



A TRAVEL, HOSPITALITY & LEISURE SERIES

Staying Power – Enterprise Resilience

Part 5: Smoothing out the Turbulence of Macro and Micro Disruptions

The Current Macroeconomic and Industry Landscape

As covered in previous Staying Power articles, the impact of macro events such as the COVID-19 pandemic, labor shortages and inflation on Travel, Hospitality and Leisure companies has been undeniable. But what happens when a micro event – or a series of cascading micro events – causes serious disruptions to operations, brand perception, employee and customer relations, stock valuation, etc.?

Never was this more evident than what happened to Southwest Airlines during the 2022 holiday travel season. A multitude of micro factors created a series of cascading events and major operational issues that stranded passengers for days and harmed the airline's public reputation. The convergence of micro events, which included a massive winter storm, high passenger volume, antiquated crew management systems and broken processes, not only will have significant brand and financial impact but also raise the specter of potential government investigation or intervention.

Ultimately, Southwest's long-term recoverability depends on the successful implementation of their various remediation initiatives and a solid, robust and strategic communication strategy to rebuild the trust of employees, customers and government regulators. While Southwest is accumulating all the headlines today, every company faces challenges which can negatively impact their resilience, continued operations, brand perception and financial health.

Going forward, Travel, Hospitality and Leisure executives must recognize they are not immune to similar macro and micro challenges, and therefore must have a strong, multi-faceted plan to build resilience in their organizations to better prepare for any unexpected turbulence which may arise.

Characteristics of Resilient Organizations

Resilience is defined as the capacity to recover quickly from difficulties. Building capabilities to increase resilience allows companies to better adapt to changing market conditions to maintain, and even grow, market share and profitability. The World Economic Forum, in partnership with risk assessment firm Verisk, identified five pillars which represent the key areas of focus in building resilience capabilities.¹



Figure 1: World Economic Forum

The most resilient organizations understand the need to build capabilities to address economic headwinds so they are better prepared for any future external disruptions that may affect any, or all, of these five pillars.

This is often easier said than done, as there are several key challenges to building a resilience program:

Operating Challenges

There are numerous macro and micro challenges which may impact an organization's resilience. Leading companies employ multiple techniques to help mitigate the risk to ongoing operations associated with these challenges.



Economic Conditions

Minimizing the impact of macro or micro economic conditions, such as inflation, recession or government policy on a company's performance



Consumer Behavior

Adapting services and channels to changing customer behavior or demographics in an efficient manner



Supply Chain

Mitigating the impact of supply chain disruptions on operations and profitability



Workforce

Attracting and retaining quality workers and focusing them on high value activities



Environmental, Social and Governance (ESG)

Establishing robust governance to address environmental and social factors



Technology Disruption

Minimizing the risk of technology debt and taking advantage of emerging technologies



Cybersecurity

Mitigating the risk of internal or external threats to protect your brand and reputation



The "Unknown"

Adapting to meet the next unanticipated major threat to continuing operations (i.e., pandemic, geopolitical events)

Organizational Challenges

Organizational and operating model structures that are siloed and/or have high retained costs limit the ability of Travel, Hospitality and Leisure companies to rapidly adapt and pivot. Leading organizations are shifting their operating model to increase speed and agility and reduce speed to market.

FROM



Discrete projects defined and prioritized annually



Siloed organizations (Business, IT and Digital)



Success measured by on-time/on-budget delivery



Legacy architectures with complex integrations

TO



Product-based portfolios with a flexible backlog



Cross functional, empowered teams



KPIs and OKRs tied to business outcomes



Flexible architectures with "freedom within a framework"

Financial Challenges

High debt and fixed cost structures limit liquidity and free cash flow, creating further challenges to the ability to change direction during unpredictable economic times. The most resilient organizations are ones that take steps to:

- Increase liquidity
- Critically evaluate spend on an ongoing basis
- Reallocate low value spend to strategic areas
- Build modern sourcing and supply chain capabilities
- Leverage automation and outsourcing to improve labor costs flexibility

Four Steps Travel and Hospitality Organizations Can Take to Address Resiliency Challenges

There are several actions Travel, Hospitality and Leisure organizations can take right now to build the resiliency needed to better compete and grow market share in these turbulent economic times:



Operating Agility - Assess and mitigate business model, brand, operational, technology and cyber risks to reduce potential disruptions to continued operations. This is best accomplished by taking an “outside in” view of capabilities (by value stream). The goal is to redesign inefficient or broken processes by using experience-led design to identify key sources of friction and opportunities that provide a better end-user experience for key stakeholders.



Organization Adaptability - Realign organization and operating models to create more agility and reduce traditional silos by focusing on creating cross-functional empowered teams. These teams, enabled by dedicated funding and a clear mandate (and accountability), should focus on delivering on business relevant metrics.



Liquidity – Improve liquidity by implementing programs focused on working capital improvement, cash flow forecasting and treasury management. This should be coupled with adopting a “zero based mindset” to reduce low value spend and overhead to free up cash flow to create “fuel for growth” reinvestment and improved debt servicing.



Flexible Cost Structures - Evolve sourcing strategies to improve cost variability while optimizing supply chains and labor models. This includes taking a critical look at staffing levels and identifying ways to outsource commoditized skillsets to take advantage of ARCs (additional resource credits) and RRCs (reduced resource credits) to create greater flexibility in labor costs while still allowing for the retention of associates in strategic, customer facing areas.

CASE IN POINT

At the height of the pandemic, Turkish Airlines’ leadership realized that the challenges of COVID-19 required some tough decisions to be made to ensure the airline did not collapse.

“In 2020, they flew over 28 million passengers (more than double of its closest competitor) and ending the year as Europe’s busiest air-carrier. [Turkish Airlines Chairman Ilker] Ayci stated that through postponing or cancelling company investments, increasing cargo operations and, unlike many European airlines, retaining all staff during this period aided in keeping the Turkish afloat.”²

By quickly pivoting investments and business models, while keeping a focus on their employees, they were able to show resilience through disruption and be better positioned to accelerate out of the pandemic.

Next Step: Define Your Path Forward

Given the perfect storm of disruption over the last several years – ranging from digital disruption to macro and micro issues – the need for mature resiliency capabilities and business models has never been greater. While the topic of resiliency does not garner the same excitement as commercial investments in digital transformation or data driven customer experience, like any good insurance policy, it is an investment that is worth its weight in gold in the event you need to use it.

Our focus at Alvarez & Marsal is to bring an operator mindset and a bias towards action to drive business transformation with restructuring speed. We help Travel, Hospitality and Leisure clients assess and redesign operations to build resiliency in the short term while keeping a keen eye to future growth and profitability. By building a holistic resiliency program – supported and executed at all levels of the organization – Travel, Hospitality and Leisure companies will be better equipped to handle the next major bout of turbulence in their path and be best positioned for success in the future.

Sources:

1. <https://www.weforum.org/agenda/2022/07/how-organizations-accelerate-resilience-journey/>
2. <https://travelradar.aero/turkish-airlines-wiping-out-the-european-competition/>

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With over 7,000 people across five continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

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