

# Going beyond budgeting

Financial planning & analysis (FP&A) organisations should be a key source of insight into possible business improvements. Matthew Schabas from Seabury Aviation Consulting explains how transforming FP&A teams from spreadsheet-focussed financial controllers to business partners is the way forward

Europe has seen aggressive competition and capacity growth over the last two decades, resulting in more passengers paying lower fares. The emergence of low-cost carriers, together with a culture devoted to keeping costs to a minimum, has made cost control a key focus. How can regional airlines rise to the challenge?

## Driving down costs

Keeping a continual focus on cost throughout the revenue cycle is the number one factor in driving long-term competitive advantages. Rising costs are not inevitable: many major airlines have been able to drive costs down in recent years. While some costs, such as fuel, lie beyond airlines' immediate control, many cost categories are being managed downwards (see Figure 1 below).

Many managers accept the necessity of cost control, but dread the actual activities required to deliver reductions. This cycle must be broken by improving the experience of controlling costs.

Delivering low unit costs requires pressure on two factors: efficiency and price. The airline production process is complicated and requires significant cross-functional cooperation. Traditional structures only reward managers and their finance partners for thinking within their own areas of control, leaving undiscovered opportunities. Procurement often suffers from focusing on comparing sticker prices, not a full life-cycle evaluation.

## Consistent negotiation

Price is important, but a 'cheap, hard bargain culture' is often counter-productive. Organisations that negotiate consistently and honestly have a competitive advantage. Competitive negotiations are a must, but almost every airline-supplier relationship can drive lower end-to-end costs through partnership.

## Best practice

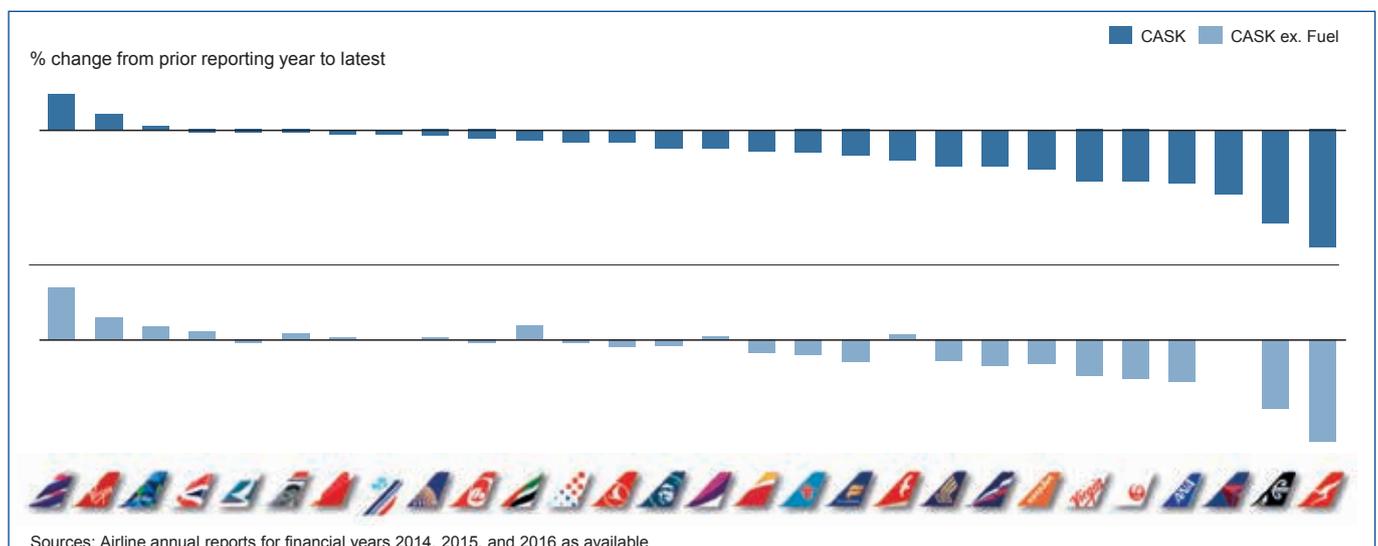
Traditional FP&A teams were responsible for preparing and monitoring budgets. Their purpose was to report corporate performance and produce near-term forecasts. Working from an accounting and reporting viewpoint made a true business partnership difficult.

Every airline wants their whole leadership team to have a deep knowledge of what drives costs both internally and with partners. In top airlines, FP&A teams make sure the full activities and production costs are understood by more than just senior management.

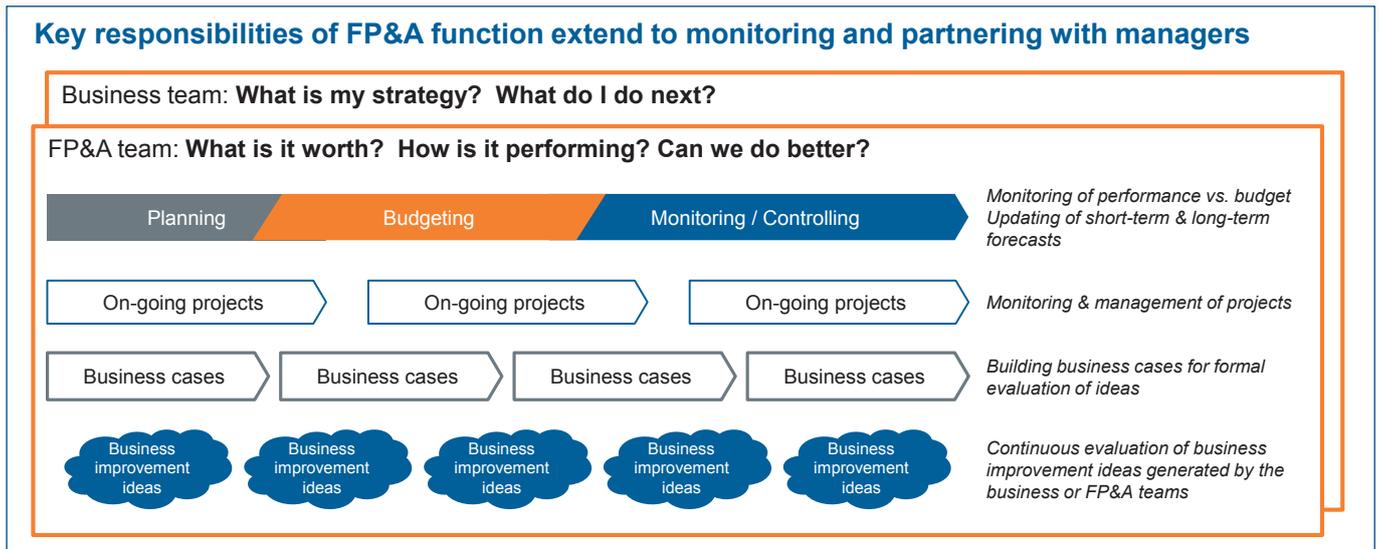
At the same time, growth in data and fast software tools have often expanded FP&A into an ad hoc business intelligence role. Emerging best practice is to empower these teams beyond their traditional role to run detailed analytics.

"It is well documented that simply providing data doesn't drive value; our focus is on simplifying data so that it can be understood and then translating into actionable insights," says Paul Cullen, Managing Director of FP&A at Southwest Airlines.

Figure 1. Year-over-year CASK change at selected airlines



**Figure 2. Financial planning & analysis monitoring**



The best finance teams organise their analytical, reporting and management routines to continuously answer three key questions (see Figure 2 above): What is our strategy worth? How is it performing? Can we do better? These FP&A teams are empowered to think beyond budgeting and find business improvements.

**Critical thinking**

A best practice FP&A team blends finance, data analysis, business curiosity and creative problem solving. Viewing FP&A as an ongoing task, with a team empowered to challenge department budgets and norms, identify areas for cost reduction and oversee change, is the first step. The best teams have



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analytical skills, inquisitiveness to dig deeper into airline cost structures and the ability to communicate with managers to persuade them to support proposed initiatives.

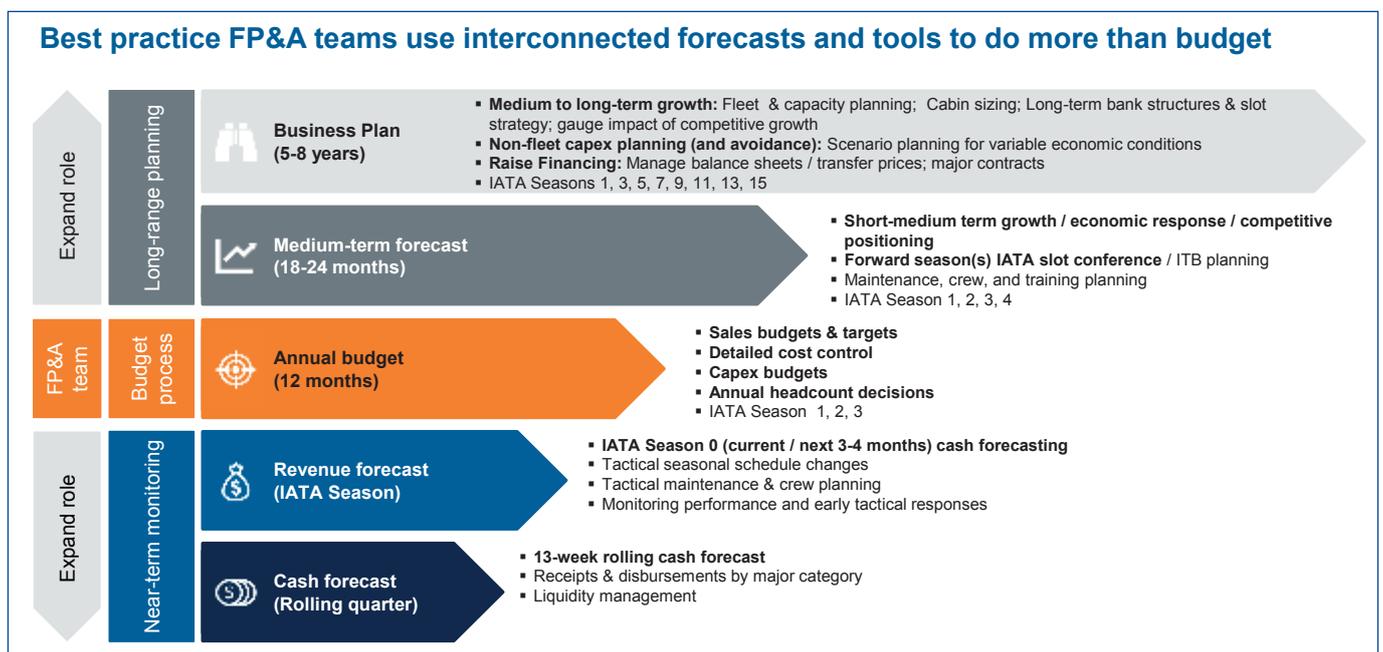
The future of FP&A lies in using the power of data to understand what drives costs, revenues and the resulting business case. Tangible returns will come from investment in training to observe and think critically about what is required to deliver processes. Airlines are discovering that granular analysis can uncover substantial opportunities that can be invisible in aggregated budget line item studies.

Finally, the annual, quarterly and monthly time focus must be broadened to cover the long-term and simultaneous operational seasons. Well-run airlines with high returns invest in the

capabilities to keep the short and long term in simultaneous focus. Their FP&A teams maintain a range of linked forecasts as outlined in Figure 3 below.

Investing in best practice tools for an empowered FP&A team does not contradict cost control objectives. The overhead and up-front costs will be paid off through developing existing talent into leaders who can champion cost control and deliver fast results. A two per cent improvement in CASK (Cost per Available Seat-Kilometre) will have an enormous impact for airlines and their narrow profit margins. Finding that improvement requires great partnerships, plenty of smart thinking and detailed planning; not high-level estimates and abstract, top-down targets. Getting it right is not easy but it will make a difference. ■

Figure 3. Best practice: interconnected forecasts and tools



\*Seabury is a global advisory and investment banking firm. The firm provides information covering the aviation, air cargo and maritime industry with a depth of analytics to support rapid decision making. [www.seaburygroup.com](http://www.seaburygroup.com) | [info@seaburygroup.com](mailto:info@seaburygroup.com)