

How airlines can prepare for ‘Day 1’ after Covid-19: insights by Lufthansa Consulting from the webinar ‘Partnering for a Better Tomorrow’ by RateGain

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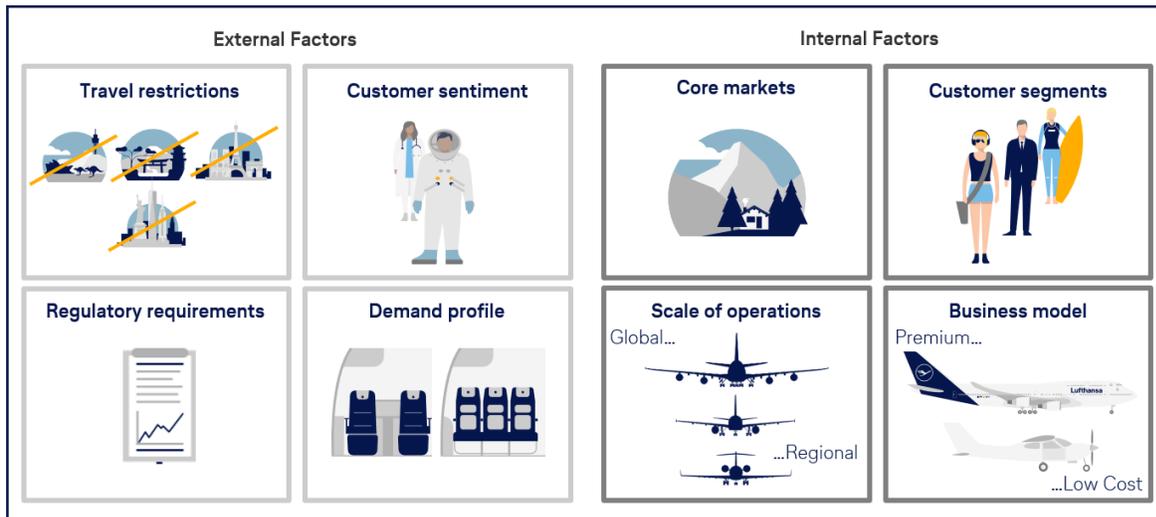
By Arvind Chandrasekhar, Nadine Meichsner

The webinar ‘Partnering for a Better Tomorrow: Impact of COVID-19 and the way forward’, hosted by RateGain on April 21, 2020, brought together industry experts to discuss the impact of the pandemic and the path forward for airlines, particularly from a commercial perspective. The session covered the latest developments in China and lessons learned, the approach to network and route planning, the impact on regional carriers in Europe and how to prepare for ‘Day 1’ of service resumption. These are the key insights from Lufthansa Consulting’s experts on the panel, addressing the topic of ‘Day 1’

What does ‘Day 1’ mean for airlines? No ‘one size fits all’

It is important to acknowledge that ‘Day 1’ could mean different things to different airlines. Even within a particular country or aviation market, ‘Day 1’ would have varying implications for each airline. This is driven by a wide range of factors, only some of which are within the control of an airline.

Figure 1: Range of factors affecting the definition of ‘Day 1’ for an airline (not exhaustive)



External or environmental factors include travel restrictions (where the airline can fly), customer sentiment (especially about health and safety), regulations (mandated policies) and the demand profile (organic demand post- crisis). With little ability to influence these, airlines will be in a reactive mode.

However, there are several factors **intrinsic to an airline** that play a role as well. These include the airline’s core markets, the customer segments (particularly as one considers the different pace of recovery for Business, Leisure and VFR segments), the geographic scale and hub/point-to-point nature of operations and the business model along the spectrum of Premium to Ultra-LCC.

In any case, irrespective of the airline and its specific circumstances, it is vital for the airline to prepare NOW for its individual vision of Day 1.

What drives planning for ‘Day 1’? Consider ‘General truths’ for recovery, while preparing on multiple dimensions

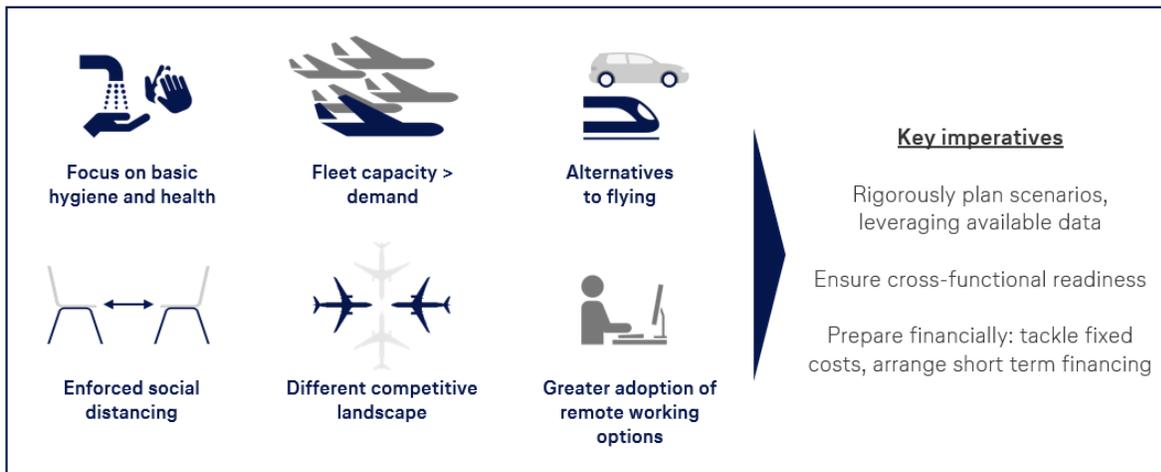
Through all the uncertainty, there are certain working assumptions planning teams can consider when planning for ‘Day 1’. Some of these may only be short term impacts, while others may be structural mid to long-term ones.

Health and hygiene concerns will be foremost, with high expectations that airlines and airports will address passenger concerns. This will likely translate to new **social distancing norms**, resulting in changes onboard (seats, catering, onboard products) and on the ground (interfaces, spacing). Apart from the cost and service implications, airline should account for operational impacts including but not limited to higher processing times and turnaround times.

As service resumes, the available **fleet capacity** in a market will certainly be well above demand, leading to airlines needing to carefully identify the optimal fleets and aircraft to deploy. Changes in the **competitive landscape** should also be considered; the crisis has already sent several airlines to bankruptcy or administration, and more will follow. This would raise opportunities for M&A and consolidation or changes in asset ownership, requiring a reset of not only the commercial approach but also the operating model and organization as a whole.

Finally, **customer behaviors** are likely to change, at least in the short term, including a consideration for alternative modes of transport and people continuing to work from home.

Figure 2: ‘General truths’ as working assumptions (not exhaustive)



All of this feeds into three key imperatives for an airline, in the context of ‘Day 1’

1. Rigorously plan scenarios – multiple paths, revisited regularly, and highly data driven. Think beyond the usual data points, incorporating real time data such as Covid-19 infection rates and customer internet search activity
2. Ensure cross functional coordination, driven by the central future planning team and working in a nimble manner to react to changes in the scenarios
3. Prepare for the financial storm ahead, aggressively tackling the fixed cost base from a zero-base perspective and expanding digitization, in addition to securing short term financing. As flying resumes, volumes will likely be depressed and there will be immense pressure on cash

What does this mean for the commercial functions? Planning, nimbleness and innovation

The success of the commercial actions depends strongly on the alignment with network planning and fleet. These actions have to be steered under a streamlined commercial strategy for all key functions.

Figure 3: Commercial strategy in alignment with network planning



The significant change from pre-crisis times is that several variables changed in the equation to forecast and steer future demand.

Depending on the organization – airlines may manage it either jointly or separately – it is essential that revenue management and pricing work closely together on an aligned approach. For **revenue steering**, it is vital to manage the short-term and long-term differently. Adjusting the set-up carefully for the flights further out is essential to protect revenue. For flights closer in, an agile approach determines the success of revenue steering. Market-specific modifications of the revenue management strategy are essential to react to the fast-changing environment. Testing the **price-elasticity** per market and understanding market-specific changes based on the recovery stage is crucial. This has to be monitored carefully and adaptations should follow quickly and decisively.

For the **sales** team, streamlined communication of product and network changes affecting B2B and B2C and adjustments of sale contracts (flexible booking conditions, incentives to rebook) is key to retaining customers. Furthermore, optimizing the sales organization through market and channel prioritization offers cost opportunities. Finally, airlines should seek to reduce **distribution** costs through negotiations with providers and continue the shift towards direct and NDC channels.

Accelerating digital **products** and features across the customer journey will allow an airline to widen its offer while improving scalability and minimizing contact risk. Expanded **ancillaries** are a further opportunity to create more customer choice and raise revenues (insurance, B2B ancillaries, ‘free neighboring seat’). Appropriate fare and product bundles, customized to certain markets or customers, could also encourage purchase in the lead up to Day 1.

Customer Experience has to ensure that the customer trust returns quickly after the crisis, by addressing safety and health concerns. This would include visible measures such as health checks, wearing of masks and deep cleaning.

Finally, **Marketing and Communication** must pay attention to customer needs by showcasing health measures in order to generate confidence in booking future trips.



The outlook is uncertain, but manageable with the right approach

Looking ahead, airlines have to be decisive, efficient and react to a fast-changing environment with an aligned strategy to gain a competitive advantage. Times of rapid change are also times of opportunity.

To learn more and discuss how your organization could benefit from Lufthansa Consulting's expertise on Crisis Recovery, please get in touch at ALcrisis-solutions@LHConsulting.com. Together, we can make it through to better days.

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Further insights from Lufthansa Consulting's aviation experts are available at <https://www.lhconsulting.com/insights/news/>
