

Global Passenger Airline Market: Five Megatrends and their Implications for Talent Management

Pressure on financial performance

While there will be no let-up in the pressure on airlines to enhance their operational efficiency, financial performance has become a much more critical success indicator. Airline shareholders – including governments – are increasingly demanding reasonable balance sheets and acceptable returns on investment. In fact, we believe that airlines need to become much more radical about which business to stay in and which routes to fly. This will require greater focus on the economics of the business and a willingness to embrace unconventional ideas, as well as greater flexibility and readiness to adapt their current business model to changing market needs.

Airline CEOs are therefore facing substantial expectations to transform their companies into sustainably profitable businesses with a robust, longer-term mission. One of the more tactical choices they are making is to further improve operational effectiveness and actively consolidate activities at local or regional levels in order to achieve critical mass and leverage synergies. Many of these choices are in fact strategic and game-changing and could lead to dramatic changes in industry structure. There will be winners and losers, with the game-changers having the advantage of being able to shape the future.

We believe that the need to master these challenges will drive up demand for state-of-the-art CFO, strategic and corporate finance competencies, restructuring capabilities and post-merger integration skills.

Continuing globalization and liberalization

The ongoing opening of travel and transportation markets – for investments, AOC, and transportation rights – has created both new business opportunities and new competitive threats for many airlines around the world, and there is more in store. The fact is that the industry is increasingly globalizing in many respects. New players have appeared on the scene, especially carriers that play the “sixth freedom” card, and are now reaching a critical mass. New network carrier hubs are emerging. New boundaries are being tested all the time. The airlines’ centers of demand are tending to shift to Asia. Emerging markets, like Greater China, face significant mobility needs and offer huge growth potential in air travel. Although the

current three global alliances seem to leave only a few white spots on the global map, additional partnerships might generate new roles for some of the airlines that have so far remained on the fringe. There will also be more industry-wide consolidation on a regional, continental, and global scale, giving rise to new classes of leaders and megacarriers.

CEOs need to respond strategically to these opportunities and challenges. For example, depending on an airline's size and market, CEOs will need to decide whether to enter into alliances, pursue niche strategies, or actively drive consolidation.

In view of these continuing trends, our hypothesis is that it is vital for airlines to evaluate and redefine the core competence-set that their extended leadership team must possess to heighten strategic orientation and change management competencies in particular. We also believe that airlines will need to assess and upgrade their talent pool of strategists, M&A experts, out-of-the-box thinkers, and challengers, which might also result in taking on board additional smart people, potentially with cross-industry experience.

Evolving consumer expectations

From the standpoint of consumers, air travel has today become a commodity service offering a large array of flight options to many destinations, where favorable pricing and minimized product & service standards have become key buying criteria. In order to move forward, airlines have to search even harder for ways to set themselves apart from the competition and build customer loyalty.

CEOs therefore need to focus strongly on addressing the new commercial challenges ahead. In particular, they might consider fostering a corporate culture that is conducive to innovation and entrepreneurship, one that extracts maximum value by customer segment. For instance, special-purpose consumer travel often appears untapped by many leading, prestigious airlines. Marketing will also play a crucial role in emotionalizing airline brands and enhancing customer relationships. Other industries like consumer products or telecommunications can inform airlines on how this can be accomplished effectively.

We believe that airlines can differentiate strongly in the market by establishing commercial excellence which in many cases will require infusing senior ranks with people who bring skills and ideas from other industries.

IT technology will continue to emerge with greater frequency in leading changes in customer experiences through the use of new customer interfaces and social networks. With consumers increasingly using online channels from reservation through to ticketing, check-in and requests, airlines need to be up to speed in meeting today's requirements in managing a seamless passenger process that mass-customizes the travel experience. Technology will touch every part of an airline's business and will increasingly be a competitive differentiator.

Superior technology capabilities and state-of-the-art CIO competencies will become mission critical differentiators for airlines to succeed in the market. We firmly believe that airlines need to further invest in their CIO organizations both from a talent and a technical perspective in order to stand out in the market.

Sustainability as a critical success factor

For the foreseeable future, the global airline industry will remain heavily dependent on fuel and their financial performance will continue to be strongly determined by variations in fuel price and consumption efficiency. Airlines are flying in the storm generated by the climate change and sustainability agenda. These are highly politicised issues that are starting to change legislation and industry practices. Simultaneously, consumer behaviour is being shaped by sustainability issues and this is affecting how people perceive and choose their airline. Sustainability is a clear and present issue and going forward, will represent a major influence in the airline industry.

Airline CEOs need to find effective ways to deal with sustainability requirements and expectations. We consider it critical for airlines to shift from what is today a rather reactive and tactical response to these matters, to a more proactive and forward looking approach to sustainability.

A successful response to sustainability may require a more integrated and cross-sector approach where all stakeholders in aviation – be it airlines, airports, air traffic control or aircraft manufacturers – jointly develop and implement sustainable solutions. Achieving this and communicating it properly might eventually turn what is currently considered a “sustainability burden” into a critical success factor for an airline.

Talent: from monoculture to diversity

In many parts of the world, the legacy of the industry is monocultural – generally home-grown, male and strongly aviation-industry experienced. While this may have been well-founded historically, today's fast-moving global context is challenging the status quo. We believe that diversity of talent – be it gender, geographic, cultural or cross-industry – is fast becoming a critical success factor for airlines to stay agile and ahead. There are examples from within the airline industry, but even more from outside.

Historically, the airline industry enjoyed a prestige and cosmopolitan flair that made it easy to attract and retain top talent. This may still be true, but for various reasons, many airlines are now widely considered ordinary employers – with relatively low compensation levels and comparably limited career paths.

CEOs need to rethink their people strategy and implement holistic talent management if they are to attract, develop, and retain the best and brightest. We believe that truly courageous leaders will be required to make a sustainable difference.

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