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TAKING FLIGHT

As airlines enter a new era of post-pandemic operations, is it time to address the procurement hurdles too difficult to change in years past?

In response to current and expected industry growth, airlines must adapt to the changes the COVID shutdown has brought to the airline sector.

As airlines navigate the 2022 busy summer season, they have faced many challenges in getting operations up and running, as the pandemic prompted the disruptive nature of shutting down operations, parking aircrafts, limiting the supply base, and even careers. Further, the pause has changed how airlines will operate for the foreseeable future due to the transitioning from predicted sustained declines in passenger traffic and unexpected areas of growth as travel restrictions lift at varying rates. Some Airlines are returning to pre-pandemic levels of expenditures, relying heavily on suppliers and vendors to support operational aspects of the business, with 40% spent on fuel, 40% on addressable direct services, and 20% on in-direct spending. Coupled with increasing retirement rates, the sourcing and procurement issues are making it difficult for airlines to support growth while responding to the rapid influx of travelers. These challenges highlight the frustrations of airline talent, vendors, and passengers.

In 2020, airlines saw major losses due to low demand and rising case levels. As the International Air Transport Association (IATA) predicted, commercial air traffic recovery remained slow through Q4:

- IATA predicted full-year 2020 traffic to be down 66% compared to 2019. The previous estimate was for a 63% decline. Source: https://www.iata.org/en/pressroom/pr/2020-09-29-02/
- August passenger demand remained low: revenue passenger kilometers (RPKs) were projected to be down 75.3% compared to August 2019, a slight improvement compared to the 79.5% annual contraction in July.

Source: https://www.iata.org/en/iata-repository/publications/economic-reports/air-passenger-monthly-analysis---august-2020/

- Fight data shows that air passenger service recovery trend halted in mid-August 2021 due to new government restrictions implemented to control the resurgence of COVID-19. As a result, weaker forward bookings for air travel implied the recovery would continue to stagnate. Source: https://www.iata.org/en/pressroom/2022-releases/2022-01-25-02/

Fast forward to 2022, and the airlines are seeing strong recovery rates. As data from IATA shows, commercial air traffic is on a path to recovery and approaching pre-pandemic rates:

Total traffic in May 2022 (measured in revenue passenger kilometers or RPKs) was up 83.1% compared to May 2021, largely driven by the strong recovery in international traffic. Global traffic is now at 68.7% of pre-crisis levels.

Domestic traffic for May 2022 was up 0.2% compared to a year ago. Significant improvements in many markets were masked by a 73.2% year-on-year decline in the Chinese domestic market due to COVID-19 related restrictions. May 2022 domestic traffic was 76.7% of May 2019.

International traffic rose 325.8% versus May 2021. The easing of travel restrictions in most parts of Asia is accelerating the recovery of international travel. May 2022 international RPKs reached 64.1% of May 2019 levels.

Many major international route areas, including European, Middle East, and North American routes are already exceeding pre-COVID-19 levels.

North American carriers experienced a 203.4% traffic rise in May versus the 2021 period. Capacity rose 101.1%, and load factor climbed 27.1 percentage points to 80.3. With most restrictions removed for travelers from this region, tourism, and a high willingness to travel continue to foster the international recovery, with many routes now outperforming 2019 results.

Total RPKs in May 2022 reached 68.7% of May 2019 levels, which was the best performance against pre-COVID-19 travel so far this year.

Total passenger traffic market shares for 2021 by region of carriers in terms of RPK are: Asia-Pacific 27.6%, Europe 24.9%, North America 32.7%, Middle East 6.5%, Latin America 6.5%, and Africa 1.9%.

Each airline has indicated that they are "not building back to be the same airline they were before the pandemic." The immediate requirement to cut operating cost and associated services has triggered airline executives to re-think the entire passenger experience and services provided. Common metrics that are used to measure airline profitability are cost per available seat mile (CASM) and revenue per available seat mile (RASM), targeting higher revenue. As airlines have increased operations, CASM has been increasing due to higher oil prices, staffing challenges, and operational disruptions Alternatively, RASM has been decreasing in part due to business travel not having fully rebounded (especially international), in addition to recession fears and high oil prices driving fuel costs up significantly.

Internally, Airlines look to manage cash and weather cash-constrained environments through staff reductions, imposing strict limitations on external purchases, and building creative approaches to convert assets, such as loyalty points, to liquidity. Major airlines in the US, who were once running greater than $100M per day cash burn, have limited this spend to less than $40M during COVID times. While daily cash burn has certainly increased, airlines are finding that the bottom-line cost to run the operation has increased, even as top-line financial performance has returned to 2019-levels. The International Air Transport Association (IATA) has not forecasted a return to pre-COVID levels until 2024. As demand for air travel began to decline due to COVID restrictions, airlines have been forced to rethink cost structures, looking for opportunities to keep and sustain top-level talent, while optimizing operational costs to allow flexible scaling when needed. Coupled with a multi-year return to pre-COVID yields sourced from higher profit business travelers, airlines will need to focus on creative management under new market pressures, optimizing spend, and flexibility to manage against an ever-changing world of travel.
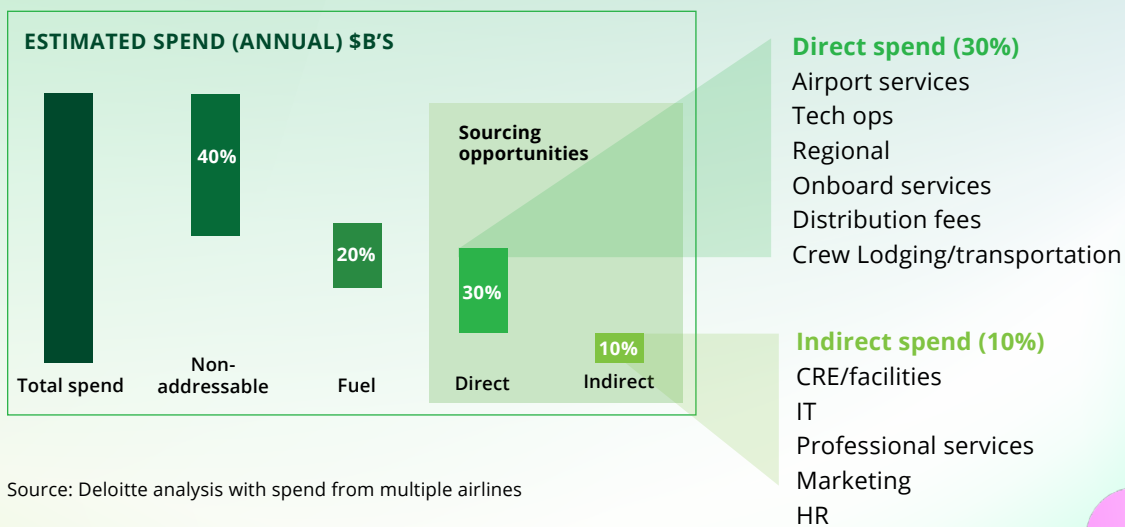
Reducing CASM is the primary metric on which airlines are focusing their effort, according to several earnings call transcripts. The primary motive is to break even and pay down debts amassed to keep the airlines operational. Most strategies used to reduce CASM pertain to adjusting the flying network to match demand, retiring old aircrafts to simplify management and maintenance, and operate more fuel-efficient fleets while rightsizing workforce through voluntary and involuntary leave packages. While these cost reduction strategies have helped airlines reduce cash burn, more levers need to be pulled to pay down debt and stabilize the cost of doing business.

Purchasing costs – how are they structured at an airline?

Important considerations for airlines align directly with the management of procured goods and services. Airlines rely heavily on a resilient, reliable supply base to support critical aspects of the airline. Many of these services are related to flight safety, and customer service facing activities. Purchasing of Goods and Services can make up as much as 40% of the overall operating costs of an airline. These costs primarily include fuel purchases, technical operations, onboard services, regional airport Services, and general corporate services. Many of these vendors are dedicated to the success of the airline industry and struggle with increased costs as they weather the storm of this pandemic.

Airline Purchasing managers must consider the short- and long-term impact on this dedicated base as they plan for the future and work to retain the best resources to focus on strategic challenges and reduce or eliminate 'non-value added' activities.

ESTIMATED SPEND (ANNUAL) $B'S

Sourcing opportunities

- Total spend
- Non-addressable — 40%
- Fuel — 20%
- Direct — 30%
- Indirect — 10%

Direct spend (30%)
Airport services
Tech ops
Regional
Onboard services
Distribution fees
Crew Lodging/transportation

Indirect spend (10%)
CRE/facilities
IT
Professional services
Marketing
HR

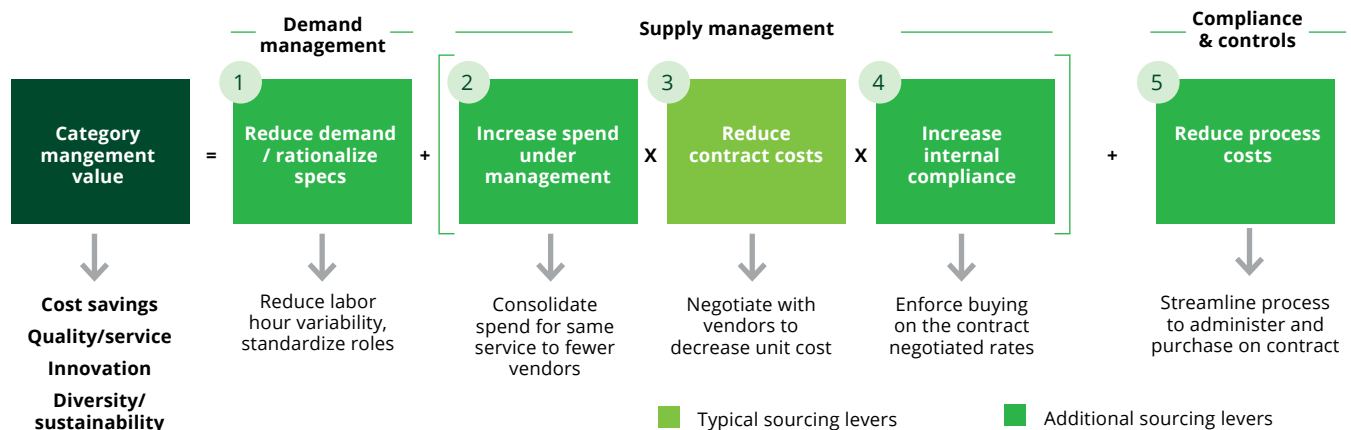Source: Deloitte analysis with spend from multiple airlines

Approximately 40% of an airline's total expenditures are non-addressable, which includes planes, payroll, and taxes. Fuel is traditionally source-able, as it is pre-purchased an d subject to market pricing. The addressable indirect services and product spend includes categories procured and purchased more centrally that are candidates for spend optimization. In contrast, direct categories tend to be procured and purchased in a decentralized manner—particularly Technical Operations, Airport Services, and Crew Lodging and Transportation. Deloitte has experience sourcing both direct and indirect categories for airlines, with deep category expertise that can increase the potential savings opportunities.

To achieve their cost reduction strategies, airlines have already optimized traditional cost reduction areas, such as fleet retirement, workforce reduction, and reduction in non-essential spending. However, as reported in earnings calls, major airlines have posted a pre-tax loss of up to $2B per quarter despite these measures, preventing them from continuing to pay down debt. Airlines must begin thinking holistically about cost optimization to accelerate savings.

Addressing airports services

A long-standing concern in the industry has been getting control of (the very decentralized) supplier services at airports across the airline network, but is now exacerbated by supplier talent issues, a restructured network of suppliers and restructured routes in place. Deloitte's cost savings formula is a way for airlines to identify and address additional savings opportunities that remain untapped. In the example below, we applied airport services as an illustrative example to show how the formula is used, but the formula applies to all direct and indirect spend. We chose to highlight airport services because, on average, this constitutes 20% of direct spend.

DELOITTE'S HOLISTIC COST SAVINGS FORMULA—APPLIED TO AIRPORT SERVICES

	Demand management		**Supply management**			**Compliance & controls**
	1	2	3	4		5
Category mangement value =	**Reduce demand / rationalize specs** +	**Increase spend under management** X	**Reduce contract costs** X	**Increase internal compliance**	+	**Reduce process costs**
↓	↓	↓	↓	↓		↓
Cost savings **Quality/service** **Innovation** **Diversity/ sustainability**	Reduce labor hour variability, standardize roles	Consolidate spend for same service to fewer vendors	Negotiate with vendors to decrease unit cost	Enforce buying on the contract negotiated rates		Streamline process to administer and purchase on contract

🟩 Typical sourcing levers   🟩 Additional sourcing levers

Historically, airlines have focused on reducing contract costs mainly through negotiations for lower unit prices, securing discounts, or establishing rebates. However, this is only one of several levers to achieve savings. Airlines have not radically changed their cost structure by bringing spend related to airport services under more scrutinous management, which arguably is the largest value driver to achieve repeatable savings. Additional levers leaders can consider the following:
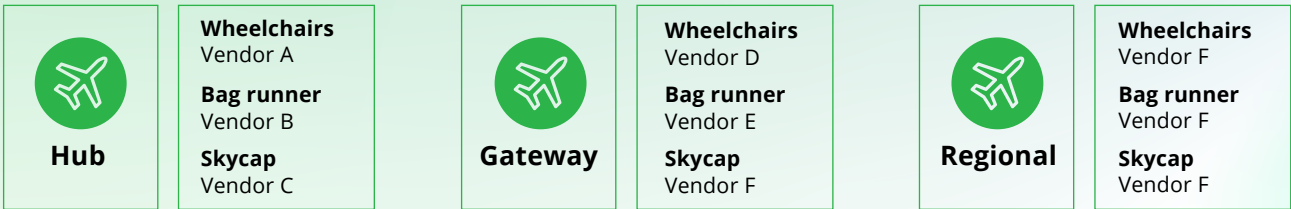
- **Optimize sourced labor variables:** Analyzing supplier labor with an eye on evaluating and standardizing positions and rate schedule

- **Increase spend under management:** Restructuring airport service contracts to align to common rate structures with national rate cards, including consolidation of vendors where applicable.

- **Reduce contract costs:** Improve visibility of contract parameters and tracking metrics against standardized rate cards to facilitate contract negotiations.

- **Increase internal compliance:** Automate verification that airports are purchasing from preferred vendors at regionally negotiated rates, improving budget visibility per service, and enforcing contractual obligations of vendors.

- **Reduce process cost:** Streamline processes and supporting data to contract, purchase, and pay for goods and services through automated accounting and coding of invoices to proper Chart of Accounts and Company codes.

Airlines have traditionally taken the same approach to managing spend associated with airport services. Airports manage the day-to-day relationship and the specific requisitioning of services. A central sourcing organization establishes the contracts for those services. However, the central sourcing organization and airport leadership tend to be disconnected. Central headquarters attempt to consolidate vendors, while local airports decide to contract with specific vendors primarily based on relationships and operational needs. As a result, the combination of vendors and services provided across locations quickly multiplies.

REPRESENTATIVE AIRPORT SERVICE CONTRACTING STRUCTURE

Hub

Wheelchairs
Vendor A

Bag runner
Vendor B

Skycap
Vendor C

Gateway

Wheelchairs
Vendor D

Bag runner
Vendor E

Skycap
Vendor F

Regional

Wheelchairs
Vendor F

Bag runner
Vendor F

Skycap
Vendor F

At hubs and gateways, national vendors tend to be more heavily utilized, but the full extent of these national vendors' services may not always be contracted. The combination of many vendors, locations, regional policies, and services makes it difficult for headquarters to obtain an accurate view of spend at the airports associated with specific vendor contracts. Due to COVID, many vendors have been financially distressed. Visibility into the supply base and their services is more important than ever for the airlines. A new approach for managing these vendors must include a consolidated vendor management and sourcing strategy for the services and mechanisms to track spend against contract for each service performed.

REPRESENTATIVE AIRPORT SERVICE CATEGORIES

- Bag runner
- Baggage service office (BSO)
- Cabin cleaning
- Checkpoint assistance
- Clubs/lounges
- Distressed passenger services
- Employee bussing services
- Employee parking
- Ground handling
- Janitorial
- Passenger assistance
- Passenger busing services
- Premium/elite services
- Security guards
- Skycap
- TSA divestiture assistance
- Unaccompanied minors
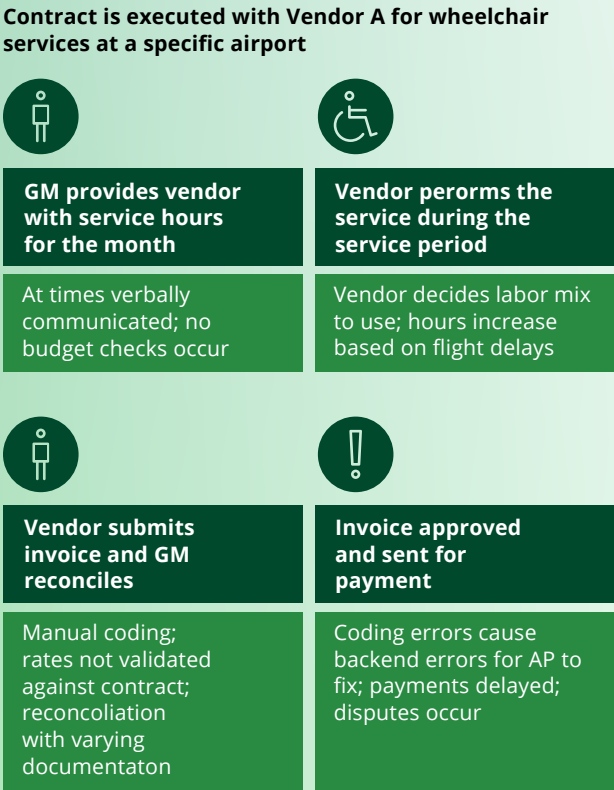- Uniforms-airport operations
- Wheelchair pushing

Further, airport leadership finds it difficult to validate that the services vendors invoicing have been performed. Airport leadership works with finance for budgets to support specific services for defined periods, but operational disruptions cause the hours worked to vary. Communication to the vendor for the change in service hours is frequently verbal and often undocumented. At the end of the month, airports manually reconcile overages with documentation the vendor provides. There are also no systematic checks that the bill rate on the invoice matches the contracts—these are manual at best, and at worst, not performed.

Let's use an example to illustrate how airport services are contracted and delivered. The graphic below details the process used for wheelchair pushers at a hub airport.

The airport leadership selects a specific vendor for wheelchair services and involves procurement to execute the agreement. Once the agreement is established, the General Manager forecasts the hours for the vendor to perform the services based on flight schedules at that airport and shares the hours with the vendor.

The vendor then designates staff to perform the services throughout the month. For wheelchairs, several labor positions exist at large airports—wheelchair pushers, wheelchair supervisors, and wheelchair managers. Each labor category has different bill rates, varying regionally or based on working periods, such as standard, overtime, or holiday hours. They work with the airline to dispatch team members to specific locations based on flight schedules.

Contract is executed with Vendor A for wheelchair services at a specific airport

GM provides vendor with service hours for the month	**Vendor perorms the service during the service period**
At times verbally communicated; no budget checks occur	Vendor decides labor mix to use; hours increase based on flight delays

Vendor submits invoice and GM reconciles	**Invoice approved and sent for payment**
Manual coding; rates not validated against contract; reconcoliation with varying documentaton	Coding errors cause backend errors for AP to fix; payments delayed; disputes occur

Many saving opportunities exist here. One place to start could be providing specifications for the resource mix that should be used at certain airports. Second, validating the hours worked by each resource type based on these standards and flight schedule history—if there were delays—offers an opportunity to rationalize specifications and increase compliance. Additional hours may be charged that aren't tied directly to flight delays—the vendors simply charge them because they've been able to sneak in more hours on the invoice. Third, verifying that the vendor's resources were present is a strategy to enforce compliance. Within the contracts, existing language states that the resources have a certain period after a plane arrives to perform the service. Many times, the wheelchair agents are late or simply do not show up. These scenarios can be automatically validated through an e-procurement and e-invoicing suite aligned to properly defined service catalogs.

General managers frequently lack detailed records covering variances in hours worked, primarily due to unpredictable operational events such as flight delays. Not having the detailed records at their disposal created overhead spend in validating the hours provided. Further, their teams must input billing information and other required information for the invoice, which can include over 50 invoice lines. The result is spending over budget, backend errors due to coding issues that cause manual updates, and delays in vendor payment.

Most notably for today's priorities of reducing CASM, this process lacks controls. Limited upfront budget validations and non-standard vendor documentation create data gaps that make it difficult and time-consuming to verify rates paid to vendors are agreed contract rates. This challenge also precipitates a heavy lift on airport staff to manually reconcile invoices and process payments to the vendors.

Our solution – purchasing from airport service providers

This paper contemplates whether this crisis will prompt airlines to streamline their purchasing and invoicing for airport services. We have observed that this is a prime time for airlines to undertake a procurement transformation to achieve these objectives. In addition to Deloitte's experience on similar initiatives, source-to-pay cloud technology suites, such as Coupa, have rapidly matured over the past several years and can support these program objectives across any airline globally. The main actions for leaders to consider are:

- Centralizing all contracts in an electronic contracts repository, so the information is easily accessible to required individuals
- Establishing service catalogs for airport general managers to provide suppliers with a monthly estimate of hours to be performed
- Displaying/validating budgets when purchasing through the service catalogs to increase spending awareness and potentially introduce controls
- Enabling touchless invoicing where AP or staff do not have to intervene for invoice coding, and truly work exception scenarios
- Collaborating with vendors to improve forecast of labor required and to streamline the invoice and payment process, so they are paid quicker

In today's operating environment, airlines must think of additional levers to spend more effectively. Procuring and purchasing airport services has several challenges: contracts have proliferated across vendors, creating complications in managing relationships; spend is largely unmanaged, allowing overspending without systematic checks and with no automatic verification of contracted rates or agreed upon hours; and processing invoices and payments is time intensive for multiple team members. These are the problems this solution aims to solve.

Issues

Lack of control over spend and hours authorized

Manual reconciliation of vendors invoice to knowledge of services performed

Ongoing invoice issues delay payment and lead to vendor disputes

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Opportunities

In creased control over spend out the door to the vendor

Alignment with finance on monthly budget/forecast by service type

Improved reporting through consistent naming convention of service catalogs

Provides opportunity to rationalize service pricing structure.

Such a transformation requires input and cooperation from key stakeholders. Let's meet a few of these stakeholders to see how such a transformation might impact them.

PERSONAS

Meet Sue, Tim, and Mike – Procurement, Finance, and AP respectively, Managers at headquarters

The three managers at headquarters have been asked to determine how to "fix" spend with third party vendors for services performed at the airport. The teams consistently face challenges with spend visibility, spend compliance with contracted rates, and volume of invoice exceptions to process.

Procurement and airport staff have not always been connected when executing airport service contracts. One of procurement's major projects has been to negotiate broader agreements with national providers to streamline the contracting process. Sue feels like her team is always rushed, finding out about contracts being renegotiated at the last second when airports need procurement involvement to finish the deal. Her team has been trying to create more strategic, broader agreements for years, but this hasn't been possible—they need time to put those agreements in place. All the contracts have made it very difficult for her team to verify that spend is tied to the negotiated prices in each contract.

Month-end is the busiest time for the finance team. Tim's least favorite time of the year is receiving budget usage reports from airports at the end of the month—they always exceed budgets. It forces his team to re-allocate the budget each month, forcing painful conversations with leadership—especially now when they're trying to conserve cash. In addition, his team must pull data from many sources, cleanse and reconcile incomplete data, and account for incorrect accounting coding to obtain a semi-accurate view.

Mike oversees a team of AP processors. His team corrects all backend invoice errors, and the sheer volume has forced him to increase his team size. Specifically, many invoices coming in from the airports have errors—incorrect billing information, missing required information, or coding errors. Most of his team spends much of the day contacting the requester to obtain this information so the invoice will correctly process and pay. It's time intensive and manual and interrupts the time his team needs to research the true "exception scenarios," such as overcharges, under or overpayments, and others.

Corporate's challenge—How do we implement better compliance, enable effective spend controls, and waste less time processing each invoice?

Service catalogs drive major benefit for Corporate. Catalogs configured in an e-procurement tool can force users to input all required information before sending the order to the vendor, preventing backend errors, and driving more data compliance. Each catalog is also tied to past economic crises but have not prompted airlines to make dramatic changes to managing their discretionary spend. When demand for commercial air travel drastically decreased after the attacks on September 11, 2001, we instead saw some industry consolidation and the increasing presence of low-cost and charter carriers. Legacy carriers also adapted their network strategy to increase passenger traffic through their hubs, helping to increase the percentage of occupied seats on each route.

Meet Alex, the General Manager at a hub airport

Alex is the General Manager at one of the airline's top hubs in the Midwest. In the summer, thunderstorms create weather delays and in the winter, snowstorms cause disruptions. Each month, she works with finance to finalize budgets for her 20 airport services that span across multiple vendors. Forecasting spend and providing the budget for the upcoming month can be long and painful, as finance sometimes has outdated data. They also reinforce the importance of coding invoices correctly to prevent backend errors and promote correct account allocation. She has heard the same comment every month and isn't sure what else can be done.

This month is especially challenging, as last month the hub experienced thunderstorms nearly every day for a week. Alex has different vendors for bag runners, baggage service offices, wheelchairs, unaccompanied minors, passenger assistance, and cabin cleaning. There were so many on the fly changes to hour allocations that she can't remember half of them—she was just trying to get passengers to their destinations. Now, as the vendors mention the new hour allocations, she doesn't have any proof to negate the vendors' position. They've been flexible partners in the past, but her team continues to tell her about irregularities with their invoices. However, she doesn't even have the most current contracts to see if there are rate discrepancies and dealing with procurement is always a pain.

While this hub has one of the largest volume of passengers, increasing year on year, the cost to operate the hub has continued to rise. Headquarters asked her to reduce operating cost by 20% over the next year, and she can't see a way to do this without reducing headcount and in turn operating with reduced staff and more flights.

How can we implement a solution that provides real-time budget visibility and offers a source of truth for rates, orders, and changes?

Implementing airport service catalogs through an e-procurement solution can help resolve Alex's pain points. Budgets integrated from the budgeting system immediately show budget usage against a cost center and GL, which can instantly be viewed and reported. No more pesky calls from finance. Regarding minimizing errors, service catalogs already contain all required information to successfully process invoices and payments. If there are changes to estimated hours during the month, Alex's team will now input those directly in the system as "changes" with notes so there is historical record when reconciling the invoice at the end of the month.

Meet John, a General Manager at a Regional Airport

John is a General Manager at a small, regional airport. Unlike the major hubs or gateways, he does not have an admin team to process invoices received from vendors. He has vendors that perform several services—some are national vendors, and some are small, and even have tried to pay their monthly invoice with personal checks in person.

Some months managing invoices requires less time, but during the months where there are major delays, John has spent days trying to reconcile invoices. The vendors still don't provide proper documentation, so he must continually solicit supporting documents from them. In addition, he's been using the same billing information since before the merger, but finance has informed him many times it's incorrect. Correcting these things takes time—time he doesn't have. He doesn't have a staff to support. He must run the operation so it doesn't run him.

How can John get all the information he needs from vendors and submit all documentation without errors?

Service catalogs automatically have all required information defaulted, correctly, for end users. John submits requisitions for the services before the start of each service period, which are sent as orders to vendors with all required information defaulted. As a result, John's incorrect billing strings for services will no longer be an issue since the system stores the correct billing information. After the system transmits orders to the vendor for a set number of hours for a given service, the vendor invoices against the purchase order. This automatically transfers the required information from the order to the invoice. Settings can also force vendors to provide documentation (attachments) when submitting invoice, helping John receive all the information he needs to review the invoice without hunting for supplemental information.

Meet Robin, a Regional Manager for a major airport services vendor

Robin works for a company that provides several services for the airline at five different airports. She is responsible for the company's account with the airline, which includes contract negotiations and invoice submission. At the end of each month, she meets with each airport's General Manager to review the hours billed, which normally results in a long conversation about why so many extra hours are billed. It's a painful process.

Ahead of that meeting, she meets with each team leader responsible for each service to understand overbillings, which is mainly caused by delays. However, the leaders don't always have the details regarding which flight delays require additional billing. The service managers request additional hours on the fly. While she's made it her company's policy to require documentation to overbill projected hours, the airline does not always supply this and the information level of detail can also vary.

Each contract is negotiated and managed individually, causing a higher amount of administrative work from procurement and legal. In addition, every contract has unique labor position definitions, creating challenges from an employee management standpoint. Human resources has expressed how the inconsistent categories drive extra workload to align the various job categories to their standard levels for recruiting, skills, and compliance programs.

These challenges result in payment delays because of extensive time required to reconcile the monthly invoices. Her Vice President continues to ask for ways to decrease the amount of invoice inconsistencies reconciled each month, so their company is paid without delays.

Robin's challenge—how to reduce the cost of doing business and the days outstanding for accounts receivable?

If airlines transition airport services to purchase from electronic catalogs and institute business processes so that changes in hourly forecasts are documented in the system, Robin's month-end reconciliation process becomes streamlined. Once the order is sent, her team will have the information that the airline is projecting for the month and can assemble and upload the documentation throughout the month. In addition, she should engage in conversations with the airline to simplify their contractual agreements. Specific steps include agreeing upon a standard set of terms across all service locations and standardizing labor categories with localized rates. The source to pay suite offers ad-hoc reporting, with spend against her various contracts, to see spend more rapidly.

How to get started

Transitioning to PO-backed airport services requires an equal focus on people, process, and technology. This change is an integrated solution with input required from operations, procurement, finance, and accounts payable to implement a design that works for the airline.

Step 1: Deconstructing the contracts

Extracting all rate information from the various contracts is the first step to creating service catalogs. This process requires a careful review of the rate structure for each service type performed by location. Agreements for some services tend to be simpler (i.e., janitorial), while others are extremely complex (i.e., cabin cleaning).
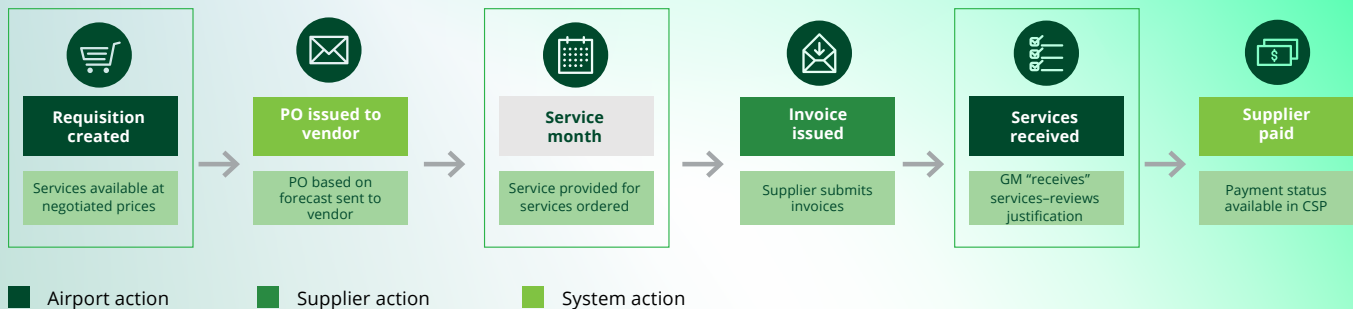
Step 2: Understand service delivery and billing

When deconstructing the contracts and creating the service catalogs, verifying that the correct variable rates (hourly, weekly, monthly) are included and that each service line represents a unique variable cost is key. In addition, some services may have variable hours for the same labor type (normal, holiday, weekend). In these cases, multiple service lines are needed to support the unique delivery of the service under each scenario so that the rate ordered and billed matches the contracted rate.

Step 3: Know the vendors and services

Once catalogs are created, it's time to begin operationalizing the solution. To do this, vendors must be aware of changing expectations when they invoice. Understanding of the types of services each vendor provides, where each vendor provides a unique service, and the complexity of delivering each service will help inform vendor communication and engagement. Operations staff are critical to helping enable this change, and we recommend engaging early and often with them—verifying the rate structures, understanding what exception scenarios they face, and assisting with vendor outreach.

FUTURE STATE (PO BACKED)

Requisition created	PO issued to vendor	Service month	Invoice issued	Services received	Supplier paid
Services available at negotiated prices	PO based on forecast sent to vendor	Service provided for services ordered	Supplier submits invoices	GM "receives" services–reviews justification	Payment status available in CSP

Airport action   Supplier action   System action

Step 4: Enable the solution at scale

We recommend configuring this solution in a leading e-procurement and e-invoicing system for optimizing user experience and driving efficiency. Deloitte has experience working with industry-leading solutions including Coupa and SAP Ariba and has developed capabilities to operate these services for clients—to include the upkeep and maintenance of the system for contracts, catalogs, and system enhancements. These solutions offer an e-commerce type experience for the end-user for them to browse and select services to purchase. Catalogs are configurable and can be self-maintained or maintained by the vendor. Vendors also have access to register for a supplier portal to receive orders, submit invoices, and manage supplier information. In addition, these solutions can integrate with other systems to centralize spend (orders and invoices) and connect with third party data sources to support specific use cases. Deloitte offers a standard set of services with its Application Managed Service (AMS) model, and our implementation teams can tailor an instance that meets more tailored specifications.

The benefits

Shifting airport services to PO-backed "managed" spend is a lever that airlines can pull today to better control spend with the potential of reducing CASM—and it's a lever that has not been pulled to date. We have found that this transition leads to process efficiencies and labor hour savings, establishes the tools to achieve cost savings with vendors, and improves spend data to enable more effective decision-making.

First, removing non-value add processes from the contracting and purchasing process is key. Airlines have reported in earnings calls that up to 30% of their management positions were eliminated, and it appears that in the current talent environment has made it difficult to re-hire talent into those roles. This translates to leaner teams having to answer more strategic questions about the airline's future operations and financial outlook. The solution we propose reduces the amount of labor required to contract and procure airport services.

Second, airlines will need to focus on retaining their top talent. The airline industry's outlook remains uncertain. At most airlines, officers' and management's total compensation is tied to the airline's financial performance, which is expected to remain lower for several years. Airlines will need to begin thinking about talent retention. A way to achieve this is to have top talent focus on strategic issues that they will find professionally beneficial to their careers. Deloitte's AMS team can augment airlines' teams to perform more tactical, administrative work. And since the AMS resources are shared, this enables Deloitte to become a partner readily available to scale up and scale down as airlines recover or wish to outsource administrative functions further.

Third, undertaking an effort to consolidate airport service vendors and transform contractual agreements helps position the airlines to more quickly restart and/or grow operations across their network. The vendor base for airport services for all airlines remains relatively fragmented, and given financial hardships, many of the smaller vendors may not remain solvent. Further, a proliferated vendor base prevents spend from being brought under management. Consolidating spend to select vendors provides airlines with more purchasing power to negotiate lower unit costs. Also, during this period of lower spend, more revenue to fewer vendors increases the potential that these vendors remain financially solvent until demand fully returns — strengthening the overall airport service ecosystem, without which airlines can't operate.

Deloitte's solution

Past work across several of the major airlines as well as deep sourcing and procurement expertise equip Deloitte to enable this transformation. Through our work in the aviation sector, we have developed a cadre of airline and aviation category expertise including typical sourcing strategies that produce results. Our deep understanding of the complex contracts that airlines structure for airport services and other direct purchases helps deconstruct the contracts to drive savings and automate backend work. We have implemented a suite of source to pay software solutions at two of the four major US-based carriers, and we have a preconfigured design and solution that we can quickly deploy across airlines based on past work. Additionally, Deloitte developed a managed service capability at our delivery centers in the United States and abroad, where we source categories on behalf of our clients and outsource the administration of e-sourcing, e-contracting, e-procurement, and e-invoicing solutions.

Taking flight – tracking the airline industry's road to recovery

The airline sector is in a critical moment of change, with the pandemic bringing losses and a new era of COVID bringing rapid growth and travel influx. As airlines emerge from the peak of the pandemic, they struggle to align and improve processes and practices to address this growth. As a part of our Taking Flight series, we will be addressing specific issues airlines currently face – and outlining solutions to help them navigate rapid industry disruption. What will the Future of Work look like for airlines post-COVID? Future perspectives in this series aim to address Lead Time Variability and Volatility, Supply Optimization, Process Automation, Operating Model, Spend Optimization, Transportation Spend and more.

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Rob has been a Partner at Deloitte Consulting LLP for the past 20 years and has worked predominantly on operations strategy engagements in the US and overseas. He is a trusted advisor for clients requiring improvement, lower cost and better visibility across the (end - end) supply chain. Although Rob has worked across many industries, his primary focus has been Airlines, Aerospace & Defense and highly engineered products. His supply chain focus has included airline technical operations, procurement, planning, logistics and distribution.

For many of his clients, Rob leads various technology engagements to maintain and manage new operational changes. Earlier in his career, he was a consultant at both AT Kearney and JSA International (based in Cambridge MA.) for a combined 5 years. He is the West Coast Supply Chain leader and leads Deloitte's Airline practice and lives in Orange County, California.

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Clay is a Manager in Deloitte's Supply Chain practice and has spent the past 8 years utilizing supply chain and technology experience to solve clients' end-to-end operational challenges. Clay has cross-industry experience but has focused most of his time in the airline, aerospace, defense, and manufacturing sectors.

He has led global teams (US, Mexico, Canada, UK, and India) across several supply chain transformations, including sourcing, procurement, supplier risk, manufacturing, throughput, quality, factory flow, and other transformations. Across his projects, he has worked extensively with specialists in data, cloud, and architecture to bring scalable solutions to his client's operational challenges. Clay is a leader in both Deloitte's Cloud Procurement and Smart Factory practices, and lives in Tampa, FL.

To learn more, visit: Deloitte and Coupa Alliance | Deloitte US

Coming soon…

Be on the look-out for our next series **on game changing technology advances in the airline industry.**