



Lead Lines - When the going gets tough, the tough adjust and keep going.

Despite consistent growth in air traffic demand, airlines struggle to survive in what has become a landscape riddled with declining profits, bankruptcy and consolidations. The industry is over-ripe for renewal and is in dire need of innovative and profitable business models. Those who do not adapt may face a short future.

Yet, the future of the aviation industry looks bright. The world is ever-more globalized and air traffic is a fundamental factor in international trade (35%) and for connecting people. Forecasts by the International Air Transport Association (IATA) show that air passenger demand will nearly double over the next 15 years to 7.8 billion passengers annually, of which the Asia Pacific region will contribute more than half of the excess demand. The growth in international aviation will require twice as many aircraft, more than 600,000 new pilots and additionally 800,000 new cabin crew on a global basis. The market expansion and the future growth potential has led to a significant increase in the number of airlines worldwide, with more than 1,300 new airlines established over the past 40 years, which in turn has led to more

competition and increased rivalry in the industry.

International aviation is now riddled with decreasing profitability, bankruptcy and consolidations. The switching cost is low for passengers, leading to a fierce price competition that squeezes margins. Many airlines find themselves in the middle of the value chain - between manufacturers, airports and travel agencies - where returns are low. In order to address these challenges adequately, one would need to challenge the traditional business paradigm and break out of old habits.

Fierce competition

In a competitive landscape, differential factors and brand distinctiveness are crucial in order to stand out in the crowd and ultimately succeed. While

only a few players can have the relative price advantage, many airlines must identify other differentiation factors that can make them the preferred choice among travelers. Such differential factors can, among others, relate to cutting-edge technological solutions, unique services or routes, exceptional customer experience, or the combination of such. Being a market leader in certain areas often requires specialisation and a willingness to outsource parts of the value chain to external actors who have better capabilities and a competitive advantage. Outsourcing may also be an effective measure to free capacity for other cost-reducing activities.

Overcapacity

Another pressing challenge that airlines face is related to the choice of capacity, i.e. the choice of aircraft fleet size. When

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setting capacity, airlines have distinct incentives to make bold choices, such as discounts, economies of scale and/or the upward return of having free capacity in periods of high demand. As capacity decisions are irreversible in the short term, there is a significant risk connected with acquiring too much capacity, particularly in an industry where the accessibility of qualified personnel is scarce. Today, many airlines operate connections that only cover their marginal costs of operation, not the capital cost already incurred. Even worse, many airlines have perfectly functioning planes/fleets standing on the ground due to the lack of aircrew to operate them.

Efficient resource allocation

Airlines' ability to allocate their capacity efficiently is key to maintaining momentum in the market and outpace competition. Air traffic demand, as well as the accessibility of qualified personnel, varies across the globe. The industry has paradoxically been very locally organized as airlines mainly operate out of their "home market" to their respective destinations. Seeking additional flexibility by i.e. reversing routes represents a huge competitive advantage in terms of both cost reductions and access to sufficient competent personnel. Opening bases outside of "home markets" without the proper infrastructure and local expertise may, however, prove quite difficult, as several airlines that have explored this opportunity have experienced. Each country has its own culture, legislation, regulation and conditions one must comply with and adapt to. Attaining an overview over these factors and meeting these requirements can be a costly and time-consuming process. For many airlines, this is a barrier that prevents them from entering profitable markets and potentially limits their chances of attracting and retaining crew.

Need for new business models

In accordance with Darwin's famous theorem "survival of the fittest," I believe that the future belongs to the companies that are the most adaptable to changing circumstances, and I believe the industry is over-ripe for renewal and new business models.

Operating an airline is a labour intensive business, with a large number of pilots, flight attendants, mechanics, baggage handlers and reservation agents employed. As a result, more than one third of airlines' revenue is spent to pay its workforce. All these factors put a tremendous pressure on costs, and profit margins are thin. It is long overdue to rethink and move toward a more sustainable model on how to attract, employ and manage crew in aviation which fit the current trends. In OSM Aviation, we seek to lead these developments in a positive and responsible manner and support the airlines to continuously stay agile and legally compliant in all areas of Recruitment, Training, Planning and HR.

OSM Aviation is present in 18 countries worldwide and our expertise within aviation crew management enables airlines to shift their focus and capacity towards other cost-reducing and differentiating activities, making them "the fittest" in the aviation business. Through outsourcing, airlines can easily open new bases outside their home markets by leveraging on an already existing infrastructure and local expertise, essentially improving their flexibility and enabling expansion into new markets and regions.

There is indeed a "war" for talents, customers and margins in international aviation, and only those willing to drive change and accommodate market demands will succeed. In the end, the saying that "the fast eat the slow" remains valid. Disrupt or Die.

AUTHOR PROFILE



Espen Høiby

CEO, OSM Aviation

Biography

Mr. Espen Høiby is founder and CEO of OSM Aviation. He has long leadership and management experience from the aviation and aviation training industry.

Experience include turnaround management, developing and implementing major cost and organisational reduction programs, mergers, developing new commercial initiatives for major airline and developing new strategic initiatives for aviation training center. Other qualifications and experience include several board positions for both start-up and well-established companies, general manager for start-up companies, pedagogical training and Airline Captain for SAS Scandinavian Airlines. Mr. Espen Høiby holds a MBA from IMD, Switzerland.

Espen Høiby founded OSM Aviation in 2013, making it the first company to offer Total Crew Management, - a full range of management and recruitment services for the aviation industry. With a clear vision of becoming the leading aviation management company, OSM Aviation has in just 5 years of business disrupted the business paradigm and is currently employing approximately 6,000 people in 18 countries worldwide.

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