

U.S. Airline Industry

COVID-19 & Seating Redistribution

Fall 2021

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Lundquist College of Business



Oregon Consulting Group

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Industry Overview

Key Industry Statistic

Numbers of U.S. Airlines
59 (18 are major)

2019 Annual Revenue
\$ 248 billion

U.S. Industry Ranking
104th

2020 Annual Revenue
\$130.85 billion

2019 Annual Passengers
926 million

Overall Debt
180 billion

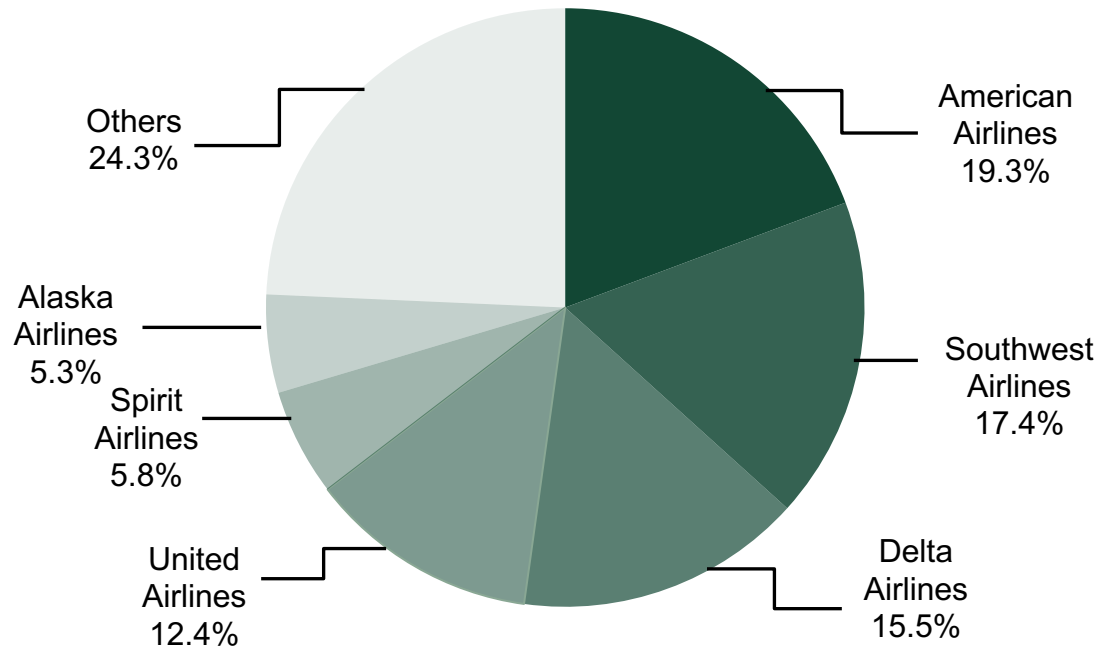
Annual Growth Rate (2021-25)
29.07%

U.S. Transportation and Warehouse
4th

U.S. Airline Industry Background

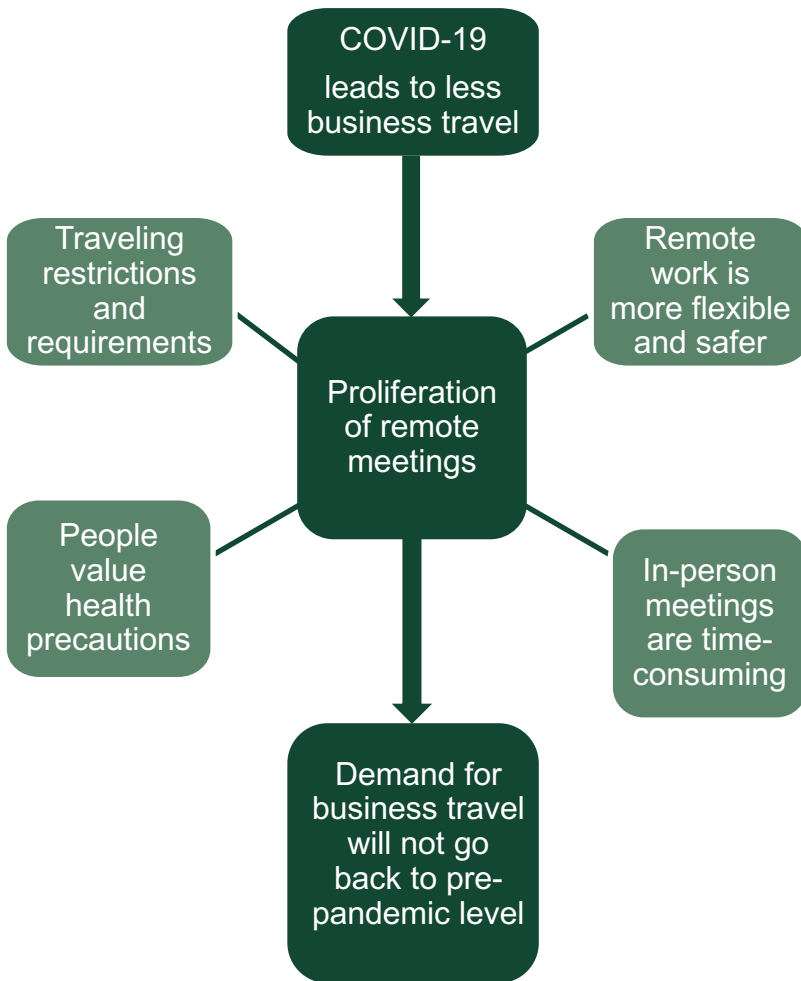
The U.S. has the largest air travel market of any single country. Its geography and the lack of a high-speed passenger rail network stimulate a substantial demand for domestic flights. Moreover, the U.S. plays a pivotal role as a hub for intercontinental travel.

Market Share Distribution



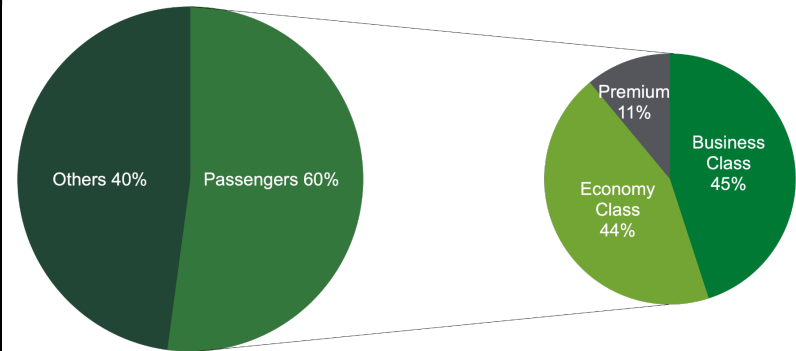
Identified Issues

COVID-19 Permanent Impact



Rough Estimate

9/1/2021 Portland-Paris United Airlines



*Hypothesis: A full United Airline Boeing 787-8. Based on website price on 08/10/2021.

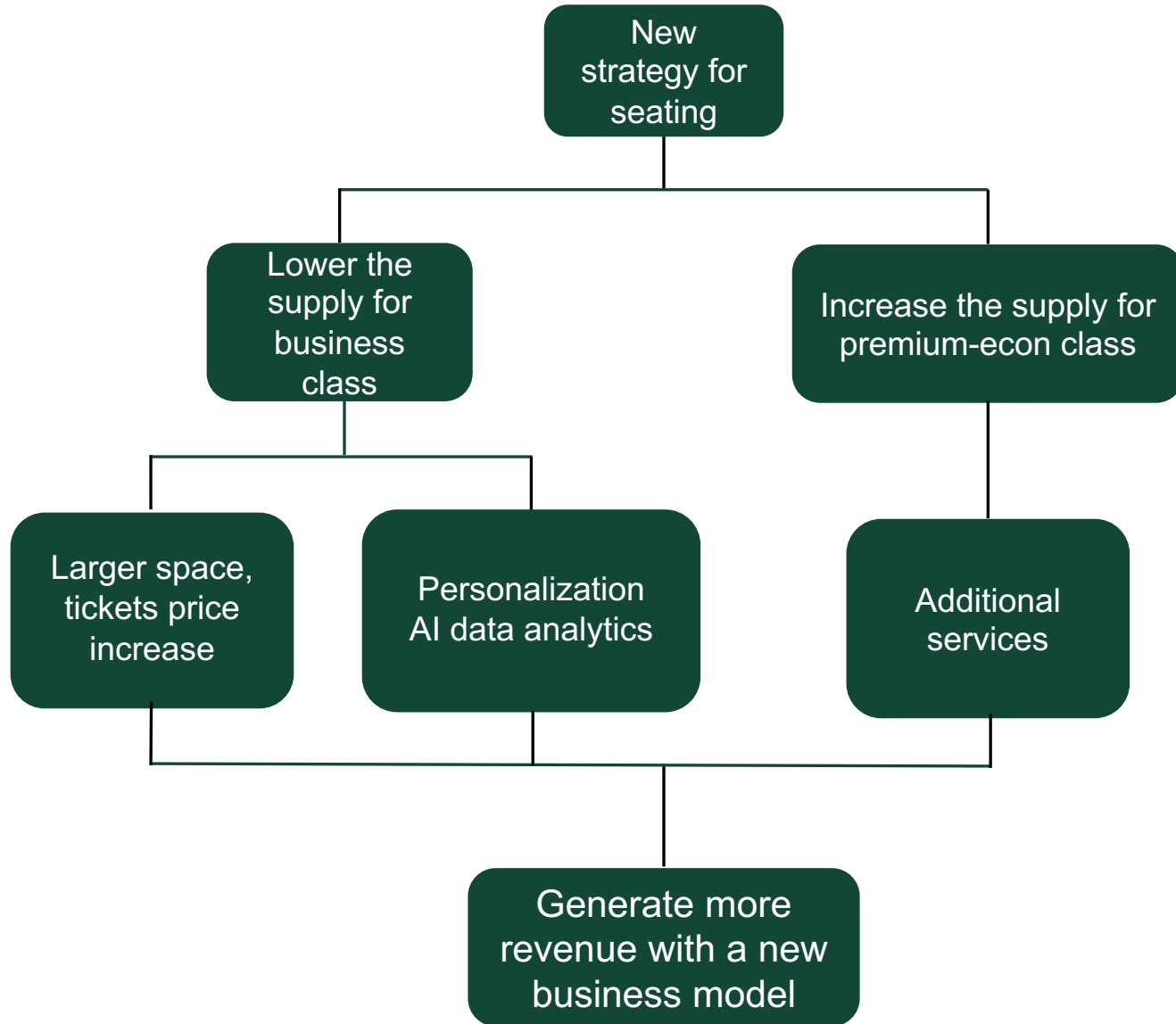
Potential Loss

► 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



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.

Pros	
1.	Adapt to the new trend while generating more revenue potentially
2.	Attract new consumer base
3.	Business travelers will be willing to travel again with safer and more private space
4.	AI analytics will enhance customer retention and loyalty

Cons	
1.	There's the risk that business travel demand might come back in the long run
2.	People might prefer economy-class over premium-economy during short haul flight which will make the supply surpass demand
3.	AI analytics and seating redistribution is a costly investment

COVID-19 Remodeled Business Travel for the U.S. Airlines

Background

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.

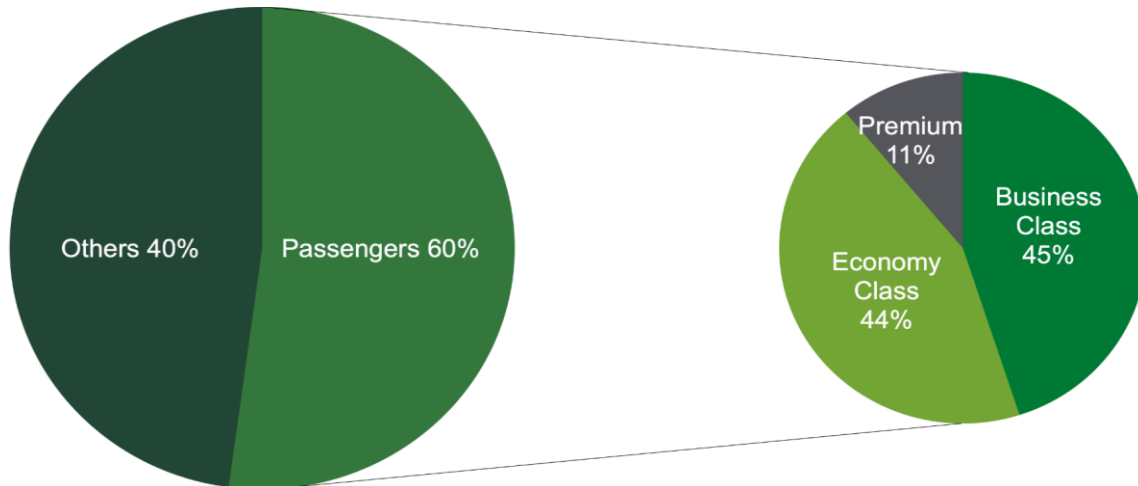
COVID-19's Permanent Impact on Business Travel

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 remodified 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.

09/01/2021 Portland-Paris United Airline Rough Estimate



*Hypothesis: A full United Airline Boeing 787-8. Based on website price on 08/10/2021.

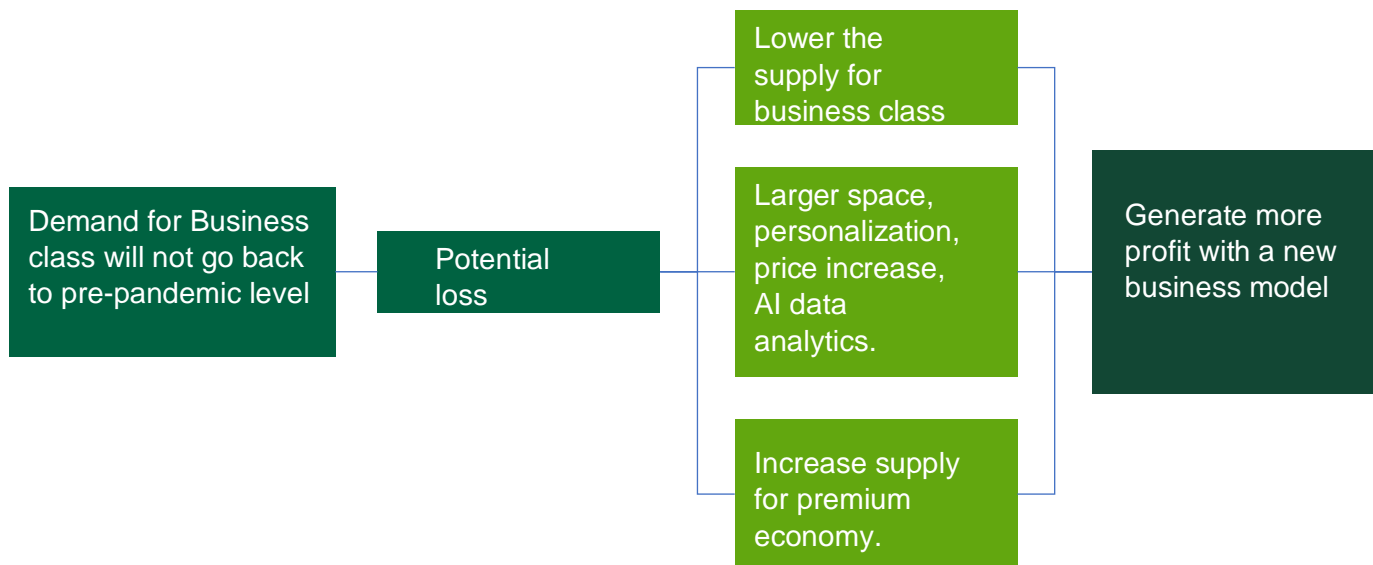
Recommendations

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.

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