



## Aurigny Air Services Efficiency & Benchmarking review

Prepared for: the Scrutiny Management Committee and STSB

25 October 2019

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# Introduction

**PA Nyras has been engaged by the Scrutiny Management Committee and the STSB of the Guernsey Government to carry out an efficiency and benchmarking review of Aurigny Air Services.**

The review consists of the following areas of deliverable:

1. Benchmarking cost per seat and per trip (plus KPI benchmarking)
2. Profit improvement (cost, efficiency, outsource, revenue and risk mitigation)
3. KPIs (v. industry standard KPIs, specific to Aurigny)

Our review consisted of senior management meetings with extensive access to the CEO, CFO and STSB. We also received management information for the benchmarking and commercial reviews.

Whilst our primary focus is on the above deliverables, we also addressed the purpose and scope behind the review, covering the following:

1. Efficient and well managed airline
2. Drivers of current financial performance to support business planning
3. Profit improvement initiatives
4. Innovation, smarter and leaner delivery and outsourcing
5. Breakeven
6. Evidence for recapitalisation
7. Changes to the Objectives

# Terms of Reference: deliverables

**The Review terms for Phase One are set out below to provide context to the very limited scope where Phase Two if required should look at topic areas in detail**

Only to the extent that the consultant is able to identify meaningful improvements, the scope of the efficiency and benchmarking review should include:

- (i) Identifying options for both immediate and ongoing **efficiency savings and revenue improvements**, with due consideration to any potential consequential impacts on the quality and level of services being offered;
- (ii) Identifying options to **improve the services** being offered by Aurigny through more effective use of the resources available to it and implementation of cash releasing investment opportunities and efficiencies;
- (iii) Exploring opportunities for **innovation** and identifying leaner and smarter ways of **service delivery**, including outsourcing.

## **Operational and Financial Efficiency Assessment**

Engagement with key stakeholders. An initial diagnostic assessment of the operational and financial efficiency of the airline, segmented as necessary between its constituent parts. As a minimum, this will entail a review of Aurigny's budgets, management accounts and other management information to develop a full understanding of the airline's performance and to identify such associated underlying issues as the consultant believes exist.

Identification of those areas of the airline (processes, people, systems and costs) that the consultant recommends merit more detailed review under Phase 2.

## **Benchmarking**

The process to identify efficiency opportunities should be informed by benchmarking of Aurigny's efficiency against peer regional airlines (or equivalents), taking into account any differences in scale, size, operation and shareholder objectives. Benchmarking should provide 'like for like' market comparisons of unit costs and business performance, with an analysis of the main drivers for any differences and conclusions that support recommendations for proposed efficiency improvements.

## **Key Performance Indicators (KPIs)**

A review of current KPI data held by Aurigny, with recommendations for additional or alternative data that it should be holding to support effective management and decision making within the airline.

# Context of the Efficiency & Benchmarking review (1)

## Some further context to our review is as follows:

1. The Airline industry is one of the most regulated in the world so a small airline carries a substantial overhead as a consequence
2. The Government purchased Aurigny to enable it to maintain control of the slots at Gatwick to protect a lifeline route to London. Slots can only be retained through their operation by an airline creating a necessity for the existence of Aurigny to protect value and the lifeline route. Airlines have an Air Operators Certificate issued by the CAA. Legal advice previously provided to the States of Guernsey has been that the only way to fully protect the slots is for Guernsey to own an airline with an AOC that in turn holds the slots that it wishes to protect, precluding the operation of the slots by another carrier.
3. The STSB's published guidance to Aurigny includes: maintenance of the lifeline Gatwick route and slots; maintenance of the Alderney services pending the outcome of a PSO process; breaking even on a rolling five-year basis on its Gatwick and other UK regional services; and, acting as an asset to maintain and improve the Island's connectivity. The LGW & Alderney routes are subject to Air Transport Licensing as lifeline routes. Aurigny is able to decide what to do with the rest of the network under an open-skies framework and within the context of the associated shareholder guidance. LGW has a predetermined requirement and Alderney services are currently operated under the terms of an MoU with the States of Guernsey and States of Alderney. However, the rest of the network has no requirements on timings or schedule.
4. In adopting a new Air Transport Licensing Policy Statement in 2018, the States expressly decided against designating services to Manchester, Jersey and Southampton as lifeline routes. As a result, they are exempt from the requirement for an air transport licence and operate under the open-skies framework.

## Context of the Efficiency & Benchmarking review (2)

6. Nyra last year advised the STSB in relation to Aurigny's purchase of new ATR72-600 aircraft so is already familiar with Aurigny and the context in which it operates. The Nyra advice was completed while STSB was finalising revised Objectives for Aurigny in the context of Open Skies so the work couldn't fully take into account any new network and schedule opportunities.
7. It was accepted during our ATR72 purchase review that based on the then prescribed ATR network that a spare ATR72 was preferable operationally and financially. Depending upon what Aurigny chooses to do under Open Skies this assumption might become invalid were they to cut flights, particularly to meet breakeven
8. An MoU between Aurigny, the States of Guernsey and the States of Alderney requires three Dornier's: two to operate the programme and a third as an operational spare. We explore in the report the cost of such a lifeline and its financial viability
9. We have been made aware that Aurigny is participating in a PSO process for the Alderney routes. We have not seen the documentation although we have been made aware of some of the key aspects.
10. The reality of the flying programme is that whilst the Jet is optimised to be profitable, the other aircraft (both ATRs and Dornier's), whilst they make a marginal contribution, are not profitable. The reasons for this are explored in this report
11. Crew costs are high on the Dornier and ATR due to the network schedule design which would appear to be optimised for revenue and service quality rather than minimising cost. Crew are governed by strict EASA / CAA Flight Time Limitation regulations that are designed to ensure that crew fatigue does not arise. The combination of these rules and the schedule cause higher crew costs.
12. Within the benchmarking it is normal to carry out sector length adjustments to make different airline's seat costs consistent. It is also normal to use block hours rather than flight hours (the difference being taxi time on taxiways at each airport) for benchmarking.



# Executive Summary

**We found Aurigny to be generally well managed but there are always areas for improvement and risks to be mitigated. A number of the inefficiencies are either outside their control or only partially in their control**

1. The selections of the Jet and the ATRs for the route network have been good choices compared to other types.
2. Only the Gatwick route is profitable which means all other services may not be viable in an economic downturn.
3. Open skies and the change of fare structures is creating opportunities for higher utilisation and revenue management optimisation. Network scheduling onto the fleet needs review, to deliver optimised profit and service.
4. Ancillary revenue opportunities are significant for bags, seat allocation and up-sell.
5. A new App would create a much better opportunity for the airline to communicate more effectively with residents & passengers, manage rebooking for delays & cancellations, improving check-in process and increase bookings.
6. ClearVision on the new ATRs brings a competitive advantage against Blue Islands and Flybe that should enable market share gain, as well as delivering a more reliable service. It will also put the Jet at a disadvantage.
7. There is a continuing and perhaps growing problem of maintaining skills amongst the permanent staff of the airline due to the difficulty of hiring locals or bringing skills onto the Island.
8. The cost benchmark showed Aurigny to be competitive. Crew costs are high, driven by scheduling and require review. Maintenance costs could likely be improved upon (there is ongoing work by management in this area).
9. The small operational size of the airline (a heavily regulated entity) and operation of three aircraft types means that the overhead is larger than would be desirable.
10. Projecting forward the airline's revenue has become challenging since the flying programme (and market) is in a state of flux as is the fare structure; plus the airline is at early stages for ancillary revenue.
11. Since writing our report a profit warning has been announced about Aurigny. We have not seen any detail. We believe it is reasonable to assume that much of this deterioration can be attributed to the significant increase in supply between GCI and SE England exceeding demand. The impact could deteriorate into the low season winter. This highlights the need for a realistic, holistic and optimised aviation strategy for the Island.

# Observations & Recommendations for the States of Guernsey (1)

The review **purpose and scope** sought to understand if Aurigny is efficient and well managed, what are the drivers of current financial performance to support business planning, profit improvements, innovation, smarter and leaner delivery and outsourcing opportunities, views on breakeven, evidence for recapitalisation and any recommended changes to the objectives. This section raises points not previously covered or fully covered that go beyond our deliverables but relate to the purpose and scope of the review:

1. Whilst the Island would like to think that it can develop the right skills to sustain the island, financial services sucks away many to the detriment of other industries. Aviation requires technical skills not easily developed in a small island environment. A clear strategy for aviation skills is needed, not just at Aurigny but for aviation generally at the airport. Providing accommodation for skilled migrant workers may be needed for this strategy.
2. There have been a number of instances of challenging stakeholder management. The Board may wish to map key relationships and review a plan for each on a regular basis.
3. How supply and demand develops in the London & SE England region needs to be monitored after a 35% increase in capacity for peak summer 2019 compared to 2018. Whilst fares for Gatwick (and the route's profitability) might suggest that more capacity was needed, Stansted fares and losses suggested otherwise. The addition of Heathrow, Southend and extra Southampton frequencies simultaneously may lead to disappointing results for 2019 for all involved. Flybe (Heathrow) and Blue Islands (Southend) are both on financially supported routes against Aurigny on Gatwick and Stansted which are not. Aurigny has estimated that only a third of the extra capacity has delivered more passengers across routes so the growth has to date been inefficient on what is marginal activity at best.
4. Guernsey's financial support to Flybe on the Heathrow route appears to have had a negative impact on Aurigny's profitability for Summer 2019. The impact of a mid-afternoon single daily could even be greater in off peak winter months or if frequency is increased. In July 2019, Flybe carried 3,600 PAX to Heathrow when Aurigny has seen a 4,000 reduction. Aurigny's breakeven Objective set by Guernsey would likely lead to unprofitable non-London routes being cut as well as reduction in London flying. This potentially attacks economic enabler routes.

## Observations & Recommendations for the States of Guernsey (2)

5. At the type of fares likely for a small island, the market size is limited. A joined up strategy between the aviation and lodgings (e.g. hotels, B&B and Airbnb) industry might be beneficial to economic growth to enable the market to Guernsey to grow.
6. Intuitively a small loss would be the right balance of island airline profitability and economic enabler, assuming Aurigny is a significant economic enabler. The breakeven target (whilst needed for other reasons) might therefore be suboptimal.
7. Through the cycle breakeven is often what Governments aspire to for their owned businesses that are economic enablers. Airline profitability is highly cyclical and airlines typically making significant capacity cuts in the downturn that isn't necessarily in the economic interest. In the Guernsey case there is one profitable route and the rest are unprofitable. In a downturn, reduced profitability could lead to significant cuts in the Aurigny network to achieve the breakeven. Where a Government owned business has started the cycle with a cumulative surplus, then riding out the cycle is easier and doesn't require drastic action. This is not the case here.
8. Blue Islands may in future wish to partner with Aurigny, either commercially or in a corporate transaction, since one has to question the viability of two small airlines side by side feeding off a small market that is not really growing in demand. Loganair may also wish to partner after its success in the Scottish market, inheriting bmi regional aircraft and crew plus recent expansion into the Channel Islands.
9. The Guernsey Airport curfew (0630-2100) would not appear to deny Aurigny the opportunity to put further flights into the schedule since it has gaps in the programme during the day and on some days the flights start late. 0645-2100 are the primary operating hours for European short haul, but LCCs tend towards 0550-2300 but with reduced fares at start and end of day. There is an ATR available in the evening for a further Gatwick flight and more slots may be coming available. Were the runway extended, its quite likely that an LCC would desire longer opening hours.



## Observations & Recommendations for the States of Guernsey (3)

10. During our review, it was noted by both sides that the relationship between Guernsey Airport and Aurigny is not great. It is common to find a suboptimal relationship between an airport and its largest base airline customer. Efforts should be made to improve relationships to work to a common cause for Guernsey.
11. Given the small size of the airline, the question arises whether another airline could be the AOC holder to share cost. The “possession” of the Gatwick slots make such an arrangement challenging due to Guernsey needing to retain ownership but the slots residing with the AOC holder. The skills recruitment issues may become a driver in time with the OCC having already migrated to a UK provider. Airlines like Titan provide a number of such services.
12. Jersey has 23,000 flights per annum compared to 20,000 for Guernsey, so on the face of it not hugely different. The differences arises with BA and easyJet operating to Jersey and with larger aircraft. The comfort of Aurigny’s Jet is comparable if not better, particularly once BA moves to an LCC configuration and with its buy on board service. So the question is whether the brands, loyalty programme (and sales & marketing reach) of BA and easyJet are so significant that they act as an incremental economic enabler for Jersey over Guernsey.
13. The easyJet / BA point also highlights something else, that bigger aircraft don’t mean more flights. In fact it is often the reverse and at undesirable times of the day.

# Glossary – Abbreviations

Abbreviation	Definition
<b>AOC</b>	Air Operator Certificate. It is the approval granted by the CAA (Civil Aviation Authority) to an aircraft operator to allow it to use aircraft for commercial purposes.
<b>a/c</b>	Aircraft
<b>FY(E)</b>	Financial year (end). The benchmarking exercise is based on the latest available financial accounts ending in 2018: Aurigny (Dec), Flybe (March), easyJet (Sep), Stobart (Feb), Loganair (March), Isles of Scilly Skybus (March).
<b>FX</b>	Foreign exchange rate
<b>KPI(s)</b>	Key performance indicator(s)
<b>PAX</b>	Passengers
<b>PSO</b>	Public Service Obligation
<b>CAA</b>	UK Civil Aviation Authority
<b>EASA</b>	European Aviation Safety Agency

# Glossary – Terms (1)

Term	Definition
<b>Ancillaries</b>	“ <i>a la carte</i> ” services or products booked in addition to the flight fare (seat selection, bag, etc).
<b>Average sector length</b>	<p>Average distance of a flight or group of flights (usually all flights flown by an airline over a specific period). It can be measured in km flown, block hours or flight hours. Industry standard KPI.</p> <p>In the benchmark, the <u>adjustment</u> is based on Block Hours and is calculated as follow: Total Block Hours / Total sectors. The sector length used for Aurigny will vary depending on the scenario observed. Only some cost categories are sector length adjusted. For Isles of Scilly Skybus where no detailed costs were available, we have sector length adjusted 49% of the total costs (same proportion as for some other regional airlines).</p>
<b>Block Hour</b>	Time from push-back until the aircraft comes on stand.
<b>Capacity</b>	Total available seats available for sale.
<b>Captain / First Officers</b>	The First Officer (also called co-pilot) is the second-in-command of the aircraft to the Captain.
<b>ClearVision</b>	Enhanced vision system fitted on the new ATR-72 600, designed for low-visibility conditions enabling the aircraft to land and take off in foggy conditions.
<b>EU261 claims</b>	EU law establishing common rules on compensation and assistance to passengers in the event of denied boarding, flight cancellations or long delays of flights.
<b>Flight Hour</b>	Time when the aircraft is airborne / flying between take-off and landing.
<b>Frequencies</b>	Number of departing flights from an airport in a certain period of time.

## Glossary – Terms (2)

Term	Definition
<b>Interline cooperation</b>	Commercial agreement between individual airlines to handle passengers (ticketing or booking) traveling on itineraries that require multiple flights on multiple airlines.
<b>Landing charges</b>	Charges paid by an airline to an airport for using their services.
<b>Load factor (LF)</b>	Number of passenger flown / Number of seats available on an aircraft = %
<b>Navigation charges</b>	Charges levied on aircraft in order to cover the air navigation services provided by the Air Navigation Service Providers (ANSP) over a portion of airspace, generally coincident with national boundaries.
<b>Net ownership costs</b>	In the benchmark include costs related to aircraft lease, interest payable, depreciation and amortisation.
<b>Outbound / Inbound</b>	Flight from A to B / Flight from B to A
<b>Season length</b>	Usually defined as Summer (April-October), Winter (November-March).
<b>Sector, trip</b>	Flight from point A to point B.
<b>Shoulder month</b>	Time between the high and low travel seasons i.e. between peak and off-peak months.
<b>Slot</b>	Landing or take-off slot are granted by an airport owner and allow the granted airline to schedule a landing or departure at that airport during a specific time period.
<b>Utilisation</b>	Block hours per day
<b>Yield</b>	Average fare paid per passenger.

## Glossary – Airline and Airport codes

Airline code	Name
BE	Flybe
RE	Stobart
SI	Blue Islands
LM	Loganair
U2	easyJet
GR	Aurigny

Airport code	Name
ACI	Alderney, also referred to as ACI routes in the report.
BRS	Bristol
EMA	East Midlands
GCI	Guernsey
JER	Jersey
LBA	Leeds Bradford
LGW	London Gatwick
LHR	London Heathrow
MAN	London Manchester
NWI	Norwich
SEN	London Southend
SOU	Southampton
STN	London Stansted



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# 01

## Benchmarking



# Benchmark introduction (1)

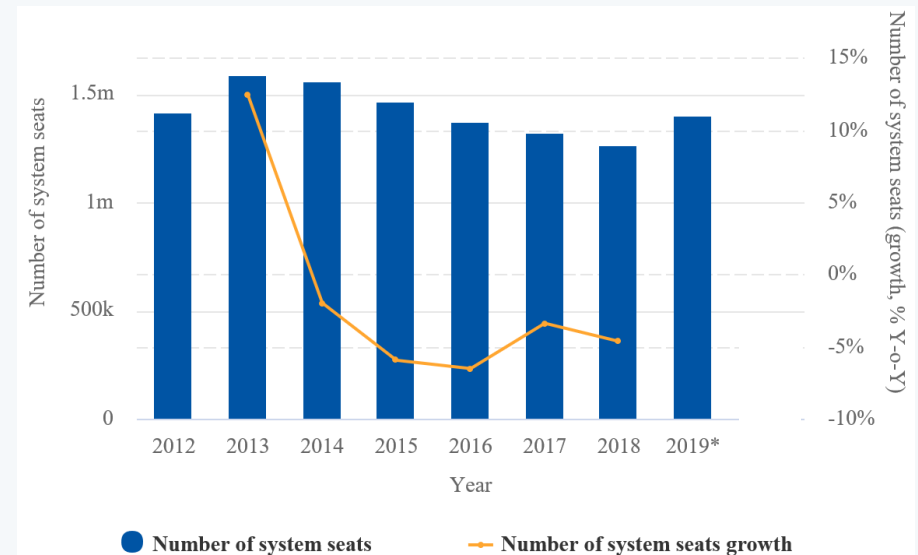
1. The benchmark makes a number of key comparisons at cost category and costs level. Estimations have been made to take into account the different financial year ends of the comparator airlines. Foreign exchange, fuel price and sector length adjustments were applied where relevant.
2. **The benchmark is to be considered as an indicative tool only and not as a 100% accurate reflection of the market. Properly interpreted, the benchmark can be a useful guide to identify where there are issues and opportunities. This is the way the benchmarking has been used within this report.**
3. In order to carry out the benchmarking we have worked with Aurigny on an updated 2018 financial statement to accurately reflect each of the views considered (Alderney routes only, the Jet only, etc). Where relevant revenues and costs have been apportioned on a passenger volume, hours or sectors flown basis, this has been done to fairly reflect this figures across the categories benchmarked.
4. Thus if any comparison is made between Aurigny's December 2018 Financial Accounts and the costs per seats shown in this document multiplied by the number of seats flown, a difference will be observed. This is due to those reallocations.
5. Methodology used:
  - **We used information extracted from the most recent published audited accounts of the other airlines**, interpreted where appropriate with proprietary PA Nyra's information. Costs are split in cost categories as opposed to looking at fixed and variable costs.
  - We have assumed that the new ATR-72 600s had been operated in place of the ATR-72 500s; and the ATR42s parked (whereas it was operational but with no business).
  - Seat cost is the primary comparison based on key cost categories. Trip cost is compared where meaningful. Seat and trip costs are comprehensive measures of efficiency. They enable one to look at an airline costs from a seat and trip flown point of view.

## Benchmark introduction (2)

6. Cost comparisons made:
  - Aurigny (excluding Alderney routes) is compared to Flybe, Stobart (Aer Lingus Regional) and easyJet.
  - Alderney routes are compared to Isles of Scilly Skybus.
7. Utilisation in terms of block hours per day and flights (sectors) per day plus average sector length are standard industry comparisons.
8. Seasonality is reviewed as it is a key driver of utilisation and therefore seat cost.
9. Revenue per seat, revenue per passenger (average fares) and profitability are compared at headline levels.
10. The booking processes of four airlines are compared on different medium (App, website).

# Guernsey (GCI) market overview (1)

1. GCI has seen the market (i.e. departures from GCI) decline for years (see chart below). This has reversed for Summer 2019 possibly sparked by open skies but we have not seen a demand case to justify the additional market growth. It remains to be seen how much of the incremental flights will survive from this market growth.
2. The decrease in 2009 is due to Blue Islands flight reduction of 27%. Similarly for 2013, Blue Islands -16%. In 2014 all 3 main airlines reduced. There were significant cuts from Aurigny in 2016-18 on Jersey and for Alderney
3. Flybe, Aurigny and Blue Islands 2019 capacity growth of 35% (comparing July on July) to the London and Southeast market is likely to be low margin since year one routes tend to be loss making plus the capacity growth was significant





# Guernsey (GCI) market overview (2)

Table – Flights operated from GCI in Jul-18 and Jul-19

Operating Airline	Code	Destination	Daily Frequency*		Commentary
			2018	2019	
Aurigny Air Services	LGW	London-Gatwick	6	6	
Aurigny Air Services	STN	London-Stansted	1	1	
FlyBE	LHR	London-Heathrow		1	New route (since March)
Blue Islands	SEN	London-Southend		1	New route (since May)
TOTAL to London			7	9	Flights (+20%)
Blue Islands	SOU	Southampton	5	5	
Aurigny Air Services	SOU	Southampton		2	New route (since May)
TOTAL to Southampton			5	7	Flights (+42%)
Loganair	GLA	Glasgow	1 weekly		Saab 2000 (2018), ERJ 145 (2019)
Loganair	EDI	Edinburgh	2 weekly		New route (since May)
Aurigny Air Services	MAN	Manchester	2	2	
Aurigny Air Services	LBA	Leeds/Bradford	3 weekly		
Blue Islands	LPL	Liverpool		2 weekly	New route (since May)
Aurigny Air Services	EMA	East Midlands	1	1	13 flights on ATR42 (2018)
FlyBE	BHX	Birmingham	1	2	via JER
Aurigny Air Services	NWI	Norwich	1 weekly		
Aurigny Air Services	BRS	Bristol	1	1	
Blue Islands	CWL	Cardiff	2 weekly		Stopped
FlyBE	EXT	Exeter	1	2	via JER
Loganair	BOH	Bournemouth		1 weekly	New route (since April)
FlyBE / Blue Islands	JER	Jersey	7	7	
Aurigny Air Services	JER	Jersey		2	New route
TOTAL to Jersey			7	9	Flights (+30%)
Eurowings / Flybe	DUS	Duesseldorf	2 weekly		
FlyBE / Blue Islands	ZRH	Zurich	1 weekly		ATR 42 to ATR 72
TOTAL out of GCI					Flights (+30%)






\*Rounded figures

Source: SRS Analyser; GR.

1. Notably flights to Heathrow, Southend, Edinburgh, Liverpool and Bournemouth have been launched, with Aurigny coming onto Southampton and Jersey. Services to Cardiff have been stopped.
2. There are very few flights other than to the UK, Jersey and Alderney.

*The length of GCI's runway limits the operation of aircraft beyond those used by Aurigny. Thus we are looking at number of flights to analyse how well connected the island is in terms of frequencies.*

## FY18 Competitor benchmark airlines (1/2)

Airlines	Destinations	Number of flights	Number of PAX	Load factor	Average sector length
	9 in 2 countries (UK, France for DNR route only)	12,508	531,456	76.2%	101km (D228) 307km (other excl. D228)
	79 in 15 countries	153,800	9,498,878	75.6%	669km
	158 in 33 countries	559,857	88,500,000	92.9%	1,101km
	35 in 12 countries	*37,031	*1,684,107	67.5%	*278km
	3 in the UK	3,438	129,520 (seats)	n/a	75km

Source: Table based on data from SRS Analyser, Management accounts for each corresponding financial year ending in 2018.

## FY18 Competitor benchmark airlines (2/2)



	Total a/c	Average age
<b>ATR 42</b>	<b>3</b>	<b>19</b>
ATR 42 300	2	28
ATR 42 600	1	1
<b>ATR 72</b>	<b>15</b>	<b>4.8</b>
ATR 72 600	13	4
ATR 72 500	2	11
<b>E195 LR</b>	<b>2</b>	<b>11</b>
<b>TOTAL</b>	<b>20</b>	<b>7.55</b>



	In Service	Storage	Total a/c	Average age
DHC-8 (Q400)	52	3	<b>55</b>	11
E175	11		<b>11</b>	6
E195	6	1	<b>7</b>	10
<b>TOTAL</b>	<b>69</b>	<b>4</b>	<b>73</b>	<b>10</b>



	Total a/c	Average age
DHC-6-300	4	39
BN-2 B	3	25
BN-2 A	1	32
<b>Grand Total</b>	<b>8</b>	<b>33</b>



	Total a/c	Average age
<b>ATR 42 500</b>	<b>1</b>	<b>19</b>
<b>ATR 72 500</b>	<b>3</b>	<b>9</b>
<b>Dornier 228</b>	<b>4</b>	<b>17</b>
228NG 200	2	2
228 200	2	32
<b>The Jet</b>	<b>1</b>	<b>4</b>
<b>TOTAL</b>	<b>9</b>	<b>13</b>



	Total a/c	Average age
A320-200	172	5
A319-100*	132	11
A320-200 neo	13	1
A321-200 neo	2	<1
146 200	1	32
A321-200	1	10
<b>TOTAL</b>	<b>321</b>	<b>7</b>

\* Including 2 in storage



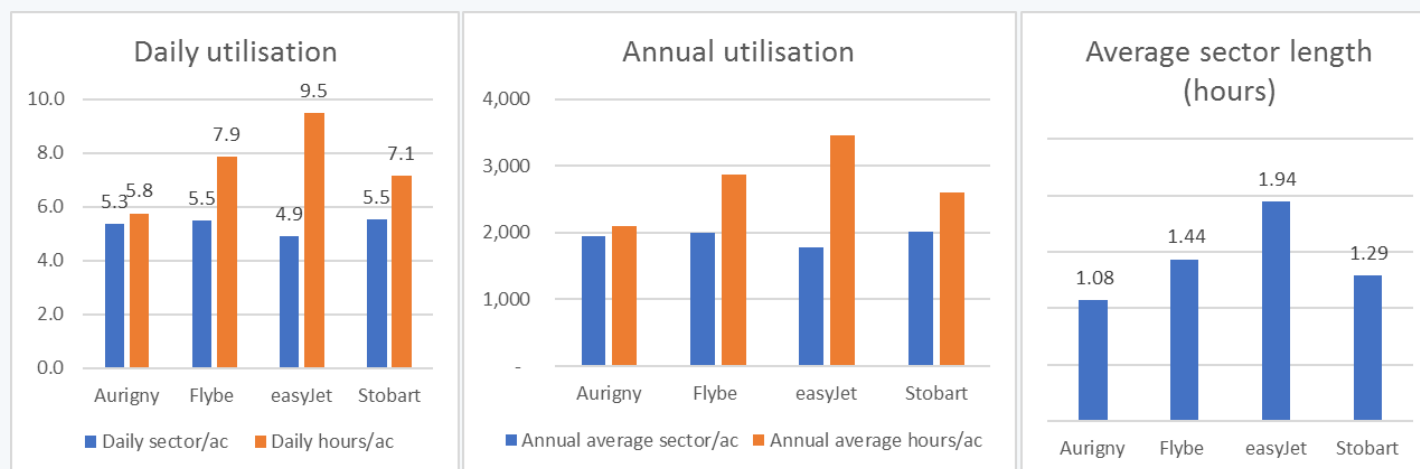
Source: Cirium's Fleets Analyzer, for each corresponding financial year ending in 2018. If not indicated, aircraft are "In Service". Average age is in years.

# Comparison of block hours, sectors and sector length

Utilisation in terms of block hours and flights are critical drivers of a competitive seat cost:

1. In Summer 2018, Aurigny's utilisation in hours (The Jet & 3 ATRs) was the lowest of the airlines. In Summer 2019 most of the extra flying is on the surplus ATR-42 that had been parked which therefore does not improve the utilisation of the core fleet of four aircraft.
2. Aurigny operates industry average daily sectors but appears to have few opportunities for longer sector length; its short sector length causes high maintenance and crew costs, which are more sector driven.
3. easyJet and other LCCs achieve high utilisation by having a longer day and doing long leisure routes at the weekends in the summer. easyJet runs an 0600-2300 based operation.

Graphs – Comparison of aircraft utilisation between Aurigny (excl. Alderney) and comparator airlines

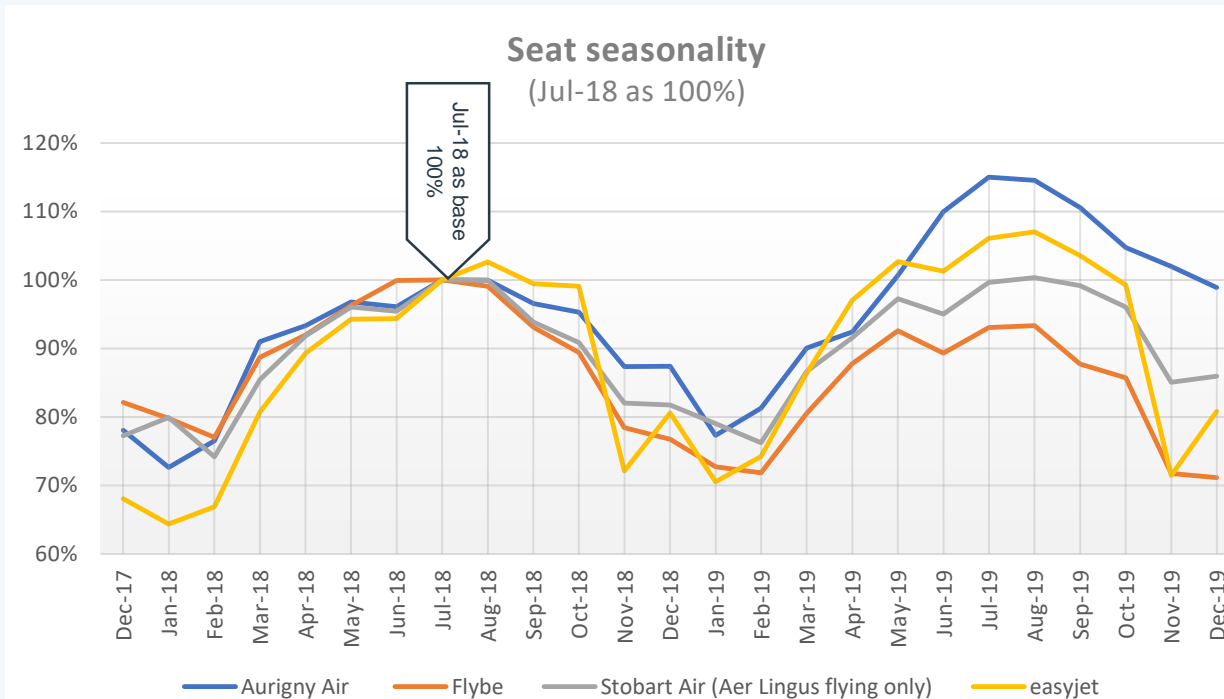


Sources: Figures based on management accounts for each corresponding financial year ending in 2018. Aurigny numbers exclude ACI routes and are based on a fleet of 4 aircraft (3 ATR + the Jet); the 5<sup>th</sup> is considered as parked and is not included in the utilisation calculations..

# Seat capacity seasonality

**In the case of low winter or shoulder month utilisation, seasonality can be a key determinant of cost per seat.**

1. The chart below uses Jul-18 seats as a base (100%) to compare seat capacity both prior to and after this date.
2. Aurigny previously had the flattest year round profile, which is good. The year-round Gatwick flying generates less seasonality. However the chart implies that Aurigny might be able to cut frequencies that have low demand in the winter while still respecting slot minimum usage requirements.
3. Aurigny has increased capacity for Summer 2019 and with more of a July / August peak than in 2018. From a revenue perspective this makes sense only if there is sufficient demand.
4. easyJet increases and Flybe reductions in capacity can be observed as well as easyJet developing its season length.



Source: SRS Analyser; all airline flying except Stobart (Aer Lingus flying only).



# Aurigny (excl. Alderney) vs. Flybe, easyJet & Stobart – Seat cost

## A competitive cost per seat is important

1. Aurigny has a competitive cost per seat relative to other relevant regional airlines. Against an LCC it is less competitive
2. A good choice of aircraft with the Jet on Gatwick and the ATR72s gives Aurigny a strong competitive position
3. Subscription service data that we have suggests that easyJet's seat cost is about £2 higher for the Channel Islands than their average; its cost on Gatwick will be higher still due to landing charges, partly closing the gap
4. Line by line, Aurigny's airport costs are the stand out difference. This is due to Gatwick's high summer landing charges (see analysis later)
5. Crew costs are higher than others due to the schedule making for inefficient crew patterns; not due to pay scales.
6. Maintenance and ownership costs have been adjusted for 2018 as though the three new ATR72s had been operated instead and the ATR42 had been parked instead of kept operational
7. Despite the regulatory overhead, Other costs are competitive to the benchmark airlines

**Table – Seat costs comparison between Aurigny (excl. Alderney routes), Flybe, easyJet & Stobart Air**

SEAT COST COMPARISON		COST PER SEAT(Sector Length AND FX adjusted)		
Cost Category		Aurigny v Flybe	Aurigny v easyJet	Aurigny v Stobart
		Variance %	Variance %	Variance %
Airport, Navigation, Ground Handling Costs		21%	23%	20%
	<i>Airport</i>	43%	26%	43%
	<i>Navigation</i>	-12%	-11%	-25%
	<i>Ground Handling</i>	-20%	27%	-21%
Crew Costs		25%	32%	15%
Selling and Marketing Costs		30%	35%	10%
Maintenance costs		-31%	55%	-18%
<b>COSTS BEFORE FUEL, OTHER COSTS AND OWNERSHIP</b>		<b>13%</b>	<b>31%</b>	<b>12%</b>
Fuel		-30%	-39%	-34%
Net Ownership		-74%	53%	-76%
Other Costs		12%	-19%	-4%
<b>COSTS</b>		<b>2%</b>	<b>22%</b>	<b>0%</b>

Source: Figures based on management accounts for each corresponding financial year ending in 2018. Benchmarked airlines' figures are FX, fuel price and sector length adjusted to Aurigny's. Assumption that the ATR 72-600 has flown in place of the ATR 72-500.

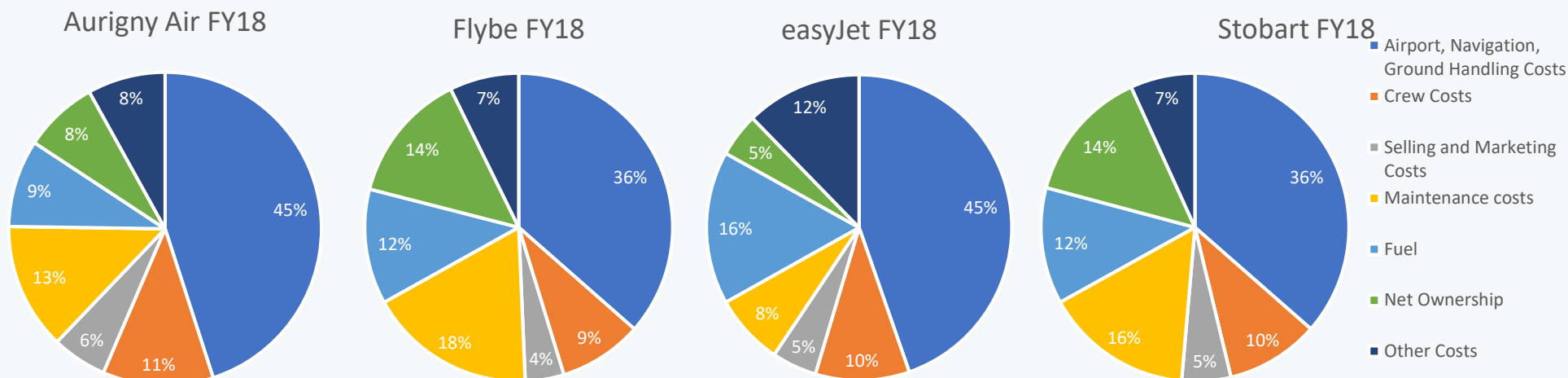
The Stobart figures exclude the profits arising in a related group company that owns aircraft which would lead if consolidated to lower ownership and possibly maintenance costs

### Key

GR cost advantage  
Broadly similar costs  
GR cost disadvantage

# Aurigny (excl. Alderney), Flybe, easyJet & Stobart – Total cost split

Charts – Cost categories as % share of total costs (all FY18)



Source: Figures based on management accounts for each corresponding financial year ending in 2018. Benchmarked airlines' figures are FX, fuel price and sector length adjusted to Aurigny's. Assumption that the ATR 72-600 has flown in place of the ATR 72-500. Aurigny figures exclude ACI routes.

1. Aurigny's airport related costs are relatively high mainly due to Gatwick landing charges, where they discourage regional aircraft for the seven month summer season by not having a proportionately lower charge.
2. Although on a seat cost basis Aurigny has high crew costs, all four airlines have a similar share of crew costs.
3. Whilst on a seat cost comparison basis Aurigny has broadly similar maintenance costs, as share of total costs Aurigny's maintenance costs are lower than Flybe's and Stobart's.

# Aurigny (excl. Alderney) vs. Flybe, easyJet & Stobart – profitability

## Relative profitability makes an interesting contrast

1. Aurigny is more efficient than Stobart at filling seats and less so than easyJet at a network level
2. Aurigny's profit arises since Alderney is excluded, the ATR72 costs have been adjusted from existing to the new aircraft and ATR42 costs excluded
3. Flybe has announced a fleet and network reduction strategy to shrink to profit onto a core programme, being loss making for this analysis
4. Stobart is marginally loss making in these Accounts. Profitability would be higher once the profit in their captive leasing company is factored

Table – Seat costs comparison between Aurigny (excl. Alderney routes), Flybe, easyJet & Stobart Air – Production volume and profitability

Production Volume	Aurigny Air	Flybe	easyjet	Stobart
Aircraft	4	65	314	18
Sectors	7,805	153,800	559,857	36,258
Block Hours	8,396	220,785	1,088,000	46,893
Seats	628,379	12,563,925	95,200,000	2,494,973
Load factor	76%	76%	93%	68%
Passengers	477,789	9,498,878	88,500,000	1,684,107
Average Sector Length (BH)	1.08	1.44	1.94	1.29

Financial Overview (sector length adjusted)	Aurigny v Flybe Variance %	Aurigny v easyJet Variance %	Aurigny v Stobart Variance %
Revenue per seat	-17%	-27%	-11%
Revenue per pax	-17%	-40%	0%
Cost per seat	-2%	-22%	0%
Profit / (loss) per seat	-141%	-64%	-107%

Source: Figures based on management accounts for each corresponding financial year ending in 2018. Benchmarked airlines' figures are FX, fuel price and sector length adjusted to Aurigny's. Assumption that the ATR 72-600 has flown in place of the ATR 72-500.

# Aurigny (The Jet) vs. easyJet A319 – Seat cost

Given that easyJet flies to Jersey with an A319 we provide here a comparison with Aurigny’s Jet

- 1. A segregated seat cost of Aurigny’s Jet compares favourably with easyJet figures adjusted from average to a notional A319 operating cost.
- 2. We look at a notional A319 cash operating cost in aggregate – no cost categories details are available.
- 3. The easyJet figure is an average of the whole network so higher Gatwick landing charges will not be fully reflected. Plus we know their Channel Island costs are higher than their average
- 4. On a seat cost basis easyJet looks to have a small advantage which a different mix of business v leisure passengers or underutilised capacity could erode
- 5. An indicative trip cost evaluation suggests that **Aurigny’s Jet trip cost would be over £800 lower** than that of easyJet. This is a clear advantage from a revenue management perspective.

*Note that easyJet has wet leased an E190 for Summer 2019 and BA CityFlyer operate them so competition could arise other than from a runway extension at GCI*

Table – Seat costs comparison between Aurigny (Gatwick route The Jet only) and easyJet (A319)

Production Volume	Aurigny Air	easyjet (A319)
Aircraft (E195)	1	132
Sectors	2,494	235,354
Block Hours	2,332	419,602
Seats	304,268	36,715,208
Passengers	249,936	34,108,428
Average Sector Length (BH)	0.94	1.78

SEAT COST COMPARISON	COST PER SEAT	
Cost Category	Difference GR vs. U2	
COSTS BEFORE OTHER and OWNERSHIP COSTS	£	8.79

Key  
GR cost advantage  
Broadly similar costs  
GR cost disadvantage

Source: Figures based on management accounts for each corresponding financial year ending in 2018. Benchmarked airlines’ figures are FX, fuel price and sector length adjusted to Aurigny’s.

# Aurigny (ATR) vs. Stobart – Seat cost

## Aurigny's ATR seat costs are compared to Stobart

1. Aurigny is £1.59 per seat higher.
2. The landing charge difference is network driven, mainly due to Gatwick for Aurigny.
3. Crew costs are much higher for Aurigny due to the low utilisation of crew under the Aurigny schedule.
4. Maintenance costs are based on the new ATR72-600s and have the ATR42 costs removed.

Table – Seat costs comparison between Aurigny (ATR 72-600) vs. Stobart Air

SEAT COST COMPARISON Cost Category	COST PER SEAT (Sector Length AND FX adjusted)
	Difference GR vs. RE
Airport, Navigation, Ground Handling Costs	5.52
<i>Airport</i>	5.83
<i>Navigation</i>	(0.19)
<i>Ground Handling</i>	(0.12)
Crew Costs	2.51
Selling and Marketing Costs	0.07
Maintenance costs	(0.87)
<b>COSTS BEFORE FUEL, OTHER COSTS AND OWNERSHIP</b>	<b>7.23</b>
Fuel	(2.53)
Net Ownership	(3.15)
<b>COSTS BEFORE OTHER COSTS</b>	<b>1.55</b>
Other Costs	0.05
<b>COSTS INCLUDING OTHER COSTS</b>	<b>1.59</b>

Source: Figures based on management accounts for each corresponding financial year ending in 2018. Benchmarked airlines' figures are FX, fuel price and sector length adjusted to Aurigny's.



# Aurigny (excl. Alderney) vs. Flybe, easyJet & Stobart – Trip cost

TRIP COST COMPARISON (the Jet and ATR72s) Cost Category	TRIP COST(Sector Length AND FX adjusted)		
	Aurigny v Flybe	Aurigny v easyJet	Aurigny v Stobart
	Variance %	Variance %	Variance %
<b>COSTS BEFORE FUEL, OTHER COSTS AND OWNERSHIP</b>	<b>12%</b>	<b>-46%</b>	<b>25%</b>
Fuel	-32%	-194%	-15%
Net Ownership	-77%	1%	-50%
Other Costs	11%	-150%	11%
<b>COSTS INCLUDING OTHER COSTS</b>	<b>1%</b>	<b>-64%</b>	<b>14%</b>

Table – Trip costs comparison between Aurigny (excl. Alderney routes), Flybe, easyJet & Stobart Air

1. Trip cost is important to regional airlines due to the lower demand, but hopefully higher yield on routes.
2. Aurigny's average trip cost is higher than Stobart's and Flybe's due to the Jet within the figures proportionately. The Gatwick landing charges also weigh on the figures.
3. EasyJet has the highest cost per trip, but this is not surprising due to the size of the aircraft being much larger.

## Production Volume

Aircraft	4
Sectors	7,805
Block Hours	8,396
Seats	628,379
Passengers	477,789
Average Sector Length (BH)	1.08

Aurigny Air	Flybe	easyjet	Stobart
4	65	314	18
7,805	153,800	559,857	36,258
8,396	220,785	1,088,000	46,893
628,379	12,563,925	95,200,000	2,494,973
477,789	9,498,878	88,500,000	1,684,107
1.08	1.44	1.94	1.29

Source: Figures based on management accounts for each corresponding financial year ending in 2018. Benchmarked airlines' figures are FX, fuel price and sector length adjusted to Aurigny's. Assumption that the ATR 72-600 has flown in place of the ATR 72-500.

## Key

- GR cost advantage
- Broadly similar costs
- GR cost disadvantage

# Aurigny (Alderney only) vs. Skybus – Seat & trip cost

## Production Volume

Aircraft  
Sectors  
Block Hours  
Seats  
Passengers  
Average Sector Length (BH)

Aurigny Air		Isles of Scilly Skybus
4		8
4,703		15,207
2,143		5,829
68,950		129,521
53,667		93,243
0.46		0.38

## At even smaller aircraft sizes, finding comparable airlines is challenging

1. Isles of Scilly Skybus – island airline operating year-round domestic services from St Marys to Lands End and Newquay (year-round) in Cornwall and to Exeter (summer only). The air link is supported by a ferry service operating March to November.
2. Whilst Skybus services may be year-round, the schedule is significantly greater in the summer making immediate comparison to Aurigny's year round flights to Alderney that include the low yield winter quiet challenging
3. Skybus has some similar characteristics to Aurigny's Alderney operation on the Dornier's. However, there are some significant differences. Aurigny's costs are higher than Skybus which were due to the Alderney schedule, the seasonality and being spread across two aircraft plus a backup
4. Aurigny's average fare year round is lower than Skybus but this may be due to seasonality
5. Aurigny has a cost per seat 21% higher than Skybus and trip cost 54% higher. The following page provides more meaningful analysis benchmarking the Dornier service to understand costs

# Alderney: Dornier vs. ATR – seat cost

To understand the cost issues for the Alderney flying, the seat cost of the Dornier is compared to the ATRs, sector length adjusted.

1. Line by line the seat costs are comparable except crew, maintenance and ownership costs.
2. Because of the requirement for two pilots on the Dornier, the 19 passenger seats put it at a huge disadvantage. The ATR crew cost also includes cabin crew where the Dornier does not.
3. We have already discussed that the crew costs are uncompetitive on the ATR due to low utilisation and crew patterns. So this highlights the magnitude of the Alderney problem.
4. Maintenance costs are high on the Dornier because whilst only two aircraft were operated, the maintenance costs represent the costs of 4 aircrafts being 2 operating + 1 standby + 1 spare. This was in 2018
5. Ownership costs are high due to having four Dornier's to fly what is one and half lines of flying. A third aircraft is a spare and the fourth is now surplus to requirement due to the fleet modernisation

Table – Aurigny Air's FY18 Alderney vs. ATR seat costs comparison

	Seat cost Variance Dornier v ATR
Airport, Navigation, Ground Handling Costs	0.88
<i>Airport</i>	0.13
<i>Navigation</i>	- 0.55
<i>Ground Handling</i>	1.29
Crew Costs	15.59
Selling/Marketing Costs	0.32
Maintenance Costs	15.46
Other Costs (fixed overhead...)	- 0.91
Ownership Costs (depreciation, leasing, amortisation..)	3.64
Fuel Costs	2.46
<b>Total Operating Costs</b>	<b>37.43</b>

Sources: Aurigny 2018 management accounts. ATR costs include ATR-72 600,

# Airport charges

## Gatwick summer season charges are high

1. The table shows an estimate of airport charges (being landing fees and per passenger charges based on 75% load factor; there can be other charges such as aircraft parking). There are also usually significant discounts for the first year of operation and for growth in passengers, on request.
2. Gatwick has significantly higher summer charges. They discourage regional aircraft unless there is a preparedness to pay full tariff due to the airport being full for the summer peak months. In winter they are competitive.
3. Guernsey Airport offers a discount on charges for the first year of each new routes. Other airports would likely offer a growth deal offer spread across e.g. three years
4. Flybe at Heathrow and Blue Island at Southend are benefiting from significant financial support that can skew results

**Table – Simplified Aurigny Landing and Passenger charges per flight**

Assumption - 75% load factor

	Airport Charges on Aurigny Network per visit							
	E195			ATR72			ATR42	Dornier
	Year round	Summer 7 months	Winter 5 months	Year round	Summer	Winter	Year round	Year round
Guernsey *	1,932			1,026			755	177
Gatwick **		2,949	1,801		2,488	1,341		
Manchester ***				1,821				
Bristol				1,315				
East Midlands				943				
Leeds Bradford				320				
Norwich				990			660	
Stansted				1,036				
Jersey *							709	
Southampton				1,036			720	
Alderney - Guernsey route								213
Alderney - Southampton route								331

Assumption is per turnaround with 75% LF.

\* Charges are on both arriving and departing passengers and flights.

\*\* Charges are on arriving and departing flights.

\*\*\* Reduced rate in afternoon off peak - £220 lower.

Source: 2018 Aurigny data. Figures in yellow cells (SOU, JER, GCI, ACI) are estimates based on MZFW – maximum zero fuel weight (where applicable) sourced from each corresponding airport's website – those figures were either not available in 2018 or no flights was flown to those destinations.

Landing charges are per flight. Passenger (pax) charges per pax per flight. Total pax charges on ATR72 assumes 72 seats.

# Booking process – Aurigny web v. Flybe App

Aurigny online booking process appears to be cleaner and quicker than for its competitors. We are showing below a comparison of those booking processes and have highlighted key differences.

1. The Flybe process allows an outbound restricted fare and inbound unrestricted fare which is an advantage for business passengers but may suppress potential yield.
2. The Aurigny process gives more flexibility on ancillaries. The Aurigny five day or two week view is beneficial.
3. Aurigny offers a cash refund which is of benefit to business passengers
4. All Aurigny website functionality is replicated in the mobile compatible site

Table – High level comparison of 4 airlines flight booking process

1 row = 1 page in booking process	Aurigny – website (GCI-LGW)	Flybe – mobile app (SOU-GCI)
	On Home page, select a flight, a car hire or a transfer. Selection of dep/arr, dates, number of pax, return or one-way.	On Home page, click on Book Flight, or directly on Flight page.
	Choose outbound and inbound flights with a 5-day or 2-week view. Light, Smart or Flex fare. Cannot combine Light fare on outbound and Flex on return for instance.	Selection of dep/arr, travel dates, number of pax, return or one-way.
	Add bags – 20kg, 23kg (£19 and £25) or special. Adding one bag on outbound doesn't automatically add a bag on inbound flight.	Select outbound flight, choice between 3 fares. Need to click on Show Fare Comparison to see what is included in each fare.
	Add seats - £3 to £10.	Select inbound flight, outbound flight is still visible at the top of the screen. Possibility to combine fare i.e. buy basic fare on outbound and All In on return.
	Enter passenger and frequent flyer details. Indicate if special assistance is required at airport.	Add in passenger details. Reminder of Flybe's cabin baggage allowance. Option to add hold baggage for outbound and inbound flight, 1 or 2 baggage of 23kg (£27 or £54). Gives you the possibility to change your fare type to include baggage within your fare (and not as an extra).
	Summary of purchase with flight detail, bag/seat. Payment method with debit/credit card, PayPal, voucher. Add in card detail/voucher or go to PayPal page. Indicate whether interested in receiving Aurigny's news.	Extras. Hire a car, reserve your seat, edit hold baggage allowance, add golf clubs, skis. Reservation of a seat costs £7 (if not included in fare).
		Payment. Do you need travel insurance? Select payment currency. Pay with a voucher. Payment with card or PayPal.

Sources: media indicated in each table. Comparison done on 05/06/19. Only the flight booking process was compared.

# Booking process – BA and easyJet

BA and easyJet offer a broader array of options than Aurigny but still manage it in a clean process.

1. easyJet collects purpose of trip information.
2. Ancillaries are commercially focused.

Table – High level comparison of 4 airlines flight booking process

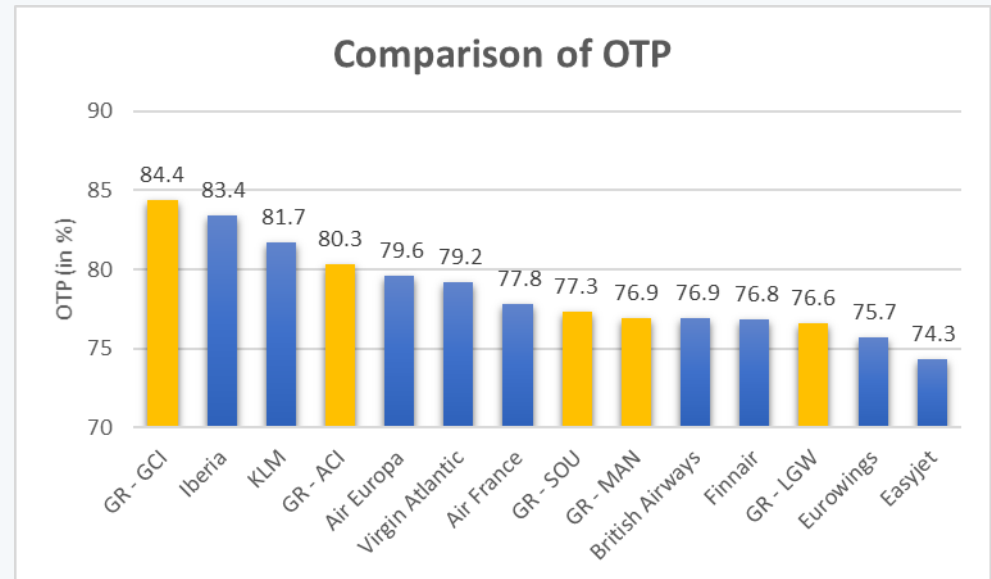
1 row = 1 page in booking process	British Airways – website (LGW-MAN, Flight search)	easyJet – website (LGW-EDI)
	On Home page, option to book flight, flight+hotel, flight+car. Flight – dep/arr, dates, number of people flying, single/return, class Flight+hotel – same as Flight. Possibility to reserve hotel only and customise trip. Flight+car – same as Flight. Possibility to reserve car only and customise trip.	On Home page, possibility to book: Flights, Hotels, Cars, Holidays. Selection of dep/arr, dates, number of pax, single/return.
	Selection of outbound flight. 7-day view. Direct flights shown first, connecting flights second. Show initially Economy and Business Fare. Once clicked on Economy, the detail of 3 fares – Economy Basic, Economy Plus and Business – appear.	Select Flights. Outbound/Inbound flights are side by side. 3-day or 3-week view. Advertisement for easyJet holidays under schedules. Possibility to show Flexi fare, change the currency, show price details and add more flights.
	Selection of return flight. Same 7-day view. Can choose between the 3 fares. Possibility to combine fares.	Seat selection from £5.99 to £17.49 first on outbound and then inbound flight.
	Review of the flights chosen. Option to login to Avios account. Can book a hotel and car.	Bag selection 15kg, 23kg, 26kg (£23.24 to £37.74) or more weight/special equipment.
	Pop up window inviting to create a BA account, log in to current account or go as guest.	Car hire. Selection of cars for hire in partnership with Europcar.
	Choice of seat for both flights. Range from £3 to £11 (exit row).	Selection of Bistro voucher to be used on the flight: £7.00 Bistro vouchers for £5.50 online.
	Add in passenger and frequent flyer details. Trip summary.	Selection of travel insurance.
	Trip summary with full detail of bag and seat. Selection of payment method between personal and corporate card. Fee applied on corporate card. Option to donate money to Comic Relief and BA Carbon Fund.	Sign in to current easyJet account or create an account.
		Is the flight for business or leisure? Indicate the passenger details. Do I have a travel insurance?
		Trip summary with full detail of bag and seat. Selection of payment method between personal and corporate card.
Sources: media indicated in each table. Comparison done on 05/06/19. Only the flight booking process was compared.		

# Aurigny On Time Performance (OTP)

## Aurigny has strong OTP

1. When comparing Aurigny's top 5 routes (the yellow bars in the chart) to large European airlines, it has the best OTP at GCI airport and scores better than easyJet.
2. Manchester and Gatwick both have low OTP which will be dragging down Aurigny's results (easyJet is impacted by Gatwick's very low OTP).
3. Gatwick ranked one of the lowest in Europe during that period explaining the poor performance of Aurigny at Gatwick
4. The graph includes all types of delays including weather for both Aurigny and the other airlines.
5. Having a back up aircraft definitely enables Aurigny to deliver a good punctuality but this has a cost (which was appraised as part of the fleet replacement as being net beneficial)

Table – Comparison of Aurigny's top 5 routes and European airlines' OTP



Sources: Airlines' OTP (other than Aurigny) are from OAG, figures measured between June 2018 and May 2019. Aurigny figures correspond to Aurigny 2018 (January to December 2018) all delays including weather on its top 5 routes in terms of total sectors.

# Benchmark conclusions

**The benchmark highlights a generally good performance but there are key issues and opportunities for Aurigny to improve performance further, many of which are well known to the team:**

1. Utilisation of the ATR fleet is an issue which might be addressed by some low frequency flying to new destinations (or revisiting old destinations on a lower frequency basis); the extra flying for Summer 2019 (i.e. Jersey and Southampton) has been on the old ATR42, so doesn't improve utilisation. We understand that three new routes are under consideration.
2. Crew costs on the ATR and Dornier are major issues; this is not due to pay scales for either Captains or First Officers. The difference lies in the schedule compared to crew rostering patterns and is a consequence of flight time limitations (3 fleets + back up)
3. If there was a desire to review fares or the financial support to come down, there would need to be a rethink of the Alderney schedule to enable associated fleet and crew costs to be reduced.



# 02

## Key Performance Indicators (KPIs)

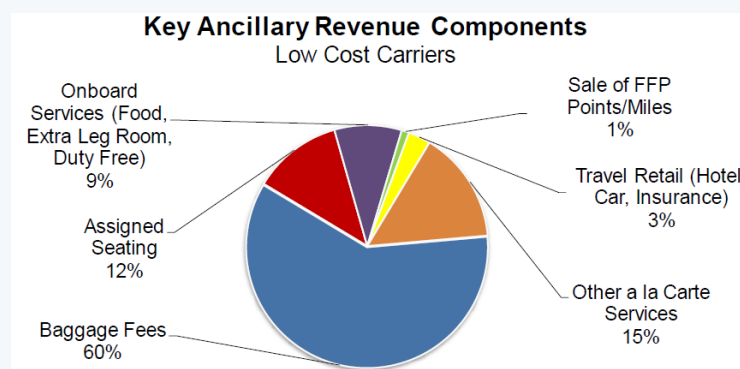


# High level assessment of Aurigny's KPIs

1. Aurigny's KPIs cover most of the industry standard KPIs (see Appendix 1).
2. On a quarterly basis we would advise Aurigny to look at:
  - Breakeven seat load factor.
  - On a per route basis look at fuel per seat km.
  - Its average aircraft daily utilisation (in terms of daily sectors and daily block hours).
3. The Human Resources department would benefit from the following:
  - Staff turnover by category (rather than Department) and Department
  - Vacancy of permanent staff positions and those filled by temporary staff or contractors
  - Contractors who have effectively become staff because they are always there on a full or part time basis
  - To analyse costs and revenue → “average employee cost per total FTE cost”, “average revenue per employee per total FTE cost”.
  - To assess the “health” of the available workforce → number of FTE to retire in the foreseeable future (all staff and pilots), proportion of internal staff and contractors, staff turnover, number of vacancies, time elapsed since vacancy was opened.

# High level assessment of Aurigny's KPIs

1. Average Passenger Spend (APS) is a key tool to track the increase of ancillary revenue. Ancillary is a core revenue stream that LCCs in particular carefully monitor, as shown by the figures. Aurigny has recently introduced further ancillary products whereas these are a long established practice in other airlines.



Annual Results – 2018 (in US dollars)	
\$50.94	Spirit
\$50.01	Allegiant
\$47.62 <sup>2*</sup>	Frontier
\$43.91	Jet2.com
\$41.15	Qantas Airways
\$36.64	United
\$35.56	American
\$34.74	Virgin Australia
\$34.28	AirAsia X
\$32.70	Hawaiian

Table 3: Top 10 Airlines – Ancillary Revenue as a % of Total Revenue		
Annual Results – 2018		Notable Ancillary Revenue Activities
47.6%	Viva Aerobus	The airline improved the performance of its 3 branded fares.
44.9%	Spirit	Dynamic pricing for seat and bag fees was emphasized.
42.8%	Frontier	Frequent flyer program was relaunched with new elite tiers.
41.2%	Allegiant	Allegiant started offering a discount for roundtrip itineraries.
41.1%	Wizz Air	Fast track and lounge access added as mobile app functions.
34.8%	Volotea	Inflight entertainment via mobile app for €1.99 added.
32.3%	Volaris	Dynamic pricing for seat and bag fees was emphasized.
31.7%	Ryanair	Ryanair introduced priority boarding with carry-on bag benefit.
31.1%	Jet2.com	Airline employs 600+ customer helpers at resort locations.
29.0%	AirAsia Group	Onboard catering features more ASEAN-based SME vendors.

# 03

## Operational & Financial efficiency assessment



# Efficiency Assessment – Introduction

**PA Nyras reviewed the provided management information and met with all the key senior management across Aurigny plus discussed known information and the views of the STSB.**

We have reviewed potential improvements under the following categories:

- cost
- outsource
- efficiency
- revenue and
- risk mitigation

We have grouped opportunities functionally for ease of review but a number cut across many areas:

- Finance and overhead
- Commercial (including network background)
- Customer proposition
- Alderney
- Engineering and fleet
- Flight & Ground operations
- HR & IT
- Outsource
- Government policy and Guernsey environment

# Finance and overhead

## **The stand out issue is the small size of the airline and its three aircraft types which causes a higher overhead**

1. The airline industry rightly is one of the most heavily regulated in the world due to the necessity of flight safety and the critical management of consumer confidence. Aurigny has to meet all of the regulatory requirements regardless of size and operates three aircraft types across ten aircraft (soon to be eight).
2. Airlines are also highly technical as well as having complex regulations, so senior people (including Postholders) with the requisite technical managerial skills are needed to deliver the requirement, where judgements are needed.
3. This creates an overhead that is top heavy at Aurigny due to the need of Postholders and technical ability. So the consequence is that there is no classic staff pyramid structure in any Department within Aurigny that would be seen in a larger or non-regulated business
4. A key opportunity with overhead is to increase production (the number of flights) and not increase the staffing; as achieved with the recent Jersey and Southampton routes.
5. We noted that Aurigny has had a large overdraft from the Government, that arose from the funding of prior year losses mainly due to Alderney services, on which it pays an abnormally high rate of interest. We understand a recapitalisation is intended but any assessment of profitability should ignore this interest charge. A commercial bank loan has been permitted reducing the interest cost until a recapitalisation
6. We noted that the Jet's depreciation is to a residual value of what is known as a soft market value (from an independent valuer). Whilst this is more prudent than most airlines, it can still lead to disappointment at the time of sale. Valuer's market values are highly theoretical so a few years before disposal is anticipated, market testing would be recommended. A UK airline found their E195's were unsaleable at anywhere near market value. Aurigny has been fortunate with the sale of the ATRs since they sold them back to the manufacturer as part of the purchase of new aircraft enabling them to sell at only slightly below market value (but above Accounts book value) for an older variant of the type that has become out of favour.
7. The recent rapid route growth and competition in the London market makes revenue forecasting more challenging than in the past when there was little in route changes.

**In an ideal world, given Aurigny's size, it would operate a single aircraft type (i.e. ATRs) and the network would expand. However, the Gatwick Jet has been profitable covering the losses of other routes.**



# Aurigny network profitability design (theory and practice)

**Background: industry network design is a balance of revenue optimisation, aircraft utilisation and crew patterns**

1. Typically in the industry from a revenue perspective there is Monday morning to Thursday evening for business demand, combined with business and leisure on Friday and leisure on Saturday and Sunday. In the gaps Monday to Thursday there are opportunities for some leisure or low yield business flights often, with low frequencies per week. Some leisure traffic (such as retirees) can be coaxed towards lower yielding off-peak weekday flights. Leisure includes VFR (Visiting Friends and Relatives).
2. With the type of flying Aurigny is carrying out, eight sectors (flights) or four rotations per day are necessary for efficient use of the aircraft. This is unlikely to create efficient crew patterns given the short flights compared to the long standard duty day.
3. The morning and evening business flights are the main driver of contribution. These have to largely pay for the aircraft and crew (plus overhead). They are typically the driver of how many aircraft there are in the fleet. All the other flights should generate marginal contribution in varying degrees. A positive contribution is achieved at its most basic level if the cash direct operating costs such as fuel, handling and maintenance costs are covered.
4. Timings are critical to revenue generation. To optimise revenue, business flights tend to start at 0645 and the day finishes around 2100. LCCs are more interested in utilisation so start their day as early as 0550, compromising on the revenue. They also squeeze in an extra low yield evening rotation finishing their day at 2300 and for some as late as 0100. In this way they optimise aircraft, maintenance and crew costs.
5. The limited demand for the Guernsey market plus Blue Islands competition mean that building an efficient 0645-2100 schedule that can generate a positive contribution is challenging. There really only is room for one main airline if an efficient flying programme driving low fares is desired.

# Aurigny Schedule (Summer 2019)

Analysis of the Aurigny schedule shows structural inefficiency due to the limited flying and Gatwick slots

1. The Jet has a relatively efficient eight sector day on a high yield route. The only downside is crew inefficiency with a short duty day.
2. The ATR42 with the new Jersey and Southampton programme is at the early stages of development optimised for revenue and again with an inefficient crew pattern
3. Of the two operating ATR72s, the Manchester aircraft is efficient but the Gatwick ATR is constrained by the timings of the Gatwick slots such that gaining a further rotation either morning or evening is challenging making for inefficiency. There is a spare ATR72 to cover scheduled maintenance and delays.

Table – Extract of Aurigny flying programme and a/c utilisation

	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21
<b>ATR42</b>		GCI 680 JER 681		GCI GR652	SOU GR653	GCI						GCI 686 JER 687	GCI GR658	SOU GR659	GCI		
				0815 0900	0930 1015								1730 1815	1845 1930			
<b>ATR72</b>			GCI GR602	LGW	GR603	GCI											
			0725 0830	0900 1015													
<b>ATR72</b>																	
<b>ATR72</b>																	
<b>ATR72</b>																	
<b>D228</b>																	
<b>D228</b>																	
<b>The Jet</b>																	



# Commercial (1)

**The Benchmark showed the low daily utilisation of the aircraft and relatively high fares (due to Gatwick).**

1. Until recently the Aurigny network has largely been static. Despite a history where licence requests have not been refused Open Skies has sparked market expansion in Guernsey in what is a challenging year for the industry due to Brexit and higher fuel prices as well as local economic factors. Moving away from a prescriptive route governance regime, Aurigny now has greater opportunity to optimise capacity and decide its destinations and frequencies, both increasing (in summer and holidays) and decreasing (particularly in Winter).
2. The seasonality chart earlier showed that, since open skies, Aurigny is selecting varying season lengths for routes enabling lower losses on non-Gatwick routes. This makes cost per seat comparisons deteriorate due to there being fewer seats flown per aircraft. Were the flying to be schedule and capacity optimised on the ATR72s rather the ATR42 it could lead to improved results. Other carriers can redeploy their fleets during low season while Aurigny does not have that luxury.
3. Fares ladders published by Aurigny have consistent buy-up logic enabling customers to move to the next most likely fare option. The new web fares were introduced in 2018, so they are being bedded in still. But the approach will enable Aurigny to compete better. This is still being adapted for other routes to market. As the new methodology is better managed, revenue per passenger will likely increase although market demand may dampen the opportunity on thinner routes and during low season. The new fare structure may further adapt over time but total seat supply on any city pair can have a significant impact, positive or negative.
4. More aggressive trade up may be possible now that the 65% paying <£65 KPI has gone. However, the £199 cap on Gatwick lowest web fare is still a restriction; but the £199 fare cap is not as restrictive as the 65% KPI.
5. Ancillaries (e.g. seats / bags) have recently been adopted by Aurigny and they are showing their worth. Further development of the Ancillary concepts seems the surest way to improve revenue, both in terms of onboard product, and through the Inflight Sales business and Duty Free Sales. Pre-ordering facilities could help raise revenues for the latter. More broadly given the breakeven requirement, charging for bags is a fairer way to achieve breakeven but eventually there will be side effects due to limited carry on space onboard.

## Commercial (2)

6. Seat selection ancillary revenue is not as strong as you would find at other airlines – the ATR is rear loading but people generally like to sit at the front. For the Embraer there is currently no advantage when disembarking at Gatwick due to the coaching arrangements. However, this is about to change with the refurbishment and direct airbridge link to the domestic arrival terminal. Thus there is an opportunity to boost seat selection revenue and possibly create a premium section on the Jet (e.g. similar to that used by Vueling). The Gatwick changes create a significant opportunity for competitively differentiated service and seat selection revenue. Given Aurigny will lose its remote stand rebate of 25% from the airport landing charges when the new arrival arrangements are introduced (due to them being treated as remote stands), Aurigny will need to generate significantly more ancillary revenue to compensate.
7. Whilst we understand it may be infrequent in low season, there is the opportunity to cancel a Gatwick rotation equivalent and still retain the slots as long as the 80/20 rule is met for On-Time Performance. This would enable inbound/outbound flight pairs with revenue below cash DOC of both the Jet and an ATR to be cancelled, enhancing profitability. This is standard practice at other airlines.
8. ClearVision on the new ATRs creates a competitive advantage over both Flybe and Blue Islands on key competed routes. It should not be lost on customers when booking, who to book with at fog risk times of year.
9. The Guernsey market as whole, and perhaps more so the out-bound market itself does not demonstrate high levels of elasticity. It has been suggested that a marginal increase in fares ex the islands doesn't necessarily decrease demand. Aurigny's international marketing is limited. 85% of bookings come via the Aurigny Website, and only 11% from Travel Agents.
10. A reservation system limitation on conjunction tickets (i.e. more than four flights in a round trip booking) prevents deals on long-haul connections, e.g. with Emirates beyond Dubai. But otherwise the system is sufficient for Aurigny's business and is well priced.
11. Interline cooperation hasn't progressed. The Virgin Atlantic investment in Flybe may possibly encourage BA to consider Aurigny, although we understand the driver appears to be APD as much as connectivity.

## Commercial (3)

12. Aurigny.com does get the top position on Google Search for flights to Guernsey with a paid advert.
13. Google has not been willing to take the Aurigny low-fares feed for their Flight Search product. With heavy reliance on internet direct bookings and competition emerging on Gatwick this may become a more serious problem and would be something to take up with the EU's DG Comp. Aurigny is progressing this opportunity with Google.
14. The adverts on Google could be more eye-catching for example directly telling searchers that the fares on the Aurigny website has 'always lower fares than google'. Aurigny has concluded that they will make sure fares always at least match on Google.
15. GCI airport has limited opening hours 06:00 to 21:00. Most LCCs have their last flight taking/off and landing after 23:00. Analysis is worthwhile of whether the extra costs (airport charges) of operating additional rotations under an extended curfew to Jersey and Southampton for instance are worth it even on specific days of week; the likely outcome is a negative but worthy of analysis.
16. Significant expansion could be costly and without justification as we have not seen data to suggest there is a long list of destinations with adequate demand and propensity to pay to reach contribution breakeven. However, we understand some routes are under investigation
17. The new fares and emphasis on ancillaries are a positive initiative and should provide the means to compete effectively against BA and the LCCs - provided the latter remain limited in aircraft choice.
18. The commercial spend is well targeted, and Aurigny will spend a Euro per passenger less on their computer systems than Flybe or BA – making more spend available to attract customers.

# Customer service proposition (incl. inflight sales)

**The customer service proposition has evolved over time.**

1. We would recommend that a one-off competitor customer service proposition benchmark is carried out including cabin crew, ground-staff, passenger survey and focus groups of customers who fly with competitors too.
2. This review would be end to end from the marketing of the airline through first contact enquiring or booking, the flight itself, delay management and ultimately after the journey is completed.
3. Competitor airlines would be Flybe, Blue Islands, easyJet, BA (the latter two being the Jersey services) and possibly Aer Lingus Regional (ATRs, where they have successfully adapted the Aer Lingus product to the type).
4. Establishing what is essential (a “given”) and what is valued; looking to remove or make more efficient elements that aren’t either. Equally, reviewing elements provided by competitors that are not currently provided by Aurigny that are deemed essential or valued and/or where customers indicate a willingness to pay.
5. Such a review would look at check-in desk utilisation given the increasing number of passengers opting for self check-in.
6. We note that Aurigny now has a duty free sales reporting system to enable more effective pricing strategies but also change stock carried for routes and possibly even time of year.

# Customer service proposition (App)

**It is noticeable that Aurigny doesn't have an App; which most airlines now do**

1. The Chief Commercial Officer is interested in developing an App to enable rebooking of priority passengers when there are major delays or cancellations. The initial aspects of the App are now being designed.
2. This is both a significant customer enhancement and a cost saving since the management of rebooking is expensive when done manually.
3. Aurigny might also consider existing products on the market that can be adapted to their requirements.
4. Amadeus has estimated that the industry loses \$60bn a year as a consequence of delays leading to cancellations and rebooking. Airlines now see it as a critical competitive advantage how they manage premium and loyalty passengers in such situations.
5. Once known about that higher fare classes and loyalty passengers are rebooked first and automatically it could lead to up-sell opportunities for passengers who feel they are under time pressure.
6. Whilst the Aurigny mobile website isn't bad, it has limited functionality and speed compared to an App.
7. The boarding pass capability of an App should reduce the use of Check-In desks, especially at peak times.
8. If a significant number of Residents who use the service were to download the App, it would become a very effective means of communicating with relevant Residents about operational and customer matters. Passengers could be reminded and pushed to do the check-in via the app. Special Offers could also be advertised to App users first. The App can also become a tool for stimulating ancillary revenue (capability to add seat and bag until the last minute).

# Alderney

**Aurigny is required to operate an inefficient schedule for Alderney as part of the lifeline route arrangements. This is now the subject of a PSO tender.**

1. The crew cost per seat is the most significant due to the need for two pilots so anything that can be done to change the crew patterns via the schedule or adapting part time pilot employment to better match the crew pattern would benefit the cost of operations significantly.
2. At present, the service requirement does not consider certain operational and commercial realities of the airline business, resulting in the States possibly not getting the best outcome for the exchequer in securing its PSO (essential services) obligation
3. A simplified schedule that considers airline economics in a more balanced manner vs. public wishes would be a positive first step to stem government losses.
4. Looking forward, the recently launched ATR42 STOL (Short Take-Off and Landing) could be evaluated for the Alderney services. It has a runway length requirement just longer than the existing runway but with low fuel uptake and possibly low baggage weight its possible that a passenger load restriction could be minimised. It might mean that some of the existing four Guernsey and two Southampton flights year round would have to be reduced or the day extended with an early departure and late last flight. The passenger volumes and nature of services would imply ideally a single aircraft operation using the ATR72s as standby and maintenance cover. This might deliver a more efficient service.
5. There has also been reference to a runway extension to enable ATR72 operations but that should be considered after the above ATR42 option.

# Engineering & Fleet

## The ATR72 replacement and return of the ATR42 reduce maintenance and ownership costs

1. Engine overhauls are the most expensive events in the maintenance schedule of the aircraft. A clear plan with negotiated contracts for support are necessary. Only the largest of airlines can afford to employ expert capability so most use independent consultants. Aurigny should consider how it gains such expertise.
2. Aurigny has two ATRs returning to lessors as part of the fleet replacement. Planning lease returns and the final maintenance of aircraft is critical to avoid penalty rent for late return and one-off charges at premium rates close to return for rejected work.
3. The move of heavy maintenance on the existing ATRs to Binter Canarias could be extended to the new ones and possibly also include their engine support by payment of a fee to access their contracts and technical knowledge
4. Having three aircraft types across a fleet of 8-9 aircraft is highly inefficient from an engineering perspective. This is in terms of the breadth of skills needed in the team and the ability to negotiate competitive contracts for services.
5. Now that the best years have been burnt off the Jet, it is now a mid-life aircraft requiring greater maintenance focus and cash cost will rise significantly albeit the accounting reserves should smooth this progression. Knowing the longer term plan for the aircraft and the required level of Technical Dispatch Reliability is critical for the maintenance team in its planning to make it cost efficient. This is because duplicate maintenance cost can arise or a lack of investment in the aircraft damaging reputation
6. The hangar has significant surplus capacity but difficulty of hiring Licensed Engineers on Guernsey means third party maintenance work cannot be sought to better utilise the asset and offset maintenance cost. The Brexit related GBP exchange rate will have made the hangar more competitive for work.
7. At some point in the coming years it may be appropriate to consider replacing the Jet with ATR capacity to better align the fleet. This would need to be in the context of London capacity to Guernsey and the residual value of the owned aircraft relative to its resale value

# Flight & ground operations (1)

## Crew costs stood out in the Benchmark as high

1. There is not much that can be done about the crew pattern for the Jet due to the eight sector schedule. The focus needs to be on the ATRs and Dornier's. The extra Southampton and Jersey flying was put on the ATR42 creating more crew inefficiency since the priority was optimising the schedule for revenue rather than cost. Consideration needs to be given as to how to optimise ATR crew patterns through better scheduling. The Dornier crew pattern arising from the schedule is extremely inefficient, adding to cost. Crew pay scales show that the issue is in utilisation of the pilots and crew patterns.
2. ClearVision brings significant benefit for Aurigny but obviously not for the Jet to Gatwick. Consideration will need to be given to use of the standby ATR on foggy days and whether there is a further crew available to operate it to fully take advantage of weather conditions competitively.
3. EU261 claims and their risk management has taken over the lives of many operational staff at airlines. Aurigny seemed to demonstrate a more balanced view as compared to managing On-Time Performance and delays more generally. Aurigny hasn't been so adversely hit by this phenomenon, partly due to the spare aircraft and partly due to the low take up of claims. Keeping a clear focus so that operational staff are not confused as to priorities is important.
4. PRM services (People of Reduced Mobility) are normally provided by the airport and then recharged. Aurigny has to provide these services, incurring cost. However this may actually be cheaper than the airport providing the service and could give Aurigny more control in these time critical situations.
5. The security arrangements for Aurigny at Guernsey Airport need a review to make sure they are efficient for the airline. There are concerns over the passenger security impact on On-Time Performance and team prioritisation, but there are further efficiency concerns for staff and vehicle airside access for pass holders. We understand there is now a plan to improve passenger security.



# HR & IT

## There are people sourcing issues for Aurigny across most parts of the airline

1. The Operational Control Centre (OCC), a critical part of an airline, has been outsourced to the UK; contract pilots are used; pilots commute from the UK; First Officer longevity has deteriorated from three years to 18 months, the Commercial management team live and work in the UK. These are just examples of a deteriorating ability to hire the right skills on Guernsey. We recommend that KPIs are put in place going back several years to monitor the progression of skills availability across all key areas of the airline. We also recommend that a review is carried out forecasting forward skills shortages.
2. In the meantime, recruitment and retention continues to be challenging. It is not just a matter of pay attracting people whether locals or if necessary from the UK. Availability of somewhere suitable to live is a key determinant. Responding by pushing up pay-scales for new joiners also creates problems with existing staff or creates significant pay compatibility issues across a workforce where employment law has developed. A dual headquarter operation (with pay scales suitable for each market) might be considered even if the company remains domiciled in Guernsey.
3. We heard reference to other critical sectors of the Guernsey economy developing purpose built accommodation for migrant workers with key skills where there is a deficiency on the island. This might be considered for Aurigny and other employers at the airport.
4. The senior management team with aviation skills requirements were recruited from outside the island. There are not the people coming up through the business due to the non-pyramid management structures. There are no other airlines on the island from where to source senior people. This creates an issue of succession planning. We recommend that the Board carries out a succession planning review to understand the issues were one or more of the senior team to leave. While this is being carried out, key person dependency analysis could be carried out on each senior person to understand what would happen if someone was long term sick.
5. The executive could benefit from a special projects team (e.g. sourced from Cranfield graduates) to accelerate the pace of improvements particularly in Commercial and Engineering
6. We had no significant comment on the IT side. Through a one hour phone call we reviewed hardware, network and applications primarily for efficiency.

# Outsourcing / Offshoring

## Airlines typically outsource significant services

1. The table portrays typical industry outsourcing opportunities with what is usually retained in-house and what is outsourced
2. Maintenance, ground handling and in-flight services are the most common areas to be outsourced, excluding the management of the contracts.
3. If there are skills retention issues, more of maintenance could be outsourced but they are areas that airlines typically like to keep under control; the Dornier's make it more difficult to outsource a service to a single provider.
4. Ground handling is part in-house part outsourced depending on the ability to reliably outsource, this is consistent with other airlines.
5. Wet lease of the Jet Gatwick operation has been raised however there needs to be a provider with a lower cost structure, interested in doing it and financially viable; this may prove to be the limiting factor
6. So there are a number of areas where further outsourcing could take place but they wouldn't necessarily be more efficient; equally, activity can be brought in-house if the skills exist on the island or a location like Southampton or Gatwick were selected.
7. Management appear alive to in-house / outsource opportunities and don't appear to be averse to making such decisions.
8. Looking at Aurigny from an outsourcer's perspective, there has to be a substantial service to cover the overhead of providing the service, unless it is very generic. Not many of Aurigny's activities classify in this way.

Table – Summary of industry standard in-house and outsourcing solutions

	In-house	Outsource
<b>Corporate</b>	<ul style="list-style-type: none"> <li>• AOC</li> </ul>	<ul style="list-style-type: none"> <li>• Entire AOC to wet lease provider</li> </ul>
<b>Finance</b>	<ul style="list-style-type: none"> <li>• Business support</li> </ul>	<ul style="list-style-type: none"> <li>• Accounting services</li> </ul>
<b>Commercial</b>	<ul style="list-style-type: none"> <li>• Network planning</li> <li>• Distribution</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue management &amp; accounting</li> <li>• Sales</li> </ul>
<b>In-flight service</b>	<ul style="list-style-type: none"> <li>• Needs to be on the island and who to outsource to?</li> </ul>	<ul style="list-style-type: none"> <li>• Inflight service and duty free</li> </ul>
<b>Engineering &amp; fleet</b>	<ul style="list-style-type: none"> <li>• Key postholders need to be employed</li> </ul>	<ul style="list-style-type: none"> <li>• Any or all of Part 145</li> <li>• All except regulated roles in Part M</li> </ul>
<b>Flight Operations</b>	<ul style="list-style-type: none"> <li>• Pilots &amp; cabin crew are normally employed in some form</li> <li>• OCC</li> </ul>	<ul style="list-style-type: none"> <li>• Outsourced OCC, which is unusual</li> </ul>
<b>Ground Operations</b>	<ul style="list-style-type: none"> <li>• Where there are operational issues, airlines take in-house</li> </ul>	<ul style="list-style-type: none"> <li>• Ground handling is commonly outsourced</li> </ul>
<b>HR</b>	<ul style="list-style-type: none"> <li>• Head of HR needed in house but can be a consultant</li> </ul>	<ul style="list-style-type: none"> <li>• HR is often outsourced now due to the experience needed relative to employment law</li> </ul>
<b>IT</b>	<ul style="list-style-type: none"> <li>• Non-standard legacy systems tend to cause airlines to have some staff in-house</li> </ul>	<ul style="list-style-type: none"> <li>• IT can be substantially outsourced from desktop support through to development, including even the Head of IT</li> </ul>

# Government policy and the Guernsey environment (1)

**Areas that are restrictive for the operations and profitability of Aurigny are significant.**

1. Understanding the role of aviation in the island economy is critical to understand the balance and how the balance needs to evolve through the economic cycle.
2. A small island economy is never ideal for the running of a commercial airline since market demand is for small aircraft with untenable frequencies often to airports with limited capability on airfares that are low. Guernsey is no exception.
3. The dominance of financial services whilst creating a business market for flights, at the same time constrains available staff to work for an airline.
4. None of the airport, airline and other services have critical mass as businesses. The outsource service providers are only there if they make a profit, so the airline and airport cover the cost.
5. Profitability and economic enabler requirements can make for contradictory behaviour that rarely reflect the needs of an economic downturn. The only route considered to be a life-line to the mainland is the one route that would be profitable except in the most dire circumstances. No consideration is made of the other routes and their partial importance as economic enabler. We understand that Jersey, Southampton and Manchester have been suggested as a lifeline and could be reconsidered as economic enabler. The definition of lifeline or economic enabler may be the limiting factor in the discussion

## Government policy and the Guernsey environment (2)

6. There appears to be a presumption that if Aurigny didn't fly to London Gatwick that some other airline would. With the parlous state of UK regional aviation, this could prove a disappointment. High speed rail, climate change priorities and shifts in spending patterns all create a limited desire to invest in regional aviation. This could result in reduced frequency, or Gatwick services might not be replaced by another airline without the intervention of the Guernsey Government due to the lack of regional aircraft operators at this particular airport where the average aircraft size is increasing. Operations from other London airports could result in higher fares as the flying time is extended.
7. It would be reasonable to assume that financial support to Flybe for Heathrow-Guernsey is negatively impacting Aurigny's most profitable route, Gatwick. Any subsidy in the competitive London market would likely distort the natural supply and demand balance. Whilst we understand there is some public desire for a Heathrow connection, Gatwick's connectivity has increased dramatically in recent years meaning the contrast in public benefit from services between the two airports is not as great as before. Still, while we consider any subsidies in overlapping markets as not being good practice and likely to distort the market, it would be hard to attribute Aurigny's recent revenue decline solely to this factor.
8. A consequence of the Aurigny breakeven requirement alongside the policy to support Flybe on Heathrow is that the profitability of the Gatwick route goes down. One potential response of Aurigny is to cut flights to other UK destinations to achieve breakeven. But as the company constrains activity, the likelihood of achieving breakeven inherently declines.
9. If the Gatwick route is not profitable, the States could evaluate the wider economic benefit of other routes and the potential consequences of their withdrawal.
10. Given the breakeven requirement, Aurigny could benefit from a new route budgetary allowance to enable it try out new routes and cover year one losses. Ironically Flybe has received just such funding for Heathrow which calls into question the need for the States to look at all aviation holistically.

# 04

## Conclusion

# Inherent and controllable inefficiencies (or causes thereof)

The following inefficiencies (or causes thereof) are described in terms of the degree of control for Aurigny management (inefficiency can be either economic or financial or both or in conflict)

## No control

1. Heavy industry regulation
2. Heathrow support to Flybe impacting Gatwick revenue
3. Price inelastic small market
4. Gatwick ATR timings limit that aircraft's profitability
5. The prescribed Alderney schedule
6. Alderney runway length
7. Three aircraft types
8. Fog
9. GCI security
10. Sector length
11. Loan funding historical losses
12. Lifeline and economic enabler definitions
13. Through the cycle breakeven requirement
14. Only GCI flights

## Partial or transitioning

1. Network and schedule in transition from prescribed to Open Skies
2. £199 Gatwick fare cap
3. Maintenance costs due to size
4. Standby aircraft
5. Island workforce skills base
6. Maintaining skills amongst permanent Aurigny staff
7. Crew roster patterns
8. Opportunity for airport deals
9. Gatwick handling employees rather than outsourced, but required
10. Overhead cost
11. Aviation and tourism alignment optimisation
12. Total market capacity

## Management control

1. Route growth in challenging market
2. £500 full fare cap
3. No outbound restricted and inbound unrestricted fare
4. New fare structure not finalised
5. Ancillary revenue development
6. No App
7. Loss of Blue Islands handling contract
8. Surplus aircraft
9. Engine repair & overhaul
10. ATR maintenance

# Aurigny SWOT analysis

We present a competitive SWOT analysis for Aurigny.

1. The SWOT displays a significant number of factors. A clear strategy and roadmap is needed to navigate to the best advantage for Aurigny and Guernsey.
2. The right path could enable Aurigny to power ahead (Flybe / Blue Islands both struggling) to the benefit of all on Guernsey and Alderney.

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>• Gatwick route profitability</li> <li>• Experienced management team</li> <li>• Core of staff with many years of service</li> <li>• Punctuality and Technical Dispatch Reliability</li> <li>• Inherent fleet profitability of the Jet and new ATRs</li> <li>• Short runway protects from opportunistic peak season competition</li> <li>• Government owned, but pressures could be distorting</li> </ul>	<ul style="list-style-type: none"> <li>• Stakeholder management</li> <li>• High overhead relative to commercial activity</li> <li>• Price inelasticity (and inconsistent with oil price volatility)</li> <li>• One profitable route, the rest loss making (but make a contribution)</li> <li>• Operating three very different aircraft types in small airline</li> <li>• Difficult to hire and retain key skilled staff</li> <li>• Requirement for Alderney routes and cost of Dornier operations</li> </ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>• New ATRs (with ClearVision): operational, reputational &amp; commercial</li> <li>• BA interline (or ideally codeshare); now Flybe with Virgin</li> <li>• Ancillary revenue at early stage of development</li> <li>• Revamp end to end service product including premium product</li> <li>• App and other customer management tools</li> <li>• Blue Islands weakness and Flybe rationalisation</li> <li>• Breakeven requirement across five years</li> <li>• Recapitalisation</li> <li>• Build accommodation to house migrant skilled staff</li> <li>• Alderney runway extension or ATR42STOL</li> <li>• AOC merger with someone</li> <li>• Heathrow slots in 2022</li> <li>• Reduce off peak flying to match demand while protecting slots</li> </ul>	<ul style="list-style-type: none"> <li>• Profitless seat growth on London market growth for 2019 of 35% across SE (and Jersey 35%)</li> <li>• States' financial support to Flybe on Heathrow</li> <li>• New fare structure and ancillary charges raising cost to Residents</li> <li>• Recruitment, retention, skills and pay spiral</li> <li>• Poor and declining bed stock on the Island</li> <li>• Brexit plus possible FX impact (could possibly be an opportunity)</li> <li>• Failure to create PSO for Alderney routes; or lose PSO</li> <li>• Key person dependencies and succession planning</li> <li>• Loganair entry with surplus aircraft and crew from bmi (but could be opportunity)</li> <li>• Financial services lower growth</li> <li>• Recession and breakeven leads to route cuts when most needed</li> </ul>

# Conclusion

**Aurigny is generally in a good situation in terms of unit costs and revenues plus the operation, but there are some improvements that could be made to its performance for the benefit of Guernsey.**

1. The Benchmark highlights areas for review and focus particularly aircraft utilisation and the schedule, crew costs, overhead and maintenance spend.
2. The profit improvement review highlighted some opportunities (particularly for both fare and ancillary revenue) that are either underway or could be enhanced either with external assistance or with a rethink of approach.
3. The standout risks internally from the review were over skills and succession planning which the Board should address for the medium to long term.
4. The KPI review showed that most of the relevant industry standard KPIs are reported. The main areas for addition that we recommend are ancillary revenue and monitoring staff turnover by category and sub-category of staff plus monitor the difficulty to source key skills across a longer timeframe.
5. The largest area of concern is over capacity management for what has been a low volume, slow growth market where market discipline is needed so that aviation can continue as a lifeline and economic enabler in the short, medium and long term at minimum possible cost to the taxpayer.
6. The broader review to cover purpose and scope shows that much strategic thought is needed around how Guernsey best uses its airline to the benefit of the economy and people.
7. A recapitalisation of Aurigny in the context of a forward looking strategy and the PSO issue settled could be beneficial to Guernsey





## About PA.

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# Appendix 1 – List of industry standard KPIs used or similarly covered by Aurigny

- Pax Load Factor (%)
- Number of pax (k)
- Average trip length (RPKs / Pax) (km)
- Average revenue per pax (Pax revenue / Pax)
- Total yield (Total revenue / RPK) (cent / RPK)
- Total revenue per ASK i.e. RASK (cent / ASK)
- Passenger yield per RPK (pax revenue / RPK)
- Passenger revenue per ASK (PRASK) (cent / ASK)
- Number of flights
- Number of airports served
- Number of countries served
- Number of aircraft
- Fleet average age
- Block Hours (BH)
- Ancillary revenue per pax