

Transport · Airlines

## CEO Interview: How Finnair Plans to Crack the Potentially Lucrative Chinese Market

Brian Sumers, Skift · Jun 19, 2017 1:00 am



### Skift Take

**N**ot every airline can be a global behemoth. Finnair mostly focuses on its niche – connecting Europe with Asia, including secondary Chinese cities.

— *Brian Sumers*

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**Editor's Note:** Following our previous CEO interview series in [online travel](#), [hospitality](#), and [destinations](#), as well as our [CMO series](#) across verticals, we've launched another series, this time focused on the CEOs of leading airlines outside of the United States.

To better understand the challenges facing airlines in an age of fluctuating oil prices, rapid growth, and changing passenger expectations, our **Future of Passenger Experience** series enables airline leaders to explain their best practices and insights. Read the rest of the series [here](#).

***This is the latest interview in the series.***

While many of its European competitors, like Lufthansa Group, fly to most major global cities, Finnair tries to focus on what it does best – connecting Europe with Asia.

It's a strategy that allows the airline to take advantage of the location of its Helsinki hub. For most of Europe, Finland is on the way to Asia, and Finnair, which flies the newest and most fuel-efficient widebody Airbus jet, [the A350](#), has the right fleet for the routes.

But travelers in major European capitals generally can reach larger Asian cities, like Tokyo, Shanghai and Beijing, nonstop on their home-country carriers. So while Finnair flies to those larger markets, it also connects European cities with secondary cities in Asia, sometimes flying to airports with little, or no, European competition.

Finnair might not be the perfect airline for a Londoner headed to Tokyo, but it's well-positioned to attract someone from London, Paris, Madrid or Brussels seeking fast, one-stop flights to Chongqing and X'ian in China, Krabi and Phuket in Thailand, and Ho Chi Minh City in Vietnam.

We met recently with Finnair CEO Pekka Vauramo in Cancun at the IATA Annual General Meeting, an annual conference for airline executives. We asked him about the airline's Asia strategy, and whether it needs to tweak its onboard product to cater to Chinese travelers. We also asked about cabin interiors, including [problems with the carrier's new business class seats](#), manufactured by Zodiac.



**Skift: You've had quality issues with A350 cabins and seats. Your interiors are manufactured by Zodiac, a company Cathay Pacific, United Airlines and American Airlines have also had problems with. What's happening?**

**Vauramo:** Yes, that is correct. The seat itself is not the issue, but what's around the seat and all the panels relating to that module have been a big, big problem. The panels are not fitting. They have to be individually fitted in each place, and then of course if they are individually fitted in each place, there's no spare parts available and things like that.

**Skift: I know Cathay Pacific had a similar problem, but it said it was only on some planes. Is this on all nine of your A350s?**

**Vauramo:** Things are better with the latest deliveries. There are some things to re-work with them as well, but not to the same extent.

**Skift: Is it frustrating?**

**Vauramo:** Certainly, it's frustrating when we buy a new aircraft that costs more than hundred million and the first thing we find out is that it's not up to the standard. And they are things that are very visible to customers – they are the cabin interiors, they are the lavatories, and some of the kitchen, the galley issues.

We're buying a new aircraft and the quality is not there.

**Skift: Let's talk about China, an important destination for Finnair. Why is it such a priority?**

**Vauramo:** Look at our geographical position between Europe and China. We are on sort of great circle from there. The shortest route from most of Europe goes right above Helsinki. It's a natural place to fly into, and then from there we have built our connectivity to Europe. [We fly to] 70 cities in Europe. We can collect people from 70 cities in Europe, fly them to Helsinki, and [take them] from there to about 18 destinations in Asia. And vice versa.

**Skift: Many European and North American airlines don't fly beyond Shanghai and Beijing because they say the secondary cities are not yet profitable. Is this a long-term play for Finnair? Perhaps you hope China will make money in the future?**

**Vauramo:** It already has been a long term [strategy]. We started with Beijing direct flights from Helsinki in 1988. And then we've expanded. Shanghai, Hong Kong, Chongqing, Xi'an, Guangzhou. That's the network we have there. It's very much ongoing business, but of course the secondary cities like Xi'an and Chongqing, they are more long term. They are what Beijing used to be back in 1988 – in a development phase at this moment. But we see steady demand. The middle class is growing in those secondary cities rapidly as well, and they are the ones who really travel.

**Skift: Is it tough to sell tickets in China?**

**Vauramo:** It's not easy. It's different. The ones that travel far away for the first time, they prefer to go as a member of a group. Therefore, a tour operator is very important, and the agent is a very important point of contact. They book these groups together, and they book the seats. And then, this agent business, the tour operator business, is still – as far as airline is concerned – a fairly manual sort of business.

But more and more, people are traveling individually. When it comes to individuals that book directly, they use mobile devices to book their travel. They plan their travels and you need to be reachable through [the devices].

**Skift: Do the Chinese want to go to the same European cities as everyone else? Do they come to Europe to visit London, Paris, Rome and Barcelona?**

**Vauramo:** Yes, probably. They are of course the big cities. But things are changing. Right now, we're seeing a lot of interest in Northern Europe – Finland specifically. First quarter this year, we saw 75 percent increase in Chinese passengers in Finland alone.

**Skift: If you're successful in the secondary Chinese markets, do you fear more airlines will follow you?**

**Vauramo:** We will see the competition over time. We're already seeing Chinese competition. We've started to see Chinese airlines flying from Xi'an to Paris.

Our opportunity is that [with connecting flights] ... we don't have to sell just one destination in Europe. We can sell multiple destinations. If you have a direct flight, you're more or less selling that one destination.

**Skift: Asian passengers can connect in Helsinki to reach 70 other cities. But you don't have that same connectivity in China. You do not have a Chinese airline partner. And OneWorld, your alliance, does not have an airline in mainland China. Does this need to change?**

**Vauramo:** Well, OneWorld has had a few attempts, but not succeeded. Currently, OneWorld companies have free hands in China to go into bilateral agreements [with Chinese airlines belonging to other alliances], but we don't have anything to announce. But the President of China visited Finland on his way to meet President Trump, and he saw how many Chinese tourists are in Finland. And he's very much encouraging it – encouraging the airlines to talk to each other and find partners. We've seen a lot of interest, but nothing to announce right now.

**Skift: You recently started accepting Alipay on board. Are you selling more items?**

**Vauramo:** We have such a big percentage of Chinese passengers on many of our China flights. And it's something they are familiar with. They don't have to play with the currencies. We have the wi-fi on board on all our wide-body aircraft so that's what you need to use the Alipay. What we've seen is up to 200 percent sales increases on board.

**Skift: This is for duty-free?**

**Vauramo:** Yes. Duty-free, or things that they might buy and consume on board the plane. They are buying drinks [and food]. They are buying whatever we have, like cosmetics.

I think there's a lot more potential to develop [the duty free] part of the business. With our Asian traffic in particular, they want to shop luxury goods.

**Skift: On Asia flights, do you need special catering? Or are you merely a transportation provider, less worried about whether you have the right regional cuisine?**

**Vauramo:** No, no. We have to impress the passenger. Not only that, we want to stay away from the transportation business. We need to adapt to, for example, Asian or Chinese taste. There are certain Japanese elements on our Japan flights, certain China elements on our China flights. We need to have the big rice bowl available. We need to have hot water available. Fairly simple things.

And then we can have the Finnish specialties as well. Nordic specialties. But certain basic things need to be what they are comfortable with.

**Skift: For many Europe-Asia flights, you need permission from Russia to fly over Siberia. Other airlines have complained they have trouble securing rights. Are you pleased with the rights you have?**

**Vauramo:** So far, yes. Of course, Russia keeps on saying that the air traffic control is not that well-developed over Siberia, so that's why they restrict the airline flights over Siberia. But we are happy where we stand currently.

**Skift: You're expanding in the United States, with a new seasonal route to San Francisco. What opportunity do you see? Might you add more flights?**

**Vauramo:** I'm sure there are more things out there, but of course we've increased recently quite a bit. We've added Chicago a few years back. We've added frequencies to Chicago. New York we've had for many, many years. We have Miami, and now San Francisco. For the time being, I think we will just digest these ones and try to make them year-round. That should be the next phase.

**Skift: Last year, we interviewed International Airlines Group CEO Willie Walsh for this series. He said he believes there should be more airline consolidation in Europe. You're a smaller independent airline. Do you agree?**

**Vauramo:** Of course, things are moving that way. That is for sure. It's clearly visible. We do have restrictions on our ownership by law – the government needs to hold more than 50 percent of shares and so as long as that is in place, there's not much we can do. At the end of the day, it's up to our owners, not us, to make decisions on who owns us. But a bigger home sometimes feels a bit safer than a small airline.

**Skift: How does being government-owned affect the way you operate the airline?**

**Vauramo:** Not much. We've had tough times in the past and the government is seen as a very stable owner in those circumstances. It has been a good owner. But of course, [we might have] some more flexibility without majority ownership.

**Skift: Scandinavia is home to discount airline Norwegian Air. Has competing with Norwegian affected your business?**

**Vauramo:** Not really because Norwegian is going to concentrate on the Atlantic and for us, only 10 percent of our capacity is on the North Atlantic. We are exposed, but it's not a major exposure. We are 50 percent Asia, 40 percent Europe and 10 percent North Atlantic traffic. But we are of course following how they are doing.

**Skift: Norwegian is expanding in Asia, and will start London-Singapore flights in September. Do you fear they will add more Asia flights?**

**Vauramo:** I'm sure they will, over time, find themselves in the same places where we are. Of course, low-cost carriers, they require Open Skies. Otherwise they won't be able to do that. Currently, we fly to the part [of Asia] where the skies are not open. You need the overflight rights, you need the rights to fly to China.

You can use Open Skies to fly to Singapore. And from Gatwick, you don't have to go across the northern route to Singapore, so therefore [that's why] they are possibly opening it.

**Skift: Do you think flying low-cost carriers has changed what passengers expect? When travelers fly Finnair instead of Norwegian, they must be amazed at what they get for free.**

**Vauramo:** Of course. The line between a low-cost and legacy carrier is somewhat fading. Some of the legacies can be fairly close, with the same service quantity. Many of the legacies have unbundled the product, especially the short-haul. I'm quite sure that we will see some legacies unbundling the long-haul product very soon as well. Whatever you [want] in addition to the seat, you'll end up paying for.

**Skift: What about product segmentation? On short-haul flights, most European airlines have two products – business class and economy class. In the United States., we often see four segments – first class, economy class with extra legroom, economy class, and Basic Economy. Do you see Europe following? Or is this a uniquely American phenomenon?**

**Vauramo:** No, I think that's the way it's going. I do hear that there are even more segments that some people are considering. Of course, we are very close to the point when we will start seeing people having a really a low-cost configuration in the back-end of the aircraft. And then [there will be] something else in front of that. It'll still be economy class, but not quite low cost.

**Skift: You have a lot of leisure-oriented routes – you'll even send an A350 to Puerto Vallarta in Mexico once a week next winter – and yet you have large business class cabins on long-haul planes. Why?**

**Vauramo:** We have almost 50 business class seats on a 300-seat aircraft. The business occupancy rates are pretty good.

We have a lot of tourists that we carry, not so much business people on many our routes. It looks like there's a segment where the tourists want to be in business. There's a trend where people are [taking] shorter holidays rather than one- or two-week holidays. They go for a few days. And if you fly 10 hours, in the economy or in business, it's different how you arrive and how much you can get then out of your holiday.