Let's talk about IT: Crisis Assistance Package

Answers to open questions from Online Conference "Let's talk about IT" on April 7, 2020

1. Return to normal

Taking the operational structures into consideration, which should remain after the crisis or should everything be changed back to business as usual?

In our opinion, there will be no instantaneous change from crisis to normal. Instead, we will have a phase of step-by-step normalization, while at the same time regulations and processes are modified to reflect the continuing pandemic situation. This will concern the airlines, e.g. with regulations about seating and boarding, but even more the airports regarding the control of passenger streams, check-in and security areas, waiting positions at the gate and so in.

This phase of restricted operations will last rather long. How long, nobody can predict today. Of course, these restrictions will phase out step by step, but which part of them will remain eventually is difficult to guess today. The history of what happened after 9/11, however, tells us that much will remain, at least, as long the fear will still be present.

But on top of this, the crisis phase will have taught us many new things like virtualization of work or layered OCC structures. Many of this will remain forever, of course.

And of course, there will be things which will remain because they will be recognized as optimizations from customer perspectives as well as from an operational perspective. For example, a two-tier operations control, with an on-site decision-making core and a production layer working remotely, is a good example to become an industry-standard in the future.

Do you have information on the ramp-up process already happening in China, Japan, South Korea, etc.? Would it be possible to share lessons learned?

As this process is just starting right now, we shall share the lessons learned as we recognize them in later sessions.

2. Customer Confidence

Does the early bird catch the worm? How do you rate speed to market in the restart phase - does speed foster customer confidence?

The fate of customer confidence is not determined in the restart phase. It is retained – or lost – already in the earlier phases. When shutting down, when being away from the markets it is the crucial time when the customer base and when the brand value is protected.

Therefore, already in these early phases an airline has duly to decide what to do to keep the link to the customer alive, and not to put in danger the positive apprehension of the customer. This starts with refund and rebooking policies but is more than this. It is about information, communication and trust. Therefore, the link of contact to the clients never may break, or they are lost.

A quick restart as soon as it is possible is necessary for other reasons. Airlines will compete for substantially smaller markets of completely new behaviour, which we do not yet know. These markets will be quickly conquered – here the early bird catches the worm. Moreover, any airline will massively need liquidity, and therefore be in the need to sell tickets and to fly again as quickly as possible.

When comparing passenger management during pre and after crises period. How could we address or involve passengers during the 3 phases? What needs to be changed?

In the hibernation phase, you have to care that the passenger is not frustrated or lost. In the survive phase, you have to keep them connected. In the restart phase, you have to make them paying customers again. In all three phases, communication and a truly positive attitude to the customer are key.

3. Impact of stronger state influence

How do you see innovation in terms of the offer to our customers, cybersecurity, etc. going in line with some airlines been partially or completely taken over by states? Isn't that going to rather slow down innovation?

Many airlines will need financial support from their respective governments, for sure. However, this will not imply that airlines will be integrated into state organizations or that airlines will be immediately subordinated to government functions. Most likely governments might just hand out emergency loans, or inject capital in exchange for minority stakes, in both cases reserving the status of the airlines as private companies. So you might have some additional non-executive directors in the airline board (or a swap of one or two members of the advisory board for "European") type company structures, but nothing more.

Apart from this, no strict simple relationship between innovation and government share can be recognized. When you look at four big transport and logistic related companies in Germany, for Deutsche Lufthansa and Deutsche Post / DHL privatization was an innovation booster, for Deutsche Bahn already the preparation for privatization was an innovation killer which almost killed the company, and Fraport was 100 % government-controlled and prospering and innovating all the time.

4. Role of Regulators

What do you foresee happening in the regulatory environment and how should airlines be engaging with regulators during the survival and re-start phases? What kind of new regulations should the aviation business expect after crisis?

As soon as thought about a return to normal starts, it is expected that authorities will modify rules or create new ones reflecting the persistent pandemic situation. Prevention of contagion – almost never thought of being a part of airline regulations – will become a natural part of air travel. This is true both for the in-the-tube situation as well as for the airport processes.

5. CAMO responsibility

How do you see CAMO activities after the COVID19 pandemic?

After the pandemic, most airlines will probably be in a situation of sparse liquidity and a weak working capital base. Therefore, it is essential to establish the new network – where promising markets have been identified – in order to secure substantial revenue inflow as quickly as possible, and at the same moment, keep the operational costs as low as possible in order to avoid additional liquidity drain.

The role of CAMO in this situation is to provide the means for both. For revenue generation, you need to fly, and for flying, you need the fleet capacity. For minimizing cost, on the other hand, you just need to fly, nothing else. Therefore, two CAMO deliverables are key: fleet capacity and A/C utilization are key. In order to secure this, diligent and clever planning has to be made already in the survival phase. If this planning is not of utmost precision and flexibility at the same moment, an airline is doomed to stumble into the restart phase.

6. Subsequent sessions and priority of packages

Are there more lessons planned or sessions on some specific areas like network management? What do you think about a recurring series of such broadcasts?

Roughly once a month, a session about each of the modules will follow – perhaps even more.

Which area/package/advise is the most important one to start now as an airline?

(Almost) all money of an airline normally comes from revenue, and (almost) all revenue comes from passengers. Therefore, in crisis management, it is of essence

- to maintain the trust of your customers, and
- to identify the future markets and to plan the business after shutdown.

Therefore, the two packages regarding network and market and customers are of priority.

You mentioned that selling and the customer product as such are very important to regain passengers and revenue. Where do you see these 2 points covered in the 5 domains listed on the right side of the slide?

These topics are covered in just the two packages mentioned – network and market and customer.

7. Aircraft seat capacity and commercial consequences

I agree, people will be afraid of traveling so close to each other in tourist class, with this in mind, what could be done to maximize operations having in mind that this space in between passengers will be maybe a mandatory request?

The need for social distancing will very probably lead to sparse seat configurations e.g. by blocking middle seats in economy class, too. This immediately implies that seat capacity of all A/C type is massively reduced. This, in turn, means a massive reduction in revenue potential, and on the other hand, a drastic rise in cost per ASK. As the airline business has provided very weak margins all the time, a lack in capacity and a rise an ASK cost will radically axe the business models of the last years.

In consequence, airlines have to focus on markets and traffics, which can be profitable even with substantially higher costs. Therefore, each airline needs a completely new strategy, which has to be worked out already in the survival phase – otherwise, it will be too late.

How could a new operating model for airlines could look like after the crisis?

At this point in time, nobody knows how the new operating model for airlines will look like after the crisis. However, only those business models will survive, which are so robust that they ever work out at cost levels 30 percent or more above the cost level of today. In addition, being flexible and agile enough to change maybe parts or even the entire model will be crucial.