



Airline Return to Profitability Will Require Change From the Ground Up

With nearly every major domestic flag carrier teetering on the brink of, already in, or just emerging from bankruptcy, the current US airline industry business model must change. The industry background, what changing the model might entail and who should take the lead were topics recently addressed by senior USC Consulting Group executives in a panel discussion at the company's Tampa, Florida, headquarters.

Panelists included Senior Regional Manager and Partner Mike Cunningham; Senior Regional Managers/Analysts John Hannan and David Riggs; Senior Operations Manager/Partner Joe DiNapoli; Senior Project Manager Tom Hughes; Director of Supply Chain Management & Client Technology Solutions Gary Acromite; and Victor Allis, President and CEO of USCCG strategic partner Quintiq, a Netherlands-based software developer specializing in advanced planning and scheduling.

Metrics: *With all the experience around this table, can anyone shed some light on how a once-profitable industry has come to be in such dire straits?*

Hannan: In the '80s, the market was ready and eager to enjoy cheaper flights and better service promised as the result of increased competition in the airline industry. Not surprisingly, the established airlines were not. Before deregulation, they were being run more or less like public utilities, with separate and distinct

“The costs for non-optimum interval usage are significant ...”

route structures which virtually guaranteed them profits. Because they didn't have to do much to survive, they did not invest in the infrastructure to improve themselves and so, following deregulation, fell behind new competitors that did. Later, hit hard by escalating costs for labor and fuel, coupled with decreasing load factors, they were forced to trade ownership for survival at the bargaining table, a situation that persists, in one form or another, to this day.

Metrics: *Bucking the industry trend, Southwest Airlines continues to expand its market share both rapidly and profitably. How does its business model vary from those carriers struggling to make ends meet and what can they learn from it?*

DiNapoli: Southwest has always focused on cost and productivity. They have consistently managed to keep their costs at or among the lowest in the industry. Although they currently have some of the higher pay scales in the industry, they have made significant technology investments that have allowed them to increase fleet size without the attendant increase in people to support the airline. In short, they've been able to do more with the same resources – a winning solution for remaining profitable.

Riggs: Southwest's costs are lower than the established carriers, which in some ways mirrors what's happening in the auto industry with the likes of GM and Toyota. GM is saddled with heavy financial responsibilities stemming from a long established work force that requires pensions and healthcare. Toyota, on the

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other hand, is relatively new, its employee base is new and the debt for carrying those employees is lower. The same goes for Southwest.

DiNapoli: Although I agree that pensions do play a big part, we have seen that those airlines that have off-loaded pensions and healthcare costs - United Airlines and US Air, in particular - are still not at the cost-revenue-per-mile level that, say, Jet Blue, Southwest and AWA are.

Hughes: Southwest has also focused on customer satisfaction as a primary goal in running their airline operations. That has translated into using one basic aircraft model, which reduces training, inventory and maintenance costs. Also, their point-to-point routing structure allows more flexibility in meeting customer needs than the restrictive hub-and-spoke models the legacy carriers are trying to move away from. Although Southwest is a “no frills” airline in terms of meals and first class cabins, the legacy carriers seem to be moving toward that approach, as well.

Metrics: *As part of their cost cutting initiatives, many airlines are outsourcing maintenance to third party contractors. This has raised safety concerns among regulators and the flying public. How valid are these concerns and what steps can be taken to address them?*

Cunningham: I do not believe there is evidence to support the idea that outsourced maintenance is any riskier than that performed in-house. Both sources of maintenance are responsible for the same level of performance to the FAA and inspected to the same standards.

Airlines are particularly attuned to safety. However, many carriers have discovered that the detailed infrastructure required to support all levels of maintenance is best provided by third parties that can spread the costs over large operations and garner economies-of-scale that they cannot. In addition, these third party maintenance facilities consistently have lower total costs than the legacy carriers.

Metrics: *Recognizing that the bulk of an airline’s operating expense is in the air - equipment, fuel, and crew - what more can be done on the ground to cut costs?*

“This concept presents a real leap for the industry...but imagine how it might favorably affect their profitability.”

And can you cite specific examples of innovative steps being taken by carriers in this area?

DiNapoli: More and more we are seeing airlines looking for additional sources of savings, as well as revenue. They have begun to examine their structures in ground operations and cargo to add revenue and reduce costs. Some of the more successful approaches involve a blend of change management, where employees significantly modify their roles and responsibilities with increased technology. Some specific examples are bar coding

and RFID for cargo, pursuing contracts with the US Postal Service and reducing staffing models for ground operations.

Cunningham: At least one carrier has gone so far as to adopt a discretionary single-engine taxi policy between gates and runways. US Airways has reported that they expect to save some \$2 million annually with this practice.

Riggs: It also seems that, much like the airlines have done to lower maintenance costs by outsourcing, they might consider consolidating other duplicate airport-level services like flight check-in, baggage handling and so forth. If the costs of those services could be amortized across the board, all the airlines could realize the benefit. This concept presents a real leap for the industry, no doubt, but imagine how it might favorably affect profitability.

Allis: A common performance measure for aircraft maintenance is interval usage, which indicates how efficiently a maintenance task is carried out by comparing when it was completed versus when it was due. The costs for non-optimum interval usage are significant and can include charges for excessive spare parts, increased labor and hanger usage, and lost operational availability. One of our clients, Transavia Airlines in Amsterdam, was able to optimize maintenance planning for its Boeing 737-700 and 737-800 fleets using tailor-made clustering techniques, known as the pivot algorithm, to support both its short-term and long-term planning needs. As a result, Transavia was able to improve its initial interval usage by 6%, which grew to more than 10% after the first year.

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Metrics: *Some would say that the airline industry is too inbred to find its own way out of its difficulties. How would you respond to that allegation and what alternative course of action would you propose?*

Acromite: Inbred might be too harsh a term but in any case, when faced with change, organizational culture becomes a significant contributor to success or failure. These cultures are driven by a spectrum of behaviors ranging from individual contributions to executive vision and leadership. Changing culture requires a plethora of organizational development actions, which affect employees at all levels. Not addressing this dynamic will cause any improvement action to fail, no matter how creative or appropriate.

Embedded in this context is the notion that every individual wants to improve performance and will do so, given the right structure, incentive and training. Our observation is that, notwithstanding all the financial actions being taken, there must be a deliberate initiative to redesign how work is performed and the way employees have to behave to attain optimum performance. The initiative has to focus on the individual's work performance in a new way, with new tools and new behavioral expectations.

Hannon: I would suggest that a new perspective from management with experience outside the airline industry could have a tremendously positive effect, simply for the reason that they might be able to do a zero-based assessment of where the airlines are and where they need to be to become profitable. It's much like what USCCG brings to the table when we take

on an assignment. We offer an objective perspective not always apparent to those on the front line. Plus, that objectivity fuels the ability to make the changes that are absolutely necessary for success.

Metrics: *United Airlines was portrayed recently by Associated Press writer David Carpenter as a carrier "focused on wage give-backs as opposed to (one) figuring out a strategy to make the place better." If this is true, where else should UAL look to make major cost reductions?*

"Our ... planning and scheduling solutions help carriers make optimal use of their resources by getting them to where they are needed..."

Riggs: Most airlines have already wrung wage and crewing concessions out of their unions, hedged their fuel to the degree possible, and reduced the size of or standardized their fleets. Our belief is that they've got to take a harder look at their ground operations, including baggage handling, catering, cleaning, maintenance, ticketing and customer service, before attempting further cut-backs in the air. This is the fastest growing area of interest for most of our clients.

Metrics: *USCCG has worked with almost every domestic carrier over the last twenty years to help them improve their maintenance*

operations. Is that still a major area of focus or have other issues come to the fore, given everything the airlines are facing?

DiNapoli: Maintenance is still a huge part of what we do but, as Dave indicated, we are more and more often called upon to help optimize ground operations. This is one of the principal reasons we have allied ourselves with Quintiq, which has developed a state-of-the-art advanced planning and scheduling application that helps airlines achieve greater efficiencies in non-flight operations.

Metrics: *Mr. Allis, can you explain how your application can help airlines manage their ground operations more efficiently?*

Allis: When you think about it, running airport operations is like putting together a great big puzzle with many pieces of various sizes and shapes that must fit seamlessly together in support of flight operations. Add to that vision the time pressure created by thousands of flights landing and departing according to a published schedule each day, and you have some idea of the complexity of the problem.

Our advanced planning and scheduling, workforce and logistics solutions help carriers make optimal use of their resources by getting them to where they are needed when they are needed. This can help them to maximize equipment availability, facilitate crew deployment, improve on-time departures, in-flight service and baggage handling.

Metrics: *Thank you gentlemen for what has been a most uplifting discussion.*



Controlling Costs in Poultry Processing

Minimize process waste and variation via better manufacturing execution control and reporting

In a low margin industry like poultry processing, it is critical to control cost. But the size and complexity of a supply chain that extends from breeder farms, hatcheries and grow-out houses to conversion and further-processing facilities that handle more than 300,000 chickens or 20,000 turkeys a day, makes this as difficult as it is important.

Frequently, at the facility level, tools for planning and monitoring such key bird attributes as size, number and quality are often inadequate, if they exist at all. As a result, a facility can meet, exceed or fall short on any or all of these critical dimensions.

“Many companies have no methodology by which they can collect information in one place, analyze it, organize it and use it to facilitate timely, fact-based decision-making across their entire process,” says EVP David Gustovich, USC Consulting Group’s assistant director of operations. “For years, we have seen the need for a product that would provide the proper visual management and real-time data to allow for more proactive management at all levels in the organization. A system that highlights variations to plan or target values throughout the entire process, whether at a single location or enterprise-wide, has become a necessary addition for processors who want to meet profitability targets.”

The MEC/R Application

To that end, USCCG has developed a comprehensive Manufacturing Execution Control and Reporting (MEC/R) application that provides real-time, visual information all the way from the floor up through management. This “closed loop”

management operating system is critical for management to understand how to continuously improve their processes.

It provides access to actionable information necessary for managing expectations and mitigating risks. MEC/R data is crucial for making informed decisions that reduce conversion costs and optimize operating effectiveness because the information:

- accelerates informed decision-making across the enterprise;
- increases effectiveness by providing real-time insight into business processes; and
- reduces the expense of report development and maintenance.

The MEC/R application methodology is structured to maximize quality, yields, profit margins and service levels. It also helps reduce conversion cost and downtime by identifying and minimizing, if not completely eliminating, process variation and waste. The package highlights the opportunities, in real-time from the floor, and provides detailed reports and action plans to constantly improve the operation.

USCCG follows a very disciplined approach to process optimization, which encompasses six distinct phases:

- Defining product attribute controls
- Establishing processing control parameters
- Defining the measurements that will be used at each control point
- Monitoring the process
- Reviewing and reporting
- Updating steering teams weekly

The architecture flow for each processing area is the same. However, the product and process attributes, along

with the critical control points and key performance indicators, change by area. Once each area defines the optimum targets, goals and attributes of the finished product for that department or area (product control), the next step is to define each process step that either adds value or causes waste within the process.

Each process step will define targets and/or control limits and then monitor the steps through the shift. The information is displayed visually on the floor and stored in a central database. The management team is then able to react real-time to the information on the floor. The information is then sorted automatically and presented in a comprehensive set of management operating reports.

The management team holds a Shift Review Meeting to assess the actual versus planned performance and creates action items to improve the process when plans are not achieved.

The Bottom Line

USCCG’s Manufacturing Execution Control and Reporting application provides poultry processors with simple, effective tools to securely access needed information on a timely basis. Once the MEC/R application is implemented, there is a complete integration of information from the first to last process. All of the different data information points are connected, which improves decision accuracy, reduces cycle and administrative times, and decreases conversion cost, all of which equates to a more effective management system and improved profit margins.

For more information on USCCG’s MEC/R application, visit their web site at www.usccg.com or call 800-888-8872.



Progress Report

USCCG Adds Supply Chain Expertise



Wayne Thomas comes to USCCG as a supply chain business consultant based in Toronto.

Mr. Thomas began his career in the materials management field for both the steel production and public utilities industries after earning his bachelors degree in mathematics and economics in his native West Indies. He then moved to Canada, where he became an application systems professional in the financial services industry, ultimately working for CIBC West Indies Holdings Limited overseeing operations across seven countries. He then established his own consulting firm, TOMASYS, where he provided systems architect and project management services to numerous financial institutions, as well as Algoma Steel, Inc., a USCCG client.

“With the burgeoning cry for supply chain expertise and its attendant technologies from both clients and prospects, Wayne will be an invaluable resource for USCCG,” commented Gary Acromite, the firm’s

director of supply chain management and client technology solutions. “We always welcome individuals like Wayne, who bring strong experience in both systems management and consulting to the fold.”

Sally Ryberg New BDE in Southern California



Sally Ryberg has joined USCCG as a business development executive for

southern California. She brings more than 15 years of marketing and sales experience in the electronic, chemical, finance and engineering fields. She was most recently American sales director for Ion Systems, a Berkeley, CA-based electrostatic management and consulting firm.

Earlier she was VP of worldwide sales and marketing for Koch Microelectronic Service Company, a bulk chemical manufacturer in Houston; sales manager for North America and Europe for high

performance plastic components provider Furon Company; and sales, marketing and customer service manager for California-based chemical and water analysis firm Balazs Analytical Laboratory. She began her career with J.T. Baker Chemical Company as a technical sales engineer, followed by a stint with General Electric as a field development engineer.

Ms. Ryberg earned a bachelor of science degree in chemistry from Lafayette College in Pennsylvania. Her postgraduate work includes business courses at the University of California/Riverside, the Stanford Executive Program’s Advanced Management College and the Columbia University Graduate School, where she studied sales management.

According to George Coffey, USCCG senior vice president for business development, “Sally Ryberg brings to USCCG a broad industry expertise, as well as proven business acumen that will materially strengthen our presence in southern California.”

She is based in Oceanside, California, and will be responsible for business development in the food, hospital, biotech, defense and manufacturing categories.





First we make it work. Then we make it last.®

For more information contact us at 800-888-8872 or www.usccg.com

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