line has no direct competitors on these routes, because only turboprops are permitted to use Subang.

Thailand's resort island of Koh Samui is one of Firefly's major leisure routes and there are plans to launch a service from Subang to Hat Yai—another tourist destination in southern Thailand—when the political situation stabilizes. Malaysia slapped a travel advisory against southern Thailand following March's bomb attacks and shootings in the Hat Yai area.

Ong says Firefly plans to launch other routes and already has the spare capacity in its current fleet to do so. Some will be services linking Malaysia to Indonesia and Thailand, he says, adding that Surat Thani in southern Thailand is on Firefly's wish list. It already has some services to Indonesia, such as from Penang, Malaysia, to Medan, Indonesia.

Ong also says Firefly is interested in establishing a carrier in Indonesia, but says this is an initiative that is unlikely to occur in the near-term. "It is definitely something we have looked at before, but we want to consolidate our operations here in Malaysia first."

He agrees that there is an opportunity for new players to establish turboprop operations, similar to Firefly's, in other southeast Asian capitals where there are secondary airports close to the city center. These include Bangkok's Don Mueang International Airport, Halim Perdanakusuma Airport in Jakarta, Indonesia, as well as Tan Son Nhat International Airport in Ho Chi Minh City, Vietnam. The latter, in years to come, will become a secondary airport.

But Firefly seems to be taking a wait-and-see attitude when it comes to major investments in new businesses. This could be due to the uncertainty surrounding its parent MAS, which recently ended its financial tie-up with AirAsia and is waiting for direction from the government with regards to its future development.

Ong says Firefly has no plans to purchase additional ATR 72s in the next couple of years. He says if there is a spike in demand and Firefly needs additional capacity it can turn to lessors such as Nordic Aviation Capital, GE Capital Aviation Services and Phoenix Aircraft Leasing. Firefly would only be interested in leasing relatively new ATR 72-500s, he adds.

Also, Ong says, Firefly will probably not be buying ATR 72-600s—the new turboprop that ATR has just introduced to replace the -500—because having two variants in the fleet would complicate the airline's business, especially when it comes to pilot training. Some of the systems on the -600 are different than on the -500, which means pilots would have to be sent overseas for -600 simulator training, because there is only a -500 simulator in Malaysia, Ong says.

Firefly presently operates 12 ATR 72-500s, with no more on order. Nine are based in Subang, two in Penang and one overnights in Kota Bahru.

While the ATR 72-600 appears to be off Firefly's agenda, Ong says the airline is very interested in the new-generation turboprop (NGTP) that ATR is developing. He says the airline has been talking to ATR about the 90- to 100-seat NGTP. The bigger NGTP will offer 30% more capacity than the ATR 72-500 and provide 20-30% lower fuel burn per available seat kilometer, Ong notes. Firefly would like to introduce the NGTP into its fleet starting in 2017 or 2018, he says. ATR has also said the NGTP will "have some upgrades in terms of passenger comfort such as a stronger and more efficient air conditioning system." The NGTP's extra seat capacity would be useful for popular routes such as Kuala Lumpur Subang-Singapore where the traffic could easily fill a larger turboprop, says Ong. Singapore Changi Airport is currently subject to slot constraints, he notes.

Even though Firefly has no plans to add more ATRs this year, it expects to achieve a 40% increase in passenger numbers in 2012 to 2.1 million from 1.5 million.

Fine-Tuning

For Australia's star regional carrier, the devil is in the details

ADRIAN SCHOFIELD

Rex relies on a fleet of Saab 340s to serve rural communities as well as a few trunk routes.

There is no magic formula for a profitable airline business model, says Lim Kim Hai, head of Australia's Regional Express (Rex). Rather, success comes from focusing on a raft of minor details, and constantly searching for new ways to do them better.

Lim should know: Under his leadership, the Saab 340 operator has become one of the most successful regional carriers in the world. Among many other accolades, Rex has ranked as best regional in Aviation Week's Top Performing Airlines study for three years running. It has been profitable for nine straight years, and regularly boasts profit margins of around 11%, something of a rarity in the airline industry.

Few other industries are so complex or have as many regulatory, technical and political constraints, says Lim. Because of this, "to be really good and successful, there are no two or three bright ideas or initiatives," he notes. Instead, the key is "getting a thousand smaller details right . . . you chip away day after day, and eventually it pays off."

Having fine-tuned the Rex model to be comfortably profitable, the process of improvement does not stop, Lim says. "Even today we are constantly reinventing and improving ourselves. We try to be a learning organization, one that seizes every opportunity to learn."

Logic would dictate that the greatest savings or efficiency gains would come from plucking the low-hanging fruit in the early years. But Lim says Rex's efforts have become progressively more effective. After he took over in 2003, the carrier's initiatives were saving A$1-2 million ($1-1.9 million at current exchange rates) a year. In the first nine months of its current fiscal year, Rex has identified $3 million in new savings.

The annual savings come from several efforts that might seem insignificant on their own. But it is these new initiatives that make the difference for Rex, Lim asserts. "If you stripped out all these [improvements], we would be close to breakeven or making a loss." The secret, if there is one, is that everything matters.

A good example is the carrier's approach to onboard catering. Rex launched a review of its costs in this area, and came to the conclusion that it could handle the catering itself more cheaply than the contractor it was paying to provide the service. While this involved setting up new infrastructure and training staff, the annual saving is roughly A$300,000 to A$400,000 a year. "If you keep doing these things they add up," says Lim.

Changes in its travel insurance program also show how Rex seeks to continuously reevaluate every facet of its operations, no matter how successful they already are. The carrier has managed to double the insurance purchase rate to 35% of customers who book online. Although the new uptake rate is very high by airline standards, Rex went looking for further improvements.

Lim decided that the standard model being used by travel insurance providers did not give the carrier enough of a share in the profits. So Rex found an insurance provider that would accept a profit-share model based on the claims rate. This formula has given Rex an additional A$300,000 a year.

Everyone in the company is involved in these efforts. For example, Rex does not view its customer relations team's role as addressing complaints. Instead, it is tasked with analyzing the complaints to pick up any systemic problems. The head of the department is required to outline the top three problems at every board meeting. The same is required of other departments.

While outsourcing is a growing trend in the broader industry, Lim is not a fan of it. As with its catering, Rex does its own heavy maintenance and also runs a pilot training academy, both located at its headquarters in Wagga Wagga, New South Wales. Rather than let an outside company profit by finding efficiencies, the carrier would rather find efficiencies itself.

Rex flies from bases in Sydney, Melbourne, Adelaide and Townsville. It operates on some trunk routes that are also flown by Qantas or Virgin Australia, but the majority of Rex's routes are to small, rural communities that no other carriers serve.

The carrier's fleet of more than 45 Saab 340s is half-owned and half-leased. The first lease agreements will begin expiring from July 2013, and Rex is in discussions with Saab Aircraft Leasing to purchase these aircraft as they come off lease. Lim says the fleet is "stable for the time being," and he predicts "gradual but not significant" growth.

In addition to the Saabs, Rex operates more than 40 smaller aircraft in subsidiary companies, ranging from Piper Seminoles to Israel Aerospace Industries Westwinds. These are used for pilot training and charter flying, the latter being the company's highest growth area, according to Lim.

Despite its success, Rex does face an array of challenges. Chief among these are pending government policy changes that are expected to hit the Australian regional industry particularly hard. These include the introduction of a carbon tax, the cancelation of a rebate program, and new security screening requirements, which could collectively cost Rex A$6 million a year.

Such is the nature of the airline business. The industry environment is tougher and the margins lower than in most other sectors, Lim says. "Other industries don't have the same imperative to work so hard and scrape the bottom of the barrel" to improve efficiency. But as Rex routinely proves, these efforts can yield impressive results.

REGIONAL AIRCRAFT IN AUSTRALIA

REGIONAL CARRIERS	**8**
ATR	
ATR 72	5
BAE Systems	
BAe-146	11
RJ Avroliner	3
Bombardier	
Dash 8-200/Q300	21
Q400	25
Embraer	
E-170	3
E-190	18
EMB-120	4
ERJ 135	1
Fairchild Dornier	
Swearingen Metro 23	3
Fokker	
70	2
100	26
Saab	
340B	45
TOTAL	**167**

Sources: Aviation Week Intelligence Network and Ascend