OUTSOURCING IN AIR TRANSPORTATION INDUSTRY: THE CASE OF TURKISH AIRLINES

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Air transportation industry, in all over the world, is developing and changing day by day in a very competitive environment. Airline companies have to adopt themselves using different strategies to give more efficient and effective services to survive in that market. Outsourcing is one of these strategies to be able to reach the sustainability of airline companies

The main aim of this paper is to discuss the importance of outsourcing for the airline companies. For this reason, first outsourcing in air transportation industry is reviewed. Then, the preferable services - such as information technologies, catering - for outsourcing is discussed in this industry. As a result, to analyze the view of point of Turkish Airlines-the flag carrier-, a semi-structured questionnaire is given to the authorities. The results show that to increase productivity, profitability and to decrease cost airline companies use outsourcing for the services that need know-how and great investment.

Key words: outsourcing, air transportation, Turkish Airlines

1 Introduction

Airlines are faced with a significant array of challenges – many driven by historically high fuel prices. Profitability is suffering, increasing pressure to reduce costs. Industry consolidation is continuing, driving the need to effectively merge airline operations. They are faced with the dilemma of reducing capacity while at the same time increasing revenue.

In order to respond to these challenges, airlines must improve their ability to innovate and adapt. They must be able to integrate information from multiple sources in order to enhance their ability to make decisions. Airlines must be able to change their business model as necessary to respond to changes in the business environment (www1.hp.com/industries).

Outsourcing is often seen as a critical business capability that enhances a company's overall profitability. It allows managers to leverage resources and capabilities by concentrating on core competencies that create value for the company's customers, with non-value added activities being outsourced. Outsourcing has contributed to reduction in operational cost and capital investment while improving product and service quality (Al-kaabi et al, 2007).

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2   Outsourcing in Airlines

Over the last decade or so, the question of whether to outsource key activities or keep them in-house has become an increasingly urgent one for airlines. Against a background of globalization and intensifying competition, many major carriers are going through a process of de-integration as they contract-out large parts of their businesses to networks of suppliers in the search for greater efficiency and competitiveness. Many airlines are thus becoming managers of networks of outside suppliers, deciding which parts of their operations to outsource and whether it is actually possible or advantageous to do so. In practice, the advantages of outsourcing are not always clear; contracting-out key elements of a business can be risky, difficult to implement and manage, and there have been instances where the hoped for advantages have not materialized (Rieple & Helm, 2008).

Doganis has identified three generic airline models, with various degrees of outsourcing. The Traditional model sees all airline activities retained in house while the Virtual model results in complete outsourcing. The third model is the Aviation Business model. Here, the airline considers each activity as independent subsidiaries. The aim of these subsidiaries is to boost airline profits by selling services to other airlines. Major drivers for outsourcing evident in the maintenance, repair and overhaul (MRO) logistics are not only market pressures and industry competition but also the latest advances in aircraft technology. Although the deployment of new technology has contributed towards systems availability enhancement in improving the cost effectiveness of operations and delivering better services to passengers, there is still a need for new capabilities to operate and maintain these systems. As system complexity increases, greater technical maintenance expertise is needed along with sophisticated test equipment. Establishing an airline MRO process is therefore associated with high investment in capabilities. For many airlines, especially new entrants, this is not possible due to the large capital investment required. Hence outsourcing is considered as an alternative to vertical integration (Al-kaabi et al, 2007).

Aerospace is not alone in outsourcing, but the issue is far more complex for this industry than for any other. Manufacturers move work to other countries not just to reduce their costs, but to enter markets, spread risk, access funding and fulfill offset obligations. And there are other, deeper factors driving offshoring in the aerospace industry, among them the declining supply of new engineers in the U.S. and Western Europe. (Warwick, 2009).

Ever-rising fuel prices and the continual pressure on yields are making a strong case for, outsourcing once again. Outsourcing is a mature concept, but the recent challenges for this industry are prompting management to take a fresh look at a proven solution. As a provider of aircraft and outsourced aircraft operating services to the global air freight industry, Atlas Air Worldwide Holdings is a firm believer that outsourcing, when done properly, can reduce costs, increase efficiency, enhance competitiveness and help companies focus on their core business and customer satisfaction. Being in the business of outsourcing, the firm aware that their partners often have the abilities and resources to do something better, faster or less expensively than they can. Outsourcing is a key component of their sustainable improvement efforts. AAWH has already exceeded its goal of $100 million in annualized savings by year-end 2008, and they continue to identify and achieve additional cost savings, including ways to outsource, so that they can continue to deliver the highest reliability and lowest unit cost in the marketplace (Gibbons, 2008).

Most airlines operating prior to 1978 were fully integrated as the MRO was considered as a core activity within their business model. The excess capacity in airlines caused by an increased number of new entrant airlines during the 1980s have reduced airlines' investment in MRO causing many airlines to adopt a more flexible logistical structure. Nevertheless, other airlines have taken advantage of the economies of scale in which by being a partially vertical integrated firm they can lower their upstream cost by supplying to downstream competitors for selective MRO activities. The logistical activities within

this model are mostly vertically integrated, tailored to support the airline's own fleet, and provide logistical support to other airlines operating the same type of aircraft. Delta Airlines (USA) could be seen as an example of an airline adapting the partially outsourced model. In 2004 Delta had outsourced 24 per cent of their MRO operations mainly engine maintenance. While doing this, Delta provided third party MRO support for many carriers at the same period (Al-kaabi, 2007).

India, China, Mexico and Eastern Europe have been major beneficiaries of outsourcing by aerospace companies as they have grown over the past four years. In these countries the practice is viewed differently, as a source not just of skilled and well-paid jobs but also national pride. Japan and Singapore, powerful economies in their own right, see a strong aerospace industry as an asset and are prepared to invest to bring in work from the U.S. and Europe (Warwick, 2009).

The book Michael Corbett's "The Outsourcing Revolution: Why It Makes Sense and How to Do It Right." makes a very strong case for outsourcing, particularly when applied to our industry, where scale is needed before you can achieve economics.According to the book, outsourcing can help (Gibbons, 2008):

1. Reduce costs — the most common reason to outsource.

2. Focus and improve your core product.

3. Establish a variable cost structure.

4. Get access to skills and expertise not available internally.

5. Increase revenue.

6. Improve the quality of your services.

7. Conserve capital by not having to invest in new infrastructure or staff.

8. Drive innovation.

UK business class airline Silverjet introduced a second route to Dubai City, nine months after becoming operational with flights to New York. The airline attributes its rapid growth in large part to its IT (Information Technology) outsourcing strategy. By outsourcing hosting for the airline's website, reservation data system, internet booking engine, automatic call distribution, and departure control system, Silverjet was able to provide business services within four months for less than 100,000. "As an airline, our primary focus is on filling seats, not developing computer systems and software that can be quickly and cost-effectively sourced from outside suppliers," said George Henderson, IT director at Silverjet (Ashford, 2007).

Korean Air's outsourcing agreement with IBM has been widely acknowledged by industry experts in Korea and around the world as a successful IT outsourcing case. The company decided to renew its contract with IBM after the review and evaluation of services from IBM and other vendors. IBM was selected because of its high-quality service, industry expertise and cost effectiveness of IBM Korea's services. Based on the understanding and experiences that it has accumulated over the last ten years, IBM plans to extend its outsourcing services to focus on generating business value for Korean Air by providing effective IT services through an integrated management system. It will provide a company-wide on-demand environment which covers application development, highly secure and flexible IT infrastructure services and quality management of business services through end-to-end service management. (www.etravelblackboardasia.com)

Like its competitors in the airline industry, Delta has faced a number of significant challenges, including escalating fuel costs, a decline in passenger traffic since September 11, 2001, and mounting

competition from low-cost carriers. In response, Delta has taken aggressive actions to reduce costs, while maintaining the level of service its customers have come to expect. One of the airline's cost-saving initiatives involved outsourcing its European finance and accounting functions to a third-party supplier. In Delta's case, the outsourcing arrangement aimed to reduce costs by consolidating finance and accounting activities from the carrier's offices in airports and major cities across 11 countries, into a single service center. As a company striving to achieve high performance.(www.accenture.com)

The most significant contribution to the Ryanair low cost base however comes from its labour productivity. In its recruitment and deployment of labour Ryanair has chosen a balance between providing inputs from within the airline and outsourcing which is quite different from the traditional airline in the use of outsourcing. Outsourcing brings a flexibility to an airline in choosing between different suppliers of services such as aircraft maintenance, handling at airports, catering, and inflight magazines. Outsourcing brings flexibility to the company in choosing whether or not to renew contracts as they expire. In inflexible labour markets securing efficiency gains from an inhouse labour force is likely to be more difficult and involve compensation for change (Barrett, 2004).

Northwest Airlines planed to outsource some of the positions filled by senior flight attendants on coveted international routes. It suggests that this could be another sign that Northwest, which filed for bankruptcy protection, wants to become a "virtual airline," with all sorts of jobs previously claimed by organized labor outsourced to cheaper workers, some overseas. The carrier is also trying to outsource pilot and groundworker jobs. Moreover, Northwest is asking the flight attendants for 17% pay cuts and proposing to have 75% of its flights across the Atlantic and Pacific and all of its flights between Amsterdam and India staffed by "regional flight attendants" who aren't currently members of the Professional Flight Attendants Association union (Carey, 2005).

3   Outsourcing in Turkish Airlines

The paper aims to analyse, the flag carrier, Turkish Airline's (TK) point of view about outsourcing, to find out which operations are preferably outsourced, the reasons for outsourcing. Semi-structured interview tecnique was used to collect the data. Researcher prepare the question before interview but she permits to change the question during the interview. Also, interview was taken notes and then it was analyzed.According to TK the needs as wet-leasing, catering, cabin cleaning, stock of spare parts, pilots have to be outsourced. Also, it is found that maintenance is the most preferable to outsource by the airlines. Ticket sales and distribution, IT, cargo services, marketing services, human resource management and the needs of employees can be either insourced or outsourced. On the other hand, VIP vehicle, pilot training accounting services are provided in-house.

 Research shows that the biggest factor for outsourcing is cost and the other reason is to increase productivity and profitability for TK.   Suppliers which are choosen by Turkish Airlines is the need to have standards. Also, the costs, quality of services, returning of needs quickly are important for them. The problems between airlines and supliers are the level of quality, delaying of services or products, cultural differences, non-communication, un-educated employees. Due to these problems, the customers could not be satisfy and image of airline will be affected negatively. The Turkish Airline suppose that the rate of outsourcing will increase in the future.

4   Conclusion

Every industry has to be adopt themselves to different srategies, because of competition. One of these industries is aviation. Airline companies try to benefit from outsourcing against the challenging business enviroment. To successfully address the challenges, airlines need outsourcing that are agile and cost effective to be flexible in a globally competitive environment. Outsourcing is the best way to decrease

costs and the number of employees and to protect sources. On the other hand, the biggest disadvantages of outsourcing is loosing control.When selecting an outsourcing partner, carriers have to consider the cultural fit with their organization and the vendor's focus on sustainable development. Airline companies outsource aircraft maintenance, information technologies, in-flight catering and call centers because the want to decrease the cost, to be supported by expertise companies, to focus core competence and to decrese the number of employee.

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