



Freek van Essen is corporate strategy director at Air France-KLM. He states that using scenario based strategy in the airline industry is not easy. Nevertheless Air France-KLM has created an option as an outcome of using scenario based strategy: biojet fuel as an alternative to fossil fuel.

This is the summary of his speech at the Scenario Based Strategy book launch at Nyenrode Business Universiteit, 19 June 2014

Biofuel as a real option

Why is scenario based strategy difficult in the airline industry?

The airline industry is a highly competitive, global and very volatile industry. If something happens in the world, no matter what, it almost always has an effect on airlines in terms of demand (and price levels), as well as cost levels. This causes the profitability margins in this industry to be thin. And this affects how people think; they tend to be very operationally driven focused on risk reduction and minimizing the impact of volatility. Long term investments can only be done once, since the margins are so thin. In those complex circumstances, decision-makers often prefer one truth about the future rather than the many options and uncertainties of scenario planning .

'Prius in the sky'

One could say that airlines are in the business of converting energy into moving people and goods to their destination around the world. Roughly one third of the expenditure of Air France-KLM is on jet fuel; the fuel bill is an astounding " 7.000.000.000 every year. Clearly, the price of oil affects the results of an airline heavily. The vulnerability for oil prices and the price volatility has made the airline industry creative. Like other airlines Air France-KLM tries to find ways to control fuel costs. A scenario project resulted in several scenarios; one scenario showed a world one in which the price of conventional oil and its volatility will not decrease, while environmental concerns will continue to rise. To mitigate the consequences of such a scenario, Air France-KLM has set itself a goal of 20 per cent reduction of CO₂ emission in 2020. New types of aircraft/propulsion could help to achieve this goal. E.g. research agencies such as NASA and manufacturers have commissioned studies to look at fully electric or hybrid aircraft. Like a sort of Prius in the sky these aircrafts use electric fans which are powered by one very efficient engine. Unfortunately we are not there yet. These technologies will probably not be readily available before 2050.



The alternative for fossil fuel: biojet fuel

As there will likely be quite some time in which the airline industry is still bound to liquid fuels, Air France-KLM has explored solutions in renewable jet fuel; also known as biofuel. You may recall the initiative of converting used cooking oil into jet fuel that generated a lot of public exposure. The initial plan was simply to buy the biofuel. It turned out, it simply wasn't for sale. Biofuels had been produced in a lab, but there were no companies producing it on a commercial scale. Also it was not certified, so it couldn't just be used in an aircraft as fuel. And with most of the infrastructure lacking, Air France-KLM, and in particular KLM, quickly realized that they had to build up a new industry and infrastructure; as oil companies did more than a century ago. KLM established SkyNRG, a company to stimulate and bundle demand of biofuel from different airlines. This created demand large enough to interest refineries to specifically refine batches of biofuel. One airline alone would be too small a customer for a refinery. SkyNRG was successful; more and more airlines could test the fuel, the biofuel got certified and the interest in biofuel has grown. The price obstacle - biofuel is two to three times more expensive than normal fuel - was partially overcome through another initiative: KLM invited business customers to pay a premium to support these biofuel flights which resonated well with their own CSR ambitions.

Fuel for change

Now, Air France-KLM has such a big foothold in this new world that they think they can turn it into a new business. They also see that the technology is gaining traction with more parties doing research and getting involved. The market is really changing and many different feedstock and ever more efficient conversion technologies are being explored. British Airways is e.g. involved in a production facility which will use the waste of London city to produce biojet fuel! Although there is no certainty on the future, a number of technology breakthroughs are expected within the next 5 to 8 years, which can bring biofuels at the same cost level as traditional fuels and thus making it a commercially viable alternative and a serious hedge for the future.

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Air France-KLM is now focusing on developing the supply chain (from well to wing). They recently launched BioPort Holland, an initiative to develop a full supply chain for biofuels with the goal of constantly supplying Schiphol airport with biofuel from a biofuel production facility in Rotterdam. BioPort Holland helps to further cement Air France-KLM's strategic position in the biofuel industry.

When planning for life, train and educate people

Although scenario based strategy is not always easy to apply in the airline industry, Air France-KLM continues to promote its use internally. Air France-KLM decided to constantly train and educate their management about strategy, because they want to foster a culture of strategic long-term thinking. A Chinese proverb says "When planning for a year, plant corn. When planning for a decade, plant trees. When planning for life, train and educate people."

The Dutch version of the book "Scenario based strategy" provides a solid foundation and a common language to talk about strategy. However, for an international company, using English as the primary language of communication, you also need the book in the common language. Therefore Freek van Essen is pleased that Paul de Ruijter's book on scenario based strategy is now available in English!

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