FINANCES
TO ENSURE OUR FUTURE, COST EFFICIENCY IS MANDATORY

NICOLE LEYRE CHIEF FINANCIAL OFFICER

Liberalisation may still be some years away for the Air Traffic Management (ATM) industry, but air navigation services today mirror the telecommunications industry in 1995. At that time, the value chain was completely disrupted and transformed, thus allowing the entry of new stakeholders. Since this last decade, pressure on costs is constantly increasing with challenging European Targets (RP3) and loss of state's subsidies. In order to take on these challenges, skyguide has to completely change its business model and invest in innovative technologies. By tackling upstream the financial constraints, Nicole Leyre, chief financial officer (CFO) at skyguide, is convinced that skyguide is moving in the right direction.

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SKYGUIDE **What are skyguide's major financial challenges and how are those addressed?**

NICOLE LEYRE The financial gap between costs and revenues is growing at an alarming pace. At skyguide, we refer to this as the crocodile's mouth. Our net result in 2018 was negative and we expect the same for 2019. Coming years do not look brighter as airlines are under financial pressure and challenge the fees they pay for air traffic management services. Consequently, through an arduous financial roadmap (Reference Plan), the European regulation requires a lowering of the unit price and sharing productivity with our users: starting next year, we will have to give back almost 2% of productivity per year to our customers. This will lead to a steep decrease in our revenues. The ATM world is not accustomed to having its service fees challenged, but has to face the new reality of the market. In order to make the situation sustainable for skyguide and limit the decrease of revenues, we tackle the challenges on several fronts: since last year, in close cooperation with the Swiss regulator (FOCA) we work to shape and influence the targets of the 3rd European Reference Plan (RP3). In parallel with investing in innovative technologies, we do our homework to ameliorate our cost efficiency. Our overarching guide is the Target Operating Model (TOM) programme. Its aim is to review and align processes, reallocate resources in a leaner way and reduce the complexity of the organisation.

Switzerland is a very expensive country and skyguide cannot provide budget-priced services. As a state-owned monopoly, shouldn't skyguide be able to charge what it considers suitable?

NL Indeed we have the highest service unit cost in Europe. In 2018, we charged €235 for an A320 flying 200 km at upper level from Geneva to Zürich, while other FABEC countries only charged €170 for the same type of service. We know that customers are ready to pay for Swiss quality – good service with little delay – but they are not ready to pay 40% more. Monopolistic thinking is no longer possible either, as subsidies from the state tend to decrease and the loss of revenues cannot be compensated. Our pricing depends on European regulations as well as increasing pressure from the aviation industry on European institutions. Presently airlines using Swiss airspace and Swiss airports are bound to use skyguide services. In the near future, however, we can expect competition looming in ANS activities. For instance, when the European space architecture will be in place, thanks to a dynamic airspace, the different ANSP will compete on a "market tender" basis to manage the different blocks of controlled airspace. On the regional aerodromes side, a request for alternative management has already been launched. As it may take some time to complete the rules for liberalisation, we should absolutely seize the opportunity to transform ourselves and be ready to cope with the coming drastic changes.

What forces can skyguide leverage in its financial transformation? What weaknesses have to be overcome?

NL Today, we follow a very fragmented approach to supplier management: every project chooses its own providers without having a global picture. To address this, we are currently developing a strategy to find a global approach and identify strategic suppliers or partners. We also want to better leverage value adding suppliers and be able to reduce our costs by buying scalable solutions. In addition, discussions about capital and other operating expenses distract us from looking at the total cost of projects and managing them properly. Budgets are too fragmented which prevents us from setting the right priorities and standardizing. Globalizing costs and budgets will create more transparency, less work and a higher ownership. We also aim to improve the ability to identify and harvest benefits in order to set up the right priorities for the development backlog.

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What is the outlook considering the current financial situation?

NL We invest in different initiatives, our main ones being the Virtual Centre programme and the Target Operating Model programme. Their aim is to drastically change our business model and the way we operate. We have to be more efficient and flexible in the way we manage airspace and install more standard and cost efficient technologies. We have to set and influence a Europe-wide framework, create the workforce of the future and develop new businesses. With the TOM and VC programme, we will certainly achieve all of that: one data centre and the same procedures in GVA and ZRH will mean less maintenance and more standardization and scalability. Of course VC represents a huge investment, but we can finance it, as well as other strategic initiatives, if we become leaner, collaborate in ways that are more efficient and prioritize our expenses.