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Flight Path To Survival:

Business process outsourcing helps airlines, hotels, car rental industry survive the economic crisis

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Significantly declining demand. Yo-yo-ing fuel costs. Labor relations issues. Capacity management challenges. Commoditization and lack of pricing transparency. Possible government-regulated passenger 'bill of rights.' Plummeting revenue per available room night. Intense scrutiny and potential regulation for group and incentive businesses. Sky-rocketing fleet costs.
Rate deflation. Failing health of the automobile industry. Is it any surprise the airline, hospitality and car rental industries feel like they're up the proverbial creek without a paddle as a result of today's abysmal economic conditions?

The current state of these travel and hospitality industry segments is worryingly bleak. Recently third-party statistics tell the story

- **Airlines**
  The International Air Transportation Association's (IATA) March 2009 Financial Forecast declared that the airline industry is in debt by $170 billion, net losses in 2009 are expected to be higher than previously forecasted at $4.7 billion, revenue will decline by 12 percent ($63 billion), overall traffic demand is expected to shrink by 7.8 percent, and passenger traffic will drop by 5.7 percent.
  And in a March 24, 2009 press release, IATA's Director General and CEO, Giovanni Bisignani, said, "...the relief of lower fuel prices is overshadowed by falling demand and plummeting revenues. The industry is in intensive care." Bisignani continued, "...It will be a grim 2009. And while prospects may improve towards the end of the year, expecting a significant recovery in 2010 would require more optimism than realism."

- **Hotels**
  Smith Travel Research, a leading hotel industry analyst firm, stated that in the week of March 22, 2009, in year-over-year measurements, the U.S. hotel industry's occupancy rate dropped 12.3 percent, average daily rate fell 8.8 percent, and revenue per available room decreased 20 percent. European hotels fared a bit better with mixed year-over-year results in February 2009, with figures for occupancy, average daily rate and revenue per available room night ranging from double-digit losses to single-digit gains. And while several Asia-Pacific markets posted gains or smaller decreases, the overall region's occupancy dropped 18.3 percent, average daily rate declined 12.1 percent, and revenue per available room fell 28.3 percent.

- **Car rental companies**
  Annual reports and quarterly filings reprise a litany of challenges. These include:
  1) a disruption in the ability to obtain financing and an increase in the cost of financing;
  2) substantial debt; 3) the financial condition of automobile manufacturers; 4) intense competition that could lead to downward pricing; 5) decreased acquisition or disposition of cars through repurchase and guaranteed depreciation programs; 6) environmental laws and regulations and the costs of compliance; and 7) too much reliance on asset-backed financing. And the industry's symbiotic relationship with air travel exacerbates the situation. For example, one major car rental company estimated approximately 69 percent of its worldwide car rental revenues during 2008 were generated at its airport rental locations. Significantly reduced air travel traffic demand thus has a major impact on the car rental industry. And the National Business Travel Association's (NBTA) prediction – in its 2009 Business Travel Overview & Cost Forecast – of nominal car rental rate increases of 1 to 3 percent provides very little consolation to this ailing industry.

BPO to the rescue for the travel and hospitality industry

Business process outsourcing (BPO) represents a strategic and efficient life raft for companies striving to stay afloat in these tumultuous times. If implemented properly, BPO can be a fast and simple solution to rapidly reduce costs, help

companies survive the economic downturn and set the stage for future growth and expansion after the economic tidal wave subsides.

While rapid cost reduction is mandatory for companies trying to survive in the most challenging economic climate in over 60 years, BPO delivers benefits which extend far beyond cost savings. These benefits include rapid decrease in cost structures, moving costs from fixed to variable, maintaining focus on the customer, retaining customers in the face of operating cost reductions, placing focus on knowledge rather than intuition to plan capacity and manage inventory, making the cost structure transparent, engineering for rapid speed to value, consolidating delivery operations to standardize business processes, getting even more out of shared services costs and delivering continuous improvements.

Leveraging BPO is particularly valuable for organizations in the airline, hospitality and car rental industries, as spending in these domains is considered by many to be highly discretionary at a time when economists are forecasting world GDP to shrink by 1.9 percent in the deepest recession since the 1930s. The fact is, with many travelers viewing air, hotel and especially rental cars as commodities and looking only for the lowest possible cost, suppliers must focus on delivering a superior customer service experience across each contact point. Partnering with a BPO provider to deliver back - and middle-office processes can rapidly reduce costs, increase accountability, and transform legacy processes for streamlined and increased efficiency and effectiveness.

Travel and hospitality suppliers must take a very hard look at what functions are core to their brand and truly generate revenue, as compared to those, like finance and accounting, which clearly are not and do not. And while there are certainly accounting complexities inherent in the travel industry, such as commission and revenue accounting, interline and alliance revenue accounting, property management and lease administrations, these are non-differentiating back-office functions and thus viable outsourcing candidates.

Revenue accounting and recovery for a leading U.S.-based airline

As part of its ongoing continuous improvement initiatives to control costs and improve process efficiencies, a leading U.S.-based airline partnered with WNS to obtain a cost-effective and high-quality solution for its passenger revenue accounting and recovery processes. Leveraging WNS' deep BPO knowledge – particularly in passenger revenue accounting – enabled by automation, improved by business process reengineering and delivered by highly trained staff to drive process improvements, the carrier was able to soar from the bottom to the top of Department of Transportation's complaint statistics for refunds, while reducing refunds-related customer complaints by 55 percent.

Clearing the decks for success - Six simple rules for airline, hospitality and car rental companies when adopting BPO

1. **Ensure BPO is a CEO priority**
   In uncertain times, sponsorship for critical initiatives such as BPO must come from the very top of the house. Only the CEO can deliver the message that there are no other options for survival. Otherwise, management sees implementation as optional, easily finding ways to opt out, with arguments ranging from "outsourcing never works, we've tried it," to "the process is too critical to outsource" to "I have to implement new systems first."
   This CEO-level sponsorship is even more critical in the travel space than in some other industries given the global, trickle-down, massive at-stake implications of failing to take this vital step.

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2. **Approach outsourcing with an open mind**

   Merely thinking reservations work or rules-based transactions limits the extent to which BPO can be deployed as a survival tool for travel companies. Smart travel industry organizations have been outsourcing these types of simple processes for years with positive results. But the BPO industry has moved well beyond volume-based voice and data work into highly complex industry and insight processes - think lost baggage tracing and customer support, fraud prevention and control, passenger/cargo revenue accounting and auditing and marketing analytics. Smart travel companies collaborate with providers to determine "the art of the possible." They begin by determining what is core and non-core to their business. In the travel industry, core processes include efficient operations management, differentiation through product innovation and enhancing brand awareness. But beyond these, most SG&A and other highly complex and unique processes can be seamlessly transitioned and successfully outsourced to a provider with a proven track record and substantial travel space domain expertise.

Contact center and baggage services for a top 10 North American airline

A leading North American airline had a significant customer dissatisfaction challenge with its baggage claim, tracing and communication processes. The airline determined its best option was to enter into an outsourcing relationship with a third-party provider which could deliver an innovative, proactive, customer satisfaction-focused solution for these processes. Within the first year of its outsourcing engagement with WNS, the airline achieved a 92 percent reduction in customer complaints, an overall efficiency increase of 140 percent by the outbound calling team and an increase in sales of approximately 40 percent. On the baggage tracing/delivery/customer relations front, WNS reduced passenger complaints by more than 60 percent in three years and increased the efficiency of the team by 40 percent.

3. **Move fast**

   As the third-party industry statistics above all too clearly indicate, travel volumes and resulting revenue in all sectors will decline through at least end of 2009 and more likely well into 2010. While the airlines have largely controlled their costs through capacity cuts and the drop in oil prices, there is still a vital and immediate need for cost discipline. For example, as a fixed asset, hotels cannot reduce capacity, and with RevPAR dropping to pre 9/11 levels, there has never been a more critical time to focus on the core business, reducing costs wherever possible. And while the financial and credit market challenges are beyond the control of the car rental industry, the impacts are material and quick action is required to reign in expenses.

4. **Develop a realistic deployment plan**

   Even when outsourcing is being implemented for cost savings, many companies push for or buy into an unrealistic transition roadmap in their haste to cut out more cost. And when the first failure occurs because processes cannot be thoroughly documented, the network is not ready or work shadowing is insufficient, the naysayers come out in force. A deployment strategy that builds up steam over time after the success of initial phases is far more likely to meet objectives. For example, by analyzing current baggage claim processes and associated customer dissatisfaction challenges, then implementing a staged process which focused first on inbound servicing and subsequently leveraged that experience to implement a proactive outbound desk, WNS achieved a 60 percent reduction in complaints after just eight months for one of its travel industry clients.

5. **Insist on alignment**
   Outsourcing can mean a massive dislocation of culture, resulting in a tug of war between client and provider. When new people and processes are introduced into the equation, dissonance naturally occurs. But partnering with an outsourcing provider whose operating credo is to serve as an extension of the client's brand, understands what values are most important to the client and intimately knows the intricacies of the travel industry – including inventory distribution trends, attribute pricing, maximizing yield and RevPAR, customer service as a differentiator and navigating an ever changing regulatory environment domestically and internationally – can quickly change discord to a strong partnership.

   Consider the travel industry's response to the Swine Flu epidemic which began in April 2009. As suppliers reacted by waiving change and cancellation penalties, and as the traveling public's apprehension increased, imagine the implications of lack of alignment between airlines, hoteliers, agencies and their outsourcing service provider. Without constant communication and alignment across all levels of supplier and provider, the massive increase in call volumes and customer queries could not have been processed efficiently. Also, while the situation was not the fault of the supplier, providing a quality customer experience in resolving customer queries was paramount to earning repeat business.

6. **Debit budgets in advance**
   This little trick obtains commitment where it counts – in the budget process. Building BPO savings into the current year's budget in advance ensures managers have no excuse but to be committed to the implementation of the BPO program or find some other way to get the cost out fast. Truth be told, short of cutting staff to the bone, there is rarely another way. A further benefit to this tactic is forcing managers to look again at processes previously thought of as too complex for outsourcing. Industry providers have proven track records in functions such as customer relations, baggage tracing, loyalty program management, maintenance and supply procurement and yield/revenue management, and should all be considered as opportunities for rapid, material cost savings.

Contact center services for a leading U.K.-based airline

Building on its 13 year partnership, this carrier and WNS recognized the potential to increase revenue and reduce the cost of performing the work in-house if WNS assumed responsibility for and transformed reservations servicing.
By taking processes to the next level, WNS has collected £8 million from passengers who make amendments in their passenger name record, improved turnaround time for all post-travel customer complaints from 21 days to 14 days, transferred administrative responsibilities from the client by handling 100 percent of reissues and amendments with the scale to manage 2.1 million customer contacts via inbound calls and 0.21 million contacts via postal mail or email.

Advantages travel and hospitality companies gain by moving to a BPO model today

Standardized business processes

Consolidating business processes offshore in order to reduce costs has a positive by-product – levels of standardization that are difficult to achieve through incremental efforts such as process reengineering during easier economic times.
With standardization, which inherently equates to consistency, organizations are well-positioned to take the next step to transform processes through technology and quality to achieve the next level of efficiency. Here is a good example: with so many potential points of traveler contact pre-trip, on-trip and post-trip, consistency is key to customer retention and earning repeat business. But all too

often, travelers hear one message from reservations and another at the check-in counter, e.g., a traveler may not be informed, at the time of purchase, of the baggage fee rules associated with the booked fare. And when he or she arrives at the airport and must pay an unexpected fee to check baggage, customer satisfaction instantly drops. But outsourcing to obtain standardized, consolidated and consistent business processes helps travel organizations ensure their brand messaging, service commitment and policy enforcement do not differ at any point in the customer interaction.

Rationalized delivery model

The greatest challenge in moving to a shared services, or consolidated, structure is overcoming misconceptions and fears about diminution of service levels, risk and performance, especially when the company's operations are regionalized. But service providers possessing deep domain expertise in travel and hospitality understand the importance of travel brands and the criticality of any impact revenue, and can rapidly waylay concerns by successfully transitioning then delivering steady state operations. An outsourcing provider capable of proving demonstrated process expertise and deep travel industry knowledge – such as the complexities of ticketing, commission processing, distribution channel management, regulatory reporting, predicted economic environment impacts on forecasted volumes, travel-specific technology and other factors – can quickly help organizations not only accept but also embrace delivery model changes.

Commercialized approach to operations

Most travel companies cannot put a price on the cost of paying a bill, collecting revenue from an interline ticket or tracing a passenger's baggage. Imposing the discipline of a BPO contract replete with unit cost, turnaround times and customer satisfaction levels makes organizations think differently as the actual cost to sell a product or service becomes transparent. This is particularly vital in the travel and hospitality industry, where market conditions make understanding the cost/satisfaction equation critical.

For example, when the airline industry cut and then removed travel management company (TMC) commissions, the carriers focused material amounts of energy and resources solely on reducing distribution costs. TMCs using global distribution systems were viewed as an effective channel by the airlines and their customers, but the cost was deemed as too high. The carriers believed a direct sales model heavily focused on their own websites would reduce their costs without impacting total ticket sales or customer satisfaction.

As a result of the commission cuts, the TMCs were forced to implement customer interaction service fees to stay solvent. The airlines then went one step further in pushing direct sales by implementing their own service fees for speaking with reservations agents. As a result, service fees evolved into a major competitive differentiator for TMCs and airlines in the drive to attract and retain customers. Online travel agencies have waived nearly all booking fees and now are waiving change fees as well. Traditional TMCs must react accordingly in order to maintain their share and the airlines continue to revise their fee structure with attribute pricing.

BPO providers deliver a lower cost model and cost per contact certainty enabling effective competition in a complex service fee environment. Further, that cost certainty does not come at the expense of delivering a superior customer experience.

Which travel and hospitality industry processes are ripe for business process outsourcing?

Sales and customer care	Operations	Research and analytics
▪ Customer service ▪ Sales and reservations ▪ Loyalty program management ▪ Customer relations ▪ Lost baggage tracing and customer support ▪ Website navigation support ▪ Specialty travel help desk support ▪ Roadside assistance ▪ Replacement desk ▪ Excursion desk	▪ Finance and accounting ▪ Fare filing and loading ▪ Rate filing and loading ▪ Revenue management ▪ Property management system help desk ▪ Rates, fares and ticketing ▪ Reservations servicing - voids, refunds, schedule changes, exchanges and cancellations ▪ Fraud prevention and control ▪ Passenger/cargo revenue accounting and auditing services ▪ Cargo operations support	▪ RevPAR versus capacity analysis ▪ Fleet management and tracking ▪ Yield management ▪ Promotion optimization ▪ Campaign management - design and evaluation ▪ Market mix modeling ▪ Location/build-up studies ▪ Market sizing and planning ▪ Network cash flow and profitability assessments ▪ Customer segmentation and targeting ▪ Customer up sell/cross sell ▪ Churn prediction/retention/recovery ▪ Customer loyalty/switching pattern

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About WNS

WNS is a leading global business process outsourcing company. Deep industry and business process knowledge, a partnership approach, comprehensive service offering and a proven track record enables WNS to deliver business value to some of the leading companies in the world. WNS is passionate about building a market-leading company valued by our clients, employees, business partners, investors and communities.

To learn more, please write to us at **info@wns.com**
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