



EMCC case studies

Transport and logistics sector: Air Berlin, Germany

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Over the last number of years, the German airline Air Berlin has experienced impressive double-digit growth rates measured by the increased number of passengers and revenue. Consequently, Air Berlin is now the second largest airline in Germany after Lufthansa, and the third largest low-fares airline in Europe.

The main market for Air Berlin is leisure flights between major European cities or flights to holiday destinations around the Mediterranean. As the company is particularly dependent on economic growth in Europe, it is currently looking towards northern European countries and other high-income areas in Europe to capture markets less sensitive to economic slowdown.

At present, Air Berlin employs 850 pilots – predominantly German pilots. The airline has set up its own flight academy in order to train and retain pilots to fly large airplanes. Opening up the flight academy was also an incentive by the company to make Air Berlin an attractive workplace in an effort to avoid work shortages. In light of this, Air Berlin does not expect pilot shortages in the foreseeable future.

Air Berlin expects that liberalisation of the airline industry will result in the opening up of airline markets in countries that represent new business opportunities for Air Berlin, such as Spain.

Introduction

Air Berlin operates flights to major European cities, as well as to the most popular holiday resorts around the Mediterranean, the Canary Islands and North Africa. The airline also operates a dense network of domestic flights between German cities.

During the Cold War, only civil aircraft from Allied nations – including the United States of America (US), the United Kingdom (UK) and France – were allowed to fly into Berlin. Air Berlin was founded in 1978 in the US to provide flights for tour operators from Berlin to Palma de Mallorca in Spain. In 1991, Air Berlin was registered as a company in Germany as Air Berlin GmbH & Co. Luftverkehrs KG, in partnership with Joachim Hunold (Air Berlin, 2007a) who became the airline's Chief Executive Officer (CEO). At that time, Air Berlin had 16 aircraft.

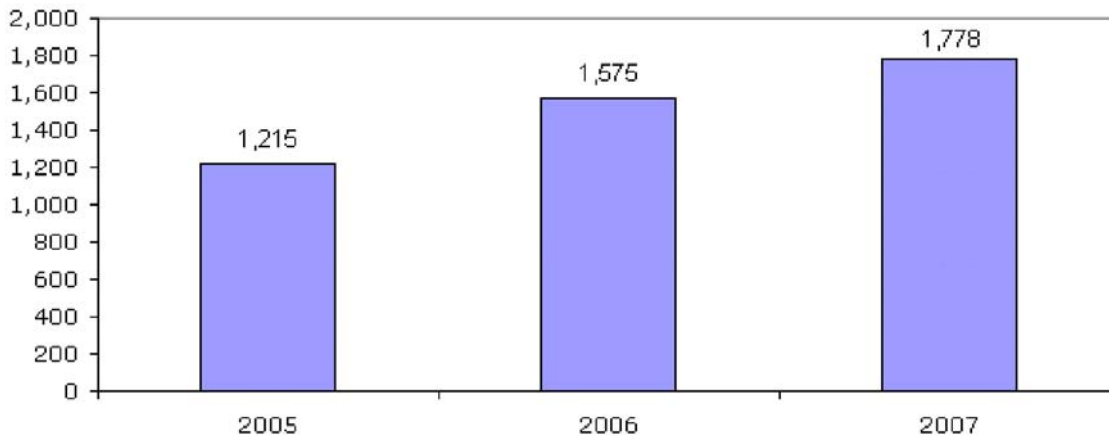
In 1997, Air Berlin began operating as a low-cost scheduled carrier to major European cities and increased its fleet to 31 aircraft. The airline began selling seats through its own call centre, with internet sales following a few years later.

In October 2002, Air Berlin launched its City Shuttle connecting German airports with major European cities such as Amsterdam, Barcelona, Bournemouth, Budapest, Copenhagen, Helsinki, London-Stansted, Madrid, Milan-Bergamo, Manchester, Paris, Rome, Vienna and Zurich. Berlin-Tegel is the home base of Air Berlin. In 2003, the airline carried 12 million passengers on 48 aircraft.

In December 2005, Air Berlin became the first German airline to offer domestic flights within the UK between London-Stansted and Glasgow and Manchester.

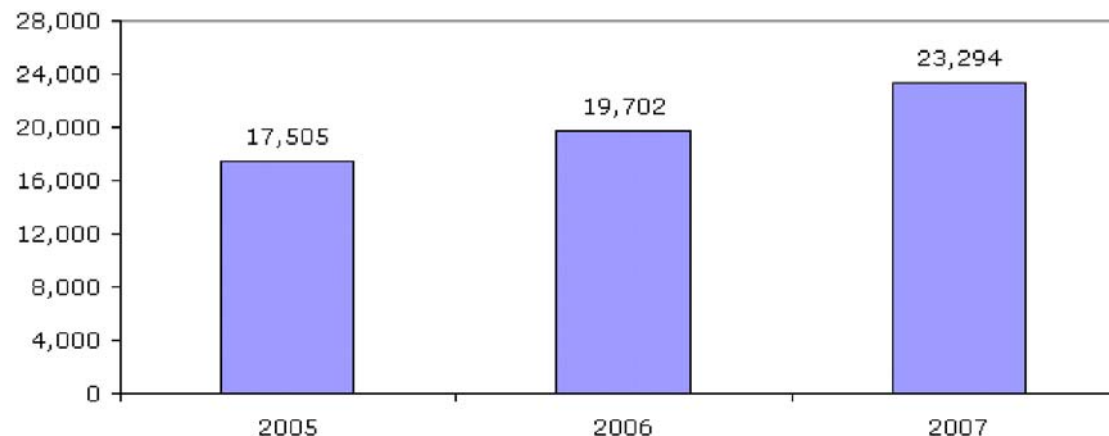
Air Berlin is currently the second largest airline in Germany after Lufthansa, and the third largest low-cost carrier in Europe, after Ryanair and easyJet (Air Berlin, 2007a). Figures 1 and 2 show the growth in Air Berlin's revenue and passenger numbers during the period 2005–2007.

Figure 1: Air Berlin's revenue growth, 2005–2007 (€ million)



Source: Air Berlin, 2007e

Figure 2: Air Berlin's passenger growth, 2005–2007



Source: Air Berlin, 2007e

Company development

Growth and expansion

Over the last number of years, Air Berlin has experienced substantial growth in terms of both passenger numbers and revenue. More recently, this growth has included the airline's successful mergers with FlyNiki (2004), dba (2006), Condor, LTU and Belair (2007) into one integrated Air Berlin Group (Air Berlin, 2006; Interview with Ingolf Hegner, 2007; Air Berlin, 2007a, 2007b, 2007c and 2007d). The mergers and acquisitions have given Air Berlin access to more airline markets and a larger fleet of aircraft, thus opening the company to increased flexibility and synergy effects (Interview with Ingolf Hegner, 2007).

The airline's main hubs are located in Nuremberg (southern Germany), Berlin (northeast Germany), Palma de Mallorca and London-Stansted (southeast England).

Air Berlin has managed to expand its operations while winning awards for its service according to the British consultancy company SkyTrax, which nominated Air Berlin as the best low-cost airline in Europe in 2006 and 2007 – and second in the world only to Jetstar Airways (SkyTrax, 2007; Air Berlin, 2008a). In 2005, Stiftung Warentest – the

leading German consumer safety organisation – voted Air Berlin the top airline in Germany on account of its service, straightforward business terms and good quality products (Air Berlin, 2008a).

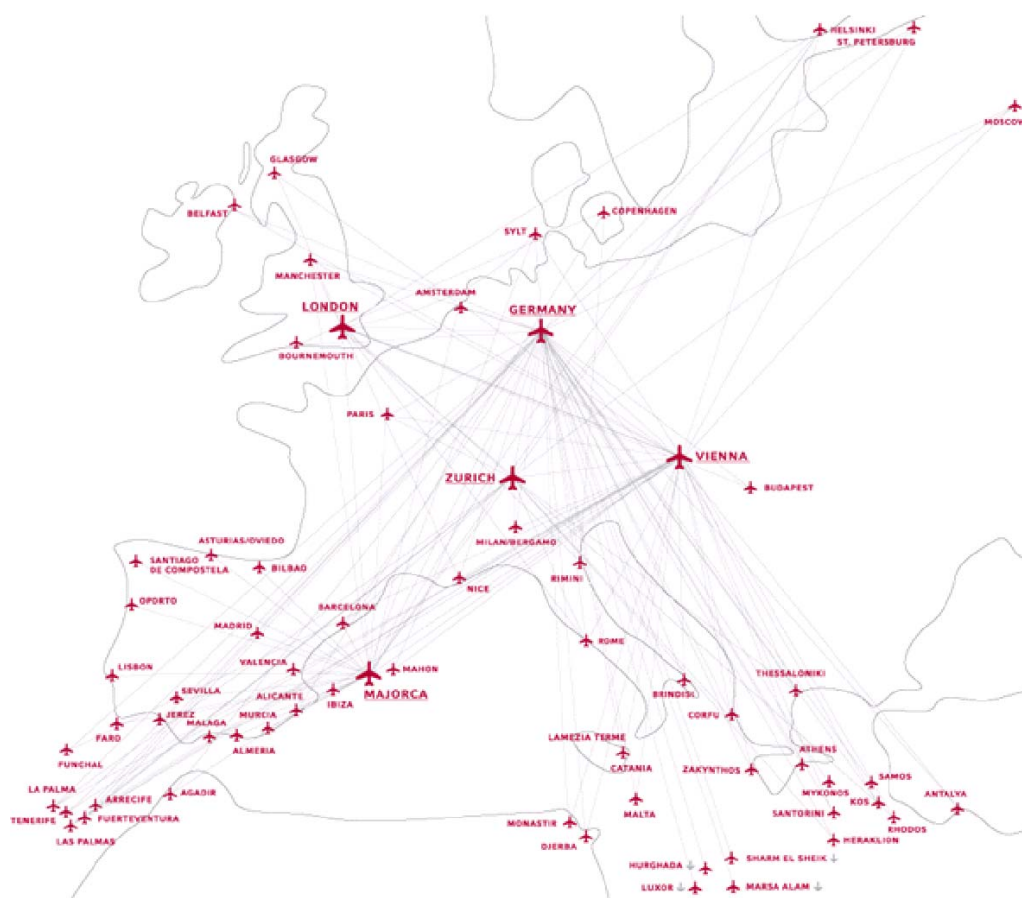
In 2006, the airline had a turnover of €1.57 billion (Air Berlin, 2007e). Table 1 highlights important figures for the company in 2006 and 2007 in terms of growth, while Figure 1 presents an overview of the expansion in the airline’s route network.

Table 1: Key figures on Air Berlin 2006 and 2007

Revenue 2006	€1,575,400,000
Number of passengers 2007	27,862,507
Passenger growth from 2006–2007	10.6%
Number of employees 2006	4,400
Number of destinations 2006	97
Fleet	Airbus 319-320, Boeing 737-800, Fokker F100

Source: Air Berlin, 2007e and Air Berlin, 2008b

Figure 3: Air Berlin route network between Germany and other countries



Source: Air Berlin, 2006c

Flight routes

Holiday destinations in Spain are particularly important for Air Berlin and the company has more than 360 weekly flights to the island of Mallorca in the Mediterranean during the peak holiday season (Air Berlin, 2008c). Moreover, Air Berlin offers services to most holiday destinations in the Mediterranean, the Canary Islands and North Africa along with the major European cities (Air Berlin, 2008c). Indeed, leisure and charter is such an influential factor affecting the demand for Air Berlin services that the company feels the effects of even a slight economic slowdown immediately (Interview with Ingolf Hegner, 2007).

The demand for short trips within Europe, such as a long weekend in Paris or London, is particularly sensitive to changes in the economy. According to the company's Head of Investor Relations, Ingolf Hegner: 'If people change their behaviour as regards short trips, this has an impact on Air Berlin because leisure trips still constitute a large portion of the business.' Hence, economic fluctuations are highly influential for the airline business, particularly airlines like Air Berlin which specialises in leisure and other passenger transport.

Hybrid carrier

According to Air Berlin, the company is most aptly characterised as a 'hybrid carrier'. The term refers to the company's aim of being both a low-fare carrier and a high-service carrier offering free meals on board and a range of services for business travellers (Interview with Ingolf Hegner, 2007; see also Textbox 1). Air Berlin makes a great effort to distance itself from airlines like Ryanair which it considers as a low-quality airline (ibid).

'We do not want to be compared to Ryanair. Our main competitor is Lufthansa. Flying Ryanair is a bit like taking the bus, and we offer more than that', explains Ralf Nagel who is a former Air Berlin pilot and is now Head of the Training Department within the company (Interview with Ralf Nagel, 2007).

The number of people among Air Berlin's customers who rebook to fly with the airline is much higher than at Ryanair and easyJet. Based on an analysis of its customers, Air Berlin has concluded that the company does not need to attract so many new customers due the high number of people who return to fly with the airline (Interview with Ingolf Hegner, 2007). One of the reasons for the high number of people rebooking is most likely the fact that Air Berlin flies into and out of centrally-located airports. Conversely, Ryanair collects people from decentralised areas, which is a major disadvantage in attracting customers (ibid).

The company also has some corporate customers, but for these passengers the most decisive factors for flying are corporate budgets or legislation.

Textbox 1: Interview with CEO Joachim Hunold

‘We never wanted to be a low-frills carrier and never wanted to be like a flag carrier. Where we position ourselves is as a hybrid carrier – in between the competitive European-scheduled aviation sector, which is a sector rife with competition and generally low margins. We have greatly raised the “customer experience” in this sector by creating its own segment, and providing an industry leading high-quality service at significantly low fares.

The service aspect is at the core of Air Berlin’s strategy, as we believe there is a large market that appreciates the value-added benefits of our services. Air Berlin’s customer management strategy is to provide the most attractive and “best in the market value” for scheduled air transportation services.

From the most comfortable, modern, fuel-efficient aircraft, to in-flight menus created by the famous Zanzibar restaurant, Air Berlin’s processes are driven with the customer in mind. We firmly believe that quality produces efficiency by delivering the best product in the market sector and achieving customer retention.

The market understands our strategy and continues to reward us with a consistent buying interest in the stock market. After initial concerns, experts now consider the “Air Berlin model” exemplary for the sector. So far, we are the only German hybrid carrier, i.e. a carrier that uses all conceivable sales channels, thereby making itself less dependent on seasonal fluctuations. In the future, we also plan to grow faster than the market in which we do business. For a long time, Air Berlin has considered this market to embrace not only Germany but Europe as a whole.’

Source: *Air Scoop*, 2007b

Consumer confidence

Since 11 September 2001, terrorism and security breaches at airports have spurred demands for increased safety and security measures among all airlines; the seriousness of these issues significantly affected a number of older and well-established airlines in the period after the 9/11 terrorist attacks in the US. Today, the aviation sector is booming once again; however, markets can change quite quickly, and in order to maintain a high demand it is important for airlines to establish consumer confidence in areas such as security and health (Interview with Ingolf Hegner, 2007).

Mr Hegner explains: ‘Airlines have a very high risk exposure with ongoing issues like terrorism, oil prices, an economic crisis, etc.’ He agrees that consumers and governments have to be certain that they can trust an airline in terms of safety and health – for example, particularly in relation to the spread of disease such as the recent epidemics of severe acute respiratory syndrome (SARS), which is a respiratory disease in humans, and bird flu.

However, other issues of consumer confidence are also becoming increasingly important, particularly in relation to comfort on board the aircraft, quality of service and environment aspects. Such subjects have to be nurtured in order to establish a brand name where consumer confidence is a vital part. The aim is that every customer should know the brand but also know whether it has a good reputation.

The next step on the consumer confidence ladder is to ensure that the customer experiences a level of safety and comfort that make the person return to fly with Air Berlin. The company is slowly realising that conquering new markets is not only about low prices – only up to a certain point. In fact, having a brand name is just as important (Interview with Ingolf Hegner, 2007).

Localisation strategy

Air Berlin's headquarters are located in Berlin close to Tegel Airport in the northwest of the city, even though the company's business operations cover a large part of Europe. Until now, the company has mainly offered services from a range of German cities to typical holiday and weekend destinations, but the company is planning to expand operations into Scandinavia.

In terms of localisation, the most important factors are inbound and outbound traffic in an area or airport. Air Berlin is currently on the verge of capturing large shares of the Scandinavian market, one of the reasons for this being the significant volume of air traffic in the Scandinavian countries.

Moreover, the level of wealth in the Scandinavian countries means that people will purchase flights or holidays despite small changes in the economy. Hence, conquering a large share of the Scandinavian aviation markets will make Air Berlin less vulnerable to economic fluctuations. The airline opened its first Scandinavian route from Helsinki in Finland to Düsseldorf in Germany in 2006 and since then more Scandinavian cities have been added to its flight route. In contrast to the Scandinavian aviation markets, the UK is a much more price-sensitive market. This is one of the reasons why Air Berlin has pulled out of most of the UK market, except London.

Other reliable routes set up by the airline are the destinations to Zurich in Switzerland and Vienna in Austria where incomes are at least as high as those in Scandinavia.

On this basis, Mr Hegner highlights: 'At the end of the day, it is all about how much we earn on each flight – Zurich and Vienna are expensive airports for Air Berlin in terms of airport charges, but they are very good routes to operate because people can afford travelling. So the level of wealth and the willingness of people to fly are very much connected.'

New technology

Air Berlin was the first airline in the world to introduce fitted winglets to the company's Boeing 737-800 series of aircraft. This technology increases the environmental performance of the aircraft, and thus the company, while reducing costs as it facilitates a rapid climb from ground to air (Air Berlin, 2008d).

Moreover, Air Berlin has introduced the Traffic Alert and Collision Avoidance System (TCAS), which is a computerised avionics device used to avoid mid-air plane collisions. However, the successful use of the equipment depends on the accuracy of reported altitude, range and bearing, as well as communication between the flight crews on passing planes.

Profile of the workforce

Staff and organisation of work

Air Berlin employs 850 pilots, of whom most are German men aged between 21 and 60 years. The flight attendants are mostly young, well-behaved women with neat appearance and with the ability to create a warm and welcoming atmosphere. The profile of the employees is not expected to change in the near future and Air Berlin is not expecting any labour shortages (Interview with Ralf Nagel, 2007).

The work of the flight crew is organised according to teams so that everyone is responsible for the work to be carried out. According to Air Berlin, hierarchy is not much of an issue among company employees and the airline is considered an attractive working place.

Until recently, the company did not have a collective agreement with its pilots. However, in August 2007, an agreement was finally drafted between Air Berlin and the trade unions representing pilots and cabin crew – Vereinigung Cockpit and ver.di (International Transport Workers’ Federation, 2007a and 2007b).

According to Mr Nagel, the new relationship with the trade unions is a result of a new and more constructive approach on the part of Air Berlin. This implies focusing on solutions rather than problems, given that some element of disagreement will always be expected.

Flight academy

In 2003, Air Berlin opened its own flight academy (Table 2) where pilots are re-trained to fly large airplanes like Boeing and Airbus – also termed ‘type rating’ (see Textbox 2).

Textbox 2: Type rating – Re-training of pilots

Type rating is the professional terminology for the re-training of newly graduated pilots. Most pilots are trained to fly small planes and therefore their training needs to be upgraded to cover large planes after completing their initial pilot training. Well-established, older airlines, like Lufthansa, pay for the type rating of a number of pilots, whereas most low-fare airlines, like the Danish airline Sterling and the Irish low-cost carrier Ryanair, only offer type rating for a fee.

Source: *Interview with Ralf Nagel, 2007*

Speaking about the advantages of the flight academy, Mr Nagel emphasises: ‘We have our own flight academy now – 48 pilots are currently being trained and next year we will offer another 40–60 positions. We are now planning to make the training independent – currently we rent simulator slots, but we would like to have our own. That would be good for corporate identity, costs and flexibility.’

The flight academy is also a way of recruiting the best pilots and developing a good reputation as an employer in the sector. Hence, the academy is also the company’s way of preparing for potential future pilot shortages.

Air Berlin decides which type of aircraft a new pilot will be type-rated for, but the pilots may be upgraded at a later stage from the position of first officer to captain.

Table 2: *Air Berlin Flight School*

Air Berlin Flight School	Started in March 2007 in cooperation with TFC GmbH Käufer
Number of students annually	60 students maximum
Number of classes taught annually	Four classes with 15 students maximum in each class
Duration of training	About 24 months – including a combination of theory and practice
Fee for each student	€60,000
Wage received during training period	None

Sources: *Air Berlin Flight School (2007a, 2007b and 2007c); Interview with Ralf Nagel, 2007*

Pilot training

In terms of education and training content, not much development is taking place in the aviation sector at present. However, Air Berlin has attempted to take a new perspective on education and work organisation.

According to Mr Nagel, 'the training of pilots has changed considerably within the last 30 years. But since 2005, we have had a new licensing and training programme which leads directly into cockpit operations of an aircraft. The licence is called a multi-crew pilot licence. Everyone is responsible together.' In this regard, Mr Nagel highlights: 'We are the first airline in Germany to train our pilots in this way – the training is not cheaper but it is much more efficient.' Moreover, he commented: 'Before, you flew an aircraft; today, you fly and manage an aircraft.'

During most of the flight time, an aircraft is flown on autopilot, which means that the pilot controls the link between the electronic equipment and the rest of the crew and the passengers. Landing and takeoff, for example, have thus been automated. For instance, Airbus 380 is almost impossible to fly manually.

Outsourcing of recruitment and training

In recent times, Air Berlin has outsourced most elements of the pilot recruitment process. In his interview as part of this case study, Mr Nagel explains: 'We recruit pilots using a subcontractor who undertakes assessments. They test the skills of the pilots and then we do the final interview.' The company used to organise the recruitment of specialists to conduct the first selection process and then Air Berlin could concentrate on the last part of the process.

The development of new training exercises is outsourced. All major functions of the aircraft system have to be taught within 36 months, and therefore the training managers need to have access to all of the tests recently taken by company employees. Using laptops to complete these tests makes it easy for the training managers to monitor the training of employees and to also collect data – and hence develop it – despite the actual process of training being outsourced (Interview with Ralf Nagel, 2007).

Organisational change and restructuring

In recent times, Air Berlin took over several of the smaller German airlines, as already highlighted – the short-haul carrier DBA, the long-haul charter carrier LTU, and the former Lufthansa subsidiary Condor. One of the challenges in relation to these mergers was to find a solution to the demands of workers previously employed by DBA, LTU and Condor, as well the employees of Air Berlin, because the latter group of workers have traditionally had no involvement with trade unions and collective agreements (International Transport Workers' Federation, 2007a and 2007b; Interview with Ralf Nagel, 2007). However, the abovementioned development towards collective agreements for all Air Berlin pilots and cabin crew has changed this long-standing company tradition.

Commenting on the mergers, Mr Nagel highlights:

'Air Berlin will change drastically due to the merger with Condor, Belair, LTU and dba – we are not the small Air Berlin family anymore with quick decisions and straightforward implementation of ideas. We have to adjust very quickly to being a huge company and newly arrange positions. For instance, it makes no sense to have a training manager in each of the acquired companies – we need to consolidate. We are in the process of major restructuring right now.'

Although LTU – one of the companies acquired by Air Berlin – has been in existence since 1952, the airline has not been running efficiently for the past 10 years. It is considered a particularly old company with many older employees, which has prompted Air Berlin's decision to come in as a new young company and take over the operations of the older airline.

Commenting on the merger process, Mr Nagel emphasises: ‘We are working on the integration process which is running nicely on the management level – we just put all our best ideas together and find the top solution.’

The trainers compile the tests and training systems that are required to train the crew and they then have to integrate all of these elements into one merged company. Pilots and flight attendants appear to be worried about the new situation, although there is no obvious reason to worry, according to the airline.

Possibility of multicultural workplace

The labour pool available to international transport companies like Air Berlin is becoming more international. Some Middle East airlines have started to recruit workers from various countries, which has both pros and cons for the airlines. On the one hand, the place of work becomes more diverse, but on the other hand working in a cockpit does not allow for any cultural or linguistic misunderstandings as this could carry huge risks in terms of safety and security.

Against this background, Mr Nagel comments: ‘Flying with someone from Sweden is easier for a German than flying with a Chinese person. As long as we have a sufficient number of skilled pilots in Germany we will hire them or pilots from neighbouring countries with similar cultures.’

This suggests that a trade-off can emerge between a multicultural crew working ‘from the book’ – following detailed working procedures – and a more homogenous crew working more as a team. In this regard, the security requirements of the aviation sector denote some very specific working conditions.

Future challenges

Air Berlin has positioned itself as a low-cost, scheduled air carrier specialising in flying to warm and sunny places in the Mediterranean, as well as major business destinations throughout Europe (Interview with Ingolf Hegner, 2007). To date, Air Berlin has won several awards for its services. Mr Hunold describes Air Berlin as ‘not a low-cost carrier and not a full-fare airline – just Air Berlin’ (Air Scoop, 2007b).

Air Berlin’s strength as an airline has been its ability to focus on low prices and customer service simultaneously, while also expanding its base through mergers and acquisitions. However, Air Berlin is also exposed to competition from other low-cost carriers and from full-fare airlines – one of the major challenges for Air Berlin is to continue its expansion in a highly competitive market.

Liberalisation of air markets

Liberalisation of air markets is particularly important for Air Berlin. The EU-US Open Skies Air Transport Agreement (which means airlines can fly without restrictions from any point in the EU to any point in the US) and the creation of the EU single aviation space are paramount as they make it easier for the company to tap into new markets. For instance, Spanish destinations are vital for Air Berlin’s business and the opportunity to provide customers with connecting flights internally in Spain is an attractive prospect. As Mr Hegner explains: ‘Internal flights in Spain are important because then we can connect the various destinations and our customers can fly with Air Berlin in Spain.’

Competition on the ground

Competition is high in the low-cost segment, with the aviation industry also having to compete with ground transportation such as trains and cars – particularly regarding short-haul routes. In light of this, the company's CEO emphasises:

'We see these "risks" as challenges that will be overcome with the successful hybrid business model. Its unique position clearly separates us from other low-cost carriers (LCC) and from the problems of overcapacity, where the battle for market shares is carried out almost exclusively through pricing and, as a result, through cost cutting. Air Berlin takes advantage of the opportunity of the accelerating consolidation process. The acquisitions of DBA and LTU are examples of such participation.' (Air Scoop, 2007b)

The expansion of Air Berlin creates a cost-cutting and synergy potential for the airline.

Regulation of labour

A current and future challenge for Air Berlin and other airlines is the lack of cross-border recognition of pilot licences. Mr Nagel highlights: 'In 10–15 years, we will probably have a real united Europe – currently we have one system for licensing, but the German system does not approve the French systems and vice versa – and that will most probably change.'

Oil prices

Aviation fuel represents 22% of the airline's operation expenses and is by far the most significant cost for Air Berlin. Fuel prices are subject to wide and difficult to predict fluctuations in price and these factors are particularly important for the airline industry (Interview with Ingolf Hegner, 2007). According to Mr Hunold, Air Berlin systematically engages in hedging transactions to improve planning confidence and to reduce the influence of price fluctuations (Air Scoop, 2007b).

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