

DIGITAL:
AIRLINES'
RUNWAY
FOR GROWTH



Who breaks the holding pattern?

THE AIRLINE INDUSTRY HAS BEEN EXPERIENCING MORE THAN ITS SHARE OF SELF-CREATED TURBULENCE LATELY.

In a blunt 2017 article, a *New York Times* technology reporter laid out how many customers see the industry: “...overselling, underpaying for seats when they are oversold ... an overall attitude that brutish capitalism is the best that nonelite customers can expect from this fallen world—is baked into the airline industry’s business model.”¹

In so many ways, the airline industry is still out of touch with its customers as companies struggle not only with their front office, but also their core operations. At a time when many customer-facing companies are far beyond getting the basics right, airlines lag significantly. It is not surprising then, that one-third of airlines experienced net profit decline from 2015 to 2016, and that is expected to continue.²

Yet, all is not bleak looking forward. Digitalizing the industry could ease the pain for airlines and their passengers. When travel is a personalized, context-aware and frictionless experience, without “turbulence” of any sort, we believe customers will respond in large numbers. Whether it be properly booking flights, anticipating customer needs or working across the travel ecosystem (hotels, transportation providers, etc.), digital technologies enable airlines to treat passengers less like a captive audience—and more like customers. The key to success is applying digital across airlines’ entire operations, not just the front office.

The digitalization of aviation, travel and tourism could unlock more than \$1 trillion of economical and societal value for the industry over the next decade.³ Airlines must apply digital to the whole value chain to reap their share of value, discovering how to expand outside the current value chain and move into adjacent areas. One without the other will not get airlines to frictionless travel and renewed, sustainable profitability.

\$1 BILLION IS AT STAKE FOR THE HYPOTHETICAL AIRLINE

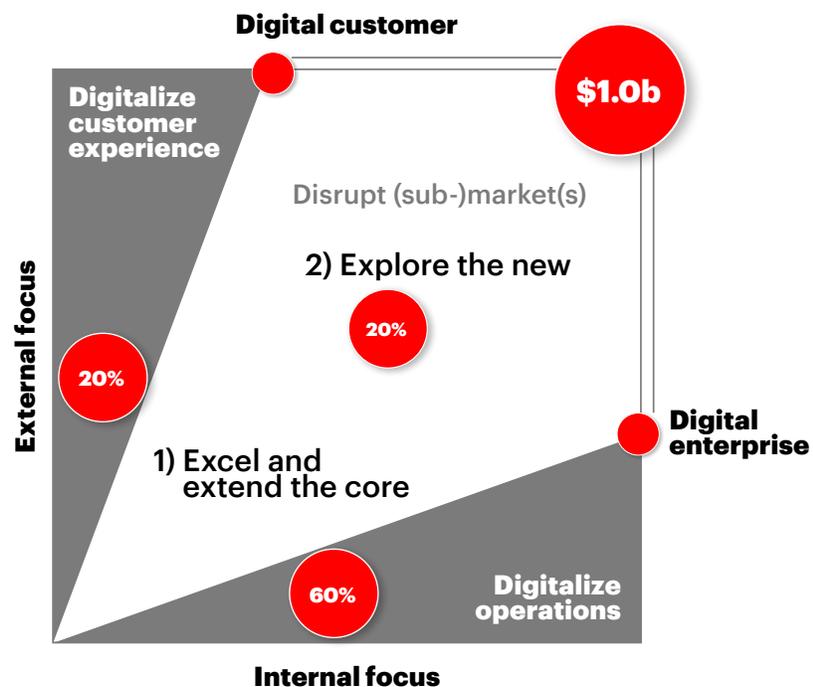
The tide is already turning toward digitalization, with 58 percent of airline executives actively investing in digital technologies as a part of their overall business strategy.⁴ But are they appropriately blanketing the company end-to-end with digital? The answer, for most, is a resounding “no.” Many are focused on digital investments in customer interactions, overlooking internal operations.

To better pinpoint where the digital value lies, Accenture Strategy ran the numbers for a hypothetical airline, assuming \$10 billion in revenue with average industry metrics. Among our most striking findings: For an airline of this size, digital can bring a potential value of \$1 billion in earnings before interest and taxes (EBIT).⁵ Our analysis identified 20+ digitalization value levers, with the potential to unlock \$800 million in what we reference as “excel and extend the core” of the airline across the value chain and supporting functions. An additional \$200 million can be realized by “exploring the new,” unlocking value through identifying new areas and business models. (See Figure 1.)

FIGURE 1

Potential value of digitalization for an airline with \$10 billion revenue

Source: Accenture Strategy Airline Digital Value Verification analysis, 2017.



CUSTOMER INTERACTION: THE TIP OF THE DIGITAL ICEBERG

Currently, customer interaction is where airlines primarily invest. But, Accenture Strategy analysis shows that digitalizing the customer experience yields just 20 percent of the potential \$1 billion EBIT.⁶ Airlines need to look beyond just customer interaction to benefit from the full digital potential. Nevertheless, there is still a lot to gain. Airlines can rethink the passenger experience and reshape how services are designed, delivered and consumed—with artificial intelligence (AI), robotics and other emerging technologies.

Pioneers are already using AI and robotics to digitalize customer service. Avianca, a Colombian national airline, developed a chatbot named Carla that can help passengers check flight status, luggage location and itineraries.⁷ With Carla, Avianca enhances the digital customer experience by providing travelers with a range of real-time information.

Applying digital can also help to re-invent airlines' loyalty programs, making them more relevant to the customer and transforming them from traditional miles-based programs to a true personalized loyalty experience. By digitally analyzing customer behavior, airlines can provide loyalty benefits and service offerings that are personal and real-time—with instant redemption possible—based on the location of the traveler.

DIGITALIZED OPERATIONS: FUEL FOR PROFITABLE GROWTH

Addressing end-to-end operations—applying digital across the business—is essential to reap the full benefits of digitalization.

FIGURE 2



Source: Accenture Strategy Airline Digital Value Verification analysis, 2017.

Using digital technologies to improve strategic planning and operational excellence could yield an additional margin increase per year to fund future growth.⁸ Digitalizing the core of airline operations is key for several reasons: First, it improves overall efficiency. It makes costs more variable, frees up cash to invest and improves return on invested capital (ROIC). And second, airlines need to digitalize operations to take the customer experience to the next level.

For instance, dynamic planning for network, pricing, equipment and crews can save a significant part of the more than \$170 million the average airline loses annually due to flight delays and cancellations.⁹ Dynamic planning is adding predictive analytics to an airline's planning process so that real-time decisions can be made based on those predictions. More efficient collaboration, effective recovery actions and quicker responses to customers will follow. By focusing on digitalizing strategic planning, airlines gain the opportunity for a \$290 million margin increase.¹⁰

From the customer standpoint, preventing disruption makes sense. Airlines can minimize disruptions by using digital technologies to smooth a traveler's journey—employing the internet of things (IoT) to track baggage or AI to help speed security checks. Preventing disruption—or at the very least making it hassle-free for passengers—will become essential to airlines keeping passenger dollars from going to competitors. Frictionless travel is the Holy Grail and a path back to profitability.

Using digital technologies for operational excellence has its main effect in improvement of turnaround times through better collaboration within the airline, efficiency in aircraft maintenance and transparency in the collaboration with airports. These things combined can have a positive impact on on-time performance, which is a critical metric in the industry.

Last, but not least, digitizing the support functions is critical not only for efficiency, but also because it is the next step in the employee and crew experience. In the end, if the crew has an excellent digital experience, it will benefit customers. For example, if crew members are on time with real-time information at the ready, they can provide full transparency and reliable information to customers and deliver the next level of personal service.

Digitizing the core operations of an airline—including strategic planning and operational excellence—and digitizing the support functions together can yield a potential \$620 million margin increase.¹¹

**DIGITIZING CORE
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FLYING SOLO IS NOT AN OPTION: THE ECOSYSTEM MODEL

In the future, frictionless, seamless travel will integrate all elements of an airline customer's journey, whether for business or pleasure. To provide the comprehensive, personalized journey that travelers are demanding, airlines will need to be digitally integrated with (platform) partners in ecosystems.

To compete in the future, airlines need to consider additional sources of revenue. From partnering with hotels to having a hot meal waiting in the room for a delayed passenger, to introducing overseas travelers to the latest in personal amenities, airlines must partner, merge or collaborate—whatever it takes to remain relevant. With non-traditional competitors like Google wanting to own the customer experience,¹² airlines need to step up. Otherwise, they will simply remain the commodity players providing a seat.

In most cases, expanding to the ecosystem beyond traditional partners allows airlines to better compete. For instance, the market capitalization of the Priceline Group (provider of travel and related online services) is higher than that of the world's top three airlines combined (Delta, Southwest and American Airlines).¹³

In a digital world, competitive advantage no longer exists without collaboration.



DIGITAL FOR A SMOOTH JOURNEY

Airlines move closer to delighting customers when they employ digital technologies to personalize travel. As they expand to digitalize operations and reinvent the employee experience, they improve the ROIC necessary for future growth and to expand investments in new business models.

Future airline leaders will seek to:



CREATE FRICTIONLESS AND PERSONAL TRAVEL EXPERIENCES

Digital technologies such as AI, analytics and IoT will allow leading airlines to deliver on customer expectations by providing personalized, frictionless travel.



INVEST IN DIGITALIZING OPERATIONS

Analytics and real-time intelligence are critical for airlines to eliminate inefficiencies in core airline operations. Those same technologies can help them gain operational efficiencies within support functions such as Finance, Human Resources and Information Technology.



COLLABORATE TO CREATE NEW FIELDS OF VALUE

To own the end-to-end travel experience, airlines must collaborate with partners across the travel ecosystem. Forward-thinking leaders leverage these relationships to redefine their competitive position.

WITH BILLIONS AT STAKE
AND TRAVELERS DEMANDING A
POSITIVE CUSTOMER EXPERIENCE IN
THE AIR, AIRLINES ARE RETHINKING
THEIR DIGITAL PROPOSITIONS.

**DIGITALIZING ACROSS
THE ENTERPRISE WILL BE
KEY TO THEIR SUCCESS.**

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NOTES

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ABOUT ACCENTURE

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