

the global future forum

the global future forum prepares business for the future



Ron Kuhlmann

Change at Jet Speed - Lessons for the future of the Airline industry

*Ron Kuhlmann is a consultant in the Transportation sector for Unisys.
Contact him at Ronald.Kuhlmann@unisys.com.*

While we all agree that the future is both a threat and a promise to every individual and organization, the rate and effect of change is unevenly experienced. One key global industry that has been mightily rocked by change is aviation. Vital to both businesspersons and leisure travelers, it forms one of the base components of the world's largest industry; travel and tourism. In the lifetime of most reading this piece, it has shown exponential growth, nurtured the consumer application of technology—airline reservation systems were the first broad consumer application of IT—brought disparate peoples and cultures together, and made jet lag available to the common citizen.

From its inception to the very recent past flying was enveloped in an aura of glamour, exclusivity, and experience. Air travel was both a means to an end and an experience to be savored in its own right. National magazines showed celebrities descending air stairs and the famous image of the Beatles arriving is an iconic combination of transportation, glitz and fame combined.

However, in 2005, many of those grand symbols are gone—including the Pan Am that carried the Fab Four. For the vast majority, air travel, and the bothersome stripping for security, are more endured than anticipated. The Brazilian low cost carrier Gol was established by a family that owns long distance busses and touts the airline (successfully) as an alternative.

Thanks to AirAsia, vastly increased numbers of Malaysians can now fly around their island nation rather than use the ferries that used to be the only affordable option. Despite its press reports of demise, aviation is thriving, and the numbers of customers, real and potential, continues to grow every year.

So like many other industries that have seen monumental shifts, it is not the industry, but rather certain established players, that are at risk. This is lesson number one that applies on a broader scope; the demise of specific firms does not doom an industry. If the product or service remains viable and in demand, new suppliers will emerge.

Given the importance of the airlines and their role in society, they have a great many ancillary services, partners, and facilities that depend on their health. Consequently, in the period since September 11, 2001, plagued by terrorism, war, weak economies and scary diseases, there have been a lot of people and businesses affected. Airports, travel agencies, hotels and myriad other entities have also experienced difficult times. However, record numbers of folks traveled in 2004, and while many airlines are still in a funk, many of these infrastructure partners have rebounded. San Francisco Airport, home to mainly legacy carriers, has suffered, while Oakland, ten miles across the Bay and site of many new entrants, has seen very substantial growth. The bounty of growth that exists has been redistributed, leading to very different planning needs.

Hence, lesson two. If you are a stakeholder closely aligned with a partner industry that seems to be slipping, make sure to take the long view before panicking. Past operational modes need to be reassessed in the light of developing long-term trends, both positive and negative. If I were an airline catering company that expanded rapidly in the late 1990s, regrets are probably justified as demand for in-flight meals plummets. However, British Airports can be relatively sanguine that the new Terminal 5 at Heathrow will find occupants. In an age when "this hour's news" dominates the landscape, long-term thinking is actually more vital as the present can cloud downstream needs.

Southwest Airlines is now the single most successful stock in the history of the modern US exchange; not high tech, not oil, but an airline that began its life derided by its competition as a flying bus. However, if one reads the information distributed by Southwest, they are not dwelling on the fact that their aggregate value now exceeds the combined value of their rivals, but rather they remain focused on their own costs and challenges. Their benchmarks are internally generated in line with their operating and financial goals, which have allowed them, even being 30 plus years old, to remain dominant in the low cost sector and a vital player in the 21st century. This ability to focus on a winning strategy, without the temptation to see what else they might be able to do, is a unique and valuable trait.

Furthermore, in a period with historically high fuel costs, Southwest has hedged fuel for the next three years, believing that it is better to know what you can about the future and then plan accordingly.

So, finally, lesson three from our beleaguered industry: doing something really well, aligned with customer demand and market parameters, is a good strategy for the past and for the future, because, of course, who knows what the future will bring?

