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KLM's IT makeover

By Gregory Millman

Compared with other major airlines, KLM was late to embrace the potential of the Internet. Today, it's an industry leader in Web applications. How did it come so far so fast?

Founded in 1919, KLM Royal Dutch Airlines has long been an industry pioneer, with a history of firsts in both routes and aircraft. Then, in 1998, KLM broke new ground again, with what the airline trade press called a "precedent-setting relationship with Alitalia."

But the joint venture lasted only about 18 months. With the myriad distractions associated with trying to make the arrangement work, KLM management was not able to jump on what was clearly one of the most important developments of the late 1990s: e-commerce.

The market for online ticket sales was growing quickly, and competitors were seizing the opportunity. But KLM had a labyrinth of legacy IT systems, and the prospect of creating yet another system, this one to enable Internet sales, was daunting in the extreme.

"We were unable to do it on our own," concedes Boet Kreiken, vice president for information and communication technology development at KLM. (In 2004, the Dutch carrier merged with Air France, although both companies still maintain their own brands and customer-facing operations.) "Our president at the time intervened and said, 'We cannot waste more time using our own capabilities.'"

Initially, KLM engaged Accenture to help redefine its IT architecture and to open up the legacy systems, notes Jan-Coen Smit, Accenture executive partner and KLM account lead. But it soon became apparent that much more would be necessary.

Industry conditions—including airline overcapacity; aggressive new, low-cost competitors such as easyJet and Ryanair; and newly intense

KLM

Headquarters: Amsterdam Schiphol Airport, the Netherlands

CEO: P.F. Hartman

Revenues 2007/08: €8.028 billion

Employees: 31,005

Flights per year: 224,000

Source: KLM

price pressure from online-savvy, comparison-shopping customers—magnified the challenge. Then, suddenly, came 9/11—and with it, grounded aircraft, fear of flying, new regulations and rising costs for security. It became even more important to lower airline distribution costs.

Co-sourcing development

At the time, outsourcing was a well-established fast track to upgrading IT while cutting associated costs. KLM, however, had strategic reasons to find another way. Recognizing that technology had the potential to reshape the airline industry, the carrier wanted to bring IT know-how into its organization rather than subcontract it to someone else.

KLM conducted a search for a partner willing to work with it on a new model that would emphasize teamwork to a degree not accommodated by conventional outsourcing. The search team selected Accenture.

IT research company Gartner described the subsequent arrangement as “refreshing” and wrote, “KLM is, indeed, seeking the most cost-effective and timely means to ramp up its web-based applications. But from all signs, it has also accommodated the cost focus with a longer-term view of its business goals.”

The model, called co-sourcing, differed from conventional outsourcing in several ways. It did not transfer any KLM employees to an outsourcing services partner, nor did it involve layoffs. Instead, KLM and Accenture formed an autonomous team called UnIT—for United in Information Technology—which would cooperate in the design and deployment of Web applications.

Easily said—but the cultures of the two companies were completely different. KLM had, literally, a royal heritage, as its name implied. Stability, tradition and enduring personal

connections bound its people in a relationship that was probably stronger and deeper than anything implied by the word *employee*. Accenture’s culture, while mindful of the critical contribution of its people, also had an external, collaborative orientation, which emphasized innovation and performance in the companies it partnered with.

Leveraging the cultural differences would be essential to building UnIT’s success. Cultural exploration sessions, workshops and other measures, including fielding a team for the Rotterdam marathon, eventually made a unit of UnIT.

Getting the two cultures to work together seamlessly didn’t happen overnight. Recalls Amsterdam-based Accenture IT senior executive Marc Schuurings: “It took a year before either the CIO of KLM or the client director for Accenture could step onto the development floor and not be able to recognize instantly who were KLM and who were Accenture people.”

Co-sourcing enabled the partners to build a level of trust that allowed a radical overhaul of productivity metrics. The original metrics did not take into account vast differences between various types of projects, making it a challenge to measure and compare productivity.

Both sides found not only that they were spending excessive time trying to measure productivity but also that the metrics didn’t really capture the business impact of the projects. In some cases, projects that scored low on the metrics had high business value, and projects that scored high on the metrics had less business value.

“In the end, we took those metrics out completely, because we realized they were wrong to begin with,” Schuurings says.

Overcoming resistance

To make new e-commerce functionality available to the businesses as quickly as possible, UnIT adopted a phased release approach. Approximately every three months, a new release brought new capabilities to the market.

However, merely making capabilities available did not guarantee that the business would use them. “Any big organization has a certain resistance to change,” notes KLM’s Kreiken. So the carrier needed to make its objectives clear. “We developed a dedicated e-commerce organization and made a commitment to focus on e-commerce. The board set a strategic target of 40 percent of revenues from e-commerce.”

KLM’s end-to-end e-commerce organization ran in parallel to the existing geographic area management organization—and represented a different kind of challenge to the airline’s culture. “A normal area manager is married to the deals he has with consolidators, global accounts, etc.,” explains Kreiken. “So if you don’t believe in e-commerce or don’t have a strategic vision that a big part of your turnover should be driven by e-commerce, and you realize that existing accounts might feel threatened by e-commerce and retaliate, you might not emphasize e-commerce.”

As part of KLM’s corporate commitment to the new technology, the airline’s e-commerce organization became a center of expertise for managing distribution, structuring pricing, and balancing traditional and electronic channels market by market, area by area. To make sure there would be no conflict over money, KLM put in place a budgeting policy: Geographic area managers would in effect receive, on paper, any money made on online ticket sales.

Notes Kreiken: “We said the customer is in charge—whether she wants to

buy tickets directly from KLM or through an agent or consolidator or pay cash or buy online. It is our choice as KLM to offer all those distribution channels.”

The effort to make e-commerce part of business as usual at KLM got a boost, ironically enough, from the discount carriers that were seizing market share from traditional airlines. These low-cost carriers’ heavy use of the Internet for ticket sales was helping to train customers to book online. Also helping was the economic reality that paper tickets were much more expensive to distribute than electronic tickets.

KLM quickly moved beyond merely selling tickets online. In June 2003, the airline introduced Internet check-in, and later that year made it possible for customers to print their own boarding passes. Following the airline’s 2004 merger with Air France, KLM switched to self-service check-in at Amsterdam Schiphol Airport in the Netherlands.

The shift required fail-safe electronic availability. KLM staff visited the London Stock Exchange three times to learn from that Accenture client about the kind of technology that supports such availability.

In 2006, KLM became the first airline in Europe to offer transfer kiosks and the first in the world to offer this service for intercontinental flights. These kiosks cut waiting times and allow passengers to reprint boarding passes, change seats or take advantage of other transfer services. In the same year, KLM made available online personalized gift cards, redeemable for airfare, that allow customers to add their own photos and text. In 2007, KLM introduced mobile check-in, which allows passengers to check in using their wireless devices.

Captive audience

Kreiken sees new ways to leverage IT to support the business. For example, although customers save time with online check-in, this is often offset by time-consuming security procedures, long delays at the gate and flight times that can turn passengers into what he calls “the largest captive audience in the world.” There may be little that airlines can do in the near future to expedite security clearances or shorten flight times, but they may be able to reduce the level of passenger annoyance.

Members of Kreiken’s “audience” often spend much of their airport time using media for work and entertainment. So he sees opportunities to use CRM technology to reposition the travel experience and build customer loyalty.

One example: The airline’s record of a customer’s travel experience may flag flight delays, cancellations or other bad experiences. The airline could send special offers for discounts, travel passes or service bundles to the aggrieved customer’s mobile device.

Online travel sites and major retailers present both opportunities and challenges. “All kinds of new distribution channels are popping up and trying to create an umbrella over the airline business,” says Kreiken. The organization with the best understanding of and closest relationship to the customer will have a superior position. “Everybody’s in the CRM game,” he says. “It’s a race to the hearts and minds of consumers.”

Kreiken intends for KLM to win that race by using technology to ensure that air travel is not merely a commodity but a positive experience within an ongoing relationship.

KLM’s development center in the Netherlands is now the e-commerce R&D hub for the entire Air France-KLM group, and Kreiken sees it becoming the biggest airline e-commerce development group in Europe, perhaps in the world. So KLM seems a good bet to run a very competitive race indeed.

“Combining forces is the strongest possible business model” reflects Accenture’s Smit. “The key is to create an environment that unleashes the power of both partners to deliver innovation.”

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