



Submission to Air NZ management on the advisability of keeping Ground-handling Services in-house

Service and Food Workers Union Nga Ringa Tota

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INTRODUCTION

The Service and Food Workers Union Nga Ringa Tota has been given the opportunity to respond to the proposal of Air NZ to outsource Ground-handling Services. This is consistent with Clause 10 of the Air New Zealand and SFWU Ground Staff Collective Agreement.

This document incorporates our response to the employer's proposal and suggestions that we believe support the advisability of maintaining Ground-handling Services in-house.

WORK TO DATE

The SFWU and the EPMU have previously submitted a “competitive in-house solution” (CIS) as an outcome of the Airport Consultation Review Group (ACRG) which projected \$9.2 million in productivity gains for the company. The ACRG process was a combined Unions/management process and thus Air NZ management was party to the proposed in-house solution.

The CIS document was a counter-proposal to the company’s stated intention to seek information from potential outsource providers in the form of RFIs (Requests for Information), and later to seek proposals in the form of RFPs (Requests for Proposals), but we were not supplied with the relevant information (such as the financial assumptions on which the bids were based).

It is the view of the SFWU that the Unions/management CIS document was dismissed by Air NZ without adequate financial analysis and with inadequate feedback.

In the CIS, we pointed out that if Air NZ aims to be a “world-class” airline, the focus should be on doing things better, not necessarily cheaper.

We said this meant “having the right number of staff, with the right skills, in the right place, doing each and every task in the right way.” We pointed out that this would be very difficult for a start-up company.

Air NZ’s advantages over a start-up company like Swissport NZ Ltd include:

- Air NZ has a large number of loyal and dedicated staff, passionate about their work and their company. A start-up company has no current staff. Although it is assumed that 70% of current Air NZ staff will transfer over to Swissport, this assumption remains untested. There is every possibility that the number of trained staff who will transfer over could be considerably less than anticipated, thus extending the transfer period and increasing the training costs.
- Air NZ can harness the cumulative knowledge of its staff to keep sharpening their collective performance going forward. Even if a large percentage of Air NZ staff transferred to the start-up there is no guarantee that those long-serving staff with institutional knowledge will transfer over, so the new company could well be starting from scratch.

While our in-house solution was compared with bids from competing ground-handling outsource providers, we were unable to provide a fixed-price bid for direct comparison because we were not provided with the relevant information.

However, we costed out savings to the tune of \$9.2 million including proposals to:

- Reduce sick leave
- Reduce OSH accidents
- Implement training during downtime and on-the-job training

- Modernise equipment and technology
- Better utilise staff skills
- Organise into dedicated work teams
- Redefine the PA in a role to support the CSA
- Improve part-time rosters; get more stability to enable work/life balance

Some of the in-house proposals have since been implemented and the company has argued that these measures cannot therefore be counted as cost savings in comparison with the preferred outsource providers' bid.

On October 5, the Unions, represented by John Ryall, SFWU National Secretary, Jill Ovens, SFWU Northern Regional Secretary, and Andrew Little, EPMU National Secretary, were informed by Chief Executive Rob Fyfe that only \$1.2 million of the proposals were worth considering. No analysis was provided to back this up and nor could any evidence be found of any such analysis in the information room provided by Air NZ.

At the meeting of October 5, it was suggested by Fyfe that the Unions could avoid the 58-day process if we were willing to discuss terms and conditions contained in the two Collective Agreements between the company and the two Unions. The Unions' response was that this was unacceptable to our members.

From the discussion with Fyfe, the SFWU formed the conclusion that Air NZ was using the threat of outsourcing to leverage concessions from the Unions outside of collective bargaining at a time when we were unable to take industrial action. This is consistent with a pattern involving Air NZ proposals to outsource heavy engineering services and aircraft cleaning services.

In each of these previous cases, the Unions involved have examined the case for outsourcing and it has been found wanting. Jobs have been saved, but at what cost? Furthermore there have been no consequences for Air NZ management.

The need for change is premised on the notion that the ground-handling business is in crisis. We do not believe this is the case. There are some areas that could be improved to address issues of efficiency and productivity, but these do not justify such a drastic response as the proposal to outsource.

WHAT SHAPE IS THE BUSINESS IN?

Air NZ's financial performance in the current year and the past four years was healthier than its average peer group in the air industry.

At the operating level, the global airline industry has been marginally profitable for the past two years. In 2005, operating profits were \$US4.3 billion – a 1% margin although a group of airlines in the industry made net losses of \$US3.2 billion.

The operating performance varied cross the industry. According to IATA analysis¹, eight airlines made operating profits of more than \$US500 million; 20 airlines made operating losses and nine of them lost more than \$US100 million each. Fifteen airlines recorded a profit margin greater than 10%.

The highest margins were recorded by low-cost carriers. In the airline industry an operating margin of 9-10 % on average is needed to cover these costs of doing business before the business is creating Economic Value Added or “investor value”. However, the airline industry also creates substantial value for customers and the wider economy.

In the case of Air NZ this is particularly significant. “Our national carrier” is a vital strategic asset and that is why the Government now has a majority shareholding. When decisions are made about which routes to fly, these decisions are of great interest to the Government as they may have implications for our economy. For example, our nation has determined that it is strategically important for us to have links with Asia because of trade considerations. Similarly we have strategic reasons as a nation for wanting to maintain flights into Pacific nations.

We acknowledge that the value created by our national carrier must be reflected in the airlines' profitability and investor returns. But this is the case with Air NZ. The group's 2006 profit was \$96 million in FY 06. Operating revenue growth was 5%, with an improvement in passenger yield of 6% from 11.3 cents per RPK to 12 cents per RPK.

Air NZ's operating profit has been remarkably consistent, having between \$689 million and \$735 million in each of the past five years. This has been achieved even though fuel costs have surged from \$570 million to \$949 million and labour costs have risen from \$709 million to \$863 million.

Air NZ generated 8% more cash from operating activities and held total cash of \$1,150 million at the end of the FY06.

The company increased profitability and other key operating metrics. The passenger load factor increased by 2.3% from 73.3% in 2002 to 75% in 2006. The revenue tonne kilometres increased by 2.8% from \$761 million in 2002 to \$783 million in 2006. At the same time, Air NZ employed 10,233 employees in 2006, a decrease of 5.5% compared with a year ago.

¹ IATA Economics: www.iata.org/economics/economics_briefing June 2006

Airport Services, which includes the Ground-handling Services, is one of the profit centres in the company that historically has reported very strong financial performance and very high profitability: In FY02 and FY03 the business reported EBIT of \$20.1 million and \$20.6 million; in FY05, the business reported EBITDRA of \$7 million.

Airport Services contributed highly to the overall good financial performance of Air NZ in the past. But despite this, Air NZ has had a neglectful approach towards Ground-handling Services in the recent past. It totally neglected problems that Ground-handling Services faced, such as equipment age and shortages in resources, unsustainable levels of overtime with unacceptably high accident rates, and low staff morale. In FY06 ground handling operations reported a loss due to low commercial rates for internal charging of Air New Zealand, the old equipment and management tools.

All the factors above contributed to a fall in the current profitability of Ground-handling Services. For Air NZ the solution to increase the profitability of Ground-handling Services lay in cutting the labour costs. Labour costs generally make up 75% to 77% of the ground-handling operation total costs. It is easier for Air NZ to squeeze wages and other labour force benefits than to negotiate better ground-handling rates with other customers and to find the managers who will be able to manage Ground-handling Services to world-class standards.

As we heard so many times during the 58-day consultation process, Air NZ wants to be able to reduce the wages and benefits to adjust labour costs downward fast enough to respond to “new competition”.

Labour costs increased by 26.2% in FY 2006 compared with FY 2002, and that growth was obviously too fast for the Air NZ managers. At the same time, fulltime employee numbers increased by 39.3% and billed hours increased by 26.7%.

Having examined some of the Air NZ documents, papers and data we have come to the conclusion that:

- Much of the increase in labour costs was the result of growth in activities
- Some of the increases in labour costs was the result of poor management of rostering on public holidays
- Old equipment needs more workers which contributed to the increase in labour costs
- Poor work practices with high accident rates contributed to a high level of absenteeism and that resulted in an increased need for work on overtime rates
- Low morale contributed to a high level of absenteeism and higher rate of staff turnover which impacted on the higher training costs and overtime

There have been attempts to cut labour costs. For example, Air NZ has previously engaged with the Unions in Business Unit Forums to try to extract concessions such as greater flexibility in roster patterns. The only constraint for

Air NZ to be able to cut labour costs more aggressively has been the Unions who represent the employees of Air NZ.

It is clear to the Unions that the recent strategy of seeking outsourcing proposals is an attempt to get leverage for labour concessions. In our view this has been the strategy since mid-2005, but at that stage it may have been seen to be too early in 2005 to outsource Ground-handling Services because of the tight labour market and issues around heavy engineering may have taken priority.

The change in leadership at Air NZ in late 2005 was a signal to Unions that the company intended to proceed down a path of labour reform using the threat of outsourcing as leverage.

It is interesting that during that process of identifying external benchmarks for Ground-handling Services, once again the NZ Ground-handling Services showed that its cost for the total operations was competitive compared with other bidders. In the first "Request for Information" (RFI), only one of the potential providers came in with a total cost that was lower than the Air NZ Airport Service total cost.

With the Swissport outsourcing response to the "Request for Proposal" (RFP) coming in with a \$20 million cost savings, Air NZ finally got the cards to play the game with the staff and their representatives. The aim of the game is to force the Unions and the staff to make concessions and close the gap between the outsourcer price and the in-house total cost of the Ground-handling Services.

Air NZ management presented a business case to support its decision to outsource NZ Ground-handling Services. They mounted an argument to push the staff into accepting cuts in their wages at the risk of losing their jobs. The cuts that Air NZ demands are not small. They are around 20% on average earnings or \$15,000 drop in take-home pay for the average FTE staff member.

The business case of the preferred bidder (Swissport) is a hypothetical case of the ideal ground-handling operation with assumptions and circumstances known only to the builder of the case. We have requested details of these assumptions, but it has not been forthcoming. However, our analysis from what we have seen in the information provided leads us to believe that the over-confidence shown in relation to the Swissport business case is not credible.

Maybe one of the important assumptions was that the workforce would be robots that would never take any sick leave or other leave? Moreover, they would come to work on the press of the button by their supervisors whenever their supervisors need them – no need for a roster pattern any more. An organisational design built on robots could give total flexibility in organising the Ground-handling Services and that could explain such a huge difference in the working hours between the in-house solution and the Swissport proposal.

We need to stress here, that the business case projects the future and that the case is built from many assumptions. Assumptions play a critical role in explaining the business case results, in building credibility for the case and in reducing and measuring uncertainty in the business case projections. The problem, however, is that Air NZ has not disclosed fully all the assumptions used

to build the “Do Nothing Scenario” and the current cost structure of the Ground-handling Services to the Union. Therefore it is difficult to make an assessment of the case.

There are a lot of potential variables and risks associated with outsourcing Ground-handling Services which could cause any number of Air NZ, Swissport or Union predictions to be wrong. But chief among our concerns is the human factor in relation to the front-line staff and the sensitivity of the business to this critical part of the operation for the airline.

Air NZ’s increased use of outsourcers increases its exposure to several risks. In the event that Swissport fails to perform as promised, replacement services may not be readily available at competitive rates, or at all. If Swissport fails to perform adequately Air NZ may experience increased costs, delays, maintenance issues, safety issues or negative public perception of its airline.

For example, in late 2005 and early 2006 the airline company Alaska experienced a number of negative press reports following several aircraft incidents in Seattle. Alaska has taken steps to increase supervision and training of outsourcer personnel in order to reduce the risk of further incidents and negative publicity. Regulatory compliance issues or significant changes in the competitive marketplace among suppliers could adversely affect outsourcer services or force Air NZ to renegotiate existing agreements on less favourable terms. These events could result in disruptions in Air NZ’s operations or increases in its cost structure.

Taking into consideration the costs of some risks (\$1.78m) associated with the outsourcing of Ground-handling Services and adjusting the initial costs in relation to the following factors, the calculation of the financial metrics based on the new net flow stream shows totally different financial results.

- ↔ Redundancy payments because of the 6-month delay in the process of outsourcing (extra \$0.7m; total \$36m)
- ↔ Cost of selecting an outsourcer (\$1.77m)
- ↔ Outsourcer costs (additional transition costs \$0.7m; flight schedule variance adjustment \$1.5m; delayed/diverted/cancelled/call back flight premium \$0.8m; service control \$0.5m; ramp manning \$0.8m)
- ↔ CIS initiatives accepted by Air NZ (\$1.07m)
- ↔ Further CIS initiatives in current submission (\$7.2m)
- ↔ Costs associated with restructuring (\$3.4m)

Table 1: Summary of Financial Results

Financial Metrics	Unit
Net Cash Flow	\$70,878,479
Discounted Nat Cash flow at 15% Discount Rate	-\$9,816,109
Internal Rate of Return	9%
Payback Period	6.8 years
Rate of Return	174.13%
Investment or Initial Costs	\$40,703,915

The Net Present Value of the Adjusted Outsourcing Business Case generated from the initial investment of \$40,703,915 during its lifetime of 10 years is negative, at \$9,816,109. As the NPV is less than zero, the Adjusted Business Case will not provide enough financial benefits to justify the initial investment. The Adjusted Business Case Internal Rate of Return is 9%, which is below the cost of capital to the company. The Payback Period is long, almost 6.8 years.

Introducing the productivity improvements identified by ACRG that could save at least \$9 million on its handling costs to Air NZ compared with the current system, into the equation the financial metrics deteriorates hugely, for example, the NPV is negative at \$47,658,360.

It is noticeable, that when we integrated costs in relation to the risks associated with outsourcing and adjusted the outsourcer costs, the in-house costs plus an additional cost for selecting an outsourcer, that resulted in a negative NPV. Therefore, the business case of outsourcing Ground-handling Services would not be considered a profitable one.

THE CASE AGAINST OUTSOURCING

The airline industry is in a period of rapid change. Managing that change has become the critical strategy in order to survive the new global airline competition.

Everyone tries to use a crystal ball to predict the future and jockey for their position of the leading edge. Air NZ is not an exception. Air NZ is trying to position itself as a world-class organisation taking on the world, outsourcing its so-called “non-core operations” that employ several thousand employees.

But outsourcing and downsizing do not constitute business transformation, according to Eric Teicholz, a president of Graphic Systems, Inc., of Cambridge, Massachusetts. They are merely outcomes of transformation and are definitely not “the” outcome.

Massive layoffs as a result of such decisions have been in fashion and have struck terror in employees’ hearts. Harold Geneen, the former chairman of ITT, in his book “The Synergy Myth”², describes downsizing as “medieval medical practice of bleeding patients to make them get better” and “nothing is more destructive of a company’s culture than these mindless mass layoffs... whatever the former culture was...it is shattered and replaced by a new culture of fear, anger, and looking out for number one. People won’t speak up, won’t innovate, won’t take chances.”

There is no doubt that a reinvention of ground and passenger services is underway internationally. The introduction of technologies like self-service kiosks to automate the passenger check-in process has allowed reductions in staffing and consequent labour costs.

Carriers like Air NZ have had to compete with low-cost carriers that have been able to start from scratch and design airport terminal and ramp services with low complexity.

The removal of ground-handling from core airline activity has allowed carriers to outsource operations to providers that can do the job more cheaply. However, despite the fact that major ground-handling groups, such as Swissport, have built global networks for wholesale outsourcing in the airline industry, carriers have been slow to take up the opportunity. The main reasons, according to industry sources, are Union and staff issues, and issues of control, which we alluded to in our questions around risk evaluation above.

Air NZ is not alone in wanting to cut labour costs by outsourcing, but resistance by Unions has proven a major barrier in other jurisdictions and there is no reason to believe this will not be the case here in what is a highly organised workforce. The problem of dealing with long-standing collective agreements with the incumbent workforce has not been easy to overcome. There is also recognition by industry sources that it is not so easy to cut staff numbers. In fact, it can be very expensive because it costs a lot to get rid of long-serving staff.

² Geneen, H. 1997. The synergy myth, New York: St. Martin’s Press

The stated arguments appeal to notions of “core competence” – Air NZ managers claim that the airline excels at flying passengers and cargo, but it does not know much about providing Ground-handling Services. We find such arguments quite incredible, given Air NZ’s 66 years of experience.

The claim is that it is best if such “specialised” services are left to the “experts” who excel in their respective fields. Managers defend outsourcing by arguing that it makes workplaces responsive to “the market”, thereby promoting organisational efficiency through competitive discipline. Or, managers argue that Ground-handling Services need the flexibility offered by outsourcing, and should not have to rely on supposedly monolithic and unresponsive in-house solutions.

Although superficially attractive, their arguments are often covers for less noble motivations: in particular, they obscure the fact that outsourcing benefits organisations primarily through weakening workplace rights and reducing wages and benefits.

We do not claim that managerial arguments for outsourcing have no value. However, we want to draw attention to the purposes of outsourcing that management does not state, but which are important and intended – these include the purposes of disciplining wages and weakening Unions.

In addition, we want to point out important flaws in managerial arguments:

- ↔ Outsourcing can actually be less efficient than an in-house solution
- ↔ Outsourcing is not the only way to provide flexible, high-quality ground handling services. Our experience has been that quality typically suffers when work is contracted out. This is because outsourcing creates redundant and conflicting supervision structures which worsen service. The cost of switching contractors can also worsen service. The reduced loyalty of workers in a contract environment manifests itself in higher turnover and lower incentives.
- ↔ Outsourcing cannot be seen as a panacea for workplace problems – it does not improve the workplace in itself, and cannot substitute for instituting better professional standards and better performance measurement of the managerial staff. The act of outsourcing sometimes is used to “prove” that an organisation is taking a “hard look” at its operations. This can be helpful for the share price of the company as we are seeing right now with Air NZ. Unfortunately, outsourcing can sometimes help an institution avoid real evaluation. As a result, it is not surprising to find that while outsourcing proceeds at break-neck pace, bureaucratic overhang and inefficiencies are likely to increase. At Air NZ, for instance, there would be a mushrooming of the bureaucracy at the same time as there is an increase in the contracting out of “non-core” services. Exactly what “core” activities are these managers doing? Freed

from having to worry about “non-core” activities, has their productivity skyrocketed?

- ↔ At any rate, having internal evaluations, developing better guidelines, and putting in place comprehensive training programs are all more effective ways to obtain “best practice” in the industry than farming out entire operations to an outsourcer and hoping that “market discipline” will magically transform the quality of the Ground-handling Services. Instead of the intention to outsource Ground-handling Services, perhaps Air NZ should provide workers with better managerial expertise and enable them to use more up-to-date equipment and methods. It should be noted that the problems with equipment would not be solved by outsourcing to Swissport, as the bid provided for Swissport to take over existing equipment. It seems odd to us that Air NZ is prepared to pay out \$35.6 million in redundancy payments, but not to invest in equipment and technology that would allow the services to be delivered more efficiently.

Additional Costs and Charges

There are many costs incurred by Airport Services on behalf of Air New Zealand, which are not passed on to the airline. These have never been measured by any department, so cannot be quantified.

Any contracted ground-handler would find a way, directly or indirectly, to pass these charges on to the Customer Airline, adding considerably to handling charges, for events previously absorbed

These include, but are not limited to:

- Engineering Delays
- Weather Delays
- Aircraft Rotation Delays
- Late running costs and related overtime payments which currently constitute 3-5% of the Air NZ wage bill
- Engineering Cancellations
- Weather Cancellations
- Flight Diversions
- Additional Security charges required by perceived high-risk destinations (i.e. USA and UK)
- Additional manpower or processing resource deemed necessary due to procedural or statutory changes
- Any cost incurred by the Handling Agent that is defined as Non Airport Accountable

- Any charge the Handling Agent elects to tender as a Delay, Disruption or Cancellation Handling Fee

While these are currently not quantifiable, we suggest that the company puts a dollar figure on these costs in assessing the preferred outsourcer's bid against an in-house solution.

COMPETITIVE IN-HOUSE PROPOSAL

Air NZ has said on several occasions its preference is to keep Ground-handling Services in-house, but that the company wants to ensure the service remains “competitive”. It is our submission that productivity improvements can transform Air NZ Ground-handling Services and save at least \$9 million on its handling costs compared with the current system.

The biggest problem is how to organise work during peak hours so the operation is economic and efficient. We offer some suggestions in our in-house solution below to address this.

The other challenge is not to compromise on quality. We think it is critically important for Air NZ to have its own staff in front of passengers to allow it to control this aspect of its brand. Air NZ has traded for years on the fact that it is “our national airline”. It is “who we are”. Will the airline be able to retain customer loyalty of New Zealanders if in fact the face that greets the customer is not working for Air NZ, but a multi-national outsourcing provider? Will New Zealanders choose to pay more to fly Air NZ if it is perceived to be a “virtual airline”?

Our members have charged us with that task of providing a Competitive In-house Proposal, so that Air NZ will be compelled not to outsource what we regard as a core business of the airline – ground-handling.

The current proposal is based on earlier work done by the two Unions representing ground services staff (the EPMU and SFWU) and Air NZ management. However, this submission is made on behalf of SFWU members only. In terms of staff affected by the proposal to outsource Ground-handling Services, the affected SFWU members work mainly as customer services agents at Auckland Domestic and International Airports. Thus these areas are the focus of this submission. (See Appendix 1: Future Business Model)

From the company perspective, the purpose of this exercise was articulated by management as being about Air NZ ground-handling being rated as “World Class” in the industry. This was to be the standard whether staff were employed in-house or externally provided.

We were told that the benchmarks for world-class operations were:

1. Customer Experience
2. Operational Effectiveness
3. Organisation
4. Cost

(See Appendix 2: Dimensions and Definitions of World-Class Performance)

The approach we have adopted involves focusing on the first three benchmarks as a means of addressing the fourth. This is reflected in the way we have organised our submission.

We need to make it clear from the outset that we are not proposing to reduce current terms and conditions of the SFWU Nga Ringa Tota Collective Employment Agreement. It is our view that improving efficiency and productivity as defined, as well as creating a more inclusive working environment negates the need for any such changes. Further, the proper forum to discuss changes to the CEA is the bargaining table during negotiations for renewal of the Agreement. It must be remembered that we have a current Collective Agreement that remains in force until 30th June 2007. There is no reason to offer up conditions mid-term when we do not have the ability to take any action in support of our claims.

In fact one of the frustrating aspects of the current process is that, because we are not in a formal bargaining process, we do not have a set of specific claims from the company about what it wants to change in the Collective Agreement. If we were to engage in a process of offering up terms and conditions by way of an alternative proposal, we risk giving away conditions that will not help the company achieve its ends. And though we know the company would like to see us give away penal rates and allowances, this is not somewhere our members are prepared to go. Nor do we believe it is possible for the company to attract workers on such conditions. We do not believe New Zealand workers would come to work all hours of the day and night for an all-up rate of \$19.90 an hour.

The only compelling reason for the Unions to give up terms and conditions is to keep the jobs in-house. This is why we are sceptical about the process and why we question whether the company is indeed acting in good faith. If we are to engage in this process in good faith with suggestions that will achieve greater productivity, then we must have assurance from the company that it will not seek to undertake a further RFI/RFP process for 10 years after the implementation of our in-house proposal. This will provide stability for the workforce and is in line with the expected provider contract duration.

Our submission includes potential efficiencies of at least \$9 million, achieved mainly by improving work practices and procedures. While acknowledging the company's benchmarks as above, we also believe there is the potential to increase workplace productivity to 85%, an efficiency gain for the company of more than \$6 million per year, by focussing on the internationally recognised drivers of productivity.

The seven drivers of workplace productivity are as follows:

- 1) Building leadership and management
- 2) Creating a productive workplace culture
- 3) Encouraging innovation and the use of technology
- 4) Investing in people and skills
- 5) Organising work
- 6) Networking and collaboration
- 7) Measuring what matters

Throughout this submission are suggestions that address these productivity drivers, and we wish to signal that we are willing to engage in a process that explores these in greater depth. The Council of Trade Unions has developed expertise in implementing workplace productivity measures and we recommend that we involve the CTU directly in this process, along with the Unions and management.

However, for the purposes of this submission, let us return to the attainment of world-class standards.

1 Customer Experience

- Consistently deliver a customer experience which maximises the overall experience a traveller has when using the airline given the agreed investment the airline is willing to make in this experience

If we examine the range of drivers shaping the future customer journey through an airport, we see the critical importance of delivery of customer service as cost effectively as possible, while maintaining world-class standards. (See Appendix 3)

The key driver for operation of airport services is the customers' experience as they proceed through an airport. At every point of the journey, there is significant interaction with airports staff. (See Appendices 4 and 5)

We know from the information provided by the company that Air NZ passenger services staff rated well in terms of getting the customer on the aircraft in a positive frame of mind. However, it was identified that there was room for improvement. The Air NZ customer experience lagged behind that of other Star Alliance partners, in particular Singapore Airlines, which is the recognised world leader.

Work undertaken by Air NZ also sets out how airport staff reinforce the airline's brand. They do this by using the Maori welcome "kia ora", by modelling the fresh confident New Zealand character, by showing pride in their work, by engaging with the customer and through their knowledge of Air NZ procedures. (See Appendix 6)

Areas identified as key to attaining and maintaining world-class standards of customer service are:

- Staff training and on-going development
- Recruitment
- Induction

a) Staff training and ongoing development

Current staff training is focused on the classroom and we question whether this is the most effective way to deliver such training. The principles of adult learning are:

- Adults are *autonomous* and *self-directed*. They need to be free to direct themselves.
- Adults have accumulated a foundation of *life experiences* and *knowledge* that may include work-related activities, family responsibilities, and previous education. They need to connect learning to this knowledge/experience base.
- Adults are *goal-oriented*. They, therefore, appreciate an educational program that is well organised and has clearly defined elements.
- Adults are *relevancy-oriented*. They must see a reason for learning something. Learning has to be applicable to their work or other responsibilities to be of value to them.
- Adults are *practical*, focusing on the aspects of a lesson most useful to them in their work.

These principles should be the premise of training, both at entry level and in terms of ongoing upskilling and development, moving away from classroom-based learning towards “on-the-job” coaching and development.

We also all learn at different paces and training and development processes and principles should reflect this, allowing staff to learn skills gradually as they build confidence and competence in different areas of the business and the related functions.

b) Recruitment

The recruitment process sets the tone and expectation of employment, and getting this right ensures that the right people are coming into the business and will stay on board. Simple measures to improve the recruitment process and staff retention would be to:

- Ensure that job advertisements accurately reflect the vacant positions in order to attract the right people for the right jobs.
- Hold interviews at the Airport, not at hotels or the company’s downtown offices, thereby giving potential recruits an immediate ‘feel’ for the work environment as well as reducing costs
- Ensure that the recruitment process is not divorced from the day-to-day reality of the workplace and working environment
- Enable existing staff to recommend new workers
- Create a programme during school and tertiary holidays for interested students to work in the business

- Hold interviews during rostered hours so that potential recruits understand from the outset the nature of the hours they will be required to work if successful in their application.

c) **Induction**

The current process of introducing new front-of-house staff to the business is unwieldy and unproductive. Five weeks classroom-based learning leads to “information overload” for trainees and does not give them a good induction into the day-to-day operation of the business and the realities of working with passengers and the public.

Training is also conducted in “normal” business hours (9am to 3pm) which does not reflect the nature of the rostered hours needed to run the airline. This means that many staff leave after the training (in Christchurch this has been as high as a 25% drop -ff of new staff in the week after they complete their training.) It currently costs the company \$16,222 (excluding uniform costs) to train each new Passenger Services staff member. This means that for the first 12 months of employment, the company invests \$17 per productive hour in addition to wages in each staff member (based on a part-time staff member working 20 hours per week)

We therefore propose a working party of Union and management representatives to review the effectiveness of all current recruitment, training and induction to make recommendations for change.

Implementation Timetable: 3 months from proposal acceptance

2 Operational Effectiveness

- Consistently provide an operational performance that meets the agreed targets

Air NZ has specific targets that it expects from its Ground-handling Services. However, the company says performance is inconsistent, particularly at Auckland International Airport. Passing the problem on to an outsource provider will not solve it. In our view the answer lies in encouraging innovative solutions to problems and introducing better equipment and new technology.

Greater use of technology will redefine what the customer journey looks like through the airport. Processes will be simplified to improve efficiency and provide choice for customers. But interactions between staff and passengers are likely to reduce and the type of interaction will change. This means we may need fewer airport staff and that staff will need new skills. (See Appendix 7)

We see the introduction of new technologies as an important way to minimise and simplify check-in times, and they do provide pay-back in terms of on-going reduction in labour costs as acknowledged above. However, increased security

measures in the wake of 9/11 mean that people, not machines, need to remain for check-in roles in international passenger services. Air NZ staff are our nation's first line of defence in our border control. These constraints will restrict the ability to fully implement technology. (See Appendix 8)

Internationally, global alliances have identified opportunities to further reduce airport service costs by standardising procedures, sharing facilities and developing common check-in policies. For example, at Frankfurt and Los Angeles, Star Alliance has a special team aimed at ensuring that passengers with tight connections make their flight. The operations people inform the connection team where a connection is tight, sends people to meet the aircraft, find the bags, and escort them to their next flight. This saved \$US2.2 million in the first 9 months of operation for an investment of a third of that size. Not to mention the goodwill created by helping passengers make their connection.

The following measures we have identified would improve operational effectiveness and at the same time, enhance the customer experience:

- Queue dwell time
- Departure fee kiosk-premium check-in
- Hand luggage monitoring
- Baggage tracing
- Domestic transfer desk
- Coupon availing
- Disruption handling

a) Queue Dwell Time

- Introduction of a fully trained 'conciierge' to streamline the check-in process.
- The staff member in this role for the international area must have the following skills:
 1. extensive knowledge regarding Visas;
 2. extensive knowledge regarding passports;
 3. ability to read both paper and electronic tickets;
 4. ability to recognise excess baggage; have an understanding of the layout of the airport; have knowledge of all our contract airlines role would in peak times cut down the check in time at the counters, as it will eliminate any problems regarding numbers 1-6.
- Staff need to recognise and understand that it is far better to have a queue before the passengers enter the Disney queue area, so that passengers

with all their documents in place will have an efficient and speedy check-in.

- Questions that need to be asked at entry to Disney queue are as follows:
 1. Where are you travelling to today / afternoon / this evening?
 2. Have you all your travel documents, ie tickets, passports, visas?
 3. Depending on their country of origin, staff need to ask the following:
 - (a) If they have the appropriate visa for the country they are entering.
 - (b) If so, is the visa valid?
 - (c) Is the passport currently valid for the country they are entering?
 - (d) If it looks like they are carrying excess luggage, explain the charges and also direct them to scales where they will be able to weigh their bags, from there they will have the option if cash only to pay at the service desk or otherwise enter the Disney queue and pay at the counter at check-in.

Implementation Timeframe: 1 month from proposal acceptance

b) Departure Fee Kiosk-Premium Check-In

Currently, the company purchases departure fee tax stickers to use for Premium Check in customers at a rate of \$3.6 million per annum. We do not recover a handling fee from the airport company and many tickets remain unreconciled.

We therefore propose the following options to reduce costs:

- 1) The introduction of a departure fee kiosk at premium check in where PAX can purchase tax stickers directly using credit card or Eftpos. This would equate to the following savings:
 - Approximately \$180,000 per annum interest on the \$3.6 million currently spent
 - At least \$8000 per annum in unsold departure tax
- 2) Alternatively, the company could charge a 2% handling fee to the airport company for this service (as do BNZ). This would generate additional revenue of \$72,000 per annum

We acknowledge that the company's marketing department would need to be fully involved and consulted on this initiative due to the possible impact on premium customers.

Implementation Timeframe: Within 3 months of proposal acceptance

c) Hand Luggage Monitoring

There is currently little in place to enable the company to monitor overweight and oversized hand luggage, and charge passengers accordingly. We therefore suggest the following:

- That all hand luggage is weighed at the Departure Gate
- That PAX are redirected to the Transfer Desk to pay any necessary excess baggage
- That a process be developed to transfer bags to the aircraft hold where necessary
- In Wellington and Christchurch there may be the opportunity to perform this task in areas prior to Security and Customs, with the intention of returning PAX to the counter or service desk to resolve check-in or charges.

Implementation Timeframe: Within 3 months

d) Baggage Tracing

In Christchurch, staff have identified ways to rationalise resources. By merging the staff groups currently rostered separately for International and Domestic BTU, and by using rostered staff in a company vehicle to deliver mishandled luggage, **\$70,000** per annum savings have already been acknowledged by the company.

The above could apply to other ports (AKL & WLG). Using rostered staff to deliver mishandled luggage in a company vehicle will save a further **\$353,000** (\$423,000 spent on taxis in 2006).

Implementation Timeframe: Immediate

e) Domestic Transfer Desk

We propose to reduce the resource requirement at the AKLI Domestic Transfer Desk as follows:

- Replace current fulltime staff member with part-time staff members in the afternoon
- Remove one part-time staff member in the morning

This equates to the following savings:

Hours saved per annum	Average Rate	Total savings
2,190	\$22.65	\$49, 603.50

Implementation Timetable: Immediate

f) Coupon Availing

It has been identified there are significant losses through incorrect pulling of coupons or availing of Electronic Tickets.

§ The time taken to identify and extract correct coupons has been estimated at \$25,000 p.a.

§ The amount of interest and losses due to these shortcomings has been estimated at \$50,000 p.a.

An improved training regime would eliminate much of this problem.

Implementation Timeframe: The time required to remove this unnecessary cost is directly related to the speed at setting up improved training regimes.

g) Disruption Handling

There are many opportunities to improve the way we handle disruptions and diversions. These initiatives involve utilising technology that already exists, as well as standardising and rationalising procedures. Suggestions include:

- Air NZ should negotiate rates with hotels including transports to and from airport to hotels. At present we are paying “Airbus” as hotel shuttles to and from hotels.
- We should be more stringent in supplying phone cards and accommodation and meals during weather disrupted delays.
- We should not provide phone cards to customer airline passengers during “their” disruptions.
- We should be utilising the “AIRPORT” helpers workers or AIAL customer services staff to direct disrupted passengers to buses.

3 Organisation

- Having an organisation with the culture and characteristics required to deliver a world-class performance

Air NZ Ground-handling Services are having a hard time coping with ever-changing organisational directions. The incredible movement of personnel at all levels creates a tremendous challenge to people’s lives. The desire to satisfy and the threat of extinction via outsourcing co-exist in today’s Ground-handling Services. Yet it is a fact that as long as the airline organisation is there, Ground-handling Services must be organised to serve it.

Initiating change and reducing the workforce should not be heralded to be the salvation for the bottom-line, although the bottom-line is part of the equation. Business transformation must bring these elements together. The required attributes and behaviours that make up an organisation are outlined in Appendix 9: Organisation Dynamics.

The transformation model for Ground-handling Services must be strategic in the core of its design, aligning with the strategies and values of Air NZ. The tactical implementation has to be achievable and realistic.

Air NZ people must be the focus of the outcome. Without the people, Air NZ would be an empty organisation. Good effective organisation results in high productivity. Staff have provided feedback on how they feel the needs of employees can be met in order to have optimum productivity and high morale. (See Appendix 10: Needs of Employees).

The productivity of employees depends on how these people are provided with the tools and moral support to perform the task. Business transformation is a supporting exercise too, and while the transformation of the Air NZ Ground-handling Services requires strong leadership, this leadership must also be sensitive to the guiding force of the followers.

People are human beings. They are not just numbers in an organisation. Charles Handy, a business guru from Britain, saw his predictions in "The Age of Unreason" become reality in the 1990s. He sees the global business world as a place where the business stakeholders are living in a paradox of trying to attain efficiency and economic growth and neglecting the individual man and woman who made it happen.

"We were not destined to be empty raincoats, nameless numbers on a payroll, role occupants, the raw material of economics of sociology, statistics in some government report. If that is to be the price, then economic progress is an empty raincoat. There must be more to life than to be a cog in someone else's great machine, hurtling God knows where."³

Who are the people in Air NZ's Ground-handling Services? Around 1,675 people earn \$36,448.36⁴ on average per year and they have spent 8.5 years on average with the company. They are the people, who are dealing directly with the Air NZ clients from the beginning of the checking procedure until the end when the clients will get their baggage or not. As Air NZ customers are getting more and more sophisticated, the staff who handle the customers and their baggage have to position themselves to anticipate their customers' needs and requests. They worked long and hard so that Air New Zealand become a good passenger and cargo airline.

According to the Air NZ presentation⁵ from June 2006, "the pre-flight experience has a relatively high impact on customer experience with check in and boarding

³ Handy, C. 1995. The empty raincoat - Making sense of the future. Great Britain: Arrow Books Limited.

⁴ Air New Zealand Payroll Data

⁵ Airports Consultation Review Group Meeting Presentation, 2 June 2006, Air New Zealand

both being important aspects of the pre-flight experience for international customers...but ...in domestic travel the pre-flight experience is even more important.”

The customer rating of staff-related check-in experience showed that Air NZ staff rated relatively well. Air NZ customers are relatively well satisfied with Ground-handling Services’ staff.

Change Management

There are five components to the business transformation process of the Air NZ Ground-handling Services: vision, integration, communication, transformation, and measurement.

i Vision

Vision has no meaning if nobody understands it, it is not shared, and if there is no way to get there. What is the meaning of the “world-class performance” in an organisation that has supplied employees with the old and out-of-date tools, treated the employees as a burden, and outsourced their jobs with no hesitation at all. Vision should be the overarching governance of all organisation’s strategies. It must tell the employees where the organisation wants to go and what the organisation is going to look like. And at the end, this vision must be shared with the employees.

ii Integration

The purpose of integration is to ensure that the diverse components of the different groups are sharing the same culture, vision and operations. When organisation’s business units are being re-aligned, there should be a transformation process to unify the parts.

Downsizing and consolidation bring together various parts of the organisation with different standards and different ways of doing the same thing. Work processes tend to be different because different people are running the business. The people may be from different localities with strong local influences and culture. No matter how many groups there may be, a well-implemented transformation process should result in a common new organisational identity and culture.

iii Communication

Poor communication yields disastrous results. Communication from the top-down must be well presented so there is understanding and comprehension of the big picture. Vision must be made clear and easy to understand. For example, “Employees are our best asset” is the most abused slogan and this slogan will backfire when action does not match vision. Over the years, Air NZ invested millions of dollars training their employees. This wealth of knowledge and competencies resides with the employees and should not be swallowed up by the black hole of

outsourcing. When employees walk out the door, knowledge goes out with them.

Communication must be two-way. An effective transformation process should include employee participation. The vision and mission must be explained clearly so that each one of them understands the direction of the organisation. Employees must be allowed to participate by giving their input to the process.

Many employees have profound knowledge and experience in their particular field of expertise, whether it is technical or customer-oriented. There is no need to sell change to the employees, or to threaten them with change and loss of the jobs, as in the business case of outsourcing the Ground-handling Services.

Instead, when the employees' contribution becomes the formation of a transformation process, they will institute change themselves because they now own the process. The shared vision is part of their contribution. There is no need for buy-ins because the employees have invented it and now they have the ownership.

iv Transformation

Transformation is change. There are two basic components to change – the socio-technical aspect and the workplace redesign aspect. Socio-technical redesign involves the behavioural aspect of change which involves change in the human aspect of the workplace. This involves personal change, as well as relational changes.

Personal change involves one's own attitude and behaviour toward the new paradigm. Relational change refers to dealing with attitudes toward others. This may mean completely new managerial approaches, such as team environment, self-directed or self-managed teams, or a competency-based organisation.

Such changes may be implemented in stages. For example, when Bell Canada went through socio-technical redesign, it was introduced in several stages.

First, the employees went through a series of training sessions on dealing with soft skills. Courses such as conflict resolution, communication, and customer service were part of the curriculum.

Second, the employees were empowered to manage their own area of operation in total autonomy. Employee suggestions were taken seriously and rewarded monetarily.

The final stage introduced self-directed work teams when the team reached maturity. In this case, pilot projects on a small scale were tested to ensure success before the program was rolled out to the entire organisation.

Workplace redesign includes leading-edge technology. At the moment, the equipment that is in use at the Ground-handling Services is old and requires high maintenance. Therefore, Air NZ needs to invest \$17 million in new equipment and software to be more competitive immediately and then around \$7 million per year in the future to totally renew its equipment.

A leader leads through change. In business transformation, leadership becomes extremely important. Any change activity will bring about confusion, mistrust, and doubt unless the leader can provide a clear direction and gain the confidence of the people. No clear direction as to where the business is going generally restricts the effectiveness of change.

Changing direction in mid-course worsens the situation. Changing direction too often spells disaster. The credibility of the leader is also a strong factor in achieving success. The change leader is the conductor of a great symphony – not understanding the instruments and the quality and capacity of the player will never produce good music. Air NZ's Ground-handling Services need a new manager with leadership skills, who will be able to manage the change and business transformation.

v Measurement

Success cannot be realised unless it is monitored and measured. An evaluation system must be instituted to tell us whether we have arrived or not. The result may call for celebration or redesign.

Transformation is an on-going process and has to be maintained, analysed and enhanced. If we do not measure, we do not know when we are successful. If we do not measure, we will not be able to improve.

Measurement metrics may fall into these three categories:

- ↔ Performance measurement related to own operation (operating cost per turn; operating cost per employee; absenteeism; number of complaints per month; safety records...)
- ↔ Performance measurement related to service (timeliness of service delivery; quality index of service provided, cost of service, customer satisfaction index...)
- ↔ Performance measurement related to design

Air NZ says it is constrained in its ability to deliver Ground-handling Services to world-class standards because it has little ability to cope with changes in activity in the short-term and nor can it cope with changes in labour requirements long-term. This is despite the fact that a high proportion of part-time staff are employed to allow the airline to deal with peaks and troughs in labour resource required.

Our analysis of information provided by the company confirmed our original hypothesis that low morale contributed to a high level of absenteeism and higher

rate of staff turnover which in turn impacted on higher training costs and the amount of overtime being worked.

We also discovered that poor work practices with high accident rates had contributed to a high level of absenteeism resulting in an increased need for work on overtime rates. Thus there are considerable cost savings to be gained by addressing these organisational issues.

We have identified a range of measures that will improve staff morale and lead to an improved workplace culture.

- Workplace culture and employee engagement
- Peak seasonal staffing
- Team-based approach to rosters
- Reduction of sick leave costs
- Reduction of lost time injuries
- Use of 'downtime' for training
- Reduction in staff turnover
- Continuous improvement

a) Workplace culture and employee participation

This is acknowledged as an important area for inclusion in our proposal. We believe that movement towards a more inclusive approach to improving the business will in itself lead to increased staff morale and a better workplace culture.

There are also measures that can be put in place to improve efficiency of issue resolution and management/staff engagement. This would serve to build confidence and trust between the parties as well as a more collaborative and creative approach to problem solving and issue resolution. It is important to note that some of these measures have been previously agreed between the parties, but are not being adhered to.

One obvious mechanism to ensure a positive outcome through union-employer joint participation is to engage the Partnership Resource Centre of the Department of Labour to help facilitate a long-term programme of change.

The measures proposed are as follows:

- Election/selection of fulltime company-funded Union delegates with specific job descriptions to resolve disputes and represent members as designated by SFWU Nga Ringa Tota (excluding personal grievance resolution).
- Development of a national working file of outstanding cases/issues across the business shared between the company and the Unions, 'cases' or issues are logged when they arise and tracked until resolution
- Allocation of a designated HR officer to log and track progress of cases

- Weekly update and discussion between the parties on progress of 'live' issues and cases
- Commitment of both parties to aim to resolve issues in house within a month
- Agreement to mediate through the Department of Labour Mediation Services all unresolved issues after 3 months.

b) Peak Seasonal Resources

There is a synergy between the times of peak staffing requirements and scheduled tertiary vacations. We recommend that the company utilise Student Job Search to retain the appropriate labour resource at the times we can maximise their value. This would not only reduce the overtime costs to the business over busy holiday periods, but would also allow more permanent staff to take annual leave during this time.

c) Team-based Approach to Rosters

The key foundations of rostering are:

- Coverage
- Cost
- Work/life balance

Philosophy behind rostering: The SHARE Model

We support a team-based approach to rostering that invests full ownership and accountability in the team. Ideally, employees would be empowered to manage their own area of operation in total autonomy, as in the Bell Canada example above.

Key to this is an organisational structure that links part-timers into specific teams, with team co-ordinators taking responsibility for supplementing fulltime staff with the part-timers from each team. Thus the team becomes a self-rostering entity, with enough flexibility to organise its own coverage.

This also gets round the problem identified by Air NZ management of part-timers being disconnected with the organisation. It allows a line of management control and communication from management's point of view, while at the same time providing part-time staff with greater stability.

Implementation

We envision teams of about 20 staff with a mix of fulltime and part-time staff and managed by a team co-ordinator. This gives a ratio of 1:20 team co-ordinators to staff members, which is realistic. At Auckland International, where there are 140

on each shift, this would mean seven teams for each shift (21 altogether). (See Appendix 11: Self-Managing Teams)

We acknowledge that the goal of self-directed work teams could take some time to mature. It may be advisable to initiate pilot projects on a small scale and to test these to ensure success before the program is rolled out to the entire organisation.

The Roster Review Group provided for in Clause 40 can oversee the pilot projects and monitor the operation of the rosters on an on-going basis. As provided for in the CEA, the Roster Review Group has the power to:

- Make recommendations in respect of the administration of rosters with the aim of “optimising the deployment of labour in the achievement of the targets, customer service and efficiency goals of the company”
- Take into account the flexibility of tasks within shifts, utilising staff trained for skills required and paid accordingly
- Consider supplementary labour mix to suit peaks and troughs, to cover annual leave and sick leave
- Maximise opportunities to utilise ordinary hours (30 part-time and 40 fulltime) before any overtime is worked
- Attend meetings with Team Co-ordinators
- Review proposed rosters and propose alterations to make the roster more effective

In an environment where teams managed their own rosters, there would be flexibility for change to be managed within the teams, keeping in mind a balance of work and lifestyle. This model would also allow staff the flexibility to request leave at short notice.

To oversee the new model, the Roster Review Group would need to have the following powers:

- Review of all relevant data, review of staff feedback, future improvement
- Communications, eg meeting minutes distributed to staff and managers for consultation and feedback; staff input and suggestions; staff briefings and understanding of roster issues
- Maintenance of the roster through monthly review of rosters, P&L forecast vs. actuals, action planning to remedy issues, coverage of busy periods and continuous improvement

The roster review group would review the roster on an on-going basis, utilising:

- T&A data
- P&L data
- Service standards

- OTP data
- Staff feedback

The model we have put up replaces duty managers and team leaders with team co-ordinators. The team co-ordinator role is similar to the current LAC role and would be paid at that rate. At AKLI alone, there are currently 20 LACs and we need 21 team co-ordinators for our proposed model. If the 3 duty managers and 7 of the team leaders were declared surplus under the reorganisation, the one-off redundancy costs would be **\$1.022 million**.

The savings in labour costs from the reduction at AKLI alone would not be recouped in the first year, but over a 10-year period would amount to **\$10.64 million**.

Implementation Timeframe: Introduce teams structure immediately and roll-out pilots of self-managed rosters on a planned basis, as determined by the Roster Review Group.

d) Reduction of Sick Leave Costs

Through the following measures we aim to reduce sick leave from 7 to 5 days. This would result in savings of **\$836,420**.

- Set a minimum shift span of 5 hours. This would ensure that rostered shifts are meaningful taking into account travelling time and costs.
- It is important to note that the Christchurch Counter and Concourse rosters proposed in the previously submitted "CIS" document utilised a method of minimising shorter shifts as a mechanism for improving efficiency.
- Provide for unlimited sick leave for all staff monitored on an ongoing basis by an attendance committee of Union delegates and management
- Provide annual leave availability data to all staff electronically
- Allow staff to apply for leave less than 28 days in advance if they wish to take 3 days or less
- Allow staff to apply for leave less than 28 days in advance if there is leave available
- Guarantee staff that if they apply for leave one weekend a month it will be approved
- Move annual leave approval to Team Co-ordinator role
- Develop an agreed new system for staff calling in sick in Auckland

Implementation Timeframe: Immediate

Auckland International

At AKLI there are currently 20 extra staff rostered each day (6 hours per staff member) to cover potential sick calls. There are 12-13 sick calls per day on average. With a predicted 30% reduction in sick leave over 12 months, this would drop to an average of 9 sick calls per day.

By reducing the number of 'anticipated' sick-leave rostered staff from 20 to 10 we would generate the following savings: Hours saved 21,840 at \$26.38 = **\$576,139**. This would need to be implemented in conjunction with a review of headcount allocations to customer airlines to ensure correct staffing levels are maintained.

Implementation Timeframe: Immediate

e) Reduction of Lost Time Injuries

Our aim is to reduce lost time injuries in the business by 25% within 12 months (with targets set on an ongoing basis every year). This would equate to savings of at least **\$750,000** (accepted by Air NZ in CIS Feedback of 22 September 2006).

Process for reduction of injury

- Staff involvement in equipment trial and purchase including gaining insight into overseas examples
- Weighing PAX Bags at the Disney queue and redirection to designated counter
- Training for all CSAs in how to assertively engage with PAX to protect their health and safety without reducing customer experience (specifically in relation to handling baggage)
- Compulsory manual handling training for all staff (modular) to receive annual manual handling certificate (similar to Dangerous Goods)
- Compulsory general annual health and safety refresher training for all staff (modular) as above
- Equipment supplied by both the company and outside providers need to comply with Health and Safety guidelines

f) Use of downtime for training

Fulltime CSA staff who are on the 6x3 roster currently have at least 11 hours per year of "unproductive time". This equates to **\$68,000** of unsold hours per year (11 x \$26.38 x 234 staff).

Part-time staff in other areas also have a significant amount of "downtime" due to the nature of the business and the schedule. This time could be used more effectively to set in place on-going training and development.

This downtime could be reduced to increase productivity as follows:

- Creation of modular, self-learning computer-based training programmes for Health and Safety Dangerous Goods, Verbal Judo (customer interaction), and other aspects of passenger services.
- Staff involvement in continuous improvement workshops
- Staff briefings and team building workshops

Passenger Services Modules

One of the most important parts of the proposed training regime is to increase the productivity in Passenger Services.

We have identified the tasks or activities that need to be completed for Passenger Services and we have translated these into modules for training (see Appendix 13: PAX Services Activities Translated Into Modules).

We see these modules being delivered one-to-one and on-the-job by team co-ordinators. There would be a logical progression in the series of modules leading to fully qualified customer services agents and a mix on each team of employees who have progressed through one or more of the series.

Reduction in costs associated with on-job training: **\$100,000.**

Implementation Timeframe: 3 months from proposal acceptance

g) Staff turnover reduction

Reducing staff turnover by 5% would save the company **\$750,000** per annum (accepted by Air NZ in CIS Feedback of 22 September 2006). We propose the following measures to reduce staff turnover:

- More fulltime staff in Passenger Services (this would also mean a reduction in training investment per staff member)
- Removal of 3-hours shifts; setting a minimum of 5 hours for each shift span
- Introduction of roster stability for part-time staff
- Encouraging greater team work and specific reporting lines for staff
- More realistic training and recruitment processes (as per our proposal above)
- More practical, modular-based training (as per our proposal above)
- Greater staff involvement in business change and continuous improvement

h) Continuous improvement

There is currently a commitment to ongoing engagement around continuous improvement in the CEA. We support the development of a wide-ranging continuous improvement programme covering all aspects of the business in which staff and management are involved and committed to.

The following measures are the start of this process and will help to realise the commitments made by both parties in the ACRG process.

- Monthly meetings between Unions and management to review service level
- Fortnightly meetings as above to review OTP
- Development of an agreed continuous improvement programme involving the company and workers to improve operational effectiveness over the next 12 months and into the future.
- Development of a continuous improvement group at each port including management and Union members to review all aspects of the business and implement change where necessary
- Training for this group in the principles of continuous improvement and the seven recognised drivers of productivity.
- Opportunities for members of the continuous improvement groups to visit and assess overseas ports to get ideas to improve operational effectiveness at regular intervals
- Annual national continuous improvement forum involving local Union representatives from each port to share best practice.

4 Cost

- Being able to deliver a specified service level at the lowest possible cost and having an operation that has sufficient flexibility to be able to adjust resource usage and therefore cost to cope with volatility in the underlying activity

Over the past three years Air NZ says it has undertaken various initiatives aimed at increasing the competitiveness of its ground-handling operation, including attempts to “right-size headcount” to reduce the amount of overtime being earned. We are curious about this as we have not seen the evidence of this. The company has continued to employ part-timers rather than fulltime employees, which we see as the major contributor to excessive overtime.

To test out its “competitiveness”, Air NZ used the RFP process to compare the cost per turn for narrow body jets with competitive bidders and found that Air NZ’s price was mid-way between the lowest competitor’s price and the highest.

But the company postulated that losing both the Jet Connect and Qantas International contracts could result in a 7% + increase in cost per turn and more than \$7 million in redundancy costs, making it “uncompetitive” when compared with the proposals provided by outsource providers.

The company has identified high labour costs as a major issue in its “competitiveness”. However, information provided by the company revealed that much of the increase in labour costs over the past several years has been the result of growth in activities. Some of the increase in labour costs was the result of poor management of rostering on public holidays. And another major source of the increase in labour costs was the use of old equipment which requires more workers.

It does not require a solution as drastic as outsourcing to solve these problems. Better management of rosters as suggested above would go a long way towards reducing labour costs. And, as we pointed out earlier, the Swissport proposal involves use of the existing equipment, so that problem would remain.

When we compare costs with the Swissport proposal, we see a \$20 million differential caused mainly by differences in the hourly rate (\$26.38 all-up average hourly rate for Air NZ passenger services employees compared with \$19.90 all-up rate for Swissport passenger services employees). As we have stated earlier we simply do not believe New Zealand workers would be prepared to work the kind of unsociable hours required for this sort of money.

The other major difference lies in productivity gains in the Swissport proposal at Auckland where Swissport claims it can provide the passenger services required with 200,000 fewer hours. We doubt that this is possible. However, we think passenger services probably can be delivered more cost effectively in-house with the measures we have identified to improve operational effectiveness and the organisational dynamics (eg by reducing sick leave and lost time for injuries).

Other measures include:

- Reduction of overtime hours worked
- Voluntary severance

a) Reduction of Overtime Hours Worked

We are aware that the number of overtime hours worked by part-timers is very high. We think that the problem is inappropriate use of supplementary labour by management.

The CEA gives management quite a bit of flexibility to use supplementary labour in addition to maintaining a highly-skilled permanent workforce. But the provisions were clearly not intended to provide for the level of casualisation that is currently occurring.

The predominance of staff should be fulltime, with part-timers brought in to cope with peaks. Part-timers should not be regularly exceeding their 30 hours ordinary

time. The fact that this is occurring suggests that the complement of fulltime staff is short. It makes no sense to pay part-timers applicable overtime rates when a person could be employed fulltime to do the job on ordinary rates up to 40 hours.

Addressing this could save as much as a 30% savings in overtime costs which would equate to **\$2.5 million**.

b) Voluntary Severance

How we achieve the adjustment from part-time to fulltime staff without increasing the headcount is by offering voluntary severance to both fulltime and part-time employees. This would reduce labour costs by releasing longer-serving employees who earn more and who are most likely to take up this option.

It could be argued that voluntary severance under the current situation is not inconsistent with Clause 113.3.1 which allows the company to declare employees surplus to requirements if there is a “reorganisation or like cause requiring a permanent reduction in the number of permanent employees”.

Increasing the ratio of fulltime employees by offering part-timers the opportunity to “step-up”, while at the same time reducing the number of employees (both fulltime and part-time) through voluntary severance, could have the effect of permanently reducing the number of actual staff members without significantly affecting the required staffing levels.

Payment of the severance shall be in accordance with CI 113.11 of the CEA. Rights of employees taking voluntary severance shall be consistent with CI 113.10, which include:

- Access to an employment counselling service on request
- Right to consult with Union delegate or organiser
- Calculation of severance payment on the basis of average weekly taxable earnings for three or 12 months prior to termination, or the ordinary time rate applicable at the date of leaving, whichever is the greater
- Eligibility to termination provisions in the superannuation scheme to which the employee belongs
- Normal termination payments such as accrued holiday pay, long service and retirement leave and other entitlements as specified in the CEA to be paid at the time of leaving
- Two weeks wages (calculated at average earnings) to facilitate job search

We are assuming that if Swissport is offered the contract, 40% of staff would not transfer. However, if Air NZ keeps the service in-house and there is no loss in terms and conditions, most would want to stay. We have assumed that the one-off cost of voluntary severance, if it is accessed by 10% of those who have been with the company 8 years or more (including both part-timers and fulltimers), would be **\$2.35 million**.

Savings in labour costs would be highest in the first year when those staff would be replaced mainly by staff on the lower grades. We used current CSA rates and assumed that 164 staff on Grade 8 taking voluntary severance would be replaced by staff on Grade 3, a savings of \$5277 per person or **\$865,428** in the first year. This would obviously have on-going cost savings.

CONCLUSION

The aim of the Service and Food Workers Union is to promote world-class airline services through a productive, well trained, competent and competitive labour force.

Productivity improvements can transform Air NZ Ground-handling Services and save the company around **\$8.5 million** on its handling costs compared with the current system.

The Union proposal highlights four benchmarks for work-class operations: customer experience, operational effectiveness, organisation and cost.

For a company 83% in Government ownership it is logical to look to the Government's own mantra for transforming New Zealand businesses. The seven drivers of productivity provide the key to addressing Air NZ management failure in the area of its Ground-handling Services. These drivers can be translated into the context of Ground-handling Services in the following way:

- ↔ a new manager with leadership skills who can manage the business transformation
- ↔ creating a productive workplace culture through employee participation
- ↔ investing in innovation and technology to stay competitive through cutting-edge technology
- ↔ investing in people and skills through modern training methods and induction processes that are relevant and targeted
- ↔ addressing work organisation through employee participation, including peak seasonal staffing, reduction of sick leave costs, reduction of lost time injuries, reduction in staff turnover and other areas identified in this paper, and finally
- ↔ in relation to cost, identifying efficiencies of up to \$9 million through improving work practices and procedures.

We propose this forms the basis of the in-house solution to transform Ground-handling Services. This is the productivity challenge which we lay at the feet of Air NZ.

APPENDICES

1. Future Business Model
2. Dimensions and Definitions of World-Class Performance
3. The Customer Journey
4. Key Driver For Operation at Airport Services
5. Current Flow Through Airport
6. How Staff Reinforce the Brand
7. How Technology Will Redefine the Customer Journey
8. Constraints on the Level of Implementation of Technology
9. Organisation Dynamics
10. Needs of Employees
11. Self-Managing Teams
12. PAX Services Activities Translated Into Modules for Training
13. Amended Cost Estimates 19 January 2007