

Simply-Flying

Optimizing the Airline Business Model

By Nawal K. Taneja

A book review by Boubby Grin

From the first line in his latest book on airline strategies: Why would anyone want to run an airline? until his closing remarks, in which he urges the airline industry to focus and learn from other industries, Nawal Taneja sets out with his "Simply-Flying" to 'send a message, not a rude awakening that the old business model is broken.' However, he makes clear that the business model is broken, and his message is - if not rude - at least very firmly voiced.

Just as in his earlier publications, Taneja's understanding of what happens within the industry, its stakeholders and its markets and what does not but should, make "Simply-Flying" a must-read for more than one reason. While it is about optimizing the airline business model, it is also an account of how and why this industry has neglected to realign itself with new realities. As a result, the legacy industry faces enormous losses meaning that, on average, the vertically integrated carriers have consistently not earned their cost of capital.

This underperformance is being contrasted in Taneja's book with the low cost-low fares airlines, the 'new paradigm airlines.' But it is not just the financials. "Simply-Flying" puts all aspects in the wider context of the industry's relevance for its customers, suppliers and other major stakeholders. It cannot avoid pointing at where things went wrong, but the true value of the book is in that it spreads out and attempts to take on board every aspect and argument that could possibly contribute to setting things right again.

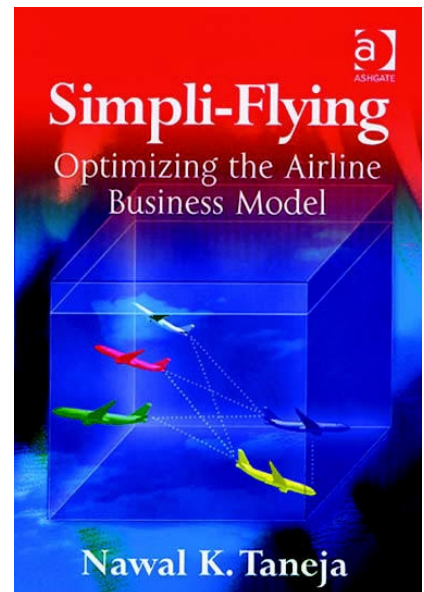
Amidst a wealth of facts and considerations, the book covers the whole repertoire of a changing market place, low cost carriers, labor relations, government-mandated - if not stimulated - behaviour, strategic alliances, distribution technology and more. It draws interesting parallels to other businesses, seeks out why and how branding offers so much more scope for product and price differentia-

tion than today's revenue management routines can. The book even includes its own 'sanity check,' in that it offers four scenarios for a strategic and pragmatic evaluation of the various issues raised.

Central to Taneja's concerns is that the motor of the traditional business model - the full fare business traffic - has lost its steam. Low cost carriers with more extensive networks, less corporate spending, fractional ownership of corporate jets, Web-enabled self-constructing of itineraries, have all eaten away the solidity of the model. Whether legacy carriers saw it happening or not, they could not react in style, in time and in force. They have tried to cope with sliding market shares, but have only succeeded to clutter up their operational model even further.

The hub-and-spoke network system - logical companion of the traditional business model - is not bad in itself, unless it becomes overcomplicated and over-concentrated. This is what is now happening in major markets. Mergers and alliances may drive networks costs further up instead of down because of unaligned network agents, hub proximity problems and unresolved labor relation complexities. In general, this book deals expansively with how complicated, costly and culturally entrenched the legacy carriers have made themselves.

The simple medicine of simplifying layers, reducing cost structures, improving revenue opportunities and focus-focus-focus, may be slipping out of reach. Momentarily, the author hopes, as he offers a variety of market re-entry strategies and business model variations, with examples to match. His arguments are not solely directed at the legacy carriers. Taneja urges the whole value chain of stakeholders, including airports and ATC, to throw conventional thinking overboard and concentrate on new business models. Key stakeholders, particularly governments, may however not



always align nicely as they themselves do not always act rationally.

More than once the question is raised why no other industries face the constraints the airline industry does. These constraints have certainly contributed to the industry's inability to shake itself up. Quite some governments are still reluctant to review airline ownership rules, bankruptcy proceedings and other safety net constructions, to allow consolidation in order to bleed off overcapacity and oust irrelevant services. Taneja expects that the national 'flag carrier' will gradually disappear. Consolidation will leave a small number of US, European and Asian carrier systems. The author also sees a new role in future for the financial community in this respect.

Everything in his book and its style has the subtle message for stakeholders: changes are dramatic and permanent. The industry needs to urgently go through a step change, so climb out of that legacy-hole and prevent each other from digging a new one.

About the author: Nawal Taneja is an experienced airline business strategist and the author of two recent books on the airline industry: *Airline Survival Kit* (2003) and *Driving Airline Business Strategies through Emerging Technology* (2002).

About the reviewer: Boubby Grin, now an independent strategy consultant and partner of the Stratagem Group, has broad experience in the field of airline strategies. He served as director of business strategies with a major international carrier for more than 15 years. He has published many articles and papers on aviation developments, network designs and strategy modelling.