



Hidden treasure

Invoice management may be a dry subject but operators need to be aware of the shortcomings of the process, writes the Editor.

Lack of control costs airlines dearly

Ground handling expenses and airport charges are an indisputable condition in this sector, but investigations show that up to 10% of ground handling invoices are incorrect. This means that airlines end up paying for services they never receive. The problem is that the airlines have neither the resources nor a system to double check the provided services.

A way to address this challenge is to use a contract and invoice management tool that identifies incorrect invoices. Surveys confirm that the potential savings are surprisingly high and can reach up to 5%. For a mid-sized airline company with a ground handling budget of, say, €60m, this represents a €3m cost reduction. The numbers speak for themselves: it is a natural route to explore in the quest of cost optimisation.

The reality of invoicing

When an airline receives a ground handling invoice, often the carrier pays it without checking if it has received all the services, as stated on the invoice. The frequent alterations in airline operations, such as cancelled flights, change of aircraft type or additionally required services, all affect ground handling expenses.

Depending on size, a small to mid-sized airline receives 500 to 3,000 invoices per month, so the sheer quantity also makes it challenging to handle. Moreover, some services have complicated cost structures, which makes them cumbersome to verify manually.

The point to be made here is that incorrect invoices amount to a significant amount of money; so it would undoubtedly have a positive and direct impact on the bottom line if the airline had a cost-effective way to deal with this issue.

Up to 2.5% savings

Controlling invoices is both time consuming and unmanageable for most airlines, but a survey conducted by PDC Aviation among a range of small to mid-sized European airlines revealed a surprising possibility.

“If airlines checked their ground handling invoices, there is a potential saving of up to 2.5%. The estimated savings are actually quite conservative, and there is a fair possibility that the airlines can reach even greater savings,” reckons Christian Krog Madsen, Department Manager at PDC Aviation.

The survey confirmed the need for a tool that could ease and optimise the lifecycle of contract management and reduce the costs associated with it. In close collaboration with Aegean Airlines, PDC Aviation began the development of PDC GroundCost, which is an innovative contract optimisation and forecasting tool for airline contract management and invoice control.

From the beginning, the aim was not only to create a best-in-class solution based on the IATA Standard Ground Handling Agreement, but also to make it generic enough to support other contract types as well. The most interesting feature of the system is that it identifies incorrect invoices while offering an overview of contracts.

It also specifies valuable historical data of ground handling services which enables the airlines to negotiate and renew contracts on an informed basis.

“Once we have the contracts and the price models in the system, we can now check most invoices in just a few minutes”

Stathis Trivoureas, System Support and Report Analyst, Aegean Airlines

Adapting to growth

Aegean has experienced rapid growth in its route network for several years. For the ground operations department, which manages its ground handling contracts, this had stretched the existing forecasting and controlling solutions to their limits.

To improve and streamline its contract and invoice management processes, Aegean decided to use PDC GroundCost, and today it receives all relevant data consolidated into a single, Web-based user interface including all contracts, future and past flight information, as well as a full breakdown of costs by period, stations and cost types.

“Having easy access to all contract and cost details, even when I am travelling for meetings and only have my smartphone available, is a huge benefit,” confirms Christina Markou, Airport Services and Commercial Agreements Manager at Aegean.

Tailormade for airlines

The system’s easy access also comes in handy when renegotiating contracts and comparing competing proposals. Instead of evaluating contracts using estimates such as average costs per flight per aircraft type as was previously done, Aegean can now compare the exact costs for the planned schedule and account for estimated passenger counts and occurrence of extra services, based on statistics derived automatically from previous years.

Having historical data on ground handling

services also gives Aegean an advantage when it negotiates included services in the basic rate of the ground handling contract. Not only can it reduce the number of additional services, but it will also significantly simplify the invoices.

Using the new system also makes everyday tasks easier and quicker for Aegean's controllers. They no longer have to print invoices, cross-check each one manually against data in the flight operations system and booking system and type them into a database. Instead, they enter the station and dates covered by the invoice, and the system then calculates all expected costs, including any surcharges or discounts based on the actual flown schedule. All the controller needs to do is approve matching costs or create disputes for any discrepancies.

"We had trouble keeping up with the



increasing volume of invoices, and it was tedious work to check them. Once we have the contracts and the price models in the system, we can now check most invoices in just a few minutes," explains Stathis Trivoureas, System Support and Report Analyst at Aegean.

Shortcut to improving profit margins

A tool like PDC GroundCost makes it possible for an airline to save resources

and costs related to invoice control – and in all likelihood, the savings will be quite substantial, because the airline can avoid paying for services it does not need or has not received.

Having accurate ground handling statistics, an airline can optimise contract management and take decisions founded on facts and data when choosing a supplier. As for budgeting, the tool enables it to make precise budget forecasts based on detailed historical data and not on assumptions and best guesses.

In conclusion, it is innovative, digital solutions like GroundCost that can help an airline reduce costs, improve profit margins and achieve growth goals. **R2N**

Footnote:

Investigations and surveys mentioned in this article refer to quantitative and empirical market analysis conducted by PDC Aviation in collaboration with Aegean Airlines.

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