



# Copa Airlines Follows Old-School Attitude to Achieve Consistent Profitability

In this installment of our multipart *Executive Insights* series on high-performing airlines, L.E.K. Consulting's John Thomas and Spencer Stuart's Michael Bell and Thierry Lindenau examine the secrets behind the remarkable sustained profitability of Panama's national carrier, Copa Airlines.

If there's ever been a highly successful airline that preferred to "stay off the radar," it's Copa Airlines. The consistently profitable Panama-based carrier has steadily and quietly refined its "Hub of the Americas" strategy for more than two decades, posting extraordinary returns for its shareholders — first the Motta family and then the public markets at large, after Copa's successful initial public offering in 2005.

Copa has achieved sustained and increasing profitability year over year as it has delivered net profit margins well above the industry average. The airline currently ranks in the top seven globally in terms of operating margin and has posted net margins of 13-16% over the past decade, a remarkable achievement in the financially challenged airline industry.

Despite its public ownership, Copa adopts a low profile. Highly respected Chief Executive Officer Pedro Heilbron prefers to focus on returning Copa to industry-leading margins in the face of

strong economic headwinds and sluggish traffic in key markets, but former executives close to its business model, approach and culture have provided insights.

A careful review reveals that Copa Airlines strongly adheres to the five tenets<sup>1</sup> we identified in *Behind the Curtain: How Top Airlines Achieve and Maintain Success*, leveraging their combination to produce impressive results. According to one former executive, "At Copa, 80% is just saying no." While many other airlines have strayed from their core business models and paid the price for doing so, Copa has been incredibly focused and disciplined, investing its time and resources optimizing and refining its chosen model, as opposed to permutating it.

The business is built around making its strategic hub at Tocumen International Airport in Panama City a moneymaking machine. By providing the most efficient north-south connections for thin origin/destination markets, Copa has been able to extract premium yields while keeping its aircraft full. The hub-and-spoke strategy has been critical to ensuring maximum utilization of the carrier's limited fleet while aggregating traffic to and from destinations through Panama.

### Defending margins

"The airline was built on leveraging a hub in a strategic location with good weather and leveraging the capabilities of the Boeing 737," says a former senior executive. Apart from a modestly

*Copa Airlines Follows Old-School Attitude to Achieve Consistent Profitability* was written by **John Thomas**, Managing Director and Head of L.E.K. Consulting's global Aviation practice, and **Michael Bell** and **Thierry Lindenau**, consultants within the aviation, aerospace and defense practice of executive search consulting firm Spencer Stuart.

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successful foray into Colombia through the acquisition of AeroRepublica, primarily to gain access to the large domestic Colombian air market, Copa has stayed the course with this strategy.

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## *One dimension in which Copa is truly world class is cost discipline.*

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“At Copa, it’s not enough that a new initiative clears economic hurdles. Heilbron and his top leadership must also agree that it has the bandwidth to take on any new initiative, and to deliver it with the degree of focus that it deserves,” says the former executive.

“Copa isn’t about the new brilliant idea; it’s about laser-like focus on execution. We spent a lot of time talking people ‘off the ledge’ as they put forward ideas that were off-plan. Instead, we applied our efforts to taking on-time performance from 65% to consistently 85-92% and completion rate from 97% to consistently 99.4-99.6%,” adds the former executive.

Copa Airlines could have easily been relegated to secondary carrier status by virtue of its small, almost nonexistent domestic air market, but it chose to “go big” instead.

### **Pragmatism**

The airline quickly recognized that it could not — and so would not — compete against much larger airlines from the United States and Latin America on trunk routes. It elected instead to create an efficient Latin American and Caribbean hub where none had existed and where potential competitors were constrained by airport operating limitations.

By facilitating traffic efficiently between the likes of Belize and Manaus, Brazil, Copa has effectively changed the airline industry in the region while saving business and leisure flyers countless hours. The carrier has also worked hard to ensure strong external alignment behind its strategy. As the national carrier and a major source of job creation — being one of the largest private employers in Panama with almost 6,000 local staff — Copa has the strong support of its government.

In addition, the airline has worked closely with Panama’s airport authority on the substantial enlargement of the airport’s infrastructure to permit the airline to continue with its hub-based expansion. At Tocumen, Copa has a seat on the board of the semiautonomous airport corporation with excellent cooperation between the two parties.

One dimension in which Copa is truly world class is cost discipline. Simply put, Copa is a frugal airline that counts its pennies, taking strong measures to avoid unnecessary spending. This tremendous discipline starts at the top and is exemplified in all facets of the business, including vendor negotiations and management, asset deployment, and internal resource allocation.

Until recently, the airline deployed a single-type fleet, kept wages under strict control and shunned extravagant spending in its corporate office. The carrier leverages its presence in a second-world country to keep its costs below those of larger rivals while delivering a first-world product — so much so that Copa can honestly be considered one of the few high-yield/low-cost airlines in the world.

### **Stable and visionary leadership**

Everything about Copa reflects stability. Its chairman and major shareholder, the iconic Panamanian businessman Stanley Motta of the Motta Group, has been on the board for almost three decades. Heilbron has been President and Chief Executive Officer for the past 25 years, which by all accounts must be an airline industry record.

And Heilbron’s leadership team is almost as equally loyal with Chief Operating Officer Dan Gunn and Chief Financial Officer Jose Montero having been at the airline for the past 17 and 15 years, respectively. Until he was lured away in 2014 to become president of Viva Group, Joe Mohan had led Copa’s commercial function for 14 years.

The members of the Copa leadership team know each other and their playbook very well. They share and are committed to a common vision they themselves have helped shape, implement and refine. There are other benefits of long tenure, too.

“By virtue of having worked together for so long, many of the members of the top team are the best of friends and, as a result, the focus shifts to working and winning together as a true team,” says one former executive.

By keeping its business model and processes simple, Copa is able to ensure that its organization, at all levels, understands and is fully aligned behind the business model.

Employees watch their chief executive and top leadership team carefully and take their cues accordingly. They know what is valued — a heads-down focus on the task at hand, attention to detail, fact-based analysis and decision-making, and the day-in, day-out delivery of quality service.

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All employees follow an evergreen set of principles, both written and unwritten: avoid complexity, focus on execution and stay true to a proven way to run the company. At the top of the enterprise, the emphasis is on ensuring the best collective solution and alignment, not, as one former executive says, on “outsmarting each other as the smartest guys in the room.”

Through its no-nonsense approach and ongoing communication with its employee base, the airline has attained a high degree of employee loyalty. It has twice been named one of the 10 best employers overall in Latin America by América-Economía, while also being recognized by Fortune as one of the top 10 companies for leadership in Latin America. The Airline Strategy Awards, organized by Airline Business and Spencer Stuart, have twice recognized Heilbron for his excellence in leadership, while FlightStats acknowledged Copa’s attention to operational detail, touting the carrier in its 2014 rankings as “the top on-time airline in Latin America,” with an annual on-time performance rate of 90.3%.

By applying all five of the elements that are critical to sustained airline profitability, Copa has achieved world-class returns year in and year out. Copa demonstrates a good old-fashioned approach to airline leadership — nothing flashy but a cohesive and disciplined plan to implement all five elements critical to sustained airline profitability.

<sup>1</sup>Refers to five universal truths behind high-achiever performance cited in *Behind the Curtain: How Top Airlines Achieve and Maintain Success*, the first *Executive Insights* in this multipart series. These five universal truths include strategic focus and clarity; cost discipline; bold, industry-changing actions; stable and visionary leadership; and organizational alignment.

**Editor’s Note:** *Copa Airlines Follows Old-School Attitude to Achieve Consistent Profitability* was originally published in *Airline Business* in November 2015.

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