Survival of the fittest

Cutting capacity is almost inevitable in a downturn like this, but **Jean-Cédric Bienfait** says airlines must not forget about getting closer to the customer as a way of maximising revenue

Hard times for airlines

The airline business has never been an easy one to manage, given the context of high capital expenditure, overcapacity and low margins in what has always been a cyclical market.

In recent years, the business cycle has become ever shorter and less predictable, with more marked highs and lows. The recent trend in the oil price is just one reflection of this, going from a relatively manageable level to an all-time high in the space of a few months and then sinking back in weeks to a price no-one had expected. There are very few players in the market, large or small, who remain immune from the business storm that has seen failures, consolidations and significant downsizing.

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A torrent of threats or an ocean of opportunities?

In the race for survival, the vast majority of carriers have undertaken cost-cutting and revenue improvement programmes while attempting to renegotiate better terms or extract additional money from traditional sources, such as lessors, banks and equity.

These efforts, where possible, have not only proved tougher and more hazardous than ever before, but also deprive those airlines that survive the downturn of the ability to strike back quickly and efficiently in the next upturn.

Now that the big cost-cutting and revenue initiatives have been pushed to the limit with no recovery in sight, where do airlines look next for more cash? Should they carry out yet another downsizing exercise?

Or should they go after more modest cash benefits from a larger number of smaller, but easier to deal with, pockets? It is easier said than done, but this is where information and knowledge management can start to make a considerable difference, giving those capable of using it properly increased agility and improving their efficiency.

The power of knowledge

Historically, IT systems have been structured and organised along the lines of the functional business areas that they support, primarily fulfilling transactional and processing objectives and piling up vast amounts of data in individual 'silos'.

The processing of data into some form of management information reporting has been considered non-core, its output inappropriate to the support of efficient and reliable decision-making. Information-hungry executives have tasked their IT organisations with extracting information from this data, with various degrees of ambition and success.

A new framework

With airlines typically spending 80% of their time and money on developing technology tools and just 20% on using them, one information-hungry but frustrated airline executive saw an opportunity to gather airline colleagues and data management experts under one roof to develop an innovative airline management reporting solution.

Seven years later, additvalue is bringing to the market a universal reporting platform spanning all functional and organisational areas of an airline and beyond, to cover its wider market environment. The objective:

- Total control of data capture and processing to ensure quality, reliability and accuracy;
- De-clustering of data silos to consolidate information into a single repository; and

- Control over information access and distribution, so that the right piece of information is delivered to the right person in near real-time.

Getting to know the customer

Financial reporting is backward-looking. Airlines need a greater ability to project forward. Getting away from silo thinking can bring a more granular approach to profitability and cash management, enabling a focus on smaller entities: a customer, a flight, an airport, an aircraft tail, a pilot, a call centre agent, a marketing action, a sales channel.

The crucial first step is to develop a detailed understanding of and control over who is flying, how often, when and with whom. From this you can micro-segment your customers, isolate product characteristics, target them more accurately, and avoid yield dilution by posting the right offer to the right people.

New IT tools provide the opportunity to build a more detailed passenger profile than in the past, including cash contribution, profit contribution, number of delayed flights, total amount of delay suffered, how often and so on.

In-flight sales automation can play an important part. This is not just about efficient cash collection and handling, but collection of useful information. And this leads in turn to new product offerings – mobile phone vouchers, ground transportation tickets and much more.

Cash, profits or both?

The priority is to mitigate risk by opening up revenue-earning opportunities to the widest possible base, and promote the payment channels that deliver cash more rapidly to your bottom line.

The traditional approach towards yield has gone. Markets have become highly transparent and efficient, and inventories are short-lived. Aside from yields, one needs to manage cash and take customer value into consideration.

Dynamic management of networks, customers and product range enables business to be driven more effectively against cash and profit targets either geographically (countries of passenger origin, airports or network subsets) or in time frames (certain months or weeks, particular days of the week).

Do you see automation of in-flight sales payments as a cost-cutting process or an opportunity for new revenues and higher customer intimacy? Would your commercial department accept losing yield in exchange for cash, reducing the need to borrow from the money market? Does your operational control centre recognise the commercial value of flights as it responds to delays? This is how conflicting priorities can interlink.

The agile operator needs to have its head in the sky (plan and anticipate) and its feet on the ground (deliver).

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Ready for the unexpected

With a future that is so difficult to predict, airlines should invest more in training their management staff to deal with the business in the same way that pilots are trained to deal with the flight: be ready to face the unexpected.

Business agility can be greatly increased by consistently running and managing scenarios such as:

- ‘What if demand softens by 20% over the next three months?’;
- ‘What if a competitor ceases operations or suspends routes?’; or
- ‘What if oil stays at $40? What if it goes back to $140?’.

Knowing more means that a company can react faster than the rest. In a changing market, information power is market power. Fuel hedging decisions can make or break an airline. Recognising that aircraft repossessions by lessors or greater urgency on the part of unpaid suppliers (ground handlers, airport authorities) may be a clear signal of worsening financial conditions can give a company a head start over its competition.

In this deep financial crisis, it is vital to be aware that cash availability is limited, it takes longer to get access to cash, and it is on more expensive terms and conditions, which can make it either unaffordable or too late as an option.

It is always about the people

Personal attitudes make a bigger difference than professional aptitudes in getting an airline to gain altitude and outperform its competition.

Given that there are multiple needs within the single version of the truth, awareness of the vertical alignment within the same business areas and horizontal alignment between business departments is important. Information-sharing between business areas improves awareness and puts decision-making in the broadest context.

Incentive schemes shouldn't be forgotten either, setting personal objectives and rewarding contribution.

Evolve or die

More than ever in the current trading environment, airlines must embrace business change and look beyond their traditional patterns and boundaries for new opportunities.

As Darwin, born 200 years ago, was first to observe: it is the survival of the fittest. ■

Brussels-based Jean-Cédric Bienfait set up additvalue in 2002. The company's focus is airline performance. It offers an integrated reporting and performance management platform; data processing and systems integration; and strategic, tactical and operational management consultancy.

Alongside this role, Jean-Cédric acted as IT director of Sama Airlines during its start-up phase. He previously laid the foundations of a western-style sales organisation for SkyEurope Airlines, and re-engineered its IT. In the 1990s he worked with the TUI Group, United Airlines and in the air traffic management department at Sofréavia.