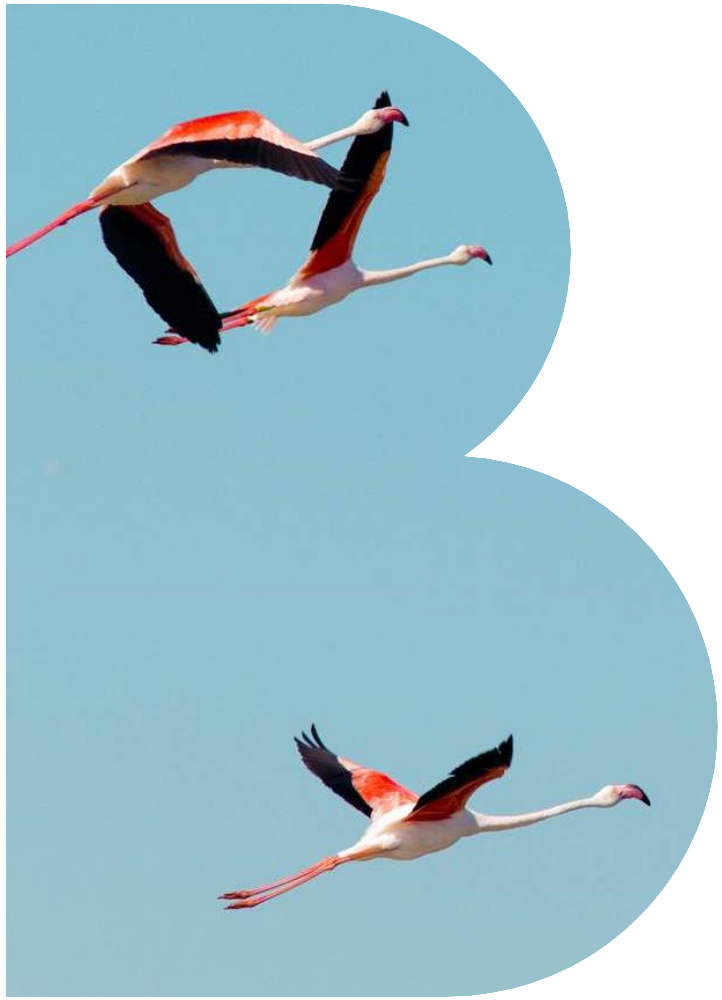
Transportation

Roland Berger



Straight and level

Our approach to improving airline performance

Düsseldorf, October 2016

Roland Berger

From our experience, performance issues at airlines can often be attributed to a few individual causes

Common performance issues at airlines

Performance issues

Revenues

- All-inclusive pricing model with limited lever to stimulate passenger demand
- Pricing above or below the market, usually due to issues with revenue management
- Unclear price and product positioning, leading to down-selling instead of up-selling
- Unsuitable portfolio of ancillary services for the given market environment – Too large or too small
- No view on the most attractive passenger segments, undifferentiated commercial approach

Costs

- Low productivity of aircraft and crew driven by network and schedule structure
- High aircraft operating costs due to high age, low productivity or unfavorable contracts
- High aircraft unit costs due to small fleet operated
- Pension deficits or questions over valuation of pensions
- Low staff productivity, due to schedule or collective labor agreements
- Oversized overhead for an airline of this size
- Likely salaries above market level throughout the company

Source: Roland Berger

For most airlines, a wide range of optimization levers is available – Goal is to challenge the underlying revenue and cost structures

Key improvement measures

Revenues

- Adapting of **pricing and fare products** to the market conditions
- **Revenue management** and sales optimization

- Extension of **ancillary service portfolio**, review of pricing
- **Un-bundling** or **re-bundling** of products depending on market

- Leveraging of **alliance partnerships** and **code-shares**
- Re-negotiation of **commercial agreements** with other airlines

Challenge the commercial strategy and set-up

Costs

- Re-negotiation of **aircraft lease contracts** to reduce fixed costs
- **Fleet reduction**, if lessors agree without penalties

- Re-negotiation of **catering, fuel, ground handling, lounges**
- Re-negotiation of **supplier payment terms**

- Review of **sales agreements**, **GSAs**, distribution agreements
- Move towards cheaper **online channels**, e.g. own portals

Review entire cost structure with coherent approach

Source: Roland Berger

Revenue measures must be driven by commercial departments – Differentiated timeline due to longer planning horizons

Revenue up approach – Example measures

Revenue structure

- Network
- Sales
- Revenue mgt.
- Fleet mgt.
- Marketing

> Strong and indepen-dent functions
> High interdepen-dencies between functions
> Longer planning hori-zons

Short-term

> Key market (O&D) analyses for connectivity and pricing check
> Distribution footprint and sales channel management in key source markets
> Sales-up measures

Mid-term

> Product face-lifting activities
> Pricing and Revenue Management schemes
> Re-definition of the ancillary revenue concept

Long-term

> Launch of a revised, customer segment specific CRM approach
> Exploiting alliance synergies on the revenue side
> Definition of strategic marketing measures

On the cost side, goal is to challenge each cost item not only on a unit-level, but also the underlying specifications and needs

Cost optimization approach – Example measures

Cost structure

- Fuel
- Aircraft
- Crew
- Maintenance
- Airport fees
- Handling
- Navigation
- Distribution
- Catering
- Overhead

> Multitude of levers
> Largely optimized
> Only limited quick-wins

Unit costs	**Renegotiate the unit costs**	> Ground handling fees > Fuel differentials > Aircraft leasing or purchase costs
Quan-tity	**Reduce the quantity consumed or used**	> Aircraft productivity driven by schedule, ground times, etc. > Engagement standards for ground handling > Fuel burn driven by routing, engine type, flight profile
Specs	**Adjust quality levels or standards applied**	> Length of turn-around time, ground processes > SLAs with ground handlers, caterers, into-plane agents > Technical standards for maintenance checks
Needs	**Challenge the cost item in principle**	> Joint pool and ownership of GSE at larger airports > Supplier round-tables, eliminating unintended cost drivers > Creation of more competition, opening of markets

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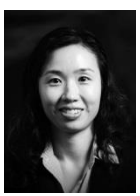

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