

A MAGAZINE FOR AIRLINE EXECUTIVES

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SIMPLIFYING FOR THE FUTURE

## A Conversation with ... British Airways



INSIDE

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# The Answer is Simple

## Airlines Seek to Simplify Operations to Return to Profitability

■ By B. Scott Hunt | *Ascend* Co-editor

“Simplification means going back to your core business. Airlines have to focus very strongly on what they do best . . .”

“The ability to simplify means to eliminate the unnecessary so that the necessary may speak.”

German artist Hans Hofman wasn’t speaking about airlines, but his words certainly resonate for an industry grappling with unprecedented economic challenges.

In light of the drop off in air travel — a decline that aggravated a pre-existing downturn in high-revenue business travel — many airlines around the world have begun to re-examine their operations in an effort to return to profitability as soon as possible.

Taking a page from the low-cost carriers, some of which have maintained profitability through the industry’s economic mid-night, airlines have begun looking to simplify their operations in an effort

to restore a positive balance sheet.

With the need to slice costs and maximize revenue so crucial, never before has it seemed more important for airlines to — as Hofman suggests — simplify by eliminating the unnecessary, freeing them to focus on the necessary components of their operation.

Unfortunately, achieving simplification can seem dauntingly complex.

“Simplification can mean a lot of things,” said Steve Clampett, president of Airline Products and Services for Sabre. “It can refer to route structures, fares and the number of fares offered, fleet types, classes of service, catering, the check-in process. There are a lot of different pieces to simplification.”

Where, then, does an airline seeking to simplify its operations begin?

### The Route to Simplification

In recent months, a number of airlines have taken significant measures to simplify operations. Leading airlines such as British Airways (see related

article on page 10) have begun detailed examinations of their operations seeking opportunities to eliminate complexity and thereby cut costs. And industry reports seem filled with news of new streamlined check-in processes, fleet retirements, and restructured fares and networks.

Each of these measures certainly can help an airline cut costs and improve efficiency. Unfortunately, there is no single “magic bullet” component that solves the problems of every airline. Rather, each carrier seeking simplification must first determine its true nature.

“Simplification means going back to your core business,” Clampett said. “Airlines have to focus very strongly on what they do best and where they create value and not get into marginal areas that unnecessarily drive up costs. The key is to focus on where your competitive advantage is and do everything to maximize that advantage. You have to determine what your customers are really willing to pay for.”

Making that determina-

tion is the first step to simplification, according to Walter Jacobs, who was vice president of crew and cargo products for Sabre before becoming vice president of North America sales for Sabre.

“Most low-cost carriers are not long-haul international carriers that fly 10, 12 hours,” he said. “When you have intercontinental flights, you have to have a certain level of service. You can’t say, ‘I’ll be a no-frills airline’ and fly transcontinental and not give anybody anything to drink.

“Simplification is more than just saying, ‘I want to be like (low-cost carrier) Southwest Airlines,’” he explained. “That would mean you cut out a lot of things that you’re doing. That may or may not be the right answer.”

### The Model of Simplicity

Although recently gaining momentum in the industry, simplification is not a new concept. In fact, Southwest has been practicing it for more than 30 years.

“Southwest Airlines is held up on a pedestal as



the model of simplification,” Clampett said. “They fly only one fleet type (B737) with one cabin configuration. There are no meals, no assigned seating. It’s a more straightforward operation.”

Southwest also uses a high frequency point-to-point network to maximize utilization of aircraft and personnel, further controlling costs.

Since its founding, Southwest has inspired a growing number of like-

Many experts say network carriers, indeed, can borrow some elements of the low-cost model without completely abandoning their traditional operation.

“They can go from 15 fleet types to three. They can go from three classes of service to two. They can eliminate special meals. They can restructure banks so they are operationally more efficient,” Clampett said.

The benefits of standardizing on a basic fleet,

“You don’t have to standardize to one fleet type,” said Jim Barlow, vice president of pricing, scheduling and revenue management for Sabre. “You might have a jumbo widebody, a widebody, a narrow body and a regional jet. So, you maintain flexibility without operating a flight museum.

“It’s something that needs to be analyzed, but can be,” he continued. “For example, the *Sabre® Fleet*

*Assignment Model* can apply a proposed fleet to an airline’s route structure and passenger demand and estimate the potential revenue and costs those aircraft would achieve. And you can try

difficult to distribute. It’s less difficult to communicate.”

Although airlines can maintain some degree of segmentation in their fare structure to maximize revenue, the overall number of buckets can be reduced as well as the differential between buckets, Barlow said.

“In some markets, there are differentials of 10 to 1 between advanced purchase and full fare,” he said.

“Some amount of rationality is 2 or 3 to 1, at the most.”

Barlow also said airlines should examine not only the number of fare classes, but also the restrictions associated with them.

“The restrictions should have some relationship to the cost of providing the service,” he said. “If you were to charge \$5,000 more for a blue car than a red car, people would have trouble with that. Applied to airlines, if you leave on a 7:30 a.m. flight on a Monday, the fare may be drastically different than later in the day. Why have that?”

“Restrictions should make sense to people,” he said. “What makes sense? Advanced purchase. People can recognize that if you state your intentions to travel early, then an airline is able to give you a better fare because they don’t have to hold a seat in the hopes that someone will buy it. I would say non-refundability. If you insist upon being able to *(continued on next page)*



With its single fleet type and point-to-point route network, Southwest Airlines is considered the model low-cost carrier.

minded carriers (see sidebar, page 5) in North America, Europe, South America and Australia. These carriers, which mimic the Southwest model to varying degrees, have performed better economically over the past several months than the larger, full-service airlines.

The network airlines, with their multiple fleet types, complex hub-and-spoke networks and multiple classes of service, have taken notice.

even selecting equipment from a single manufacturer, have become well recognized throughout the industry. Crew and maintenance personnel become more interchangeable — more of them are able to work on a greater number of aircraft. It reduces the inventory of spare parts. It reduces training requirements.

Still, an international airline doesn’t have to go to the extreme level of the low-cost airlines.

different scenarios.”

In borrowing from low-cost carriers, fare structures are another area ripe for possible simplification.

“The airlines have developed a price for every single potential passenger departing at every single potential time,” said Gianni Marostica, president of Airline Reservations for Sabre. “Low-cost carriers use very simple pricing like zone pricing. Anywhere within an hour, \$60. Two hours, \$80. It’s less



refund the fare and the airline has to take the risk of you showing up or not, they are going to want more money for that. And generally speaking, the more restrictive, the lower the fare.”

Barlow also said a Saturday night stay-over requirement is rational — within reason. “It does not cost an airline \$500 more to transport somebody when they don’t stay over Saturday night than when they do,” he said. “But, the typical business passenger does not want to stay over on

already implemented a “rolling hub” concept that spreads the banks more evenly through the day. Although it marginally increases the connection time for passengers, it generates savings for airlines.

“Unpeaking the schedule is something airlines are going to have to look at if they want to simplify their operations,” Marostica said. “It drives reductions in labor. You’ve got these huge concentrations of labor during the banks. And during the troughs, they aren’t doing anything. It also improves utilization of aircraft.”

site. Or you can check in curbside. You can go to a self-service kiosk, or to an agent who is equipped with a wireless device. That is simplifying the passenger check-in process so that they don’t have to stand in line at the ticket counter. And that reduces some of the workload. By diverting those passengers, I don’t need as many ticket agents or gate agents.”

Since labor represents, on average, about 30 percent of an airline’s total costs, it is one of the main areas to target for reduction through simplification, Marostica said.

One way to reduce labor costs is by restructuring wages more in line with a deregulated environment, linking compensation to the performance of the airline, he said. But rather than go through the potentially acrimonious process of renegotiating union contracts, an easier way to reduce labor costs involves using technology to reduce the personnel needed.

“All these technological improvements allow for a more self-service approach — basically less interface with employees — and that reduces the amount of labor,” Marostica said. “Customers are much more savvy today. They understand their options. And because of that, we should push a lot more of the decision making out to them.”

Technology can also greatly assist in simplification in other ways. Decision support tools, for example, can help manage the unavoidable complexity of the modern airline.

“Some aspects of the airline business just won’t get simpler,” said Alan Dicker, vice president of flight operations products for Sabre. “You’ve still got to fly airplanes. They’re still going to have maintenance problems. They’re still going to have crew problems. There’s still going to be bad weather. None of that disappears. But technology gives you the ability to react to it and solve the problem and get back on track in a timely manner.”

When selecting technology, airlines can still seek to remain simple by selecting “off the shelf” systems rather than highly customized ones. They can also limit the number of vendors, ideally finding one who can provide a range of products that can be easily integrated across the operation.

Integration provides a key aspect of simplification. Integrating the multiple flight operations components, for example, into a unified system operation control center simplifies operations and reduces costs. China Southern Airlines recently attributed more than \$7 million in benefits to its new SOC.

“A typical airline would

“Simplification is more than just saying, ‘I want to be like (low-cost carrier) Southwest Airlines . . .’”

a Saturday night, so they will pay the extra \$500. But not \$1,000.”

The low-cost carriers are also distinguished by their point-to-point routes. The hub-and-spoke system has many benefits that network carriers are justifiably reluctant to give up. But even a hub-and-spoke network can borrow from some of the point-to-point principles, which maintain a steady flow of aircraft throughout the day rather than concentrations of flights in banks to facilitate connections from various spokes.

Some airlines have

### Beyond the Low-Cost Model

Simplification is certainly not limited to borrowing ideas from low-cost carriers. A number of ways to simplify operations are universally applicable regardless of the type of airline.

Simplifying the passenger check-in process not only benefits airlines, but their customers as well, said Chris Serafin, vice president of airport products for Sabre.

Using tools such as the *Sabre® Aerodynamic Traveler™* suite of passenger processing solutions helps “control costs and still provide customer service,” he said.

“Simplified passenger travel involves having check-in options,” he said. “You can check in through the airline’s Web



More and more, airlines are using technology, including deploying self-serve check-in kiosks, to simplify their operations. By using technology to push more functions to the traveler, airlines reduce their workload and are able to better utilize personnel and other resources. (Photo courtesy of IER)

have a navigations department, an aircraft performance department, a flight planning department, a meteorology department, an operations control department, a crew department, a crew planning department and somebody worrying about slot management. And they all may have their own systems. But if you put them all in a room called an SOC with products from one vendor, it's a lot simpler to manage," said David Bornemann, vice president of Sabre Airline Solutions.

Using products from a single vendor with a common look and feel increases the potential for cross-utilization because analysts

can use more than one application. Such products can also be more easily integrated with a common database, making the necessary information easily available to all who need it and eliminating the need to enter the same data in multiple systems.

"One of the strengths of a product like the Sabre® AirPath-360™ flight planning and dispatch system is that it puts all the relevant data in front of the dispatcher who has to work that flight," Dicker said. "If you're not well integrated, you can spend a lot of cycles just chasing information."

And integration also means data can be shared across the organization.

A proposed new flight schedule can be analyzed by crew and staffing systems to look for added savings or to point out possible pitfalls.

Technology is also available, such as the Sabre® Qik™ business processing solutions, to provide a standard graphic user interface that eases the use of, for example, complex reservations systems, resulting in reduced training and increased efficiency.

Indeed, simplification involves a myriad of possibilities. But to thrive in today's marketplace, airlines must find ways to reduce the layers that have built up over time.

"It's not like somebody

woke up one morning and said, 'We want to be complex,'" Clampett said. "Airlines didn't put in complexity without justification. Every incremental decision may have justified itself at the time. But pretty soon you've created a lot of complexity, and the economics of the airline space no longer support it."

The economic landscape has changed, but airlines have proven they can adapt even to the most challenging circumstances. By thoroughly examining the operation, employing standard technology and streamlining operations, airlines can build a new business model to ensure lasting profitability. 