edgar, dunn & COMPANY

WFS Stream 1: Value Creation
Last year's learnings & today's problems

Thursday 26 October 2023

Payment: an enabler for value creation

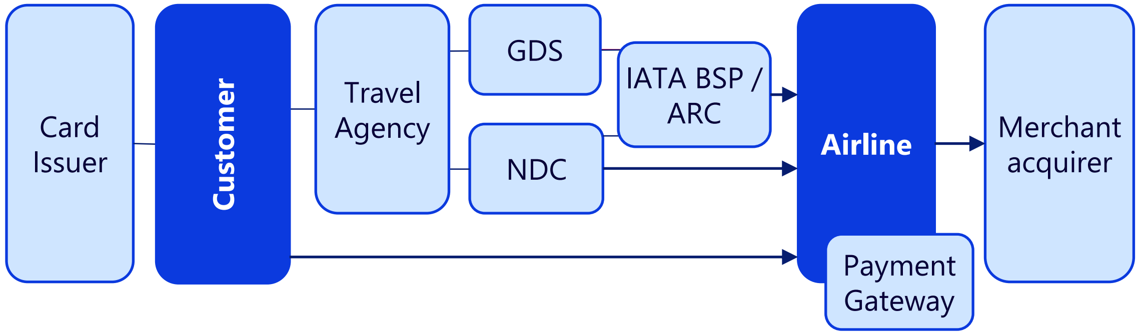
- Payment challenges, such as cash flow control, refunds and outdated back-office processes
- Improving payments is crucial for airlines to meet demand and enhance performance
- In 2022, a study undertaken by Edgar, Dunn & Company explored the costs and revenues associated with payments for the airline industry globally

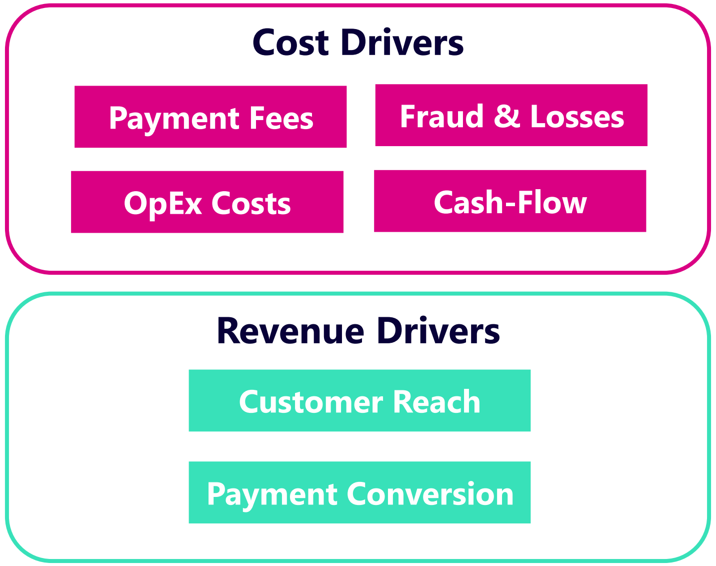
Payment is a key pillar to support the recovery of the airline industry and to "unlock value creation"

- The airline payment ecosystem is highly complex due to the number of stakeholders involved in the value chain and due to the multitude of sales channels
- EDC undertook the Study to provide a baseline across four cost and two revenue drivers associated with payments*

Stakeholders in a Card Transaction

(simplified view)





(*) The scope of this Study includes all sales channels and all forms of payment, but does not include costs / revenues associated with co-brand card programmes

The Study used a total payment value of $977 billion and estimated total payment costs for airlines at $20.3 billion per year

Industry Payment Value

- The baseline used in the Study was the 2019 total airline industry payment value
- This represents the total value paid by travellers to airlines (including $93bn of fees and taxes)

$977 billion

Payment Cost and Revenue Drivers

- The four cost drivers and two revenue drivers include a number of subcategories and key assumptions
- These cost and revenue assumptions were validated with the help of 10 airlines

6 drivers

Interviews with Airlines

- The Study included 10 bilateral interviews with airlines from different regions to validate the key cost and revenue assumptions
- The feedback from the airlines was anonymised and aggregated*

10 airlines

Cost & Revenue Sizing Results

- Due to the lack of supporting quantitative data from airlines, it was not possible to estimate the revenue impact
- Applying detailed cost assumptions to the total payment value, the Study estimated the total cost of payments for airlines

$20.3bn costs

(*) EDC would like to thank these 10 airlines but can not mention their names, as data was collected on an anonymous basis and aggregated

In the upcoming sessions, we will hear how airlines assess payment costs and focus on optimising revenue drivers linked to payment

The study highlighted the need for airlines to review their costs of payments and identify cost-reduction opportunities

Cost Drivers - Key Findings	Best Practices for Airlines
The payment costs for airlines need to be calculated, monitored and managed	An **internal payments team**
Payment fees are the largest payment cost	Full and **granular visibility** of the cost of acceptance
The payment fees in the indirect channel are driven by cost of "card" transactions	**Close and on-going coordination between Distribution and Finance**
Cash-flow costs have gained importance	**Analysis of risk mitigation options**

Compared to retailers in other verticals, airlines are currently less focused on monitoring / optimising revenue drivers related to payments

Revenue Drivers - Key Findings	Best Practices for Airlines
Most airlines accept at least one Alternative Form of Payment (AFOP), (e.g., e-wallets, bank transfers, Buy Now Pay Later)	**IT agility / flexibility** to implement relevant AFOPs and measure the impact on incremental pax revenues generated by AFOPs
Only a minority of airlines had undertaken payment initiatives to support ancillary revenue	A **2–3-year payment roadmap and resources**
Airlines do not proactively monitor or optimise card approval rates	**Monitor and optimise card approval rates**
Airlines generally monitor the level of declines due to fraud suspicion	**Find the right balance** between low fraud rate and friction

EDC suggests a four-phase end to end approach for an airline to optimise payments

Step 1

360° Payments Diagnostic/ Audit

Define current situation and identify priority payment opportunities

Step 2

Future State/ Roadmap

Define future state and list payment projects on roadmap

Step 3

Roadmap Execution

Execute roadmap and support your business to launch payment initiatives

Step 4

Project Implementation Support

Project & payment operational management and support; coaching / training

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