



WHITEPAPER

Preparing for Digital Take-Off:

A Practical Guide to Back-Office Transformation

How to bring efficiency to core airline operations with a holistic approach spanning people, processes, and technology





INTRODUCTION

In 2023 alone airlines invested \$34.5 billion in IT, highlighting how important the role of technology will be for delivering a next-generation travel experience.¹ While this is already being seen in areas passengers touch, with airlines embracing digital strategies to meet the expectations of tech-savvy consumers, the same isn't taking place behind the scenes.

Airlines face unique challenges when it comes to back-office transformation, especially in terms of balancing innovation with operational control. While there has long been a push to deliver initiatives that bring new agility on the front end, innovation in the business areas that keep airline operations running smoothly hasn't kept pace.

In part, this is due to the immutable fact that back-office transformation is more complex. There's more to transform: more processes, more systems, more steps. Yet that's not the only consideration. In many cases, functions like finance, legal, and compliance have themselves become barriers to change. Accustomed to existing processes and systems, and built around stringent controls, these departments see any departure from the status quo as potentially disruptive and risky.

The problem? Legacy processes and systems, while offering stability and reliability, often lead to inefficiencies that can be a roadblock to innovation.

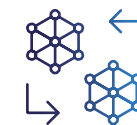
As airlines continue to operate on razor-thin margins while being susceptible to volatile market forces, finding a way to overcome this and optimize costs across every part of the business – especially back-office functions like finance, and revenue management – is no longer optional; it's key for long-term success.

¹Aviation sector increases IT spend

This whitepaper will cover



The three pillars of a successful back-office transformation and its business impact



How transformation will unlock new end-to-end business operations



Why optimizing for employee adoption depends on successfully navigating a cultural shift

TABLE OF CONTENTS



Barriers to Back-Office Transformation



Implementing New End-to-End Business Operations



Optimizing for Adoption:
Evolving the Employee Experience



Conclusion

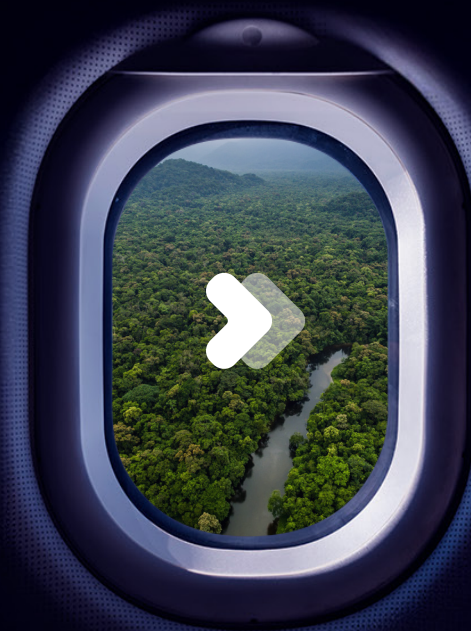


BARRIERS TO BACK-OFFICE TRANSFORMATION

Four factors play a role in why the airline industry finds it difficult to deliver back-office transformation.



Legacy
Infrastructure



Complex Distribution
Channels and Products



Compliance and
Regulatory Headaches



Resource Allocation
and Cultural Resistance



Legacy Infrastructure

Airlines rely on technology that in some cases has been in operation for more than 20 years. This legacy infrastructure, while functional, is a deadweight. Airlines are struggling to modernize their systems fast enough, and don't have unlimited funds with which to do so.

Further complicating the issue is the fact outdated technologies are deeply entrenched. Front-end sales and distribution systems, operational sources of data, and downstream reporting systems all use a spectrum of different technologies.

While some data flows are automated, others are manual, creating an additional headache. It's hard for back-office teams to easily process and integrate these data sources as a result, preventing them from delivering the real-time, actionable insights that the business needs to drive decision-making.

²How airline CIOs can turn IT from a cost center to a profit center



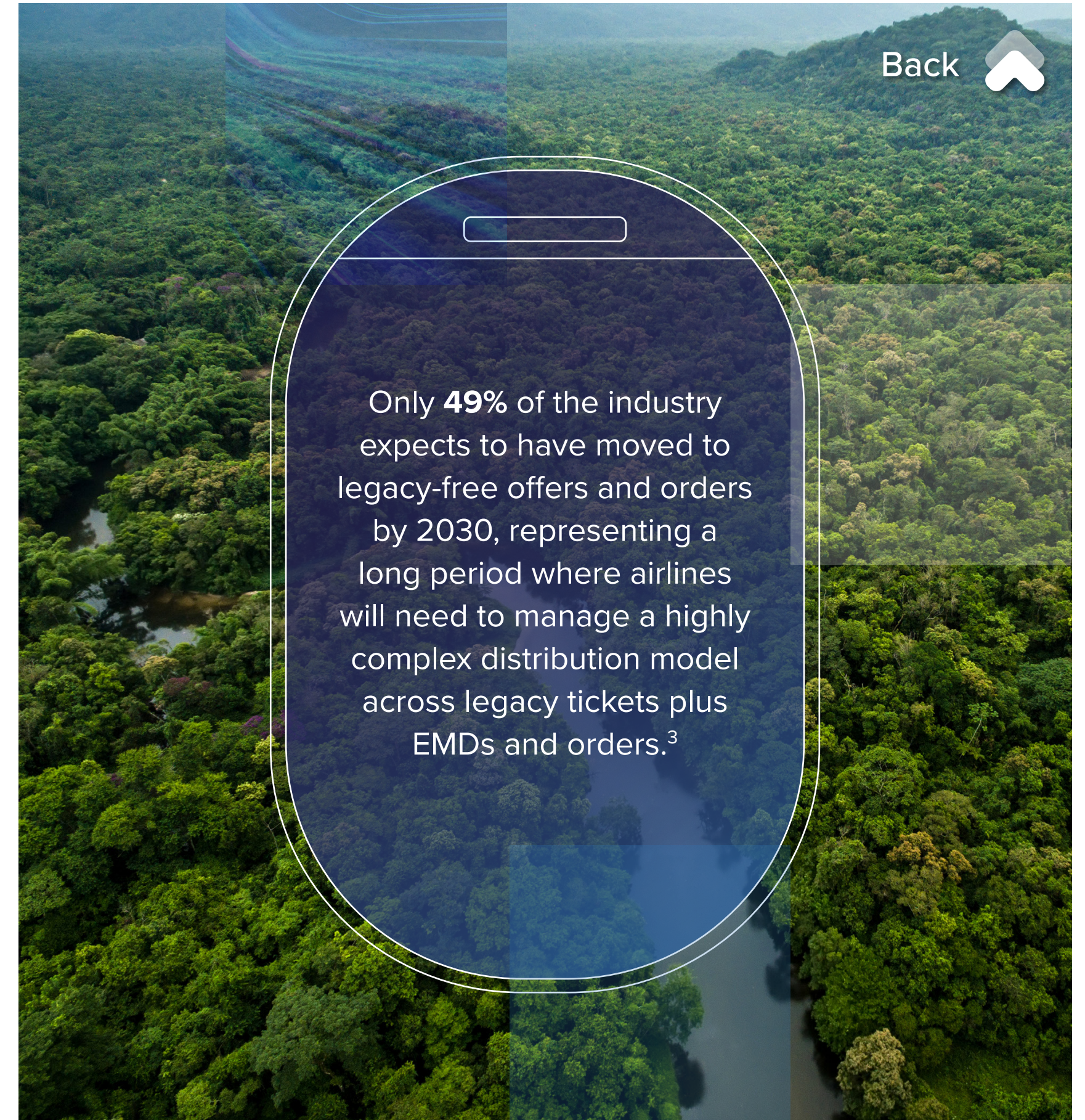


Complex Distribution Channels and Products

Airlines deal with intricate distribution networks and diverse product offerings that must be managed efficiently from an operational and control standpoint. This requires data to be shared, sanitized, formatted, and linked.

Ensuring all data – from aircraft insights and customer information, distribution data, airport and operations data, and more – is accurate, accessible, and integrated across back-office systems is a significant hurdle to overcome.

³Can Airlines Accelerate the Transition to Modern Retailing?



Only **49%** of the industry expects to have moved to legacy-free offers and orders by 2030, representing a long period where airlines will need to manage a highly complex distribution model across legacy tickets plus EMDs and orders.³



Compliance and Regulatory Headaches

The airline industry is highly regulated. Back-office functions must ensure all processes adhere to strict compliance standards across multiple territories. This is a tall order, and the consequences for non-compliance are strict.

Regulation is a double-edged sword in terms of its impact on transformation. The sheer complexity of these processes and the nuances between different countries and territories in terms of reporting contributes to inertia. At the same time, maintaining the status quo - heavily manual, paper-based processes - further compounds inefficiencies and invites costly mistakes.

⁴ONE Record One step closer to digital cargo

Back



Each year, the airline cargo industry processes 7,800 tons of documents, equivalent to 80 Boeing 747 freighters filled with paper.⁴

Moving to a digital-only data model not only drives sustainable operations but allows stakeholders and regulators in the supply chain to access digital twins of physical assets, enhancing real-time tracking and data accuracy.

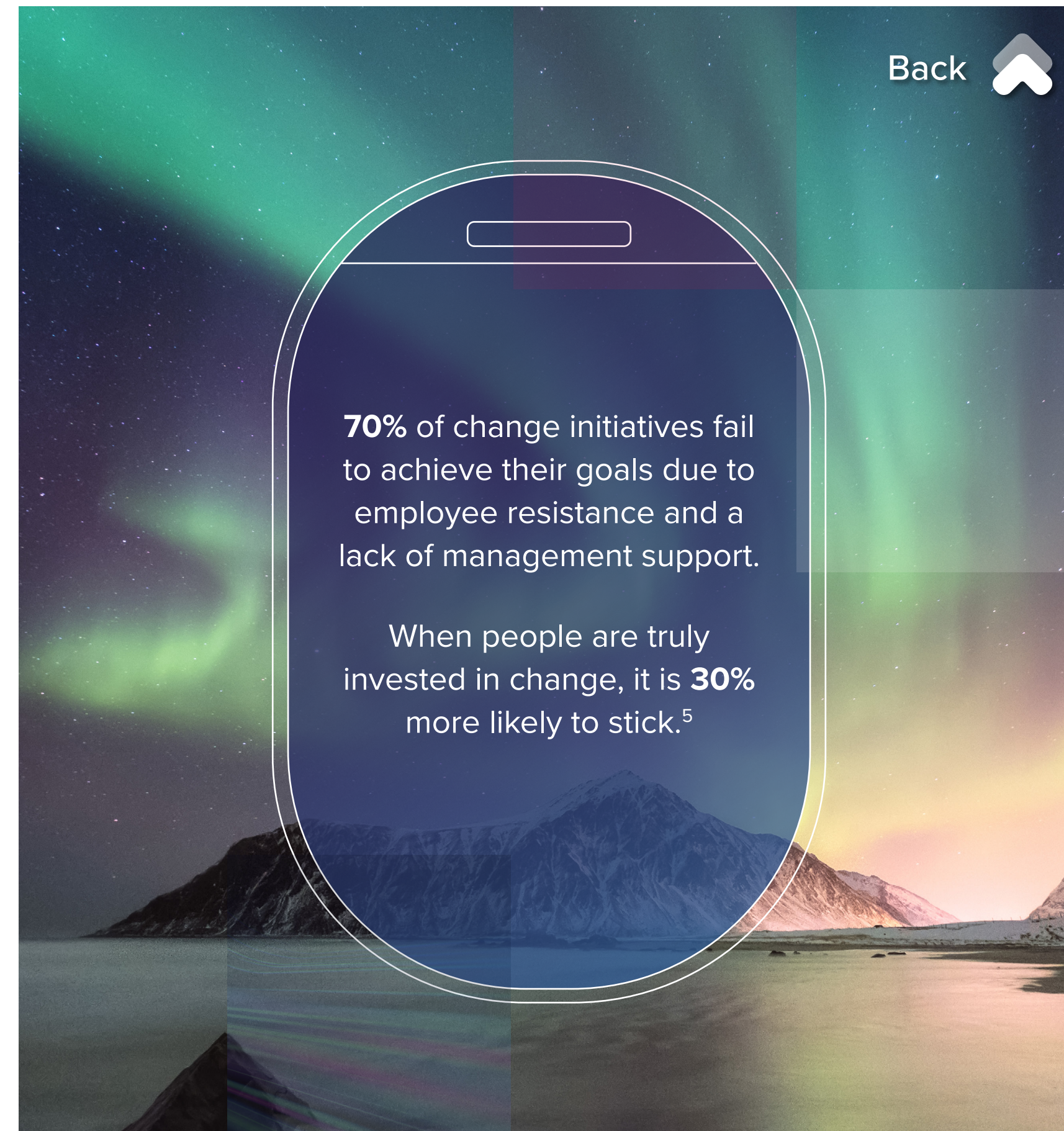


Resource Allocation and Cultural Resistance

Investment and resources have traditionally been focused on front-office innovation with value and impact measured against customer-facing activities. This leaves back-office functions underfunded and unable to keep pace with transformation initiatives elsewhere in the business.

At the same time, back-office teams tend to be risk averse by nature. This cautious approach goes deep and underpins the resistance to transformation that's playing out across the industry.

⁵Changing change management



Taking a Balanced Approach to Transformation Success

The challenges airlines face around legacy systems, distribution channels, compliance, and cultural resistance demonstrate the inherent complexity – and growing importance – of tackling back-office transformation head on. They also highlight the fact that getting this right depends on more than just introducing new IT architecture.

Granted, airlines will need to decouple from legacy infrastructure and platforms. This will include leveraging cloud-enabled orchestration platforms, microservices, and APIs to automate repetitive tasks and eliminate data silos. And they'll need to build the right data strategy to account for robust collection, storage, and analysis. However, even the most advanced systems and data models are nothing without employees and stakeholders that are prepared to take advantage of it.

To succeed, transformation will also depend on a cultural and operational shift to help employees understand how to leverage new technology to its full potential.

The Three Pillars of a Successful Back-Office Transformation



People

Redefining the role of employees. This will depend on robust change management and creating a culture that embraces technology as a tool for innovation.



Processes

Streamlining existing processes and driving integration. Transformation isn't just about new systems; it's optimizing existing workflows.



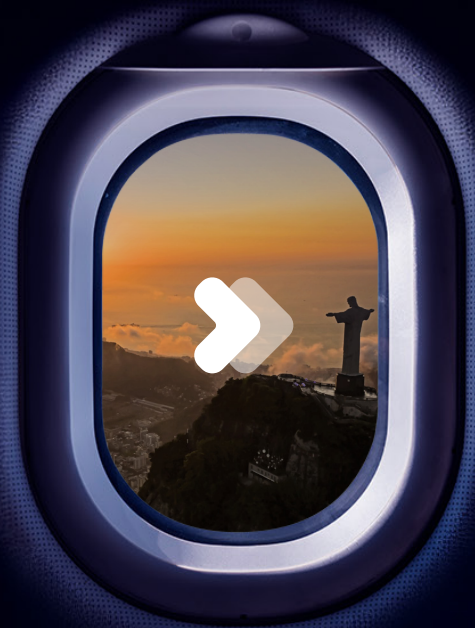
Technology

Leveraging modern tools and next-gen technologies such as AI across the business, enabling employees to unlock new levels of performance and efficiency.



IMPLEMENTING NEW END-TO-END BUSINESS OPERATIONS

Overcoming these challenges will require airlines to take a holistic approach to people, processes, and technology. Let's look at how those three pillars come together to impact key back-office functions, unlocking new efficiencies and enhancing business outcomes.



Revenue



Cost Management



Declaration



Revenue

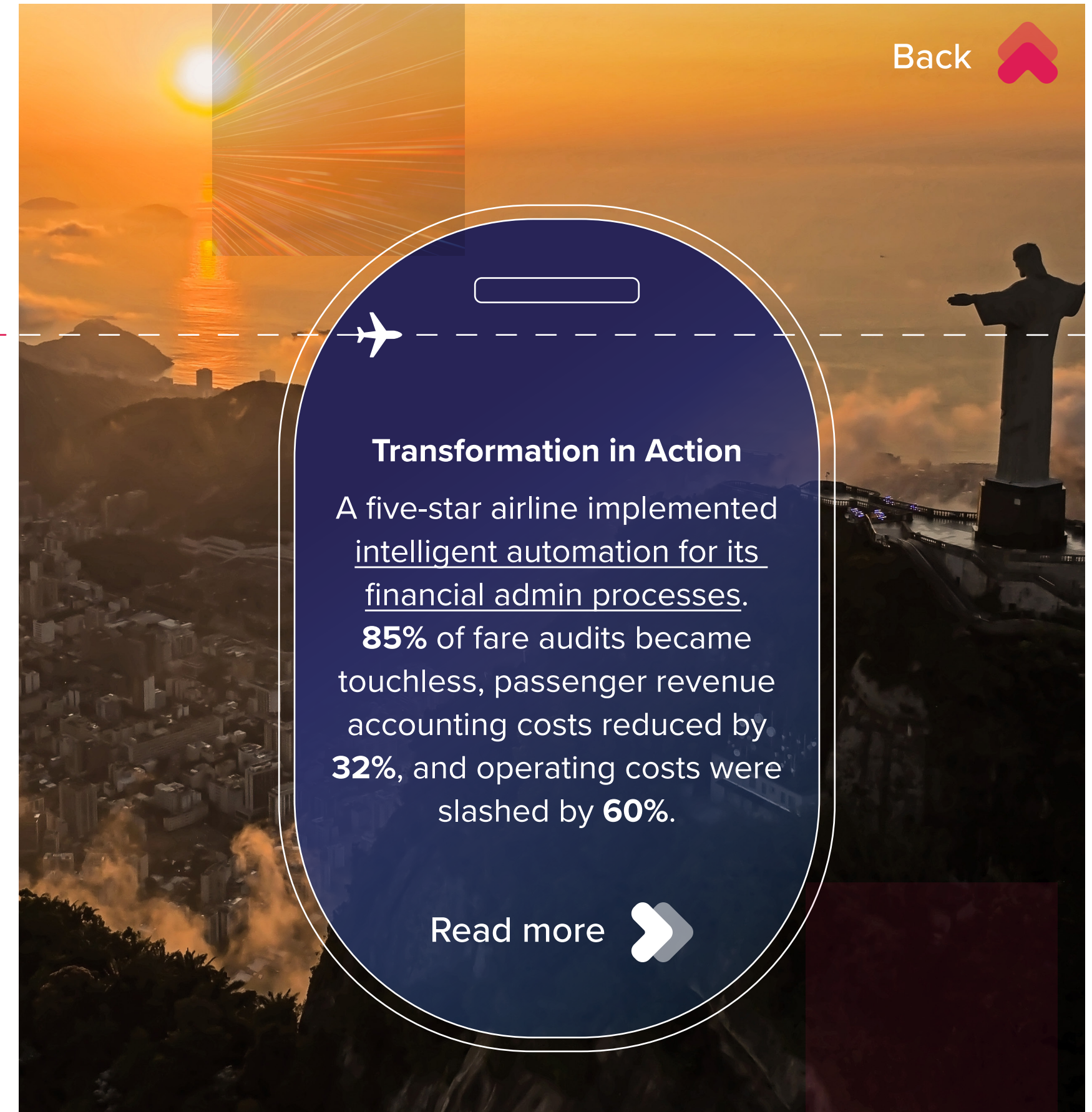


Order Accounting

Order accounting has long been complex. As airlines transition to modern retailing this complexity will only increase. Today, finance teams must manually parse multiple sources of data. As this data sits across several siloed systems, it's a heavily time-consuming task. Transactions often need to be batched and processed in cycles which creates additional delays. In the future, as the industry landscape evolves, finance teams will need to account for both traditional tickets and shipment sales and order transactions, meaning the volume and variety of data to be processed will increase significantly.

Transformation Benefit

By automating data collection and integrating disparate systems, airlines can gain real-time visibility into revenue streams. Leveraging AI and machine learning, it's possible to automate ticketing, shipment bookings, refunds, and tax calculations. This has the added benefit of significantly reducing the risk of human error while driving efficiency by minimizing the need for manual checks and reconciliations.



Cargo Accounting

Air cargo shipping has traditionally focused on air waybill-based tracking. However, the rapid expansion of e-commerce has significantly increased the demand for real-time shipment tracking and robust cargo accounting systems. Advanced tracking technologies, such as GPS, Radio Frequency Identification (RFID), and Bluetooth-enabled devices, have become essential in providing real-time visibility into shipment locations and conditions.

Transformation Benefit

In addition to tracking, the integration of comprehensive cargo accounting systems is crucial for matching physical items with their corresponding air waybills. Moving to One Record and optimizing cargo revenue accounting systems will ensure accurate billing, a reduction in errors, and streamlined financial processes within the supply chain.



Revenue Assurance

Much like order accounting, revenue assurance is a data-intensive process that's rife with inefficiency. Teams must spend time conducting manual checks and sifting through large volumes of data to identify potential fraud. Given how intricate modern retailing is, it's no surprise that a lack of AI-driven capabilities means a high risk of error, delay, and incomplete data.

Transformation Benefit

By leveraging machine learning and AI-powered detection, airlines can eliminate the manual burden associated with assessing revenue leakage. Patterns and irregularities can be automatically identified, freeing up employees to focus on higher-value tasks. A digital audit trail also helps streamline reporting and compliance, making the overall process more accurate and efficient.



Cost Management

Direct Operating Cost Management

Effective cost control is essential for maintaining profitability. From identifying unnecessary expenses to analyzing market trends and demand patterns to optimizing pricing strategies to maximize revenues, this is a heavily fragmented process. Significant manual oversight is needed, with employees having to poll several systems to collate the necessary information.

Transformation Benefit

AI and advanced analytics can streamline the process of monitoring and benchmarking consumption, rates and charges, tax application, and supplier performance. The net result is better visibility into direct operating costs and future expenses, streamlined employee workflows, and real-time access to the insights that business stakeholders need to inform decision making.

Asset Management

Asset management is another significant cost center for airlines. Legacy systems used for asset management often don't play nicely with new technologies or other existing platforms. This creates a data silo where one really shouldn't be, impacting overall operations. A key opportunity for transformation is real-time asset management – the ability to not only track assets seamlessly across the business but also proactively identify those that need replacement or upgrades. This capability is the "holy grail" for airlines, offering a way to stay ahead of maintenance needs and avoid unplanned downtime.

Transformation Benefit

Centralizing asset management through a modern, cloud-based system not only drives cost savings and operational efficiencies but also enhances the airline's ability to respond more nimbly to industry pressures, creating optimized and future-ready operations.

Back



Accounts Payable and Receivable

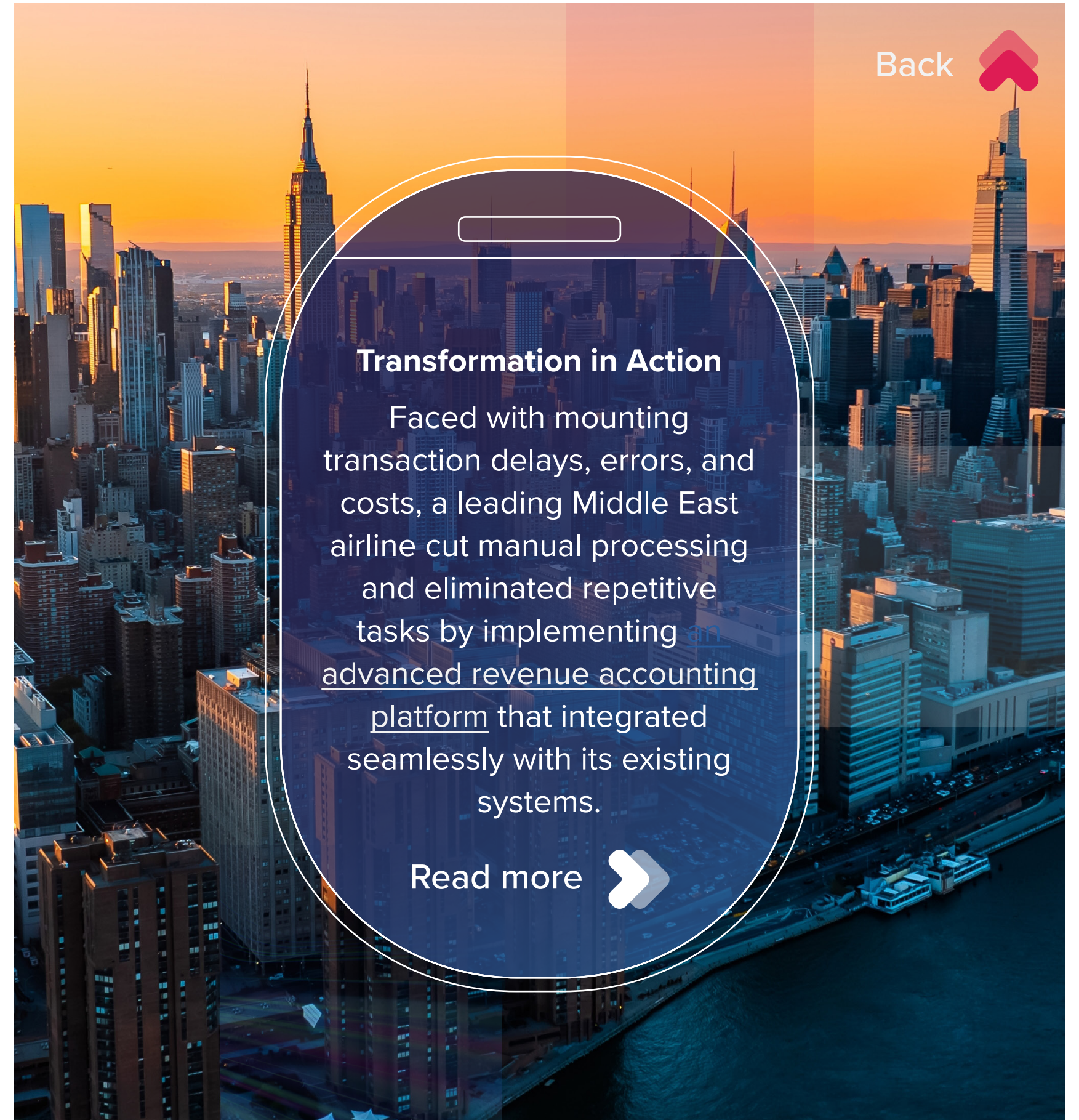
Payments are a well-recognized pain point for airlines. In fact, as highlighted by the IATA, this has long been considered a back-office cost center.⁶ In part, this is because airlines must deal with a sprawling network of players, but also because settling payments is another heavily data-intensive function. Huge volumes of information must be analyzed to discover discrepancies, and employees must work with inputs that span different regions, currencies, and suppliers.

Transformation Benefit

Intelligent automation can digitize these workflows. AI and Optical Character Recognition (OCR) technologies, for example, can extract data from an invoice, match it against a purchase order, and automatically route it through the necessary systems without the need for manual intervention. Steps like this to reduce overall payment costs could save the industry \$2 billion alone.⁷ Equally, system integration and advanced analytics technologies can give airlines deeper insight into revenue trends which can be used to optimize pricing strategies. process more accurate and efficient.

⁶Travel payments: unlocking their potential

⁷Airline retailing: How payment innovation can improve the bottom line





Declaration

GRC Management

The airline industry must comply with a range of complex regulations and standards across multiple territories – and the consequences of non-compliance are significant.

Transformation Benefit

AI technology can analyze regulatory documents to identify requirements for each territory, creating activity summaries, checklists, and compliance reports. This takes the administrative burden away from the human in the loop, letting them focus on ensuring adherence to industry standards that will help minimize the risk of violations.





OPTIMIZING FOR ADOPTION: EVOLVING THE EMPLOYEE EXPERIENCE

Technology and digital workflows are critical pieces of the larger puzzle, but ultimately are means to an end. True transformation will only happen when companies are able to implement new digital capabilities in place which means investing in organizational change.



Clear Strategic
Vision



Cross-Leadership
Alignment



○ Clear Strategic Vision

Employee resistance can derail any transformation effort. This makes talent, more than anything else, the component that will make or break the success of any such initiative. Routing around this means optimizing for employee adoption from the start. This is driven by business leadership that's clear on its objectives, ensuring everyone is on the same page and headed towards the same goal.

Leadership must not only explain the “why” behind transformation efforts, but empower back-office teams to understand their role in making it happen and to adopt a new way of thinking. Risk averse mindsets that have proliferated throughout the back-office must be encouraged to embrace different ways of doing things. Getting employees to think differently – and to embrace experimentation and agility in their roles – will be fundamental to evolving the employee experience in a way that optimizes for digital adoption.

Supported by comprehensive training, re-skilling, and up-skilling programs, this approach will equip employees with the skills they need while helping manage resistance and build competency for a smooth transition. Embedding the principle of continuous learning will also be important so that airlines can keep pace with new technological advancements.

Change Management Checklist



Understand the sources of resistance to tailor intervention strategies and training



Communicate the wider vision and benefits of change



Involve and empower employees, providing training and coaching



Manage the transition, implementing changes in phases to scale AI adoption



Build collaboration, instigating a cultural shift that embraces change



○ Cross-Leadership Alignment

A clear strategic vision and new way of thinking must be supported by cross-functional collaboration. To ensure that back-office transformation efforts deliver the expected outcomes, airlines should create project-specific teams that include experts from every back-office function.

Bringing together experts from impacted areas will enable faster decision-making while increasing overall co-operation and collaboration. This will help reduce the risk of oversight and drive change that's both effective and widely supported by employees.

For example, when implementing a new offer and order management system, it's critical to have the right stakeholders in the room from the beginning. This includes not just distribution and customer experience teams, but also finance, audit, and operations. Rather than simply presenting a strategy from distribution and asking for feedback from the others, all relevant parties can be engaged from the beginning to ensure comprehensive understanding of the proposed change and its implications.

The Finance Department of the Future

By recognizing and prioritizing the human side of change management, airlines will unlock the full potential of their teams to drive change and deliver measurable business impact.

Take the finance team of the future. Empowered by AI and automation, they won't just be responsible for reporting on the numbers. They'll be analytical storytellers that can bring data to life to show what those numbers mean for the business, and what changes can be made to increase profitability and drive revenue growth.



CONCLUSION

The airline industry is in the throes of a profound transformation. The entire air travel ecosystem is being rebuilt, and technology has been the driving force behind this change. Now it's time to apply this to the back-office too.

With the potential for finance to truly support customer centricity and innovation – and growing pressure to have full visibility on costs in today's complex operating landscape – there's no room for inaction. Airlines can no longer wait for the perfect conditions to start on their back-office transformation journey. Ensuring these initiatives are a success means addressing the underlying issues in tandem – upgrading legacy systems, getting a better handle on data, and setting up employees to embrace change.

The Sutherland ultra® suite makes this transformation easy, helping you meet both today's needs and tomorrow's requirements. With industry-leading domain expertise, Sutherland is a trusted partner to global brands delivering tailored, outcome-driven transformations that unlock digital performance and deliver measurable results.

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Unlocking Digital Performance. Delivering Measurable Results.

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