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WILL THE **SKIES OPEN** FOR **AIRLINES** POST COVID-19?

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As COVID-19 grips the world in an unprecedented manner, airlines, with their asset-heavy businesses, are coming to a grinding halt. Historically, airlines operating on wafer-thin margins are first to go bust when oil prices rise above a specific threshold. The irony in the current scenario is that despite oil prices¹ being at their lowest, many small and mid-sized airlines are expected to be impacted significantly.

COVID-19 & SARS: The Difference

The SARS outbreak in 2003 saw airlines encounter a big drop in passenger numbers – and in the ensuing economic crisis, the industry registered losses of around USD 7 Billion.² To put things into perspective, SARS impacted 26 countries and more than 8000 people over six months.³ COVID-19 has, so far, impacted more than 2 million people globally in a matter of approximately three months.⁴

SARS was more localized to its regions, with the global economy still showing a healthy GDP growth in 2003. The outbreak started in November 2002 and was controlled by March 2003. Globally, the peak travel period is between March and September, with minor shoulder periods on either side due to seasonality. Therefore, SARS cannot be compared to COVID-19 in terms of the scale and economic impact. Currently, more than half of the world is under near total lock-down, and economic activity has never been halted on a global scale for such a long period of time.

Measuring the Impact

To strategically untangle themselves from this web of losses, airlines should observe and analyze the impact of COVID-19 across different geographies. Around the globe, 60 countries contribute to approximately 98 percent of the COVID-19 cases.

The region-wise breakdown is as follows:

- Europe (49 percent)
- North America (30.2 percent)
- China (4.4 percent)
- Middle East (4.5 percent)
- South America (3.3 percent)
- Others (6.3 percent)

The above regions along with Japan contribute to approximately 77 percent of the global GDP.⁵ Other regions such as South East Asia, India, South Korea, Africa, Australasia, Canada and Russia make up for less than 5 percent of the total COVID-19 cases, while contributing to more than 15 percent of the global GDP.

¹<https://www.macrotrends.net/1369/crude-oil-price-history-chart>

²<https://edition.cnn.com/2020/02/05/business/coronavirus-airline-cost/index.html>

³<https://www.who.int/ith/diseases/sars/en/>

⁴<https://www.worldometers.info/coronavirus/>

⁵<https://databank.worldbank.org/home.aspx>

Table: Impact — SARS vs. COVID-19

Region	No. of Countries	No. of SARS Cases	No. of COVID-19 Cases	% Share of Total COVID-19 Cases	GDP % Share(2018)	GDP % Share(2002)	% Share in International Arrivals
North America	1	33	5,60,433	30	24	32	6
Europe	27	31	9,08,446	49	24	30	41
China	1	7,748	82,160	4	15	4	4
South America	9	-	60,528	3	6	5	6
Japan	1	-	7,370	0	6	12	2
India	1	3	9,205	0	3	1	1
South East Asia	5	268	18,655	1	3	2	7
Middle East	4	-	83,250	4	2	1	3
Canada	1	251	24,383	1	2	2	1
Russia	1	1	15,770	1	2	1	2
Australasia	2	73	7,671	0	2	1	1
S. Korea	1	-	10,537	1	2	2	1
Africa	3	1	6,152	0	1	1	2
Israel	1	-	11,145	1	0	0	0
Hong Kong	1	-	1,005	0	0	0	2
Pakistan	1	-	5,374	0	0	0	0
Others (152)	152	13	41,273	2	5	4	16
Grand Total	212	8,422	18,53,357*	100.0	98.1	99	95

Sources: World Bank, WHO, Worldometer
 *As of April 13, 2020

The severity of the impact on airlines will depend on the spread and recovery in the next two months. The social impact on the industry’s workforce is especially worrying. The industry, already impacted by automation, needs to register a certain growth rate every year to accommodate fresh additions to the workforce. A single year of slowdown of this magnitude will take a couple of years to recover and thus exert significant pressure.

Historically, barring minor exceptions, the global economy has been resilient, and bounced back within a year. I am confident that airlines can turn things around in 2021, by optimally leveraging this downtime to strategize their further course of action.

Planning for Revival

Though we are currently not in a position to estimate when the recovery might start, airlines can formulate a plan based on some key considerations given below:

■ Phased Network Recovery

Based on the recovery rate across geographies, airlines need to analyze which markets will lift travel bans, internally as well as externally. Companies should engage with various stakeholders to understand and plan a staggered restoration of services – one that adheres to regulations, while gaining customer confidence

■ **Deploying the Right Aircraft Type**

This, I believe, is one of the most important aspects, as it will ensure optimal resource utilization that is crucial for profitability. The right aircraft type, in terms of capacity and technological capability, will help airlines meet the exact demand while curbing any unnecessary overhead costs

■ **Data Relevance & Accuracy for Forecasting**

Almost all strategies for recovery are based on predictions or forecasts, and successful outcomes depend on accurate data and insights. Airlines should discount the data taken during the COVID-19 period and have new forecasts based on how the demand pans out. Revenue management systems should switch from auto to manual mode. Human interventions, experience and intelligence will be required till the systems pick up enough new data to build projections based on historical patterns for inventory control

■ **Re-evaluating Pricing**

As the purchasing power of customers and corporations takes a hit along with consumer sentiment, airlines will need to re-evaluate their pricing with reference to class (first, business, economy), policies, value-adds, and Point of Sale (PoS). They will also need to review areas of automation to optimize their value proposition

■ **Targeted Communication**

Airlines will need to win back customer confidence and create renewed vigor for travel. The key to this will be strategic and tailored communication. Marketing and sales teams will need to collaborate to create and deliver the right message to the right segments across the right channels. Marketing plans should be designed to

create the best passenger experience in a post-pandemic situation with campaigns that are that are engaging, compassionate and motivating. Safety and hygiene will continue to remain a priority post COVID-19, and airlines will need to communicate their efforts in these areas to ensure transparency and win customers' trust

■ **Partner Collaboration**

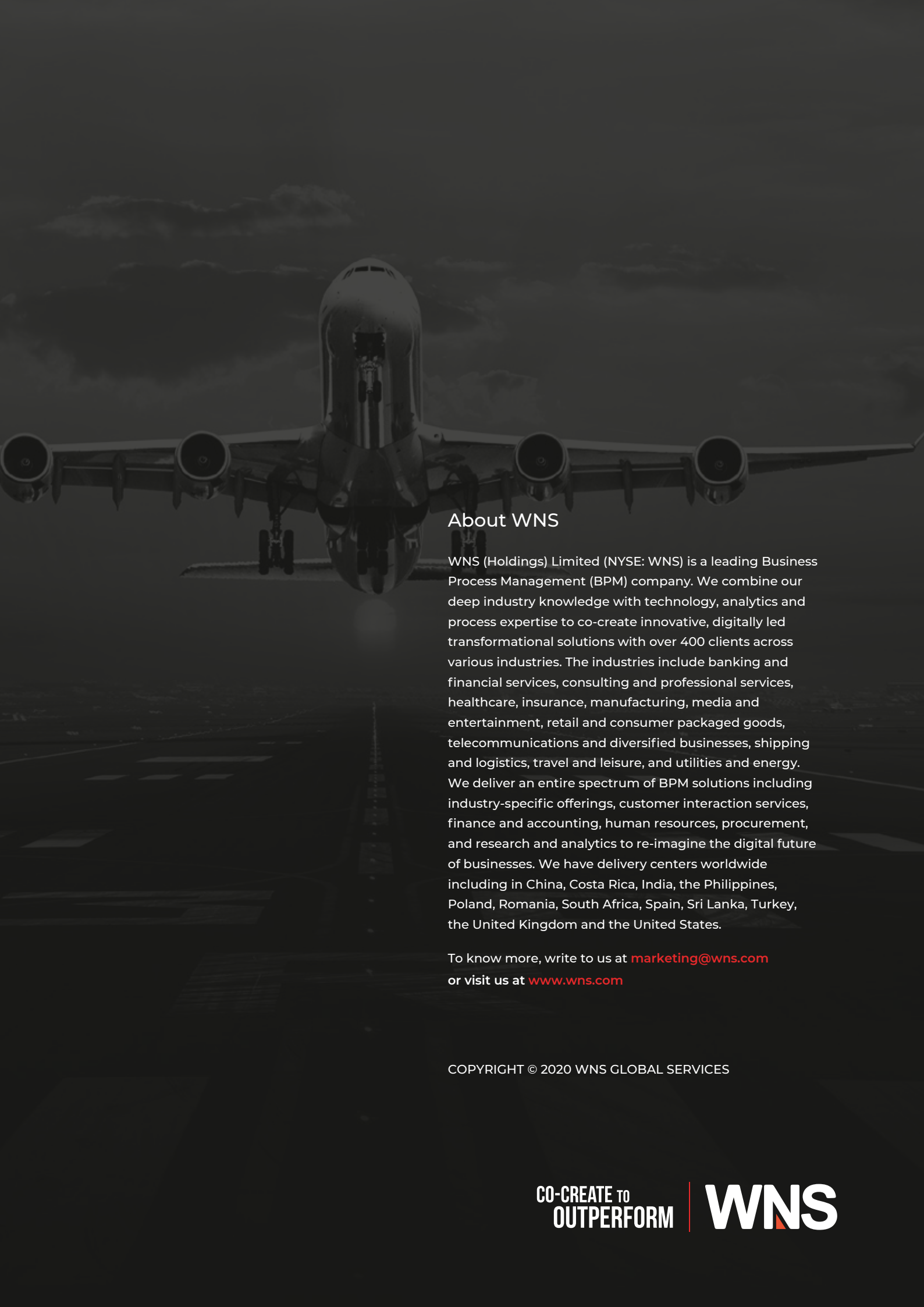
Airlines should work with their partner community including online and offline travel agencies, individual agents, and corporates to craft a win-win plan of action. They need to bring together the ecosystem, driven by empathy, to ensure long-term survival and success

■ **Enhancing Ancillary Revenues**

As consumer sentiment takes time to improve, so will ticket sales and retail revenue. Airlines therefore need to ideate and develop new streams of ancillary revenue while improving existing ones. There are plenty of options: enabling passengers to choose from exotic food and drinks under pre-booked meals; collaborating with Over-the-Top (OTT) platforms such as Netflix to stream video-on-demand; and designing differential excess baggage policies across PoS and regions

There is a positive sentiment on the work-from-home experiment that was necessitated by the COVID-19 outbreak – and this may adversely impact airline travel volumes and revenues. Hence, there's a greater need for airlines to re-invent, innovate and showcase enhanced value proposition to passengers. This calls for deeper analysis and obtaining sharper insights into everything that matters to the stakeholder ecosystem.

For airlines, this is the time to innovate, re-engineer and transform!



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