Aviation & Aerospace

Reshaping aviation to build new competitiveness

How airlines and airports can master business transformation and safeguard future viability

Porsche Consulting

Strategic Vision. Smart Implementation.

INSIGHTS

//01

Operations must be right-sized to cope with crisis-induced market changes and revenues losses

//02

Future mobility services need to comply with changed flying behavior, which calls for seamless and flexible end-to-end journeys

//03

Satisfying unserved demand for digital and automated services is a priority to retain customers and tap new revenue streams

01

Aviation is undergoing radical changes fueled by the current business situation

Companies in aviation are facing a time of major transformation. While altered demand patterns trigger the need to right-size capacity and innovate the service portfolio, COVID-19 further seriously jeopardizes economies around the globe. It has changed social interaction and caused a myriad of bankruptcies. Travel is one of the industries hit hardest by the pandemic. In its traffic forecast, IATA regularly confirms this grim outlook, predicting a five-year recovery phase to reach pre-pandemic levels of passenger demand again (see fig. 1).[1]

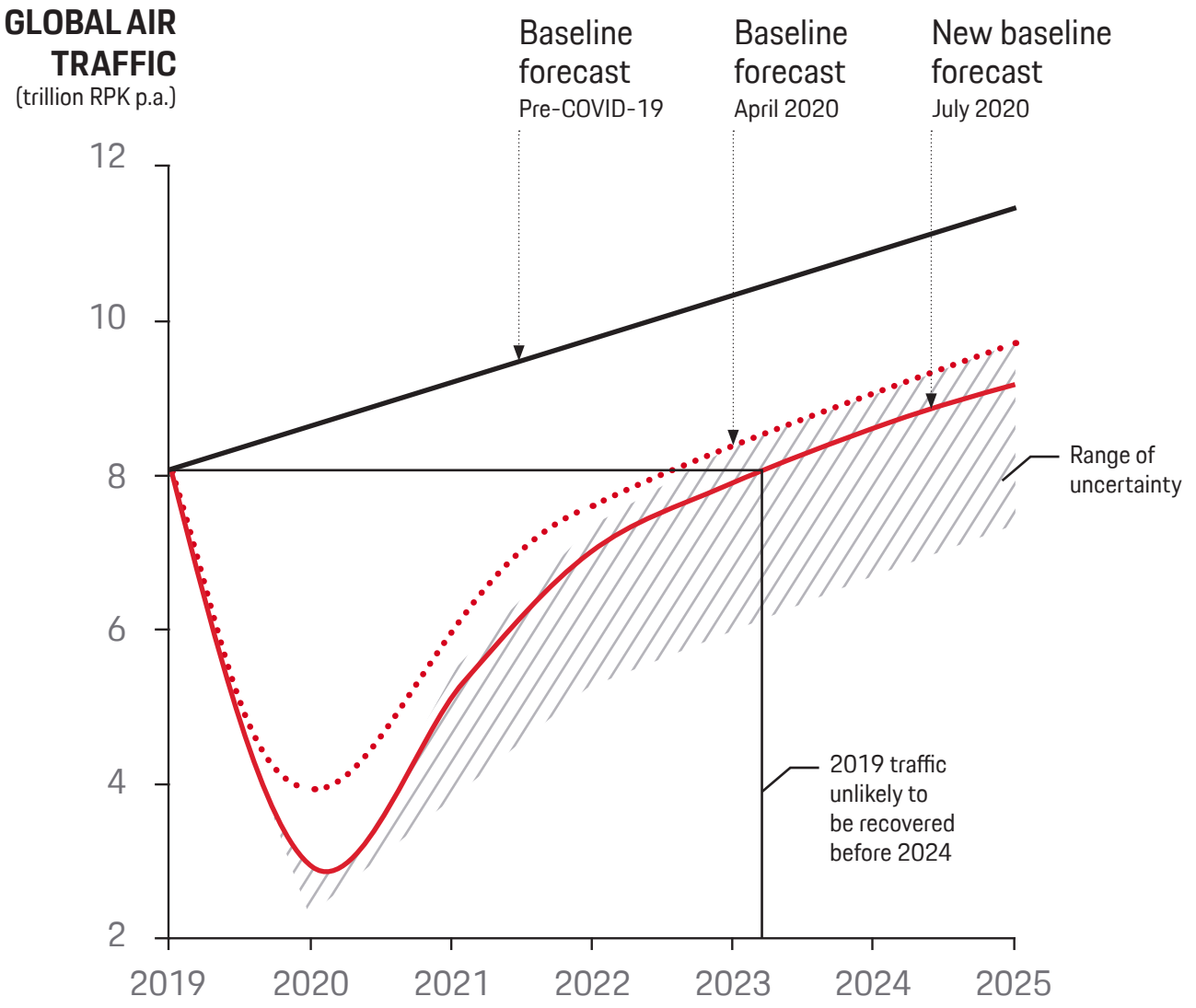


Figure 1. IATA forecast of global air traffic development

[1] IATA: Five years to return to pre-pandemic levels of passenger demand (July 30, 2020)

Airlines and airports are facing the challenge to drastically rethink their business. Crises are catalysts for global trends that have been smoldering for some time. But in the past, many companies were prone to defer investments into R&D of innovative solutions, as their focus was on expansion and growth. With the economic shutdown, businesses are now suffering from the lack of innovation and insufficient capital to finance needed investments. Even more critical this time is an unprecedented awareness of personal safety. A recent representative Porsche Consulting survey commissioned by Forsa reveals almost half of all planned leisure travel will at least partly be canceled, while 40 percent of all upcoming business trips are replaced by digital solutions (see fig. 2).[2]

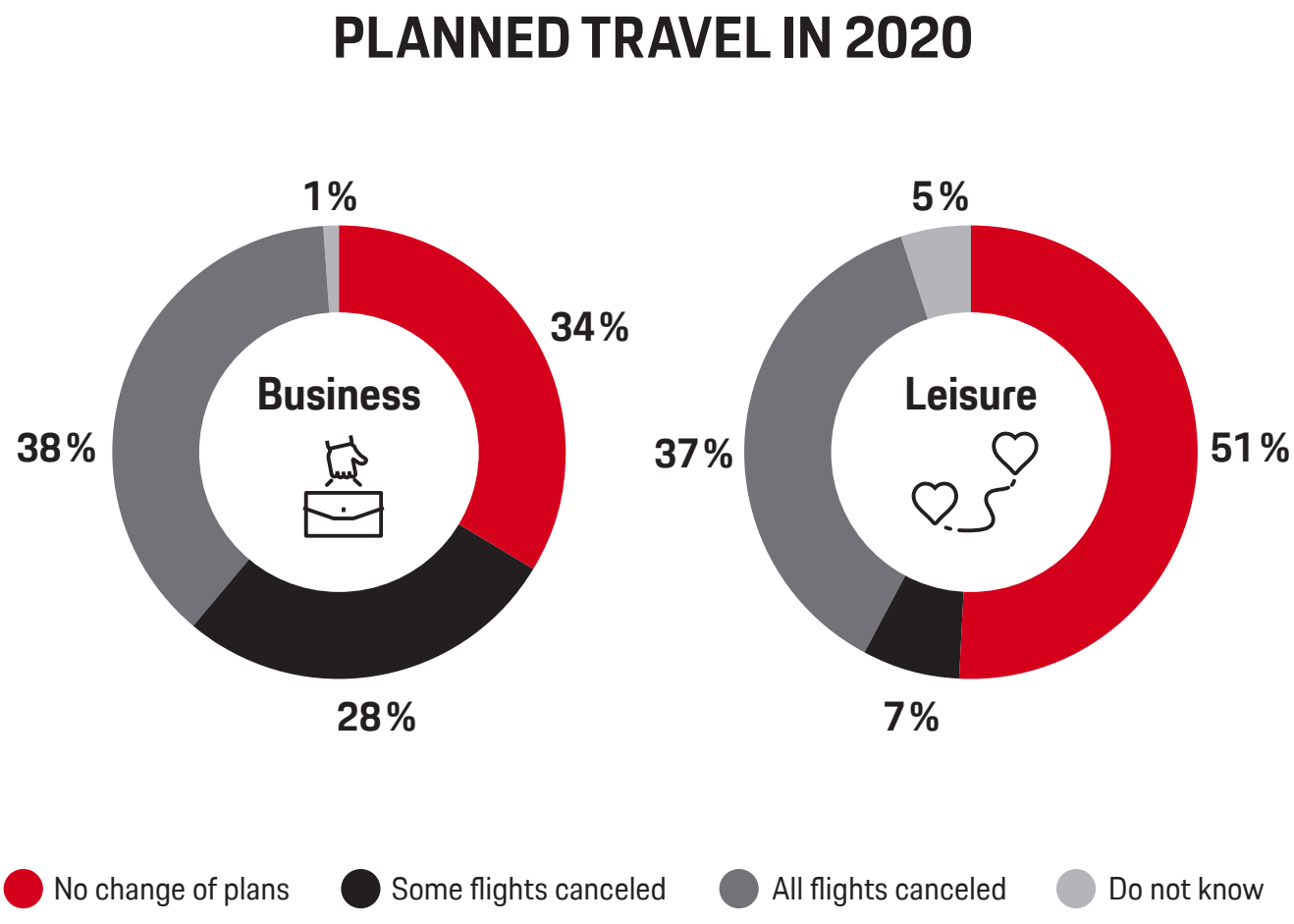


Figure 2a. Changes in air travel plans in Germany

[2] Survey for Porsche Consulting (May 18–27, 2020) commissioned by Forsa

REASONS FOR FLIGHT CANCELATION

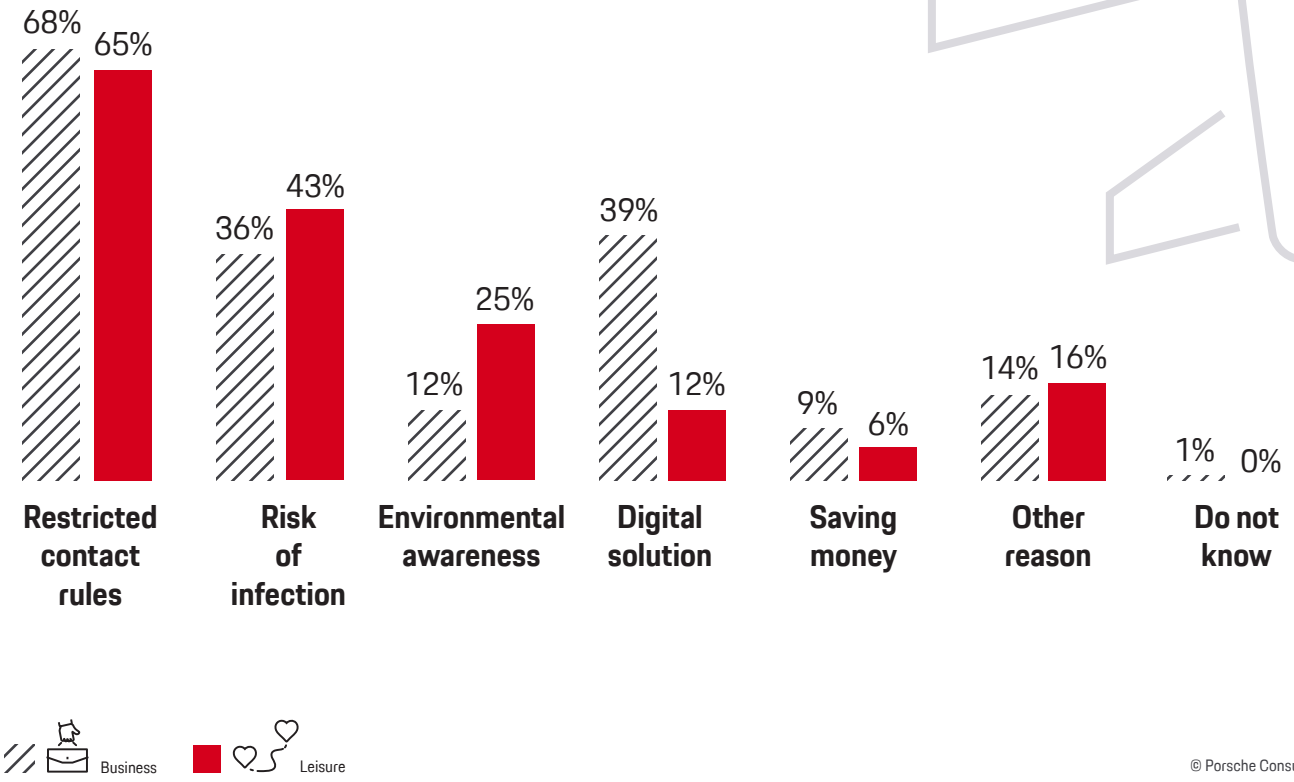


Figure 2b. Top reasons to cancel flights during the pandemic

The crisis is also uncovering inefficiencies in long-established companies. Now that the focus has moved away from growth, businesses must act and start right-sizing initiatives to eliminate excess cost and build future competitiveness. Each economic downturn also has a market clearing effect, driving players out of business if they are unable to quickly adjust capacity and structures to new requirements.

Growth prospects of global air traffic are likely to remain damped. Yields will continue to deteriorate, as travel might never fully recover due to alternative solutions. Right-sizing is critical for companies to reshape their business and strengthen their competitive positioning by cutting payroll expenses. Reducing fuel and other operating costs is another key challenge. Carbon emissions must be cut drastically and jet fuel substituted with alternatives, requiring structural changes to the industry and major investments into technology. It is evident that virtually all players in the aviation market will need to undergo drastic change to master this business transformation and safeguard future viability.

02

Getting back in the black: strict cost control as a lifeline for airlines and airports

From January through July 2020, airlines and airports together have been generating losses of more than US$ 260 billion (see fig. 3 for a breakdown).[3] According to Forbes, American Airlines was burning US$ 70 million a day this past June[4], while Delta Airlines was about to reach the alarming threshold of US$ 100 million at its peak[5]. Airlines are running out of cash reserves and some have already collapsed, including LATAM and Avianca in May, Virgin Australia and Air Mauritius in April and Flybe in March.

While publicly owned companies are backed by state funding, those that are privately financed need external capital injections. According to ICAO, by May governments had provided US$ 123 billion of cash in form of loans, equity financing, etc.[6] The European Commission recently approved the German aid scheme to support airports and thus mitigate the effects of revenues losses.[7] This has ignited a public debate about how much infrastructure will be required and can be afforded in the future. Opinions are aired in favor of closing down unprofitable airports to bundle traffic flows and provide a more economical form of mobility, balancing regional economic stimulus against weak financial performance.

Globally, state aid is very unevenly spread, only really yielding a quantifiable effect in central Europe, North America, Japan, and South Korea. These funds come as a relief at first, but in fact they result in a distortion of competition and an increased pressure on financial performance. Out of the US$ 123 billion of aid, more than 50 percent create new liabilities. Airlines and airports will need to reorganize their business and maximize efficiency in order to pay back their debts. Payroll is one of the main cost drivers. As per the latest annual reports[8], personnel expenses account for approx. 25 percent of total revenues for the top three European airline groups (Lufthansa Group, Air France-KLM, IAG) and 12 percent for the major budget carriers (easyJet, Ryanair, Wizz Air). European hub airports range between 13 percent (Heathrow), 15 percent (Schiphol) and 32 percent (Fraport), depending on business model and system complexity.

Figure 4 summarizes the main cost blocks for airlines and airports. Direct operating costs (such as fuel and oil, fees and charges, etc.) can hardly be influenced other than by shrinking the flying program, effectively hedging fuel, or renegotiating contracts with suppliers. Cost of employment represents the largest single cost element under the direct control of airlines and airports and must be managed tightly. Generally, airport infrastructure is mainly fixed and long-term, making it more difficult to save cost in the short run. Airlines tend to be more flexible, as they are in possession of movable assets that they can decommission and liquidate, or try to renegotiate lease contracts.

To tackle right-sizing most effectively and efficiently, Porsche Consulting recommends five action fields (fig. 5). The strategic framework sets the scene and defines the boundary conditions of the market and future business model. Consequently, the current workforce needs to be adjusted and the existing human resources optimally deployed. Resilient operations ensure flexible breathing capacity and resistance to external shocks. Embedded in a customer-centric service strategy, the business will be able to strengthen its competitive advantage and secure its future viability. Finally, consistent transformation management ensures all identified measures are adequately implemented and the organization is accompanied during the change process.

[3] ICAO: COVID-19 Air Traffic Dashboard (retrieved August 19, 2020)
[4] Forbes: $70 Million A Day Cash Burn And No Demand: Can American Airlines Stock Recover From Here? (June 1, 2020)
[5] Forbes: Huge Cash Burn And Stock Down 55%: Can Delta Recover? (June 26, 2020)
[6] IATA: COVID-19 Government aid and airlines debt May 26, 2020)
[7] EC: Commission approves German aid scheme to support airports affected by the coronavirus outbreak (August 11, 2020)
[8] Lufthansa Group (March 19, 2020), Air France-KLM Group (February 19, 2020), IAG (March 26, 2020), easyJet (January 7, 2020), Ryanair (July 23, 2020), Wizz Air (June 5, 2020), Heathrow (February 26, 2020), Schiphol Group (March 9, 2020), Fraport (May 26, 2020)

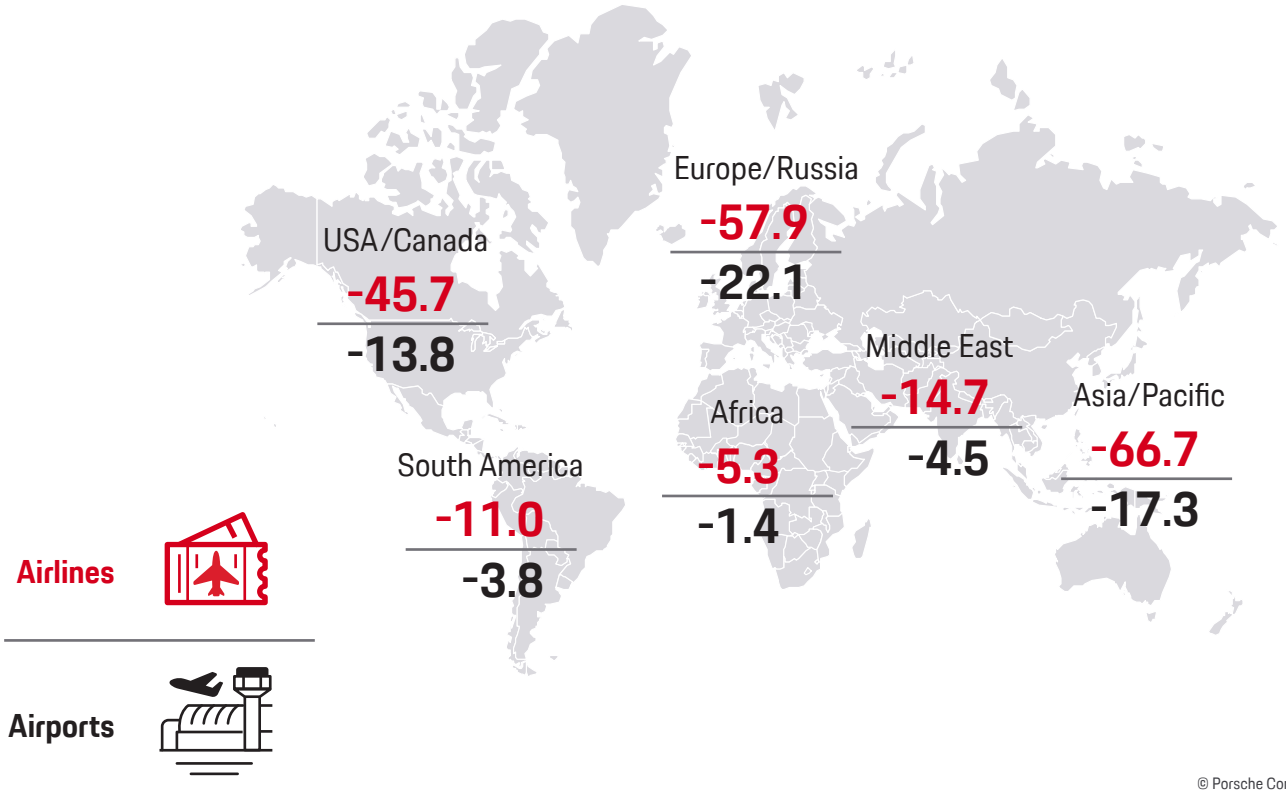


Figure 3. Airline and airport revenue losses to date as per ICAO COVID-19 Air Traffic Dashboard (in billions of USD)

	Full-service network carrier	Low-cost airline	Hub airport
01	Labor	Fuel and oil	Labor
02	Fuel and oil	Fees and charges	Purchased services
03	Fees and charges	Labor	Materials and supplies
04	Maintenance	Leasing	Depreciation
05	Depreciation	Depreciation	Other operating costs

Figure 4. Top 5 cost items of full-service network carriers, low-cost airlines and hub airports

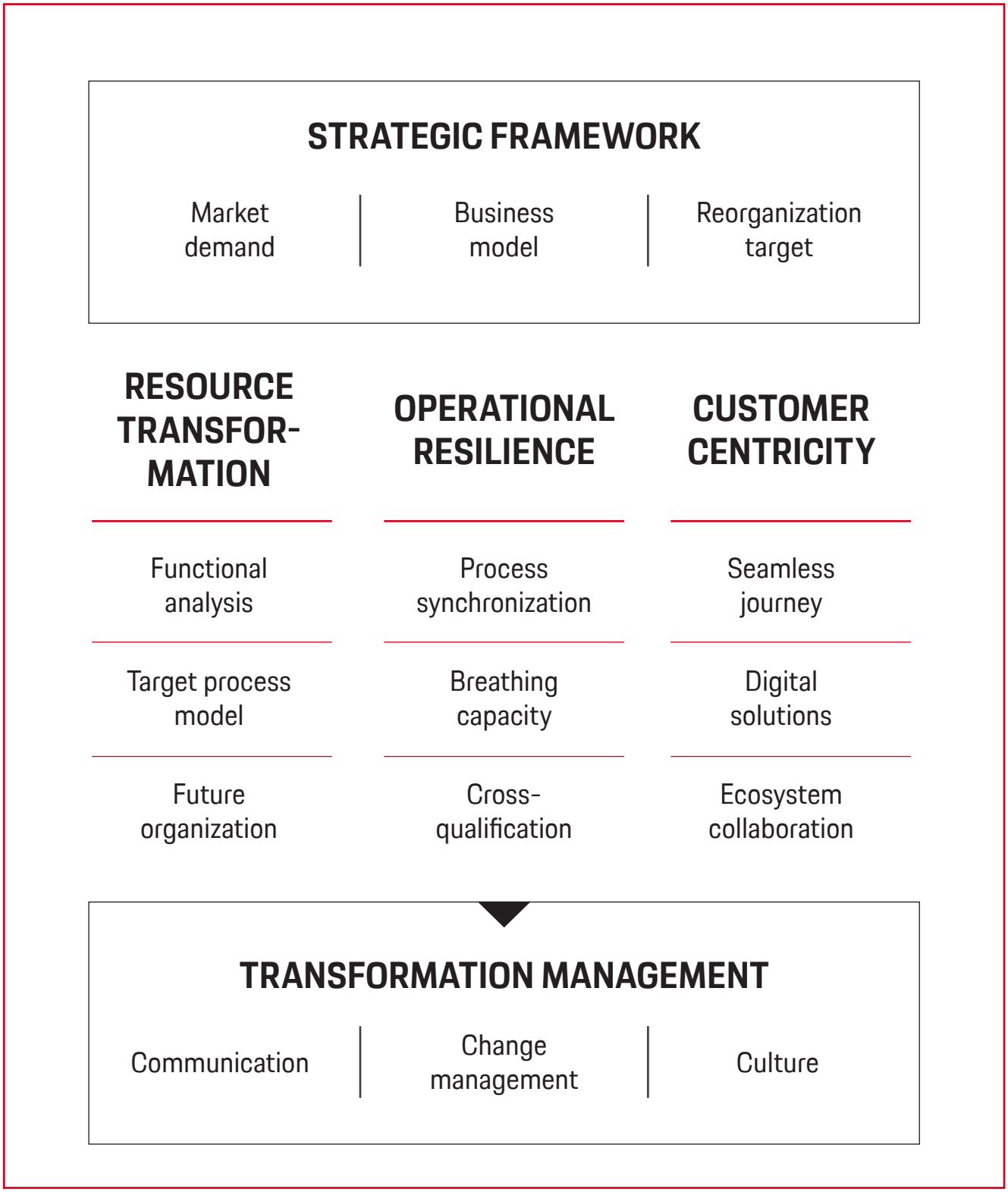


Figure 5. Porsche Consulting framework for airline and airport business transformation

ACTION FIELD 01

Define the strategy and tackle challenges of future market trends

First and foremost, airlines and airports must create their strategic vision of "new competitiveness." Especially in times of disruption, this sometimes means radically adjusting the business model to retain the competitive edge or temporarily tap additional sources of cash (cf. Wizz Air transporting medical supplies from China to Hungary on an A321neo[9] or Vilnius Airport opening a drive-in movie theater on the apron[10]). Previous economic downturns have clearly underpinned structural changes in the industry fueled by external shocks.

Already prior to the crisis, demand for high-capacity quad-engine wide-body aircraft had been declining due to their operational cost disadvantages. Thinner traffic flows further accelerate the drop in demand for e.g., 747s and A380s. Smaller equipment is deployed and a new segment of long-range narrow-body planes is gaining attention—for example, the A321XLR, whose production Airbus is now heavily pushing. Along with the likely consolidation in the airport landscape affecting tertiary players, catchment areas of primary and secondary airports grow. With highly efficient and economical aircraft types new options emerge. This will allow what customers are increasingly demanding: direct services on long-haul routes from local airports. As a consequence, point-to-point markets enter into competition with established hub connections, dragging passengers away with attractive services.

Customer loyalty and the value of frequent flyer programs—the backbone of established full-service network carriers—are also losing ground. Passengers increasingly reconsider the necessity of air travel nowadays and attach more value to ticket price and personal health than to brand loyalty. But most business models still depend on premium revenues to support fixed infrastructure that might become obsolete with declining numbers of commercially important passengers, such as premium status or airport lounges. With high-yield business traffic becoming less important and the shift from hub-and-spoke to direct services, the need of the hour for airlines and airports alike is to adjust their strategy and focus on core activities that de facto add sustainable value to the customer in the future.

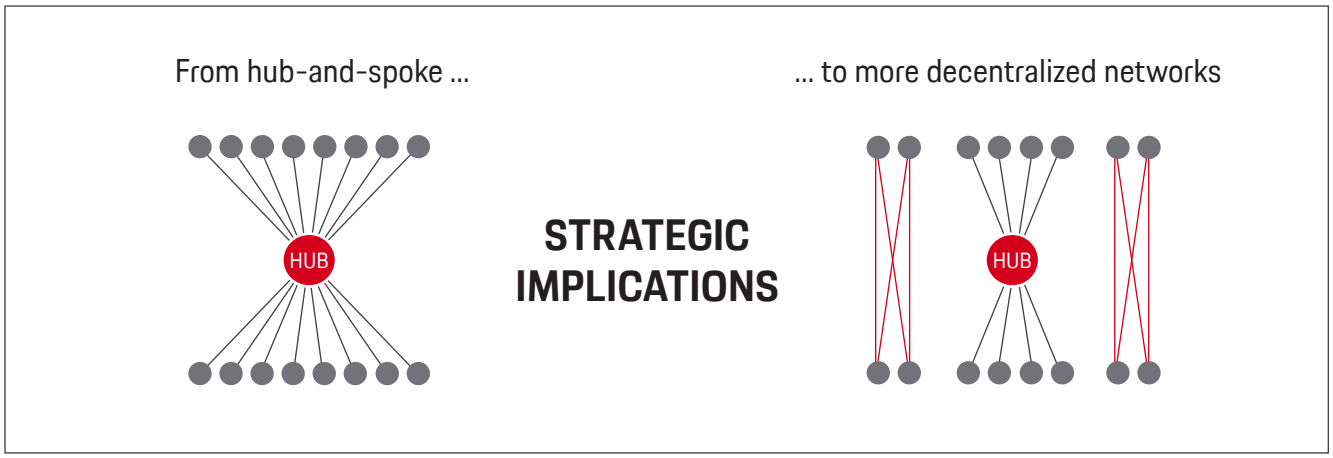
While in the past catchment area and night curfew were decisive factors for airports (and still are today, just to a lesser extent), in the future digitized concepts will differentiate competitors. The customer journey has to become more end-to-end and seamless, so passengers can travel at their own pace and are in control of their time at security checks, immigration, and boarding procedures with digital solutions. Less hub dependency of airlines means less market power for airports based on size, traffic volumes, and reach. Therefore, airports will have to embrace an entirely new understanding of terminal planning and technology, such as cloud-based solutions. Avinor, the operator of Norway's state-owned airports, is leading the way in this field. Together with technology provider Amadeus they have been testing an all-digital airport journey. When COVID-19 hit, they were able to successfully implement their solution in time to regain passenger trust before the start of the summer season in Norway.[11]

Companies must constantly rethink the customer experience across the entire passenger journey instead of commoditizing the product air travel. They must build innovative business models and identify new personalized service offerings to tap additional revenue streams and strengthen their financial position. Airlines and airports will build up and capitalize on their core competencies in infrastructure, real estate, and mobility management. In the common ecosystem they form the mobility hub of the future, where both players benefit from each other. Even without traffic, there is business at the airport city. This business in turn generates traffic, which again is a critical location advantage for companies to settle.

[9] Wizz Air: Wizz Air delivers protective gear and coronavirus test kits [...] from China (March 25, 2020)
[10] Vilnius Airport: Aerocinema: A drive-in movie theatre lands at Vilnius Airport (April 29, 2020)
[11] Amadeus: Norwegian airports take the lead on touchless travel with Amadeus technology (July 3, 2020)

GAUGE

	Max. seats*	Max. range (nm)	Status of production	
Boeing 737 Max	153	3,850	Resumed	
Airbus 321XLR	220	4,000	Priority, EIS**** 2023	
Airbus 330	260	8,150	Output reduced	
Boeing 787	296	7,530	Output reduced	
Boeing 777X	384	8,730	Delayed	
Airbus 350 XWB	410**	8,700	Output reduced	
Boeing 747	410**	7,730	Ending in 2022	
Airbus 380	550***	8,000	Ending in 2021	



* Standard 2-class configuration | ** 3-class configuration | *** 4-class configuration | **** EIS: Entry Into Service

Figure 6. Medium- to long-range aircraft production and strategic network implications (source: Airbus, Boeing)

ACTION FIELD 02

Transform and optimize human resources in a socioeconomic way

As unpopular as this topic might be in the public eye, it is hardly possible to turn a business around without looking at payroll expenses. The need to optimize the workforce is not only triggered by an economic downturn. As a leading example in the automotive sector, Porsche is living out the concept of continuous improvement. In collaboration with all employees, efficiency improvements are constantly identified and implemented. Without regular adaptation, right-sizing measures will hit a business all the harder, the longer necessary workforce and process adjustments have been withheld. In particular, companies must permanently question the value they bring for their customers and reassess the optimum degree of process efficiency. Over time, pursuing a strategy that does not conform to market developments will lead to a drop in profits, inefficiencies, and overcapacity. The company needs reorganization.

Figure 7 shows the key levers to achieve a right-sized organization and cost structure. Core competencies of the future strategic direction are defined within the business model framework. Cash management is crucial for maintaining liquidity, which is consequently transferred into a modified budgeting with sustainably reduced costs. Processes are adapted to align with the strategy and must support core activities to realize the identified cost saving potential. Organizational structures are analyzed and adjusted in order to foster fast decision-making as well as an entrepreneurial and agile corporate spirit. As the new way of doing things must be embraced by the employees, adjusting the organizational behavior is key. A structured change management process will lead the organization to its target state and guide through the business transformation.

Undisputedly, a capacity adjustment usually triggers a reduction in headcount. Companies must define the right approach to think commercially and maximize profits, while pursuing a socioeconomic path living up to their corporate social responsibility. As mobility hubs for air transport and relevant infrastructure providers, airports are of great public interest and, at least partly, under governmental influence. Airlines in their role as flag carriers and ambassador of their home country in international travel capture similar public attention. Therefore, a socioeconomic transformation with minimum redundancies helps preserve a positive reputation and brand image among the customer base.

Existing as well as new key business areas for future operations must be identified, clearly prioritized, and filled with available staff. Activities that are obsolete and can be reduced or eliminated must be defined; released resources can be deployed to add value for new processes. Figure 8 illustrates the underlying HR transition model. Effects of fluctuation and early retirement are deducted from the total reduction potential. The remaining FTEs are then profiled and matched with requirements for vacancies created through insourcing of services or the exploitation of new business models to tap additional revenue streams. A redeployment hub is established to manage the transfer matrix and corresponding requalification programs. Contract termination only serves as a last resort, in which case a working HR toolbox with options like severance payments or enablement program offers is critical both for the redundant employee and the organization in its role as a responsible corporate citizen.

Like reducing headcount, recruiting new people in order to develop and cultivate core competencies is also an integral element of the concept of "right"-sizing, if economically viable. To transform the business, inefficiencies must be eliminated, while at the same time innovative topics must be expanded. In today's competitive labor market, an excellent employer branding is a pivotal asset for companies to develop and foster. Being considered a great place to work serves as

a key differentiating factor between businesses that must be nurtured to be able to compete for new talent. In fact, however, it is not uncommon that companies make young professionals redundant because of their lack of experience, and rely on incumbent colleagues. But losing talent is risky. If a specific skill set is required again in the future, it can be very costly to rehire the employee, provided the candidate profile is found on the job market in the first place. Alternatively, organizations are advised to redeploy long-established employees to business-critical activities that can more easily be standardized, whereas the creativity and agility of young talent is leveraged to exploit innovative business fields and build the new competitiveness of the company.

Reshaping the business must consequently be focused on. One of the key success factors of any reorganization is the implementation of a continuous transformation management function with a strong emphasis on external as well as internal communication. Every individual stakeholder within the company must live and breathe the new way of doing things —those who do not support the transformation must be left behind, as motivation and positive communication are key to successful change (see action field 5).

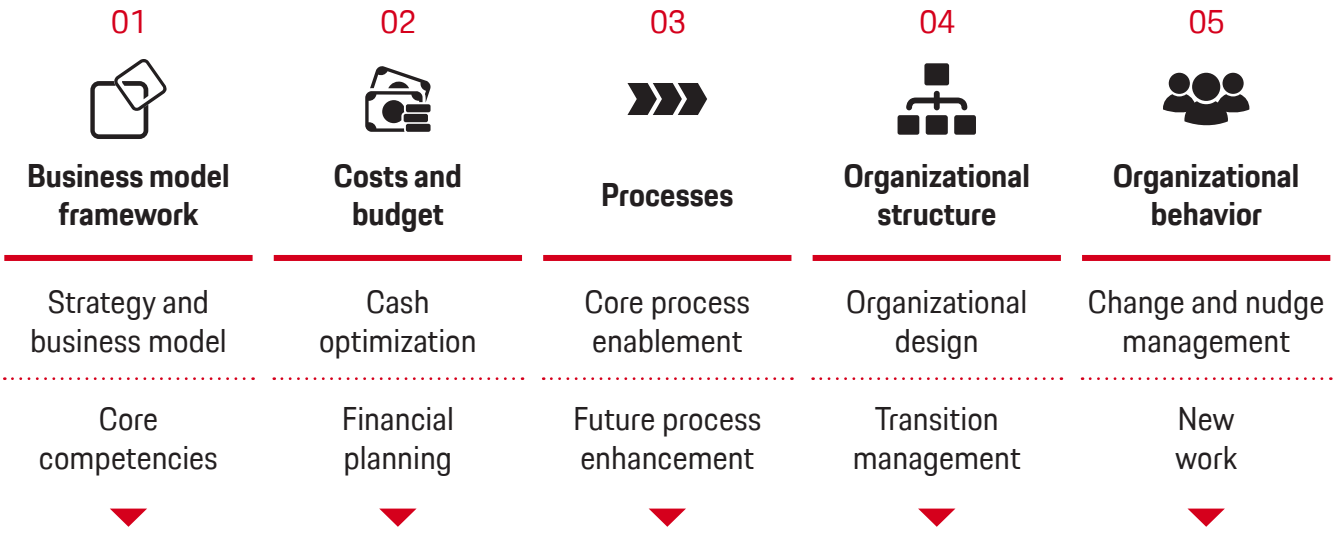


Figure 7. Key right-sizing levers

HR TRANSITION MODEL

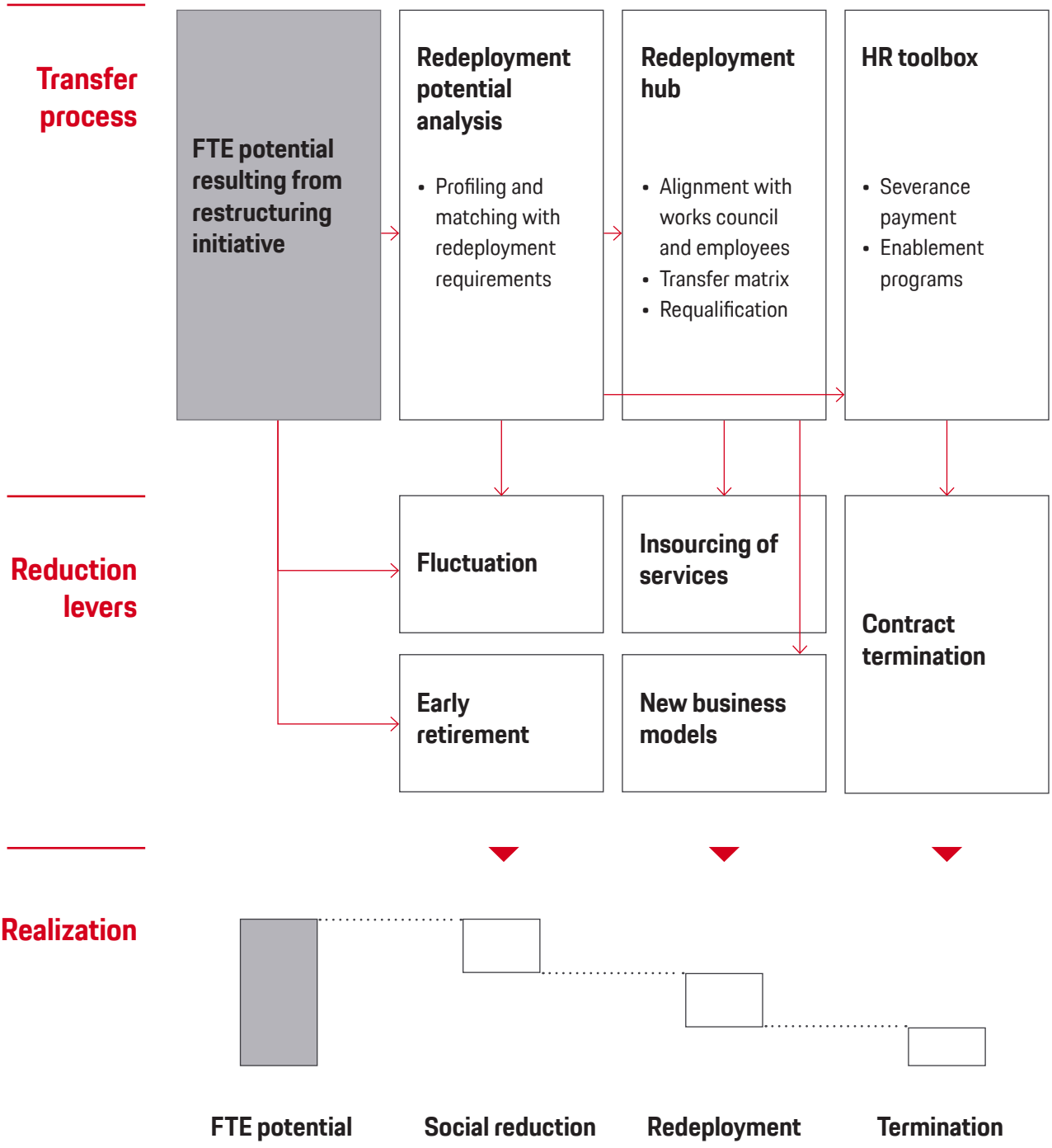


Figure 8. Socioeconomic human resource transition model (schematic illustration)

ACTION FIELD 03

Stabilize operations and safeguard flexibility through resilience

The Canadian Centre for Resilience of Critical Infrastructure defines operational resilience as "that essential ability of an operation to respond to and absorb the effects of shocks and stresses and to recover, as rapidly as possible, normal capacity and efficiency."[12] In essence, every economic crisis is a shock leaving the parties heavily impacted largely incapacitated. With stable cost levels but no noteworthy revenue influx, the cash burn rate remains extremely high and liquidity reserves are quickly depleted. Companies become more and more hesitant (and unable) to react, which in turn limits the room for maneuver until funds are used up and invoices can no longer be paid.

The concept of operational resilience helps stabilize businesses in the light of external shocks. To give an example, for airports this means that all critical facilities and processes within the ecosystem (flow of aircraft, vehicles, passengers, bags, etc.) must be synchronized with the flight schedules to ensure efficient operations and the ability to tolerate periodical stress (e.g., caused by equipment failure, lack of resources, or unexpectedly high volumes). Figure 9 gives a schematic visualization of different states of businesses in their efforts to synchronize capacity and demand.

In order to maintain the highest service level to passengers even with a temporarily significant loss in available capacity, a buffer for unforeseen events must be built into the system. This means spare resources are necessary and, consequently, additional costs are created. Similar to an insurance, however, the true value of a buffer takes into account the financial loss it averts when business deviates from the norm. Since this is not unusually a significant amount of money, extra costs generated by a buffer are reasonable and calculable. This breathing capacity now allows for high-standard yet efficient operations while constantly addressing market dynamics and ensuring that small interruptions do not have a disproportionate impact. The principle of operational resilience is of critical importance when rethinking business setup in the course of a reorganization program. It can be achieved by adding more infrastructure (for instance, an additional baggage claim belt to cover potential breakdowns), by changing certain processes (additional manpower to clear bags off the belts), or by permitting a fall in service levels for a short period of time (additional waiting times).

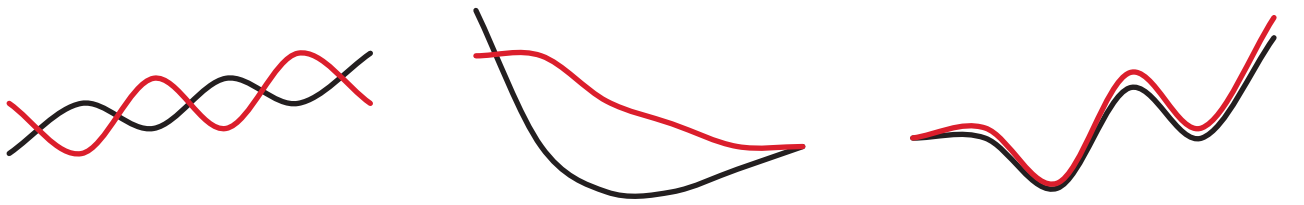
Agile working methods play a pivotal role in nurturing resilient operations, too. Instead of silo thinking and separation, in the future it will be necessary to foster cross-functional collaboration. Maximum alignment of all activities between the ecosystem partners will be a critical success factor. If the process of adapting capacity deployment to traffic developments is well orchestrated, reaction times can be reduced, waste of resources minimized, and shortages avoided. Similar to a project organization, employees will flexibly rotate to different roles within the business, wherever their skill set is required the most. The organization will greatly benefit from this new degree of freedom, while each employee understands and values that he or she will come out as winner from this new way of doing things.

Making cross-qualification a basic requirement will require management to drastically rethink their business practices (for instance, by combining service development and service delivery functions). They will have to manifest their buy-in top-down and pave the way for their staff with advanced training and qualification programs. Timing is critical in this context, as continuous educational measures must be implemented at an early stage of an employee's career and last throughout, instead of being treated as singular events that come too late. This will enable the employees to acquire the skills they need to contribute to a future-oriented business and optimize their deployability throughout the organization.

[12] Centre for Resilience of Critical Infrastructure (retrieved August 31, 2020)

Since change is permanent and persists over time, continuous learning is a necessary prerequisite.

Operational resilience in its different variations forms an integral part of a company reorganization. Reshaping a business in order to prepare it for the future goes hand in hand with minimizing the impact externalities will have on operations. Evidently, shutting down the business just to ramp it up several months later is a tremendously costly venture directly affecting financial performance. The objective is to realign processes and resource deployment, while providing human capital with the flexibility and knowledge needed to repel shutdowns in the future. Since organizational optimization is a continuous process, the desired results will materialize over time, once the required competencies for a capable and future-oriented business have been developed and nurtured.



REACTIVE AND PASSIVE

Capacity remote-controlled by external effects and unsynchronized with demand

SLOW AND INEFFICIENT

Capacity changes triggered by market trends and lagging behind real demand

FLEXIBLE AND RESILIENT

Breathing capacity with calculated buffer synchronized with demand development

capacity demand

Figure 9. Different business conditions in capacity-demand synchronization

ACTION FIELD 04

Strengthen business and competencies with a focus on the customer

While right-sizing has top priority over other initiatives for businesses to survive and regain their competitive advantage, important customer expectations remain unserved. Passengers are increasingly demanding a more seamless and frictionless travel chain with a higher degree of control over their own journey. This request gains even more relevance, as additional regulations induced by the 2020 pandemic create new obstacles for travelers and companies alike, virtually resulting in a "non-existence" of air travel. Airlines and airports have started to introduce digital solutions (such as self-service check-in), albeit still in their infancy and confined by every individual player's sphere of influence. Rather than working in silos, they need to collaborate within the entire aviation ecosystem and convince authorities and decision makers to pave the way for new procedures for air transport. Regulations concerning security controls, etc. have to be adjusted to emerging market requirements, in a way that they do not compromise safety or security, but contribute their share to win back passengers.

Industry associations and technology providers have now taken the next step and established joint initiatives to shape the travel experience of the future. IATA's One ID program promotes biometrics and single identification to make the passenger journey more seamless and secure, while enhancing cost efficiency and effectiveness for airlines and airports.[13] Similarly, Amadeus published an article earlier this year elaborating on future airport trends and underpinning the growing importance of automation, biometrics, and touchless processes.[14] Interestingly, after the outbreak of the coronavirus, IATA launched their biosecurity project to describe the road map for air transport to restart operations in the aftermath of the crisis. And again the work centers on topics such as digital self-services, biometrics, and automation—with a special focus on social distancing and hygiene measures, of course.[15] So the way people travel by air will not necessarily change fundamentally due to recent events; its ongoing evolution will rather accelerate and continue to trace its path at a faster pace. Since passenger demand for digital solutions has gained significant momentum and public attention, people and departments reforming these procedures and developing new technologies need to remain the centerpiece of the organization in the future. Their role will be gaining more and more importance going forward and should not fall victim to any planned right-sizing efforts. Only with their expertise and knowledge can urgently needed new solutions and procedures be introduced in time.

Developing new procedures and investing in technology certainly comes at a cost. In the medium run, however, companies will benefit from these investments and realize notable cost savings, as digitized processes require less staff. To achieve this, travelers must be incentivized to come to the airport ready to fly, whereupon digital and automated solutions (such as biometrics) will identify the passengers at every touchpoint throughout the entire journey (see fig. 10). These innovative solutions are desperately needed, but their development is also subjected to trimmed-down budgets and tight project scopes. The challenge for companies is to save cost, but simultaneously promote innovation and technology deployment. Every business will need to find an answer to the strategic question whether a technology-driver or technology-follower structure better suits their individual needs. In this context, right-sizing helps to establish lean structures and foster fast decision-making processes. With these changes in place, face-to-face interaction throughout the journey will be scarce. This puts passengers in the driver's seat of their travels, while allowing companies to redeploy surplus resources. All activities must center on the consumer and right-sizing needs to reflect this strategy. Investments should yield reduced labor cost and improve the bottom line. Often a broader view is needed to optimize ecosystem performance through partnerships and substitute bureaucratic contractual arrangement with more value-generating options. Currently, Lufthansa and Fraport are piloting this new form of cooperation in their FRA-Alliance to further deepen the partnership and expand digital services.[16]

[13] IATA: One ID (retrieved September 1, 2020)
[14] Amadeus: Five technology trends to shape the airport of the future (January 20, 2020)
[15] IATA: Biosecurity for air transport (retrieved September 1, 2020)
[16] Wirtschaftswoche: Preisaufschlag statt Rabatt für Spohr (July 2, 2020)

SEAMLESS AND END-TO-END PASSENGER JOURNEY

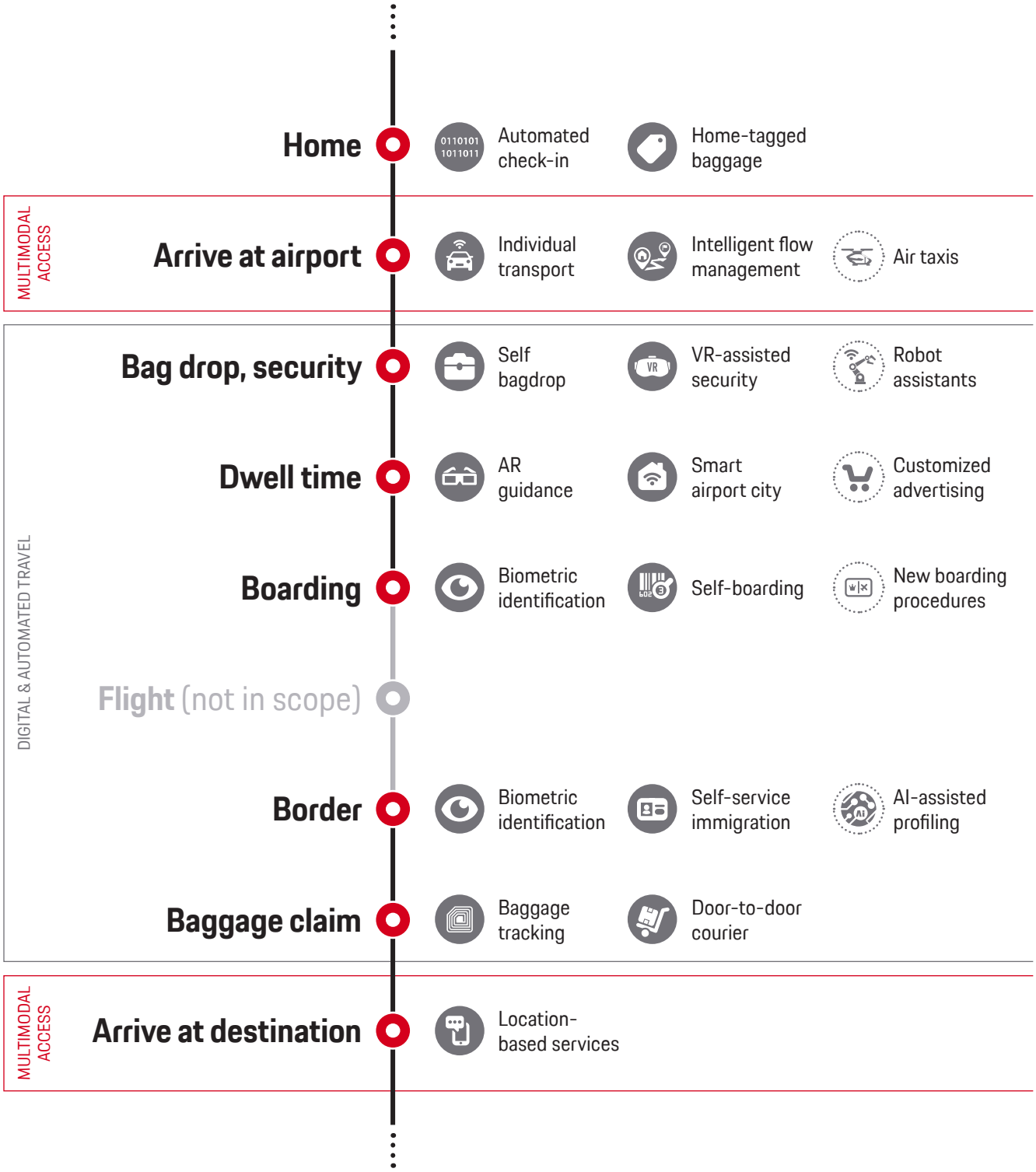


Figure 10. Future seamless and digital passenger journey

ACTION FIELD
05

Guide and support the business through the journey of change

Reshaping an organization in order to prepare it for the future is a major venture for every business. Whether a crisis is jeopardizing a company's survival or management is tackling inherent inefficiencies, reorganizing structures, processes, and mindsets requires buy-in from top management down to every individual employee. The corporate DNA must embody the spirit of change and the willingness to transform by implementing the measures identified throughout the program. To safeguard future viability, clear communication needs to make sure employees are informed about all changes. Involving relevant stakeholders is critical, so the right communication channels must be selected to build a leadership alliance and a change team. It is vital to highlight the positive elements of the change and to showcase what the objectives of the program are, so the whole organization works together to reach this goal. The people remaining in the company must appreciate how they can profit from the change without being severely affected by potential redundancies of their colleagues and a feeling of being left alone. Therefore, communication must aim at motivating the employees to think in a future-oriented manner and embody the new company spirit after the transformation with steep cuts. The message centers on optimism and transparency about the underlying rationale of the measures.

Organizations must be closely guided through the change process. A prime example of a successful transformation is the Swiss flag carrier, Swiss International Air Lines. From the loss-making Swissair in the early 2000s to the profitable and iconic Lufthansa Group airline today, the company had to be led through a massive right-sizing program, making sure every single employee was part of the journey. This principle is universally valid independent of the business sector. While the individual corporate culture essentially forms the communication style, for a transformation program most rules can be applied across all industries. In one flagship project, Porsche Consulting has been supporting Bentley Motors in their comprehensive restructuring. Similar to the Swiss example, release and redundancy programs, people transformation as well as process improvements are essential parts of the initiative. An overarching communication strategy integrates and orchestrates all of these streams.

The success of these turnaround stories can largely be attributed to effective change management and commitment from the leadership team. Drastic measures were required to keep the companies alive. Their rationale had to be shared with the organization in a comprehensive change story to positively impact cooperation and foster a culture of trust. By following these rules and closely guiding the organizations through the transformation, management could not only ensure that the workforce was right-sized and costs were drastically cut, but also a positive culture was created and engrained into the corporate DNA.

CONCLUSION

Global aviation is going through times of dramatic upheaval. Airlines and airports will need to adapt to a fundamentally changed industry, where new customer behavior dictates the rhythm. By common agreement, the heyday of commercial aviation seems to be over, as pre-pandemic growth might remain unreachable for the coming decade. Triple-digit billion-dollar losses expected by the end of 2020 are causing the entire industry to rock and are putting millions of jobs at stake all around the globe.

Business transformation is key to ensure future viability. The strategic direction must be in line with the new framework conditions arising from structural market changes. To remain relevant, companies need to capitalize on their core competencies and carefully focus on key business areas in digitized travel. They must find their optimal organizational structure with sufficient resources deployed to critical functions. A resilient operating model allows businesses to flexibly react to changes in the market and provide enough capacity to satisfy future demand. Management must build the foundation for a learning organization in order to lead by example and nurture a spirit of continuous improvement.

This means questioning the old way of doing things and understanding that the confines of established business procedures might need to be broken through. Some areas require a paradigm shift to significantly reduce cost and it will be necessary to invest in development of new technologies. If companies collaborate with their ecosystem partners, these investments can be financed jointly and system performance can be optimized.

Right-sizing and redeployment of resources across the organization must be drastic enough to bring back profitability, but also obey socioeconomic principles minimizing redundancies. Inefficiencies must be eliminated and core competencies in mobility and real estate management built up. Operational resilience and a flexible workforce balance resource bottlenecks and secure robustness. Since new regulations call for an expedited implementation of digital solutions, companies must continue to drive innovation and build their business around customer-centric services

The transition to the new organization must be thoroughly prepared and accompanied by a future-oriented communication strategy. Clear commitment as well as a positive change story are key for a successful implementation. Common goals must consistently be communicated by the management team and every employee needs to understand the beneficial effects of the change to nurture a spirit of emergence into a new era.

The five phases described in Porsche Consulting's framework have proved successful for a number of transformation initiatives worldwide. They help businesses structure and manage their programs to make sure the results materialize and have a sustainable impact. These principles will also be useful for airlines and airports building new competitiveness in the changed aviation industry. As this paper has shown, organizational right-sizing, operational resilience, and customer centricity are the three main levers for companies to master business transformation and secure future viability.

IN BRIEF

5 KEY LEARNINGS

01

RIGHT-SIZING TO ELIMINATE INEFFICIENCIES

Adjust dimensioning of workforce when designing new organizational structures or adapt capacity deployment to minimize waste of resources.

02

RESILIENCE TO ENHANCE AGILITY AND ROBUSTNESS

Deploy breathing capacity with a flexible workforce as a buffer against external stress and shocks to maximize operational resilience and ensure business continuity.

03

REALIGNMENT TO FOCUS ON KEY BUSINESS

Leverage strategic core competencies in infrastructure and mobility management and focus on value-adding activities to reshape the future passenger journey in the aviation ecosystem along market trends.

04

SERVICE INNOVATION TO TAP NEW REVENUE STREAMS

Drive innovative service models and nurture a customer-centric organization offering digital solutions together with system partners to build new competitiveness and cultivate a future-oriented skill set.

05

SOCIOECONOMIC APPROACH TO GAIN SOCIETAL ACCEPTANCE

Incorporate social responsibility for employees and environment into entrepreneurial leadership to preserve a positive brand image and fundamental corporate values.

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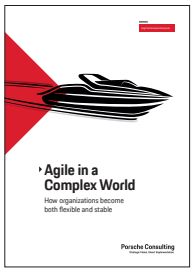
Further reading

Change Management Kompass 2020

Mastering global airport competition



Agile in a Complex World

Spotlight on Corporate-Wide Efficiency Programs

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