Effective Airline Cost Control Model

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Vice President – Africa
IATA

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Global trade association for the world’s airlines

240 passenger and cargo carriers

84% of global air traffic

Meeting our members’ needs
<table>
<thead>
<tr>
<th><strong>HISTORY</strong></th>
<th>1944</th>
<th>Chicago Convention</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1945</td>
<td>IATA is founded</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Standard setting work with ICAO</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Traffic Conferences</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Financial settlements</td>
</tr>
<tr>
<td><strong>TODAY</strong></td>
<td></td>
<td>Versatile trade association</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Some foundation activities continue</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Comprehensive focus on industry viability</td>
</tr>
</tbody>
</table>
## Governance

<table>
<thead>
<tr>
<th>Board of Governors</th>
<th>31</th>
<th>Member airline CEOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry Committees</td>
<td>6</td>
<td>Cargo, Environment, Financial, Industry Affairs, Legal &amp; Operations</td>
</tr>
<tr>
<td>Working Groups</td>
<td>As Needed</td>
<td>Committee sub-groups established to focus on specific issues</td>
</tr>
<tr>
<td>Traffic Conferences</td>
<td>All</td>
<td>All members Passenger &amp; Cargo</td>
</tr>
</tbody>
</table>
ORGANIZATION

Global development, regional delivery

HQ Montreal/Geneva

Regions

North Asia (Beijing)
ASPAC (Singapore)
AME (Amman)
Europe (Madrid)
Americas (Miami)

Organizational Divisions

Member & External Relations (MER)
Financial & Distribution Services (FDS)
Airport, Passenger & Cargo Services (APCS)
Safety & Flight Operations (SFO)
Marketing & Commercial Services (MACS)
VISION

What do we want to be?
the force for
VALUE creation and
INNOVATION

What do we strive to do?
DRIVE a safe, secure
and profitable air
transport industry

What will we achieve?
an industry that sustainably
CONNECTS & ENRICHES
our world
<table>
<thead>
<tr>
<th>Core Activity</th>
<th>Financial Settlement</th>
<th>$387B</th>
<th>99.99%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance Savings</td>
<td>Reduce costs and increase efficiency across the aviation value chain</td>
<td>$17B</td>
<td></td>
</tr>
<tr>
<td>Advocacy</td>
<td>Operational</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advocacy</td>
<td>Regulatory</td>
<td></td>
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</tr>
</tbody>
</table>
CONTINUALLY IMPROVE AVIATION SAFETY

Six-Point Safety Strategy

- Reduce Operational Risk
- Enhance Quality and Compliance
- Advocate for Improved Aviation Infrastructure
- Support Consistent Implementation of SMS
- Support Effective Recruitment and Training
- Identify and Address Emerging Safety Issues
Unprecedented targets

2010
1.5% p/a fuel efficiency
Working towards carbon-neutral growth

2020
Carbon-neutral growth
Implementation of global sectoral approach

2050
-50% CO₂
Half the net aviation CO₂ of 2005

4 Pillar Strategy

Invest in new TECHNOLOGY
(including sustainable aviation biofuels)

Build and use efficient INFRASTRUCTURE

Fly using more efficient OPERATIONS

Use effective, global, MARKET-BASED MEASURES
**Airline Industry Costs**

- **Fuel, 31%**
- **Cost of Operations, 26%**
- **Aircraft Leasing Advisory Group, 10%**
- **Maintenance, 12%**
- **A/C Ownership, 10%**
- **Distribution, 6%**
- **Charges, 9%**
- **Pax Services, 5%**
- **Others, 1%**
- **Industry fees and taxes**

**Total: US$ 686B**

(2013 est.)

Operational Efficiency & Cost Management

ITQI

Fuel Campaign
Technical Fuel
Alternative Fuel

Paperless Supply Chain
Maintenance Cost Benchmark
Objective

- Focus on managing the processes to provide the service / product to the customer
- Optimal cost-effective balance between Service and Cost
- Enable the airline to achieve maximum revenue retention with minimum cost or expenditure of resources

More at: [www.iata.org/oecm](http://www.iata.org/oecm) and for Fuel: [http://www.iata.org/whatwedo/ops-infra/fuel/Pages/index.aspx](http://www.iata.org/whatwedo/ops-infra/fuel/Pages/index.aspx)
Effective Operational Cost Management

Fundamental Requirements

- Integrated Schedule Development / Planning process
- Pro-Active operations Control capability
- Clear identification of management Responsibility, Authority, and Accountability for cost
- Comprehensive Measurement systems to track cost, performance, service, current levels and trends
- Disruption Analysis (Root Cause) and Corrective Action processes to drive Continuous Improvement
 Does your airline have

- Fully Integrated Schedule Planning process?
- Process to track and validate planning components?
- Structure to manage & control deviations from plan?
- Process to determine associated delay cause and cost impact?
- Process to identify and measure who in the organization is directly responsible for managing each cost?
- Corporate operations Reliability or Punctuality program and culture?
“what is cost of current state?”
“what needs to change?”
“What is the Cost/Benefit of the change?”
“how can we measure the change?”
“What will Change?”
IATA’s Basic Principle:

“You cannot manage what you do not measure”

- Benchmark voluntary groups:
  - ACMG: Airline Cost Management Group
    www.iata.org/acmg
  - MCTF: Maintenance Cost Task Force
    www.iata.org/mctf

- ACMG airlines have shown decrease in costs (excluding fuel)
Provide a wide range of customized services to reduce costs and improve efficiency
SCOPE

OECM

Flight Ops

Ground Ops

OCC / Dispatch

Tech Ops

Supply Chain

Ops Planning

Fuel

Commercial costs

Navigation / Overfly Charges

Landing Fees

Network Planning
1. Aircraft Costs
   ≣ Fleet composition and size
   ≣ Commonality between airframes, engines, and systems
   ≣ Aircraft usage

2. Crew Costs
   ≣ Crew Scheduling

3. Marketing & Distribution
   ≣ Internet, internet, internet

4. Maintenance Costs
   ≣ Engine Maintenance is by far the most expensive category
5. Ground Operations
   ⇤ The schedule drives many costs at the airport

6. On Board Product
   ⇤ Ancillary services - from Cost to Revenue Earner

7. Airports
   ⇤ Efficient ground operations and short approach and taxi times to be negotiated

8. Fuel (yes Fuel too!)
   ⇤ IATA Fuel Efficiency Program Development and Implementation
9. Information Systems
   - Commercial off-the-shelf systems (COTS)

10. Overheads
    - Management can be overly complex and layered
    - Keep objectives simple – K.I.S.S. – Keep It Short & Simple

11. Management
    - Decision-Making, Risk-Taking, Agility are in
    - Perfect Information/Perfect Knowledge are out
ACMG COST STRUCTURE

- Fuel and Oil: 33.4%
- Maintenance and Overhaul: 9.4%
- General and Administrative: 7.3%
- Flight Deck Crew: 6.8%
- Reservation, Ticketing, Sales and Promotion: 6.5%
- Station and Ground: 6.5%
- Aircraft Ownership: 10.6%
- Airport Charges: 4.9%
- Cabin Attendants: 5.1%
- Passenger Service*: 4.2%
- Air Navigation Charges: 4.1%
- Other**: 1.2%

Total = $142.4 Billion (55 airlines)

20% of the industry participation
EXAMPLES OF BENCHMARKING*

*CAUTION: The chart shows results using raw data as provided by the 55 participating airlines. No normalization was performed. Exchange rates, operational profile and severity, fleet size, age and utilization among other parameters can significantly change the numbers shown.
to represent, lead and serve the airline industry