

Analysis - Ground Handling Directive Revision

Bruxelles, April 18th, 2012



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Preface – Purpose of the Revision



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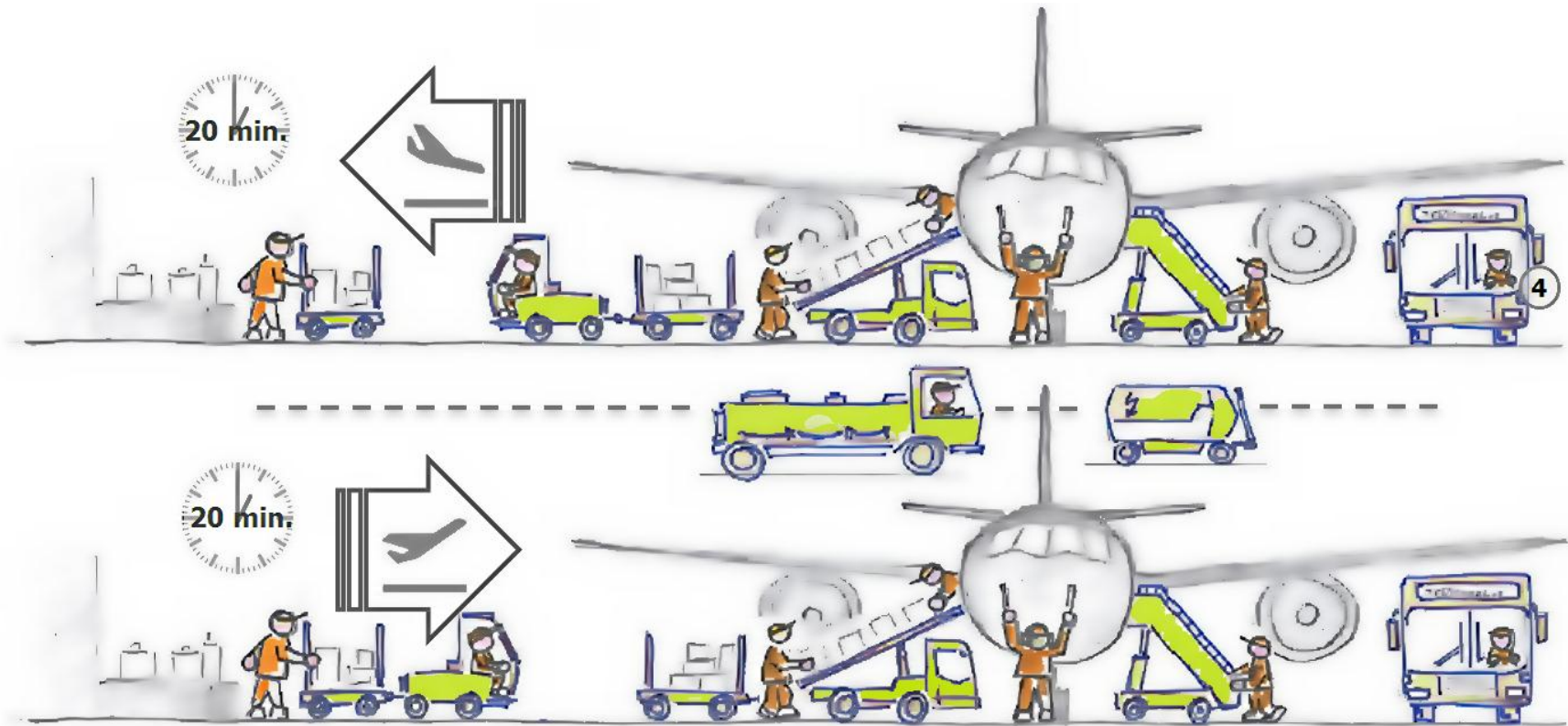
Preface – Purpose of the Revision



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Ground Handling Service – Definition

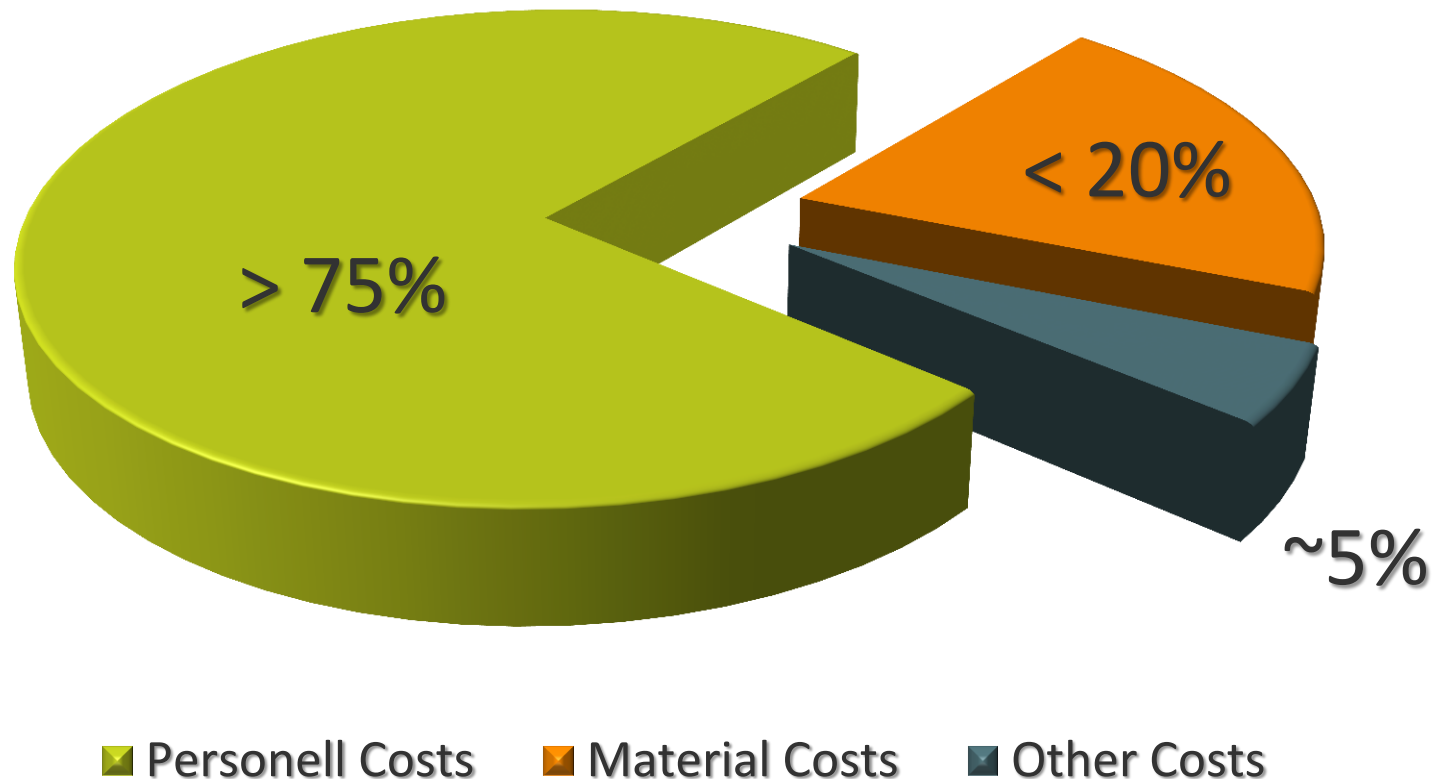
What are we talking about?



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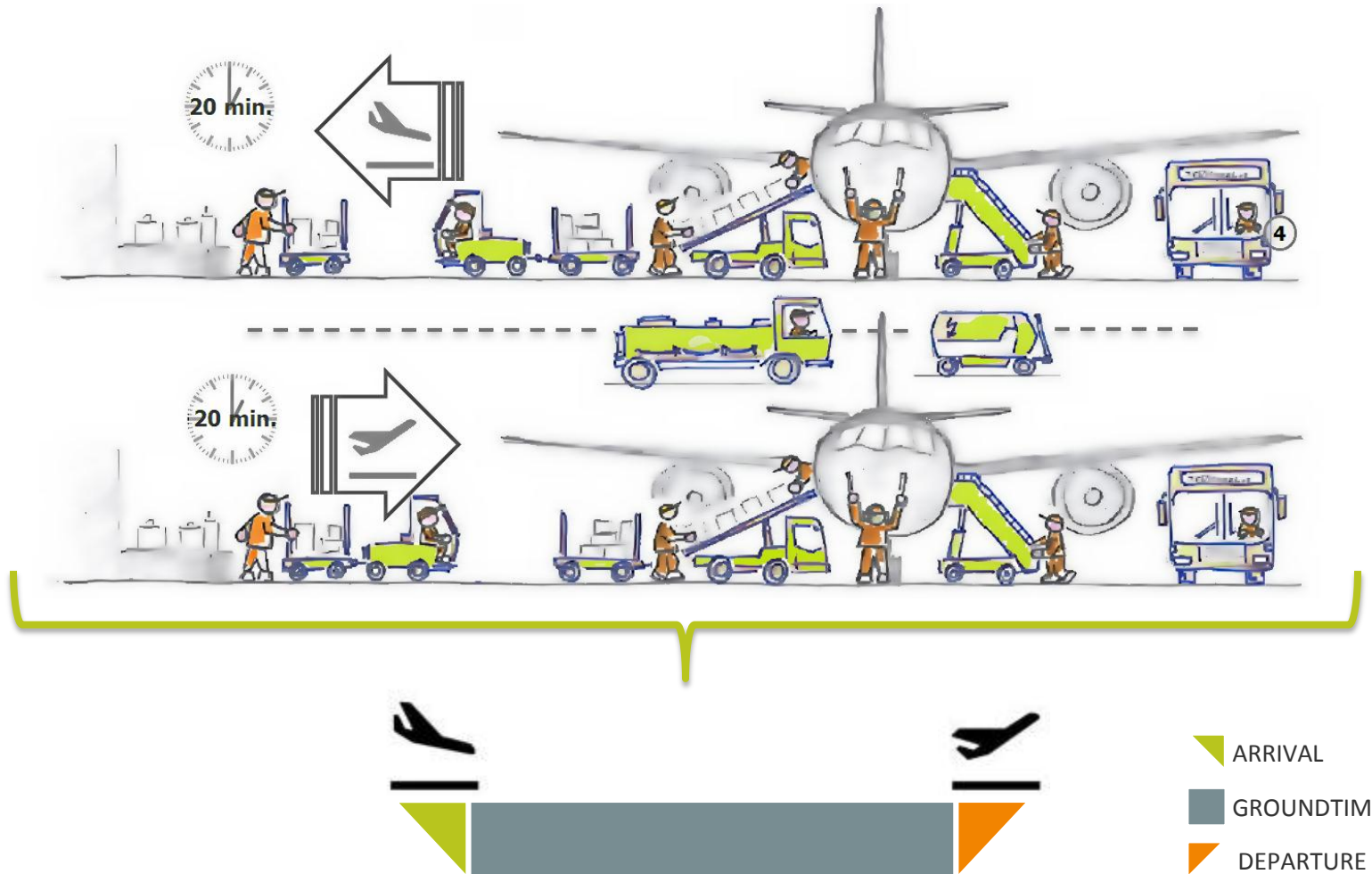
Cost Drivers

What are we focussing on?



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Ground Handling Service – Abstraction

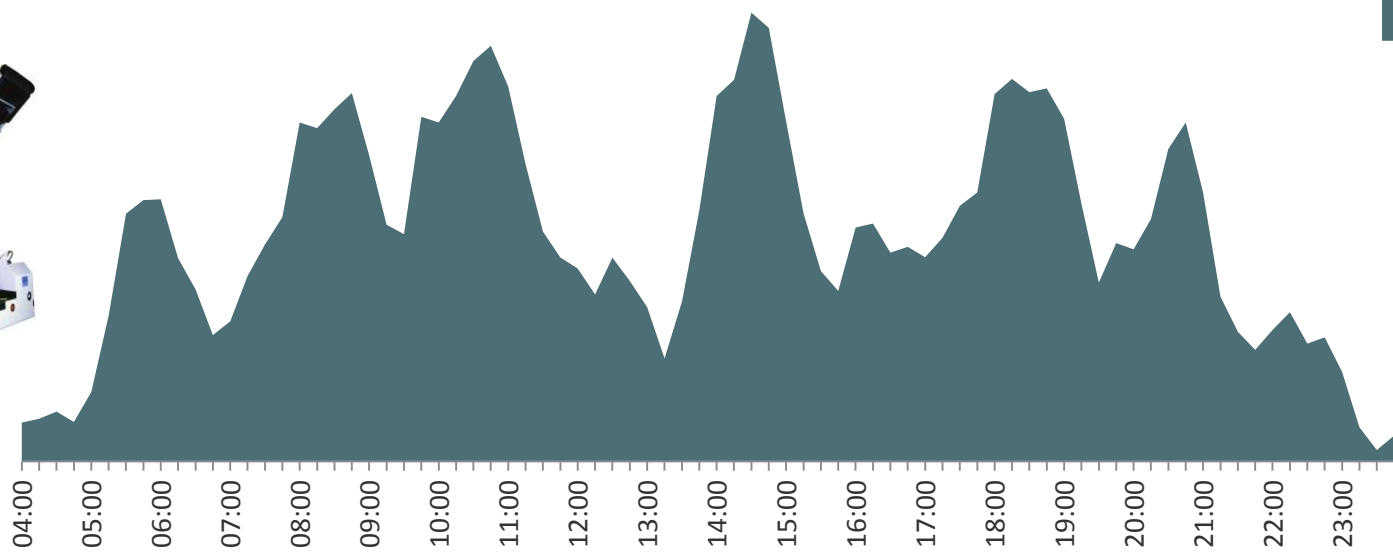


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Workload Volatility

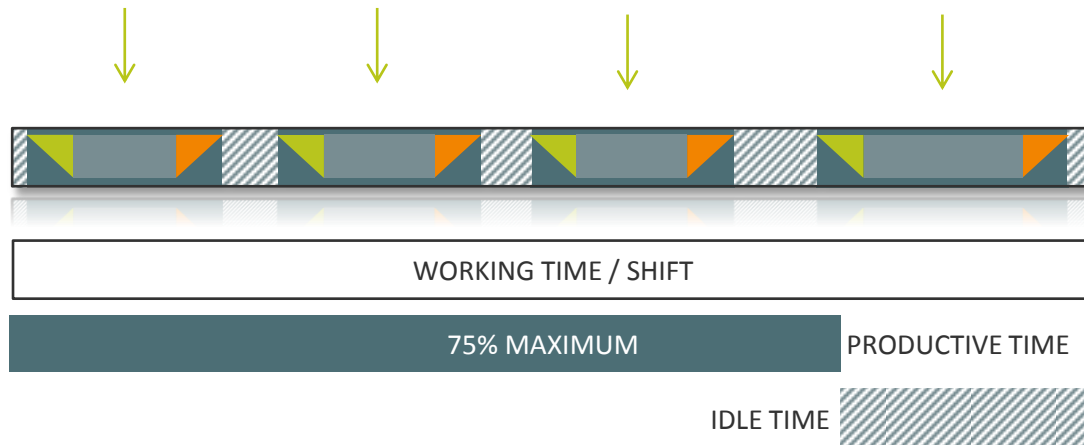
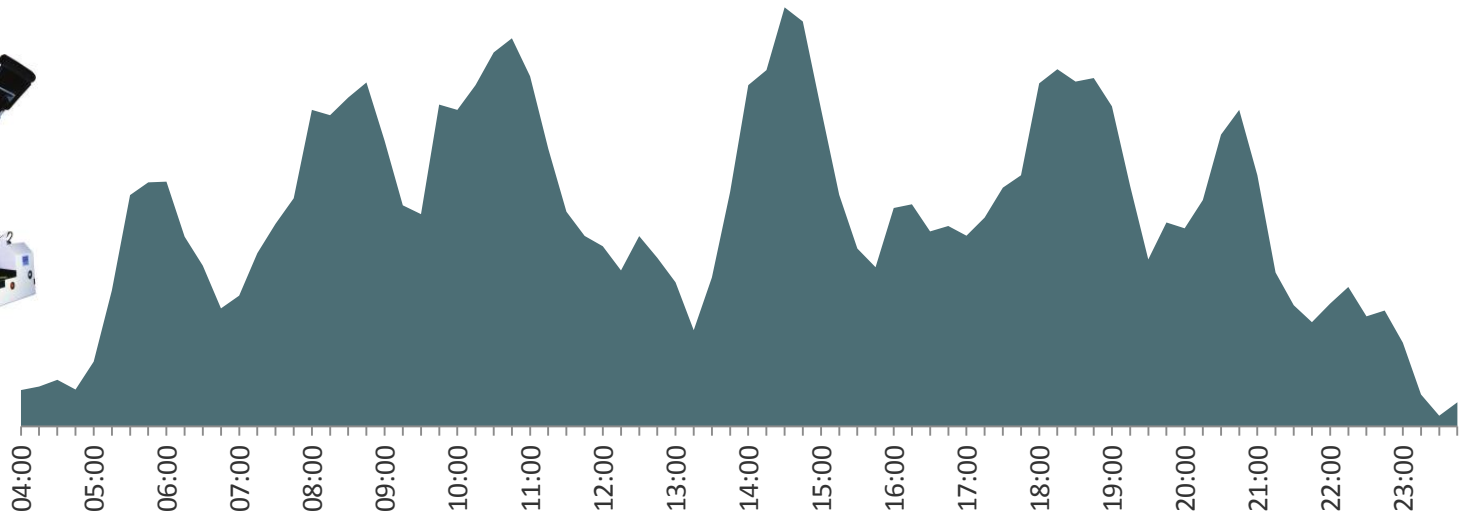


-  ARRIVAL
-  GROUNDTIME
-  DEPARTURE
-  WORKLOAD



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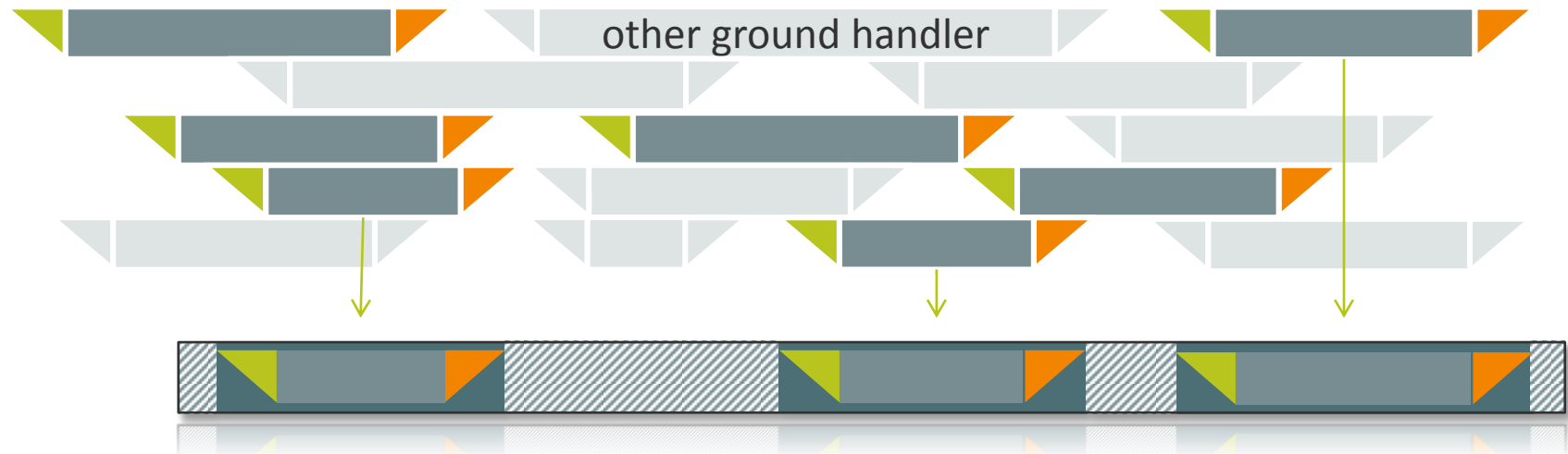
Employee Productivity



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Employee Productivity...

... depends on task availability



WORKING TIME / SHIFT

DIRECTLY ACCOUNTABLE PRODUCTIVE TIME
 IDLE TIME

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Market Limitations

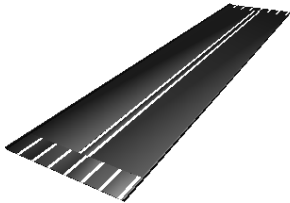
Could ground handling become an open market ?



basic relation between airport and airline



limited by 3rd party agreements, alliances, laws, regulations, ...



airport / runway capacity and limitations



ground handling open market

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Employee Productivity...

... depends on market share: What is the relation ?

~25%

minimum productivity
1 turnaround - 1 customer



~75%

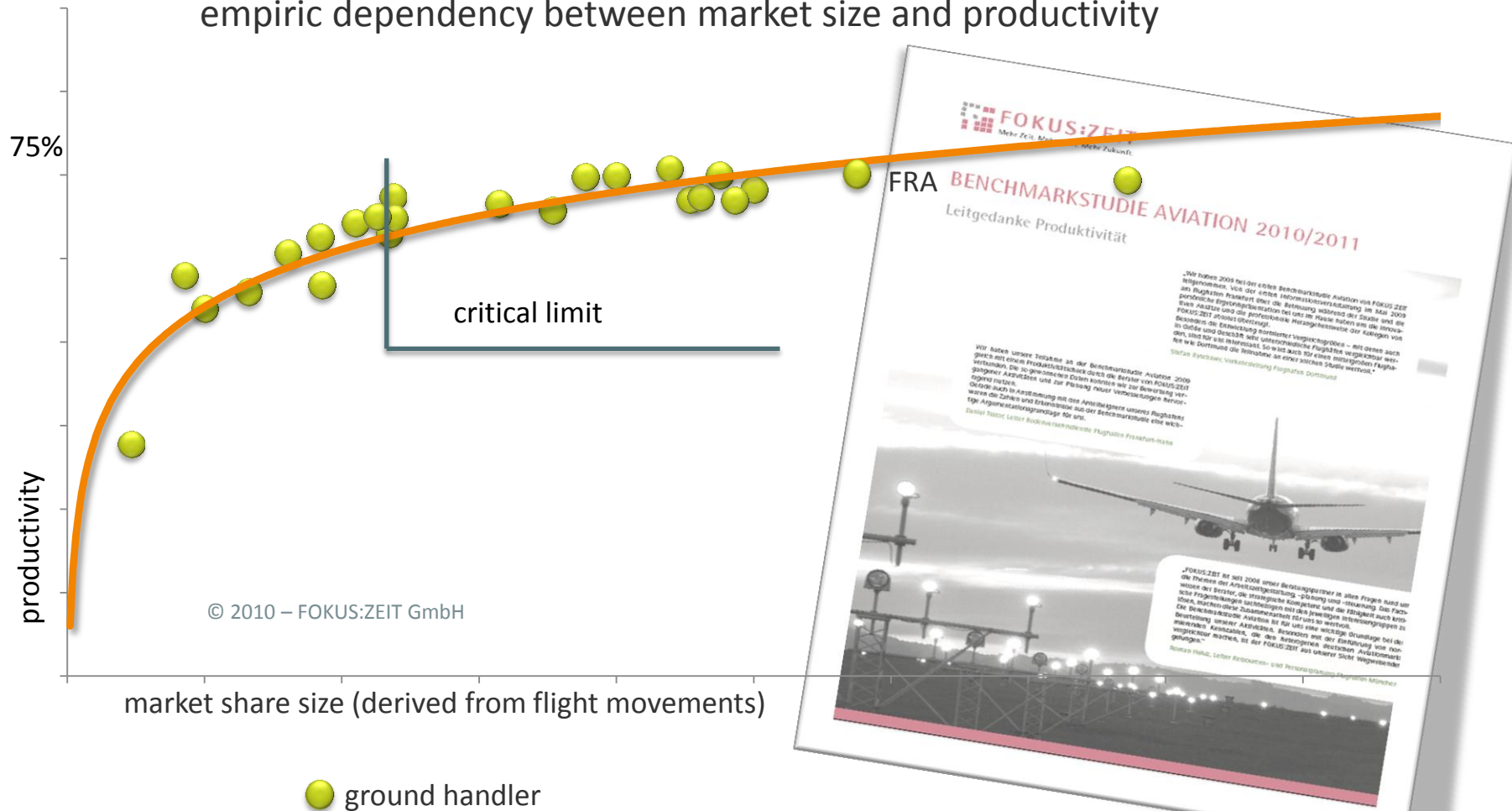
maximum productivity
in a saturated market



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Productivity (Cost) – Market Size - Relation

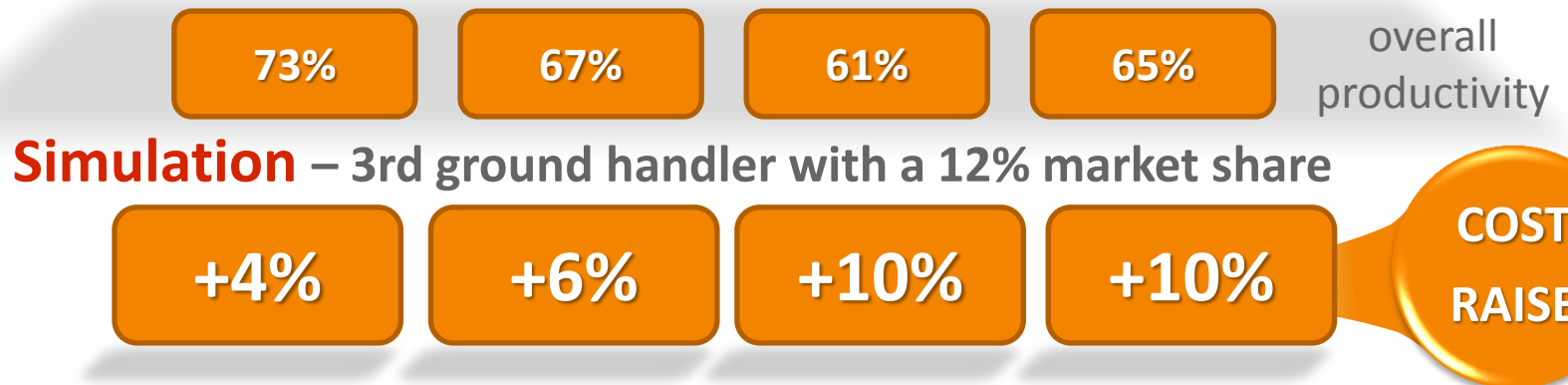
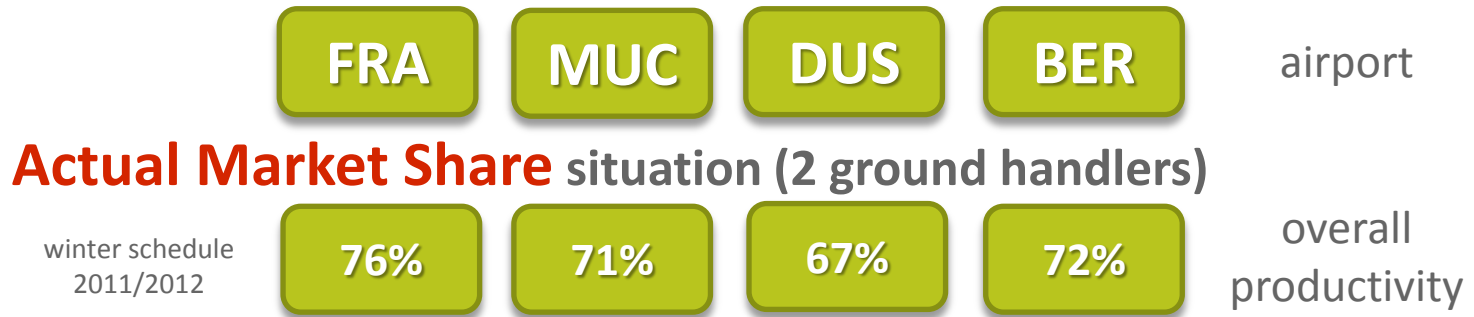
empiric dependency between market size and productivity



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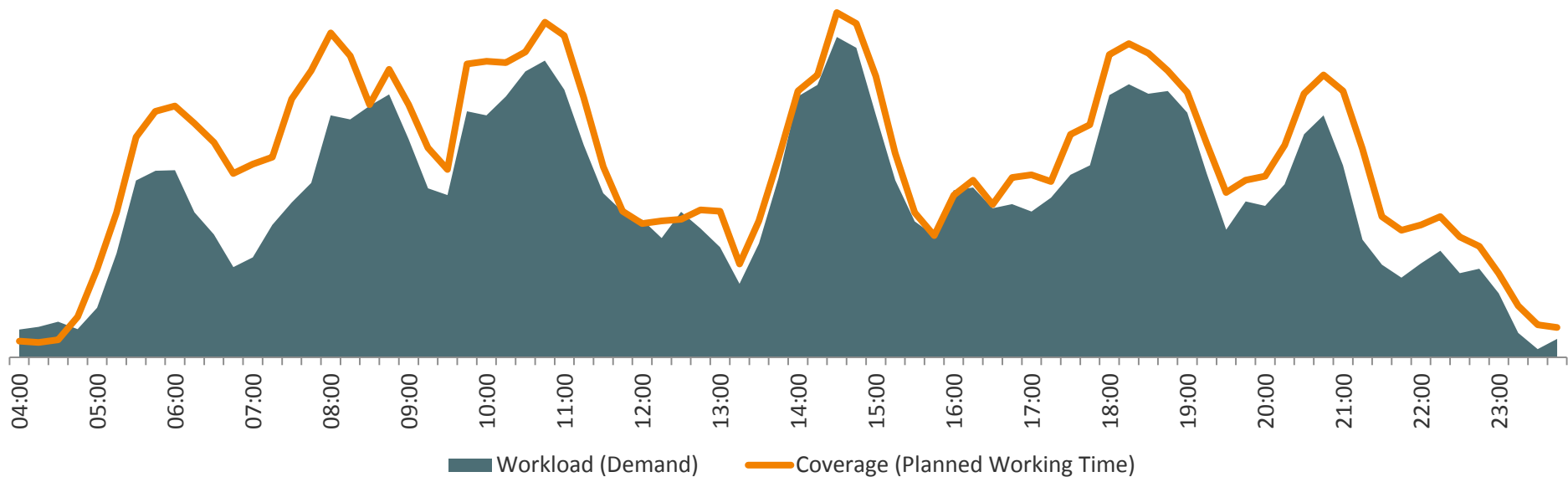
Economic Simulation – Effects on overall Costs

most flexible working time constraints



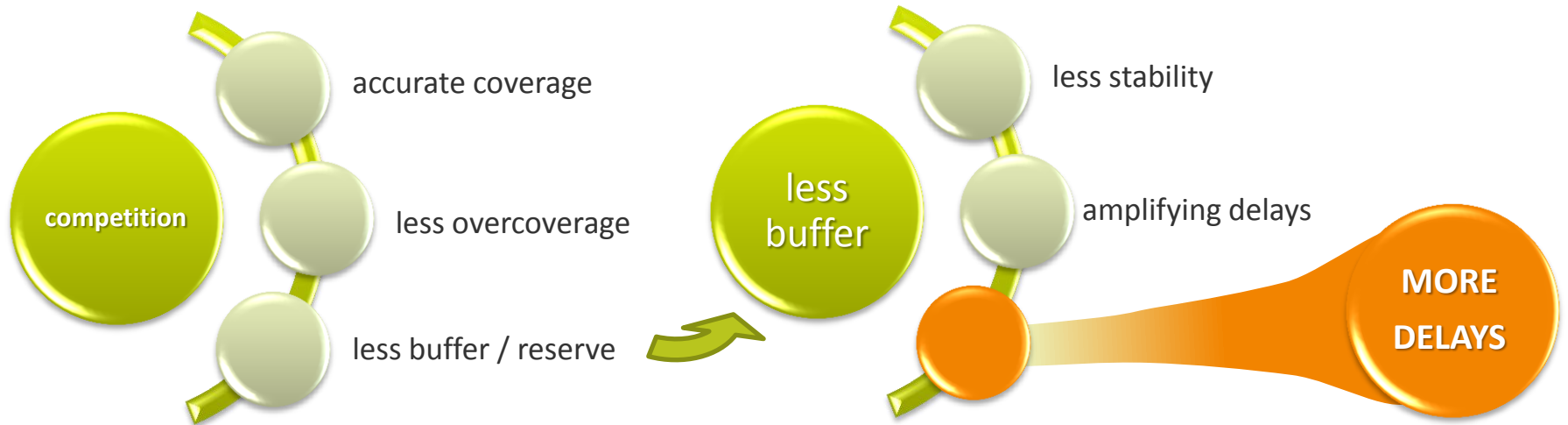
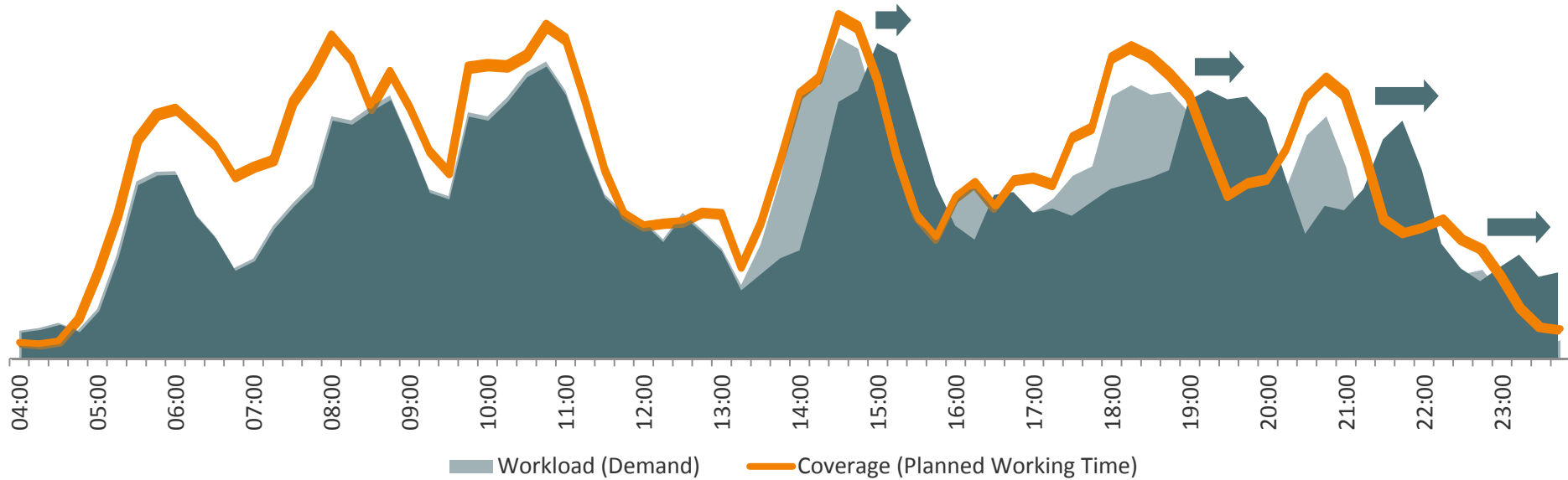
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More Competition - Effects on Quality



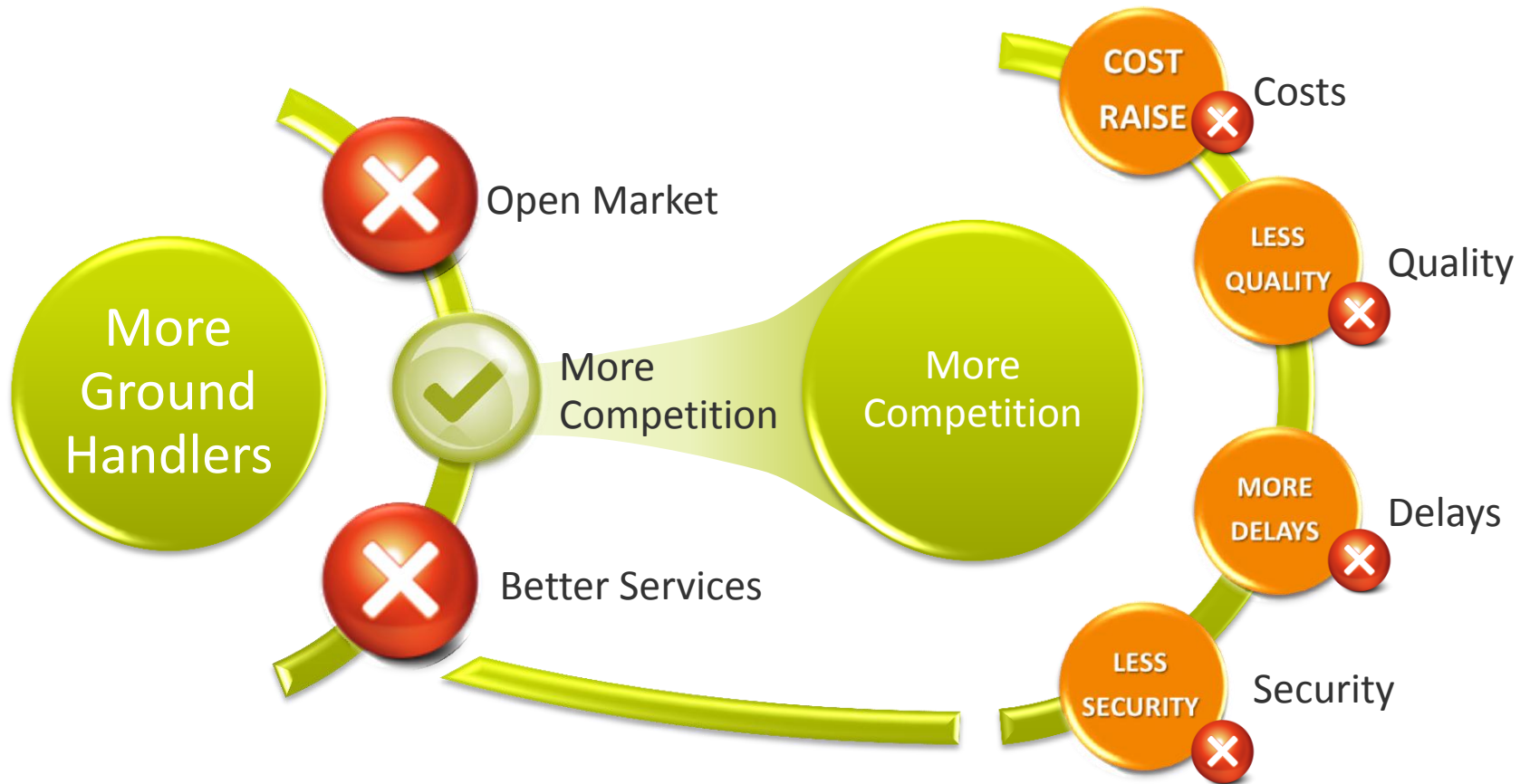
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More Competition - Effects on Stability (Delays)



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Results



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Materials

FAST FACTS SUMMARY OF THE PRESENTATION, BRUXELLES AIRS, 14th 2012

Personnel Costs: around 70% of the Production Costs
The major cost driver of Ground Handling (GH) fees is to be found in the costs of employment as they account for more than 75% of the overall production costs.

Ground Handling Services Demand is volatile
GH services depend on the airlines arrival and departure events and are time critical.

The average length of a service is approximately 35 minutes. The typical daily overall service demand has peaks and lows that vary a lot.

Volatility limits maximum Shift Productivity to 75%
With a volatile demand, there is no continuous or continuous supply of work during the shift of an employee. This results in idle times between productive tasks. These idle times account for indirect costs that affect the overall GH productivity. The maximum productivity in a saturated environment is empirically observed to be 75%.

Smaller Markets cause less Productivity / Efficiency
In a smaller market share the supply of continuous work is even less. Unlike other industries, GH cannot initiate additional demand as the customer relation is originated between the airline and the airport. Market size effects on productivity were identified at all airports and GH.

More Competition leads to higher Prices
Increased competition, therefore leads to a higher demand of workforce and a larger requirement in equipment. As every GH has to provide the maximum number of equipment for his peak times, the overall amount of equipment is higher than with less service providers.

More Competition leads to less Quality
In a highly competitive market GH have to minimize idle times. They have to cover the expected workload with the least possible overcoverage in employees working time.

For this, GH have to use of as many short shifts as possible to match workload and coverage. This will be obtained by a high number of part time employees as well as external labour, resulting in less loyal workforce with much less opportunities in gaining experience, skills and identification with the offered services. The quality of these services will decrease significantly.


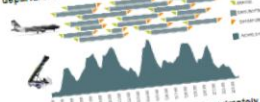


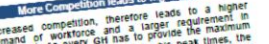

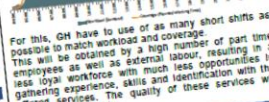

More Competition affects Security
The actual recruiting strategy of GH across Europe is to minimize the amount of overtime, internal labour to the bare minimum and to avoid daily and seasonal overcoverage. Higher workloads (peaks) are to be covered by short term contracted external and seasonal labour. During summer 2011 the market of external labour could no longer serve this additional demand, which led to extraordinary recruiting strategies with lower quality requirements. As a consequence fluctuation is already continuously increasing. This might have severe impact on the issues of security taking the growing amount of required security clearances and background checks into account.

More Competition causes less Stability / more Delays
If working time is planned as close as possible to the expected workload (derived from a prognosis of a flight schedule) every change in the actual arrival and departure times will result in service demand which cannot be met adequately.

Any initial delay therefore will be amplified with the subsequent turnarounds. The total amount of delays will increase significantly. Regarding the actual discussion of the supposedly high delay ratio, more competition is counterproductive.

Conclusion
The call for more Ground Handlers in the closed aviation market that grants no access to an open outsourcing base will result in opposing effects on costs (efficiency), quality, delays and even security.

The sum is less than its parts!
With smaller market shares the overall productivity will decrease significantly. This effect has been shown in economic simulations at Frankfurt, Munich, Berlin and Düsseldorf airport. With an assumed additional GH of a 12% market share, the overall productivity decreased between 5 to 12%. More working time will be required to satisfy the same service demand.

LENCHMARKSTUDIE AVIATION 2010/2011
citgedanke Produktivität

„Wir haben 2009 bei der ersten Benchmarkstudie Aviation von FOKUS festgestellt, von der ersten Internationalen Untersuchung im Jahr 2009 ist es zu erwarten, dass die Leistungsfähigkeit der Dienstleister im Flughafenbereich bei uns in Europa nicht wie die FOKUS-Zeit positiv ansteigt.“

„In der Studie und danach mit verschiedenen Flughafen verglichen hat sich die Situation nicht so wie wir es erhofft hatten.“

„Wir haben unsere Ergebnisse an der deutschsprachigen Aviation 2010/2011 vorgestellt, die zu gemeinsamen Daten sources der FOKUS-Zeit jüngster Airlines und der Fluggesellschaften von verschiedenen Airlines.“

„Durch auch in Anbetracht der Entwicklungen unseres Flughafenbereichs im Bereich der Mitarbeiter und der Fluggesellschaften die wirtschaftlichen Veränderungen.“

„Die Studie der Aviation 2010/2011 zeigt, dass die Produktivität der Airlines in Europa nicht wie wir es erhofft hatten.“

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Effective Competition in the Ground Handling Market - Is Trial and Error the Best We Can Do?
Fokus:Zeit GmbH

Abstract
There are multiple surveys, papers, and studies investigating the success of the liberalization of the European Ground Handling (GH) market. While they seemingly see success in an overall decrease of prices for handling fees they fail to reflect on the interrelation of the effects of three main developments. Firstly, they do not give an explanation why the price reduction fell far short of the expectations. Secondly, the studies do not reflect the accompanying macro economic effects and induced social problems (such as working conditions, wages, qualifications, etc.). And thirdly, they leave out effects of cost saving pressure on service level definitions involved in e.g. security and safety issues, which are of particular public interest.

This paper - at the initial of a series of papers on the GH market's situation - discusses the conditions and possible effects of an efficient competition in the GH market, points out to why airlines withdrew from the business and places particular focus on the coherence of price development, macro economy and service levels. Finally, it gives a rough sketch of what Working Time Management and Employee Logistics can do in a way out of the currently applied method of Trial and Error.

Introduction
In 1996 the European Council implemented the Directive 96/67/EG (DIRECTIVE)¹ its objective was to create a contestable market that allowed access to smaller GH suppliers to a formerly monopolized market. The directive was revised and extended with a substantial additional request in 2007: airports that exceed a certain number of passengers per year are now bound to hold available at least three different GH suppliers. The initiative was collectively supported by the European carriers, which were once more seeking lower GH fees. The far known fact, that the GH fees do not account for more than 5% to 8% of the airlines ticket prices, might be an indication of a highly evolved cost pressure due to razor-thin-margins throughout the whole airline business. Financial statements of carrier companies, however, declare otherwise creating a healthy acting or at least robustly developing branch.

While the so called self-handling (meaning that a carrier provides its own handling services) has been dominating the GH market for decades, the airlines withdrew from this market shortly before the first DIRECTIVE was launched. The decision to refrain from self-handling created a rather monopolistic market situation in which the airlines depended on the handling services mostly exclusively provided by the airport itself or by its subsidiaries.² While the intentions of the protagonists seem to be intuitively comprehensible it is not obvious whether the European GH market is an effectively working competitive market at all.

Is there an effective competitive market?
An effectively working competitive market is based at least on six mandatory requirements. Without meeting them the competition is ineffective and thus unfair. These requirements are:

¹Europäischer Rat (1996) Richtlinie und Europäischer Rat (1996) Berichtigungen
²See: Wolf, H. (2002)



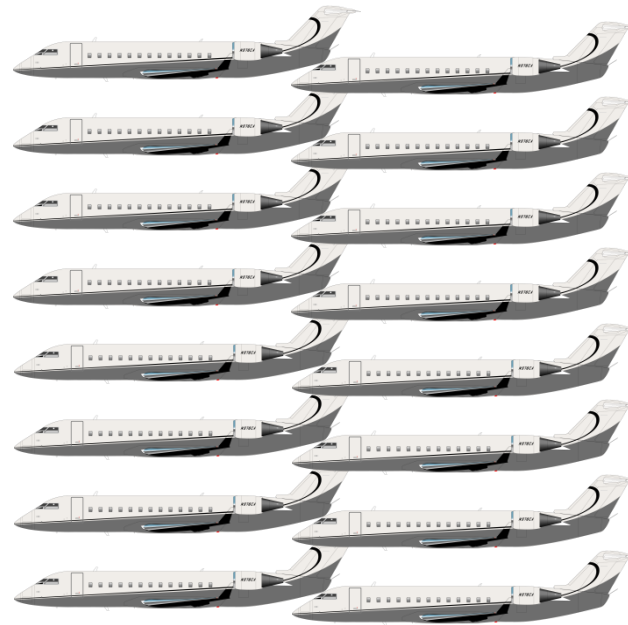
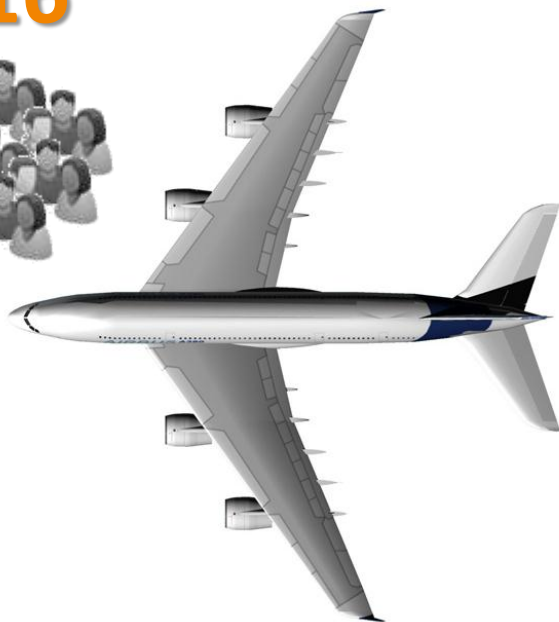
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Footnote - Passenger figures as Decision Criteria ?



same amount of passengers (~800)

16



64

