Reimagining Crew Resourcing for a post Covid-19 world

CAE

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Executive Summary

Airlines all around the world are struggling to cope with the conditions they find themselves in, with many asking questions about how best to respond to immediate hardship, while also preparing for a time when travel patterns return to normal. Key questions for airlines to answer are; what effect the crew resourcing actions being taken now will have on their future competitiveness and can they afford not to be bold in their actions?

The consensus across the variety of market forecasts currently available indicates that recovery will take anywhere from 18 months to 3 years. Irrespective of the shape or duration of the recovery we face, we have identified three distinct phases that will have a direct impact on airlines: Reset – Respond – Recovery. Airlines have a window of opportunity over the next 12 to 18 months to reset the bar to insure survival and to prepare themselves for this return to normality. In 24 months', the actions taken today will be properly assessed. It will be determined then whether the current opportunities for reimagining crew resourcing strategies have been taken advantage of.

We have witnessed a number of important factors that airlines are trying to deal with. The first is that they're trying to establish a permanent resetting of their unit cost base to achieve sustainability in a challenging environment. More importantly, we're seeing huge efforts to shift from a fixed cost base to a variable cost base. Finally, airlines are taking this opportunity to refocus on their core competencies.

What does Re-imagining crew resourcing mean in practice? We have witnessed many different forms:

- Exploiting the potential of full crew management outsourcing.
- Removing significant fixed costs through outsourcing training planning & delivery.
- Access to crew planning and optimisation solution services to supplement existing internal capabilities.
- Explore flexible resourcing models to assist with volatile trading, seasonal demand or risky markets.
- Improve ROI on back end functions through utilising shared services.

If most airlines are taking actions to undertake structural reform of their cost base and/or increase their long-term competencies and capabilities and you're not, then you as an airline have to ask yourself some tough questions, not the least of which is, what the long-term competitive implications of that decision are.

Resourcing in Challenging Times

The coronavirus pandemic and resulting Covid-19 crisis have had a huge impact on people around the world, causing many deaths and untold distress, while also throwing global economies into chaos. All industries and commercial sectors have been impacted, but few perhaps as dramatically as the airline industry.

Airlines all around the world are struggling to cope with the conditions they find themselves in, with many asking key questions about how best to respond to immediate hardship, while also preparing for a time when travel patterns return to normal.

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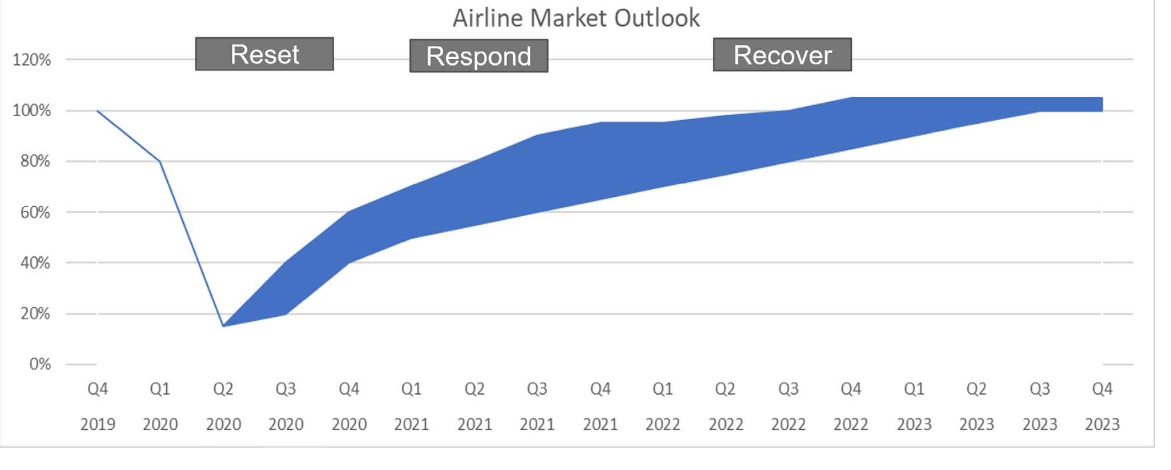
A key question to answer is what effect the crew resourcing actions airlines are taking now will have on their future competitiveness?

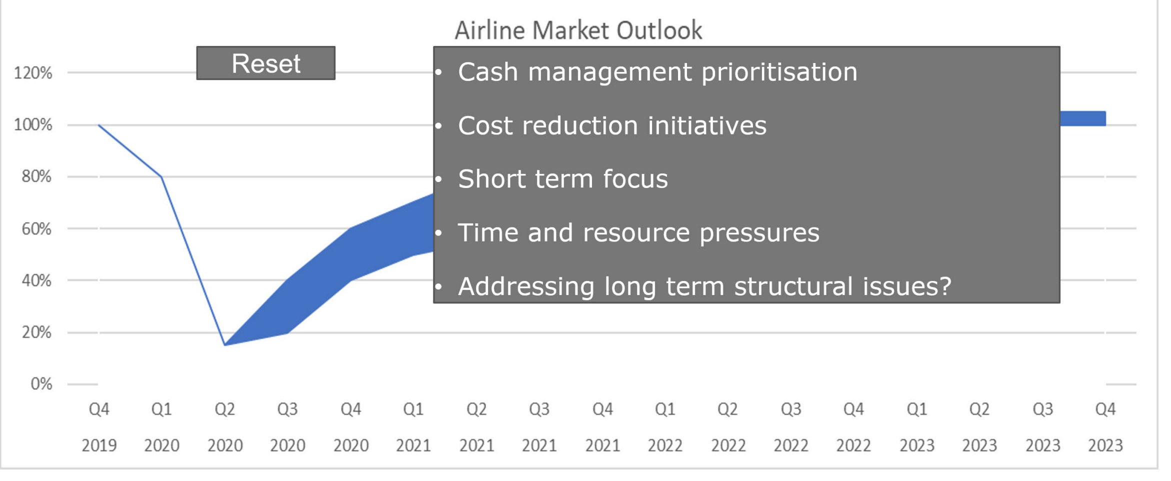
While there is a huge amount of uncertainty around the future of the aviation industry, there are two things that are clear -- the first is that the industry will recover, and the second is that this recovery will not be smooth or linear for all participants. The consensus across the variety of market forecasts currently available indicates that recovery will take anywhere from 18 months to 3 years.

Irrespective of the shape or duration of the recovery we face, we have identified three distinct phases that will have a direct impact on airlines – Reset, Respond & Recover.



The Reset Phase

The first phase – the phase we're currently in – is the 'Reset' phase. In this phase, airlines across the globe are deeply focused on taking the short-term measures needed to ensure survival.



Naturally, the initiatives getting prioritised are those focusing on cash management and cost reductions.

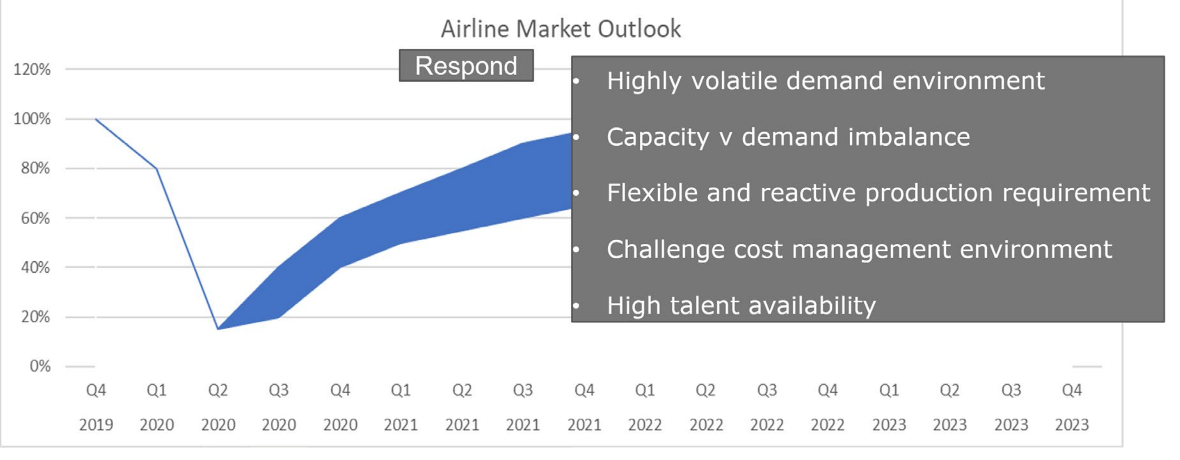
However, this short-term focus, which has come about as a consequence of the time and resourcing pressures that airlines face, runs the risk of failing to address long-term structural issues that many airlines have faced for quite some time.

The real question for those managing crew resourcing is: **'are there long-term opportunities being missed because of the pressures that the current crises places upon them?'**

For example, one of the key challenges that airlines face is positioning themselves to be able to ramp up when the current pressures of the Reset phase diminish over coming weeks and months.

The Respond Phase

The second phase which will impact the airline industry is the 'Respond' phase, during which airlines will have to manage their crews in a very volatile and uncertain marketplace.



In this phase, we will see very high volatility in the 'demand' environment, and we will also see a natural capacity and demand imbalance.

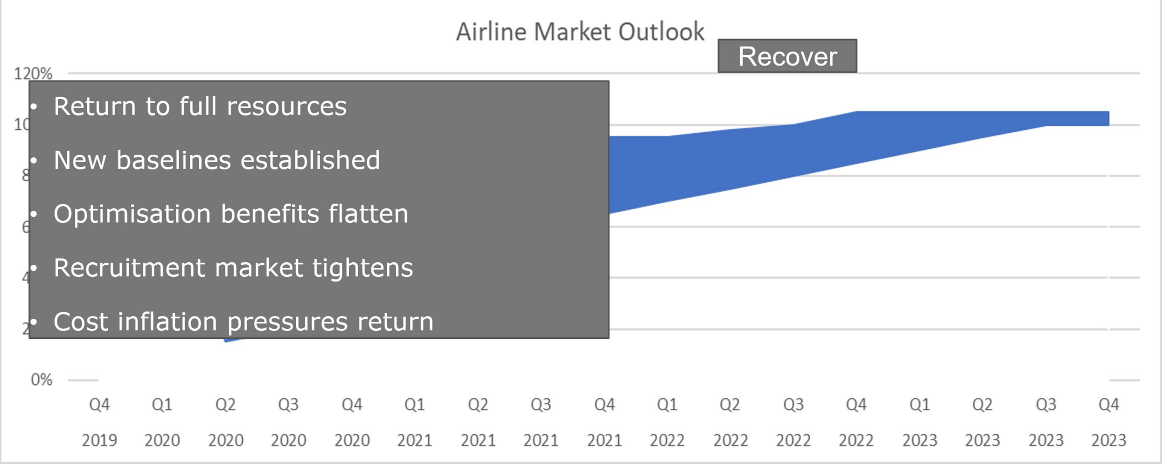
What that means from a crew resource management point of view is that flexible and reactive crew management strategies will need to be adopted. It means that airlines will face significant cost management challenges as they try to optimise resourcing in a highly volatile and constantly changing environment. This will create significant pressures in terms of crew relations, crew planning and from a HR management perspective.

Another factor to be mindful of is that during this phase there will be a high level of talent availability. This is an opportunity to plug gaps or deficits that airlines see in their talent pool.

We feel confident in saying that optimising crew resourcing during this difficult phase will be an important contributor to surviving and returning to sustainability for most airlines and will establish the baseline for longer term competitiveness.

The Recovery Phase

The third and final phase is the long term, post crisis 'Recovery' phase. The actions that airlines take today in the 'Reset' phase will shape how they experience the 'Recovery' phase.



This period of time will see a return to full resourcing and a new baseline established from a cost optimisation perspective.

We will see that the incremental benefits we saw in the early stages will start to flatten out. We will also see the recruitment market tighten again, and this will happen remarkably quickly. The tightness we've seen particularly in the pilot market over the immediate pre-crisis years will resume as we return to 2019 production levels. That in turn will bring about new cost inflation pressures.

Airlines have a window of opportunity over the next 12 to 18 months to reset the bar to insure survival and to prepare themselves for this return to normality. It's important to understand that it will be in this phase, in 18 to 24 months, that the actions taken today will be properly assessed. It will be determined then whether the current opportunities for reimagining crew resourcing strategies have been taken advantage of.

Reimagining Resourcing Strategies

What are airlines doing at the moment in terms of reimagining what their future resourcing models should be?

We have witnessed a number of important factors that airlines are trying to deal with. The first is that they're trying to establish a permanent resetting of their unit cost base to achieve sustainability in a challenging environment.

More importantly, we're seeing huge efforts to shift from a fixed cost base to a variable cost base. This shift enables airlines to build in defensive flexibility to deal with the volatility that is inevitably going to be part of the industry in the short to the medium term. An increased variable cost base allows airlines to de-risk baseline operations, facilitate easier entry into new markets and pursue new opportunities that will inevitably present themselves as a side effect of the current crises.

Finally, one of the things we've also seen is airlines taking this opportunity to refocus on their core competencies. In other words, to appreciate and assess the things they are good at, and also appreciate where they could do better. Following on from this, many are exploring ways to seek outside assistance with the areas that are not deemed core.

Overall, we are seeing across the market that airlines are using the abnormal situation they find themselves in to undertake and examine radical transformation ideas, because the current environment demands significant action and removes some of the usual obstacles that airlines typically face.

Reimagining in Action

What does this mean in practice?

CAE Parc engages with dozens of airlines on a weekly basis, all across the globe and across every industry sector. In recent weeks and months, we have seen significant trends emerge in terms of airlines exploring more and more new ways of doing business in the future.

In the most extreme examples, we are seeing airlines look at the potential of full crew management outsourcing. This involves partnering with companies like ourselves to outsource the provisioning and management of crew. This delivers the flexibility, cost transparency and the optimisation that they may not be able to achieve through an in-house solution.

We are also seeing airlines re-examine the possibility of outsourced training from both a delivery and a planning perspective. This enables them to remove some quite significant fixed cost bases within their existing operation, while also accessing increased expertise. CAE is partnering with airlines looking for this to provide external planning support and training delivery, and this is resulting in both short-term and long-term opportunities for these companies.

In the short term, we are seeing airlines struggling to deliver crew modelling and crew scenario planning as a consequence of the pandemic. We are working with them to provide external support, to effectively 'beef up' their internal planning teams. This can provide airlines with access to planning and optimisation software and service solutions they may not have or afford themselves.

In the long term we are seeing many airlines make the decision to invest in increased crew optimisation and management capabilities. Many appreciate that they are going to experience a much more volatile environment in the future and they will need 'extra firepower' above and beyond that which they were previously able to access. This is particularly true for small and medium-sized airlines which are looking for solutions without significant capital investment.

In some other cases, CAE Parc is seeing airlines re-exploring flexible resourcing models. These solutions are aimed to structurally build in solutions to short term demand volatility, regular seasonality or other unique demand patterns. In some cases, we are seeing airlines explore block hour pricing models for the first time which are designed to better align the crew cost base with their operating model.

The current crisis carries with its enormous risks, but at the same time presents opportunities for some. Airlines are exploring ways of entering new markets, expanding or reshaping their operations and looking for support where they may not be on familiar ground dealing with regulators, employment legislation or market conditions that they don't have experience with.

Finally, we're also seeing airlines explore the opportunity for shared services where they cannot achieve an appropriate return on investment from building internal capabilities themselves, whether that's from a HR management perspective, a planning perspective or a payroll perspective.

There is a definite move towards exploring what needs to be done in-house, looking at the airlines' core competencies are, and identifying what should be outsourced.

The Real Question?

A lot of the decision's airlines are faced with are bold in nature. Taking these decisions requires conviction, and it's likely that many airlines making such decisions probably wouldn't have had an appetite for them in previous years, due to internal resistance or a lack of management focus.

But the real question airlines have to ask themselves right now is can they afford not to be bold during this crisis?

If your competitors are taking actions to undertake structural reform of their cost base or increase their long term competencies and capabilities and you're not, then you as an airline have to ask yourself some tough questions, not the least of which is what the long term competitive implications of that decision are.

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