



Navigating an airline through the COVID-19 crisis: turbocharging the CXO checklist

COVID-19 will have a drastic impact on the aviation industry for some time to come. Basic measures for crisis response and cash conservation will not suffice; it is time to act aggressively.

April 9, 2020

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The airline industry has come to a near standstill. From nearly 1.2 million international flights in December 2019, there are fewer than 200,000 scheduled to operate in April 2020¹. Almost all major countries have pulled up the drawbridge and restricted large extents of the world's population from crossing their shores.

Domestic aviation markets have not been immune to this, either. The cascading effect of low international traffic has hit the fortunes of hub carriers across the globe. In addition, strong social distancing protocols (as is the case across most parts of Europe) or complete lockdowns (in large travel markets such as India and South Africa) have resulted in a mere trickle of domestic operations.

Airlines are squeezed on multiple dimensions

The situation is clearly bleak for airlines. The top line is impacted due to little or no revenues and passengers clamoring for refunds. The bottom line is hurt due to the high fixed or recurring costs that most airlines typically carry, including expensive payments due for aircraft. And, compounding the situation further, is the high uncertainty about how long all of this will last.

A clear blueprint for action is essential for a structured response and recovery

There are several actions airline CXOs – the C-suite comprising of the CEO, CFO, CCO and other senior executives – must take; indeed, many have done well on this front in recent weeks.

If not already in place, the first step should be to establish a dedicated, multi-disciplinary senior **Crisis Committee** to tackle the issue on a war footing. This team should be empowered to launch and direct actions on short notice with limited bureaucracy. Regular tracking and situation monitoring also fall within the responsibility of this team, as should future scenario planning.

This Crisis Committee would then have to direct the crisis management across seven dimensions.

¹ Source: ch-aviation, CAPA



Survive the crisis

1. Aggressively manage liquidity
2. Protect or drive revenues
3. Double down on cost management

Support stakeholders

4. Communicate extensively
5. Protect employees and customers
6. Work with the industry and community

Thrive on recovery

7. Plan and invest for the future

The C-suite has at its disposal a wide range of measures in each dimension. The most immediate measures are typically geared at surviving a short disruption, and are usually applicable at all airlines.

Figure 1: The CXO checklist: basic measures (illustrative)

A CXO checklist to navigate an airline through the COVID-19 crisis		BASIC MEASURES	Lufthansa Consulting
Survive the crisis			
	Aggressively manage liquidity	<ul style="list-style-type: none"> ▪ Stress test cash positions across multiple operating scenarios and network sizes ▪ Initiate steps to manage liquidity: projects, supplier contracts, management salary, dividend payouts and so on 	
	Protect or drive revenues	<ul style="list-style-type: none"> ▪ Protect any available revenue streams and explore new ones feasible within the crisis (e.g. cargo, repatriation) ▪ Adopt flexible and agile revenue management practices and policies 	
	Double down on cost management	<ul style="list-style-type: none"> ▪ Switch to a cash-out focused executive governance model ▪ Execute immediate 'stop the bleeding' cost reduction, and plan for 'extreme' options 	
Support stakeholders			
	Communicate	<ul style="list-style-type: none"> ▪ Over-invest to address concerns, fears and uncertainty among all stakeholders, esp. employees and customers ▪ Engage frequently, transparently, with empathy and through senior leadership 	
	Protect employees and customers	<ul style="list-style-type: none"> ▪ Safeguard health and safety in line with medical advice ▪ Explore range of options to preserve the workforce such as voluntary unpaid leave 	
	Work with the industry and community	<ul style="list-style-type: none"> ▪ Be transparent with airport, service and operations partners, adopting a mutually beneficial approach ▪ Support industry-wide initiatives; explore opportunities for collaboration 	
Thrive on recovery			
	Plan and invest for the future	<ul style="list-style-type: none"> ▪ Develop viewpoint on future recovery scenarios and landscape for competition and customer behavior ▪ Identify and accelerate winning levers, e.g. retooling of cost base and increased digitization 	



The time for basic measures is past: initiate a full range of actions

The first two quarters of this calendar year are clearly wipeouts for the airline industry, financially. IATA's projections anticipate the crisis extending well into Q3 and beyond as well, with global revenue losses for the year of over \$250 billion (as of 24 March 2020). Several economists expect a global recession as well that will further delay a full recovery.

Aircraft will remain on the ground for the foreseeable future. Cash will dry up, and airline failures will follow without support from governments, investors and partners in the aviation supply chain.

As cash conservation and survival became key over the month of March, airlines have taken the most obvious steps: cut the network drastically, reduce discretionary cash-out, minimize the workforce within reason and try to ride out the storm.

What is important for airline executives to realize and accept, however, is that the nature of the crisis has moved further, to a new phase requiring new actions. The crisis will almost certainly continue well beyond April, with subdued demand for months to come at the very least and continued travel restrictions in many regions. The road to recovery is likely to be long and slow.

In this environment, it is clear that aggressive measures are required on all dimensions of the checklist.

These actions are significantly more disruptive to the status quo and could, in some cases, result in a fundamental reshaping of the airline and its operations. They therefore require resolve, a strategic view of the path ahead, quick decision making and an ability to take all affected stakeholders along with a common purpose of ensuring the long-term viability of the airline. Such measures are also far more customized to each airline based on their scale, asset base, financial position and other factors.

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Figure 2: The CXO checklist: Aggressive measures (illustrative)

A CXO checklist to navigate an airline through the COVID-19 crisis AGGRESSIVE MEASURES 	
Survive the crisis	
	Aggressively manage liquidity <ul style="list-style-type: none"> ▪ Execute aircraft Sale and Lease Back or outright sale of assets ▪ Engage on reasonable Government terms for public funding ▪ Shore up the balance sheet, with less consideration for the impact on P&L
	Protect or drive revenues <ul style="list-style-type: none"> ▪ Expand rebooking and advance booking windows (e.g. for Summer 2021) ▪ Offer incentives for bookings, including leveraging the loyalty program or equivalent programs
	Double down on cost management <ul style="list-style-type: none"> ▪ Execute extreme options, including closing parts of the organization or eliminating subsidiaries (or AOCs)
Support stakeholders	
	Communicate <ul style="list-style-type: none"> ▪ Shift communication from short term firefighting and workforce management to openly communicating 'worst case' scenarios as well as the actions being taken to plan recovery
	Protect employees and customers <ul style="list-style-type: none"> ▪ Execute strategic layoffs; support retraining/re-employment initiatives ▪ Customize engagement with the most loyal and/or valuable customers
	Work with the industry and community <ul style="list-style-type: none"> ▪ Ramp up institutional representation to governments and supranational institutions such as regional banks
Thrive on recovery	
	Plan and invest for the future <ul style="list-style-type: none"> ▪ Stress test recovery plans for worst case scenarios; prepare for possible permanent shrinking of the airline ▪ Rethink the underlying business model for the airline

Through all of this, continuing to plan for the future is critical. As the world slowly makes its way back to something approaching normality over the next few years, the winning firms will not be those who just 'rode out the crisis' but those who used it as an opportunity to genuinely reassess their 'business as usual' and came out leaner, smarter and hungrier to compete in a changed marketplace.

This crisis is like no other the industry has seen before, in terms of severity, length and global impact. Short term crisis management measures are inadequate. Being prepared – and executing – for the worst case is a prudent attitude to adopt.

We at Lufthansa Consulting believe that aviation is not just an industry. It's a way of living, a feeling, a community. And, in crises, communities stick together.

Get in touch for a complimentary 60-minute consultation call with our experts to test your plans, brainstorm options and chart a path to the future: ALcrisis-solutions@LHConsulting.com

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