

We Listen We Care We Solve



LSG Sky Chefs – Whitepaper **Differentiating In-flight Services**

Mark Booth, Senior Business Analyst



Differentiating In-flight Services

Table of Contents

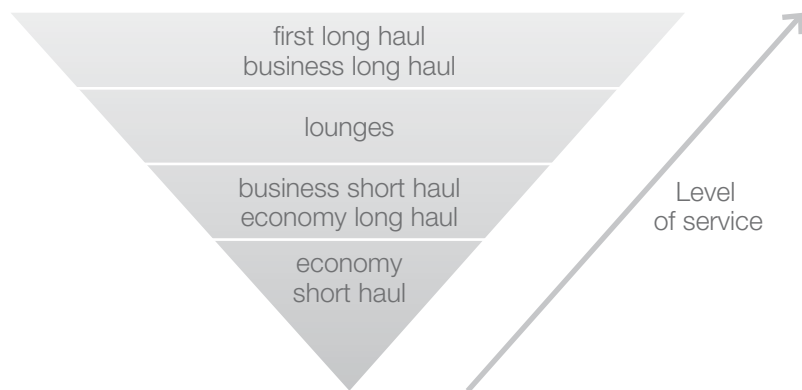
The passenger experience	3
Continued savings	3
Back to Economy	4
From meal free to Buy-On-Board	4
The caterers' dilemma	5
Extending the journey	5
The long and short of it	6
In the air	6
Chef on board	7
Continuous challenge	7

As competition for passengers continues to increase at an alarming pace, airlines are constantly looking to differentiate themselves from their competitors, while simultaneously finding ways to cut costs. In a series of upcoming whitepapers, LSG Sky Chefs will be examining the in-flight catering service offering and identifying the different aspects within it that airlines can utilize to reduce costs and/or differentiate themselves. This includes everything from product and service innovations, for example lightweight trolleys, new packaging designs and food trends to back-end processes, such as the direct sourcing of equipment and corresponding efficiencies in the set-up of the logistics network.

The passenger experience

The pre, in, and post-flight passenger experience is where an airline can clearly differentiate itself. Ironically, it is also one of the areas where, in light of tighter overall budgets, cost cuts are easily made. Today, many airlines are trying to do both, by reducing spend on short haul flights, while trying to upgrade their First and Business class offering and thereby improve travelers' in-flight service experiences. However, in response to the economic crisis many companies have drastically changed their travel policies, expecting employees, and in some cases even senior management, to downgrade and fly in Economy class. With signs of the global economy in recovery, this trend may be reversed somewhat, but it is unlikely that it will return to pre-crisis levels. And, as a result, some airlines have already begun introducing special service offerings for premium customers flying in Economy class.

With many elite passengers being forced to travel in Economy class by their employers, airlines are now facing a service dilemma. Hence American Airlines' Premium Customer in Coach Program.



Continued savings

In recent years many legacy airlines have been forced to reduce their costs in order to remain competitive. The growing number of budget airlines and the recent economic crisis has resulted in a transformation in the aviation tariff structure – from a cost plus to a market driven structure – as capacity now exceeds demand. Under these market conditions, many passengers are now actively searching for cheaper flights. However, it's not only the general public that are demanding savings, at the end of 2009 for example, Air India was informed by Civil Aviation Minister Praful Patel that *“they will have to provide a revenue enhancement and a cost-cutting program worth about 20 billion rupees, in order to qualify for a government bailout”*¹. Cost pressures prevail, and they seem to be coming at the airlines from all sides.



Air India

When identifying quick solutions for cost savings, airlines often look to in-flight services, and in particular to short haul flights. In fact, throughout Europe and the US the trend of the “meal free” economy seat is on the rise. In July 2009

“Only after two-and-a-half hours in the air passengers require more substantial refreshments”

BA research

for example, BA announced that they would be cutting complimentary meals for economy passengers travelling on shorter flights, except for flights before 10am where they would still serve breakfast. According to BA's own research *“it was only after two-and-a-half hours in the air that passengers require more substantial refreshments”*². By taking these steps BA expected to generate savings of £22 million, as well as considerably cut down on waste. However, BA did not say if these figures took into consideration the fact that passengers may fly with other airlines once they had removed one of the main differentiators from their competitors.

Back to Economy

The effect of cutting complementary meals in Economy class has led to competition being focused on prices, airport locations, and the quality of the in-flight services. Also, as passengers are now even more sensitive to frequent flyer points than they were in the past, legacy airlines are relying on loyalty programs to play an important role in keeping existing customers. In the 2009 Frequent Flyer Survey, findings revealed that *“66 % of frequent flyers believed that air miles and points have become more important to them now that the global economy is going through a downturn period”*³. Therefore, elite flyers are more likely to choose to fly with an airline in their network, if possible, in order to keep their frequent flyer status.

The reason for flying however, i.e. business or pleasure, is no longer the class divider it once was. As explained by an American respondent in the 2009, Impact of Economic Downturn in the Flight Catering Industry report *“the business traveller is not flying business anymore. Anything less than 10 hours, they do not fly business any more, their companies are only paying for economy”*⁴. Accordingly, American Airlines have introduced a program – Premium Customer in Coach – whereby cabin crew refer to elite passengers in Economy class by name during cabin service and offer them free drinks and free Buy-on-Board (BOB) snacks.

From meal free to Buy-On-Board

On short-haul flights, many legacy airlines have significantly scaled down their economy passenger offering and only offer BOB. Within this sector the industry is now split into three main segments. Those offering full service, such as Qatar, those offering complimentary meals on flights longer than three hours and snacks on non-domestic shorter flights, such as Lufthansa, and those primarily offering BOB, such as SAS. Therefore, in order for airlines in the third category to differentiate themselves, it is important that they offer passengers higher quality BOB than their competitors.

“The quality of beverages, sandwiches, meals and salads were most important to passengers ...”

LSG Sky Chefs survey 2009

The caterers' dilemma

In-flight catering companies now face the challenge of producing and/or sourcing high quality snacks and BOB that reflect an airline's brand, while offering cost savings at every opportunity. The challenge lies in working together with airlines to identify the values passengers put on different components in the catering offering. If it's a good cup of free coffee rather than branded peanuts, savings can obviously be made on snacks, coffee however, should be prioritized. For example, a 2009 survey carried out by LSG Sky Chefs revealed that within BOB *“the quality of beverages, sandwiches, meals and salads were most important to passengers, whilst the brand of snacks was relatively unimportant”*⁵. The same survey also revealed that *“over 50% of passengers purchase food/beverages at least once every 3–4 trips to the airport”*. This is particularly interesting for companies such as Germanwings, a budget airline that offers its passengers a varied selection of fresh and non-perishables that are *“better value for money than most airports”*⁶. Obviously their goal is to sell food/beverages twice every 3–4 flights.

Extending the journey

Caterers however, are not only serving airlines in the air, today many of them are also providing pre-and post flight catering. Airlines have turned to the lounge as an important marketing tool to establish their brand and profile their services by creating a unique passenger experience for premium passengers that sets them apart from the competition. Recent findings from the 2009 Better Business Results revealed that *“earning free access to the lounge is the most important thing among frequent flyers”*⁷. The lounge is a particular thankful channel for an airline to distinguish a brand as no matter how well equipped an airplane is, there are always conditions that cannot be met at 35,000 ft. On the ground airlines have the chance to address their customers before they even reach the plane. In fact this has become such an integral part of the travel experience for elite flyers that many passengers arrive at an airport several hours ahead of their flight just to relax in the lounge.



Qantas First Lounge – Guests are treated at a Payot Paris day spa

When Qantas opened its new lounge in Sydney, for example, they set the benchmark by working with the best Australian designers and architects to create something unique. They also employed the service of Neil Perry, an award winning Australian chef, to design the a la carte and bar menus. Moreover, with complimentary spa services also available in the lounge, Qantas provides its elite passengers with a luxury package that enables them to experience the brand before the flight. As Henry Harteveltd, said in the New York Times in early 2008 *“Airlines realize wisely that lounges are also a critical part of the brand experience”*⁸.

"In-flight food and beverage [...] is a key differentiator and a very tangible expression of our brand"

Simon Soni
Head of in-flight services
Virgin Atlantic Airways



Sven Elverfeld for LSG Sky Chefs.
One of many Star Chefs featured on
Lufthansa flights

Today airlines and alliances are even pooling resources to provide joint lounges that increase the overall experience for passengers. Star Alliance, One World and Sky Team, for example, have recently converted 16 small lounges into four airy lounges at Los Angeles International, one for each alliance and another for passengers of unallied airlines.

The long and short of it

When it comes to long haul, differentiation within in-flight service is paramount, particularly in Business and First class. Airlines essentially have a captive audience where they can sell their brand to passengers by providing a high quality, entertaining selection of services. During this time it is essential that airlines consistently meet and/or over deliver on their branding promise. As Simon Soni, Head of In-flight Services at Virgin Atlantic Airways argues in David Grossman's article – Taking a bite out of costs *"the economic downturn has made it important that in-flight food and beverage is the best it possibly can be. It is a key differentiator and a very tangible expression of our brand"*⁹. Furthermore he goes on to say, "We work with some of the best catering companies in the world. We are an airline not a caterer".

In the air

Once in the air, virtually all legacy airlines' in-flight service offering is dependent on the same aspects, comfort, entertainment, the professionalism and service mindedness of staff, menu design, and of course the quality of the food and accompanying beverages. Over the years airlines have jostled for position regarding which is the leader of certain aspects of the in-flight offering, both from their own branded messaging and from the customer's point of view. However, the airlines that use the catering offering to differentiate themselves from competitors have all succeeded in convincing the market that they are one of the elite airlines of the world.

In the 1990's for example, Lufthansa began with their celebrity chef program "Star Chefs", where award winning chefs from some of the best known restaurants and hotels around the world designed menus for First and Business class passengers. This concept became so successful that many other airlines implemented similar programs.

Today however, it is mainly the airlines operating out of Asia and the Middle East that are using food to market their high quality services. Etihad Airways, is one of the most successful airlines at doing this. Their aim is to give all passengers a memorable in-flight experience, from First and Business Class, where a Food and Beverage Manager is there to assist passengers with their choice



Singapore Airlines – Best First Class and Best First Class Onboard Catering in 2009

of meal and accompanying beverage through to Economy class, where passengers can choose from as many as three main courses. Accordingly, they won the award for Best Economy Class Catering in 2007¹⁰, and in 2009 they were voted the World's Leading Airline¹¹. Of course, once an airline reaches this status, passengers' expectations increase, putting even more demands on airlines and caterers to continuously deliver to the same high standards. Something that Etihad Airways' Head of Catering, Werner Georg Kimmeringer, fully understands, "As the "World's Leading Airline" Etihad Airways has built a strong reputation for continually innovating and developing our service offering. We put tremendous time into researching and developing our in-flight dining to ensure our passengers have a world class experience whether in First, Business or Economy class"¹².

Another Middle Eastern airline that is recognized for its great "dining experience" is Qatar Airways, as their tagline suggests they are "the world's 5 star airline". The airline's main marketing message is first class food, which is reflected in everything they do from TV commercials and radio sponsorship through to their elaborate meals. For example, they turn a first class long haul flight into a culinary experience by offering elite passengers up to ten course meals, which if timed correctly, can take place over an entire journey. Singapore Airlines is another award winning airline (they were awarded Best First Class and Best First Class Onboard Catering in 2009¹³) that uses catering to differentiate itself from other airlines. In the Journal of Air Transport Management's paper on the airline they found it to be "a pioneer on innovations that have high impact on customer service for example in-flight entertainment, gourmet cuisine that includes fine wines, the ability to order one's choice of dishes in advance by internet, 'beds' in the air."¹⁴.



Gulf Air has around 100 Sky Chefs preparing meals in first class

Chef on board

Virtually all airlines serve ready prepared meals on board, regardless of whether it's a meal served on bone china in first class consisting of culinary delights such as caviar and foie gras (In 2007 Skytrax estimated that "a first-class meal now costs carriers between \$25 and \$50, a significant jump from five years ago"¹⁵) or an economy serving consisting of pasta and sponge cake. However, in the battle to distinguish the in-flight catering offering, few airlines have gone as far as Gulf Air which have around 100 Sky Chefs preparing meals according to passengers liking in Premium Class (Gulf Air have combined the First and Business Class offering). Cathay Pacific, which was voted Airline of the Year in the 2009 World Airline Awards¹⁶, have not quite gone that far, however, many of their planes have pans, toasters and rice cookers on board so that first class passengers can enjoy fresh eggs, toast and rice.

Continuous challenge

As airlines attempt to cajole passengers from competitors and keep their existing customers satisfied, a pattern seems to be emerging that sees western airlines focusing on savings first and differentiation second, while eastern airlines, that generally have lower overheads due to cheaper resources, are putting more focus on differentiation.

The continuous challenge for caterers is providing pre, in and post in-flight services that live up to an airline's brand's promise, differentiate it from competitors and cut costs, regardless of where it operates from. Obviously, this goes way beyond menu design, and includes such things as lightweight packaging solutions that can be used as brand building and provide savings through weight reduction, recycling programs that reduce costs and improve a company's image, and intelligent sourcing strategies that can provide higher quality goods at reduced costs.

Menu design of course, still has a very important role to play in differentiating an airline, not only in First and Business class, but, as we have seen, in Economy class too. In the past, (despite Business and First class travelers enjoying the majority of the value adding components of a journey), the message of high quality stuck with all passengers, including those in Economy, who bought into the promise of luxury pre and in-flight services. However, as more people are flying in Economy class today, and service levels are continuing to decrease, passengers are more determined to find which airlines provide the best in-flight offering at the right price.