

# Digital transformations can solve real-world problems

Published 23 January 2023

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We are all familiar with the realignment of expectations that has befallen the share prices of many companies focused on Software-as-a-Service (SaaS) during 2022. While it is important to gather and analyse all possible statistics, we think it's also essential to consider the real-world problems the services of these companies can help solve. If the solutions have value, we believe this is the core reason why, in the next cycle of strong performance for growth companies, there is potential for a rebound.

## **US holiday travel in 2022: Southwest Airlines has particular trouble**

The last few weeks of December typically bring people lots of excitement, as there are many gatherings of families and friends around different holidays. As travel plans were expected to peak in 2022 across the US, there was a sudden burst of severe weather, yielding significant snow and ice in many states and many subsequent flight delays and cancellations. Whilst annoying, massive snow storms across the midwestern and north eastern United States are not outside the realm of normal expectations in the month of December.

However, it was noticeable that, even after weather conditions had eased, Southwest Airlines was still cancelling many flights—approximately 70% of its schedule on 26 December 2022, while other airlines were coming out on the other side of the foul weather event<sup>1</sup>.

Was there anything unique happening at Southwest Airlines? The problems did in fact draw the attention of the US Transportation Department. Transportation Secretary, Pete Buttigieg, said, “[On 28 December 2022] Southwest cancelled 59% of its flights, while other major airlines cancelled 3%...Inadequate computer systems made it difficult to shift crews to where they were needed most.” Those statistics alone tell us that something more than the weather event must hold the explanation<sup>2</sup>.

As we were writing this blog, and as the situation continued to evolve, it was published that the cost to Southwest Airlines of this particular issue could be in the range of \$725 and \$825 million. Southwest cancelled roughly as many flights in the last 10 days of 2022 as it did in the 10 months prior. It's also notable that the airline's net income for the first nine months of 2022 was \$759 million<sup>3</sup>.

Mathematically, this period of 10 days cost Southwest the picture of its 2022 operating results; instead of anything positive, this is what will be remembered for this year.

## **Introducing SkySolver: the dilemma of patching vs. revamping software systems**

If you fly frequently, you might develop a mental checklist that tells you the true state of your upcoming flight. Seeing an actual plane at the gate? Tick the box. Seeing pilots and flight attendants board the plane? Tick the box. When boxes remain unchecked, your gut starts to feel the annoyance that comes with a delay...or worse.

Southwest relies on crew-assignment software called SkySolver<sup>4</sup>. Like any software, there is an expected, reasonable lifespan over which the software could be expected to, with appropriate modifications, provide solutions to the problem for which it was designed. Given that the world tends towards greater complexity, so to must software tend towards greater and greater capability.

As you cannot straddle the chassis of a vehicle with unlimited modifications over time, you also cannot straddle the foundation of a software program with an unlimited string of updates. Eventually, it makes more sense to build something new.

During the December 2022 storm, SkySolver could not handle the task of matching crew members to the flights that they should work. The software was not designed to solve problems on that scale, and Southwest's operations could be more complex than those of other carriers due to how Southwest does not use the same 'hub-and-spoke' flight network that is more the industry standard<sup>5</sup>.

The solution in late December 2022: Southwest reverted to manual scheduling!<sup>6</sup>

If any company faced with a software issue is forced to go back to manual operations, it should be clear that more problems will be coming. One cost that people pay close attention to is money, but the other is time, and the primary benefit of software-based solutions is the saving of time.

### **Airline operations: slow to adopt new technologies, and lots of historical silos**

Frequently, airlines will work with software vendors in singular aspects of their operation. There might be one group responsible for the things customers see—like the application available for smartphones. There might be another group responsible for aircraft maintenance. There might be another group responsible for crew scheduling. If everything is working normally, there are no problems. Once there is a disruption, problems can compound because each of the systems may be siloed, unable to communicate in real time with other systems and requiring manual interventions<sup>7</sup>.

### **Cloud computing has offered solutions in high pressure, high consequence situations**

If we are looking for proof that cloud computing is up to the standard of providing feasible, working infrastructure in high consequence problems, there are myriad cases. Two examples include:

- In February 2021, Google Cloud announced 'Intelligent Vaccine Impact solutions', which was meant to help communities push the COVID-19 vaccine to more people, more efficiently. It was also the case that Google Cloud was helping with information, scheduling, and data analytics<sup>8</sup>.

- ‘Russian missiles can’t destroy the cloud.’ State registers and databases are critical information infrastructure. While many of the large cloud providers have worked to help Ukraine, Amazon Web Services, in particular, was helpful in uploading and then securing essential data quickly in the earlier stages of Russia’s invasion<sup>9</sup>.

### **Airlines are adopting cloud solutions (each at their own pace)**

We were curious to see if other major US airlines had made any announcements of partnerships with the big cloud providers, since cloud computing is not brand new and we have seen announcements of partnerships in other industries, like financial exchanges.

- In July 2022, Delta announced a multi-year deal with Amazon Web Services that aims to revamp the end-to-end travel experience for its passengers<sup>10</sup>.
- In December 2021, United Airlines announced Amazon Web Services as its preferred cloud provider. United will tap into machine learning, databases, analytics, computing, storage, and security capabilities from the cloud provider. It was also noted that United installed Amazon SageMaker to forecast irregularities in operations and gain insights for improving customer service, baggage routing, and flight scheduling<sup>11</sup>.
- In May 2022, American Airlines announced Microsoft Azure as its preferred cloud provider for airline applications. American is already working with Azure’s artificial intelligence, machine learning, and data analytics for gating decisions at the 136 different gates operated at its Dallas Fort Worth hub. The concept involves augmenting manual decisions made by gate planners with Azure’s ability to look at multiple data points simultaneously for the hundreds of American Airlines daily arrivals<sup>12</sup>.

While each airline may be on its own respective journey, it’s clear that the industry could be said to be familiar with cloud computing and the possible benefits to be had from working with some of the large providers. The system that could be built today would look significantly different than that which would have been built 20 years ago.

### **Bottom line: the world’s digital transformation is a marathon**

I admit that sometimes I find myself thinking—what problem exists that I cannot solve on my phone, computer or some combination of the two? This must mean that the world has been digitally transformed, telling us that the future runway may be shorter. However, when we see the announcements—and the different airlines mentioned in this blog are a mere microcosm of the broader world—they are not years and years back in the past and they are not signalling completed projects. They are initiations, and they are confined to specific functional areas rather than entire operations. Many of the deals we see for such partnerships are measured in years, predicting further capabilities might be added at different points in the future. Even if the COVID-19 pandemic pulled forward certain types of software oriented solutions, a large array of further opportunities remain.

1 Source: Josephs, Leslie. “Southwest warns of more flight cancellations as meltdown draws federal scrutiny.” CNBC.com. 26 December 2022.

2 Source: Raden, Neil. "What just happened to Southwest Airlines? A cautionary tale about underfunding key IT technology." Diginomica. 3 January 2023.

3 Source: Chokshi, Niraj & Peter Eavis. "Southwest's Meltdown Could Cost It Up to \$825 Million." The New York Times. 6 January 2022.

4 Source: Lin, Belle. "Southwest Meltdown Shows Airlines Need Tighter Software Integration." Wall Street Journal. 2 January 2022.

5 Source: Lin, 2 January 2022.

6 Source: Lin, 2 January 2022.

7 Source: Lin, 2 January 2022.

8 Source: <https://cloud.google.com/blog/topics/inside-google-cloud/how-google-cloud-is-supporting-covid-19-vaccination-efforts>

9 Source: [https://www.theregister.com/2022/11/30/ukraine\\_cloud\\_migration/](https://www.theregister.com/2022/11/30/ukraine_cloud_migration/)

10 Source: Donnelly, Caroline. "Delta Airlines signs multi-year cloud deal with AWS as customer experience revamp gather pace." ComputerWeekly.com. 13 July 2022.

11 Source: <https://www.airport-technology.com/news/amazon-web-services-cloud-provider-united-air-lines/>

12 Source: <https://www.aviationtoday.com/2022/05/19/american-airlines-microsoft-azure/>

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