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Kenya Airlines: Soaring to Success

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With help from the Oracle Insight team and the Oracle E-Business Suite, Kenya Airlines dramatically reduced operational costs and improved efficiency and employee productivity across its global finance, human resources (HR), and supply chain functions.

The East African nation of Kenya is renowned for its unspoiled Indian Ocean beaches, its vast wildlife reserves, the magnificent Mount Kenya—Africa's second-highest mountain—and the largest tropical lake in the world, Lake Victoria. Kenya stretches over a vast 580,000 kilometer land mass and supports a population of nearly 39 million. Tourism brings in the largest percentage of its gross national product (GNP), and as a growth industry is fueling rapid business expansion throughout the country. Today, Kenya is one of Africa's largest and fastest-growing economies.

Kenya Atirways (KQ) is one of the key drivers behind the country's growing reputation as a leading tourist destination. Based in Nairobi, KQ emerged from the ashes of the collapsed East African Airways in 1977, before being privatized in 1996 and restructured as a for-profit commercial business. Today, KQ offers the most flights to African destinations of all global air carriers, and has become a prominent aviation hub for the continent.

Despite impressive growth and aggressive expansion plans, however, KQ was being held back by an aging IT environment. Dozens of legacy systems were only minimally integrated, making real-time data exchanges between different applications challenging. Key finance, HR, and supply chain functions dependent upon the outdated environment were slow and inefficient. This inefficiency in turn created higher operating costs, small margins, and less-productive workers.

In early 2006, KQ management brought in the Oracle Insight team to assess its existing IT system infrastructure and related business processes, and to make recommendations for improving them. By April, 2008., KQ had successfully deployed Oracle E-Business Suite modules within its finance, HR, and supply chain functions. The transformation was nothing short of spectacular.

KQ's finance department can now close its books within eight days of the fiscal year's end—a full day less than the industry average. Within HR, KQ significantly raised its employee-to-HR staff ratio to 436-to-1. This impressive ratio is nearly 2.5 times higher than those achieved by airlines considered best-in-class by global industry standards. And KQ now issues 80 percent of all purchase orders (POs) in electronic form, exceeding industry best-in-class standards.

A Brief History

Kenya Airways (KQ) has a long and rich history providing air transportation to and around Africa. Its roots can be traced to 1946, when the Kenya Colony, the Uganda Protectorate, and the Tanganyika Territory cooperated to establish a unified tax, currency, communication, educa-tion, and transportation infrastructure for the region. They also created the East Africa Airways Corporation (EAA), to provide much-needed air services within, to, and from Africa.

 This alliance kept EAA running throughout the political upheaval that characterized the region over the next three decades—including the establishment of the East African High Commission in 1948, the East African Common Services Organization in 1961, and the East African Commu-nity in 1967. When the East African Community collapsed in 1977 (it was subsequently revived in 2000), the government of Kenya, acting independently of its former partners, acquired many of EAA assets, including experienced staff and crew members. Kenya then formed KQ as wholly owned by the Kenyan government. KQ was designated the national flag carrier of Kenya, and from its first flight was a major source of pride to the emerging Kenyan nation.

In the late 1980s, looking to spur economic growth, Kenya decided to divest itself of publi-cally owned businesses that could be managed more effectively by the private sector. In 1991, it began transforming KQ into a for-profit commercial enterprise, and by 1993 the fledgling company successfully recorded its first profits. In 1995, after evaluating 154 leading global air carriers, KQ signed KLM as its "strategic partner," and issued its initial public offering (IPO) the following year. Today, KLM is the largest shareholder, with 26 percent; the Kenyan government continues to hold 23 percent ownership; and the remaining equity is cross-listed on a number of regional stock exchanges, including the Nairobi Stock Exchange, the Uganda Securities Exchange, and the Dar-Es-Salaam Stock Exchange.

Kenya Airways: From Public to Private to Profitability
· 1946: East Africa Airline formed by the governments of the Kenya Colony, the Uganda Protectorate, and the Tanganyika Territory
· 1977: Upon the collapse of the East African Community, Kenya acquired assets and staff of EAA and formed Kenya Airways
· 1992: The Kenyan government announced its Public Enterprise Reform Program, in which it identified 240 public organizations to be wholly or partly privatized. KQ was selected as one of the first government-owned commercial enterprises to go private
· 1993: First profits resulting from restructuring recorded
· 1995: KQ signed KLM as strategic partner
· 1996: KQ issued an Initial Public Offering (IPO), and began public trading of shares
· 1999: KQ voted African Airline of the Year by African Aviation Magazine, and Best Regional Airline in Eastern Africa by Travel News
· 2004: KQ won Best Domestic Airline 2003; Best Regional Airline 2002 and 2003; and Best In-flight Magazine 2002 and 2003 by Travel News & Lifestyle Magazine.
· 2010: KQ achieved full membership status in the SkyTeam Alliance and sets aggressive schedule for growth despite uncertain economic climate

FACT: Kenya Airways is headquartered in Nairobi, Kenya. It employs 4,355 workers worldwide, and reported revenues of KSH$70.7 million in 2010

Kenya Airways (www.kenya-airways.com/home)

Kenya Airways Today

Today, Kenya Airways is a truly global airline—a full member of the prestigious SkyTeam Alliance—that offers flights to more than 55 destinations in Europe, the Middle East, Asia, and the Far East. It operates more intra-Africa flights than any other African airline, with 32 aircraft, 4,355 employees. Despite recent global economic uncertainty, Kenya Airways achieved 2010 revenues of almost $US776 million.

Currently, more than 80 percent of revenues are derived from Africa and Europe, with over 50 percent coming from Africa. It hopes to offer flights to Latin America within the next three years, and intends to continue serving North America through its strategic partner KLM and affiliate partner Air France.

KQ has aggressive plans for growth in the coming years, even given the high degree of global economic uncertainty and escalating fuel prices. Although overall global airline industry profits are expected to plummet in 2011—from US$18 billion in 2010 to US$4 billion in 2011 —KQ expects to out-perform the industry. KQ estimates that it will boost revenues by nearly a third in this fiscal year, from US$923 million in 2009/10 to nearly $US1 billion in 2010 and 2011.

"Our approach was to improve airline processes by using the standard processes embedded in the new ERP application. We felt that changing our processes to match the application would be more productive than trying to change the application to suit our existing approach."

Kevin Kinyanjui, Information Systems Director, Kenya Airways

- Workflow-based recruiting process focused on the manager-recruiter-candidate relationship

- Self-service technology enabling major breakthrough in efficiency for both managers and employ-ees

- Sophisticated training manage-ment that automatically triggers alerts for outstanding certifica-tions

2006: Kenya Airways Faced Numerous Challenges

In early 2006, KQ realized its existing back-office IT infrastructure was not adequate given its aggressive growth goals. A chaotic and complex labyrinth of legacy systems had been installed over the decades. Although KQ had attempted to integrate these disparate systems together, data was still largely isolated in individual

"silos," and important business processes that required access to interdepartmental data were still being performed manually. As a result, key corporate functions—particularly, finance, hu-man capital management (HCM), and supply chain management (SCM)—operated inefficiently and ineffectively, especially when compared to other global airlines. KQ's ability to compete directly suffered as a result. KQ knew it needed to replace this sprawling architecture with an industry-standard enterprise planning (ERP) system for its finance, HR and supply chain func-tions.

Figure 1 shows KQ's IT environment in 2006, as it was before the Oracle "transformation." It pos-sessed four different "centralized" homegrown systems, and more than 30 peripheral solutions, which KQ had interconnected by deploying numerous custom "point-to-point" integrations. However, since not all of these dozens of systems could talk to each other, KQ employees need-ed to manually re-key significant amounts of data to move critical business information from one application to another. Many of the existing processes that allowed different KQ depart-ments to communicate with one another involved shifting paper forms from one employee's desk to another's. In many of these cases, individual users had stored unique data—data that was critical to the business—in standalone PC-based applications. In other cases, the same data had been entered into multiple databases or spreadsheets but not updated consistently or uniformly. All this made it impossible for management to get "one version of the truth," or make good business decisions despite the wealth of data being collected and stored.

These IT challenges impacted three critical corporate functions in particular: Finance, HCM, and SCM. The sections below describe the particular issues for each area.

<<FIGURE 1 INSERTED HERE>>

Focus on Three Key Functions: Finance, HR, and Supply Chain Management

These IT challenges impacted three critical corporate functions in particular: Finance, HR, and Supply Chain Management. Below we describe each function's particular issues.

Financial Management

Few applications are as critical to enterprises as financial management systems. Regardless of industry, today's businesses require powerful and integrated financial solutions that provide executives with accurate financial information in as close to real time as possible.

KQ did not possess these capabilities in 2006. Multiple, disparate financial systems that were not fully integrated—with each other as well as with key operational systems— created problems with data quality and data duplication. The lack of transparency into how money was flowing through the enterprise made creating and managing budgets a nightmare, much less reconciling budgeted and actual amounts paid for products and services. Any KQ employee seeking answers to financial questions were forced to manually extract numbers from multiple systems to create critical reports. This slowed down decision-making, and impeded the ability for KQ management to respond agilely to market dynamics. Cash flow suffered, since KQ lacked a centralized system for recording payments from "outstations," or airports from which KQ flights originate or to which they are headed. Overall the lack of automated support for a shared-service finance organization made managing financial performance extraordinarily difficult.

Managing payments from outstations was difficult and cash management as a whole was sub-optimal. Managing financial performance was a challenge as it was difficult to reconcile budgeted and actual amounts. To summarize, KQ simply did not have the robust, enterprise-class, and integrated financial IT platform it needed to compete effectively.

HR Management

The KQ HR staff performed most of their work manually. Very few day-to-day processes had been automated. For example, any time employees had questions about compensation, benefits, sick leave, vacation, or other HR matters, they had to call the HR department—there were no online resources or databases for even the most basic information for service requests. All requests for administrative leave, all performance reviews, and other administrative functions were paper-based. Paychecks were processed and delivered manually, on paper.

As a result of these and other inefficiencies, the HR department was always backlogged. Its employees struggled to keep on top of their most immediate duties. Addressing longer-term, more strategic concerns—such as improving the quality of workers being recruited, or doing a

"HR used to get hundreds of calls a week from staff. Now 80 percent of questions have been eliminated."

KQ HR Team

better job retaining key employees—proved immensely challenging. KQ knew that it lagged behind competitors in this area.

Additionally, the highly regulated airlines industry requires companies to carefully track employee certifications and training—something KQ found difficult given all the manual processes involved. And the lack of an automated system that allowed employees to get "self-service" answers to routine questions such as how many vacation days they had accrued, or what types of job openings were currently posted required HR personnel to spend valuable time fielding basic enquiries.

Because most of KQ's global competitors had already implemented automated HR processes with software-driven workflows, self-service capabilities, and Web-based learning management, KQ was at a distinct disadvantage in a tough marketplace.

Supply Chain Management

Finally, KQ's lack of adequate supply chain management systems and processes was limiting its ability to improve margins and manage suppliers effectively.

For example, all procurement was performed manually. This had numerous negative impacts on KQ's bottom line. For example, even replenishing stock of basic aircraft parts needed to complete routine maintenance, and running orders for food and other in-flight supplies that directly correlated to flight schedules and passenger loads was difficult due to the lack of integration between maintenance, flight schedule, and inventory applications. The long lead times required to generate purchase orders (POs) meant that inventory levels were higher than they needed to be (the annual number of inventory turns was just 0.7).

Also, since KQ buyers did not have access to either a centralized supplier database or records of past transactions, it was difficult to negotiate optimal terms with suppliers.

TRANSFORMING THE BACK OFFICE

KQ clearly needed a new, integrated ERP application suite to transform its existing inefficient finance, HR, and SCM business processes. In early 2006, as part of a competitive bidding process, KQ management brought in the Oracle Insight team to perform an assessment of its IT infrastructure and business processes; identify potential areas for improvement; recommend best practices; and develop a business case for making a major ERP investment in Oracle E-Business suite.

When the Oracle team completed the competitive evaluation in late 2006, KQ decided to move forward with the Oracle E-Business Suite. It purchased licenses for the Financials, Human Capital Management, and Supply Chain Management modules in May 2007, began implementation in October 2007, and went "live" with the new modules in April 2008. The project team consisted of 20 full-time KQ business and IT personnel as well as personnel from Oracle partner Mahindra Satyam (then known as Satyam Computer Services).

Transforming Finance

By implementing key components of Oracle Financials—general ledger, accounts payable, accounts receivable, cash management, treasury, and fixed assets—KQ was able to automate and integrate a number of financial functions that were previously either performed manually or by standalone systems. By doing this, KQ streamlined financial transaction processing; tightly integrated financial transactions with payroll to avoid double entry and reduce errors; accelerated invoicing; and achieved enhanced visibility into financial data enterprisewide.

Specifically, KQ was able to enhance the following financial functions:

· Financial accounting: KQ set up a single chart of accounts for its entire enterprise in which transactions from all sub-ledgers—such as accounts receivable, accounts payable, and fixed assets—are automatically recorded as transactions in the general ledger. Because all internal functions accessed the same financial platform, KQ achieved full visibility into its cash flow in real time, and was able to reduce the number of cost centers in the corporate chart of accounts. And by enabling automated payments and making accounts payable processing workflow-driven, KQ was able to migrate processing for all but two outstations to the head office within 12 months. At the same time despite KQ growing the number of outstations from 30 to 34, it was able to reduce headcount in the main office by 10 positions.

· Treasury management: Because KQ's accounts receivable and accounts payable forecasts are now electronically linked to its internal cash management systems, it can now manage cash flow much more efficiently. Additionally, KQ further improved cash flow by electronically linking its financial systems to those of all financial partners to enable automated processing of accounts payable, and by streamlining invoicing and electronic payments. With the real-time visibility KQ now has into its foreign exchange positions, and

"Even as our organization becomes more complex, we have dramatically reduced the time it takes to close our books. Also, we are able to spot any deviation from budget from our regular reports, and take appropriate actions right away."

KQ Finance Team

· Highly automated financial processing

· Real-time visibility into financials for better decision-making and sustainable financial discipline

· Streamlined invoicing, receipt, and customer deduction processing

· Integrated HR and payroll eliminating double entries and reducing potentially costly payroll errors

its ability to continuously monitor interest and exchange rates through links to external exchanges, it has significantly lowered currency and interest-rate risk.

· Planning and budgeting: Because KQ can now create financial plans and budgets much more dynamically, it is much more agile, responsive, and capable of seizing market opportunities. Strategic partners are kept informed when KQ revises its financial forecasts, making for a more collaborative and mutually beneficial relationship. Web-based data collection enables more rapid and accurate budgets, and automated workflow enhances the ability of finance professionals to work closely with employees from other KQ departments.

With all of this, KQ has seen dramatic improvements in its key financial metrics (see Figure 2).

Figure 2: Oracle E-Business Suite Enables KQ's Financial Transformation

<<INSERT FIGURE 2 FROM WORD DOCUMENT HERE>>

Making HR a Strategic Force within the Organization

To address both its current and its anticipated future HR needs, KQ implemented the following modules of Oracle Human Capital Management: Human Resource Management Core for basic HR functions; Time and Labor for tracking and reporting on employee and contractor hours worked; iRecruitment to automate KQ's recruiting functions; iLearning to support employee training and certification; Self Service to enable creation of self-service systems for employees that answer routine HR questions and perform routine HR functions.

By doing this, KQ was able to:

· Shorten recruiting times: With iRecruitment, KQ can now proactively forecast future demand for candidates; source candidates with appropriate qualifications; track their progress through the recruiting process; and manage the interview and approval process through automated workflows and notifications. Once hired, new employees are brought onboard quickly with automated workflow support and by providing them with self-service tools that streamlines hiring paperwork.

· Take full advantage of employee skills, experience, and availability: Time and Labor gives KQ the ability to understand and deploy its employees for maximum effectiveness. For the first time, KQ has a centralized single source of information for determining the availability of employees, and how effectively it is leveraging its employee base across all lines of business and geographies.

· Effectively manage payroll, benefits, and employee performance: By automating payroll processing, and providing its HR administrators with tools to set up and manage benefits, KQ can now more effectively manage employees. Because of the transparency the Oracle application provides into such things as employee evaluations, salary, benefits, and bonuses across the enterprise, KQ can tie incentives and rewards directly to performance at both the individual and job role levels.

· Lower administration costs with self-service systems: By creating a self-service HR "portal" that let employees do such things as maintain personal data, view payslips, enroll and manage benefits, view vacation days, KQ was able to reduce HR paperwork and significantly reduce headcount. The portal also empowered employees to take charge of their career paths by developing individual development plans.

· Drive improvements through insights into HR performance: With a single repository for HR data and a variety of built-in reports for HR performance, leadership at KQ is able to make faster, better decisions with enhanced visibility into HR metrics.

"We do not print pay slips anymore. Everything is online!"

KQ HR Team

· Treasury management: Because KQ's accounts receivable and accounts payable forecasts are now electronically linked to its internal cash management systems, it can now manage cash flow much more

· Purchase requisitions now ag-
  gregated and assigned automati-
  cally to contracts and buyers

· Sourcing supported by relevant
  data such as supplier, historical
  data, volumes, and deliveries,
  and by suppliers' rankings based
  upon relevant criteria

· Significant increase in procure-
  ment system coverage outside
  the procurement department

KQ has seen strong improvements in key HR metrics with the HR transformation (see Figure 3).

Figure 3. KQ Improvements in HR Metrics Thru Deploying Oracle Human Capital Management

<<INSERT FIGURE 3 FROM WORD DOCUMENT>>

Transforming the Supply Chain Into a Competitive Advantage

KQ drove transformation of its supply chain by implementing the inventory management, warehouse management, order management, procurement, sourcing, contracts, and supplier intelligence modules of the Supply Chain Management module of Oracle E-Business Suite

This provided KQ with much greater visibility into its supplies requirements; automated its procure-to-pay process; reduced inventory; and eliminated sub-par suppliers based on quanti-tative performance metrics.

Today, it takes KQ professionals less than a minute to create a PO. It has instituted a firm new rule: No contract, no payment. As a result, 80 percent of all procurements now have POs, and KQ management has sufficient information to accurate predict procurement needs a full 15 months in advance.

Supply chain improvements included:

· Demand planning: KQ has a comprehensive view of demand as demand data received via EDI is aggregated across all trading partners. The aggregate demand is revised with input from internal functions into a consolidated demand forecast that drives procurement operations.

- Procure-to-pay: By creating a centralized supplier catalog, KQ enabled authorized employees to create POs using self-service tools and use automated workflow to get the necessary approvals. They could then send them via electronic data interchange (EDI) to suppliers. Additionally, by enabling electronic bill presentment, electronic verification, and automated matching of POs with invoices and inventory receipts, KQ can now streamline payment processing.
- Inventory management: KQ was able to improve the accuracy of and visibility into inventory levels by tracking inventory receipts, issues, stock movement, and cycle counts.
- Supplier management: The Oracle E-Business Suite provided KQ with vastly improved insight into supplier performance. Its employees could immediately retrieve a supplier's scorecard, through either ad-hoc querying or by generating standard reports. Then, by integrating performance-based sourcing with a central supplier catalog, KQ was able to assign POs to suppliers based on their scorecards.

KQ saw dramatic improvements in its SCM metrics with this supply chain transformation (see Figure 4).

<<INSERT FIGURE 4 FROM WORD DOC HERE>>

"We now have full visibility into our invoices and cash positions."

KQ Finance Team

SOARING EVER HIGHER

With the help of Oracle E-Business Suite, KQ has managed to exceed best-in-class industry metrics across finance, human capital management, and procurement functions. Its investment has already returned an NPV in excess of US$10 million and a return on investment (ROI) of more than 200 percent. (See Figure 5.) KG also transformed itself into a best-in-class global airline (See Figure 6.)

Figure 5: The Advantages of KQ's Oracle Investment

<<INSERT FIGURE 5>>

Figure 6: Key Transformation Benchmarks

<<INSERT FIGURE 6>>

"We have dramatically improved productivity and significantly lowered our administrative costs with the implementation of Oracle E-Business suite."

Quote Author: 100M/100Y, U55 Roman, 7.5pt / 9pt, CIO, Kenyan Airlines / 9pt.

With Oracle E-Business Suite powering its back-office operations, KQ now has a foundation that can support its aggressive growth goals. Today, the "Pride of Africa" is poised to advance its position as a global airline dedicated to quality of service, innovation, and customer satisfaction within and beyond the African continent.

CONTACT US

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