



Brazilian regionals defy-recession

TAM: pure lateral thinking

When 98 per cent of its passengers are men, most of them are businessmen, and load factors suddenly slip with the economy, how does a regional airline boost its traffic? The answer is simple – give women a discount.

It is this kind of pragmatic marketing – introduced just three months ago, but coupled with a long-standing programme designed to foster a close identity between airline and local community – which Rolim Adolfo Amaro believes will lead to continued success for TAM, the Sao Paulo-based regional carrier of which he is president.

Operating six F.27s and 11 Bandeirantes on an extensive network within Sao Paulo state, but with “fingers” into six others, TAM is demonstrating the flexibility which a small private-enterprise company needs to apply if it is to survive in Brazil today. Results so far have been spectacular.

TAM had been in the air-taxi business for 13 years when, in 1975, the Government decided to formulate a national policy for regional airline networks, after the major domestic carriers acquired jets and abandoned many local services.

TAM has been operating scheduled services in the tough commercial environment of Sao Paulo state ever since, with the objective of providing an integrated network of high-frequency services.

Sao Paulo state is the richest, and therefore potentially the most lucrative, region of Brazil for airline operations, but because the area has been highly developed for 20 to 30 years, it provides local-service airlines with severe competition not only from trains and about 100

As the Brazilian economy slumps and inflation runs riot, **Peter Middleton** and **Patrick Knight** report from Sao Paulo and Belem on why two remarkably dissimilar regional carriers are still confident of survival and success.



Rolim Adolfo Amaro, president of TAM, is weighing the advantages of the F.28 and the 146

50-seat buses, but from the private car.

Even when total traffic was down, however, TAM always grew. Sometimes the growth was explosive, such as in 1980 when a 58 per cent leap in passenger-km accompanied the introduction of F.27s. This was achieved with only a 3.5 per cent drop in overall load factor, which remained in the mid-fifties.

Even in 1982, the airline achieved a creditable 8 per cent growth, but load factors for the first five months of this year began to reflect the state of the nation's economy and dipped into the

forties, spurring Amaro into the detailed traffic analysis which led to the unconventional marketing strategy, aimed at women and non-business travellers.

Far from resigning itself to a cutback in passenger numbers for 1983, the airline is now predicting that half a million people will board its aircraft this year, compared with 335,000 in 1982.

The crux of the problem, and paradoxically the basis for Amaro's optimism, lies in the fact that up until June this year TAM had been almost exclusively a businessmen's airline. About 70 per cent of all passengers were identified as male entrepreneurs running small and medium-size companies, and almost three-quarters of them fell into the 25-60 age group, as might be expected.

Since all of them were already travelling at least 12 times a year, this did not give TAM much scope for boosting traffic during a sharp economic downturn.

So, in June, the airline took heed of its market research and embarked upon a major offensive against falling load factors by halving fares for all women and for those men younger than 21 and older than 60. By this means, TAM reduced the cost of its air services to that of the bus for those people who normally travelled by bus.

Carriage of women shot up from 600 to

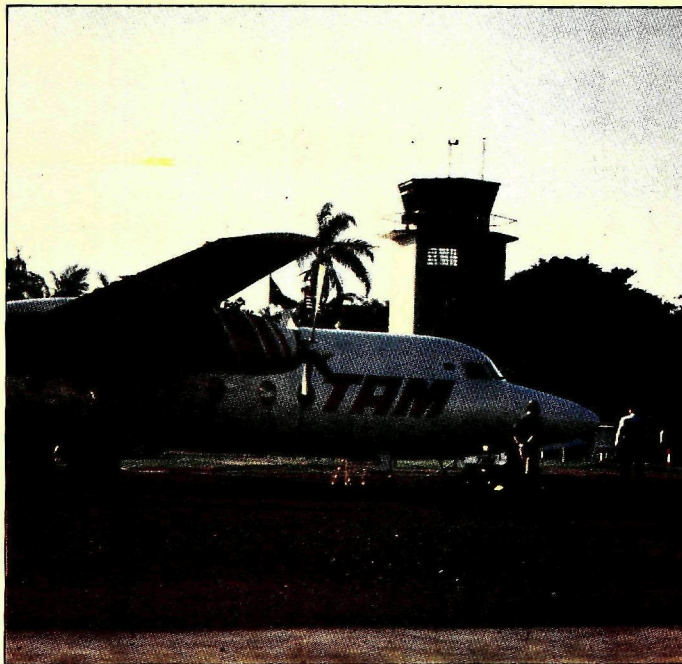
3,200 in the first month, even without publicity. By the second month, TAM's 6,000 women passengers represented a 20 per cent traffic boost, and Amaro expects the trend to continue.

But what is the limit? He says that there isn't one because even the depressed mid-forties load factor being achieved on full fares in May was still above break-even, and the 67 per cent load factors of late July were generating greater profit, despite the heavy discounting. Amaro expects to start losing money, however, in his drive to get even more people into the habit of flying with TAM.

The next, and potentially more profitable, step is to introduce a three-tier fares structure, designed to even out load factors through the day. Amaro proposes a red "smile" ticket at 50 per cent discount, valid from 10 a.m. to 3 p.m. and after 9 p.m.; a blue (30 per cent discount) ticket, valid all day for under 21s to get them into the TAM habit; and full-fare white tickets for the early morning and evening peaks.

High frequency direct services will continue to be the key to successful implementation of TAM's philosophy of providing an integrated route network, rather than acting as a feeder service to international destinations. Neither TAM's traditional customers nor its new recruits need a quick connection to Tokyo; they want regular, dependable—and above all—friendly service to the next town.

TAM has striven persistently to build up a close relationship with the people it serves. Friendly local offices, an "on-time" reputation, and giving passengers "001 priority" have lead to a constant stream of letters from communities asking for TAM to serve their locality.



One of TAM's six F.27s in typical surroundings at Ribeirao Preto

Careful exploitation of this basic human need "to belong" will continue to be one of the airline's fundamental strategies. This even manifests itself in the reservation system, which is on line to the VASP computer but adds its own personal touches, such as telling potential passengers the road distance to their final destinations from a selection of airfields served by TAM.

Early mistakes

Inevitably, the airline's reputation has been hard won, and achieved despite some early mistakes. The biggest of these was made in its first year of operation, when TAM parked aircraft overnight at interior cities, ready to fly passengers into Sao Paulo in the mornings. It transpired that the traffic was out of Sao Paulo in the mornings.

TAM operates 11 Bandeirantes, and will buy the Brasilia



Now, with seven years of successful operation to its credit, some of the airline's sectors are vulnerable to predation by jet operators, and Amaro describes his network as being like a sexy lady, disporting attractive legs to bigger carriers.

What will finally give Amaro tranquility is protection of his markets by acquisition of jets. He hopes to make a decision within months, and is "waiting for offers" from Fokker and British Aerospace. Models of both the F.28 and the 146 are within easy reach of his desk, and he is evidently well practised at placing them nose to nose.

Three factors govern the jet decision. First, high-frequency services have been the lifeblood of the airline, and Amaro will make sure that he has pushed them to the limit before acquiring larger aircraft. Secondly, if oil prices start going up again, TAM will stay with

turboprops. The major factors, however, are interest payments, and the "commercial balance" of Brazil. "Whoever buys in dollars is digging a hole for himself. . . . It is not a sound idea to get a dollar commitment today".

The choice of any jet equipment will be heavily influenced by the commercial deal which accompanies it. "The perspectives on world finance are so grey that in the final analysis you may not buy the aircraft you need, but the one you can afford. . . . I would rather have a small company in my hands than a big company in the hands of the banks."

Assuming that the manufacturers will barter aircraft for sugar cane, or find some other way round the problem, which aircraft does Amaro prefer—the 146 or the F.28? "Between the two, I would rather have the 737," he jokes, but admits that the Boeing is too big. "The F.28 is 20-year-old technology, but it is reliable". It is also compatible with the F.27s in TAM's existing fleet, some of which would presumably be traded in for jets.

Modern technology

The 146 represents a big questionmark for Amaro. Apart from an aversion to four engines, he is worried about continuity of production. Its modern technology is a plus factor, but it is only available new; the F.28 offers him the ability to mix new and used aircraft.

Meanwhile, four 48-seat F.27s and two 60-seaters share the TAM network with 11 Bandeirantes, flying eight million km per year on median stage lengths of 450km and 340km, respectively. Daily utilisation is about 6hr 50min, including night mail runs.

Besides jets, TAM has a real need for an aircraft such as the Brasilia. "There is no pressure as such to buy the Brasilia. The only pressure we accept willingly is the market pressure. . . . The Brasilia is perfect for some routes, and we will buy it.

"We have operated the Bandeirante for a long time, the factory is close, and if the Brasilia is as good as the Bandeirante, there is no reason for us not to use it. . . . If the Brasilia had been done before, we would be flooded with them."

Amaro is a staunch advocate of free enterprise, and an admirer of Margaret Thatcher. He disapproves of regular blanket salary increases decreed by the Brazilian Government as the economy continues its inflationary spiral.

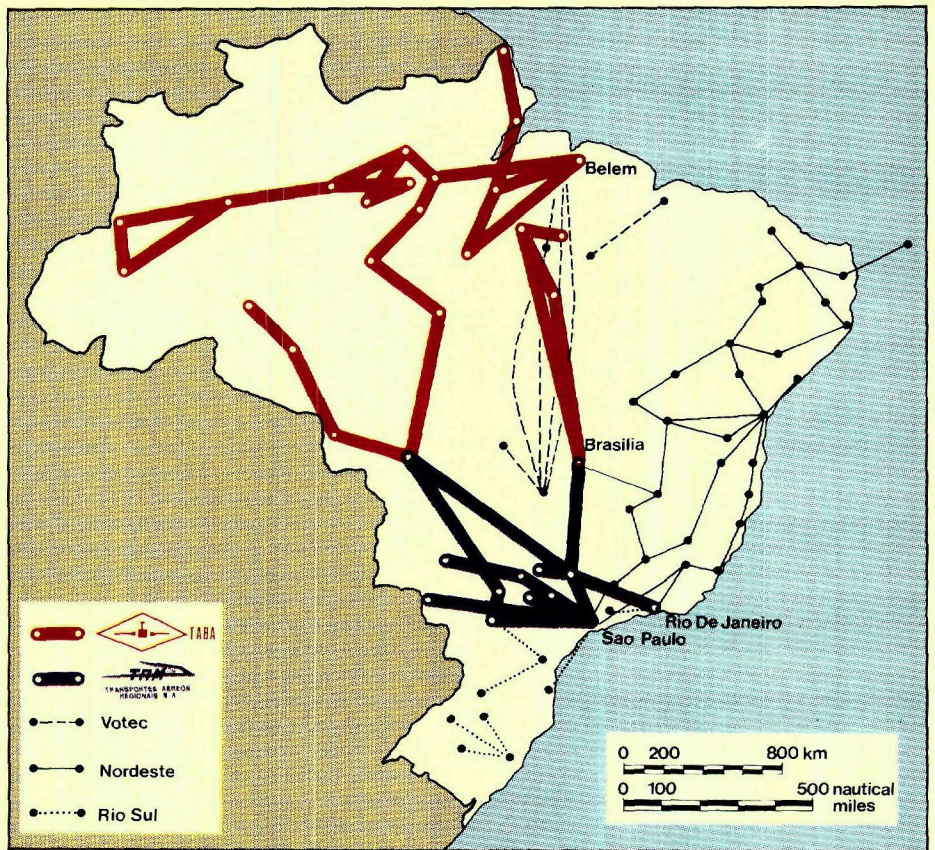
To keep cash within the company, TAM employees were offered the chance to spend their last mandatory pay rise on company shares. Acceptance rate was 100 per cent.

TABA: no other way to go

While the Brazilian economy stagnates, and the major airlines – Varig, Cruzeiro, VASP, and Transbrasil – prune their domestic flights, one of the five second-line carriers, set up in the mid-1970s under the Government's regional air policy, continues to grow by at least 20 per cent per year.

That airline is TABA – the Amazon Basin Air Transport Company – which came into being because the major domestic airlines abandoned many of their local routes when they bought jets, and relinquished the aircraft which could operate into the dirt fields of Amazonia. Now, after seven years of spectacular growth, TABA is poised to become the first of the five Brazilian regional carriers to move into the jet age themselves, with the acquisition of two British Aerospace 146s. Airline president Marcilio Gibson considers them to be eminently suitable for service over the vast geography of TABA's network.

Since it was founded, the number of passengers carried by TABA has risen from 44,000 to more than a quarter of a million, while destinations served have



Brazil is served by five regional airlines, as well as by the four major trunk carriers. The regional networks – operated by TAM, TABA, Votec, Nordeste, and Rio Sul – have grown substantially since the mid-Seventies, when jet re-equipment forced the trunk airlines to abandon many local routes

more than doubled from 19 to 40.

Such has been its growth that TABA has increased its fleet from the five Beech 18s and ten Bandeirantes operated in 1977, to the point where the Bandeirantes now complement seven Fairchild FH-227s. A further two Fairchilds will also be acquired as well as the 146s, which are scheduled to enter service in December.

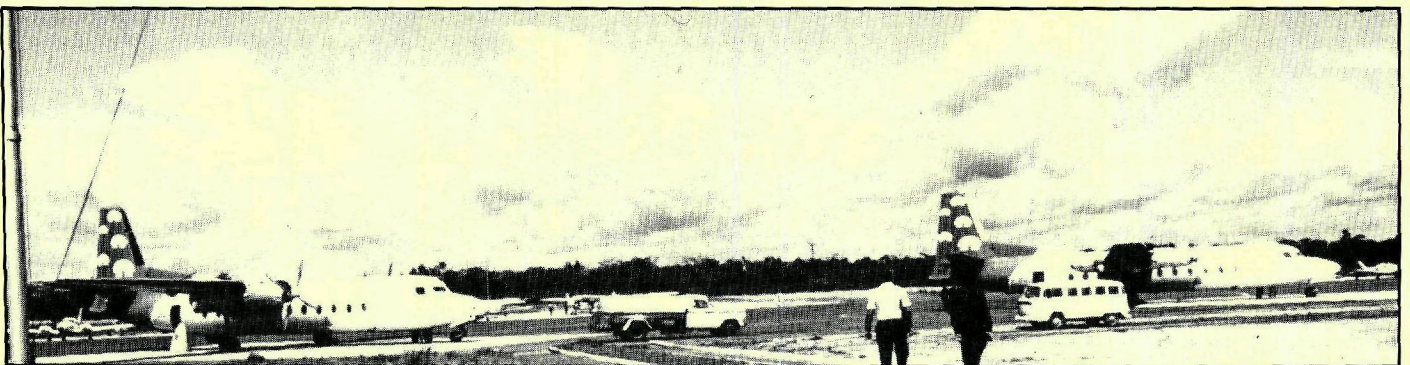
The fundamental reason why TABA has grown so fast is that dozens of large-scale development projects have been moving ahead steadily in the Amazon region (and several have already come to fruition) despite the stagnating, and even shrinking, economy in the developed

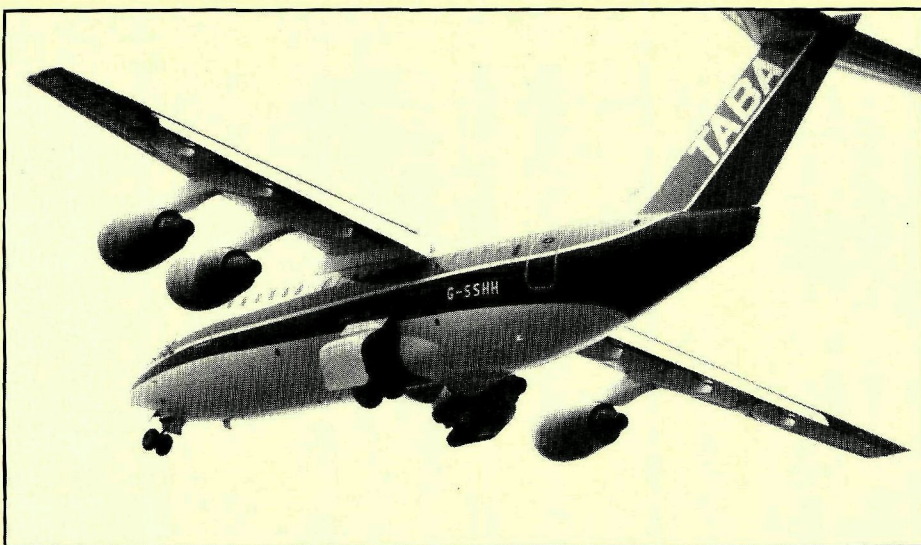
south-east of Brazil, where TAM plies its trade.

Amazonia is by far the largest of the five areas designated under the Government's regional airline policy, and takes in not just the Amazon basin itself, but those of several major tributaries to the south.

Located within TABA's network are major undertakings such as the 4000MW Tucuruí powerplant, which will soon provide power for two big aluminium processing plants under construction at Sao Luis and Belem. There are bauxite and tin mines beneath TABA's skies, as well as goldfields where tens of thousands of miners are trying their luck. There are

Backbone of today's TABA fleet is the FH-227





TABA is scheduled to take delivery of its first BAe 146 towards the end of this year

huge cattle ranches, new ports, transmission lines, slaughterhouses and towns.

One fundamental element of a modern economy is missing, however, because there are no railways at all, and the flimsiest network of roads is often unusable in the long months of the rainy season. So, when people are in a hurry, they have no alternative but to go by air. The massive Jari forestry and cellulose project, which now employs 8,000 staff, and supports many more, can only be reached by air or by river, and to get to one of the towns served by TABA, passengers have a stark alternative – fly for 4½ hr from Manaus, or spend 38 days on a river boat.

Air-taxi origins

TABA was the only company to tender for the Amazon region air service. It had previously been just a simple air-taxi operator, like many others in the area. Founded by Marcilio Gibson – known universally as “The Colonel” – it flew mainly to points on the River Amazon between Belem (its present headquarters) and Manaus.

Since that time, TABA has never looked back – aided in its growth not only by local industrial development, but by Government policy which provides all five regional airlines (Votec, Nordeste, Rio Sul, TAM, and TABA) with a degree of subsidy to enable them to establish the required level of services. Some 3 per cent of the revenue from the major airlines’ internal services is transferred to the five second-level carriers on a proportional basis, while the small companies are also permitted to charge fares up to 25 per cent

higher than those allowed for the jets, on journeys of the same distance.

This is one factor which has allowed TABA to build itself up from such small beginnings to the present position where it is worth an estimated \$80 million in assets, has made profits for its family owners of \$2 million in 1981 and 1982, and has reached the point where not even the Fairchild is adequate for the traffic density on the major routes.

Jet equipment

It was Bruno Gibson – TABA’s commercial director, and son of the founder – who set about looking for the most suitable jet aircraft for his business. The list started off with four names on it – the Boeing 737-100, the McDonnell Douglas DC-9-40, the Fokker F.28, and the BAe 146.

The two American aircraft were excluded almost immediately, because the typical TABA stage length is only 550km. When it came to the merits of the two European contenders, Gibson told *Flight* that the main factor which influenced him was his perception that the F.28 is at the end of its development life, with few further advances likely to be incorporated into future models, while the 146 is at the beginning of its life, and is of an entirely different generation.

As far as TABA is concerned, the main advantage of the 146 is ease and economy of maintenance. The company operates four bases – at Belem, Manaus, Porto Velho, and Cuiaba – but there are stages which put the aircraft more than 3,500km from the main base, at Belem. Should

engine problems arise so far from home, the 146 is capable of taking off and returning to Belem for repairs on three, while the F.28 would have to remain until help was brought.

Gibson also considers that it will be far easier to work on the 146 engines while they are still on the wing and that, almost invariably, problems will be in only one of the three modules, which can be removed and replaced without taking out the complete engine. Another advantage he cites is that the 146 can carry a spare engine in its own hold, while the F.28 cannot do so. The ability to dispense with ground support is a prerequisite for operations in Amazonia.

High utilisation

The 146s will be rented during 1984, and, if they are as satisfactory as Gibson anticipates, the purchase will start in 1985. He plans to fly each 146 on 15 sectors a day, for a utilisation of 250hr per month. One will fly the Belem, Manaus, Tabatinga route; the other from Belem to Cuiba and Porto Velho.

Being so far from the developed areas of Brazil (it is a 4½ hr flight to Sao Paulo), TABA has had to develop its own maintenance services, to become as self-sufficient as possible. The airline has trained men from the Amazon region, and, as with traffic, growth figures are dramatic. There were 40 staff in 1976, when the company was formed. Now there are 560, with a further 600 contract staff employed at the various airfields, and in ticket offices and agencies.

The company is able to carry out its own maintenance work on propellers, landing gear, gearboxes, and airframes, and it does 70 per cent of the electrical and electronics work. The only major components of the Bandeirante and FH-227 which TABA does not maintain are the engines. ◀

TABA commercial director Bruno Gibson (seen here with wife Lucia) says that the 146 is well suited to his extensive route network



TABA's historic growth

Year	1976	1977	1978	1979	1980	1981
Fleet size	15	19	17	14	16	16
Hours flown	5,841	11,673	14,671	16,307	18,858	22,515
Km flown	1,521,751	3,339,145	4,169,867	4,669,405	5,630,017	6,817,044
Pax carried	44,373	91,489	118,416	132,187	180,509	259,900
Cargo carried (kg)	433,547	768,274	1,332,293	1,577,373	1,404,174	2,492,645
Cities served	19	24	29	34	37	40
System load factor (%)	55	57	60	57	58	H

The Beech 18s were phased out of regular service by 1979, and all services are now undertaken by Bandeirantes and FH-227Bs.