Airline Merger Integration
Take-Off Checklist
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The twin impact of a looming global recession and the jarring terrorist attacks of September 11th will hopefully provoke a restructuring of the airline industry that is long overdue. In any other sector, consolidation would have naturally occurred a long time ago. Now, as many carriers struggle to sustain their financial viability, there is a window of opportunity to redesign the airline business model and address historical constraints, such as the narrow interpretation of antitrust regulation, international air traffic rights, and labor relations, that have hampered combinations in this market. The outcome should be a wave of mergers that will result in a far more competitive and efficient global airline industry, with a more limited number of major carriers in both the U.S. and Europe able to serve a broader set of customer needs on a more far-reaching basis.

Nearly all carriers are reporting dramatic losses, capacity reductions, and huge staffing cutbacks. A few, such as Swissair, have already entered into bankruptcy proceedings, and a further shakeout appears inevitable. In the immediate term, airline senior executives will have to focus on cost reductions — both variable and fixed — and pressing cash management concerns. But, as they put out the more urgent fires, they need to start scouting out opportunities to pool resources, share costs with other carriers, and create organizations that can attract private capital. In fact, given the largely regional structure of the industry on both sides of the Atlantic and the events of September 11th, consolidation may be the only way out of the structural dilemma.

Exhibit 1
September 11th Terrorism Triggers History’s Steepest U.S. Airline Industry Decline

Source: U.S. Department of Transportation
In this new, more volatile operating environment, several questions arise:

- How do airlines avoid the mistakes of the past as they merge operations in the months and years ahead?

- How do they successfully unleash the value that is clearly there in increased network scale (e.g., greater connectivity, aircraft utilization, network rationalization) and enhanced market impact (e.g., greater breadth of service, appeal to the corporate purchasing department, distribution reach, combined frequent flyer programs) while simultaneously keeping the wheels on the business?

- As distressed carriers rush to merge with each other over the next year, how do executives integrate operations effectively and reduce costs while simultaneously maintaining their focus on distinct customer segments? In short, how do they build a sustainable value proposition at lower unit costs?

- Finally, in a world awakened to the threat of terrorism, how do airlines successfully navigate the regulatory arena, which may well be more accommodating in certain respects (e.g., more market-based interpretation of antitrust regulation), while more stringent in others (e.g., security)?

Integrating airlines is a mammoth undertaking, one that many airlines misjudged in the past. They bought another airline and then underestimated the differences between the entities, the complexities of integration and the unintended consequences of their integration actions. Today the task is even more complicated. The financial pressures are greater, system integration is much more complex, and the airlines themselves are much bigger. More than ever, executives need to understand which areas can be attacked quickly to sharply reduce costs and realize near-term synergies and which areas can be integrated more slowly.

The tactical issues involved in merger integration are tremendous. When companies in our study explained why they had not met expectations, more than two thirds of them cited execution-related reasons such as loss of key staff, poor due diligence, and delays in communication. Only 32 percent attributed their failure to meet expectations to more strategic concerns such as poor fit or an overly ambitious vision.

Whether tactical or strategic, problems in merger performance generally land on the same doorstep: the chief executive’s. That is why so many CEOs lose their jobs within two years of an unsuccessful large-scale merger’s close. Among the mergers we surveyed that did not achieve their targets, 42 percent of the CEOs departed within two years. That compares with a 16 percent departure rate among the CEOs of successful mergers (see Exhibit 2).

Surely no one enters into a merger intending to lose shareholder value. Yet somewhere between the carefully conceived idea of the deal and its execution, many mergers stumble.

### The Hurdles to Airline Merger Integration

Airline mergers tend to trip up for one of three primary reasons:

1. **The combined company disregards the enormous complexities surrounding the whole labor dimension.** Labor strife has been a major factor in delaying or destroying the benefits in many airline mergers. “Sickouts,” lost luggage, unanswered reservation lines, even aircraft sabotage have significantly increased the price tag of many airline acquisitions.

2. **The acquirer does not fully understand the business model of the airline it is acquiring, specifically what makes it successful.**
While it may have targeted and celebrated the potential synergies the combined airline could exploit, the acquiring airline often does not expend the time or effort to get inside its target’s operations and identify key success factors, best practices, and critical talent. In Europe, this is complicated by the unique cross-border challenges (e.g., cultural, political, language) that accompany acquiring a flag carrier in another market.

3. **Finally, as with mergers in any industry, many airline marriages fall victim to lapses in planning and execution.** Too much of the pre-merger planning is done on the fly without preemptively determining how a change will affect customers, employees, and the ongoing operations of the combined airline. Systems issues are increasingly daunting as airlines attempt to integrate a complex mix of modern in-house systems, dated mainframe systems, and outsourced information technology (IT).

In summary, successfully merging two airlines and capturing the theoretical value of that merger is a major management challenge, and one that will only increase as airlines become more complex and more global.

**CEO Take-Off Checklist**
Before you embark on the work of merger integration, you need to establish and communicate a shared and actionable vision for value creation. You must also emphasize clear strategic priorities.

**Customers:**
First and foremost, you need to focus on the customer experience and how it will evolve as assets, systems, and staffing are integrated. It is important that customers realize the benefits of the merger soon after Day 1 and every day thereafter. Above all, don’t make customers the victims of the process.

**Operations:**
Both in mergers of equals and more straightforward acquisitions, there are a host of issues that threaten to bring ongoing operations to a standstill. The key is to establish stable interim processes and controls, as well as problem resolution mechanisms, so that there are no debilitating interruptions in service or defections in staff as you move quickly to realize cost and revenue synergies.

**Labor/Management:**
Given the unique challenges labor poses in the airline industry, it is particularly important that executives address union concerns early to mitigate any potential risks they might present without giving away the store. This issue remains one of the greatest challenges to effective airline merger integration. Employees — whether unionized or not — will need to understand quickly what’s in it for them, starting with some basic questions: Do I still have a job? When do I have expanded flight rights? How are my work rules affected? Meanwhile, management will need to recognize key moments of truth in the merger process and make a host of choices and trade-offs regarding whether — and when — to merge all the functions of the airlines.

**Above all, don’t make customers victims of the process.**

It is imperative that the CEO start the ball rolling as soon as possible. To be successful, you must sow the seeds of post-merger integration even before the deal closes. That means making key decisions early, such as:

- How will we create value?
- How will we approach and structure the merger?
- How will we lead and manage the integration?
- What is our “people” strategy for the transition to the merged organization?

The unique characteristics of the deal will dictate the particular choices you make in each area; there is no one-size-fits-all recipe for successful merger integration. Comprehensive due diligence will inform these early decisions, which then become the foundation of a rigorous integration planning process. The result: both organizations are ready to integrate priority areas immediately following the merger’s close.

In our experience, there are three distinct phases in any merger integration effort (see Exhibit 3). First, you need to identify and assess suitable partners. Then,
you need to lay the groundwork for effective integration, taking into account the host of particularly sensitive issues in airline mergers (e.g., regulatory concerns, labor strategy). Finally, there’s the merger integration work — the thousands of decisions that need to be made on everything from the message in the in-flight magazine to the customer’s experience on Day 1, the 100 days that follow, and throughout the course of the integration. The questions posed in Exhibit 3 will each be addressed in turn.

The fundamental issue in selecting a partner is not, “Who’s available now?”, but rather, “What airline can help me build sustainable competitive advantage?”

**Partner Selection**

*How do you assess whether a partner really fits?*

The fundamental issue in selecting a partner is not, “Who’s available now?”, but rather, “What airline can help me build a platform for sustainable competitive advantage?” Ideally the merger should enable a carrier to:

1. Offer a broader, deeper set of services to its customers
2. Access an expanded customer base

3. Realize significant efficiencies and economies of scale

Current conditions will complicate partner selection strategies. Airlines may be sold in parts rather than whole, antitrust regulation may necessitate asset swaps, and the timing may be driven by the imminent threat of bankruptcy for one or both carriers.

An appropriate partner will furnish obvious revenue and cost synergies. Carriers that operate complementary national, regional, or global networks with some overlap are ideal. From a sales and marketing perspective, it helps if your prospective partner has a similar brand positioning, complementary frequent flyer and other customer benefits, and a sales organization that will integrate easily with your own.

There is a range of levers that can be pulled to realize cost synergies: network rationalization, facility consolidation, manpower rationalization, procurement savings, working capital and balance sheet restructuring (e.g., renegotiating aircraft leases), and reduced factor costs are the primary ones.

Establishing fleet commonality — particularly as you reach efficient scale in a particular aircraft — sets many of these levers in motion, facilitating pilot training, crew scheduling, maintenance integration, and inventory rationalization. This issue is of particular relevance to European and Asian carriers, which generally have
smaller fleets than their U.S. counterparts. Airport facility consolidation offers early and relatively easy wins in the cost synergy arena. Compatible reservations systems (i.e., same platform or new/“green screen” vs. two advanced but different IS systems) can expedite your efforts to pool reservations. Other cost synergies exist where there is considerable duplication of overhead functions and facilities (e.g., SG&A).

While most airlines tend to focus on prospective partners that offer the greatest strategic, revenue, and cost synergies, there are other often-overlooked criteria to consider. As we’ve noted, most mergers fail in the implementation, so you need to consider the costs and hurdles to implementation before you select a merger candidate. To keep integration manageable, you should minimize potential labor strife and abbreviate systems integration time. That rationale favors choosing a carrier with a similar fleet, a complementary workforce in terms of seniority, and a comparable culture. The culture issue is obviously more profound in Europe where the differences lie not just in corporate culture but in national identity.

**Pre-Merger Preparation**

*How do you address the regulatory process?*

As we noted earlier, the events of September 11th will clearly have an impact in the regulatory arena, one that airlines are following with great interest. Historically, U.S. antitrust regulators have evaluated mergers largely on a narrow route-by-route basis. European oversight is complicated by issues of jurisdiction (e.g., country or European Union), international traffic rights and national security. However the deteriorating plight of many carriers may cause these overseers to adjust their criteria. It is generally acknowledged that consolidation may be necessary to prevent large parts of the airline industry from going under. It is time to apply a different interpretation to existing antitrust laws to ensure the continued viability of a competitive airline industry and to respond more directly to the purchasing patterns of frequent and corporate travelers — the constituency that regulators (at least in the U.S.) are ostensibly trying to protect. Regulators need to revise their perspective and move from a route focus to a network focus. Airlines should further this shift by educating regulators about the urgency of their situation and the benefits that a stronger, consolidated airline industry could provide customers — both business and leisure — on a global basis. (see Exhibit 4).

**Exhibit 4**

**Rationale for Consolidation**

- Meet the full set of corporate and frequent-traveler needs
- Compete more effectively on a global basis
- Reduce Costs
  - Network optimization
  - Cost and investment integration
  - Operational rationalization
  - Fleet simplification
- Operate more flexibly within changing market conditions and infrastructural constraints

*Source: Booz Allen Hamilton*

**How Do You Prepare For Day 1?**

As an executive leading a newly merged airline, you will be inundated with competing priorities and demands, but the most important questions before you are these: How do you deliver on the value you identified when you announced the deal while, at the same time, keeping the wheels on the business? How do you successfully integrate operations in the wake of a merger while keeping your full focus on your customers?

The planning process for a merger integration starts small and early with a core integration team and a program office manned by a few select participants. This core team will draw on the talents of senior officers empowered to make critical early-stage decisions. As the merger passes through successive milestones — legal, regulatory, financial — the planning effort gains specificity as more information is shared. What started with one design team proceeds with multiple teams working in parallel, each led by a member of senior management. Teams should be staffed with full-time “stars” rather than part-time “understudies,” and these individuals should be armed with specific and tangible objectives.
Each integration team should cover one critical area and be both cross-functional and international in composition. That said, the process should be as streamlined as possible at this stage. You should set in motion five to ten teams at the most: customer service, network/planning, operations, IT, administration and finance, and people, for example (see Exhibit 5). By necessity, there will be overlaps and interdependencies between teams, which the program office will need to anticipate and coordinate.

These teams will address merger planning from the top down. They will need to pay significant attention to what can go wrong on Day 1 and during the first few weeks, and they will need to develop contingency plans for each challenge.

Antitrust regulations prevent the sharing of sensitive, competitive data before the deal’s close, but you can get a jump on this element of the integration effort by setting up a “clean room” where third parties can gather and analyze critical data without violating antitrust regulations. This facility can significantly expedite critical items such as corporate account integration and network rationalization.
To enable a smooth transition and employee buy-in, it is important that an acquiring airline acknowledge and incorporate elements of its partner’s culture, heritage, and traditions. When American Airlines recently merged with TWA, for example, it held Day 1 celebrations in St. Louis, where TWA’s corporate headquarters are located. It maintained elements of the TWA brand in the interim livery it designed, acknowledged TWA traditions (e.g., length-of-service pins), and it based the integration program office in St. Louis. Perhaps most importantly, it charged integration teams with identifying 200 TWA best practices that the combined company could adopt.

**What Labor Strategy is Appropriate and When Should It Be Implemented?**

Labor disruptions are one of the most problematic aspects of airline mergers. Labor will oppose changes which affect their pay or career progression negatively, two likely outcomes when you merge seniority lists. In the U.S., ALPA spells out the seniority integration process, but individual pilot groups (especially in the acquiring airline) will resist its application. So far, no silver bullet has been found. However, we suggest that a few key principles are followed:

- Bring in labor as early as possible, recognizing confidentiality and deal constraints
- Let the pilots own the pilot integration issue
- Create clear incentives for finalizing the deal and smoothing integration
- Ensure that the cost of the incentives are covered by synergy gains in flight operations

**Merger Integration**

**What should happen on Day 1 vs. the first 100 days? What can wait?**

Once the Day 1 issues have been addressed and resolved, airlines can adopt a more phased approach to integration (see Exhibit 6). This approach yields the earliest possible revenue and cost synergy wins, while maintaining safety and facilitating operational integration.

First, it is vital that the new CEO designate the senior management team as soon as possible. Possibly the greatest challenge in merger integration is selecting an energized and enthusiastic management team comprising the best of both organizations. The CEO’s selection of his or her senior officers will set the tone for the new organization’s people strategy and will set in motion the drive to capture near-term cost synergies, a critical imperative in the present distressed environment.

Most of the revenue synergies will stem from the integration of customer systems, which should be a top priority.

The integration of airport operations, especially gate consolidation, is an obvious starting point. Not only is it a visible symbol of the merger’s progress, but it is key to your customers’ experience, enabling fluid connections across operations. Moreover, exiting gate areas is a rich source of cost savings. Other such quick-hit synergies can be found in procurement and the insourcing of selective maintenance procedures.

Most of the revenue synergies will stem from the integration of customer systems, which should be a top priority. Integrating customer systems allows passengers to experience “one airline,” even while two separate operations continue to co-exist behind the scenes. The workload will depend, to a great extent, on the compatibility of the two airlines’ CRS systems and IT infrastructure. Each airline will have to assess the cost and convenience trade-offs between transitioning to interim customer systems capabilities (e.g., code share) and migrating directly to one reservations system. Employee training liability must be carefully considered as you make all systems integration decisions; thousands of customer and reservations agents will need to come up to speed on any new system virtually overnight.

Designating the management team and integrating airport operations and customer systems will consume much of the integration teams’ attention during the first 100 days. Overall operational integration will take longer, and it will depend on a host of issues, particularly fleet and operational systems compatibility.
How Do You Address Customer Experiences In The First 100 Days After Close?

An airline’s most valuable customers are its corporate accounts and frequent flyers, so it makes sense to focus on the needs and experiences of these two segments first. That said, it is important that all customers experience the elements of “one face” of the new airline within the first 100 days.

Corporate volume agreements (CVAs) drive the purchasing behavior of a significant number of business fliers, so early sales force and CVA integration is key. Competitors will target your corporate customers during this stressful merger integration period, and corporate customers themselves will want to partake in the benefits of the merged airlines’ combined volume. It is important to retain the current CVA accounts of both airlines, while actively identifying and capturing new corporate accounts by leveraging the benefits of the merged airlines’ enhanced network.

Frequent flier programs are major drivers of customer loyalty, so merging airlines need to focus early attention on integrating these programs. At a minimum, they should offer the mutual recognition and reciprocity of benefits that an alliance partner would. Once combined, the frequent flyer program becomes a “carrot” that can be used to lure other airlines’ frequent flyers away, making the “city presence” effect on revenue synergies real (see Exhibit 7).

While largely cosmetic, modifications to the onboard “look and feel” are symbolically important and worth investment. Changes in cabin configuration, livery, even the in-flight magazine furnish early, visible evidence of progress and reinforce the benefits of the merger in the minds of passengers.
While working assiduously behind the scenes to ensure the promise of the merger, airlines serve themselves well by downplaying their public profiles. An “under-sell/over-deliver” strategy is best in our view. That was certainly the strategy American employed in its merger with TWA. While it designed an interim livery and moved quickly to consolidate frequent flyer programs, American did not advertise the merger heavily nor did it alter its signage in airports for the first six months.

**How Do You Get Employee Buy-in, While Achieving a Smooth Organizational Conversion?**

You will need to develop a comprehensive employee migration plan in the very early stages of the merger process, particularly with regard to “star” talent from the acquired airline. You will want to retain the deep knowledge of both industry and company that these individuals harbor. Retaining them will be critical to the success and speed of the integration effort and will likely require the design of a special retention-incentives package.

The key to designing an effective employee migration plan is to establish quickly and clearly the decision-making rights and authority in priority areas. You will want to move rapidly to a single-decision point in areas such as finance, planning, pricing, and external communications, whereas you can rely upon more structured coordination mechanisms in functional areas where integration will be slower.

It can be the nature of any acquired company to resist directives, and employees — both rank-and-file and management — may voice concerns. Since personnel in both companies will be consumed with questions about their individual futures in the wake of a merger announcement, asking them to enlist in your shared vision without first allaying their concerns about where they fit into the new organization is an exercise in futility.

Buy-in is a cascading process, so the obvious starting point is the leadership team, and the obvious vehicle is communications. Leaders cannot communicate enough.

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**Exhibit 7**

Drivers and Enablers of Revenue Synergies

- **Not Code Driven**
  - CVAs will capture high proportion of customer segments driven by corporate policy
  - Limited number of corporations to educate about on-line benefits
  - Convincing FFP story will persuade FFP-driven customer segment to switch loyalty

- **Code Driven**
  - Single code will help educate fliers that merged airlines are one airline
  - Some corporate accounts may be reluctant to negotiate CVAs without a single code

- **Not Code Dependent**
  - International connection display not code driven
  - Schedule harmonization, O&D fare tables not code driven
  - Many international travelers already interline
  - Assume half of international connections captured without common code

Source: Booz Allen Hamilton
It is not possible. The most successful merger integration efforts leverage multiple channels (e.g., Web sites, meetings, newsletters) in a careful, continuous, and staggered fashion. Do not underestimate the power of the daily dialogue between supervisor and employee. Constant and updated communications serve as both reality and rumor checks for employees as they make daily decisions.

True buy-in comes when employees understand clearly what is being asked of them and what opportunities for personal growth await them if they answer “yes.” What are the career prospects? What are the financial upsides? In short, what’s in it for me? Toward that end, employee communications should lay out the integration training programs (with early emphasis on front-line employees), the processes for merging functions and departments, and the application guidelines for positions in the new, combined company. Both airlines’ employees should understand the timeline of the merger, the transition plan for employees, and the remuneration packages offered by the new airline.

Of course, employees are not the only critical constituency affected by the merger. Senior management will also need to build enthusiasm among other key stakeholders including the public, the government, suppliers, customers, shareholders, board directors, and alliance partners.

**How and When Do You Merge Operations to Realize Synergies Effectively?**

As mentioned earlier, airlines should seize quick wins in airport operations, customer systems, and procurement early on (see Exhibit 8). These savings are easy to achieve, and they will impact the bottom line immediately. Over the longer term, airlines should begin to rationalize and transition their fleet of aircraft.

The traditional fleet integration method is called the mirror approach. The mirror approach is the most expeditious but the most costly. Essentially, aircraft and crew all transition to end-state configurations and procedures while still on the target airline’s certificate. Pilots undergo retraining without needing to clear an integration fence.

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**Exhibit 8**
Potential Operational Synergies

<table>
<thead>
<tr>
<th>Synergy Area</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>“Quick Wins”</strong></td>
<td>• Leverage size for more favorable purchasing terms</td>
</tr>
<tr>
<td>Purchasing and inventory management</td>
<td>• Take combined inventory reductions enabled by larger scale</td>
</tr>
<tr>
<td>Revenue management, sales, and distribution</td>
<td>• Rationalize corporate volume agreements and commissions</td>
</tr>
<tr>
<td></td>
<td>• Lower combined credit card and CRS fees</td>
</tr>
<tr>
<td>Regional feeder operations</td>
<td>• Apply “best-terms” contracts to rest of feeder system</td>
</tr>
<tr>
<td></td>
<td>• Eliminate redundant feed</td>
</tr>
<tr>
<td><strong>Possible “Quick Wins”</strong></td>
<td>• Consolidate gates and terminal facilities</td>
</tr>
<tr>
<td>Airport operations</td>
<td>• Reduce FTE headcount and increase productivity</td>
</tr>
<tr>
<td>Network consolidation</td>
<td>• Optimize the combined network</td>
</tr>
<tr>
<td></td>
<td>• Redeploy and schedule aircraft more efficiently (higher aircraft productivity)</td>
</tr>
<tr>
<td></td>
<td>• Realize greater revenue potential through stronger connections</td>
</tr>
<tr>
<td><strong>Longer Term Synergies</strong></td>
<td>• Lower maintenance, training, and conversion costs by leveraging scale and reducing fleet types</td>
</tr>
<tr>
<td>Fleet rationalization</td>
<td>• Cut redundant facilities and overhead after a transition period (during which additional, not fewer, people may be needed)</td>
</tr>
<tr>
<td>Facilities and infrastructure</td>
<td></td>
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Source: Booz Allen Hamilton
Once the target fleet is converted, operational systems are ready, and labor agreements are reached with the retrained pilots, then aircraft and crew move onto the acquirer’s certificate at once.

Alternative approaches which allow a more gradual transition are worth exploring since they can reduce transition costs (e.g., avoid sub-fleet problems) and accelerate operational integration. The chosen fleet transition strategy is of uttermost importance since it will define a large part of the operational integration. The exact strategy will depend on differences in fleets, cockpits, and procedures.

**How Do You Deal With Systems Integration?**

Systems issues are another primary driver of the entire integration effort and influence every other aspect of the merger process. From tallying frequent flyer points to creating and pricing connecting itineraries to prompting an agent to provide an upgrade, systems touch the customer throughout his or her journey and make or break the experience with an airline. Information technology is what enables the airline to process new CVAs efficiently and merge financial records accurately. It is also a significant gating factor in the operational integration process (e.g., maintenance systems).

Your senior management will need to make some careful tradeoffs as you integrate customer reservations systems and other IT infrastructure. Do you invest in strong interim functionality to improve the customer’s experience during the transition? Or do you focus on achieving a full migration as quickly as possible, using communications to lower customers’ expectations in the meantime? Do you expand the capacity of your existing systems or design entirely new systems to aid integration?

You should not overlook employee systems in this debate because the attention you give them can send some strong, subliminal signals. Maintaining employee records on old target systems can effectively segregate those employees through separate and distinctive I.D. numbers, unequal access to employee communiqués, and the like.

**How Do You Handle Existing Alliances?**

Existing alliances will factor heavily into both the decision to merge and the specifics of the merger integration effort, particularly in Europe where small domestic markets rely heavily on alliance networks for revenue synergies. A dedicated team should formulate an alliance transition plan and work with the other integration teams to effect that plan. This issue is of particular import if the airlines belong to two different, major alliances. Smaller regional alliances and code shares generally take a back seat; they can be addressed after the first 100 days.

As with all constituencies, alliance partners require early and frequent communications. Employees of both the alliance and its various partners — especially those on the front line — need to know how to respond to questions, even if there is no news to report on Day 1.

In general, the customer-facing benefits of alliances should be considered and addressed first to enhance revenues (e.g., through network sharing) and to retain loyal customers. Frequent flyer programs, personalized letters, and lounge access should all be priorities in the early alliance integration efforts. Beyond that, airlines should not expend undue energy focusing on alliance issues on Day 1. Other cost savings and capability-sharing opportunities (e.g., purchasing, ground operations) can be pursued at a later date.

**How Do You Ensure Ongoing Value Generation and Capture?**

While identifying the value in an airline merger may be simple, generating and capturing that value is anything but. Labor problems can often overwhelm whatever revenue and cost synergies may have been envisioned, and other hurdles (e.g., slow systems integration, regulatory roadblocks) can strip away benefits as well. But if you can effectively convey to customers the gains and conveniences they can anticipate and then deliver on those promises, you can succeed in realizing tremendous value on an ongoing basis.

In the present environment, it is critical that airlines quantify both revenue and cost synergies and operationalize these estimates quickly. Progress against goals needs to be tracked and accountability assigned. Airlines need to develop a set of clear metrics that can be monitored and updated. For example, cost savings
can be assessed in terms of the number of airport gates exited and the headcount that is reduced. To measure revenue synergies, airlines can monitor new CVAs signed, growth in the frequent flyer population, or passenger share in battleground cities.

The central tenet in establishing customer expectations during a merger integration program is to under-promise and over-deliver. Focus on a few key priorities in the early days such as integrating and enhancing your frequent flyer program, and use progress against those goals as visible signals that change is happening.

Airlines should also seize the opportunity presented by a merger to adopt judiciously each other’s best practices — not just the acquirer’s but also the target’s. It’s not necessary to review every procedure, but do evaluate key processes to see if there is a better way of doing something. Create a better way, if appropriate and non-disruptive from a safety and operational perspective.

Finally, it’s important to focus special attention and energy on the acquired airline’s employees. Communicate a clear transition process and recognize the contributions of these employees to the combined airline’s future. Consider locating the integration program office close to the acquired airline’s headquarters and staff it with senior talent from both companies. Adopt certain of the acquired airline’s traditions and appoint the most talented of its senior managers to high profile positions.

In short, under-promise and over-deliver, focus on employee issues, and seize the opportunity to create a better airline.

Pulling it All Together

In summary, the best way out of the airline industry’s current predicament is to embark on a new wave of consolidation, one that will hopefully be facilitated by a fresh interpretation of regulatory restrictions in both the United States and Europe. Airlines should heed the following guidelines as they consider potential mergers, alliances, and cost-sharing partnerships in the months ahead.

- Secure a good merger partner who offers a pathway to sustainable competitive advantage through high cost and revenue synergies and/or low integration hurdles and expenses.
- Take advantage of possible revisions to antitrust rules in the post-September 11th market environment that could help mitigate regulatory risk in the near term.
- Jump start the merger integration process with a balanced, comprehensive program structure and strong top management involvement in pre-merger preparation.
- After Day 1, a phased approach to integration will yield the earliest possible revenue and cost synergy capture, while still maintaining safety and facilitating operational integration.
- Because labor will oppose mergers that affect their pay or career progression, put in place mitigating agreements prior to announcing a merger, if at all possible.
- Focus on retaining and attracting corporate accounts and frequent flyers immediately. Provide as much of a single face to the customer within the first 100 days as possible.
- Develop a migration plan for top management and employees that retains key talent and knowledge — and remember to communicate, communicate, communicate.
- Phase operational integration to achieve quick wins with bottom line impact while transitioning fleets and maintaining operations in a more gradual, structured fashion.
- Ensure a smooth and rapid integration into existing alliances by establishing a dedicated team and a communication and transition plan.
- Invest in systems integration early on, given the long lead times involved. Integrated systems will be key to conveying a single face to the customer.
• To ensure ongoing value generation, under-promise and over-deliver, focus on employee issues, and seize the opportunity to create a better airline.

**Booz Allen’s Merger Integration Experience**

The integration planning process is merely a precursor to the full-fledged merger integration program that will follow the deal’s close. At Booz Allen, we’ve helped hundreds of companies in a broad range of industries through the mechanics of merger integration. Indeed, we have been involved in some of the most successful mergers in recent history.

Our greatest value-added comes at the front-end of the deal process. We provide senior counsel and strategic-thinking support to CEOs the world over. We help them evaluate tradeoffs and establish imperatives as they contemplate potential mergers. Once a deal is signed, we can help executives make decisions, set priorities (e.g., market, competitive, financial) and manage implementation risks. We can provide clean room data collection and counsel. Given our experience, we’re cognizant of the likely pitfalls and skilled in ways to avoid them. And we are acknowledged experts in organizational design.

Our philosophy is to work together with the CEO and his or her senior leadership team to guide them and the integration teams in making the merger an unequivocal success. Our track record, proven approach, Web-enabled tools (see E-Merger inset box), deep industry expertise, and flexibility make us a partner of choice in the mergers and acquisitions arena.
The Internet has an obvious role in post-merger integration, as it does with most information-intensive processes. At Booz Allen, we’ve developed a Web-based tool called E-merger to facilitate pre-close planning and post-merger integration work. The E-merger tool provides baseline, synergy tracking, and program management functionality, and it dramatically collapses the timeframe for a given merger. It also provides a common, secure, and ubiquitous platform for the assembling and disseminating of clean room documents. Access is customized to an authorized user’s needs.

E-Merger: Expediting Post-Merger Integration Information Flows

E-Merger basically jump-starts the post-merger integration planning process, especially for large multinational companies contending with highly fragmented information, differing accounting standards, and other inconsistencies across geographies. It helps senior executives and managers make better, faster, and more informed strategic and operational decisions.

Elements of the E-Merger tool

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<th>Baseline</th>
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Source: Booz Allen Hamilton
What Booz Allen Brings

Booz Allen Hamilton has been at the forefront of management consulting for businesses and governments for more than 80 years. Booz Allen combines strategy with technology and insight with action, working with clients to deliver results today that endure tomorrow.

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Also contributing to this report were Booz Allen’s Pablo Wangermann, Senior Associate (wangermann_john@bah.com) and James Sterling, Senior Associate (sterling_james@bah.com).
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