**Air Canada Case Study**

Founded in 1937, Air Canada was Canada’s largest airlines in 2011. It decided to privatize in 1989 and after 4 years of net loss, in 1994 it was driven towards profitability.

In 2001 Air Canada acquired its main rival in the industry the “Canadian Airlines” and became the 15th largest commercial airline as of 2011. In 2010 Air Canada’s mission was “Connecting Canada to the world”. So, they developed the international growth strategy. However, Air Canada had to compete with the strongest growing airlines in domestic, international and US markets. After achieving remarkable success, now the focus was on building loyalty through passion and innovation. Hence, they started focusing more on the passengers and their premium products. Still, cost was their major issue, as the number one cost incurred was by the fuel and the company had no control over the fuel prices, they introduced CTP (Cost Transformation Program) in other parts of the company. The focus was on three main areas:

1. operational process improvements,
2. supplier contract renegotiations
3. Revenue productivity gains

**Information Technology use at Air Canada:**

Like all other airlines, Air Canada was majorly depended on IT to optimize all their activities and processes like bidding process where pilot and customer used to choose their flight, this reduced the operational cost significantly. The IT applications at Air Canada consists of the old legacy software (at the back end) and the new application (at front end) and the IT department was responsible for maintaining both legacy and new applications and keep them working together.

Customer Service, Commercials, and Operations were the major consumers of IT at Air Canada. Besides all the responsibilities of IT, it was considered as the important tool for innovation. Over the years, Air Canada introduced many innovative tools like interactive computer terminals at airports to check-in, print boarding passes and change seat allocation and so on were one of the very first innovations introduced by Air Canada in 1998, which were later used by many other airlines. 2007, 2009 and 2010 were the most remarkable years in the history of Air Canada were they were the first in the world to introduce the new IT tools which were widely accepted and used by the customers.

**Information Technology Outsourcing at AC:**

Since 1994 AC had a 7-year contract with IBM to manage their IT department. But at the end of the 6th year, AC started looking issuing RFP’s to the new vendors in the industry not because they were not satisfied with IBM but, this time the whole objective of hiring a vendor was not just for cost cutting and operations, but was focus was clearly Innovation.

Air Canada again partnered with IBM to include the innovation concept which went beyond IBM’s border as IBM was a master in implementing Information technology solutions and not innovation. This time Air Canada wanted IBM to act as the Systems Integrator and manage all other small vendors and expected to see only one report altogether.

However, during this time Air Canada tied a deal with Telecom as the telecommunication provider in 2000 and selected Operation SYS to deal with the multiple application of Air Canada.

**At this point of time AC had three most critical vendors**:

1.IBM (Systems Integrator)

2.Telecom

3. Operation SYS

**IT department changes in AC:**

During 2003, Air Canada had a Centralized IT where 50 different Business Analysts representing 50 different departments. There was a huge communication gap between the departments and there IT was perceived as a bottleneck which was working too slowly with no mark able growth. To Overcome this problem the IT department was then decentralized to resolve this issue and the department was then broken down into 7 different departments which are listed below:

1. IT sourcing
2. Transformational IT
3. Customer solution and Innovation
4. Marketing and Customer experience
5. IT Operations
6. IT commercials
7. IT Customer Service.

The ultimate goal was to link the business with information technology.

As 95 % of the IT was handled by vendors and only 5 % was in-house. It would be one of the best strategy to establish a **VMO** (Vendor Management Office) to manage all the vendors including the biggest vendor IBM and track their performances using a proper governance structure.

**Setting up VMO for Air Canada:**

Assuming the below three other vendors except IBM (the SI) for a group of departments.

1. **Capgemini**: For Transformational IT, Customer solution and Innovation, Marketing and Customer experience.
2. **Accenture:** IT Operations
3. **Infosys:** IT Commercials and Customer Service.

The Governance structure for any vendor assumed during this assignment would be the same

**Process and Roles of setting up an VMO:**

**1. People to be included in the VMO:**

As we have discussed into the class that VMO is not a neglected department anymore in the industry of outsourcing but is very critical to any organization which deals with a lot of vendors. Some of the assumptions about the members of VMO are listed below:

1. At least one person from every 7 IT departments should be a member of a VMO.
2. As Air Canada is a vast organization, we would need some experts who are only dedicated to the VMO and not to any other departments so that whenever there are issues, it can be attended immediately.
3. Also, they can keep track of any renewal or cancellation of any IT contract and consider the details of every contract.
4. As IBM is the only SI of Air Canada, I think 5 people other than the 7 people from the above IT department can be enough to start the VMO as we are considering to manage only the SI which is IBM in this case.

**VMO Approaches:**

There are mainly two kinds of approaches from a VMO:

1. **Strategic Approach**: As we know that Air Canada has only one SI that is IBM and it’s been a vendor to Air Canada from two vendor selection process. The goal of the VMO towards IBM should be to establish long term relationship, Value optimization and to create innovative partnerships.
2. **Transactional Approach**: In this approach, the attention is more involved towards cost reduction, process improvement and deliverables. As this work is already assigned to IBM, the VMO should not worry about this issue at Air Canada.

**Key Success factors of VMO:**

1. Senior management support: The VMO can run efficiently when the senior management is fully involved in funding and supporting the VMO.
2. Project Management: As everything in the organization should be planned. A detail planning about all the projects and reporting should be one of the critical factor for success.
3. Communication with business: Knowing the needs of the project is very important before hiring a vendor, a regular communication between the business managers with the VMO is essential.
4. Good relationship with vendors: This is one of the key success factor. Both the parties should try and fulfill each other’s demand to maintain a healthy business relationship.

**Roles of a VMO:**

The below points briefly explain the main roles of the VMO:

1. **Planning**: In this process, the VMO should gather all the requirements from the department for which it needs to hire a vendor. It’s usually a planning and information gathering stage
2. **Implementation**: Here comes the selection of a vendor after following all the steps in the vendor selection process.
3. **Governance:** In this stage, the performance of the vendor is managed against the contract and the SLA’s. Also, the demand management can be handled during this process.
4. **Management**: This stage is the last stage where a vendor client relationship is established for the future work or contracts. Also feedback and performance measurement can be done in this stage.

**IBM’s Role as Systems Integrator:**

1.Flight operation and Maintenance.

2.Reports of Bi-weekly or weekly meeting

3.Amount of complexity in changing the air craft maintenance system

Budget requirement

4.Challenges faced while transferring the data from legacy to new application

5.Incidents raised or issue faced due the interface of new application with other applications.

6.Interaction of Cognizant with Transformation IT regarding the Change**.**

**VMO’s Routine checkup with IBM:**

1. Bi-weekly, weekly and quarterly meeting with IBM regarding the challenges faced in change management

2. Goes through the report shared by IBM in SharePoint.

3. Checks whether the change that reported by Vendors to IBM is valid in SLA’s.

4. Tracks the cost spent by IBM to implement the maintenance Idea.

5.Validates and cross verifies the ideas and decisions making approach of IBM towards the organization.

6. Develop a long-term view regarding the innovations with respect to the cut cost.

7. Escalations handled by the IBM.

**Performance Review by VMO:**

Apart from all the above areas, one of the most critical duties of the VMO is Performance Review process for all its critical vendors. These reviews are very crucial and should be carried out without fail to keep the track of the task and check on the short and long term goals with its vendors. This process can also address the issues faced by the VMO by the vendors and vice versa.

Below are some of the basic reviews the VMO should carry out to be on the top of the things and address any changes which needs immediate attention. As this may vary from business to business depending upon the priority.

1. **Daily Review**: This review is done on the most critical vendor whose performance will affect company’s day today work. You can clearly say that this vendor is extremely important to the business daily. According to the case study, apart from the VMO members, the members from the **Customer solution and innovation** and **IT operations** should be the main members of this meet as they track the online booking website and the frond end apps of the Air Canada daily and the failure of which cannot be afforded by the organization.

IBM should also be a part of this meeting as it acts as a mediator between Air Canada and Capgemini(assumption). The reports are only created by IBM as it’s the SI. Some of the problems discussed here are resource issues, incident reports and the route cause analysis if there is any problem.

1. **Weekly Review**: Things discussed in these meeting are the application and server maintenance and performance, Service availability, Work hours, discuss unattended issues of daily reviews. If the vendor need more resources and time to carry out a task it can be discussed here too. The escalations over the daily review and discussed and resolved in these meetings. The representatives from **marketing and customer service department, IT operations and Transformation IT** members should get involve in these weekly meetings. Areas address in these meetings are:

1.Incident/Problem reports

2. Root cause analysis

3.Dashboard

4.New service requests

1. **Bi-Weekly review**: This is a delivery as well as commercial focus review. The topics of discussion are adherence is SLA’s, performance of vendors, Escalated issues, Review of upcoming projects. If the vendor’s performance is not meeting the expectations, this is the time when it is reviewed and discussed to settle it down considering the scenario. The participants for this meeting would be the **Vendors, IT sourcing team**, **IT operations Transformation IT, customer solution and Innovation team.** Some of the topics addressed in these meetings are:

1.SLA’s

2.Customer Satisfaction Results

3.Escalated issues from daily and weekly review.

4.Small Budget issues

5.Vendor Quality improvement plan and update and so on..

4.**Comercial Review**: This is the time when the amendments of the SLA’s takes place if the performance of the vendors are not met. The Overall supplier relation management takes place in this review. The participants for this meeting would be the **Vendors, IT sourcing team**, **IT operations Transformation IT, customer solution and Innovation team and all the members of the IT commercials team, finance team**

Topics addressed in this meeting are:

1. Budget and pricing estimates
2. Contract changes

3. Escalated issues.

4. Business Issues etc.

5.**Executive Review(Monthly):** This review is more focused on the strategies of the organization including the commercial and delivery focus as well. **Attendees of these meeting would be the G7, the senior managers of all the 7 IT departments including the vendors and the VMO mangers.**

Key topics of discussion are:

1.Supplier performance and relationship review from previous month.

2. Resolving Escalated issues.

3. Plans for the upcoming Executive reviews.

4.Demand Forecast.

5. Budget Data

6.Business Priorities

7.Quality and so on.

1. **Quarterly Review:** This review is more focused on the company’s strategy and is carried out at the first week of every quarter. The participants for this meeting would be the **CIO of the company, the senior managers of all the 7 IT departments including the vendors and the VMO mangers, Vendors.** Key topics of discussion are:
2. Budget report
3. SLA’s/Performance report
4. Commercial status.
5. Innovation.
6. Commercial status
7. Customer Satisfaction
8. Future plans and estimates.

As we can observe from the above reviews that as the involvement of the higher management takes place, the discussions tend towards the strategic goals of the company and on a very higher level of customer and supplier performance reports. So, we can make a conclusion that higher the level of escalation higher is the risk for the Vendors and the threat to the organization.

By performing all the above steps, IBM was successful in handling Air Canada’s innovation ideas and representing itself as a successful system integrator.

VENDOR’S APPROACH TO OUTSOURCING

It is expected by the vendor to consider the outsourced model as a strategic partnership with some degree of shared fiduciary responsibilities and greater degree of discretion, it is critical to research and innovation department of Air Canada to ask the right questions before signing the outsourcing contract and during evaluation. Vendor must follow the best practices of the outsourcing model. The vendors must satisfy the roles in case they are acting as a sole-provider, co-sourcing, or multi-sourcing scenario, in which there are one, two or several vendors respectively, deliver the services to the company. Regardless of the structure, if the response of the RFP meets the stated requirements, each vendor must undergo a due diligence review. A detailed attention should be given to the employee policies, attrition, service attitudes, and management values. The company and the vendor need to fit together culturally.

Vendors project management and innovation ideas will be evaluated on the level of success achieved, the quality and standards of work delivered, adherence to contract terms, and the communication process. potential pitfalls can result from infrequent or vague communications. Offshore outsourcing is very important with reliable and ongoing communications.

Air Canada can also conduct test projects to ensure that the vendor is a good fit for the company. These tests will allow Air Canada to review the vendor’s project management process and innovation ideas for efficiency and effectiveness. Specifically, Air Canada will look at whether project execution is completed within guidelines, whether deliverables are timely, and whether the vendor has adhered to defined quality standards. The results of the test will help in making the final vendor decision.

Air Canada will conduct a POC (proof of concept) with a couple of vendors to compare results and, after evaluation, choose the best one. Air Canada will select the best two vendors from the RFP process and have them complete the same test project. This will demonstrate their project management capabilities, communication style, and ability to meet deadlines for deliverables.

Finally, the vendor will be selected for outsourcing depending on the overall performance measures, team size, team members, pricing policies, business continuity plans and quality of work standards.

Key points to be noted by the vendor:

1.Details to specific requirements

2.Explicit decision making

3.Obtain resources only when needed.

4.Selection on secondary vendors in case the vendor acts as a systems integrator.

5. Details when signing the contract.

6.Build an in-house management team to monitor the project completion.