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Look ahead: Travel and leisure

The road to responsible growth

How airlines can accelerate recovery and growth through purpose

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Responsible growth for travel and leisure

Airlines were ravaged by the economic effects of the COVID-19 pandemic, but there are plenty of reasons to be optimistic about the outlook for the sector.

50%

Global airline capacity is forecast to grow by nearly 50% in 2022

Restrictions on movement since early 2020 incurred \$200bn in direct and indirect losses worldwide. Flight volumes fell by 66%, and subsidies – as a means of propping up the industry – amounted to more than \$225bn. But global airline capacity is forecast to grow by nearly 50% in 2022, the recovery driven by those revisiting friends and relatives. It will also include an eventual return of business travel, though many believe not to the levels seen pre-pandemic.



A resurgent sector will also look very different in lots of ways. Driven by the economics of scale – and enabled by consolidation – successful airlines will immerse themselves into wide-ranging mobility ecosystems.

Customers' loyalty – and heightened expectations, demanding airlines with low-carbon credentials and personalised services – will provide brands with significant opportunities for reinvention, and a strengthened position in the mobility value chain.

Paradoxically, customers will be offered more options and less choice. Although, more airlines launched than failed during the pandemic, long term we expect to see fewer airlines providing customers with a greater selection of places to go.

This industry context should be set against the wider economic backdrop. The World Bank expects the global economy to grow by around 4.3% in 2022. However, consumers will remain cautious and the economic 'scarring' caused by the pandemic will take time to heal.



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The case for change



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The climate crisis is immediate, urgent and requires a response from all businesses. The high-profile nature of airlines and the growing corporate focus on ESG mean industry recovery and growth will need to be infused with purpose.

Commercial aviation is responsible for between 2% and 3% of global carbon emissions. This is not an insignificant amount yet the airline industry has repeatedly demonstrated it is up to the sustainability challenge.

Through the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), the ICAO-sponsored scheme, an international agreement to offset and reduce carbon has been in place [since 2016](#). Most airlines publish sustainability strategies and commit significant financial resources to sustainability improvements, while aircraft makers have worked on engine efficiency since the mid-1960s. Notably, most airlines would buy zero-emission long-haul aircraft tomorrow if they were available.

Beyond sustainability, the airline industry continues to serve a vital economic and societal purpose. The bulk of flights either support the economy or enable friends and family to connect. [Today, only 11% of the world's population flies](#). There remains an opportunity to create greater access to air travel.

Future sustainability will be predicated on greater fleet efficiency, sustainable aviation fuels and componentry linked to advances in connected sectors. For example, Daimler-owned [YASA Motors](#) is focused on automotive electric engines and collaborated with Rolls-Royce on the record-breaking electric Accel program. Longer-term, new sources of energy and propulsion could lead to new airframes.



Levers of growth

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We believe there are three key levers, common across the sector, for successful growth strategies:

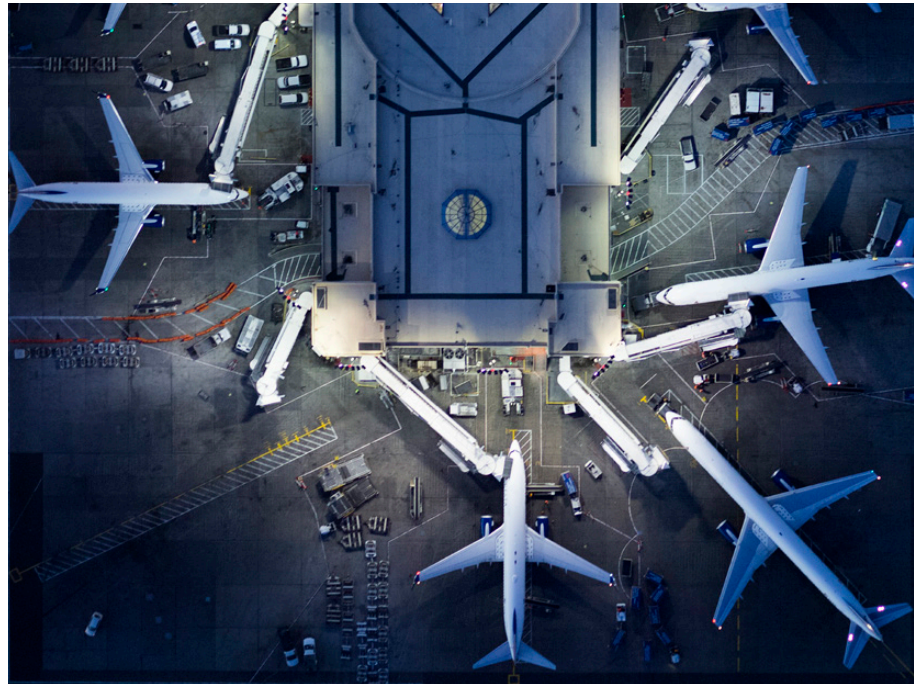
1. Scale and value

Airline economics always trend towards scale. Over the last two decades, airlines have grown through mergers and acquisitions (M&A) or organically through fleet additions. Mergers of equals have created two of the three large European airline groups and the majority of US airlines.

The logic for consolidating the remaining sub-scale European airlines is clear, although completing transactions into the likes of IAG, AFKLM and Lufthansa may prove challenging. Geographically, the greatest opportunity for M&A is in Asia. Cross-border consolidation could build a far more efficient set of multi-brand airlines, combining national champions and allowing tranches of populations to take to the sky for the first time.

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With scale, airlines can make long-term decisions about value creation. That might include taking a bigger role in the mobility ecosystem or deepening customer relationships.”



Value chain integration, whether horizontal or vertical, will similarly bring major benefits. While large aerospace OEMs have shored up their supply chains, airlines have yet to do so, either due to a lack of funds or business model inflexibility.

With scale, airlines can make long-term decisions about value creation. That might include taking a bigger role in the mobility ecosystem or deepening customer relationships.

Scale also allows them to upgrade their digital backbone. The international IT systems that coordinate booking, sales, tax, regulation, customer relationship management and integration into other systems are in urgent need of modernisation.



2. Mobility

The successful airlines of the future will be sophisticated multimodal mobility companies focused on rapid, digitally enabled transport of consumers and products. The mobility ecosystem encompasses not just roads, rail, shipping, and air, but also finance, insurance, banking and payments. It is here where future opportunities lie. Successful airlines will not think first about purchasing new aircraft and opening new routes. Instead, they will reimagine their business models through a mobility lens.

The founder of Breeze Airways, which operates like a mobility platform, describes his business as “[a technology company that happens to fly airplanes](#)”. Private equity company [Indigo Partners has found success](#) with a central aircraft ordering approach for its airline brands.

Expect other similar initiatives soon, not least because airlines have jealously observed the valuations and earnings multiples investors are willing to attribute to mobility platforms. From the Alipay platform in China to the [South Asian Grab](#), consumers enjoy accessing seamless services through a single portal. Interestingly, both Alipay and Grab are partners of Splyt, a mobility platform offering ride-sharing where airport transfers are a [key service](#).

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**Total Addressable Market
for Urban Air Mobility in 2040**

– Morgan Stanley Research, May 2021



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3. Renewed customer focus

Those that satisfy future consumers stand the greatest chance of success and of creating additional value.

Understanding what the customer wants has always mattered to the industry and loyalty programs are now typically worth more than the equity value of their [former parents](#).

In the future, brands should look to new ways of applying technology to create data-driven products, services and infrastructure that will power new sources of value and enhance the consumer experience.

As an example, the application of LEO, the low earth [orbit satellite constellations](#), should dramatically improve aircraft-based internet access – resulting in lower costs, enhanced speeds, and improved user experience.

Airlines have a number of inherent advantages when it comes to customer engagement. Not only do they own the consumer connection, but their brands are also associated with safety and trust which, in turn, creates value and deepens customer relationships.

In addition, airlines can take advantage of existing physical infrastructure links and access customer behaviour data. Insights into travelling populations are of significant incremental value, not just to airlines but a range of associated parties.

What to do next



Among the items on the responsible growth to-do list, airlines should consider the following:

Get closer to the consumer

Failure to understand changing user expectations is perhaps the biggest risk in the sector.

Wider monetisation of passengers across the journey cycle will include links to airports and duty-free operations. It should also include wider engagement enabled by the [loyalty schemes](#) that are increasingly separate from the companies that spawned them, but where a symbiotic link remains.

Air miles have been used for non-aviation purchases for some time and can be thought of as a forerunner of today's digital currencies. These miles and points offer a significant route to value.

NEGATIVE PRESSURE
RELIEF VENT



The era of electric will soon be upon us and those yet to embrace the possibilities should start now.”

Monitor innovation

Whether it's synthetic fuels, next-generation aircraft, or integrated propulsion solutions, those with an interest in the airline industry should focus on how they might apply future invention.

Innovation goes beyond the physical and applies to the financial and the operational too. Think, for example, of green debt finance where cheaper funding is tied to hitting lower emission targets.

Remember, a well-run business is a responsible business

Only a financially and strategically sound organisation has the bandwidth and capital to be more responsible.

Failed airlines don't help anyone. Well-run airlines that generate significant profit can fund purposeful initiatives. These include investing in next-generation fuels, encouraging the development of new aircraft, and connecting people to enrich experiences and make the world wealthier.

Embrace electric

By the end of the decade, electric aircraft are likely to fly between London City Airport and Paris and other similar length routes. The era of electric will soon be upon us and those yet to embrace the possibilities should start now. Electric vertical take-off and landing (eVTOL) will be part of the story – extending the relationship between airline and customer, providing a sustainable alternative to introducing new routes, and moving airlines further into the mobility-as-a-service (MaaS) value chain.

Champion ongoing sustainability initiatives

In the short term, there is a range of activities that could support emissions goals. These include reducing empty flights (currently an accepted means of maintaining [landing slots](#)), moving towards alternative [ground movement propulsion](#), and accelerating the use of eFuels.

[The FlyZero](#) initiative supported by the Aerospace Technology Institute and the UK Government is a great example of whole-of-industry mobilisation.

Elsewhere, the likes of Delta Airlines are already committing significant capital, resources and executive reputation to the [low-carbon transition](#).

These are examples that should be followed.

Who to contact

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