Walk before you fly—capturing the digital opportunity in airlines

A focused approach to digitization can help airlines create value faster than overambitious transformations do.

Gerrit Becker, Jaap Bouwer, Dirk John, and Jonas Toutaoui
At a time of wide-ranging digital disruption throughout the world economy, many airlines have embarked on full-blown digital transformations, both to protect themselves and to gain a competitive edge. Yet 70 percent of all large-scale transformation programs, no matter which goals they pursue, lose their footing, bog down in confusion, or never reach their potential.

In the long run, the digitization of a company must reach its core operations; it shouldn’t be limited to the building of a new mobile app or the appointment of a chief digital officer. But while an airline works toward the core and its long-range goals, it can move rapidly to meet many of its transformational needs. This path to transformation—a path that builds on three basic lessons we learned through our work and research—takes much less time than overambitious programs do and prepares the way for more far-reaching efforts as well. Airlines can use it to guide their digital transformations.

The digital opportunity for airlines
Digital natives such as Amazon, Netflix, and Uber have used a customer-centric business approach to take significant market share in many sectors. Airlines aren’t protected: travel start-ups, with $5.5 billion in venture-capital funding last year—up from $0.5 billion in 20101—hope to succeed with innovative solutions focused on distribution and customization. Yet incumbents too can capture significant value from digitization. In our experience, this value has four principal sources.

First, digitization can make customers more satisfied and more loyal. By smoothing out process flows, making interactions less cumbersome, and speeding up processing times, these technologies typically raise customer-satisfaction scores by five to ten percentage points. That translates into higher conversion rates and customer loyalty.

Second, digitization can reduce costs by streamlining and automating processes—typically, for cost savings of 8 to 10 percent in the affected areas. A full-service international airline could, for example, add 20 percentage points to its self-service check-in rate by creating a smoother experience and a simpler interface for its app, its presence on airline.com, and its kiosks.

Third, digitization can lift revenues to the tune of 5 to 10 percent by helping airlines to generate deeper insights into what customers want (and make offers to match) and by increasing levels of price differentiation and upselling. Online sales, for example, can rise by 50 percent when airlines use digital techniques (such as digital “nudges” and an improved user experience) to ensure that website visitors complete the process of booking flights.

Fourth, the agile ways of working associated with digitization can shave 50 to 80 percent off the lead times needed to release new features for apps (for instance, the ability to change flights on partner airlines). Prioritizing digital initiatives by value and reducing the length of delivery cycles can help incumbent airlines capture the benefits of digitization programs in six months, on average.

How digital transformations fail at airlines
Many of the sector’s leaders say that digital technologies and development methods rank among their top priorities. In fact, 80 percent of the 20 largest airlines (by traffic) specifically mentioned digital in their latest investor communications, and many of the world’s largest airlines have embarked on far-reaching digital transformations. As we’ve noted, a significant number of these efforts aim to bring about an end-to-end technology revolution that addresses many different issues at once. Our research suggests that only 30 percent of such large-scale efforts meet expectations. Here’s why:

- **The wrong digital priorities.** Airlines frequently misjudge the real needs of their customers. Business travelers, for example, are the major users of the mobile app, but most airlines don’t
adapt it to the specific requirements of these high-value customers—such as helping them to get out of airports quickly and making it easy to change flights. Instead, airlines devote significant time and resources to app features that business and other frequent travelers value less, such as social-media integration. The latest survey by SITA, an IT provider to airlines, shows that 92 percent of airlines plan major programs to provide passenger services through social media.2

These are problems of focus—in many ways, airlines are simply doing the wrong things. But their processes are faulty, as well.

- **Commitment and top-management role modeling.** In roughly a third of the unsuccessful programs, one prime cause of failure is management behavior that doesn’t support the transformation. What’s needed is not only an intellectual understanding of digitization but also a management style reflecting the new requirements and practices of the digital age.

- **Functional silos and resistance to cultural change.** In the digital era, customer journeys (online paths to researching and purchasing flights) are central to everything. Since most parts of an airline have a role to play in these customer journeys, cross-functional teams are needed to exploit the digital opportunity. The characteristics of the industry (such as its heavily networked structures, perishable assets, and functional organizations) create many interdependencies across the whole organization. Isolating use cases (the way customers utilize the features of an app or website) to a single function, or even to only a few, is therefore impossible; airlines have a significantly higher need for collaboration than companies in many nonservice industries do.

Another cultural issue is safety. Airlines, by the nature of their business, have an error-free, always-right mentality. In some respects, that is absolutely necessary, but this standard mindset is very different from the trial-and-error, fail-fast approach characteristic of digitization. Airlines will have to decide where they truly cannot tolerate mistakes (in their core airline operations) and where they can (in, for example, A/B testing of new app functions).

- **Recruiting and retaining digital talent.** Airlines must complement their own staffs by gaining access to the knowledge and skills of experienced data scientists, agile developers, and IT architects. These kinds of people are in high and rising demand, so attracting them takes considerable time, effort, and money. Unfortunately, they often see airlines as less appealing places to work than, say, Google or Netflix. And once you find such specialists, integrating them into the existing organization is difficult because other employees might resist anything they do as coming from a hostile, alien world.

**An alternative path**

A different approach, guided by three basic lessons, could help airlines generate value from digitization more quickly and at the same time build the momentum required for an overall digital transformation. Any airline can apply these lessons immediately, whether or not it is undergoing such a transformation.

**First, solve the basics**

The latest global passenger survey from the International Air Transport Association showed that just 52 percent of passengers in Europe are satisfied with their travel experience. Our own research3 indicates that airlines only partly meet the expectations of two-thirds of all passengers, who are most concerned about three basic problems: changing flights, bookings that involve partner airlines, and status updates (exhibit). Eighty percent of the passengers we surveyed believe that airlines should focus on these issues. We couldn’t agree
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day-of-travel use cases, such as check-in or same-day flight changes. The picture is more balanced for sales and redemption.

Beyond the pain points, a rigid prioritization logic must prevail. Airlines in a digital transformation should judge the business value of each IT initiative by the lights of their strategy, their customer-satisfaction level (if that isn’t a strategic issue), and the business case. And they must be willing to stop projects and shift resources if prioritization logic suggests that they should. In any event, they ought to focus on alleviating the customer’s basic complaints, not on developing fancy new digital products as ends in themselves. Recently, we have

Exhibit

Changing flights, partner-airline links, and status updates are the most problematic basic services for customers.

Question: Which missing service you expect and consider basic is causing the highest amount of frustration for you as a traveler? % share

<table>
<thead>
<tr>
<th>Service</th>
<th>% Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changing flights</td>
<td>20</td>
</tr>
<tr>
<td>Partner airline link</td>
<td>17</td>
</tr>
<tr>
<td>Receiving updates</td>
<td>15</td>
</tr>
<tr>
<td>App functionality</td>
<td>12</td>
</tr>
<tr>
<td>Check-in</td>
<td>10</td>
</tr>
<tr>
<td>Seat selection</td>
<td>8</td>
</tr>
<tr>
<td>Issuing boarding passes</td>
<td>7</td>
</tr>
<tr>
<td>Frequent flyer program</td>
<td>7</td>
</tr>
<tr>
<td>Delay prediction</td>
<td>2</td>
</tr>
<tr>
<td>Bag tracking</td>
<td>2</td>
</tr>
</tbody>
</table>

“Being able to change or cancel flights without needing to call a help desk”

“Check in easily when flying with a different airline”

“Status updates. I frequently get them via TripIt before they arrive in the app”

“The app constantly breaks down ... and I frequently need to log in again and type my email address and password”

“Improve auto check-in to account for my previous travel preferences”

“Unable to view or change seat selection”

“Not having the electronic boarding pass on all my flights”

“Access to services on the frequent-flyer program is not simple and direct”

“Delay prediction: no airline manages it”

“Baggage prediction: tracking or missing-bag reports”

Source: Short internal survey of frequent flyers (n = 65), 76% percent of whom take more than 40 flights a year

more: deploying digital technologies to fix basic pain points not only makes passengers happier (or at least less frustrated) but also creates early successes that can promote a larger, more fundamental transformation.

To fix such basic problems, airlines should first rank their channels by value. Since the most valuable customers use the mobile app, that is usually the top priority for carriers. The mobile website is the second most important channel because it attracts more people than the desktop website does. Specific features should then be ranked by their frequency of usage on each of these channels. Typically, for example, mobile apps are preferred for day-of-travel use cases, such as check-in or same-day flight changes. The picture is more balanced for sales and redemption.

Beyond the pain points, a rigid prioritization logic must prevail. Airlines in a digital transformation should judge the business value of each IT initiative by the lights of their strategy, their customer-satisfaction level (if that isn’t a strategic issue), and the business case. And they must be willing to stop projects and shift resources if prioritization logic suggests that they should. In any event, they ought to focus on alleviating the customer’s basic complaints, not on developing fancy new digital products as ends in themselves. Recently, we have
seen several airlines analyze their current portfolios of digital initiatives. In most cases, more than half had no clearly defined or agreed-upon impact target. Cross-functional projects led at the C-level would help airlines to clean up their portfolios of digital initiatives, focus on the value-generating parts, and generate new value-adding initiatives more quickly.

Don’t reinvent the wheel
A newly formed digital unit often invests much effort in tweaking app features. But the fastest, most efficient way to develop them is actually to draw inspiration from strong competitors. Most airline apps offer the same basic functions, including check-in and push notifications for gate changes; some have advanced ones, such as a status-on-standby list and the ability to rebook cancelled flights. Novelty and glitz aren’t important here, so these features should reflect industry best practice. In the long run, a user experience tuned to a specific airline can make digital solutions more effective. But in the early going, airlines should take a common-sense approach to the most frequent use cases, which are much more important and can provide a shortcut to generating value through quick wins.

Digital shops also tend to reinvent the wheel in another way: they use significant resources to build standard components (such as payment services, basic data analytics, and frequent-flier management services) that can’t really differentiate an airline. All these can be purchased as products. (Airlines might even find that they have already developed a component for one channel and could use it on the others.) Granted, these products need to be integrated into an airline’s existing IT systems. But there are relatively trouble-free ways to do so—for instance, setting up modular services or creating IT environments specifically for experimentation in the cloud.

In digital shops we know, it’s not uncommon to find that standard components could replace a quarter of the investments. Usually, such outlays are justified by claims that when these projects started, no standard existed or specific features were missing. It is often easy to make digital solutions significantly less complex and to refocus efforts on high-value initiatives.

Tap the potential within your own organization
Airlines too often go on digital hiring sprees to attract Amazonians, Googlers, and the like. As we have seen, that kind of recruiting is difficult and often unsuccessful. Instead, first look for knowledgeable, open-minded employees within your own company, reinforcing them with outside experts as necessary. Then build cross-functional teams that have clear goals and efficient decision-making processes.

At one company, for example, several customer journeys were fully digitized by cross-functional teams of existing staff, with the help of external service providers who brought knowledge of scrum methodology, agile development, design thinking, and digital skills. The internal members, drawn from throughout the organization, were committed full-time to the new role. This mix of internal people with vast business knowledge and external experts with strong methodological and technical skills not only promoted internal acceptance of the program but also helped to create the digital unit’s new culture. The teams themselves made most of the decisions; for the rest, a steering committee met directly with the chief executive and the board.

Traditional executives themselves made such go/no-go decisions and passed judgment on pilot projects and new features. But in the digital era, executives manage by allocating financial resources and high-caliber talent to cross-functional teams and then empowering them to make their own decisions. In some cases, the team acts without first developing a business case or detailed project plans, and it may report directly to the board of directors,
bypassing all other hierarchies. Embracing these very unusual arrangements helps top management show its commitment to this new role. So does reaching out to executives of other large companies that have set forth on the digital transition.

Like so many far-reaching changes, digital hasn’t been plain sailing for most companies. Yet its promise is real. Incumbents that use our three lessons of digitization to solve one customer issue at a time can not only avoid digital disruption but also reap its benefits.

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3. We conducted a short, nonrepresentative survey of very frequent travelers, 76 percent of whom take more than 40 flights a year.

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