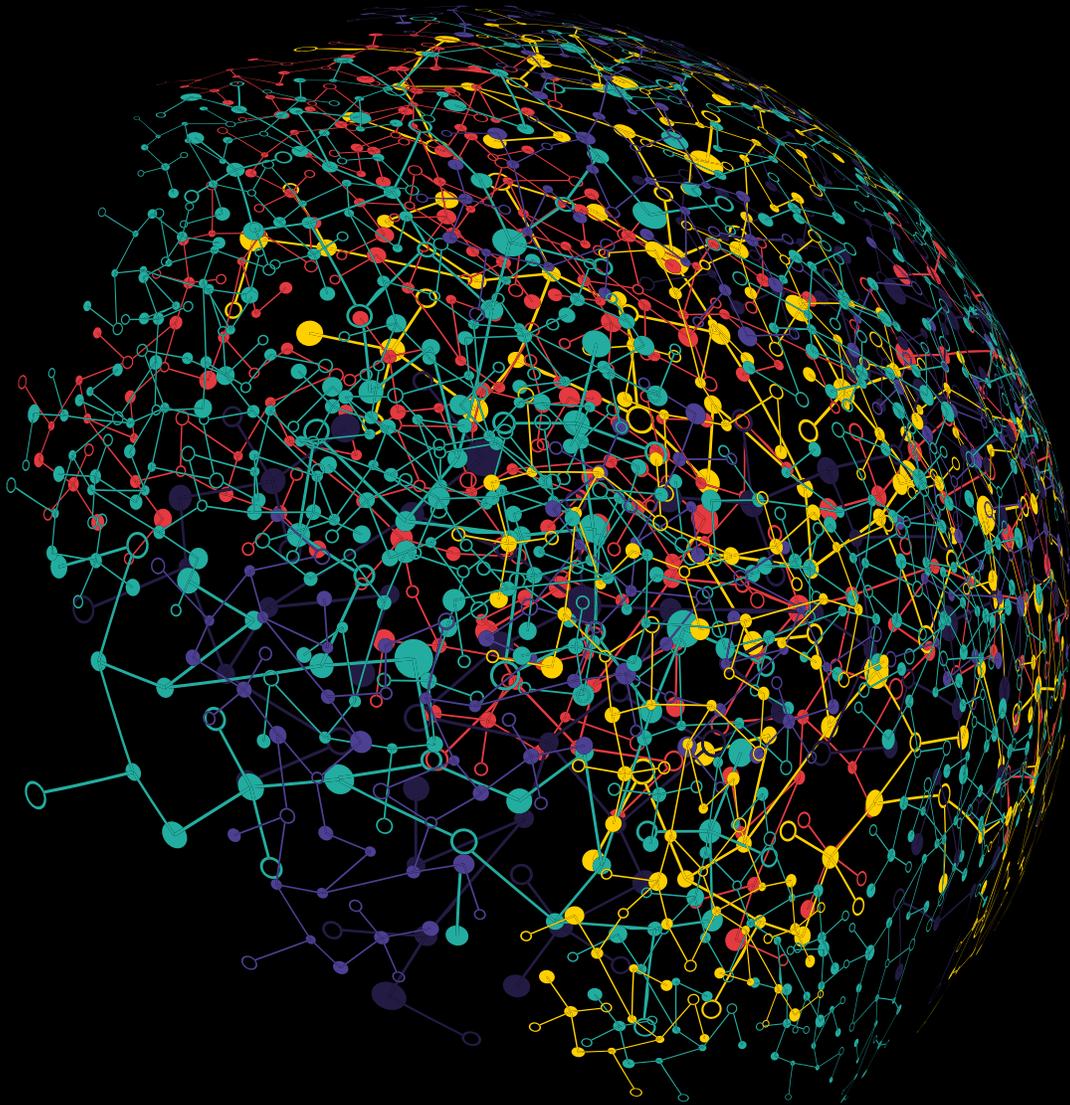


Deloitte.



COVID-19

Aviation's recovery flight plan

Stronger ecosystem collaboration needed



Preparing for the new normal

The COVID-19 global pandemic has hit the entire aviation ecosystem hard. All players in this sector—airlines, airports, air navigation organizations, partners, security agencies, support services, commercial and retail services, regulators, and travellers—are feeling the pain.

By early April 2020, international flights had fallen by nearly 80 percent¹ and domestic flights had sunk 70 percent worldwide.² The number of international air travellers could fall by up to 1.2 billion by September, by one estimate;³ passenger traffic could decline by almost 50 percent overall in 2020.⁴ Other sources estimate global airline revenues could fall by US\$160 billion to US\$314 billion for the first nine months of 2020,⁵ and airport revenue could decline by US\$77 billion this year.⁶ In Canada, airline revenues are forecast to fall by 43 percent, or C\$14.6 billion, in 2020, putting nearly a quarter of a million jobs at risk, not to mention C\$25.4 billion in GDP that's generated by aviation and aviation-related tourism.⁷

The aviation sector in Canada responded to the crisis quickly, reducing costs and introducing major operational changes—furloughing staff, consolidating terminals, closing concessions, and more. Air Canada retired 79 aircraft⁸ while WestJet has parked 135 of its 181 aircraft.⁹ Air Transat, Porter, and Swoop have suspended flights entirely; Flair has shifted operations to focus on cargo and charter flights.¹⁰ We've already seen several organizations enter voluntary administration. The industry has also issued a collective call for relief measures, from direct financial aid and tax relief to loans and loan guarantees.

In time, however, the pandemic will ease, and economies will begin to rebound. To recover and thrive in a post-COVID-19 world, aviation organizations will need to build a new foundation for success—one that breaks free of traditional orthodoxies and embraces heightened levels of collaboration and partnership. New strategies will be needed that reflect the demands of a changed world. The shape and duration of the global recovery itself is highly uncertain; countries and economies will reopen at different times and different paces and under a variety of restrictions and precautions. We can't be sure how quickly people will return to their old travel habits, or whether they even will. But we can be quite sure that passenger safety has taken on a new meaning for years to come. The world is changing fast, and the aviation sector needs to deliberately disrupt itself and make a conscious effort to do business differently, from the customer experience to operations and finance.

As noted in a [recent report from Monitor Deloitte's Center for the Long View](#), scenario-based thinking will play a valuable role in charting a path forward in the near term (18 to 24 months) as well as the longer term (three to five years).¹¹ Many potential recovery scenarios have already been developed, and while the details may vary, all involve two important assumptions: the pandemic isn't going to be over soon, and it's going to take quite some time to get to whatever the "new normal" will look like. Aviation organizations should develop their own scenarios and use these to inform their decision-making in the weeks and months to come. Airlines, airports, and others will need to understand how customer expectations will change, what the operational impact of those shifts will be, and what the financial implications of this new world will be.

This isn't the first time the aviation industry has been profoundly shaken by world events. Customer demand dropped in the wake of the 9/11 attacks, and significant changes and investments were needed to rebuild consumer confidence and get passengers—and planes—back into the air. While COVID-19's impact on demand is far greater than that experienced after 9/11,¹² recovery will once again require understanding customers' changing expectations and demands before making new investments. The industry cannot blithely assume what solutions are needed.

Aviation's post-pandemic recovery will require a new level of cooperation across airlines, airports, air navigation organizations, partners, security agencies, support services, commercial and retail services, regulators, and customers. It will demand greater collection and sharing of data, and more investment in the digital technologies needed to make sense of that data. It will require agility, flexibility, and innovative thinking in every area of the business.

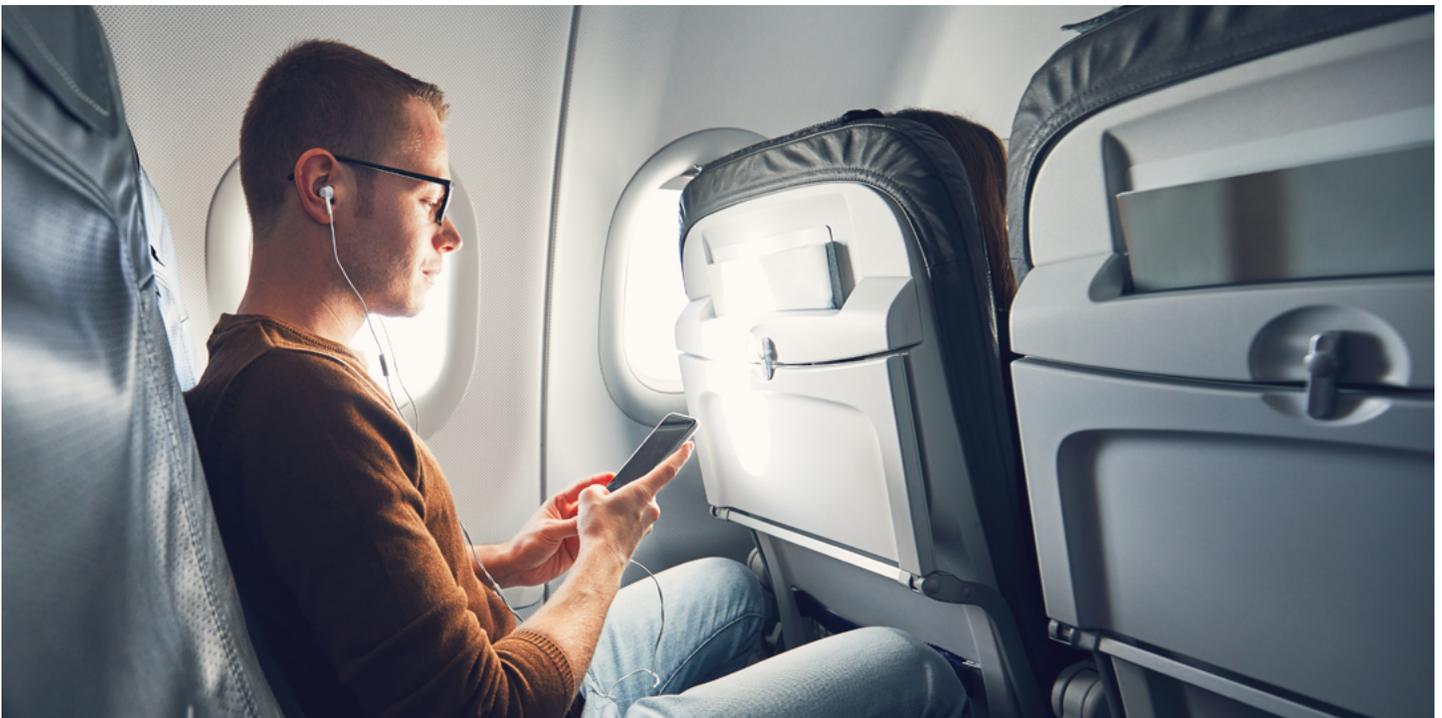
In the following pages, we offer our perspective of the changes, challenges, and critical considerations in three key areas: customer expectations, operational realities, and financial impacts. Our intent is to spark the dialogue that helps you and your team plan for a recovery that will position your organization to thrive in the years to come.

Recovery begins with the customer

The future of the aviation sector will be shaped by customer demand and changing expectations regarding the consumer experience. In most scenarios, any “new normal” is expected to see reduced demand for business and leisure air travel. Businesses and consumers alike will opt for virtual connections and remote working in light of budget constraints and virus uncertainties. According to Deloitte research conducted in May 2020, 80 percent of consumers said it was very unlikely—or not at all likely—that they would take a domestic flight in the next three months, and 83 percent indicated the same was true for international travel. A mere 9 percent expected to travel for business over the next three months. And 69 percent of consumers said they didn't feel safe flying right now.¹³

At the moment, airlines, airports and others in aviation are understandably focused on keeping the lights on and staying in business. Yet this is also an important opportunity to think strategically about how to meet customers' changing needs and expectations in a way that encourages them to travel, and how to better anticipate and respond to fluctuating customer demand.

Making passengers feel safe and secure will be essential if demand for air travel is to rise. We expect to see passengers place greater emphasis on things like airport cleanliness and to display a strong reluctance to engage with technologies or processes that require physical touch;¹⁴ recent research by Deloitte and HEC Montréal



suggests that cleaning practices, masks and hand sanitization, and physical distancing will influence Canadians' decision to travel by air in the future.¹⁵ It's clear that passenger health and safety will be a core element of the customer experience for the foreseeable future, joining speed and retail/commercial amenities. Organizations throughout the aviation ecosystem will need to work together to provide this safe, healthy experience. Delivering on—and communicating—improvements in health and sanitation practices will be vital to successful recovery in the aviation industry.

As noted earlier, that recovery is expected to take time, and the pandemic's course is likely to result in ebbs and flows in aviation customer demand. Airlines, airports, and others in the aviation sector should invest in improving their ability to monitor and anticipate key trends that influence customer demand for air travel. Using a digital dashboard—such as the [economic recovery dashboard](#) and [state of the consumer tracker](#) developed by Deloitte—the companies can bring together a broad range of aviation-related and other data. This “omniscient” view can provide advance warning of rising or falling demand, enabling them to more nimbly scale up or down as needed to maintain appropriate service levels and manage costs.

Critical questions for aviation leaders

- What are the basics you need to get right or enhance to give customers confidence that you've put their health and safety first? What are you—and the other organizations involved in the passenger journey—doing to maintain, communicate, and market higher cleanliness standards? How will health and safety influence customers' decisions to choose a particular airline or airport? What cleanliness standards or metrics are needed, and can they be developed in collaboration with industry participants?
- What does **safe** mean in a COVID-19 world? What has to change to deliver a safe experience? Passengers want a touch-free, frictionless experience—how will you and your partners deliver that? How can airlines, airports, and security agencies work together to use digital technologies and share data to remove well-known pain points in the passenger journey and address health and safety concerns at the same time?
- Does your customer value proposition need to change in the “next normal” to reflect changing customer expectations and values? Will the major investments made to elevate the passenger experience over the past decade still be valued in a post-COVID-19 world? How can you use or change existing loyalty programs to preserve a positive customer relationship? Will you need to encourage changes in passenger expectations and etiquette to build consumer confidence in your organization and aviation overall?
- How far will you need to go in terms of reconfiguring the passenger environment to meet physical distancing requirements in the near term and instill passenger confidence? What about over the long term—should physical distancing norms become an ingrained behaviour even once a COVID-19 vaccine is available?

Changing customer demand drives need for operational efficiency

Changing customer demands and expectations will also play a pivotal role in shaping operational decisions. In the short term, many of these operational changes will revolve around protecting the health and safety of both passengers and workers to instill confidence in the travel experience. As the industry shifts toward near-term recovery and doing business in the long term, however, more significant operational changes will be needed. Along with the need for the aviation sector to also focus on health, we will see an increased need for collaboration and data-sharing across the entire aviation ecosystem.

Airlines, for one, should reassess their competitive landscape and abandon the assumptions they held before the pandemic. Recovery will take time, and there will be casualties. Some airlines will emerge in a stronger position, others will weaken, some may fold. Consolidation and strategic repositioning is virtually assured.

Network efficiency will be critical. Every route and destination will be carefully scrutinized, with marginal performers cut. Fleets will be trimmed as older aircraft are retired more quickly and widebodies, built for a pre-pandemic environment, are mothballed to save on operating costs. Fleet cuts and airline failures will undoubtedly take capacity out of the market—and no one will rush to replace that capacity, viewing it simply as a necessary market correction.

Route development will become more important and innovative than ever. Airlines will place enormous pressure on airports to reduce costs, and they will be searching for creative thinking around route support and incentives. Airports will be equally determined to attract and retain routes. The outcome is likely to be innovative collaborations among airlines, airports, and stakeholders in the cities or destinations they serve. Engagement with route partners—building relationships, understanding their business drivers, and working for mutual benefit—will help drive the recovery and future growth.

Airports will need to shift aspects of the check-in process upstream, so that passengers can complete them prior to arrival. Security screening will evolve to accommodate health checks, physical distancing, and passenger self-processing. And airports will strive to

make as much as they can touch-free: mobile concession ordering, cashless payments, touchless baggage pick-up/drop-off from the passenger's home, and more.

The uncertainties surrounding customer demand will require more operational agility and flexibility than ever. While digital dashboards can provide aviation organizations with the tools to anticipate trends and change operations in response, [digital twin technology](#) can enable airlines, airports, and other aviation players to better model those changes in real time—identifying and mitigating potential problems before they occur in the real world.

Critical questions for aviation leaders

- How can your talent and workforce capabilities evolve to be more nimble to adjust to changes in demand? How might you capitalize on alternative talent models such as outsourcing, insourcing, and gig workers—and in which functions? How do you manage talent retention, given the significant financial impact of the challenges facing the aviation industry? How will you engage and work with unions to adapt the workforce to a new normal?
- What digital or technical capabilities will give you a distinct edge over your competition? How will you invest in developing them? How can technologies such as automation, artificial intelligence, and machine learning be a source of differentiation, both in operations and in sales and marketing terms?
- How will you support and re-engage others in the aviation ecosystem, recognizing their needs and circumstances will change in a post-pandemic world? How will contracts with airport owners or operators change, for example?
- What strategic bets can you consider making during recovery in order to capitalize on opportunities and position yourself to thrive in years to come?

Chart a route to financial and commercial sustainability

Right now, the aviation sector is rightly focused on ensuring short-term viability, seizing any and all opportunities to reduce costs, deferring loan obligations, and more. Public and private funding—whether grants, subsidies, secured financing, or new loans—may allow many of the businesses to survive long enough to begin the recovery process. But this doesn't mean the industry can or should return to its old financial orthodoxies. In particular, there will likely be calls for companies in all industries, not only aviation, to ensure they retain enough cash in their coffers to enable them to weather future economic storms without relying on taxpayer-funded support.

Indeed, aviation companies will need to reframe their financial assumptions to acknowledge the reality that the certainties of the pre-COVID-19 era have likely evaporated. The usual methods of determining prices, routes, and incentives will no longer apply in a world where passenger preferences, expectations, and even demographics may change irrevocably: cheap fares may no longer attract price-conscious consumers now worried more about their health and well-being, for example. Even after the pandemic begins to abate, governments may make sudden policy changes restricting travel to or from their countries or impose new requirements to protect the health of their citizens, throwing the finances of aviation organizations into disarray.

Organizations must think strategically about how they manage their recovery from a financial perspective. Reliance on subsidies and financial bailouts must give way to a new vision of what a financially strong, viable, and resilient aviation sector looks like in the future. New forms of collaboration and partnership—beyond the airline alliances that have characterized the industry for years—may be needed to support financial sustainability across the industry. Such partnerships can improve customer satisfaction by providing travellers with more options and flexibility, improve revenues through sharing flights and filling seats, and reduce costs by pooling and sharing resources.

In the future, these partnerships may need to grow much more diverse. Airports and airlines may form alliances and share revenues from a given route. Airlines and rail operators may sell tickets on each other's behalf, as Air France and France's national railway company SNCF do with their TGV Air offering. Aviation players may form marketing partnerships with hotels, tourism agencies, and others in the travel ecosystem to stimulate demand for their respective offerings.¹⁶ The industry may work with governments and aviation regulators to create new global or regional standards for aircraft and facility hygiene to allay consumers' health concerns.

Critical questions for aviation leaders

- How will you think about restructuring your business to provide a more sustainable long-term platform for growth? How could you use unorthodox financing mechanisms to balance the need to reduce portfolio risk while optimizing profitability?
- How will you capitalize on existing alliances and partnerships, or develop new ones, to preserve or enhance customer loyalty and find new sources of revenue?
- How will you manage and balance the needs of your financiers, including governments and traditional shareholders, as you focus on recovery and beyond?

Unprecedented collaboration: the key to long-term success

COVID-19 may represent the greatest challenge to ever face the global aviation sector. Its impact can be felt across the entire ecosystem: airlines, airports, air navigation organizations, partners, security agencies, support services, commercial and retail services, regulators, and customers.

As governments and businesses contemplate the recovery to come, it's clear the world has changed. For the aviation industry, this means lower demand, new expectations, and complex operational challenges, not to mention navigating the financial impact.

Old orthodoxies won't work in this new world; new thinking and new approaches are needed. Airlines, airports, and security agencies will need to lead the ecosystem in recognizing and responding to changing customer needs and expectations—and in working together to meet them.

Lower demand and higher expectations will have a cascading impact on aviation operations across the sector. Collaboration, partnership, and even "coopetition" will play a vital part in enabling aviation organizations to achieve the operational agility needed to be as efficient as possible while protecting the health and safety of passengers and workers alike.

Lastly, this period of recovery should drive airlines, airports, and others across the aviation sector to chart a route toward a more sustainable commercial and financial future—one that's more resilient in times of disruption and poised to flourish as the world's post-COVID new normal becomes clearer.

Aviation will recover. But it will take unprecedented collaboration, greater data-sharing, and more digitalization across the ecosystem to ensure the industry emerges from the pandemic more responsive, more agile, and more financially sustainable than ever before. These are the steps that will enable aviation to soar once more.



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