

The
Transformation
of Air Travel



Facing the challenge of a global, **disruptive market**

The world of air travel is undergoing transformation. Budget airlines successfully disrupted the market by making flights accessible to a wider audience. While that strategy was successful, the market has moved on and the focus now is on improving the passenger experience and leveraging digital technology. The industry is embracing innovation and moving at a rapid pace. For those in the industry, the opportunities are balanced by the demands of working with a global audience and partners across the world. We take a look at the implications of this rapid transformation and how to manage revenue and costs when working overseas.

Focus on passenger experience

Airlines are looking for new ways to build loyalty. Price alone is no longer the major selling point; passengers are looking for convenience, and an experience that means that their holiday starts as soon as they book their flight.

Business travellers are also looking for a smoother experience that reduces the stress of travelling for work and allows for rest or catching up with work in a positive environment. What this means for companies in the industry is that a more integrated approach to passenger experience is needed. While one company alone may struggle to innovate on the scale demanded by the market, partnerships with complementary organisations may offer an opportunity to improve market share.

When looking for the best fit, companies may seek to work with organisations from anywhere in the world to take advantage of certain expertise.

OEMs may take another approach, recruiting specialists from across the world for R&D and rapid developments to stay one step ahead of the market. Maintenance and support services may need to deliver a more integrated business across the world, so that whatever service is provided, it is at the same standard wherever in the world the passenger lands. The common theme is that organisations may look not only beyond their own company, but also seek experts and specialists from across the world to gain a competitive advantage. This creation of a more globally-integrated industry could lead to rapid improvements in the passenger experience, which in turn could help new partnerships grow their revenue and market share.



Embracing digital transformation

The rapid evolution of digital technology has meant that passengers now have very different expectations about what is convenient.

Consumers are used to entertainment on demand, real time updates on everything from their bank statement to the delivery of a takeaway. Designing the interior of an aircraft needs to take this into account. From connectivity to GPS and satellite technology, there are many tools that airlines can use but the challenge is the lack of specialism within the aircraft industry. As with other areas of the business, this may require partnerships with other organisations or recruiting specialists from across the world to meet the technological challenge. For many traditional businesses, it may be too late to catch up but working with digital companies

may be very effective. The combination of a partner's technical know-how with the industry expertise and understanding of a more traditional airline supplier could lead to rapid innovation and a smoother digital experience for passengers that delivers results. The other key factor for digitalisation is that often solutions need to be adapted for local markets – from language translation to cultural adaptations, a little local knowledge can go a long way to create a digital experience that matches not only with the passenger's high expectations but also the airline's brand and in-person services.

Business support for a global industry

These changes also have implications for the vast array of business support services within the industry.

From marketing and financial services to recruitment and certification of products and services, these organisations will be required to take a global approach to stay in touch with an industry undergoing rapid wholesale change. Areas such as digitalisation may require new expertise, and global partnerships and companies may be seeking an integrated solution. To continue to deliver support to the industry, professional services organisations will need to keep up to date with the latest developments and consider expansion with subsidiary offices overseas to reflect the new industry landscape.

Embracing the global opportunity

A global approach provides a more integrated experience for passengers, but it may also expand the potential market for suppliers.

If the latest developments are required for delivery on a global scale, then opportunities may be present across the world to gain new customers and increase overall market share. This doesn't come without difficulties – there may be a need to set up an overseas office, or pay staff working in-country. In addition, there may be greater currency risk if both revenue and costs are flowing in and out of the company in a variety of currencies. A currency specialist that understands your challenges can help you manage both the risks inherent in currency transactions and some of the practical demands of running a business across borders.



Managing offices overseas

There are a number of advantages to setting up an office overseas, including greater control over your business activities in this area.

If you're looking to work closely with partners overseas, this can help to integrate the companies to work closely together. A local office provides an indication to overseas customers of your commitment to their requirements and can also provide a means to deliver personalised customer support. There are a lot of issues to consider. On top of the running costs, there are local taxes, regulatory requirements and employment laws to take into account. When it comes to staffing the office, you may want to balance the team with someone from your headquarters who has the product and brand knowledge with local team members who can offer local market and cultural understanding. If you're looking to employ local staff, consider the availability of the skills you require in the region you wish to situate the overseas office and whether you may also need to bring in further staff from the UK or further afield.

Overseas staff and international payroll

If you're planning on sending members of your team to either launch or run an overseas office, you'll need to consider the costs and benefits of paying in sterling or local currency.

The key is to ensure that staff aren't losing out due to the currency exchange, but at the same time it's important to limit the costs on the company. If you're paying local staff then an international payroll will be required; using a currency specialist can help you manage those payments alongside other international running costs.

Price pressures and squeezed margins

Imports and exports can add significantly to a company's costs and challenges due to fluctuations in the currency market.

For example, the weakness of the pound since the Brexit vote has made British exports attractive to foreign buyers – but this situation is not guaranteed. If the pound regains some strength, companies may have to choose between smaller margins and higher costs. In the US, the strength of the dollar has made American exports less attractive, but on the other hand has made importing goods and components more affordable. There are so many factors that impact a currency – situations such as Brexit and the US-China trade war are major examples, but currencies fluctuate due to economic statistics, political changes and business confidence. As they fluctuate in relation to each other, a major change in another country will have a knock-on effect on other currencies. The biggest challenge is that given that there are so many factors, and that it involves areas such as politics, the currency market is difficult to predict. This in turn makes it difficult to set prices with overseas partners. In addition, there are some suggestions that the current economic situation may lead to a shift in buying patterns. The overall approach to your company's currency exposure will depend on a number of factors, but here are some key steps to take when planning ahead in uncertain times.

Managing currency risk

Step one: Understand the nature of your currency exposure

Take a look at your revenue and costs; what percentage of those are received or sent as currency? Are you running the risk of pricing yourself out of the market if the pound recovers, losing your profit margin if it falls, or is there perhaps a balance of both? It's important to look at those numbers of the balance sheet, and what fraction they are of overall incoming and outgoing funds because this will indicate your measure of risk. If it's only 10% of your business, you may think you have less to worry about than if it's currently 70%, but the issue isn't quite that simple. Of course, currently the company with higher currency exposure bears more risk due to currency fluctuations, but you have to look beyond the numbers at your strategic plans. You should consider where the market may be growing or shrinking, where your products have an opportunity and in trying economic times, whatever the percentage of your overall profits and losses are consumed by currency, you should aim to make the most of every penny.

Step two: Understand the choices available

There are a number of currency tools which can help you make the most of your company's resources and still expand into overseas markets and work with international partners. A forward contract allows you to lock in a prevailing rate of exchange for a set period of time. (Please note, a forward contract may require a deposit.) This can help with forward planning and provide some certainty but it carries its own risk. Currency can go up as well as down, and it depends on what is

going to work best for you. In addition, there's the fact that this works best when you have a clear pipeline. If you have definite commitments then a forward contract may be the best approach. However, you can also set up a market order; this allows you to specify your target rate and the funds are transferred if that rate is reached. There are no guarantees with a market order but you can pair this with a stop-loss order which specifies the lowest limit you are willing to accept. This allows you to protect your profit margin while also having the opportunity to take advantage of movements in the market. These are both longer term strategies that require some planning, but if you operate a more agile business, you may feel like the best approach is to wait and see what the market brings and adapt accordingly. This does carry some risk, but if you work with a specialist who can keep you updated on the latest changes in the market then it could allow you to maximise your profit margin and still protect against too severe losses.

Step three: Speak to a specialist

All of the above products and services are available via a currency specialist but that isn't the only advantage. Currency specialists typically offer better rates and lower fees than high street banks. You also get the benefit of expert guidance from someone who not only understands the foreign exchange market but also your industry. Whether you're just starting to consider your currency exposure or are simply looking to review your current approach, the additional expertise can shed light on the opportunities and risks of different approaches – and you can get all this extra help for free when organising your international payments through a specialist.



Controlling currency costs

Fluctuations in the exchange rate have an impact on the cost of international payments, but it isn't the only factor. Different providers offer different rates of exchange, and even a fraction of a percentage point can make a big difference when you're exchanging the revenue from a major sale or paying an overseas supplier. In addition, if you're working with multiple partners, exchange fees can soon add up and can further erode the profit margin. Beyond these areas, there are also practical matters to consider. If you're working across multiple markets around the world, or have many overseas staff or offices, then it may be time consuming to set up and deliver the broad range of currency payments required and to keep track of cash flow when working in multiple currencies.

Managing international payments

Just as an integrated approach to growing areas such as improving the passenger experience and digitalisation can help a company thrive, working in partnership with a currency specialist like moneycorp can improve the process of managing international payments. As well as expert guidance on the currency market and available currency tools for managing risk, moneycorp provides clients with an online platform for managing international payments. As well as providing live statements, progress updates on international payments and the facility to make payments in multiple currencies, the platform also provides management controls.

Different staff members could have different levels of authorisation to set up international payments, check on the progress and approve the final payment. This approach doesn't add too many additional layers of administration or require staff with specialist expertise, but does provide the transparency and checks and balances that allow for the close management of currency costs.

Currency support for global businesses

The aircraft industry as a whole is facing significant change, from evolving passenger expectations to the challenge of keeping up with technological innovation. For many organisations, a global approach can help to offset some of the challenges of shrinking domestic markets or the risk of falling behind the rest of the industry. Wherever the business is expanding, the cost of international payments and the risk of currency exposure are likely to be a key factor in whether your plans succeed – after all, there is no point in tripling your sales through overseas markets if you find that you didn't make a penny of profit. The corporate foreign exchange service from moneycorp helps companies to manage their foreign exchange risk. Our expert team works directly with companies across the aircraft industry and provides guidance on the foreign exchange market and insight into market developments and how they might impact individual businesses. In addition, they can provide more information on a range of tools for everything from paying international invoices to a range of tools to help companies identify and manage foreign exchange risk.

Contact us

To find out more about how a customised foreign exchange strategy can help you save money:

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