

REPORT  
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IN LONDON

# EARLY RETURNS

As the 11th *Airline Business/SITA* Airline IT Trends Survey is published, we look at how airlines are focusing on projects providing an early return on investment during the downturn

With the global economic recession showing no sign of abating, airlines are in survival mode, slashing extraneous costs and prioritising immediate revenue enhancements. While bearing their share of cost cutting, IT departments are not only the critical enablers of this business strategy, they will also be a vital element of recovery plans.

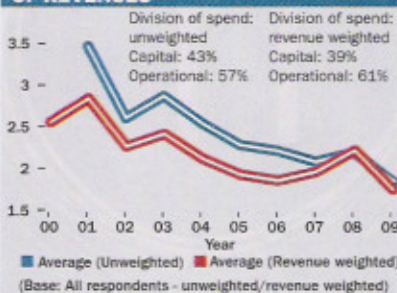
Across the industry, airline IT is focused on delivering a difference to the bottom line in the fastest possible time scale. Nice-to-have projects and those unable to deliver a return inside 18 months are being shelved. Investment is highly selective; projects that contribute cost savings, customer benefits and revenue enhancements are getting the green light.

And while no one is expecting the economy to return to where it was a year ago any time soon, airline IT chiefs remain optimistic about the investment outlook for IT and keen to implement some of the new technologies like virtualisation (a form of computer enhancement) that bring with them real competitive advantages.

Against this backdrop, the 2009 *Airline IT Trends Survey*, conducted by *Airline Business* in association with SITA, continues to receive significant support, with 116 airlines participating in the 11th annual study, representing about half the airlines in the 2008 *Airline Business* Top 100 Financial Ranking and 60% of the Top 100 Passenger Ranking.

This year, on a revenue weighted basis, an

## IT INVESTMENT AS A PERCENTAGE OF REVENUES



# 1.74%

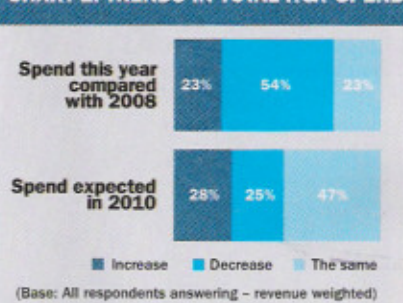
Airline revenues operational spend in IT&T this year

average of 1.74% of airline revenues are set to be pumped into IT and telecommunications operating spend, down from 2.18% (revenue weighted) last year when the mood among the 2008 respondents, surveyed before oil prices hit the roof and the financial crisis really hit home, was relatively buoyant (see chart 1).

Significantly, this is the lowest level since the *Airline IT Trends Survey* was first conducted in 1999, and is a sharp fall after rises in each of the past two years.

For the first time this year, the *Airline IT Trends Survey* also asked airlines about their

## CHART 2: TRENDS IN TOTAL IT&T SPEND



planned IT&T capital spend, which stands at an industry average of 1.11% (revenue weighted) of airline revenues (1.30% unweighted).

In the current climate it is no surprise that just over half – 54% revenue weighted (42% unweighted) – of airlines experienced a decrease in total IT&T budgets, a turn around from 2008 when 47% revenue weighted (60% unweighted) optimistically forecast budget increases for 2009 (see chart 2).

## REASON FOR IT INVESTMENT

Looking at the detail behind IT investment decisions, the survey shows the top driver continues to be reducing costs – cited as high priority by 57% (unweighted) of respondents, (slightly down from 62% last year), followed by enabling new market and revenue opportunities – high priority of 43%, and improving customer services – high priority for 42% (see

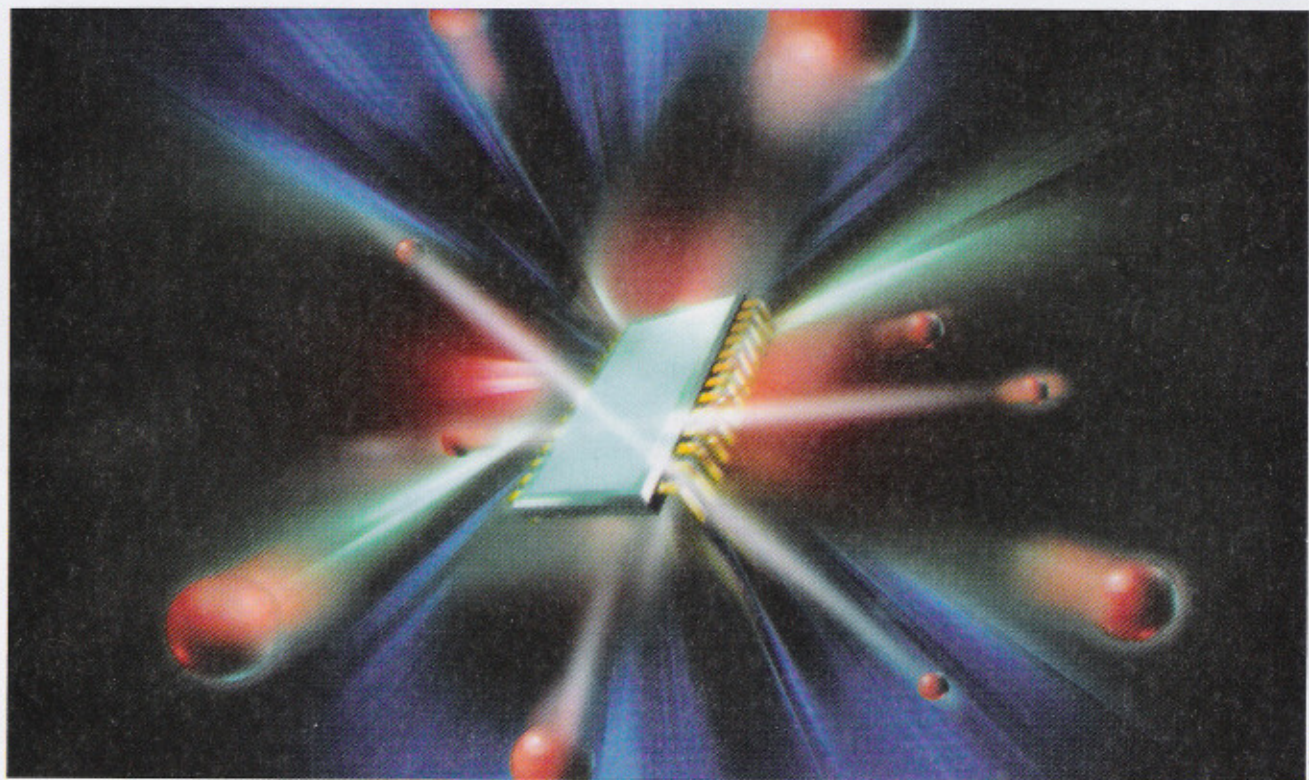


Photo: Shutterstock

chart 3). As last year the top investment area is passenger processing and services – high priority for 49% (63% in 2008).

While the economic storms rage, there is considerable clarity and certainty among chief information officers about the strategy ahead for airline IT. “What I always used to say was we needed to do more with less. What I’m saying now is we need to do even more with even less,” says British Airways chief information officer Paul Coby.

“What we have done is very much focused our investment spend on the things that really, really make a difference and... [they are] things focused on our customers and improving the overall efficiency and productivity of the airline and things that increase revenue,” he adds.

BA has substantially reduced its operations budget through simplification and standardisation, as well as adopting green IT strategies

**54%**  
**Respondents seeing IT&T  
 spend down this year vs 2008**

to lower costs, and has cut spending on new projects by about half. “One of the things I recommended we postpone was investment in an enterprise resource planning system,” says Coby. “It’s important and needed but would the substantial investment in that generate any more revenue this year? And would it make our customers happier or more inclined to travel with us again? No, probably not, so let’s invest in something that will.”

The time scale for IT investment returns is speeding up for many airlines. At Cathay Pacific director of information management

## FUTURE IT CHALLENGES FACING THE AIRLINE INDUSTRY

“Delivering business projects to drive efficiency and cost reduction while trying to reduce overall cost of IT”

“Providing tools to make an airline more agile in its business model as the industry changes”

“Technology is moving much faster than airport readiness especially at remote locations”

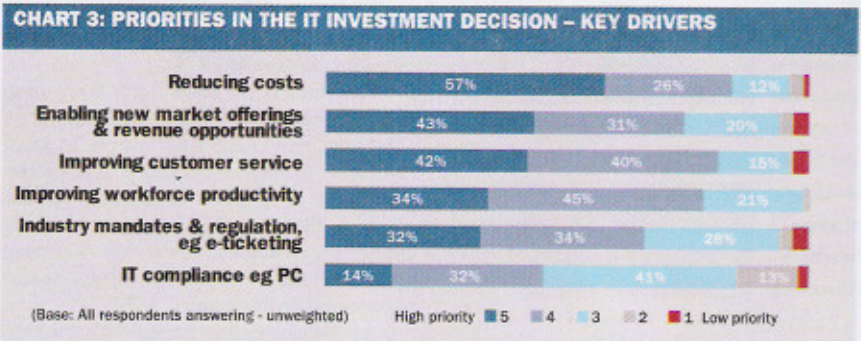
“On-line and mobile service improvement”

“Promoting more enhanced internet services for the passenger so he can do all his transactions while he is relaxed anywhere he is”

“Economic volatility challenging business fixed costs and demand”

“Enhancing the travel experience through innovative solutions”

NOTE: Verbatim responses from 2009 Airline IT Trends Survey



72%

## Those looking to renegotiate IT supplier contracts to cut costs

and chief information officer Edward Nicol is shelving back office projects without visibility in favour of projects that have "immediate benefits to customers, immediate cost savings or an affect on the regulatory framework". Some projects already underway will have a two-year payback, but Nicol is now looking for a payback by increasing revenue or reducing cost of one year or less.

## RETURN ON INVESTMENT

Similarly Air France's executive vice-president of information technology Edouard Odier has a benchmark of 12-18 months return on investment. Projects that cannot deliver this ROI will be shelved, whereas those focused on delivering benefits from the merger with KLM are getting the go-ahead. "The main thing that the group can do is accelerate the convergence between Air France and KLM businesses and having common IT systems are absolutely required."

The fundamentals of the business are unchanged by the global economic downturn "but the bar has been raised", according to

Patrick Naef, senior vice-president information technology at Mercator, the IT arm of Emirates Group and business technology solutions provider. "Tactically we focus more on solutions that help the businesses to quickly reduce cost while in the past the main focus was on growing the business."

Another element to the response of airlines to the crisis has been to defer significant upfront infrastructure investment. "Investment is currently slower in purely process-orientated solutions such as IT infrastructure or payment card industry compliance," observes Wolfgang Gohde, chief executive and chairman of the executive board, Lufthansa Systems. "However we expect demand to pick up after some time because these solutions offer added value in one way or another as well, or are becoming a compliance requirement."

In the US, Frontier Airlines, which is operating under Chapter 11 bankruptcy protection, has delayed large infrastructure projects such as virtualisation and hardware refresh until at least 2010. "Our main focus is on the

28%

## Those expecting total IT&amp;T spend to increase in 2010



**"Investment is currently slower in purely process-orientated solutions such as IT infrastructure"**

**WOLFGANG GOHDE**  
Chief executive, Lufthansa Systems

operations and 'sweating the assets' we already have in place," says chief information officer Gerry Coady, adding that this year Frontier has invested in a large project in revenue-generation and it is these types of projects, along with safety and compliance, that continue to be financed.

CHART 4: PRIORITIES IN THE IT INVESTMENT DECISION - INVESTMENT AREAS



CHART 5: PLANS TO ADAPT IT STRATEGY COMPARED TO 2008 DUE TO COST MANAGEMENT



## DELAYING THE NON ESSENTIALS

At AirAsia, any projects that can wait another year or so - server upgrades, refreshing PCs or training courses - are all being delayed. Regional head of information technology Lau Kin Choy is using technology to improve efficiency, selectively focusing on those that increase revenue and productivity.

The strategic emphasis across the industry is on having a lean, efficient operation - airline survey respondents are adapting their IT strategy to these cost management pressures by putting more emphasis on renegotiating IT supplier contracts (72%), investing in solutions that lower overall enterprise costs (70%) and investing in applications to improve organisational productivity and efficiency (58%) (see chart 5). Although it may be tempting to assume in this cost-cutting environment that the importance of IT has been downgraded, in fact airlines and their partners see IT as more important than ever to enabling overall airline strategy.

"If anything IT is a major factor in ensuring that things have not been worse," says SITA chief executive Francesco Violante. "A lot of the impact of the current crisis is mitigated by the fact that the industry can reap the benefits of being the first global industry to fully exploit IP enablement, lower costs modes of operation such as self-service, e-ticketing and bar coded boarding passes."

Adds Nicol at Cathay Pacific: "We don't see

this as a short-term economic problem, we see this as a medium- or long-term problem...so we still need to run the business and we have got to think which things are really important and IT has a big role to play in many of these. We see people very focused on IT helping them to do their jobs or do it in new ways."

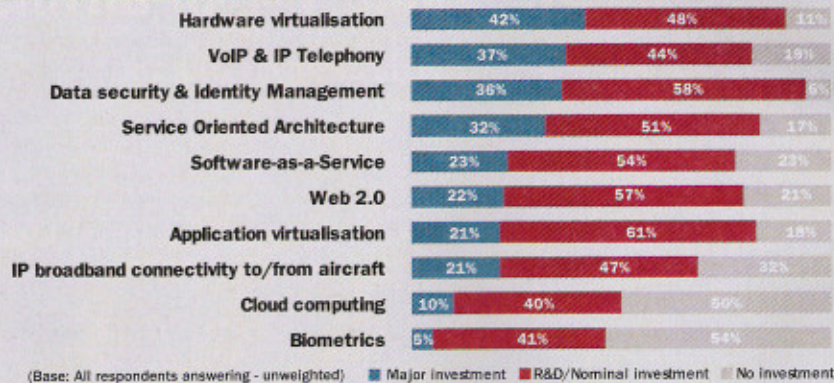
Looking to next year, the industry is cautious about IT&T spend, with 47% (revenue weighted) of airlines predicting budgets will remain the same in 2010 and a further 25% (revenue weighted) forecasting a decrease. But the mood among the IT chiefs, whatever the airline business model, is far from gloomy. Indeed they are broadly optimistic about future investment.

"Investment will and should be very tight in the foreseeable future," says BA's Coby. "Does it offer opportunities? Absolutely. It places even more emphasis on making the right choices."

A "very positive" Patrick Naef says: "We have undertaken significant IT projects in the past two years for the Emirates Group, such as new engineering systems, network operations, enhancements to our reservations and distribution platforms and ERP/back office functionality."

With the long-term nature of the downturn,

**CHART 6: PLANS TO INVEST IN TECHNOLOGY TRENDS IN NEXT 3 YEARS**



some projects currently postponed will inevitably need to be actioned. "It is clear that some IT investments will not be postponed for too long because some products would become out of maintenance," says Antonio Bugallo, senior vice-president Systems (IT) at Iberia.

Carriers with legacy systems and low-cost carriers keen to keep competitive are also buoyant about future investments. "We are quite optimistic," says Choy at AirAsia. "Especially for airlines using legacy systems,

there are a lot of areas where new technologies will be deployed for these airlines to save costs and improve efficiency."

### FURTHER UPGRADES

Jazeera Airways is currently upgrading its reservations platform and this key project is also creating a demand to update additional systems to ensure compatibility, with investments underway in operating systems such as departure control, revenue management and

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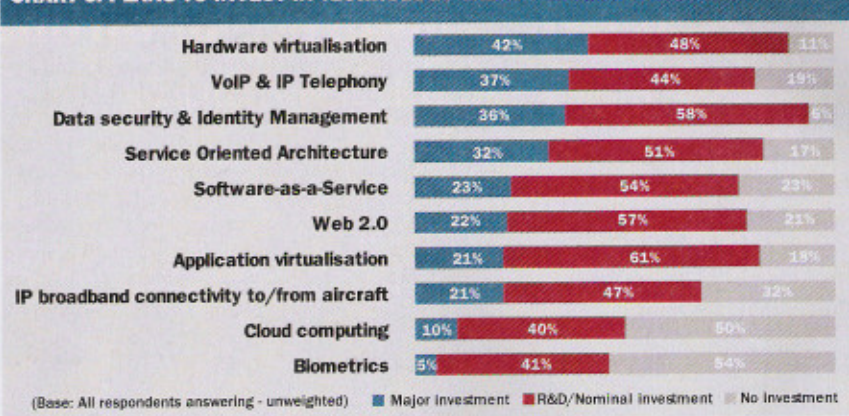
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## **FUTURE IT CHALLENGES FACING THE AIRLINE INDUSTRY**

**“To keep customer loyalty with easy and fast IT solutions in all parts of the supply chain”**

**“Available funding for investment in the short term. Migration away from core legacy platforms”**

**“Costs. Supporting the hybrid model. Airport processes”**

**“Choosing the right IT infrastructure investments to position the business to take advantage of the recovery when it happens”**

**“Interoperability between diverse systems. Cost efficient IT solutions for mobile airline personnel”**

scheduling solutions. Chief commercial officer at the Kuwaiti carrier, Steven Greenway, says: “I am very optimistic because we have a lot of ground to make up in investment in key systems/solutions to ensure we are more competitive in the market place.”

The critical technologies that IT bosses have their eyes on for the future are those that enhance delivery of the business benefits – efficiencies, cost reduction and revenue enhancement – that their strategies now demand. According to 2009 survey respondents, over the next three years the major investment areas will be hardware virtualisation for 42% of airlines, voice over IP/IP telephony for 37% and data security/identity management for 36% (see chart 6). On the R&D front over the next three years, the top technology will be application virtualisation, cited by 61% of airlines

“Virtualisation enables us to run a lot of applications on a lot less computers and that will be much more efficient and much cheaper, so will save production costs,” says Coby at BA.

Similarly, Mercator is putting its research and development efforts into cost reduction opportunities. “Open source applications may play a role in this as well as virtualisation

in terms of applications service delivery,” says Naef, who is looking to move away from a patchwork of best of breed systems to a more integrated applications landscape based on service-oriented architecture.

“Making use of new technologies such as mobility, virtualisation, efficient telecommunication, cloud and grid computing to achieve location independence and centralise hardware into state-of-the-art data centres rather than having all of the hardware distributed across the globe,” he says.

But overall, it is clear that when the market upturn finally comes, lean, focused IT will be a key component of recovery for airlines. Investment in IT is vital for airlines wishing to take advantage of the upturn according to Violante at SITA.

“We should not forget that after seven successive years of losses, the industry finally returned to profitability in 2007 with gains of over \$5 billion and the smart use of technology played a fundamental part of the recovery,” he says. “IT will be at the heart of the next recovery when it comes.” ■

