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PHOTO: AFP

Ushering in a new age of air travel post-Covid

Leading airlines will lead the charge out of this crisis by outsmarting industry laggards. **BY JOCHEN WIRTZ**

THE airlines business is seen by many as glamorous. I too have had a long-time love affair with airlines and have even written books about them.

However, from a hardnosed strategic, economic and analytical point of view, the airline industry has always been a terrible business to operate in. Here are some reasons:

- It is capital-intensive (aircraft are expensive)
- It is people-intensive (operations require numerous cabin crew, pilots and ground staff)
- Barriers to entry are low (Even if an airline with deep pockets bankrupts a competitor with aggressive pricing and capacity build-up, new airlines will enter the minute airfares are attractive again)
- There is low customer loyalty (Leisure travellers especially tend to prioritise price and better connections over brand allegiance)
- The incremental costs of serving another customer are close to zero, so airlines are tempted to heavily discount unsold seats, which in turn increases price competition (No airline can hope to reach breakeven at severely discounted fares)

Given these industry characteristics, what will happen to airlines in the post-Covid world? Here are my predictions.

1. Many airlines will go bust and industry consolidation will ensue

The various Covid-19 lockdown measures all over the world saw global air travel grind to a halt. Many investors and countries are losing patience and no longer want to stomach the eye-watering losses their airlines, including national carriers, are experiencing.

For airlines which were already suffering – such as South African Airways, Malaysia Airlines and Alitalia – the pandemic only exacerbated their situation.

Such companies may want to bring their airlines under the umbrella of larger groups that have deeper pockets, economies of scale and scope. These are companies that have established customer bases, loyalty programmes, route networks as well as research and develop-

ment. They tend to have more bargaining power with vendors and partners, which include aircraft and engine manufacturers, airports and fuel providers.

2. Fewer new airlines will be set up

Tycoons such as Virgin's Richard Branson and Kingfisher's Vijay Mallya glamourised the industry, showcasing a travel lifestyle that many can only dream of. With barriers of entry being relatively low, entrepreneurs such as Tony Fernandes of Air Asia and Norwegian Airlines' Bjørn Kjos also joined the glitzy ranks.

Going forward, however, having experienced these heart-wrenching losses, entrepreneurs will neither have the risk appetite nor the stomach to set up new airlines for some time to come.

3. Competition will decrease

As there will be fewer but larger airlines, competitive intensity will drop. This was evident in the US market, where the airlines turned profitable after the industry consolidation was concluded around 2013. It saw the merging of five airlines into two carriers – US Airways, AMR and American Airlines formed American Airlines three years after the mega merger of United Airlines and Continental Airlines into United Airlines.

Following this industry shake-up back then, even the so-called "Oracle of Omaha" Warren Buffett, who was traditionally very bearish on airlines, proclaimed they were a good investment in 2016. This is because the consolidation gave airlines some pricing power and allowed for higher load factors.

In April 2020, however, Mr Buffett's investment company Berkshire Hathaway sold its entire portfolio of airlines at a loss.

Survivor, Airlines Edition: Outwit, Outplay, Outlast

As lockdown measures begin to lift and travel gradually resumes, airlines should focus on two key themes.

First, work on the strategic opportunities the Covid-19 fallout may offer. Look out for and

take over the routes, airport slots and customers of companies that went bust and hire the talent that has become available.

It is also a crucial time to explore partnership options, especially for airlines that still have investor support to build larger airline systems.

Also, there are benefits in systems that have both high-end full-service airlines and low-cost carriers (LCCs). This allows business travellers to collect miles on business which they can then redeem for flights on LCCs for their family holidays. Singapore Airlines and Scoot is one such combination. Pure full-service airlines and LCCs do not have this option, and may lose out.

Second, airlines can do more to address their strategic and economic challenges. That includes building customer loyalty, as well as delivering more convenience and value through their loyalty programmes.

Also, airlines can innovate their revenue management and overbooking practices. For example, recent research shows that airlines could experiment with novel ticket features that allow less time-sensitive customers to volunteer for a compensation to be rebooked onto another flight in overbooking situations. Such tickets allow more aggressive overbooking with lower costs of offloading.

For example, load factors can be close to 100 per cent for flights with sufficient demand, and more tickets could be offered to customers earlier at higher overbooking levels. The profit impact of adding these incremental passengers to a flight can be a game-changer.

Airlines also need to be more disciplined in terms of pricing and discounting – the industry will be less cut-throat after Covid-19 and there is an opportunity to increase fares, or at least curb the fare erosion that has been going on especially in the past 20 years.

Unquestionably, post-pandemic air travel will pose significant challenges to airlines and travellers alike – for example, additional health screenings and disinfection procedures, social distancing, and more time needed for checking in and boarding.

Earlier this month, the International Civil Aviation Organisation (ICAO) adopted a new report and recommendations aimed at restarting international air travel and facilitating its global recovery.

Nevertheless, I believe industry-leading airlines will lead the charge in exploring how to come out of this crisis, hitting the ground running by outsmarting and out-innovating industry laggards.

■ The writer, a professor of marketing at NUS Business School, is a leading authority on services marketing and management. His text books *Services Marketing – People, Technology, Strategy and Essentials of Services Marketing* have combined sales of over 800,000 copies worldwide. The opinions expressed are the writer's and do not represent the views and opinions of NUS.