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GATE GOURMET

Case from the Research Division of Instituto Internacional San Telmo, Spain. Prepared by professor Enrique Garrido Martínez from the Instituto Internacional San Telmo with the collaboration of research assistant D^a. Anylú Vidal Romero, for strict use in the classroom and not as an example of correct or incorrect management of a specific situation.

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GATE GOURMET¹

"The starting point for improvement is to recognise the need".
Masaaki Imai, father of the Kaizen philosophy, or continuous improvement

At the beginning of February 2014, David de la Torre was getting ready to board the plane to London, just as he had been doing every week for some time. David had been General Manager of Gate Gourmet in Spain (GGE) since 2008 and had recently been appointed General Manager of the UK and Ireland (whilst keeping his position in Spain). David knew that he had mainly been chosen for the post for having successfully installed the *+Madrid* project in Spain.

Once he was in his seat he decided not to open his lap top but to take advantage of the trip to reflect on the last three last frenetic years, but even more importantly, he wanted to get his thoughts together as far as the future of the company was concerned. Once he was in London he was to attend an important meeting where he was going to have to make a decision as to where the Spanish subsidiary should head now, amongst other things. He had a two-hour journey stretching ahead of him and several questions going round in his head:

"After the experience of setting up +Madrid, he wondered; did we really achieve the change in mindset that we needed? Will it last? How should we continue progressing in terms of continuous improvement? Is our business model sustainable, considering current demand and future expectations? Or will we have to diversify towards other lines of business? Given the situation of the airlines business, realistically speaking, what perspectives do we really have?"

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BACKGROUND

Gate Group and Gate Gourmet Spain

Gate Group was the biggest, worldwide, independent provider of products, services and solutions for passengers' on-board experience. The group, whose headquarters were in Switzerland, specialised in supplies and logistics of products and services on board. The main airlines were amongst their clients and their business was divided into "*Airline Solutions*"² and "*Product and Supply Chain Solutions*"³. *Gate Group served over 200 million meals a year to more than 270 customers in some 120 airports all over the world, with a total turnover of nearly 3 billion Swiss francs*⁴

Gate Gourmet España (GGE) was the Spanish subsidiary. They started operating in 1978 as a 100% state-owned company, which was then taken over by Iberia⁵. After that, in 1985, they changed their name to Iberswiss and the management was taken over by Gate Gourmet, who had 30% of the shares, whilst the rest remained in Iberia's hands. As from 2004, the company belonged 100% to GGE. This change in shareholders coincided with Iberia cancelling the free catering service that they provided to economy classes in short haul flights. A contract was signed with Iberia for them to provide exclusive services for a period of seven years.

GGE's main activities were the purchasing, preparation, transformation, production and distribution of food, beverages and other catering products and services that were demanded by the airlines. The catering services included both supplying the products that were provided to the passengers and crew, as well as transportation, loading and unloading operations; and other operations that were needed for the supplies on board.

There were two types of catering service:

- **Traditional Catering Service (TCS):** This was where the catering services were included in the price of the ticket. The airline was responsible for buying and paying for the services that were offered to the passengers. This service was divided into *Premium* meals (for *business* class and First Class) which help position and differentiate them in the sector, and Economy Class, which provided volume. TCS represented over 80% of GGE's income.

² This included everything related to the airport's activities: food preparation, loading and unloading of the aircrafts, etc. In 2013, *Airline Solutions* represented 82% of the income and 79% of Gate Group's EBITDA

³ They dealt with the design, provisioning and delivery of the products to the airline, mainly concentrating their activities away from the airport, such as global supplies and solutions for the supply chain, ready-made and pre-packaged food, and the design and production of serving utensils for passengers, and supplies for hygiene products, etc.

⁴ Approximately some 2.4 billion Euros

⁵ A Spanish airline founded in 1927. In 2014 it was the leading airline in passenger traffic between Europe and Latin America. The headquarters was in Madrid and they had been quoted on the Madrid stock exchange from April 2001 to January 2011. After the merger with British Airways, it was replaced by its mother company and sole owner, *Airlines Group*.

- On Board Paying Services (OBPS): This referred to catering services that were not included in the price of the ticket. If the passenger wanted food and/or beverage, they had to buy it on board as an additional service. And although it was sold and charged by the crew members, the payment was made to GGE.

GGE carried out their activity in two production centres that were located in the Adolfo Suárez – Barajas (Madrid) airport and El Prat (Barcelona).

THE GENERAL CONTEXT AND GATE GOURMET IN SPAIN IN 2010

Air transport was a vital activity for the Spanish economy. The tourist sector was the biggest sector and three out of every four tourists came to Spain by plane. The Madrid airport closed the year in fourth position in Europe, in terms of air traffic, and Barcelona came in tenth position⁶. In addition to that, due to its geographical location in the far south of Europe and the fact that Spain had two Archipelagos (The Balearic Islands and The Canary Islands), air transport was critical for Spain. Exhibit 1 shows the evolution of passengers in Spanish airports.

The sector was mainly driven by the airline companies as the rest of the companies in the industry depended heavily upon them. The deep financial crisis that shook Spain from 2008 had conditioned many decisions in recent years. The change in consumer habits and the way the low cost⁷ phenomena had set in was affecting the airlines very badly. Exhibit 2 shows the evolution of the passengers in the five main airlines.

The overall decline in the number of flight passengers had led to bankruptcy of some airlines, mergers or alliances among others, and also certain passenger services were eliminated, which, in turn, had a negative effect on the number of trays required by the airlines. The only airlines that had actually increased the number of passengers were Ryanair and Vueling, both low cost companies.

Under circumstances, the traditional airlines began to take measures, such as reducing the number of inefficient routes, creating low cost subsidiaries or carrying out mergers and alliances. As a result, this led to a certain number redundancies.

“Despite such a negative context and the uncertain future that we were now facing, most of the workers’ mindset was still firmly entrenched in the past. It was very difficult to change the way people worked and the atmosphere that prevailed in the corporate culture was very similar to that of the main client, Iberia, which was an obstacle to growth as an organisation. The general feeling in the atmosphere was that there was little interest in changing the working routines, especially amongst

⁶ Source: AENA Spanish Airports and Air Navigation. This is the public company responsible for civil air navigation and the civil airports in Spain.

⁷ Generically, the *low cost* business models were called so, as they opted for offering a relatively low price to the consumers, usually focusing on the most basic benefits of their value offer and developing highly efficient operating models.