

A MAGAZINE FOR AIRLINE EXECUTIVES

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Simplifying for the Future

A Conversation with . . . Mike Croucher, British Airways

Mike Croucher is the head of information technology for airline operations at British Airways, responsible for all aspects of IT delivery. As part of a small CIO team, he works closely with the directors at British Airways to align the IT strategy and portfolio with the business direction, promoting the use of technology throughout the airline.

He has 20 years experience in the travel industry including 10 years at Galileo International, where he became director of subscriber products, and eight years at Scandinavian Airline Systems working on operational systems, in particular departure control, check-in and crew systems.

Here, he shares some of his insights on how British Airways is simplifying its operations to maintain its status as one of the world's leading airlines.



Mike Croucher, British Airways

QUESTION: Recent events have caused significant changes in the airline industry. How has this changed British Airways' strategy?

ANSWER: We, like the majority of full-service airlines, were suffering from the effects of a global recession and, in addition to this, the foot and mouth crisis in the United Kingdom that impacted on tourism and had a significant effect on our key North Atlantic routes.

We recognized that without building a sufficient operating margin we would be unable to ride out the cyclical nature of the airline business. The events of Sept. 11, 2001, simply accelerated the need to restructure our business



BRITISH AIRWAYS

with the primary objective to achieve a 10 percent operating margin.

Q: What changes has British Airways put in place to address these issues?

A: As a result of Sept. 11, we initially took a number of tactical steps. These were mainly aimed at conserving our cash, which included management voluntary pay reduction, reduction in overtime, voluntary reduction in working hours and some routes rationalization. Additionally, we looked at reshaping our business through a review known as "Future Size and Shape."

Q: What were the major outcomes as a result of the Future Size and Shape review?

A: The outcome of the Future Size and Shape review announced on Feb. 13 set in place a strategy for addressing a number of areas including:

- Measures that will deliver annual costs savings of £650 million (US\$993.2 million) by 2004,
- Restructuring our short-haul business to compete intelligently with the no-frills carriers,
- Reduce our manpower by more than one-third,
- Increase aircraft utilization.

Q: How is British Airways approaching these initiatives?

A: We have recognized that our business has become too complex, and a major goal of Future Size and Shape is simplification across all areas of the business.

A significant part of the £650 million annual savings is driven by headcount reduction of 13,000 by March 2004. However, this will only be achievable through simplification of our business.

Another major initiative is our network and fleet restructuring. This eliminates our unprofitable routes and restructures our fleet by movement of aircraft type between our regional bases and our main operation. This simplification will help drive out long-term cost of operation.



This is typical of the approach we are taking to all cross-functional processes in the airline. By driving through simplicity, we are looking to take out costs, which also will add value to the customer proposition.

Q: How will simplification help you achieve your long-term goals?

A: A good example of simplification that is prevalent in our business is in the IT department. The IT department is an example of IT leading the business. As part of the Future Size and Shape review, the IT department is embarking on a simplification program by taking £50 million (US\$76.4 million) out of the IT operations budget of £200 million (US\$305.6 million) while still investing in technology.

We are simplifying our IT infrastructure, decommissioning obsolete and low-value systems, and driving out complexity by having clear central control. Within the IT organization, investment has been made to deliver a process-based organization reducing the overhead costs.

Q: The European market, particularly the United Kingdom, has seen the emergence of low-cost carriers. How has this impacted you?

A: We are constantly aware of our competition and, in particular, the no-frills carriers. While the no-frills carriers mainly serve a different market segment than us, we need to be alert to their threat. We recently announced a restructure of our short-haul business to meet the challenges posed by the no-frills carriers. We have learned from them the things they do well, which includes distribution, high aircraft utilization and simpler fare structure.

The no-frills carriers have begun a revolution in the behavior of customers and this means we need to change in order to compete. We have simplified our pricing structure on our European network via our Web site, BA.com. Our customers have more pricing options depending on flexibility of travel times.



British Airways, the world's largest international airline, which carried 48 million passengers on 529,807 flights last year, recently completed a thorough examination of its operations.

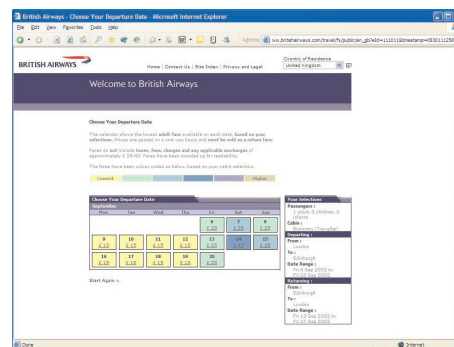
However, we will continue to be a full-service airline providing our customers with services such as a full range of booking and check-in options, complimentary catering

and bar service, choice of seat, Executive Club benefits, and excellent customer service and service recovery.

Q: How can you compete with these low-cost carriers?

A: In similar ways to no-frills carriers, we offer the customer the choice of competitive fares on off-peak services. Our new selling engine allows transparency of pricing to be able to select comparable fares with no-frills carriers. Many no-frills carriers will often fly to inconvenient airports without the frequency or operational backup of a full-service airline. However, our major market will remain the passenger who requires a full-service networked airline.

Below shows a screen shot of how our new Fare Explorer product works by providing the customer the opportunity to pick and mix from one-way fares based on the required date and time of travel.



British Airways' new Fare Explorer product.

Q: What role does technology play in helping you simplify/streamline your operations?

A: As part of the Future Size and Shape review, our leadership team recognized the need for investment in technology to help transform the business. Already, substantial investment in our Web-selling platform has created a significant shift in our distribution channel.

Technology is being used to drive out costs through departmental productivity projects such as in crewing and ground resources, customer proposition with our new Web-selling engine, and self-service check-in.

As well as moving our customers online, we also have an extensive e-Working program that is driving staff to more self service and demanding a simpler approach to our processes.

A good example of this is our ground resources management project, using the Sabre® StaffAdmin™ employee tracking and assignment system as the base to drive out costs. This project combines productivity tools with the concepts of the e-Working program delivering online accessibility to staff. It is through sustained investment in technology while continuing to drive out costs through simplification of the business processes that is fundamental to reshaping British Airways as it moves into the future. 