



'September, an important month for KLM'

In my column of 24 July, I had a closer look at our results for the first half of 2015. The title was, "We worked hard during the first half. Now, let's press ahead and post results in the second half." KLM's results were down to a loss of EUR 79 million compared to a loss of EUR 34 million during the same period of the previous year. The downturn was largely the result of an increase in pension costs and unfavourable exchange rates. The results, adjusted for these effects, were more or less stable.

The second quarter saw an increase in productivity and a minor drop in costs per unit. The first visible effects of all our efforts during the first half of 2015 included:

- a variety of initiatives involving ancillary revenues (economy comfort, sales via social media, etc.);
- real cost savings—about EUR 61 million;
- mobility—both internal (about 250 people) and external (Voluntary Resignation Scheme involving about 120 people);
- bottom-up process using Lean Six Sigma and the CEO mailbox.

These efforts are bearing fruit, and we can see it in the results, but it is by no means enough. We must press on!

In my following column (11 August) I offered greater substance to what we can expect in the months to come. September will be an extremely important month for KLM as we plan to implement a number of initiatives.

Implementation

This month, we will have to introduce three new Collective Labour Agreements. This is absolutely necessary if we hope to achieve our goals and—perhaps more important—to create a healthy, profitable company as a whole. KLM is preparing for the next phase in its history: "The world is changing and we're changing with it." This is where the new collective labour agreements come in. The agreements at hand will lead the way.

The first of these is the collective agreement protocol with the pilots, which the trade union officials will submit to its members on 4 September. Under these agreements, pilots will have to work more and longer using an adjusted Duty and Rest Schedule. Furthermore, retirement age will advance from 56 to 58 years of age. This last point is an important one in reducing costs for KLM.

During the following week, scheduled for 9 September, the multi-table is on the programme. Its purpose is to create maximum transparency for the eight labour unions concerning the agreements within the various domains. The collective agreements will have a different effect on each individual. It is extremely important to KLM that the accord is ratified so that the collective agreements can be introduced.

Bottom-up

The bottom-up process, for which the CEO mailbox is just one element, is starting to bear fruit. Since its opening, more than 1600 KLM staff have found their way to the

mailbox. I think that's a pretty impressive number. Some emails ask, "Will this help us to save KLM?" To which I would have to answer, no, each individual idea will not save the company but, yes, the total number of ideas will have a powerful impact. They will add to our revenues and to our visibility throughout the organisation. So far, we have achieved close to EUR 8 million in savings company-wide.

Developing HPO

HPO stands for High Performance Organisation. Making adjustments to KLM's organisation is needed to make the company leaner, more resilient, more efficient, and more client-focused. In this way, we will create an all-new KLM. In September and October, we will see new designs for most business units and support functions.

We have discussed the HPO project with members of the Works Council during a number of sessions. We explained that HPO has a number of aims:

1. Our organisation has to function in such a way that we always keep our promises to our customers. KLM staff are of enormous value in the battle against our competitors. Our staff must be prepared—every day—to make a difference to our customers and, in so doing, to win the competitive battle.
2. We must improve our cooperation within the company. We can do that if we make the organisation simpler and more efficient by breaking down silos and working across department lines. But it also means that staff have to be willing and able to take greater responsibility. This—in turn—will result in greater involvement in the company.
3. What is more, HPO must ultimately result in far-reaching cost-savings. We plan to reduce the number of layers of management, we will centralise support functions, and reduce staff numbers. During Transform2015, we reduced the number of non-frontline staff by 9%. In other words, shaving the odd process here and there will no longer be sufficient. From now on, we will have to cut more deeply in order to make changes.

This will lead ultimately to a more efficient company and a KLM with less staff. It won't be easy and it may even be painful, but it is absolutely necessary to our company's future. Of course, wherever possible, we will try to find other jobs at KLM for people who can no longer continue to perform their current jobs resulting from HPO. We are in deliberation with the Works Council in an effort to revamp our agreements concerning internal mobility. Nevertheless, this will not be sufficient by itself. For that reason, we are creating the first outlines for a transition centre. I will be able to provide more information about that later this month.

We are in deliberation with the Works Council in an effort to revamp our agreements concerning internal mobility. We have also been in discussion with parts of the Employee Participation Council about HPO. We will also bring it up with the labour unions. I can only imagine that this will bring up a whole host of questions, but I believe it is important that we take extreme care in every step we take.

In conclusion, we are on the right path, but there is still much to do. We will proceed together with openness and transparency. Some amount of uncertainty—as troublesome as that may be—is unavoidable. But that cannot—it must not—deter us from the changes we so badly need to make.

