Melbourne from age 10. His warmth and charm have made him one of the most popular corporate figures in the country and even led to an invitation to enter politics. As a businessman, Borghetti is undeniably brave and entrepreneurial, going where no other airline executive has gone before.

In the face of fierce competition, a damaging capacity war with Qantas and what the airline saw was unfavourable treatment by the former Queensland Government, Borghetti reinvented Virgin from a budget airline to a premium carrier with its own low-cost offshoot in Tigerair. At the same time he has maintained the airline's Brisbane base, which employs a third of the group's total workforce of more than 10,000 people.

Borghetti insists the commitment to Brisbane remains,

despite threats in recent years to downsize or relocate to Sydney as a result of what he considered shoddy treatment by the former Newman government.

At a time when the fly-in, fly-out market was booming, Virgin was locked out of competing with Qantas on key routes and Borghetti made his dissatisfaction known.

In a strongly worded letter to then premier Campbell Newman, Borghetti said it seemed Virgin Australia's contribution to Queensland was not valued.

"This will be taken into account in our future investment and network decisions," he warned.

Just how the issue played out, Borghetti refuses to say and offers a wry "no comment" when asked his thoughts on Newman's defeat at the January 31 state election.

"I am looking forward to working very constructively with the new Premier," Borghetti tells QBM.

"I think Queensland is a great state, we obviously have our head office there and I think there's huge opportunities to enhance competition within the state and benefit the people of Queensland and we'll be focusing on that."

Despite concerns the Government's management of regulated air routes would hamper Virgin's ability to attract corporate accounts, the local business community has embraced the airline's commitment to the state.

When Virgin started to get serious about challenging Qantas's monopoly on the corporate market with new lounges, Luke Mangan meals, swish lie-flat seats and competitive fares, the business customers came in droves.

Among those thought to have moved across are Suncorp, Aurizon, Bank of Queensland and the Tatts Group, who collectively employ tens of thousands of people.

Borghetti estimates more than a quarter of corporate and government accounts in Australia are held by Virgin Australia, although Qantas insists it is more like a fifth.

The strategic move has helped improve Virgin's yields – or price paid per seat – at a time when fewer people are

booking flights. That alone has given Virgin a marginal edge on Qantas, at least in the eyes of IG analyst Evan Lucas.

"In terms of actual seat mileage, Virgin is still technically ahead – they have still got an offering that's driving momentum," Lucas says.

"However they are stalling from a share price perspective and they've also lost a bit of momentum with Qantas no longer moving with them in regards to the capacity war."

He says Qantas's impressive \$204 million profit for the first six-months of 2014-15 obviously eclipsed Virgin's \$53 million loss, but neither airline was "doing great".

"Qantas was doing so badly and so poorly, the clearing of the decks that happened last August (and resulted in a \$2.8 billion loss) gave them such clear air that any form of OK news was always going to drive them forward," Lucas says.

"So Virgin is doing OK but neither of them is doing that great. Both of them are growing at two per cent at best on revenue lines."

It is a fact of life that margins in the airline industry are razor thin, but in the next two years Borghetti plans to find another \$600 million in savings.

He says these will come from further "efficiencies" in the group and a likely overhaul of the international arm that drained \$50 million from the half-year result.

Introducing Tigear to overseas routes where Virgin Australia currently competes with Jetstar and other low cost carriers is an option being seriously considered.

Borghetti believes this would make more sense than pulling Virgin off those routes and reducing its "footprint".

"We will expand, we're not a company that's in shrinking mode," he says. "But it will be more in terms of quantum compared with what we've done in the last four years. It's clearly going to be smaller."

The balance sheet shows Virgin is trailing Qantas at a considerable distance but Borghetti is confident the airline is getting closer every day to overtaking the Flying Kangaroo where it matters most – in Australians' hearts and minds. A \$20 million partnership with Tourism Australia is a key part of that strategy, and by 2017, Borghetti is convinced Virgin Australia will be the country's favourite airline and top of mind for travellers when booking flights.

With hard work and a clearly communicated strategy, you can achieve anything, he believes. Even hold back the muddy floodwaters of the Breakfast Creek.

John Borghetti CV

- 1973 - Joined Qantas as a mail boy at age 17
- 1988 - Worked his way up to head of Qantas commercial operations
- 2001 - Appointed head of Qantas sales and marketing
- 2006 - Became responsible for all full-service airlines in the Qantas Group
- 2009 - Left Qantas when Alan Joyce became CEO
- 2010 - Joined Virgin Australia as managing director and CEO