



## Surviving the perfect storm

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Having met the challenges resulting from 9/11 and changing business models, airlines find themselves again under siege, primarily from rising fuel prices.

Spiraling costs and falling demand as the credit crunch bites, has pushed many carriers over the edge. Airlines need to be strategically proactive to weather the storm.

In June 2008, Giovanni Bisignani, Director Generale of the International Air Transport Association (IATA) stated: "It's another perfect storm. The spreading impact of the U.S. credit crunch is slowing traffic growth. After enormous efficiency gains since 2001 there is no fat left and skyrocketing oil prices are changing everything. For every dollar the price of oil goes up, costs go up by USD 1.6 billion."

The fallout from the crisis is staggering. Already this year, over 25 airlines have gone out of business. IATA has revised its projection for the airline industry in 2008 from a USD 4.5 billion profit to a loss of USD 6.1 billion, if the price of oil remains unchanged.

The gauntlet has been thrown down by these converging economic forces, which has and will continue to alter the business environment for the airline industry. Industry executives must quickly explore and implement new strategies to ensure they remain competitive.

So what are the manoeuvres needed to pull out of a nosedive? In short, those airlines that focus on increasing operational efficiency, enhancing the customer experience and driving organizational agility will be the ones in the strongest position to survive.

### Increasing Operational Efficiency

An airline should diligently examine operational areas to determine where improvements can be made. Experience shows us that shortcomings in process efficiency are often found in the following areas

- Frequent flyer programmes
- Revenue accounting
- Customer relations
- Baggage handling
- Cargo operations
- Departure control
- Yield analysis
- MIS
- Stock control
- Crew scheduling

As a global outsourcing service provider to the airline industry, we at WNS have found that increasing efficiency in finance and accounting is essential. It is the area of airline operations that is particularly susceptible to revenue leakage. It is startling how much money can fall through the cracks. For example, we were able to find a EUR 1.6 million recovery in revenue accounting from a single carrier on behalf of a major European airline. For another airline we recovered EUR 416 thousand in revenues. Some airlines are literally putting money in their pocket when there is a hole in it.



Accuracy and timeliness are also important factors that impact efficiency. Time is a valuable commodity and increasing time in a process leads to increased expenditure. Doing it right the first time avoids having to do it over again thereby minimizing costs. For example, we have successfully helped one major European airline that was operating with a 92 percent in-standard account percentage to elevate that rate to 100 percent. In another instance, we reduced the payroll processing time per request by 30 percent. By increasing efficiency in areas such as these, airlines can naturally reduce costs by reducing labour hours.

### Enhancing The Customer Experience

The second area airlines need to focus on to improve business performance is that of enhancing the customer experience. There are opportunities for airlines to enhance branding through better relationship management. For example, fare increases are reducing nonessential air travel, consequently, how an airline treats and values its customer is of paramount importance. A customer-centric philosophy will improve existing customer loyalty and attract new ones.

Never has business travel been so important to the economy. The global economy necessitates air travel. Long journeys with multiple changeovers increase complexity. There is a greater risk of things not going according to plan including mislaid luggage. A global customer service model with centres in Europe, Asia, and North America 'follows the sun' to facilitate better service to these travelers and enhance their traveling experience.

Mishandled baggage and redelivery costs airlines an estimated USD 2.5 billion annually. Rather than leave customers in limbo when issues arise, airlines must communicate effectively with them. Travelers should be called, emailed, or sent a text message. With more effective communication they can go on to their hotel knowing that the situation is in hand as opposed to a maddening uncertain wait at the baggage belt or gloomy lost bag counter.

By managing lost baggage more proactively, WNS has been able to reduce passenger complaints for a North American airline by over 60 percent in the course of three years. Effective communication lets the customer know they are important to the airline their interests are being looked after. Minimizing their inconvenience and frustration enhances loyalty and goodwill. Loyalty is critical in an environment where low cost fares are rapidly evaporating and travel is becoming more optional.

Airlines should also revitalize their engagements with travel agencies and cargo shippers. These intermediaries can provide heightened customer service and be a loyal source of incremental revenue. Implementing cost effective incentive schemes for both cargo and passenger agents will deliver quantifiable results.

### Driving Organizational Agility

Removing obstacles to process improvement is critical to the development of an efficient organization. For example, an airline needs to have the flexibility to rapidly ramp up or decrease customer care staff during peak or low travel periods.

Streamlining processes to interface with all involved produces a more efficient nimble organization. Improving collaboration with unions, governing entities and other third parties strengthens connectivity and links in the chain.

The starting point for the enterprise is to map future airline operations. Getting to grips with the organizational changes necessary in an appropriate time frame is critical. Diagnostic exercises can identify processes, functions and activities that can be streamlined, improved, outsourced or transitioned internally.

Rapid change and shortening the time to benefit is essential in the race against the economic clock. There is little time to reinvent the wheel when it comes to streamlining business processes. The question is not what can be transitioned to a third party provider, but rather what cannot be. Teaming with an experienced partner specializing in serving the airline industry to improve business performance can yield immediate results. Improving business processes and efficiency may be the life jacket necessary to survive the perfect storm.

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