U.S. Airline Industry
COVID-19 & Seating Redistribution

Fall 2021
Presented by Roger Cheng
# Industry Overview

## Key Industry Statistic

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td><strong>Numbers of U.S. Airlines</strong></td>
<td>59 (18 are major)</td>
</tr>
<tr>
<td><strong>2019 Annual Revenue</strong></td>
<td>$248 billion</td>
</tr>
<tr>
<td><strong>U.S. Industry Ranking</strong></td>
<td>104th</td>
</tr>
<tr>
<td><strong>2020 Annual Revenue</strong></td>
<td>$130.85 billion</td>
</tr>
<tr>
<td><strong>2019 Annual Passengers</strong></td>
<td>926 million</td>
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<tr>
<td><strong>Overall Debt</strong></td>
<td>180 billion</td>
</tr>
<tr>
<td><strong>Annual Growth Rate (2021-25)</strong></td>
<td>29.07%</td>
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<tr>
<td><strong>U.S. Transportation and Warehouse</strong></td>
<td>4th</td>
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## U.S. Airline Industry Background

The U.S. has the largest air travel market of any single country. Its geography and the lack of a high-speed passenger rail network stimulate a substantial demand for domestic flights. Moreover, the U.S. plays a pivotal role as a hub for intercontinental travel.

## Market Share Distribution

- **American Airlines** 19.3%
- **Delta Airlines** 15.5%
- **Southwest Airlines** 17.4%
- **United Airlines** 12.4%
- **Spirit Airlines** 5.8%
- **Alaska Airlines** 5.3%
- **Others** 24.3%
Identified Issues

**COVID-19 Permanent Impact**

- COVID-19 leads to less business travel
  - Traveling restrictions and requirements
  - People value health precautions
- Proliferation of remote meetings
  - Remote work is more flexible and safer
  - In-person meetings are time-consuming
- Demand for business travel will not go back to pre-pandemic level

**Rough Estimate**

9/1/2021 Portland-Paris United Airlines

- Passengers 60%
- Economy Class 44%
- Business Class 11%
- Premium 4%
- Others 40%


**Potential Loss**

- Business travelers account for 12% of airlines' passengers, but they are typically twice as profitable.

**Seating Distribution**

- Oversupply will be a concern for business class.
Potential Solutions

- New strategy for seating
  - Lower the supply for business class
  - Increase the supply for premium-econ class
  - Larger space, tickets price increase
  - Personalization AI data analytics
  - Additional services

Generate more revenue with a new business model
## Potential Solutions

### Key Insight

- Premium economy seats overtake business as the most profitable class on a per square foot basis.
- The ability to personalize the travel experience is a critical differentiator for airlines today.
- Airlines should diversify the services and supply of premium-economy seats and provide fewer business-class seats with a higher quality of personalized services and luxury experience.

<table>
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<tr>
<th>Pros</th>
<th>Cons</th>
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<tbody>
<tr>
<td>1. Adapt to the new trend while generating more revenue potentially</td>
<td>1. There’s the risk that business travel demand might come back in the long run</td>
</tr>
<tr>
<td>2. Attract new consumer base</td>
<td>2. People might prefer economy-class over premium-economy during short haul flight which will make the supply surpass demand</td>
</tr>
<tr>
<td>3. Business travelers will be willing to travel again with safer and more private space</td>
<td>3. AI analytics and seating redistribution is a costly investment</td>
</tr>
<tr>
<td>4. AI analytics will enhance customer retention and loyalty</td>
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</table>
The U.S. airline industry encompasses a wide range of airlines, which offer air transport services for paying customers or business partners. Air transport services are mostly provided via jets for both travelers and cargo, although some airlines also use helicopters (Revfine, 2021). The United States has the largest air travel market of any single country with more than 926 million passengers being transported in 2019. U.S. passenger airlines are some of the largest in the world with American Airlines (19.3%), Delta Air Lines (15.5%), and United Airlines (12.4%) being among the largest (Mazareanu, 2021). The U.S. geography and the lack of a high-speed passenger rail network stimulate a substantial demand for domestic flights. Moreover, the U.S. plays a pivotal role as a hub for intercontinental travel.

The U.S. market size, measured by revenue of the industry, is $106.5bn in 2021 (IBIS, 2021). Tapping into state-provided aid, credit lines, and bond issuances, the industry collectively amassed more than $180 billion worth of debt in 2020 (Bouwer, et al., 2021). Its U.S. market size declined faster than the economy overall (IBIS, 2021). Air transport represents a small share of GDP but is closely linked to the activities of all businesses (OECD, 2021). Demand for the airline industry is expected to grow exponentially in the next few decades. However, the COVID-19 pandemic has impacted it permanently in countless ways.

COVID-19's Permanent Impact on Business Travel
Overall, industry revenue has decreased at an annualized rate of 12.0% to $71.0 billion over the five years up until 2020, including an estimated decline of 53.8% in 2020 alone (IBIS, 2021). U.S. airlines suffered the most catastrophic year in the airline industry during the COVID-19 pandemic as the benefits of working remotely became more apparent. Remote work and other flexible working arrangements are likely to remain in some form post-pandemic, and people will take fewer corporate trips (Bouwer, et al., 2021). U.S. airlines will be forced to adjust to a new business model to complement the potential loss of business travelers.

**Causes of an Increase in Business Class Demand**

Before the pandemic, corporate America contributed a considerable proportion to the airline industry’s revenue because of its significant demand for business class. Business travelers account for 12% of airline passengers, but they are typically twice as profitable. In fact, on some flights, business passengers represent 75% of an airline's revenues (Investopedia, 2021). Nevertheless, the COVID-19 pandemic remodeled the original business travel for the industry, and it has evaporated the demand for business class. Business class in a United Airlines Boeing 787-8 aircraft flying from Portland to France on September 1st could generate approximately 45% of its revenue with only 28 seats compared to the economy class with 44% and 117 seats. This illustrates that business class is a significant part of airline revenue. U.S. airlines must approach the market with a new strategy that can cover up the future loss; the quicker they adapt to the latest trend, the less they will lose.

Recommendations

*More customization and data analytics*

It’s clear that U.S. airlines should lower the supply of business class seats and focus more on customization. People will likely value space and health precautions more after this pandemic. Business class suites that feature closing door seats were designed and marketed with a focus on providing privacy. Now, these seat shells and walls double as physical barriers for respiratory droplets (Genter, 2021). Decreasing the supply of business class seats will allow airlines to enlarge the space between each seat and install seat shell as a trait to attract consumers. Furthermore, airlines should focus more on personalization and user experience to ensure that services are aligned with passengers’ specific needs. As global competition in the industry continues to intensify, the ability to personalize the travel experience through every step of the
journey is becoming a critical differentiator for airlines today (IBM, 2018). Offering additional services through AI analytics to personalize one’s own flying experience will foster a more substantial engagement. Ultimately, airlines can raise the business class seating prices after implementing additional services, as corporations are willing to pay for it to ensure employees can perform well by arriving rested and productive. Most companies craft their travel policies to recognize the need for employee comfort and convenience on the way, according to the findings of the new Egencia Travel Policy Insights report (Curley, 2018).

*Increasing the supply of premium economy class*

Premium economy class provides a larger seat and additional perks that are not available on regular economy seats. With fewer business classes offered, airlines need to provide more premium economy seats to maximize their profit. The demand for premium economy seating has grown partly in response to the divergence between an economy class that has become increasingly cramped and a business class that has
become much more luxurious (Powley, 2019). Premium class offers an alternative for passengers that desire better comfort than economy class but also want to spend less than business class seating. Airlines around the world have been rushing to add premium economy seats to their long-haul aircraft as it overtakes business as the most profitable class on a per square foot basis at some of the world’s top carriers (Powley, 2019). With more premium seats and fewer business seats provided, the new business model and strategy will allow airlines to follow the future demand closely and even attract and retain more passengers.

Corporate travel has become outdated, and its perception has drastically changed due to the COVID-19 pandemic. U.S. airlines are forced to adapt to a new business model to prevent severe losses in the future. In the new business model, it’s crucial for airlines to redistribute the seat supply of each class and recognize the significance of utilizing AI data analytics for customizations.


IBM.com.(2018). “No matter which class you fly, AI is personalizing airline travel.”, IBM Retrieved from


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