

What SMEs can learn from disruptive airline operating models



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Date: April 2021



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Following the success of the first high profile low-cost airline, Southwest Airlines, their model was copied, and many other low-cost airlines were launched around the world.



When low-cost airlines started to increase market share and challenge established airlines, those established airlines had to sit up and rethink their customer service and value proposition. Established airlines had to become more competitive, their traditional approach of sales campaigns with reduced fares would no longer be a sustainable sales solution.

Why established airlines must find ways to differentiate

Established airlines needed to review their business model and find ways to reduce fares to compete in a sustainable manner whilst augmenting with relevant service differentiators. When comparing the business model of an established airline to the business model of a low-cost airline, the low-cost airline model manages to operate with a lower number of fixed costs and more on-demand or volume/consumption-based costs for services provided by companies that specialise in providing those functions.

The established airline model had a higher proportion of fixed cost overheads and owned assets and themselves performed a higher proportion of industry-common services, many back-office functions and information, communications and technology functions – rather than utilising the services of companies that specialise in providing those functions and services more cost effectively and using industry best practice and global scale to optimise their costs.

Established airlines had to start to review their own business models and the cost breakdown of their costs, fixed versus variable, on-demand or consumption-based. They realised they needed to transform their business models and shift significant portions of their costs from ‘fixed’ overheads to more on-demand or volume consumed-based costs, thereby enabling agility in a price driven marketplace with the scope to be more responsive to price competition whilst maintaining profitability and introducing more resilience into their business model through a valued and tailored service provision.

Airlines that transformed their business models to be more cost efficient not only became cost competitive but more resilient in times of economic downturns such as the Asian Financial Crisis and the Global Financial Crisis or health crisis such as SARS and COVID-19.



Low-cost airlines outsourced services traditionally managed in-house by the established airlines.

Why SMEs must work with strategic business model experts

This lesson applies not only to the airline industry but to companies in all industries. Companies can engage third party suppliers for services to be via a service contract and well managed Service Level Agreements. SLAs that have a small or no fixed commitment and tiered or non-tiered volume discounted pricing with built in performance service level KPIs to ensure standards meet the levels that the company needs to maintain brand credibility and customer service levels.

The services industry is an industry in itself and when companies or government need to assess, review or transform their business model to be more cost efficient, flexible and resilient or purchase new services then they should work with an organisation that specialises in assessing, reviewing and transforming business models and has the capability and experience to assist them in achieving their goals.

CDRU have two decades of expertise in;

- assessing the current-state model and services.
- defining the optimum services required.
- defining the achievable benefits and the transformation process.
- preparing the go-to-market process including benchmarking.
- identifying the service providers with the capability to provide the required services.
- utilising extensive experience at working with service providers to workshop and formulate an in depth understanding of the services required.
- evaluating the proposals to ensure that they achieve the business objectives and are at a competitive market rate.
- negotiating with service providers to obtain the desired output.
- finalising contract service agreements and appropriate SLAs to deliver agreed service outcomes.
- managing the transformation and transition to the new service agreement.

Who better to partner with when devising your services transformation

CDRU can work with you to manage complex transformation processes and supplier relationships, and ensure incumbent suppliers remain competitive and aligned with your needs now and in the future.

CDRU's methodology and expertise helps to deliver guaranteed ROI and Outcomes. Always.

Get in touch with one of our friendly team today.

