

Case 11: A+ Airline Co.

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Case Question

- Our client is A+Airline Co., the third largest airline in the United States by passengers carried. This week, we have been flying on our primary competitor, Gamma airline, and we noticed something interesting; they stopped accepting cash for in-flight food and beverage services and they now only accept major credit cards.
- *The CEO of A+Airline Co. wants to know, why did Gamma Airline switch from a Cash & Card system to a credit card only system, and should we follow them?*

Case tracker

- **Industry:**
Airline
- **Level of Difficulty:**
Hard
- **Case format:**
Opportunity Assessment
- **Concepts being tested:**
 - Basic NPV
 - Operations
 - Market Sizing
 - Customer Strategy

Fit Questions

Spend first 15 min on fit

- Tell me about a time when you had to adjust a project schedule because you didn't have all the resources that you needed
- Describe a situation in which you had to change your communication style to influence stakeholders from different groups

Guide to interviewer

- This case will force an interviewee to rely on logic, business acumen, and structure
- Commonly, the interviewee will ask a lot of questions about historical costs, revenues, etc. **This is not the correct approach to this question.**
- The savvy interviewer will realize that this is a BEFORE vs. AFTER comparison of switching from a CASH & CARD system to a CARD ONLY system. Therefore, the questions asked should focus on the DELTA, or the cash changes that occur when the switch is made.

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Quants.

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Structure



Basic NPV
Opps.
Mkt. Size
Cust Stgy

Clarifying answers and case guide

Clarifying answers to provide if Asked

Industry Characteristics/Market Economics

- *Card Use*: Roughly 99% of all consumers purchase their airline tickets using a credit card, i.e. all consumers on an airplane have a credit card available to them.

Client Characteristics

- *Items Sold*: Only food and alcoholic beverage items are sold on A+Airline flights
- *Locations*: This is a US Domestic decision only. Ignore international.

Competitive Dynamics

- Gamma is the only airline that has made the switch; however all other airlines are evaluating the switch.
- For the purposes of this case, Gamma and A+Airline should be considered to be exactly the same in all regards.

Interviewer Guide to case and handouts

Case Structure – Interviewee's structure should be a BEFORE vs. AFTER comparison of the switch from CASH & CARD to CARD only and should include:

- *Revenue Changes*: Loss of Cash Only customers vs. Increase in Credit Card customers
- *Cost Changes*: Benefit of Cash Management Cost Removed vs. Incremental Cost (Fee) of Credit Card
- *Cash Flow Changes*: Interest and Time Value of Money (TVM), and Working Capital impacts due to an increase in collection speed

Exhibit 1 – After Interviewee walks through structure, they will likely ask questions about consumer purchase behavior on airplanes. Once you feel that they have identified the need to do a market sizing, hand out Exhibit 1. (**DO NOT ALLOW ROUNDING**)

- *Ask the interviewee to determine the Total Market Size in (\$)* for food and beverage purchases on an average flight
 - The interviewee should calculate the **CURRENT** allocation of purchases (Cash Vs. Card) for an average flight.
 - The interviewee should correctly identify that some of the current "Cash" customers will not convert to Card. **Tell them we will lose 1/3.**

Exhibit 2 – The interviewee should recognize that there might be a cost savings due to the change. Most interviewees know that there is a Credit Card processing fee but do not realize that there are many costs associated with cash management. Ask them about the types of costs A+Airline might face under both processes before handing out the exhibit. When asked, explain that **the total, per flight, savings from eliminating overhead due to Cash Management Operations is \$35/flight**

Key elements to analyze

Changes in Revenue

- Interviewee will likely begin with the correct assumption that revenue will be lost due to unhappy, cash-only passengers
- Once asked about how many are lost, hand out **Exhibit 1** to do a market sizing

Changes in Costs

- Interviewee should make mention of Cost changes due to the shift to a Card Only strategy.
- Ask the interviewee to detail the types of costs that might be involved before handing out **Exhibit 2**

TVM & Working Capital

- Exhibit 2** also shows that there is a 30 day time benefit to collecting payment via Credit Card vs. Cash
- Prompt 1:** Ask the interviewee to qualitatively explain the impact this time savings will have

Notes on Exhibit 1

- Using Exhibit 1, interviewee should calculate:

1. Total Number of Passengers per Plane

	Seats	Occupants	Business	Leisure
First Class	16	16	16	0
Economy	144	108	43	65
Total	160	124	59	65

2. Total Number that Purchase & Total Spend (\$)

	# that Purchase	Total Purchase \$
Business	26	\$285
Leisure	16	\$97
Total	42	\$382

3. Cash vs. Card Spend + LOSS

	Cash	Card	Total
Inflight \$	\$105	\$420	\$525

Lose 1/3 of Cash Customers			
	#	\$	New Total
Business	3	(\$30)	\$420
Leisure	1	(\$5)	\$70
Total	4	(\$35)	\$490

Notes on Exhibit 2

- Exhibit 2 shows the current operations for Cash Management and Card Management at A+Airline.
- The interviewee should notice the following information:
 - Cash Management & Card Management both have 2% fees associated, so this is a “wash” in terms of savings.
 - Cash Management requires additional overhead, 7 total employees per airport, that could be eliminated for further savings.
- When asked, explain that the total, per flight, savings from eliminating overhead due to Cash Management Operations is **\$35/flight**
- Interviewee should notice that the \$35 savings offsets the \$35 loss in Revenue** (Slightly more because this impacts bottom line, but ignore margin)

Qualitative Assessment

- The interviewee should qualitatively mention that there are benefits to eliminating the longer cash management process:
 - Time Value of Money:** A+Airline will receive their money 30 days sooner, and this money could be used to:
 - Invest in interest earning accounts or growth projects
 - Pay off suppliers early and take advantage of discounts
 - Pay down lines of credit faster
 - Working Capital Improvement:** \$50 per flight in change can be eliminated, thus freeing up cash flow. Additionally, there will be a reduction in loss of cash due to theft and damage
 - Happier Customers:** The majority of customers will be able to place and receive their order faster on the plane which will also increase sales

Solution and recommendations

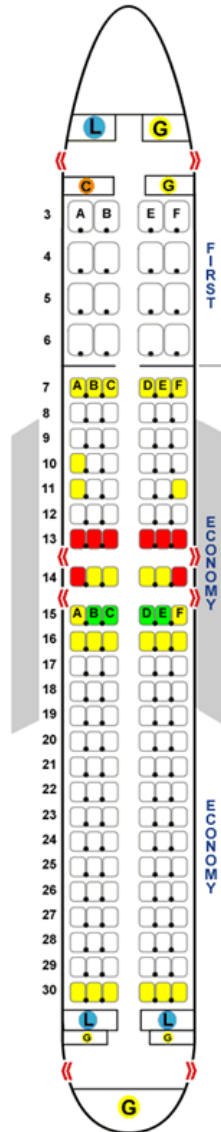
Solution & Recommendations

- Overall, our client, A+Airline, should switch to a Credit Card only system for in-flight food & beverage because:
 - *Quantitative Benefits:* We calculated that there would be a loss of 3 business customers and 1 economy customer per flight which amounted to a Revenue loss of \$35. We also found that we could save \$35 in overhead expenses by eliminating the Cash Management process. In sum, the decision to switch is in favor because the savings are to the bottom line and the revenue losses are top line.
 - *Qualitative Benefits:* We also found that we will receive payment 30 days sooner by only accepting credit cards. This improves our cash flow and could allow us to earn interest, pay down creditors, or invest in projects. Additionally, by reducing cash losses and eliminating “Change” tied up on airplanes, we can improve our Working Capital and also put this money to work for us. Finally, it appears as though customers, in general, might actually be happier because the speed of transactions on the airplane will improve.

Bonus/Guide to an Excellent Case

- An excellent interviewee will note:
 - Due to the increased transaction speed, probability of purchase for both Business and Economy passengers in the AFTER state should go up due to a reduction in frustration. The people on the back of the airplane often abandon a purchase if it takes too long to place an order. Making change takes a lot of time!
 - Average purchase amount should also increase. There is a proven psychological phenomenon that shows how consumers who do not carry cash purchase less when a cash option is offered because they feel guilty using their card. A card-only option eliminates this guilt and consumers don't mind using the card.
 - *Business Acumen:* The fact that Gamma Airline has already switched is a clear indication that this is a logical idea.

Exhibit #1: An Average A+Airline Flight



A+Airline Boeing 737-800 Vers. 2 (738)

Total Seats **200**

	% of Seats	Load Factor	% Business	% Leisure
First Class	25.0%	100%	100%	0%
Economy	75.0%	80%	50%	50%

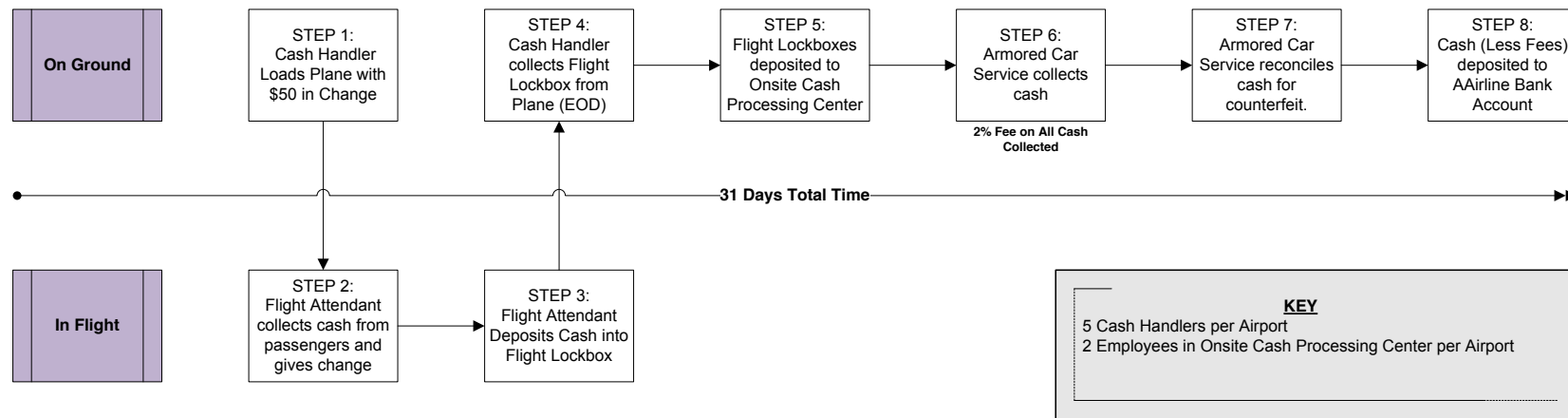
	% that Purchase	Avg. Spend (\$)
Business	75.0%	\$10
Leisure	25.0%	\$5

*Note: First Class Passengers Receive Free Food & Beverage

	% of In-flight Purchases
Cash	20%
Card	80%

Exhibit #2: A+Airline Cash & Card Operations

AAirline Cash Management Process



AAirline Credit Card Process

